

COMPANY RESEARCH AND ANALYSIS REPORT

FreeBit Co., Ltd.

3843

Tokyo Stock Exchange First Section

13-Feb.-2019

FISCO Ltd. Analyst

Hideo Kakuta



FISCO Ltd.

<http://www.fisco.co.jp>

Index

Summary	01
1. FY4/19 1H result trends	01
2. FY4/19 outlook	02
3. Medium- to long-term growth strategy	02
Company profile	03
1. Company profile	03
2. Company history	04
3. Segment descriptions	05
Business overview	05
1. Broadband Business	05
2. Mobile Business	07
3. Ad Technology Business	07
4. Cloud Business	08
5. HealthTech Business	09
Results trends	11
1. FY4/19 1H results	11
2. Financial position and management indicators	12
Outlook	13
Medium- to long-term growth strategy	14
1. Newly established the EdTech Business alongside the consolidation of ALC PRESS	14
2. Progress in the real estate tech business: aiming for 250 stores by the end of FY4/22	15
Shareholder return policy	16

Summary

Expecting a seventh straight year of higher sales and all-time high operating income in FY4/19

Rates of progress in 1H were steady. Following the consolidation of ALC PRESSINC., newly established the EdTech Business. Aiming for 250 stores in the real estate tech business by FY4/22.

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, 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 piggybacking on the wireless communications infrastructure of other communication businesses, such as NTT DOCOMO, INC. <9437>, KDDI CORPORATION <9433>, and SoftBank Corp. <9984>.

*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 HealthTech Business, the core of which is the business of EPARK Health Care, Inc. (currently, FreeBit EPARK Health Care, Inc.), which was made a consolidated subsidiary. In March 2017, it made a consolidated subsidiary of For Members Co. Ltd., which conducts a real estate brokerage business, to acquire a foothold in the real estate tech field. In September 2018, it made a wholly-owned subsidiary of ALC PRESS INC., a comprehensive language education company, and took on the challenge of entering-into the field of IT for education. In 2016, its listing was reassigned to the First Section of the Tokyo Stock Exchange.

1. FY4/19 1H result trends

In the FY4/19 1H consolidated results, sales increased and profitability was achieved, with net sales increasing 10.8% year-on-year (YoY) to ¥21,497mn, operating income rising 139.6% to ¥1,013mn, ordinary income of ¥734mn (compared to a loss of ¥3mn in the same period in the previous fiscal year), and profit attributable to owners of parent of ¥9mn (a loss of ¥806mn). The increase in net sales was driven by the strong performances of the Broadband Business (up 27.2%), including the condominium Internet service, and the rapidly growing HealthTech Business (up 164.6%). Sales also steadily increased in the Ad Technology Business. Operating income grew significantly, up 139.6%. By segment, there were major increases in income in the HealthTech Business (up ¥420mn), in gross profits from condominium Internet services in the Broadband Business (up ¥400mn), and in income in the Mobile Business (up ¥388mn). The Company is conducting upfront investment (an increase of ¥615mn in total) to strengthen the structure of the Ad Technology Business and for the real estate technology field.

Summary

2. FY4/19 outlook

For the FY4/19 full year consolidated results, the forecasts upwardly revised in the 1Q have been left unchanged for both sales and profits. The Company projects net sales to increase 24.2% to ¥48,000mn, operating income to rise 48.5% to ¥2,750mn, ordinary income to grow 68.3% to ¥2,400mn, and profit attributable to owners of parent of ¥250mn. If the Company achieves these forecasts, it will be the seventh consecutive fiscal year of higher sales and record high operating income. For net sales, in addition to the strong performances of the two mainstay, major business segments (the Broadband Business and the Ad Technology Business), sales are forecast to grow in the HealthTech Business (of FreeBit EPARK Health Care). In addition, 1H net sales of ALC PRESS will be added to the results from 3Q with the PL consolidation. The rate of progress in 1H toward achieving the net sales forecast was 44.8% (50.2% in the previous fiscal year). But after excluding the part from ALC PRESS (initial forecast, ¥45,000mn), this rate is 47.8%, a position in which the forecast is fully achievable. For operating income, smooth progress is being made toward the initial scenario, with the Mobile Business and HealthTech Business becoming profitable and contributing to higher income. The rate of progress up to 1H for the operating income forecast was 36.8% (22.8% in the previous fiscal year). But when considering that in a typical fiscal year, the Company's profits tend to be concentrated in the 2H, and also the addition of the contribution from ALC PRESS, it can be judged to be making steady progress toward it.

3. Medium- to long-term growth strategy

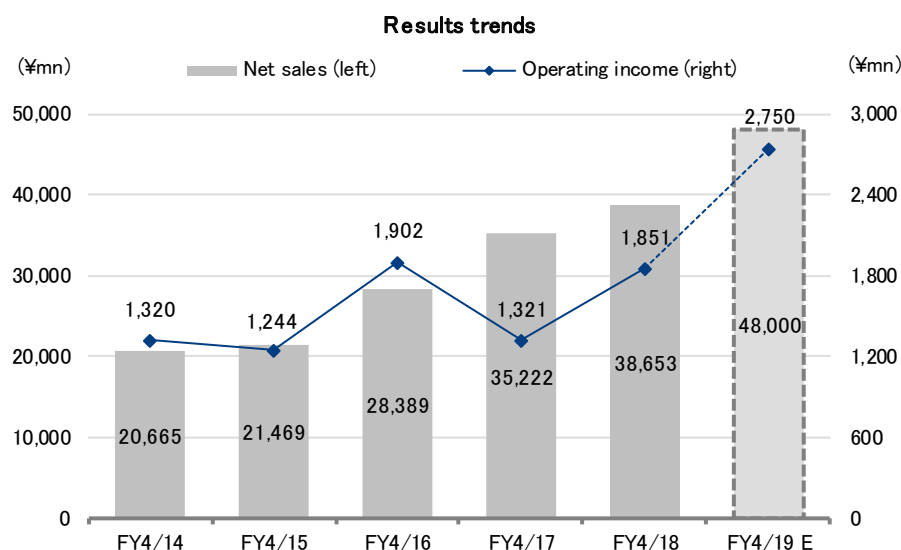
In September 2018, the Company acquired all of the shares of ALC PRESS and made it a wholly owned subsidiary. ALC PRESS, which was established in 1969, develops and sells various language-education contents, and it is a pioneer in this field. In its FY1/18 full year results, it recorded net sales of ¥6,272mn and operating income of ¥301mn. It is hoped that by making it part of the Company's Group, synergies will be generated with the Full Speed Inc. <2159> Group in the short term. It is possible that the Internet-related services already being provided by ALC PRESS will be grown by the Company's ad technologies, such as for Internet advertising. In the medium term, the Company will introduce the latest IT technologies into the contents owned by ALC PRESS and pursue possibilities for reproducing and monetizing them as advanced learning materials. It can be expected, for example, to introduce a subscription-type model based on Cloud technologies and to respond to the advancement of ICT into school education.

In the real estate tech business, the Company is working to establish competitive advantages through making a consolidated subsidiary of For Members, which conducts a real estate brokerage business. The company is currently working to improve earnings, expand the store network, and introduce new services that utilize IT. Its major strengths in this field are that it can utilize the AEON Housing brand, and that it has a large number of technologies, products and services that are advancing the shift toward IoT in the living room. During FY4/19, the forecast is for existing stores to be profitable on a single-month basis, and the aim is to have a network of 250 stores by FY4/22.

Key Points

- A mega venture with the strength of providing an Internet and mobile infrastructure. Succeeded in launching the HealthTech Business and is conducting upfront investment for real estate tech and EdTech (education)
- Profits increased significantly in FY4/19 1H. It is clear that earnings in the Mobile Business and HealthTech Business are improving.
- Forecasting seventh consecutive fiscal year of higher sales and record high operating income for FY4/19. The 1H rates of progress against the forecasts were steady.
- Newly established the EdTech Business following the consolidation of ALC PRESS. Aiming for 250 stores in the real estate tech business by FY4/22.

Summary



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. Succeeded in launching the HealthTech Business and is conducting upfront investment for real estate tech and EdTech (education)

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, 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).

Company profile

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, and took on the challenge of entering-into the field of IT for education. 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

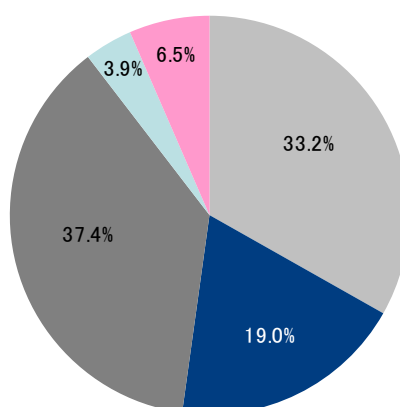
Source: Prepared by FISCO from the Company's website

3. Segment descriptions

In FY4/19 1H, segment sales breakdown consisted of Broadband Business at 33.2%, Mobile Business at 19.0%, Ad Technology Business at 37.4%, Cloud Business at 3.9%, and HealthTech Business at 6.5%.

Percentage of net sales by segment (FY4/19 1H)

■ Broadband ■ Mobile ■ Ad technology ■ Cloud ■ HealthTech



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

Business overview

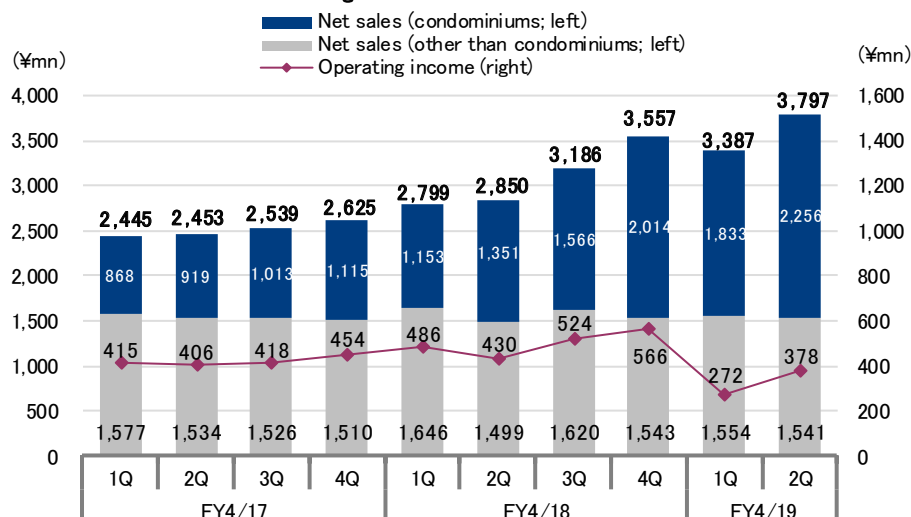
The Broadband Business and the Ad Technology Business are the sources of profits. The HealthTech Business is rapidly growing.

1. Broadband Business

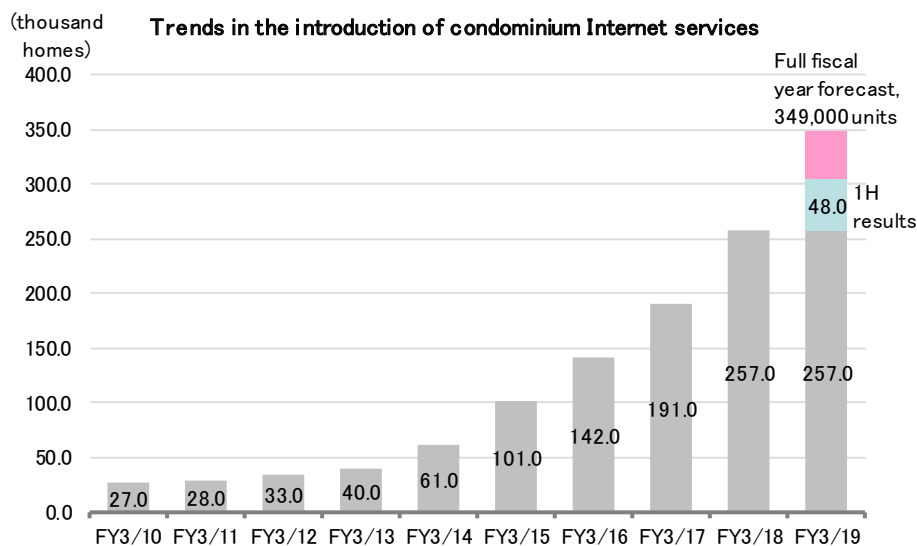
Broadband Business primarily supplies ISP business assistance service and Internet connection service using fixed lines to corporations, multifamily dwellings, and individuals. The market for communications services over the fixed-line network has slowed to moderate pace due to exhausting adoption of the high-speed broadband environment and faster communications service through the mobile network. Despite these conditions, the condominium Internet business at GIGAPRIZE is sustaining strong growth thanks to accelerated deployments via joint business with multiple extremely large house manufacturers. Cumulative deployment climbed by 48,000 units from the end of the previous fiscal year to 306,000 units. In the Broadband Business in FY4/19 1H, net sales increased 27.2% YoY to ¥7,185mn, but segment income decreased 29.1% to ¥650mn, for higher sales but lower profits. The main reason for the lower profits was the strategic, upfront investment (approximately ¥356mn) in the subsidiary For Members, which is advancing the real estate tech business.

Business overview

Net sales and segment income in the Broadband Business



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



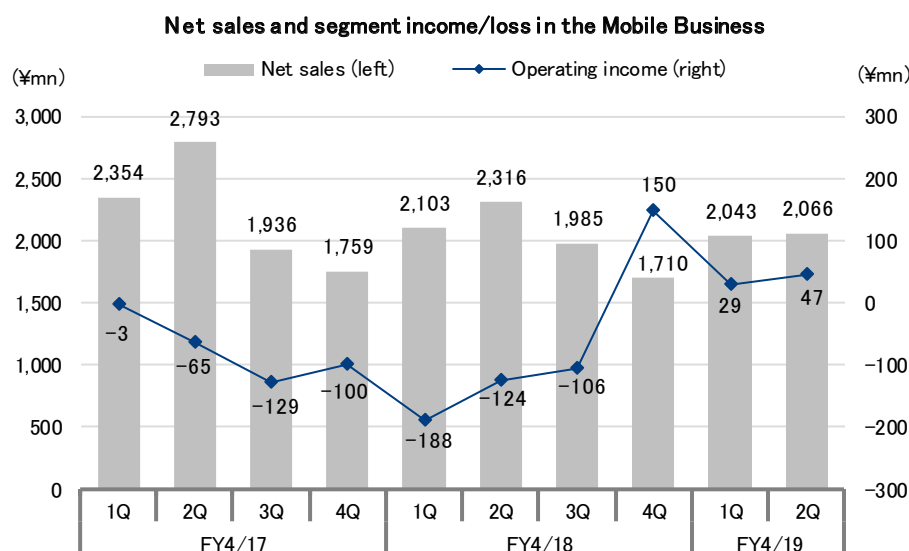
Note: the results of the condominium Internet service business are from the subsidiary GIGA PRIZE, whose fiscal year ends in March

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

Business overview

2. Mobile Business

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 FY4/19 1H, net sales decreased 7.0% YoY to ¥4,109mn and segment income was ¥76mn (compared to a loss of ¥312mn in the same period in the previous fiscal year), for lower sales but higher profits. The reasons for the lower sales included the decline in communication carrier wholesale prices. Conversely, segment income steadily improved and has been profitable for 3 consecutive quarterly periods since FY4/18 4Q. The main factors were the increase in income from MVNE services and the improved earnings from keeping down DTI SIM sales promotion costs. The equity method affiliate Tone Mobile is succeeding with its independent strategy, and it achieved profitability on a single-month basis in September 2018.



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

3. Ad Technology Business

Ad Technology Business supplies Internet marketing services to companies. The Internet advertising market continues to growth 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"*2, which is supplied by affiliate service provider (ASP)*3 For it, is maintaining business expansion having been highly evaluated for proprietary functions and as the leader in media user satisfaction. Currently, the overseas deployment of afb is being accelerated, and continuing on from Taiwan, its deployment in Malaysia and Singapore have been started.

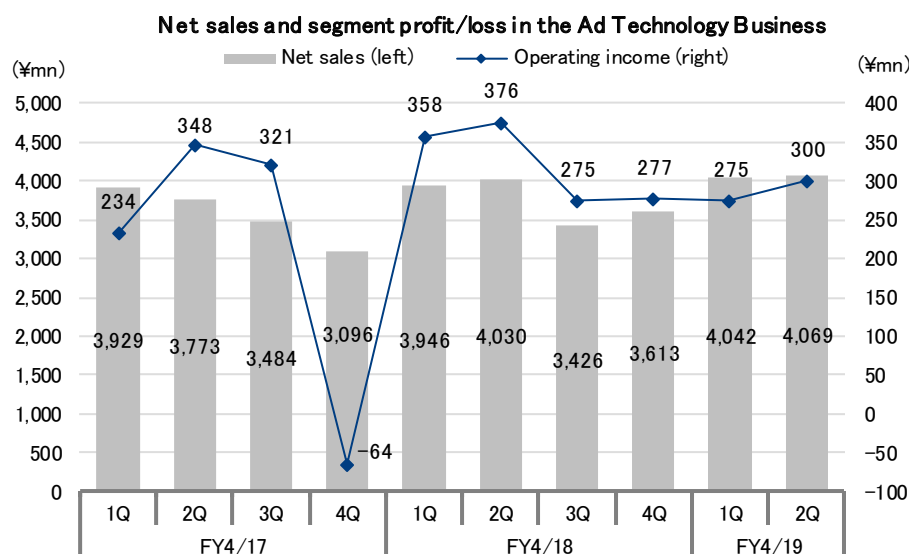
*1 Demand Side Platform

*2 Service provider that distributes ads with performance-based fees

*3 Network of over 550,000 partner sites. Utilizing PC knowhow to deploy services to tablets, smartphones, and mobile devices. Formerly called "Affiliate B."

Business overview

In FY4/19 1H, net sales increased 1.7% YoY to ¥8,112mn and segment income decreased 21.7% to ¥575mn, so although sales increased slightly, profits decreased. In the background to the fact that sales were basically unchanged YoY is the effects of the changes to the search engine algorithm. The factor behind the lower profits was mainly the increase in SG&A expenses due to the Company investing in human resources and in strengthening the structure relating to incubation (new businesses and M&A).



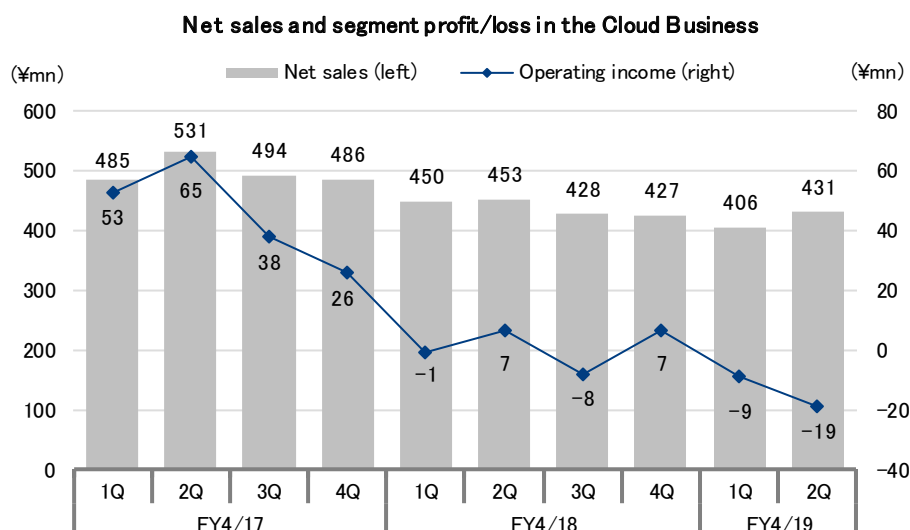
Source: Prepared by FISCO from the Company's results briefing materials

4. Cloud Business

Cloud Business* handles cloud services for companies and individuals and is an essential infrastructure for the Company's other businesses. In FY4/19 1H, net sales declined 7.4% YoY to ¥837mn, and the segment loss was ¥29mn (compared to an income of ¥6mn in the same period in the previous fiscal year), for lower sales and profit. The main reason for recording a loss was the continued reorganization of legacy services.

* 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.

Business overview



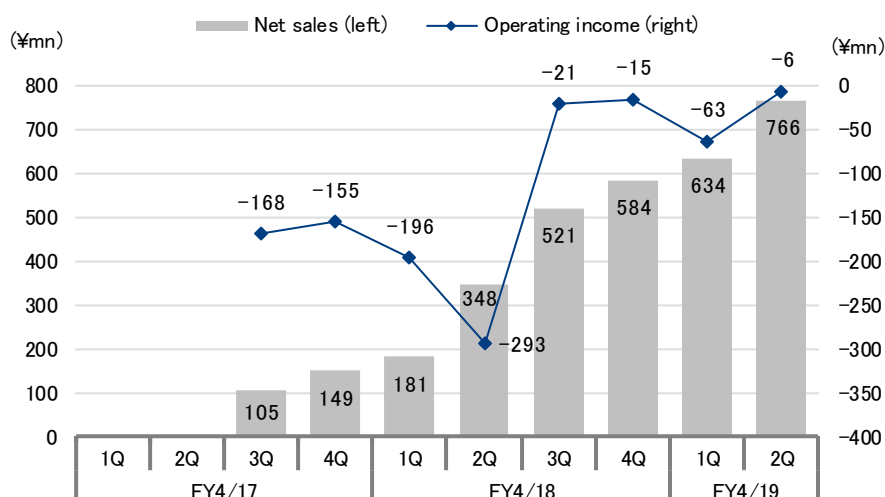
Source: Prepared by FISCO from the Company's results briefing materials

5. 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 are diverse and 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 420,000 times (as of October 2018), making it the No.1 app of its kind, including help from mass-media exposure. The number of reservations at pharmacies is steadily rising and per store reservations are also increasing. In FY4/19 1H, net sales grew significantly, up 164.6% YoY to ¥1,401mn, while segment loss also improved greatly to ¥70mn (compared to a loss of ¥490mn in the same period in the previous fiscal year). Freebit EPARK Health Care, which is the core company in this segment, achieved profitability on a single-month basis in November 2017, and it has remained profitable since then. With the aim of further expanding the HealthTech Business, the Company obtained a care records system business and established a joint venture with a company closely tied to care facilities in FY4/18 4Q.

Business overview

Net sales and segment profit/loss in the HealthTech Business



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

Progress in the HealthTech Business

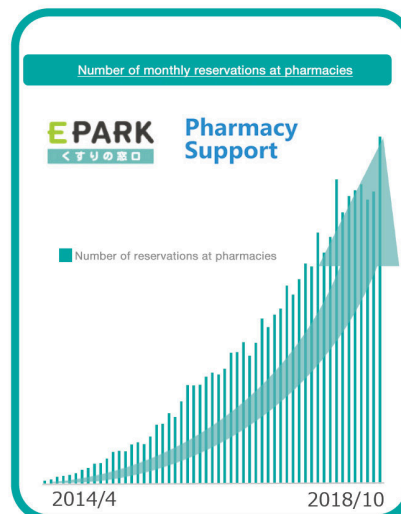
The number of monthly reservations at pharmacies is trending steadily

EPARK Pharmacy & drug store search and reservation site
くすりの窓口

Kusuri-no-Madoguchi contents



Pharmacy Support The six pharmacy-support functions



Source: The Company's results briefing materials

Results trends

Profits increased significantly in FY4/19 1H. It is clear that earnings in the Mobile Business and HealthTech Business are improving.

1. FY4/19 1H results

In the FY4/19 1H consolidated results, sales increased and profitability was achieved, with net sales increasing 10.8% year-on-year (YoY) to ¥21,497mn, operating income rising 139.6% to ¥1,013mn, ordinary income of ¥734mn (compared to a loss of ¥3mn in the same period in the previous fiscal year), and profit attributable to owners of parent of ¥9mn (a loss of ¥806mn).

FY4/19 1H results

	FY4/18 1H		FY4/19 1H		YoY
	Result	Ratio to sales	Result	Ratio to sales	
Net sales	19,407	-	21,497	-	10.8%
Cost of sales	14,569	75.1%	15,684	73.0%	7.7%
Gross profit	4,838	24.9%	5,813	27.0%	20.1%
SG&A expenses	4,415	22.8%	4,799	22.3%	8.7%
Operating income	422	2.2%	1,013	4.7%	139.6%
Ordinary income	-3	-0.0%	734	3.4%	-
Profit attributable to owners of parent	-806	-	9	-	-

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

The increase in net sales was driven by the strong performances of the Broadband Business (up 27.2%), including the condominium Internet service, and the rapidly growing HealthTech Business (up 164.6%). Sales also steadily increased in the Ad Technology Business.

In costs of sales, some costs increased, including for the expansion of the fixed network, but network-related costs were kept down, such as from the declines in payment amounts following the changes to unit prices by communication companies. The gross margin rose by 2.1 percentage points, from 24.9% in the same period in the previous fiscal year to 27.0%. SG&A expenses increased by 8.7% YoY, due to investing in human resources relating to new businesses, but this was lower than the sales-increase rate.

As a result, operating income increased significantly, up 139.6% YoY. By segment, there were major increases in income in the HealthTech Business (up ¥420mn), in gross profits for condominium Internet services in the Broadband Business (up ¥400mn), and in income in the Mobile Business (up ¥388mn). The Company is conducting upfront investment (an increase of ¥615mn in total) to strengthen the structure of the Ad Technology Business and for the real estate technology field.

Ordinary income increased (up ¥590mn YoY) and profitability was once again achieved. This included an increase from the absence of the decline in the equity method-related investment loss that was recorded in the same period in the previous fiscal year. Profit attributable to owners of parent also became profitable from the effects of the rise in ordinary income (up ¥738mn).

The ALC PRESS BS was consolidated at the end of FY4/19 1H and the asset scale expanded

2. Financial position and management indicators

The ALC PRESS BS was consolidated at the end of FY4/19 1H as the Company acquired all of its shares on September 28, 2018, and the asset scale expanded.

At the end of FY4/19 1H, total assets were up ¥4,580mn from the end of the previous fiscal year to ¥35,377mn. Within this amount, current assets rose ¥2,040mn, with the main increases being ¥1,379mn in notes and accounts receivable - trade and ¥503mn in merchandise and finished goods. Non-current assets grew ¥2,539mn, mainly due to an increase in intangible assets of ¥1,907mn. Cash and deposits were at ¥14,002mn, and the Company has prepared funds so that it can respond flexibly to opportunities, such as for M&A.

Liabilities were up ¥4,537mn from the end of the previous fiscal year to ¥24,658mn. Within this amount, current liabilities increased ¥1,125mn, mainly due to a ¥428mn increase in long-term loans payable scheduled to be repaid within a year. Non-current liabilities rose ¥3,411mn, primarily because of an increase in long-term loans payable of ¥2,531mn.

In the management indicators of financial soundness (as of the end of October 2018), the current ratio was 209.6% and the equity ratio was 24.7%, and the Company's finances remain sound.

Consolidated balance sheet and management indicators

	(¥mn)		
	End-FY4/18	End-FY4/19 1H	Change
Current assets	22,013	24,054	2,040
(Cash and deposits)	13,656	14,002	346
(Notes and accounts receivable - trade)	5,088	6,467	1,379
(Merchandise and finished goods)	286	790	503
Non-current assets	8,783	11,323	2,539
(Intangible assets)	4,269	6,177	1,907
(Investments and other assets)	2,391	2,694	303
Total assets	30,796	35,377	4,580
Current liabilities	10,352	11,477	1,125
Non-current liabilities	9,769	13,181	3,411
Total liabilities	20,121	24,658	4,537
Total net assets	10,675	10,718	43
Total liabilities and net assets	30,796	35,377	4,580
<Soundness>			
Current ratio (current assets ÷ current liabilities)	212.6%	209.6%	-
Equity ratio (shareholders' equity ÷ total assets)	28.8%	24.7%	-

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

Outlook

Forecasting seventh consecutive fiscal year of higher sales and record high operating income for FY4/19. The 1H rates of progress against the forecasts were steady

For the FY4/19 full year consolidated results, the forecasts upwardly revised in the 1Q have been left unchanged for both sales and profits. The Company projects net sales to increase 24.2% to ¥48,000mn, operating income to rise 48.5% to ¥2,750mn, ordinary income to grow 68.3% to ¥2,400mn, and profit attributable to owners of parent of ¥250mn. If the Company achieves these forecasts, it will be the seventh consecutive fiscal year of higher sales and record high operating income.

Net sales are forecast to grow stably from the further growth of the Broadband Business (the condominium Internet service), the continued expansion of name merchandise in the Ad Technology Business, and from the HealthTech Business, which is mainly conducted by Freebit EPARK Health Care. In addition, 1H net sales of ALC PRESS will be added to the results from 3Q with the PL consolidation. The rate of progress in 1H toward achieving the net sales forecast was 44.8% (50.2% in the previous fiscal year). But after excluding the part from ALC PRESS (initial forecast, ¥45,000mn), the rate is 47.8%, a position in which the forecast is fully achievable.

For operating income, smooth progress is being made toward the initial scenario, with the Mobile Business and HealthTech Business becoming profitable and contributing to higher income. In the Broadband Business, the Company is continuing upfront investment in real estate technology. ALC PRESS is projected to additionally contribute operating income of ¥250mn (FY1/18 result, ¥301mn). The rate of progress up to 1H for the operating income forecast was 36.8% (22.8% in the previous fiscal year). But when considering that in a typical fiscal year, the Company's profits tend to be concentrated in the 2H, and also the addition of the contribution from ALC PRESS, it can be judged to be making steady progress toward it.

Outlook for FY4/19

	FY4/18		FY4/19				
	Result	Ratio to sales	Initial forecast	Revised forecast	Ratio to sales	YoY	Progress rate
Net sales	38,653	100.0%	45,000	48,000	100.0%	24.2%	44.8%
Operating income	1,851	4.8%	2,500	2,750	5.7%	48.5%	36.8%
Ordinary income	1,426	3.7%	2,350	2,400	5.0%	68.3%	30.6%
Profit attributable to owners of parent	-567	-	250	250	0.5%	-	3.7%

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

■ Medium- to long-term growth strategy

Newly established the EdTech Business following the consolidation of ALC PRESS. Aiming for 250 stores in the real estate tech business by FY4/22

The Company announced SiLK VISION 2020, its four-year medium-term business policy, in June 2016, which targets net sales of ¥50bn and operating income of ¥5bn in FY4/20. In the growth strategy basic policy, it has defined two growth areas, the living revolution and the mobile revolution. Within the living revolution, it has made an early start to the HealthTech Business and is establishing its foundation as a promising business. It is currently accelerating the pace of upfront investment for the real estate tech business and the EdTech (education × IT technology) Business, which is conducted by ALC PRESS that was recently made a subsidiary.

1. Newly established the EdTech Business alongside the consolidation of ALC PRESS

In September 2018, the Company acquired all of the shares of ALC PRESS and made it a wholly owned subsidiary. ALC PRESS, which was established in 1969, develops and sells various language education contents, and it is a pioneer in this field. Its main products and services include 1) the English learning monthly magazine ENGLISH JOURNAL, 2) the English vocabulary learning book Kikutan, 3) the English learning communication course 1,000 Hour Hearing Marathon, 4) e-learning services, including the ALC NetAcademy and ALC Online English Conversation, and 5) Japan's leading English-Japanese, Japanese-English database, Eijiro on the WEB. In recent years, ALC PRESS has also been focusing on developments that utilize ICT, including providing contents for Alexa, which is the Cloud-based voice service provided by Amazon Co., Inc. <AMZN>. For its FY1/18 full year results, it recorded net sales of ¥6,272mn and operating income of ¥301mn.

It is hoped that by making it part of the Company's Group, synergies will be generated with the Full Speed Group in the short term. It is possible that the Internet-related services already being provided by ALC PRESS will be grown by the Company's ad technologies, such as for Internet advertising. In the medium term, the Company will introduce the latest IT technologies into the contents owned by ALC PRESS and pursue possibilities for reproducing and monetizing them as advanced learning materials. It can be expected, for example, to introduce a subscription-type model based on Cloud technologies and to respond to the advancement of ICT into school education.

The ALC PRESS BS was consolidated and recorded from FY4/19 1H and the PL statement will be consolidated from 3Q. The new reporting segment is called the EdTech Business.

FreeBit Co., Ltd.

13-Feb.-2019

3843 Tokyo Stock Exchange First Section

<https://freebit.com/en/ir/highlights.html>

Medium- to long-term growth strategy

Progress in the ALC PRESS business

Started a new reporting segment, the EdTech Business

- ALC PRESS is developing various services, including for individuals, companies, educational facilities, local governments, and language instructors.



Source: The Company's results briefing materials

2. Progress in the real estate tech business: aiming for 250 stores by the end of FY4/22

In the real estate tech business, the Company is working to establish competitive advantages through making a consolidated subsidiary of For Members, which conducts a real estate brokerage business. The company is currently working to improve earnings, expand the store network, and introduce new services that utilize IT. Its major strengths in this field are that it can utilize the AEON Housing brand, and that it has a large number of technologies, products and services that are progressing the shift toward IoT in the living room. During FY4/19, the forecast is for existing stores to be profitable on a single-month basis, and the aim is to have a network of 250 stores by FY4/22.

The real estate brokerage industry still has a “paper culture,” such as sending and receiving documents like leaflets and plans by FAX, and using handwritten contract documents. It is expected that the industry will be transformed by the Company's inventive and technological capabilities.

Progress in the Broadband Business

- The real estate business (FM) is aiming to progress the development of sub-franchises in parallel with the management of directly-managed stores and the acquisition of rental management properties, and to expand the network of affiliate stores

5 stores by the end of FY4/19 and is aiming for a network of 250 stores by the end of FY4/22

- Image of the network's development



Source: The Company's results briefing materials

We encourage readers to review our complete legal statement on “Disclaimer” page.

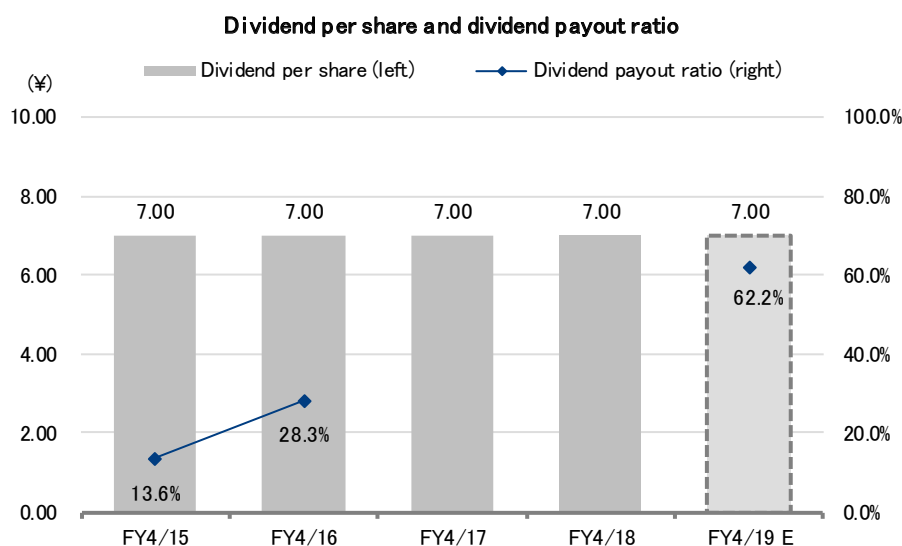
FreeBit Co., Ltd.
3843 Tokyo Stock Exchange First Section

13-Feb.-2019
<https://freebit.com/en/ir/highlights.html>

Shareholder return policy

Planning to maintain a ¥7 dividend for FY4/19

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. Since FY3/13, it has continuously paid an annual dividend of ¥7. Even though it recorded loss attributable to owners of parents in FY4/18, it did not change the annual dividend of ¥7. The forecast annual dividend per share for FY4/19 is the same, of ¥7, for a dividend payout ratio of 62.2%.



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.

All intellectual property rights to this report, including copyrights to its text and data, are held exclusively by FISCO. Any alteration or processing of the report or duplications of the report, without the express written consent of FISCO, is strictly prohibited. Any transmission, reproduction, distribution or transfer of the report or its duplications is also strictly prohibited.

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

FISCO Ltd.