COMPANY RESEARCH AND ANALYSIS REPORT

FreeBit Co., Ltd.

3843

Tokyo Stock Exchange First Section

21-Jul.-2017

FISCO Ltd. Analyst
Hideo Kakuta

FISCO Ltd.
http://www.fisco.co.jp

Index

Summary

Despite a major increase in sales in the FY4/17 full year, operating income declined due to a temporary factor. The forecasts for the FY4/18 full year are for higher sales for the 5th consecutive fiscal year and record-high operating income.

FreeBit Co., Ltd. <3843> (hereafter, also "the Company") provides a variety of internet-related services mainly to corporations, including infrastructure for Internet service providers (ISP), support for entering into MVNO*1 as an MVNE (Mobile Virtual Network Enabler), cloud infrastructure, particularly virtual data centers (VDC)*2, and consulting and solutions for Internet services. It also works through Group companies to supply ISP service, MVNO service, Web marketing services, Internet services to collective housing (condominiums), and other services to individuals.

*1 MVNO is the abbreviation of Mobile Virtual Network Operator. It is a virtual mobile communications business that involves conducting an independent communication business by borrowing the lines from communication businesses with a wireless communication infrastructure, such as NTT DOCOMO, INC. <9437>, KDDI CORPORATION <9433>, and the SoftBank Corp.
*2 A mechanism or service for virtually building the functions of a data center so they can be used over the Internet.

In September 2016, the Company launched the Health Tech Business segment, the core of which is the business of EPARK Healthcare Inc. (currently, FreeBit EPARK Healthcare Inc.), which was made a consolidated subsidiary. In February 2017, it made a consolidated subsidiary of For-Members, which conducts a real estate brokerage business, to acquire a foothold to enter-into the real estate tech field. The Company's listing was reassigned to the Tokyo Stock Exchange (TSE) 1st Section in July 2016.

1. FY4/17 full year result trends

In the FY4/17 full year consolidated results, net sales increased 24.1% year-on-year (YoY) to ¥35,222mn, operating income decreased 30.6% to ¥1,321mn, ordinary income fell 38.9% to ¥807mn, and the net loss attributable to the owners of the parent was ¥150mn (compared to profit of ¥553mn in the previous fiscal year). So while on the one hand sales increased significantly, on the other hand each profit item declined. The increase in sales was mainly due to the expansions of the Mobile Business and the Ad Technology Business. The cost of sales rose, including due to higher network-related costs and the impact of uncollected receivables that occurred in the Full Speed <2159> Group. The gross profit margin fell by 5.6 percentage points, from 28.9% in the previous fiscal year to 23.3%. Although the growth in SG&A expenses was kept down, operating income declined. By segment, the extent of the decline in operating income in the Mobile Business (¥294mn) was large, while the upfront investment and amortization of goodwill (¥421mn) for the newly established Health Tech Business were also significant.

2. FY4/18 outlook

The forecasts for the FY4/18 full year consolidated results are for higher sales and profits, with net sales to increase 13.6% YoY to ¥40,000mn, operating income to rise 51.4% to ¥2,000mn, ordinary income to grow 135.3% to ¥1,900mn, and profit attributable to the owners of the parent of ¥100mn (compared to a loss of ¥150mn in the previous fiscal year). The Company expects a double-digit increase in net sales due to the continued growth of the respective businesses, particularly the Ad Technology Business but also the Mobile Business and the Broadband Business. For operating income, together with the strong performance of the Broadband Business, a recovery is expected in the Ad Technology Business in which profits fell in FY4/17 due to the temporary factor of uncollected receivables, and the driving force will be the growth in Company-wide profits. In terms of its inherent potential, the Company has the profitability to achieve operating income of around ¥2,800mn in FY4/18, but as it will continue to conduct upfront investment of approximately ¥800mn in the Health Tech Business and the Real Estate Tech Business, the forecast is for operating income of ¥2,000mn.

At FISCO, given that net sales increased 24.1% YoY in FY4/17, we judge that a forecast growth of 13.6% for net sales in FY4/18 is a target that the Company can achieve by a wide margin. In terms of profits also, as the temporary negative factor in FY4/17 has been eliminated and the forecasts are for profits to continue to improve in the Mobile Business and Health Tech Business, we think that the forecasts are fully achievable.

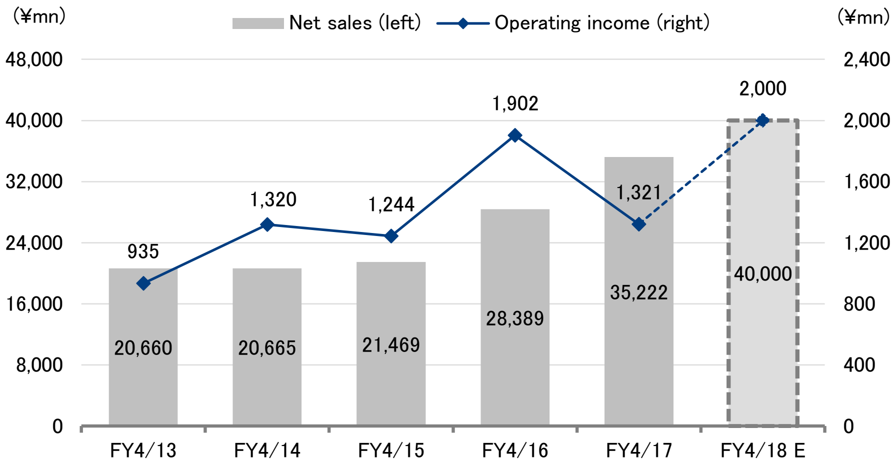
3. Medium to long-term growth strategy

The Company announced SiLK VISION 2020, its four-year medium-term business policy, in June 2016, which targets net sales of ¥50,000mn and operating income of ¥5,000mn in FY4/20. It has already put in place the core businesses and services for the two growth areas in the Group's basic policy, of Mobile Revolution and Lifestyle Revolution. As a new mobile product for corporations, "freebit cloud security SIM" was launched in November 2016 and it makes possible both "convenience" and "security" for mobile communications. Demand for it is growing as an increasing number of companies are introducing teleworking alongside their reforms to ways of working. In May 2017, the Company started a collaboration with the ITOCHU Techno-Solutions <4739> Group, which seems to be spurring-on sales. In Lifestyle Revolution, it has also made its first moves in the Real Estate Tech business. In May 2017, it concluded a business tie-up agreement with Live Smart KK, a home IT venture company, with the aim of providing an IoT platform service for collective housing, which would be the first such service in Japan. It is highly convenient to have smartphone functions that allow the unified and remote operation of home appliances, such as locks and air conditioners, and also other items like cameras, and if seen from the real-estate renting side, it can be the deciding factor in reducing vacancy rates. In February 2017, the Company made a consolidated subsidiary of For-Members, which conducts a real estate brokerage business, and it is aiming to progress the transition to IoT within homes.

Key Points

- Centered on three businesses; the Broadband Business that generates cash, the Ad Technology Business that has growth and profit potential, and the Mobile Business that is achieving high growth while facing issues with its profit structure.
- Sales increased significantly in the FY4/17 full year, although operating income declined due to upfront investment in the Health Tech Business and to process uncollected receivables.
- The forecasts for the FY4/18 full year are net sales of ¥40,000mn and operating income of ¥2,000mn, for the 5th consecutive fiscal year of higher sales and record-high operating income.

Results trends



Source: Prepared by FISCO from the Company's financial results

Company profile

Provides a wide range of Internet and mobile infrastructure and has been diversifying its business since it was listed in 2007

1. Company profile

The Company provides a variety of internet-related services mainly to corporations, including infrastructure for ISPs, support for entering into MVNO as an MVNE, cloud infrastructure, particularly VDCs, and consulting and solutions for Internet services. It also works through Group companies to supply ISP service, MVNO service, Web marketing services, Internet services to collective housing (condominiums), and other services to individuals.

Tone mobile inc., a joint venture with Culture Convenience Club Co., Ltd. (hereafter, "CCC") and equity-method affiliate of the Company, is currently focusing on expansion of smartphone business, including through provision of TONE proprietary smartphone service.

2. Company history

The Company was founded in Shibuya Ward, Tokyo, in 2000 (its predecessor was FreeBit.com Co. Ltd.) Its business grew mainly for services for ISP (Internet service providers) and it was listed on the TSE Mothers market in 2007. Using the opportunity of its listing, it accelerated the expansion of its business areas through M&A. In the same year, it made a consolidated subsidiary of DREAM TRAIN Internet INC. (hereafter, DTI) and in 2009, of GIGAPRIZE Co., Ltd. <3830>. In 2010, alongside making a consolidated subsidiary of Full Speed, which is an Internet advertising agency, the Company also made consolidated subsidiaries of Forit Inc., a subsidiary conducting an affiliate advertising business, and BEKKOAME INTERNET, Inc., which conducts an IT platform business. In this way, it is expanding its business areas based on its corporate philosophy of “Being The NET Frontier! ~ expand the Internet and contribute to society~.” In 2011, it entered-into the MVNE/MVNO business and also accelerated growth in the Mobile Business field. In 2016, it entered-into the Healthcare Business, using an M&A as the first step. In February 2017, to acquire a foothold to enter-into the real estate tech field, it made a consolidated subsidiary of For-Members, which conducts a real estate brokerage business. In 2016, its listing was reassigned to the TSE 1st Section.

Company history

Date	Main events
May 2000	Founded as FreeBit.com Co., Ltd. in Shibuya Ward, Tokyo, to provide Internet business support
December 2002	Changed its corporate name from FreeBit.com Co., Ltd., to FreeBit Co., Ltd.
March 2007	Listed on the TSE Mothers market
August 2007	Made a consolidated subsidiary of DREAM TRAIN Internet INC. that operates an ISP business for individuals
March 2009	After making a consolidated subsidiary of Media Exchange, which had been listed on the TSE Mothers market (delisted after becoming the Company’s wholly-owned subsidiary. Currently, it has been merged with DREAM TRAIN Internet Inc. through an absorption merger), its subsidiary of GIGAPRIZE <3830>, which conducts a condominium ISP business, was also made a consolidated subsidiary.
August 2010	Made consolidated subsidiaries of the Internet advertising agency Full Speed Inc. <2159>, FORiT Inc. that operates an affiliate advertising business and provides its proprietary program Affiliate B, and BEKKOAME INTERNET INC. that operates an IT platform business
March 2011	Entered-into the MVNO (Mobile Virtual Network Enabler) business.
June 2012	Full Speed launched the advertising management integration program AdMatrix series
July 2013	Started providing the “freebit MVNO Pack,” an MVNE (MVNO-support business operators) service for MVNO through a L2 connection from NTT DOCOMO <9437>.
November 2013	DREAM TRAIN Internet started proving, “freebit mobile” an MVNO service that provides all aspects, from terminal development through to user support, in an integrated manner.
January 2015	Established FreeBit Mobile Inc., which conducts a MVNO business (currently, Tone mobile Inc., a joint-venture company with Culture Convenience Club Co., Ltd.)
April 2015	Founded freebit investment inc. with the objective of conducting investments for business expansion
September 2015	DREAM TRAIN Internet started providing “DTI SIM,” a mobile, high-speed data communication service.
December 2015	Full Speed established GoJapan Co., Ltd. as a joint-venture company with Asia Smart Travel (Beijing) Information Technology Co., Ltd. and started a travel app business for tourists visiting Japan
March 2016	Started to provide “mobabiji,” a cloud PBX service for corporations
July 2016	Listing changed to the First Section of the Tokyo Stock Exchange
September 2016	Made a consolidated subsidiary of EPARK Healthcare (current FreeBit EPARK Healthcare), which provides healthcare-solutions services.
February 2017	Changed the corporate name of EPARK Healthcare to FreeBit EPARK Healthcare.
March 2017	GIGAPRIZE made a consolidated subsidiary of For-Members.
April 2017	GIGAPRIZE merged with the wholly-owned subsidiary ESP Co., Ltd. through an absorption merger
May 2017	Full Speed conducted a company split for the video ad network business for smartphones and established CALM BOLD INC.

Source: Prepared by FISCO from the Company's website

3. Business descriptions

In the percentages of net sales provided by segment, the Broadband Business provides the most at 28.8% (35.3% in previous fiscal year), followed by the Mobile Business at 24.5% (17.7%), the Ad Technology Business at 41.3% (41.2%), the Cloud Business at 5.5% (7.0%), and the newly established Health Tech Business at 0.7% (its profit-loss was consolidated from FY4/17 Q3).

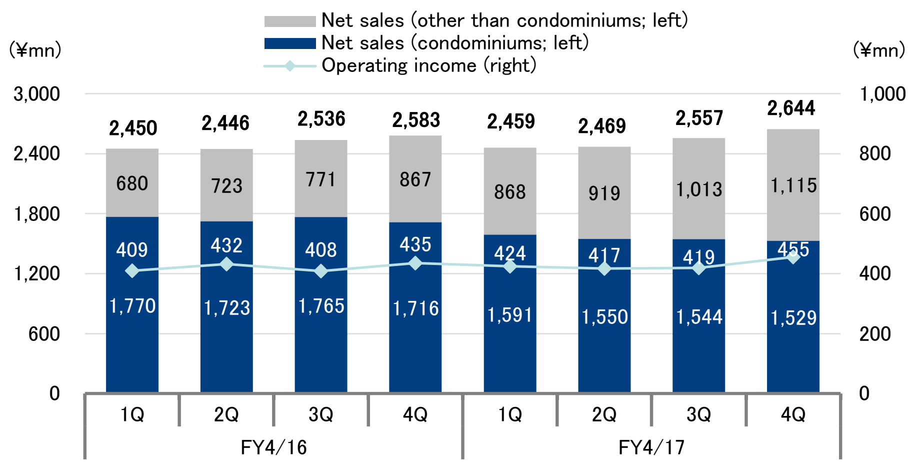
Business overview

Centered on three businesses; the Broadband Business that generates cash, the Ad Technology Business that has growth and profit potential, and the Mobile Business that is achieving high growth while facing issues with its profit structure

1. Broadband Business

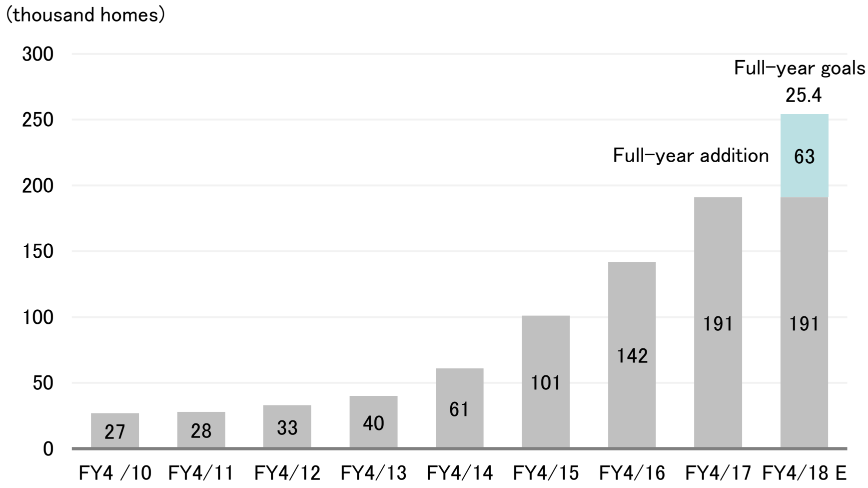
In the FY4/17 full year, this segment maintained the trend of increasing sales and profits, with net sales rising 1.1% YoY to ¥10,131mn and segment income growing 1.9% to ¥1,717mn. The factors behind the higher segment income were the contribution to profits of the increase in sales from GIGAPRIZE's Internet service for condominiums, and the steady expansion of the Internet service for individuals thanks to the success of DTI's measures for the Hikari Collaboration. The introduction of the Internet service for condominiums has been accelerated by the launch of collaborations with a number of extremely large house manufacturers, and cumulatively, it has been introduced into 191,000 units (up 49,000 units on the end of the previous fiscal year). Operating income is steadily growing from the expansion of the Internet service for condominiums, which has a high profit margin. The operating income margin is high at 16.9% (FY4/17), and this segment has been positioned as "the money tree" that generates cash for the Company as a whole.

Trends in the Broadband Business, net sales and segment profit



Source: Prepared by FISCO from the Company's results briefing materials

Trends in the results for the introduction of the condominium Internet service

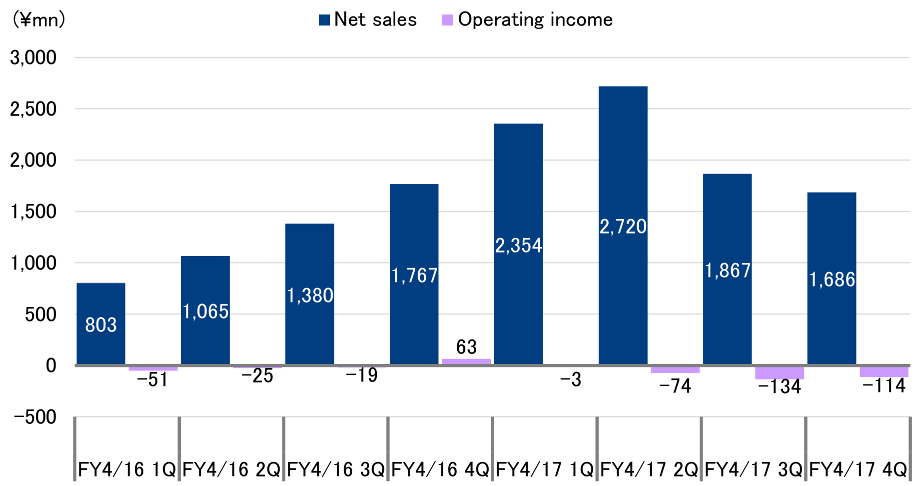


Source: Prepared by FISCO from the Company's results briefing materials

2. Mobile Business

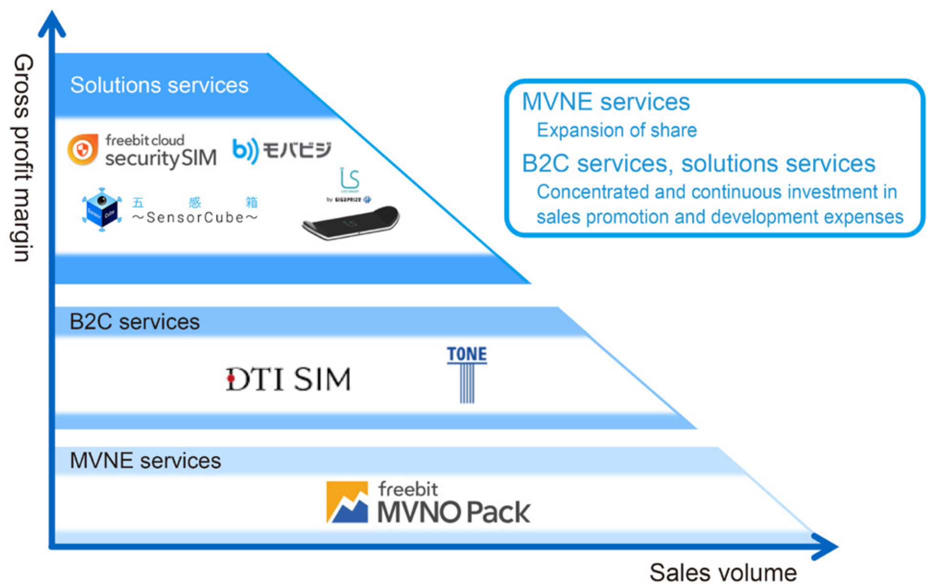
For the FY4/17 full year, net sales increased greatly, up 72.0% YoY to ¥8,628mn. The factors behind this included 1) the acquisition of users from MVNO business operators, including U-NEXT <9418> that uses the “freebit MVNO Pack,” and also the steady expansion of the bandwidth wholesale business for MVNO; 2) the strong performance of prepaid SIM sales and rental routers for overseas visitors to Japan (since February 2015, cumulative sales of prepaid Sims has exceeded 800,000 cards); and 3) the number of users of “DTI SIM,” which is DTI’s mobile high-speed data communication service for individuals, is trending favorably from it providing new plans and implementing various campaigns. With regard to “TONE m15,” which is a smartphone handset for equity-method affiliate TONE mobile, shipments were as scheduled up to FY4/17 Q2, but sales subsequently settled down as there were no major movements in Q3and Q4. As this segment is in a period of having to conduct upfront investment, including for the launch of the new mobile service (mobabiji) and to expand users of mobile services for individuals (DTI SIM), for the full fiscal year the segment loss was ¥327mn (compared to a loss of ¥33mn in the previous fiscal year). The objective for the Mobile Business is to improve the profit structure by growing B2C services (DTI SIM and Tone mobile) and solutions services (including mobabiji and freebit cloud security SIM) that have higher gross margins, while also expanding the scale of services for MVNO business operators.

Net sales and segment profit/loss in the Mobile Business



Source: Prepared by FISCO from the Company's results briefing materials

Progress in the Mobile Business



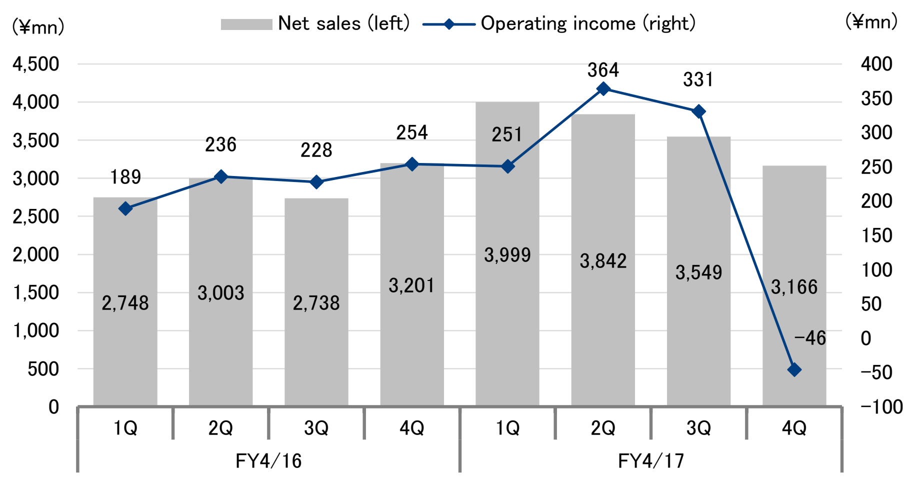
Source: Prepared by FISCO from the Company's results briefing materials

3. Ad Technology Business

In the FY4/17 full year, net sales increased significantly, rising 24.5% YoY to ¥14,557mn. Segment income declined slightly, down 0.9% to ¥900mn, due to the actualization of the impact of the Fully Speed Group's uncollected receivables. Profits temporarily declined following the bankruptcy of a customer, but there has been no change to the high growth and profit potential of this business. In the business deployment of "AdMatrix," which is a proprietary advertising integration platform that the Company is focusing on, new projects via agencies are increasing from the rise in the number of agencies and the strengthened collaborations with them. The affiliate platform "afb"*2, which is an affiliate service provider (ASP)*1 that has reached its 10th anniversary, is maintaining its business expansion having been highly evaluated for its proprietary functions, and it has been ranked first for media user satisfaction. Also, alongside the objective of strengthening the development foundation, which is the Company's medium-term business policy, in January 2017 it established an offshore development base in Cebu, the Philippines. The shortage of IT human resources in Japan is expected to become even more serious in the future, so it is strengthening its offshore bases ahead of that time. It is currently conducting development and maintenance of the existing business of Ad Technology and R&D for new businesses, and it seems that in the medium to long-term, it will work to improve the Internet marketing business and to develop new businesses.

*1 Service provider that distributes ads with performance-based fees
*2 Network of over 550,000 partner sites. Utilizing PC knowhow to deploy services to tablets, smartphones, and mobile devices. Formerly called "Affiliate B."

Net sales and segment profit trends in the Ad Technology Business



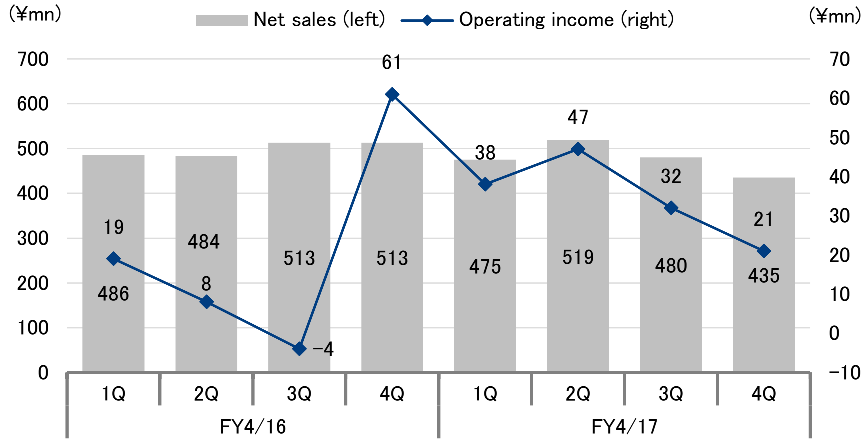
Source: Prepared by FISCO from the Company's results briefing materials

4. Cloud Business

The Cloud Business reported a slight 2.6% YoY drop in net sales to ¥1,945mn and a steep 64.8% gain in segment profit to ¥140mn in FY4/17. While net sales continued to face pressure from revisions to housing, hosting, and other legacy services, segment income rose significantly as higher hybrid cloud* and content sales offset the impact.

* Cloud refers to the format of supplying software and other contents through a network to users and data centers and servers that store and manage related data. A public cloud is a service or system that anyone can use from the Internet. A private cloud is a service or system used by a large company or others on a self-operated network. A hybrid cloud has both aspects and combines advantages of the two formats to enhance security and cost management.

Net sales and segment profit in the Cloud Business



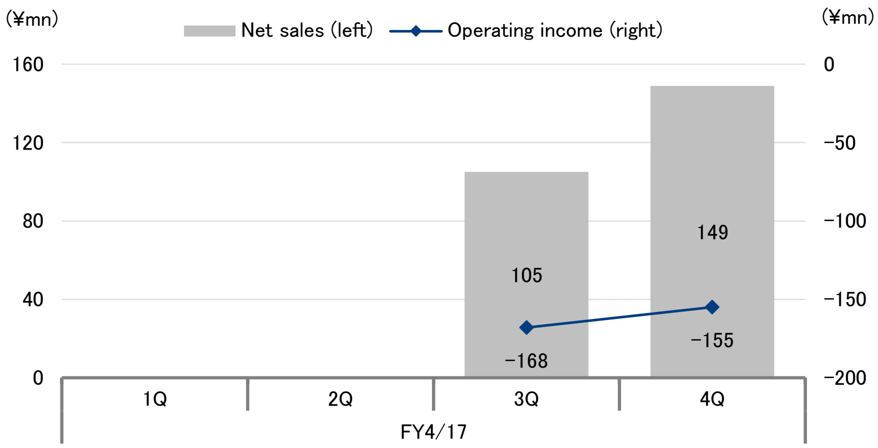
Source: Prepared by FISCO from the Company's results briefing materials

5. Health Tech Business

In the FY4/17 full year, net sales were ¥254mn and the segment loss was ¥324mn. In September 2016, the Company acquired the shares (acquired 47.5% of the voting rights) and made a consolidated subsidiary of EPARK Healthcare, which specializes in the pharmacy industry and provides various services, including EPARK Kusuri-no-Madoguchi, a comprehensive pharmacy portal site. In February 2017, its corporate name was changed to FreeBit EPARK Healthcare and it began conducting the “Health Tech Business” segment.

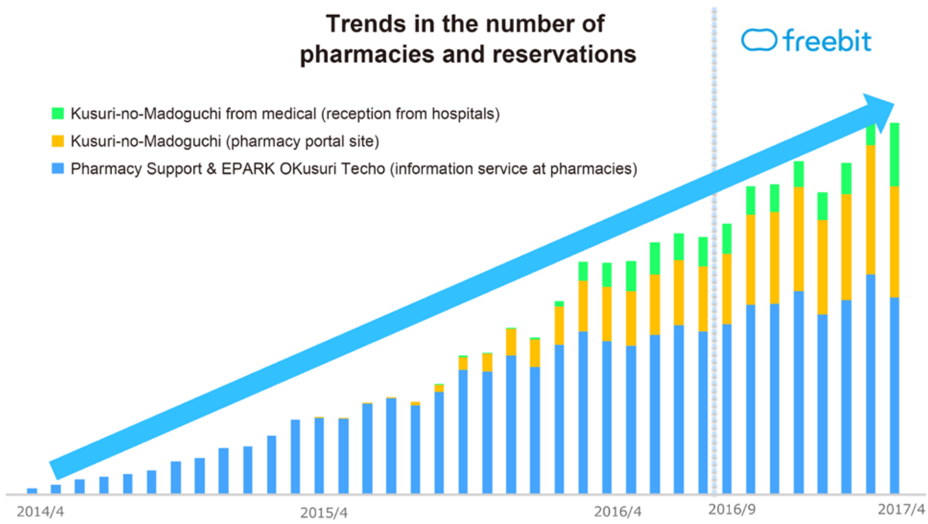
The business concept is for the Company to evolve its technological capabilities for the media platform that connects to the end users (the patients) and the dispensing pharmacies, and to provide information and highly convenient reservation, delivery, and other services to these end users. The revenue models are diverse and include advertising revenue as media, commission from receiving patients, and reservation system usage fees. “EPARK 0Kusuri Techo” is a free app handled as a service for end users (patients), and it has been attracting attention for its highly convenient functions, including pharmacy-reception reservations, an alarm to indicate when it is time to take medicine, and medical-information registration. It has been reported on by the media and cumulatively it has been download more than 110,000 times, which makes it the No.1 app of its kind. The number of reservations at pharmacies are also rising, and while currently name recognition is low, further growth is expected in the future. This segment has in sight achieving profitability on a single-month basis during FY4/18, at the earliest.

Net sales and segment profit in the Health Tech Business



Source: Prepared by FISCO from the Company's financial results

Trends in the Health Tech Business



Source: The Company's results briefing materials

Business trends

Sales increased significantly in the FY4/17 full year, although operating income declined due to upfront investment in the Health Tech Business and to process uncollected receivables

1. FY4/17 full-year results

In FY4/17 consolidated results, the Company reported sharply higher net sales but declining income. Net sales grew 24.1% YoY to ¥35,222mn, operating income declined 30.6% to ¥1,321mn, ordinary income declined 38.9% to ¥807mn and the Company recorded a loss attributable to owners of parent of ¥150mn.

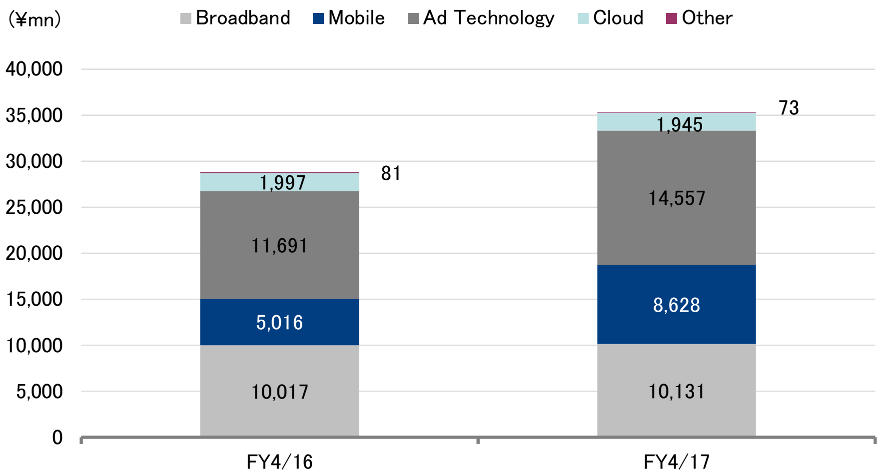
Review of consolidated results for FY4/17

(¥mn)

	FY4/16		FY4/17		
	Result	Ratio to sales	Result	Ratio to sales	YoY change
Net sales	28,389	-	35,222	-	24.1%
Cost of sales	20,177	71.1%	27,007	76.7%	33.8%
Gross profit	8,212	28.9%	8,214	23.3%	0.0%
SG&A expenses	6,309	22.2%	6,893	19.6%	9.3%
Operating income	1,902	6.7%	1,321	3.8%	-30.6%
Ordinary income	1,322	4.7%	807	2.3%	-38.9%
Profit attributable to owners of parent	553	1.9%	-150	-0.4%	-

Source: Prepared by FISCO from the Company's financial results

Percentages of net sales by segment



Source: Prepared by FISCO from the Company's financial results

The main reasons why sales rose 24.1% YoY were the growth of the Mobile Business (sales increased ¥3,611mn, including from the strong results of "freebit MVNO Pack" and SIM) and the Ad Technology Business (Full Speed Group sales were up ¥2,865mn YoY). The cost of sales rose 33.8% to ¥27,007mn, including due to higher network-related costs and the impact of uncollected receivables in the Full Speed Group (¥444mn). As a result, the gross profit margin declined by 5.6 percentages points, from 28.9% in the previous fiscal year to 23.3%. SG&A expenses increased to ¥6,893mn (up 9.3%) because of the rise in personnel expenses and other expenses following the expansion in business scale. But they did not increase to the same extent as the growth in net sales, so the SG&A expenses ratio declined to 19.6% (down 2.6 percentage points). As a result of the above, operating income fell 30.6%. By segment, the extent of the decline in profits in the Mobile Business (¥294mn) was large, while the upfront investment and the amortization of goodwill (¥421mn) in the newly established Health Tech Business were also significant.

Ordinary income declined by 38.9% YoY, as despite the reduction in the equity-method investment loss following the business expansion of Tone mobile, the impact of the fall in operating income was great. For the profit attributable to the owners of the parent, the effects of recording in this fiscal year a higher extraordinary loss (including for the costs to dispose of communication facilities) and also higher corporate tax were significant.

Made two companies consolidated subsidiaries through M&A, and goodwill increased

2. Financial position and management indicators

At the end of FY4/17, total assets were up ¥3,665mn on the end of the previous fiscal year to ¥25,597mn. Breaking this down, this was mainly due to non-current assets rising ¥2,240mn and intangible non-current assets, including goodwill (Freebit EPARK Healthcare and Four-Members were made consolidated subsidiaries by M&A) and software, increasing ¥2,315mn. Also, current assets rose ¥1,424mn, with the main increase being of cash and deposits of ¥2,338mn and the main decrease being of commodities and products of ¥512mn (shipment of smartphone handsets in the Mobile Business).

Liabilities were up ¥3,579mn on the end of the previous fiscal year to ¥14,346mn. This was mainly due to increases in non-current liabilities of ¥3,083mn and corporate bonds of ¥2,611mn.

In the management indicators of financial stability (end of FY4/17), the current ratio was 182.4% and the equity ratio was 37.7%, so there are no concerns about the Company's financial stability.

Consolidated balance sheet and management indicators

(¥mn)

	End-FY4/16	End-FY4/17	Change
Current assets	15,989	17,414	1,424
Cash and deposits	7,911	10,249	2,338
Merchandise and finished goods	714	202	-512
Non-current assets	5,942	8,182	2,240
Intangible non-current assets	2,392	4,708	2,315
Total assets	21,931	25,597	3,665
Current liabilities	9,049	9,545	495
Non-current liabilities	1,717	4,800	3,083
Total liabilities	10,766	14,346	3,579
Net assets	11,164	11,251	86
Total liabilities and net assets	21,931	25,597	3,665
Soundness			
Current ratio (current assets ÷ current liabilities)	176.7%	182.4%	-
Equity ratio (shareholders' equity ÷ total assets)	45.5%	37.7%	-

Source: Prepared by FISCO from the Company's financial results

Forecasts

The forecasts for the FY4/18 full year are for net sales of ¥40,000mn and operating income of ¥2,000mn, for the 5th consecutive fiscal year of higher sales and record-high operating income

● FY4/18 outlook

The Company's outlook for FY4/18 is for increases in sales and income. Net sales are forecast to rise 13.6% to ¥40,000mn, operating income to grow 51.4% to ¥2,000mn, and ordinary income to jump 135.3% to ¥1,900mn. The Company is projecting profit attributable to the owners of parent of ¥100mn.

The forecast is for a double-digit increase in net sales on a Company-wide basis due to the continued growth of the respective businesses, particularly the Ad Technology Business but also the Mobile Business and the Broadband Business. It will also be from the recording of sales for the full-fiscal year for the Health Tech Business, in which the subsidiary was consolidated from 2H of the previous fiscal year. For operating income, together with the strong performance of the Broadband Business, a recovery is expected in the Ad Technology Business, in which profits fell in FY4/17 due to the temporary factor of uncollected receivables, and the driving force will be the increase in Company-wide profits. In terms of its inherent potential, the Company has the profitability to achieve operating income of around ¥2,800mn in FY4/18, but as it will continue to conduct upfront investment of approximately ¥800mn in the Health Tech Business and Real Estate Tech Business, the forecast is for operating income of ¥2,000mn.

Outlook for FY4/18

(¥mn)

	FY4/17		FY4/18		
	Result	Ratio to sales	Forecast	Ratio to sales	YoY change
Net sales	35,222	100.0%	40,000	100.0%	13.6%
Operating income	1,321	3.8%	2,000	5.0%	51.4%
Ordinary income	807	2.3%	1,900	4.8%	135.3%
Profit attributable to owners of parent	-150	-0.4%	100	0.3%	

Source: Prepared by FISCO from the Company's financial results

At FISCO, given that net sales increased 24.1% YoY in FY4/17, we judge that a forecast growth of 13.6% for net sales in FY4/18 is a target that the Company can achieve by a wide margin. In terms of profits also, as the temporary negative factor in FY4/17 has been eliminated and the forecasts are for profits to continue to improve in the Mobile Business and Health Tech Business, we think that the forecasts are fully achievable.

Medium to long-term growth strategy

Accelerating the deployment of mobile products for corporations and also real estate tech-related

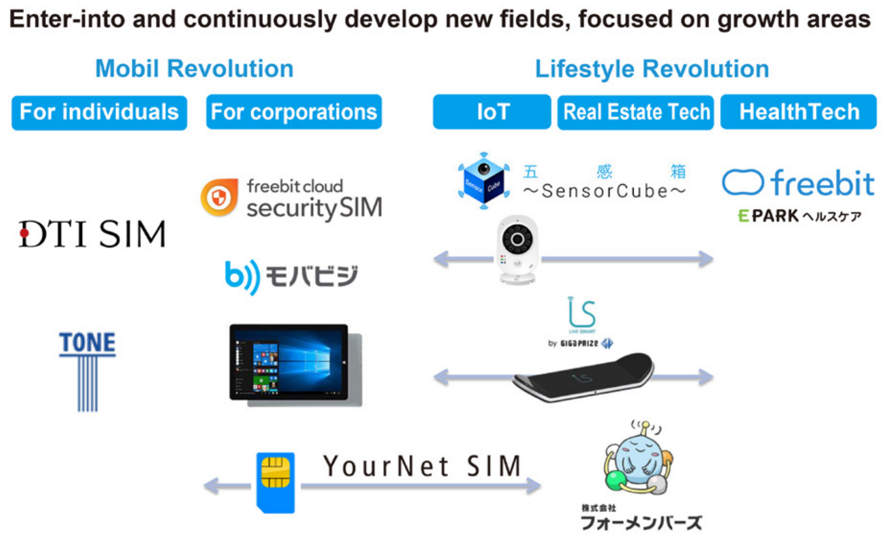
● Advancing into the Mobile Revolution and Lifestyle Revolution fields

The Company announced SiLK VISION 2020, its four-year medium-term business policy, in June 2016, which targets net sales of ¥50,000mn and operating income of ¥5,000mn in FY4/20. It has already put in place the core businesses and services for the two growth areas in the Group’s basic policy, of Mobile Revolution and Lifestyle Revolution.

“Freebit cloud security” is a new mobile product for corporations launched in November 2016. This service makes possible both “convenience” and “security” for mobile communications using SIM. Demand is growing for it as an increasing number of companies are introducing teleworking alongside their reforms to ways of working. In May 2017, the Company started a collaboration with CTCSP Corporation of the ITOCHU Techno-Solutions <4739> Group, which seems to be spurring-on sales.

In Lifestyle Revolution, the Company has also made the first moves in the Real Estate Tech business. In May 2017, it concluded a business tie-up agreement with Live Smart KK, a home IT venture company, and announced that it is aiming to provide an IoT platform service for collective housing, which would be the first such service in Japan. It is highly convenient to have smartphone functions that allow the unified and remote operation of home appliances, such as locks and air conditioners, and also other items like cameras, and if seen from the real-estate renting side, it can be a deciding factor toward reducing vacancy rates. In February 2017, the Company made a consolidated subsidiary of For-Members, which conducts a real estate brokerage business, and it is aiming to progress the transition to IoT within homes.

The Group's basic policy



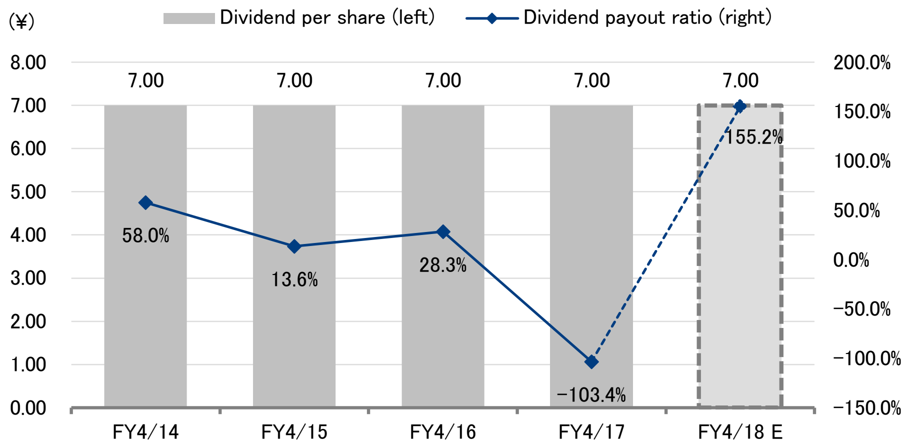
Source: Prepared by FISCO from the Company's results briefing materials

Shareholder return policy

As in a typical year, forecast is for a dividend of ¥7 in FY4/18 also

The Company returns profits to shareholders through paying dividends. Its basic dividend policy is to prioritize continuously returning profits to shareholders while also supplementing internal reserves and investing for business expansion. It recorded a net loss in FY4/17, but even so it maintained an annual dividend per share of ¥7. The forecast annual dividend per share for FY4/18 is the same, of ¥7, for a dividend payout ratio of 155.2%.

Dividend per share and dividend payout ratio



Source: Prepared by FISCO from the Company's financial results

Disclaimer

FISCO Ltd. (the terms "FISCO", "we", mean FISCO Ltd.) has legal agreements with the Tokyo Stock Exchange, the Osaka Exchange,and Nikkei Inc. as to the usage of stock price and index information. The trademark and value of the "JASDAQ INDEX" are the intellectual properties of the Tokyo Stock Exchange, and therefore all rights to them belong to the Tokyo Stock Exchange.

This report is based on information that we believe to be reliable, but we do not confirm or guarantee its accuracy, timeliness,or completeness, or the value of the securities issued by companies cited in this report. Regardless of purpose,investors should decide how to use this report and take full responsibility for such use. We shall not be liable for any result of its use. We provide this report solely for the purpose of information, not to induce investment or any other action.

This report was prepared at the request of its subject company using information provided by the company in interviews, but the entire content of the report, including suppositions and conclusions, is the result of our analysis. The content of this report is based on information that was current at the time the report was produced, but this information and the content of this report are subject to change without prior notice.

The final selection of investments and determination of appropriate prices for investment transactions are decisions for the recipients of this report.

FISCO Ltd.