GEO HOLDINGS (2681)

Investing for growth

19 June 2024

Initiating coverage

- **Market leader with growth potential** – GEO HOLDINGS operates second-hand store chains 2nd STREET, GEO, OKURA, and off-price chain store Luck Rack. Its 2,027 domestic stores give it the leading market share in Japan. The company is making significant investments to extend its home advantage and build on its 2018 expansion overseas where it has 81 stores. These investments will limit the company's ability to raise shareholder returns for now. Ultimately, these outlays should help GEO HOLDINGS improve the quality of earnings over the long term, facilitating higher ROE and the company's ability to reward shareholders more generously alongside its pursuit of growth.

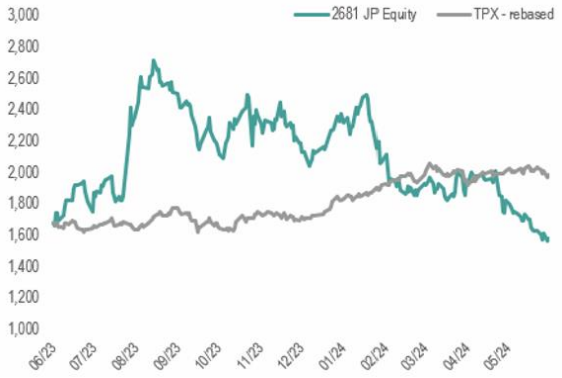
Strategic growth scenario

- **GEO's sales grew faster than the Japanese market in FY3/24** – company sales grew 15.0% YoY in FY3/24. faster than market growth estimated at 5.3% YoY. Plans to continue opening new stores should help the company maintain its dominant market position, though the company's FY3/25 forecast is looking conservative.
- **Refocusing original rental business on smartphone sales** – as the rental market shrinks, GEO has been reconfiguring its eponymous brand stores to focus on the growing used smartphone market.
- **Medium-term management targets** – while the company hasn't published a medium-term management plan, it aims for a PBR over 1x and a sustainable ROE of 8%.
- **ESG** – We score the company as '**Amber'** under our Astris-Sustainability model scorecard, scoring 52.86 under our 'Social' category.
- **Valuations** – The shares are trading on an estimated PER FY3/25 of 7.4x (on -23.2% EPS growth YoY) and an FCF yield of 7.3%. Our FCF definition is cash flow from operating activities less expenditures for acquisitions of tangible and intangible fixed assets. Although GEO's priority is strategic investments, the company did increase DPS to ¥29 in FY3/24 and plans to raise it again to ¥34 in FY3/25.

Year-end	3/23	3/24	3/25E	3/26E	3/27E
Sales (¥bn)	377.30	433.85	455.52	498.81	545.55
OP (¥bn)	10.62	16.81	14.12	17.96	21.82
NP (¥bn)	5.68	10.90	8.38	10.65	12.98
EPS (¥)	135.93	275.31	211.56	268.90	327.85
DPS (¥)	24.00	29.00	34.00	43.02	52.46
Sales growth YoY (%)	+12.7	+15.0	+5.0	+9.5	+9.4
OP growth YoY (%)	+29.9	+58.3	-16.0	+27.2	+21.5
NP growth YoY (%)	-5.1	+91.9	-23.2	+27.1	+21.9
EPS growth YoY (%)	-3.7	+102.5	-23.2	+27.1	+21.9
PER (x)	11.6	5.7	7.4	5.8	4.8
EV/EBITDA (x)	5.6	4.2	4.6	3.8	3.2
EV/Sales (x)	0.3	0.2	0.2	0.2	0.2
PBR (x)	0.8	0.7	0.6	0.6	0.5
ROE (%)	7.4	13.3	9.1	10.4	11.1
ROCE (%)	7.0	9.2	7.3	8.7	9.9
FCF yield (%)	(5.4)	0.2	7.3	5.8	8.8
Dividend yield (%)	1.5	1.8	2.2	2.7	3.3
Total shareholder yield (%)	1.5	1.8	2.2	2.7	3.3

Source: Company. Astris Advisory (estimates)

Share price: ¥1,571 Market cap: ¥62.4bn



Source: Bloomberg

Price Performance	YTD	1M	3M	12M
Abs (%)	-26.0	-13.8	-18.4	-6.2
Rel (%)	-35.8	-13.2	-17.8	-21.3

Company sector

Rental/Auto Equipment
Specialty Retail

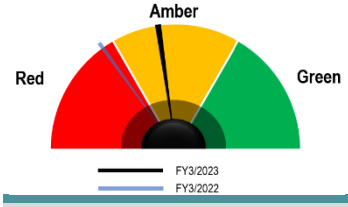
Stock data	
Price (¥)	1,571
Mkt cap (¥bn)	62.4
Mkt cap ($m)	395.4
52-week range (¥)	1,551-2,735
Shares O/S (m)	39.7
Average daily value ($m)	3.6
Free float (%)	49.7
Foreign shareholding (%)	13.2
Ticker	2681
Exchange	Tokyo Prime
Net Debt/Equity (x)	0.2
FFO leverage (x)	4.7
BBG BUY | HOLD | SELL	0 | 1 | 0

Source: Bloomberg

Business Overview

GEO HOLDINGS operates several chains of second-hand stores offering items including clothing. smartphones. household appliances. and games. It also rents movies and music.

Astris-Sustainability ESG rating



Reference Ratings	
MSCI	N/A
Sustainalytics	24.0
Refinitiv	N/A
S&P Global	50.0
Bloomberg	2.05

Next events

Q1 FY3/25 results August 2024

Tel: +81 3 6868 8797
Email: Corporateresearch@astrisadvisory.com

This report has been commissioned and paid for by the company

Contents

Summary 3
Company description 4
Business breakdown 5
Our commentary on GEO's overseas expansion 16
Our commentary on GEO's online operations 18
Management philosophy 20
Business model 21
Peer group analysis 25
Balance sheet 29
Capital allocation 30
Recent results 31
Medium-term targets 32
Astris earnings estimates and key assumptions 33
Company information 34
Astris Quant Sheet 38
Astris-Sustainability ESG assessment 40
Areas of discussion 42

Summary

Market leader of second-hand chain stores

GEO HOLDINGS has transformed from being a video rental store operator to Japan's largest second-hand retailer, operating four chains totaling 2,108 stores across Japan and overseas, as well as several digital content sites via its viviON subsidiary. Its physical stores, predominantly operated by its 2nd STREET, GEO, OKURA, and Luck Brack brands, combined with its expanding online presence, generated annual sales of more than ¥430bn (+15% YoY) in FY3/24. That is faster growth than the 5.3% pace of the broader market, as estimated in the Reuse Business Journal's Second-Hand Market Databook.

The company has not disclosed a medium-term plan. However, its growth strategy focuses on:

- Rapidly opening stores in Japan to build on its leading market share.
- Reconfiguring its GEO rental DVD and CD stores to focus on the growing used smartphone market.
- Building on its 2018 foray overseas in the US, Taiwan, Malaysia, and Thailand.
- Expanding its digital content and luxury businesses.

The key strategic and financial targets are:

- **To reach an ROE of 8%.**
- **Raising PBR over the 1x threshold.**
- Open its 1,000th domestic 2nd STREET store by FY3/29, its 100th US store by FY3/28, and its 100th Taiwan store by FY3/30.

Astris Advisory estimates GEO HOLDINGS will drive medium-term growth via the following:

- Raising the number of 2nd STREET stores in areas of high footfall, whilst ensuring that existing stores continue to increase annual sales, all while reconfiguring the layout of GEO stores away from rental and towards smartphone sales.
- Utilizing its strategy of directly operating stores to incrementally improve productivity, centrally control inventory, and monitor store and merchandise quality.
- Standing out from the competition by striking a balance between attracting sellers with better prices for used items than peers, and encouraging customers into stores by selling these items at reasonable prices vs the competition.

The shares are trading on our estimated PER FY3/25 of 7.4x (on -23.2% EPS growth YoY) and an FCF yield of 7.3%.

Company description

Overview

Established by Yuki Endo in 1986. GEO HOLDINGS is now led by the founder's eldest son Yuzo Endo

The company was founded by Yuki Endo in 1986 as a video rental company in Toyota City, Aichi prefecture. Mr Endo headed the company until 2004, leading the company through several acquisitions.

GEO HOLDINGS has transformed via M&A and organic growth from its video rental and sales beginnings to become **Japan's largest second-hand retailer**, largely under the leadership of the late founder's oldest son Yuzo Endo, who spearheaded the acquisition of second-hand retailer FOR YOU (renamed 2nd STREET) in 2008.

The company's business model has undergone a major transformation in light of the global shift to online streaming services for music and movies, with the rental business now accounting for 7.6% of total sales. GEO HOLDINGS directly manages nearly all of its 2,108 stores, franchising out 161. In FY3/24, the breakdown of the company's stores by brand was as follows:

GEO HOLDINGS' store numbers by chain-store brand

Store Brand	Merchandise Handled	Number of Stores
2nd STREET	Second-hand clothing, accessories, and other items	Japan: 838 Overseas: 81
GEO	Sale of new and used consumer electronics, game consoles, and software, smartphone accessories, and video and music rental services	Japan: 1,084 (GEO and GEO mobile combined)
GEO mobile	Standalone used and refurbished smartphone sales	Japan: 66 standalone and 547 attached to GEO stores
OKURA TOKYO	Luxury merchandise, mainly bags and watches	Japan: 22
Luck Rack	Off-price store handling surplus stock from manufacturers	Japan: 18
Others	Rock (used farm equipment, antiques, art) and other store brands	Japan: 65

Source: Company

Timeline summary

Key dates	Details
June 1986	Founder Yuki Endo established a video shop called Video Roadshow in Toyota City. Aichi
December 1989	The name changed to GEO Milda. marking the start of the brand GEO. Several iterations of the GEO name follow before the company finally becomes GEO HOLDINGS Corp
December 1999	GEO acquires and consolidates Japan Blockbuster Corp.
November 2000	**IPO on the JASDAQ exchange**
January 2004	Listing shifts from the JASDAQ to the first sections of the Tokyo and Nagoya exchanges
June 2008	**Acquires second-hand retailer FOR YOU (later renamed 2nd STREET)**
November 2011	Transforms into a holding company called GEO HOLDINGS
April 2014	Opens its first specialist smartphone store
January 2018	Opens first US 2nd STREET store
April 2019	Acquires luxury second-hand store OKURA
April 2022	Listing transferred from the TSE First Section to the Prime market

Source: Company

Business breakdown

GEO HOLDINGS discloses sales and gross profit by merchandise type and identifies the chain-store brand where most of that merchandise is handled.

Second-hand clothing and accessories contributed the most to sales in FY3/24

Sales split by merchandise type

Merchandise type	Chainstore	Sales (¥bn)	YoY	Sales Ratio (%)
Second Hand		**244.09**	**+22.3%**	**56.3**
- **General**		**170.49**	**+30.3%**	**39.3**
Clothing & Accessories	2nd STREET	87.52	+28.7%	20.2
Furniture & Appliances	2nd STREET	11.00	+19.8%	2.5
Luxury	OKURA	54.85	+43.7%	12.6
Others	2nd STREET	17.11	+10.5%	3.9
- **Media**		**73.60**	**+7.0%**	**17.0**
Games	GEO	33.44	+6.8%	7.7
Smartphones & Tablets	GEO & GEO mobile	35.72	+12.3%	8.2
Others	GEO	4.45	-21.9%	1.0
Brand New	GEO	**132.29**	**+10.8%**	**30.5**
Others		**57.37**	**-1.4%**	13.2
- Digital Content	viviON	15.97	+14.8%	3.7
- Rental	GEO	32.79	-11.2%	7.6
- Others		8.60	+16.8%	2.0
Total		**433.85**	**+15.0%**	**100.0**

Source: Company

GEO HOLDINGS also shares data on its market share across various products.

GEO HOLDINGS has won a significant share in key markets such as games and smartphones

Estimated market share by merchandise type

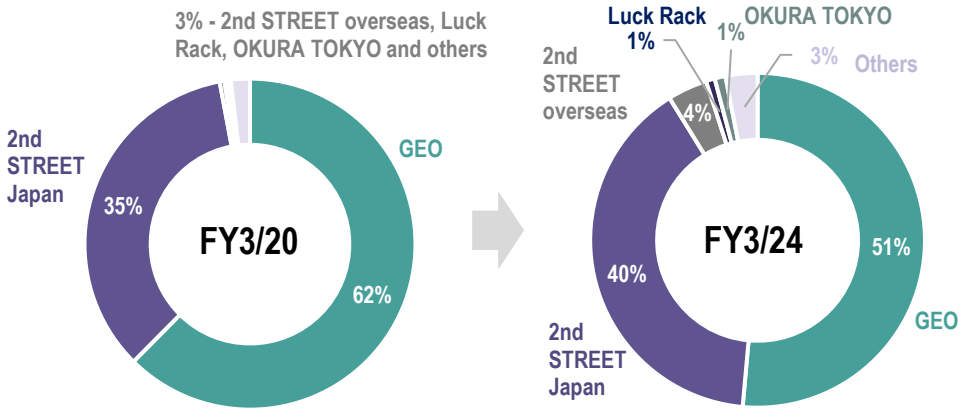
Merchandise Type	Market Share (approximate) (%)
Movie & music rental	57.1%
Games	64.0%
Smartphones	28.0%
Branded merchandise	16.0%
Clothing & Accessories	12.0%
Furniture & home appliances	4.0%

Source: Reuse Business Journal Second-Hand Market Databook 2023. via Company

Major changes in brand mix over the last five years

The mix of chain store brands has changed over the last five years. with 2nd STREET (both domestic and overseas) making up 44% of total sales in FY3/24.

Chain store brand mix



Source: Company

Domestic growth drivers

The company has identified the following as growth drivers:

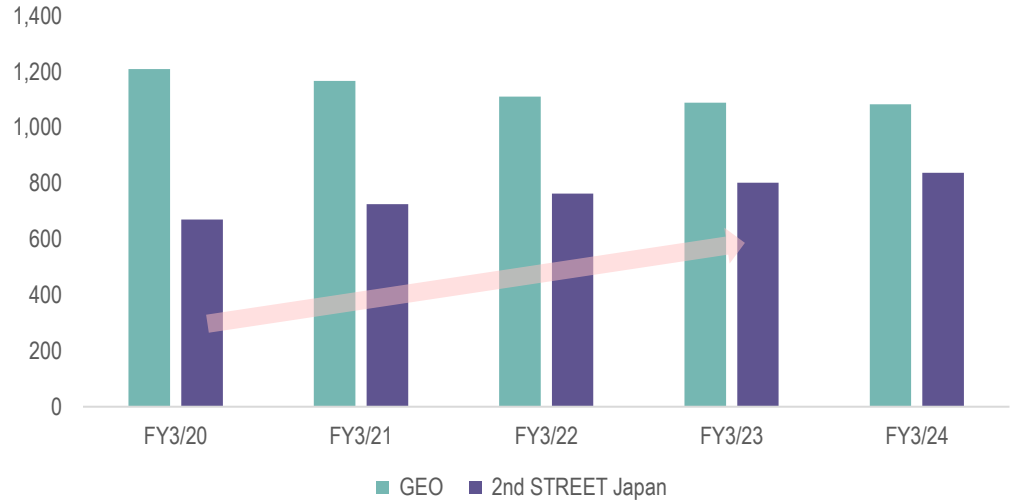
New directly-managed stores in Japan – the company opened a net of 94 new directly-managed stores in FY3/24. Of those, it opened a net of 13 GEO stores, 36 2nd STREET stores, and 30 stores of the remaining brands.

The company plans to open a net 129 stores in FY3/25 – of the total of 153 shops it is planning to open globally this fiscal year, 60 will open under the Japan 2nd STREET brand, 50 under GEO, three under OKURA TOKYO and six under Luck Rack.

The store opening strategy is to identify areas with high footfall balanced with acceptable rent levels. The company is eyeing popular commercial malls where consumer traffic is already high, as well as Japan's equivalent to high streets.

2nd STREET likely to overtake GEO in terms of store numbers over the medium term

Store numbers – GEO versus 2nd STREET Japan



Source: Company

GEO HOLDINGS' has recorded annual net store openings over the past six years

Annual net store openings (including both directly-managed and franchise stores)

Store Brand Net Openings	FY3/19	FY3/20	FY3/21	FY3/22	FY3/23	FY3/24
GEO	-17	-10	-43	-56	-22	-5
2nd STREET (Japan)	46	41	55	38	39	35
2nd STREET (overseas)		7	7	10	26	29
Others*	6	22	-1	10	22	26
Total net openings	**35**	**60**	**18**	**2**	**65**	**85**

Source: Company. Others = subsidiaries including Luck Rack, OKURA, amusement facilities, and Rock

Reconfiguring GEO-branded stores for used smartphone sales: Although the shift to streaming has resulted in net closures of GEO DVD and CD rental stores, the company has minimized the impact by reconfiguring many of these outlets to sell used smartphones and tablets. The used smartphone market rose +10.4% YoY to 2.34mn units in FY3/22 and is expected to continue rising through at least FY3/27. according to MM Research Institute Ltd. Used smartphone and tablet sales overtook rental sales for the first time in FY3/24.

The company is optimistic about the outlook for used smartphone sales. From a cost-benefit perspective, consumers are increasingly open to purchasing used smartphones. Pricing is very attractive for a phone that looks new (Japanese tend to take great care of their phones, especially the screens). Moreover, as inflationary pressures mount, consumers aren't as keen to pay for the often incremental technological improvements new smartphone versions offer.

GEO's stores use specialists to help consumers choose the right phone for them and offer sim-card packages with MVNO operators such as Y! Mobile and UQ so phones can be bought ready to use at optimal pricing.

This shift in revenue source helps mitigate the loss from rental sales and the 63.1% GPM that rental commands. While GPM from used smartphone sales is lower at 26.3%. the

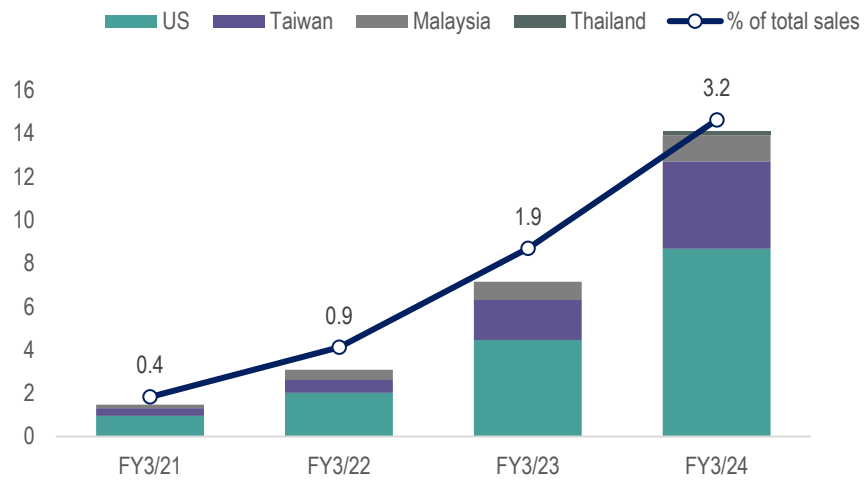
decline in the rental market is out of GEO's control and we think its ability to mitigate this decline with new revenue sources is commendable. Moreover, commanding 28% of the used smartphone market, the company has created a strong platform for further growth.

Overseas growth drivers

GEO HOLDINGS' ultimate target is to become the world's largest second-hand retailer. It opened 81 stores overseas in FY3/24 which produced sales of ¥14.09bn (+96.8% YoY), or 3.2% of total sales. 2nd STREET currently has 35 stores in the US, 17 in Malaysia, 28 in Taiwan, and one in Thailand. Although they remain at 3.2% of total sales, they are now at a level where they play a role in sales growth.

2nd STREET overseas sales are rising rapidly thanks to new store openings

2nd STREET overseas sales (¥bn)

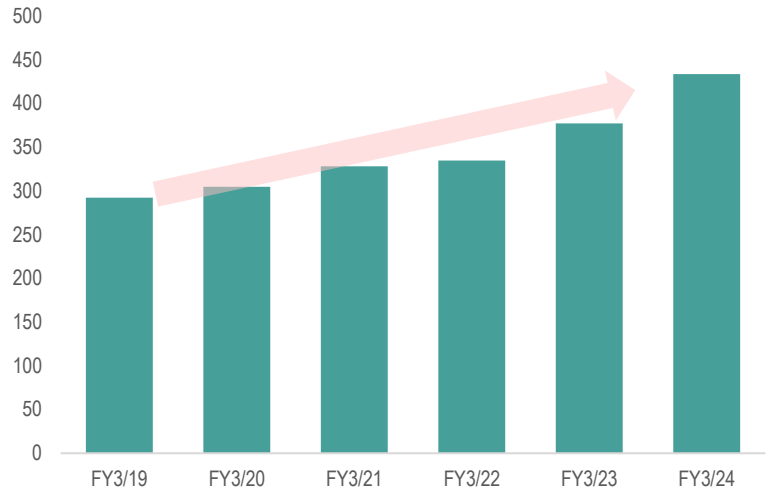


Source: Company

Recent trends in sales

Sales have grown by 8.2% CAGR (5-year)

Annual sales trend (¥bn)



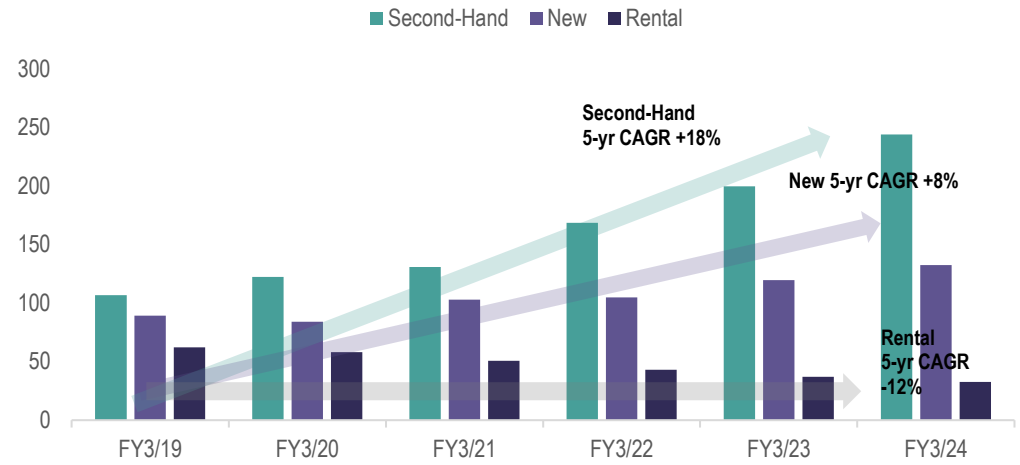
Source: Company

GEO HOLDINGS' sales have increased annually for all of the past five years to FY3/24, with double-digit increases in the past two fiscal years. In FY3/24 sales rose to a record ¥433.85bn (+15.0% YoY), with Q4 sales coming in at ¥106.45bn (+9.1% YoY). capping a strong year for the company.

Consumers are increasingly aware of the benefits of buying second-hand clothes in excellent condition, freeing up disposable income, while also enjoying the income from selling unwanted items.

Second-hand sales have more than made up for the decline in the rental market

Segmental annual sales trend (¥bn)



Source: Company

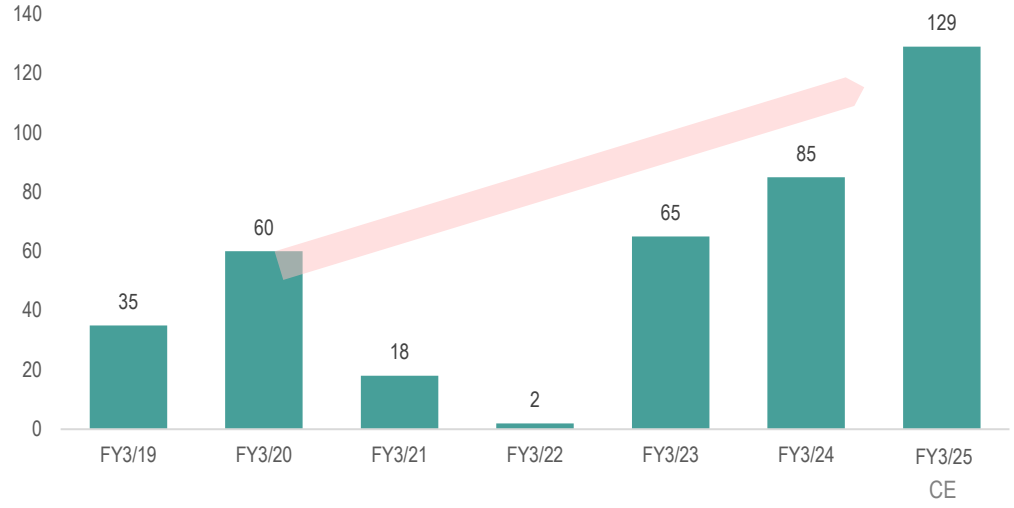
Moreover, consumers have become increasingly conscious of the role they can play in environmental sustainability, transforming the used clothing market into one that is not only about cost-saving benefits and earning additional income but also about participating in a circular economy. The more consumers participate, the better the potential merchandise to be resold. This bodes well for future growth even when economic headwinds prevail.

These trends are reflected in GEO HOLDINGS' rising sales of second-hand clothes, smartphones, luxury brands, and more. Boosted by store openings, this demand has more than mitigated the impact of the inevitable decline of the music, movie, and gaming rental market. We estimate that the surge in foreign tourists to Japan amid the weaker yen is also having a positive impact on second-hand retailers' sales and expect GEO HOLDINGS to also be a beneficiary.

Rapid store openings are key to driving sales growth. The company even managed to open a net number of new stores during the pandemic, though at an understandably slower pace.

Net store openings are accelerating

Net store openings



Source: Company

Underscoring GEO HOLDINGS' shift away from rental, in FY3/24 smartphone and tablet sales rose to ¥35.72bn (+12.3% YoY), overtaking rental sales for the first time, which were ¥32.79bn (-11.2% YoY). Smartphone and tablet sales also overtook sales of computer and video games, which rose to ¥33.44bn (+6.8% YoY), highlighting the growing market for the former rather than a lack of demand for the latter. Demand can be quite volatile for games as it depends on new releases of both games and consoles.

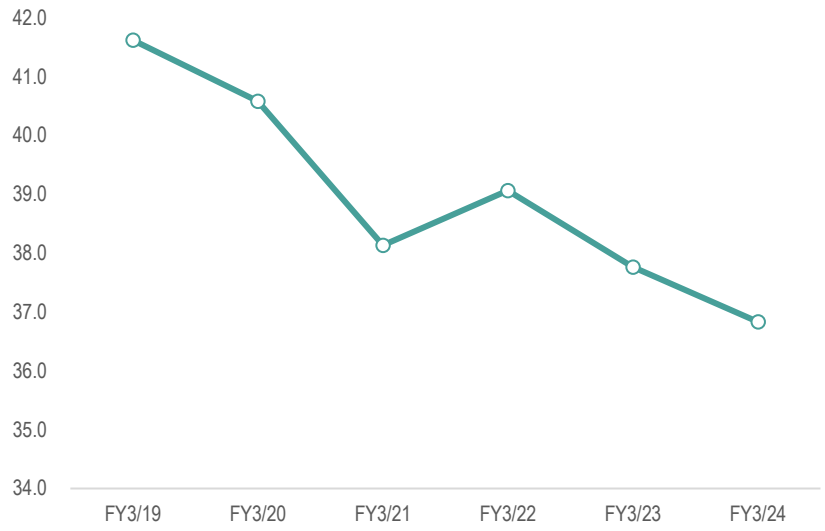
In FY3/22 GEO HOLDINGS applied a newly-issued standard for revenue recognition, which hit sales by ¥23.6bn. The business that this revenue recognition standard impacts the most is digital content. It shaved ¥36.59bn off sales in FY3/24, meaning that GEO HOLDINGS recorded sales from this business of ¥15.97bn (+14.8% YoY) instead of ¥52.57bn. This makes GPM appear extremely high at 89%.

Recent trends in profitability

Despite the increase in sales, profitability has been volatile over the five years to FY3/24 in part due to the decline of the rental market as well as the company's investment in store openings, which continued even during the pandemic. Five-year GP CAGR to FY3/24 was +5.65% and for OP it was +1.4%.

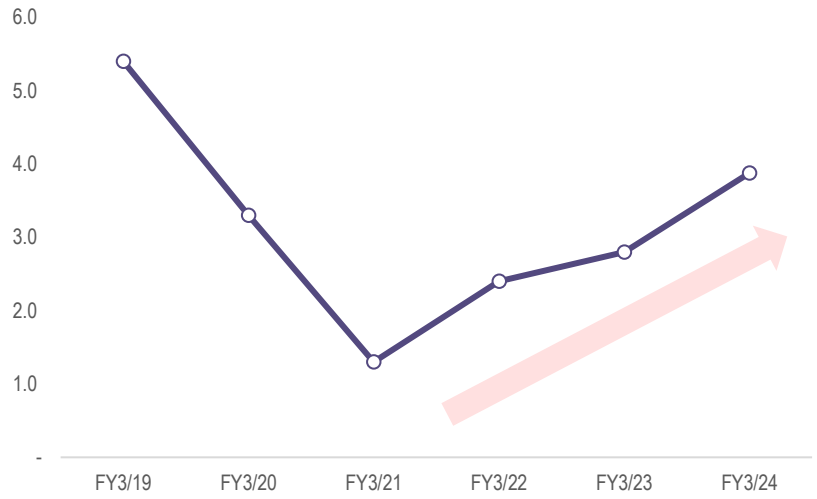
GPM has been on a downward trend due to the decline of the music and movie rental market

Gross margins (%)



Source: Company

Operating margins (%)



Source: Company

Movie and music rentals generate a high GPM of about 62%, which has helped buoy margins in the past. Encouragingly though, second-hand clothes and accessories generate a similar GPM of 64% and are growing fast. OPM is likely to be lower for clothes compared with rental due to the intensity of labor to handle inventory and personnel costs. However, we estimate that as the company's investments in new stores start to pay off, OPM should start to recover over the medium term.

Second-hand clothing has one of the highest GPM while luxury items have one of the lowest

Item	GP (¥bn)	YoY (%)	GPM (%)
Reuse	**103.76**	**+21.1**	**42.5**
General	**79.45**	**+27.6**	**46.6**
Clothing & Accessories	55.48	+27.5	63.4
Furniture & appliances	6.57	+14.7	59.7
Luxury	5.82	+158.9	10.6
Others	11.57	+7.5	67.6
Media	**24.31**	**+3.7**	**33.0**
Games	10.16	+0.5	30.4
Smartphones & tablets	9.39	+13.7	26.3
Others	4.76	-6.3	100.0
Brand new	**17.12**	**-3.1**	**12.9**
Others	**38.95**	**-0.4**	**67.9**
Digital content	14.29	+15.2	89.5
Rental	20.70	-10.2	63.1
Others	3.96	+8.0	46.0
Total	**159.82**	**+12.2**	**36.8**

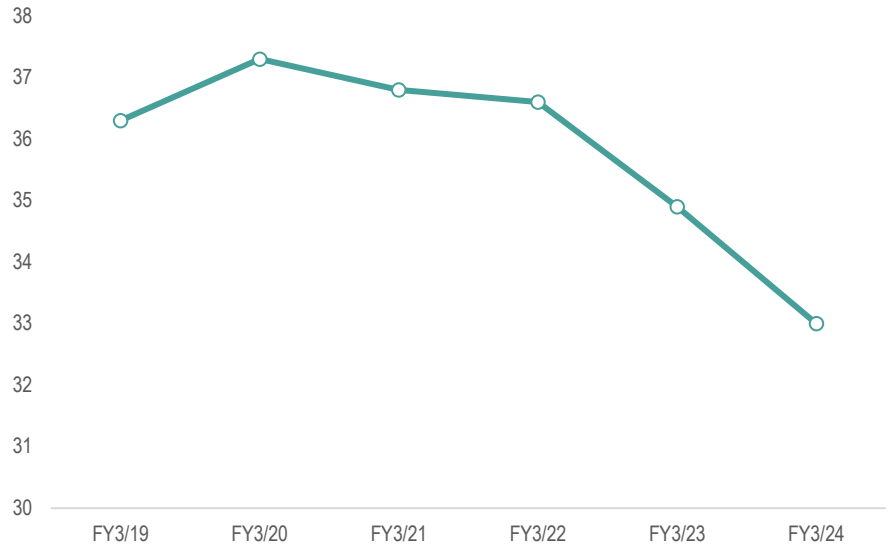
Source: Company

Surprisingly, luxury items have one of the lowest GPMs. This is because often high street clothes can be sold at twice or three times the amount paid for them, while that is not possible for higher-priced luxury items.

FY3/24 was a strong year for GEO HOLDINGS in terms of OP as well as sales, at ¥16.80bn (+58.3% YoY), helping OPM improve to 3.9% from 2.8%. Q4 is not a seasonally strong quarter in terms of profitability. However, it managed to reverse FY3/23 Q4's loss to generate OP of ¥3.47bn. Moreover, despite the net opening of 85 stores during the fiscal year, GEO HOLDINGS managed to keep a lid on expenses, with SG&A coming in at 33% of sales compared with the 36% level it had been maintaining the previous four years.

SG&A has been declining as a proportion of sales despite the costs of opening new stores

SG&A as a proportion of sales (%)



Source: Company

Most of GEO HOLDINGS' costs are personnel and rent-related, which are tied in with new store openings. The company has been making efforts to keep a lid on costs elsewhere.

Ad spending is limited (it was 2% of sales in FY3/24), as management believes the best advertisements are its physical store presence.

Group companies

M&A has played a central role in GEO HOLDINGS' growth over the past three decades. This has resulted in it becoming a holding company, under which group companies operate. They include companies operating each chain store brand's shops and subsidiaries.

Group Companies

Subsidiary	Group company status	Stake	Activities
GEO Corp.	Subsidiary	100%	Store management
GEO Store Corp.	Subsidiary	100%	Operator of GEO stores
2nd STREET Corp.	Subsidiary	100%	Operator of 2nd STREET stores
OKURA Corp.	Subsidiary	100%	Operator of OKURA stores
2nd STREET USA Inc.	Subsidiary	100%	Operator of US 2nd STREET stores
2nd STREET Trading Malaysia SDN. BHD.	Subsidiary	100%	Operator of Malaysia 2nd STREET stores
2nd STREET Taiwan Co., Ltd.	Subsidiary	100%	Operator of Taiwan 2nd STREET stores
OKURA Holdings Corp	Subsidiary	100%	Management and oversight of subsidiaries
viviON	Subsidiary	100%	Digital content, planning production, operations and marketing
EISYS	Subsidiary	100%	E-commerce operations, online gaming, and digital content distribution
forcs	Subsidiary	100%	Digital publishing
GEO Clear Corp.	Subsidiary	100%	Store planning and operations
World Mobile Corp.	Subsidiary	100%	Trading of mobile phones
Chelsea International Co., Ltd.	Subsidiary	100%	Import and export of clothing and accessories
Gramolux Inc.	Subsidiary	100%	Rental music package wholesaler
GEO Business Support Co., Ltd.	Subsidiary	100%	Store operations business
GEO Networks Corp.	Subsidiary	100%	Development and operation of websites and software
GEO Retail	Subsidiary	100%	Retail operations
Ookura Investments Ltd.	Subsidiary	100%	Hong Kong-based luxury watch wholesaler, store operations.

Source: Company

Our commentary on overseas expansion

Potential in each market

GEO HOLDINGS'ultimate aim is to become the world's largest second-hand retailer. That means adopting an ambitious overseas strategy. The company has opened 81 stores since 2018. Its first 2nd STREET store is located in Los Angeles. It opened 29 stores in FY3/24 vs opening 26 a year earlier. It has plans to open 34 in FY3/25: 15 in the US, 10 in Taiwan, six in Malaysia, and three in Thailand.

2nd STREET overseas stores are growing rapidly

Overseas shop numbers



Source: Company

While overseas still only accounts for 3.2% of total sales, the increase is rapid, thanks to existing demand in growth markets like the US. The company will also get a boost translating sales in US dollars into Japanese yen.

GEO HOLDINGS'overseas strategy is centered on its 2nd STREET chain. The company's strategy has been similar to its domestic one of selling merchandise in or close to the store in which it was originally bought – keeping down distribution costs.

However, it has also found success in sending Japanese inventory to Malaysia, capitalizing on 'brand Japan', which we think has likely helped profitability, especially if that inventory could not be sold at home. It is a strategy that the company expects to employ in other markets as well, although distribution costs will need ample consideration.

Overseas are rising faster than total sales

Sales in overseas markets

	FY3/21	FY3/22	FY3/23	FY3/24
US sales (¥mn)	955.0	2,020.0	4,462.0	8,671.0
Growth YoY (%)		+111.5	+120.9	+94.3
Taiwan sales (¥mn)	358.0	592.0	1.852.0	4,040.0
Growth YoY (%)		+65.4	+212.8	+118.1
Malaysia sales (¥mn)	158.0	473.0	843.0	1,223.0
Growth YoY (%)		+199.4	+78.2	+45.1
Thailand sales (¥mn)	-	-	-	158.0
Growth YoY (%)				
Total overseas sales (¥mn)	1,471.0	3,085.0	7,155.0	14,092.0
Growth YoY (%)		+109.	+131.9	+97.6
Ratio of total sales	**0.4%**	**0.9%**	**1.9%**	**3.2%**

Source: Company

- **US** – in the competitive US, GEO HOLDINGS aims to open 100 stores in the US by FY3/29 focusing on the country's biggest cities. We see no reason why the company will not achieve this goal. US second-hand and thrift store company thredUp estimates that the total second-hand market – including both donation and resale stores – will reach $70bn by 2027. representing a 4-year CAGR of 12.3%. with most of that growth coming from the resale market. We do not expect GEO HOLDINGS to be profitable in this market in the short term largely due to accounting standards that require the depreciation of store leases. This is likely to be particularly impactful during the company's expansion phase.

- **Southeast Asia and Taiwan** – Asian second-hand markets are still developing. However, the company expects demand to be robust, anticipating that consumers in developing markets like Thailand and Malaysia will be keen to buy high-street branded clothes – such as Uniqlo - in good condition, as well as luxury, on the back of increasing disposable income and awareness of the cost benefits of buying second-hand. The company does not disclose overseas profitability. However. we estimate that GEO HOLDINGS' Taiwanese and Malaysian stores are likely to be just about in the black. The company aims to open its 100th Taiwanese store in 2030.

Our impressions

We understand the logic behind GEO HOLDINGS' push overseas in light of Japan's demographic challenges. Moreover, there is potential to exploit Japan's reputation as a center for fashion, style and quality. However, we expect the company to take time to grow profitability given how competitive the US already is and the time it has taken other Japanese retailers to establish themselves globally.

GEO HOLDINGS is taking its global ambitions seriously and will need time to become accustomed to the different markets, and understand different consumer and employment cultures. As such, we expect sustainable profitability to take time.

In terms of where GEO HOLDINGS is headed next, its recent earnings presentations suggest it is eyeing expansion into regions including Australasia, southern Asia and Europe, though no plans have been announced to enter these markets.

Our commentary on GEO's online operations

How e-commerce helps the bricks & mortar business

GEO HOLDINGS currently generates 6.6% of its total sales online. Growing this business is important for the company, not as a standalone business, but because of the synergies it has with the company's brick-and-mortar operations.

GEO HOLDINGS has a **centralized inventory management system** that is linked to all physical and online channels. Those channels consist of the websites of GEO HOLDINGS' brands as well as online marketplaces such as Rakuten and Yahoo! Auctions. After each sale, regardless of location, the centralized inventory management system is updated. This system makes managing inventory far easier, which helps control costs.

The online channels feature some inventory at physical stores, giving GEO HOLDINGS access to consumers without access to a store nearby. This helps keep inventory under control at a time when levels are rising amid new store openings.

Online sales are not necessarily more profitable than physical stores. Consumers do not shoulder all the distribution costs of sending items. Moreover, the use of cashless methods to pay for online purchases can increase fees for retailers like GEO HOLDINGS, which are subject to fees from payment processors and acquirers. That said, online channels attract resellers, so it is likely that GEO HOLDINGS' online channels have higher sales volumes per consumer.

GEO HOLDINGS' online sales have grown to 6.6% of FY3/24 sales

Online sales

	FY3/19	FY3/20	FY3/21	FY3/22	FY3/23	FY3/24
Online sales (¥bn)	10.39	13.32	17.09	20.44	22.65	28.70
YoY (%)	+39.0	+28.2	+28.3	+19.6	+10.8	+26.7
Ratio to total sales	**3.5%**	**4.4%**	**5.2%**	**6.1%**	**6.0%**	**6.6%**

Source: Company

We regard the online business as a key element of its entire domestic business rather than a business to be developed independently from the company's core brick-and-mortar stores.

Competitive Environment for the Second-Hand Market

Robust Japanese Market Growth

Although there has long been a second-hand market for luxury items such as Louis Vuitton bags, until the turn of the century there still existed a level of stigma around purchasing second-hand items in Japan. However, the country's slower economic growth over the past couple of decades, exacerbated by stagnant wages, has facilitated the expansion of the second-hand market.

Consumers now embrace the benefits of earning extra cash from their superfluous items and welcome the financial merits of incorporating preloved items into their shopping choices. Moreover, the propensity of many Japanese to treat their belongings with great care has helped popularize the market. Unlike many second-hand stores overseas, in Japan, they are organized and immaculate, as are the items themselves.

Coupled with the greater importance that consumers place on buying sustainably, **Japan's second-hand market has nearly tripled in size to more than ¥3tn (2023 estimate) from just over ¥1tn in 2010 and is estimated to reach ¥4tn by 2030**, according to the Reuse Business Journal's Japan Second-Hand Market Databook.

Management philosophy

‘Change as Chance’

It is not often that a company’s motto reflects its philosophy. In the case of GEO HOLDINGS, with “Change as Chance”, it does. The company has transformed from a video rental company in a small regional city to become the country’s largest second-hand retailer by sales with global ambitions. Moreover, its core business fits its mission to promote a recycling-oriented society and the “enrichment of people’s lives by recycling and redistributing the valuable things in the world”.

Business model

Key concepts and unique selling points

Typically, second-hand retailers:

- Drive growth by increasing the number of stores and ensuring they are located in areas of high footfall.
- Accept only high-quality and well-looked-after products with quick resale potential

GEO HOLDINGS' model has the following focus:

- Increasing net store openings to maximize both sellers and buyers
- Buying and selling at competitive prices while striving to maintain margins
- Buying and selling locally to limit distribution costs and maintain the highest inventory turnover possible
- Reconfiguring existing rental-focused stores to sell smartphones and other devices to counter the decline of the rental business
- Directly operating its stores for quality control and centralized inventory control
- Expanding overseas to secure long-term growth

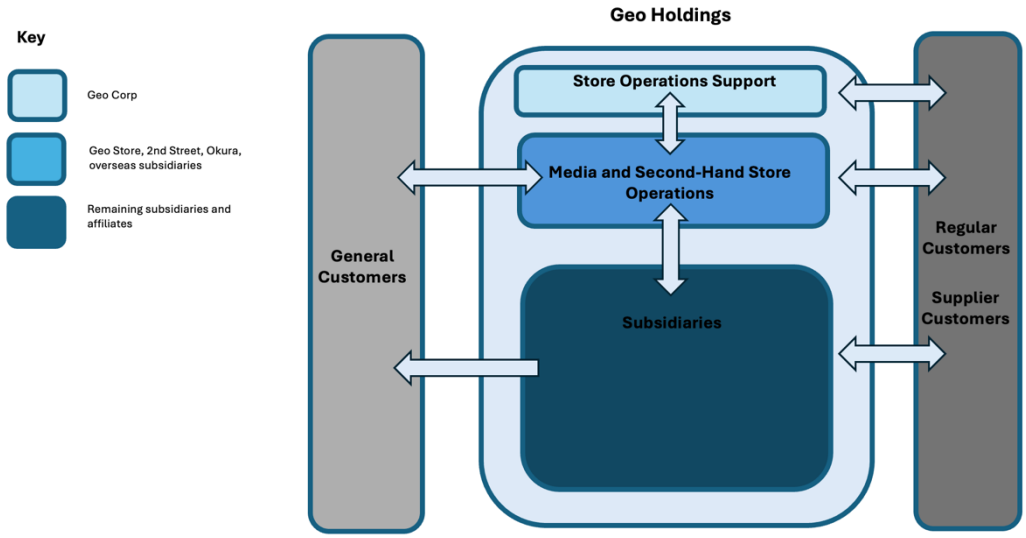
Route to market

Sellers visit GEO's stores with items they want to sell. Trained store staff examine the merchandise and decide on its resaleability aided by a chain-wide pricing system. The items are then prepared for sale and displayed in the store (usually the same store or one close by) for resale. If the merchandise is too big to bring in then an employee visits the seller's home to value the furniture or home appliance.

Other routes to market include selling new items bought from the surplus stock of brands and conducting auctions. The company sells products online via Rakuten and Yahoo! Auction as well as directly via its websites.

Workflow

High-level workflow overview



Source: Company

Revenue recognition

Revenues are recognized at the point of sale, or when it comes to rental services, when performance obligations have been met.

- **Second-hand sales** – GEO HOLDINGS buys clothes, accessories, smartphones and other consumer electronics, gaming devices and games, furniture, luxury items, and other merchandise from individuals, and resells them via its stores and online. These merchandise are handled via the company's GEO, GEO mobile, 2nd STREET, and OKURA chain stores.
- **Sales of new merchandise** – GEO HOLDINGS sells new computer games and electronics accessories at its GEO stores. It also buys surplus stock from clothing brands including Kangol, Fila, Canada Goose, and Carhartt, and sells it via its Luck Rack chain stores.
- **Rental business** – GEO HOLDINGS earns revenue from renting DVDs and CDs to consumers.
- **Digital content** – GEO HOLDINGS sells and creates a wide range of digital content and provides professional support for creators through its viviON subsidiary. These include the otaku subculture DLsite (which deducts a commission from sales generated by content creators self-publishing on its platform) comipo online manga/comic store and the popular Vtuber Aogiri High School site, which earns revenue from the sale of related branded goods – both digital and physical.

Competitive advantages

We believe GEO HOLDINGS has the following competitive advantages:

- **High number of stores:** Barriers to entry in the second-hand retail market are low. Therefore, winning in this market requires the ability to open as many stores in high footfall areas, hence GEO HOLDINGS' new store strategy. GEO HOLDINGS already has the highest number of stores in Japan.

GEO HOLDINGS has the most stores of its main rivals and most are directly operated

GEO Holdings' large number of directly operated stores combined with its pricing strategy gives it a competitive edge

Retail footprint

Company	Total Stores	Directly Managed	Franchise
GEO HOLDINGS Total	**2,108**	**1,947**	**161**
BOOKOFF	757	388	369
Treasure Factory	196	N/A	N/A
Komehyo (excluding tires)	204	180	24

Source: Companies

- **Investing for growth:** Annual capex has been stable between FY3/20 and FY3/24 at between ¥6.5bn and ¥7.8bn, while SG&A has remained at around 37% of sales, falling to 33% in FY3/24. The company expects to continue to invest about the same amount each year over the medium term at least to consolidate its leading position in the Japanese market and expand overseas.
- **Pricing:** GEO must walk a tightrope when it comes to pricing. A strategy of buying used merchandise as cheaply as possible and selling at the highest possible price does not work. Sellers would find stores prepared to pay better prices and consumers would shop elsewhere. Therefore, GEO HOLDINGS' strategy is to strike a balance between buying items in excellent condition at higher prices than competitors and being able to undercut rivals when selling them - all while maintaining margins.
- **Directly operated stores:** GEO HOLDINGS directly operates most of its stores rather than franchise them. It is easier to redistribute inventory across directly managed stores given that it is difficult to buy in bulk in the second-hand business. Moreover, inventory can also be shared and redistributed overseas as the company expands outside of Japan. The main items handled are clothes and accessories and they are cheaper to transport than large items like furniture and home appliances. In addition, directly managed stores enable control over the look and feel of a store, and therefore the chain's brand. Cleanliness and an easily navigable layout are important factors when designing a second-hand store and therefore benefit from direct management, through which lessons from all stores can also be shared and applied.

ROIC

We believe ROIC is a key indicator of a company's ability to generate value. GEO HOLDINGS' ROIC has averaged 5.6% for the last 10 years but has been on a downtrend since FY3/19 when it reached 15.7%. The company's 10-year average is slightly higher than the 5% average of its domestic peer group and substantially better than the -21.2% of its overseas peer group.

GEO HOLDINGS does not have a target for ROIC. However, we believe ROIC will continue to stabilize in line with profitability from FY3/21's low of -1.3%, as the impact from its store investments starts to kick in and as it strives to improve store efficiency.

Peer group analysis

We have selected the following peers to assess GEO HOLDINGS' returns and valuations:

- **Domestic companies** – we have selected companies that 1) sell a wide range of second-hand merchandise from furniture and consumer electronics to clothes and books; and 2) auctioneers of such goods, mainly luxury items or cars.
- **Overseas companies** – these are both online, and bricks and mortar second-hand retailers, some of which offer rental services as well.

This is a customized and limited peer group, which may make meaningful comparisons difficult. However, we aim to gain insight into key metrics to assess performance and valuations.

We view the second-hand retailing market as competitive with low barriers to entry. Market share tends to be won by increasing the number of stores, which requires investment and a reputation for offering quality and fashionable items. This requires a buying strategy that encourages sellers to return.

Domestic companies

Company	Description
Top Culture Co.. Ltd.	Retailer with a business selling second-hand items
Sanyodo Holdings Inc.	New and used bookstore operations
Komehyo Holdings Co.. Ltd.	Second-hand fashion brand retailer. automotive wheel and tire sales
BOOKOFF GROUP HOLDINGS LTD	Second-hand retailer handling various merchandise
Hard Off Co.. Ltd.	Second-hand retailer handling various merchandise
Treasure Factory Co.. Ltd.	Second-hand retailer handling various merchandise
Valuence Holdings Inc.	Second-hand luxury and bullion auctioneer and retailer
Aucnet Inc.	Online auctioneer of various goods from used cars to potted flowers
Mandarake Inc.	Second-hand anime and manga-related online sales

Source: Companies. Bloomberg

Overseas companies

Company	Description
thredUp Inc. Class A	US-based online operator of second-hand and thrift stores
The RealReal. Inc.	US-based online marketplace for second-hand luxury goods
Savers Value Village. Inc.	US-based second-hand retailers handling various merchandise
Ramsdens Holdings PLC	UK-based foreign exchange. pawnbroking loans. precious metal trading. and new and second-hand jewelry retailer
Rent the Runway. Inc.	US-based online designer clothing rental and second-hand retail
Pepkor Holdings. Ltd.	South Africa-based discount retailer and fintech company
Milan Station Holdings. Ltd.	Hong Kong-based company operating new and second-hand handbag stores

Source: Companies. Bloomberg

These are our core findings:

- **Profitability** – GEO HOLDINGS' current and historic operating margins are lower than domestic peers but significantly higher than its overseas peer group. The company's LTM 10-year average OPM is 3.6% vs a 5% average for the domestic peer group and -13.3% for its overseas peer group. We believe this indicates the following:
    - Strategic investments are starting to help margins.
    - The decline of the rental market, which had been the company's core business, has also put downward pressure on OPM, though that impact will be starting to wane as the rental business now only accounts for 7.2% of sales.

OPM has fallen from a peak of 6.2% in FY3/16 to a low of 1.3% in FY3/21. the first year of the pandemic. However. GEO HOLDINGS' LTM ROE of 9.2% compares favorably with its domestic peer average of 5.6%. The improvement in the company's ROE from -1% in FY3/21 highlights steady improvements in profitability, though susceptibility to relatively high capital intensity linked to investments for growth and personnel costs.

- **Valuations** – our commentary on GEO HOLDINGS' valuations are:
    - On an EV/EBITDA basis, GEO's shares look undervalued at 4.6x versus the domestic peer average of 14.5x.
    - EV/sales multiple of 0.2x is lower than the domestic peer average of 0.7x and lower still than the overseas average of 1.1x. indicating a relatively low market expectation for future growth.
- **5-year track record** – GEO HOLDINGS' track record indicates a business with expanding sales but a more volatile OP performance. Given the company is operating in a growth market we expect sales to continue to rise in line with new store openings, and for OP to stabilize and rise steadily as returns from investments start to pay off.

Peer analysis of key profitability and valuation metrics

Ticker	Company	Mkt Cap US$ (m)	Profitability				Valuation					
			OPM LTM (%)	OPM 10-yr average (%)	ROE LTM (%)	ROIC 10-yr average (%)	EV/EBITDA 12M Fwd (x)	EV/Sales 12M Fwd (x)	Div yield 12M Fwd (%)	FCF yield 12M Fwd (%)	PER 12M Fwd (x)	PBR (x)
2681 JP	**GEO HOLDINGS Corporation**	**505**	**3.0**	**3.6**	**9.2**	**5.6**	**4.6**	**0.2**	**2.2**	**7.3**	**7.4**	**0.7**
Domestic companies												
7640 JP	Top Culture Co., Ltd.	16	-4.7	0.1	-51.6	-1.3	20.1	0.7	3.9	-	-	7.1
3058 JP	Sanyodo Holdings Inc.	36	-0.4	1.1	-10.4	-1.8	37.8	0.4	-	-	-	2.0
2780 JP	Komehyo Holdings Co., Ltd.	277	6.1	4.3	18.6	5.3	8.0	0.5	2.3	-	9.2	1.5
9278 JP	BOOKOFF GROUP HOLDINGS	186	2.5	1.4	13.7	2.4	10.2	0.4	1.8	3.0	14.6	1.5
2674 JP	Hard Off Corporation Co., Ltd.	161	8.7	7.4	11.8	5.9	7.6	0.9	3.7	3.7	12.8	1.5
3093 JP	Treasure Factory Co., Ltd.	224	9.6	5.9	27.9	8.9	7.6	1.0	2.1	3.3	12.5	4.3
9270 JP	Valuence Holdings. Inc.	89	1.9	3.7	6.4	5.8	22.3	0.3	4.2	-	19.3	1.7
3964 JP	Aucnet. Inc.	371	15.4	16.9	19.6	16.1	6.1	0.9	2.2	12.0	13.6	2.5
2652 JP	Mandarake Inc.	122	15.0	8.8	14.2	4.0	10.4	1.7	0.0	5.1	12.1	1.6
Average			**6.0**	**5.5**	**5.6**	**5.0**	**14.5**	**0.7**	**2.5**	**5.4**	**13.4**	**2.6**
Overseas Companies												
TDUP US	thredUP. Inc. Class A	211	-21.9	-25.0	-58.4	-36.2	34.5	0.6	-	-3.1	-4.8	2.0
REAL US	RealReal. Inc.	366	-22.1	-37.1	-	-41.7	150.6	1.3	-	0.5	-8.6	-1.2
SVV US	Savers Value Village Inc.	2.806	9.8	9.4	17.6	na	11.4	2.4	-	5.8	24.1	7.5
RFX LN	Ramsdens Holdings PLC	76	13.1	10.2	17.2	10.6	4.2	0.7	5.9	0.9	7.8	1.3
RENT US	Rent the Runway. Inc.	24	-25.7	-49.0	-	-44.1	6.9	0.8	-	-	-0.4	-0.2
PPH SJ	Pepkor Holdings Ltd.	3.587	9.2	9.5	-2.1	4.9	5.8	0.9	3.3	14.9	11.5	1.1
1150 HK	Milan Station Holdings Limited	14	-13.7	-10.9	-31.6	-20.9	-	0.4	-	-	-	1.1
Average			**-7.4**	**-13.3**	**-11.5**	**-21.2**	**35.6**	**1.0**	**4.6**	**3.8**	**4.9**	**1.6**

Source: FactSet. Bloomberg. Astris Advisory
Notes: 1. If the 10-year average is unavailable. we have chosen the longest track record available 2. The average calculated omits major outliers

Peer analysis of track record – growth (5-year CAGR)

		Growth 5-year CAGR (%)						Change over the last 5 years			
Stock	Name	Sales	EBIT	Net Income	EPS	BPS	Total assets growth	Chg. in GPM	Chg. in FCF margin	Chg. in ROE	Chg. in ROA
2681 JP	**GEO HOLDINGS**	**4.7**	**-3.0**	**-3.0**	**-0.3**	**5.3**	**8.0**	**-4.9**	**-5.0**	**-0.7**	**-1.5**
Domestic											
7640 JP	Top Culture Co., Ltd.	-10.1	-	-	-	-37.6	-6.7	3.1	-1.0	-17.1	-2.5
3058 JP	Sanyodo Holdings Inc.	-3.6	-	-	-	-9.0	-3.9	1.3	-4.9	-8.1	-1.7
2780 JP	Komehyo Holdings Co., Ltd.	13.6	26.8	28.1	28.1	4.8	11.5	-2.0	-2.7	13.3	4.9
9278 JP	BOOKOFF GROUP HOLDINGS	4.9	110.0	6.3	5.7	8.3	1.0	-2.4	-4.4	8.1	3.5
2674 JP	Hard Off Corporation Co., Ltd.	7.9	20.1	23.9	23.2	2.3	5.6	-1.7	-3.4	9.3	6.5
3093 JP	Treasure Factory Co., Ltd.	11.4	30.5	37.7	37.4	11.0	13.3	1.1	0.1	14.1	6.1
9270 JP	Valuence Holdings. Inc.	19.3	2.3	-3.3	-5.3	7.4	17.7	-0.4	0.0	-15.8	-6.8
3964 JP	Aucnet. Inc.	17.3	17.1	20.7	23.1	8.4	6.5	-16.4	-2.5	9.5	5.4
2652 JP	Mandarake Inc.	5.4	21.7	24.1	24.1	7.3	3.4	-0.7	2.1	7.7	4.8
Average		**7.4**	**32.6**	**19.6**	**19.5**	**0.3**	**5.4**	**-2.0**	**-1.8**	**2.3**	**2.2**
TDUP US	thredUP. Inc.	20.0	-	-	-	-	39.5	3.6	16.1	-	-
REAL US	RealReal. Inc.	20.8	-	-	-	-	27.0	-3.3	13.2	-	40.0
SVV US	Savers Value Village Inc.	5.6	-17.8	-31.5	-31.0	18.7	20.8	-	-	-	-
RFX LN	Ramsdens Holdings PLC	12.4	10.5	8.5	7.9	8.7	11.1	-15.5	-2.0	0.2	-1.7
RENT US	Rent the Runway. Inc.	4.9	-	-	-	-	6.8	-	-	-	-
PPH SJ	Pepkor Holdings Ltd.	6.3	-15.3	-	-	-0.1	3.9	-3.2	4.8	-7.4	-4.4
1150 HK	Milan Station Holdings Limited	-6.0	-	-	-	-25.0	-1.3	-1.1	-1.1	8.3	5.5
Average		**9.1**	**-7.5**	**-11.5**	**-11.6**	**0.6**	**15.4**	**-3.9**	**6.2**	**0.4**	**9.8**

Source: FactSet. Bloomberg

Balance sheet

Our peer group comparison highlights some attractive characteristics for GEO HOLDINGS when comparing balance sheets. GEO HOLDINGS' current liquidity ratio of 2.9x compared well with the domestic peer group's 1.5x and its overseas peer group figure of 1.9x. While it has been borrowing to help fund growth (it has ¥10.74bn in short-term borrowings and long-term borrowings maturing within a year, ¥6.6bn in corporate bonds issued, and ¥64.33bn in long-term debt) its net debt/equity ratio is a reasonable 0.4x versus 1.0x for domestic peers.

Other key findings are as follows:

- GEO HOLDINGS's asset turnover ratio of 2x is slightly higher than domestic peers and double overseas peers, which is encouraging, especially as the company's inventory levels have been rising in recent years as it opens more stores and handles more merchandise.
- Despite the rising inventory levels, GEO HOLDINGS has a substantially shorter cash cycle of 78 days compared to its domestic peer group at 156 days. This may well be the result of its central inventory management system handling the increased stock levels more efficiently than before.

Liquidity. leverage. and capital efficiency

Company	Liquidity		Leverage					Efficiency		
	Current ratio (x)	Quick ratio (x)	Net debt to equity (x)	Net debt to EBITDA (x)	Interest cover (x)	Total debt to capital (%)	Equity ratio (%)	Asset turnover (x)	Inventory turnover (x)	Cash cycle (days)
GEO HOLDINGS	**2.9**	**1.5**	**0.4**	**1.7**	**79.9**	**48.9**	**37.8**	**2.0**	**4.1**	78.0
Domestic Companies										
Top Culture	1.0	0.3	3.5	-20.3	-3.6	81.6	13.0	1.1	1.8	136.8
Sanyodo Holdings	1.2	0.4	0.4	6.9	9.7	51.0	21.6	1.3	2.3	-4.7
Komehyo Holdings	1.5	0.7	0.8	2.5	114.4	54.1	41.4	2.0	3.7	102.7
BOOKOFF Group Holdings	1.5	0.6	0.9	3.9	23.9	55.6	36.0	2.1	2.6	142.2
Hard Off	2.4	0.9	0.0	0.2	371.9	16.7	72.0	1.3	1.3	280.6
Treasure Factory	1.8	0.7	0.5	1.1	280.8	42.7	45.9	2.1	2.4	157.6
Valuence Holdings	1.1	0.6	1.4	4.5	29.8	69.6	26.4	3.0	8.0	52.5
Aucnet	2.6	2.3	-	-	55595.5	0.0	58.8	1.2	8.9	-35.4
Mandarake	2.5	0.4	0.5	2.1	64.5	36.9	56.2	0.7	0.6	572.0
Average	**1.7**	**0.8**	**1.0**	**0.1**	**111.4**	**45.3**	**41.3**	**1.7**	**3.5**	156.0
Overseas Companies										
thredUp	1.2	1.0	0.1	-0.3	-20.3	42.4	41.6	1.2	7.6	29.6
The RealReal	1.2	1.1	-1.3	-5.5	-6.8	210.7	-67.9	1.0	6.3	47.2
Savers Value Village	1.1	0.9	3.0	5.4	2.1	77.5	18.4	0.8	38.3	-16.8
Ramsdens Holdings			0.1	0.3	17.7	27.3	64.8	1.2	1.7	-
Rent the Runway	1.9	1.9	-2.3	9.8	0.7	141.5	-33.1	0.8	-	-
Pepkor Holdings Ltd.	1.4	0.7	0.4	1.7	4.6	31.0	53.4	0.8	3.6	84.7
Milan Station Holdings	4.5	2.5	-0.2	1.6	-13.6	16.6	76.3	1.5	3.8	129.7
Average	**1.9**	**1.4**	**0.0**	**1.9**	**-2.3**	**78.1**	**21.9**	**1.0**	**10.2**	**54.9**

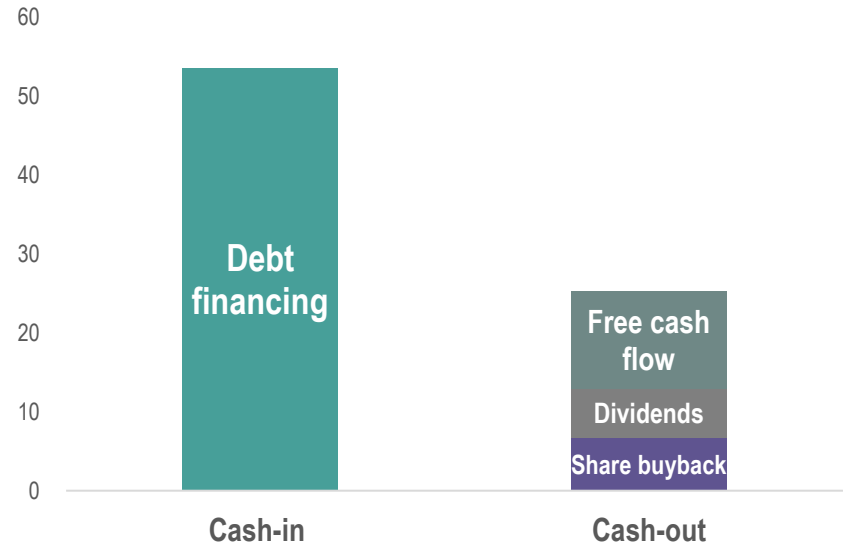
Source: Refinitiv. FactSet

Capital allocation

GEO HOLDINGS' investments in store openings have generated negative free cash flow in three of the past five years. The company has been funding business expansion via debt financing, whilst allocating some capital to shareholder returns.

Debt has funded business expansion and shareholder returns

5-year cumulative capital generation and allocation (FY3/20 – FY3/24) (¥bn)



Source: Company

- **Positive free cash flow generation** – In its FY3/24 FCF was ¥0.15bn. positive for the first time in three years. cumulatively generating -¥12.91bn over the past five years. Our FCF definition is cash flow from operating activities less expenditures for acquisitions of tangible and intangible fixed assets.
- **Focus on M&A** – while M&A has played a pivotal role in the company's expansion over the past 30 years, it has not conducted a large-scale acquisition since April 2019 when it bought luxury wholesaler OKURA. We believe that the company would consider M&A if a suitable opportunity arises.
- **Shareholder returns** – the company has allocated distribution to shareholders mainly in the form of dividends. Its most recent buyback took place in FY3/23. Although its total shareholder yield of 1.4% is on the low side. opportunities should arise for the company to enhance shareholder returns as earnings quality improves on the back of returns on investments.

Recent results

FY3/24 results

A strong year of topline growth and profitability improvement YoY

Key financials

(¥bn)	FY3/23	FY3/24	Growth YoY (%)	FY3/25 guidance	Growth YoY (%)
Sales	**377.30**	**433.85**	**+15.0**	**436.00**	**+0.5**
Gross profit/(loss)	142.48	159.82	+12.2	-	
Gross margins (%)	*37.8*	*36.8*			
Operating profit/(loss)	**10.60**	**16.81**	**+58.3**	**12.00**	**-28.6**
Operating margins (%)	***2.8***	***3.9***		***2.8***	
Recurring profit	11.93	18.75	+57.2	12.00	-36.0
Net income attributable to the parent	5.68	10.90	+91.9	6.00	-45.0

Source: Company

Key highlights

GEO HOLDINGS FY3/24 sales outperformed its forecast of ¥428bn while OP almost met the company's target of ¥17bn. OPM improved from 2.8% to 3.9%. In short, FY3/24 was a strong year for GEO HOLDINGS:

- The company increased the gross profit of key merchandise by double digits. Clothing and accessories increased by 27.5% YoY. smartphones and tablets rose by 13.7% YoY and digital content increased by 13.7% YoY.
- Smartphone and tablet sales were higher than rental sales for the first time, something of a milestone in light of the company's endeavors to reconfigure GEO stores away from rental and towards used smartphone sales.
- The company succeeded in reducing SG&A as a proportion of sales to 33.0% vs 34.9% a year earlier and a much higher level of 37.3% in FY3/20.
- The company's forecasts for FY3/25 appear conservative, with sales forecast to increase +0.5% YoY and OP to fall -28.6% YoY. It highlighted the risks of economic headwinds and higher personnel and utility costs. Part of the more bearish outlook may well be down to the difficult comps of such a strong FY3/24.

Medium-term targets

Targets

GEO has not disclosed a medium-term plan but does have targets to highlight. They are:

- Raising PBR to over the 1x threshold. It tends to be either at 1x or just below.
- Reaching ROE of 8%. This metric can be quite volatile, coming in at 13.8% in FY3/24, the first year it was above 8% since at least FY3/19. It is estimated to decline to 9.1% in FY3/25 before recovering again as earnings improve.
- Reaching 1,000 2nd STREET stores in Japan by FY3/29, 100th US store by FY3/28 and 100th Taiwan store by FY3/30.

Shareholder returns

GEO HOLDINGS recognizes the importance of shareholder returns and aims to pay out dividends based on its profitability; though it has not disclosed targets. The company believes that investing in a foundation first to sustainably increase profits is the most appropriate method of raising shareholder returns over the long term. Therefore, patience from shareholders is required for the time being. GEO HOLDINGS did raise its FY3/24 dividend forecast to ¥29 from its original forecast of ¥24 at its Q3 results announcement, a level that had been unchanged since FY3/22. Moreover, it is forecasting a dividend of ¥34 for FY3/25.

M&A

M&A has played a key role in GEO HOLDINGS' expansion over the past three decades, both to assist entry into new markets, as was the case with 2nd STREET, as well as augmenting existing businesses. GEO HOLDINGS has not made a major acquisition since April 2019 when it acquired OKURA, a luxury wholesaler. Although there is little talk of M&A right now, we wouldn't be surprised to see the company engage in a deal should a suitable one come along.

Astris earnings estimates and key assumptions

Astris' key earnings forecasts are as follows:

Astris Advisory earnings estimates

Year-end	FY3/25 guidance	FY3/25E	FY3/26E	FY3/27E
Sales	**436.00**	**455.52**	**498.81**	**545.55**
Growth YoY (%)	+0.5	+5.0	+9.5	+9.4
OP (¥bn)	**12.00**	**14.12**	**17.96**	**21.82**
OPM (%)	2.8	3.1	3.6	4.0
EBITDA (¥bn)	**-**	**23.23**	**27.93**	**32.73**
EBITDA margins (%)	-			
FCF (¥bn)	**-**	**4.54**	**3.62**	**5.47**
FCF margin (%)	-	1.0	0.7	1.0
FCF conversion (%)	-	32.3	20.3	25.2
FCF yield (%)	**-**	**7.3**	**5.8**	**8.8**

Source: Astris Advisory
Note: FCF conversion is FCF/Pre-tax Profit

The core assumptions of our estimates are as follows:

- **Sales growth** – We wonder if GEO HOLDINGS is being a little conservative with its forecasts for FY3/25, particularly having produced such a strong set of earnings for FY3/24 – though that does create difficult comps. We base our +5% YoY sales growth estimate on the assumption that even if the economy deteriorates, second-hand retailers like GEO HOLDINGS should benefit from cost-conscious Japanese and foreigners, as well as from the opening of more new stores. If the yen continues to weaken that could enhance foreign sales. For FY3/26 and FY3/27, our estimates assume compounding benefits from the opening of new stores at home and overseas as well as improvements made to bolster sales at existing stores.

- **Profitability** – Management highlighted the possibility of higher costs in FY3/25 on the back of higher wages and labor shortages, as well as higher utility bills. We believe that although these costs will increase, inflationary pressures could send more consumers to its stores in search of bargains. Therefore, a sales increase should feed through to OP, which we estimate to fall at a slower -16% YoY pace than the company forecast. As with sales, we estimate OP to gain momentum in FY3/26 and FY3/27 amid growing demand, new store openings, and incremental productivity gains.

- **Sustainable free cash flow generation** – GEO HOLDINGS produced positive free cash flow for the first year in three in FY3/24. We expect this metric to improve as newly opened stores gain sales momentum. Our FCF definition is cash flow from operating activities less expenditures for acquisitions of tangible and intangible fixed assets.

Company information

Management (12 members. 8.3% female ratio. 33.3% outside directors)

President, Representative Director and CEO	Yuzo Endo
Shareholding (no of shares)	540,000
Career history	
November 2000	Joined GEO Corp. (now GEO HOLDINGS Corp.)
June 2004	Director and Vice-Manager, President's Office, GEO HOLDINGS
November 2011	President and CEO, GEO HOLDINGS
April 2013	President, Representative Director and CEO, GEO HOLDINGS
April 2019	President, Representative Director and CEO, GEO HOLDINGS (current position).

Executive Director	Yasushi Yoshikawa
Shareholding (no of shares)	53,800
Career history	
April 1988	Joined A.V. Station Corp. (now part of GEO HOLDINGS)
June 2000	Director and General Manager of the Purchasing Division, GEO HOLDINGS Corp.
June 2007	President and Representative Director, GEO HOLDINGS
January 2010	Director, GEO HOLDINGS
June 2016	Senior Managing Director and Executive Officer, GEO HOLDINGS
April 2019	Director, Senior Managing Executive Officer, GEO HOLDINGS (current position)
November 2019	President and CEO of GEO Headquarters Corp. (now GEO Corp. and subsidiary of GEO HOLDINGS) (current position).

Executive Director	Masaaki Kosaka
Shareholding (no of shares)	1,000
Career history	
March 1984	Joined FamilyMart
May 2009	Director and Managing Executive Officer, FamilyMart
April 2018	Director and Executive Vice President, Pocket Card Co., Ltd.
March 2019	Executive Officer, GEO HOLDINGS
June 2019	Director and Senior Managing Executive Officer, GEO HOLDINGS (current position)
November 2019	Director at GEO Headquarters Corp. (now GEO Corp.) (current position).

Executive Director	Kouji Kubo
Shareholding	
Career history	
October 1995	Joined FOR YOU (currently 2nd STREET Co., subsidiary of GEO HOLDINGS Corp.)
May 2010	President and CEO at 2nd STREET
April 2013	Executive Officer, GEO HOLDINGS
June 2016	Director and Executive Officer, GEO HOLDINGS
April 2018	Senior Managing Director and Executive Officer, GEO HOLDINGS
April 2019	Senior Managing Director, GEO HOLDINGS
November 2019	Director, GEO Headquarters Corp. (now Geo Corp., a subsidiary of GEO HOLDINGS) (current position)
April 2024	Director and Senior Managing Executive Officer, GEO HOLDINGS.

Executive Director	Noriyuki Imai
Shareholding (no of shares)	300
Career history	
August 1990	Joined GEO Milda (currently GEO HOLDINGS)
March 2004	President and CEO, GEO Global Corp. (currently GEO HOLDINGS)
April 2005	President and CEO, GEO Every Corp. (currently GEO HOLDINGS)
November 2011	Executive Officer, GEO HOLDINGS Corp.
November 2013	Executive Director, GEO Corp. (subsidiary of GEO HOLDINGS)
June 2016	Director and Executive Officer, GEO HOLDINGS
April 2018	Managing Director and Executive Officer, GEO HOLDINGS
April 2019	Director and Managing Executive Officer, GEO HOLDINGS (current position)
November 2019	Director, GEO Headquarters Corp. (currently GEO Corp.) (current position).

Executive Director	Yukimasa Murakami
Shareholding	3,000
Career history	
April 1989	Joined Starling Co., Ltd.
June 1993	Joined Miyadera Yoshikazu Tax Accountants Office
June 1997	Joined Nozark International Inc.
March 1998	Joined Starnet Co., Ltd.
September 2002	Joined Index Co., Ltd.
November 2004	Director, Index
November 2007	Executive Director, Index
November 2013	Executive Director, Atlus Co., Ltd.
August 2016	Joined GEO HOLDINGS Corp.
April 2018	Executive Officer, GEO HOLDINGS
April 2019	Senior Executive Officer, GEO HOLDINGS
June 2023	Director and Managing Executive Officer, GEO HOLDINGS (current position).

External Director	Tsunehisa Ogino
Shareholding	500
Career History	
September 1988	Joined Eiwa Audit Corp. (currently KPMZ Azsa & Co.)
September 1994	Joined Miyake Accounting Office
August 1997	Founded Ogino Certified Public Accountant Office (current position)
June 2000	Representative Director, Y.K. Consulting Box (current position)
October 2011	External Director, GEO HOLDINGS Corp. (current position)
July 2019	Representative of Office Ichigo Tax Co. (current position).

External Director	Kana Yasuda
Shareholding	1,000
Career history	
October 1993	Joined Century Audit Corp. (current Ernst & Young ShinNihon LLC.)
April 1997	Registered Certified Public Accountant
March 2000	Founder and Representative of Yasuda Accounting Firm (current position)
March 2004	Registered Tax Accountant
September 2009	External Corporate Auditor at Shinpo Co.. Ltd.
May 2010	External Corporate Auditor at Sugi HOLDINGS Co., Ltd. (current position)
June 2016	External Director, GEO HOLDINGS Corp. (current position)
June 2019	External Director, Chuo Spring Co.. Ltd. (current position)
June 2019	External Corporate Auditor, Kondotec Inc.
June 2020	External Director, Kondotec (Audit & Supervisory Committee member) (current position)
September 2021	External Director, The Monogatari Corp. (current position).

Full-Time Auditor	Kazuo Sasano
Shareholding	40,000
Career History	
April 1971	Joined The Long-Term Credit Bank of Japan (currently SBI Shinsei Bank., Ltd.)
April 1987	Assistant General Manager, Tokyo Treasury Division, LTCBJ
July 1996	Treasurer, Temporary Secondment, GEO Corp. (currently GEO HOLDINGS Corp.)
June 1997	Managing Director, Finance Manager, GEO HOLDINGS
June 2008	Full-Time Corporate Auditor, GEO HOLDINGS (current position).

Auditor	Futoshi Komiyama
Shareholding	-
Career History	
October 1984	Registered Junior Accountant. Joined Arthur Young & Company (currently Ernst & Young) CPA joint office
April 1989	Registered Certified Public Accountant
July 1991	Founded Komiyama CPA Office
February 1994	Registered Tax Accountant
April 2002	Director, Horwoth Japan (currently Minato Trust Corp.)
September 2002	Founded Kashima Komiyama CPA Office (current position)
October 2011	Director, GEO HOLDINGS Corp.
June 2013	Corporate Auditor, GEO HOLDINGS.

External Auditor	Shinya Hattori
Shareholding	-
Career History	
September 2007	Registered Attorney
October 2007	Joined Central Law Firm
July 2013	Partner-Attorney at Central Law Firm (current position)
June 2016	External Corporate Auditor at GEO HOLDINGS Corp. (current position).

External Auditor	Hiroyuki Ota
Shareholding	-
Career History	
April 1979	Joined the National Police Agency
January 2001	General Manager, Okinawa Prefectural Police
August 2002	General Administration Supervisory General Manager, Chubu Region Police Department
August 2003	Director, National Police Agency Police University, Police Policy Research Center
August 2005	Criminal Planning Division Chief, National Police Agency Criminal Bureau
August 2007	General Manager, Hyogo Prefectural Police
April 2009	Special Investigations Executive Training Director, National Police Agency Police University
January 2010	Cabinet Office Minister's Secretariat
May 2012	Director. National Police Agency, Tohoku District Police Station
June 2013	President, National Police Agency Police University
June 2014	Full-Time Corporate Auditor, Central Japan Railway Co.
June 2019	External Corporate Auditor, GEO HOLDINGS Corp. (current position)
July 2019	Managing Director, All Japan Pachinko Game Business Cooperative Association (current position).

Source: Company. Note: Shareholdings are as of March 31, 2024.

Contact details

Address
OMC Building. 8-8 Fujimi-Cho. Naka Ku. Nagoya Aichi Prefecture 460-0014 Japan
IR Contact: Tel: +81 (0)52 350-5700

Source: Company

Shareholder details (as of Q4 FY3/24)

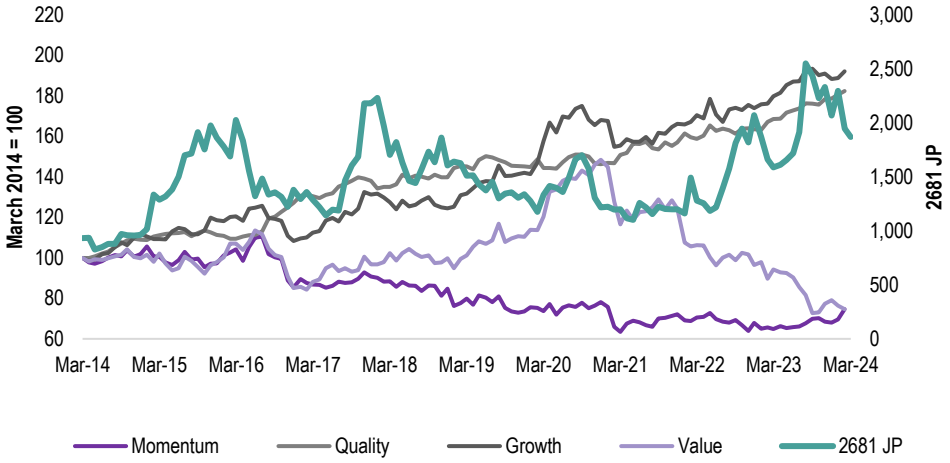
The company disclosed in May 2024 that Shirokuraya KK, the asset management company of President Endo and GEO HOLDINGS' biggest shareholder, plans to buy 4mn shares which represents 10.1% of voting rights over the next two years.

Major shareholders	Stake (%)
Shirokuraya KK	34.00
The Master Trust Bank of Japan., Ltd. (Trust Account)	10.01
Jokoshin Pharmaceutical	4.49
Custody Bank of Japan (Trust Account)	3.74
Mizuho Trust & Banking Co., Ltd. Retirement Benefit Trust, Mizuho Bank Account Retrust Trustee, Custody Bank of Japan Ltd. (Trust Account)	1.69
BNP PARIBAS LUXEMBOURG/2S/JASDEC/FIM/LUXEMBOURG FUNDS/UCITS ASSETS (Standing Representative, The Hongkong Shanghai Banking Corp., Tokyo Branch)	1.59
The Master Trust Bank of Japan., Ltd. (Retail Trust Account 82007927)	1.51
The Custody Bank of Japan (Trust Account 4)	1.41
Yuzo Endo	1.36
SBI Securities	0.88

Source: Company

Astris Quant Sheet

Share price chart and factor analysis (from March 2014)



Source: FactSet

Factors	2 Year Corr	5 Year Corr	10 Year Corr
Momentum: 12 Month - 1 Month Performance	0.00	-0.05	-0.04
Quality: Free Cash Flow Yield	0.02	-0.06	-0.07
Growth: Operating Profit Growth	-0.03	0.07	0.15
Value: Book to Market	-0.03	-0.03	-0.05

Source: FactSet

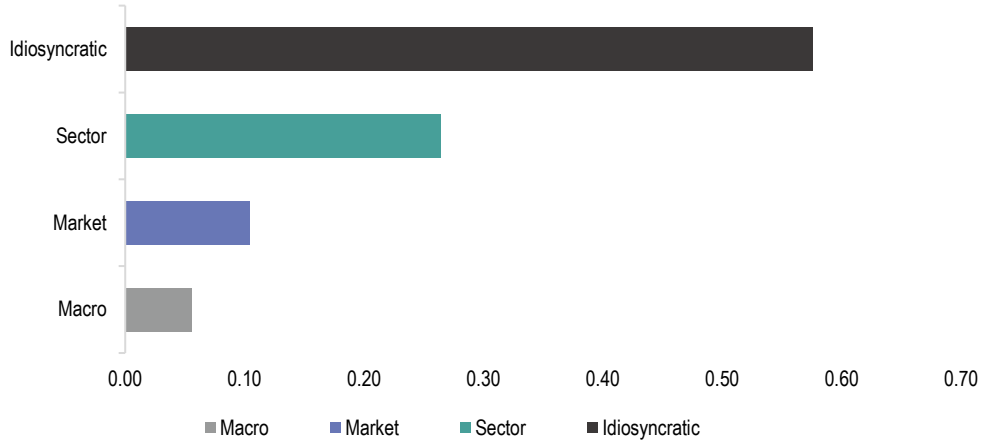
GEO HOLDINGS exhibits volatile operating performance and valuations. making it difficult to categorize the company. As a result, it is not surprising that the stock exhibits a low correlation with major investment styles.

Calculation method and definition of factors in the time series

Universe	
TOPIX500	
Factor return calculation	
Quartile Range Analysis: Calculate the element return by subtracting the average performance of the lower quartile from the average performance of the upper quartile for each element forecasted for one month. This analysis is repeated monthly without considering transaction costs.	
Factor	
Momentum	
1-month return	
12-month return	Subtracting the most recent 1 month
Quality	
FCF yield (estimate)	
Growth	
Operating profit growth (estimate)	
Value	
Book-to-Market ratio (actual)	

Source: FactSet

Drivers of stock price performance and multiple regression analysis (since March 2014)



Source: FactSet

GEO HOLDINGS' share price is primarily driven by sector-specific trends. which account for over 25% of its fluctuations. The broader market has a relatively minor impact at just over 10%. Macro factors account for just 6% of share price movements.

Calculation method for multiple regression analysis

Multiple regression analysis
Perform regression analysis including all drivers. and conduct individual regression analysis by excluding one driver at a time. To quantify the specific impact of each driver. calculate the partial coefficient of determination (partial R-squared value) using the formula: (Residual Sum of Squares from regression analysis including all drivers - Residual Sum of Squares from regression analysis excluding one driver) / Residual Sum of Squares from regression analysis excluding one driver.

Source: FactSet

Multiple regression analysis results

Factors	2 Year Corr	5 Year Corr	10 Year Corr
Market			
Topix 1st Section	0.02	0.04	0.15
Topix Retail Trade	0.29	0.26	0.35
Topix Small Cap Index	0.13	0.21	0.27
MSCI Japan	-0.01	0.00	0.12
MSCI Japan Consumer Discretionary	-0.04	-0.03	0.10
MSCI Japan Consumer Staples	0.31	0.24	0.24
Macro			
10Y JGB	0.16	-0.11	-0.05
CPI Nationwide	0.34	0.23	0.15
Industrial Production	-0.17	-0.03	-0.03
Eco Watchers Outlook	-0.10	0.05	0.06
Retail Sales	-0.08	0.19	0.15

Source: FactSet

Geo Holdings exhibits a strong long-term correlation with sector-specific indices like the Topix Retail Trade and MSCI Japan Consumer Staples. However, its correlation with broader market indices is relatively weak, with only a 0.15 correlation to the Topix 1st Section over the past decade. On the macro side, the company's share price demonstrates a short-term correlation of 0.34 with the Consumer Price Index.

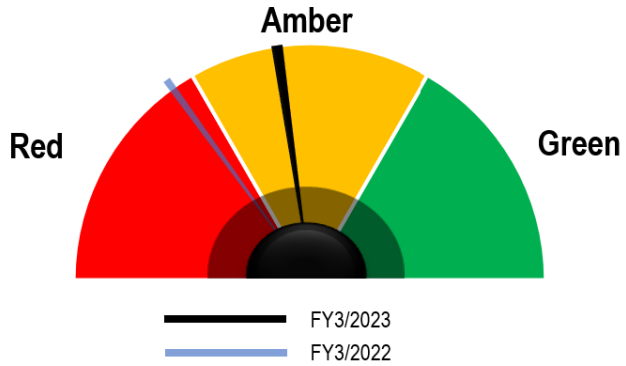
Astris-Sustainability ESG assessment

Ratings and scorecard

Our in-house Astris-Sustainability ESG model rates GEO HOLDINGS with a combined score of **44.8%**. placing it in the 'Amber' rating of our assessment in FY3/23.

Our in-house methodology* takes what we have selected as core measurable ESG factors. ranking its performance versus its domestic GICS Consumer Services with a market capitalization of ¥20bn to ¥100bn (a total of 58 companies).

Astris-Sustainability ESG model rating for GEO HOLDINGS



Source: Astris Advisory (*Note – for details of our in-house rating system please contact Astris Corporate Advisory)

ESG scorecards

	FY3/22	FY3/23
Environmental (9 factors from a selected peer group) Astris Environmental score	19.07	20.67
Social (11 factors from a selected peer group) Astris Social score	31.14	52.86
Governance (37 factors from a selected peer group) Astris Governance score	31.62	48.23
TOTAL SCORE (Out of a total of 57 factors)	29.50	44.8

Source: Company. FactSet. Astris Corporate Advisory

Our methodology has highlighted the following key topics:

Environmental

GEO HOLDINGS' core business of recycling used merchandise from smartphones to clothes contributes to the circular economy and reduces waste. The company estimates that its business creates a GHG reduction effect of more than 40,000 tons, through reselling around 87m items.

The company has outlined its intention to help reduce global emissions of the Greenhouse Gases that cause climate change through its ongoing operations including the introduction of solar power-generated electricity.

Social

The company has outlined initiatives to ensure the protection of the rights of all people it works with. That includes:

- Flexible working hours.
- Identical benefits for LGBTQ+ partnerships as heterosexual ones.
- A subsidiary to promote the hiring of individuals with disabilities.

Governance

The corporate governance system at GEO HOLDINGS is organized in the following manner:

- **Board of Directors** – currently comprised of eight board members led by President and Representative Director Endo. There are two outside directors with another outside female director to be appointed subject to shareholder approval at the June AGM. Twelve board meetings were held in FY3/23.
- **Audit committee** – GEO HOLDINGS plans to transition to a company with an Audit and Supervisory Committee company structure, subject to shareholder approval at its AGM in June 2024. The committee will comprise four members: the two incumbent company auditors and one incumbent external auditor. External auditor Shinya Hattori will retire from his position and a new external auditor will be proposed at the AGM.
- **Director compensation** – Compensation for executives consists of a basic fixed salary, bonuses. and stock options. The fixed salary is determined by each director's responsibility, length of service, external benchmarks, company performance, and employee salary levels. Bonuses may be issued depending on company performance and are usually set at 0.5% of net profit earned the previous financial year and subject to shareholder approval. External board members are excluded. Stock options may also form part of compensation and are capped at 50% of basic compensation. The company set a maximum limit for annual director compensation at ¥280m at its 2007 shareholders meeting. which remains in place. For auditors, the maximum limit is ¥30m as agreed at the company's 2008 shareholder AGM.

Controversies

We note we have been unable to find major controversies that may have significant financial or reputational repercussions for the company and its shareholders.

Areas of discussion

Highlighting key topics for investors

We believe the following will be key areas for discussion with investors:

a. Is there a possibility of disclosing a medium-term plan?

b. Given management sees continuous investment for growth as key to long-term sustainable profitability, does it have a year in mind when the company will be able to successfully maintain a level of investment while also raising shareholder returns?

c. What are the risks to investing overseas and are there M&A opportunities overseas to facilitate growth?

d. Would you consider disclosing same-store sales performance YoY?

JGAAP Financial Summary

Income statement (¥bn)	FY 3/23	FY 3/24	FY 3/25E	FY 3/26E	FY 3/27E
Sales	**377.30**	**433.85**	**455.52**	**498.81**	**545.55**
COGS	234.82	274.05	286.82	313.56	341.88
Gross profit	**142.48**	**159.80**	**168.70**	**185.25**	**203.67**
Gross profit margin (%)	37.8	36.8	37.0	37.1	37.3
Operating profit	**10.62**	**16.81**	**14.12**	**17.96**	**21.82**
OP margin (%)	2.8	3.9	3.1	3.6	4.0
Non-operating income	2.28	3.12	1.00	1.00	1.00
Non-operating expense	(0.98)	(1.18)	(1.08)	(1.13)	(1.10)
Recurring profit	**11.93**	**18.75**	**14.04**	**17.83**	**21.72**
Extraordinary gains	-	0.35	-	-	-
Extraordinary losses	(1.25)	(1.79)	-	-	-
Pre-tax profit	**10.68**	**17.31**	**14.04**	**17.83**	**21.72**
Tax	(4.99)	(6.36)	(5.62)	(7.13)	(8.69)
Effective tax rate (%)	46.8	36.7	40.0	40.0	40.0
Net income	**5.68**	**10.95**	**8.43**	**10.70**	**13.03**
Non-controlling NI	-	0.05	0.05	0.05	0.05
Parent attributable NI	**5.68**	**10.90**	**8.38**	**10.65**	**12.98**
Sales growth YoY (%)	+12.7	+15.0	+5.0	+9.5	+9.4
OP growth YoY (%)	+29.9	+58.3	-16.0	+27.2	+21.5
Pre-tax profit YoY (%)	+31.8	+62.1	-18.9	+27.0	+21.8
NI growth YoY (%)	-5.1	+91.9	-23.2	+27.1	+21.9

Cash flow statement (¥bn)	FY 3/23	FY 3/24	FY 3/25E	FY 3/26E	FY 3/27E
Profit before tax	**10.68**	**17.31**	**14.04**	**17.83**	**21.72**
Depreciation/amortization	8.23	8.69	9.11	9.98	10.91
Changes in working capital	(10.79)	(9.53)	(1.41)	(4.73)	(5.07)
Other non-cash items	(1.91)	(2.65)	(2.48)	(2.34)	(2.49)
Tax paid	(1.93)	(4.52)	(5.62)	(7.13)	(8.69)
Cash from Operating Activities	**4.28**	**9.30**	**13.65**	**13.60**	**16.38**
Capex	(7.67)	(9.15)	(9.11)	(9.98)	(10.91)
Acquisitions/increased stakes	-	0.10	-	-	-
Other investing cash flow	(1.92)	(1.26)	(1.59)	(1.42)	(1.51)
Cash from Investing Activities	**(9.59)**	**(10.30)**	**(10.70)**	**(11.40)**	**(12.42)**
Total cash dividends paid	(1.02)	(0.95)	(1.15)	(1.35)	(1.70)
Debt issuance/(retirement)	10.01	13.64	-	-	-
Equity financing	(4.80)	-	-	-	-
Other	(0.25)	(0.30)	(0.30)	(0.30)	(0.30)
Cash from Financing Activities	**3.94**	**12.40**	**(1.44)**	**(1.64)**	**(2.00)**
FX impact	0.08	0.31	0.19	0.25	0.22
Net cash flow	**(1.29)**	**11.70**	**1.70**	**0.81**	**2.19**
Free cash flow	**(3.38)**	**0.15**	**4.54**	**3.62**	**5.47**
EBITDA	**18.85**	**25.50**	**23.23**	**27.93**	**32.73**
EBITDA margins (%)	5.0	5.9	5.1	5.6	6.0
Free cash flow margin (%)	-0.9	0.0	1.0	0.7	1.0
Free cash flow conversion (%)	N/A	0.9	32.3	20.3	25.2
Capex/sales (%)	2.0	2.1	2.0	2.0	2.0
Capex/depreciation (%)	93.1	105.3	100.0	100.0	100.0
CFO margin (%)	1.1	2.1	3.0	2.7	3.0

Balance sheet (¥bn)	FY 3/23	FY 3/24	FY 3/25E	FY 3/26E	FY 3/27E
Cash & equivalents	44.29	54.98	56.68	57.48	59.67
Inventory	64.24	70.97	74.28	81.20	88.54
Accounts receivables	11.49	15.00	15.75	17.25	18.87
Other	11.30	13.36	14.03	15.36	16.80
Current assets	**131.31**	**154.31**	**160.73**	**171.29**	**183.87**
Tangible assets	40.85	46.84	49.57	52.57	55.84
Goodwill	-	-	-	-	-
Intangible assets	3.26	4.34	7.07	10.07	13.34
LT Investments	-	-	-	-	-
Other	26.38	25.64	25.64	25.64	25.64
Fixed assets	**70.49**	**76.82**	**82.28**	**88.27**	**94.82**
Total assets	**201.80**	**231.13**	**243.02**	**259.56**	**278.69**
Short term borrowing	14.34	10.74	10.74	10.74	10.74
Trade payables	16.03	14.69	15.77	17.24	18.79
Other	18.85	22.06	23.64	25.86	28.18
Current liabilities	**49.23**	**47.49**	**50.14**	**53.83**	**57.71**
Long term borrowing	66.72	88.05	88.05	88.05	88.05
Other LT liabilities	8.64	8.24	8.24	8.24	8.24
Long term liabilities	**75.37**	**96.29**	**96.29**	**96.29**	**96.29**
Shareholder's equity	**76.90**	**87.13**	**96.37**	**109.23**	**124.47**
Share acquisitions rights	0.32	0.18	0.18	0.18	0.18
Non-controlling interests	-	0.04	0.04	0.04	0.04
Total net assets	**77.21**	**87.35**	**96.59**	**109.45**	**124.69**
Total liabilities & net assets	**201.80**	**231.13**	**243.02**	**259.56**	**278.69**

Key metrics	FY 3/23	FY 3/24	FY 3/25E	FY 3/26E	FY 3/27E
Profitability					
Gross margin (%)	37.8	36.8	37.0	37.1	37.3
Operating margin (%)	2.8	3.9	3.1	3.6	4.0
Net margin (%)	1.5	2.5	1.8	2.1	2.4
ROA (%)	3.0	5.0	3.5	4.2	4.8
ROE (%)	7.4	13.3	9.1	10.4	11.1
ROCE (%)	7.0	9.2	7.3	8.7	9.9
ROIC (%)	3.8	6.2	4.4	5.3	6.1
Liquidity					
Current ratio (x)	2.7	3.2	3.2	3.2	3.2
Quick ratio (x)	1.4	1.8	1.7	1.7	1.7
Leverage					
Debt/Equity ratio (x)	1.1	1.1	1.0	0.9	0.8
Net Debt/Equity ratio (x)	0.5	0.5	0.4	0.4	0.3
Equity ratio (x)	0.4	0.4	0.4	0.4	0.4
Interest cover (x)	44.4	58.8	35.7	45.4	55.2
Net Debt/EBITDA (x)	2.0	1.7	1.8	1.5	1.2
Valuation					
EPS reported (¥)	135.9	275.3	211.6	268.9	327.8
PER (x)	**11.6**	**5.7**	**7.4**	**5.8**	**4.8**
Diluted PER (x)	**11.9**	**5.9**	**7.7**	**6.0**	**4.9**
DPS (¥)	24.0	29.0	34.0	43.0	52.5
Dividend payout ratio (%)	17.7	10.5	16.1	16.0	16.0
Dividend yield (%)	**1.5**	**1.8**	**2.2**	**2.7**	**3.3**
Free cash flow yield (%)	**(5.4)**	**0.2**	**7.3**	**5.8**	**8.8**
Diluted free cash flow yield (%)	**(5.3)**	**0.2**	**7.1**	**5.6**	**8.5**
PBR (x)	**0.8**	**0.7**	**0.6**	**0.6**	**0.5**
EV/sales (x)	0.3	0.2	0.2	0.2	0.2
EV/EBITDA (x)	5.6	4.2	4.6	3.8	3.2
EV/EBIT (x)	10.0	6.3	7.5	5.9	4.9
EV/FCF (x)	N/A	703.4	23.4	29.3	19.4

Source: Company. Astris Advisory (estimates)

Disclaimers

This report has been prepared by Astris Advisory Japan K.K. This report is based on information obtained from public sources that Astris Advisory Japan K.K. believes to be reliable but which Astris Advisory Japan K.K. has not independently verified. and Astris Advisory Japan K.K. makes no guarantee. representation. or warranty as to its accuracy or completeness. This report does not and does not attempt to. contain everything material which there is to be said about the Company. Any opinions expressed herein reflect Astris Advisory Japan K.K.'s judgment at the time the report was prepared and are subject to change without notice. Forward-looking information or statements in this report contain information that is based on assumptions. forecasts of future results. estimates of amounts not yet determinable. and therefore involve known and unknown risks. uncertainties. and other factors that may cause the actual results. performance. or achievements of their subject matter to be materially different from current expectations.

This report has been prepared as general information. is therefore not intended as a personal recommendation of particular financial instruments or strategies. and does not constitute personal investment advice.

The analyst hereby certifies that (i) the views expressed in this report accurately reflect the research analyst's personal views about the company and the securities that are the subject of this report. and (ii) no part of the research analyst's compensation was. is. or will be. directly or indirectly. related to views expressed by that research analyst in this report.

The report has been prepared by Astris Advisory Japan K.K.. a Japanese firm organized under the laws of Japan and supervised by the Japanese Financial Services Agency. Details about the extent of our regulation by local authorities are available from us upon request.

Conflict of interest

This report has been commissioned and paid for by the company and is deemed to constitute an acceptable minor non-monetary benefit as defined in MiFID II.

Readers should assume that Astris Advisory Japan K.K. may currently or may in the coming three months and beyond be providing or seeking to provide IR/corporate advisory or other services to the company.

Investment in securities mentioned: Astris Advisory Japan K.K. has a restrictive policy over personal dealing for its directors. officers. employees. and service providers. Astris Advisory Japan K.K. does not conduct any investment business and does not hold any positions in the securities mentioned in this report.

Limitation of liability

Astris Advisory Japan K.K. assumes no liability as regards any investment. divestment. or retention decision taken by the investor based on this report. In no event will Astris Advisory Japan K.K. be liable for direct. indirect. incidental. special. or consequential damages (regardless of whether being considered foreseeable or not) resulting from the information in this report.

Copyright 2024 Astris Advisory Japan K.K. All rights reserved.