

Fibergate (9450)

Residential & business WiFi

11th Nov 2022

Share price: ¥975

Market cap: ¥20.1bn

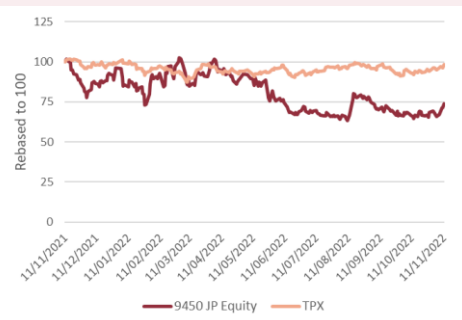
The evolution of Fibergate's WiFi solutions from residential to business is expected to preface a new phase of long-term earnings growth.

Company sector

Diversified Telecommunication

Stock data

Price (¥)	975
Mkt cap (¥bn)/(\$m)	20.1 / 143.5
52-week range (¥)	831-1,377
Shares O/S (m)	20.6
Average daily value (\$m)	0.6
Free float (%)	42.9
Foreign shareholding (%)	2.0
Ticker	9450
Exchange	Tokyo Prime
Net Debt/Equity (x)	132.6



Source: Bloomberg

- **As an independent WiFi solutions company, Fibergate operates under the slogan, 'WiFi, Anywhere'.**
- **Having successfully established a stock residential WiFi business for collective housing, allowing free internet access as a tenant perk, it increasingly recognises that the existing building WiFi market is becoming tougher. It is therefore targeting new builds & their growing requirements for WiFi, IoT & renewable energy solutions to be included.**
- **Simultaneously, Fibergate is also developing its Business-Use product suite, refocusing on longer 'stay time' areas, such as hotels, hospitals & nursing care facilities, & away from its current restaurant core, to capitalise on labour shortage related opportunities & the need to increase operational efficiency.**
- **FY 6/22 sales & OP were slightly below plan due to longer than expected order to sales lead times for new builds in the Home-Use division, COVID related weakness in core restaurant WiFi capex & margin pressure due to higher semiconductor procurement costs, Yen weakness & the acquisition of TM Asset.**
- **In FY 6/23, a focus on new builds & high value-added IoT is set to drive Home-Use business growth, alongside an acceleration in Business-Use earnings, amidst a post COVID activity rebound & a sharp increase in newly installed facilities.**
- **In context of the evolving Business-Use division, an impending earnings acceleration & a new 5 year MTP, we conclude the company is at a turning point that the market has yet to recognise. We recommend a meeting with senior management to examine the investment thesis: [here](#).**

BUSINESS OVERVIEW

Fibergate is the #2 ranked supplier of domestic wireless telecom services, including free Wi-Fi spot construction, maintenance & operation. It also produces & sells communication equipment.

Next event

1Q FY 6/23 results on 14th November 2022

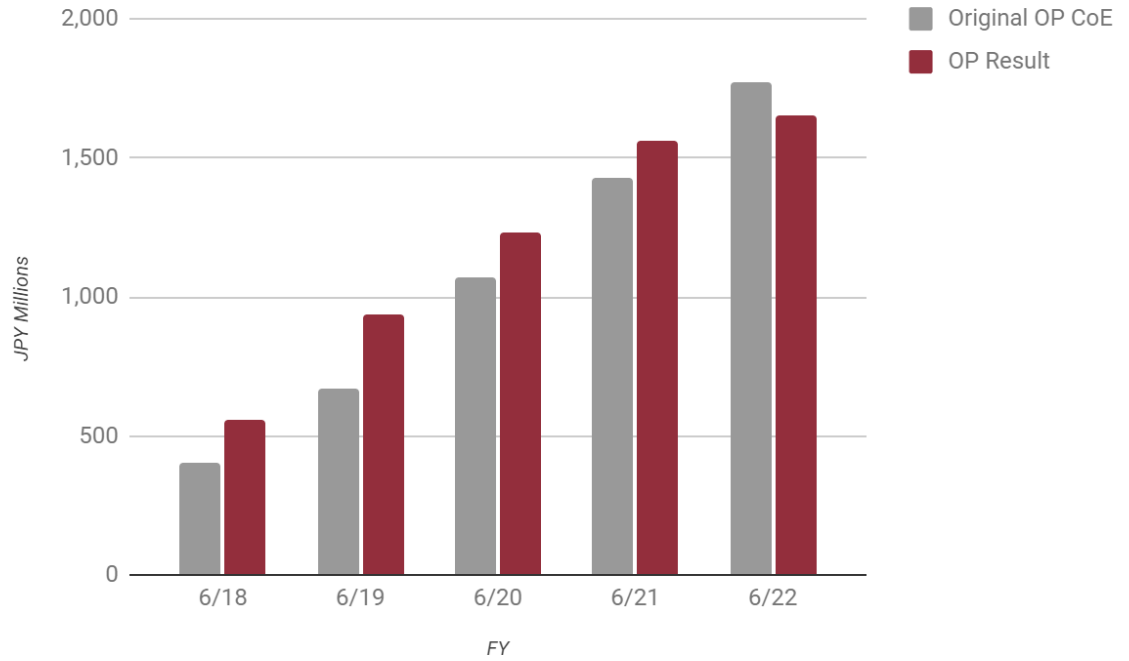
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Fibergate is a research client of Storm Research

Year end	6/2021	6/2022	6/2023E
Sales (¥bn)	8.5	10.6	12.9
OP (¥bn)	1.6	1.7	2.0
NP (¥bn)	1.0	1.1	1.3
EPS (¥)	50.1	52.6	63.7
DPS (¥)	4.0	4.5	7.0
Sales growth YoY (%)	+14.4	+25.1	+21.4
OP growth YoY (%)	+26.3	+6.0	+22.3
NP growth YoY (%)	+41.1	+ 5.3	+21.2
EPS growth YoY (%)	+38.4	+5.0	+21.1
PER (x)	30.7	18.1	15.3
EV/EBITDA (x)	13.2	8.3	n/a
PBR (x)	8.5	5.9	6.1
ROE (%)	31.9	30.9	n/a
ROIC (%)	15.0	12.6	n/a
FCF yield (%)	n/a	0.5	n/a
Dividend yield (%)	0.4	0.5	0.7

RESULTS VS FORECAST HISTORY

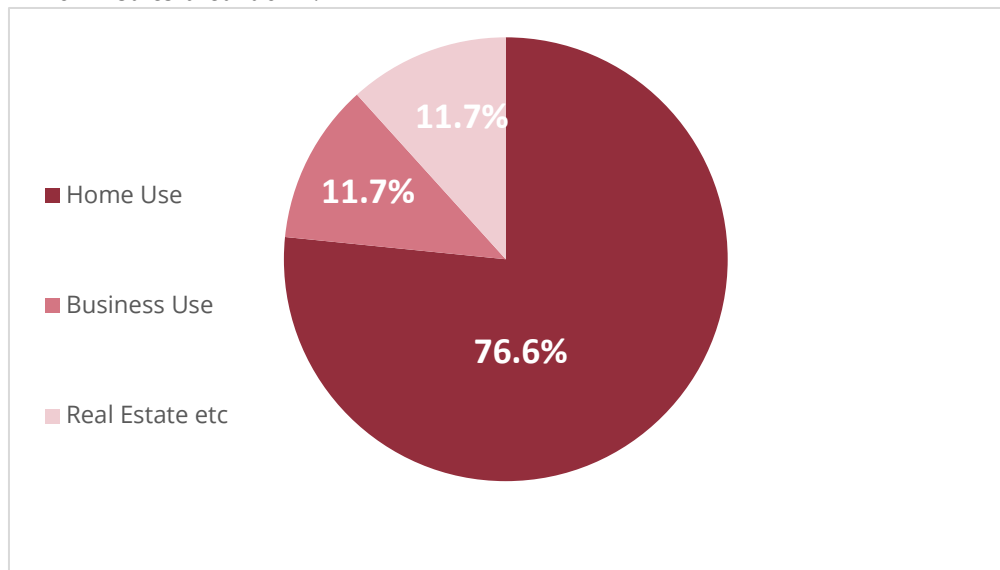


COMPANY BACKGROUND

Fibergate was founded in Sept 2000 & started operations from 2003, engaging in network construction & broadband line sales. It has subsequently **grown into an independent WiFi solutions company**, handling everything from the development & manufacture of communication equipment to telecommunication services.

It listed on the TSE Mothers in March 2018, moved to TSE 1 in June 2019 & to Tokyo Prime in April 2022. The company traditionally focused on Home-Use communication networks for collective housing residences that allow all residents to use the internet free of charge as a perk of being a tenant. It also has a Business-Use division & Real Estate division.

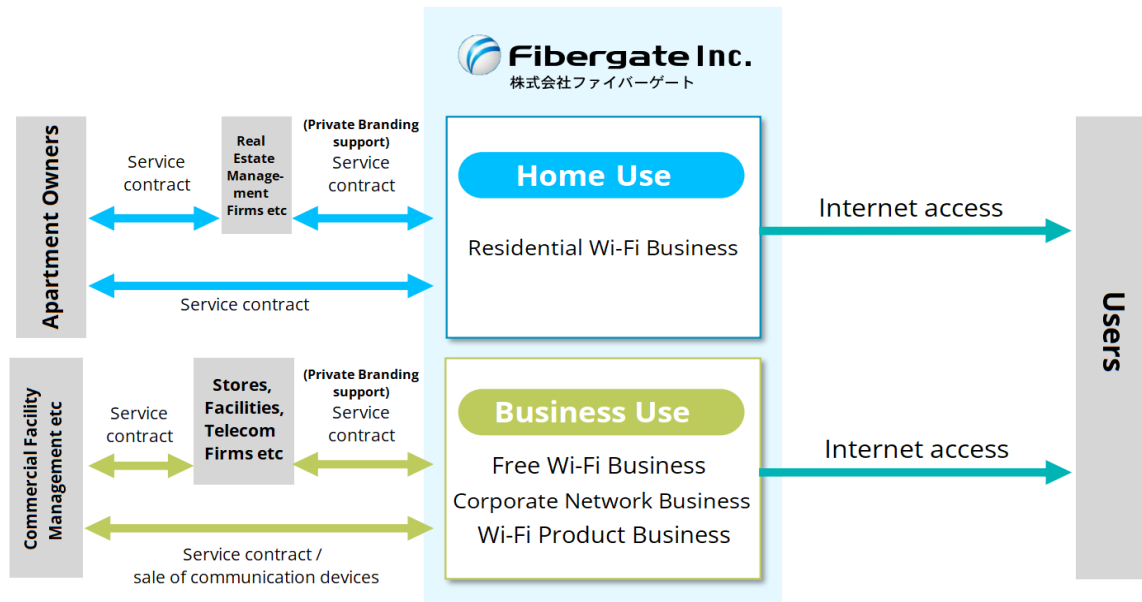
- FY 6/22 sales breakdown:



Source: Company

For both Business-Use & Home-Use services, **remuneration is received from service contractors**, with no financial payment from the residential tenant or business facility user. Contracts are either signed directly with the collective housing residence, or the commercial facility operator or via a real estate agent management company or facility communication company.

- *Fibergate business model:*

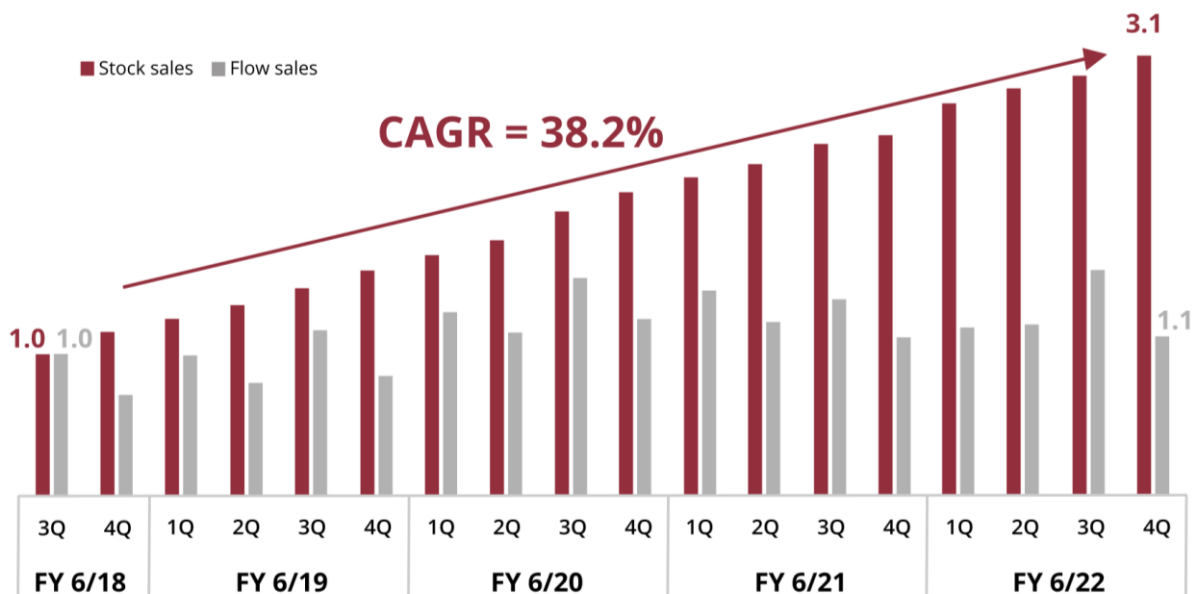


Source: *Company*

- *Stock & flow:* Fibergate’s earnings consist of a mix of stock & flow business. The **stock business has continued to increase every quarter since listing in 2018** due to the accumulation of property contracts, with a CAGR of +38.2%. We expect stock business growth to slow temporarily as exposure to new builds increases due to the longer order-to-sales lead times.

The flow business (excluding real estate sales) has been more volatile &, as of 4Q FY 6/22, had increased just +10% versus the initial 3Q 6/18 flow revenue level.

- Quarterly stock & flow sales (excluding Real Estate):



Note: adjusted for FY 6/18 = 1. This revenue breakdown is a continuous comparative figure based on the company's definition & is strictly different from period-proportioned sales under revenue recognition standards.

Source: Company

- *Competitive strengths:* Fibergate considers its strengths to be diverse product development capabilities, strong price competitiveness & high-level authentication technology. Its service is supplied as a private brand, thus individual real estate companies can brand it as their own. For example, real estate broker Able (unlisted) brands the service Able Net.

HOME-USE BUSINESS

Fibergate has traditionally focused on Home-Use communication networks for collective housing residences that allow all residents to use the internet free of charge as a perk of being a tenant.

Its Residence Wi-Fi Business has traditionally been a **service provided to rental property owners to enhance their property & is regarded as an effective method of attracting & retaining tenants**, particularly in properties aimed at singles.

- *Unlimited Wi-Fi, no fee:* Tenants in properties which have the service installed have unlimited internet access with no monthly fee. It is mainly installed in rental condominiums & apartment buildings, but it is possible to create a Wi-Fi environment in all types of multiple-occupancy housing, including owner-occupied condominiums & student dormitories.

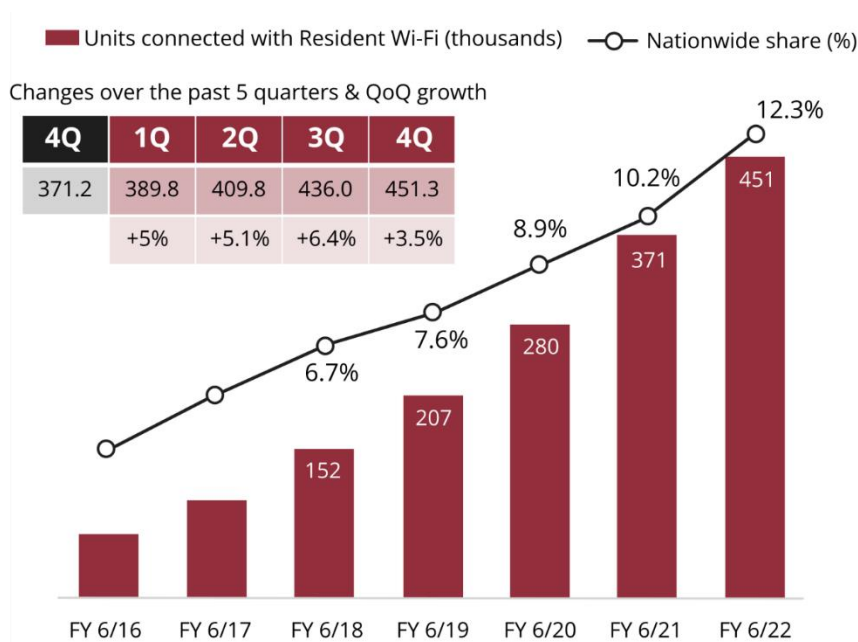
Home-Use contracts are for 6 years, with a requirement to pay the balance in the event of early cancellation. As a result of the punitive cancellation terms, mid-term contract cancellations are rare.

Contracts automatically renew on a rolling 12 month basis but Fibergate endeavours to conclude another 6 year contract at the end of the initial 6 years. This often requires an update of equipment or a reduction in monthly fee, but the churn rate is extremely low at approx.

0.1%, reflecting the upheaval for the tenant to switch provider, with limited difference in price compared to competitor services. As a result, **stock business revenue is extremely stable**.

Growth over the 5 quarters to 4Q 6/22 has been steady, although 4Q growth slowed notably due to increased exposure to new builds & longer lead times. We expect it to prove temporary as new build exposure normalises.

- Quarterly growth in Resident Wi-Fi & market share:



Note: The nationwide share is calculated by dividing the total number of condominium ISPs offered for all condominiums at the end of each March (figure from the MM Research Institute) by the number of company contracted units at the end of the company's fiscal year (or the end of the most recent quarter).

Source: Company

In FY 6/23, Fibergate has assumed 544,800 residential WiFi users, which equates to average quarterly growth of approx. +4.9%QoQ through the year.

The company estimates approx. 20-30% of rental properties already use an internet package &, although the figure is expected to increase longer term as Wi-Fi increasingly becomes a utility service, the pace of growth is slowing & competition is relatively intense.

Existing condominium business is becoming saturated, with free WiFi as the key USP less appealing. Fibergate is increasingly offering diversified services such as IoT & renewable energy through its 100% consolidated subsidiary OffGrid Lab, but these are expected to take time to become major growth drivers.

- *Diversification:* As the existing building market becomes more saturated, Fibergate is **shifting its focus to new builds** where there is a growing need for buildings to include WiFi, IoT & renewable energy solutions.

The new build market has not historically been Fibergate's core area of strength, & it is a relative latecomer to the market, but the company is aiming to take market share & expects its

real estate strategy to drive sales growth in the area. The main new build competitors are Arteria Networks (4423) & Giga Prize (3830).

- *Real Estate acquisition:* In April 2022, Fibergate's FG Smart Asset acquired real estate trading company TM Asset & split out the Real Estate segment as an independent division. The real estate business is expected to support Fibergate's shift into providing ICT / DX solutions for new builds by temporarily owning the property.

The timing & recording of sales for new builds depends on the sales channel. If Fibergate's solutions are sold directly to the home builder, there is an initial installation fee which commands a GPM of >80% as well as monthly stock business payments.

If sales are via a real estate agent, the initial installation fee is free of charge, but monthly stock business payments are slightly higher than those without the upfront payment. Monthly revenue via both sales channels has a GPM of approx. 40%.

For example, in the case of a 10 room apartment block, the initial WiFi cost for each room would be approx. Y30,000 (for a total of Y300,000) & would generate gross profit of approx. Y250,000 as the only chargeable cost would be personnel. The monthly room charge would be approx. Y800 (total Y8,000 / month), which includes depreciation & other costs, resulting in a GPM of approx. 40%, or in this case GP of approx. Y3,200 / month. Contracts with no initial fee would result in a higher monthly charge per room of approx. Y1,000-1,200 (totalling Y10,000-12,000 / month).

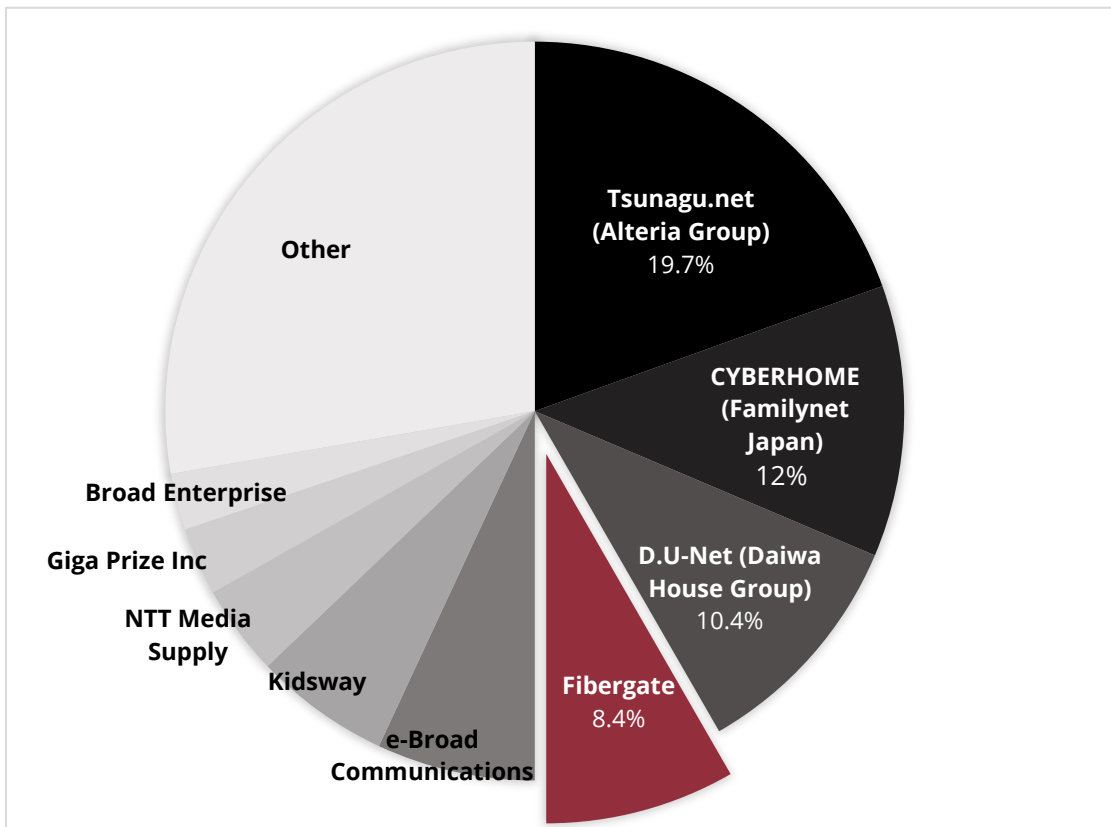
Fibergate is broadening its offerings to include IoT & Renewable Energy services & is diversifying sales channels through Real Estate leasing & Renewable Energy.

- *FG Smart Call:* FG Smart Call was installed at Reunir Gracias Kawaguchi as an experiment in July 2022. It is a platform for condominiums that solves intercom response stress by allowing smartphone response from home & when away from home. It improves home delivery efficiency & security, benefiting both tenants & delivery companies.

Residents can customise visitor facial information registration & response settings & can respond to intercom calls with a dedicated app on their smartphone (automatic response message correspondence & an entrance key can also be unlocked). It is also possible to display the image of the visitor on their smartphone.

- *Home-Use Business competition:* As of FY 3/22, the number of condominium units provided with ISP services nationwide totalled 4.427m +16%YoY.

- Home-Use ISP market share (based on # of serviced units at the end of March 2022):



Source: MM Research Institute

There are a number of competitors in the existing domestic home-use market, with Fibergate ranked approx. #5 by market share. According to MM Research, as of FY 3/23 Fibergate was ranked approx. 4th by home-use market share, but it has been noted that Giga Prize’s data calculation is different. Standardising Giga Prize’s data ranks it #4 pushing Fibergate into 5th place.

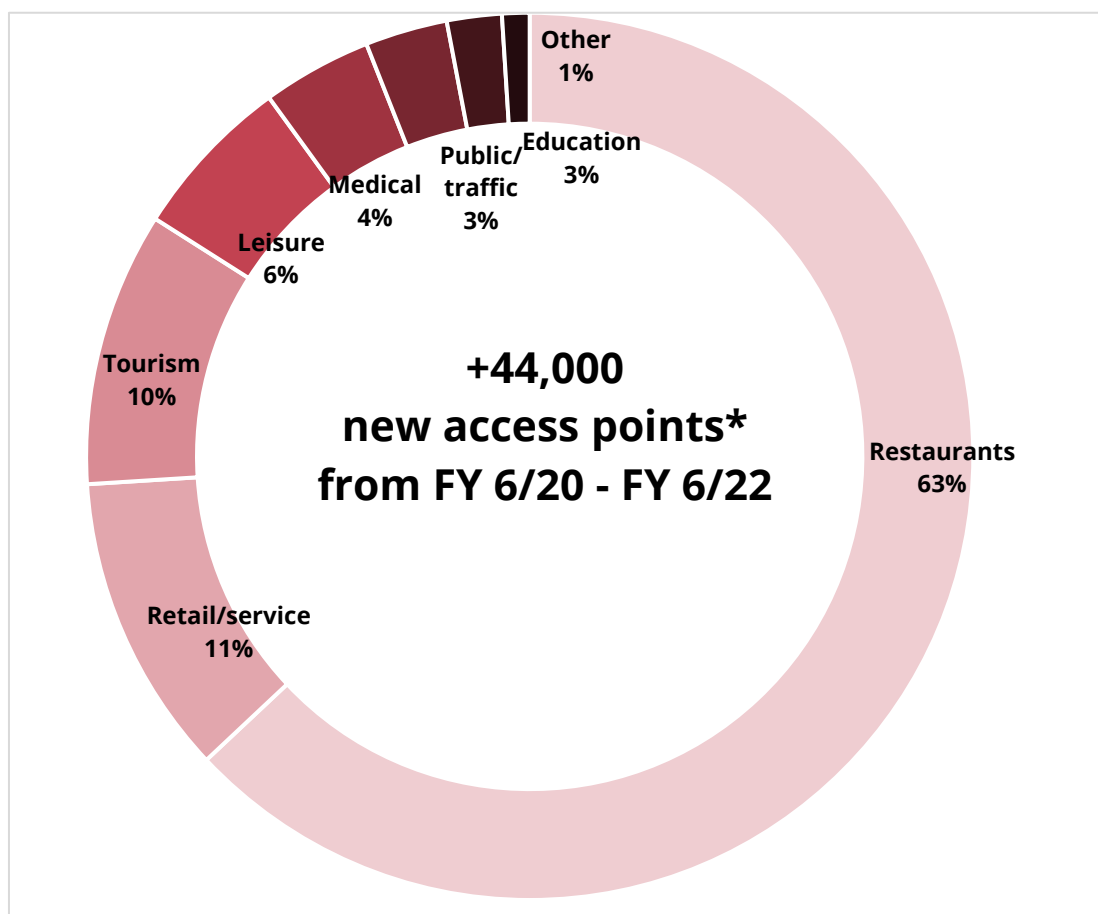
BUSINESS USE

Fibergate provides a free Wi-Fi service called Wi-Fi Nex to operators of facilities such as sightseeing attractions, stores, shopping districts & commercial buildings. Users visiting facilities who have signed up to the service can freely connect to the internet at no cost regardless of the device or communications carrier.

The company sells Private Brand (PB), often customised, communication equipment to partner companies, who sell it on to customer facilities with a monthly communication charge. A business partner example includes Usen-Next (9418), which provides music streaming to approx. 500,000 stores & restaurants.

As of FY 6/22, **63% of business use sales were from restaurants.**

- Breakdown of business-use customers:



Note: The net increase in free Wi-Fi access points during the same period is +32,000 points. The difference in new Home-Use Business access points is due to the difference in early cancellations. Over the same period, cancellations increased due to COVID-19 restrictions.

Source: Company

- *Diversification*: Fibergate is increasingly focusing on Business-Use growth opportunities for prolonged stay users & believes there is significant growth potential in its 3 target areas of tourism, hospitals & long-term care facilities & public institutions. The company **anticipates growth from these longer stay venues where there is minimal competition**. In addition to WiFi, there is also demand for higher value-added communications system management & productivity improvements using DX.

As a result of the size of the facilities & the value-added DX nature of projects, the project size is typically much larger than restaurants. Order to sales lead times on public projects also tend to be longer as a result.

- *Hospitals & Long-Term care facilities*: Fibergate is tying up with medical equipment & nursing equipment wholesaler partners to harness industry growth. One example is Sanshodoh, which sells & rents medical & nursing care equipment: <https://www.sanshodoh.co.jp/>.

Fibergate believes there is significant demand for medical WiFi & ICT in the nursing care industry given labour shortage issues & growing requirements for increased operational efficiency. It believes there is also demand for building Wi-Fi environments within disabled facilities.

According to the Radio Environment Council Results of the 2019 Survey on Promotion of Proper Radio Use by Medical Institutions published June 2020, **the inclusion rate of wireless LAN for patients & visitors in hospitals was approx. 30%** (33.5% in hospitals & 29.2% in clinics with beds). For Long-Term Care Facilities, the Wireless LAN adoption rate was approx. 62% but **only 9.5% had set up the facility for use by patients or visitors.**

- *Nursing home installation example:* An example of installation into a nursing home is the recent introduction of WiFi into the newly built facility in long-term care home Tsuruhome Meiwa in Kagoshima (<https://tsuruhome.com/>).

Fibergate installed wall-embedded Wi-Fi FGNR2 in all rooms (a total of 31 units) & installed FGNR2 plus 1 network camera in the shared cafeteria space. Equipment was installed as the facility was being completed & provides internet for all residents with the necessary internet security protocols.

- *Resort hotel example:* An example of a resort hotel DX installation is Hotel Milione in Sapporo (<https://www.milione.jp/>). The hotel is in an area where conventional WiFi connection is weak & it was receiving frequent access complaints.

Fibergate installed 310 wall embedded WiFi units for 298 guest rooms, with 15 FGN1300W units & 9 wireless access points. **Post installation, the hotel saw a dramatic decline in guest complaints, improved communication speed** with IPv6 connection & greater WiFi coverage including outdoor areas.

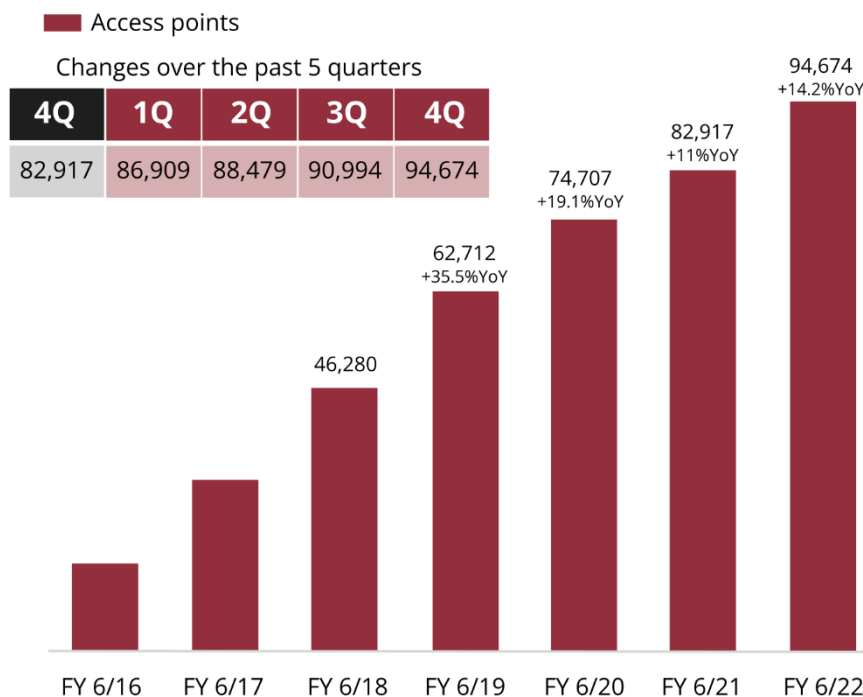
In addition, Fibergate improved the hotel's systems. For example, it simplified the restaurant ordering system; improved the hot spring congestion monitoring systems; implemented a cleaning management system to improve cleaning efficiency; & added a guest room concierge app.

- *Public Institutions:* Fibergate believes there is strong demand from public institutions, particularly for BCP (Business Continuity Plan) for disaster response. In FY 6/21, Fibergate became eligible for BCP support subsidies for SMEs. Customers include Wi-Fi Bus service, CosmicWi-Fi (Satellite WiFi), Oyama Demand & Hadano City.

- *Free Wi-Fi access point service:* Fibergate also provides a Free Wi-Fi access point service. Growth rates had slowed during COVID, but it started to see demand rebound from 2H 6/22 as activity outside of the home recovered.

As of FY 6/22, the company had 94,674 WiFi access points & we expect this side of the business to grow in the medium term whilst remaining a relatively small percentage of total sales as the value of each point is low, ranging from a few hundred Yen per month for some points.

- Free WiFi access points (using the company's authentication system):



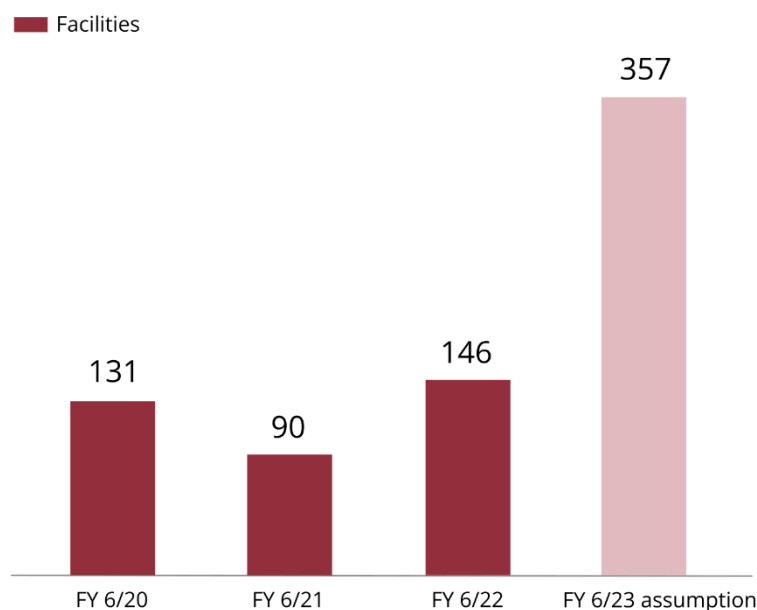
Source: Company

- *Business-Use competition*: The major carriers, for example NTT (9432) & KDDI (9433), provide business services but are unable to customise for specific needs such as for medical institutions. NEC (6701), Fujitsu (6702) & Panasonic (6752) are all able to offer this service, but it is often limited to electronic records & the cost is significantly higher (typically more than double) versus the service offered by Fibergate.

One of the main reasons for limited competition is the requirement to have a licence for security reasons which is difficult to obtain with existing licences only held by large companies that do not offer customised services.

- *Prolonged stay opportunity*: Fibergate has identified significant demand for IT solutions in facilities where users have a prolonged stay & is **focusing on growth opportunities in 3 industries: medical care, tourism & public projects**. In addition, it expects demand in existing restaurant type facilities to increase with rising requirements for COVID inspired contactless solutions such as QR code menus.

- New business facilities in Tourism, Medical & Public:



Source: Company

EARNINGS

FY 6/22 consolidated sales, OP & RP fell slightly short of the company's initial forecasts.

- **Sales:** FY 6/22 sales increased +25.1%YoY driven by growth in Real Estate sales & steady growth in the Home-Use business. Home-Use sales were nonetheless below plan due to longer than expected lead times for new build sales. Business-Use sales were weak YoY & below plan due to the negative COVID impact on inbound & domestic tourism on hotels, footfall in restaurants & resultant weaker facility investment.

- **OP:** FY 6/22 **OP was 7% below the CoE due to weaker than expected sales in the Business Use division.** Home-Use business OP was in line with plan & we note Real Estate OP turned profitable versus a forecast small operating loss.

4Q sales tend to be seasonally weak, but 4Q FY 6/22 sales increased +30.7% due to a larger sales contribution from the low margin Real Estate division which totalled Y1bn with an OPM of 3.4% versus cumulative 1-3Q sales of Y224m. The aggregate 4Q OPM declined -1.3ppt QoQ to 11.8%, partly due to the low margin real estate sales increase but also higher semiconductor related procurement costs & the weaker Yen.

- **GPM:** The FY 6/22 GPM deteriorated -5.7ppt YoY to 45.5% on weaker high margin Business-Use sales, the expansion of low margin Real Estate sales, higher semiconductor procurement costs & the weaker Yen. A -2.9ppt YoY decline in the SG&A to sales ratio to 30% was not enough to offset the sales mix deterioration, resulting in the OPM finishing 1ppt under the CoE at 15.5% -2.9ppt YoY.

- *FY 6/23 CoE*: Fibergate forecasts FY 6/23 OP of Y2bn +22.3%YoY & an OPM of 15.7% +0.2ppt YoY. Similarly, it assumes RP of Y1.96bn +22.2%YoY generating an RPM of 15.2% +0.1ppt YoY.

- *Business-Use*: Fibergate believes COVID related Business-Use weakness bottomed in 2H FY 6/22 & is set to be the key FY 6/23 earnings driver as the company focuses on tapping into demand for facilities with prolonged stay time, such as hotels, hospitals, long-term care facilities & public institutions with BCP (Business Continuity Plan) response support. Fibergate is therefore assuming Business-Use RP increases +Y330m YoY.

- *Home-Use*: The Home-Use Business is expected to remain a steady source of revenue growth with additional growth from IoT & new build sales forecast to contribute +Y210m YoY to FY 6/23 RP.

- *Real Estate*: The Real Estate division is expected to contribute +Y400m YoY in sales. Higher personnel costs, sales commissions & development costs are likely to offset cost control efforts for a negative RP impact of -Y220m YoY.

- *Seasonality*: Earnings tend to be seasonally weaker in the 1Q & 4Q. 4Q FY 6/22 was strong due to increased real estate related sales & 1Q FY 6/23 is expected to remain strong at approx. 4Q 6/22 levels due to the accumulation of recurring home-use revenue & cost controls.

HOME-USE

(JPY Millions)	6/22 CoE	YoY	6/22 Results	YoY	6/23 CoE	YoY
Sales	8,630	22.1%	8,141	15.2%	9,320	14.5%
OP	2,270	21.3%	2,318	23.9%	2,530	9.1%
OPM	26.3%	-0.2%	28.5%	2.0%	27.1%	-1.3%

FY 6/22 sales were below plan versus OP which was slightly above. Orders were strong, in line with expectation. Whilst core existing building WiFi installation demand remained robust, sales via real estate agents were a little disappointing & sales of home-use IoT, including security cameras, were slower than expected.

As of FY 6/22, Residence WiFi connected units totalled approx. 451,200 +21.5%YoY, significantly above the company's original medium term target of 433,000 by FY 6/22. We note **the rate of growth slowed in FY 6/22, mainly due to increased exposure to longer lead time new building construction** & delays to renovation projects due to parts shortages. Pre-COVID, approx. 90% of home-use sales were to existing apartments but, as of FY 6/22, the existing & new build sales breakdown was approx. 50:50.

FY 6/22 new build demand orders were strong, but the order to sales lead time for the increasing proportion of new builds was longer than expected given the lead times to complete building construction. This was exacerbated by a shortage of housing equipment delaying some housing starts. For new apartments, the order to sales lead time can be anywhere from 6-12 months which compares to 1-2 months for existing buildings.

- *FY 6/23*: Fibergate targets 544,800 +20.7%YoY Residence WiFi connected units in FY 6/23, assuming a continued slower pace of growth in existing buildings due to the increasingly saturated market. It **anticipates generating contract & sales growth by shortening lead times for new buildings** & promoting the introduction of high value-added IoT products.

Fibergate estimates a FY 6/23 Home-Use OPM of 27.1% -1.3ppt YoY but believes it has forecast conservatively as it is difficult to estimate the breakdown of contracts with or without upfront installation revenue. Medium term margins are likely to remain relatively flat to a small improvement.

The company foresees medium term Home Use annual sales growth of approx. +10-15% & believes it can continue to benefit from steady stable growth in stock business monthly revenue through the existing base of stock users. It also expects gradual growth in existing building & new build demand & strong demand for new, high value-added cameras & IoT, storage batteries & solar panels.

BUSINESS USE

(JPY Millions)	6/22 CoE	YoY	6/22 Results	YoY	6/23 CoE	YoY
Sales	1,600	18.3%	1,244	-8.1%	1,830	47.1%
OP	610	38.3%	235	-46.7%	570	142.6%
OPM	38.1%	5.5%	18.9%	-13.7%	31.1%	12.3%

Business-Use WiFi sales were weak in both FY 6/21 & FY 6/22 due to the negative COVID impact on inbound & domestic tourism on hotels, footfall in restaurants & resultant weaker facility investment.

Telco equipment sales are spot flow revenue & are therefore more volatile than monthly stock revenue. FY 6/22 telco equipment sales contributed approx. 10% of total FY 6/23 divisional sales versus >50% at peak in FY 6/20. A recovery in sales depends on the timing of customer needs. We note, telco equipment is a Private Brand original product & commands a high GPM.

Fibergate either sells telco equipment directly to customers or via a Business Partner. COVID related weaker end user investment resulted in a build-up in telco equipment inventory at Business Partners. In addition, Fibergate experienced issues procuring the necessary semiconductors to produce customised equipment with all the functionality typically included. Whilst semiconductor shortages have eased, there remain limitations on some parts limiting customised product procurement.

In FY 6/22, the number of newly installed facilities for business use increased +56 YoY to 146. **In FY 6/23, the company targets 357 facilities +211 YoY / +2.4x YoY** & expects business use facilities to be the key growth driver of FY 6/23 & medium term earnings.

- *Free Wi-Fi access point service:* As of FY 6/22, free Wi-Fi access points totalled 94,674 +14%YoY following a surge in demand for access points from stores in response to the recovery in footfall. Whilst FY 6/23 sales are forecast to continue accelerating, the low price per point (with sales of a few hundred Yen per month for some points) suggests a significant sales impact is unlikely. As a result, the company plans to drop its free WiFi access point service as a KPI.

- *FY 6/23 outlook:* Fibergate believes Business Use earnings bottomed in 2H FY 6/22. We expect the recovery in domestic travel & potential for increased inbound tourism post immigration rule relaxation on 11th October 2022 to generate increased restaurant & hotel investment & drive Business Use divisional growth.

Fibergate's main focus has been on restaurants, which represented 63% of end users in FY 6/22. The company expects the main growth drivers in FY 6/23 & the medium term to be from its 3 target growth areas: medical care, tourism & public projects.

Whilst it does not disclose the breakdown of expected projects, the 2.4x YoY increase in facility numbers is expected to contribute approx. ¥440m of the ¥586m FY 6/23 forecast increase in divisional sales YoY.

- *Operational issues:* As of FY 6/22, Fibergate absorbed its Business-Use sales subsidiary into the parent, facilitating a reorganisation of its sales process, eliminating a number of roles that were doubled up between the HQ & subsidiary resulting in improved efficiency & cost cuts from FY 6/23. A combination of sales growth & improved operational efficiency is expected to result in FY 6/23 OPM improvement to 31.1% +12.3ppt YoY.

- *Medium term:* Fibergate believes a normalised rate of annual sales growth in the Business-Use division is +20-30% with a minimum OPM of 30% to be maintained.

REAL ESTATE

(JPY Millions)	6/22 CoE	YoY	6/22 Results	YoY	6/23 CoE	YoY
Sales	520	642.9%	1,238	1,668.6%	1,740	40.5%
OP	-20	n/a	59	n/a	100	69.5%
OPM	n/a	n/a	4.8%	n/a	5.7%	1.0%

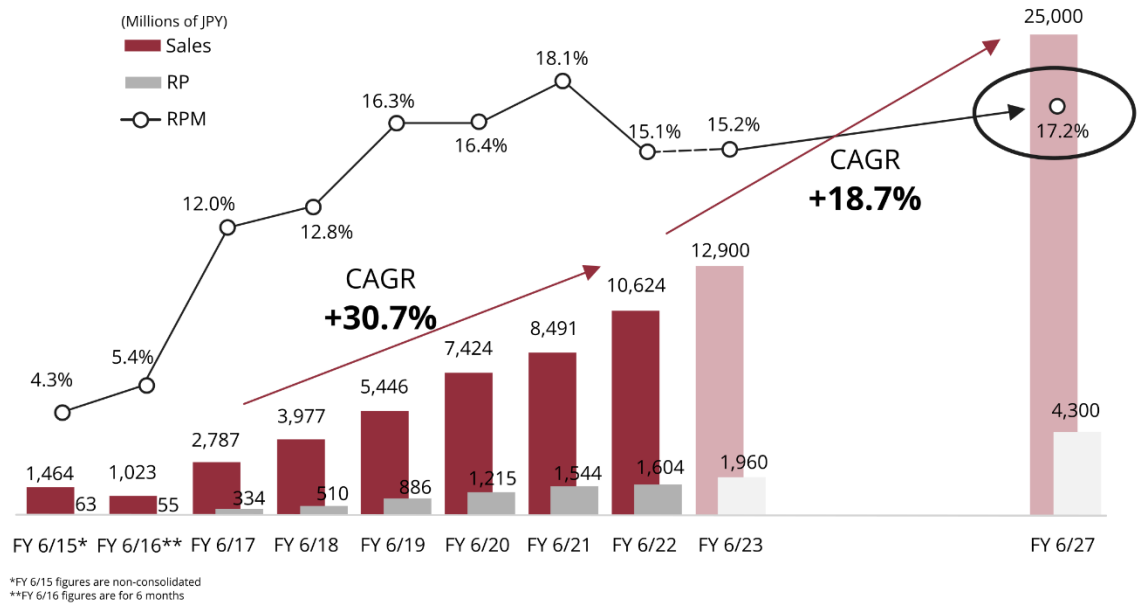
Fibergate's FG Smart Asset acquired real estate trading company TM Asset in April 2022. Real estate sales accounted for ¥1.24bn & leasing ¥30m of divisional sales. The purpose of **the acquisition is to support growth in the Home-Use business as focus shifts from existing properties to new renovated properties.**

Through its Home-Use business Fibergate has a strong network of real estate agents & banks with information on purchasable properties. Fibergate **buys buildings & occasionally land that small/medium sized real estate agents are unable to buy due to lack of funds, adds WiFi & resells them.** Purchasing is focused in Sapporo, Tokyo & Osaka.

Fibergate's focus is rapid WiFi installation & property resale to avoid real estate ownership inventory risk. The average turnover to date is approx. 4 months. Its medium term aim is to provide WiFi & higher value-added home IoT & renewable energy solutions.

Fibergate sold 1 property in 4Q FY 6/22 that was acquired with TM Asset & has assumed the sale of a small number of buildings in FY 6/23. Whilst the OPM is likely to improve as value-added equipment is installed, progress is to be balanced with maintaining turnover. The company currently has no profitability targets.

MEDIUM TERM PLAN



Source: Company

Fibergate targets FY 6/27 sales of Y25bn (at a CAGR of +18.7%), RP of Y4.3bn (CAGR +21.8%) & an RPM of 17.2%, focusing on high value-added services. It does not disclose a divisional breakdown of its target, but **growth is set to be driven by expansion in the Business-Use division** underpinned by steady Home-Use stock business revenue & growth in higher value-added renewable energy solutions such as solar panels & storage batteries.

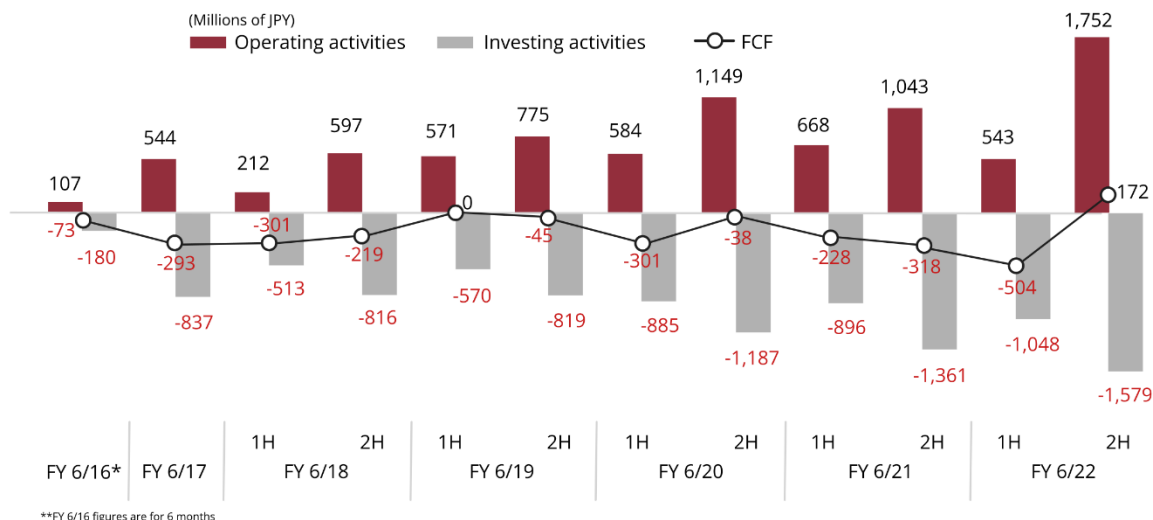
BALANCE SHEET

As of FY 6/22, the company had a shareholder equity ratio of 25.1% which has been impacted by the application of the revenue recognition method & acquisition & consolidation of the Real Estate division.

FY 6/22 inventory increased to Y2.1bn versus Y367m in FY 6/21 due to the increase in real estate sales, with associated liabilities also increasing. FY 6/22 net interest bearing debt totalled Y4.3bn versus Y2.3bn in FY 6/21, with Y1.7bn of the increase due to real estate.

- FCF: FY 6/22 FCF was negative at -Y330m due to new customer acquisition but turned positive in the 2H for the first time in 7.5 years due to Real Estate business sales. Fibergate expects annual FCF to turn positive in FY 6/24 or FY 6/25 with the expansion of Business-Use division earnings.

- Long-term cash flow movement:



Source: Company

SHAREHOLDER RETURNS

Fibergate plans to pay a dividend of Y7 +55%YoY in FY 6/23, representing a payout ratio of 11% with a stable dividend payout policy. It plans to abolish the shareholder benefit program for individuals with over 900 shares as a result of institutional & individual investor feedback.

ESG

- *Environment:* Fibergate has committed to achieving net zero Scope 1 & 2 emissions by 2030. Total emissions in FY 2022 were 76.8 tonnes -14.1%YoY. Emission reduction efforts include making its contract system paperless, with plans to do the same for invoices & construction reports & encouraging remote working & recycling in its offices.

- *TCFD compliance:* In Aug 2022, the company announced its compliance with TCFD & presented sustainability-related business opportunities & risks it had identified with the TCFD framework, none of which it considers major. Moderate risks include disruption of the supply chain & increases in costs such as energy.

- *Social:* Fibergate asserts that its business is in line with several social SDGs because, by providing internet services, it promotes e-learning & equal opportunities. It values its employees' convenience & allows them to work flexibly & hold side-businesses.

- *Diversity:* As of March 2021, foreign national employees represented 14.1% of the total, with 26% of management positions held by female employees.

- *Governance:* Fibergate has 10 board members, of which 4 are independent. General decisions are kept to the board, but critical decisions are discussed with the Executive Committee.

MANAGEMENT

President	Masanori Inomata
Age	57
Shareholding (direct)	28.85%
Career history	
1987	Joined Koa Fire and Marine Insurance Co. (now Sampo Japan Insurance)
1995	Appointed CEO of Mynet
2003	Joined Fibergate as President (current position)
2008	Appointed Auditor to LEOC JAPAN Co. Appointed Representative Director to the Japan Monthly Mansion Association
2011	Appointed CEO of Chintai Seikatsu (now Mi Corporation) (current position)
2015	Appointed CEO of Fibergate Taiwan
2020	Appointed Director of BizGenesis
2020	Appointed Director of FG-Lab (current position)
2021	Appointed Director of FG Smart Asset (current position)
2021	Appointed CEO of Off-Grid Lab (current position)

Senior Managing Director	Takafumi Hamazu
Age	46
Shareholding (direct)	0.57%
Career history	
2000	Joined Venture Link
2007	Joined Orix Capital
2011	Joined Fibergate as Head of Planning
2013	Appointed Officer at Fibergate
2013	Appointed Director of FG Marketing
2014	Appointed Senior Officer at Fibergate
2016	Appointed Managing Director of Fibergate
2020	Appointed Managing Director of Business Administration, and Head of Business Planning at Fibergate
2021	Appointed Auditor of FG Smart Asset (current position)
2021	Appointed Managing Director of Business Planning at Fibergate
2022	Appointed Senior Managing Director of Business Planning at Fibergate (current position)

Managing Director	Hisashi Kaneko
Age	56
Shareholding (direct)	0.54%
Career history	
1989	Joined Ome Shinkin Bank
1994	Joined Osaka Broadcasting (now USEN)
2009	Joined UCOM
2013	Joined Fibergate as Head of East Japan, Mansion ISP Sales
2015	Appointed Officer of East Japan, Sales
2016	Appointed Senior Officer of East Japan, Sales
2020	Appointed Managing Director of Residence Wi-Fi Sales, Department of Sales Promotion
2021	Appointed Director of FG Smart Asset (current position) Appointed Managing Director of Sales Promotion, Head of Business-Use Sales, and Head of Business Development
2022	Appointed Managing Director of Business-Use Sales, and Head of Business Development (current position) Appointed Director of Off-Grid Lab (current position)

Director	Mie Ishimaru
Age	52
Shareholding (direct)	0.04%
Career history	
1997	Joined Asahi Auditors (now KPMG AZSA)
2003	Registered as a CPA
2010	Joined Ishimaru Tax Attorneys as Office Head (current position)
2011	Joined Densan Co.
2011	Registered as a tax accountant
2012	Appointed Director at Densan
2018	Appointed Director at TMR Systems
2018	Appointed External Director of Janpara Co. (current position)
2018	Joined Fibergate as a Director
2019	Appointed Director, Vice-Head of Business Administration and Head of Finance and Accounting at Fibergate
2020	Appointed Auditor of BizGenesis
2020	Appointed Auditor of FG-Lab (current position)
2021	Appointed Director, Head of Business Administration and Head of Finance and Accounting at Fibergate (current position)

Director	Daisuke Ishikawa
Age	33
Shareholding (direct)	0.02%
Career history	
2012	Joined Fibergate
2019	Appointed Sales Manager for Residence Wi-Fi Sales, Department of Sales Promotion
2020	Appointed Sales Manager for East Japan, Department of Sales Promotion
2021	Appointed Officer for Sales Promotion and Sales Manager for East Japan
2022	Appointed Officer for Home-Use Sales, and Sales Manager for West Japan
2022	Appointed Director for Home-Use Sales, and Sales Manager for West Japan (current position)

Independent Director	Nobuyuki Shinoda
Age	71
Shareholding (direct)	0.02%
Career history	
1974	Joined Seibu Department Stores
1995	Appointed Head of HR and Manager of Ikebukuro HR
1997	Joined Loft
2002	Appointed Director
2004	Appointed Executive Director of Business Management
2008	Appointed Executive Director and Head of Management
2016	Joined Fibergate as a Director (current position)
2020	Appointed Chair of the Remuneration Committee at Fibergate (current position)

Independent Director	Chikako Shimahata
Age	37
Shareholding (direct)	-
Career history	
2007	Joined Shinko Securities (now Mizuho Securities), Sapporo branch
2012	Joined the Japan Pension Service, Sapporo West Office
2013	Registered as a Labour and Social Security Attorney
2013	Appointed Head of Pirika Office (current position)
2020	Appointed CEO of Pirika (current position)
2020	Appointed Director at Fibergate (current position)

Director Audit and Supervisory Committee (Full-time)	Tetsurou Tatsuta
Age	72
Shareholding (direct)	0.02%
Career history	
1973	Joined Hokkaido Bank
2002	Joined Kyokuichi Logi Co. as Managing Director
2003	Joined Marukita (now Kyokuichi Marukita) as Managing Director
2006	Appointed CEO of Marukita
2014	Appointed Senior Managing Director of Kyokuichi Appointed Auditor of Kyokuichi Logi Co. Appointed Auditor of Towa Foods
2018	Joined Fibergate
2019	Appointed Independent Auditor of Furano District Wholesale Market Co. (current position) Appointed Head of Internal Auditing at Fibergate
2021	Appointed to the Audit and Supervisory Committee at Fibergate (current position) Appointed Auditor at Fibergate Taiwan (current position)

Independent Director Audit and Supervisory Committee (Part-time)	Tomohiro Obata
Age	47
Shareholding (direct)	0.02%
Career history	
2003	Passed the bar exam
2004	Studied at The Legal Training and Research Institute of Japan (58 th year)
2005	Registered as an attorney-at-law (Daini Tokyo Bar Association)
2005	Joined Hiraide Law Office (now Plaza Law Office)
2012	Established Ota Obata Sogo Law Offices (now Plaza Law Office) as Head of Tokyo Office
2013	Joined RS Technology as an Independent Director (current position)
2016	Joined Fibergate as an Independent Director (current position)
2020	Appointed Senior Partner at Plaza Law Office (current position)
2021	Joined Paradigm Shift as an Independent Director (current position)

Independent Director Audit and Supervisory Committee (Part-time)	Hiroshi Kamada
Age	65
Shareholding (direct)	-
Career history	
1979	Joined Hayasaka Tax Account's Office
1980	Joined France Bed Sales
1982	Joined Hokkaido Commerce & Industry Guidance Centre
2001	Joined Hokkaido Small Business Support Centre
2017	Joined Fibergate as an Independent Auditor (current position)

Key corporate timeline	
Dec 2003	Began fully-fledged operations. Core business: selling broadband lines via the internet and a network of multiple brick-and-mortar locations
Feb 2004	Started business: free internet for communal housing
Jan 2005	Established Tokyo Office in Minato-ku, Tokyo
Nov 2005	Started business: free internet for communal housing using wireless LAN Unified all services and began operation using the FGBB® Series across the board
June 2006	Began providing free internet for communal housing using a private brand
Sep 2008	Started business: internet connection for monthly serviced apartments
Jan 2009	Call centre began providing customer service to tenants of FGBB® equipped properties in multiple languages
June 2009	Started business: the free Wi-Fi service “Wi-Fi Nex®”
Apr 2011	Established Osaka Office in Chuo-ku, Osaka
June 2013	Established NOIS Inc. as a wholly-owned subsidiary to plan, develop, and sell computer hardware and software, and to act as an internet line agency
March 2014	Started business: the sale of company-developed communication devices
Apr 2014	Began providing Wi-Fi services for stores and commercial facilities under a private brand
June 2014	Established Fukuoka Office in Hakata-ku, Fukuoka
Oct 2014	Established Nagoya Office in Atsuta-ku, Nagoya
Jan 2015	Acquired Telecommunications Contractor Authorization (Governor of Hokkaido Authorization (Fune-26) Ishi No.22017)
July 2015	Began providing the Wi-Fi service “SHINOBI Wi-Fi” to visiting foreigners Established Fibergate Taiwan Inc. as a wholly-owned subsidiary in Taiwan
Jan 2016	Acquired a license as a telecommunications business in accordance with the Telecommunications Business Act (Registration Number: No.358) Certified as a Management Innovation Plan Approval Company by the Governor of Hokkaido (Sekishoro: No.74-33)
Feb 2016	Acquired Privacy Mark certification (Registration Number: No. 17002586 (01))
June 2016	End of fiscal year changed from December to June
Aug 2016	Nagoya Office moved to Naka-ku, Nagoya
June 2017	Satellite office opened in the Tokyo Office Osaka Office moved to Chuo-ku, Osaka Established Sendai Office in Miyagino-ku, Sendai Fukuoka Office moved within Hakata-ku, Fukuoka
March 2018	Listed on TSE Mothers
May 2018	Began providing the “One-Touch Wi-Fi” service as a Wi-Fi service for offices and stores
Nov 2018	Acquired certification as an Information Security Management System (ISMS) (Certification No.: MSA-IS-284)
June 2019	Transferred to the TSE 1 st Section
July 2019	Listed on the Main Market of the Sapporo Securities Exchange
Jan 2020	Established FG-Lab Inc. as a wholly-owned subsidiary that researches and develops company-provided telecommunication devices and systems

March 2020	Established BizGenesis Inc. to provide telecommunication services to corporations
Apr 2020	Relocated Fukuoka office within Hakata-ku, Fukuoka
Feb 2021	Established FG Smart Asset Inc. as a wholly-owned subsidiary to engage in real estate-related business including the purchase, sale, leasing, and management of real estate
July 2021	Established OffGrid-Lab Inc. to operate a renewable energy business
Apr 2022	Acquired TM Asset Inc. as a wholly-owned sub-subsiidiary to engage in real estate sales and leasing
July 2022	Merged with BizGenesis Inc., a telecommunication service provider for enterprises

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Major shareholders	Stake %
Masanori Inomata	25.85
MI Corp KK	23.06
Bank of New York Mellon	10.84
GPIF	5.49
Taizou Matsumoto	5.30
Norges Bank	1.21
Vanguard	1.11
Nomura Hdgs	1.05
Fibergate	0.93
Sumitomo Mitsui Trust	0.78

Source: Bloomberg

J GAAP Financial statements

Income statement (¥bn)	FY 6/20	FY 6/21	FY 6/22
Sales	7.42	8.49	10.62
COGS	3.6	4.1	5.8
Gross profit	3.9	4.4	4.8
Gross profit margin (%)	52.1	51.2	45.5
Operating expense	2.6	2.8	3.2
Total OP	1.23	1.56	1.65
OP margin (%)	16.6	18.4	15.5
Non-Op Income (Loss)	0.1	0.1	0.1
Pretax Income	1.2	1.5	1.6
Tax	0.5	0.5	0.5
Effective tax rate (%)	38.9	31.0	32.2
Net income	0.72	1.02	1.07

Cash flow statement (¥bn)	FY 6/20	FY 6/21	FY 6/22
Net income/pre-tax profit	0.7	1.0	1.1
Depreciation/amortization	0.8	1.0	1.2
Other non-cash items	0.1	0.3	(0.2)
Changes in working capital	0.1	-0.2	-0.1
Net cash from discontinued operations	0.0	0.0	0.0
Cash from Operating Activities	1.7	1.7	2.3
Change in fixed & intangible assets	-2.1	-2.2	-2.3
Net change in long-term investments	0.0	0.0	0.0
Net cash from acquisitions & divestitures	0.0	0.0	-0.3
Other investing activities	0.0	0.0	0.0
Net cash from discontinued operations	0.0	0.0	0.0
Cash from Investing Activities	-2.1	-2.3	-2.6
Dividends paid	0.0	-0.1	-0.1
Cash from (repayment) debt	0.7	1.4	0.6
Cash from (repurchase) of equity	0.0	0.0	-0.1
Other financing activities	0.0	0.0	-0.1
Net cash from discontinued operations	0.0	0.0	0.0
Cash from Financing Activities	0.7	1.3	0.4
FX impact	0.0	0.0	0.0
Net cash flow	0.4	0.8	0.1
Free cash flow	-0.3	-0.5	0.1
EBITDA	2.0	2.6	2.9

Balance sheet (¥bn)	FY 6/20	FY 6/21	FY 6/22
Cash & equivalents	1.4	2.2	2.3
Accounts & notes receivable	1.1	1.2	1.4
Inventories	0.3	0.4	2.1
Other short-term assets	0.0	0.1	0.1
Current assets	2.8	3.9	6.0
Property, plant & equipment (net of depreciation)	4.0	5.2	6.2
Long term investments & receivables	0.0	0.0	0.1
Other long-term assets	0.2	0.2	0.8
Total non-current assets	4.2	5.5	7.1
Total assets	7.0	9.4	13.1
Payables & accruals	1.0	1.0	0.9
Short-term debt	1.1	1.2	2.6
Other short-term liabilities	0.1	0.2	2.2
Total current liabilities	2.2	2.4	5.6
Long term debt	2.0	3.3	4.1
Other long-term liabilities	0.0	0.1	0.1
Total non-current liabilities	2.0	3.3	4.2
Total liabilities	4.3	5.7	9.8
Share capital & APIC	0.9	0.9	0.9
Treasury stock	0.1	0.1	0.2
Retained earnings	1.9	2.9	2.6
Other equity	0.0	0.0	0.0
Equity before minority interest	2.7	3.7	3.3
Total equity	2.7	3.7	3.3
Total liabilities & equity	7.0	9.4	13.1

Key metrics	FY 6/20	FY 6/21	FY 6/22
Profitability			
Gross margin (%)	52.1	51.2	45.5
Operating margin (%)	16.6	18.4	15.5
Net margin (%)	9.7	12.0	10.1
ROIC (%)	14.4	15.0	12.6
Liquidity			
Current ratio (x)	1.2	1.6	1.1
Quick ratio (x)	1.1	1.4	0.7
Leverage			
Debt/Equity ratio	113.4	121.1	202.9
Net Debt/Equity ratio	61.2	61.4	132.6

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