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FreeBit

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Executive summary

The FreeBit group provides a wide range of internet-related services to both corporate and individual customers. Operations in the B2B domain include support services for mobile virtual network operators (MVNOs* ; see box below for definition) and internet service providers (ISPs)*, as well as cloud and online advertising-related services. In B2B2C, the company provides proprietary ISP services for housing complexes, and in B2C, it operates as an MVNO and also offers fiber-optic services. FreeBit does not own infrastructure; instead, it procures network and bandwidth mainly from the NTT group. In FY04/23, consolidated revenue was JPY46.8bn (+8.6% YoY) and operating profit was a record JPY4.0bn (+26.6% YoY). The company operates in three reportable segments: 5G Infrastructure Support, 5G Lifestyle Support, and Enterprise/Creator 5G DX Support.

FreeBit expanded its operations through timely rollout of new services in line with the evolution of telecom infrastructures. During the dial-up access era (until around 2001), the company established its position in fixed-line communication by offering free services, and with the industry's shift to broadband services like xDSL and FTTH, it expanded business by offering internet connectivity to ISPs while running its own ISP services dedicated to housing complexes. In mobile communication, during the 3G era, the company offered DTI SIM (lowest-priced in the industry) and the "freebit mobile" service as an MVNO. With the arrival of 4G, it launched a mobile virtual network enabler (MVNE)* business, although it has yet to lead the market in this field. As its history proves, FreeBit initially expands its services by offering attractive pricing; then shifts to providing the platforms on which these services run. With 5G, the company intends to pursue this approach further and become an integrated service provider, or what the company refers to as "Platform Maker," of the 5G/Web3 era.

FreeBit was established in May 2000 for the purpose of supporting internet businesses. The company first launched an ISP support service, and has since expanded its operations from the infrastructure layer to the service layer, widening its scope of customers from B2B to B2C (including B2B2C) based on its corporate philosophy of "Being the NET Frontier!" (expanding the Internet's potential and contributing to society). Instead of just helping to build communication infrastructures, the company focused on providing services and marketing support to operators that used such infrastructures, and sought to accomplish this inorganically through acquisitions.

In August 2007, the company acquired Dream Train Internet Inc. (DTI; unlisted) that provided mobile communication and internet services to general consumers. In March 2009, it acquired a 58.90% stake in Giga Prize Co., Ltd. (NSE Next: 3830) that offered ISP services for housing complexes. In August 2010, it acquired an online ad agency Full Speed Inc. (delisted on September 1, 2022), and For it Inc. that operated an affiliate advertising business.

5G Infrastructure Support: In this segment (accounting for 19.1% of consolidated revenue and 34.4% of operating profit in FY04/23), FreeBit serves as an MVNE, supports ISPs, and provides corporate-use cloud services. Here, the parent company is the main entity driving operations. FreeBit does not disclose a revenue breakdown nor other details such as total subscriptions or the average revenue per user for this segment. The company says, however, that the majority of revenue in this segment comes from the MVNE business, followed by services for ISPs and cloud services.

In the mainstay MVNE services offered as "freebit MVNO Pack," FreeBit procures bandwidth from NTT Docomo, and sells services based on a customer-specific rate plan or bandwidth contract, adding other components such as network operation monitoring, user management tools, cloud, and security depending on customer needs. In addition to outside MVNOs, the DTI SIM and Tone Mobile businesses operated by subsidiary DTI (5G Lifestyle Support segment) also use the freebit MVNO Pack.

Revenue from the freebit MVNO Pack varies depending on the type of contract. Fees are charged based on the number of lines or the bandwidth the company supplies, with fees added for other functions such as cloud and security services offered in combination. On the cost front, the company pays for the bandwidth procured from NTT Docomo, as well as operation and equipment fees. The basis for bandwidth cost is the mobile data interconnection charge (unit price), which each mobile network operator (MNO)* notifies the Ministry of Internal Affairs and Communications. NTT Docomo's interconnection charge has declined at an average annual rate of roughly 17% from 2017 (actual) to 2022 (estimate). FreeBit says that although the amount of bandwidth it procures has been on the rise accompanying an increase in customer count, the falling per-unit interconnection charge has reduced the company's bandwidth cost. Particularly in FY04/22, bandwidth cost decreased substantially owing to a roughly 28% decline in the interconnection charge. According to the company, revenue turned up with the acquisition of business from new MVNOs following a downtrend caused by price markdowns to reflect the lower interconnection charge, and gross profit maintained an uptrend in FY04/23.

There were 1,783 MVNOs in Japan as of March 2023, according to a study by the Ministry of Internal Affairs and Communications. Of this total, 791 were primary MVNOs that procure mobile lines directly from MNOs and 992 were

secondary MVNOs that source lines from other MVNOs at wholesale price. Customers of MVNEs are the secondary MVNOs, which are mostly small operators (only 28 of the secondary MVNOs had at least 30 thousand subscriptions). By service category, among the MVNOs with over 30 thousand subscriptions, 63 companies were MVNOs that chiefly offered SIM-card based services for smartphones. Of this total, 30 were secondary MVNOs whose numbers have only grown slightly over the years. Total subscriptions of SIM card-based MVNOs have plateaued since peaking at 15.68mn in March 2021, due to the introduction of low-priced plans by MNOs and the growing presence of MNO sub-brands.

While multiple companies operate in the MVNE space, it is difficult for them to differentiate on the cost front; nor are there significant differences in the ancillary services, such as network operation monitoring and security, these companies offer. Shared Research thus understands that customers select FreeBit for its price competitiveness as an MVNE. In the 5G era that enables connectivity of a variety of things, cost consciousness will likely heighten especially in the communication module market, creating opportunities for the company's MVNE business.

5G Lifestyle Support: In this segment (accounting for 46.9% of consolidated revenue and 50.9% of operating profit in FY04/22), FreeBit provides ISP services for housing complexes and manages corporate housing under the 5G Homestyle business. In the 5G Lifestyle business, it offers mobile communication services mainly for young children and seniors, and also provides internet services for homes. The 5G Homestyle business is primarily handled by Giga Prize, and the 5G Lifestyle business, by DTI and Tone Lifestyle Inc. FreeBit (the parent) manages other new businesses in the segment.

Giga Prize generates over 70% of revenue, and operating profit exceeds segment profit. (The remaining nearly 30% of revenue comes from DTI.) In the ISP services for housing complexes, Giga Prize mainly offers bulk internet services that cover all units of small to medium-sized multi-family housing, such as apartments and condos. In FY03/23, 98.9% of Giga Prize's revenue came from its Home IT segment, which mainly provides ISP services for housing complexes.

In ISP services for housing complexes, Giga Prize handles the design, installation, and construction work concerning internet facilities for such properties, as well as operation, maintenance, and tenant support that follow. In this business, Giga Prize enters into contracts directly with house builders, property management companies, and other customers. Since it installs internet facilities for entire housing complexes, individual contracts with tenants are unnecessary, and tenants can enjoy internet access as soon as they move in. The actual installation work is mostly carried out by Giga Prize subsidiary, Giga Tech.

In FY03/23, the line usage fees billed on a recurring basis accounted for 68.0% of revenue in Giga Prize's Home IT segment; the remaining 32.0% of revenue was one-off initial income from the installation and configuration of network devices. The company's core OEM customers are D.U-Net Co., Ltd. (41.0% of total revenue in FY03/23), a group company of Daiwa House Industry Co., Ltd. (TSE Prime: 1925); Daito Trust Construction Co., Ltd. (TSE Prime: 1878; 2.6%); and its subsidiary Daito Kentaku Partners Co., Ltd. (17.9%). These three companies, together with Sekisui House Real Estate Tokyo Ltd. (11.1% of total revenue in FY03/23), a group company of Sekisui House Ltd. (TSE Prime: 1928), accounted for 72.6% of total revenue. As of end-FY03/23, Giga Prize provided ISP services to roughly 1.1mn homes, up by about 151,000 YoY.

According to the "Market Share Survey of Whole Building-Type ISP for Condominiums" (end-March 2022) released by MM Research Institute, the number of homes in Japan receiving services from such ISPs reached a record high of 4,427 thousand at end-March 2022, representing a YoY increase by 610 thousand. Giga Prize ranked eighth in market share according to the survey, but the ranking was based on figures that excluded OEM-based transactions. Including OEMs to D.U-Net (ranked third in survey), Giga Prize provided ISP services to roughly 901 thousand homes (YoY increase by about 155 thousand) as of end-March 2022, as noted above. On this basis, the total surpassed that of Arteria Networks, which ranked first in the survey.

DTI provides mobile communication services for individuals as well as fiber-optics and other home internet services. DTI has two brands in the mobile communication business: Tone Mobile and DTI SIM. The Tone Mobile services, previously sold online and through the stores of camera and electronics retailer Kitamura Co., Ltd. (unlisted), also became available through Docomo stores starting December 2021 under the NTT Docomo Economy MVNO framework. DTI SIM products are only sold online. In the mainstay Tone Mobile business, the company seeks differentiation by offering a single plan that gives unlimited internet access (up to 1GB for video viewing) for JPY1,100 a month (including tax), by focusing on a user base of small children and seniors, and by selling original smartphone handsets.

Enterprise/Creator 5G DX Support: This segment (accounting for 34.0% of consolidated revenue and 15.1% of operating profit in FY04/22) mainly includes internet marketing services and ad technology services operated by Full Speed, For it (Full Speed's wholly owned subsidiary), and FreeBit (the parent). The majority of revenue and operating profit in this segment comes from the Full Speed group.

Full Speed stands out for handling both internet marketing and ad technology. The majority of revenue from the internet marketing business comes from the social media marketing service and listing ads. Here, the ad placement fees received from customers are booked as revenue; on the cost side, the company pays search portals and online media for the ad space it procures.

In the ad technology business, the performance marketing platform "afb" and the ad network for display ads, ADMATRIX DSP, generate most of the revenue. The source of revenue for "afb" is the advertising fee received when a measurable outcome is achieved, and on the cost side, performance-based commissions are paid to the affiliate media. Shared Research understands that, in ADMATRIX DSP, revenue is based on cost per click (fee paid by an advertiser per each click on an ad) and cost per mille (fee paid per 1,000 impressions of an ad); meanwhile, the company pays fees to online media for the ad space it procures.

Earnings trends

In FY04/23, revenue was JPY46.8bn (+8.6% YoY), operating profit was a record JPY4.0bn (+26.6% YoY), recurring profit was JPY3.7bn (+28.8% YoY), and net income attributable to owners of the parent was JPY1.8bn (+116.5% YoY). Revenue, operating profit, recurring profit, and net income attributable to owners of the parent all exceeded the company's FY04/23 full-year forecast, reaching 101.7%, 114.5%, 114.1%, and 108.6%, respectively. By segment, 5G Infrastructure Support and 5G Lifestyle Support posted an increase in both revenue and profit. Enterprise/Creator 5G DX Support had a revenue increase but profit decline.

For FY04/24, the company forecasts revenue of JPY50.0bn (+6.9% YoY), operating profit of JPY5.0bn (+24.8% YoY), recurring profit of JPY4.5bn (+21.4% YoY), and net income attributable to owners of the parent of JPY2.5bn (+39.5% YoY). The company expects the same revenue and operating profit as those targeted in the SiLK VISION 2024 medium-term management plan. The company will make strategic investments to expand the domains of mobile transformation, lifestyle transformation, and production transformation, and deploy management resources in DX and other new fields. The company will pursue a comprehensive and well-balanced business strategy as it enters the final year of SiLK VISION 2024.

FreeBit unveiled its current medium-term management plan, SiLK VISION 2024, in July 2021. The plan targets consolidated revenue of JPY50.0bn (+16.1% from FY04/22) and operating profit of JPY5.0bn (+58.0%) in its final year, FY04/24. SiLK VISION 2024 is based on FreeBit's ten-year plan spanning 2021 to 2030, which places 5G and Web3 at the center of technological transformations during the period. The ten-year plan has three phases: the initial phase—SiLK Vision 2024—dubbed the "Pre 5G/Web3" phase, followed by SiLK VISION 2027 dubbed the "Core 5G/Web3" phase, and finally SiLK VISION 3030, which is the "6G Standby" phase.

FreeBit positions its existing operations such as the 5G Infrastructure Platform businesses (MVNE, fixed-line network, cloud, etc.) and the 5G Homestyle business (ISP services for housing complexes) in what it calls the "performance zone," where it anticipates continued business growth amid 5G and other changes. In the "transformation zone," it will seek to groom the 5G Lifestyle businesses (Tone Mobile and DTI) into growth drivers, and in the "incubation zone," it will develop new businesses (such as 5G Workstyle, 5G Healthstyle, Creator Maker [StandAlone], and Bizmodel Maker [4.0]). To this end, it will invest strategically in these two zones. FreeBit maintains that SiLK VISION 2024 is an investment phase for creating new businesses that cater to the lifestyles of the 5G era.

Strengths and weaknesses

FreeBit's strengths, according to Shared Research (See the "Strengths and weaknesses" section for details)

1. Can apply accumulated experience in both networks and devices to the development of new services for the 5G era, when various devices become connected
2. Can easily access users of 3G services (slated for discontinuation at end-March 2026) by making full use of NTT Docomo's 2,000-store retail network
3. In ISP services for housing complexes, multiple major housing management companies make up the customer base

Weaknesses

1. Ability to expand MVNO services is limited because of relatively small business scale

2. Low brand recognition in services for individuals

3. Takes time for the fruits of Full Speed's drastic structural reform to manifest themselves

Mobile virtual network operator (MVNO): A business operator that provides services by leasing telecommunications infrastructure from a mobile network operator such as NTT Docomo

Mobile network operator (MNO): A business operator, such as NTT Docomo, that provides telecommunications services using their own network infrastructure and the spectrum allocations it receives directly from a regulatory/government entity, which is the Ministry of Internal Affairs and Communications in the case of Japan

Mobile virtual network enabler (MVNE): An MVNE procures connectivity from MNOs in bulk, providing it to MVNOs in smaller lots while engaging in telecommunications control. An MVNE also offers technology, expertise, and other support to assist MVNOs' operations

Internet service provider (ISP): A business operator that provides an access point necessary to establish internet connectivity

Colocation: A service that allows customers to rent space in a data center to place their own servers and network equipment

Key Financial Data

Income statement	FY04/14	FY04/15	FY04/16	FY04/17	FY04/18	FY04/19	FY04/20	FY04/21	FY04/22	FY04/23	FY04/24
(JPYmn)	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Company forecast
Revenue	20,665	21,469	28,390	35,222	38,654	50,366	55,295	52,010	43,076	46,772	50,000
YoY	0.0%	3.9%	32.2%	24.1%	9.7%	30.3%	9.8%	-5.9%	-17.2%	8.6%	6.9%
Gross profit	7,998	7,560	8,212	8,215	10,667	15,153	16,817	15,449	12,410	13,327	-
YoY	6.5%	-5.5%	8.6%	0.0%	29.8%	42.1%	11.0%	-8.1%	-19.7%	7.4%	-
Gross profit margin	38.7%	35.2%	28.9%	23.3%	27.6%	30.1%	30.4%	29.7%	28.8%	28.5%	-
OP	1,321	1,245	1,903	1,321	1,851	2,982	2,588	3,403	3,165	4,008	5,000
YoY	41.1%	-5.8%	52.9%	-30.6%	40.1%	61.1%	-13.2%	31.5%	-7.0%	26.6%	24.8%
OPM	6.4%	5.8%	6.7%	3.8%	4.8%	5.9%	4.7%	6.5%	7.3%	8.6%	10.0%
Recurring profit	1,220	982	1,323	808	1,426	2,569	2,481	3,662	2,879	3,707	4,500
YoY	153.8%	-19.5%	34.6%	-38.9%	76.6%	80.1%	-3.4%	47.6%	-21.4%	28.8%	21.4%
Recurring profit margin	5.9%	4.6%	4.7%	2.3%	3.7%	5.1%	4.5%	7.0%	6.7%	7.9%	9.0%
Net income	236	1,026	553	-150	-567	279	-619	1,587	828	1,792	2,500
YoY	-	335.1%	-46.1%	-	-	-	-	-	-47.8%	116.5%	39.5%
Net margin	1.1%	4.8%	1.9%	-0.4%	-1.5%	0.6%	-1.1%	3.1%	1.9%	3.8%	5.0%
Per-share data (split- and reverse split-adjusted; JPY)											
Shares issued (year-end):(000 shares)	19,545	22,545	22,195	22,195	22,195	22,195	21,944	20,992	18,800	19,960	-
EPS	12.06	51.40	24.75	-6.77	-25.56	12.59	-27.93	74.06	41.86	95.07	132.83
Dividend per share	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.50	8.00	-
Book value per share	309.15	436.66	449.30	434.70	399.88	405.57	368.19	415.12	366.01	412.94	-
Balance sheet(JPYmn)											
Cash and cash equivalents	4,762	6,983	7,911	10,249	13,656	15,459	15,721	17,621	17,741	18,306	-
Total current assets	10,031	12,597	15,990	17,414	22,013	27,558	33,116	28,797	29,820	30,640	-
Tangible fixed assets	1,938	1,790	1,710	1,886	2,123	2,925	2,725	2,661	2,483	2,476	-
Investments and other assets	1,448	2,222	1,839	1,588	2,391	3,045	2,958	2,828	2,285	2,421	-
Intangible assets	3,316	2,715	2,393	4,709	4,269	5,636	3,672	551	463	389	-
Total assets	16,733	19,324	21,932	25,597	30,797	39,164	42,472	34,836	35,050	35,926	-
Notes and accounts payable	50	60	53	286	87	449	652	421	342	256	-
Short-term debt	3,705	2,367	2,846	2,212	2,697	3,349	5,460	5,892	5,271	5,834	-
Total current liabilities	7,915	6,983	9,050	9,580	10,352	13,835	17,764	13,908	13,802	14,364	-
Long-term debt	2,175	1,534	1,585	4,288	9,411	13,593	13,438	8,426	9,873	10,158	-
Total fixed liabilities	2,331	1,686	1,717	4,766	9,769	14,021	13,860	8,779	10,209	10,530	-
Total liabilities	10,246	8,669	10,767	14,346	20,121	27,855	31,624	22,687	24,011	24,894	-
Total net assets	6,487	10,654	11,165	11,251	10,675	11,309	10,849	12,149	11,039	11,032	-
Total interest-bearing debt	5,880	3,901	4,431	6,500	12,108	16,942	18,897	14,318	15,145	15,992	-
Cash flow statement(JPYmn)											
Cash flows from operating activities	1,690	2,207	1,752	3,812	1,030	3,182	1,480	7,123	2,334	3,322	-
Cash flows from investing activities	-235	-524	-509	-2,291	-2,141	-3,688	-1,870	-2,656	511	-645	-
Cash flows from financing activities	-1,492	585	-306	844	4,505	2,321	626	-2,572	-2,731	-2,111	-
Financial ratios											
ROA (RP-based)	7.1%	5.4%	6.4%	3.4%	5.1%	7.3%	6.1%	9.5%	8.2%	10.4%	-
ROE(ROE)	3.9%	12.9%	5.6%	-1.5%	-6.1%	3.1%	-7.3%	18.9%	10.6%	23.7%	-
Equity ratio	36.1%	50.9%	45.5%	37.7%	28.8%	23.0%	19.0%	25.0%	19.6%	22.9%	-

Source: Shared Research based on company materials

Notes: Figures may differ from company materials due to differences in rounding methods.

Trends and outlook

Quarterly trends and results

Earnings (cumulative) (JPYmn)	FY04/23				FY04/24				FY04/24	
	Q1	Q1-Q2	Q1-Q3	Q1-Q4	Q1	Q1-Q2	Q1-Q3	Q1-Q4	% of Est.	Company forecast
Revenue	11,142	22,582	34,216	46,772	14,040				28.1%	50,000
YoY	4.4%	5.7%	7.0%	8.6%	26.0%					6.9%
Cost of revenue	7,902	16,019	24,214	33,444	9,916					
YoY	6.3%	6.8%	8.3%	9.1%	25.5%					
Cost ratio	70.9%	70.9%	70.8%	71.5%	70.6%					
Gross profit	3,240	6,563	10,002	13,327	4,124					
YoY	0.1%	3.0%	4.1%	7.4%	27.3%					
Gross profit margin	29.1%	29.1%	29.2%	28.5%	29.4%					
SG&A expenses	2,375	4,600	6,834	9,320	2,460					
YoY	7.7%	6.6%	5.0%	0.8%	3.6%					
SG&A-to-sales ratio	21.3%	20.4%	20.0%	19.9%	17.5%					
OP	865	1,962	3,168	4,008	1,665				33.3%	5,000
YoY	-16.2%	-4.5%	2.2%	26.6%	92.5%					24.8%
OPM	7.8%	8.7%	9.3%	8.6%	11.9%					10.0%
Recurring profit	773	1,805	2,964	3,707	1,624				36.1%	4,500
YoY	-23.9%	-9.7%	-2.0%	28.8%	110.0%					21.4%
Recurring profit margin	6.9%	8.0%	8.7%	7.9%	11.6%					9.0%
Net income	306	844	1,657	1,792	863				34.5%	2,500
YoY	-45.7%	-24.7%	2.1%	116.5%	182.5%					39.5%
Net margin	2.7%	3.7%	4.8%	3.8%	6.2%					5.0%
Quarterly (JPYmn)	FY04/23				FY04/24					
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
Revenue	11,142	11,440	11,635	12,555	14,040					
YoY	4.4%	6.9%	9.7%	13.1%	26.0%					
Cost of revenue	7,902	8,117	8,195	9,230	9,916					
YoY	6.3%	7.3%	11.2%	11.2%	25.5%					
Cost ratio	70.9%	71.0%	70.4%	73.5%	70.6%					
Gross profit	3,240	3,323	3,439	3,325	4,124					
YoY	0.1%	6.1%	6.2%	18.7%	27.3%					
Gross profit margin	29.1%	29.0%	29.6%	26.5%	29.4%					
SG&A expenses	2,375	2,225	2,234	2,486	2,460					
YoY	7.7%	5.4%	2.0%	-9.2%	3.6%					
SG&A-to-sales ratio	21.3%	19.5%	19.2%	19.8%	17.5%					
OP	865	1,098	1,205	840	1,665					
YoY	-16.2%	7.4%	15.1%	1201.2%	92.5%					
OPM	7.8%	9.6%	10.4%	6.7%	11.9%					
Recurring profit	773	1,032	1,159	743	1,624					
YoY	-23.9%	4.9%	13.1%	-	110.0%					
Recurring profit margin	6.9%	9.0%	10.0%	5.9%	11.6%					
Net income	306	538	813	135	863					
YoY	-45.7%	-3.4%	61.8%	-	182.5%					
Net margin	2.7%	4.7%	7.0%	1.1%	6.2%					

Source: Shared Research based on company materials

Notes: Figures may differ from company materials due to differences in rounding methods.

Earnings trends by segment

Earnings (cumulative) (JPYmn)	FY04/23				FY04/24			
	Q1	Q1-Q2	Q1-Q3	Q1-Q4	Q1	Q1-Q2	Q1-Q3	Q1-Q4
Revenue	11,142	22,582	34,216	46,772	14,040			
YoY	4.4%	5.7%	7.0%	8.6%	26.0%			
5G Infrastructure Support	2,328	4,733	7,109	9,489	2,428			
YoY	4.7%	5.8%	6.1%	5.1%	4.3%			
% of revenue	19.7%	19.7%	19.6%	19.1%	16.5%			
5G Lifestyle Support	5,477	11,157	16,764	23,261	7,600			
YoY	4.2%	4.4%	4.6%	7.0%	38.8%			
% of revenue	46.2%	46.6%	46.2%	46.9%	51.7%			
Enterprise/Creator 5G DX SupportDX Support	4,039	8,076	12,415	16,849	4,668			
YoY	3.5%	5.0%	8.3%	9.5%	15.6%			
% of revenue	34.1%	33.7%	34.2%	34.0%	31.8%			
Other	-	-	-	-	-			
YoY	-	-	-	-	-			
% of revenue	-	-	-	-	-			
Adjustments	-703	-1,383	-2,072	-2,828	-656			
OP	865	1,962	3,168	4,008	1,665			
YoY	-16.2%	-4.5%	2.2%	26.6%	92.5%			
OPM	7.8%	8.7%	9.3%	8.6%	11.9%			
5G Infrastructure Support	393	733	1,161	1,378	438			
YoY	33.2%	34.7%	21.2%	21.6%	11.5%			
OPM	16.9%	15.5%	16.3%	14.5%	18.1%			
% of OP	45.6%	37.4%	36.7%	34.4%	26.3%			
5G Lifestyle Support	377	980	1,535	2,039	1,034			
YoY	-33.4%	-17.5%	-6.4%	41.1%	174.4%			
OPM	6.9%	8.8%	9.2%	8.8%	13.6%			
% of OP	43.7%	50.0%	48.5%	50.9%	62.1%			
Enterprise/Creator 5G DX SupportDX Support	96	256	482	604	197			
YoY	-44.8%	-22.5%	-6.4%	0.1%	104.7%			
OPM	2.4%	3.2%	3.9%	3.6%	4.2%			
% of OP	11.2%	13.0%	15.2%	15.1%	11.9%			
Other	-4	-8	-12	-17	-5			
YoY	-	-	-	-	-			
OPM	-	-	-	-	-			

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% of OP	-0.5%	-0.4%	-0.4%	-0.4%	-0.3%					
	Adjustments					2	1	2	2	-0
Quarterly (JPYmn)	FY04/23				FY04/24					
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
Revenue	11,142	11,440	11,635	12,555	14,040					
	YoY									
	4.4%	6.9%	9.7%	13.1%	26.0%					
5G Infrastructure Support	2,328	2,404	2,376	2,380	2,428					
	YoY									
	4.7%	7.0%	6.6%	2.0%	4.3%					
	% of revenue									
	19.7%	19.8%	19.3%	17.9%	16.5%					
5G Lifestyle Support	5,477	5,679	5,607	6,497	7,600					
	YoY									
	4.2%	4.7%	4.9%	13.9%	38.8%					
	% of revenue									
	46.2%	46.9%	45.5%	48.8%	51.7%					
Enterprise/Creator 5G DX SupportDX Support	4,039	4,037	4,339	4,434	4,668					
	YoY									
	3.5%	6.6%	15.1%	12.9%	15.6%					
	% of revenue									
	34.1%	33.3%	35.2%	33.3%	31.8%					
Other	-	-	-	-	-					
	YoY									
	-	-	-	-	-					
	% of revenue									
	-	-	-	-	-					
Adjustments	-703	-681	-688	-756	-656					
OP	865	1,098	1,205	840	1,665					
	YoY									
	-16.2%	7.4%	15.1%	1201.2%	92.5%					
	OPM									
	7.8%	9.6%	10.4%	6.7%	11.9%					
5G Infrastructure Support	393	340	427	218	438					
	YoY									
	33.2%	36.5%	3.4%	23.4%	11.5%					
	OPM									
	16.9%	14.2%	18.0%	9.1%	18.1%					
	% of OP									
	45.6%	31.0%	35.5%	25.9%	26.3%					
5G Lifestyle Support	377	603	555	504	1,034					
	YoY									
	-33.4%	-2.9%	22.7%	-	174.4%					
	OPM									
	6.9%	10.6%	9.9%	7.8%	13.6%					
	% of OP									
	43.7%	54.9%	46.1%	60.0%	62.1%					
Enterprise/Creator 5G DX SupportDX Support	96	159	226	123	197					
	YoY									
	-44.8%	2.5%	22.5%	37.4%	104.7%					
	OPM									
	2.4%	3.9%	5.2%	2.8%	4.2%					
	% of OP									
	11.2%	14.5%	18.8%	14.6%	11.9%					
Other	-4	-4	-4	-5	-5					
	YoY									
	-	-	-	-	-					
	OPM									
	-	-	-	-	-					
	% of OP									
	-0.5%	-0.3%	-0.3%	-0.6%	-0.3%					
Adjustments	2	-1	1	0	-0					

Source: Shared Research based on company materials

Notes: Figures may differ from company materials due to differences in rounding methods.

Q1 FY04/24 results

- Revenue: JPY14.0bn (+26.0% YoY)
- Operating profit: JPY1.7bn (+92.5% YoY)
- Recurring profit: JPY1.6bn (+110.0% YoY)
- Net income attributable to owners of the parent: JPY863mn (+182.5% YoY)

Against the company's FY04/23 full-year forecasts, Q1 FY04/24 revenue, operating profit, recurring profit, and net income attributable to owners of the parent achieved 28.1%, 33.3%, 36.1%, and 34.5%, respectively.

In Q1 FY04/24, revenue, operating profit, recurring profit, and net income attributable to owners of the parent rose 26.0% YoY, 92.5% YoY, 110.0% YoY, and 182.5% YoY, respectively. Giga Prize Co., Ltd. and its subsidiaries changed their fiscal year-end from March 31 to April 30, the same date as the company, resulting in a 13-month accounting period from April 1, 2023 to April 30, 2024 for FY04/24. In Q1, four months from April 1, 2023 to July 31, 2023 were included in the consolidated financial results.

Excluding the impact of the change in fiscal year-end for Giga Prize and its subsidiaries, revenue increased 10.5% YoY to JPY12.3bn, operating profit rose 46.5% YoY to JPY1.3bn, recurring profit rose 58.8% YoY to JPY 1.2bn, and net income attributable to owners of the parent rose 131.0% to JPY706mn.

Revenue

In Q1 FY04/24, consolidated revenue grew 26.0% YoY. Revenue increased in all segments, up 4.3% YoY in 5G Infrastructure Support, 38.8% YoY in 5G Lifestyle Support, and 15.6% YoY in Enterprise/Creator 5G DX Support. Excluding the impact of the change in fiscal year-end for Giga Prize and its subsidiaries, sales were up 10.5% YoY.

Operating profit

In Q1 FY04/24, operating profit increased 92.5% YoY, reaching a record high. Profits increased in all segments, 11.5% YoY in 5G Infrastructure Support, 174.4% YoY in 5G Lifestyle Support, and 104.7% YoY in Enterprise/Creator 5G DX Support. Excluding the impact of the change in Giga Prize's fiscal year-end, operating profit rose 46.5% YoY, and excluding the impact of strategic investment (JPY213mn in Q1 FY04/24), operating profit grew 69.8% YoY (+33.7% YoY when excluding the impact

of the fiscal year-end change). By segment, operating profit grew 13.1% YoY in 5G Infrastructure Support, 120.0% YoY(+44.5% YoY) in 5G Lifestyle Support, and 65.6% YoY in Enterprise/Creator 5G DX Support.

Recurring profit

In Q1 FY04/24, recurring profit increased 110.0% YoY due mainly to growth in operating profit, as well as a JPY77mn decline in outlays associated with making Full Speed a wholly-owned subsidiary. Excluding the impact of the change in the fiscal year-end for Giga Prize and its subsidiaries, recurring profit grew 58.8%.

Net income attributable to owners of the parent

In Q1 FY04/24, net income attributable to owners of the parent rose 182.5% YoY. Net income was lifted by growth in recurring profit and a JPY50mn reduction in impairment losses, while depressed by a JPY35mn increase in tax expenses, and a JPY46mn increase in net income attributable to non-controlling interests, among other factors. Excluding the impact of the change in the fiscal year-end for Giga Prize and its subsidiaries, net income rose 131.0% YoY.

5G Infrastructure Support

- Revenue: JPY2.4bn (+4.3% YoY)
- Operating profit: JPY438mn (+11.5% YoY)

In Q1 FY04/24, the segment posted an increase in revenue and profit. In fixed-line operations, network costs remained high because of an increase in the use of rich content such as videos and games, an increase in the use of social networking sites, and ongoing expansion in the use of various internet-based services as teleworking became common. As for mobile operations, the company expects further growth in the overall market, although low-cost plans and sub-brands offered by major mobile carriers may affect the growth of independent MVNOs. The company's group performed well due to the expansion of scale of its support business for MVNOs. Operating profit (excluding strategic investments) was up 13.1% YoY.

Factors contributing to the JPY45mn YoY increase in segment operating profit was a JPY130mn increase in service use in the B2B mobile business. Meanwhile, a reduced service use in the B2B fixed line business detracted by JPY19mn, and a rise in personnel expenses due to an enhancement of human resources by JPY34mn, an increase in strategic investment by JPY14mn, and others by JPY27mn. In Q1 FY04/24, the company made strategic investments amounting to JPY74mn (JPY60mn in Q1 FY04/23) in the 5G Infrastructure Support segment. These were focused on the development of 5G data centers and data linkage projects.

In mobile services for MVNOs, in addition to offering unique plans and bandwidth to meet customer needs, the company provides network operation and monitoring services, management tools, and components such as cloud, fixed IP, and VoIP. While the number of data SIMs sold remained flat, an increase in combination sales of higher value-added data, SMS, and voice SIMs sold contributed to higher sales. SIM sales composition for Q1 FY04/24 is 48.2% for data SIM, (54.6% in Q1 FY04/22), 46.5% (32.1% in Q1 FY04/22) for data, and 5.3% (15.0%) for data, and SMS SIM.

5G Lifestyle Support

- Revenue: JPY7.6bn (+38.8% YoY)
- Operating profit: JPY1.0bn (+174.4% YoY)

In Q1 FY04/24, the segment posted an increase in revenue and profit. In the 5G Homestyle business (internet services for housing complexes), the installation of broadband networks is designed to increase the asset value of buildings and improve occupancy rates, which is becoming a standard. Further, telework, video content viewing, and other uses are also recognized as standard. To meet the growing demand for faster communication speeds, the company has started providing ISP service to residential complexes with a maximum transmission speed of 10 Gbps (uplink/downlink). In the 5G Lifestyle business (mobile communication and internet-related services for individuals), as part of the Tone Mobile smartphone business, in an effort to increase the number of contracts by curbing costs, the company implemented a marketing strategy centered around affiliate ad, using its group's proprietary technology.

Excluding the impact of the change in fiscal year-end for Giga Prize and its subsidiaries, revenue was rose 7.1% YoY, operating profit increased 68.8% YoY, and 44.5% YoY when excluding strategic investments (one-time investments).

Factors contributing to the JPY657mn YoY increase in operating profit were the growth in revenue at Giga Prize (JPY103mn), one-time expenses for the launch of new handsets, and lower initial costs due to the start of the alliance with Docomo stores

(JPY133mn), lower strategic investments (JPY25mn) and other factors (JPY35mn). Meanwhile, operating profit was detracted by the decrease in DTI's profit (JPY37mn) due to the decline in fixed network service use. The impact of the change in fiscal year-end for Giga Prize and its subsidiaries lifted operating profit by JPY298mn. The company made strategic investments totaling JPY125mn (JPY150mn in Q1 FY04/23) in the 5G Lifestyle Support segment in Q1 FY04/24. These were targeted at acquisition of Tone Mobile users, the development and proof-of-concept testing of TONE Care, and the development and testing relating to Web3 (blockchain).

The number of units of ISP services for residential complexes, a key indicator for Giga Prize, increased by 47 thousand homes to 1,099 thousand from end-FY04/23, making steady progress toward the company's full-year forecast of 1,226 thousand for FY04/24.

Enterprise/Creator 5G DX Support

- Revenue: JPY4.7bn (+15.6% YoY)
- Operating profit: JPY197mn (+104.7% YoY)

In Q1 FY04/23, the segment posted increases in both revenue and profit. In the internet marketing and ad technology services that Full Speed offers, economic activity began to normalize, and advertising demand showed a gradual recovery trend as COVID-19-related restrictions eased following its downgrade to infectious disease category 5. However, the market did not return to the pre-pandemic level. In this environment, the company pursued DX in the area of internet marketing by leveraging its expertise in online marketing. The company also expanded support for the creator economy through StandAlone, a platform for creators, and strengthened non-fungible token (NFT) issuance support, to ensure medium-term growth. In addition, efforts were made to improve operational efficiency and control costs through PMI after Full Speed became a wholly-owned subsidiary. Operating profit (excluding strategic investments (one-time investments)) was up 65.0% YoY.

Contributing to the JPY101mn YoY increase in operating profit were the increase in gross profit in affiliate business (JPY40mn) due to strengthening its key services and acquisition of new customers, and lower SG&A (JPY55mn) thanks to the optimization of resources and positive PMI effect due to making Full Speed a wholly-owned subsidiary, and lower strategic investment (JPY18mn). Detracting from operating profit was from other factors (JPY12mn). The company made strategic investments amounting to JPY12mn (JPY30mn in Q1 FY04/23) in the segment in Q1 FY04/24, with part of this spent on development towards the multifaceted roll-out of StandAlone.

Full-year company forecast

FY04/24 company forecast

(JPYmn)	FY04/22			FY04/23			FY04/24
	1H Act.	2H Act.	FY Act.	1H Act.	2H Act.	FY Act.	FY Est.
Revenue	21,370	21,705	43,076	22,582	24,190	46,772	50,000
YoY	-24.0%	-9.2%	-17.2%	5.7%	11.4%	8.6%	6.9%
OP	2,054	1,111	3,165	1,962	2,045	4,008	5,000
YoY	3.2%	-21.4%	-7.0%	-4.5%	84.0%	26.6%	24.8%
OPM	9.6%	5.1%	7.3%	8.7%	8.5%	8.6%	10.0%
Recurring profit	1,999	880	2,879	1,805	1,902	3,707	4,500
YoY	-1.5%	-46.1%	-21.4%	-9.7%	116.2%	28.8%	21.4%
Recurring profit margin	9.4%	4.1%	6.7%	8.0%	7.9%	7.9%	9.0%
Net income	1,120	-292	828	844	948	1,792	2,500
YoY	-20.3%	-	-47.8%	-24.7%	-	116.5%	39.5%
Net margin	5.2%	-	1.9%	3.7%	3.9%	3.8%	5.0%

Source: Shared Research based on company materials

Notes: Figures may differ from company materials due to differences in rounding methods.

Initial company forecast (out June 9, 2023)

- Revenue: JPY50.0bn (+6.9% YoY)
- Operating profit: JPY5.0bn (+24.8% YoY)
- Recurring profit: JPY4.5bn (+21.4% YoY)
- Net income attributable to owners of the parent: JPY2.5bn (+39.5% YoY)

For FY04/24, the company forecasts revenue of JPY50.0bn (+6.9% YoY), operating profit of JPY5.0bn (+24.8% YoY), recurring profit of JPY4.5bn (+21.4% YoY), and net income attributable to owners of the parent of JPY2.5bn (+39.5% YoY). The company expects the same revenue and operating profit as those targeted in the SiLK VISION 2024 medium-term

management plan. The company will make strategic investments to expand the domains of mobile transformation, lifestyle transformation, and production transformation, and deploy management resources in DX and other new fields. The company will pursue a comprehensive and well-balanced business strategy as it enters the final year of SiLK VISION 2024.

Ahead of its next medium-term management plan, SiLK VISION 2027, the company will implement measures for further growth in the "performance zone", and the monetization of the "transformation zone" and the "incubation zone".

Medium-term earnings outlook

FreeBit unveiled its current medium-term management plan, SiLK VISION 2024, in July 2021. The plan targets consolidated revenue of JPY50.0bn (+16.1% from FY04/22) and operating profit of JPY5.0bn (+58.0%) in its final year, FY04/24. SiLK VISION 2024 is based on FreeBit's ten-year plan spanning 2021 to 2030, which places 5G and Web3 at the center of technological transformations during the period. The ten-year plan has three phases: the initial phase—SiLK Vision 2024—dubbed the "Pre 5G/Web3" phase, followed by SiLK VISION 2027 dubbed the "Core 5G/Web3" phase, and finally SiLK VISION 3030, which is the "6G Standby" phase.

Now that 5G has started to spread, under SiLK VISION 2024, FreeBit will work on "exponential technology" (technology that grows exponentially) with the intent to become an integrated service provider, or what the company refers to as "Platform Maker" of the 5G/Web3 era. To this end, it will pursue business expansion while being mindful of social sustainability. It will aim to fulfill the goals of its medium-term management plan by focusing on the business domains of mobile transformation, lifestyle transformation, and production transformation, which it considers to be areas of global growth, and intensively deploy management resources in these areas.

FreeBit positions its existing operations such as the 5G Infrastructure Platform businesses (MVNE, fixed-line network, cloud, etc.) and the 5G Homestyle business (ISP services for housing complexes) in what it calls the "performance zone," where it anticipates continued business growth amid 5G and other changes. In the "transformation zone," it will seek to groom the 5G Lifestyle businesses (Tone Mobile and DTI) into growth drivers, and in the "incubation zone," it will develop new businesses (such as 5G Workstyle, 5G Healthstyle, Creator Maker [StandAlone], and Bizmodel Maker [4.0]). To this end, it will invest strategically in these two zones. FreeBit maintains that SiLK VISION 2024 is an investment phase for creating new businesses that cater to the lifestyles of the 5G era.

In line with the announcement of SiLK VISION 2024, FreeBit reclassified its reportable segments into 5G Infrastructure Support, 5G Lifestyle Support, and Enterprise/Creator 5G DX Support. In the 5G Infrastructure Support segment, which falls under the mobile transformation domain, the company will work to provide infrastructure platforms that enable safe and inexpensive connectivity among vast numbers of people and things, using 5G, embedded SIM, AI, and blockchain technologies. In the 5G Lifestyle Support segment (lifestyle transformation domain), the company looks to provide business platforms that support the creation of experience-based markets associated with safe and secure living, health, and work styles. In the Enterprise/Creator 5G DX Support segment (production transformation domain), the company will seek to provide platforms covering the stages from market creation/value creation and verification, to launch and CRM.

5G strategy

Since its inception, FreeBit has engaged in the "smart infrastructure business" supporting the infrastructures of various telecommunication services. Central to the company's operations is the interface called Building Blocks, where various FreeBit-owned technologies can be combined in different ways, much like how Lego blocks work. Building Blocks enables the provision of a variety of services including ISP, IoT, and subscription-based services, simply by changing the combination of technologies.

FreeBit has historically expanded its operations through timely introduction of new services in line with the evolution of telecom infrastructures. During the dial-up access era (until around 2001), FreeBit established its position in fixed-line communications by offering free services, and with the industry shift to broadband services like xDSL and FTTH, the company expanded business by offering internet connectivity to internet service providers (ISPs) and running its own ISP service dedicated to housing complexes. In the 4G era that followed, FreeBit launched its mobile virtual network enabler (MVNE) business, although it has yet to lead the market in this field.

FreeBit understands that major players have shifted every ten years during the evolution of telecoms infrastructure from 2G to 3G, and to 4G. As 5G becomes mainstream and eventually shifts to 6G in the next ten years, the company sees the need to first envision how the 5G era will evolve in ten years' time, and then calculate backwards to work out its strategies during the period.

FreeBit believes that it owns certain technologies crucial to the 5G era, in the fields of 5G itself as well as blockchain, AI, data, and IoT. With this in mind, it plans to further invest in three areas in preparation for the 5G era: namely, faster wireless speeds; shift from fixed-line to mobile network; and a business to support platformers. By doing so, the company intends to make a shift from a smart infrastructure provider to an integrated service provider, or what the company refers to as "Platform Maker" of the 5G/Web3 era, offering high value-added services that use Building Blocks to support platforms.

Capital and business alliance with Alps Alpine Co., Ltd.

On March 31, 2023, FreeBit entered into a capital and business alliance agreement with Alps Alpine Co., Ltd. (TSE Prime: 6770). The capital alliance entails the allotment of 1,140,000 FreeBit shares (treasury stock) to Alps Alpine. The two parties had already concluded a business alliance agreement in the CASE* and MaaS* fields on July 23, 2019, and in the process, Alps Alpine had obtained 2,370,600 shares of FreeBit. The additional acquisition of FreeBit shares under the latest capital alliance increased Alps Alpine's ownership of FreeBit's shares (excluding treasury stock) from 12.60% (as of October 31, 2022) to 17.59% (as of April 30, 2023).

CASE: An acronym for "connected, autonomous, shared, electric," which is a term used in the auto industry to describe transformative features of advanced cars

MaaS: Mobility as a Service; services that utilize multiple modes of transportation as well as information and communication technology

Under the business alliance, the parties plan to collaborate on mobility and IoT products using blockchain and other Web3-related technologies, and to also develop a business model that generates profit on an ongoing basis. The alliance aims to achieve high-speed and low-latency communications related to mobility and IoT products, accomplish migration to Web3, strengthen protection of personal information, and improve global competitiveness.

In FreeBit's mainstay MVNE business, the company expects that with the spread of the 5G Standalone (SA)* standard, its customer base will expand from conventional MVNOs to individuals and general enterprises, as well as IoT operators and automotive manufacturers that pursue autonomous driving. The company perceives the spread of 5G SA to be a business opportunity, but at the same time, recognizes it as an area of challenge.

5G Standalone (SA): A wireless communication standard under which 5G is implemented solely using a 5G core network without any dependence on 4G LTE

Alps Alpine has a strong track record in supplying car navigation and in-vehicle infotainment (IVI) systems* to automakers in Japan and overseas, and has design and manufacturing technologies for a wide range of components including in-vehicle input/output devices and components for telecommunications. According to its medium-term management plan, Alps Alpine launched the Digital Cabin Solution business, aiming to provide solutions that deliver the three values of safety, comfort, and excitement through integration of automotive cockpits. Alps Alpine also indicated that it looks to provide these solutions based on a business model that generates profit on a recurring basis.

In-vehicle infotainment (IVI) system: A general term describing automotive systems designed to provide information and entertainment

FreeBit determined that Alps Alpine would be the best partner to pursue solutions services that address 5G, Web3, and AI technologies and to propose joint businesses, considering the close relationship and the business results the two companies have achieved since the alliance concluded in July 2019. With the latest capital and business alliance, the two parties aim to expand the areas of collaboration under the previous business alliance (July 2019) to Web3, 5G, and ADAS* domains, jointly develop technologies, and build businesses, including one that is based on a recurring-revenue model.

ADAS: Advanced driver-assistance systems

On a gross basis, the allotment of FreeBit's treasury stock to Alps Alpine was slated to raise JPY1,470.6mn. The proceeds net of issuance and other fees (JPY14.0mn) were estimated at JPY1,456.6mn. These proceeds are earmarked for the following

uses.

Use of proceeds	Amount JPYmn	Scheduled period of use
(1) Development of basic system for a decentralized common ID, taking DIDs into account	140	May 2023- April 2025
(2) Development of a general-purpose billing system for recurring charges, taking global settlement into account	312	May 2023- April 2028
(3) Basic development of CRM system as an ancillary system for (1) and (2) above	192	May 2023- April 2028
(4) Development of various connectors linking Web3	100	May 2023- April 2026
(5) Research on blockchain intellectual property (IP) in the automotive domain; expenditure to acquire such IP	150	May 2023- April 2028
(6) Enhancement of existing infrastructure to manage blockchain products	562	May 2023- April 2028
Total	1,456	

Source: Shared Research based on company materials

As the first stage of the capital and business alliance, FreeBit and Alps Alpine are conducting proof-of-concept tests on blockchain-based smart security and research into new urban developing utilizing 5G for incubation business LIVINGTOWN Minato Mirai that Giga Prize is due to open in July 2023.

Web3 strategy

FreeBit understands that the 5G era will generate a shift from a society that centers around major platformers to one that is decentralized. In this context, it thinks that determining how to handle the new Web3 movement, which utilizes blockchain and other new technologies, is of vital importance to the company. Accordingly, FreeBit has positioned its Web3 strategy at the core of group initiatives, and will be dedicating a large part of future efforts to Web3.

Blockchain: A type of database technology for recording information, where data is managed in units called blocks, and is stored by stringing these blocks together like a chain. It is called a blockchain because the blocks are connected in chronological order. There is no central authority retaining control over the blockchain; instead, all or part of the ledger is shared, stored, and managed by all participants handling the crypto assets.

FreeBit sees Web1.0 and Web2.0 as a period when companies providing applications that ran on internet protocols were the ones in the center of spotlight, rather than the telecom carriers or the ISPs undergirding the protocol layer of communication networks. However, FreeBit believes that the value of the protocol layer will heighten in the Web3 era when applications will be written easily on the blockchain that is integrated into the protocol layer.

Issues surrounding blockchains

FreeBit maintains that the protocol layer will become more important in the future, since the reliability of the data flowing through a blockchain is guaranteed by consensus algorithm* and protocols*. In this respect, the company believes that there are a considerable number of issues surrounding blockchains themselves when viewed from the side of the protocol layer.

Consensus algorithm: In a blockchain, which does not have a central authority validating transactions, all participants of the blockchain network share the ledger information, and partake in reaching a common agreement about the state of the ledger. Consensus algorithm is the procedure through which a common agreement is reached.

Protocol: Procedures and standards for computer-to-computer communication

Issues surrounding blockchains, according to FreeBit, are as follows.

1. Yet to achieve node* scale suitable for the market value (9,000–17,000 nodes even for Bitcoin or Ethereum)
2. Uneven distribution of node operators

3. High environmental impact of mining* (Proof of Work*)
4. Slow transaction processing speed
5. High barriers for general users to take on blockchains
6. High volatility of crypto assets that function as an incentive for node operators
7. Progress in related legislation differs from country to country

In terms of issue #1 shown above, even Bitcoin that leads in market capitalization at JPY84tn (as of June 27, 2023) only has about 16,853 nodes, according to a study by FreeBit. The estimated one-hour cost of completing a so-called 51% attack* on a cryptocurrency network (acquiring processing capability of 51% of the network, allowing the attacker to conduct fraudulent transactions) is only about JPY190mn (source: Crypto51). In this sense, FreeBit believes the mechanism of Bitcoin is not exactly persuasive for the size of its market capitalization.

Node: A terminal (communication device) that monitors and manages transaction information and approves transactions

Mining: The act of storing transaction data in a block in the blockchain after verifying and approving the data, then earning cryptocurrency as a reward for the series of actions performed

Proof of Work (PoW): A type of consensus algorithm. When a transaction occurs, the miners (blockchain participants that engage in mining) compete with each other in a race to verify the transaction. The first miner to correctly complete a required computation is rewarded with cryptocurrency. PoW has been adopted by Bitcoin and many other cryptocurrencies.

Proof of Stake (PoS): A type of consensus algorithm, which requires a participant to stake some of its cryptocurrency holdings as collateral to be awarded the work to verify a transaction. The probability of being assigned a role for validation rises in proportion to the amount of cryptocurrency owned. The validator (see below) earns cryptocurrency when the verification is completed. Ethereum shifted its consensus algorithm from PoW to PoS in September 2022.

51% attack: Attack mounted by a malicious group or individual seeking to conduct fraudulent transactions by controlling 51% (50% or more) of an entire network's hash rate

With regard to issue #2, Ethereum implemented a large upgrade to Ethereum2.0 in September 2022, also shifting to the PoS algorithm (see box above). As a result, its node count increased and validators* became more widely distributed. Yet, according to FreeBit's study, top ten staking providers still account for 58% of Ethereum validators.

Validator: A node that verifies the correctness of transaction data for Ethereum2.0 and other crypto assets (currencies). The term is mainly used in blockchains that adopt PoS. A validator takes on a role similar to that of a miner in the PoW consensus algorithm.

In terms of issue #3, the environmental impact of the PoW consensus algorithm is extremely high because its mechanism encourages miners to compete based on the processing power of their computers as they battle to become the first to complete a required computation and be rewarded with cryptocurrency. According to FreeBit, the amount of electricity consumed annually by Bitcoin's mining activities surpasses that of countries like Sweden and Ukraine. The Ethereum2.0 blockchain, which has shifted to PoS, is said to be able to reduce electricity consumption by 99.5%. Nonetheless, it still takes four days worth of household electricity for Ethereum to issue one non-fungible token (NFT).*

Non-Fungible Token (NFT): Non-substitutable digital data created on a blockchain. NFTs take many forms. Digital art, digital fashion, game items, and various other tangible and intangible items have been converted to NFTs.

With regard to issue #4, among credit cards, Masters Card processes 5,000 transactions per second (maximum capacity of 65,000 transactions) and Visa Card, roughly 1,700 transactions per second (24,000). The processing speed of blockchains differs substantially in comparison, with Bitcoin processing three to seven transactions per second and Ethereum, between 15 and 25 transactions per second.

freebit web3 Blocks

With a view to overcoming these issues, FreeBit unveiled "freebit web3 Blocks," which can create a new type of Layer-1 blockchain adaptable to both public and private communities. With "freebit web3 Blocks," not only servers but also smartphones and other mobile devices can be used as nodes, and in addition to its functionality as user interface, it can create Layer-1 blockchains.

Conventional blockchains take the form of a large Layer-1 blockchain, like Bitcoin and Ethereum. They are based on the idea of using a single large blockchain to satisfy the needs of various communities; when the needs cannot be met, the blockchain is extended to a Layer-2 blockchain, but in any case, problems concerning electric power consumption and blockchain transactions still remain. In contrast, "freebit web3 Blocks" takes a different approach where each community operates its own Layer-1 blockchain adaptable to the varying needs specific to the community. Thus, unlike the conventional concept of Web3 in which everything is concentrated in one Layer-1 blockchain, the key feature of "freebit web3 Block" is the distribution of Layer-1 blockchains themselves to each community.

The ability to run on smartphones is another outstanding feature of "freebit web3 Blocks." Since it operates blockchain applications using surplus power, resources, and CPUs of smartphones, the environmental impact is minimized.

In May 2022, FreeBit started the TONE Labo demonstration trial as its first "freebit web3 Blocks" project. The trial targeted the users of the company's TONE e22 smartphones. These users were offered a loyalty point program (a decentralized app*), TONE Coin, based on the world's first Ethereum-compatible Layer-1 blockchain that runs on smartphones, called TONE Chain (source: FreeBit). In June 2023, the company announced that TONE Chain had more than 3,566 nodes in regular operation in just about 12 months into the trial project, making it the fourth largest Layer-1 blockchain globally by number of nodes in operation.

Decentralized Applications (DApps): A general term for apps that run on a blockchain-based decentralized network. Development of DApps is underway on Ethereum and various other blockchains.

The company said that the demonstration trial succeeded in shedding light on various solutions to the aforementioned issues surrounding blockchains. Having achieved the fifth-largest number of nodes in operation with just one community answered issue #1 of existing Layer-1 blockchains. The formation of a community in which one TONEe22 user served as one node operator answered issue #2. The use of surplus resources while smartphones were being charged was an answer to issue #3, and achieving specifications that met community and service needs was an answer to issue #4. Automatic installation of the TONE Coin app answered issue #5. TONE Coin (token granted to trial participants) had no volatility, which was an answer to issue #6.

During SiLK VISION 2024, FreeBit looks to start up various services that can showcase the company's capabilities, and under SiLK VISION 2027, it plans to spread these services and become an integrated service provider, or what the company refers to as "Platform Maker." It will seek to roll out services for various communities and layers of the blockchain, making use of Building Blocks for 5G and the "freebit web3 Blocks."

According to the company, it aims to open up health and medical service TONE Care, which is currently undergoing proof-of-concept testing, using TONE as a platform, and provide individual B2C services, centering on TONE, and B2B platforms for medical institutions. The company is also preparing services that make abundant use of its Building Blocks interface.

Future business model of "freebit web3 Blocks"

FreeBit envisions investing in companies that use "freebit web3 Blocks" as one possibility for its future business model. According to the company, web3-related companies face no risk in adopting "freebit web3 Blocks" because it is Ethereum-compatible, requiring no modification to run programs. FreeBit also plans to offer integration services to companies and communities that want to use or create a Layer-1 blockchain. Another idea is to provide TONE Chain to outside parties in an Ethereum-compatible format. The company estimates that annual transaction fees generated on Ethereum total about JPY2.0tn. If FreeBit can secure even 1% of these fees, the business would generate JPY20.0bn a year for the company.

FreeBit says various preparations for SiLK VISION 2027 are progressing about one year to six months ahead of schedule. The company intends to develop its businesses in view of the next medium-term management plan, spending sufficient time for preparation within the current SiLK VISION 2024 period.

Business

Business overview

FreeBit Co., Ltd. and its subsidiaries mainly provide internet-related services to both corporate and individual customers. The business areas of the parent company FreeBit include support services for mobile virtual network operators (MVNOs) where the company serves as a mobile virtual network enabler (MVNE), support services for internet service providers (ISPs), and corporate-use cloud services. As for the core subsidiaries, Giga Prize Co., Ltd. (NSE Next: 3830; 58.90% stake owned by FreeBit) offers internet-related services for housing complexes, Dream Train Internet Inc. (DTI; unlisted) offers mobile communication and internet-related services to individuals, and Full Speed Inc. engages in online advertising services. (Note: Full Speed delisted on September 1, 2022, following FreeBit's tender offer for its shares; Full Speed is currently a wholly owned subsidiary of the company.)

Mobile virtual network operator (MVNO): A business operator that provides services by leasing telecommunications infrastructure from a mobile network operator such as NTT Docomo

Mobile network operator (MNO): A business operator, such as NTT Docomo, that provides telecommunications services using their own network infrastructure and the spectrum allocations it receives directly from a regulatory/government entity, which is the Ministry of Internal Affairs and Communications in the case of Japan

Mobile virtual network enabler (MVNE): An MVNE procures connectivity from MNOs in bulk, providing it to MVNOs in smaller lots while engaging in telecommunications control. An MVNE also offers technology, expertise, and other support to assist MVNOs' operations

Internet service provider (ISP): A business operator that provides an access point necessary to establish internet connection

The company operates in three reportable segments: 5G Infrastructure Support, 5G Lifestyle Support, and Enterprise/Creator 5G DX Support.

Businesses in each segment and the companies in charge

By segment	Business	Company in charge
5G Infrastructure Support	• 5G Infrastructure Platform	FreeBit Co., Ltd.
	Support services for MVNOs (MVNE business)	
	Support services for ISPs	
	Corporate-use cloud services	
5G Lifestyle Support	• 5G Homestyle	Giga Prize Co., Ltd.
	Internet services for housing complexes	
	Corporate housing management service	
	• 5G Lifestyle	Dream Train Internet Inc. (DTI), Tone Lifestyle Co., Ltd.
	Mobile communication services for individuals	
	Internet services for individuals	
• 5G Workstyle (new business)	FreeBit Co., Ltd.	
• 5G Healthstyle (new business)	FreeBit Co., Ltd.	
Enterprise/Creator 5G DX Support	• Internet marketing services	Full Speed Inc.
	• Ad technology services	For it Inc.
	• Creator Maker (new business)	FreeBit Co., Ltd., Full Speed Inc.
	• Bizmodel Maker (new business)	FreeBit Co., Ltd., Full Speed Inc.

Source: Shared Research based on company materials

5G Infrastructure Support

In the 5G Infrastructure Support segment, FreeBit seeks to provide platforms that help create future experience-centered markets by utilizing embedded SIMs, AI, and blockchain technologies to establish connectivity among people and among a vast number of things in a safe and inexpensive manner. More specifically, businesses offered in this segment include support services for MVNOs (with FreeBit serving as an MVNE), support services for ISPs, and cloud services for corporate use. The parent company is the main entity driving operations in this segment. In FY04/23, revenue in 5G Infrastructure Support was JPY9.5bn (19.1% of consolidated revenue) and operating profit was JPY1.4bn (34.4% of consolidated operating profit).

FreeBit does not disclose a revenue breakdown for this segment nor other details such as total subscriptions or the average revenue per user. The company says, however, that the majority of revenue in this segment comes from its MVNE services,

followed by services for ISPs, and cloud services, with the MVNE services on a continued growth track. FreeBit offers MVNE services called the freebit MVNO Pack, where it procures bandwidth from NTT Docomo, and sells services based on a customer-specific rate plan or bandwidth contract, adding other components such as network operation monitoring, user management tools, cloud, and security depending on customer needs. In addition to external MVNOs, the consumer-use DTI SIM and TONE mobile businesses operated by DTI in the 5G Lifestyle Support segment also use the freebit MVNO Pack.

While multiple companies offer MVNE services, it is difficult for them to achieve differentiation on the cost front; nor are there significant differences in the ancillary services, such as network operation monitoring and security, these companies offer. Shared Research thus surmises that customers are selecting FreeBit for its price competitiveness. In the 5G era that enables connectivity of a variety of things, cost consciousness will likely heighten especially in the communication module market, creating opportunities for the company's MVNE services.

Revenue structure

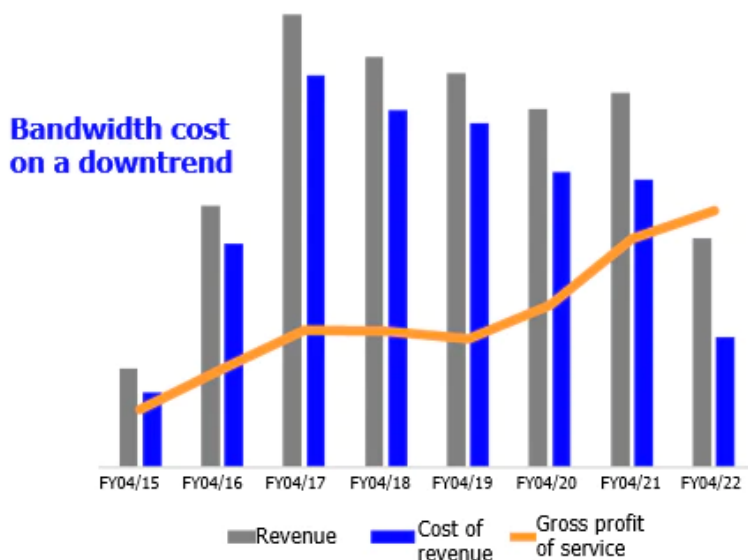
According to the company, revenue from the freebit MVNO Pack service varies depending on the type of contract. Shared Research understands that FreeBit charges fees either based on the number of lines or the bandwidth it supplies, with fees added for other functions such as cloud and security services offered in combination. On the cost front, the company pays for the bandwidth it procures from NTT Docomo, as well as operation and equipment fees. The basis for bandwidth cost is the mobile data interconnection charge (unit price), which each mobile network operator (MNO)* notifies to the Ministry of Internal Affairs and Communications. NTT Docomo's interconnection charge has declined at an average annual rate of roughly 17% from 2017 (actual) to 2022 (estimate). FreeBit says that although the amount of bandwidth it procures has been on the rise accompanying an increase in the number of customers, the falling per-unit interconnection charge has reduced the company's bandwidth cost. Particularly in FY04/22, bandwidth cost decreased substantially owing to a roughly 28% decline in the interconnection charge. According to the company, after declining due to price markdowns conducted to reflect the lower interconnection charge, revenue turned up from the amount of bandwidth the company provides increasing with the acquisition of business from new MVNOS, and service gross profit continue to rise in FY04/23.

Changes in NTT Docomo's mobile data interconnection charges

	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024
					Plan	Plan	Plan
Mobile data interconnection charge (Mbps/JPY/Month)	49,311	42,702	37,280	27,024	20,327	15,697	13,207
YoY	-6.0%	-13.4%	-12.7%	-27.5%	-24.8%	-22.8%	-15.9%

Source: Shared Research based on the Ministry of Internal Affairs and Communications

Revenue also tracks a downtrend in line with lower bandwidth cost



Source: Shared Research based on company materials

The cost of revenue breakdown of the parent company points to a large decline in line usage fees in FY04/22. Although this item also includes fees other than the cost of bandwidth procured from NTT Docomo, the fall reflects the impact of a substantial decline in the unit price of NTT Docomo's interconnection charge.

FreeBit (parent): Cost of revenue breakdown

Cost of revenue (JPYmn)	FY04/14	FY04/15	FY04/16	FY04/17	FY04/18	FY04/19	FY04/20	FY04/21	FY04/22	FY04/23
Labor costs	587	469	540	617	524	541	557	606	636	753
Various costs	5,050	5,666	8,003	10,044	9,637	9,421	8,909	8,630	5,076	5,462
Line usage fees	3,122	3,492	5,817	7,942	7,254	7,288	6,762	6,748	3,617	3,944
Rent expenses	494	561	580	574	569	572	538	514	451	403
Commission expenses	-	-	-	-	-	371	503	534	234	274
Depreciation	266	281	278	309	372	424	394	257	124	-
Outsourcing expenses	759	918	855	732	708	488	432	314	378	418
Other	409	413	473	487	735	278	280	264	273	423
Cost of business	5,638	6,135	8,542	10,661	10,160	9,962	9,466	9,235	5,712	6,215
Beginning goods	-	67	84	676	159	182	171	73	32	7
Cost of purchased goods	-	44	1,160	1,201	1,232	1,194	678	642	730	735
Total	-	111	1,244	1,877	1,391	1,376	849	715	763	742
Transfer to other accounts	-	7	7	9	203	60	108	22	13	36
Ending goods	-	84	676	159	182	171	73	32	7	26
Cost of goods	-	20	561	1,710	1,006	1,145	668	661	743	681
Cost of revenue	5,638	6,155	9,104	12,371	11,166	11,107	10,134	9,896	6,455	6,896

Source: Shared Research based on company materials

Earnings trends

The company began disclosing earnings for 5G Infrastructure Support from FY04/21 in line with the change in segment classification. In FY04/23, revenue in this segment grew 5.1% YoY to JPY9.5bn (accounting for 19.1% of consolidated revenue) and operating profit rose 21.6% YoY to JPY1.4bn (34.4% of consolidated operating profit).

Factors contributing to the JPY245mn YoY increase in segment operating profit were the absence of strategic investment made in FY04/22 (JPY284mn), increased service use in the B2B mobile business (276mn), and cost improvement in the B2B fixed-line network business (JPY26mn). Meanwhile, the development of 5G data centers (strategic investment) and reduced service use in the cloud business detracted by JPY175mn, and a rise in personnel expenses by JPY167mn. The company made strategic investments amounting to JPY300mn (+JPY16mn YoY) in the 5G Infrastructure Support segment. These were focused on the development of 5G data centers and data linkage projects.

5G Infrastructure Support: Full-year results

5G Infrastructure Support (JPYmn)	FY04/21	FY04/22	FY04/23
Revenue	11,652	9,033	9,489
YoY	-	-22.5%	5.1%
OP	470	1,134	1,378
YoY	-	141.3%	21.6%
OPM	4.0%	12.6%	14.5%
strategic investments	267	284	300
Effect of adoption of revenue recognition standards, etc.			
Revenue	-	-1,887	-
OP	-	18	-

Source: Shared Research based on company materials

5G Infrastructure Support: Quarterly results

Earnings (cumulative) (JPYmn)	FY04/23				FY04/24			
	Q1	Q1-Q2	Q1-Q3	Q1-Q4	Q1	Q1-Q2	Q1-Q3	Q1-Q4
Revenue	2,328	4,733	7,109	9,489	2,428			
YoY	4.7%	5.8%	6.1%	5.1%	4.3%			
OP	393	733	1,161	1,378	438			
YoY	33.2%	34.7%	21.2%	21.6%	11.5%			
OPM	16.9%	15.5%	16.3%	14.5%	18.1%			
strategic investments	60	132	210	300	74			
Effect of adoption of revenue recognition standards, etc.								
Revenue	-	-	-	-	-			
OP	-	-	-	-	-			
Quarterly (JPYmn)	FY04/23				FY04/24			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Revenue	2,328	2,404	2,376	2,380	2,428			
YoY	4.7%	7.0%	6.6%	2.0%	4.3%			
OP	393	340	427	218	438			
YoY	33.2%	36.5%	3.4%	23.4%	11.5%			
OPM	16.9%	14.2%	18.0%	9.1%	18.1%			
strategic investments	60	72	78	90	74			
Effect of adoption of revenue recognition standards, etc.								
Revenue	-	-	-	-	-			
OP	-	-	-	-	-			

Source: Shared Research based on company materials

5G Lifestyle Support

In the 5G Lifestyle Support segment, FreeBit uses the platforms emerging from the 5G Infrastructure Support segment to build and provide business platforms that help create various experience-centered markets unique to the 5G era, such as those tied to safe and secure lifestyles, health, work styles, and homes. More specifically, in the 5G Homestyle business, the company provides internet services for housing complexes as well as corporate housing management services, and in the 5G Lifestyle business, it provides mobile communication and internet services for individuals. New businesses in this segment include 5G Workstyle and 5G Healthcare.

Operations in this segment center around Giga Prize Co., Ltd. that provides 5G Homestyle services. In addition, Dream Train Internet Inc. (DTI) and Tone Lifestyle Inc. handle the 5G Lifestyle services, and FreeBit (the parent) drives the new businesses. In FY04/23, segment revenue stood at JPY23.3bn (accounting for 46.9% of consolidated revenue) and operating profit came to JPY2.0bn (50.9% of consolidated operating profit). Shared Research understands that earnings contribution of Giga Prize is substantial in this segment, with the subsidiary generating over 70% of segment revenue, and profit exceeding segment profit.

Earnings trends

FreeBit began disclosing results for the 5G Lifestyle Support segment from FY04/21, following changes in the segment classification. In FY04/23, segment revenue was JPY23.3bn (46.9% of consolidated revenue) and operating profit was JPY2.0bn (50.9% of consolidated operating profit).

Factors contributing to the JPY594mn YoY increase in operating profit were the absence of strategic investment made in FY04/22 (JPY1.3bn), and growth in revenue at Giga Prize (JPY701mn). Detracting from profit were reduced profit at DTI following the termination of ADSL services (JPY198mn), lower gross profit at Tone Mobile due to the shift to lower priced plans (JPY540mn), strategic investments into new product groups (JPY415mn), and other factors (JPY201mn). The company made strategic investments totaling JPY769mn (JPY477mn YoY) in the 5G Lifestyle Support segment in FY04/23. These were targeted at promotions for Tone Mobile, the development and proof-of-concept testing of TONE Care, development and testing relating to Web3 (blockchain), and the development of services in the 5G Workstyle business.

Full-year earnings trends of 5G Lifestyle Support

5G Lifestyle Support (JPYmn)	FY04/21	FY04/22	FY04/23
Revenue	22,973	21,735	23,261
YoY	-	-5.4%	7.0%
Giga Prize(58.9%, FY ends in March)	15,879	15,790	17,869
YoY	16.3%	-0.6%	11.1%
Home IT	15,178	15,621	17,680
Real Estate	691	160	181
Other	10	9	7
Adjustments	0	-	-
Dream Train Internet Inc. (DTI)(100%Subsidiary)	7,189	5,610	-
TLS (100%Subsidiary)	-	-	-
FreeBit-other	-95	335	5,393
OP	2,143	1,446	2,039
YoY	-	-32.5%	41.1%
OPM	9.3%	6.7%	8.8%
Giga Prize(FY ends in March)	2,158	2,239	2,941
YoY	74.7%	3.8%	39.1%
OPM	13.6%	14.2%	16.5%
Home IT	3,599	3,532	4,266
Real Estate	-133	18	12
Other	2	1	1
Adjustments	-1,310	-1,312	-1,338
Dream Train Internet Inc. (DTI)	-	-	-
TLS	-	-	-
FreeBit-other	-15	-793	-901
strategic investments	827	1,246	769
Effect of adoption of revenue recognition standards, etc.			
Revenue	-	-1,493	-
Of which, Giga Prize	-	-1,069	-
OP	-	-265	-
Of which, Giga Prize	-	-249	-

Source: Shared Research based on company materials

Quarterly earnings of 5G Lifestyle Support

Earnings (cumulative) (JPYmn)	FY04/23				FY04/24			
	Q1	Q1-Q2	Q1-Q3	Q1-Q4	Q1	Q1-Q2	Q1-Q3	Q1-Q4
Revenue	5,477	11,157	16,764	23,261	7,600			
YoY	4.2%	4.4%	4.6%	7.0%	38.8%			
Giga Prize(60.5% stake)	4,092	8,424	12,705	17,869	6,473			
YoY	11.1%	10.8%	10.4%	13.2%	58.2%			
Home IT	4,050	8,337	12,579	17,680	-			
Real Estate	40	82	119	181	-			
Other	3	5	7	7	-			
Adjustments	-	-	-	-	-			
Dream Train Internet Inc. (DTI)(100%Subsidiary)	-	-	-	-	-			
TLS (100%Subsidiary)	-	-	-	-	-			
FreeBit-other	1,385	2,733	4,058	5,393	1,127			
OP	377	980	1,535	2,039	1,034			
YoY	-33.4%	-17.5%	-6.4%	41.1%	174.4%			
OPM	6.9%	8.8%	9.2%	8.8%	13.6%			
Giga Prize	644	1,349	2,039	2,941	1,284			
YoY	39.1%	39.8%	32.2%	31.3%	99.4%			
OPM	15.7%	16.0%	16.0%	16.5%	19.8%			
Home IT	983	1,993	3,020	4,266	-			
Real Estate	5	16	20	12	-			
Other	0	1	1	1	-			
Adjustments	-345	-660	-1,002	-1,338	-			
Dream Train Internet Inc. (DTI)	-	-	-	-	-			
TLS	-	-	-	-	-			
FreeBit-other	-267	-369	-504	-901	-250			
strategic investments	150	273	416	769	125			
Effect of adoption of revenue recognition standards, etc.								
Revenue	-	-	-	-	-			
OP	-	-	-	-	-			
Giga Prize								
Number of households served by ISP(Cumulative, '000)	938	974	1,007	1,052	1,099			
Net increase	38	36	33	44	47			

Quarterly (JPYmn)	FY04/23				FY04/24			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Revenue	5,477	5,679	5,607	6,497	7,600			
YoY	4.2%	4.7%	4.9%	13.9%	38.8%			
Giga Prize(58.9% stake; FY ends in March)	4,092	4,332	4,282	5,163	6,473			
YoY	11.1%	10.6%	9.6%	20.6%	58.2%			
Home IT	4,050	4,287	4,242	5,101	-			
Real Estate	40	42	37	62	-			
Other	3	2	2	-	-			
Adjustments	-	-	-	-	-			
Dream Train Internet Inc. (DTI)(100%Subsidiary)	-	-	-	-	-			
TLS (100%Subsidiary)	-	-	-	-	-			
FreeBit-other	1,385	1,348	1,325	1,334	1,127			
OP	377	603	555	504	1,034			
YoY	-33.4%	-2.9%	22.7%	- %	174.4%			
OPM	6.9%	10.6%	9.9%	7.8%	13.6%			
Giga Prize	644	705	691	901	1,284			
YoY	39.1%	40.5%	19.4%	29.4%	99.4%			
OPM	15.7%	16.3%	16.1%	17.5%	19.8%			
Home IT	983	1,009	1,028	1,246	-			
Real Estate	5	10	5	-8	-			
Other	0	0	0	-0	-			
Adjustments	-345	-315	-342	-336	-			
Dream Train Internet Inc. (DTI)	-	-	-	-	-			
TLS	-	-	-	-	-			
FreeBit-other	-267	-102	-135	-397	-250			
strategic investments	150	123	143	353	125			
Effect of adoption of revenue recognition standards, etc.								
Revenue	-	-	-	-	-			
OP	-	-	-	-	-			

Source: Shared Research based on company materials

Giga Prize Co., Ltd.

Giga Prize chiefly provides internet services for housing complexes, as well as corporate housing management services. On a consolidated basis, these fall under the 5G Homestyle business within Freebit's 5G Lifestyle Support segment. Giga Prize's reportable segments break down into Home IT (mainly offering bulk internet services covering all units of small to medium-sized multi-family properties like apartments and condos), Real Estate (including corporate housing management services and the VR-based display homes business), and Other (mainly comprising a staffing business). In FY03/23, 98.9% of Giga Prize's revenue was in Home IT, and operating profit of Home IT accounted for 99.7% of the total.

In ISP services, Giga Prize handles the design, installation, and construction work associated with internet facilities for housing complexes. Following installation, it takes care of service operation and maintenance, and also provides tenant support. Giga Prize enters into contracts directly with customers such as house builders, property management companies, and individual owners. Since Giga Prize installs internet facilities for the entire housing complex, individual contracts with tenants are unnecessary, and tenants can enjoy internet access as soon as they move in. The actual installation work is mostly carried out by Giga Prize subsidiary, Giga Tech Co., Ltd., which is equipped to handle construction work nationwide.

Giga Prize: Revenue and operating profit by segment

Revenue by segment/OP (JPYmn)	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21	FY03/22	FY03/23
Revenue	1,841	2,179	2,928	3,754	6,355	10,922	13,649	15,879	15,790	17,869
YoY	-3.0%	18.4%	34.4%	28.2%	69.3%	71.9%	25.0%	16.3%	-0.6%	13.2%
Home IT	1,752	-	2,903	3,733	5,866	10,264	12,723	15,178	15,621	17,680
YoY	14.3%	-	-	28.6%	57.1%	75.0%	24.0%	19.3%	2.9%	13.2%
% of revenue								95.6%	98.9%	98.9%
Real Estate	-	-	-	-	471	645	917	691	160	181
YoY					-	36.9%	42.2%	-24.6%	-76.9%	13.2%
% of revenue								4.4%	1.0%	1.0%
System Development	58	-	-	-	-	-	-	-	-	-
YoY										
% of revenue										
Other	32	-	25	21	19	14	10	10	9	7
YoY	-0.2%			-18.7%	-6.5%	-29.7%	-26.5%	-3.2%	-2.1%	-20.8%
% of revenue								0.1%	0.1%	0.0%
Adjustments	-1	-	-	-	-1	-1	-0	-0	-	-
OP	149	358	464	501	559	1,292	1,235	2,158	2,239	2,941
YoY	131.0%	140.4%	29.5%	8.0%	11.7%	131.0%	-4.4%	74.7%	3.8%	31.3%
OPM	8.1%	16.4%	15.8%	13.3%	8.8%	11.8%	9.1%	13.6%	14.2%	16.5%
Home IT	195	-	809	1,032	1,724	2,889	2,913	3,599	3,532	4,266
YoY	37.6%	-	-	27.6%	67.0%	67.6%	0.8%	23.5%	-1.9%	20.8%
OPM	11.1%	-	27.9%	27.7%	29.4%	28.2%	22.9%	23.7%	22.6%	24.1%
% of OP	129.8%	-	99.2%	99.4%	123.2%	121.4%	119.1%	103.8%	99.5%	99.7%
Real Estate	-	-	-	-	-328	-512	-468	-133	18	12
YoY										
OPM					-69.7%	-79.4%	-51.0%	-19.2%	11.1%	6.7%
% of OP					-23.4%	-21.5%	-19.1%	-3.8%	0.5%	0.3%
System Development	-7	-	-	-	-	-	-	-	-	-
YoY										
OPM	-11.3%									
% of OP	-4.4%									
Other	-38	-	7	6	4	3	2	2	1	1
YoY				-9.9%	-38.0%	-20.5%	-45.7%	4.4%	-30.1%	-22.3%
OPM			27.2%	30.2%	20.0%	22.6%	16.7%	18.0%	12.9%	12.6%
% of OP			0.8%	0.6%	0.3%	0.1%	0.1%	0.1%	0.0%	0.0%
Adjustments	-1	-	-352	-538	-840	-1,089	-1,212	-1,310	-1,312	-1,338

Source: Shared Research based on company materials

In FY03/23, the line usage fees charged to customers on a recurring basis accounted for 68.0% of revenue in the Home IT segment; the remaining 32.0% was one-off initial income from the installation and configuration of network devices. Of the recurring revenue, 88.6% came from services provided to house builders and property management companies on an OEM basis, 5.6% was from RentAgent (Giga Prize's proprietary service targeting for-lease housing complexes), and 5.7% was from MyAgent (service targeting for-sale housing complexes). Revenue grew 15.9% YoY for the OEM-based service, 11.3% YoY for RentAgent, and 11.6% YoY for MyAgent. By customers, 72.6% of Giga Prize's total revenue came from four core OEM customers: D.U-Net Co., Ltd. (41.0% of total revenue in FY03/23), a group company of Daiwa House Industry Co., Ltd. (TSE Prime: 1925); Daito Trust Construction Co., Ltd. (TSE Prime: 1878; 2.6%); its subsidiary Daito Kentaku Partners Co., Ltd. (17.9%); and Sekisui House Real Estate Tokyo, Ltd., a subsidiary of Sekisui House Ltd. (TSE Prime: 1928). As of end-FY03/23, Giga Prize provided ISP services to 1,051,604 homes, an increase of 151,092 YoY.

Giga Prize: Results in the Home IT business

Home IT (JPYmn)	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21	FY03/22	FY03/23
Revenue	1,752	-	2,903	3,733	5,866	10,264	12,723	15,178	15,621	17,680
YoY	14.3%	-	-	28.6%	57.1%	75.0%	24.0%	19.3%	2.9%	13.2%
Recurring revenue	720	1,213	1,848	2,545	3,312	4,702	6,934	8,691	10,424	12,030
YoY	29.0%	68.5%	52.3%	37.7%	30.1%	42.0%	47.5%	25.3%	19.9%	15.4%
For-sale housing complexes	523	545	557	566	573	583	591	602	619	691
YoY	5.0%	4.2%	2.2%	1.6%	1.2%	1.7%	1.4%	1.9%	2.8%	11.6%
For-rent housing complexes	117	184	235	309	377	432	498	559	609	678
YoY	95.0%	57.3%	27.7%	31.5%	22.0%	14.6%	15.3%	12.2%	8.9%	11.3%
OEM	80	484	1,056	1,670	2,362	3,687	5,845	7,530	9,196	10,661
YoY	-	505.0%	118.2%	58.1%	41.4%	56.1%	58.5%	28.8%	22.1%	15.9%
Initial revenue	1,032	-	1,055	1,188	2,554	5,562	5,789	6,487	5,197	5,650
YoY	5.8%	-	#VALUE!	12.6%	114.9%	117.8%	4.1%	12.1%	-19.9%	8.7%
OP	195	-	809	1,032	1,724	2,889	2,913	3,599	3,532	4,266
YoY	37.6%	-	-	27.6%	67.0%	67.6%	0.8%	23.5%	-1.9%	20.8%
OPM	11.1%	-	27.9%	27.7%	29.4%	28.2%	22.9%	23.7%	22.6%	24.1%
Effect of revenue recognition standard on revenue	-	-	-	-	-	-	-	-	-1,069	-
Effect of revenue recognition standard on operating profit	-	-	-	-	-	-	-	-	-249	-
Homes to which ISP services were newly provided('000)	61	100	142	191	257	425	564	745	901	1,052
Net increase	21	39	42	49	66	168	139	181	155	151

Source: Shared Research based on company materials

Giga Prize: Revenue from core customers

Sales to major customers (JPYmm)	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21	FY03/22	FY03/23
D.U-Net Co., Ltd.	118	532	1,177	1,729	2,768	4,877	5,640	6,442	6,282	7,318
YoY	-	350.5%	121.2%	46.9%	60.0%	76.2%	15.6%	14.2%	-2.5%	16.5%
% of revenue	6.4%	24.4%	40.2%	46.1%	43.6%	44.7%	41.3%	40.6%	39.8%	41.0%
Daito Trust Construction Co., Ltd.	-	-	-	-	447	990	1,165	764	507	460
YoY	-	-	-	-	-	121.6%	17.7%	-34.4%	-33.7%	-9.3%
% of revenue	-	-	-	-	7.0%	9.1%	8.5%	4.8%	3.2%	2.6%
Daito Kentaku Partners Co., Ltd.	-	-	-	-	32	245	694	1,881	3,213	3,207
YoY	-	-	-	-	-	664.5%	183.4%	171.2%	70.8%	-0.2%
% of revenue	-	-	-	-	0.5%	2.2%	5.1%	11.8%	20.4%	17.9%
Sekisui House Real Estate Tokyo	-	-	-	-	-	-	-	-	1,533	1,986
YoY	-	-	-	-	-	-	-	-	-	29.5%
% of revenue	-	-	-	-	-	-	-	-	9.7%	11.1%

Source: Shared Research based on company materials

Revenue structure

In ISP services for housing complexes, revenue comprises initial income from installing and configuring network devices at such properties, and recurring income from network usage. The latter ensures stable revenue generation, as Giga Prize charges usage fees regularly based on the number of homes receiving the service. The main source of revenue in the Real Estate segment is the corporate housing management business. Also based on a recurring revenue model, here, Giga Prize earns stable revenue by billing fees regularly per each housing it manages.

Outlays, as Shared Research understands, include the costs of procuring telecommunication lines from NTT East and NTT West (subsidiaries of Nippon Telegraph and Telephone Corporation [TSE Prime: 9432]), as well as the costs of purchasing network equipment for installation at housing complexes and associated construction work, which are variable costs. Consolidated subsidiary Giga Tech mainly handles the installation work, but Giga Prize outsources the work to outside contractors if the area is not covered by Giga Tech. The main component of fixed costs is personnel expenses related to service operation/maintenance and tenant support, as these tasks are managed using in-house resources.

Dream Train Internet Inc. (DTI)

DTI utilizes FreeBit's support services for MVNOs (5G Infrastructure Support segment) to provide mobile communication services for individuals. It also provides fiber-optics and other home internet services. DTI has two brands in the mobile communication business: Tone Mobile and DTI SIM. The Tone Mobile service, previously sold online and through the stores of camera and electronics retailer Kitamura Co., Ltd. (unlisted), also became available through Docomo stores starting December 2021 under the NTT Docomo Economy MVNO framework. In contrast, DTI SIM products are only sold online. In the mainstay Tone Mobile business, the company seeks differentiation by offering a single plan that gives unlimited internet access (up to 1GB for video viewing) for JPY1,100 a month (including tax), targeting the user base of small children and seniors, and also by selling original smartphone handsets. The Tone Mobile for Docomo service—available through the Docomo stores—is managed by Tone Lifestyle Co., Ltd.

DTI earnings results

Dream Train Internet Inc. (DTI) (JPYmm)	FY04/14	FY04/15	FY04/16	FY04/17	FY04/18	FY04/19	FY04/20	FY04/21	FY04/22	FY04/23
Revenue	5,901	5,403	4,795	4,638	4,666	-	-	7,189	5,610	5,068
YoY	-	-8.4%	-11.3%	-3.3%	0.6%	-	-	-	-22.0%	-9.7%
Recurring profit	936	599	1,257	1,052	930	-	-	345	425	387
YoY	-	-36.0%	109.9%	-16.3%	-11.6%	-	-	-	23.0%	-9.0%
Recurring profit margin	15.9%	11.1%	26.2%	22.7%	19.9%	-	-	4.8%	7.6%	7.6%
Net income	568	966	1,281	803	632	-	-	11	283	261
YoY	-	70.0%	32.5%	-37.3%	-21.4%	-	-	-	-	-
Net margin	9.6%	17.9%	26.7%	17.3%	13.5%	-	-	0.2%	5.0%	5.1%
Net assets	5,456	8,369	8,571	8,471	7,702	-	-	5,765	5,874	6,137
Total assets	7,721	10,340	10,601	10,331	9,668	-	-	8,027	8,067	7,837

Source: Shared Research based on company materials

Tone Mobile for Docomo

On October 7, 2021, NTT Docomo announced that it has agreed to partner with FreeBit under Docomo's Economy MVNO framework. The system allows partner MVNOs to sell low-cost, low-volume data plans linked to NTT Docomo's *d-account* customer IDs and the *d-point* loyalty program, with the Docomo stores taking care of new contracts (issuing SIM cards and activating the lines), handset sales, and initial setup support. FreeBit launched a new price plan—Tone Mobile for Docomo—and began sales of the TONE for iPhone service on December 22, 2021, and the TONE for Android service on February 24, 2022. It currently offers the single plan that gives unlimited internet access (up to 1GB for video viewing) for JPY1,100 a

month (including tax). The service mainly caters to small children and seniors; FreeBit also sells original handsets, TONE e22 and TONE e21 rev.2.

Comparison of low-volume data plans

Company	Price plan	Monthly price (incl. tax) (JPY)	Voice (per every 30 seconds)	Data	Note
FreeBit	Tone Mobile for Docomo	1,100	JPY11	Unlimited use	Up to 1GB for video viewing. +JPY330 per additional 1GB
NTT Resonant	OCN Mobile ONE 1GB	770	JPY11	1GB	+JPY550 per additional 1GB
	OCN Mobile ONE 3GB	990	JPY11	3GB	+JPY550 per additional 1GB
IIJ	Giga plan 2GB	850	JPY11	2GB	+JPY220 per additional 1GB
	Giga plan 5GB	990	JPY11	5GB	+JPY220 per additional 1GB
Softbank	Y!mobile Simple S	2,178	JPY22	3GB	+JPY550 per additional 2GB
KDDI	UQ mobile Mini Mini plan S	2,365	JPY22	4GB	+JPY550 per additional 2GB

Source: Shared Research based on company websites

Tone Mobile's original handset TONE e22



Source: Tone Mobile website

As of November 2021, there were only 112 retail stores (mostly Kitamura's stores) that handled the Tone Mobile service. However, thanks to the partnership with NTT Docomo, this number climbed to roughly 2,100 by May 2023, with the addition of some 2,000 Docomo stores. To subscribe to the Tone Mobile for Docomo service, the customer first goes to a Docomo store for consultation, contract signing, and payment. In about two to three days following the store visit, the customer will receive delivery of a SIM card and/or TONE handset from the Tone Mobile distribution center. For handsets, the company

provides a tool called TONE Zen that uses AI technology to optimally configure the handset in about 20 seconds, based on the SIM registration data. Customers can also make use of the free initial setup service available at Docomo stores if they wish to do so.

The Tone Mobile service was initially sold at the stores of video and book store chain Tsutaya based on FreeBit's capital and business alliance with Culture Convenience Club Co., Ltd. that operated the chain. According to FreeBit, bringing the service to a Tsutaya outlet required an initial outlay of about JPY1mn per store and the company also had to bear the cost of store inventory. In contrast, we understand that the alliance with NTT Docomo is free of initial opening costs or inventory burdens, so the main cost is the sales commission payable when the customers sign a contract. An uptick in the number of contracts raises the amount of sales commissions paid upfront, which may weigh down earnings in the short term. However, Shared Research thinks that the company will be able to turn a profit in this business, assuming that the churn rate is low for the target user base of small children and seniors. In particular, since 3G services are scheduled to be discontinued effective end-March 2026, we believe that Tone Mobile for Docomo could become a viable option for seniors who still use 3G.

Enterprise/Creator 5G DX Support

In the Enterprise/Creator 5G DX Support segment, FreeBit applies its original digital transformation (DX) methods to help not only companies but also creators and influencers in building their platforms for creative activities in the 5G era. The company envisions these platforms to support customers through the stages of market/value creation, verification, launch, and CRM. Specific business areas include internet marketing services, ad technology services, as well as Creator Maker and Bizmodel Maker, which are new businesses.

Full Speed Inc., its wholly owned subsidiary For it Inc., and FreeBit (the parent) handle operations in this segment. In FY04/23, segment revenue was JPY16.8bn (accounting for 34.0% of consolidated revenue) and operating profit was JPY604mn (15.1%). The lion's share of revenue and operating profit in this segment comes from the Full Speed group.

Earnings trends

FreeBit began disclosing results for the Enterprise/Creator 5G DX Support segment from FY04/21, following changes in the segment classification. In FY04/23, segment revenue was JPY16.8bn (accounting for 34.0% of consolidated revenue) and operating profit was JPY604mn (15.1%).

Contributing to the JPY1mn YoY increase in operating profit were the absence of strategic investments made in FY04/22 (+JPY139mn), and an increase in gross profit from growth in revenue at the Full Speed group (+JPY186mn). Subtracting from operating profit were higher recruitment and personnel expenses at the Full Speed group (JPY118mn), a rise in advertising expenses in the e-commerce-related business of the Full Speed group (+JPY40mn), and other factors (JPY167mn). The company made strategic investments amounting to JPY213mn in the segment over FY04/23, with part of this spent on development towards the multifaceted roll-out of StandAlone.

Enterprise/Creator 5G DX Support: Full-year results

Enterprise/Creator 5G DX SupportDX Support (JPYmn)	FY04/21	FY04/22	FY04/23
Revenue	15,613	15,388	16,849
YoY	-	-1.4%	9.5%
Full Speed	19,836	15,088	-
Internet marketing	8,429	3,700	-
Ad technology	13,148	12,913	-
Other	779	838	-
Elimination	-2,520	-2,363	-
FreeBit-other	-4,223	300	-
OP	736	604	604
YoY	-	-18.0%	0.1%
OPM	4.7%	3.9%	3.6%
Full Speed	813	735	-
Internet marketing	504	556	-
Ad technology	661	586	-
Other	122	229	-
Elimination	3	2	-
Company-wide expenses	-478	-638	-
FreeBit-other	-77	-132	-
strategic investments	0	139	213
Effect of revenue recognition standard on revenue	-	-1,188	-

Source: Shared Research based on company materials

Enterprise/Creator 5G DX Support: Quarterly results

Earnings (cumulative)		FY04/23				FY04/24			
(JPYmn)	Q1	Q1-Q2	Q1-Q3	Q1-Q4	Q1	Q1-Q2	Q1-Q3	Q1-Q4	
Revenue	4,039	8,076	12,415	16,849	4,668				
YoY	3.5%	5.0%	8.3%	9.5%	15.6%				
Full Speed	-	-	-	-	-				
Internet marketing	-	-	-	-	-				
Ad technology	-	-	-	-	-				
Other	-	-	-	-	-				
Elimination	-	-	-	-	-				
FreeBit-other	-	-	-	-	-				
OP	96	256	482	604	197				
YoY	-44.8%	-22.5%	-6.4%	0.1%	104.7%				
OPM	2.4%	3.2%	3.9%	3.6%	4.2%				
Full Speed	-	-	-	-	-				
Internet marketing	-	-	-	-	-				
Ad technology	-	-	-	-	-				
Other	-	-	-	-	-				
Elimination	-	-	-	-	-				
Company-wide expenses	-	-	-	-	-				
FreeBit-other	-	-	-	-	-				
strategic investments	30	70	95	213	12				
Effect of adoption of revenue recognition standards, etc.									
Revenue	-	-	-	-	-				
OP	-	-	-	-	-				
Quarterly	FY04/23				FY04/24				
(JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Revenue	4,039	4,037	4,339	4,434	4,668				
YoY	3.5%	6.6%	15.1%	12.9%	15.6%				
Full Speed	-	-	-	-	-				
Internet marketing	-	-	-	-	-				
Ad technology	-	-	-	-	-				
Other	-	-	-	-	-				
Elimination	-	-	-	-	-				
FreeBit-other	-	-	-	-	-				
OP	96	159	226	123	197				
YoY	-44.8%	2.5%	22.5%	37.4%	104.7%				
OPM	2.4%	3.9%	5.2%	2.8%	4.2%				
Full Speed	-	-	-	-	-				
Internet marketing	-	-	-	-	-				
Ad technology	-	-	-	-	-				
Other	-	-	-	-	-				
Elimination	-	-	-	-	-				
Company-wide expenses	-	-	-	-	-				
FreeBit-other	-	-	-	-	-				
strategic investments	30	40	25	118	12				
Effect of adoption of revenue recognition standards, etc.									
Revenue	-	-	-	-	-				
OP	-	-	-	-	-				

Source: Shared Research based on company materials

Full Speed Inc.

Full Speed Inc. offers services in the internet marketing space, mainly covering social media marketing, content marketing, affiliate ads, and listing ads. It also develops and provides DX-related consulting services and ad technology services. FreeBit believes that the market for internet marketing itself is in a transitional period. Competition has intensified, and in the wake of major platformers announcing to phase out third-party cookies*, there are growing concerns over managing targeted ads that are based on behavioral tracking. Taking this into consideration, FreeBit made Full Speed its wholly owned subsidiary through a tender offer, and Full Speed delisted on September 1, 2022.

Third-party cookie: A cookie refers to a mechanism that temporarily stores behavioral logs and input information in a user's web browser, such as Chrome and Safari, when the user visits a website. Third-party cookies are created by domains other than the website being visited by the user; they enable ad display and user tracking across different domains. Cookies created by the website being visited by the user are called first-party cookies.

Internet Marketing

In the Internet Marketing segment (accounting for 21.2% of Full Speed's FY04/22 revenue before elimination, and 40.6% of operating profit before elimination and company-wide expenses), social media marketing and listing ads* generate the bulk of revenue. In social media marketing, Full Speed seeks to promote wide dissemination of information via social media by encouraging viewers to appreciate and share the information, thereby ensuring effective marketing. In content marketing, Full Speed provides services for companies looking to attract customers to their websites or to step up corporate advertising. For instance, it creates and distributes content aimed at boosting traffic to customer sites, and also combines various other online advertising methods to provide comprehensive solutions for customers.

In the listing ad business, Full Speed sells listing ad and content-linked ad services offered by Yahoo Japan Corporation (subsidiary of Z Holdings Corporation [TSE Prime: 4689]) and Google Inc. It provides full operational support to customers, including keyword selection, bidding price adjustment, and ad text preparation, to ensure cost-effective ad placement.

Listing ads: Text ads displayed in a designated ad space within the search results page of a search engine. The advertiser is charged a fee only when a visitor to the search site clicks on the text ad.

In DX consulting, Full Speed offers end-to-end support to companies (such as regional restaurant operators) looking to begin e-commerce or have already begun and wish to bolster online sales. Specific areas of support include online store development, sales support, and web-based promotions.

Ad Technology

In the Ad Technology segment (accounting for 74.0% of Full Speed's FY04/22 revenue before elimination, and 42.7% of operating profit before elimination and company-wide expenses), the performance marketing platform of subsidiary For it Inc., and the ad network of subsidiary CRAID Inc. generate the bulk of revenue. The performance marketing platform builds a network of advertisers and partner websites and mediates ad transactions; "performance marketing" means that advertisers pay only when a measurable outcome is achieved. For it Inc., established in April 2010 through an incorporation-type company split, provides the performance marketing platform "afb." In the ad network business, Full Speed aggregates ad space from multiple websites and distributes display ads to these slots. The system requires coordination among multiple ad networks, and thus calls for advanced technology. CRAID operates an own-brand ad distribution platform, ADMATRIX DSP, while also engaging in service development.

Full Speed: Revenue and operating profit by segment

Revenue/operating profit by service (JPYmn)	FY04/13	FY04/14	FY04/15	FY04/16	FY04/17	FY04/18	FY04/19	FY04/20	FY04/21	FY04/22
Revenue	10,722	11,306	11,920	15,062	18,066	19,040	20,567	21,158	19,836	15,088
YoY	-	5.4%	5.4%	26.4%	19.9%	5.4%	8.0%	2.9%	-6.2%	-23.9%
Internet Marketing	-	-	7,371	8,015	8,521	8,236	8,950	8,171	8,429	3,700
YoY	-	-	-	8.7%	6.3%	-3.3%	8.7%	-8.7%	3.2%	-56.1%
% of revenue	-	-	53.7%	46.6%	40.3%	38.1%	38.1%	34.8%	37.7%	21.2%
Ad Technology	-	-	6,308	9,073	12,421	13,007	13,840	14,647	13,148	12,913
YoY	-	-	-	43.8%	36.9%	4.7%	6.4%	5.8%	-10.2%	-1.8%
% of revenue	-	-	45.9%	52.7%	58.7%	60.1%	59.0%	62.5%	58.8%	74.0%
Internet Ad Agency	7,998	7,391	-	-	-	-	-	-	-	-
YoY	-	-7.6%	-	-	-	-	-	-	-	-
% of revenue	65.4%	57.5%	-	-	-	-	-	-	-	-
Ad Network	4,093	5,361	-	-	-	-	-	-	-	-
YoY	-	31.0%	-	-	-	-	-	-	-	-
% of revenue	33.5%	41.7%	-	-	-	-	-	-	-	-
Information Media	71	-	-	-	-	-	-	-	-	-
YoY	-	-	-	-	-	-	-	-	-	-
% of revenue	0.6%	-	-	-	-	-	-	-	-	-
Creative	63	-	-	-	-	-	-	-	-	-
YoY	-	-	-	-	-	-	-	-	-	-
% of revenue	0.5%	-	-	-	-	-	-	-	-	-
Other	-	99	56	126	206	387	670	632	779	838
YoY	-	-	-43.6%	125.9%	63.7%	88.0%	73.2%	-5.7%	23.2%	7.6%
% of revenue	-	0.8%	0.4%	0.7%	1.0%	1.8%	2.9%	2.7%	3.5%	4.8%
Adjustments	-1,504	-1,545	-1,815	-2,152	-3,082	-2,590	-2,893	-2,293	-2,520	-2,363
OP	566	603	569	956	850	1,347	1,248	1,074	813	735
YoY	-	6.6%	-5.6%	67.9%	-11.0%	58.5%	-7.4%	-13.9%	-24.3%	-9.6%
OPM	5.3%	5.3%	4.8%	6.3%	4.7%	7.1%	6.1%	5.1%	4.1%	4.9%
Internet Marketing	-	-	320	385	143	617	581	496	504	556
YoY	-	-	-	20.0%	-62.9%	331.7%	-5.8%	-14.5%	1.6%	10.3%
OPM	-	-	4.3%	4.8%	1.7%	7.5%	6.5%	6.1%	6.0%	15.0%
% of OP	-	-	31.2%	26.6%	9.9%	32.1%	31.6%	30.9%	39.2%	40.6%
Ad Technology	-	-	687	1,007	1,236	1,276	1,159	1,092	661	586
YoY	-	-	-	46.6%	22.7%	3.3%	-9.2%	-5.8%	-39.4%	-11.4%
OPM	-	-	10.9%	11.1%	10.0%	9.8%	8.4%	7.5%	5.0%	4.5%
% of OP	-	-	67.0%	69.7%	85.7%	66.4%	63.0%	68.0%	51.4%	42.7%
Internet Ad Agency	401	325	-	-	-	-	-	-	-	-
YoY	-	-18.8%	-	-	-	-	-	-	-	-
OPM	5.0%	4.4%	-	-	-	-	-	-	-	-
% of OP	44.0%	33.1%	-	-	-	-	-	-	-	-
Ad Network	486	652	-	-	-	-	-	-	-	-
YoY	-	34.1%	-	-	-	-	-	-	-	-
OPM	11.9%	12.2%	-	-	-	-	-	-	-	-
% of OP	53.3%	66.3%	-	-	-	-	-	-	-	-
Information Media	-4	-	-	-	-	-	-	-	-	-
YoY	-	-	-	-	-	-	-	-	-	-
OPM	-5.1%	-	-	-	-	-	-	-	-	-
% of OP	-0.4%	-	-	-	-	-	-	-	-	-
Creative	28	-	-	-	-	-	-	-	-	-
YoY	-	-	-	-	-	-	-	-	-	-
OPM	44.5%	-	-	-	-	-	-	-	-	-
% of OP	3.1%	-	-	-	-	-	-	-	-	-
Other	-	5	18	53	63	30	99	18	122	229

In FY04/22, Full Speed recorded revenue of JPY15.1bn. The application of the Accounting Standard for Revenue Recognition from FY04/22 reduced revenue and cost of revenue by JPY4.9bn. According to Full Speed's estimates, revenue grew 1.0% YoY when compared to the FY04/21 figure retroactively adjusted to reflect the new accounting standard. By segment, FY04/22 revenue was JPY3.7bn in the Internet Marketing segment and JPY12.9bn in the Ad Technology segment. Versus the retroactively adjusted figures, Internet Marketing revenue declined 1.8% YoY while Ad Technology revenue was down 1.1% YoY.

Operating profit stood at JPY735mn, falling YoY as Full Speed stepped up investment into new businesses and human capital. In the Internet Marketing segment, operating profit rose YoY to JPY556mn thanks to steady growth of consulting services, especially in social media marketing. The Ad Technology segment logged an operating profit of JPY586mn. Full Speed worked to develop global marketing as well as marketing of the Web3 era, which is driven by non-fungible tokens (NFT; non-substitutable digital data created based on blockchains).

Revenue structure

In the Internet Marketing segment, the majority of revenue comes from the social media marketing service and listing ads. Here, the ad placement fees received from customers are booked as revenue. On the cost side, Full Speed pays search portals and online media for the ad space it procures from them. In the Ad Technology segment, the performance marketing platform "afb" (operated by subsidiary For it) and the ad network for display ads ADMATRIX DSP (operated by subsidiary CRAID) are the main services generating most of the revenue.

The source of revenue for "afb" is the advertising fee received when a measurable outcome is achieved, and cost is primarily the performance-based commissions paid to the affiliate media. In ADMATRIX DSP, revenue is based on cost per click* and cost per mille*; meanwhile, fees are paid to online media for the ad space procured.

Cost per click (CPC): The amount of money advertisers pay each time a user clicks on their ads

Cost per mille (CPM): The amount of money advertisers pay per 1,000 impressions of an ad

The third-party cookie issue

Concerns over privacy on the internet have led to a revision of the Personal Information Protection Act in Japan, and the tightening of regulations related to cookies. Apple Inc. already forbids the use of third-party cookies on its web browser Safari, and Google also plans to phase out third-party cookies by 2024. The elimination of third-party cookies by major platformers will inevitably have an impact on targeted ads based on behavioral tracking, and could affect the performance of Full Speed significantly. In light of these changes in the business environment, FreeBit has already made Full Speed a wholly-owned subsidiary. The new businesses Full Speed plans to develop going forward warrants attention.

Market and value chain

MVNO Market

According to the "Quarterly Data on Number of Telecommunications Service Contracts and Market Share" released by the Ministry of Internal Affairs and Communications, there were 1,783 MVNOs in Japan as of March 2023. Of this total, 791 were primary MVNOs that procure mobile lines directly from mobile network operators (MNOs) and 992 were secondary MVNOs that source lines from other MVNOs at wholesale price. Customers of MVNE services fall under the latter category. These MVNOs are mostly small operators; the number of secondary MVNOs with at least 30 thousand subscriptions totaled only 28, whereas those with less than 30 thousand subscriptions came to 964.

Number of MVNOs

Number of MVNOs	March 2018	March 2019	March 2020	March 2021	March 2022	March 2023
(Number of MVNOs)						
MVNOs w/ at least 30,000 subscriptions (primary MVNO)(primary MVNO)	48	56	64	64	68	72
MVNOs w/ less than 30,000 subscriptions(primary MVNO)	396	472	546	589	627	719
MVNOs w/ at least 30,000 subscriptions (primary MVNO)(secondary MVNO)	15	23	22	24	28	28
MVNOs w/ less than 30,000 subscriptions(secondary MVNO)	682	735	770	838	921	964
Total	1,141	1,286	1,402	1,515	1,644	1,783

Source: Shared Research based on the Ministry of Internal Affairs and Communications

Number of MVNOs by service category

MVNOs by service category(MVNOs with at least 30,000 subscriptions)	March 2018	March 2019	March 2020	March 2021	March 2022	March 2023
(Number of MVNOs)						
SIM card-based service to end users	42	52	57	57	60	63
primary MVNO	24	27	34	31	31	33
secondary MVNO	18	25	23	26	29	30
Service specializing in communications modules	19	21	23	24	29	31
primary MVNO	14	15	16	17	22	24
secondary MVNO	5	6	7	7	7	7
Simple resale to end user	22	26	27	28	30	30
primary MVNO	17	19	19	20	18	17
secondary MVNO	5	7	8	8	12	13
Wholesale to another MVNO	35	41	48	46	52	54
primary MVNO	24	29	32	32	35	36
secondary MVNO	11	12	16	14	17	18
Other	3	3	3	1	1	1
primary MVNO	2	2	2	0	0	0
secondary MVNO	1	1	1	1	1	1

Source: Shared Research based on the Ministry of Internal Affairs and Communications

By service category, among the MVNOs with at least 30,000 subscriptions, 63 companies were MVNOs that chiefly offered SIM-card based services for smartphones. Of this total, 30 were secondary MVNOs whose numbers have only grown slightly over the years. Total subscriptions of SIM card-based MVNOs have plateaued since peaking at 15.68mn in March 2021 (by ratio, subscriptions in this category peaked in March 2020, reaching 10.0% of all mobile communication service contracts in Japan). Subscriptions in this category are unlikely to grow significantly going forward. Rather, Shared Research thinks the still-expanding communications module services will present business opportunities for MVNEs, as 5G will be connecting a wide range of physical objects.

Number of MVNO subscriptions

	March 2018	March 2019	March 2020	March 2021	March 2022	March 2023
(('000))						
MVNO subscriptions(MVNO subscriptions (mobile phones, PHS, and BWA))	18,490	21,570	24,710	26,100	26,540	30,160
SIM card-based service to end users	10,520	12,950	15,630	15,680	14,920	15,600
Service specializing in communications modules	4,860	5,780	6,830	7,590	8,910	10,470
Simple resale to end user	1,730	1,720	1,480	1,400	1,220	1,110
Other	1,380	1,120	770	1,430	1,490	2,980

Source: Shared Research based on the Ministry of Internal Affairs and Communications

SIM cards card-based MVNO subscriptions (%)

	March 2018	March 2019	March 2020	March 2021	March 2022	March 2023
Subscriptions of SIM card-based MVNOs as a percentage of all mobile communication service contracts	6.9%	8.3%	10.0%	9.8%	9.2%	9.5%

Source: Shared Research based on the Ministry of Internal Affairs and Communications

Looking at the market shares of MVNOs by subscription count of SIM card-based services, the top three have a combined market share of 40.8%: namely, Internet Initiative Japan, NTT Resonant (which inherited the business from NTT Communications), and Optage (unlisted; subsidiary of Kansai Electric Power [TSE Prime: 9503]). Generally speaking, the top operators are primary MVNOs, which, we understand, are not customers of FreeBit's MVNE business. However, the market shares of MVNOs outside the top five are also on an uptrend, which may be a precursor to further growth of FreeBit's MVNE and MVNO businesses.

Operator shares by number of SIM cards card-based MVNO subscriptions

	March 2018	March 2019	March 2020	March 2021	March 2022	March 2023
Internet Initiative Japan Inc.(IIJ)(IIJ)	15.4%	14.1%	13.3%	15.2%	18.1%	19.9%
NTT Communications / NTT Resonant	12.4%	11.4%	10.7%	11.5%	14.0%	11.9%
Optage	10.7%	10.0%	8.7%	8.9%	9.3%	9.0%
Fujitsu Limited	-	-	-	-	-	5.6%
Aeon Retail	-	-	-	-	-	4.8%
Rakuten Mobile(MVNO)	16.3%	16.0%	18.0%	11.4%	6.2%	-
Biglobe	5.5%	5.3%	-	-	5.8%	-
LINE Mobile	-	-	5.8%	6.7%	-	-
Other	39.7%	43.2%	43.5%	46.3%	46.6%	48.8%

Source: Shared Research based on the Ministry of Internal Affairs and Communications

Market for internet services targeting housing complexes

According to the "Market Share Survey of Whole Building-Type ISP for Condominiums" released by MM Research Institute on August 2, 2023, the number of homes in Japan receiving services from such ISPs reached 5,000 thousand in end-March 2023, representing a YoY increase of 573 thousand. The introduction of whole building-type ISP services showed little progress as much in fiscal 2022 (April 2022–March 2023) as the number of condominiums completed was lower and installation at the existing rental properties was limited. Although a net increase of 573 thousand is lower than 610 thousand in FY2021, it has maintained a high level. By operator (market share excluding OEM arrangements), Tsunagu Network Communications (a subsidiary of Arteria Networks Corporation [TSE Prime: 4423], scheduled to be delisted on Oct. 18, 2023), which provided services to 964 thousand homes (+93 thousand YoY), topped the market for the sixth consecutive year with a share of 19.3%. Familynet Japan Corporation (a subsidiary of Tokyo Electric Power Company Holdings [TSE Prime: 9501]) came in second with a share of 11.2%, providing services to 558 thousand homes (+26 thousand YoY), and D.U-Net was third with a share of 10.0%, providing services to 400 thousand homes (+41 thousand YoY).

According to the survey, Giga Prize ranked ninth in market share, but the ranking was based on figures excluding OEM arrangements. Giga Prize provides services to D.U-Net (ranked third) on an OEM basis. The number of homes Giga Prize provided services to, including OEMs, totaled roughly 1,051 thousand as of end-March 2023 (+151 thousand YoY), surpassing the top-ranked Arteria Networks. The company says that its OEM strategy has been bearing fruit for both newly built and existing properties, and the introduction of the system to other companies' properties progressed due to the growing need for better line quality.

The survey maintained that the whole building-type ISP services for condominiums will continue to grow and that customers switching over services from one ISP to another have been increasing gradually amid market growth. It viewed that competition stirred by these types of switch-overs will continue to intensify. In addition, the survey indicated that value-added services that have a high affinity with the internet (such as cloud security cameras, lockers for home delivery, along with smart locks, home IoT, and other IoT services), energy-related services, and DX services for the housing management company will continue to serve as a hook, driving further growth in the number of homes receiving service.

Based on Giga Prize's estimates, 82.8% of the for-rent housing and for-sale condos the company targets as its market were yet to introduce whole building-type ISP services, as of end-March 2022. According to the 2018 "Housing and Land Survey" (conducted by the Ministry of Internal Affairs and Communications every five years), Japan's housing market totaled 53,616 thousand units, of which 19,065 thousand were housing for rent. Further, the data released by the Ministry of Land, Infrastructure, Transport and Tourism showed that the housing stock of for-sale condos totaled 6,753 thousand units at end-2020. Adding the numbers from these studies yields 25,828 thousand housing units, which is the size of Giga Prize's target market. Since the number of homes receiving whole building-type ISP services was 4,427 thousand according to the MM Research Institute survey, dividing this number by 25,828 thousand roughly comes to 17.2%, which is the percentage of homes being served by whole building-type ISP services. In other words, services have not been introduced to 82.8% of the target market, leaving ample room for future business.

Online ad market in Japan

According to "Advertising Expenditures in Japan" released by Dentsu Inc. (TSE Prime: 4324), total advertising expenditures reached JPY7.10tn (+4.4% YoY) in 2022. Despite various events that transpired in Japan and overseas, such as the resurgence of COVID-19, the war in Ukraine, and a steep rise in the cost of living, the online advertising market held firm, thanks to an increase in online advertising expenditures amid ongoing digitalization of the Japanese society.

Online advertising expenditures have grown as a percentage of total advertising expenditures year after year, accounting for approximately 43.5% of total advertising expenditures in 2022. Online advertising expenditures totaled JPY3.09tn in 2022

(+14.3% YoY), substantially surpassing the combined advertising expenditures of the four traditional media (newspapers, magazines, radio, and TV), which stood at JPY2.40tn (-2.3% YoY).

By transaction method, programmatic advertising accounted for the lion's share of online advertising media expenditures. As of 2022, social advertising made up about 35% of media costs in online advertising, and video advertising, about 24%.

In 2019, Dentsu added the new category of "merchandise-related EC platform ad expenditures" (ad expenditures invested within EC platforms by businesses that have opened stores on those platforms; this does not refer to total online ad expenditures to promote sales in the EC domain). This has caused the online advertising expenditures in 2019 to grow by a relatively large margin in statistical terms.

Online advertising expenditures and their breakdown

(JPYbn)	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total advertising expenditures	5,891.3	5,976.2	6,152.2	6,171.0	6,288.0	6,390.7	6,530.0	6,938.1	6,159.4	6,799.8	7,102.1
YoY	3.2%	1.4%	2.9%	0.3%	1.9%	1.6%	2.2%	6.2%	-11.2%	10.4%	4.4%
Online advertising expenditures	868.0	938.1	1,051.9	1,159.4	1,310.0	1,509.4	1,758.9	2,104.8	2,229.0	2,705.2	3,091.2
% of total(% of Total advertising expenditures)	14.7%	15.7%	17.1%	18.8%	20.8%	23.6%	26.9%	30.3%	36.2%	39.8%	43.5%
YoY	7.7%	8.1%	12.1%	10.2%	13.0%	15.2%	16.5%	19.7%	5.9%	21.4%	14.3%
Media costs	662.9	720.3	824.5	919.4	1,037.8	1,220.6	1,448.0	1,663.0	1,756.7	2,157.1	2,480.1
Merchandise-related EC platform ad expenditures								106.4	132.1	163.1	190.8
Production costs	205.1	217.8	227.4	240.0	272.2	288.8	310.9	335.4	340.2	385.0	420.3
Method											
Programmatic advertising	339.1	412.2	510.6	622.6	738.3	940.0	1,151.8	1,326.7	1,455.8	1,838.2	2,118.9
Reservation-based advertising					153.8	175.8	197.1	231.4	202.4	224.9	264.7
Affiliate advertising					145.7	104.9	99.0	104.9	98.5	94.0	96.5
Device											
Mobile advertising	80.0	207.3	345.0	497.9	647.6	831.7	1,018.1				
Desktop advertising	582.9	513.0	479.5	421.5	390.2	388.9	429.9				
Ad type											
Display ads						498.8	563.8	554.4	573.3	685.6	737.2
Paid search ads						483.1	570.8	668.3	678.7	799.1	976.6
Video ads			29.0	51.6	86.9	115.5	202.7	318.4	386.2	512.8	592.0
Instream									180.0	292.1	345.6
Outstream									206.3	220.7	246.3
Affiliate advertising						104.9	99.0	104.9	98.5	94.0	96.5
Other						18.3	11.7	17.0	20.0	65.7	77.8
Social											
Social advertising							389.0	489.9	568.7	764.0	859.5
SNS								228.0	248.8	316.8	367.5
Video sharing								113.9	158.5	261.0	305.2
Other								148.0	161.5	186.1	186.8
Non-social advertising							1,059.0	1,173.1	1,188.0	1,393.1	1,620.6

Source: Shared Research based on Dentsu Group's "Advertising Expenditures in Japan" and "Advertising Expenditures in Japan: Detailed Analysis of Expenditures on Internet Advertising Media"

[Definitions of transaction methods]

Programmatic advertising: Paid search advertising and advertising transacted by an auction system through digital platforms (tools) and ad networks.

Reserved advertising: Transactions where pure ads and tie-up ads are sold to advertisers directly or through agencies or media representatives; also advertising conducted through digital platforms (tools) and ad networks via non-auction (fixed price) transactions.

Affiliate advertising: Transactions in which advertisers reward the hosting media or browsing user when the user performs a preset action after viewing an online ad.

[Definitions of ad types]

Display ads: Text- and image-based ads that are displayed in the ad space of a website or app

Paid search ads: Ads that are displayed on search results pages when users query specific keywords

Video ads: Ads in video file format (video/audio)

Affiliate ads: Ads in which advertisers reward the hosting media or browsing user when the user performs a preset action after viewing the ad

Other online ads: Online advertising in formats other than the above. Includes email ads, audio ads, and others

[Definition of social advertising]

Social advertising refers to advertisement deployed on social media (media [platforms] that provide services for sharing and interaction between users and whose content comprises information posted by users). According to the JIAA Internet Advertising Basic Glossary FY2019, social networking services (SNS), blog services, mini (micro) blogs, video sharing sites, social bookmarking, and electronic bulletin boards as examples of social media.

[Definition of video advertising]

Video advertising refers to advertisement in video (video/audio) format. Instream and outstream ads are types of video ads.

Instream ads: Video ads that play before, during, or after video content

Outstream ads: Video ads that play in non-video environments such as display ad spaces. Outstream ads include in-feed video ads that play in online advertising spaces or article content screens.

Strengths and weaknesses

Strengths

Can apply accumulated experience in both networks and devices to the development of new services for the 5G era

FreeBit has historically expanded its operations through timely introduction of new services in line with the evolution of telecoms infrastructure. During the dial-up access era (until around 2001), the company established its position in fixed-line communication by offering free services, and with the industry's shift to broadband services like xDSL and FTTH, it expanded business by offering internet connectivity to ISPs while running its own ISP services dedicated to housing complexes. In mobile communication, during the 3G era, the company offered DTI SIM (lowest-priced in the industry) and the "freebit mobile" service as an MVNO. With the arrival of 4G, it launched an MVNE business. As its history in fixed-line and mobile communication shows, FreeBit seeks to expand its services by offering attractive pricing first and then shifts to providing the platforms on which these services operate. With 5G, the company intends to step up this approach further and aim to become an integrated service provider ("Platform Maker") of the 5G era.

In addition to the technologies it has accumulated in fixed-line and mobile networks since the company's inception, FreeBit also obtained experience in designing and developing original devices through the acquisition of Exemode, Inc., which manufactured digital home appliances. As a result of the spread of iOS and Android devices, there are only a few companies, aside from major carriers, that have knowledge of both networks and devices. FreeBit has already developed and launched its own smartphone as of June 2023. 5G will create a world where not only people but also various things (devices) will become connected, so in order to provide platforms, it becomes important to ensure connectivity of a wide variety of devices. Shared Research believes that FreeBit's experience in both networks and devices will be an advantage in developing new services for the 5G era.

Partnership with NTT Docomo under the Economy MVNO framework gives the Tone Mobile service access to Docomo's sales network of some 2,000 stores

The partnership with NTT Docomo under the Economy MVNO framework expanded Tone Mobile's retail network from 112 stores (mainly stores of camera and electronics retailer Kitamura) to roughly 2,100, adding some 2,000 Docomo stores nationwide. Tone Mobile focuses on services for small children and seniors, and with 3G services slated for termination effective end-March 2026, Shared Research thinks that Tone Mobile can be a good fit for Docomo users who are known to be relatively older, especially for the elderly users still subscribing to 3G services.

NTT Docomo announced the launch of a new low-capacity, low-rate "irumo" plan from July 1, 2023. However, Shared Research believes that users will need to subscribe to NTT Docomo's fiber optic service in order to enjoy low rates, so the plan will not appeal to users who are looking for genuinely low smartphone rates. Rather, it is expected that Tone Mobile, which includes competitively priced devices developed in house, will increase its presence among price-conscious users, particularly the elderly, as a result of the highly competitive OCN Mobile ONE service within NTT Docomo's Economy MVNO framework being discontinued with the launch of "irumo".

In ISP services for housing complexes, multiple major housing management companies make up the customer base

In ISP services for housing complexes, subsidiary Giga Prize has expanded its market share by mainly focusing on small to medium-sized multi-family properties for rent, such as apartments and condos. It has a comprehensive agreement in place with D.U-Net (ranked fourth in the rental housing management industry), which belongs to the Daiwa Living group. Customers also include the Daito Trust Construction group, which holds the top market share, and the Sekisui House group, which ranked second. According to the company, thanks to the comprehensive agreement, D.U-Net automatically selects Giga Prize as the ISP for newly built Daiwa Living properties.

Business transactions between Giga Prize and D.U-Net began in FY03/14, shortly after D.U-Net was established. Shared Research understands that D.U-Net values Giga Prize's service responsiveness and subsidiary Giga Tech's ability to provide installation services across Japan. Given the cooperative relationship between the two parties and the past installation track record, the likelihood of D.U-Net switching to other ISP services appears slim. As such, Shared Research believes that Giga Prize's customer base is a strength that firmly supports the company's earnings.

Weaknesses

Ability to expand MVNO services is limited because of relatively small business scale

In mobile communication services for individuals, FreeBit's business scale is small compared to major mobile carriers (MNOs) and the largest MVNO, Internet Initiative Japan (TSE Prime: 3774; consolidated revenue of JPY252.7bn and operating profit of JPY27.2bn in FY03/23). Since MVNOs all borrow network infrastructure from the MNOs, there is not much difference in the basic network quality, including the area coverage they offer. However, the larger the number of users, the more efficiently bandwidth can be used. Marketing activities also tend to merit from economies of scale. FreeBit's smaller make-up compared to the competition forces it to adopt a localized strategy, such as focusing on a user base of young children and seniors.

Low brand recognition in services for individuals

FreeBit operates mobile communications and other B2C businesses where brand recognition is key. However, in FY04/22, the company only spent JPY1.1bn on advertising. Meanwhile, MNOs spend over JPY100bn annually on advertising, and top-ranking MVNOs utilize their parent companies' brands to sell their services. As a result, at present, the company's name recognition and the brand power of the Tone Mobile service lag behind the competition. While access to NTT Docomo's store network stirs high expectations, low name recognition may prevent the company from achieving the anticipated results.

Takes time for the fruits of Full Speed's drastic structural reform to manifest themselves

Concerns over privacy on the internet have led to a revision of the Personal Information Protection Act in Japan, and the tightening of regulations related to cookies. Apple Inc. already forbids the use of third-party cookies on its web browser Safari, and Google also plans to phase out third-party cookies by 2024. The elimination of third-party cookies by major platformers will inevitably have an impact on targeted ads based on behavioral tracking, and could affect the performance of Full Speed significantly.

Given these changes in the business environment, FreeBit recognized that a drastic structural reform and a shift away from the conventional ad agency business were necessary for Full Speed's continued growth and earnings improvement. Accordingly, it made Full Speed a wholly owned subsidiary. Shared Research thinks FreeBit made this move because of Full Speed's reliance on the affiliate business (74.0% of FY04/22 revenue before eliminations), which is susceptible to changes in third-party cookie regulations. In terms of synergies from making Full Speed a wholly-owned subsidiary, FreeBit intends to create new businesses by strengthening group-wide collaboration to link and utilize various data and drive forward services aimed at supporting enterprises and influencers. That being said, we believe it will take some time before the fruits of Full Speed's drastic structural reform to manifest themselves in the form of earnings improvement.

Financial statements

Income statement

Income statement	FY04/14	FY04/15	FY04/16	FY04/17	FY04/18	FY04/19	FY04/20	FY04/21	FY04/22	FY04/23
(JPYmn)										
Revenue	20,665	21,469	28,390	35,222	38,654	50,366	55,295	52,010	43,076	46,772
YoY	0.0%	3.9%	32.2%	24.1%	9.7%	30.3%	9.8%	-5.9%	-17.2%	8.6%
Cost of revenue	12,667	13,909	20,178	27,008	27,987	35,212	38,478	36,560	30,666	33,444
Gross profit	7,998	7,560	8,212	8,215	10,667	15,153	16,817	15,449	12,410	13,327
YoY	6.5%	-5.5%	8.6%	0.0%	29.8%	42.1%	11.0%	-8.1%	-19.7%	7.4%
Gross profit margin	38.7%	35.2%	28.9%	23.3%	27.6%	30.1%	30.4%	29.7%	28.8%	28.5%
SG&A expenses	6,678	6,316	6,309	6,894	8,816	12,172	14,230	12,046	9,244	9,320
SG&A-to-sales ratio	32.3%	29.4%	22.2%	19.6%	22.8%	24.2%	25.7%	23.2%	21.5%	19.9%
OP	1,321	1,245	1,903	1,321	1,851	2,982	2,588	3,403	3,165	4,008
YoY	41.1%	-5.8%	52.9%	-30.6%	40.1%	61.1%	-13.2%	31.5%	-7.0%	26.6%
OPM	6.4%	5.8%	6.7%	3.8%	4.8%	5.9%	4.7%	6.5%	7.3%	8.6%
Non-operating income	60	56	145	51	56	40	120	498	35	32
Non-operating expenses	161	318	725	564	481	453	227	240	321	332
Recurring profit	1,220	982	1,323	808	1,426	2,569	2,481	3,662	2,879	3,707
YoY	153.8%	-19.5%	34.6%	-38.9%	76.6%	80.1%	-3.4%	47.6%	-21.4%	28.8%
Recurring profit margin	5.9%	4.6%	4.7%	2.3%	3.7%	5.1%	4.5%	7.0%	6.7%	7.9%
Extraordinary gains	16	613	207	158	5	1	512	2,462	21	21
Extraordinary losses	326	77	83	306	647	411	1,740	2,441	228	286
Income taxes	536	222	481	652	1,106	1,391	1,346	1,226	1,000	862
Net income attributable to non-controlling interests	138	271	412	158	245	489	527	869	844	789
Net income attributable to owners of the parent	236	1,026	553	-150	-567	279	-619	1,587	828	1,792
YoY	-	335.1%	-46.1%	-	-	-	-	-	-47.8%	116.5%
Net margin	1.1%	4.8%	1.9%	-	-	0.6%	-1.1%	3.1%	1.9%	3.8%

Source: Shared Research based on company materials

Notes: Figures may differ from company materials due to differences in rounding methods.

Over the past 10 fiscal years, FreeBit's revenues have fluctuated widely YoY. The revenue growth in FY04/16 and FY04/17 was chiefly attributable to expansion of the company's MVNE business and the ad technology business at Full Speed. In FY04/17, revenue grew 24% YoY while operating profit was down 31% YoY, mainly due to front-loaded spending and goodwill amortization in the health tech business (FreeBit acquired EPARK Healthcare Co., Ltd. in September 2016), and the impact of uncollected receivables at Full Speed.

In FY04/19, the acquisition of ALC Co., Ltd. in the ed tech business and revenue growth at Giga Prize due to more homes receiving its ISP services drove up consolidated revenue by roughly 30% YoY. In FY04/21, revenue fell 6% YoY owing to the sale of all shares FreeBit held in subsidiaries FreeBit EPARK Healthcare Co., Ltd. (formerly, EPARK Healthcare) and ALC, and revenue decline at Full Speed due to COVID-19. Meanwhile, operating profit grew 32% YoY that same year thanks to narrowed losses from the sale of subsidiaries and the expansion of the mobile communication business. In FY04/22, revenue was down 17% YoY mainly due to the sale of the two subsidiaries in FY04/21 and the adoption of the Accounting Standard for Revenue Recognition.

Balance sheet

Balance sheet	FY04/14	FY04/15	FY04/16	FY04/17	FY04/18	FY04/19	FY04/20	FY04/21	FY04/22	FY04/23
(JPYmn)										
Assets										
Cash and deposits	4,762	6,983	7,911	10,249	13,656	15,459	15,721	17,621	17,741	18,306
Notes and accounts receivable	2,948	3,200	4,508	4,227	5,088	8,296	9,303	6,669	-	-
Notes receivable	-	-	-	-	-	-	-	-	32	66
Accounts receivable	-	-	-	-	-	-	-	-	7,862	8,193
Contract assets	-	-	-	-	-	-	-	-	38	29
Lease receivables and investment assets	-	-	-	-	-	-	-	-	135	395
Merchandise and finished goods	84	99	715	202	287	820	750	166	123	339
Work in process	3	14	27	48	119	298	145	201	165	252
Raw materials and supplies	5	7	4	5	7	48	568	1,151	1,343	1,248
Prepaid expenses	220	248	232	320	470	715	780	375	461	468
Deferred tax assets	283	345	414	419	-	-	-	-	-	-
Accounts receivables-other	1,546	1,577	1,435	1,707	2,065	1,442	4,310	1,522	587	680
Other	340	348	921	458	520	666	1,733	1,231	1,417	732
Allowance for doubtful accounts	-159	-225	-176	-222	-200	-186	-193	-140	-84	-67
Total current assets	10,031	12,597	15,990	17,414	22,013	27,558	33,116	28,797	29,820	30,640
Buildings	597	589	637	762	732	718	608	629	627	582
Land	334	334	224	224	197	200	200	296	296	296
Lease assets	784	687	666	677	992	1,855	1,785	1,586	1,416	1,101
Other	223	179	184	224	201	152	134	149	143	496
Total tangible fixed assets	1,938	1,790	1,710	1,886	2,123	2,925	2,725	2,661	2,483	2,476
Goodwill	2,900	2,242	1,708	2,787	2,143	2,535	1,540	115	75	37
Software	247	334	540	1,262	1,494	1,486	713	353	278	172
Software in progress	131	103	35	181	159	299	43	67	93	162
Lease assets	-	-	-	-	378	1,273	-	-	-	-
Other	37	37	110	480	96	43	1,377	17	17	18
Total intangible assets	3,316	2,715	2,393	4,709	4,269	5,636	3,672	551	463	389
Investment securities	967	1,479	1,067	800	1,179	1,486	1,496	1,853	1,143	949

Long-term loans receivable	-	-	-	-	-	-	53	1,500	1,501	1,497
Deferred tax assets	43	336	375	262	411	493	379	416	544	864
Guarantee deposit	376	357	359	461	540	684	748	544	529	481
Other	477	484	356	351	551	675	578	254	302	365
Allowance for doubtful accounts	-416	-435	-318	-287	-290	-292	-296	-1,740	-1,735	-1,735
Investments and other assets	1,448	2,222	1,839	1,588	2,391	3,045	2,958	2,828	2,285	2,421
Total fixed assets	6,702	6,727	5,942	8,183	8,783	11,606	9,356	6,039	5,230	5,286
Total assets	16,733	19,324	21,932	25,597	30,797	39,164	42,472	34,836	35,050	35,926
Liabilities										
Notes and accounts payable	50	60	53	286	87	449	652	421	342	256
Short-term borrowings	1,383	656	1,422	912	300	309	700	400	300	300
Current portion of bonds	-	-	-	-	200	200	591	1,400	200	300
Current portion of long-term borrowings	2,067	1,463	1,175	989	1,727	2,014	3,174	3,267	3,951	4,493
Lease obligations	256	248	248	311	471	826	994	825	820	741
Accounts payable—other	3,248	3,370	4,843	5,462	5,499	6,607	8,508	5,305	5,846	5,936
Income taxes payable	192	362	461	345	580	895	602	925	726	708
Contract liabilities	-	-	-	-	-	-	-	-	327	579
Provision for bonuses	57	60	85	127	116	119	116	242	192	150
Provision for product warranties	-	-	-	-	-	186	178	75	-	-
Allowance for sales returns	-	-	-	-	-	204	195	-	-	-
Other provision	22	8	22	138	204	54	62	121	77	48
Other	641	756	741	1,011	1,169	1,972	1,990	928	1,021	851
Total current liabilities	7,915	6,983	9,050	9,580	10,352	13,835	17,764	13,908	13,802	14,364
Bonds	-	-	-	2,611	3,411	3,511	2,920	500	300	-
Long-term borrowings	1,622	1,078	1,069	961	4,967	7,311	7,434	6,118	8,012	9,084
Lease obligations	553	456	516	715	1,032	2,772	3,084	1,808	1,561	1,073
Deferred tax liabilities	20	15	8	-	-	-	-	-	-	-
Provision for directors' retirement benefits	-	-	-	-	-	49	66	83	57	61
Other provision	7	-	-	-	-	-	-	-	-	-
Provision for loss on guarantees	-	-	-	-	-	-	-	-	-	-
Retirement benefit liability	16	16	19	22	26	64	67	43	48	57
Other	112	122	105	456	333	314	289	227	229	255
Total fixed liabilities	2,331	1,686	1,717	4,766	9,769	14,021	13,860	8,779	10,209	10,530
Total liabilities	10,246	8,669	10,767	14,346	20,121	27,855	31,624	22,687	24,011	24,894
Capital stock	3,046	4,514	4,514	4,514	4,514	4,514	4,514	4,514	4,514	4,514
Capital surplus	1,674	3,142	3,143	3,135	3,132	3,131	3,123	3,122	3,050	1,645
Retained earnings	1,782	2,671	3,067	2,761	1,995	2,116	1,341	2,811	3,636	5,287
Treasury stock	-489	-489	-753	-753	-753	-753	-917	-1,854	-4,343	-3,251
Accumulated other comprehensive income	29	3	1	-10	-13	-6	19	121	24	48
Share award rights	-	-	-	-	-	-	-	-	51	75
Share subscription rights	1	13	2	2	2	4	3	1	1	1
Non-controlling interests	443	799	1,191	1,601	1,798	2,303	2,766	3,434	4,107	2,714
Total net assets	6,487	10,654	11,165	11,251	10,675	11,309	10,849	12,149	11,039	11,032
Working capital	2,738	2,916	4,279	3,719	4,802	7,847	8,650	7,767	9,182	9,841
Total interest-bearing debt	5,880	3,901	4,431	6,500	12,108	16,942	18,897	14,318	15,145	15,992
Net debt	1,118	-3,082	-3,480	-3,750	-1,549	1,483	3,177	-3,304	-2,597	-2,314

Source: Shared Research based on company materials

Notes: Figures may differ from company materials due to differences in rounding methods.

Looking at the balance sheet over the past 10 fiscal years, FreeBit's total assets expanded from FY04/17 to FY04/19. This was mainly due to acquisitions. FreeBit acquired EPARK Healthcare Co., Ltd. in September 2016, Giga Prize acquired For Members Co., Ltd. in March 2017 and Soft Volante Co., Ltd. in June 2018, and FreeBit acquired ALC Co., Ltd. in September 2018. In contrast, total assets fell in FY04/21 since Giga Prize sold a portion of its stake in For Members in September 2020, while FreeBit sold all holdings in FreeBit EPARK Healthcare in October 2020 and ALC in November 2020.

Interest-bearing debt and goodwill increased due to the series of acquisitions made. However, goodwill declined subsequently, mainly due to the company selling its shares in the acquired entities.

Cash flow statement

Cash flow statement	FY04/14	FY04/15	FY04/16	FY04/17	FY04/18	FY04/19	FY04/20	FY04/21	FY04/22	FY04/23
(JPYmn)										
Cash flows from operating activities (1)	1,690	2,207	1,752	3,812	1,030	3,182	1,480	7,123	2,334	3,322
Pre-tax profit	910	1,518	1,446	660	784	2,159	1,253	3,682	2,671	3,443
Depreciation	593	640	612	743	1,069	1,625	2,060	1,470	1,022	891
Impairment losses	104	12	62	82	395	205	1,462	767	97	37
Amortization of goodwill	753	640	643	748	713	755	988	252	40	37
Change in allowances for doubtful accounts	-191	84	-0	-7	-20	-11	11	1,524	-61	-17
Interest and dividend income	-2	-20	-4	-5	-2	-1	-1	-1	-0	-1
Interest expenses paid on loans and bonds	96	75	44	49	78	131	165	141	104	114
Equity in earnings of affiliates	42	118	622	428	315	245	9	-8	0	2
Loss (gain) on sale of shares of subsidiaries and affiliates	-	-	-	-	-	-	-113	-2,460	-	-
Change in trade receivables	212	-278	-1,308	304	-851	-2,250	-463	169	-1,225	-364
Change in inventories	32	-81	-625	490	-152	-192	-206	-566	-112	-208
Change in accounts receivable—other	-	-	-	-	-	623	-2,870	-8,639	1,258	-43
Change in trade payables	-34	34	-6	196	-206	209	205	-	-	-
Change in accounts payable—other	237	102	1,508	-55	-162	810	1,702	10,897	113	99
Other	-143	-274	-472	868	-165	-97	-518	630	-269	644
Subtotal	2,800	2,571	2,522	4,500	1,797	4,211	3,684	7,857	3,638	4,633
Interest and dividends income received	2	19	4	2	10	3	1	4	0	1
Interests paid	-93	-73	-45	-47	-90	-133	-163	-115	-102	-114
Income taxes paid	-375	-310	-734	-684	-972	-1,197	-2,253	-1,227	-1,462	-1,304
Income taxes refund	108	-	4	40	285	298	211	604	259	106
Payments for guarantee obligations	-582	-	-	-	-	-	-	-	-	-

Expenses paid, related to correction of prior period financial statements	-170	-	-	-	-	-	-	-	-	-
Cash flows from investing activities (2)	-235	-524	-509	-2,291	-2,141	-3,688	-1,870	-2,656	511	-645
Purchase of tangible fixed assets	-320	-226	-304	-330	-223	-165	-103	-394	-126	-558
Payments for sale of intangible assets	-216	-209	-324	-552	-1,000	-1,097	-944	-546	-136	-111
Purchase of investment securities	-	-2	-157	-272	-379	-231	-197	-350	-55	-
Proceeds from sales of investment securities	-	-	6	119	-	63	72	5	824	-
Purchase of shares of subsidiaries and associates	-3	-970	-123	-	-20	-692	-	-	-	-
Proceeds from transfer of business	10	400	256	-	-	-	-	-	-	-
Payments for transfer of business	-	-	-115	-	-53	-490	-	-	-	-
Purchase of subsidiaries' shares affecting scope of consolidation	-	-	-	-911	-7	-1,254	-105	-	-	-
Proceeds from purchase of subsidiaries' shares affecting scope of consolidation	-	-	-	21	-	-	-	603	-	-
Payments for sales of shares of subsidiaries resulting in change in scope of consolidation	-	-	-	-	-	-	-1	-1,981	-	-
Payments for absorption-type company split	-	-	-	-	-100	-100	-977	-	-	-
Proceeds from absorption-type company split	-	-	-	-	-	-	404	-	-	-
Other	294	483	251	-366	-358	278	-21	7	3	24
Free cash flow (1+2)	1,455	1,683	1,243	1,521	-1,110	-506	-390	4,467	2,845	2,678
Cash flows from financing activities	-1,492	585	-306	844	4,505	2,321	626	-2,572	-2,731	-2,111
Net change in short-term borrowings	-285	-726	766	-572	-614	-15	391	-200	-100	-
Proceeds from long-term loans	1,200	1,288	1,200	1,050	5,890	4,000	3,600	4,830	6,000	5,800
Repayments of long-term borrowings	-1,862	-2,436	-1,496	-1,350	-1,162	-2,119	-2,344	-4,892	-3,421	-4,186
Proceeds from issuance of bonds	-	-	-	2,220	1,000	300	-	-	-	-
Redemption of bonds	-100	-200	-	-	-	-200	-200	-200	-1,400	-200
Proceeds from issuance of shares	1	2,926	-	-	-	-	-	-	-	-
Proceeds from sales of treasury shares	7	197	-	-	-	-	-	-	-	1,471
Acquisition of treasury stock	-	-15	-	-	-	-0	-226	-979	-2,497	-0
Dividends paid	-136	-135	-157	-156	-157	-156	-156	-153	-146	-141
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	-	-	-	-	-	-	-	-	-149	-3,932
Repayments of lease obligations	-281	-297	-281	-299	-412	-670	-902	-932	-937	-870
Proceeds from sales and leasebacks	-	-	-	-	-	1,216	591	-	-	-
Other	-30	181	-337	-49	-39	-35	-129	-46	-229	-52
Depreciation and amortization (A)	402	724	611	736	1,050	1,625	2,060	1,470	1,022	891
Capital expenditures (B)	-320	-228	-461	-602	-602	-165	-103	-940	-261	-669
Change in working capital (C)	-911	177	1,363	-560	1,083	3,045	803	-883	1,416	658
Simple FCF (NI + A + B - C)	1,229	1,345	-659	544	-1,203	-1,306	535	3,000	173	1,355

Source: Shared Research based on company materials

Notes: Figures may differ from company materials due to differences in rounding methods.

It is difficult to accurately fathom the effects of the acquisitions and subsequent divestitures on the cash flow statement. However, the company's operating cash flows have trended at a net cash inflow despite the tendency of working capital being negative. Excluding the impact of acquisitions and divestitures, FreeBit's business model does not require large capital expenditure, and large net cash outflows from investing activities are unlikely. The company's financing cash flows are affected by one-off factors such as acquisitions and share repurchases.

Historical results

Full-year FY04/23 results

- Revenue: JPY46.8bn (+8.6% YoY)
- Operating profit: JPY4.0bn (+26.6% YoY)
- Recurring profit: JPY3.7bn (+28.8% YoY)
- Net income attributable to owners of the parent: JPY1.8bn (+116.5% YoY)

Revenue, operating profit, recurring profit, and net income attributable to owners of the parent all exceeded the company's FY04/23 full-year forecast, reaching 101.7%, 114.5%, 114.1%, and 108.6%, respectively.

Revenue

In full-year FY04/23 results, consolidated revenue grew 8.6% YoY. Revenue increased in all segments, up 5.1% YoY in 5G Infrastructure Support, 7.0% YoY in 5G Lifestyle Support, and 9.5% YoY in Enterprise/Creator 5G DX Support.

Operating profit

Full-year operating profit increased 26.6% YoY to a record high. By segment, profit grew 21.6% YoY in 5G Infrastructure Support, 41.1% YoY in 5G Lifestyle Support and 0.1% YoY in Enterprise/Creator 5G DX Support. Excluding the impact of strategic investments (JPY1.3bn in FY04/23), operating profit rose 9.5% YoY overall, 18.4% YoY in 5G Infrastructure Support, 4.3% YoY in 5G Lifestyle Support, and 10.0% YoY in Enterprise/Creator 5G DX Support.

Recurring profit

Full-year recurring profit increased 28.8% YoY due mainly to growth in operating profit, as well as an JPY84mn decline in outlays associated with making Full Speed a wholly-owned subsidiary.

Net income attributable to owners of the parent

In full-year FY04/23 results, net income attributable to owners of the parent rose 116.5% YoY. While losses on the valuation of investment securities increased JPY106mn, net income was lifted by growth in recurring profit, a JPY60mn reduction in impairment losses, a JPY138mn decrease in tax expenses, and a JPY54mn decline in net income attributable to non-controlling interests, among other factors.

5G Infrastructure Support

- Revenue: JPY9.5bn (+5.1% YoY)
- Operating profit: JPY1.4bn (+21.6% YoY)

In FY04/23, the segment posted an increase in revenue and profit. In fixed-line operations, network costs remained high because of an increase in the use of rich content such as videos and games, an increase in the use of social-networking sites, and ongoing expansion in the use of various internet-based services as teleworking became common. As for mobile operations, the company expects further growth in the overall market, although low-cost plans and sub-brands offered by major mobile carriers may affect the growth of independent MVNOs. The company, as an MVNE group, expanded support for MVNOs while holding down expenses associated with ISP support.

Factors contributing to the JPY245mn YoY increase in segment operating profit were the absence of strategic investment made in FY04/22 (JPY284mn), increased service use in the B2B mobile business (JPY276mn), and cost improvement in the B2B fixed-line network business (JPY26mn). Meanwhile, the development of 5G data centers (strategic investment) and reduced service use in the cloud business detracted by JPY175mn, and a rise in personnel expenses by JPY167mn. The company made strategic investments amounting to JPY300mn (+JPY16mn YoY) in the 5G Infrastructure Support segment. These were focused on the development of 5G data centers and data linkage projects.

5G Lifestyle Support

- Revenue: JPY23.3bn (+7.0% YoY)
- Operating profit: JPY2.0bn (+41.1% YoY)

In FY04/23, the segment posted an increase in revenue and profit. In the 5G Homestyle business (internet services for housing complexes), progress was made in the installation of broadband networks designed to increase the asset value of buildings and improve occupancy rates. In the 5G Lifestyle business (mobile communication and internet-related services for individuals), the company launched proprietary services such as Tone Family, in addition to providing its own smartphone handsets, as part of the Tone Mobile smartphone business. The company also implemented a marketing strategy centered on affiliate advertising as it sought to increase subscriptions through NTT Docomo stores, and invested resources in field marketing to strengthen sales promotion at each store.

Factors contributing to the JPY594mn YoY increase in operating profit were the absence of strategic investment made in FY04/22 (JPY1.3bn), and growth in revenue at Giga Prize (JPY701mn). Detracting from profit were reduced profit at DTI following the termination of ADSL services (JPY198mn), lower gross profit at Tone Mobile due to the shift to lower priced plans (JPY540mn), strategic investments into new product groups (JPY415mn), and other factors (JPY201mn). The company made strategic investments totaling JPY769mn (JPY477mn YoY) in the 5G Lifestyle Support segment in FY04/23. These were targeted at promotions for Tone Mobile, the development and proof-of-concept testing of TONE Care, development and testing relating to Web3 (blockchain), and the development of services in the 5G Workstyle business.

Enterprise/Creator 5G DX Support

- Revenue: JPY16.8bn (+9.5% YoY)
- Operating profit: JPY604mn (+0.1% YoY)

In FY04/23, revenue grew, and profit increased marginally. The company saw a gradual recovery in demand for the internet marketing and ad technology services offered by Full Speed from the pandemic-induced stagnation. However, the market did not return to the pre-pandemic level. In this environment, the company pursued DX in the area of internet marketing by

leveraging its expertise in online marketing. The company also expanded support for the creator economy through StandAlone, a platform for creators, and strengthened non-fungible token (NFT) issuance support, to ensure medium-term growth.

Contributing to the JPY1mn YoY increase in operating profit were the absence of strategic investments made in FY04/22 (JPY139mn), and an increase in gross profit from growth in revenue at the Full Speed group (JPY186mn). Detracting from operating profit were higher recruitment and personnel expenses at the Full Speed group (JPY118mn), a rise in advertising expenses in the e-commerce-related business of the Full Speed group (JPY40mn), and other factors (JPY167mn). The company made strategic investments amounting to JPY213mn in the segment over FY04/23, with part of this spent on development towards the multifaceted roll-out of StandAlone.

Cumulative Q3 FY04/23 results

- Revenue: JPY34.2bn (+7.0% YoY)
- Operating profit: JPY3.2bn (+2.2% YoY)
- Recurring profit: JPY3.0bn (-2.0% YoY)
- Net income: JPY1.7bn (+2.1% YoY)

Revenue

In cumulative Q3 FY04/23, consolidated revenue grew 7.0% YoY. Revenue increased in all segments, up 6.1% YoY in 5G Infrastructure Support, 4.6% YoY in 5G Lifestyle Support, and 8.3% YoY in Enterprise/Creator 5G DX Support. The cumulative Q3 revenue reached 74.4% of the full-year projection, which the company left unchanged at this time (a year-ago cumulative Q3 progress versus the full-year FY04/22 result was 74.2%).

Operating profit

Cumulative Q3 operating profit was up 2.2% YoY. By segment, profit grew 21.2% YoY in 5G Infrastructure Support, while declining 6.4% YoY in 5G Lifestyle Support and 6.4% YoY in Enterprise/Creator 5G DX Support. Excluding the impact of strategic investments (JPY722mn in cumulative Q3 FY04/23), operating profit rose 7.8% YoY overall, up 25.7% YoY in 5G Infrastructure Support, down 2.1% YoY in 5G Lifestyle Support, and up 8.1% YoY in Enterprise/Creator 5G DX Support. Cumulative Q3 progress versus the full-year operating profit forecast revised at the time of Q3 earnings announcement was 90.5% (a year-ago cumulative Q3 progress versus the full-year FY04/22 result was 98.0%).

Recurring profit

Cumulative Q3 recurring profit declined 2.0% YoY. Despite a YoY increase in operating profit, outlays of JPY95mn associated with making Full Speed a consolidated subsidiary, along with other factors weighed down profit. Cumulative Q3 progress versus the full-year recurring profit forecast revised at the time of Q3 earnings announcement was 91.2% (a year-ago cumulative Q3 progress versus the full-year FY04/22 result was 105.0%).

Net income attributable to owners of the parent

In cumulative Q3, net income attributable to owners of the parent rose 2.1% YoY. While lower recurring profit and a JPY58mn loss on valuation of investment securities (JPY8mn in cumulative Q3 FY04/22) had a downward impact on net income, the decline in tax expenses, among other factors, led to a YoY increase overall. Cumulative Q3 progress versus the full-year net income forecast revised at the time of Q3 earnings announcement was 100.4% (a year-ago cumulative Q3 progress versus the full-year FY04/22 result was 196.0%).

Performance by segment

5G Infrastructure Support

Cumulative Q3 revenue in the 5G Infrastructure Support segment rose 6.1% YoY to JPY7.1bn (versus JPY6.7bn in cumulative Q3 FY04/22). Support services for MVNOs (where FreeBit serves as an MVNE) expanded as the bandwidth offered by the company increased, thanks in part to the success in landing business from new MVNOs entering the market. Progress in winning orders for the "data + voice SIM" service—a low-priced voice package with which the company looks to achieve differentiation—also contributed to performance in the MVNO support business.

Segment profit grew 21.2% YoY to JPY1.2bn (versus JPY957mn in cumulative Q3 FY04/22). While revenue growth in the support services for MVNOs lifted segment profit by JPY221mn, as did cost reduction in the support services for ISPs by JPY43mn, cloud-related expenses (strategic investments on consolidating/closing data centers, etc.) weighed down profit by JPY105mn. Other expenses also increase by JPY90mn. In cumulative Q3, strategic investments in this segment were up by JPY77mn YoY, reaching JPY210mn. The company consolidated/closed data centers as part of its 5G optimization efforts, and also invested in data linkage projects. Excluding the impact of strategic investments, segment profit grew 25.7% YoY.

5G Lifestyle Support

In the 5G Lifestyle Support segment, cumulative Q3 revenue grew 4.6% YoY to JPY16.8bn (versus JPY16.0bn in cumulative Q3 FY04/22). In the 5G Homestyle business, where subsidiary Giga Prize offers internet services for housing complexes, the number of homes receiving ISP services increased by 106 thousand from end-FY04/22 to 1,007 thousand. In the 5G Lifestyle business, where the company provides mobile communications and internet services to individuals, a new consultation service dedicated to queries on smartphone overuse was launched as part of the next-generation online health consultation service, TONE Care.

Segment profit declined 6.4% YoY to JPY1.5bn (versus JPY1.6bn in cumulative Q3 FY04/22). Revenue growth at Giga Prize that raised segment profit by JPY496mn was offset by a number of factors adding pressure to earnings. These included a JPY143mn profit decline due to the discontinuation of ADSL services at DTI (5G Lifestyle business), and a JPY406mn profit decline mainly from a user shift in Tone Mobile (5G Lifestyle business) driven by an initiative to bolster service specifications, which reduced gross profit. Strategic investments into new products weighed down segment profit by JPY336mn, as did other factors by another JPY70mn. In cumulative Q3, strategic investments in this segment increased by JPY62mn YoY to JPY416mn. The main components were expenditures on Tone Mobile promotion, development and demonstration trial of TONE Care (5G Healthstyle domain), blockchain-related development work and tests, and development of services in the 5G Workstyle domain. Excluding the impact of strategic investments, segment profit was down 2.1% YoY.

Enterprise/Creator 5G DX Support

In the Enterprise/Creator 5G DX Support segment, cumulative Q3 revenue increased 8.3% YoY to JPY12.4bn (versus JPY11.5bn in cumulative Q3 FY04/22). Performances in the internet marketing and ad technology services operated by Full Speed have yet to return to pre-COVID levels. Nonetheless, Full Speed worked to promote digital transformation related to internet marketing by making full use of its expertise accumulated in this field.

Segment profit fell 6.4% YoY to JPY482mn (versus JPY515mn in cumulative Q3 FY04/22). Revenue growth at the Full Speed group, which lifted profit by JPY188mn, was offset by higher recruiting expenses and labor costs (downward impact of JPY111mn), an increase in advertising expenses in the e-commerce-related business (JPY64mn), and an uptick in other SG&A expenses (JPY65mn), also at the Full Speed group. 1H strategic investments in this segment, which grew by JPY76mn YoY to JPY95mn, were mainly spent on development work for the multi-faceted rollout of creator support platform StandAlone. Excluding the impact of strategic investments, segment profit was up 8.1% YoY.

1H FY04/23 results

- Revenue: JPY22.6bn (+5.7% YoY)
- Operating profit: JPY2.0bn (-4.5% YoY)
- Recurring profit: JPY1.8bn (-9.7% YoY)
- Net income: JPY844mn (-24.7% YoY)

Revenue

In 1H FY04/23, consolidated revenue grew 5.7% YoY. Revenue increased in all segments, up 5.8% YoY in 5G Infrastructure Support, 4.4% YoY in 5G Lifestyle Support, and 5.0% YoY in Enterprise/Creator 5G DX Support. 1H progress versus the full-year company forecast was 49.1% for revenue (a year-ago 1H progress versus the full-year FY04/22 result was 49.6%).

Operating profit

1H operating profit was down 4.5% YoY. By segment, profit grew 34.7% YoY in 5G Infrastructure Support, while declining 17.5% YoY in 5G Lifestyle Support and 22.5% YoY in Enterprise/Creator 5G DX Support. Excluding the impact of strategic investments (JPY476mn in 1H FY04/23), operating profit rose 7.1% YoY overall, up 46.3% YoY in 5G Infrastructure Support, while falling 7.6% YoY in 5G Lifestyle Support and 3.4% YoY in Enterprise/Creator 5G DX Support. 1H progress versus the

full-year company forecast was 67.7% for operating profit (a year-ago 1H progress versus the full-year FY04/22 result was 64.9%).

Recurring profit

1H recurring profit declined 9.7% YoY, mainly due to lower operating profit and the outlays associated with making Full Speed a consolidated subsidiary (JPY95mn). 1H progress versus the full-year company forecast was 68.1% for recurring profit (a year-ago 1H progress versus the full-year FY04/22 result was 69.4%).

Net income attributable to owners of the parent

In 1H, net income attributable to owners of the parent was down 24.7% YoY. Factors contributing to the YoY decline included lower recurring profit, a JPY53mn loss on valuation of investment securities (JPY8mn in 1H FY04/22), and an increase in tax expenses. 1H progress versus the full-year company forecast was 120.5% for net income (a year-ago 1H progress versus the full-year FY04/22 result was 135.3%).

Performance by segment

5G Infrastructure Support

1H revenue in the 5G Infrastructure Support segment rose 5.8% YoY to JPY4.7bn (versus JPY4.5bn in 1H FY04/22). Support services for MVNOs (where FreeBit serves as an MVNE) expanded as the bandwidth offered by the company increased, thanks in part to the success in landing business from new MVNOs entering the market. Progress in winning orders for the "data + voice SIM" service—a low-priced voice package service with which the company looks to achieve differentiation—also contributed to performance in the MVNO support business.

Segment profit grew 34.7% YoY to JPY733mn (versus JPY544mn in 1H FY04/22). While revenue growth in the support services for MVNOs lifted segment profit by JPY171mn, as did cost reduction in the support services for ISPs by JPY48mn, cloud-related expenses (strategic investment on consolidating/closing data centers, etc.) weighed down profit by JPY62mn. Other expenses also increase by JPY15mn. In 1H, strategic investments in this segment were up by JPY85mn YoY, reaching JPY132mn. The company consolidated/closed data centers as part of its 5G optimization efforts, and also invested in data linkage projects. Excluding the impact of strategic investments, segment profit grew 46.3% YoY.

5G Lifestyle Support

In the 5G Lifestyle Support segment, 1H revenue grew 4.4% YoY to JPY11.2bn (versus JPY10.7bn in 1H FY04/22). In the 5G Homestyle business, where subsidiary Giga Prize offers internet services for housing complexes, the number of homes receiving ISP services reached 974 thousand, up 73 thousand from end-FY04/22. In the 5G Lifestyle business, where the company provides mobile communications and internet services to individuals, the FreeBit group began offering original handsets through its Tone Mobile smartphone services.

Segment profit declined 17.5% YoY to JPY980mn (versus JPY1.2bn in 1H FY04/22). Revenue growth at Giga Prize that raised segment profit by JPY383mn was offset by a number of factors that pressured earnings. These included a JPY95mn profit decline due to the discontinuation of ADSL services at DTI (5G Lifestyle business), a JPY304mn spending to strengthen the Tone Mobile service structure under NTT Docomo's Economy MVNO framework (5G Lifestyle business), and a JPY93mn one-off expense on new handsets, also in the Tone Mobile service (5G Lifestyle business). Strategic investments into new products, among other factors, weighed down segment profit by another JPY265mn. In 1H, strategic investments in this segment increased by JPY105mn YoY to JPY273mn. The main components were expenditures on Tone Mobile promotions, development and demonstration trials of TONE Care (5G Healthstyle domain), blockchain-related development work and tests, and development of services in the 5G Workstyle domain. Excluding the impact of strategic investments, segment profit was down 7.6% YoY.

Enterprise/Creator 5G DX Support

In the Enterprise/Creator 5G DX Support segment, 1H revenue increased 5.0% YoY to JPY8.1bn (versus JPY7.7bn in 1H FY04/22). The company focused on expanding ad technology services. At the same time, in internet marketing services, it worked to provide online ad services centered on products for the DSP advertising and video advertising markets.

Segment profit fell 22.5% YoY to JPY256mn (versus JPY330mn in 1H FY04/22). Revenue growth at the Full Speed group, which lifted profit by JPY103mn, was offset by higher recruiting expenses and labor costs (downward impact of JPY89mn), an

increase in advertising expenses in the e-commerce-related business (JPY61mn), and an uptick in other SG&A expenses (JPY18mn), also at the Full Speed group. Factors outside the Full Speed group weighed down profit by another JPY20mn. 1H strategic investments in this segment, which grew by JPY63mn YoY to JPY70mn, were mainly spent on development work for the multi-faceted rollout of creator support platform StandAlone. Excluding the impact of strategic investments, segment profit was down 3.4% YoY.

News and topics

Revision of dividend forecast

2023-04-21

On April 20, 2023, FreeBit Co., Ltd. announced a revision to its dividend forecast.

FreeBit Co., Ltd. expects to achieve a record operating profit in FY04/23. Taking factors such as capital expansion through the disposal of treasury stock by third-party allotment and future business expansion plans into consideration, the company now forecasts a dividend of JPY8.0 per share (compared to JPY7.5 in FY04/22).

Other information

History

FreeBit was established in May 2000 for the purpose of supporting internet businesses. The company first launched an ISP support service, and has since expanded its operations from the infrastructure layer to the service layer, widening the scope of customers from B2B to B2C (including B2B2C) based on its corporate philosophy—"Being the NET Frontier!" (expanding the Internet's potential and contributing to society). In August 2007, FreeBit acquired Dream Train Internet Inc. (DTI; unlisted), which provided mobile communications and internet services for individuals, making DTI a consolidated subsidiary. In March 2009, the company acquired a 58.90% stake in Giga Prize Co., Ltd. (NSE Next: 3830), which offered ISP services specializing in housing complexes. In August 2010, FreeBit acquired a majority stake in online ad agency Full Speed Inc. (unlisted) and For it Inc. (unlisted; Full Speed subsidiary that operated an affiliate ad business), making them consolidated subsidiaries. Full Speed later became a wholly owned subsidiary via tender offer, and delisted on September 1, 2022.

Month/Year	
May 2000	Established FreeBit.com Co., Ltd. to provide support to internet businesses. Also launched a broadband business
Dec. 2002	Changed trade name to FreeBit Co., Ltd.
March 2007	Listed on the Mothers Market of the Tokyo Stock Exchange (TSE)
Aug. 2007	Made Dream Train Internet Inc. (Dream Train Internet Inc. (DTI)) a consolidated subsidiary through a tender offer and launched B2C services
March 2009	Made Media Exchange Co., Ltd. (later merged into DTI) a consolidated subsidiary through a tender offer. Media Exchange subsidiary, Giga Prize Co., Ltd., also became a consolidated subsidiary of FreeBit
Aug. 2010	Made Full Speed Inc. a consolidated subsidiary through a tender offer
March 2011	Launched MVNO service, YourNet MOBILE, starting up the mobile communication business in earnest
Sep. 2013	Launched YourNet MVNO Pack (currently, freebit MVNO Pack), a packaged service that supports MVNO's operations
Jan. 2015	DTI established FreeBit Mobile, Inc.
Feb. 2015	Entered into capital and business alliance with the Culture Convenience Club (CCC) group
March 2015	Trade name of FreeBit Mobile, Inc. changed to Tone mobile Inc.
March 2015	Tone mobile Inc. conducted a capital increase via third-party allotment with CCC as the subscriber, and changed to an equity-method affiliate
Jul. 2016	Changed listing to the First Section of TSE
Jul. 2019	Entered into a business alliance with Alps Alpine Co., Ltd.
Dec. 2019	DTI succeeded the entire business of Tone mobile Inc.
Apr. 2022	Switched to the Prime Market of TSE
Nov. 2022	Made Full Speed Inc., a wholly-owned subsidiary through a tender offer
March 2023	Entered into a capital and business alliance with Alps Alpine Co., Ltd.

Source: Shared Research based on company materials

Shareholders

Top shareholders(End-April 2023)	Number of shares held(000 shares)	Shareholding ratio
Hiroki Ishida	3,517	17.62%
Alps Alpine Co., Ltd.	3,510	17.59%
UH Partners 2, Inc.	1,893	9.48%
Hikari Tsushin, Inc.	1,441	7.22%
UH Partners 3, Inc.	1,412	7.08%
The Master Trust Bank of Japan, Ltd. (trust account)	970	4.86%
System Integrating Laboratory Co., Ltd.	879	4.41%
OBIC Business Consultants Co., Ltd.	450	2.25%
SMBC Nikko Securities	331	1.66%
Jun Murai	288	1.44%
Total	14,691	73.61%

Source: Shared Research based on company materials

Note: Excludes treasury shares

Shareholder returns

Trends of dividends (JPY)	FY04/14	FY04/15	FY04/16	FY04/17	FY04/18	FY04/19	FY04/20	FY04/21	FY04/22	FY04/23
Dividends	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.50	8.00
EPS	12.06	51.40	24.75	-6.77	-25.56	12.59	-27.93	74.06	41.86	95.07
Payout ratio	58.0%	13.6%	28.3%	- %	- %	55.6%	- %	9.5%	17.9%	8.4%

Source: Shared Research based on company materials

Corporate governance and top management

Corporate governance overview

Corporate governance (as of July 2023)

Form of organization and capital structure	
Controlling shareholder	None
Foreign shareholding	Less than 10%
Organizational structure, Directors and Audit & Supervisory Committee members	
Form of organization	Company with Audit & Supervisory Committee
Number of Directors under the Articles of Incorporation	10
Number of directors	7
Directors' term of office under Articles of Incorporation	1 year
Chairperson of the Board of Directors	President
Number of outside directors	3
Number of independent outside directors	3
Committee equivalent to a nominating or compensation committee	In place
Number of auditors	4
Number of outside directors	3
Number of independent outside member of Audit & Supervisory Board	2
Other	
Implementation of measures regarding director incentives	Performance-linked remuneration; stock option
Eligible for stock option	Internal director, employees
Disclosure of directors' compensation	No disclosures on individual compensation
Policy to determine amount and calculation method of remuneration	In place
Corporate takeover defenses	In place

Source: Shared Research based on company materials

Basic policy on corporate governance

The FreeBit group seeks to become an attractive value-creating company based on its advanced technology and service development capabilities. It thinks that to maximize corporate value and fulfill its social responsibility as a company, it is imperative to establish a management structure highly transparent and capable of quickly responding to changes in the environment, and also to pursue management that abides by strict compliance standards. To this end, the company works to actively enhance its corporate governance system, positioning it as a top-priority management agenda.

Top management

President and CEO, Atsuki Ishida

Born June 1972. Mr. Ishida founded FreeBit in May 2000, becoming its president and CEO. With the vision to expand the Internet's potential and contribute to society, Mr. Ishida seeks to eliminate bottlenecks in the society by developing products and services and engaging in businesses. When he was still in high school, Mr. Ishida wrote a letter to Akio Morita (founder of Sony), expressing his thoughts on Sony and its products. Mr. Morita sent a message back to the young Mr. Ishida, encouraging him to get involved in telecommunications and start his own business. The encouragement became one of the drivers leading to the inception of FreeBit.

- May 2000: Established FreeBit and became president and CEO
- May 2020: Became president, CEO, and CTO (current position)
- Oct. 2021: Became director and chairman of Dream Train Internet Inc. (current position)
- Oct. 2021: Became president of Tone Lifestyle Co., Ltd. (current position)

Profile

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FreeBit Co., Ltd.

Phone

03-5459-0522

Established

2000-05-01

IR Contact

<https://freebit.com/contact/engir.html>

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Listed On

Tokyo Stock Exchange, Prime Market

Exchange Listing

2007-03-20

Fiscal Year-End

Apr

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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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