COMPANY RESEARCH AND ANALYSIS REPORT

FreeBit Co., Ltd.

3843

Tokyo Stock Exchange First Section

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Index

Summary

FY4/20 was the eighth consecutive year of increase in sales (set new record high in sales).
Operating income declined due to poor performance in the EdTech Business.
Reviewing “SiLK VISION 2020” which drove business domain expansion, and now entering the next stage under a new management regime.
Starting to offer next-generation services in the Real Estate Tech Business

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

*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 piggybacking on the wireless communications infrastructure of other communication businesses, such as NTT DOCOMO, INC. <9437>, KDDI CORPORATION <9433>, and SoftBank Corp. <9434>.
*2 A mechanism or service for virtually building the functions of a data center so they can be used over the Internet.

The Company started the HealthTech Business segment centered on FreeBit EPARK Health Care, Inc., which the Company converted into a consolidated subsidiary in September 2016 (the former name was EPARK Health Care, Inc.). In March 2017, the Company converted real estate brokerage company For Members Co., Ltd. into a consolidated subsidiary in order to gain a foothold in the real estate tech domain. In September 2018, the Company converted ALC PRESS INC., a comprehensive language education company, into a wholly-owned subsidiary, thereby entering the field of IT for education. In 2016, the Company’s stock listing was reassigned to the First Section of the Tokyo Stock Exchange.

1. FY4/20 result trends

In the FY4/20 consolidated results, there was an increase in sales but a decline in profits, with net sales increasing 9.8% year-on-year (YoY) to ¥55,295mn, operating income declining 13.2% to ¥2,587mn, ordinary income declining 3.4% to ¥2,481mn, and loss attributable to owners of parent of ¥619mn (versus a loss of ¥279mn in the previous fiscal year). This marked the eighth consecutive year of increasing sales as well as new record high for sales. The significant increase in net sales was due to the Real Estate Tech Business, where the condominium Internet service was strong, and the acquisition of the EdTech Business. The AdTech Business and HealthTech Business also contributed to the increase in net sales. In terms of operating income, there were increases in segment profits in the Real Estate Tech Business, the HealthTech Business and the InfraTech Business, but these were outweighed by the declines in business profits in the EdTech Business and the AdTech Business, resulting in a decline in operating income. In the EdTech Business, there were negative impacts from the novel coronavirus pandemic, causing a slowdown in existing businesses in 4Q which is normally the busiest season. This, along with delays in the business conversion to the digital domain, resulted in a larger decline in profit. With respect to profit attributable to owners of parent, the Company posted an additional extraordinary loss of ¥1,308mn in total in the EdTech Business and other segments following an assessment of the future impacts of the novel coronavirus pandemic, resulting in the posting of a loss instead of a profit as had been forecast. At FISCO, we appreciate the Company's efforts to quickly factor in future risks and maintain a highly reliable balance sheet.

2. FY4/21 outlook

For the FY4/21 full year consolidated results, the Company projects net sales to decline 2.3% to ¥54,000mn, operating income to fall 26.6% to ¥1,900mn, ordinary income to decline 31.5% to ¥1,700mn, and loss attributable to owners of parent of ¥200mn (compared to a ¥619mn loss in FY4/20). The conservative forecasts are based on the fact that the impact of the novel coronavirus pandemic is unclear, and the fact that the medium-term business policy SiLK VISION 2020 has concluded and the Company will now work on structural reforms of its expanded portfolios. The impact of the novel coronavirus pandemic will differ according to the segment. While some businesses like the Infratech Business have benefitted from the pandemic due to the spread of teleworking, other businesses like training services in the EdTech Business have already seen negative impacts. In the AdTech Business, it is expected to take some time in order to assess the impact of the pandemic on the advertising industry as a whole. In terms of structural reforms, the Company will aim to optimize its infrastructure and platform portfolios to suit the age of the coronavirus, as well as establish an integrated group management system that makes maximum use of the group's human resources, technological resources, and data. In FY4/21, the Company plans to make sweeping structural reforms, and the Company has factored associated costs into its forecasts, resulting in conservative profit estimates.

3. Medium- to long-term growth strategy

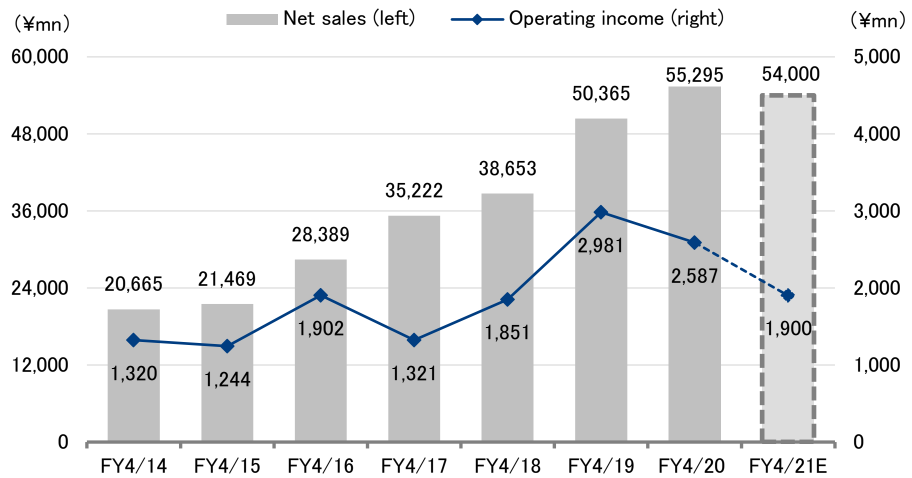
In June 2016, the Company announced SiLK VISION 2020, its four-year medium-term business policy, which targeted net sales of ¥50bn and operating income of ¥5bn in FY4/20. Although the Company's net sales jumped from ¥28.3bn in FY4/16 to ¥55.2bn in FY4/20, operating income in FY4/20 was only ¥2.5bn. The Company has set a target of entering the lifestyle revolution domain, and has been making up-front investments in this area. As a result, the Company has established a foundation in IoT, Real Estate Tech, HealthTech, and EdTech.

In May 2020, the Company started a new management structure. Founder Atsuki Ishida (formerly Representative Director and Chairman) has been appointed as President, CEO and CTO in place of Nobuaki Tanaka. Going forward, assuming a world with the coronavirus, the Company plans to transform into an organization where integrated management is possible, in order to optimize its expanded infrastructure and platform portfolios, and maximize the use of its human resources, technological resources, and data. We are looking forward to seeing the framework of SiLK VISION 2023, the new medium-term business policy which the Company will announce in August 2020 or thereafter.

Key Points

- Main pillars of business are the InfraTech Business, the Real Estate Tech Business, and the AdTech Business. The rapidly growing HealthTech Business became profitable in 2H
- FY4/20 marked the eighth straight year of increasing net sales (record high net sales). Operating income declined, reflecting the poor performance in the EdTech Business. Additional extraordinary losses were posted based on an assessment of the impact of the novel coronavirus pandemic
- Conservatively forecasting net sales of ¥54bn and operating income of ¥1.9bn in FY4/21. These figures include costs associated with the plans for sweeping structural reforms in conjunction with the conclusion of the medium-term business plan
- Concluded SiLK VISION 2020 which drove business domain expansion, and now advancing to the next stage under a new management regime. Starting to offer next-generation services in the Real Estate Tech Business

Results trends



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

Company profile

A mega venture with the strength of providing an Internet and mobile infrastructure.
Expanded domains by entering the HealthTech Business (2016) and the EdTech Business (2018)

1. Company profile

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

The Group has many companies, including GIGAPRIZE Co., Ltd. <3830>, Full Speed <2159>, DREAM TRAIN INTERNET INC. (wholly owned subsidiary), For it Inc. (wholly owned subsidiary of Full Speed Inc.), FreeBit EPARK Health Care (subsidiary), Tone mobile inc. (equity-method affiliate) and ALC PRESS INC.

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 ISPs and it was listed on the Mothers market of the Tokyo Stock Exchange in 2007. Using the opportunity of its listing, it accelerated the expansion of its business areas through M&A. It made a consolidated subsidiary of DREAM TRAIN INTERNET in that same year and of GIGAPRIZE in 2009. In 2010, alongside making a consolidated subsidiary of Full Speed, which is an Internet advertising agency, the Company also made consolidated subsidiaries of for it, which conducts 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 the MVNE/MVNO business and also accelerated growth in the mobile business field. In 2016, it entered the health care business, using an M&A as the first step. In March 2017, to acquire a foothold in the real estate tech field, it made a consolidated subsidiary of For Members, which conducts a real estate brokerage business. In September 2018, it made a wholly-owned subsidiary of ALC PRESS, a comprehensive language education company, thereby entering the field of IT for education. In July 2019, it concluded a comprehensive tie-up with ALPS ALPINE CO., LTD. <6770>, targeting the “seamless driving experience.” In 2016, its listing was reassigned to the First Section of the Tokyo Stock Exchange.

Company history

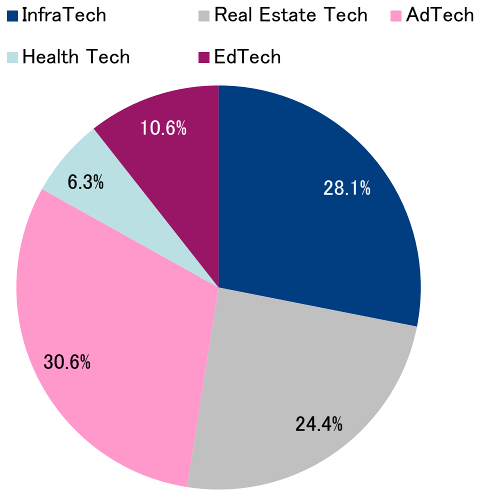
Date	Main events
May 2000	Founded as FreeBit.com Co., Ltd. in Shibuya Ward, Tokyo, to provide Internet business support
December 2002	Changed its corporate name from FreeBit.com Co., Ltd. to FreeBit Co., Ltd.
March 2007	Listed on the Mothers market of the Tokyo Stock Exchange
August 2007	Made a consolidated subsidiary of DREAM TRAIN INTERNET INC., which operates an ISP business for individuals
March 2009	After making a consolidated subsidiary of Media Exchange Co., Ltd., which had been listed on the Mothers market of the Tokyo Stock Exchange (delisted after becoming the Company's wholly owned subsidiary and merged with DREAM TRAIN INTERNET through an absorption merger), its subsidiary GIGAPRIZE Co., Ltd. <3830>, which conducts a condominium ISP business, was also made a consolidated subsidiary
August 2010	Made consolidated subsidiaries of Full Speed Inc. <2159>, which operates an Internet advertising agency, For it Inc., which operates an affiliate advertising business and provides its proprietary program Affiliate B, and BEKKOAME INTERNET. INC., which operates an IT platform business
March 2011	Entered into the MVNO business (as a MVNE)
June 2012	Full Speed launched the advertising management integration program AdMatrix series
July 2013	Started providing the freebit MVNO Pack, an MVNE (MVNO supporter) service for MVNOs through an L2 connection from NTT DOCOMO, INC. <9437>
November 2013	DREAM TRAIN INTERNET started providing freebit mobile, an MVNO service that offers all aspects, from terminal development through to user support, in an integrated manner
January 2015	Established FreeBit Mobile, Inc., which conducts an 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 communications service
December 2015	Full Speed established GoJapan Inc. 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 Health Care, Inc., which provides health care solutions services
February 2017	Changed the corporate name of EPARK Health Care to FreeBit EPARK Health Care, Inc.
March 2017	GIGAPRIZE made a consolidated subsidiary of For Members
April 2017	GIGAPRIZE merged with its 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 Calmbold Inc. (currently, CRAID Inc.)
August 2017	Acquired Medip inc., a digital signage provider for medical facilities, as a consolidated subsidiary
October 2017	Made GIGA TECH Co., Ltd., established by GIGAPRIZE to expand ISP business for multi-household dwellings, a consolidated subsidiary
March 2018	Acquired the nursing care records system business of TEAC ONKYO SOLUTIONS CORPORATION
September 2018	Made a consolidated subsidiary of ALC PRESS INC., a language education company
July 2019	Concluded business tie-up agreement with ALPS ALPINE CO., LTD.
December 2019	DREAM TRAIN INTERNET INC. assumed the entire business of Tone mobile inc. (currently Culture Convenience Club Co., Ltd.)

Source: Prepared by FISCO from the Company's website

3. Segment descriptions

In FY4/20, the segment sales breakdown consisted of the InfraTech Business at 28.1%, the Real Estate Tech Business at 24.4%, the AdTech Business at 30.6%, the HealthTech Business at 6.3%, and the EdTech Business at 10.6%.

Percentage of net sales by segment (FY4/20)



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

Business overview

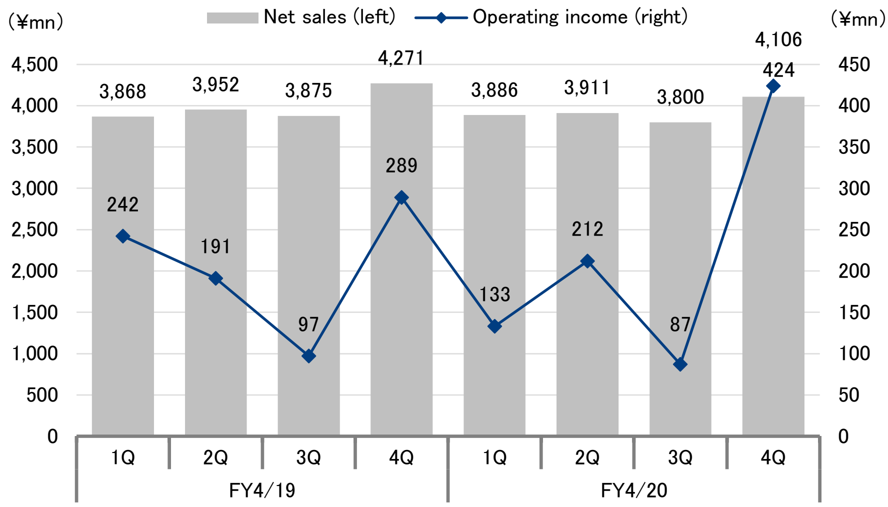
The InfraTech Business, the Real Estate Tech Business and the AdTech Business are the three main pillars of the Company. The rapidly growing HealthTech Business became profitable in 2H.

1. InfraTech Business

The InfraTech Business comprises a portion of the former Broadband Business and the former Mobile Business. The former Broadband Business primarily supplies ISP business assistance service and Internet connection service using fixed lines to individuals. The market for communications services over the fixed line network has slowed to moderate pace as the spread of the high-speed broadband environment has run its course, as well as faster communications service through mobile networks. The former Mobile Business provides MVNO business assistance service (MVNE) and mobile communications service to individuals. It faces uncertainty in its business environment because of the impact of management strategies at MVNOs, its customers.

In FY4/20, net sales declined 1.6% year on year to ¥15,705mn, and segment income increased 4.3% to ¥856mn, as net sales increased slightly and segment income grew. The increase in segment income was mainly due to the increase in cloud service sales and the decline in mobile costs.

Net sales and segment income in the InfraTech Business

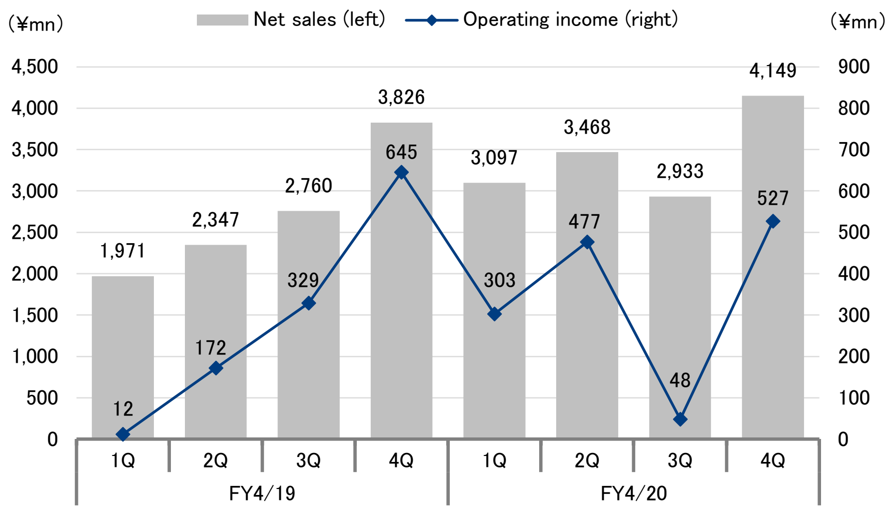


Source: Prepared by FISCO from the Company's results briefing materials

2. Real Estate Tech Business

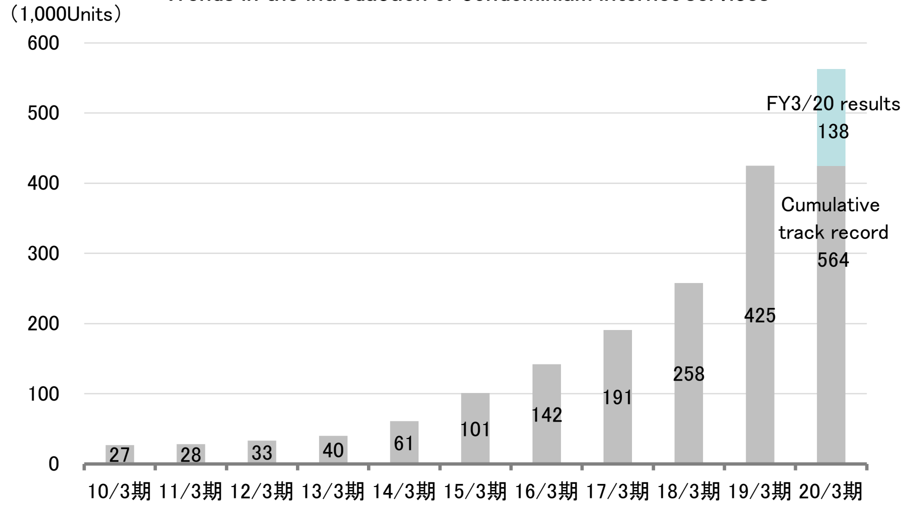
The Real Estate Tech Business comprises a portion of the former Broadband Business and a portion of the former Cloud Business, and is handled by consolidated subsidiary GIGAPRIZE. The main services are Internet connection services over fixed lines to corporations and multifamily dwellings. The condominium Internet business has seen an increase in installations due to the start of collaborations with multiple super-large homebuilders. Cumulative installations climbed by 138,000 units from the end of the previous fiscal year to 564,000 units. In the Real Estate Tech Business in FY4/20, net sales increased 25.2% YoY to ¥13,648mn, and segment income increased 17.0% to ¥1,356mn, as both net sales and segment income posted double-digit growth.

Net sales and segment income in the Real Estate Tech Business



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

Trends in the introduction of condominium internet services



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

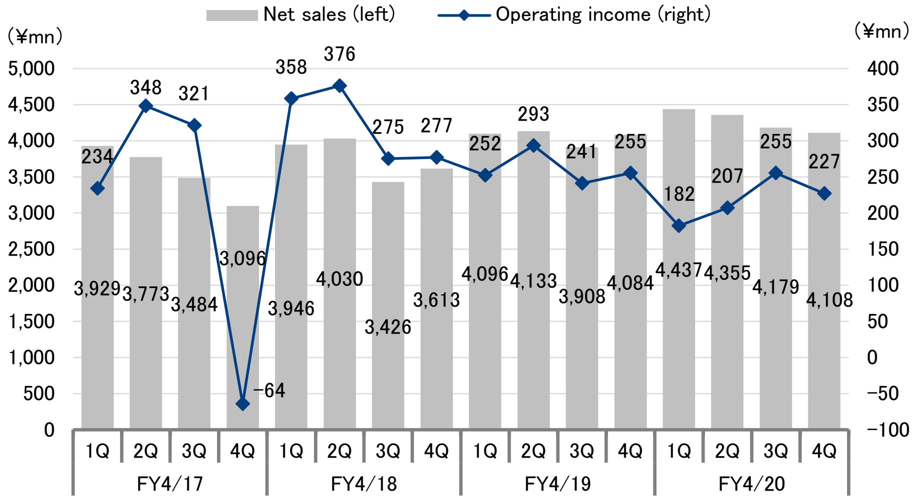
3. AdTech Business

The AdTech Business supplies Internet marketing services to companies. The Internet advertising market continues to grow due to steady shift from conventional reserved-type ads to managed-type ads (such as listing ads and ads utilizing ad technology) and upbeat momentum from video ads, social media ads, and mobile ads. AdMatrix, the Company core proprietary advertising integration platform, is making further strides with new video functionality and unique data acquisition and holds the No.1 DSP*1 in Japan. The affiliate platform "afb"*3, which is supplied by For it, an affiliate service provider (ASP)*2 is highly evaluated for proprietary functions and as the leader in user satisfaction for five consecutive years. Currently, afb is accelerating overseas deployment, continuing on from Taiwan to accelerate entry in ASEAN countries such as Malaysia and Singapore. Privacy protection is gaining momentum globally in the online advertising sector overall, and dealing with changes by Google, Apple, and others is an urgent task.

*1 Demand Side Platform
*2 Service provider that distributes ads with performance-based fees
*3 Networking over 910,000 partner sites. Utilizing PC knowhow to deploy services to tablets, smartphones, and mobile devices. Formerly called as "Affiliate B."

In FY4/20, net sales increased 5.3% YoY to ¥17,081mn and segment income decreased 16.3% to ¥873mn, so although sales were solid, profits decreased. The reason for the decline in segment income was largely the up-front investments in strategic domains (personnel costs, system development costs).

Net sales and segment income/loss in the AdTech Business

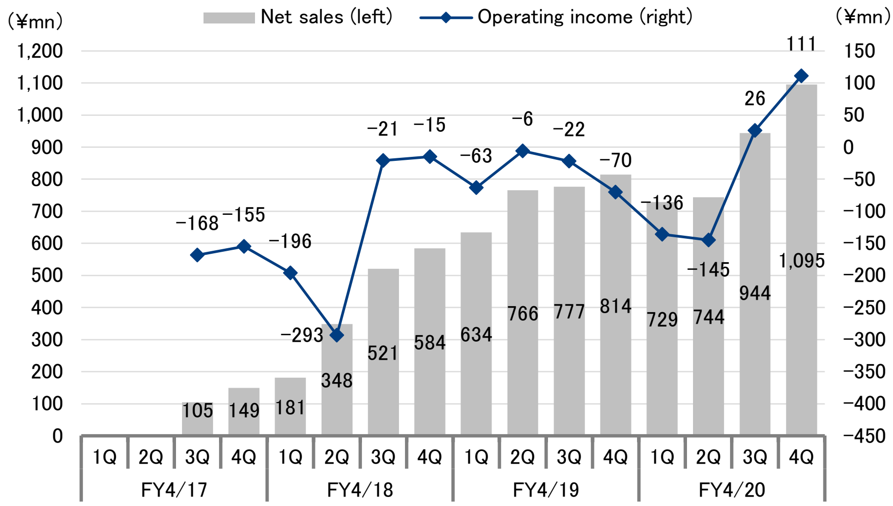


Source: Prepared by FISCO from the Company's results briefing materials

4. HealthTech Business

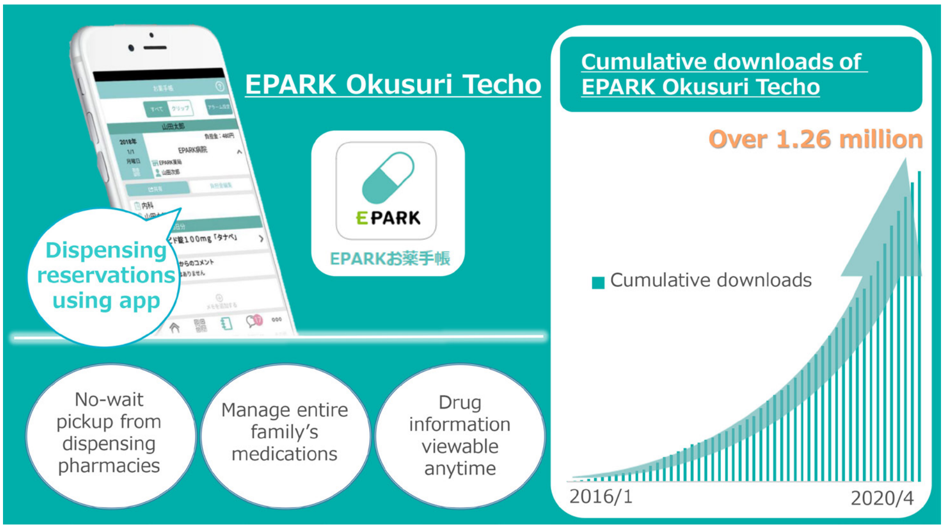
HealthTech Business provides a solution service to pharmacies, including operation of EPARK Kusuri-no-Madoguchi, a comprehensive pharmacy portal site. In September 2016, the Company acquired the shares (acquired 47.5% of voting rights) and made a consolidated subsidiary of EPARK Health Care, which runs this business. In February 2017, it changed the corporate name to FreeBit EPARK Health Care. The business concept is for the Company to enhance the media platform that connects end users (patients) and dispensing pharmacies with its technological capabilities and to provide information and highly convenient reservation, delivery, and other services to these end users. The revenue models include commission from transferring patients and reservation system usage fees. "EPARK Okusuri 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 drug-information registration. Cumulatively it has been downloaded more than 1,260,000 times (as of April, 2020), making it the No.1 app of its kind, due to help from mass-media exposure. The number of reservations at pharmacies is steadily rising. In FY4/20, net sales grew 17.4% YoY to ¥3,513mn, while segment loss was ¥144mn (compared to a loss of ¥308mn in the previous fiscal year). Profitability improved along with the growth in sales, and the segment achieved profitability on a quarterly basis in FY4/20 3Q.

Net sales and segment income/loss in the HealthTech Business



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

Features of EPARK Okusuri Techo

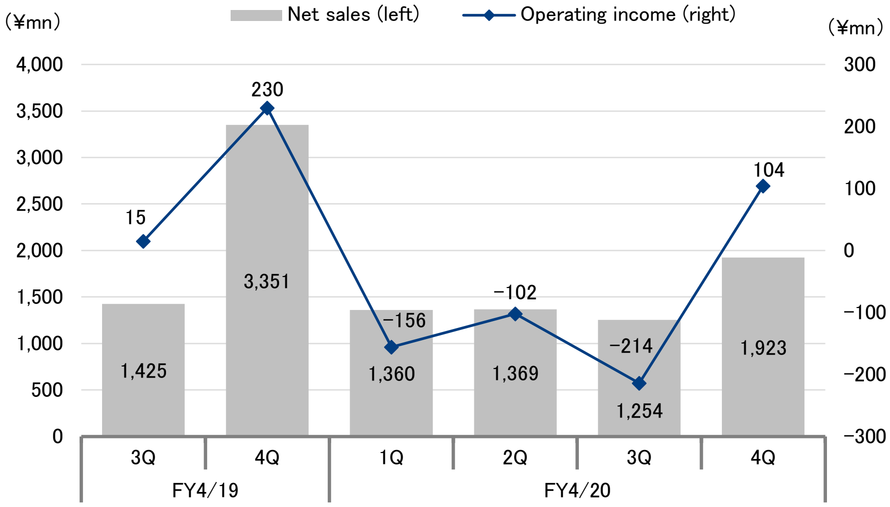


Source: The Company's results briefing materials

5. EdTech Business

ALC, a language education company the Company consolidated in September 2018, operates the EdTech Business. ALC engages in sales of its mainstay language education-related books and as well as its corporate training service, among other offerings. Efforts are being made to expand the business scale utilizing group synergies, and focus is being placed on providing language education content to smart speakers, tablets, and subscription services. In FY4/20, net sales increased 23.7% to ¥5,907mn, while segment loss was ¥368mn (compared to a segment profit of ¥246mn in the previous fiscal year). In normal years, this segment posts a loss in 1H, while profit is concentrated in 4Q, leading to an overall profit for the full fiscal year. In FY4/20, performance was negatively impacted by increasingly fierce competition in the digital domain as well as the novel coronavirus pandemic, particularly in corporate training services.

Net sales and segment income/loss in the EdTech Business



* In conjunction with the change in ALC's fiscal year end, six months of results (November – April) were posted in FY4/19 4Q.
Source: Prepared by FISCO from the Company's results briefing materials

Results trends

Eighth consecutive year of increase in sales in FY4/20 (set new record high in sales). Operating income declined due to poor performance in the EdTech Business. Posted additional extraordinary losses following assessment of the impact of the novel coronavirus pandemic

1. FY4/20 results

In the FY4/20 consolidated results, there was an increase in sales but a decline in profits, with net sales increasing 9.8% YoY to ¥55,295mn, operating income declining 13.2% to ¥2,587mn, ordinary income declining 3.4% to ¥2,481mn, and loss attributable to owners of parent of ¥619mn (versus a loss of ¥279mn in the previous fiscal year). This marked the eighth consecutive year of increasing sales and a new record high for sales.

FY4/20 results

(¥mn)

	FY4/19		FY4/20		
	Result	Ratio to sales	Result	Ratio to sales	YoY
Net sales	50,365	-	55,295	-	9.8%
Cost of sales	35,212	69.9%	38,477	69.6%	9.3%
Gross profit	15,153	30.1%	16,817	30.4%	11.0%
SG&A expenses	12,171	24.2%	14,229	25.7%	16.9%
Operating income	2,981	5.9%	2,587	4.7%	-13.2%
Ordinary income	2,569	5.1%	2,481	4.5%	-3.4%
Profit attributable to owners of parent	279	0.6%	-619	-	-

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

The significant increase in net sales was driven by the Real Estate Tech Business (up ¥2,743mn YoY) including the strong performance of the condominium Internet service, and bringing in the EdTech business (up ¥1,130mn YoY). The AdTech Business and the HealthTech Business also contributed to the increase in net sales.

In terms of operating income, there were increases in segment profits in the Real Estate Tech Business, the HealthTech Business and the InfraTech Business, but these were outweighed by the declines in segment profits in the EdTech Business and the AdTech Business, resulting in a decline in operating income. In the EdTech Business, there were negative impacts from the novel coronavirus pandemic, causing a slowdown in existing businesses in 4Q which is normally the busiest season. This, along with delays in the business conversion to the digital domain, resulted in a larger decline in profit.

Ordinary income declined due to the drop in operating income and other factors. With respect to profit attributable to owners of parent, the Company posted an additional extraordinary loss of ¥1,308mn in total in the Real Estate Tech Business, the HealthTech Business, and the EdTech Business following an assessment of the future impacts of the novel coronavirus pandemic, resulting in the posting of a loss instead of a profit as had been forecast. At FISCO, we appreciate the Company's efforts to quickly factor in future risks and maintain a highly reliable balance sheet.

Asset scale expanded with the increase in transaction volume associated with the start of new services.
With more than ¥15bn in cash and deposits, the Company can flexibly respond to M&A opportunities

2. Financial position and management indicators

At the end of FY4/20, total assets were up ¥3,308mn from the end of the previous fiscal year to ¥42,472mn. Of these total assets, current assets increased ¥5,558mn, with the main increases being ¥2,867mn in accounts receivable – other and ¥1,006mn in notes and accounts receivable – trade, mainly due to an increase in transaction volume associated with the start of new services in each domain. Non-current assets declined ¥2250mn, mainly due to a decrease in intangible assets of ¥1,963mn. Cash and deposits were at an ample level of ¥15,720mn, and the Company has enough funds so that it can respond flexibly to opportunities, such as for M&A.

Liabilities were up ¥3,768mn from the end of the previous fiscal year to ¥31,623mn. Within this amount, current liabilities increased ¥3,929mn, mainly due to a ¥1,901mn increase in accounts payable – other and a ¥1,160mn increase in the current portion of long-term loans payable. Non-current liabilities declined ¥160mn, representing only a small change.

In the management indicators of financial soundness (as of the end of April 2020), the current ratio was 186.4% and the equity ratio was 19.0%, and the Company's finances remain sound with the leverage apparently coming into effect.

Consolidated balance sheet and management indicators

(¥mn)

	End-FY4/18	End-FY4/20	Change
Current assets	27,558	33,116	5,558
(Cash and deposits)	15,458	15,720	261
(Notes and accounts receivable – trade)	8,296	9,302	1,006
(Accounts receivable – other)	1,442	4,309	2,867
Non-current assets	11,605	9,355	-2,250
(Tangible non-current assets)	2,924	2,725	-199
(Intangible assets)	5,635	3,672	-1,963
(Investments and other assets)	3,045	2,958	-86
Total assets	39,164	42,472	3,308
Current liabilities	13,834	17,763	3,929
Non-current liabilities	14,020	13,859	-160
Total liabilities	27,855	31,623	3,768
Total net assets	11,308	10,848	-460
Total liabilities and net assets	39,164	42,472	3,308
<Soundness>			
Current ratio (Current assets ÷ Current liabilities)	199.2%	186.4%	-
Equity ratio (Equity ÷ Total assets)	23.0%	19.0%	-

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

Outlook

Company is conservatively forecasting FY4/21 net sales of ¥54bn, and operating income of ¥1.9bn.
Expecting sweeping structural reforms in conjunction with the end of the medium-term business policy, and factoring in related costs

For the FY4/21 full year consolidated results, the Company is expecting a decline in both net sales and operating income, forecasting net sales to decrease 2.3% to ¥54,000mn, operating income to decline 26.6% to ¥1,900mn, ordinary income to drop 31.5% to ¥1,700mn, and loss attributable to owners of parent to be ¥200mn (compared to a loss of ¥619mn in the previous fiscal year). These are conservative forecasts, based on the fact that the impact of the novel coronavirus pandemic is difficult to predict.

The conservative forecasts are based on two factors. The first is the uncertainty surrounding the impacts of the novel coronavirus pandemic. The second is the fact that the medium-term business policy SiLK VISION 2020 has concluded and the Company will now work on structural reforms of its expanded portfolios. The impact of the pandemic will differ by segment. While some businesses like the InfraTech Business have benefitted from the pandemic due to the spread of teleworking, other businesses like training services in the EdTech Business have already seen negative impacts. In the AdTech Business, it is expected to take some time in order to assess the impact of the pandemic on the advertising industry as a whole. In terms of structural reforms, the Company will aim to optimize its infrastructure and platform portfolios which it acquired as a part of SiLK VISION 2020 to suit the age of the coronavirus, as well as establish an integrated group management system that makes maximum use of the group's human resources, technological resources, and data. In FY4/21, the Company plans to make sweeping structural reforms, and the Company has factored the associated costs into its forecasts, resulting in conservative estimates for each profit line.

Outlook for FY4/21

(¥mn)

	FY4/20		FY4/21		
	Result	Ratio to sales	Forecast	Ratio to sales	YoY
Net sales	55,295	100.0%	54,000	100.0%	-2.3%
Operating income	2,587	4.7%	1,900	3.5%	-26.6%
Ordinary income	2,481	4.5%	1,700	3.1%	-31.5%
Profit attributable to owners of parent	-619	-	-200	-	-

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

Medium- to long-term growth strategy

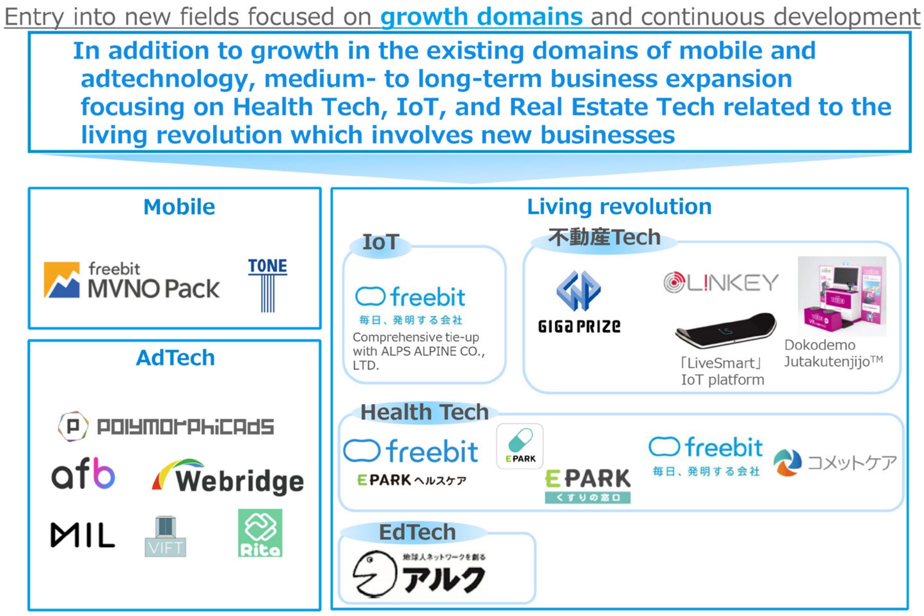
Reviewing SiLK VISION 2020 which drove business domain expansion, and now entering the next stage under a new management regime.
Starting to offer next-generation services in the Real Estate Tech Business

1. Review of medium-term business policy SiLK VISION 2020 and future developments

In June 2016, the Company announced SiLK VISION 2020, its four-year medium-term business policy, which targeted net sales of ¥50bn and operating income of ¥5bn in FY4/20. Although the Company's net sales jumped from ¥28.3bn in FY4/16 to ¥55.2bn in FY4/20, operating income in FY4/20 was only ¥2.5bn. The Company has set a target of entering the living revolution domain, and has been making up-front investments in this area. As a result, the Company has established a foundation in IoT, Real Estate Tech, HealthTech, and EdTech.

In May 2020, the Company started a new management structure. Founder Atsuki Ishida (formerly Representative Director and Chairman) has been appointed as President, CEO and CTO in place of Nobuaki Tanaka. Going forward, assuming the coronavirus will be a factor, the Company plans to transform into an organization capable of managing the group in an integrated manner in order to optimize its expanded infrastructure and platform portfolios, and maximize the use of its human resources, technological resources, and data. We are looking forward to seeing the details of SiLK VISION 2023, the new medium-term business policy which the Company will announce in August 2020 or thereafter. The framework of the new business policy will indicate the Company's future direction.

Basic group policy



Source: The Company's results briefing materials

2. Launch of next-generation new services in the Real Estate Tech Business

The condominium Internet service has supported the growth of the Real Estate Tech Business up until this point. Installations have accelerated due to the start of collaboration with several super-large homebuilders, and stable growth is expected in the future. The services expected to drive the next growth stage are gradually starting.

Single-Pair Ethernet Service (SPES) is a revolutionary ISP service for collective housing that utilizes SPE technology jointly developed through a partnership between GIGAPRIZE, NEC Networks & System Integration Corporation <1973> and Broadcom Inc. to enable Internet connection using existing telephone wiring in existing condominium buildings. This service is mainly for existing properties. The ISP service industry has faced some long-standing challenges, including the time-related costs such as costs involved with schedule adjustments and installation work adjustments with tenants related to the installation of service in existing buildings, as well as capital investment costs by property management companies and homebuilders which handle such adjustments. This service reduces such costs, and makes it possible to provide Internet connectivity in a short period of time. The Company began receiving orders in January 2020, and in April 2020 the Company began to perform full-fledged installations nationwide in buildings managed by DAITOKENTAKU PARTNERS CO., LTD. of the Daito Trust Construction Group.

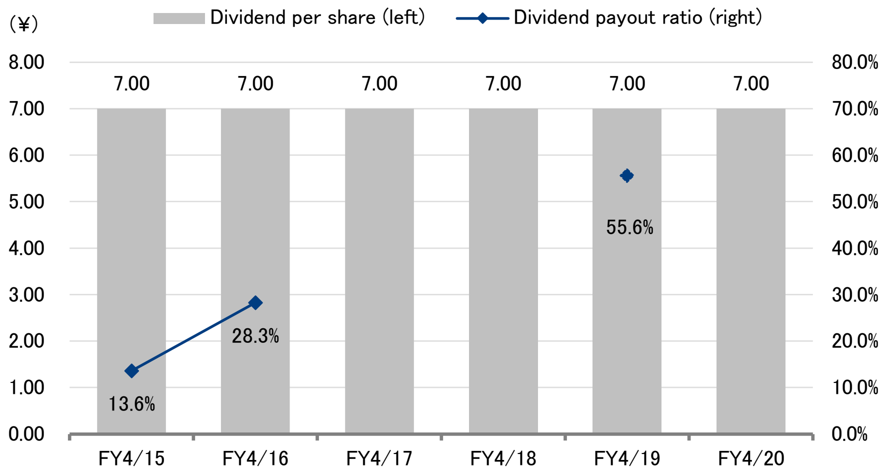
PWINS are the world's first DOC-type Wi-Fi access points development through a partnership between GIGAPRIZE and D-Link that enable easy Wi-Fi equipment replacement. Sales were launched in April 2020. It is a service mainly for newly-built properties, and it is a detached-type service that separates the wireless unit that performs Wi-Fi communication from the conventional wall-embedded Wi-Fi access point. With this, the challenges faced by the condominium ISP service industry, which include the time costs associated with adjusting schedules and installation work with the tenants when exchanging hardware due to changes in the Wi-Fi specs, as well as capital investment costs by property management companies and homebuilders who perform such adjustments, can be significantly reduced.

Shareholder return policy

The Company is paying a stable dividend. Planning to maintain a ¥7 dividend for FY4/20

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. Over the years, while prioritizing investment targeting growth, the Company has maintained an annual dividend of ¥7 even in years when profit attributable to owners of parent was negative. In FY4/20, the Company again paid an annual dividend of ¥7 just like in FY4/19. At the current point in time, the Company's planned dividend for FY4/21 is yet to be determined.

Dividend per share and dividend payout ratio



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

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