COMPANY RESEARCH AND ANALYSIS REPORT

FreeBit Co., Ltd.

3843

Tokyo Stock Exchange First Section

5-Aug.-2021

FISCO Ltd. Analyst

Daiki Ishizu

FISCO

FISCO Ltd.

https://www.fisco.co.jp

Index

Summary

Posted profit gains in FY4/21, despite impact of moving businesses off the balance sheet, on upbeat Internet infrastructure business
Intends to continue promotion of strategic investments aimed at attaining goals in SiLK VISION 2024, the next medium-term management plan

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.

1. FY4/21 result trends

In FY4/21 results, the Company reported ¥52,009mn in net sales (-5.9% YoY), ¥3,403mn in operating income (+31.5%), ¥3,661mn in ordinary income (+47.6%), and ¥1,586mn in profit attributable to owners of parent (recovering sharply from a loss in FY4/20). It positioned FY4/21 as a transformation term to prepare for realization of goals in SiLK VISION 2024, the next medium-term management plan scheduled for release in late July 2021), and has revised the group's business continuation plan (BCP) and is implementing strategic investments aimed at continuous growth from a longer-term perspective that factors in arrival of destructive technologies and tougher regulations. In net sales, despite impact of moving businesses off the balance sheet, the Internet infrastructure category (InfraTech Business and Real EstateTech Business) performed solidly due to services demand.

In earnings, main contributions came from higher profit in the Internet infrastructure category and profit improvement related to reorganization that moved businesses off the balance sheet.

2. FY4/22 outlook

In FY4/22 guidance, the Company targets ¥43,000mn in net sales, ¥2,500mn in operating income, ¥2,350mn in ordinary income, and ¥600mn in profit attributable to owners of parent. In net sales, it expects healthy business activity, despite a weaker level than in FY4/21 on impacts of moving businesses off the balance sheet in the reorganization, applying the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29) from the start of FY4/22, and a fiscal-year timing change at DREAM TRAIN INTERNET (DTI) INC. that caused an abnormal 13-month period in FY4/21. It prepared targets premised on implementing ¥2bn in strategic investments as well.

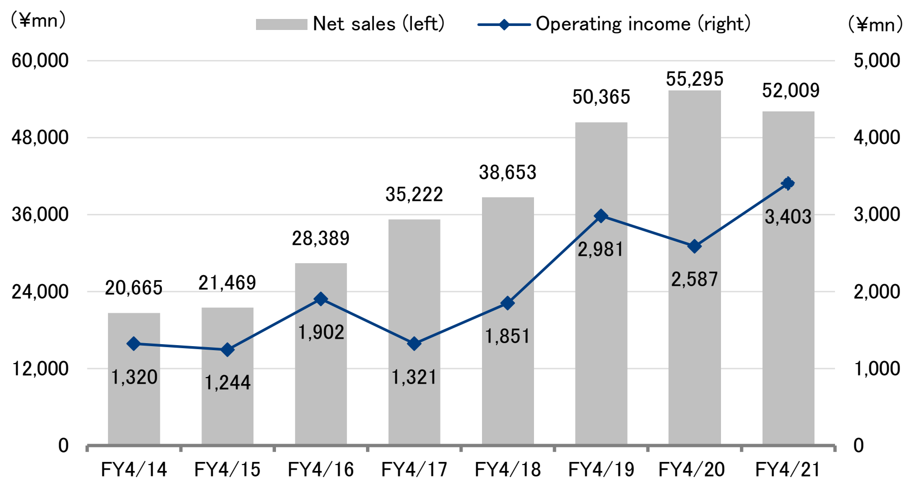
3. Medium- to long-term growth strategy

The Company is scheduled to disclose SiLK VISION 2024 in late July 2021, and FY4/21 results briefing materials from June 2021 indicated that SiLK VISION 2024 intends to invest in mobile revolution, lifestyle revolution, and production revolution areas as priorities for the future. In FY4/22, the first fiscal year of SiLK VISION 2024, the Company budgeted ¥2bn for strategic investments, including unimplemented investments from FY4/21, that consist of active outlays in DX and new businesses. Investors and external stakeholders are likely to react favorably to business reforms and DX promotion addressing the post-COVID era. Within the strategic budget, management plans to selectively spend in areas likely to drive growth.

Key Points

- Posted profit gains in FY4/21, despite impact of moving businesses off the balance sheet, on upbeat Internet infrastructure business
- Plans ¥2bn in strategic investments, including DX and new businesses, in FY4/22 too
- SiLK VISION 2024 continues aggressive investments in mobile revolution, lifestyle revolution, and production revolution areas

Results trends



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

Company profile

Internet infrastructure provider accelerating growth in the main business following 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. The Group has many companies, including GIGA PRIZE CO., LTD. <3830>, Full Speed Inc.<2159>, DREAM TRAIN INTERNET INC.

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 INC., an ISP for individuals, in that same year and of GIGA PRIZE CO., LTD. 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 PRESS INC., 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 reforms that involved moving businesses off the balance sheet, it subsequently eliminated FreeBit EPARK Health Care, Inc. (currently, Kusurinomadoguchi, Inc.), For Members Co., Ltd., and ALC PRESS INC. from consolidated scope.

2. Segment descriptions

In InfraTech Business, the Company provides business assistance services for ISPs and Internet connection services for individuals over a fixed-line network, MVNO business assistance (MVNE) service, mobile communications services for individuals, and cloud-related services.

In Real EstateTech Business, the Company delivers Internet connection services over a fixed-line network to joint-dwelling residences mainly through GIGA PRIZE CO., LTD. Installations have been rising from collaboration with multiple very-large homebuilders. The Company also provides real estate-related services utilizing IoT.

In AdTech Business, the Company provides Internet marketing services to companies mainly through Full Speed Inc. and For it Inc. It offers listing ads, adtech utilization ads, and social media ads.

In HealthTech Business, the Company provided IT solutions services to pharmacies and an electronic drug notebook app for individuals. At this point, it already sold all shares of FreeBit EPARK Health Care Inc. that handled this segment.

In EdTech Business, the Company provided comprehensive educational services related to language, such as language seminars, language books, and language e-learning, to companies, individuals and educational institutions. At this point, it already sold all shares of ALC PRESS INC. that handled this segment.

Results trends

Healthy sales and profit gains in the Internet infrastructure category even during the strategic investment period

1. FY4/21 results

In FY4/21 results, the Company reported ¥52,009mn in net sales (-5.9% YoY), ¥3,403mn in operating income (+31.5%), ¥3,661mn in ordinary income (+47.6%), and ¥1,586mn in profit attributable to owners of parent (recovering sharply from a loss in FY4/20).

FY4/21 consolidated results

(¥mn)

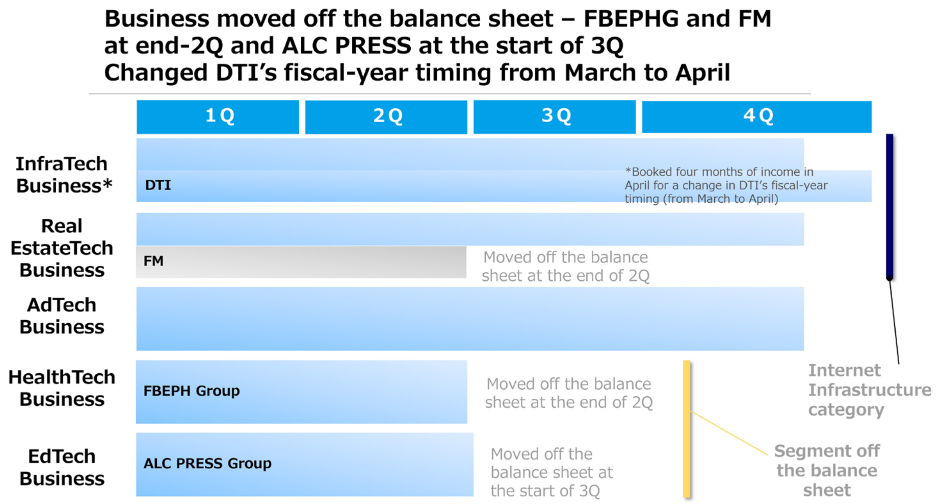
	FY4/20		FY4/21		YoY	
	Result	Ratio to sales	Result	Ratio to sales	Change	Change rate
Net sales	55,295	-	52,009	-	-3,285	-5.9%
Cost of sales	38,477	69.6%	36,560	70.3%	-1,917	-5.0%
Gross profit	16,817	30.4%	15,449	29.7%	-1,368	-8.1%
SG&A expenses	14,229	25.7%	12,045	23.2%	-2,183	-15.3%
Operating income	2,587	4.7%	3,403	6.5%	815	31.5%
Ordinary income	2,481	4.5%	3,661	7.0%	1,180	47.6%
Profit attributable to owners of parent	-619	-1.1%	1,586	3.1%	2,206	356.2%

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

The Company recognizes that attaining goals in SiLK VISION 2024, a new medium-term management plan with FY4/22 as the first fiscal year that it intends to disclose in late July 2021, requires responses to AI, quantum computing, and other destructive technologies and society's New Normal triggered by risk of COVID-19 infection.

For attainment of SiLK VISION 2024 goals, the Company positioned FY4/21 as a “transformation term” of steady group reorganization to focus on infrastructure and platforms as core areas under the concept of Trusted Internet through rigorous integration, collaboration, and utilization of diverse types of data held by companies that it acquired or engaged with via capital and business alliances in accordance with past medium-term management plans and subsequent vertical integration with or removal from the group via a business sale or other transaction. Specifically, it took actions to remove FreeBit EPARK Health Care, Inc., ALC PRESS INC., and For Members Co., Ltd. from consolidated scope.

Conceptual diagram of changes in consolidated scope



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

2. InfraTech Business

As the environment for InfraTech Business, growth has slowed in the market for communication services delivered over a fixed-line network that mainly uses optical access lines on exhaustion of inroads by high-speed broadband and advances with faster speeds in 5G and other mobile communication service.

Adoption of telework and home learning formats in response to the COVID-19 pandemic boosted utilization of online meetings and classes over home Wi-Fi environments. "Stay home" behavior increased too as people held back from unnecessary time outdoors because of pandemic conditions. Fixed-line network services remained at high unit-cost ratios on expanded use at home of Netflix, YouTube, Amazon Prime Video, and other video services and games and other rich content and SNS entertainment services. Telework is currently advancing as well. In particular, solutions that improve business efficiency are the core driver of DX in sales and marketing businesses.

SaaS vendors are leading development and delivery of advanced services in CRM*1 and SFA*2, including collaboration among tools and AI-based additional functionality such as e-mail and Web meeting interaction, sales template sharing, deal prospect scoring, and ideal behavior proposals. With the pandemic as a catalyst, companies are more aware of the necessity of online sales activity management. The market is likely to expand primarily among major companies capable of deploying advanced SaaS.

*1 CRM is the abbreviation of Customer Relationship Management. This product manages customer relationships and customers.
*2 SFA is the abbreviation of Sales Force Automation. This product is a sales assistance system.

In costs, the Company acknowledges increase in network unit costs due to growing use of Internet streaming services and games and other rich content, more communication traffic because of expanded utilization of cloud services, and inroads by products with high access frequency such as SNS and subscription-type Internet services.

AMPU* is trending lower. In MVNO and MVNE markets, the macro environment is modestly negative for overall earnings with continuation of a trend of low-cost plan provision and sub-brand offerings by major mobile communication carriers affecting growth at autonomous MVNO service companies. Nevertheless, the mobile market is steadily growing on an overall and should continue to expand.

* AMPU is the abbreviation for Average Margin Per User and refers to average gross profit per customer.

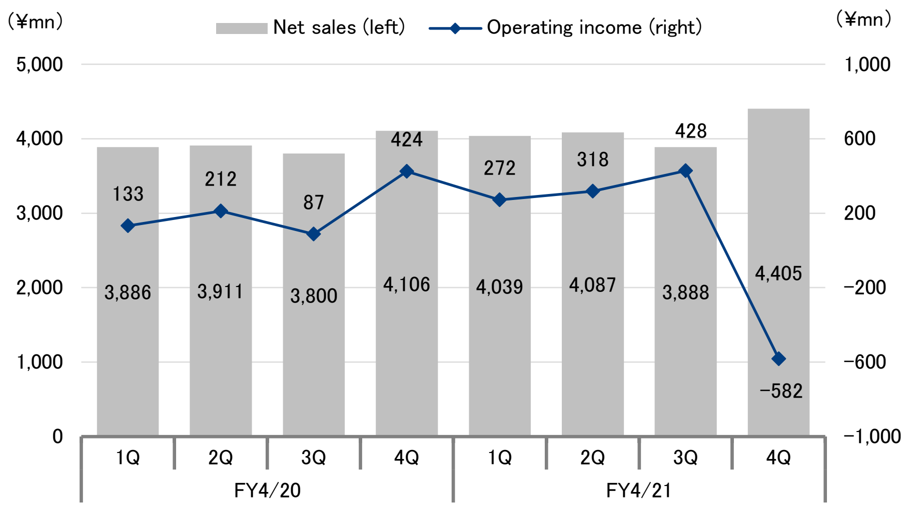
In the cloud market, the cloud is a vital foundation in distribution of a variety of contents, conducting electronic commercial transactions, and providing a foundation for IoT-related services. Cloud scale should continue to grow. Furthermore, increase in telework driven by pandemic impact has led to rapid growth in demand for DaaS, VPN, and other cloud services that use optical access lines and mobile communication services. This demand is likely to continue expanding.

In results, sales climbed on heightened needs for online classes and meetings and Internet video streaming over residential Wi-Fi environments amid inroads by home learning and telework as efforts to halt spread of the COVID-19 pandemic as well as increased demand for MVNO assistance package services and other mobile communication infrastructure services and Internet security services. Sustained upturn in the unit cost ratio for fixed-line network service driven by home video streaming and expanded use of rich contents, meanwhile, affected segment profit.

In mobile communication-related services, the Company increased the number of MVNO corporate customers deploying “freebit MVNO Pack,” an MVNO assistance package service delivered by it as an MVNE, also focused on expanding sales of MVNO services to end users, and started sales of TONE e21, a new smartphone device with significantly enhanced AI and basic functions in the Tone Mobile smartphone service. In cloud-related service, the Company focused on boosting sales of services that address telework demand, such as DaaS and VPN. In the CaaS area, the Company is simultaneously implementing a variety of measures, such as promoting “DX for 5G era” that utilized “pre 5G” technology including the launch of collaboration between “DX for 5G era” service and Alps Alpine’s industry specialized subscription navigation app.

Net sales totaled ¥16,421mn (+4.6% YoY) with support from the measures and initiatives explained above. Segment income, meanwhile, was ¥436mn (-49.1%) because of impact by strategic investments.

Net sales and segment income in the InfraTech Business



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

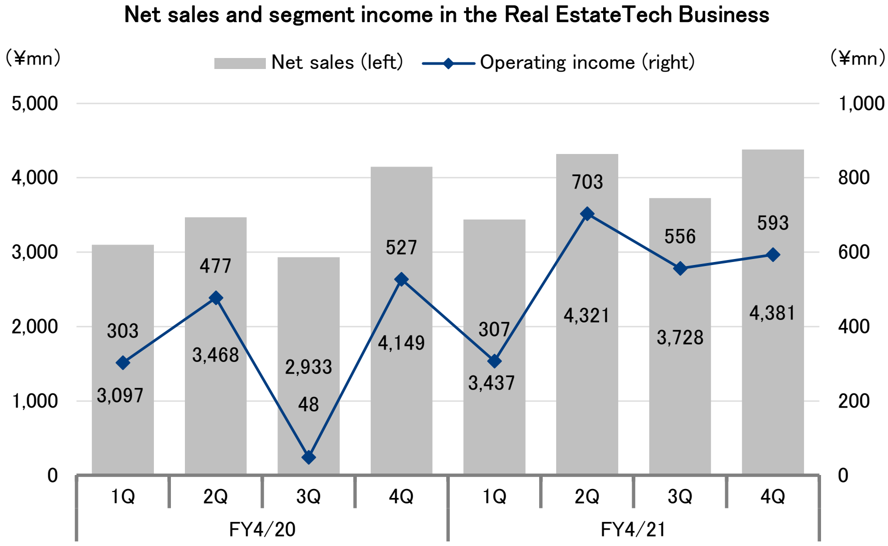
3. Real EstateTech Business

In the peripheral market environment, despite exhaustion of inroads by the communication service market based on a fixed-line network mainly using optical access lines, installations are steadily progressing in the market for Internet connection service at multi-household dwellings with the aim of raising asset value and lifting the occupancy rate through provision of a high-speed broadband environment. GIGA PRIZE CO., LTD. delivers this service in the Company's group. Service scale should continue expanding because of renewed awareness of the importance of a stable Internet environment as the pandemic spurred increased use of telework, online classes, and video content streaming.

In the real estate industry, strong interest exists in real estate tech that utilizes AI, IoT, VR, and other technologies. Demand for new services is likely to expand further too, including use of IoT devices in smart cities that resolve regional issues and create new value with safety and reliability in daily life and smart homes that accommodate diversified lifestyles. The real estate industry currently lags in application of ICT to leasing management and brokerage tasks. Main issues are low labor productivity with individualistic practices and tedious and lengthy procedures for customers. Investments in DX aimed at resolving these challenges have expanded in recent years. Some initiatives are improved real-time confirmation of inventory, automated responses by management companies in property confirmation and other tasks, Internet reservations and management for property tours, reduction of key handover tasks for property tours using smart locks, enhanced security, virtual reality tours, and advances in electronic and paperless applications and contracts. These advances create substantial opportunities for the Company to offer services.

In Real EstateTech Business, the Company focused on continuous orders from major customers and new acquisitions with the aim of expanding the number of units covered in Internet connection service for multi-household dwellings. It has also sharply increased the number of cumulative units receiving service through reinforced provision of PWINS, a new products that does not require installation in future equipment replacement, at new properties and sales of SPES to expand deployment share at existing properties with the prospect of rising demand.

Net sales totaled ¥15,869mn (+16.3% YoY) and segment income improved to ¥2,160mn (+59.2%) thanks to the measures and initiatives explained above. In the real estate tech market, DX advances should create opportunities in the real estate industry that relied extensively on manual procedures up to now, similar to the infrastructure tech market. This trend is likely to support stable growth in the market, and sales and profits are headed toward positive growth from FY4/22 as well.



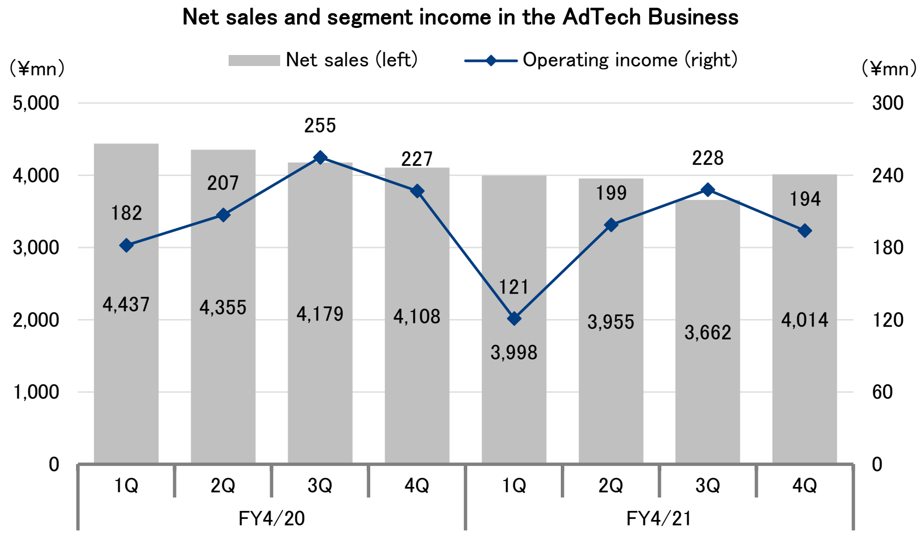
Source: Prepared by FISCO from the Company's results briefing materials

4. AdTech Business

In the advertising market related to adtech, Internet advertising has consistently grown and this expansion put it above ¥2.2tn and beat TV media advertising outlays in 2020. According to "2020 Advertising Expenditures in Japan," a survey prepared by Dentsu Group Inc. <4324>, the domestic interest advertising market, the Company's main business area, grew at an upbeat 105.9% YoY to ¥2,229bn in 2020. In this business environment, Full Speed Inc. strengthened Internet marketing business that mainly consists of social media marketing and adtech business (primarily "afb," "Webridge," and "ADMATRIX DSP") with a slogan of being a technology & marketing company. It also has focused on initiatives in multiple new businesses aimed at building a new income driver over the longer term.

The healthy macro market is providing a tailwind. In this context, the Company is increasingly shifting from traditional reservation ads to listing ads and managed ads that utilize adtech. Video ads and social media ads are driving market expansion, and mobile advertisement growth stands out. Meanwhile, since the advertising industry is easily affected by pandemic impact, FISCO believes it is important to closely monitor future trends. Increase in "stay-home demand" aimed at curtailing spread of COVID-19 infections resulted in temporarily stalled income due to decline in customer transfers of Internet ad viewers to stores that placed ads. The Company, however, is focused on provision of Internet advertising services such as DSP, the group's proprietary adtech-related service, and other offerings. It also targeted development of new industries that are less vulnerable to the impact of infection spread.

Net sales totaled ¥15,630mn (-8.5% YoY) and segment income slipped to ¥743mn (-14.9%) due to the measures and initiatives explained above.



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

5. HealthTech Business

The Company removed FreeBit EPARK Health Care Inc. and its subsidiaries that handled this business from consolidated scope through the sale of all shares it owned during 2Q FY4/21 on October 30, 2020. This segment booked ¥2,550mn in net sales (-27.4% YoY) and ¥305mn in segment income (vs. a ¥144mn loss in the previous fiscal year).

6. EdTech Business

The Company removed ALC PRESS INC. and its subsidiaries that handled this business from consolidated scope through the sale of all shares it owned during 3Q FY4/21 on November 30, 2020. This segment booked ¥1,992mn in net sales (-66.3% YoY) and ¥240mn in segment loss (vs. a ¥368mn loss in the previous fiscal year).

7. Financial position

The following explanation reviews financial conditions, financial ratios, and the cash flow situation. The Company has a sound fiscal state on the balance sheet including a 25.0% equity ratio thanks to progress moving businesses off the balance sheet with asset sales and other removal from consolidated scope.

Real cash reserves indicate ¥3,303mn in net cash at the end of FY4/21 versus ¥3,176mn in net debt at the end of FY4/20, a steep improvement of over ¥6,000mn. Net cash includes ¥17,621mn in cash and deposits.

Total asset value dropped by ¥7,636mn YoY to ¥34,835mn on declines of ¥2,633mn in notes and accounts receivable – trade, ¥2,787mn in accounts receivable – other, and ¥1,424m in goodwill mainly due to the impact of removing FreeBit EPARK Health Care Inc. and ALC PRESS INC. from consolidated scope. Total liabilities were down by ¥8,936mn versus the end of the previous consolidated accounting year to ¥22,687mn on declines of ¥3,203mn in accounts payable - other, ¥2,420mn in corporate bonds, ¥1,316mn in long-term loans payable, and ¥1,275mn in lease obligations (fixed) primarily from the impact of removing FreeBit EPARK Health Care Inc. and ALC PRESS INC. from consolidated scope. Net assets rose by ¥1,300mn versus the end of the previous consolidated accounting year to ¥12,148mn on increase in retained earnings. This sharply lifted the equity ratio to 25.0%.

Consolidated balance sheet and management indicators

(¥mn)

	End-FY4/20	End-FY4/21	Change
Cash and deposits	15,720	17,621	1,900
Notes and accounts receivable – trade	9,302	6,669	-2,633
Accounts receivable – other	4,309	1,521	-2,787
Other assets	3,783	2,984	-798
Current assets	33,116	28,796	-4,319
Tangible assets	2,725	2,660	-64
Intangible assets	3,672	551	-3,120
Investments and other assets	2,958	2,827	-130
Total asset value	42,472	34,835	-7,636
Current liabilities	17,763	13,908	-3,855
Non-current liabilities	13,859	8,779	-5,080
Total liabilities	31,623	22,687	-8,936
Total net assets	10,848	12,148	1,300
Total liabilities and net assets	42,472	34,835	-7,636
Shareholders' equity	8,060	8,592	532
<Soundness>			
Current ratio	186.4%	207.0%	-
Equity ratio	19.0%	25.0%	-

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

Outlook

Pursuing expansion of DX-related business with "pre 5G" as a key theme

1. Outlook for FY4/22

In FY4/22 guidance, the Company targets ¥43,000mn in net sales, ¥2,500mn in operating income, ¥2,350mn in ordinary income, and ¥600mn in profit attributable to owners of parent. Since it applies the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29) from the start of FY4/22, guidance values reflect use of this standard.

The Internet infrastructure category (InfraTech Business and Real EstateTech Business) has been steadily increasing sales and profits even in the strategic investment period. FISCO expects this category to continue driving the Company's results. Furthermore, the Company is working to expand DX-related business with "pre 5G" as a key theme in efforts ahead of SiLK VISION 2024, the new medium-term management plan it is scheduled to disclose in late July, and intends to continue making strategic investments targeting attainment of goals in FY4/24, the final fiscal year of SiLK VISION 2024. It plans to implement ¥2bn in strategic investments in FY4/22. Since this year's outlays should reach ¥2bn within operations, in contrast to the previous fiscal year, the investments lower operating income. Nevertheless, these investments contribute to building a future earnings foundation, and FISCO thinks it is important to consider them as a set with initiative content and manifestation of future return.

The net sales target for a ¥1.3bn increase (+3.1%) versus ¥41.7bn in consolidated sales from the previous fiscal year factors in setbacks of ¥5.1bn from moving businesses off the balance sheet, ¥4.5bn from applying the “Accounting Standard for Revenue Recognition,” and ¥0.6bn from the change to the fiscal-year timing at a consolidated subsidiary.

In strategic investments, the Company has a budget of ¥2bn, including unimplemented investments from FY4/21, to invest in mobile revolution, lifestyle revolution, and production revolution areas as priorities for the future and intends to actively invest in DX and new businesses. It is slated to disclose SiLK VISION 2024, the new medium-term management plan, in late July.

2. DX investments and new business investments

The Company plans to spend ¥2bn on DX and new business investments.

Medium- to long-term growth strategy

Promoting DX and new business investments and expansion of new services in FY4/22

Within the longer-term growth strategy, the Company invested in DX and data integration, mainly at FreeBit, during FY4/21. It plans to actively continue DX and new business investments in FY4/22. The GIGA PRIZE Group and Full Speed Group will also be investing in DX and new business development. In cost reduction, mainly SG&A expenses are considerably lower after removal of businesses from the balance sheet in 3Q FY4/21. However, the 4Q FY4/21 level is higher because of implementing strategic investments and the addition related to DTI’s fiscal-year timing change.

In new service initiatives, Tone Mobile provided the TONE SIM update and released TONE e21. For lifestyle revolution, the Company strengthened new service in its affiliate service for AdTech Business. It also announced an initiative in smart pole business for Real EstateTech Business. After disclosing the release of TONE e21 at the end of March 2021, sales started in April. These services present TONE AI as a major message based on new enhancements of AI and core functionality. They are lifting membership volume and benefited from coverage in TV TOKYO Corporation’s World Business Satellite (WBS) program.

In AdTech Business, besides domestic performance marketing platform “afb” that has already established a substantial market presence, the Company is aggressively advancing global rollout of global performance marketing platform “Webridge” with the aim of being the No.1 platform business in ASEAN. It is also pursuing broader sales of services in Internet marketing business based on social marketing that harnesses technology and data. To generate competitiveness and improve profitability, it is entering the DX area and implementing structural reforms that aim to enhance profitability and productivity. Furthermore, it plans to revise the business structure with goals of boosting specialization and advantages in the healthcare area.

These measures strive to stably increase income even amid pandemic conditions. The Company hopes to continuously deploy new services and expand the customer base.

Shareholder return policy

Previously has stably paid a dividend of ¥7.00. Has not yet decided on a dividend for FY4/22

The Company has not announced the FY4/22 dividend target. It paid ¥7.00 dividends in FY4/20 and FY4/21. While management emphasizes meeting the expectations of shareholders through business expansion and corporate growth from a longer-term perspective and thinks it is important to secure necessary investment resources, it recognizes the importance of continuously implementing shareholder return too. In FY4/21, the Company left the dividend target undecided because of uncertainty about pandemic impact on the business environment but ultimately paid ¥7.00 based on comprehensive assessment of fiscal conditions and the policy of sustaining a stable dividend. It hence delivered shareholder return of a ¥7.00 dividend in FY4/20 and FY4/21.

Disclaimer

■ For inquiry, please contact: ■
FISCO Ltd.
5-13-3 Minami Aoyama, Minato-ku, Tokyo, Japan 107-0062
Phone: 03-5774-2443 (IR Consulting Business Division)
Email: support@fisco.co.jp