FreeBit / 3843

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Research Coverage Report by Shared Research Inc.

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How to read a Shared Research report: This report begins with the trends and outlook section, which discusses the company's most recent earnings. First-time readers should start at the business section later in the report.

Executive summary

Provides Internet-based infrastructure services that it terms Smart Infrastructure services

- The company group finds its strength in accumulated technological skills for development of core technologies related to the internet and management of large-scale systems. FreeBit leverages this strength to provide various services concerning the internet and other areas to corporate and individual customers. The main business areas include providing telecoms infrastructure to internet service providers, offering support for companies entering the mobile businesses, and providing consulting services related to internet businesses. It also acts as a smartphone carrier through Tone mobile Inc., a joint venture company established with Culture Convenience Club Co., Ltd. (CCC).
- The company's business model has the following characteristics: it leases telecoms infrastructure from telecoms companies; and it uses this to offer a one-stop shop combining a range of services using its original technologies. By vertically combining components, users have access to various internet services. FreeBit said that even global companies who may be industry leaders do not necessarily cover every layer from terminals to telecoms services, so the company considers itself a rare entity (see the Business section).

Trends and outlook

- In FY04/20, the company reported consolidated sales of JPY55.3bn (+9.8% YoY), operating profit of JPY2.6bn (-13.2% YoY), recurring profit of JPY2.5bn (-3.4% YoY), and net loss attributable to owners of the parent of JPY619mn (versus net income of JPY279mn in FY04/19).
- The company's full-year FY04/21 earnings forecast calls for consolidated sales of JPY54.0bn (-2.3% YoY), operating profit of JPY1.9bn (-26.6% YoY), recurring profit of JPY1.7bn (-31.5% YoY), and net loss attributable to owners of the parent of JPY200mn (versus net loss of JPY619mn in FY04/20).

Strengths, weaknesses

- Shared Research believes that the three main strengths of FreeBit are its senior management, recurring income business, imagination and strength in developing niche markets. Weaknesses include focusing on too many business areas, operating in oligopolistic markets controlled by large players, and governance issues (see Strengths and weaknesses).

Key financial data

Income statement (JPYmn)	FY04/11 Cons.	FY04/12 Cons.	FY04/13 Cons.	FY04/14 Cons.	FY04/15 Cons.	FY04/16 Cons.	FY04/17 Cons.	FY04/18 Cons.	FY04/19 Cons.	FY04/20 Cons.	FY04/21 Est.
Sales	**23,180**	**21,004**	**20,660**	**20,665**	**21,469**	**28,390**	**35,222**	**38,654**	**50,366**	**55,295**	**54,000**
YoY	57.6%	-9.4%	-1.6%	0.0%	3.9%	32.2%	24.1%	9.7%	30.3%	9.8%	-2.3%
Gross profit	8,442	6,915	7,507	7,998	7,560	8,212	8,215	10,667	15,153	16,817	
YoY	60.7%	-18.1%	8.6%	6.5%	-5.5%	8.6%	0.0%	29.8%	42.1%	11.0%	
GPM	36.4%	32.9%	36.3%	38.7%	35.2%	28.9%	23.3%	27.6%	30.1%	30.4%	
Operating profit	**155**	**831**	**936**	**1,321**	**1,245**	**1,903**	**1,321**	**1,851**	**2,982**	**2,588**	**1,900**
YoY	-61.8%	433.3%	12.6%	41.1%	-5.8%	52.9%	-30.6%	40.1%	61.1%	-13.2%	-26.6%
OPM	0.7%	4.0%	4.5%	6.4%	5.8%	6.7%	3.8%	4.8%	5.9%	4.7%	3.5%
Recurring profit	**185**	**939**	**481**	**1,220**	**982**	**1,323**	**808**	**1,426**	**2,569**	**2,481**	**1,700**
YoY	-76.9%	406.4%	-48.8%	153.8%	-19.5%	34.6%	-38.9%	76.6%	80.1%	-3.4%	-31.5%
RPM	0.8%	4.5%	2.3%	5.9%	4.6%	4.7%	2.3%	3.7%	5.1%	4.5%	3.1%
Net income	**-947**	**204**	**-186**	**236**	**1,026**	**553**	**-150**	**-567**	**279**	**-619**	**-200**
Per share data											
Shares issued (year-end; '000)	51	51	20,412	20,414	23,414	23,414	23,414	23,414	23,414	23,414	
EPS	-47.52	10.31	-9.44	12.06	51.40	24.75	-6.77	-25.56	12.59	-27.93	-9.02
EPS (fully diluted)	-	10.18	-	11.99	51.29	24.72	-	-	12.57	-	
Dividend per share	1,800.00	3,000.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	-
Book value per share	316.23	321.66	303.96	309.15	436.56	449.30	434.70	399.88	405.57	368.19	
Balance sheet (JPYmn)											
Cash and cash equivalents	4,095	4,873	4,685	4,762	6,983	7,911	10,249	13,656	15,459	15,721	
Total current assets	**10,334**	**10,800**	**10,536**	**10,031**	**12,597**	**15,990**	**17,414**	**22,013**	**27,558**	**33,116**	
Tangible fixed assets	1,450	1,245	1,577	1,938	1,790	1,710	1,886	2,123	2,925	2,725	
Investments and other assets	2,904	2,156	1,679	1,448	2,222	1,839	1,588	2,391	3,045	2,958	
Intangible fixed assets	6,241	4,487	4,076	3,316	2,715	2,393	4,709	4,269	5,636	3,672	
Total assets	**20,929**	**18,690**	**17,869**	**16,733**	**19,324**	**21,932**	**25,597**	**30,797**	**39,164**	**42,472**	
Accounts payable	913	46	80	50	60	53	286	87	449	652	
Short-term debt	6,123	3,378	3,489	3,449	2,119	2,597	989	2,227	2,523	4,465	
Total current liabilities	**11,046**	**8,145**	**7,744**	**7,915**	**6,983**	**9,050**	**9,580**	**10,352**	**13,835**	**17,764**	
Long-term debt	2,328	3,312	2,730	1,622	1,078	1,069	3,572	8,378	10,822	10,354	
Total fixed liabilities	**3,233**	**3,780**	**3,883**	**2,331**	**1,686**	**1,717**	**4,766**	**9,769**	**14,021**	**13,860**	
Total liabilities	**14,280**	**11,926**	**11,627**	**10,246**	**8,669**	**10,767**	**14,346**	**20,121**	**27,855**	**31,624**	
Net assets	**6,649**	**6,764**	**6,242**	**6,487**	**10,654**	**11,165**	**11,251**	**10,675**	**11,309**	**10,849**	
Total interest-bearing debt	8,451	6,690	6,219	5,071	3,197	3,667	4,561	10,605	13,345	14,819	
Cash flow statement (JPYmn)											
Cash flows from operating activities	1,091	1,972	1,689	1,690	2,207	1,752	3,812	1,030	3,182	1,480	
Cash flows from investing activities	-1,053	-248	-832	-235	-524	-509	-2,291	-2,141	-3,688	-1,870	
Cash flows from financing activities	-900	-971	-987	-1,492	585	-306	844	4,505	2,321	626	
Financial ratios											
ROA (RP-based)	1.0%	4.7%	2.6%	7.1%	5.4%	6.4%	3.4%	5.1%	7.3%	6.1%	
ROE	-	3.2%	-	3.9%	12.9%	5.6%	-	-6.1%	3.1%	-7.3%	
Equity ratio	30.0%	34.2%	33.2%	36.1%	50.9%	45.5%	37.7%	28.8%	23.0%	19.0%	

Source: Shared Research based on company data
Note: Figures may differ from company materials due to differences in rounding methods.
Note: FreeBit implemented a 400-for-1 stock split in FY04/13.

Recent updates

Highlights

On September 11, 2020, FreeBit Co., Ltd. announced earnings results for Q1 FY04/21; see the results section for details.

For previous releases and developments, please refer to the News and topics section.

Trends and outlook

Quarterly trends and results

Cumulative	FY04/20				FY04/21				FY04/21	
(JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of Est.	FY Est.
Sales	13,387	27,095	40,061	55,295	13,417				24.8%	54,000
YoY	28.3%	26.0%	17.4%	9.8%	0.2%					7.2%
Gross profit	3,752	7,825	11,591	16,817	4,118					
YoY	33.3%	34.6%	19.9%	11.0%	9.7%					
GPM	28.0%	28.9%	28.9%	30.4%	30.7%					
SG&A expenses	3,419	6,839	10,393	14,230	3,500					
YoY	41.7%	42.5%	29.3%	16.9%	2.4%					
SG&A-to-sales ratio	25.5%	25.2%	25.9%	25.7%	26.1%					
Operating profit	333	986	1,199	2,588	617				32.5%	1,900
YoY	-17.0%	-2.6%	-26.4%	-13.2%	85.3%					-36.3%
OPM	2.5%	3.6%	3.0%	4.7%	4.6%					3.5%
Recurring profit	286	909	1,114	2,481	587				34.5%	1,700
YoY	66.1%	23.7%	-13.9%	-3.4%	105.1%					-33.8%
RPM	2.1%	3.4%	2.8%	4.5%	4.4%					3.1%
Net income	-181	-182	-239	-619	219				-	-200
YoY	-	-	-	-	-					-
Net margin	-	-	-	-	1.6%					-

Quarterly	FY04/20				FY04/21			
(JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	13,387	13,708	12,966	15,234	13,417			
YoY	28.3%	23.9%	2.7%	-6.2%	0.2%			
Gross profit	3,752	4,073	3,766	5,226	4,118			
YoY	33.3%	35.8%	-2.2%	-4.8%	9.7%			
GPM	28.0%	29.7%	29.0%	34.3%	30.7%			
SG&A expenses	3,419	3,420	3,554	3,837	3,500			
YoY	41.7%	43.3%	9.8%	-7.2%	2.4%			
SG&A-to-sales ratio	25.5%	25.0%	27.4%	25.2%	26.1%			
Operating profit	333	653	212	1,389	617			
YoY	-17.0%	6.7%	-65.5%	2.7%	85.3%			
OPM	2.5%	4.8%	1.6%	9.1%	4.6%			
Recurring profit	286	623	205	1,367	587			
YoY	66.1%	10.7%	-63.4%	7.2%	105.1%			
RPM	2.1%	4.5%	1.6%	9.0%	4.4%			
Net income	-181	-1	-57	-381	219			
YoY	-	-	-	-	-			
Net margin	-	-	-	-	1.6%			

Source: Shared Research based on company data
Note: Figures may differ from company materials due to differences in rounding methods.

Q1 FY04/21 results

- Sales: JPY13.4bn (+0.2% YoY)
- Operating profit: JPY617mn (+85.3% YoY)
- Recurring profit: JPY587mn (+105.1% YoY)
- Net income*: JPY219mn (versus net loss of JPY181mn in Q1 FY04/20)

*Net income/loss attributable to owners of the parent

The company reported higher sales and profits YoY in Q1 FY04/21. Demand for the company’s telecom infrastructure services rose due to higher demand for telework as a result of the novel coronavirus outbreak.

Infrastructure Tech

- ▷ Sales: JPY4.0bn (+3.9% YoY)
- ▷ Segment profit: JPY272mn (+104.4% YoY)

The cost ratio on fixed-line services remained high as users accessed more data-heavy content such as online classes, meetings, videos, and games, and used social media more frequently through home Wi-Fi networks with the spread of home-based learning and telework resulting from the novel coronavirus outbreak. At the same time, sales increased and profit doubled due to higher demand for telecom infrastructure services, including MVNO support package services, as telework adoption spread rapidly.

Real Estate Tech

- ▷ Sales: JPY3.4bn (+11.0% YoY)
- ▷ Segment profit: JPY307mn (+1.1% YoY)

Sales and profit both increased thanks to steady expansion in internet connection services geared toward housing complexes. In addition, the company invested in the field of real estate tech for future expansion and improved line quality.

Advertising Technology

- ▷ Sales: JPY4.0bn (-9.9% YoY)
- ▷ Segment profit: JPY121mn (-33.7% YoY)

In addition to focusing on expanding the influencer business, the company worked on growing online advertising services centered on advertising technology-related services such as DSP marketing and content for the video ad market. Further, for its affiliate ad services, the company expanded its business base by aggressively expanding its overseas operations and developing new businesses. However, the novel coronavirus outbreak adversely affected both sales and profit in the advertising business, especially for advertising services to increase store traffic.

Health Tech

- ▷ Sales: JPY1.2bn (+59.7% YoY)
- ▷ Segment profit: JPY130mn (versus loss of JPY137mn in Q1 FY04/20)

The Health Tech business had posted losses since its launch in 2016. However, the business continued to grow in scale, mainly driven by customer acquisitions for FreeBit EPARK Healthcare's drug history notebook app and solution services for pharmacy operators. The company also liquidated unprofitable businesses, which led to improved profitability. As a result, sales grew YoY and the segment turned a profit.

Ed Tech (established in Q3 FY04/19)

- ▷ Sales: JPY908mn (-33.3% YoY)
- ▷ Segment loss: JPY216mn (versus loss of JPY156mn in Q1 FY04/20)

At subsidiary ALC Press, which operates the Ed Tech segment, sales and profit fell substantially YoY as services were suspended at the instructor-dispatch language training and study abroad-related businesses due to the novel coronavirus outbreak. In addition, book sales were down due to the closure of bookstores during the Japanese government’s emergency declaration.

For details on previous quarterly and annual results, please refer to the Historical Performance section.

Full-year company forecast

	FY04/20			FY04/21
(JPYmn)	1H Act.	2H Act.	FY Act.	FY Est.
Sales	**27,095**	**28,200**	**55,295**	**54,000**
YoY	26.0%	-2.3%	9.8%	-2.3%
Cost of sales	19,270	20,375	38,478	
Gross profit	**7,825**	**7,825**	**16,817**	
YoY	34.6%	-16.2%	11.0%	
GPM	28.9%	27.7%	30.4%	
SG&A expenses	6,839	6,839	14,230	
SG&A ratio	25.2%	24.3%	25.7%	
Operating profit	**986**	**1,601**	**2,588**	**1,900**
YoY	-2.6%	-18.6%	-13.2%	-26.6%
OPM	3.6%	5.7%	4.7%	3.5%
Recurring profit	**909**	**1,572**	**2,481**	**1,700**
YoY	23.7%	-14.3%	-3.4%	-31.5%
RPM	3.4%	5.6%	4.5%	3.1%
Net income	**-182**	**-437**	**-619**	**-200**
YoY	-	-	-	-67.7%

Source: Shared Research based on company data
Note: Figures may differ from company materials due to differences in rounding methods.

The company's full-year FY04/21 earnings forecast calls for consolidated sales of JPY54.0bn (-2.3% YoY), operating profit of JPY1.9bn (-26.6% YoY), recurring profit of JPY1.7bn (-31.5% YoY), and net loss attributable to owners of the parent of JPY200mn (versus net loss of JPY619mn in FY04/20).

The company plans to optimize its infrastructure and platform business portfolios, which it obtained through the "SiLK Vision 2020" medium-term management plan, to fit the "new normal" post-coronavirus world while also proceeding with large scale structural reforms. For the structural reforms, FreeBit aims to become an integrated operation through efficient use of human resources, technical resources, and various data. The company plans to announce the outline of its new medium-term management plan in August 2020.

For the Advertising Technology business, the company plans to promptly make an announcement if it revises its forecast due to the impact of the novel coronavirus pandemic on the advertising industry.

Long-term outlook

For the company, silk implies a new standard of connectivity, the evolution of connectivity from the network of nodes and visible connections to a seamless fabric of smooth silk-like threads. In the eyes of the founders, silk also implies a uniquely Asian solution, the Internet that is built based on different principles compared with the inefficient W3 Internet that is not suitable for bandwidth-constrained mobile solutions, especially in densely populated Asian countries. SiLK VISION 2010 was focused on a hybrid strategy of targeting internet service providers with package solutions incorporating FreeBit's original connectivity technology.

With SiLK VISION 2013 the company entered the online ad space and started MVNO and cloud-related efforts. The purpose was to grow vertically, addressing more layers of the value chain (such as advertising) by acquiring businesses in relevant areas. The new SiLK VISION 2016, announced in March 2013, is about mobile revolution, lifestyle revolution, and manufacturing revolution. By way of what the company calls the Multi Layer Component Integration (MCI) strategy, FreeBit plans to vertically integrate the multi-layer services built in SiLK VISION 2013 and to proceed with horizontal development in the three areas of mobile revolution, lifestyle revolution, and manufacturing. Primary components: mobile and lifestyle.

In mobile, the company wants to target emerging MVNOs with a range of products and services, from connectivity support and cloud-based services, to middleware and physical devices, unified under the umbrella of SiLK Experience. In September 2013, the MCI strategy included leased communication lines (3G, LTE, and fixed), cloud environment (MVNO back office environment), user support, middleware package called ServersMan SiLK OS, and upcoming devices. Regarding the lifestyle revolution, FreeBit wants to be a part of products and services, primarily in the medical field, that address the needs of Japan's aging society and using sensor technology, machine-to-machine communication, and Big Data analysis. The company believes that given the demographic trends in Japan and elsewhere, there is demand for low-cost solutions that facilitate remote diagnostics, prevention, and monitoring of health parameters and progress of therapy.

Long-term vision

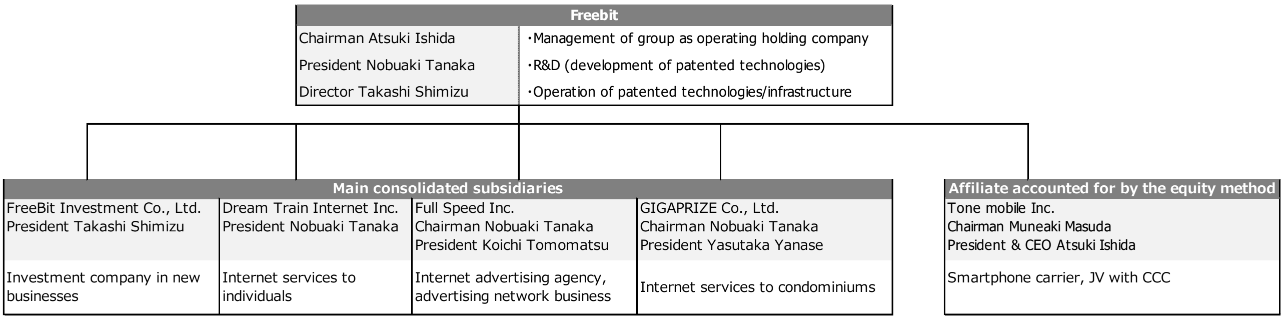
Management has focused on long-term changes in Information Technology (IT), especially the following three factors: Moore's Law; the theoretical limitations of lithium ion; and limitations of radio wave frequency. Under Moore's Law, integration density of semiconductors doubles every one year and a half, which allows for inferences about evolution of computers. Theoretical limitations of lithium ion lead to understanding of limitations of battery capabilities Based on these pieces of information on the future, coupled with "limitations of radio wave frequency," the company will consider what is needed and what is possible for the long term.

Business

Business description

The company group has its strength of accumulated technological skills for development of core technologies related to the internet and management of large-scale systems. Using the strength, FreeBit provides various services concerning the internet and other areas to corporate and individual customers. The main business areas include providing telecoms infrastructure to internet service providers, offering support for companies entering the mobile industry, and providing consulting services related to internet businesses. It also acts as a smartphone carrier through Tone mobile Inc., a joint venture company established with Culture Convenience Club Co., Ltd. (CCC).

Structure of FreeBit Group



Source: Shared Research based on company data

Business model

The company's business model has the following characteristics: it leases telecoms infrastructure from telecoms companies; and it uses this to offer a one-stop shop combining a range of services using proprietary technologies. The core of its management strategy is patented technologies. According to the company, it creates a number of low-priced high-quality services by combining its patented technologies. It has developed original network services by combining technologies, including patented ones, and marketing that catches user needs in advance. By combining the necessary components, users have access to various internet services. FreeBit said that even global companies who may be industry leaders do not necessarily cover every layer from terminals to telecoms services, so the company considers itself a rare entity.

FreeBit is acquiring patents in growth areas to differentiate itself against other companies. It has acquired many patents both in Japan and abroad. According to Patent Result Co., Ltd., the company ranked fourth in patent asset value in emerging markets as of end December 2014.
(Source: http://www.patentresult.co.jp/news/2014/12/emergingmarket02.html).

Business segments

In FY04/15, FreeBit had six segments, of which four were services to corporate customers: Broadband Infrastructure, Cloud Computing Infrastructure, Advertising Technology Infrastructure, and Next-generation Internet and Ubiquitous Infrastructure. Of the remaining two segments, one was B2C, services to individuals led by subsidiary DTI, and the other was Other Businesses. However, at a presentation of its business results in June 2015, the company announced that it will introduce a new segmentation method per type of service to clarify the trends of the key business areas. The new five segments from FY04/16 are the Broadband, Mobile, Advertising Technology, Cloud, and Other businesses.

The main differences between the old and new segments are the following three points.

- The mobile-related businesses, which had been dispersed in the Broadband Infrastructure, B2C and other segments, were integrated into the new Mobile business segment.

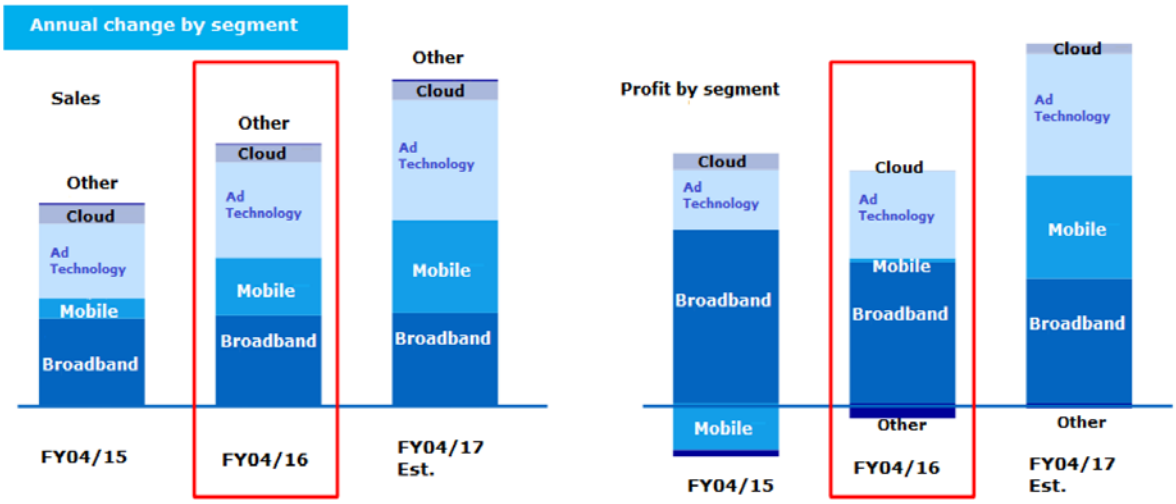
- The B2C segment was abolished and its businesses were transferred to the Broadband, Mobile, Cloud and some other segments.
- The Next-generation Internet and Ubiquitous Infrastructure was abolished and its businesses were transferred to the Other business segment and some others.

Old segment	
Broadband Infrastructure	Mainly network services to ISPs
Cloud Computing Infrastructure	Cloud-related services based on original virtual technologies
Advertising Technology Infrastructure	Support for web strategies of companies mainly based on web marketing
Next-generation Internet and Ubiquitous Infrastructure	Development, sales, and licensing of ubiquitous electric appliances
B2C	Internet connection services to individuals
Other	

New segment	
Broadband	ISP/multifamily residential and personal fixed-line internet connection business
Mobile	Mobile virtual network enabler (MVNE) targeting telecoms businesses and individuals
Advertising Technology	Internet marketing related businesses
Cloud	Corporate virtual data center business, corporate/individual cloud services business
Other	SI businesses

Source: Shared Research based on company data

Performance trends based on new segments



Source: Shared Research based on company data
Note: Result figures are the company's retroactive adjustments. FY04/17 figures are FreeBit's forecasts.

Broadband

In the segment, the company provides original network services by combining telecoms infrastructure, leased from telecoms carriers, with state-of-the-art technologies, including patented ones. It provides around 300 internet service providers nationwide with a high-speed internet backbone. The company also focuses on internet service provider (ISP) services for condominiums, covering technological surveys, specification design, and maintenance. It also provides Flet's optical line services for companies (ISPs) and individuals in response to the NTT group's starting to resell wholesales of its optical fiber services. In FY04/16, the segment took over the former Broadband Infrastructure business (for corporate customers) and the fixed-line services of the former B2C segment (for individuals).

Fixed-line services to corporate customers (the former Broadband Infrastructure)

The fixed-line telecoms services taken over from the former Broadband Infrastructure segment provide a full range of outsourcing services to general Internet Service Providers (ISPs) or ISPs customized for condominiums, covering everything required to operate their business, including network infrastructure, mobile connections, applications to billing and call center operations.

The company leases private lines from telecoms providers and resells them to small and medium ISPs at a commensurate profit margin by combining original technologies for controlling traffic peaks and ensuring connection authentication. The company believes that its advantages are its ability to control traffic peaks and to ensure reliable connection authentication by original technologies, including patented ones. This fixed network business trades under the "YourNet" brand; FreeBit receives fees based on how many users the customer ISP has (i.e., the ISP's user account numbers).

The standard connection fees vary by the ISP; SR Inc. believes that these range from under 300 yen per month to 700 yen per month. There are added services such Web e-mail and security services (for around 50 yen per month) but most customers use the basic connection service.

Sales are through direct marketing to the ISPs. Main client ISPs include DTI (a FreeBit subsidiary), GIGAPRIZE Co., Ltd. (also a subsidiary, NSE Centrex: 3830, an ISP for housing complexes) and Hi-Bit Inc. As of March 2014, the company had contracts with around 300 ISPs who had 400 brands.

Major competitors include NTT PC Communications Inc. (Nippon Telegraph and Telephone Corporation, TSE1: 9432), Marubeni Access Solutions Inc. (Marubeni Corporation, TSE1: 8002) and Internet Initiative Japan Inc. (TSE1: 3774). While the company has not disclosed fixed-line user numbers, due to growth of ISPs to condominiums, fixed-line users increased 6.5% YoY in FY04/15. The number of user households at condominiums, the core of fixed-line services, increased 64.5% YoY to 100,829 at end FY04/15, exceeding the company's target of 100,000. The company said it aims at 140,000 condominium households in FY04/16 through cooperation with major housing construction companies.

Fixed-line telecoms services to individuals (former B2C)

DTI, a wholly owned subsidiary, mainly provides the fixed-line telecoms services to individuals, taken over from the former B2C segment. DTI procures network access from FreeBit and offers internet connection services to individuals and housing complexes on a pay-as-you-go basis. A similar company is Asahi Net Inc. (TSE1: 3834).

Mobile

FreeBit established this segment in FY04/16 by integrating the mobile-related services, which had been dispersed in some of the former segments. The core businesses of the segment are the mobile services to corporate customers, taken over from the former Broadband Infrastructure segment, and the mobile services to individuals, taken over from the former B2C segment.

Mobile business for companies (former Broadband Infrastructure)

As a mobile virtual network enabler (MVNE), the company sells the "freebit MVNO pack," an MVNO support package for companies joining the MVNO business.

The freebit MVNO Pack uses NTT Docomo's network and assists MVNOs in providing proprietary plans to end users. To meet operator needs, it can also provide services including a traffic visualization tool, API, original terminal, VoIP, and several applications. FreeBit said that the service dramatically reduces the participation risk in the MVNO business, which needs investments worth hundreds of millions of yen (according to the company) and enables MVNO companies to establish original and flexible services at low costs and for a short period (one month at shortest). The service can cover needs in various business areas, such as operators with general users, those with member users, and electronic communication between objects.

Among users of the freebit MVNO Pack, U-NEXT Co., Ltd. uses the service for a mobile data transmission service (U-mobile*d), and Toshiba Corporation (TSE1: 6502) adopts it for an M2M service (a shopping assistance service). Within the FreeBit group, the service is in use for the prepaid SIM card service for foreign tourists, the low-priced SIM service by consolidated subsidiary DTI, and the communication service to consumers by equity-method affiliate Tone mobile.

Tone mobile-related business

FreeBit entered the smartphone carrier business in November 2013. Under the freebit mobile brand, the company sells its own internally developed smartphones, packaged with an unlimited data, voice enabled wireless plan for JPY2,000 per month. In its initial plan, FreeBit aimed to eliminate intermediary margins to create a business model that can respond rapidly to consumer demand through vertical integration of planning, manufacturing, and sales. However, with the aim of strengthening selling ability and accelerate the start-up, the company in February 2015 announced an alliance with Culture Convenience Club Co., Ltd. (CCC), transferring the free bit brand to Tone mobile Inc., a joint venture firm between FreeBit and CCC, with a stake of 49% and 51%, respectively. As Tone mobile is thus a FreeBit affiliate accounted for by the equity method, FreeBit's performance does not reflect its sales directly. However, since FreeBit has struck an exclusive agreement with Tone mobile to provide its telecoms network and terminals, these revenues are reflected in the company's sales. Tone mobile started sales of smartphones at shops of the TSUTAYA rental video and book store chain under the umbrella of CCC. The JV plans to expand its services gradually, such as participating TSUTAYA's T Points reward system, running campaigns with TSUTAYA, providing discount services to users for TSUTAYA's online music download.

Mobile business for individuals (former B2C)

Consolidated subsidiary DTI provides various mobile services for individuals. DTI plans to focus its efforts on the DTI SIM service, which was launched in August 2013. The DTI SIM, which uses the freebit MVNO Pack, is a high-speed data transmission service using NTT Docomo's FOMA (3G) and Xi (LTE) networks, realizing low-priced, high-speed, and stable operations. It uses the NTT Docomo network so coverage is wide. FreeBit is using low prices to drive sales, where SIM cards are bought online and sent by post to end users.

Ad Technology

The segment provides solution services for online advertising in areas like search engine optimization (SEO), pay-per-click ads, social media-using services, display ads, and affiliate advertising, by way of proprietary marketing platforms. The segment took over the former Advertising Technology Infrastructure business in FY04/16.

The company's subsidiary, Full Speed Inc. (Mothers: 2159) and Full Speed's subsidiary, For it Inc., offer Web marketing services such as pay-per-click ads, affiliate advertising, and search engine marketing advertising solutions. Customers are mainly small and medium-sized enterprises (SMEs), with affiliate ad sales done mainly via agencies and the other advertising products sold directly. Costs comprise personnel expenses for salespeople, media procurement costs and payments for affiliate ads.

Pay-Per-Click Ads

The listing rank of pay-per-click ads depends on the bidding price (set by users). Commissions depend on transaction volume in media where the ads appear, such as the websites of Yahoo Japan Corporation (TSE1: 4689) and Google. FreeBit receives commissions on the order of a few percent. The major advertising agencies are the main players in the pay-per-click market.

Full Speed has developed a "pay-per-click ad automatic optimizing tool" to give its users an advantage. This tool calculates conversion patterns for key words by date and time, and automatically sets the most appropriate publishing pattern using mathematical calculations. It also uses Google and Yahoo Japan's Application Programming Interfaces to bid and manage the pay-per-click ads automatically.

Affiliate Advertising

Competitors in the affiliate advertising field include such companies as F@N Communications Inc. (JASDAQ: 2461). For it Inc. uses a program it developed called Affiliate B for personal computers, smartphones and feature phones. For-it offers affiliate services through a network of over 300,000 websites and places ads on leading media sites to take advantage of its own technology, which has synergies with search engine optimization (SEO).

SEM Advertising Solutions

Main competitors in this field include CyberAgent, Inc. (TSE1: 4751) and GMO Internet, Inc. (TSE1: 9449).
Full Speed uses search algorithms to minimize changes in advertising display rank. It is also working to help its users' ads reach the top ranks more quickly, and stay there when they get there. It has a success-fee based plan and a monthly-fixed price plan. In the fixed-price plan there is a Full Speed group program and a monetized SEM program which offers not only search engine optimization but tools for usability analysis and promotion analysis as well, for a fixed monthly charge. Based on Full Speed's Internet marketing knowhow (services to attract customers and analysis tools), it aims to maximize its users' sales promotion results and offers a subscription service to companies.

In addition to the core businesses (SEM advertising solutions, pay-per-click advertising, and affiliate advertising), the Ad Technologies Infrastructure business plans to expand into the territories of third-party ad serving (3PAS) and display ads. 3PAS involves an ad server carrying out overall management, including placing ads in a variety of media and measuring effectiveness. Historically, ads were placed one by one with each advertising medium, but once submitted to the 3PAS ad server they can be published on any media platform, improving ad distribution efficiency.

Display ads were traditionally limited to purchasing advertising space through the advertising agencies of major media outlets such as Yahoo, but this was inefficient and gave rise to a market with leftover inventory. The company can produce a set of customer characteristics based on the user's search and media browsing history making retargeting easy, which it sells to advertisers. It views this as entering a new market which represents an advance on targeted marketing. From July 2013, SEM Advertising Solutions started jointly developing with Full Speed an advertising management system for display ads via real time bidding (RTB). Using "Big Data" analysis technology it is possible to distinguish the user characteristics an advertiser is targeting in real time for targeted ad placement. FreeBit aims to grow the ad distribution business through this initiative.

Cloud business

The segment provides a range of cloud services like IaaS (infrastructure as a service), SaaS (software as a service), and VPN (virtual private network), using expertise accumulated in operating data centers in the Broadband Infrastructure business. It also provides a virtual server service and a large-scale mail system, making the most of its cloud technologies. The segment took over the former Cloud Computing segment and the cloud services of the former B2C segment in the segment change in FY04/16.

Cloud services (former Cloud Computing Infrastructure)

The Virtual Data Center business combines the company's original virtualization technology with operation technology, and its proprietary technology can be used to virtualize entire networks. The company also virtualizes data centers. In traditional data centers, one server unit could only ever be used as one server, but in a VDC, one server unit can theoretically be used as a number of servers. The company is able to use virtualization technology to partition the server into as many as 250 virtual server units. Assuming one rack has 20 servers, there could be 5,000 virtual servers in one rack, and even at a charge of just 500 yen per virtual server, the total is 2.5 million yen. Adding value through technology can enable prices to be set low. The company states that cloud computing can enable additional traffic to be handled at zero cost because of an advantage that it can use broadband lines it purchased for the cloud business. Broadband networks usually sell both up and downstream capacity, but download volumes overwhelmingly dominate Internet traffic, so there are vacancies in upstream traffic. By using the vacancies for the cloud service, additional traffic cost could virtually be free,

Sales in the VDC business comprise virtual machine user fees (daily charges for vCPU, i.e. no charge when server is off, or monthly charges), UTM（Unified Threat Management) fees (monthly charges), and network costs (pay-as-you-go or flat charges).

Disaster Recovery

Disaster Recovery is likely to grow even faster due to natural calamities and corporate data backup needs. With this in mind, the company entered the Disaster Recovery business in FY04/14, offering the Cloud Backup product to large corporations and CloudDisk Local Backup to small- and medium-sized corporations.

Disaster Recovery refers to the restoration and repair of systems damaged in natural disasters, or the provision of equipment or systems in anticipation of such events. MIC Research Institute forecasts that the Japanese domestic disaster recovery market will grow by an average of 10% per year to reach 281 billion yen in 2016.

CloudDisk Local Backup entails moving in-house servers to the cloud (Cloud Disk). It makes data management more convenient and avoids what had traditionally been troublesome to maintain and had limited access. At the same time, it lessens risk by automatically backing up data at regular intervals in a dedicated machine on office premises. The company sells the service through its sales agents (including its own ISP agents) involved in direct sales.

Cloud services (part of the former B2C segment)
This business, taken over from the former B2C segment, includes ServersMan@VPS and ServersMan@Disk with individuals as users.

Main group companies (As of end April 2015, shares in parentheses, including indirect holdings)

Consolidated subsidiaries

- **Dream Train Internet Inc.** (100%-owned): an ISP mainly serving individuals; offers a variety of internet connection services using the company's technology through MVNOs and over the fixed network.
- **GIGAPRIZE Co., Ltd.** (57.32%): provides Internet services to housing complexes.
- **Full Speed Inc.** (56.97%): web strategy support services for companies, including web marketing.
- **For it Inc.** (56.97%): Full Speed's subsidiary, web strategy support services, including web marketing for corporations
- **Freebit Smart Works, Inc.** (100%): operates call centers consigned from ISPs, provides ubiquitous network services.
- **FreeBit Investment Co., Ltd.** (100%): plans new businesses, invests in start-ups, conducts M&A

Equity-method affiliate

- **Tone mobile Inc. (49%):** joint venture firm between FreeBit and CCC established in March 2015, with a stake of 49% and 51%, respectively. Acts as a smartphone carrier.

Profitability snapshot, financial ratios

Profit Margins (JPYmn)	FY04/09 Cons.	FY04/10 Cons.	FY04/11 Cons.	FY04/12 Cons.	FY04/13 Cons.	FY04/14 Cons.	FY04/15 Cons.
Gross Profit	4,517	5,253	8,442	6,915	7,507	7,998	7,560
Gross Profit Margin	42.0%	35.7%	36.4%	32.9%	36.3%	38.7%	35.2%
Operating Profit	1,575	407	155	831	936	1,321	1,245
OP Margin	14.6%	2.8%	0.7%	4.0%	4.5%	6.4%	5.8%
EBITDA	2,459	1,157	1,447	1,856	2,307	2,667	2,524
EBITDA Margin	22.8%	7.9%	6.2%	8.8%	11.2%	12.9%	11.8%
Net Profit Margin	15.5%	6.9%		1.0%		1.1%	4.8%
Financial Ratios							
ROA	13.0%	5.3%	1.0%	4.7%	2.6%	7.1%	5.4%
ROE	47.1%	16.9%		3.2%		3.9%	12.9%
Total Asset Turnover	0.9	1.0	1.3	1.1	1.1	1.2	1.2
Inventory Turnover	132.3	41.5	21.5	22.3	61.0	111.1	131.0
Days of Inventory	2.8	8.8	17.0	16.4	6.0	3.3	2.8
Working Capital Requirement	2,212	2,570	3,559	3,547	3,215	2,989	3,261
Current Ratio	116.6%	155.3%	93.6%	132.6%	136.1%	126.7%	180.4%
Quick Ratio	83.5%	131.1%	69.8%	100.5%	100.8%	98.2%	146.2%
OCF / Current Liabilities	0.45	0.22	0.13	0.21	0.21	0.22	0.30
Net Debt / Equity	34.4%	-10.6%	65.5%	26.9%	24.6%	4.8%	-35.5%
OCF / Total Liabilities	0.3	0.2	0.1	0.2	0.1	0.2	0.3
Cash Cycle (days)	62.1	60.9	49.6	63.1	61.3	55.3	53.6
Changes in Working Capital	779	358	989	-12	-332	-226	271

Figures may differ from company materials due to differences in rounding methods.
Source: Shared Research based on company data

Market and Value Chain

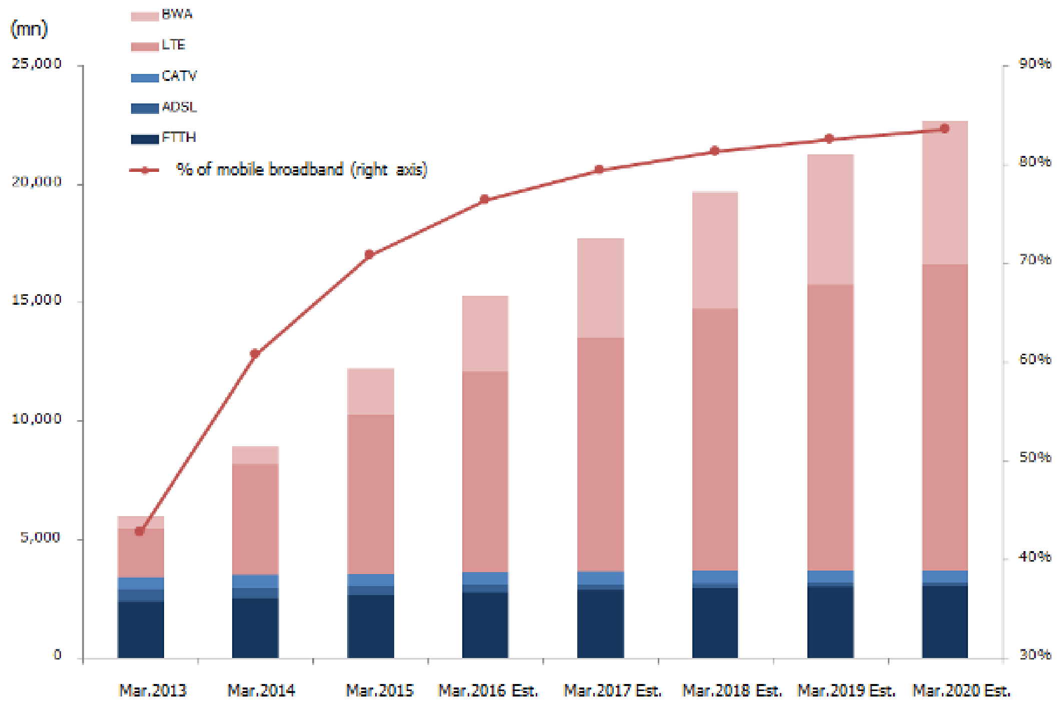
Market overview

According to MM Research Institute's survey in November 2014, there were102.1m broadband subscribers in Japan (end September 2014), topping the 100m threshold. This includes fiber-to-the-home (FTTH), Asymmetric Digital Subscriber Line (ADSL), Cable TV (CATV), Long-term Evolution (LTE) and Broadband Wireless Access (BWA). FTTH contracts rose by 713,000 (3%) from end March 2014 to 26.1 million at end September 2014. The net increase slowed from 757,000 in the same period a year before. The institute forecasts that growth of FTTH will continue slowing due to expansion of mobile terminals and high-speed mobile data transmission, although there will be some expansion of demand owing to the development of wholesale of optical fiber services by NTT.

By type of network, mobile broadband (LTE and BWA) numbers are rising due to soaring numbers of smartphones and high-speed mobile users. At end September 2014, fixed lines (FTTH, ADSL, and CATV) accounted for 34.7% while mobile (LTE and BWA) accounted for 65.3%.

The institute expects that fully spread services over the next five years of BWA, such as LTE-Advanced, WiMAX, and AXGP, will boost mobile broadband users further, with the number likely to total 82.5 million at end March 2015 and surpass 100 million during FY2015. As a result, the institute forecasts that mobile users will account for 79.8% of overall broadband users at end March 2019.

Broadband contracts (actual and forecast)



Source: MM Research Institute
Note: E=MM Research Institute estimates

Online advertising grows in importance

Out of 21 industries, ad costs highest in cosmetics/toiletries; 2014 outpaced market growth

Japan's total advertising spending was JPY6.2tn in 2014, up 2.9% YoY, marking a third consecutive annual increase despite the 2014 consumption tax hike, according to a report on advertising expenditures released by Dentsu Inc. (TSE1: 4234) in February 2015. Of the country's 21 sectors, 14 increased advertising spending through newspapers, magazines, radio, and television (excluding satellite media).

Spending by media type (year-on-year comparisons in parenthesis)

- Newspapers (98.2%)
- Magazines (100%)
- Radio (102.3%)
- TV (102.8%)
- Internet (112.1%)

Advertising spending through newspapers, magazines, radio, and television grew 1.6% YoY. The market for online advertising exceeded JPY1tn for the first time, by rising 12.1% YoY due to services targeting smartphones and ads using new technologies and video clips. Spending on promotion media also increased for three years in a row, increasing by 0.8% YoY.

Online advertising, FreeBit's specialty, comprised 17.1% of all ad spending, compared with 15.7% a year earlier. The ratio represents more than a threefold increase from 10 years ago as more people use the internet with the spread of smartphones. The company expects this trend to accelerate.

Adverting spending by media type

	Advertising costs (JPYbn)			YoY (%)			Comp (%)		
	2012	2013	2014	2012	2013	2014	2012	2013	2014
Total advertising spending	**5,891**	**5,976**	**6,152**	**103.2**	**101.4**	**102.9**	**100.0**	**100.0**	**100.0**
Mass media ad costs	2,881	2,894	2,939	103.2	100.4	101.6	48.9	48.4	47.8
Newspapers	624	617	606	104.2	98.8	98.2	10.6	10.3	9.8
Magazines	255	250	250	100.4	98.0	100.0	4.3	4.2	4.1
Radio	125	124	127	99.9	99.8	102.3	2.1	2.1	2.1
TV	1,877	1,902	1,956	103.5	101.3	102.8	31.9	31.8	31.8
Internet ad costs	868	938	1,052	107.7	108.1	112.1	14.7	15.7	17.1
Media costs	663	720	825	107.1	108.7	114.5	11.2	12.1	13.4
Ad production costs	205	218	227	109.5	106.2	104.4	3.5	3.6	3.7
Promotional media costs	2,142	2,145	2,161	101.4	100.1	100.8	36.4	35.9	35.1

Source: Shared Research based on Dentsu Ltd. "Japan's advertising costs 2014"

Strengths and weaknesses

Strengths

- **Senior management: deep industry knowledge:** Senior managers are pioneers in the Japanese Internet industry, according to the company. Founder Mr. Ishida has deep technical knowledge and is well connected. The former chairman of Sony Corporation (TSE1: 6758), Nobuyuki Idei, and Jun Murai, a Professor of Keio University, are within his circle. Dr. Murai is known as the father of the Internet in Japan, and Mr. Ishida studied under him at university. Mr. Ishida's experience underpins alliances that cross industry barriers.
- **Recurring income business:** Around 90% of the company's revenues are recurring income streams linked to total subscriber numbers. This business model enjoys stable cash flows.
- **Imagination and strength in developing niche markets:** Trying a variety of business models and looking everywhere for the potential of the Internet is in the company's DNA. For example, the low-cost, low-speed ServersMan SIM LTE data service is a unique product serving the needs of a niche market. It is still hard to tell whether the long-term vision that the company has set forth under the names lifestyle revolution and production revolution will succeed. But such pronouncements make investors aware of the company's long-term potential.

Weaknesses

- **Too many focuses:** For its small size, the company operates under a broad vision that may be interpreted as focusing on too many business areas. FreeBit has started or bought businesses only to exit many of them at a loss. As a result of these excursions outside what Shared Research would define as FreeBit's core business, coupled with aggressive acquisitions, the company's financial strength tended to weaken. In FY04/15, the financial position improved due mainly to the capital alliance with CCC (leading to a capital increase of around JPY3bn), with its equity ratio rising to 50.9%, current ratio to 180.4%, and the ratio of interest-bearing debt to operating cash flow improving to 1.4x (end FY04/15). Their future moves deserve attention as the company remains aggressive in developing new businesses.
- **Operates in oligopolistic markets controlled by large players:** Although the degree of concentration varies for different components of FreeBit's business, it tends to be a dwarf among giants. As a result, it appears difficult for the company to attain and sustain lasting advantage or build a sizeable business, making it a perennial small niche player.
- **Historically, governance issues:** the company's organizational structure is difficult to manage and operate, given the complexity of numerous subsidiaries and affiliated companies. In order to avoid a repeat of similar incident that came to light in 2013 when its subsidiary was involved in accounting irregularities, stronger governance and a simpler organization are needed.

Historical performance

Full-year FY04/20 results

- ▷ Sales: JPY55.3bn (+9.8% YoY)
- ▷ Operating profit: JPY2.6bn (-13.2% YoY)
- ▷ Recurring profit: JPY2.5bn (-3.4% YoY)
- ▷ Net loss*: JPY619mn (versus net income of JPY279mn in FY04/19)

*Net income/loss attributable to owners of the parent

Sales were up 9.8% YoY on the launch of the Ed Tech business and expansion of the Real Estate Tech business. Operating profit finished down 13.2% YoY, hurt by lower profit at the Advertising Technology business, as well as falling demand for existing businesses and slower-than-expected shift to the digital education arena at the Ed Tech business.
Results by segment are as follows.

The company reclassified its reportable segments in Q1 FY04/20. The YoY comparisons below are on based on the figures in FY04/19 reclassified into the new segments.

Infrastructure Tech

- ▷ Sales: JPY15.7bn (-1.6% YoY)
- ▷ Segment profit: JPY857mn (+4.3% YoY)

Fixed-line services

Along with the spread of ICT devices such as smartphones, tablets, and AI assistant devices, the cost ratio on fixed-line services has remained high as people access more data-heavy audiovisual content through home Wi-Fi networks and use social media more frequently.

Mobile services

The number of mobile virtual network operators (MVNOs) the company serves as a mobile virtual network enabler (MVNE) increased, and the company focused on expanding sales of MVNO services to end users. Additionally, the low-priced smartphone service Tone mobile launched a new smartphone device tailored to the company's user base, including features such as AI-based solutions for children's smartphone-related problems, which has recently become a social problem.

Cloud services

FreeBit worked to expand its public and private cloud service, as well as its hybrid cloud service, which is a combination of both. In addition, the company rolled out various initiatives to realize a "seamless car life" in the age of CASE and MaaS. It entered a comprehensive partnership with Alps Alpine Co., Ltd. and announced basic technology to mitigate Internet and IoT infrastructure tampering using blockchain technology.

Real Estate Tech

- ▷ Sales: JPY13.6bn (+25.2% YoY)
- ▷ Segment profit: JPY1.4bn (+17.0% YoY)

Sales and profit both increased thanks to steady expansion in internet connection services geared toward housing complexes. To expand the number of houses serviced, FreeBit focused on continuing to capture orders from major customers as well as acquiring new customers. For newly constructed properties, the company developed PWINS, a new product that eliminates the need for installation work when replacing equipment in the future, and worked to launch the product. For existing properties where the company expects further demand in the future, it developed and started selling SPES with the aim of expanding market share.

Advertising Technology

- Sales: JPY17.1bn (+5.3% YoY)
- Segment profit: JPY873mn (-16.3% YoY)

Sales grew YoY. In addition to focusing on expanding online advertising services centered on advertising technology-related services such as DSP marketing, the company steadily expanded its affiliate ad service offerings to other industries and expanded its business scale. Profit fell YoY due to increased personnel-related expenses from overseas expansion and investment in the area of new business incubation.

Health Tech

- Sales: JPY3.5bn (+17.4% YoY)
- Segment loss: JPY144mn (versus loss of JPY309mn in FY04/19)

The Health Tech business expanded significantly and sales rose YoY. FreeBit continued investments in businesses involved in providing solutions services to dispensing pharmacies and users of medicine notebook apps. In addition, the company launched a pharmacy systems business that helps pharmacies improve productivity and better manage slow-moving inventories of pharmaceutical products. The segment booked a loss due to customer acquisition expenses, as well as postponements in system implementations and a halt in sales activities as a result of the novel coronavirus pandemic. However, FreeBit EPARK Health Care made good business progress and posted a profit.

Ed Tech (established in Q3 FY04/19)

- Sales: JPY5.9bn (+23.7% YoY)
- Segment loss: JPY369mn (versus profit of JPY246mn in FY04/19)

Business heavily weighs toward Q4 at subsidiary ALC Press and its mainstay education publishing business. However, Q4 sales were significantly lower than expected due to the novel coronavirus pandemic. In addition, as a result of the pandemic, English-language schools for kids were closed and orders for corporate training programs, such as overseas training, dropped significantly before the peak demand season.

Cumulative Q3 FY04/20 results

- Sales: JPY40.1bn (+17.4% YoY)
- Operating profit: JPY1.2bn (-26.4% YoY)
- Recurring profit: JPY1.1bn (-13.9% YoY)
- Net loss*: JPY239mn (versus net loss of JPY24mn in Q3 FY04/19)

*Net loss attributable to owners of the parent

Sales were up 17.4% YoY on the launch of the Ed Tech business and expansion of the Real Estate Tech business. Operating profit finished down 26.4% YoY, hurt by falling earnings at its Advertising Technology business and, at the Ed Tech business, falling demand at existing businesses and its slower-than-expected shift to the digital education arena.
Results by segment are as follows.

The company reclassified its reportable segments in Q1. The YoY comparisons below are on based on the figures in cumulative Q3 FY04/19 reclassified into the new segments.

Infrastructure Tech

- ▷ Sales: JPY11.6bn (-0.8% YoY)
- ▷ Segment profit: JPY433mn (-18.7% YoY)

Along with the spread of highly functional mobile devices such as smartphones, tablets, and AI assistant devices, the cost ratio on fixed-line networks has continued to rise as people access more data-heavy audiovisual content through home Wi-Fi networks and use social media more frequently. This notwithstanding, the company worked on enhancing MVNO support package services and VDC services, among others. Subsidiary DTI also took additional steps to expand its Tone mobile carrier service for smartphones with the opening of sales booths inside of the Camera-no-Kitamura stores operated by chain store operator Kitamura Co., Ltd.

Real Estate Tech

- ▷ Sales: JPY9.5bn (+34.2% YoY)
- ▷ Segment profit: JPY830mn (+61.2% YoY)

Sales and profit both increased due to steady expansion in internet connection services geared toward housing complexes. Subsidiary GIGAPRIZE started rolling out ISP services for apartment/condominium buildings such as SPES, as well as Bell-lead Net, which will be offered through Misawa Homes.

Advertising Technology

- ▷ Sales: JPY13.0bn (+6.9% YoY)
- ▷ Segment profit: JPY645mn (-18.1% YoY)

In addition to efforts aimed at expanding online advertising services, especially content for the video ad market, and DSP marketing, the company also worked to increase sales from programmatic ad services such as those related to social media ads.

Health Tech

- ▷ Sales: JPY2.4bn (+11.0% YoY)
- ▷ Segment loss: JPY256mn (versus year-earlier loss of JPY238mn)

In addition to ongoing investments in businesses involved in providing solutions services to dispensing pharmacies and users of medicine notebook apps, the company took a big step toward expanding its business in the health tech field with startup of a pharmacy systems business that will develop systems to help pharmacies improve productivity and better manage slow-moving inventories of pharmaceutical products.

Ed Tech (established in Q3 FY04/19)

- ▷ Sales: JPY4.0bn (+179.5% YoY)
- ▷ Segment loss: JPY473mn (versus year-earlier profit of JPY16mn)

At subsidiary ALC Press and its mainstay education publishing business, efforts were heavily focused on the preparation of promotional measures through trade shows and other means and the development of new educational materials for children in English- language education and other areas during the lead-up to the company’s big sales season in Q4. Significant efforts were also directed at marketing educational content in language studies, including subscription-type services as well as hardware such as smart speakers and tablet devices.

1H FY04/20 results

- Sales: JPY27.1bn (+26.0% YoY)
- Operating profit: JPY986mn (-2.6% YoY)
- Recurring profit: JPY909mn (+23.7% YoY)
- Net loss*: JPY182mn (versus net income of JPY9mn in 1H FY04/19)

*Net income/loss attributable to owners of the parent

Sales increased 26.0% YoY due to the launch of the Ed Tech business and expansion of the Real Estate Tech business. Operating profit narrowed by 2.6% YoY as a result of seasonal factors in the Ed Tech business, as well as lower profit in the Advertising Technology business.

Results by segment are as follows.

The company reclassified its reportable segments in Q1. The YoY comparisons below are on based on the figures in Q1 FY04/19 reclassified into the new segments.

Infrastructure Tech

- Sales: JPY7.8bn (-0.3% YoY)
- Segment profit: JPY345mn (-20.5% YoY)

Along with the spread of highly functional mobile devices such as smartphones and tablet devices, the cost ratio on fixed-line networks has remained high as people access more data-heavy audiovisual content through home Wi-Fi networks and use social media more frequently. This notwithstanding, the company worked on enhancing MVNO support package services and cloud services, among others.

Real Estate Tech

- Sales: JPY6.6bn (+52.0% YoY)
- Segment profit: JPY781mn (+321.1% YoY)

Sales and profit both increased due to steady expansion in internet connection services geared toward housing complexes. Aiming at future expansion, the company launched a new service and planned for investment in the field of real estate tech.

Advertising Technology

- Sales: JPY8.8bn (+6.8% YoY)
- Segment profit: JPY390mn (-28.6% YoY)

In addition to focusing on expanding online advertising services, especially content for the video ad market, and DSP marketing, an ad technology service, the company worked to increase sales of other internet marketing services.

Health Tech

- Sales: JPY1.5bn (+5.2% YoY)
- Segment loss: JPY282mn (versus loss of JPY167mn in 1H FY04/19)

Business scope expanded significantly as a result of securing the business of those who use solutions services geared to dispensing pharmacies as well as users of medicine notebook apps.

Ed Tech (established in Q3 FY04/19)

- ▷ Sales: JPY2.7bn
- ▷ Segment loss: JPY258mn

ALC Press Inc., which is in charge of the Ed Tech business, worked to increase sales of language learning books and acquire orders for corporate training. At the same time, it focused on providing language learning content geared to smart speakers and tablets, as well as in the form of subscription services.

Financial position

As of end 1H FY04/20, the company's consolidated balance sheet showed total assets of JPY37.8bn, a decrease of JPY1.4bn since end FY04/19. The decline in total assets reflected decreases of JPY711mn in cash and deposits and JPY589mn in notes and accounts receivable. Total liabilities of JPY26.6bn were down JPY1.3bn versus end FY04/19. This is largely due to decreases of JPY125mn in notes and accounts payable, JPY814mn in accounts payable, and JPY122mn in income taxes payable. Net assets of JPY11.2bn were down JPY61mn versus end FY04/19, due to a decrease in retained earnings. This left the equity ratio at 22.9%.

Q1 FY04/20 results

- ▷ Sales: JPY13.4bn (+28.3% YoY)
- ▷ Operating profit: JPY333mn (-17.0% YoY)
- ▷ Recurring profit: JPY286mn (+66.1% YoY)
- ▷ Net loss*: JPY181mn (versus loss of JPY148mn in Q1 FY04/19)

*Net loss attributable to owners of the parent

Progress of Q1 FY04/20 results against its full-year forecast: sales achieved 23.5%, operating profit 8.3%, and recurring profit 7.5%. The company recorded a net loss attributable to owners of the parent.

Sales increased 28.3% YoY due to the launch of the Ed Tech business and expansion of the Real Estate Tech business. Operating profit narrowed by 17.0% YoY as a result of seasonal factors in the Ed Tech business (launched in Q3 FY04/19), as well as lower operating profit in the Infrastructure Tech business.

Results by segment are as below.

The company reclassified its reportable segments in Q1. The YoY comparisons below are on based on the figures in Q1 FY04/19 reclassified into the new segments.

Infrastructure Tech

- ▷ Sales: JPY3.9bn (+0.5% YoY)
- ▷ Segment profit: JPY133mn (-45.1% YoY)

Along with the spread of highly-functional mobile devices such as smartphones and tablet devices, the cost ratio on fixed-line networks have remained high as usage of rich content (videos and games) accessed through home Wi-Fi networks and usage of social media services have increased. However, steady MVNO support package services drove sales growth.

Real Estate Tech

- ▷ Sales: JPY3.1bn (+57.1% YoY)
- ▷ Segment profit: JPY304mn (versus profit of JPY12mn in Q1 FY04/19)

Sales and profit both increased due to steady expansion in internet connection services geared toward housing complexes. The company invested in “real estate tech,” aiming at future expansion, and took efforts to improve line quality.

Advertising Technology

- Sales: JPY4.4bn (+8.3% YoY)
- Segment profit: JPY182mn (-27.9% YoY)

In addition to focusing on expanding online advertising-related services, especially content for the video ad market, and DSP marketing, an ad technology related service, in affiliate services, the company grew its business and sales by both expanding its footprint in industries that play to its strengths, and also expanding service offerings to other industries. The company also worked on overseas expansion and new businesses.

Health Tech

- Sales: JPY730mn (+14.9% YoY)
- Segment loss: JPY137mn (versus loss of JPY112mn in Q1 FY04/19)

Business scope expanded significantly as a result of securing the business of those who use solutions services geared to dispensing pharmacies as well as users of medicine notebook apps.

Ed Tech (established in Q3 FY04/19)

- Sales: JPY1.4bn
- Segment profit: JPY156mn

At its mainstay publishing business, led by ALC Press Inc., the Ed Tech business saw strong sales of books on Japanese as a second language slowed, but performed well in the educational textbook field, with strong repeat large orders from colleges and other educational institutions and new orders.

Financial position

As of the end of Q1 FY04/20, the company’s consolidated balance sheet showed total assets of JPY37.8bn, a decrease of JPY1.3bn over the end of FY04/19. The decline in total assets reflected decreases of JPY152mn in cash and deposits, JPY934mn in notes and accounts receivable, and JPY210mn in goodwill. Total liabilities of JPY26.8bn were down JPY1.1bn versus the end of FY04/19. This is largely due to decreases of JPY889mn in accounts payable, JPY603mn in income taxes payable, and JPY545mn in long-term loans payable. Net assets of JPY11.0bn were down JPY268mn versus the end of FY04/19, due to a decrease in retained earnings. This left the equity ratio at 22.9%.

Balance sheet

Balance sheet (JPYmn)	FY04/09 Cons.	FY04/10 Cons.	FY04/11 Cons.	FY04/12 Cons.	FY04/13 Cons.	FY04/14 Cons.	FY04/15 Cons.	FY04/16 Cons.	FY04/17 Cons.	FY04/18 Est.
ASSETS										
Cash and deposits	2,920	4,946	4,095	4,873	4,685	4,762	6,983	7,911	10,249	13,656
Accounts receivable	2,222	2,333	3,501	3,298	3,159	2,948	3,200	4,508	4,227	5,088
Allowance for doubtful accounts	-44	-48	-121	-174	-263	-159	-225	-176	-222	-200
Inventories	57	399	971	295	136	92	120	746	256	413
Prepaid expenses	154	185	235	190	224	220	248	232	320	470
Other	2,022	973	1,653	2,318	2,595	2,169	2,270	2,769	2,585	2,848
Total current assets	**7,331**	**8,788**	**10,334**	**10,800**	**10,536**	**10,031**	**12,597**	**15,990**	**17,414**	**22,276**
Buildings	241	244	486	369	424	597	589	637	762	732
Land	26	26	152	172	334	334	334	224	224	197
Lease assets	53	394	522	474	598	784	687	666	677	992
Other	132	141	290	230	221	223	179	184	224	201
Total tangible fixed assets	**452**	**805**	**1,450**	**1,245**	**1,577**	**1,938**	**1,790**	**1,710**	**1,886**	**2,123**
Investment securities	943	1,119	1,555	1,233	1,047	967	1,479	1,067	800	1,179
Deferred tax assets	16	11	70	22	133	43	336	375	262	148
Guarantee deposit	640	727	769	493	445	376	357	359	461	540
Other	161	194	510	408	54	61	50	38	64	261
Total other fixed assets	**1,760**	**2,051**	**2,904**	**2,156**	**1,679**	**1,448**	**2,222**	**1,839**	**1,588**	**2,128**
Software	364	242	193	157	298	247	334	540	1,262	1,494
Goodwill	4,456	4,098	6,010	4,254	3,670	2,900	2,242	1,708	2,787	2,143
Other	30	36	38	76	108	168	139	144	661	633
Total intangible assets	**4,850**	**4,376**	**6,241**	**4,487**	**4,076**	**3,316**	**2,715**	**2,393**	**4,709**	**4,269**
Total fixed assets	**7,063**	**7,233**	**10,595**	**7,890**	**7,333**	**6,702**	**6,727**	**5,942**	**8,183**	**8,520**
Total assets	**14,395**	**16,022**	**20,929**	**18,690**	**17,869**	**16,733**	**19,324**	**21,932**	**25,597**	**30,797**
LIABILITIES										
Accounts payable	67	162	913	46	80	50	60	53	286	87
Short-term debt	2,813	2,639	6,123	3,378	3,489	3,449	2,119	2,597	989	2,227
Other	3,409	2,856	4,010	4,721	4,175	4,416	4,804	6,399	8,305	8,043
Total current liabilities	**6,289**	**5,657**	**11,046**	**8,145**	**7,744**	**7,915**	**6,983**	**9,050**	**9,580**	**10,356**
Long-term debt	1,926	1,478	2,328	3,312	2,730	1,622	1,078	1,069	3,572	8,378
Other	889	1,052	905	468	1,153	709	608	648	1,194	1,387
Total fixed liabilities	**2,815**	**2,530**	**3,233**	**3,780**	**3,883**	**2,331**	**1,686**	**1,717**	**4,766**	**9,765**
Total interest-bearing debt	**4,739**	**4,117**	**8,451**	**6,690**	**6,219**	**5,071**	**3,197**	**3,667**	**4,561**	**10,605**
Total liabilities	**9,104**	**8,187**	**14,280**	**11,926**	**11,627**	**10,246**	**8,669**	**10,767**	**14,346**	**20,121**
Net assets										
Capital stock	1,854	3,042	3,043	3,045	3,045	3,046	4,514	4,514	4,514	4,514
Capital surplus	482	1,670	1,671	1,673	1,673	1,674	3,142	3,143	3,135	3,132
Retained earnings	2,134	3,018	1,920	2,026	1,691	1,782	2,671	3,067	2,761	1,995
Treasury stock	-	-135	-364	-364	-488	-489	-489	-753	-753	-753
Total accumulated other comprehensive income	2	5	5	6	18	29	3	1	-10	-13
Share subscription rights	23	-	0	0	3	1	13	2	2	2
Minority Interest	793	232	371	376	299	443	799	1,191	1,601	1,798
Total net assets	**5,290**	**7,834**	**6,649**	**6,764**	**6,242**	**6,487**	**10,654**	**11,165**	**11,251**	**10,675**
Working capital	2,212	2,570	3,559	3,547	3,215	2,989	3,261	5,200	4,197	5,415
Total interest-bearing debt	4,739	4,117	8,451	6,690	6,219	5,071	3,197	3,667	4,561	10,605
Net debt	1,819	-829	4,356	1,817	1,534	309	-3,786	-4,244	-5,688	-3,051

Source: Shared Research based on company data
Figures may differ from company materials due to differences in rounding methods.

Income statement

Income statement (JPYmn)	FY04/09 Cons.	FY04/10 Cons.	FY04/11 Cons.	FY04/12 Cons.	FY04/13 Cons.	FY04/14 Cons.	FY04/15 Cons.	FY04/16 Cons.	FY04/17 Cons.	FY04/18 Cons.
Total sales	**10,767**	**14,709**	**23,180**	**21,004**	**20,660**	**20,665**	**21,469**	**28,390**	**35,222**	**38,654**
YoY	33.4%	36.6%	57.6%	-9.4%	-1.6%	0.0%	3.9%	32.2%	24.1%	9.7%
Cost of sales	6,249	9,456	14,738	14,088	13,153	12,667	13,909	20,178	27,008	27,987
Gross profit	**4,517**	**5,253**	**8,442**	**6,915**	**7,507**	**7,998**	**7,560**	**8,212**	**8,215**	**10,667**
YoY	56.4%	16.3%	60.7%	-18.1%	8.6%	6.5%	-5.5%	8.6%	0.0%	29.8%
GPM	42.0%	35.7%	36.4%	32.9%	36.3%	38.7%	35.2%	28.9%	23.3%	27.6%
SG&A expenses	2,942	4,846	8,287	6,085	6,571	6,678	6,316	6,309	6,894	8,816
SG&A-to-sales ratio	27.3%	32.9%	35.7%	29.0%	31.8%	32.3%	29.4%	22.2%	19.6%	22.8%
Operating profit	**1,575**	**407**	**155**	**831**	**936**	**1,321**	**1,245**	**1,903**	**1,321**	**1,851**
YoY	84.5%	-74.1%	-61.8%	433.3%	12.6%	41.1%	-5.8%	52.9%	-30.6%	40.1%
OPM	14.6%	2.8%	0.7%	4.0%	4.5%	6.4%	5.8%	6.7%	3.8%	4.8%
Non-operating income	9	510	467	420	45	60	56	145	51	56
Non-operating expenses	62	113	438	312	500	161	318	725	564	481
Recurring profit	**1,522**	**804**	**185**	**939**	**481**	**1,220**	**982**	**1,323**	**808**	**1,426**
YoY	116.6%	-47.2%	-76.9%	406.4%	-48.8%	153.8%	-19.5%	34.6%	-38.9%	76.6%
RPM	14.1%	5.5%	0.8%	4.5%	2.3%	5.9%	4.6%	4.7%	2.3%	3.7%
Extraordinary gains	34	257	51	50	44	16	613	207	158	5
Extraordinary losses	8	42	1,005	407	789	326	77	83	306	647
Net income	**1,674**	**1,022**	**-947**	**204**	**-186**	**236**	**1,026**	**553**	**-150**	**-567**
YoY	164.8%	-38.9%	-	-	-	-	335.1%	-46.1%	-	-
Net margin	15.5%	6.9%	-	1.0%	-	1.1%	4.8%	1.9%	-0.4%	-1.5%

Source: Shared Research based on company data
Figures may differ from company materials due to differences in rounding methods.

Statement of cash flows

Cash flow statement (JPYmn)	FY04/09 Cons.	FY04/10 Cons.	FY04/11 Cons.	FY04/12 Cons.	FY04/13 Cons.	FY04/14 Cons.	FY04/15 Cons.	FY04/16 Cons.	FY04/17 Cons.	FY04/18 Cons.
Cash flows from operating activities (1)	2,294	1,303	1,091	1,972	1,689	1,690	2,207	1,752	3,812	1,030
Cash flows from investing activities (2)	-718	-1,067	-1,053	-248	-832	-235	-524	-509	-2,291	-2,141
Free cash flow (1+2)	**1,576**	**236**	**38**	**1,724**	**857**	**1,455**	**1,683**	**1,243**	**1,521**	**-1,110**
Cash flows from financing activities	849	690	-900	-971	-987	-1,492	585	-306	844	4,505
Depreciation and amortization (A)	884	750	1,292	1,025	1,371	1,346	1,280	1,255	1,491	1,782
Capital expenditures (B)	-890	-221	-271	-265	-768	-536	-436	-628	-882	-1,247
Working capital changes (C)	779	358	989	-12	-332	-226	271	1,940	-1,004	1,218
Simple FCF (NI + A + B - C)	**889**	**1,193**	**-915**	**976**	**749**	**1,272**	**1,599**	**-759**	**1,463**	**-1,250**

Source: Shared Research based on company data
Figures may differ from company materials due to differences in rounding methods.

Other information

History

FreeBit's Chairman and CEO, **Atsuki Ishida**, started Re-set LLC, an Internet content creation and consulting firm, with **Nobuaki Tanaka** (current President and CFO), in August 1995 while studying at Keio University. From the dawn of the Internet era, his activities attracted industry attention. He subsequently helped establish DTI, an ISP affiliated with Mitsubishi Electric, and spearheaded the growth of the business. He left DTI prior to the company's initial public offering (IPO), and in May 2000, established FreeBit.com, the forerunner to the current company. He built the business from a core outsourcing service for Internet companies that wanted to run a business without owning all the equipment (as an ISPs' ISP), which is now the Broadband Infrastructure business.

In December 2001, the company entered a capital alliance with Sony to strengthen its position in anticipation of the increasing links between networks and consumer electronic devices. In December 2002, the company changed its name to FreeBit. In June 2005, it entered capital tie-ups with SKY Perfect JSAT Holdings Inc. (TSE1:9412) and OBIC Business Consultants Co., Ltd. (a subsidiary of OBIC Co., Ltd.; TSE1: 4684), to enhance the evolution and expansion of the businesses associated with Emotion Link (FreeBit's patented SDN technology). In March 2007, FreeBit listed its shares on the Mothers section of the Tokyo Stock Exchange. It then conducted a number of M&A deals in rapid succession. In August 2007, it acquired DTI, and in March 2009, it bought Media Exchange (now FreeBit Cloud) and Exemode. It also made Full Speed a subsidiary in August 2010, as it continued to aggressively expand business.

In March 2011, the company launched the YourNet MOBILE MVNO service using NTT Docomo's network. In April that year, Exemode acquired sole agency rights for Japan of China's largest digital consumer electronics device maker, aigo, and started operations in Japan involving aigo's hardware connected with its own patented IPv6 virtualization technology.

In November 2013, the company started smartphone carrier business for consumers under the freebit mobile service brand. In March 2015, however, FreeBit and CCC established Tone mobile Inc., a joint venture firm, with the aim of boosting sales of the freebit mobile business, which was transferred to the JV.

News and topics

June 2020

On **June 17, 2020**, the company announced revisions to its full-year FY04/20 earnings forecast and the booking of an extraordinary loss.

Revised company forecast for full-year FY04/20 consolidated results

- ▷ Sales: JPY55.3bn (versus JPY55.0bn previously)
- ▷ Operating profit: JPY2.6bn (versus JPY2.4bn)
- ▷ Recurring profit: JPY2.5bn (versus JPY2.3bn)
- ▷ Net loss*: JPY619mn (versus net income of JPY400mn in FY04/19)
- ▷ Loss per share: JPY27.93 (versus EPS of 18.02 in FY04/19)

*Net income/loss attributable to owners of the parent

Reasons for the revisions

FreeBit revised its forecast following a careful examination of the impact from the COVID-19 pandemic on FY04/20 earnings. Noting the importance of a business continuity plan (BCP) response in the face of a potential second and a third wave of infections and Japan moving into a "with corona" phase (in which living with the virus is the "new normal"), the company performed management process verifications in line with its business continuity management framework and examined potential impacts on the company's business moving forward.

Extraordinary loss breakdown

- Impairment of fixed assets in the Real Estate Tech segment: Impairment loss of JPY172mn.
- Impairment of goodwill in the Health Tech segment: Impairment loss on goodwill of JPY227mn.
- Impairment of fixed assets in the Ed Tech segment: With profitability in the segment being sharply impacted by the COVID-19 pandemic, the company booked an impairment loss of JPY752mn on fixed assets, including goodwill and software.
- Impairment of software assets in the Ed Tech segment: Following a business plan review, the company moved to suspend introduction of a new system it had planned on, and booked an impairment loss on software assets of JPY157mn.

March 2020

On **March 13, 2020**, the company announced revisions to its full-year FY04/20 earnings forecast.

Revised company forecast for full-year FY04/20 consolidated results

- Sales: JPY55.0bn (versus JPY57.0bn previously)
- Operating profit: JPY2.4bn (versus JPY4.0bn)
- Recurring profit: JPY2.3bn (versus JPY3.8bn)
- Net income*: JPY400mn (versus JPY1.0bn)
- EPS: JPY18.02 (versus JPY45.05)

*Net income attributable to owners of the parent

Reasons for downward revision to full-year forecast

The company attributed the downward revision to its sales outlook to shortfalls in sales at its Health Tech, Infrastructure Tech, and Ed Tech businesses. At its Health Tech business, the company said sales at its prescription pre-order service were down following changes in Google's search algorithm. At its Infrastructure Tech business, sales are running below plan as a result of spinoffs of unprofitable businesses outside the scope of consolidation and the increasing competitive environment faced by its communication lines business. At its Ed Tech business, the company attributed the shortfall in sales to its slower-than-expected shift to the digital education arena and a sharp drop in orders for corporate training services amid the COVID-19 outbreak.

On the earnings front, the downward revision at the operating profit level and below was attributed to a combination of the expected shortfall in sales and delays in the realization of anticipated cost-savings from the efficiency improvements being made at existing business units under the company's Advertising Technology business.

On the same day, the company announced that its board of directors had approved a share buyback plan.

Share buyback plan

- Class of shares to be acquired: FreeBit Co., Ltd. common shares
- Number of shares to be acquired: 2,500,000 shares (maximum, equal to 11.26% of shares outstanding)
- Amount authorized for share buybacks: JPY2.0bn (maximum)
- Timeframe for share buybacks: March 16, 2020 through September 30, 2020
- Method used to buy back shares: Open market purchases on Tokyo Stock Exchange

Major shareholders

Top shareholders	Shares held	Shareholding ratio
Hirokii Ishida	3,503,600	14.96%
Nobuaki Tanaka	2,603,200	11.11%
Culture Convenience Club Co., Ltd.	2,500,000	10.67%
HIKARI TSUSHIN, INC.	2,162,200	9.23%
SO-TWO. INC	500,000	2.13%
Infoservice, Inc.	494,400	2.11%
OBIC Business Consultants Co., Ltd.	450,000	1.92%
Japan Trustee Services Bank, Ltd. (Trust account5)	352,700	1.50%
Jun Murai	288,000	1.23%
Japan Trustee Services Bank, Ltd. (Trust account5)	274,500	1.17%
Total shares issued	13,128,600	56.03%

Source: Shared Research based on company data
Note: Shareholdings as of April 30, 2018

Atsuki Ishida and Nobuaki Tanaka are among the company's founders. **Jun Murai** is a Keio University Professor, and since the dawn of the Internet era in Japan, has been involved in building its technological infrastructure. Mr. Murai is known as the father of the Internet in Japan. **Atsuki Ishida** studied under him in his student days.

Top management

FreeBit's Chairman and CEO, Atsuki Ishida, started Re-set LLC, an Internet content creation and consulting firm while studying at university. This made him suited to participate in the creation of Dream Train Internet Inc. (DTI), an ISP affiliated with Mitsubishi Electric, and to drive the company's growth. After being appointed Chief Strategy Officer at DTI, he became responsible for the overall business, including planning, advertising and content development. In 2000, he founded FreeBit, and was appointed President and CEO. In February 2015, Ishida was appointed Chairman of FreeBit and President of Tone mobile.

FreeBit President Nobuaki Tanaka (born 1967) had engaged in planning and editing of computer magazines as a freelancer since 1991. In 1995, he established Re-set with Ishida and became representative director. Also joining the foundation of DTI, Tanaka assumed the office of director and supervised the administration and business promotion divisions. Founding FreeBit in 2000 with Ishida and others, he was appointed Vice President and COO. In February 2015, Tanaka assumed the presidency of the company.

Investor relations

The company holds investor briefings twice a year following interim and full-year business results.

Glossary

Affiliate advertising
A success-fee type of online advertising. The company introduces an affiliate program, under which affiliate member websites and e-mail magazines list their advertisements. Advertising fees are paid when the end result is a purchase or on a per-click basis.

API
Application Programming Interface. An interface for an operating system (basic software), application software or Web applications that enables a portion of its own functionality to be easily used by an external application (software or Web service).

Cloud computing
A form of computing whereby it is possible to use all the equipment installed in a group of servers in a data center without being aware of the particular servers. Based on virtualization technology.

Component
Software componentized to fulfill a function.

Display ad
One sort of online ad. A banner ad which is embedded in part of a Web page as a picture, flash object or video.

DSP
Demand-Side Platform. An advertising placement platform used by advertisers (buyers). A DSP offers the advertisers control over budgets, ad submissions, and publication. It also offers the ability to choose the most appropriate ad frame based on budget and user characteristics, and optimization of placement criteria based on past results.

Hosting services
One way to use a data center. The user leases servers and/or networks owned by the data center operator, and runs applications. Also known as rental servers.

Housing service
One way to use a data center. A company places its own servers and/or network equipment in a data center, and uses the electricity, network, and a space to install the server rack provided by the data center operator.

ICT
Information and communications technology. An umbrella term for the technology, industries, equipment and services related to computers and networks.

ISP
Internet Service Provider. Its main business is connecting the computers of its customers (i.e., users) - businesses or households - to the Internet using the telephone network, ISDN or ADSL networks, FTTH (fiber-to-the-home) or dedicated data transmission lines. Customers are able to use Internet services upon signing a contract with an ISP.

IPv6
A next-generation Internet Protocol. Based on the current Internet Protocol, IPv4, which is running out of IP address space, offers enhancements such as larger address space, additional security functions, and the ability to prioritize data transmission based on importance.

L2 connection
Layer 2 Connection. Under L2 connections, the MVNO can manage sessions and allocate IP addresses, so there is a greater degree of freedom in service design than Layer 3 connections. The International Standards Organization (ISO) Open Systems Interconnection (OSI) model specifies a network design so that different machines are able to transmit data to each other. Under this model, the functions that computers and other devices with telecommunications capabilities need are divided into seven layers. Layer 2 is the second (data link) layer, and Layer 3 is the network layer.

LTE
Long-term Evolution. A standard for mobile telephony offering higher speeds than 3G. Sometimes referred to as 3.9G in the sense of being a bridge between 3G and 4G, and also sometimes counted as one type of 4G.

Moore’s Law
A rule-of-thumb observation by Dr. Gordon Moore, one of the founders of Intel, who in 1965 suggested that semiconductor integration density (capacity) doubles every 18-24 months

MVNO
Mobile Virtual Network Operator. MVNOs do not own their own infrastructure, but lease wireless telecommunications infrastructure from telecommunications carriers. As they are using the equipment of operators with mobile licenses, unlicensed businesses are also able to offer mobile telecommunications services. Given that MVNOs do not own infrastructure, they can begin operations with limited investments. It is thus feasible to run businesses that otherwise would not be viable, that is those that would ordinarily take time to turn profitable and those where demand was thought too small-scale. The Ministry of Internal Affairs and Communications is promoting the entry of MVNOs through its Guidelines for MVNOs (Mobile Virtual Network Operators) related to Applications of Telecommunications Business Law and the Radio Law Pertaining to MVNO (draft released in June 2002, subsequently revised). Lowering barriers to entry in the mobile telecommunications business promotes competition and benefits users through making diverse and low-priced services available.

Pay-per-click advertising
A scheme whereby an ad linked to keywords is displayed alongside the results of an Internet search. Advertisers pay the publisher when the ad is clicked.

RTB
Real Time Bidding. One type of ad exchange advertising placement technology. Through an auction system it selects the optimal ad for each space as it becomes available in real time. The advertiser's agent will only submit a bid to the ad exchange if the impression is judged suitable for the advertiser. That is, if it meets the advertiser's criteria related to the website visitor, publisher and ad display frequency. It is thus an efficient placement method for publishers and cost effective for the advertiser. An ad exchange is where impressions for specific online ad spaces are sold under an auction system, with multiple advertisers bidding through an intermediary.

SDN
Software Defined Network. Technology which uses a single software application for centralized control of the equipment that makes up a computer network. This enables flexible and dynamic changes to the network's structure, composition and settings. It may also refer to using similar technology to create a number of virtual networks adapted to particular purposes. These may be, to a certain extent, independent of the physical composition of the network such as the location of network equipment or transmission lines, or a network built along such lines. Network virtualization refers to technology which enables the operation of multiple logical networks on a single physical network.

SEM
Search Engine Marketing. Using not only SEO, but using paid search (ad displays when a keyword is searched for) as well. A marketing strategy aimed at attracting paying customers through a search engine.

SEO
Search Engine Optimization. One strategy for displaying a company's own website at the top of search results when a particular keyword is entered into a search engine.

Server rack
A dedicated rack where it is possible to install a stack of thin computers. These are installed in Internet Data Centers (IDCs) and companies' information systems divisions.

SSP
Supply-Side Platform. Used by the media owners, it is an advertising distribution platform which bundles advertising media.

Ubiquitous
An environment where the Internet or other information networks can be accessed at anytime from anywhere. Once ubiquitous spreads, it will allow work and leisure activities to be carried out regardless of location.

UTM
Unified Threat Management. Refers to integrated management of multiple security functions, including antivirus, intrusion prevention, and content filtering, based on a firewall and VPN functionality. It may also refer to equipment which incorporates these various security features.

VDC
Virtual Data Centers form the infrastructure of a next-generation data center service through the virtualization of the data centers themselves. Construction of a VDC entails virtualization of the servers, networks, storage and security. This creates an environment free from the constraints of place, hardware and provisioning (user demand forecasts).

Virtualization
Technology enabling the operation of one server as though it were several by logically dividing it and running separate operating and application software on the different virtual servers. It may also refer to technology that enables the operation of a number of scattered data centers as though they were one large data center.

Virtual private network (VPN)
A service which enables use of the public network as if it were a private network. For example, it can be used for connecting different offices in a corporate network. Costs are contained through the use of private lines.

Xi (Crossy)
Brand name for LTE data transmission service for mobile phones and tablets offered by NTT Docomo.

Company profile

Company Name	Head Office
FreeBit Co., Ltd.	13F, E-Space Tower 3-6 Maruyamacho, Shibuya-ku, Tokyo 150-0044 Japan
Phone	**Listed On**
+81-3-5459-0522	Tokyo Stock Exchange 1st Section
Established	**Exchange Listing**
May 1, 2000	March 20, 2007
Website	**Fiscal Year-End**
http://www.freebit.com/en/index.html	April
IR Contact	**IR Web**
-	http://www.freebit.com/en/ir/index.html

About Shared Research Inc.

We offer corporate clients comprehensive report coverage, a service that allows them to better inform investors and other stakeholders by presenting a continuously updated third-party view of business fundamentals, independent of investment biases. Shared Research can be found on the web at https://sharedresearch.jp.

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ZAPPALLAS, INC.

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