

## Fibergate (9450, Corporate)

Rising cross-sell ratio

6<sup>th</sup> December 2024

Share price: ¥942

Market cap: ¥19.4bn

**We expect the rising 1Q Home-Use cross-sell ratio & progress in Business-Use earnings to preface continued growth in FY 6/25.**

## Company sector

Diversified Telecommunication (GICS Industry)

## Stock data

Price (¥)	942
Mkt cap (¥bn)/(\$m)	19.4 / 129.7
52-week range (¥)	872 – 1,310
Shares O/S (m)	20.6
Average daily value (\$m)	0.9
Free float (%)	42.3
Foreign shareholding (%)	7.2
Ticker	9450
Exchange	Tokyo Prime
Net Debt/Equity (%)	39.8



Source: Bloomberg

- **1Q 6/25 sales increased YoY, driven by Business-Use & Home-Use sales growth, but OP posted a temporary decline due to the introduction of an outright sales option for Home-Use equipment which inflated CoGS YoY. Both sales & OP were broadly in line with expectation & the company has not revised its FY 6/25 forecast.**
- **Home-Use division sales were as anticipated given the high proportion of stock business. Fibergate expects the short term negative impact on GPM from the outright Home-use equipment sales to be offset longer term by higher margin monthly stock income from upfront sales versus rental due to the lack of depreciation costs & improved cash flow.**
- **We note the 1Q cross-sell ratio of Home-Use flow sales improved +6.9ppt YoY to 14.5%. Fibergate is focusing efforts on cross-selling additional products to improve margins, with the greatest success in new construction projects. It therefore expects the cross-sell ratio to improve in the 3Q when the number of new construction projects is typically higher.**
- **The Business-Use division recorded strong YoY sales growth but a QoQ decline due to seasonal weakness. Fibergate expects both sales growth & the OPM to improve in the 2H as higher margin, more sophisticated projects tend to be concentrated later in the FY. It is also aiming to expand Business-Use stock business & reduce its exposure to volatile flow sales.**
- **Under its FY 6/27 MTP, Fibergate has started its transformation to becoming an On-Premise Infrastructure Integrator (OP1er). Its goal is to raise OP per employee by approx. +50% to ¥15m by FY 6/27 & targets an OP CAGR of +28.6% driven by Business-Use, Renewable Energy, & Home-Use expansion. It also raised its dividend payout ratio policy to >33% & forecasts a FY 6/25 dividend of ¥27 on a payout ratio of 33.2%.**
- **We believe the prospect of longer-term Home-Use profitability improvement, as well as efforts to expand Business-Use stock sales & a cross-selling focus, to leave Fibergate well-positioned for sustained earnings growth. On 11x FY 6/25 earnings, trading -64% below its Dec 2020 high, we recommend investors book time with senior management to update & delve deeper into 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.

## Next event

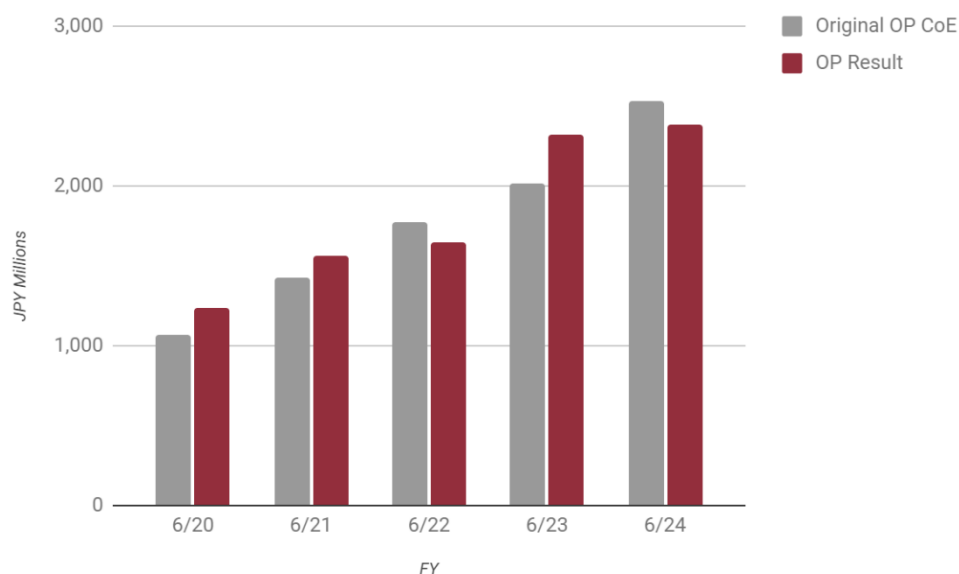
1H 6/25 results in February 2025.

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**Fibergate is a research client of Storm Research**

Year end	6/2023	6/2024	1Q 6/2025	6/2025E
Sales (¥bn)	12.8	12.6	3.1	14.4
OP (¥bn)	2.3	2.4	0.5	2.6
NP (¥bn)	1.5	1.6	0.3	1.7
EPS (¥)	72.7	77.2	15.3	81.4
DPS (¥)	10.0	17.5	n/a	27.0
Sales growth YoY (%)	+20.4	-1.4	7.1	+13.9
OP growth YoY (%)	+40.4	+2.9	-11.8	+9.8
NP growth YoY (%)	+38.1	+5.7	-16.3	+5.3
EPS growth YoY (%)	+38.2	+6.2	-15.9	+5.4
PER (x)	20.5	14.4	n/a	11.2
EV/EBITDA (x)	8.6	6.2	5.8	5.5
PBR (x)	6.4	3.9	3.5	3.3
ROE (%)	37.1	29.8	28.3	n/a
ROIC (%)	16.7	16.5	16.0	n/a
FCF yield (%)	6.2	2.2	n/a	n/a
Dividend yield (%)	0.7	1.6	n/a	2.9

RESULTS VS  
FORECAST HISTORY

## EARNINGS

1Q 6/25 sales increased +7.1%YoY driven by both the Home-Use & Business-Use divisions, but **OP declined -11.8%YoY due to the introduction of an outright sale option for Home-Use equipment, with costs recorded as one lump sum.** As a result, the 1Q CoGs:Sales ratio increased +4.2ppt YoY to 55.6%. Conversely, Fibergate was able to control the 1Q SG&A:sales ratio, which declined -1.0ppt YoY to 29.2%, despite increasing sales staff numbers.

Fibergate believes its FY 6/25 forecast remains achievable as it foresees strong Home-Use division demand continuing, boosted by cross-selling, Business-Use division sales growth & profitability improvement in the 2H.

HOME-USE  
BUSINESS

(JPY Millions)	6/24 Results	YoY	1Q 6/25 Results	YoY	6/25 CoE	YoY
<b>Sales</b>	10,386	8.2%	2,643	4.8%	11,140	7.3%
<b>OP</b>	2,910	-2.0%	668	-6.4%	3,110	6.9%
<b>OPM</b>	28.0%	-2.9%	25.3%	-3.0%	27.9%	-0.1%

Fibergate provides a one-stop service to owners of apartment complexes that allows all tenants in the complex to access the internet for free. It also develops & manufactures communication equipment, as well as providing installation & after-sales support. In addition to selling directly to property owners, Fibergate also provides services to real estate-related companies under a private brand.

1Q sales increased +4.8%YoY, but +2.9%QoQ due to seasonality. 1Q OP declined -6.4%YoY due to the increase in upfront equipment sales, but **this type of activity is likely to be positive for profitability longer term.**

Home-Use orders are increasing YoY as Fibergate is gaining new sales partners, despite weak demand at some sales partners. Long term, Fibergate expects the market to become saturated, but according to surveys (see below) demand from rental apartment blocks remains significant.

Whilst competition is tough, including some downward pricing pressure, Fibergate is focused on maintaining reasonable margins. Its cross-selling services & option for customers to choose between equipment rental & purchase are key points of differentiation to limit discounting.

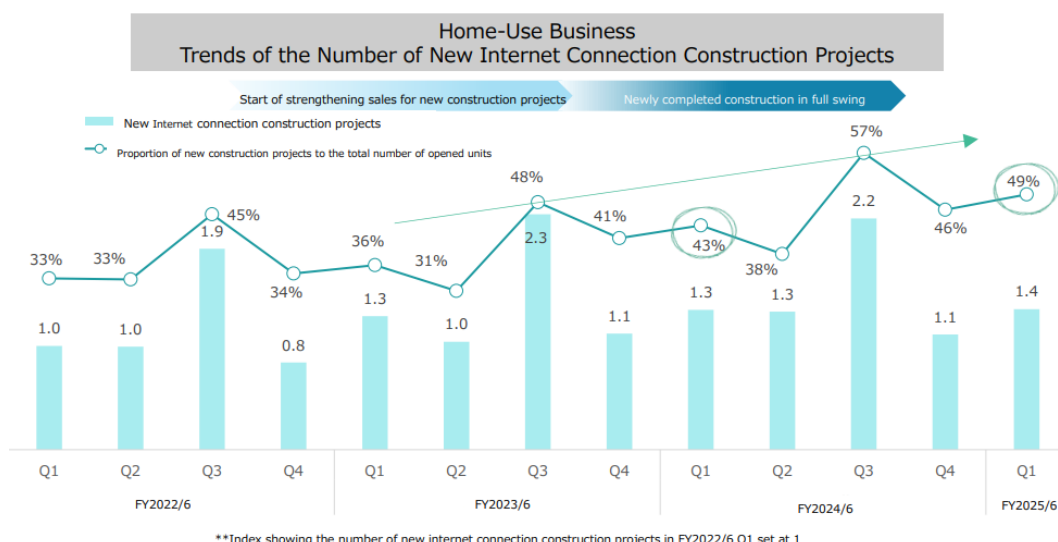
- *Sales method:* The main method of communication equipment provision to date has been through rental, where equipment remains an asset of Fibergate. It continues to install equipment on a loan basis but, from FY 6/25, it has also introduced an outright sale option, which is proving attractive to some customers.

In the outright sales method, Fibergate's initial investment in the equipment is recorded as a lump sum cost, which reduces short-term profitability & was the reason for the 1Q OP decline YoY.

The longer term benefit is there is no depreciation as the equipment does not belong to Fibergate. **The total contract period is the same for rental & outright sales, but the latter is likely to result in higher margin recurring stock sales due to the lack of depreciation expenses & reduced fixed asset taxes.** In addition, Fibergate anticipates improved cash flow from the upfront payments customers make to buy the communication equipment.

1Q opened units totalled 631,100 +12.7%YoY, +2.2%QoQ. Fibergate is targeting growth in both new construction & existing construction projects. In the 1Q, the proportion of new construction projects rose to 49%, which was slightly above expectation & contributed to strong outright communications equipment sales.

Fibergate aims to maintain an approx. 50:50 ratio between new & existing construction projects but, given new construction project seasonality, we expect the proportion of new construction projects to increase in the 3Q.

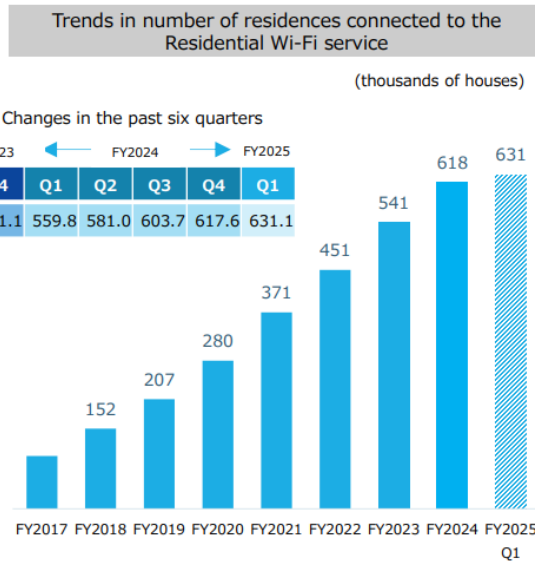


Source: Company

- *Cross-selling:* As of the 1Q, the cross-sell ratio of Home-Use flow sales had reached 14.5% +6.9ppt YoY. **Fibergate is focusing on cross-selling additional products in order to limit margin deterioration**, including FG smartcall (interphone), network cameras, FGTV, delivery boxes, smartlock smart sensors & EV charging stations.

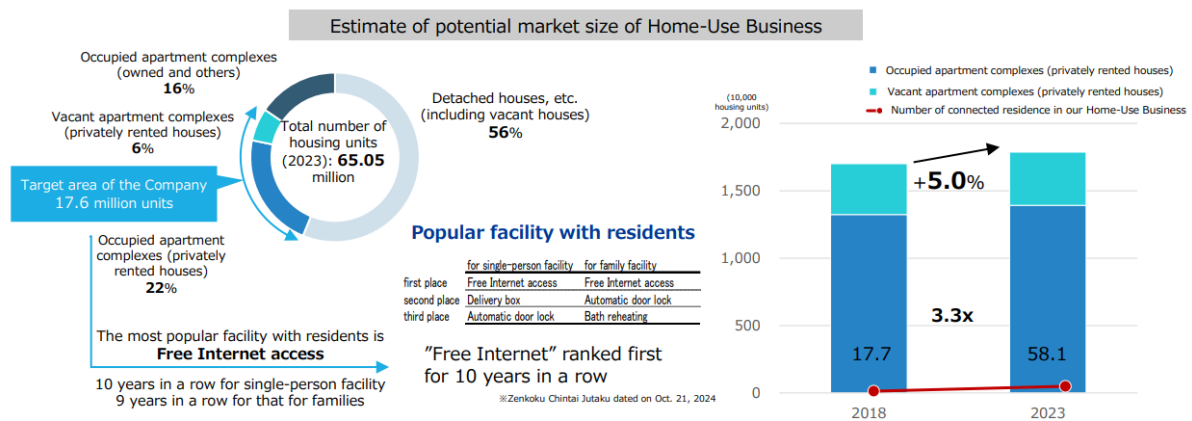
It is easiest to cross-sell into new buildings, as these projects typically seek to incorporate modern functionality. **Fibergate expects the cross-sell ratio to increase in the 3Q when the number of new construction projects is seasonally higher.**

- *Market:* According to the Ministry of Land, Infrastructure, Transport & Tourism, in 2023, the total number of housing units was 65.05m, with the rental apartment market, Fibergate’s primary Home-Use Business target, accounting for approx. 17.6m units, having grown approx. +5% per year since 2018. As of the 1Q, Fibergate’s share of this market was approx. 3.6% or 631,100 units +2.2%QoQ, +12.7%YoY, with an FY 6/25 target of 700,000 +13.3%YoY.



Source: Company

According to the 21<sup>st</sup> Oct 2024 ‘Zenkoku Chintai Jutaku’ (Nationwide Rental Contract survey), **free WiFi facilities for tenants are regarded as one of the most important considerations when renting a property for both families & individuals.**



Source: Company

**BUSINESS-USE BUSINESS**

(JPY Millions)	6/24 Results	YoY	1Q 6/25 Results	YoY	6/25 CoE	YoY
<b>Sales</b>	1,675	10.8%	405	23.9%	2,220	32.5%
<b>OP</b>	480	66.1%	72	28.6%	690	43.8%
<b>OPM</b>	28.7%	9.5%	17.8%	0.7%	31.1%	2.4%

1Q sales & OP were broadly in line with forecast. Sales increased +23.9%YoY but declined -19%QoQ due to the timing of a large delivery in the seasonally stronger 4Q 6/24. The 1Q OPM was also lower than the FY 6/24 average due to the absence of high value project deliveries in the 1Q, which is expected to improve in the 2H as more complex & sophisticated projects are completed.

Fibergate continues to focus efforts on winning new projects from hospitals, care homes, public facilities, transport & tourist facilities. Whilst lead times can be long, the company is focusing on project completions in the 2H with improved profitability. Profitability depends on the level of customisation of each project, with larger bespoke projects allowing cost increases to be offset through price adjustments.

1Q flow type sales accounted for 53.1% of Business-Use sales at ¥215m +41.4%YoY, versus 57.1% in FY 6/24. Significant flow sales exposure means sales can be volatile & **Fibergate is therefore aiming to expand its stock business**, although it is likely to take time to accumulate stock business contracts.

As digitalisation advances, we anticipate increased demand for Fibergate's services in places such as offices, public facilities, medical & nursing care facilities, & warehouses.

## REAL ESTATE BUSINESS

(JPY Millions)	6/24 Results	YoY	1Q 6/25 Results	YoY	6/25 CoE	YoY
<b>Sales</b>	523	-68.8%	4	0.0%	410	-21.8%
<b>OP</b>	57	-58.1%	0	-100.0%	20	-65.1%
<b>OPM</b>	10.9%	2.8%	0.0%	n/a	4.9%	-6.1%

Real Estate division sales are volatile as they depend on project timing, but Fibergate expects FY 6/25 sales & OP to be in line with forecast with a stronger contribution in the 2H. Through the development & brokerage of smart apartments, the company is also promoting IoT solutions based on Fibergate Group's Wi-Fi technology.

## MTP

Fibergate has started its transformation to become an On-Premise Infrastructure Integrator (OPiller). It released its FY 6/27 MTP at FY 6/24 results & **aims to raise the OP per employee by approx. +50% to ¥15m by FY 6/27**. It started to expand its salesforce from the 1Q & has also implemented performance analysis tools.

It targets an OP CAGR of +28.6% driven by Business-Use & Renewable Energy growth, steady expansion in the Home-Use division, boosted by product cross-selling & new products, including its most recently developed high-voltage product. In addition, Fibergate is proactively targeting M&A for which it has a budget of ¥3bn through to FY 6/27.

## SHAREHOLDER RETURNS

As of the 1Q 6/25, the equity ratio was 43.9% & FCF continued to be positive despite weak Real Estate sales due to increased Business-Use flow sales. We expect the positive FCF trend to continue.

As part of its MTP to FY 6/27, Fibergate plans to **shift its focus from improving the balance sheet & generating FCF to leveraging its financial strength to maximise returns**. As of FY 6/24, the dividend payout ratio was 22.7%, with a dividend of ¥17.5, +¥7 YoY. At the release of

the new MTP, Fibergate raised its dividend payout ratio policy to >33% & forecasts a FY 6/25 dividend of ¥27, implying a payout ratio of 33.2%.

## PREVIOUS REPORTS

- 27<sup>th</sup> August 2024: [‘Transformation’](#)
- 30<sup>th</sup> May 2024: [‘Business-Use emergence’](#)
- 5<sup>th</sup> March 2024: [‘Business-Use traction’](#)
- 1<sup>st</sup> Dec 2023: [‘Growth in tandem’](#)
- 28<sup>th</sup> Sep 2023: [‘Improving momentum’](#)
- 5<sup>th</sup> Jun 2023: [‘Renovation & new build WiFi’](#)
- 3<sup>rd</sup> March 2023: [‘Laying foundations’](#)
- 25<sup>th</sup> Nov 2022: [‘Strong residential WiFi’](#)
- 11<sup>th</sup> Nov 2022: Initiating coverage: [‘Residential & business WiFi’](#)

## COMPANY INFORMATION

Key corporate timeline	
2003	Began fully-fledged operations. Core business: selling broadband lines via the internet and a network of multiple brick-and-mortar locations
2004	Started business: free internet for communal housing
2005	Established Tokyo Office in Minato-ku, Tokyo Started business: free internet for communal housing using wireless LAN Unified all services and began operation using the FGBB® Series across the board
2006	Began providing free internet for communal housing using a private brand
2008	Started business: internet connection for monthly serviced apartments
2009	Call centre began providing customer service to tenants of FGBB® equipped properties in multiple languages Started business: the free Wi-Fi service “Wi-Fi Nex®”
2011	Established Osaka Office in Chuo-ku, Osaka
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
2014	Started business: the sale of company-developed communication devices Began providing Wi-Fi services for stores and commercial facilities under a private brand Established Fukuoka Office in Hakata-ku, Fukuoka Established Nagoya Office in Atsuta-ku, Nagoya
2015	Acquired Telecommunications Contractor Authorization (Governor of Hokkaido Authorization (Fune-26) Ishi No.22017) Began providing the Wi-Fi service “SHINOBI Wi-Fi” to visiting foreigners Established Fibergate Taiwan Inc. as a wholly-owned subsidiary in Taiwan Acquired a license as a telecommunications business in accordance with the Telecommunications Business Act (Registration Number: No.358)
2016	Certified as a Management Innovation Plan Approval Company by the Governor of Hokkaido (Sekishoro: No.74-33) Acquired Privacy Mark certification (Registration Number: No. 17002586 (01) End of fiscal year changed from December to June Nagoya Office moved to Naka-ku, Nagoya
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
2018	Listed on TSE Mothers Began providing the “One-Touch Wi-Fi” service as a Wi-Fi service for offices and stores Acquired certification as an Information Security Management System (ISMS) (Certification No.: MSA-IS-284)
2019	Transferred to the TSE 1 <sup>st</sup> Section Listed on the Main Market of the Sapporo Securities Exchange
2020	Established FG-Lab Inc. as a wholly-owned subsidiary that researches and develops company-provided telecommunication devices and systems Established BizGenesis Inc. to provide telecommunication services to corporations Relocated Fukuoka office within Hakata-ku, Fukuoka
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 Established OffGrid-Lab Inc. to operate a renewable energy business
2022	Acquired TM Asset Inc. as a wholly-owned sub-sub-sidiary to engage in real estate sales and leasing Merged with BizGenesis Inc., a telecommunication service provider for enterprises
2023	Started the Renewable Energy business
2024	Established Enepulse Inc., a joint venture company that operates as an energy agency

Major shareholders	Stake %
Masanori Inomata	25.71
MI Corp KK	23.06
Taizou Matsumoto	5.30
GPIF Japan	2.96
Hikari Tsushin	2.91
Bank of New York Mellon Corp	2.47
Prudential PLC	2.27
Credit Agricole Group	2.10
Samarang Asset Management SA	2.08
Eastspring Investments Ltd	1.69

**Source:** Bloomberg

#### Company contact details

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## J GAAP Financial statements

Income statement (¥bn)	FY 6/22	FY 6/23	FY 6/24
Sales	10.6	12.8	12.6
COGS	5.8	7.1	6.8
<b>Gross profit</b>	<b>4.8</b>	<b>5.7</b>	<b>5.8</b>
Gross profit margin (%)	45.5	44.9	46.1
Operating expense	3.2	3.4	3.4
<b>Total OP</b>	<b>1.7</b>	<b>2.3</b>	<b>2.4</b>
OP margin (%)	15.5	18.1	18.9
Non-Op Income (Loss)	0.1	0.1	0.1
<b>Pretax Income</b>	<b>1.6</b>	<b>2.2</b>	<b>2.3</b>
Tax	0.5	0.7	0.7
Effective tax rate (%)	32.2	31.7	31.8
<b>Net income</b>	<b>1.1</b>	<b>1.5</b>	<b>1.6</b>

Balance sheet (¥bn)	FY 6/22	FY 6/23	FY 6/24
Cash & equivalents	2.3	2.4	2.1
Accounts & notes receivable	1.4	1.6	1.8
Inventories	2.1	1.3	1.2
Other short-term assets	0.1	0.1	0.1
<b>Current assets</b>	<b>6.0</b>	<b>5.6</b>	<b>5.3</b>
Property, plant & equipment (net of depreciation)	6.2	6.6	7.2
Long term investments & receivables	0.1	0.1	0.0
Other long-term assets	0.8	0.6	0.5
<b>Total non-current assets</b>	<b>7.1</b>	<b>7.2</b>	<b>7.7</b>
<b>Total assets</b>	<b>13.1</b>	<b>12.8</b>	<b>13.1</b>
Payables & accruals	0.9	1.1	1.0
Short-term debt	2.6	1.4	1.3
Other short-term liabilities	2.2	2.1	1.8
<b>Total current liabilities</b>	<b>5.6</b>	<b>4.7</b>	<b>4.1</b>
Long term debt	4.1	3.3	3.1
Other long-term liabilities	0.1	0.0	0.1
<b>Total non-current liabilities</b>	<b>4.2</b>	<b>3.3</b>	<b>3.2</b>
<b>Total liabilities</b>	<b>9.8</b>	<b>8.0</b>	<b>7.2</b>
Share capital & APIC	0.9	0.9	0.9
Treasury stock	0.2	0.2	0.4
Retained earnings	2.6	4.0	5.2
Other equity	0.0	0.0	0.0
<b>Equity before minority interest</b>	<b>3.3</b>	<b>4.7</b>	<b>5.8</b>
<b>Total equity</b>	<b>3.3</b>	<b>4.8</b>	<b>5.8</b>
<b>Total liabilities &amp; equity</b>	<b>13.1</b>	<b>12.8</b>	<b>13.1</b>

Cash flow statement (¥bn)	FY 6/22	FY 6/23	FY 6/24
Net income/pre-tax profit	1.1	1.5	1.6
Depreciation/amortization	1.2	1.5	1.7
Other non-cash items	0.1	0.6	0.0
Changes in working capital	-0.1	0.8	-0.4
Net cash from discontinued operations	0.0	0.0	0.0
<b>Cash from Operating Activities</b>	<b>2.3</b>	<b>4.3</b>	<b>2.8</b>
Change in fixed & intangible assets	-2.3	-2.2	-2.4
Net change in long-term investments	0.0	0.0	0.0
Net cash from acquisitions & divestitures	-0.3	0.0	0.0
Other investing activities	0.0	0.0	0.0
Net cash from discontinued operations	0.0	0.0	0.0
<b>Cash from Investing Activities</b>	<b>-2.6</b>	<b>-2.2</b>	<b>-2.4</b>
Dividends paid	-0.1	-0.1	-0.3
Cash from (repayment) debt	0.6	-1.9	-0.2
Cash from (repurchase) of equity	-0.1	0.0	-0.2
Other financing activities	-0.1	0.0	-0.2
Net cash from discontinued operations	0.0	0.0	0.0
<b>Cash from Financing Activities</b>	<b>0.4</b>	<b>-2.0</b>	<b>-0.7</b>
FX impact	0.0	0.0	0.0
<b>Net cash flow</b>	<b>0.1</b>	<b>0.1</b>	<b>-0.3</b>
<b>Free cash flow</b>	<b>0.1</b>	<b>1.9</b>	<b>0.5</b>
<b>EBITDA</b>	<b>2.9</b>	<b>3.8</b>	<b>4.0</b>

Key metrics	FY 6/22	FY 6/23	FY 6/24
<b>Profitability</b>			
Gross margin (%)	45.5	44.9	46.1
Operating margin (%)	15.5	18.1	18.9
Net margin (%)	10.1	11.6	12.4
ROIC (%)	12.6	16.6	16.5
<b>Liquidity</b>			
Current ratio (x)	1.1	1.2	1.3
Quick ratio (x)	0.7	0.8	1.0
<b>Leverage</b>			
Debt/Equity ratio	202.9	99.1	76.7
Net Debt/Equity ratio	132.6	48.1	39.8

**DISCLAIMER**

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