

3843

FreeBit

Shared Research Inc. has produced this report by request from the company discussed in the report. The aim is to provide an “owner’s manual” to investors. We at Shared Research Inc. make every effort to provide an accurate, objective, and neutral analysis. In order to highlight any biases, we clearly attribute our data and findings. We will always present opinions from company management as such. Our views are ours where stated. We do not try to convince or influence, only inform. We appreciate your suggestions and feedback. Write to us at sr_inquiries@sharedresearch.jp.



INDEX

Executive summary	3
Key Financial Data	7
Recent updates	8
Trends and outlook	10
Quarterly trends and results	10
Full-year company forecast	13
Medium-term earnings outlook	14
Business	21
Business overview	21
Market and value chain	33
Strengths and weaknesses	37
Financial statements	39
Income statement	39
Balance sheet	39
Cash flow statement	40
Historical results	41
News and topics	51
Other information	53
Company profile	55

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 FY04/24, consolidated revenue was JPY53.0bn (+13.4% YoY) and operating profit was a record JPY5.9bn (+46.9% 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 61.07% 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 17.8% of consolidated revenue and 25.5% of operating profit in FY04/24), 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 20.5% from 2018 (actual) to 2023 (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 27.5% 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 FY04/24.

There were 1,889 MVNOs in Japan as of March 2024, according to a study by the Ministry of Internal Affairs and Communications. Of this total, 829 were primary MVNOs that procure mobile lines directly from MNOs and 1,060 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 31 of the secondary MVNOs had at least 30 thousand subscriptions). By service category, among the MVNOs with over 30 thousand subscriptions, 74 companies were MVNOs that chiefly offered SIM-card based services for smartphones. Of this total, 31 were secondary MVNOs whose numbers have only grown slightly over the years. Total subscriptions of SIM card-based MVNOs have decreased to 14.92mn in March 2022, due to the introduction of low-priced plans by MNOs and the growing presence of MNO sub-brands. However, it rose back to 16.36mn in FY03/24.

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 47.7% of consolidated revenue and 56.2% of operating profit in FY04/24), 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 subsidiary DTI (5G Lifestyle Support segment), and FreeBit (the parent) manages other new businesses in the segment.

Giga Prize generates about 80% of revenue, and operating profit exceeds segment profit. (The remaining about 20% 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 FY04/24, 98.1% 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 FY04/24, the line usage fees billed on a recurring basis accounted for 70.5% of revenue in Giga Prize's Home IT segment; the remaining 29.5% 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. (41.3% of total revenue in FY03/24), a group company of Daiwa House Industry Co., Ltd. (TSE Prime: 1925); Daito Trust Construction Co., Ltd. (TSE Prime: 1878; 2.0%); and its subsidiary Daito Kentaku Partners Co., Ltd. (16.6%). These three companies, together with Sekisui House Real Estate Tokyo Ltd. (9.4% of total revenue in FY03/23), a group company of Sekisui House Ltd. (TSE Prime: 1928), accounted for 69.2% of total revenue. As of end-FY04/24, Giga Prize provided ISP services to roughly 1.21mn homes, up by about 158,000 YoY.

According to the "Market Share Survey of Whole Building-Type ISP for Condominiums" (end-March 2024) released by MM Research Institute, the number of homes in Japan receiving services from such ISPs reached a record high of 5,790 thousand at end-March 2024, representing a YoY increase by 580 thousand. Giga Prize ranked tenth 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 fourth in survey), Giga Prize provided ISP services to roughly 1.21mn homes (YoY increase by about 158 thousand) as of end-March 2023, 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 has been seeking 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. In FY04/24, DTI made its services available for a wider range of devices, including all Android/iPhone handsets handled by NTT Docomo from 2021 onward up to the latest models.

Enterprise/Creator 5G DX Support: This segment (accounting for 34.5% of consolidated revenue and 18.7% of operating profit in FY04/24) 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 FY04/24, revenue, operating profit, recurring profit, and net income attributable to owners of the parent rose 13.4% YoY, 46.9% YoY, 55.3% YoY, and 99.0% 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. Against its full-year forecasts, the company achieved 100.1% for revenue, 100.6% for operating profit, 101.0% for recurring profit, and 108.1% for net income attributable to shareholders of the parent company. Excluding the impact of the change in fiscal year-end for Giga Prize and its subsidiaries, revenue grew 9.7% YoY to JPY51.3bn, operating profit was JPY5.5bn (+37.0% YoY), recurring profit was JPY5.4bn(+44.6% YoY) and net income attributable to owners of the parent was 3.4bn (+90.2% YoY).

For FY04/25, the company forecasts revenue of JPY54.0bn (+1.8% YoY), operating profit of JPY5.7bn (-3.2% YoY), recurring profit of JPY5.5bn (-4.5% YoY), and net income attributable to owners of the parent of JPY3.0bn (-15.9% YoY). The projected decrease in operating profit, recurring profit, and net income is because Giga Prize and its subsidiaries had a 13-month accounting period in FY04/24, and also due to the carry-over of strategic investments that were planned for FY04/24. Excluding the impact of the change in a fiscal year, the company expects revenue, operating profit, and recurring profit to increase 5.3% YoY, 3.8% YoY, and 2.6% YoY, respectively, while it projects net income attributable to owners of the parent to decrease 12.0% YoY. The reason for the forecast decrease in net income attributable to owners of the parent is that a one-time gain of about JPY450mn was recorded in FY04/24 from the sale of investment securities and stocks of subsidiaries and affiliates, as well as from the recognition of deferred tax assets. According to the company, it expects strategic investments in FY04/25 to be at the same level as in FY04/24.

On July 24, 2024, FreeBit its medium-term management plan, SiLK VISION 2027, with a theme of "the implementation of web3 (5G+AI) born from telecommunications." The company will make full use of its proprietary blockchain and AI, which are the core technologies of web3, and will further promote efforts to implement them in society. FreeBit targets FY04/27 consolidated revenue of JPY63bn–JPY70bn, and operating profit of JPY8.0bn. In existing businesses, FreeBit targets JPY62.0bn in revenue and JPY7.4bn in operating profit, with plans to build up revenue and operating profit by JPY11bn and JPY1.9bn, respectively, from FY04/24. In addition, as an upside measure, the company targets further accumulation of JPY1.0bn–JPY8.0bn in revenue and JPY600mn in operating profit from existing businesses, including overseas expansion and M&A, with a focus on seed investment, by SV2024.

Under SV2027, FreeBit will pay a dividend based on a total return ratio of 25% or JPY30 per share, whichever is higher, and aim for a total return ratio of 30% in FY04/27, the final year of SV2027. The group expects to generate more than JPY12.0bn in operating cash flow from its business activities under SV2027. The group plans to allocate more than JPY7.5bn of this cash flow for growth investment, including for business investment for continued growth of existing businesses, funds for M&A to enable flexible acquisitions and promotion of the group's strategy based on SiLK Investment Policy. In addition, the company plans to allocate approximately JPY3.0bn for total shareholder returns in line with the above-mentioned shareholder return policy, and approximately JPY1.5bn for retained earnings for continuous human resource investment and maintenance of a sound financial position.

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	FY04/15	FY04/16	FY04/17	FY04/18	FY04/19	FY04/20	FY04/21	FY04/22	FY04/23	FY04/24	FY04/25
(JPYmn)	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Company forecast
Revenue	21,469	28,390	35,222	38,654	50,366	55,295	52,010	43,076	46,772	53,038	54,000
YoY	3.9%	32.2%	24.1%	9.7%	30.3%	9.8%	-5.9%	-17.2%	8.6%	13.4%	1.8%
Gross profit	7,560	8,212	8,215	10,667	15,153	16,817	15,449	12,410	13,327	15,386	
YoY	-5.5%	8.6%	0.0%	29.8%	42.1%	11.0%	-8.1%	-19.7%	7.4%	15.5%	
Gross profit margin	35.2%	28.9%	23.3%	27.6%	30.1%	30.4%	29.7%	28.8%	28.5%	29.0%	
OP	1,245	1,903	1,321	1,851	2,982	2,588	3,403	3,165	4,008	5,888	5,700
YoY	-5.8%	52.9%	-30.6%	40.1%	61.1%	-13.2%	31.5%	-7.0%	26.6%	46.9%	-3.2%
OPM	5.8%	6.7%	3.8%	4.8%	5.9%	4.7%	6.5%	7.3%	8.6%	11.1%	10.6%
Recurring profit	982	1,323	808	1,426	2,569	2,481	3,662	2,879	3,707	5,756	5,500
YoY	-19.5%	34.6%	-38.9%	76.6%	80.1%	-3.4%	47.6%	-21.4%	28.8%	55.3%	-4.5%
Recurring profit margin	4.6%	4.7%	2.3%	3.7%	5.1%	4.5%	7.0%	6.7%	7.9%	10.9%	10.2%
Net income	1,026	553	-150	-567	279	-619	1,587	828	1,792	3,566	3,000
YoY	335.1%	-46.1%	-	-	-	-	-	-47.8%	116.5%	99.0%	-15.9%
Net margin	4.8%	1.9%	-0.4%	-1.5%	0.6%	-1.1%	3.1%	1.9%	3.8%	6.7%	5.6%
Per-share data (split- and reverse split-adjusted; JPY)											
Shares issued (year-end)(000 shares)	22,545	22,195	22,195	22,195	22,195	21,944	20,992	18,800	19,960	19,972	
EPS	51.40	24.75	-6.77	-25.56	12.59	-27.93	74.06	41.86	95.07	178.58	150.24
Dividend per share	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.50	8.00	27.00	30.00
Book value per share	436.56	449.30	434.70	399.88	405.57	368.19	415.12	366.01	412.94	582.26	
Balance sheet(JPYmn)											
Cash and cash equivalents	6,983	7,911	10,249	13,656	15,459	15,721	17,621	17,741	18,306	18,722	
Total current assets	12,597	15,990	17,414	22,013	27,558	33,116	28,797	29,820	30,640	31,818	
Tangible fixed assets	1,790	1,710	1,886	2,123	2,925	2,725	2,661	2,483	2,476	3,038	
Investments and other assets	2,222	1,839	1,588	2,391	3,045	2,958	2,828	2,285	2,421	2,743	
Intangible assets	2,715	2,393	4,709	4,269	5,636	3,672	551	463	389	585	
Total assets	19,324	21,932	25,597	30,797	39,164	42,472	34,836	35,050	35,926	38,184	
Notes and accounts payable	60	53	286	87	449	652	421	342	256	352	
Short-term debt	2,367	2,846	2,212	2,697	3,349	5,460	5,892	5,271	5,834	5,806	
Total current liabilities	6,983	9,050	9,580	10,352	13,835	17,764	13,908	13,802	14,364	14,150	
Long-term debt	1,534	1,585	4,288	9,411	13,593	13,438	8,426	9,873	10,158	8,338	
Total fixed liabilities	1,686	1,717	4,766	9,769	14,021	13,860	8,779	10,209	10,530	8,837	
Total liabilities	8,669	10,767	14,346	20,121	27,856	31,624	22,687	24,011	24,894	22,987	
Total net assets	10,654	11,165	11,251	10,675	11,309	10,849	12,149	11,039	11,032	15,197	
Total interest-bearing debt	3,901	4,431	6,500	12,108	16,942	18,897	14,318	15,145	15,992	14,144	
Cash flow statement(JPYmn)											
Cash flows from operating activities	2,207	1,752	3,812	1,030	3,182	1,480	7,123	2,334	3,322	4,226	
Cash flows from investing activities	-524	-509	-2,291	-2,141	-3,688	-1,870	-2,656	511	-645	-1,085	
Cash flows from financing activities	585	-306	844	4,505	2,321	626	-2,572	-2,731	-2,111	-2,720	
Financial ratios											
ROA (RP-based)	5.4%	6.4%	3.4%	5.1%	7.3%	6.1%	9.5%	8.2%	10.4%	15.5%	
ROE(ROE)	12.9%	5.6%	-1.5%	-6.1%	3.1%	-7.3%	18.9%	10.6%	23.7%	35.9%	
Equity ratio	50.9%	45.5%	37.7%	28.8%	23.0%	19.0%	25.0%	19.6%	22.9%	30.5%	

Source: Shared Research based on company materials

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

Recent updates

Revision to FY04/25 dividend forecast, announcement of medium-term management plan

2024-07-24

On July 24, 2024, FreeBit (TSE Prime 3843, "the company") announced a revision to its dividend forecast for FY04/25 and its medium-term management plan, SiLK VISION 2027.

Revision to FY04/25 dividend forecast

Summary

- Interim dividend: JPY0 (previously undecided)
- Year-end dividend: JPY30 (previously undecided)

Reason for revision

Under the medium-term management plan, SiLK VISION 2027, which started in May 2024, FreeBit plans to proactively return profits to shareholders, including in the form of dividends and share buybacks, commensurate with capital surplus and financial strength while taking into account revenue and profit growth and maintaining a balance between investment for growth, shareholder returns, and a sound financial structure. Based on this plan, the year-end dividend forecast for FY04/25 is determined at JPY30 per share, an increase of JPY3 per share from the previous year.

Medium-term management plan, SiLK VISION 2027

In May 2024, FreeBit launched the medium-term management plan SiLK VISION 2027 ("SV2027"). The outline of the plan is as follows.

Period

Three years from FY04/25 to FY04/27

Details

The group is promoting corporate management with a view to a 10-year plan from 2021 to 2030. Under the previous three-year medium-term management plan, SiLK VISION 2024 (SV2024), the company actively made strategic investments and improved its financial position through off-balancing and vertical integration of businesses based on the SiLK Investment Policy. In addition, the group 1) accelerated the launch of new businesses and reallocated resources by making Full Speed Inc. a wholly owned subsidiary, 2) changed the fiscal year-end of Giga Prize Co., Ltd., and 3) conducted joint development in the mobility field through forging a capital and business alliance with Alps Alpine Electronics, and promoted a joint 5G demonstration experiment for LIVINGTOWN Minato Mirai.

As a result, in FY04/24, the final year of SV2024, the company achieved results far exceeding its initial performance targets of JPY50bn in revenue and JPY5bn in operating profit. In addition, the company's web3 initiatives have developed business seeds in line with the "de-centralization movement," including the TONE Chain, which has reached the third-largest number of nodes in the world (source: FreeBit), and the medical/healthcare, EdgeAI, and generative AI domains. Preparations for SV2027 have also been completed.

Meanwhile, in order to solve social issues such as economic disparities that emerged as a result of geopolitical changes during the SV2024 period, it is essential to create a decentralized structure, and to implement such a structure, the group believes that it is necessary to combine Web2.0 and web3 in a hybrid manner through cooperation and coordination, rather than having them as opposing axes.

In order to solve social issues, based on the "Trusted Web" concept promoted by the Japanese government, the company has set the theme of SV2027 as "the implementation of web3 (5G+AI) born from telecommunications," at the core of which is 'trust' gained from the traceability of communications and AI and the reliable execution of promises. The company will make

full use of its proprietary blockchain and AI, which are the core technologies of web3, and will further promote efforts to implement them in society.

FY04/27 earnings target

- Consolidated revenue: JPY62.0bn–JPY70.0bn
- Consolidated operating profit: JPY8.0bn

In existing businesses, FreeBit targets JPY62.0bn in revenue and JPY7.4bn in operating profit, with plans to build up revenue and operating profit by JPY11bn and JPY1.9bn, respectively, from FY04/24. In addition, as an upside measure, the company targets further accumulation of JPY1.0bn–JPY8.0bn in revenue and JPY600mn in operating profit from existing businesses, including overseas expansion and M&A, with a focus on seed investment, by SV2024. Revenue target is provided in a range, assuming that the indicator will vary depending on the business model, such as hardware, software, or services.

Shareholder return policy

In consideration of the revenue and profit growth planned in SV2027, FreeBit will proactively return profits to shareholders through dividends or share buybacks commensurate with its capital surplus and financial strength. Meanwhile, it will work to maintain a balance between 1) shareholder returns, 2) capital investments and M&A to develop future businesses and strengthen competitiveness, and 3) sound financial position.

Under SV2027, FreeBit will pay a dividend based on a total return ratio of 25% or JPY30 per share, whichever is higher, and aim for a total return ratio of 30% in FY04/27, the final year of SV2027.

Furthermore, the company launched FreeBit Shareholder DAO App on June 30, 2024, through which shareholders are provided “TONE Coin” as a reward for their participation and contribution to the TONE Chain network, a layer 1 blockchain developed by the company, and will also be provided the right to participate in a shareholder forum where they can interact with other shareholders as well as with the company management and IR staff.

Capital allocation

The group expects to generate more than JPY12.0bn in operating cash flow from its business activities under SV2027. The group plans to allocate more than JPY7.5bn of this cash flow for growth investment, including for business investment for continued growth of existing businesses, funds for M&A to enable flexible acquisitions and promotion of the group's strategy based on SiLK Investment Policy. In addition, the company plans to allocate approximately JPY3.0bn for total shareholder returns in line with the above-mentioned shareholder return policy, and approximately JPY1.5bn for retained earnings for continuous human resource investment and maintenance of a sound financial position.

Management conscious of cost of capital and corporate value

The company's return on equity averaged 23.4% in SV2024, which remains above the TSE prime market average and the assumed cost of capital (8–9%). The company's price-to-earnings ratio is currently in the 9x range, reflecting the company's current valuation as a telecommunications category stock, and in SV2027, the company will focus on initiatives in line with its vision of becoming a “telecom-born web3 (5G+AI) implementation company,” as well as on the following areas: 1) continued business growth, including existing businesses, 2) M&A, 3) investment in growth area through the promotion of group strategies in line with the SiLK Investment Policy, and 4) increase shareholder returns. FreeBit aims to further increase corporate value by moving to the web3 (PER of 40–60x) and AI (PER of 35–70x) sectors, where stocks are valued at higher multiples.

Trends and outlook

Quarterly trends and results

Earnings (cumulative) (JPYmn)	FY04/24				FY04/25				FY04/25	
	Q1	Q1-Q2	Q1-Q3	Q1-Q4	Q1	Q1-Q2	Q1-Q3	Q1-Q4	% of Est.	Company forecast
Revenue	14,040	27,073	39,992	53,038	13,291				24.6%	54,000
YoY	26.0%	19.9%	16.9%	13.4%	-5.3%					1.8%
Cost of revenue	9,916	19,281	28,337	37,651	9,342					
YoY	25.5%	20.4%	17.0%	12.6%	-5.8%					
Cost ratio	70.6%	71.2%	70.9%	71.0%	70.3%					
Gross profit	4,124	7,792	11,655	15,386	3,949					
YoY	27.3%	18.7%	16.5%	15.5%	-4.2%					
Gross profit margin	29.4%	28.8%	29.1%	29.0%	29.7%					
SG&A expenses	2,460	4,721	6,985	9,499	2,486					
YoY	3.6%	2.6%	2.2%	1.9%	1.1%					
SG&A-to-sales ratio	17.5%	17.4%	17.5%	17.9%	18.7%					
OP	1,665	3,072	4,670	5,888	1,463				25.7%	5,700
YoY	92.5%	56.5%	47.4%	46.9%	-12.1%					-3.2%
OPM	11.9%	11.3%	11.7%	11.1%	11.0%					10.6%
Recurring profit	1,624	3,014	4,592	5,756	1,451				26.4%	5,500
YoY	110.0%	67.0%	54.9%	55.3%	-10.6%					-4.5%
Recurring profit margin	11.6%	11.1%	11.5%	10.9%	10.9%					10.2%
Net income	863	1,981	2,869	3,666	814				27.1%	3,000
YoY	182.5%	134.8%	73.2%	99.0%	-5.7%					-15.9%
Net margin	6.2%	7.3%	7.2%	6.7%	6.1%					5.6%
Quarterly (JPYmn)	FY04/24				FY04/25					
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
Revenue	14,040	13,033	12,919	13,045	13,291					
YoY	26.0%	13.9%	11.0%	3.9%	-5.3%					
Cost of revenue	9,916	9,365	9,057	9,314	9,342					
YoY	25.5%	15.4%	10.5%	0.9%	-5.8%					
Cost ratio	70.6%	71.9%	70.1%	71.4%	70.3%					
Gross profit	4,124	3,668	3,862	3,732	3,949					
YoY	27.3%	10.4%	12.3%	12.2%	-4.2%					
Gross profit margin	29.4%	28.1%	29.9%	28.6%	29.7%					
SG&A expenses	2,460	2,261	2,264	2,514	2,486					
YoY	3.6%	1.6%	1.3%	1.2%	1.1%					
SG&A-to-sales ratio	17.5%	17.3%	17.5%	19.3%	18.7%					
OP	1,665	1,407	1,599	1,217	1,463					
YoY	92.5%	28.2%	32.6%	45.0%	-12.1%					
OPM	11.9%	10.8%	12.4%	9.3%	11.0%					
Recurring profit	1,624	1,390	1,578	1,164	1,451					
YoY	110.0%	34.8%	36.2%	-	-10.6%					
Recurring profit margin	11.6%	10.7%	12.2%	8.9%	10.9%					
Net income	863	1,117	888	697	814					
YoY	182.5%	107.7%	9.2%	-	-5.7%					
Net margin	6.2%	8.6%	6.9%	5.3%	6.1%					

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)	FY04/24				FY04/25				FY04/25	
	Q1	Q1-Q2	Q1-Q3	Q1-Q4	Q1	Q1-Q2	Q1-Q3	Q1-Q4	% of Est.	Company forecast
Revenue	14,040	27,073	39,992	53,038	13,291				24.6%	54,000
YoY	26.0%	19.9%	16.9%	13.4%	-5.3%					
5G Infrastructure Support	2,428	4,924	7,425	9,932	2,547					
YoY	4.3%	4.1%	4.4%	4.7%	4.9%					
% of revenue	16.5%	17.4%	17.7%	17.8%	18.3%					
5G Lifestyle Support	7,600	13,655	19,904	26,612	6,214					
YoY	38.8%	22.4%	18.7%	14.4%	-18.2%					
% of revenue	51.7%	48.1%	47.4%	47.7%	44.6%					
Enterprise/Creator 5G DX SupportDX Support	4,668	9,799	14,655	19,278	5,162					
YoY	15.6%	21.3%	18.0%	14.4%	10.6%					
% of revenue	31.8%	34.5%	34.9%	34.5%	37.1%					
Other	-	-	-	-	-					
YoY	-	-	-	-	-					
% of revenue	-	-	-	-	-					
Adjustments	-656	-1,305	-1,991	-2,785	-632					
OP	1,665	3,072	4,670	5,888	1,463				25.7%	5,700
YoY	92.5%	56.5%	47.4%	46.9%	-12.1%					
OPM	11.9%	11.3%	11.7%	11.1%	11.0%					
5G Infrastructure Support	463	907	1,342	1,506	325					
YoY	17.7%	23.6%	15.6%	9.3%	-29.7%					
OPM	19.1%	18.4%	18.1%	15.2%	12.8%					
% of OP	27.8%	29.5%	28.7%	25.5%	22.2%					
5G Lifestyle Support	1,009	1,746	2,579	3,319	769					
YoY	167.5%	78.2%	68.0%	62.8%	-23.7%					
OPM	13.3%	12.8%	13.0%	12.5%	12.4%					
% of OP	60.6%	56.9%	55.2%	56.2%	52.6%					
Enterprise/Creator 5G DX SupportDX Support	199	429	767	1,104	373					
YoY	106.3%	67.8%	59.3%	82.7%	87.7%					
OPM	4.3%	4.4%	5.2%	5.7%	7.2%					
% of OP	11.9%	14.0%	16.4%	18.7%	25.5%					
Other	-5	-11	-16	-21	-5					
YoY	-	-	-	-	-					

FreeBit 3843



Research Coverage Report by Shared Research Inc. | <https://sharedresearch.jp> | [Subscribe for FREE](#)

OPM										
		% of OP								
Adjustments		-0.3%	-0.3%	-0.3%	-0.4%	-0.4%				
		-0	1	-2	-21	1				
Quarterly (JPYmn)		FY04/24				FY04/25				
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Revenue		14,040	13,033	12,919	13,045	13,291				
YoY		26.0%	13.9%	11.0%	3.9%	-5.3%				
5G Infrastructure Support		2,428	2,497	2,500	2,508	2,547				
YoY		4.3%	3.8%	5.2%	5.4%	4.9%				
% of revenue		16.5%	18.2%	18.4%	18.1%	18.3%				
5G Lifestyle Support		7,600	6,054	6,249	6,709	6,214				
YoY		38.8%	6.6%	11.5%	3.3%	-18.2%				
% of revenue		51.7%	44.3%	45.9%	48.5%	44.6%				
Enterprise/Creator 5G DX SupportDX Support		4,668	5,131	4,855	4,624	5,162				
YoY		15.6%	27.1%	11.9%	4.3%	10.6%				
% of revenue		31.8%	37.5%	35.7%	33.4%	37.1%				
Other		-	-	-	-	-				
YoY		-	-	-	-					
% of revenue		-	-	-	-					
Adjustments		-656	-649	-686	-794	-632				
OP		1,665	1,407	1,599	1,217	1,463				
YoY		92.5%	28.2%	32.6%	45.0%	-12.1%				
OPM		11.9%	10.8%	12.4%	9.3%	11.0%				
5G Infrastructure Support		463	444	435	164	325				
YoY		17.7%	30.5%	1.9%	-24.6%	-29.7%				
OPM		19.1%	17.8%	17.4%	6.6%	12.8%				
% of OP		27.8%	31.6%	27.2%	13.3%	22.2%				
5G Lifestyle Support		1,009	738	833	740	769				
YoY		167.5%	22.3%	49.9%	0	-23.7%				
OPM		13.3%	12.2%	13.3%	11.0%	12.4%				
% of OP		60.6%	52.5%	52.0%	59.9%	52.8%				
Enterprise/Creator 5G DX SupportDX Support		199	230	339	337	373				
YoY		106.3%	44.4%	49.7%	174.8%	87.7%				
OPM		4.3%	4.5%	7.0%	7.3%	7.2%				
% of OP		11.9%	16.3%	21.1%	27.3%	25.5%				
Other		-5	-5	-5	-5	-5				
YoY		-	-	-	-					
OPM		-	-	-	-					
% of OP		-0.3%	-0.4%	-0.3%	-0.4%	-0.4%				
Adjustments		-0	1	-3	-19	1				

Source: Shared Research based on company materials

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

Q1 FY04/25 results

- Revenue: JPY13.3bn (-5.3% YoY)
- Operating profit: JPY1.5bn (-12.1% YoY)
- Recurring profit: JPY1.5bn (-10.6% YoY)
- Net income attributable to owners of the parent: JPY814mn (-5.7% YoY)

In Q1 FY04/25, revenue, operating profit, recurring profit, and net income attributable to owners of the parent declined 5.3% YoY, 12.1% YoY, 10.6% YoY, and 5.7% YoY, respectively. In Q1 FY04/24 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, and a 4-month accounting period from April 1, 2023 to July 31, 2023 for Q1 FY04/24. The company stated that excluding the impact of the change in fiscal year-end for Giga Prize and its subsidiaries, Q1 FY04/25 revenue and operating profit grew 8.0% YoY and 15.5% YoY, respectively.

Against its full-year forecast, the company achieved 24.6% for revenue (Q1 FY04/24 revenue progressed 26.5% versus FY04/24 results), 25.7% for operating profit (28.3%), 26.4% for recurring profit (28.2%), and 27.1% for net income attributable to shareholders of the parent company (24.2%). According to the company, Q1 results were in line with expectations, and by segment, Enterprise/Creator 5G DX Support performed better than expected. The company maintained its full-year FY04/25 earnings forecast.

Revenue

In Q1 FY04/25, consolidated revenue fell 5.3% YoY. Revenue increased 4.9% YoY in 5G Infrastructure Support and 10.6% YoY in Enterprise/Creator 5G DX Support, while it declined 18.2% YoY in 5G Lifestyle Support. Excluding the impact of the change in the fiscal year-end for Giga Prize and its subsidiaries, Q1 FY04/24 revenue was up 8.0% YoY, with a 5.9% revenue increase in 5G Lifestyle Support.

Operating profit

In Q1 FY04/25, operating profit decreased 12.1% YoY. Profits declined 29.7% YoY in 5G Infrastructure Support, 23.7% YoY in 5G Lifestyle Support, but grew 87.7% YoY in Enterprise/Creator 5G DX Support. Excluding the impact of the change in Giga

Prize's fiscal year-end, Q1 FY4/25 operating profit rose 15.5% YoY, with a 26.0% YoY operating profit increase in 5G Lifestyle Support.

In Q1 FY04/25, the company invested JPY125mn in new growth drivers, including the relocation of the 5G data center and development toward the multifaceted roll-out of the StandAlone platform. By segment, it invested JPY40mn in 5G Infrastructure Support, JPY39mn in 5G Lifestyle Support, and JPY45mn in Enterprise/Creator 5G DX Support. In line with the transition to the new medium-term management plan SiLK VISION 2027, the company has stopped disclosing strategic investments it had disclosed until the previous fiscal year. According to the company, the new investments in new growth drivers disclosed this time are not strategic investments, but investments related to the upside measures outlined in SiLK VISION 2027.

Recurring profit

In Q1 FY04/25, recurring profit decreased 10.6% YoY. Non-operating profit improved due to lower commissions paid and other factors. Excluding the impact of the change in the fiscal year-end for Giga Prize and its subsidiaries, recurring profit grew 18.2% YoY.

Net income attributable to owners of the parent

In Q1 FY04/25, net income attributable to owners of the parent declined 5.7% YoY. Mostly, tax expenses and net income attributable to non-controlling interests rose JPY95mn YoY and JPY21mn YoY, respectively. Excluding the impact of the change in the fiscal year-end for Giga Prize and its subsidiaries, net income rose 15.3% YoY.

Earnings trend by segment

5G Infrastructure Support

- Revenue: JPY2.5bn (+4.9% YoY)
- Operating profit: JPY325mn (-29.7% YoY)

In Q1 FY04/25, while the scale of business support services for MVNOs expanded progressed steadily, temporary costs related to network equipment upgrades and increased personnel expenses led to a revenue growth of 4.9% YoY and operating profit decline of 29.7% YoY.

Operating profit decreased JPY138mn YoY. Increased service usage in the B2B2X (B/C) mobile business provided a JPY60mn boost to operating profit. However, expenses related to quality improvement in the B2B2X (B/C) and higher procurement cost due to the impact of forex fluctuation in the cloud service depressed operating profit by JPY54mn and JPY28mn, respectively, along with other factors including a rise in company-wide expenses due to increased headcount. In Q1 FY04/24, the company invested JPY40mn in 5G Infrastructure Support for new growth areas, which includes facility transfer of 5G data centers.

In mobile services for MVNOs, in addition to offering unique plans (account wholesaling) and bandwidth to meet customer needs (bandwidth wholesaling), the company provides network operation and monitoring services, management tools, and components such as cloud, fixed IP, and VoIP. According to FreeBit, although bandwidth wholesaling accounts for the majority of sales in absolute terms, it is account wholesaling that is growing, and the ratio of SIMs with data+SMS+voice to account wholesaling continues to rise, leading to revenue growth and an improvement in the gross profit margin. The breakdown of SIMs sold at end-Q1 FY04/24 was 48.8% data+SMS+voice, 3.6% data+SMS, and 47.6% data. According to the company, in Q1 FY04/25, sales of data SIMs for IoT services increased temporarily.

5G Lifestyle Support

- Revenue: JPY6.2bn (-18.2% YoY)
- Operating profit: JPY769mn (-23.7% YoY)

In Q1 FY04/25, the company steadily grew the number of households for its 5G Homestyle (internet services for housing complexes) services. Although revenue declined 18.2% YoY and operating profit fell 23.7% YoY, excluding the impact of the fiscal year-end change at Gigaprise and its subsidiaries, revenue and operating profit actually increased 5.9% YoY and 26.0% YoY, respectively.

Operating profit decreased JPY240mn YoY. Positive factors included the growth in revenue at Giga Prize (+JPY112mn), a decrease in one-time expenses for the web3/5G Healthstyle domain and data-linkage projects (JPY44mn), and profit improvement in TONE business owing to a better cost control of acquisition cost (+JPY33mn). Meanwhile, factors depressing operating profit included the impact of the change in fiscal year-end for Giga Prize and its subsidiaries (JPY398mn), a profit decline due to a decrease in fixed line network service use of 5G Lifestyle (DTI) (JPY17mn), and other factors (JPY13mn). In Q1, the company's investments in growth drivers for 5G Lifestyle Support totaled JPY39mn.

The number of units of ISP services for residential complexes, a key indicator for Giga Prize, increased by 34 thousand homes to 1,243 thousand as of end-Q1 FY04/24, making steady progress.

Enterprise/Creator 5G DX Support

- Revenue: JPY5.2bn (+10.6% YoY)
- Operating profit: JPY373mn (+87.7% YoY)

In Q1 FY04/25, revenue grew 10.6% YoY and an 87.7% YoY surge in operating profit as a result of steady performance in the affiliate business.

Contributing to the JPY174mn YoY increase in operating profit was the increase in gross profit due to higher revenue in the affiliate business in Japan and overseas (+JPY125mn) and higher profit from cost reduction in ad technology (+JPY59mn). Meanwhile, a decline of JPY9mn in "others" weighed on profit. In Q1 FY04/25, the company made investments amounting to JPY45mn in Enterprise/Creator 5G DX Support with part of this spent on development toward the multifaceted roll-out of StandAlone.

Topics

Signing of a basic agreement for joint research and development with Fujita Academy, which has one of the largest number of hospital beds and clinical databases in Japan

On May 20, 2024, the company announced that it had reached a basic agreement with Fujita Academy to conduct joint research and development. The agreement allows the two parties to conduct joint research and development in collaboration with the Healthcare Data Architecture Center at Fujita Medical School, utilizing Fujita Academy's medical information (medical big data), which is one of the largest in Japan, and the company's patented technologies, including web3.

The company and Fujita Academy have been working together since 2023 prior to this agreement, and plan to establish a new joint venture company to develop services based on the trusted web concept. The company intends to provide a wide range of advanced technologies and services in the medical field in preparation for the social implementation of 5G/web3, the main theme of its medium-term management plan Silk VISION 2027.

Full-year company forecast

FY04/25 company forecast

(JPYmn)	FY04/24			FY04/25	
	1H Act.	2H Act.	FY Act.	FY Est.	
Revenue	27,073	25,965	53,038	54,000	
YoY	19.9%	7.3%	13.4%	1.8%	
OP	3,072	2,816	5,888	5,700	
YoY	56.5%	37.7%	46.9%	-3.2%	
OPM	11.3%	10.8%	11.1%	10.6%	
Recurring profit	3,014	2,742	5,756	5,500	
YoY	67.0%	44.2%	55.3%	-4.5%	
Recurring profit margin	11.1%	10.6%	10.9%	10.2%	
Net income	1,981	1,585	3,566	3,000	
YoY	134.8%	67.1%	99.0%	-15.9%	
Net margin	7.3%	6.1%	6.7%	5.6%	

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 14, 2024)

- Revenue: JPY54.0bn (+1.8% YoY)
- Operating profit: JPY5.7bn (-3.2% YoY)
- Recurring profit: JPY5.5bn (-4.5% YoY)
- Net income attributable to owners of the parent: JPY3.0bn (-15.9% YoY)

For FY04/25, the company forecasts revenue of JPY54.0bn (+1.8% YoY), operating profit of JPY5.7bn (-3.2% YoY), recurring profit of JPY5.5bn (-4.5% YoY), and net income attributable to owners of the parent of JPY3.0bn (-15.9% YoY). The projected decrease in operating profit, recurring profit, and net income is because Giga Prize and its subsidiaries had a 13-month accounting period in FY04/24, and also due to the carry-over of strategic investments that were planned for FY04/24. Excluding the impact of the change in a fiscal year, the company expects revenue, operating profit, and recurring profit to increase 5.3% YoY, 3.8% YoY, and 2.6% YoY, respectively, while it projects net income attributable to owners of the parent to decrease 12.0% YoY. The reason for the forecast decrease in net income attributable to owners of the parent is that a one-time gain of about JPY450mn was recorded in FY04/24 from the sale of investment securities and stocks of subsidiaries and affiliates, as well as from the recognition of deferred tax assets. According to the company, it expects strategic investments in FY04/25 to be at the same level as in FY04/24.

In FY04/25, the first year of its medium-term management plan SiLK VISION 2027, the second phase of its 10-year plan covering the period from FY2021 to FY2030, FreeBit plans to expand its strategic portfolio through M&A and business alliances in addition to continued growth in existing businesses. In the 5G/web3 domain, the company will position its business in the social implementation phase and plan to expand the TONE IN strategy to other fields, including IoT, using the technologies and services cultivated by Tone Mobile and build services based on the conceptual design of Medical DX and Trusted Web Concept in the medical and healthcare fields. Furthermore, it will also promote group-wide efforts to solve various social issues in the 5G/web3 era by utilizing next-generation communications (5G), including IoT, and its blockchain technology and advanced technologies.

Medium-term earnings outlook

Medium-term management plan, SiLK VISION 2027

In May 2024, FreeBit launched the medium-term management plan SiLK VISION 2027 ("SV2027"). The outline of the plan is as follows.

Period

Three years from FY04/25 to FY04/27

Details

The group is promoting corporate management with a view to a 10-year plan from 2021 to 2030. Under the previous three-year medium-term management plan, SiLK VISION 2024 (SV2024), the company actively made strategic investments and improved its financial position through off-balancing and vertical integration of businesses based on the SiLK Investment Policy. In addition, the group 1) accelerated the launch of new businesses and reallocated resources by making Full Speed Inc. a wholly owned subsidiary, 2) changed the fiscal year-end of Giga Prize Co., Ltd., and 3) conducted joint development in the mobility field through forging a capital and business alliance with Alps Alpine Electronics, and promoted a joint 5G demonstration experiment for LIVINGTOWN Minato Mirai.

As a result, in FY04/24, the final year of SV2024, the company achieved results far exceeding its initial performance targets of JPY50bn in revenue and JPY5bn in operating profit. In addition, the company's web3 initiatives have developed business seeds in line with the "de-centralization movement," including the TONE Chain, which has reached the third-largest number of nodes in the world (source: FreeBit), and the medical/healthcare, Edge LLM, and generative AI domains. Preparations for SV2027 have also been completed.

Meanwhile, in order to solve social issues such as economic disparities that emerged as a result of geopolitical changes during the SV2024 period, it is essential to create a decentralized structure, and to implement such a structure, the group believes that it is necessary to combine Web2.0 and web3 in a hybrid manner through cooperation and coordination, rather than having them as opposing axes.

In order to solve social issues, based on the “Trusted Web” concept promoted by the Japanese government, the company has set the theme of SV2027 as “the implementation of web3 (5G+AI) born from telecommunications,” at the core of which is ‘trust’ gained from the traceability of communications and AI and the reliable execution of promises. The company will make full use of its proprietary blockchain and AI, which are the core technologies of web3, and will further promote efforts to implement them in society.

FY04/27 earnings target

- Consolidated revenue: JPY63bn–JPY70bn
- Consolidated operating profit: JPY8.0bn

In existing businesses, FreeBit targets JPY62.0bn in revenue and JPY7.4bn in operating profit, with plans to build up revenue and operating profit by JPY11bn and JPY1.9bn, respectively, from FY04/24. In addition, as an upside measure, the company targets further accumulation of JPY1.0bn–JPY8.0bn in revenue and JPY600mn in operating profit from existing businesses, including overseas expansion and M&A, with a focus on seed investment, by SV2024. Revenue target is provided in a range, assuming that the indicator will vary depending on the business model, such as hardware, software, or services.

In existing businesses, FreeBit (parent) anticipates growth of the MVNE (5G) business in line with the market expansion, while Giga Prize plans to maintain ISP service provision to an annual average of 150,000 homes. In addition, For it Inc. plans to continue growing its affiliate business, and Full Speed plans to improve productivity and profitability in its internet marketing business.

New growth drivers include 1) new joint ventures between the company and Giga Prize, 2) a new B2B platform, 3) Platform Maker services, and 4) the development of the medical, self-driving, and IoT domains. DTI, the operator of TONE, will consider developing its own web3 services, including IEO initial exchange offering (IEO) services such as TONE Coin and TONE Chain, and a new trust service as a new type of credit service. Giga Prize will take on the challenge of solving social issues by providing all-in-one circuits, + α. Full Speed, in addition to expanding its creator support business, plans to aggressively expand overseas under the new SiLK VISION, SiLK VISION 2030, and as a preliminary measure, For it Inc. will represent the company in overseas expansion, mainly in Asia. CRAID Inc. is aiming to become a leading technology assembly group in the web3/AI domain, especially in the area of digital identity.

Shareholder return policy

In consideration of the revenue and profit growth planned in SV2027, FreeBit will proactively return profits to shareholders through dividends or share buybacks commensurate with its capital surplus and financial strength. Meanwhile, it will work to maintain a balance between 1) shareholder returns, 2) capital investments and M&A to develop future businesses and strengthen competitiveness, and 3) sound financial position.

Under SV2027, FreeBit will pay a dividend based on a total return ratio of 25% or JPY30 per share, whichever is higher, and aim for a total return ratio of 30% in FY04/27, the final year of SV2027.

Furthermore, the company launched FreeBit Shareholder DAO App on June 30, 2024, through which shareholders are provided “TONE Coin” as a reward for their participation and contribution to the TONE Chain network, a layer 1 blockchain developed by the company, and will also be provided the right to participate in a shareholder forum where they can interact with other shareholders as well as with the company management and IR staff.

Capital allocation

The group expects to generate more than JPY12.0bn in operating cash flow from its business activities under SV2027. The group plans to allocate more than JPY7.5bn of this cash flow for growth investment, including for business investment for continued growth of existing businesses, funds for M&A to enable flexible acquisitions and promotion of the group's strategy based on SiLK Investment Policy. In addition, the company plans to allocate approximately JPY3.0bn for total shareholder returns in line with the above-mentioned shareholder return policy, and approximately JPY1.5bn for retained earnings for continuous human resource investment and maintenance of a sound financial position.

Management conscious of cost of capital and corporate value

The company's return on equity averaged 23.4% in SV2024, which remains above the TSE prime market average and the assumed cost of capital (8–9%). The company's price-to-earnings ratio is currently in the 9x range, reflecting the company's current valuation as a telecommunications category stock, and in SV2027, the company will focus on initiatives in line with its vision of becoming a “telecom-born web3 (5G+AI) implementation company,” as well as on the following areas: 1) continued

business growth, including existing businesses, 2) M&A, 3) investment in growth area through the promotion of group strategies in line with the SiLK Investment Policy, and 4) increase shareholder returns. FreeBit aims to further increase corporate value by moving to the web3 (PER of 40–60x) and AI (PER of 35–70x) sectors, where stocks are valued at higher multiples.

SiLK VISION 2024

FreeBit unveiled its current medium-term management plan, SiLK VISION 2024, in July 2021. The plan targeted consolidated revenue of JPY50.0bn (+16.1% from FY04/22) and operating profit of JPY5.0bn (+58.0%) in its final year, FY04/24. Against its FY04/24 revenue and operating profit targets, FreeBit achieved 106.1% and 117.8%, respectively. 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/web4 Standby" phase. FreeBit plans to release its next medium-term management plan, SiLK VISION 2027, in July 2024.

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 entailed 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 the 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	Scheduled period of use
	JPYmn	
(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 development in the areas of housing, work, and mobility, vertically integrating 5G, web3, AI, and IoT technologies for incubation business LIVINGTOWN Minato Mirai that Giga Prize is due to open in September 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 application layers that provided 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 web3 era because consensus algorithms and protocols can guarantee the reliability of the data itself flowing on the blockchain.

Issues surrounding blockchains

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 March 2024, the company announced that TONE Chain had more than 6,010 nodes in regular operation in just about 21 months into the trial project, making it the third largest Layer-1 blockchain globally by number of nodes in operation (source: FreeBit).

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.

During SiLK VISION 2024, FreeBit looks to start up various businesses that can showcase the company's capabilities, and under SiLK VISION 2027, it plans a social implementation. It will seek to roll out services for various communities and layers of the blockchain, making use of Building Blocks including 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.

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; 61.07% 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 description	Company in charge
5G Infrastructure Support	• 5GInfra Platform	FreeBit Co., Ltd.
	Support services for MVNOs (MVNE business)	
	Support services for ISPs	
5G Lifestyle Support	Corporate-use cloud services	Giga Prize
	• 5GHomestyle	
	Internet services for housing complexes	Dream Train Internet Inc. (DTI)
	Corporate housing management service	
	• 5GLifestyle	
	Mobile communication services for individuals	
Internet services for individuals	FreeBit Co., Ltd.	
• 5GWorkstyle (New business)		
• 5GHealthstyle (New business)		
Enterprise/Creator 5G DX SupportDX Support	• 5GCarlifestyle (New business)	FreeBit Co., Ltd.
	• Internet marketing-related services	Full Speed
	• Ad technology-related services	For it Inc.
	CreatorMaker (New business)	FreeBit Co., Ltd., Full Speed
	BizmodelMaker (New business)	FreeBit Co., Ltd., Full Speed

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 FY04/24, revenue in 5G Infrastructure Support was JPY9.9bn (17.8% of consolidated revenue) and operating profit was JPY1.5bn (25.5% 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

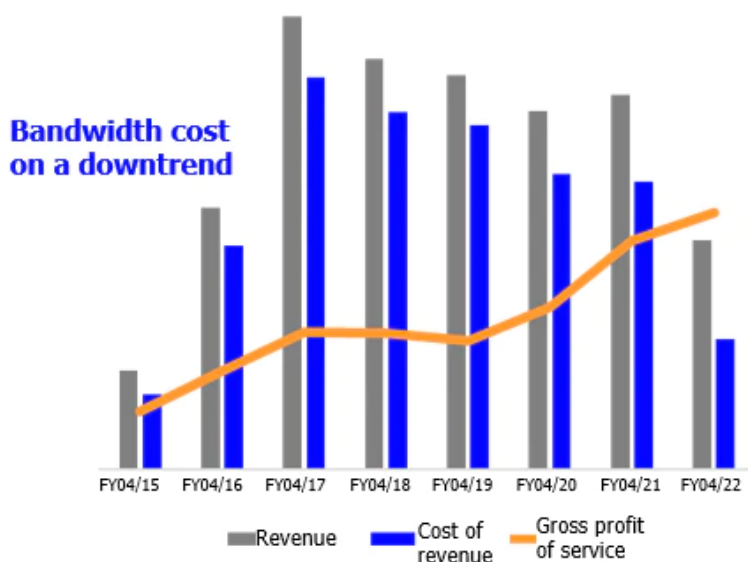
According to the company, revenue from the freebit MVNO Pack service varies depending on the type of contract. Shared Research understands that FreeBit charges fees either based on the number of lines or the bandwidth it supplies, with fees added for other functions such as cloud and security services 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 20.5% from 2018 (actual) to 2023 (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 27.5% 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 Plan	FY2024 Plan	FY2025 Plan	FY2025 Plan
Mobile data interconnection charge(Mbps/JPY/Month)	49,311	42,702	37,280	27,024	19,979	15,644	12,862	10,874	10,708
YoY		-6.0%	-13.4%	-12.7%	-27.5%	-26.1%	-21.7%	-17.8%	-15.5%

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)	FY04/15	FY04/16	FY04/17	FY04/18	FY04/19	FY04/20	FY04/21	FY04/22	FY04/23	FY04/24
Labor costs	469	540	617	524	541	557	606	636	753	819
Various costs	5,666	8,003	10,044	9,637	9,421	8,909	8,630	5,076	5,462	5,512
Line usage fees	3,492	5,817	7,942	7,254	7,288	6,762	6,748	3,617	3,944	3,904
Rent expenses	561	580	574	569	572	538	514	451	403	446
Commission expenses	-	-	-	-	371	503	534	234	274	308
Depreciation	281	278	309	372	424	394	257	124	-	-
Outsourcing expenses	918	855	732	708	488	432	314	378	418	392
Other	413	473	487	735	278	280	264	273	423	463
Cost of business	6,135	8,542	10,661	10,160	9,962	9,466	9,235	5,712	6,215	6,332
Beginning goods	67	84	676	159	182	171	73	32	7	26
Cost of purchased goods	44	1,160	1,201	1,232	1,194	678	642	730	735	106
Total	111	1,244	1,877	1,391	1,376	849	715	763	742	132
Transfer to other accounts	7	7	9	203	60	108	22	13	36	3
Ending goods	84	676	159	182	171	73	32	7	26	21
Cost of goods	20	561	1,710	1,006	1,145	668	661	743	681	108
Cost of revenue	6,155	9,104	12,371	11,166	11,107	10,134	9,896	6,455	6,896	6,440

Source: Shared Research based on company materials

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

Earnings trends

The company began disclosing earnings for 5G Infrastructure Support from FY04/21 in line with the change in segment classification. In FY04/24, revenue in this segment grew 4.7% YoY to JPY9.9bn (accounting for 17.8% of consolidated revenue) and operating profit rose 9.3% YoY to JPY1.5bn (25.5% of consolidated operating profit).

Factors contributing to the JPY128mn YoY increase in segment operating profit were a JPY471mn increase in service use in the B2B2X mobile business. Meanwhile, a reduced service use in the B2B2X fixed line business depressed operating profit by JPY78mn, a rise in personnel expenses due to an enhancement of human resources by JPY180mn, an increase in strategic investment by JPY1mn, and other factors by JPY85mn. In FY04/24, the company made strategic investments amounting to JPY301mn (JPY300mn in FY04/23) 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	FY04/24
Revenue	11,652	9,033	9,489	9,932
YoY	-	-22.5%	5.1%	4.7%
OP	470	1,134	1,378	1,506
YoY	-	141.3%	21.6%	9.3%
OPM	4.0%	12.6%	14.5%	15.2%
strategic investments	267	284	300	301
Effect of adoption of revenue recognition standards, etc.				
Revenue	-	-1,887	-	-
OP	-	18	-	-

Source: Shared Research based on company materials

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

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	4,924	7,425	9,932
YoY	4.7%	5.8%	6.1%	5.1%	4.3%	4.1%	4.4%	4.7%
OP	393	733	1,161	1,378	438	907	1,342	1,506
YoY	33.2%	34.7%	21.2%	21.6%	11.5%	23.6%	15.6%	9.3%
OPM	16.9%	15.5%	16.3%	14.5%	18.1%	18.4%	18.1%	15.2%
strategic investments	60	132	210	300	74	131	214	301
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	2,497	2,500	2,508
YoY	4.7%	7.0%	6.6%	2.0%	4.3%	3.8%	5.2%	5.4%
OP	393	340	427	218	438	468	435	164
YoY	33.2%	36.5%	3.4%	23.4%	11.5%	37.6%	1.9%	-24.6%
OPM	16.9%	14.2%	18.0%	9.1%	18.1%	18.8%	17.4%	6.6%
strategic investments	60	72	78	90	74	57	83	87

Source: Shared Research based on company materials

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

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, 5G Healthcare, and 5G Carlifestyle.

Operations in the 5G Homestyle Support segment center around Giga Prize Co., Ltd., DTI which handles the 5G Lifestyle services, and FreeBit (the parent) which drives the new businesses. In FY04/24, segment revenue stood at JPY26.6bn (accounting for 47.7% of consolidated revenue) and operating profit came to JPY3.3bn (56.2% of consolidated operating profit). Shared Research understands that earnings contribution of Giga Prize is substantial in this segment, as it generates about 80% of revenue, and operating profit exceeds segment profit. (The remaining about 20% of revenue comes from DTI.)

Earnings trends

FreeBit began disclosing results for the 5G Lifestyle Support segment from FY04/21, following changes in the segment classification. In FY04/24, segment revenue was JPY26.6bn (47.7% of consolidated revenue) and operating profit was JPY3.3bn (56.2% of consolidated operating profit).

Excluding the impact of the change in fiscal year-end for Giga Prize and its subsidiaries, revenue was up 7.0% YoY, and operating profit (excluding strategic investments (one-time investments)) was up 22.7% YoY.

Factors contributing to the JPY1.3bn YoY increase in operating profit were the growth in revenue at Giga Prize (JPY532mn), one-time expenses for the launch of new handsets, profit improvement in TONE business from the store reduction

(JPY274mn), and lower strategic investments (JPY245mn). Meanwhile, operating profit was detracted by the decrease in DTI's profit (JPY165mn) due to the decline in fixed network service use, and other factors (JPY4mn). The impact of the change in fiscal year-end for Giga Prize and its subsidiaries lifted operating profit by JPY398mn. The company made strategic investments totaling JPY524mn (JPY769mn in FY04/23) in the 5G Lifestyle Support segment in FY04/24. These were targeted at the acquisition of TONE and TONE Labo users, the development and proof-of-concept testing of TONE Care, and the development and testing relating to web3 (blockchain).

Full-year earnings trends of 5G Lifestyle Support

5G Lifestyle Support (JPYmn)	FY04/21	FY04/22	FY04/23	FY04/24
Revenue	22,973	21,735	23,261	26,612
YoY	-	-5.4%	7.0%	14.4%
Giga Prize(61.07% stake)	15,879	15,790	17,869	21,669
YoY	16.3%	-0.6%	13.2%	21.3%
Home IT	15,178	15,621	17,680	21,263
Real Estate	691	160	181	412
Other	10	9	7	-
Adjustments	0	-	-	-7
Dream Train Internet Inc. (DTI)(100%subsidiary)	7,189	5,610	5,068	-
TLS (100%subsidiary)	-	-	-	-
FreeBit-other	-95	335	325	4,944
OP	2,143	1,446	2,039	3,319
YoY	-	-32.5%	41.1%	62.8%
OPM	9.3%	6.7%	8.8%	12.5%
Giga Prize(FY ends in April)	2,158	2,239	2,941	3,855
YoY	74.7%	3.8%	31.3%	31.1%
OPM	13.6%	14.2%	16.5%	17.8%
Home IT	3,599	3,532	4,266	5,380
Real Estate	-133	18	12	-31
Other	2	1	1	-
Adjustments	-1,310	-1,312	-1,338	-1,495
Dream Train Internet Inc. (DTI)	-	-	-	-
TLS	-	-	-	-
FreeBit-other	-15	-793	-901	-535
strategic investments	827	1,246	769	524
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

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

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	13,655	19,904	26,612
YoY	4.2%	4.4%	4.6%	7.0%	38.8%	22.4%	18.7%	14.4%
Giga Prize(stake.07%)	4,092	8,424	12,705	17,869	-	-	-	-
YoY	11.1%	10.8%	10.4%	13.2%	-	-	-	-
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	-	-	-	-
OP	377	980	1,535	2,039	1,034	1,746	2,579	3,319
YoY	-33.4%	-17.5%	-6.4%	41.1%	174.4%	78.2%	68.0%	62.8%
OPM	6.9%	8.8%	9.2%	8.8%	13.6%	12.8%	13.0%	12.5%
Giga Prize	644	1,349	2,039	2,941	-	-	-	-
YoY	39.1%	39.8%	32.2%	31.3%	-	-	-	-
OPM	15.7%	16.0%	16.0%	16.5%	-	-	-	-
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	-	-	-	-
strategic investments	150	273	416	769	125	271	404	524
Giga Prize								
Number of households served by ISP(Cumulative, '000)	938	974	1,007	1,052	1,099	1,130	1,158	1,210
Net increase	38	36	33	44	47	31	27	52
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	6,054	6,249	6,709
YoY	4.2%	4.7%	4.9%	13.9%	38.8%	6.6%	11.5%	3.3%
Giga Prize(61.07%stake)	4,092	4,332	4,282	5,163	-	-	-	-
YoY	11.1%	10.6%	9.6%	20.6%	-	-	-	-
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	-	-	-	-	-	-
OP	377	603	555	504	1,034	712	833	740		
YoY	-33.4%	-2.9%	22.7%	-	174.4%	18.1%	49.9%	46.8%		
OPM	6.9%	10.6%	9.9%	7.8%	13.6%	11.8%	13.3%	11.0%		
Giga Prize	644	705	691	901	-	-	-	-		
YoY	39.1%	40.5%	19.4%	29.4%	-	-	-	-		
OPM	15.7%	16.3%	16.1%	17.5%	-	-	-	-		
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	-	-	-	-		
strategic investments	150	123	143	353	125	146	133	120		

Source: Shared Research based on company materials

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

Quarterly figures are not shown because Giga Prize's FY04/24 was an irregular 13-month period.

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 FY04/24, 98.1% of Giga Prize's revenue was in Home IT, and operating profit of Home IT accounted for 100.6% of the total. FY04/24 fiscal year for Giga Prize and subsidiaries was a 13-month period from April 1, 2023, to April 30, 2024, due to the change in fiscal year-end.

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 (JPYmm)	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21	FY03/22	FY03/23	FY04/24
Revenue	2,179	2,928	3,754	6,355	10,922	13,649	15,879	15,790	17,869	21,669
YoY	18.4%	34.4%	28.2%	69.3%	71.9%	25.0%	16.3%	-0.6%	13.2%	21.3%
Home IT	-	2,903	3,733	5,866	10,264	12,723	15,178	15,621	17,680	21,263
YoY	-	-	28.6%	57.1%	75.0%	24.0%	19.3%	2.9%	13.2%	20.3%
% of revenue	-	-	-	-	-	-	95.6%	98.9%	98.9%	98.1%
Real Estate	-	-	-	471	645	917	691	160	181	412
YoY	-	-	-	-	36.9%	42.2%	-24.6%	-76.9%	13.2%	127.9%
% of revenue	-	-	-	-	-	-	4.4%	1.0%	1.0%	1.9%
System Development	-	-	-	-	-	-	-	-	-	-
YoY	-	-	-	-	-	-	-	-	-	-
% of revenue	-	-	-	-	-	-	-	-	-	-
Other	-	25	21	19	14	10	10	9	7	-
YoY	-	-	-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	-0	-0	-	-	-7
OP	358	464	501	559	1,292	1,235	2,158	2,239	2,941	3,855
YoY	140.4%	29.5%	8.0%	11.7%	131.0%	-4.4%	74.7%	3.8%	31.3%	31.1%
OPM	16.4%	15.8%	13.3%	8.8%	11.8%	9.1%	13.6%	14.2%	16.5%	17.8%
Home IT	-	809	1,032	1,724	2,889	2,913	3,599	3,532	4,266	5,380
YoY	-	-	27.6%	67.0%	67.6%	0.8%	23.5%	-1.9%	20.8%	26.1%
OPM	-	27.9%	27.7%	29.4%	28.2%	22.9%	23.7%	22.6%	24.1%	25.3%
% of OP	-	99.2%	99.4%	123.2%	121.4%	119.1%	103.8%	99.5%	99.7%	100.6%
Real Estate	-	-	-	-328	-512	-468	-133	18	12	-31
YoY	-	-	-	-	-	-	-	-	-	-31.7%
OPM	-	-	-	-69.7%	-79.4%	-51.0%	-19.2%	11.1%	6.7%	-7.5%
% of OP	-	-	-	-23.4%	-21.5%	-19.1%	-3.8%	0.5%	0.3%	-0.6%
System Development	-	-	-	-	-	-	-	-	-	-
YoY	-	-	-	-	-	-	-	-	-	-
OPM	-	-	-	-	-	-	-	-	-	-
% of OP	-	-	-	-	-	-	-	-	-	-
Other	-	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	-	-352	-538	-840	-1,089	-1,212	-1,310	-1,312	-1,338	-1,495

Source: Shared Research based on company materials

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

In FY04/24, the line usage fees charged to customers on a recurring basis accounted for 70.5% of revenue in the Home IT segment; the remaining 29.5% was one-off initial income from the installation and configuration of network devices. Of the recurring revenue, 88.9% 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 5.5% was from MyAgent (service targeting for-sale housing complexes). Revenue grew 25.0% YoY for the OEM-based service, 23.3% YoY for RentAgent, and 18.7% YoY for MyAgent. By customers, 69.2% of Giga Prize's total revenue came from four core OEM customers: D.U-Net Co., Ltd. (41.3% of total revenue in FY03/24), a group company of Daiwa House Industry Co., Ltd. (TSE Prime: 1925); Daito Trust Construction Co., Ltd. (TSE Prime: 1878; 2.0%); its subsidiary Daito Kentaku Partners Co., Ltd. (16.6%); and Sekisui House Real Estate Tokyo, Ltd., a subsidiary of Sekisui House Ltd. (TSE Prime: 1928; 9.4%). As of end-FY03/24, Giga Prize provided ISP services to 1,209,522 homes, an increase of 157,918 YoY.

Giga Prize: Results in the Home IT business

Home IT (JPYmn)	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21	FY03/22	FY03/23	FY04/24
Revenue	-	2,903	3,733	5,866	10,264	12,723	15,178	15,621	17,680	21,263
YoY	-	-	28.6%	57.1%	75.0%	24.0%	19.3%	2.9%	13.2%	20.3%
Recurring revenue	1,213	1,848	2,545	3,312	4,702	6,934	8,691	10,424	12,030	14,980
YoY	68.5%	52.3%	37.7%	30.1%	42.0%	47.5%	25.3%	19.9%	15.4%	24.5%
For-sale housing complexes	545	557	566	573	583	591	602	619	691	820
YoY	4.2%	2.2%	1.6%	1.2%	1.7%	1.4%	1.9%	2.8%	11.6%	18.7%
For-rent housing complexes	184	235	309	377	432	498	559	609	678	836
YoY	57.3%	27.7%	31.5%	22.0%	14.6%	15.3%	12.2%	8.9%	11.3%	23.3%
OEM	484	1,056	1,670	2,362	3,687	5,845	7,530	9,196	10,661	13,324
YoY	505.0%	118.2%	58.1%	41.4%	56.1%	58.5%	28.8%	22.1%	15.9%	25.0%
Initial revenue	-	1,055	1,188	2,554	5,562	5,789	6,487	5,197	5,650	6,283
YoY	-	#VALUE!	12.6%	114.9%	117.8%	4.1%	12.1%	-19.9%	8.7%	11.2%
OP	-	809	1,032	1,724	2,889	2,913	3,599	3,532	4,266	5,380
YoY	-	-	27.6%	67.0%	67.6%	0.8%	23.5%	-1.9%	20.8%	26.1%
OPM	-	27.9%	27.7%	29.4%	28.2%	22.9%	23.7%	22.6%	24.1%	25.3%
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)	100	142	191	257	425	564	745	901	1,052	1,210
Net increase	39	42	49	66	168	139	181	155	151	158

Source: Shared Research based on company materials

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

Giga Prize: Revenue from core customers

Sales to major customers (JPYmn)	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21	FY03/22	FY03/23	FY04/24
D.U-Net Co., Ltd.	532	1,177	1,729	2,768	4,877	5,640	6,442	6,282	7,318	8,942
YoY	350.5%	121.2%	46.9%	60.0%	76.2%	15.6%	14.2%	-2.5%	16.5%	22.2%
% of revenue	24.4%	40.2%	46.1%	43.6%	44.7%	41.3%	40.6%	39.8%	41.0%	41.3%
Daito Trust Construction Co., Ltd.	-	-	-	447	990	1,165	764	507	460	436
YoY	-	-	-	-	121.6%	17.7%	-34.4%	-33.7%	-9.3%	-5.1%
% of revenue	-	-	-	7.0%	9.1%	8.5%	4.8%	3.2%	2.6%	2.0%
Daito Kentaku Partners Co., Ltd.	-	-	-	32	245	694	1,881	3,213	3,207	3,591
YoY	-	-	-	-	664.5%	183.4%	171.2%	70.8%	-0.2%	12.0%
% of revenue	-	-	-	0.5%	2.2%	5.1%	11.8%	20.4%	17.9%	16.6%
Sekisui House Real Estate Tokyo	-	-	-	-	-	-	-	1,533	1,986	2,030
YoY	-	-	-	-	-	-	-	-	29.5%	2.2%
% of revenue	-	-	-	-	-	-	-	9.7%	11.1%	9.4%

Source: Shared Research based on company materials

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

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 has been seeking 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. In FY04/24, the company expanded the range of devices its service supports, to include all Android/iPhone handsets handled by NTT Docomo from 2021 onward up to the latest models. DTI stopped disclosing key information related to income statement since FY04/24.

DTI earnings results

Dream Train Internet Inc. (DTI) (JPYmn)	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

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

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.

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 Docomo	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 2S	2,365	JPY22	4GB	+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 2,163 by June 2024, with the addition of some 2,055 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.

ToneMobile is currently promoting its TONE IN strategy, which enables the deployment of technologies and services for the 5G/web3 era on a wide range of devices, including smartphones sold by other companies, toward the social implementation

of 5G/web3, the main theme of the company's next medium-term management plan, SiLK VISION 2027. As a first step, from March 2024, all Android and iPhone devices sold by NTT Docomo in or after 2021 can use Tone Mobile's core services by simply inserting a Tone Mobile SIM. By August 2024, TONE IN coverage have expanded to more than 160 different handsets from all carriers.

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 FY04/24, segment revenue was JPY19.3bn (accounting for 34.5% of consolidated revenue) and operating profit was JPY1.1bn (18.7%). 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 FY04/24, segment revenue was JPY19.3bn (accounting for 34.5% of consolidated revenue) and operating profit was JPY1.1bn (18.7%).

Contributing to the JPY500mn YoY increase in operating profit was the increase in gross profit in the affiliate business (JPY180mn) due to the strengthening of key services and acquisition of new customers, lower CoGS ratio (JPY159mn) thanks to the optimization of group resources, lower strategic investment (JPY77mn), ad efficiency improvement (JPY67mn) and other factors (JPY16mn). The company made strategic investments amounting to JPY136mn (JPY213mn in FY04/23) in the segment in FY04/24, with part of this spent on development toward 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	FY04/24
Revenue	15,613	15,388	16,849	19,278
YoY	-	-1.4%	9.5%	14.4%
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	1,104
YoY	-	-18.0%	0.1%	82.7%
OPM	4.7%	3.9%	3.6%	5.7%
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	136
Effect of revenue recognition standard on revenue	-	-1,188	-	-

Source: Shared Research based on company materials

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

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	9,799	14,655	19,278	
YoY	3.5%	5.0%	8.3%	9.5%	15.6%	21.3%	18.0%	14.4%	
Full Speed	-	-	-	-	-	-	-	-	
Internet marketing	-	-	-	-	-	-	-	-	
Ad technology	-	-	-	-	-	-	-	-	
Other	-	-	-	-	-	-	-	-	
Elimination	-	-	-	-	-	-	-	-	
FreeBit-other	-	-	-	-	-	-	-	-	
OP	96	256	482	604	197	429	767	1,104	
YoY	-44.8%	-22.5%	-6.4%	0.1%	104.7%	67.8%	59.3%	82.7%	
OPM	2.4%	3.2%	3.9%	3.6%	4.2%	4.4%	5.2%	5.7%	
Full Speed	-	-	-	-	-	-	-	-	
Internet marketing	-	-	-	-	-	-	-	-	
Ad technology	-	-	-	-	-	-	-	-	
Other	-	-	-	-	-	-	-	-	
Elimination	-	-	-	-	-	-	-	-	
Company-wide expenses	-	-	-	-	-	-	-	-	
FreeBit-other	-	-	-	-	-	-	-	-	
strategic investments	30	70	95	213	12	24	79	136	
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	5,131	4,855	4,624	
YoY	3.5%	6.6%	15.1%	12.9%	15.6%	27.1%	11.9%	4.3%	
Full Speed	-	-	-	-	-	-	-	-	
Internet marketing	-	-	-	-	-	-	-	-	
Ad technology	-	-	-	-	-	-	-	-	
Other	-	-	-	-	-	-	-	-	
Elimination	-	-	-	-	-	-	-	-	
FreeBit-other	-	-	-	-	-	-	-	-	
OP	96	159	226	123	197	231	339	337	
YoY	-44.8%	2.5%	22.5%	37.4%	104.7%	45.4%	49.7%	174.8%	
OPM	2.4%	3.9%	5.2%	2.8%	4.2%	4.5%	7.0%	7.3%	
Full Speed	-	-	-	-	-	-	-	-	
Internet marketing	-	-	-	-	-	-	-	-	
Ad technology	-	-	-	-	-	-	-	-	
Other	-	-	-	-	-	-	-	-	
Elimination	-	-	-	-	-	-	-	-	
Company-wide expenses	-	-	-	-	-	-	-	-	
FreeBit-other	-	-	-	-	-	-	-	-	
strategic investments	30	40	25	118	12	12	55	57	

Source: Shared Research based on company materials

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

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

Source: Shared Research based on company materials

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

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 after 2025. 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 1,889 MVNOs in Japan as of March 2024. Of this total, 829 were primary MVNOs that procure mobile lines directly from mobile network operators (MNOs) and 1,060 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 31, whereas those with less than 30 thousand subscriptions came to 1,029.

Number of MVNOs

Number of MVNOs	March 2018	March 2019	March 2020	March 2021	March 2022	March 2023	March 2024
(Number of MVNOs)							
MVNOs w/ at least 30,000 subscriptions (primary MVNO)(primary MVNO)	48	56	64	64	69	73	78
MVNOs w/ less than 30,000 subscriptions(primary MVNO)	396	472	546	589	626	718	751
MVNOs w/ at least 30,000 subscriptions (primary MVNO)(secondary MVNO)	15	23	22	24	27	29	31
MVNOs w/ less than 30,000 subscriptions(secondary MVNO)	682	735	770	838	922	964	1,029
Total	1,141	1,286	1,402	1,515	1,644	1,784	1,889

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	March 2024
(Number of MVNOs)							
SIM card-based service to end users	42	52	57	57	60	65	74
primary MVNO	24	27	34	31	32	35	43
secondary MVNO	18	25	23	26	28	30	31
Service specializing in communications modules	19	21	23	24	29	31	32
primary MVNO	14	15	16	17	22	24	25
secondary MVNO	5	6	7	7	7	7	7
Simple resale to end user	22	26	27	28	30	30	28
primary MVNO	17	19	19	20	18	17	17
secondary MVNO	5	7	8	8	12	13	11
Wholesale to another MVNO	35	41	48	46	52	55	56
primary MVNO	24	29	32	32	36	37	37
secondary MVNO	11	12	16	14	16	18	19
Other	3	3	3	1	1	1	1
primary MVNO	2	2	2	0	0	0	0
secondary MVNO	1	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, 74 companies were MVNOs that chiefly offered SIM-card based services for smartphones. Of this total, 31 were secondary MVNOs whose numbers have only grown slightly over the years. Total subscriptions of SIM card-based MVNOs have declined to 14.92mn in March 2022, with subscription ratio falling to 9.2% of all mobile communication service contracts in Japan, but the total subscriptions rose back again to 16.36mn in March 2024. Shared Research thinks the communications module services will continue to 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	March 2024
(('000))							
MVNO subscriptions(MVNO subscriptions (mobile phones, PHS, and BWA))	18,490	21,570	24,710	26,100	26,540	30,160	34,450
SIM card-based service to end users	10,520	12,950	15,630	15,680	14,920	15,600	16,360
Service specializing in communications modules	4,860	5,780	6,830	7,590	8,910	10,460	12,420
Simple resale to end user	1,730	1,720	1,480	1,400	1,220	1,110	1,030
Other	1,380	1,120	770	1,430	1,490	2,990	4,640

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

SIM cards cards card-based MVNO subscriptions (%)

	March 2018	March 2019	March 2020	March 2021	March 2022	March 2023	March 2024
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%	9.8%

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 40.0%: namely, Internet Initiative Japan, NTT Docomo (which inherited the business from NTT Communications and NTT Resonant), 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 card-based MVNO subscriptions

	March 2018	March 2019	March 2020	March 2021	March 2022	March 2023	March 2024
Internet Initiative Japan Inc.(IIJ)(IIJ)	15.4%	14.1%	13.3%	15.2%	18.1%	19.8%	21.6%
NTT Communications/NTT Resonant/NTT Docomo	12.4%	11.4%	10.7%	11.5%	14.0%	11.9%	9.7%
Optage	10.7%	10.0%	8.7%	8.9%	9.2%	9.0%	8.7%
Fujitsu Limited	-	-	-	-	-	5.6%	5.6%
Aeon Retail	-	-	-	-	-	4.8%	4.7%
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%	46.7%	48.9%	49.7%

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 (as of March 2024)" released by MM Research Institute on July 30, 2024, the number of homes in Japan receiving services from such ISPs reached 5,790 thousand in end-March 2024, representing a YoY increase of 580 thousand. In fiscal 2023 (April 2023–March 2024), new construction of both condominiums for sale and rental was completed on a scale similar to or larger than that of FY2022, and

an increasing number of these properties adopted the whole building-type ISP service. On the other hand, the introduction of the service in existing properties slowed down slightly, resulting in a net increase below the previous year's figure of 595 thousand units. By operator (market share excluding OEM arrangements), Tsunagu Network Communications (a subsidiary of Arteria Networks Corporation [TSE Prime: 4423], delisted on Oct. 18, 2023), which provided services to 1,064 thousand homes (+100 thousand YoY), topped the market for the seventh consecutive year with a share of 18.4%. Familynet Japan Corporation (a subsidiary of Tokyo Electric Power Company Holdings [TSE Prime: 9501]) came in second with a share of 9.6%, providing services to 554 thousand homes (+36 thousand YoY), Fibergate Inc.(TSE Prime: 9450) came in third, providing services to 527 thousand homes (+72 thousand YoY), and D.U-Net was fourth.

According to the survey, Giga Prize ranked tenth in market share, but the ranking was based on figures excluding OEM arrangements. Giga Prize provides services to D.U-Net (ranked fourth) on an OEM basis. The number of homes Giga Prize provided services to, including OEMs, totaled roughly 1,210 thousand as of end-March 2024 (+158 thousand YoY), surpassing the top-ranked Arteria Networks. In addition to the main small-scale rental properties, the company also targeted large-scale condominiums, and continued to expand sales with an OEM strategy.

The survey estimates that although the completion of new condominiums will begin to slow in FY2024 and beyond for both condominiums for sale and rental, the continued increase in the adoption rate of whole building-type ISP service will ensure that the number of units serviced whole building-type ISPs will remain at a certain scale, especially for rental properties. The annual net increase in the number of units is expected to remain at just under 600 thousand, with a projected CAGR of 9.2% over the three years from FY2024.

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 2023 "Housing and Land Survey" (conducted by the Ministry of Internal Affairs and Communications every five years), Japan's housing market totaled 55,665 thousand units, of which 19,462 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 7,043 thousand units at end-2023. Adding the numbers from these studies yields 26,505 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 5,790 thousand according to the MM Research Institute survey, dividing this number by 26,505 thousand roughly comes to 21.8%, which is the percentage of homes being served by whole building-type ISP services. In other words, services have not been introduced to 78.2% 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 a record high of JPY7.32tn (+3.0% YoY) in 2023. With the COVID-19 reclassified as a category 5 infectious disease, advertising demand recovered mainly in industries related to human activities. Among promotional media advertising expenditures, events, exhibitions, videos, etc. category recovered significantly, and the growth of online advertising expenditures was also supported by the overall market against the backdrop of the rapid digitalization of society that progressed due to the COVID-19 pandemic. 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 45.6% of total advertising expenditures in 2023. Online advertising expenditures totaled JPY3.33tn in 2023 (+7.8% YoY), substantially surpassing the combined advertising expenditures of the four traditional media (newspapers, magazines, radio, and TV), which stood at JPY2.32tn (-3.4% YoY).

By transaction method, programmatic advertising accounted for the lion's share of online advertising media expenditures. As of 2023, social advertising made up about 36% of media costs in online advertising, and video advertising, about 26%.

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)	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	
Total advertising expenditures	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	7,316.7	
YoY	2.9%	0.3%	1.9%	1.6%	2.2%	6.2%	-11.2%	10.4%	4.4%	3.0%	
Online advertising expenditures	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	3,333.0	
% of total(% of Total advertising expenditures)	17.1%	18.8%	20.8%	23.6%	26.9%	30.3%	36.2%	39.8%	43.5%	45.6%	
YoY	12.1%	10.2%	13.0%	15.2%	16.5%	19.7%	5.9%	21.4%	14.3%	7.8%	
Media costs	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	2,687.0	
Merchandise-related EC platform ad expenditures						106.4	132.1	163.1	190.8	210.1	
Production costs	227.4	240.0	272.2	288.8	310.9	335.4	340.2	385.0	420.3	435.9	
Method	Programmatic advertising	510.6	622.6	738.3	940.0	1,151.8	1,326.7	1,455.8	1,838.2	2,118.9	2,349.0
	Reservation-based advertising			153.8	175.8	197.1	231.4	202.4	224.9	264.7	264.8
	Affiliate advertising			145.7	104.9	99.0	104.9	98.5	94.0	96.5	73.2
Device	Mobile advertising	345.0	497.9	647.6	831.7	1,018.1					
	Desktop advertising	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	770.1	
	Paid search ads			483.1	570.8	668.3	678.7	799.1	976.6	1,072.9	
	Video ads(Video)Ads	29.0	51.6	86.9	115.5	202.7	318.4	386.2	512.8	686.0	
	Instream						180.0	292.1	345.6	383.7	
	Outstream						206.3	220.7	246.3	302.2	
	Affiliate advertising			104.9	99.0	104.9	98.5	94.0	96.5	73.2	
	Other			18.3	11.7	17.0	20.0	65.7	77.8	84.7	
Social	Social advertising				389.0	489.9	568.7	764.0	859.5	973.5	
	SNS					228.0	248.8	316.8	367.5	407.0	
	Video sharing					113.9	158.5	261.0	305.2	337.2	
	Other					148.0	161.5	186.1	186.8	229.4	
	Non-social advertising				1,059.0	1,173.1	1,188.0	1,393.1	1,620.6	1,713.5	

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"

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

[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.

FreeBit has been had been accumulating the technologies in fixed-line and mobile networks since the company's inception, and also obtained experience in designing and developing original devices through the acquisition of Exemode, Inc., which manufactured digital home appliances. Although FreeBit has been developing and launching its own smartphones, due to 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. 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 2,163, adding to 2,055 Docomo stores nationwide (as of June 2024). 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, Shared Research expects that Tone Mobile, which enables support for more than 160 handset models from all carriers through TONE IN strategy, will increase its presence among price-conscious users, particularly the elderly, as a result of the discontinuation of the highly competitive OCN Mobile ONE service within NTT Docomo's Economy MVNO framework 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 JPY276.1bn and operating profit of JPY29.0bn in FY03/24). 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 a B2C business centered on mobile communications services for individuals. As raising name recognition is becoming more important, annual advertising expenses were approximately JPY1.1bn in FY04/22, but they were not disclosed in FY04/23 due to the lack of materiality in monetary terms. 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 from 2025. 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 Enterprise/Creator 5G DX Support. That being said, Shared Research believes 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	FY04/15	FY04/16	FY04/17	FY04/18	FY04/19	FY04/20	FY04/21	FY04/22	FY04/23	FY04/24
(JPYmn)										
Revenue	21,469	28,390	35,222	38,654	50,366	55,295	52,010	43,076	46,772	53,038
YoY	3.9%	32.2%	24.1%	9.7%	30.3%	9.8%	-5.9%	-17.2%	8.6%	13.4%
Cost of revenue	13,909	20,178	27,008	27,987	35,212	38,478	36,560	30,666	33,444	37,651
Gross profit	7,560	8,212	8,215	10,667	15,153	16,817	15,449	12,410	13,327	15,386
YoY	-5.5%	8.6%	0.0%	29.8%	42.1%	11.0%	-8.1%	-19.7%	7.4%	15.5%
Gross profit margin	35.2%	28.9%	23.3%	27.6%	30.1%	30.4%	29.7%	28.8%	28.5%	29.0%
SG&A expenses	6,316	6,309	6,894	8,816	12,172	14,230	12,046	9,244	9,320	9,499
SG&A-to-sales ratio	29.4%	22.2%	19.6%	22.8%	24.2%	25.7%	23.2%	21.5%	19.9%	17.9%
OP	1,245	1,903	1,321	1,851	2,982	2,588	3,403	3,165	4,008	5,888
YoY	-5.8%	52.9%	-30.6%	40.1%	61.1%	-13.2%	31.5%	-7.0%	26.6%	46.9%
OPM	5.8%	6.7%	3.8%	4.8%	5.9%	4.7%	6.5%	7.3%	8.6%	11.1%
Non-operating income	56	145	51	56	40	120	498	35	32	85
Non-operating expenses	318	725	564	481	453	227	240	321	332	217
Recurring profit	982	1,323	808	1,426	2,569	2,481	3,662	2,879	3,707	5,756
YoY	-19.5%	34.6%	-38.9%	76.6%	80.1%	-3.4%	47.6%	-21.4%	28.8%	55.3%
Recurring profit margin	4.6%	4.7%	2.3%	3.7%	5.1%	4.5%	7.0%	6.7%	7.9%	10.9%
Extraordinary gains	613	207	158	5	1	512	2,462	21	21	270
Extraordinary losses	77	83	306	647	411	1,740	2,441	228	286	148
Income taxes	222	481	652	1,106	1,391	1,346	1,226	1,000	862	1,285
Net income attributable to non-controlling interests	271	412	158	245	489	527	869	844	789	1,027
Net income attributable to owners of the parent	1,026	553	-150	-567	279	-619	1,587	828	1,792	3,566
YoY	335.1%	-46.1%	-	-	-	-	-	-47.8%	116.5%	99.0%
Net margin	4.8%	1.9%	-	-	0.6%	-1.1%	3.1%	1.9%	3.8%	6.7%

Source: Shared Research based on company materials

Note: 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.

Revenue rose 13.4% YoY in FY04/24, however, due to the change in the fiscal year-end of Giga Prize and its subsidiaries from March 31 to April 30, Giga Prize and its subsidiaries had a 13-month fiscal year in FY04/24. Excluding the impact of the change in fiscal year-end for Giga Prize and its subsidiaries, FY04/24 revenue would have increased 9.7% YoY.

Balance sheet

Balance sheet	FY04/15	FY04/16	FY04/17	FY04/18	FY04/19	FY04/20	FY04/21	FY04/22	FY04/23	FY04/24
(JPYmn)										
Assets										
Cash and deposits	6,983	7,911	10,249	13,656	15,459	15,721	17,621	17,741	18,306	18,722
Notes and accounts receivable	3,200	4,508	4,227	5,088	8,296	9,303	6,669	-	-	-
Notes receivable	-	-	-	-	-	-	-	32	173	133
Accounts receivable	-	-	-	-	-	-	-	7,862	8,193	8,350
Contract assets	-	-	-	-	-	-	-	38	29	24
Lease receivables and investment assets	-	-	-	-	-	-	-	135	395	926
Merchandise and finished goods	99	715	202	287	820	750	166	123	339	83
Work in process	14	27	48	119	298	145	201	165	252	195
Raw materials and supplies	7	4	5	7	48	568	1,151	1,343	1,248	1,983
Prepaid expenses	248	232	320	470	715	780	375	461	468	573
Deferred tax assets	345	414	419	-	-	-	-	-	-	-
Accounts receivables-other	1,577	1,435	1,707	2,065	1,442	4,310	1,522	587	573	471
Other	348	921	458	520	666	1,733	1,231	1,417	732	411
Allowance for doubtful accounts	-225	-176	-222	-200	-186	-193	-140	-84	-67	-54
Total current assets	12,597	15,990	17,414	22,013	27,558	33,116	28,797	29,820	30,640	31,818
Buildings	589	637	762	732	718	608	629	627	436	341
Land	334	224	224	197	200	200	296	296	178	162
Lease assets	-	-	-	-	-	-	-	-	266	1,179
Lease assets	687	666	677	992	1,855	1,785	1,586	1,416	1,101	815
Other	179	184	224	201	152	134	149	143	496	540

Total tangible fixed assets	1,790	1,710	1,886	2,123	2,925	2,725	2,661	2,483	2,476	3,038
Goodwill	2,242	1,708	2,787	2,143	2,535	1,540	115	75	37	2
Software	334	540	1,262	1,494	1,486	713	353	278	172	248
Software in progress	103	35	181	159	299	43	67	93	162	313
Lease assets	-	-	-	378	1,273	-	-	-	-	-
Other	37	110	480	96	43	1,377	17	17	18	22
Total intangible assets	2,715	2,393	4,709	4,269	5,636	3,672	551	463	389	585
Investment securities	1,479	1,067	800	1,179	1,486	1,496	1,853	1,143	949	989
Long-term loans receivable	-	-	-	-	-	53	1,500	1,501	1,497	1,497
Deferred tax assets	336	375	262	411	493	379	416	544	864	1,099
Guarantee deposit	357	359	461	540	684	748	544	529	481	482
Other	484	356	351	551	675	578	254	302	365	408
Allowance for doubtful accounts	-435	-318	-287	-290	-292	-296	-1,740	-1,735	-1,735	-1,732
Investments and other assets	2,222	1,839	1,588	2,391	3,045	2,958	2,828	2,285	2,421	2,743
Total fixed assets	6,727	5,942	8,183	8,783	11,606	9,356	6,039	5,230	5,286	6,366
Total assets	19,324	21,932	25,597	30,797	39,164	42,472	34,836	35,050	35,926	38,184
Liabilities										
Notes and accounts payable	60	53	286	87	449	652	421	342	256	352
Short-term borrowings	656	1,422	912	300	309	700	400	300	300	300
Current portion of bonds	-	-	-	200	200	591	1,400	200	300	-
Current portion of long-term borrowings	1,463	1,175	989	1,727	2,014	3,174	3,267	3,951	4,493	4,949
Lease obligations	248	248	311	471	826	994	825	820	741	557
Accounts payable—other	3,370	4,843	5,462	5,499	6,607	8,508	5,305	5,846	5,936	5,273
Income taxes payable	362	461	345	580	895	602	925	726	708	1,132
Contract liabilities	-	-	-	-	-	-	-	327	579	462
Provision for bonuses	60	85	127	116	119	116	242	192	150	260
Provision for product warranties	-	-	-	-	186	178	75	-	-	-
Allowance for sales returns	-	-	-	-	204	195	-	-	-	-
Other provision	8	22	138	204	54	62	121	77	48	102
Other	756	741	1,011	1,169	1,972	1,990	928	1,021	851	763
Total current liabilities	6,983	9,050	9,580	10,352	13,835	17,764	13,908	13,802	14,364	14,150
Bonds	-	-	2,611	3,411	3,511	2,920	500	300	-	-
Long-term borrowings	1,078	1,069	961	4,967	7,311	7,434	6,118	8,012	9,084	7,629
Lease obligations	456	516	715	1,032	2,772	3,084	1,808	1,561	1,073	709
Deferred tax liabilities	15	8	-	-	-	-	-	-	-	-
Provision for directors' retirement benefits	-	-	-	-	49	66	83	57	61	61
Other provision	-	-	-	-	-	-	-	-	-	-
Provision for loss on guarantees	-	-	-	-	-	-	-	-	-	-
Retirement benefit liability	16	19	22	26	64	67	43	48	57	66
Other	122	105	456	333	314	289	227	229	255	372
Total fixed liabilities	1,686	1,717	4,766	9,769	14,021	13,860	8,779	10,209	10,530	8,837
Total interest-bearing debt	3,901	4,431	6,500	12,108	16,942	18,897	14,318	15,145	15,992	14,144
Total liabilities	8,669	10,767	14,346	20,121	27,855	31,624	22,687	24,011	24,894	22,987
Capital stock	4,514	4,514	4,514	4,514	4,514	4,514	4,514	4,514	4,514	4,514
Capital surplus	3,142	3,143	3,135	3,132	3,131	3,123	3,122	3,050	1,645	1,497
Retained earnings	2,671	3,067	2,761	1,995	2,116	1,341	2,811	3,636	5,287	8,693
Treasury stock	-489	-753	-753	-753	-753	-917	-1,854	-4,343	-3,251	-3,240
Accumulated other comprehensive income	3	1	-10	-13	-6	19	121	24	48	165
Share award rights	-	-	-	-	-	-	-	51	75	133
Share subscription rights	13	2	2	2	4	3	1	1	1	1
Non-controlling interests	799	1,191	1,601	1,798	2,303	2,766	3,434	4,107	2,714	3,434
Total net assets	10,654	11,165	11,251	10,675	11,309	10,849	12,149	11,039	11,032	15,197
Working capital	2,916	4,279	3,719	4,802	7,847	8,650	7,767	9,182	9,948	10,392
Total interest-bearing debt	3,901	4,431	6,500	12,108	16,942	18,897	14,318	15,145	15,992	14,144
Net debt	-3,082	-3,480	-3,750	-1,549	1,483	3,177	-3,304	-2,597	-2,314	-4,578

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 (JPYmn)	FY04/15	FY04/16	FY04/17	FY04/18	FY04/19	FY04/20	FY04/21	FY04/22	FY04/23	FY04/24
Cash flows from operating activities (1)	2,207	1,752	3,812	1,030	3,182	1,480	7,123	2,334	3,322	4,226
Pre-tax profit	1,518	1,446	660	784	2,159	1,253	3,682	2,671	3,443	5,878
Depreciation	640	612	743	1,069	1,625	2,060	1,470	1,022	891	754
Impairment losses	12	62	82	395	205	1,462	767	97	37	141
Amortization of goodwill	640	643	748	713	755	988	252	40	37	14
Change in allowances for doubtful accounts	84	-0	-7	-20	-11	11	1,524	-61	-17	-17
Interest and dividend income	-20	-4	-5	-2	-1	-1	-1	-0	-1	-1
Interest expenses paid on loans and bonds	75	44	49	78	131	165	141	104	114	99
Equity in earnings of affiliates	118	622	428	315	245	9	-8	0	2	-2
Loss (gain) on transfer of business	-400	-134	-	-	-	-	-	-	-	-
Loss (gain) on sales of investment securities	-105	-3	-74	-	-	-	-	-	-	-186
Loss (gain) on sale of shares of subsidiaries and affiliates	-	-	-	-	-	-113	-2,460	-	-	-86
Change in trade receivables	-278	-1,308	304	-851	-2,250	-463	169	-1,225	-364	-117
Change in inventories	-81	-625	490	-152	-192	-206	-566	-112	-208	-423
Change in accounts receivable—other	-	-	-	-	623	-2,870	-8,639	1,258	-43	73

Change in trade payables	34	-6	196	-206	209	205	-	-	-	-	-	-	-	-	-	-	-	-	-
Change in accounts payable—other					102	1,508	-55	-162	810	1,702	10,897	113	99	-654					
Other					-274	-472	868	-165	-97	-518	630	-269	644	-16					
Subtotal					2,571	2,522	4,500	1,797	4,211	3,684	7,857	3,638	4,633	5,455					
Interest and dividends income received					19	4	2	10	3	1	4	0	1	3					
Interests paid					-73	-45	-47	-90	-133	-163	-115	-102	-114	-100					
Income taxes paid					-310	-734	-684	-972	-1,197	-2,253	-1,227	-1,462	-1,304	-1,223					
Income taxes refund					-	4	40	285	298	211	604	259	106	92					
Payments for guarantee obligations					-	-	-	-	-	-	-	-	-	-					
Expenses paid, related to correction of prior period financial statements					-	-	-	-	-	-	-	-	-	-					
Cash flows from investing activities (2)					-524	-509	-2,291	-2,141	-3,688	-1,870	-2,656	511	-645	-1,085					
Purchase of tangible fixed assets					-226	-304	-330	-223	-165	-103	-394	-126	-558	-1,117					
Payments for sale of intangible assets					-209	-324	-552	-1,000	-1,097	-944	-546	-136	-111	-303					
Purchase of investment securities					-2	-157	-272	-379	-231	-197	-350	-55	-	-					
Proceeds from sales of investment securities					-	6	119	-	63	72	5	824	-	240					
Purchase of shares of subsidiaries and associates					-970	-123	-	-20	-692	-	-	-	-	-					
Proceeds from sale of shares of subsidiaries and affiliates					-	-	-	-	-	-	-	-	-	113					
Proceeds from transfer of business					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					483	251	-366	-358	278	-21	7	3	24	-18					
Free cash flow (1+2)					1,683	1,243	1,521	-1,110	-506	-390	4,467	2,845	2,678	3,141					
Cash flows from financing activities					585	-306	844	4,505	2,321	626	-2,572	-2,731	-2,111	-2,720					
Net change in short-term borrowings					-726	766	-572	-614	-15	391	-200	-100	-	-					
Proceeds from long-term loans					1,288	1,200	1,050	5,890	4,000	3,600	4,830	6,000	5,800	3,800					
Repayments of long-term borrowings					-2,436	-1,496	-1,350	-1,162	-2,119	-2,344	-4,892	-3,421	-4,186	-4,799					
Proceeds from issuance of bonds					-	-	2,220	1,000	300	-	-	-	-	-					
Redemption of bonds					-200	-	-	-	-200	-200	-200	-1,400	-200	-300					
Proceeds from issuance of shares					2,926	-	-	-	-	-	-	-	-	-					
Proceeds from sales of treasury shares					197	-	-	-	-	-	-	-	-	1,471					
Acquisition of treasury stock					-15	-	-	-	-0	-226	-979	-2,497	-0	-					
Dividends paid					-135	-157	-156	-157	-156	-156	-153	-146	-141	-159					
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation					-	-	-	-	-	-	-	-149	-3,932	-391					
Repayments of lease obligations					-297	-281	-299	-412	-670	-902	-932	-937	-870	-803					
Proceeds from sales and leasebacks					-	-	-	-	1,216	591	-	-	-	-					
Other					181	-337	-49	-39	-35	-129	-46	-229	-52	-69					
Depreciation and amortization (A)					1,280	1,255	1,491	1,782	2,380	3,049	1,722	1,062	928	767					
Capital expenditures (B)					-436	-628	-882	-1,223	-1,262	-1,047	-940	-261	-669	-1,420					
Change in working capital (C)					177	1,363	-560	1,083	3,045	803	-883	1,416	765	444					
Simple FCF (NI + A + B - C)					1,693	-183	1,019	-1,091	-1,649	579	3,252	213	1,286	2,469					

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 FY04/24 results

- Revenue: JPY53.0bn (+13.4% YoY)
- Operating profit: JPY5.9bn (+46.9% YoY)
- Recurring profit: JPY5.8bn (55.3% YoY)
- Net income attributable to owners of the parent: JPY3.6bn (+99.0% YoY)

In FY04/24, revenue, operating profit, recurring profit, and net income attributable to owners of the parent rose 13.4% YoY, 46.9% YoY, 55.3% YoY, and 99.0% 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. Against its full-year forecast, the company achieved 100.1% for revenue, 100.6% for operating profit, 101.0% for recurring profit, and 108.1% for net income attributable to shareholders of the parent company. Excluding the impact of the change in fiscal year-end for Giga Prize and its subsidiaries, revenue grew 9.7% YoY to JPY51.3bn, operating profit was JPY5.5bn (+37.0% YoY), recurring profit was JPY5.4bn(+44.6% YoY) and net income attributable to owners of the parent was 3.4bn (+90.2% YoY).

Revenue

In FY04/24, consolidated revenue grew 13.4% YoY. Revenue increased in all segments, up 4.7% YoY in 5G Infrastructure Support, 14.4% YoY in 5G Lifestyle Support, and 14.4% YoY in Enterprise/Creator 5G DX Support. Excluding the impact of the change in the fiscal year-end for Giga Prize and its subsidiaries, FY04/24 revenue was up 9.7% YoY, with a 7.0% revenue increase in 5G Lifestyle Support.

Operating profit

In FY04/24, operating profit increased 46.9% YoY. Profits increased in all segments, growing 9.3% YoY in 5G Infrastructure Support, 62.8% YoY in 5G Lifestyle Support, and 82.7% YoY in Enterprise/Creator 5G DX Support. Excluding the impact of the change in Giga Prize's fiscal year-end, full-year FY04/24 operating profit rose 37.0% YoY, with a 43.2% YoY operating profit increase in 5G Lifestyle Support. Excluding the impact of strategic investment (JPY962mn in full-year FY04/24), operating profit grew 29.4% YoY (+21.9% YoY when excluding the impact of the fiscal year-end change). By segment, operating profit (excluding the impact of strategic investment) grew 7.6% YoY in 5G Infrastructure Support, 36.8% YoY (+22.7% YoY, excluding the impact of fiscal year-end change) in 5G Lifestyle Support, and 51.6% YoY in Enterprise/Creator 5G DX Support.

For FY04/24, FreeBit's actual strategic investment was JPY962mn (-25.1% YoY). The company had planned the same level of investment as in FY04/23 (JPY1.2bn), but due to the postponement of some 5G data center relocations in 5G Infrastructure Support, approximately JPY200mn will be carried over to FY04/25.

Recurring profit

In FY04/24, recurring profit increased 55.3% YoY due mainly to growth in operating profit and a JPY95mn 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 44.6% YoY.

Net income attributable to owners of the parent

In FY04/24, net income attributable to owners of the parent rose 99.0% YoY. Net income benefited from growth in recurring profit, and a JPY259mn increase in gain on sales of investment securities and subsidiary/affiliate shares, while it was depressed by a JPY289mn increase in tax expenses, among other factors. Excluding the impact of the change in the fiscal year-end for Giga Prize and its subsidiaries, net income rose 90.2% YoY.

Earnings trend by segment

5G Infrastructure Support

- Revenue: JPY9.9bn (+4.7% YoY)
- Operating profit: JPY1.5bn (+9.3% YoY)

In FY04/24, the segment posted an increase in revenue and profit. The company's group performed well due to the expansion of the scale of its support business for MVNOs. Operating profit (excluding strategic investments) was up 7.6% YoY.

Factors contributing to the JPY128mn YoY increase in segment operating profit were a JPY471mn increase in service use in the B2B2X mobile business. Meanwhile, a reduced service use in the B2B2X fixed line business depressed operating profit by JPY78mn, a rise in personnel expenses due to an enhancement of human resources by JPY180mn, an increase in strategic investment by JPY1mn, and other factors by JPY85mn. In FY04/24, the company made strategic investments amounting to JPY301mn (JPY300mn in 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 (account wholesaling) and bandwidth to meet customer needs (bandwidth wholesaling), the company provides network operation and monitoring services, management tools, and components such as cloud, fixed IP, and VoIP. According to FreeBit, although bandwidth wholesaling accounts for the majority of sales in absolute terms, it is account wholesaling that is growing, and the ratio of SIMs with data+SMS+voice to account wholesaling continues to rise, leading to revenue growth and an improvement in the gross profit margin. The breakdown of SIMs sold at end-FY04/24 was 49.3% data+SMS+voice (48.5% at end-Q2 FY04/24), 3.9% data+SMS (4.9%), and 46.8% data (46.6%).

5G Lifestyle Support

- Revenue: JPY26.6bn (+14.4% YoY)
- Operating profit: JPY3.3bn (+62.8% YoY)

In FY04/24, the segment posted an increase in revenue and profit. In the 5G Homestyle business (internet services for housing complexes), the number of households using the company's service grew at a steady pace.

Excluding the impact of the change in fiscal year-end for Giga Prize and its subsidiaries, revenue was up 7.0% YoY, and operating profit (excluding strategic investments (one-time investments)) was up 22.7% YoY.

Factors contributing to the JPY1.3bn YoY increase in operating profit were the growth in revenue at Giga Prize (JPY532mn), one-time expenses for the launch of new handsets, profit improvement in TONE business from the store reduction (JPY274mn), and lower strategic investments (JPY245mn). Meanwhile, operating profit was detracted by the decrease in DTI's profit (JPY165mn) due to the decline in fixed network service use, and other factors (JPY4mn). The impact of the change in fiscal year-end for Giga Prize and its subsidiaries lifted operating profit by JPY398mn. The company made strategic investments totaling JPY524mn (JPY769mn in FY04/23) in the 5G Lifestyle Support segment in FY04/24. These were targeted at the acquisition of TONE and TONE Labo 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 158 thousand homes to 1,210 thousand as of end-FY04/24, making steady progress.

Enterprise/Creator 5G DX Support

- Revenue: JPY19.3bn (+14.4% YoY)
- Operating profit: JPY1.1bn (+82.7% YoY)

In FY04/24, the segment posted increases in both revenue and profit. Customer acquisition for affiliate services grew at a steady pace. Operating profit (excluding strategic investments (one-time investments)) was up 51.6% YoY.

Contributing to the JPY500mn YoY increase in operating profit was the increase in gross profit in the affiliate business (JPY180mn) due to the strengthening of key services and acquisition of new customers, lower CoGS ratio (JPY159mn) thanks to the optimization of group resources, lower strategic investment (JPY77mn), ad efficiency improvement (JPY67mn) and other factors (JPY16mn). The company made strategic investments amounting to JPY136mn (JPY213mn in FY04/23) in the segment in FY04/24, with part of this spent on development toward the multifaceted roll-out of StandAlone.

Cumulative Q3 FY04/24 results

- Revenue: JPY40.0bn (+16.9% YoY)
- Operating profit: JPY4.7bn (+47.4% YoY)
- Recurring profit: JPY4.6bn (54.9% YoY)
- Net income attributable to owners of the parent: JPY2.9bn (+73.2% YoY)

In cumulative Q3 FY04/24, revenue, operating profit, recurring profit, and net income attributable to owners of the parent rose 16.9% YoY, 47.4% YoY, 54.9% YoY, and 73.2% 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 cumulative Q3, 10-month accounting period from April 1, 2023 to December 31, 2023, was included in the consolidated financial results.

Excluding the impact of the change in fiscal year-end for Giga Prize and its subsidiaries, revenue increased 11.8% YoY to JPY38.3bn, operating profit rose 34.9% YoY to JPY4.3bn, recurring profit rose 41.6% YoY to JPY 4.2bn, and net income attributable to owners of the parent rose 63.7% to JPY2.7bn.

Against the company's revised FY04/23 full-year forecasts, cumulative Q3 FY04/24 revenue, operating profit, recurring profit, and net income attributable to owners of the parent achieved 75.5% (73.2% in FY04/23), 84.9%(79.0%), 88.3% (80.0%), and 95.6%(92.4%), respectively. There were no changes in the company's full-year earnings forecast. FreeBit cited factors behind the high rate of progress in all profit categories from operating profit downward due to positive effects from strategic investments and extraordinary gains from the sale of shares. The company also noted that the final result depended on strategic investments in Q4.

Revenue

In cumulative Q3 FY04/24, consolidated revenue grew 16.9% YoY. Revenue increased in all segments, up 4.4% YoY in 5G Infrastructure Support, 18.7% YoY in 5G Lifestyle Support, and 18.0% YoY in Enterprise/Creator 5G DX Support. Excluding the impact of the change in the fiscal year-end for Giga Prize and its subsidiaries, revenue was up 11.8% YoY.

Operating profit

In cumulative Q3 FY04/24, operating profit increased 47.4% YoY. Profits increased in all segments, growing 15.6% YoY in 5G Infrastructure Support, 68.0% YoY in 5G Lifestyle Support, and 59.3% YoY in Enterprise/Creator 5G DX Support. Excluding the impact of the change in Giga Prize's fiscal year-end, operating profit rose 34.9% YoY, and excluding the impact of strategic investment (JPY698mn in cumulative Q3 FY04/24), operating profit grew 43.5% YoY (+27.1% YoY when excluding the impact of the fiscal year-end change). By segment, operating profit (excluding the impact of strategic investment) grew 13.5% YoY in 5G Infrastructure Support, 52.9% YoY(+32.5% YoY, excluding the impact of fiscal year-end change) in 5G Lifestyle Support, and 46.7% YoY in Enterprise/Creator 5G DX Support.

Recurring profit

In cumulative Q3 FY04/24, recurring profit increased 54.9% YoY due mainly to growth in operating profit and a JPY95mn 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 41.6% YoY.

Net income attributable to owners of the parent

In cumulative Q3 FY04/24, net income attributable to owners of the parent rose 73.2% YoY. Net income benefited from growth in recurring profit, and a JPY172mn increase in gain on sales of investment securities, while it was depressed by a JPY356mn increase in tax expenses, among other factors. Excluding the impact of the change in the fiscal year-end for Giga Prize and its subsidiaries, net income rose 63.7% YoY.

Earnings trend by segment

5G Infrastructure Support

- Revenue: JPY7.4bn (+4.4% YoY)
- Operating profit: JPY1.3bn (+15.6% YoY)

In cumulative Q3 FY04/24, the segment posted an increase in revenue and profit. The company's group performed well due to the expansion of the scale of its support business for MVNOs. Operating profit (excluding strategic investments) was up 13.5% YoY.

Factors contributing to the JPY181mn YoY increase in segment operating profit were a JPY393mn increase in service use in the B2B mobile business. Meanwhile, a reduced service use in the B2B fixed line business depressed operating profit by JPY57mn, a rise in personnel expenses due to an enhancement of human resources by JPY89mn, an increase in strategic investment by JPY4mn, and other factors by JPY62mn. In cumulative Q3 FY04/24, the company made strategic investments amounting to JPY214mn (JPY210mn in cumulative Q3 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 (account wholesaling) and bandwidth to meet customer needs (bandwidth wholesaling), the company provides network operation and monitoring services, management tools, and components such as cloud, fixed IP, and VoIP. According to FreeBit, although bandwidth wholesaling accounts for the majority of sales in absolute terms, it is account wholesaling that is growing, and the ratio of voice SIMs to account wholesaling continues to rise, leading to an improvement in the gross profit margin.

5G Lifestyle Support

- Revenue: JPY19.9bn (+18.7% YoY)
- Operating profit: JPY2.6bn (+68.0% YoY)

In cumulative Q3 FY04/24, the segment posted an increase in revenue and profit. In the 5G Homestyle business (internet services for housing complexes), the number of households using the company's service grew at a steady pace.

Excluding the impact of the change in fiscal year-end for Giga Prize and its subsidiaries, revenue was up 8.4% YoY, and operating profit (excluding strategic investments (one-time investments)) was up 32.4% YoY.

Factors contributing to the JPY1.0bn YoY increase in operating profit were the growth in revenue at Giga Prize (JPY494mn), one-time expenses for the launch of new handsets, profit improvement in TONE business from the store reduction (JPY231mn), lower strategic investments (JPY12mn), and other factors (JPY16mn). Meanwhile, operating profit was detracted by the decrease in DTI's profit (JPY107mn) 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 JPY398mn. The company made strategic investments totaling JPY404mn (JPY416mn in cumulative Q3 FY04/23) in the 5G Lifestyle Support segment in cumulative Q3 FY04/24. These were targeted at the acquisition of TONE and TONE Labo 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 106 thousand homes to 1,158 thousand as of end-Q3 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: JPY14.7bn (+18.0% YoY)
- Operating profit: JPY767mn (+59.3% YoY)

In cumulative Q3 FY04/24, the segment posted increases in both revenue and profit. Customer acquisition for affiliate services grew at a steady pace. Operating profit (excluding strategic investments (one-time investments)) was up 46.7% YoY.

Contributing to the JPY286mn YoY increase in operating profit were the increase in gross profit in the affiliate business (JPY107mn) due to the strengthening of key services and acquisition of new customers, lower SG&A expenses (JPY118mn) thanks to the optimization of resources and positive PMI effect due to making Full Speed a wholly-owned subsidiary, lower strategic investment (JPY16mn), and other factors (JPY45mn). The company made strategic investments amounting to JPY79mn (JPY95mn in cumulative Q3 FY04/23) in the segment in cumulative Q3 FY04/24, with part of this spent on development toward the multifaceted roll-out of StandAlone.

Topics

Established a direct sales system to develop new customers in 5G Infrastructure Support and started providing new services

In 5G Infrastructure Support, FreeBit has so far focused on services for B2B2X but has started direct sales to a new customer base that it wants to expand. The company built the necessary structure for direct sales in-house, from service design to full-scale online sales platforms, and is working to develop new customers among startups and small and medium-sized enterprises. In addition, the company developed its services as freebit Business, an ICT package for corporate customers, and launched Dokodemo IP as its first service, and will launch freebit mobile Biz, as its second service, in March 2024.

Dokodemo IP is a service that uses a fixed IP address to enable easy and highly secure access to office servers from outside the office. freebit mobile Biz is a service that allows users to insert an eSIM into a private terminal and use it as a 5G business terminal with ease at a reasonable price.

In 5G Lifestyle Support, FreeBit plans to develop new products and utilize know-how in ISP services for housing complexes to expand horizontally into existing markets and develop new markets

In the 5G lifestyle support business, with an aim to develop cutting-edge products for the 5G/web3 era, FreeBit will leverage its expertise in ISP services dedicated to housing complexes. In addition, the company is developing new markets while expanding horizontally into the housing complex market and while combining new products. Further, the company plans to expand the number of service users and increase property values through provision of Cloud Camera Service, a security camera service for housing complexes by utilizing cloud video storage. The service is done jointly with NTT Media Supply Corporation, a wholly owned subsidiary of NTT West (a subsidiary of Nippon Telegraph and Telephone Corporation

[TSE Prime: 9432]]. As a new business, FreeBit aims to create and implement services to solve issues faced by local governments, such as the installation of a next-generation streetlight Secual Smart Pole in Tokyo's Meiji Metropolitan Park.

TONE Chain became the third-largest node in the world with the start of real value exchange of TONE Coin

In the web3 stakeholder community demonstration experiment, One Vision announced by the company on December 8, 2023, the number of nodes of the company's Layer 1 blockchain, TONE Chain, reached 6,010 (4,511 TONE users, 1,499 partners, etc.) as of March 2024, making it the world's third-largest blockchain after bitcoin (18,117 nodes) and Ethereum (PoW) (6,840 nodes) according to the company.

Released a roadmap for shareholder returns for One Vision

As part of the One Vision web3 stakeholder community experiment, the company will provide FreeBit Shareholder DAO App to shareholders (who hold the company's shares as of end-April 2024) which will be available by June 2024. Shareholders who are granted the shareholder NFT will be able to 1) earn TONE Coin, which is the sealing reward for the TONE Chain, 2) post on the shareholder bulletin board, and 3) participate in FreeBit Shareholder DAO, which will allow them to participate in various demonstration experiments of the company group from late July 2024 onward.

1H FY04/24 results

- Revenue: JPY27.1bn (+19.9% YoY)
- Operating profit: JPY3.1bn (+56.5% YoY)
- Recurring profit: JPY3.0bn (67.0% YoY)
- Net income attributable to owners of the parent: JPY2.0bn (+134.8% YoY)

In 1H FY04/24, revenue, operating profit, recurring profit, and net income attributable to owners of the parent rose 19.9% YoY, 56.5% YoY, 67.0% YoY, and 134.8% 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 1H, seven months from April 1, 2023 to October 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 12.2% YoY to JPY25.3bn, operating profit rose 36.2% YoY to JPY2.7bn, recurring profit rose 45.1% YoY to JPY 2.6bn, and net income attributable to owners of the parent rose 116.1% to JPY1.8bn.

The company revised its full-year FY04/24 earnings forecast. Against the company's revised FY04/23 full-year forecasts, 1H FY04/24 revenue, operating profit, recurring profit, and net income attributable to owners of the parent achieved 51.1% (48.3% in FY04/23), 55.8%(49.0%), 58.0%(48.7%), and 66.0%(47.1%), respectively.

Revenue

In 1H FY04/24, consolidated revenue grew 19.9% YoY. Revenue increased in all segments, up 4.1% YoY in 5G Infrastructure Support, 22.4% YoY in 5G Lifestyle Support, and 21.3% YoY in Enterprise/Creator 5G DX Support. Excluding the impact of the change in the fiscal year-end for Giga Prize and its subsidiaries, revenue was up 12.2% YoY.

Operating profit

In 1H FY04/24, operating profit increased 56.5% YoY. Profits increased in all segments, growing 23.6% YoY in 5G Infrastructure Support, 78.2% YoY in 5G Lifestyle Support, and 67.8% YoY in Enterprise/Creator 5G DX Support. Excluding the impact of the change in Giga Prize's fiscal year-end, operating profit rose 36.2% YoY, and excluding the impact of strategic investment (JPY427mn in 1H FY04/24), operating profit grew 43.5% YoY (+27.1% YoY when excluding the impact of the fiscal year-end change). By segment, operating profit (excluding the impact of strategic investment) grew 19.9% YoY in 5G Infrastructure Support, 61.0% YoY(+44.5% YoY, excluding the impact of fiscal year-end change) in 5G Lifestyle Support, and 39.1% YoY in Enterprise/Creator 5G DX Support.

Recurring profit

In 1H FY04/24, recurring profit increased 67.0% YoY due mainly to growth in operating profit and a JPY95mn 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 45.1% YoY.

Net income attributable to owners of the parent

In 1H FY04/24, net income attributable to owners of the parent rose 134.8% YoY. Net income benefited from growth in recurring profit, a JPY172mn increase in gain on sales of investment securities, and a JPY86mn increase in gain on sales of shares of subsidiaries and associates, while it was depressed by a JPY89mn increase in tax expenses, among other factors. Excluding the impact of the change in the fiscal year-end for Giga Prize and its subsidiaries, net income rose 116.1% YoY.

5G Infrastructure Support

- Revenue: JPY4.9bn (+4.1% YoY)
- Operating profit: JPY907mn (+23.6% YoY)

In 1H FY04/24, the segment posted an increase in revenue and profit. The company's group performed well due to the expansion of the scale of its support business for MVNOs. Operating profit (excluding strategic investments) was up 19.9% YoY.

Factors contributing to the JPY173mn YoY increase in segment operating profit were a JPY283mn increase in service use in the B2B mobile business and a JPY1mn decrease in strategic investment. Meanwhile, a reduced service use in the B2B fixed line business depressed operating profit by JPY39mn, a rise in personnel expenses due to an enhancement of human resources by JPY59mn, and others by JPY13mn. In 1H FY04/24, the company made strategic investments amounting to JPY131mn (JPY132mn in 1H 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 sales of higher value-added data, SMS, and voice SIMs in a bundle contributed to higher sales. SIM sales composition for 1H FY04/24 was 46.6% for data SIM (54.6% at end-Q1 FY04/22), 48.5% (32.9%) for data, SIM, and voice SIM, and 4.9% (12.5%) for data and SMS SIM.

5G Lifestyle Support

- Revenue: JPY13.7bn (+22.4% YoY)
- Operating profit: JPY1.7bn (+78.2% YoY)

In 1H FY04/24, the segment posted an increase in revenue and profit. In the 5G Homestyle business (internet services for housing complexes), the number of households using the company's service grew at a steady pace.

Excluding the impact of the change in fiscal year-end for Giga Prize and its subsidiaries, revenue was up 6.9% YoY, and operating profit (excluding strategic investments (one-time investments)) was up 29.2% YoY.

Factors contributing to the JPY766mn YoY increase in operating profit were the growth in revenue at Giga Prize (JPY234mn), one-time expenses for the launch of new handsets, lower initial costs due to the start of the alliance with Docomo stores (JPY183mn), lower strategic investments (JPY2mn), and other factors (JPY23mn). Meanwhile, operating profit was detracted by the decrease in DTI's profit (JPY74mn) 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 JPY398mn. The company made strategic investments totaling JPY271mn (JPY273mn in 1H FY04/23) in the 5G Lifestyle Support segment in 1H FY04/24. These were targeted at the 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 79 thousand homes to 1,130 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: JPY9.8bn (+21.3% YoY)
- Operating profit: JPY429mn (+67.8% YoY)

In 1H FY04/24, the segment posted increases in both revenue and profit. Customer acquisition for affiliate services grew at a steady pace. Operating profit (excluding strategic investments (one-time investments)) was up 38.9% YoY.

Contributing to the JPY173mn YoY increase in operating profit were the increase in gross profit in the affiliate business (JPY90mn) due to the strengthening of key services and acquisition of new customers, lower SG&A expenses (JPY100mn) thanks to the optimization of resources and positive PMI effect due to making Full Speed a wholly-owned subsidiary, and lower strategic investment (JPY46mn). Weighing on operating profit were other factors (JPY63mn). The company made strategic investments amounting to JPY24mn (JPY70mn in Q2 FY04/23) in the segment in Q2 FY04/24, with part of this spent on development toward the multifaceted roll-out of StandAlone.

Topics

Launched One Vision, a stakeholder community demonstration experiment using the TONE Chain

On December 8, 2023, the company announced the launch of One Vision, a web3 stakeholder community demonstration experiment using its proprietary mobile Layer 1 blockchain TONE Chain, which has reached the fourth-largest number of nodes in the world (as of December 8, 2023, according to the company). As a new form of shareholder returns in the web3 era, the company will distribute participation rights in the TONE Chain and Shareholder NFT to all shareholders. In addition to the existing shareholder benefits, shareholders of the company can participate in the sealing (mining) of the TONE Chain by running the TONE Chain while recharging their smartphones and receive rewards in the form of TONE Coins. Furthermore, shareholders can obtain a Shareholder NFT and participate in the company group's advanced demonstration services through a simple registration process.

With One Vision, a new shareholder (a stakeholder) will join the community of the TONE Chain, which is already being operated by customers. In the future, the company plans to consider having its employees participate as well so that customers, shareholders, and employees involved in the company can share a single vision for the community and operate the Layer 1 blockchain on a global scale.

Launch of real value exchange on TONE Coin

On December 8, 2023, the company announced that TONE Coin, a new point system that allows users to earn points simply by running the program under the Tone Mobile brand, will be available for use with Tone Mobile services by February 1, 2024. TONE Coin is a point system that allows users to earn TONE Coin simply by running the TONE Coin app automatically in the background while recharging their smartphones.

By providing excess resources (power supply, CPU, etc.) of a smartphone while charging, users can participate in the operation of the Layer 1 blockchain TONE Chain and will be able to not only accumulate TONE Coin but also participate in making various social contributions. TONE Coin will be the first mobile blockchain sealing reward to offer real value exchange, whereby each TONE Coin accumulated can be applied to JPY100 worth of monthly Tone Mobile usage fees.

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 to 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.

News and topics

Extraordinary loss resulting from impairment of shares of consolidated subsidiaries

2024-06-14

On June 14, 2024, FreeBit Co., Ltd. announced an extraordinary loss (on a non-consolidated basis) due to an impairment loss on shares of a consolidated subsidiary.

Details of an extraordinary loss

In its non-consolidated financial results for FY04/24, FreeBit posted an extraordinary loss of JPY416mn as a valuation loss on shares of subsidiaries and affiliates, resulting from an impairment loss on the shares of Beccoame Internet, Inc. due to a decline in the actual value of the shares as a result of an evaluation. FreeBit group has been developing 5G data centers as part of its strategic investment toward realizing SiLK VISION 2027, and the loss was recognized based on the related expenses incurred.

Impact on earnings

The valuation loss on stocks of subsidiaries and affiliates is recorded only in the non-consolidated financial statements. There is no impact on consolidated results as the loss is eliminated in consolidated accounting.

Revision to full-year FY04/24 earnings forecast

2024-04-23

The company revised its full-year FY04/24 earnings forecast.

Summary of earnings revision

- Revenue: JPY53.0bn (previous forecast: JPY53.0bn)
- Operating profit: JPY5.9bn (JPY5.5bn)
- Recurring profit: JPY5.7bn (JPY5.2bn)
- Net income attributable to owners of the parent: JPY3.3bn (JPY3.0bn)
- Earnings per share: JPY165.27 (JPY150.27)

Reason for revision

Revenue

On December 8, 2023, FreeBit raised its revenue forecast against the backdrop of steady performance in all three segments, 5G Infrastructure Support, 5G Lifestyle Support, and Enterprise/Creator 5G DX Support, since the beginning of the fiscal year. The company maintained its revenue forecast this time, as revenue has generally progressed as expected since the previous upward revision.

Operating profit, recurring profit

The operating profit forecast was revised upward on December 8, 2023 based on the results through Q2 FY04/24. The company expects operating profit to exceed the previously revised forecast, as it projects earnings to continue growing in 5G Infrastructure Support. Furthermore, in the Tone Mobile business, the company expects the effect of improved user acquisition measures during the busy user acquisition period in March and April to bear fruit. It expects recurring profit to also exceed the revised forecast, due in large part to the factors behind the revision of operating profit.

Net income attributable to owners of the parent

Following the revisions to the operating profit and recurring profit projections, FreeBit has also revised its net income forecast due to an increase in deferred tax assets based on tax effect accounting.

Revision to full-year FY04/24 earnings and dividend forecasts

2023-12-08

On December 8, 2023, FreeBit revised its full-year FY04/24 earnings and dividend forecasts.

Revised full-year FY04/24 earnings forecast

- Revenue: JPY53.0bn (previous forecast: JPY50.0bn)
- Operating profit: JPY5.5bn (JPY5.0bn)
- Recurring profit: JPY5.2bn (JPY4.5bn)
- Net income attributable to owners of the parent: JPY150.27 (JPY132.63)

Reason for revision

The revised revenue forecast reflects better-than-expected results in 1H due to the acquisition of customers for affiliate services and the MVNO support business (MVNE), and steady growth in the number of units served by 5G Homestyle (Internet service for housing complexes).

The revised operating profit forecast reflects an increase in profits resulting from the revised revenue forecast, the continued efficient implementation of strategic investments, ongoing implementation of strategic investments, and lower-than-expected SG&A and other expenses.

The revised recurring profit forecast is due mainly to the fact that operating profit is expected to exceed the forecast projected at the beginning of the period.

The revised net income forecast is attributable to the gain on sales of investment securities and the gain on sales of shares of subsidiaries and associates in Q2 FY04/24, in addition to the factors that caused the revision to operating profit and recurring profit.

Revised dividend forecast

- Annual dividend: JPY27.0 (previous forecast: undecided)

Reason for revision

The company places importance on meeting shareholder expectations through business expansion and the company's growth from a medium- to long-term perspective, and believes it is essential to increase retained earnings to achieve this goal. At the same time, the company recognizes the importance of providing shareholders with ongoing returns.

The company now expects revenue, operating profit, recurring profit, and net income attributable to owners of the parent to all exceed the forecasts it announced on June 9, 2023. The company has historically paid a stable dividend regardless of its performance. Going forward, FreeBit plans to clarify its stance on returning profits to shareholders and to better meet shareholder expectations. To this end, under the next medium-term management plan, "SiLK VISION 2027 (PRE)", which is scheduled to begin in the next fiscal year, the company plans to specify dividend amounts, taking into consideration the dividend payout ratio and other factors, as well as the company's performance and financial position.

Given the company's steady progress of business performance in FY04/24, the final year of SiLK VISION 2024, the company intends to commence shareholder returns this year rather than under the next medium-term management plan. In FY04/24, the company plans to pay a year-end dividend of JPY27.0 per share (+JPY19.0 YoY), representing a payout ratio of 18.0% (8.4% in FY04/23).

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 61.07% 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-FY04/24)	Number of shares held(000 shares)	Shareholding ratio
Hiroki Ishida	3,520	17.62%
Alps Alpine Co., Ltd.	3,511	17.58%
UH Partners 2, Inc.	1,893	9.48%
Hikari Tsushin, Inc.	1,442	7.22%
The Master Trust Bank of Japan, Ltd. (trust account)	891	4.46%
UH Partners 3, Inc.	701	3.51%
Custody Bank of Japan, Ltd. (trust account)	491	2.46%
OBIC Business Consultants Co., Ltd.	450	2.25%
Jun Murai	288	1.44%
BNY GCM CLIENT ACCOUNT JPR AC ISG (FE-AC)	156	0.78%
Total	13,343	66.81%

Source: Shared Research based on company materials

Notes: Excludes treasury shares

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

Shareholder returns

Trends of dividends (JPY)	FY04/15	FY04/16	FY04/17	FY04/18	FY04/19	FY04/20	FY04/21	FY04/22	FY04/23	FY04/24
Dividends	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.50	8.00	27.00
EPS	51.40	24.75	-6.77	-25.56	12.59	-27.93	74.06	41.86	95.07	178.58
Payout ratio	13.6%	28.3%	- %	- %	55.6%	- %	9.5%	17.9%	8.4%	15.1%

Source: Shared Research based on company materials

Corporate governance and top management

Corporate governance overview

Corporate governance (as of July 29, 2024)

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

Company Name

FreeBit Co., Ltd.

Phone

03-5459-0522

Established

2000-05-01

IR Contact

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

Head Office

13F, E-Space Tower3-6 Maruyamacho, Shibuya-ku, Tokyo 150-0044 Japan

Listed On

Tokyo Stock Exchange, Prime Market

Exchange Listing

2007-03-20

Fiscal Year-End

Apr

About Shared Research Inc.

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

Contact Details

Company name

Shared Research Inc.

Phone

+81 (0)3 5834-8787

Address

2-6-10 Kanda-Sarugakucho Chiyoda-ku Tokyo, Japan

Email

info@sharedresearch.jp

Website

<https://sharedresearch.jp>

Disclaimer

This document is provided for informational purposes only. No investment opinion or advice is provided, intended, or solicited. Shared Research Inc. offers no warranty, either expressed or implied, regarding the veracity of data or interpretations of data included in this report. We shall not be held responsible for any damage caused by the use of this report. The copyright of this report and the rights regarding the creation and exploitation of the derivative work of this and other Shared Research Reports belong to Shared Research. This report may be reproduced or modified for personal use; distribution, transfer, or other uses of this report are strictly prohibited and a violation of the copyright of this report. Our officers and employees may currently, or in the future, have a position in securities of the companies mentioned in this report, which may affect this report's objectivity.

Japanese Financial Instruments and Exchange Law (FIEL) Disclaimer: The report has been prepared by Shared Research under a contract with the company described in this report ("the company"). Opinions and views presented are ours where so stated. Such opinions and views attributed to the company are interpretations made by Shared Research. We represent that if this report is deemed to include an opinion from us that could influence investment decisions in the company, such an opinion may be in exchange for consideration or promise of consideration from the company to Shared Research.