GEO HOLDINGS (2681)

Sales, OP fall despite strong core product demand

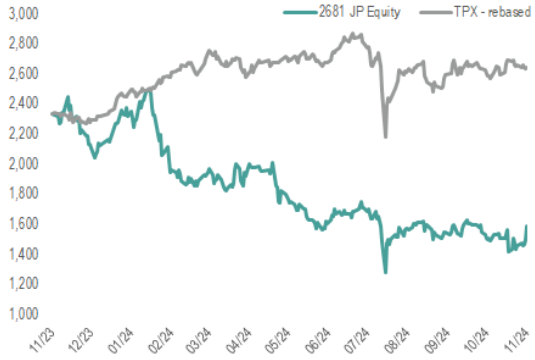
22 November 2024

Q1-2 FY3/25 results update

Share price: ¥1,591 **Market cap: ¥63.2bn**

- **Sales and profit fall** – Q1-2 FY3/25 sales and OP declined as the difficult annual comps for new games and consoles continued into Q2. This ate into strong demand for the company's reuse (second-hand) clothes and used smartphones. Q1-2 sales fell 7.4% to ¥199.7bn while OP declined at a faster 25.9% pace to ¥5.4bn. The sales drop would have been less pronounced if GEO's store opening schedule had not been delayed by competition for the most popular locations.

  Full-year forecasts maintained – GEO kept its FY3/25 forecasts for sales of ¥436bn (+0.5% YoY) and OP of ¥12bn (-28.6% YoY). GEO is slightly behind last year's progress towards its sales forecasts and ahead of OP. It expects to benefit in Q3-4 from seasonal demand for second-hand clothes and smartphones, and aims to catch up with store opening plans.



Source: Bloomberg

Strategic growth scenario

- **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 1.0x and a sustainable ROE of 8%.
- **ESG** – We rate the company '**Amber'** under our Astris-Sustainability model scorecard, scoring 52.86 under our 'Social' category.
- **Valuations** – The shares are trading on an estimated PER FY3/26 of 5.9x (on +27.1% EPS growth YoY) and an FCF yield of 5.1%. 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)	11.7	5.8	7.5	5.9	4.9
EV/EBITDA (x)	5.7	4.2	4.7	3.9	3.3
EV/Sales (x)	0.3	0.2	0.2	0.2	0.2
PBR (x)	0.8	0.7	0.7	0.6	0.5
ROE (%)	7.4	13.3	9.1	10.4	11.1
ROCE (%)	7.0	9.2	7.1	8.5	9.6
FCF yield (%)	(5.4)	0.2	8.1	5.1	8.8
Dividend yield (%)	1.5	1.8	2.1	2.7	3.3
Total shareholder yield (%)	1.5	1.8	2.1	2.7	3.3

Source: Company. Astris Advisory (estimates)

Price Performance

	YTD	1M	3M	12M
Abs (%)	-25.0	+5.5	+1.1	-31.8
Rel (%)	-34.2	+3.7	+0.1	-39.9

Company sector

General Consumer Goods and Services, Specialty Retail

Stock data

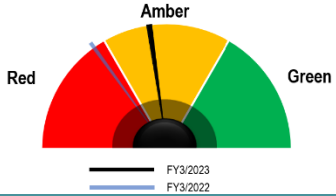
Price (¥)	1,591
Mkt cap (¥bn)	63.2
Mkt cap ($m)	409.3
52-week range (¥)	1,271-2,511
Shares O/S (m)	39.7
Average daily value ($m)	2.2
Free float (%)	56.4
Foreign shareholding (%)	13.5
Ticker	2681
Exchange	Tokyo Prime
Net Debt/Equity (x)	0.2
FFO leverage (x)	4.8
BBG BUY | HOLD | SELL	0 | 1 | 0

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

Q1-3 FY3/25 results: February 2024

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

This report has been commissioned and paid for by the company

Q1-2 FY3/25 results

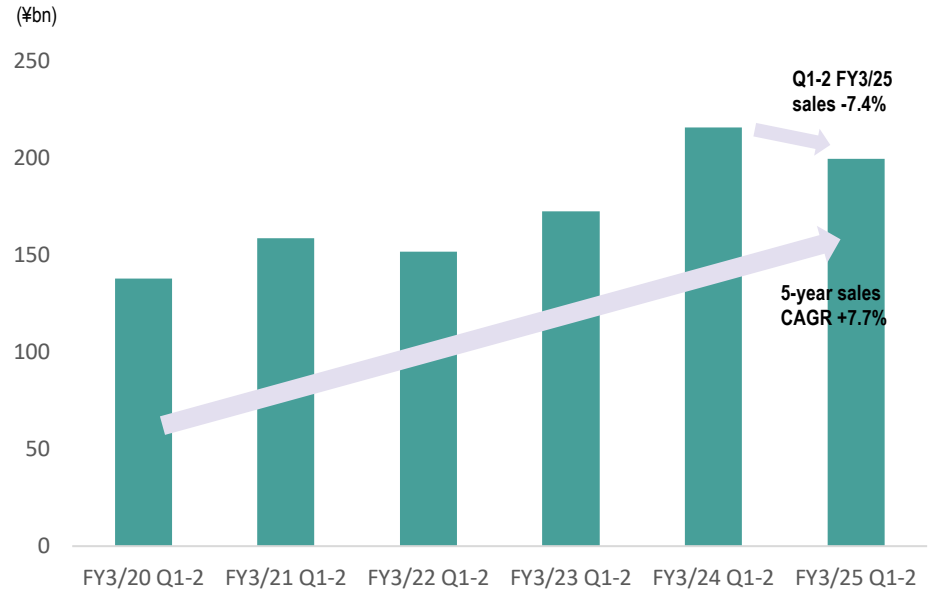
Recent results

Key financials

(¥bn)	Q1-2 FY3/24	Q1-2 FY3/25	Growth YoY (%)
Sales	215.76	199.72	-7.4
Gross profit/(loss)	75.89	81.79	+7.8
Gross margin (%)	***35.2***	***40.9***	
SG&A expenses (¥bn)	68.58	76.37	+11.4
SG&A/Sales ratio (%)	***31.8***	***38.2***	
Operating profit/(loss)	7.31	5.41	-25.9
Operating margin (%)	***3.4***	***2.7***	
Recurring profit/(loss)	8.68	5.20	-40.0
Net income attributable to the parent	5.72	2.83	-50.6

Source: Company

Although GEO HOLDINGS' Q1-2 FY3/25 sales fell 7.4% YoY, they grew at a 5-year CAGR of 7.7%



Source: Company

Sales: GEO HOLDINGS' Q1-2 FY3/25 top line fell (¥199.7bn -7.4% YoY), despite robust demand for the company's core reuse business of second-hand clothes and accessories, and refurbished smartphones. This demand could not fully counter the continued decline in sales in the Brand New category, which is predominantly made up of games and consoles.

In a continuation of the situation in Q1, in Q1-2 FY3/25, the company faced difficult annual comps for new games and consoles. In Q1-2 FY3/24, GEO had benefited from a rebound in sales of new consoles and games. Semiconductor supply had recovered, enabling higher production of Sony Playstation 5s, demand for which was exacerbated by inbound tourism. Demand here is also dependent on new titles and console launches, something over which GEO has no control.

GEO HOLDINGS opened a net 22 new stores in Q1-2 FY3/25 YoY

Store Brand Net Openings	Q1-2 FY3/24	Q1-2 FY3/25
GEO	-3	-19
2nd STREET (Japan)	20	15
2nd STREET (overseas)	19	13
Others*	6	13
Total net openings	**42**	**22**
Total stores	**2,065**	**2,130**

Source: Company. Includes both directly managed and franchise stores. Others = subsidiaries including Luck Rack, OKURA, amusement facilities, and Rock.

- **Positive contributions:** New store openings and refurbished GEO shops helped increase sales of reuse items by 13.4% YoY to ¥127.94bn. This was led by a 40.9% YoY increase in sales of used smartphones & tablets, which has helped raise the company's domestic market share to about 32% from 28% at the end of FY3/24. There was an 18.6% YoY rise in sales for reuse clothing & accessories.

  The sharp increase in demand for used smartphones is confirmation that the company's strategy to close GEO branded rental stores or refit them for smartphone sales, as well as opening GEO mobile branded stores, is paying off.

  Moreover, new 2nd Street store openings overseas are contributing to sales growth. In Q1-2 overseas sales at 2nd Street were ¥9.3bn (the company gave no YoY growth figure), aided by the launch of 13 stores. The company established subsidiaries in Singpaore and Hong Kong in June and July respectively, planning expansion in these markets. Moreover, in October, it achieved the milestone of 100 overseas stores.

  Online purchases also contributed positively to sales, rising 3.9% to ¥13.7bn, benefiting from the company's strategy to allow customers to order and then try on in-store before purchasing.

- **Negative contributions:** Aside from the sharp decline in the Brand New category, which fell 40.1% YoY, rental sales (-10.5% YoY) continued to fall amid the shift to streaming services. This trend has prompted GEO to refocus its eponymous-branded stores to meet demand for smartphones and tablets instead. Luxury sales dropped 1% YoY due to a decline marketwide for luxury watches, which had previously been inflated by a surge of buyers but in Q2 retreated to more normalized levels. The company established an online auction site for luxury watches, with the first auction taking place in September, as part of its expansion strategy.

In sum, the decline in sales was unfortunate, but not caused by issues with GEO's expansion strategy. The strong sales exhibited by GEO's core sales items of reuse clothing & accessories, and smartphones & tablets underscores that the company is moving in the right direction.

It is likely that sales from the company's 2nd Street brand would have been even higher if the company had been able to open new stores at a faster pace. Securing optimal locations is being complicated by competition for store space. As a result the company is behind schedule this fiscal year for store openings, but aims to make up lost ground in the second half of the year.

Moreover, we continue to believe that as these core businesses expand, the impact of volatile new games and consoles on overall sales will diminish, creating an improved environment for more stable sales growth.

Sales were hurt by difficult comps for new games and consoles, though reuse goods rose

Merchandise type	Chainstore	Sales (¥bn)	YoY	Sales Ratio (%)
Reuse		**127.94**	**+13.4%**	**64.1**
- **General**		**87.32**	**+10.9%**	**43.7**
Clothing & Accessories	2nd STREET	45.87	+18.6%	23.0
Furniture & Appliances	2nd STREET	5.96	+15.0%	3.0
Luxury	OKURA	27.01	-1.0%	13.5
Others	2nd STREET	8.48	+11.2%	4.2
- **Media**		**40.62**	**+19.3%**	**20.3**
Games	GEO	16.11	+1.9%	8.1
Smartphones & Tablets	GEO & GEO mobile	21.95	+40.9%	11.0
Others	GEO	2.56	-3.4%	1.3
Brand New	GEO	**44.49**	**-40.1%**	**22.3**
Others		**27.29**	**-4.9%**	13.7
- Digital Content	viviON	8.11	+2.1%	4.1
- Rental	GEO	14.85	-10.5%	7.4
- Others		4.34	+4.3%	2.2
Total		**199.72**	**-7.4%**	**100.0**

Source: Company

Gross Profit: Although the top line fell, gross profit rose, helping gross profit margins increase to 40.9% from 35.2%. Margins remained little changed at its biggest category of Reuse Clothing & Accessories as it did for Smartphones & Tablets. However, margins improved signficantly in the Brand New category.

Brand New gross profit margins increased to 18.3% in Q1-2 FY3/25 from 10.2% in the year-earlier period. Aside from new consoles, games and other game-related products, included in this category are trading cards and new clothing. Game-related products have low margins compared with new clothing and other items in this category. Therefore, in Q1-2 FY3/24, the high sales of games and consoles subdued margins. This year (Q1-2 FY3/25) the sharp decline in these sales meant that gross profit margins returned to more normalized levels of between 16%-18%.

Q1-2 FY3/25 gross profit rose and gross profit margins improved

Item	GP (¥bn)	YoY	GPM
Reuse	**54.78**	**+12.4%**	**42.8%**
General	**41.79**	**+13.2%**	**47.9%**
Clothing & Accessories	29.69	+18.0%	64.7%
Furniture & appliances	3.62	+15.8%	60.7%
Luxury	2.39	-26.5%	8.8%
Others	6.09	+13.5%	71.9%
Media	**12.99**	**+9.9%**	**32.0%**
Games	5.32	+6.2%	33.0%
Smartphones & Tablets	5.32	+21.0%	24.2%
Others	2.35	-2.6%	91.7%
Brand new	**8.13**	**+7.1%**	**18.3%**
Others	**18.88**	**-3.6%**	**69.2%**
Digital content	7.28	+2.8%	89.7%
Rental	9.45	-9.5%	63.6%
Others	2.15	+5.0%	49.6%
Total	**81.79**	**+7.8%**	**40.9%**

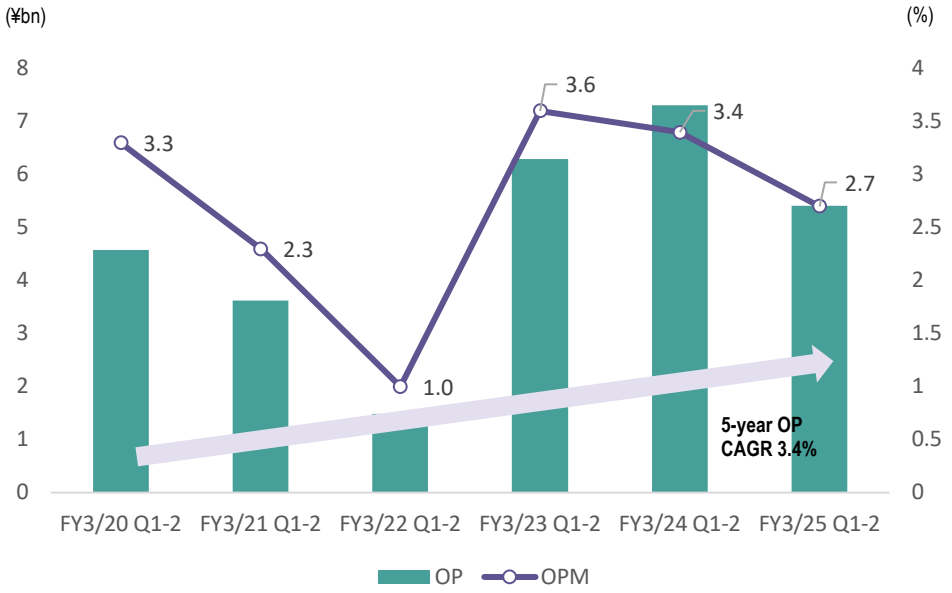
Source: Company

Operating Profit: OP fell at a faster rate than sales (-25.9% YoY to ¥5.41bn) due to rising personnel costs, as well as higher fees it is shouldering amid rising use of credit cards. These outlays caused operating profit margins to decline to 2.7% for Q1-2 FY3/25 from 3.4% in the year-earlier period.

Q1-2 FY3/25 personnel costs rose +14.4% YoY to ¥35.9bn, representing 18.0% of sales vs 14.5% in Q1-2 FY3/24. Aware of the importance of controlling rising outlays, the company is making efforts to improve efficiency and productivity, aiming to keep the ratio of personnel costs to sales as close as 15-17% as possible.

Other cost increases related to investments for growth included increased rents, an inevitability of opening new stores, with the total figure for the quarter rising 8.2% to ¥14.9bn; and depreciation, which increased by 15.4% YoY to ¥2.7bn. Finally, sales fees rose 21.5% YoY to ¥3.9bn.

Q1-2 FY3/25 OP CAGR fell -25.9%, slowing GEO's Q1-2 5-year CAGR growth to 3.4%



Source: Company

The company kept its full-year forecasts of sales of ¥436bn (+0.5% YoY) and OP of ¥12bn (-28.6% YoY). By the end of Q1-2, the company had achieved 45.8% of its sales forecast, which is behind the progress of Q1-2 FY3/24, when the company went on to beat guidance. However, it has made 45.1% progress towards its OP forecast, slightly ahead of last year's pace. This is encouraging because OP in Q2 alone dropped more sharply than in Q1, down 30.9% to ¥1.05bn, contributing 19.4% to Q1-2 results.

GEO's sales and OP tends to be weighted to Q3-4 due to seasonal demand for core product categories including Clothing & Accessories, Smartphones & Tablets and game-related products. This is due in part to the gifting season and demand for winter clothing. The company will also endeavor to catch up on store openings. Accounting for store closures, GEO opened a net 22 stores in Q1-2. It opened 33 new stores, 25.6% of the plan for 129 new stores globally.

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 1.0x threshold. It tends to be either at 1.0x or just below.
- Reaching ROE of 8%. This metric can be quite volatile, coming in at 13.3% in FY3/24, the first year it was above 8% since at least FY3/19. We estimate ROE 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, 100 US stores by FY3/28 and 100 Taiwan stores 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 from ¥24 to ¥29 at its Q2 results announcement, a level that had been unchanged since FY3/22. Moreover, it is forecasting a dividend of ¥34 for FY3/25.

Astris earnings estimates and key assumptions

Astris' key earnings forecasts are as follows and have not changed from the initiation report:

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 margin (%)	-	5.1	5.6	6.0
FCF (¥bn)	**-**	**5.12**	**3.19**	**5.57**
FCF margin (%)	-	1.1	0.6	1.0
FCF conversion (%)	-	36.5	17.9	25.7
FCF yield (%)	**-**	**8.1**	**5.1**	**8.8**

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

The core assumptions of our estimates are as follows:

- **Sales growth** – Although GEO HOLDINGS' Q1-2 FY3/25 was up against difficult annual comps from new games sales, we anticipate that the expected full-year impact will have already been incorporated into the company's forecasts. In light of the strength of reuse clothes and smartphone sales, and an economic environment conducive to second-hand purchases, we maintain our sales estimate of +5% YoY sales growth for FY3/25 at this stage of the year. Moreover, if the yen continues to weaken that could enhance foreign sales.

  However, the challenges that the company is facing keeping to its schedule of store openings could prove a downside risk to meeting our more bullish sales forecast. This is particularly because by the end of Q2, the company was slightly behind in terms of progress towards meeting its own 0.5% YoY increase in sales, and had opened just over a quarter of its full-year plan for new stores. Although the company aims to play catch up in Q3-4, more store openings in Q1-2 would have created more time for those new stores to contribute to sales growth during the fiscal year. Q1-3 results should give us a clearer idea of how store openings are progressing and whether we need to alter our sales estimate for the year.

  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. Helping to fund this expansion, in September, the company issued ¥5.5bn in five-year unsecured bonds at a rate of 1.27%, securing lower rates in an environment where expectations for the central bank to tighten policy has been intensifying.

- **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. Such pressures played out in Q1-2, alongside higher costs for handling cashless

payments. We believe that although these costs will increase, inflationary pressures could send more consumers to its stores in search of bargains. Therefore, underlying demand should feed through to OP, which we estimate to fall at a slower -16% YoY pace than the company forecast of a 28.6% decline. The company was slightly ahead in terms of OP forecast progress at the end of Q2, which was encouraging. This may well be related to the slower store openings. The upside to such delays is the potential for a portion of its budget allocated for these purposes to go unused, which would be positive for OP.

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 time in three years 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.

Summary

GEO HOLDINGS has transformed from being a video rental store operator to Japan's largest second-hand retailer, operating four chains totaling 2,130 stores across Japan and overseas as of the end of September 2024, as well as several digital content sites via its viviON subsidiary. Its physical stores, predominantly operated by its 2nd STREET, GEO, OKURA, and Luck Rack brands, combined with its expanding online presence, generated annual sales of more than ¥430bn (+15% YoY) in FY3/24. That was 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 into the US by opening stores in Taiwan, Malaysia, Thailand, Hong Kong, and Singapore.
- Expanding its digital content and luxury businesses.

The key strategic and financial targets are:

- **To sustain ROE of 8% or more.**
- **Raising PBR over the 1.0x 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 FY3/26 of 5.9x (on +27.1% EPS growth YoY), an FCF yield of 5.1% and a total shareholder yield of 2.7%.

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)	(0.82)	(5.16)	(4.97)
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**	**14.23**	**13.17**	**16.48**
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	5.50	-	-
Equity financing	(4.80)	-	-	-	-
Other	(0.25)	(0.30)	(0.30)	(0.30)	(0.30)
Cash from Financing Activities	**3.94**	**12.40**	**4.06**	**(1.64)**	**(2.00)**
FX impact	0.08	0.31	0.19	0.25	0.22
Net cash flow	**(1.29)**	**11.70**	**7.78**	**0.38**	**2.29**
Free cash flow	**(3.38)**	**0.15**	**5.12**	**3.19**	**5.57**
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	1.1	0.6	1.0
Free cash flow conversion (%)	N/A	0.9	36.5	17.9	25.7
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	3.1	2.6	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	62.76	63.14	65.43
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**	**166.82**	**176.95**	**189.63**
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**	**249.10**	**265.21**	**284.44**
Short term borrowing	14.34	12.00	12.00	12.00	12.00
Trade payables	16.03	14.69	15.77	17.24	18.79
Other	18.85	20.80	22.96	24.75	27.18
Current liabilities	**49.23**	**47.49**	**50.72**	**53.98**	**57.97**
Long term borrowing	66.72	88.05	93.55	93.55	93.55
Other LT liabilities	8.64	8.24	8.24	8.24	8.24
Long term liabilities	**75.37**	**96.29**	**101.79**	**101.79**	**101.79**
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**	**249.10**	**265.21**	**284.44**

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	4.1	4.7
ROE (%)	7.4	13.3	9.1	10.4	11.1
ROCE (%)	7.0	9.2	7.1	8.5	9.6
ROIC (%)	3.8	6.2	4.4	5.2	5.9
Liquidity					
Current ratio (x)	2.7	3.2	3.3	3.3	3.3
Quick ratio (x)	1.4	1.8	1.8	1.8	1.7
Leverage					
Debt/Equity ratio (x)	1.1	1.1	1.1	1.0	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	33.4	42.5	51.7
Net Debt/EBITDA (x)	2.0	1.8	1.8	1.5	1.2
Valuation					
EPS reported (¥)	135.9	275.3	211.6	268.9	327.8
PER (x)	**11.7**	**5.8**	**7.5**	**5.9**	**4.9**
Diluted PER (x)	**12.1**	**6.0**	**7.8**	**6.1**	**5.0**
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**	**2.1**	**2.7**	**3.3**
Free cash flow yield (%)	**(5.4)**	**0.2**	**8.1**	**5.1**	**8.8**
Diluted free cash flow yield (%)	**(5.2)**	**0.2**	**7.9**	**4.9**	**8.6**
PBR (x)	**0.8**	**0.7**	**0.7**	**0.6**	**0.5**
EV/sales (x)	0.3	0.2	0.2	0.2	0.2
EV/EBITDA (x)	5.7	4.2	4.7	3.9	3.3
EV/EBIT (x)	10.2	6.4	7.7	6.0	5.0
EV/FCF (x)	N/A	717.1	21.1	33.9	19.4

Source: Company. Astris Advisory (estimates)

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