

FreeBit Co., Ltd.

3843

Tokyo Stock Exchange First Section

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| * This is an English translation of a report issued on October 20, 2020. |

■ Summary

Sales and profits increased in FY4/21 1Q. SiLK VISION 2024's keywords are "Trusted Internet" and "Portfolio management on the axis of data." Has resolved to sell shares in HealthTech (FEH) and EdTech (ALC).

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-related 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. (currently kusurinomadoguchi, Inc.(FEH)), 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. In 2016, the Company's stock listing was reassigned to the First Section of the Tokyo Stock Exchange.

1. FY4/21 1Q result trends

Sales and profits increased in the FY4/21 1Q consolidated results, with net sales rising 0.2% year-on-year (YoY) to ¥13,417mn, operating income growing 85.3% to ¥617mn, ordinary income climbing 105.1% to ¥586mn, and profit attributable to owners of parent of ¥218mn (compared to a loss of ¥180mn in the same period in the previous fiscal year). Although there was a period in which the impact of the novel coronavirus pandemic was serious, the Company still achieved excellent results. Net sales were basically unchanged YoY, but sales were strong and weak depending on the segment. Sales were strong in the HealthTech Business (up ¥435mn), which is in a growth period, the InfraTech Business (up ¥153mn), which benefitted from the spread in teleworking and in the Real EstateTech Business (up ¥340mn). Conversely, sales declined due to the impact of the coronavirus in the EdTech Business (down ¥453mn) and the AdTech Business (down ¥439mn). The reason why operating income increased by over 80% YoY was the sales growth in the mainstay Real EstateTech Business and the HealthTech Business, while in addition, the contribution from the HealthTech Business becoming profitable was significant.

Summary

2. FY4/21 outlook

For the FY4/21 full year consolidated results, the Company projects a decline in both sales and profits, with net sales to decline 2.3% YoY 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). Although the 1Q results were strong, the Company has left unchanged the conservative full fiscal year results forecasts. 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's policy is to optimize both the "infrastructure" and "platform" portfolios acquired in SiLK VISION 2020, its medium-term business policy, to suit the age of the coronavirus, as well as conducting a sweeping review of the portfolios in order to effectively utilize to the greatest possible extent aspects such as human resources, technical resources, and held data (described later). It has already announced its policy to move the HealthTech Business and the EdTech Business off the balance sheet (to remove them from the scope of consolidated subsidiaries), and it is inevitable that this will affect results. The total results of these two businesses in the previous fiscal period were net sales of ¥9,418mn and an operating loss of ¥513mn. Forecasts by business for the current period have not been announced, but at FISCO, we expect this to have a profit-increase effect to a certain extent.

3. Medium- to long-term growth strategy

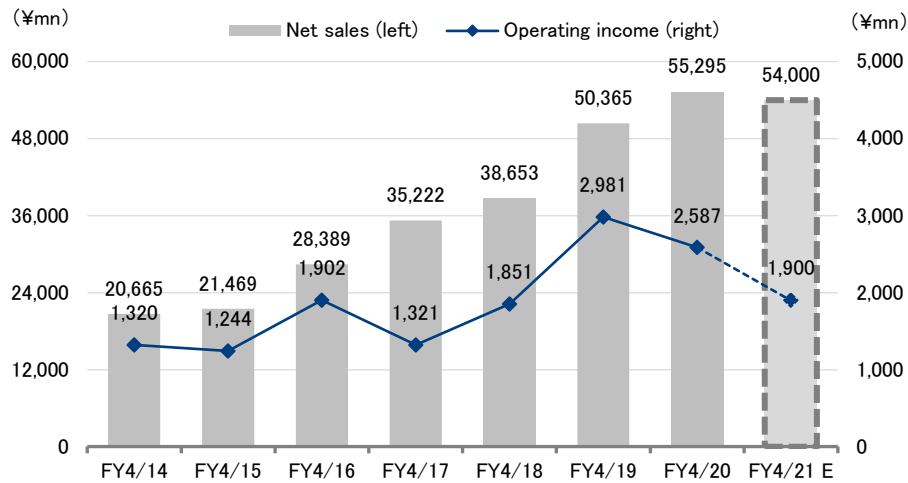
There are number of keywords in the strategy outline of SiLK VISION 2024, including "Trusted Internet (being able to ○○ in safety and with peace of mind)," "Portfolio management on the axis of data," and "Vertical integration or removal from the Group." "Trusted Internet (being able to ○○ in safety and with peace of mind)," which is an idea that the Company has pursued up to the present time, refers to utilizing blockchain to make the infrastructure itself trusted, and in which the new normal becomes "peace of mind." Already, initiatives utilizing blockchain have been started in the automotive field. In the background to "Portfolio management on the axis of data" is the fact that we have entered an age in which the advanced utilization of big data creates decisive competitive strength. In the Company's Group, so far the independence of each company in the Group has been prioritized, but going forward, they will actively work to link the data that they hold between them. One part of this is to increase the number of executive officers who straddle the Group companies. "Vertical integration or removal from the Group" is an approach when concentrating the businesses areas into the core areas and restructuring the Group. The Company's core areas are "infrastructure" and "platform" and it aims to make them trusted as a strength. This approach can be divided into three stages; the first stage is "making subsidiaries and conducting structural reforms," the second stage is "establishing a data-linkage system" and the third stage is "vertical integration or removal from the Group." It seems that businesses with high affinity with core areas will be vertically integrated, and businesses without high affinity with the core areas will be removed from the Group. Already, some cases have appeared. In mobile-related, there is the case of the Company succeeding the Tone Mobile Business of Culture Convenience Club (CCC) Group in December 2019 and vertically integrating it. Also, more recently, there is the case of it resolving to sell its shares in FreeBit EPARK Health Care, Inc. (currently kusurinomadoguchi, Inc.) and ALC and to remove them from the Group.

Summary

Key Points

- A mega venture with the strength of providing an Internet and mobile infrastructure. The founder, Mr. Atsuki Ishida, has returned from this fiscal year and has resolved to carry out structural reforms.
- Sales and profits increased in FY4/21 1Q. Due to the expansion of teleworking, the InfraTech Business and the Real EstateTech Business performed well, but results slowed in the AdTech Business and the EdTech Business due to the coronavirus.
- Is conducting large-scale structural reforms in FY4/21. Can expect earnings to increase (FISCO's forecast) from moving the HealthTech Business and the EdTech Business off the balance sheet.
- SiLK VISION 2024's keywords are "Trusted Internet," "Portfolio management on the axis of data" and "Vertical integration or removal from the Group." Has resolved to sell the shares in HealthTech (FEH) and EdTech (ALC).

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. The founder, Mr. Atsuki Ishida, has returned from this fiscal year and has resolved to carry out structural reforms

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-related services to collective housing (condominiums), and other services.

Company profile

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, Inc. (currently kusurinomadoguchi, Inc.) 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, an ISP for individuals, 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 Inc., 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. It has contributed to the development of the MVNO business in Japan. In 2016, the Company’s listing was upgraded to the TSE 1st Section, and after acquiring a foothold through M&A, it entered the HealthTech Business. In 2018, it made a wholly owned subsidiary of ALC, which provides language educational services, and entered the EdTech Business. In July 2019, it concluded a comprehensive tie-up with ALPS ALPINE CO., LTD. <6770>, targeting the “seamless driving experience.” In May 2020, the Company’s founder, Mr. Atsuki Ishida, returned as the representative director and it embarked on structural reforms. In September 2020, it resolved to sell the shares of FreeBit EPARK Health Care, Inc. (currently kusurinomadoguchi, Inc.) and ALC (to remove them from the scope of consolidation).

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
September 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	Founded FreeBit Mobile, Inc. to operate an MNVO business
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. (currently kusurinomadoguchi, 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

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

Company profile

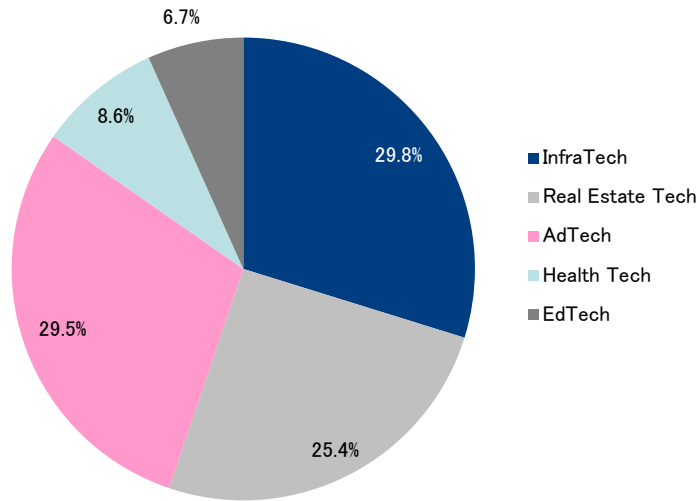
Date	Main events
May 2017	Full Speed conducted a company split for the video ad network business for smartphones and established Calmbold Inc. (currently, CRAID Inc.)
August 2017	Acquired Medip inc., a digital signage provider for medical facilities, as a consolidated subsidiary
October 2017	Made GIGA 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.)
September 2020	Resolved to sell the shares of FreeBit EPARK Health Care, Inc. (currently kusurinomadoguchi, Inc.) and ALC PRESS INC. (to remove them from the scope of consolidation)

Source: Prepared by FISCO from the Company's website

3. Segment descriptions

In FY4/21 1Q, the segment sales breakdown consisted of the InfraTech Business at 29.8%, the Real EstateTech Business at 25.4%, the AdTech Business at 29.5%, the HealthTech Business at 8.6%, and the EdTech Business at 6.7%. The three main businesses provide 84.6% of total sales.

Percentage of net sales by segment (FY4/21 1Q)



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

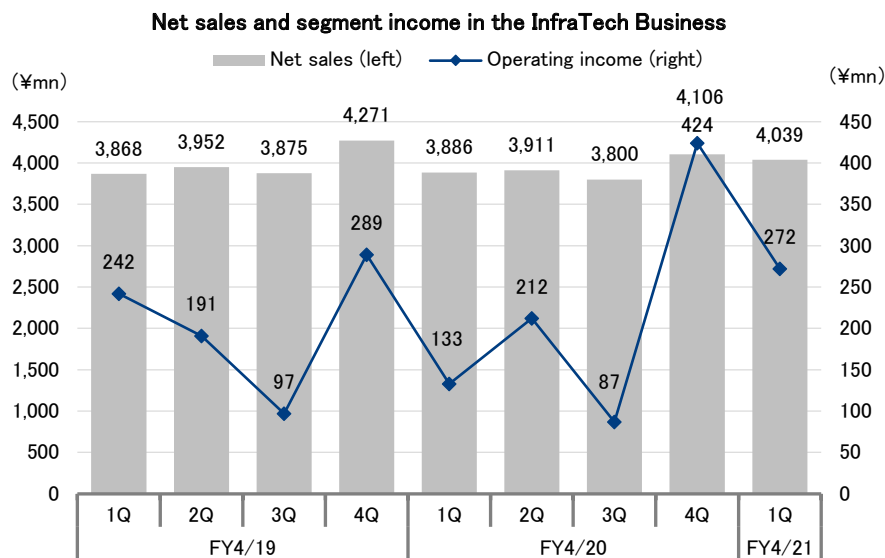
Business overview

The InfraTech Business, the Real EstateTech Business and the AdTech Business are the three main pillars of the Company. The rapidly growing HealthTech Business started with a profit in the 1Q.

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 growth 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. A characteristic of this business is that it is affected by the management strategies of MVNO businesses, which are its main customers. But currently demand is trending strongly because of the expansion of teleworking due to the coronavirus.

Sales and profits increased in FY4/21 1Q, with net sales growing 3.9% YoY to ¥4,039mn and segment income rising 104.4% to ¥272mn.

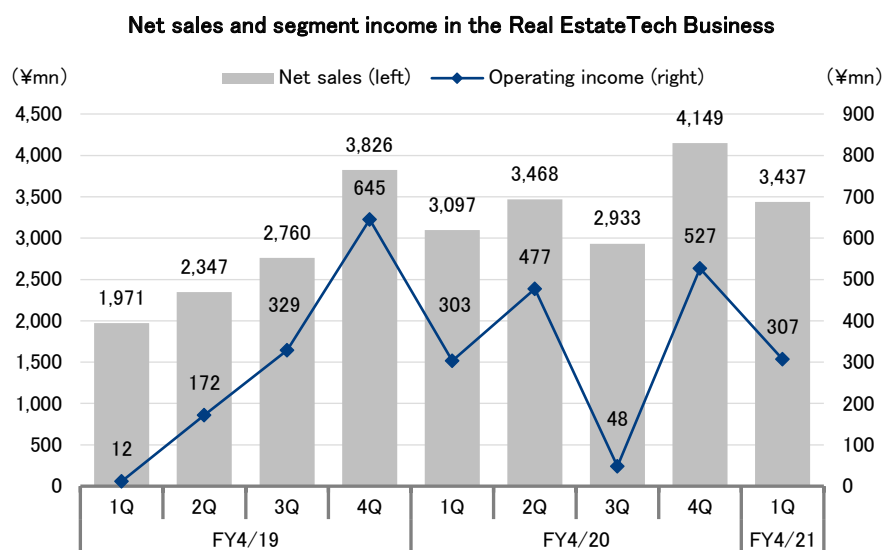


Source: Prepared by FISCO from the Company's results briefing materials

Business overview

2. Real EstateTech Business

The Real EstateTech Business comprises a portion of the former Broadband Business and a portion of the former Cloud Business, and it is handled by consolidated subsidiary GIGAPRIZE. The main services are Internet connection services over fixed lines to corporations and collective housing (condominiums). 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 44,000 units from the end of the previous fiscal year to 609,000 units. In the Real EstateTech Business in FY4/21 1Q, net sales increased 11.0% YoY to ¥3,437mn, and segment income increased 1.1% to ¥307mn, as both net sales and segment income trended strongly.



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 shift from conventional reserved-type ads to managed-type ads (such as listing ads and ads utilizing ad technology). Among the ads, video ads, social media ads, and mobile ads are driving market growth. AdMatrix, the Company core 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 For it, an affiliate service provider (ASP)*3 is highly evaluated for proprietary functions and as the leader in user satisfaction for six 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.

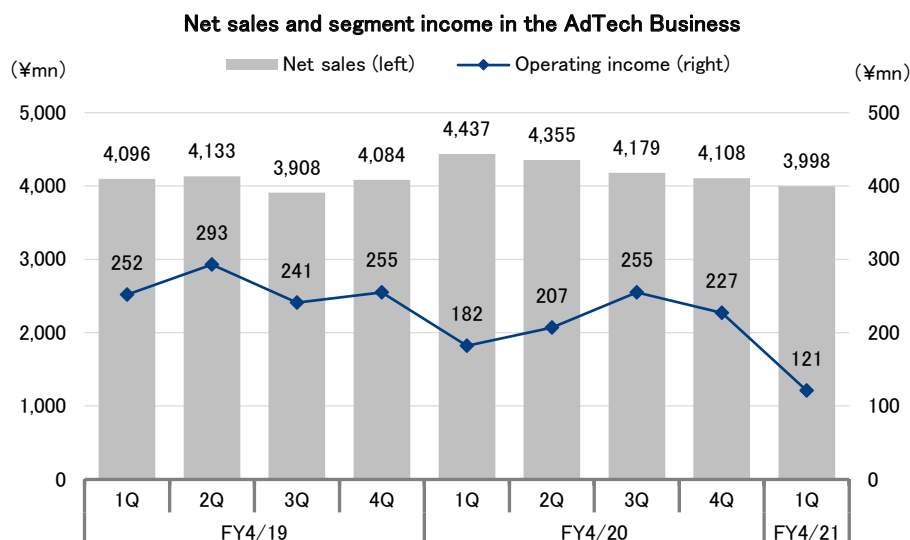
*1 Demand Side Platform

*2 Networking over 910,000 partner sites. Utilizing PC knowhow to deploy services to tablets, smartphones, and mobile devices. Formerly called as “Affiliate B.”

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

Sales and profits decreased in FY4/21 1Q, with net sales declining 9.9% YoY to ¥3,998mn and segment income falling 33.7% to ¥121mn. The reasons for the lower sales and profits included that results slowed in the advertising business, such as the store visitor inducement-type service, because of the impact of the coronavirus.

Business overview

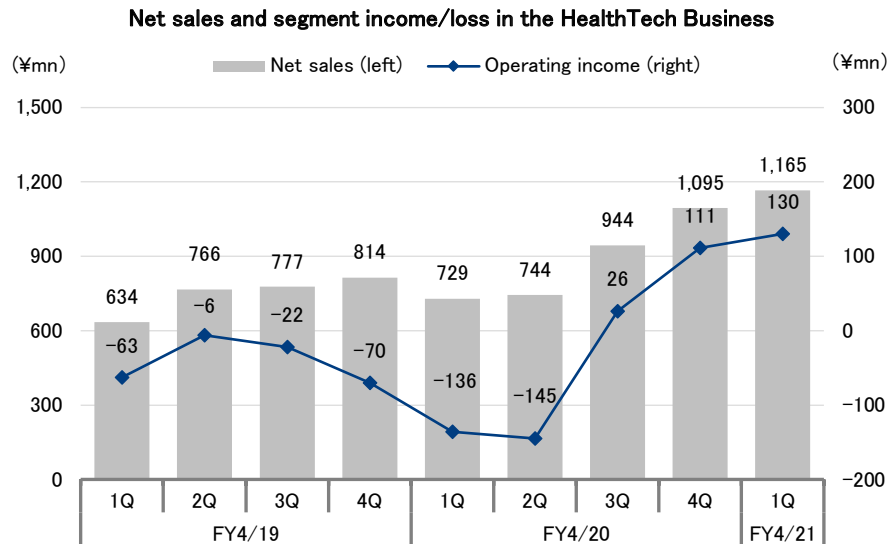


Source: Prepared by FISCO from the Company's results briefing materials

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, Inc. (currently kusurinomadoguchi, Inc.). 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 services, etc. to these end users. "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 1,260,000 times (as of April 2020) due to help from mass-media exposure. The number of reservations at pharmacies has been rising. In FY4/21 1Q, net sales increased 59.7% YoY to ¥1,165mn and segment income was ¥130mn (compared to a segment loss of ¥136mn in the same period in the previous fiscal year). Alongside the growth in the scale of sales, profitability is improving, and on a fiscal quarterly basis, it achieved profitability in FY4/20 3Q and started the current fiscal period from being profitable.

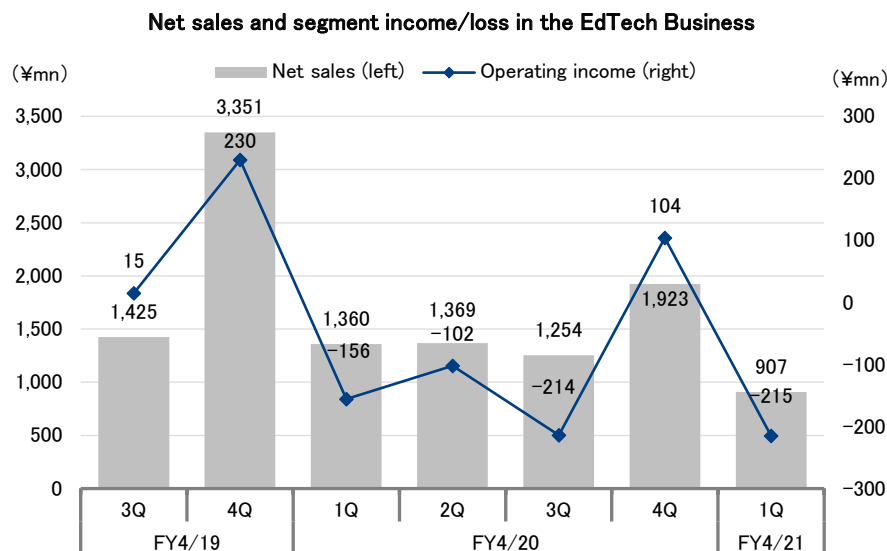
Business overview



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

5. EdTech Business

ALC, a long-established 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 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 FY4/21 1Q, net sales decreased 33.3% to ¥907mn, while segment loss was ¥215mn (compared to a segment loss of ¥156mn in the previous fiscal year). In a typical year, it records a loss in the 1H, which is the off-season. But results slumped in the current fiscal period also due to the impact of the coronavirus for businesses such as teacher dispatch-type language training and those related to studying abroad, and for book sales and the like.



* 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

Sales and profits increased in FY4/21 1Q.

Due to the expansion of teleworking, results were strong in the InfraTech Business and the Real EstateTech Business, but they slowed in the AdTech Business and the EdTech Business due to the coronavirus

1. FY4/21 1Q results

In the FY4/21 1Q consolidated results, there was an increase in both sales and profits, with net sales increasing 0.2% YoY to ¥13,417mn, operating income increasing 85.3% to ¥617mn, ordinary income increasing 105.1% to ¥586mn, and profit attributable to owners of parent of ¥218mn (versus a loss of ¥180mn in the previous fiscal year). There was a period in which the impact of the coronavirus was serious, but the Company was still able to achieve excellent results.

FY4/21 1Q consolidated results

	FY4/20 1Q		FY4/21 1Q		YoY
	Result	Ratio to sales	Result	Ratio to sales	
Net sales	13,386	-	13,417	-	0.2%
Cost of sales	9,634	72.0%	9,299	69.3%	-3.5%
Gross profit	3,751	28.0%	4,117	30.7%	9.7%
SG&A expenses	3,418	25.5%	3,500	26.1%	2.4%
Operating income	333	2.5%	617	4.6%	85.3%
Ordinary income	286	2.1%	586	4.4%	105.1%
Profit attributable to owners of parent	-180	-1.3%	218	-	-

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

Net sales were basically unchanged YoY, but they were strong and weak depending on the segment. Sales were strong in the HealthTech Business (up ¥435mn), which is in a growth period, in the InfraTech Business (up ¥153mn), which benefitted from the spread in teleworking, and in the Real EstateTech Business (up ¥340mn). Conversely, sales declined due to the impact of the coronavirus in the EdTech Business (down ¥453mn) and the AdTech Business (down ¥439mn).

The reason why operating income increased by over 80% YoY was the sales growth in the mainstay Real EstateTech Business and the HealthTech Business, while in addition, the contribution from the HealthTech Business becoming profitable was significant.

Ordinary income increased mainly due to the rise in operating income, while profit attributable to owners of parent became profitable compared to the previous loss primarily because of the increase in ordinary income and the decrease in corporation tax.

With more than ¥17bn in cash and deposits, the Company can flexibly respond to M&A opportunities

2. Financial position and management indicators

At the end of July 2020, total assets were up ¥5,309mn from the end of the previous fiscal year to ¥47,781mn. Of these total assets, current assets increased ¥4,634mn, with the main increases of ¥3,483mn in accounts receivable – other and ¥1,728mn in cash and deposits. Non-current assets increased ¥675mn, mainly due to an increase of ¥449mn in investments and other assets. Cash and deposits were at an ample level of ¥17,448mn, and the Company has enough funds so that it can respond flexibly to opportunities, such as for M&A.

Liabilities were up ¥4,694mn from the end of the previous fiscal year to ¥36,317mn. Within this amount, current liabilities increased ¥5,565mn, mainly due to a ¥5,403mn increase in accounts payable – other. Non-current liabilities declined ¥871mn due to a ¥758mn decrease in long-term loans payable.

In the management indicators of financial soundness (as of the end of July 2020), the current ratio was 161.8% and the equity ratio was 17.3%, and the Company's finances remain sound with the leverage apparently coming into effect.

Consolidated balance sheet and management indicators

	(¥mn)		
	End-FY4/20	End-FY7/20	Change
Current assets	33,116	37,750	4,634
(Cash and deposits)	15,720	17,448	1,728
(Notes and accounts receivable – trade)	9,302	8,817	-484
(Accounts receivable – other)	4,309	7,793	3,483
Non-current assets	9,355	10,031	675
(Tangible assets)	2,725	2,724	-1
(Intangible assets)	3,672	3,899	227
(Investments and other assets)	2,958	3,407	449
Total assets	42,472	47,781	5,309
Current liabilities	17,763	23,329	5,565
Non-current liabilities	13,859	12,988	-871
Total liabilities	31,623	36,317	4,694
Total net assets	10,848	11,463	615
Total liabilities and net assets	42,472	47,781	5,309
<Soundness>			
Current ratio (Current assets ÷ Current liabilities)	186.4%	161.8%	-
Equity ratio (Equity ÷ Total assets)	19.0%	17.3%	-

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

■ Outlook

Is conducting large-scale structural reforms in FY4/21. Can expect sales to increase (FISCO's forecast) from moving the HealthTech Business and the EdTech Business off the balance sheet

For the FY4/21 full year consolidated results, the Company is expecting a decline in both sales and profits, 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). Results were strong in the 1Q, but the Company has left unchanged the conservative full fiscal year results forecasts.

The conservative forecasts are based on two factors. The first is the uncertainty surrounding the impacts of the 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's policy is to optimize both the "infrastructure" and "platform" portfolios acquired in SiLK VISION 2020, its medium-term business policy, to suit the age of the coronavirus, as well as conducting a sweeping review of the portfolios in order to effectively utilize to the greatest possible extent aspects such as human resources, technical resources, and held data (described later). It has already announced its policy to move the HealthTech Business and EdTech Business off the balance sheet (to remove them from the scope of consolidated subsidiaries), and it is inevitable that this will affect results. The total results of these two businesses in the previous fiscal period were net sales of ¥9,418mn and an operating loss of ¥513mn. Forecasts by business for the current fiscal period have not been announced, but at FISCO, we expect this to have a profit-increase effect to a certain extent.

Outlook for FY4/21

	FY4/20		FY4/21			
	Result	Ratio to sales	Forecast	Ratio to sales	YoY	1Q progress rate
Net sales	55,295	100.0%	54,000	100.0%	-2.3%	24.8%
Operating income	2,587	4.7%	1,900	3.5%	-26.6%	32.5%
Ordinary income	2,481	4.5%	1,700	3.1%	-31.5%	34.5%
Profit attributable to owners of parent	-619	-	-200	-	-	-

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

■ Medium- to long-term growth strategy

SiLK VISION 2024's keywords are "Trusted Internet" and "Portfolio management on the axis of data."

Resolved to sell shares in HealthTech (FEH) and EdTech (ALC)

1. The SiLK VISION 2024 strategy outline

In September 2020, the Company announced its strategy outline for SiLK VISION 2024, its next medium-term business plan. It has positioned FY4/21 (the current period) as a period of transition to the new normal (transformation term), and it will start the new medium-term business plan from FY4/22.

(1) Reflecting on SiLK VISION 2020

The basic strategy in SiLK VISION 2020 was to "Enter into and continuously develop in new fields, focused on growth areas." In fact, the Company succeeded not only in achieving continuous growth in the Mobile Business and the AdTech Business, but also in entering into the lifestyle area (HealthTech, IoT, Real EstateTech, and EdTech), and has succeeded in growing to become a Group with a variety of "data." In this four-year period, net sales grew by 1.95 times (April 2020: ¥55,295mn, FY4/16: ¥28,389mn) and the target of ¥50,000mn was achieved 1 year ahead of schedule. Conversely, operating income grew by 1.36 times (April 2020: ¥2,587mn, FY4/16: ¥1,902mn) and the target of ¥5,000mn was not achieved.

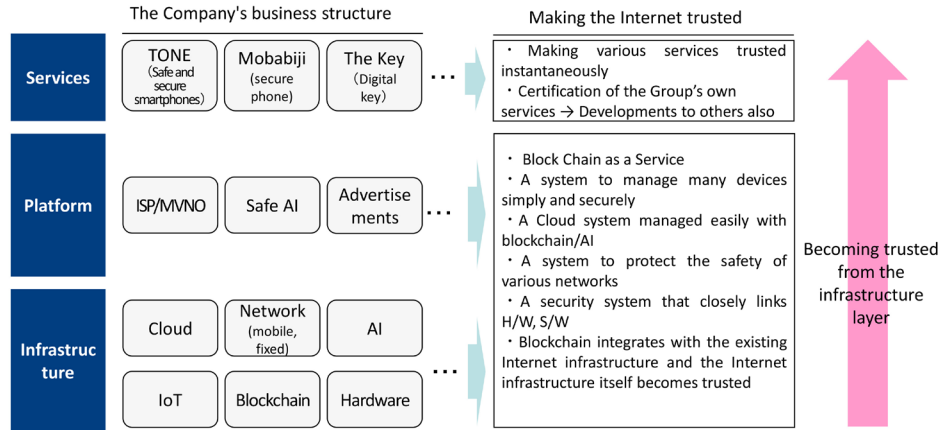
During this period, the business environment changed greatly. In terms of technologies, destructive technologies like 5G, blockchain, AI, IoT, and quantum computers appeared, and incorporating them became an issue. In society as well, responding to the new normal, which started with the infection risk in the coronavirus pandemic, has become an urgent task.

(2) The SiLK VISION 2024 strategy outline

There are a number of keywords in the strategy outline of SiLK VISION 2024, including "Trusted Internet (being able to ○○ in safety and with peace of mind)," "Portfolio management on the axis of data," and "Vertical integration or removal from the Group." "Trusted Internet (being able to ○○ in safety and with peace of mind)," which is an idea that the Company has pursued up to the present time, refers to utilizing blockchain to make the infrastructure itself trusted, and in which the new normal becomes "peace of mind." Already, initiatives utilizing blockchain have been started in the automotive field.

Medium- to long-term growth strategy

Overall image of Trusted Internet



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

In the background to “Portfolio management on the axis of data” is the fact that we have entered an age in which the advanced utilization of big data creates decisive competitive strength. In the Company’s Group, so far the independence of each company in the Group has been prioritized, but going forward, they will actively work to link data that they hold between them, with the aim of being a corporate group “in which cooperation is as smooth as silk.” One part of this is to increase the executive officers who straddle the Group companies. A typical example of strengthening cooperation is that Mr. Takeharu Yoshizawa, the former president of the subsidiary For it, was appointed the new president of the subsidiary Full Speed.

“Vertical integration or removal from the Group” is an approach when concentrating the businesses areas into the core areas and when restructuring the Group. The Company’s core areas are “infrastructure” and “platform” and it aims to make them trusted as a strength. This approach can be summarized into three stages as the SiLK Investment Policy; the first stage is “making subsidiaries and conducting structural reforms with DX,” the second stage” is “establishing a data-linkage system (including to become trusted)” and the third stage is “vertical integration or removal from the Group.” It seems that businesses with high affinity with core areas will be vertically integrated, and businesses without high affinity with the core areas will be removed from the Group. Already, some cases have appeared. In mobile-related, there is the case of the Company succeeding the Tone Mobile Business of the CCC Group in December 2019 and vertically integrating it. Also, more recently, there is the case of it resolving to sell its shares in FreeBit EPARK Health Care, Inc. (currently kusurinomadoguchi, Inc.) and ALC and to remove them from the Group. The relations with the Company of those businesses removed from the Group will continue in the future. While to a certain extent a sense of distance will be kept with the businesses themselves, it is assumed that the relations will continue as business partners for IT and data utilization.

Medium- to long-term growth strategy

SiLK VISION 2024 strategy outline

Keywords	Summary	Example of initiative
1 Trusted Internet (peace of mind for the new normal)	An approach of utilizing blockchain so that the infrastructure itself becomes trusted, to enable activities that are safe and can be conducted with peace of mind.	Initiatives utilizing blockchain are already underway in the automotive field.
2 Portfolio management on the axis of data	In the background to this is the fact that we have entered period in which the advanced utilization of big data creates decisive competitive strength. So far, the independence of each company in the Group has been prioritized, but going forward, they will actively work to link the data they hold between them	One part of this is increasing executive officers who straddle the Group companies <ul style="list-style-type: none"> • e.g.) President of For it→ President of Full Speed
3 Vertical integration or removal from the Group	An approach for when concentrating the businesses areas into the core areas and when restructuring the Group. This approach can be divided into three stages; the first stage is "making subsidiaries and conducting structural reforms," the second stage is "establishing a data-linkage system" and the third stage is "vertical integration or removal from the Group."	<Vertical integration> Succeeding the Tone Mobile Business from the CCC Group <Removal from the Group> Selling the shares of FreeBit EPARK Health Care, Inc. (currently kusurinomadoguchi, Inc.) and ALC

Source: Prepared by FISCO from the Company's materials and interviews

2. Resolved to sell the shares of the HealthTech Business (FEH) and the EdTech Business (ALC)

On September 2020, based on the previously described SiLK VISION 2024 strategy outline, the Company's Board of Directors resolved to sell all of the shares held in FreeBit EPARK Health Care, Inc. (currently kusurinomadoguchi, Inc.(FEH)), which is the core company for the HealthTech Business, and ALC, which conducts the EdTech Business. Through this sale, these two companies will be removed from the scope of consolidation. In the SiLK VISION 2024 strategy outline, the policy is to conduct vertical integration or removal from the Group (removal from the balance sheet), and to reorganize the Group so it is focused on its core areas after linking the data of Group companies. Based on this strategy outline, it appears that on passing through the structural reforms after FEH and ALC were made subsidiaries, the decision to remove them from the Group was taken at the stage that the system for linking data was put in place. The reasons for this decision to remove them from the Group include ensuring mobility in the era of the new normal and on considering the impact on the consolidated financial statements in the future.

FEH is in a growth period, and its net sales increased 24.0% YoY to ¥3,219mn and it recording operating income of ¥244mn, thereby becoming profitable. The Company will sell 10,600 shares (ratio of voting rights held, 47.53%) with a sales amount of ¥1,811mn. The execution date for the transfer of shares is scheduled for October 30, 2020.

ALC was impacted by the coronavirus at an early stage and struggled, with sales declining 3.8% compared to FY1/19 to ¥5,806mn and an operating loss of ¥256mn. The Company will sell 45,400 shares (ratio of voting rights held, 100.00%) with a sales amount of ¥999mn. The execution date for the transfer of shares is scheduled for November 30, 2020.

FreeBit Co., Ltd. | **20-Nov.-2020**
 3843 Tokyo Stock Exchange First Section | <https://freebit.com/ir/>

Medium- to long-term growth strategy

Summary of the consolidated subsidiaries and the transfer of shares

Name	FreeBit EPARK Health Care, Inc. (currently kusurinomadoguchi, Inc.)	ALC PRESS INC.
Address	3-6 Maruyamacho, Shibuya-ku, Tokyo, Japan	4-2-6 Kudankita, Chiyoda-ku, Tokyo, Japan
Representatives	Nobuaki Tanaka, President and Representative Director	Nobuaki Tanaka, Chairman, Representative Director Amano Tomoyuki, President and Representative Director
Business descriptions	The provision of solutions to pharmacies	<ul style="list-style-type: none"> • The planning, production, and sales of correspondence educational material • The planning, production, and sales of language-related publications (monthly magazines and books) • Language training for corporations • The planning, production and sales of e-learning materials, etc.
Date of establishment	September 1, 2004	November 9, 2011
Capital	¥100mn	¥100mn
Major shareholders and shareholding ratios	FreeBit Co., Ltd. 47.53% EPARK, Inc. 46.86%	FreeBit Co., Ltd. 100.00%
Net sales, operating income	Net sales ¥3,219mn Operating income ¥244mn (FY3/20)	Net sales ¥5,806mn Operating loss ¥256mn (FY4/20)
Shares held before the change	10,600 shares (ratio of voting rights 47.53%)	45,400 shares (ratio of voting rights 100.00%)
The number of shares to be sold	10,600 shares	45,400 shares
Sale amount	¥1,811mn	¥999mn
Scheduled execution date for transfer of shares	October 30, 2020	November 30, 2020

Source: Prepared by FISCO based on the Company materials

The party that will purchase the shares of the two companies is NBSE Co., Ltd. (Shibuya-ku, Tokyo). The representative director of this company, Mr. Nobuaki Tanaka, served as the president and representative director of Freebit Co., Ltd., until he passed the baton to the current CEO, Mr. Ishida, in May 2020, and he has also worked as a representative director of the two target companies. Its business description includes “management guidance to improve the enterprise value of the acquired companies and the sale of their shares to third parties” and “the operations and management of investment business partnership assets.” With the assumption of this company’s fund investment, it is anticipated that it will be positioned as the operations and management company. It seems that the system for the decision making on the companies to invest in will be clarified in the future.

Summary of the party purchasing the shares

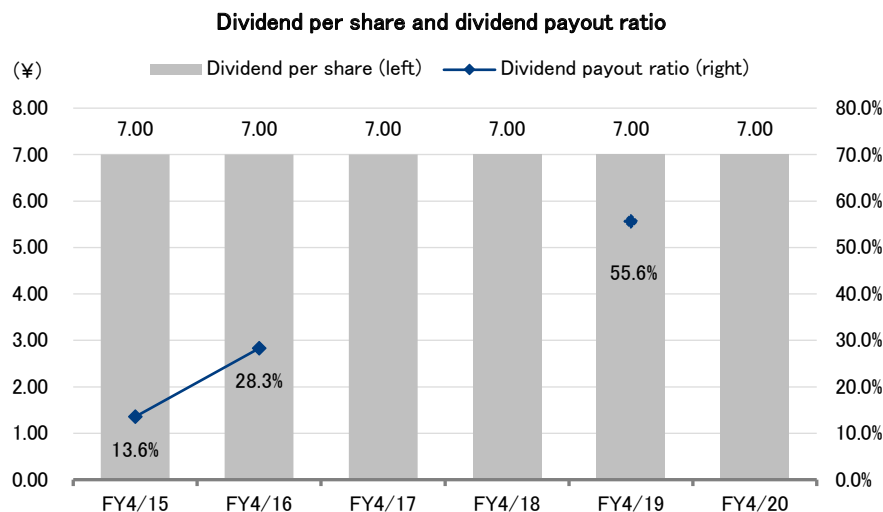
Name	NBSE Co., Ltd.
Address	2-24-12 Shibuya, Shibuya-ku, Tokyo, Japan
Representative	Nobuaki Tanaka, Representative Director
Business description	<ul style="list-style-type: none"> • Acquiring companies with the aim of succeeding the businesses of companies without a successor, and managing these businesses • Management guidance to improve the enterprise value of the acquired companies and selling their shares to third parties • Consulting regarding such matters as IT strategies for acquired companies, financial strategies and listing strategies • Discovering and training young entrepreneurs • Operating and managing investment business partnership assets
Capital	¥50mn
Date of establishment	January 6, 2020
Main shareholder and shareholding ratio	Nobuaki Tanaka 100.00%

Source: Prepared by FISCO based on the Company materials

Shareholder return policy

Previously has stably paid a dividend of ¥7. Has not yet decided on a dividend for FY4/21

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 regardless profit attributable to owners of parent was positive or negative. At the current point in time, the Company's planned dividend for FY4/21 is undetermined.



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



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