IBJ (6071)

Raising the quality of earnings

Share price: ¥617 Market cap: ¥25.9bn

18 November 2024

Q3 FY12/24 results update

- **Positive results from core activities** – Driven by sustained growth at the core matchmaking business, Q1-3 FY12/24 results were stronger than expected which was a positive surprise. The company has maintained FY12/24 guidance, but has telegraphed stronger OP expectations and has announced an FY DPS of ¥8 (+33.3% YoY), indicating a more progressive shareholder returns policy. With affiliate franchisee numbers on an uptrend and membership numbers continuing to rise at the Directly-Managed Lounge Business, we believe this demonstrates the company's core business activities are growing, with improvement in the quality of earnings.



Source: Bloomberg

Raising our earnings estimates

- **Estimating greater OPM expansion with earnings stability** – We have raised our earnings estimates for FY12/24 to reflect the positive earnings momentum seen for Q1-3 FY12/24. For FY12/25 and FY12/26, we have kept our sales estimates unchanged but raised expectations for more marked OPM expansion, as we see greater stability of earnings from the matchmaking segments as management executes both franchisee network and membership expansion driving economies of scale and pricing power, capitalizing on its market-leading status and brand value.
- **Valuations**—Based on our revised estimates, the shares are trading at an estimated PER FY12/25 of 11.7x (on +11.1% EPS growth YoY), FCF yield of 7.5%, and total shareholder return of 3.6% (based on a 20% dividend payout and ¥0.5bn allocated to share buybacks).

Year-end	12/22	12/23	12/24E	12/25E	12/26E
Sales (¥bn)	14.72	17.65	18.88	20.30	21.82
OP (¥bn)	1.99	2.23	2.64	2.94	3.27
NI (¥bn)	1.49	1.63	1.89	2.10	2.33
EPS (¥)	37.17	40.84	47.43	52.70	58.48
DPS (¥)	6.00	6.00	8.00	10.54	11.70
Sales growth YoY (%)	+4.5	+19.9	+7.0	+7.5	+7.5
OP growth YoY (%)	+31.5	+11.9	+18.5	+11.3	+11.2
NP growth YoY (%)	+41.7	+9.1	+16.1	+11.1	+11.0
EPS growth YoY (%)	+41.2	+9.9	+16.1	+11.1	+11.0
PER (x)	16.6	15.1	13.0	11.7	10.6
EV/EBITDA (x)	10.5	9.4	8.1	7.3	6.6
EV/Sales (x)	1.9	1.6	1.5	1.3	1.3
PBR (x)	3.4	3.5	3.3	3.3	3.2
ROE (%)	21.7	21.7	24.8	26.9	29.1
ROCE (%)	20.0	20.4	23.8	26.3	28.2
FCF yield (%)	5.3	3.9	4.0	7.5	8.4
Dividend yield (%)	1.0	1.0	1.3	1.7	1.9
Total shareholder returns (%)	1.0	5.1	3.2	3.6	3.8

Source: Company, Astris Advisory (estimates)

Price Performance

	YTD	1M	3M	12M
Abs (%)	-13.1	-8.0	+7.1	-10.7
Rel (%)	-23.6	-8.1	+6.6	-20.7

Company sector

Commercial Services
Diversified Consumer Services

Stock data

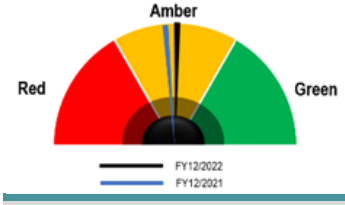
Price (¥)	617
Mkt cap (¥bn)	25.9
Mkt cap ($m)	167.5
52-week range (¥)	460-777
Shares O/S (m)	42.0
Average daily value ($m)	0.7
Free float (%)	37.1
Foreign shareholding (%)	5.7
Ticker	6071
Exchange	Tokyo Prime
Net Debt/Equity (x)	N/A
FFO leverage (x)	1.6
BBG BUY | HOLD | SELL	2 | 0 | 0

Source: Bloomberg

Business Overview

IBJ is a domestic online and offline matchmaking agency for individuals seeking to marry. The business is divided into three main segments: the matching business, which provides gateway services for marriage activities; the marriage consultation office business, which is the growth driver of IBJ and combines franchise and directly operated stores; and the life design business, which offers support after successful marriages. Listed in December 2012, the company is a niche market leader.

Astris-Sustainability ESG rating



Reference Ratings	
MSCI	N/A
Sustainalytics	N/A
Refinitiv	N/A
S&P Global	34
Bloomberg	N/A

Next events

Q4 FY12/24 results February 2025

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This report has been commissioned and paid for by the company

Recent results

Q1-3 FY12/24 results

OP demonstrating a recovery profile YoY

Key financials

(¥bn)	Q1-3 FY12/23	Q1-3 FY12/24	YoY (%)
Sales	**13.56**	**13.09**	**-3.4**
Gross profit/(loss)	11.30	12.18	+7.8
Gross margins (%)	***83.4***	***93.1***	
Operating profit/(loss)	**1.74**	**1.99**	**+14.3**
Operating margins (%)	***12.8***	***15.2***	
Recurring profit	1.81	1.98	+9.4
Net income attributable to the parent	1.38	1.32	-4.4

Source: Company

Matchmaking activities drove sales and segment profit growth

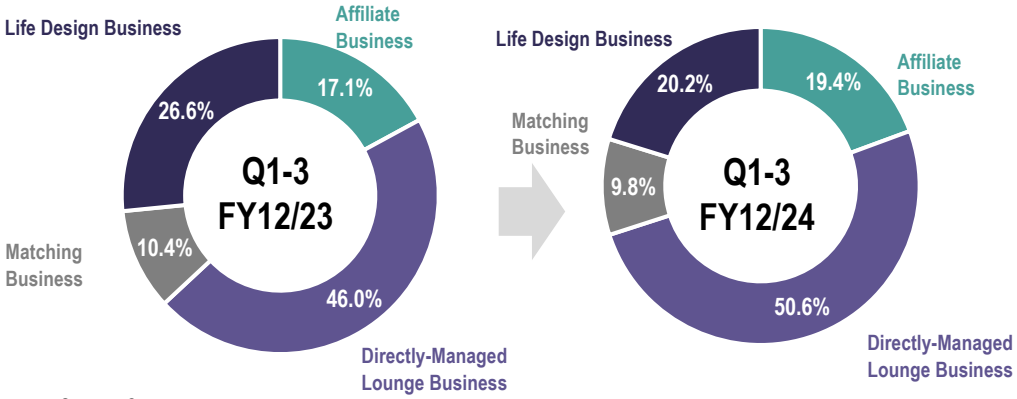
Per business segment (pre elimnations)

(¥bn)	Q1-3 FY12/23	Q1-3 FY12/24	YoY (%)
Sales			
Affiliate Business	2.34	2.58	+10.5
Directly-Managed Lounge Business	6.30	6.74	+6.9
Matching Business	1.42	1.30	-8.5
Life Design Business	3.64	2.69	-26.1
Segment profit/(loss)			
Affiliate Business	1.32	1.63	+23.4
Directly-Managed Lounge Business	1.09	1.25	+14.9
Matching Business	0.16	0.12	-24.8
Life Design Business	0.40	0.37	-8.9
Segment profit margins (%)			
Affiliate Business	56.6	63.2	
Directly-Managed Lounge Business	17.2	18.5	
Matching Business	11.1	9.1	
Life Design Business	11.1	13.7	

Source: Company

Core business activities regain mix momentum

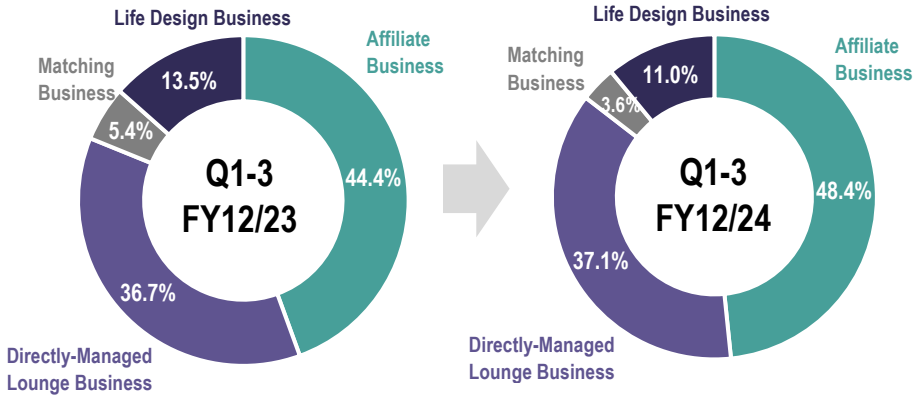
Sales split per business segment



Source: Company

Life Design Business booked one-time gain on REIT disposal in Q1-3 FY12/23

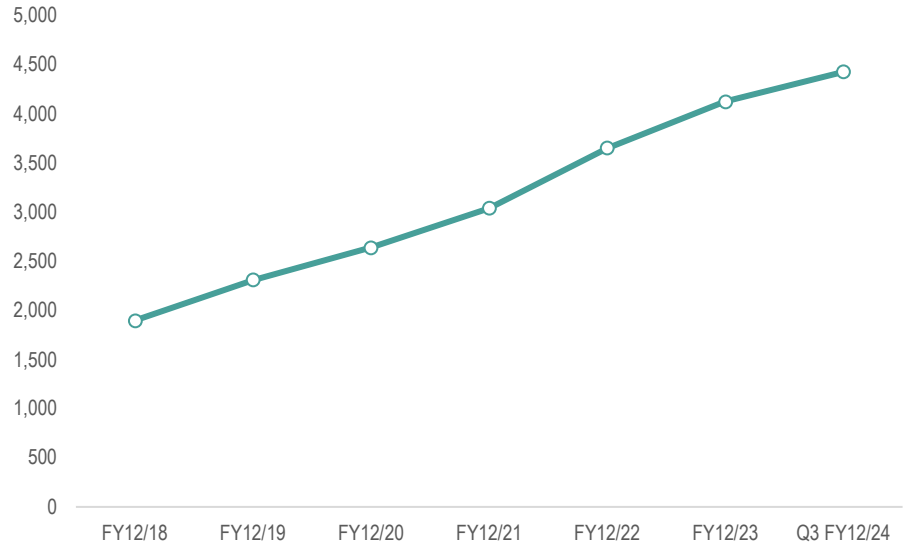
Operating profit split by business segment (pre-elimination)



Source: Company

Trend remains stable for affiliate number growth

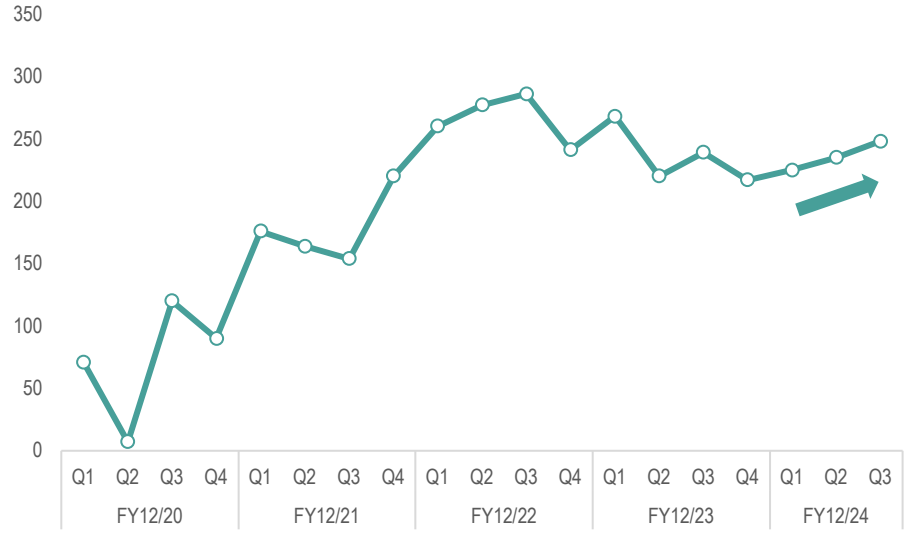
Annual affiliate members



Source: Company

Quarterly affiliate franchisee openings continuing to recover

Quarterly new affiliate business openings



Source: Company
Note: Data for new openings, and not net affiliate increases QoQ

Key highlights

The core matchmaking activities at the company are the core earnings driver – we believe this is the key takeaway from Q1-3 FY12/23 results. We believe this indicates the following:

- The recovery of its core business activities is positive in our view, resulting in an **improvement in the quality of earnings**. This is a more sustainable and less volatile earnings stream than non-core activities.

- Affiliate Business – steady growth in franchisees for three consecutive quarters is a positive trend, and collaboration with O-net resulted in membership numbers increasing by 33.1% YoY.
- Directly-Managed Lounge Business – membership growth was 16.9% YoY for Q3 FY12/24, driven by branding power of its in-house matchmaking services, as well as increasing average membership fees at internal brand IBJ Members.
- Matching Business – both participant and event numbers grew QoQ for Q3 FY12/24 as the business revised its marketing strategy at the Party business.
- Life Design Business – underlying quarterly segment profits (omitting ¥0.08bn REIT disposal in Q3 FY12/23) grew approximately 2% YoY, versus a reported decline of 30.2% YoY. This indicates steady progress for the peripheral services offered to the marriage agency members (such as insurance, real estate, wedding planning, and photography), and the niche Korean community business 'K Village' (providing language schools and a music community).

The company has maintained FY12/24 guidance, although it has telegraphed expectations of reaching FY OP of ¥2.55bn (versus unchanged guidance of ¥2.32bn)

An FY dividend has been announced of ¥8 DPS (FY12/23 ¥6 DPS), reflecting a 33.3% increase YoY and an implied payout ratio of 19% from unchanged guidance. We view this as a positive development, as the company appears to be adopting a more progressive dividend policy.

Astris earnings estimates and key assumptions

We have revised our earnings estimates for FY12/24 and beyond to reflect the following:

- While we have maintained sales estimates, we have raised OPM expectations on the back of improving the quality of earnings from the Marriage Agency businesses.
- We maintain sustained positive free cash flow generation, given limited capex requirements.

Astris Advisory earnings estimates

Year-end	FY12/24 guidance	FY12/24E (old)	FY12/24E (new)	FY12/25E (old)	FY12/25E (new)	FY12/26E (old)	FY12/26E (new)
Sales	**18.20**	**18.88**	**18.88**	**20.30**	**20.30**	**21.82**	**21.82**
Growth YoY (%)	+3.1	+7.0	+7.0	+7.5	+7.5	+7.5	+7.5
OP (¥bn)	**2.22**	**2.36**	**2.64**	**2.64**	**2.94**	**2.84**	**3.27**
OPM (%)	13.6	12.5	14.0	13.0	14.5	13.0	15.0
EBITDA (¥bn)	**-**	**3.12**	**3.40**	**3.45**	**3.76**	**3.71**	**4.15**
EBITDA margins (%)	-	16.5	18.0	17.0	18.5	17.0	19.0
FCF (¥bn)	**-**	**2.23**	**1.03**	**1.83**	**1.94**	**1.98**	**2.17**
FCF margin (%)	-	11.8	5.4	9.0	9.6	9.1	9.9
FCF conversion (%)	-	92.0	38.0	67.9	64.7	68.2	65.1
FCF yield (%)	**-**						
DPS (¥)	**N/A**	**6.37**	**8.00**	**7.10**	**10.54**	**7.62**	**11.70**
Dividend yield	**-**	**1.0**	**1.3**	**1.2**	**1.7**	**1.2**	**1.9**
Total shareholder return (%)	**-**	**2.9**	**3.2**	**3.1**	**3.6**	**3.1**	**3.8**

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

The core assumptions of our estimates are as follows:

- **Sales growth** – we estimate high single-digit growth for the core matchmaking activity, with growth supplemented by scaling the Life Design Business and strategic M&A activity.
- **Profitability** – we believe the business can improve operating margins as the Marriage Agency activities continue to scale, balancing the needs of business investment as well as greater earnings contribution from the Life Design Business.
- **Sustainable free cash flow generation** – we believe the company will continue to generate positive free cash flow with its asset-light business model and maintain an FCF conversion rate of around 70% for the medium term.

Summary

Market leading domestic marriage matchmaker

IBJ is a leading domestic matchmaking agency, specializing in both online and offline services for individuals looking to get married. The business is divided into three main segments: the matching business, which provides gateway services for marriage activities; the marriage consultation office business, which is the growth driver of IBJ and combines franchise and directly operated stores; and the life design business, which offers support after successful marriages. The company, which went public in December 2012, holds a prominent position as a leader in the niche market. With its corporate philosophy of 'bringing happiness to everyone who has a connection', it has a strong brand and high reputation stemming from positive customer interactions and high matchmaking performance.

It has embarked on a medium-term growth strategy for FY12/27 based on the following:

- Conducting marriages for 20,000 couples per annum, equivalent to approximately 4% of the total nationwide (estimated to remain around current levels of 500,000 marriages).
- Reaching 7,000 affiliate companies in the IBJ alliance network (FY12/23 was 4,211).
- **To generate ¥24.0bn sales and ¥3.5bn operating profit (14.6% OPM) in FY12/27.**
- **Focus capital allocation** on M&A and building alliances.

Astris Advisory estimates IBJ will drive medium-term growth via the following factors:

- Conduct M&A activity as the company aims to drive economies of scale and network effects for its matchmaking service.
- Stable operating profit margins demonstrating its pricing power and ability to deliver high matchmaking rates.

The shares are trading on an estimated PER FY12/25 of 11.7 (on +11.1% EPS growth YoY), FCF yield of 7.5%, and a total shareholder return of 3.6%.

JGAAP Financial Summary

(¥bn)	FY 12/22	FY 12/23	FY 12/24E	FY 12/25E	FY 12/26E
Sales	**14.72**	**17.65**	**18.88**	**20.30**	**21.82**
COGS	0.54	2.55	1.89	2.03	2.18
Gross profit	**14.18**	**15.10**	**17.00**	**18.27**	**19.64**
Gross profit margin (%)	96.3	85.5	90.0	90.0	90.0
OP	**1.99**	**2.23**	**2.64**	**2.94**	**3.27**
OP margin (%)	13.5	12.6	14.0	14.5	15.0
Non-operating income	0.07	0.08	0.08	0.08	0.08
Non-operating expenses	(0.01)	(0.02)	(0.02)	(0.02)	(0.02)
Recurring profit	**2.05**	**2.29**	**2.70**	**3.00**	**3.33**
Extraordinary gains	0.01	0.40	-	-	-
Extraordinary losses	(0.04)	(0.33)	-	-	-
Pre-tax profit	**2.01**	**2.36**	**2.70**	**3.00**	**3.33**
Tax	(0.55)	(0.69)	(0.81)	(0.90)	(1.00)
Effective tax rate (%)	26.8	30.1	30.0	30.0	30.0
Net income	**1.46**	**1.67**	**1.89**	**2.10**	**2.33**
Non-controlling NI	(0.03)	0.04	-	-	-
Parent attributable NI	**1.49**	**1.63**	**1.89**	**2.10**	**2.33**
Sales growth YoY (%)	+4.5	+19.9	+7.0	+7.5	+7.5
OP growth YoY (%)	+31.5	+11.9	+18.5	+11.3	+11.2
Pre-tax profit YoY (%)	+42.4	+17.3	+14.5	+11.1	+11.0
NI growth YoY (%)	+41.7	+9.1	+16.1	+11.1	+11.0

Cash flow statement (¥bn)	FY 12/22	FY 12/23	FY 12/24E	FY 12/25E	FY 12/26E
Profit before tax	**2.01**	**2.36**	**2.70**	**3.00**	**3.33**
Depreciation/amortization	0.61	0.69	0.76	0.81	0.87
Changes in working capital	(0.03)	1.18	(0.65)	0.08	0.09
Other non-cash items	(0.00)	(0.05)	(0.03)	(0.04)	(0.03)
Tax paid	(0.45)	(0.66)	(0.81)	(0.90)	(1.00)
Cash from Operating Activities	**2.14**	**3.52**	**1.97**	**2.96**	**3.26**
Capex	(0.78)	(2.50)	(0.94)	(1.02)	(1.09)
Acquisitions/increase stakes	(0.53)	(0.11)	-	-	-
Other investing cash flow	(0.63)	(1.55)	(1.09)	(1.32)	(1.21)
Cash from Investing Activities	**(1.94)**	**(4.17)**	**(2.03)**	**(2.34)**	**(2.30)**
Total cash dividends paid	(0.24)	(0.24)	(0.32)	(0.42)	(0.47)
Debt issuance/(retirement)	(0.48)	2.88	-	-	-
Equity financing/(buybacks)	-	(1.07)	(0.50)	(0.50)	(0.50)
Other	(0.01)	0.04	0.04	0.04	0.04
Cash from Financing Activities	**(0.73)**	**1.61**	**(0.78)**	**(0.88)**	**(0.93)**
FX impact	0.00	0.00	0.00	0.00	0.00
Net cash flow	**(0.53)**	**0.95**	**(0.83)**	**(0.25)**	**0.04**
Free cash flow	**1.36**	**1.02**	**1.03**	**1.94**	**2.17**
EBITDA	**2.60**	**2.92**	**3.40**	**3.76**	**4.15**
EBITDA margin (%)	17.7	16.5	18.0	18.5	19.0
Free cash flow margin (%)	9.3	5.8	5.4	9.6	9.9
Free cash flow conversion (%)	67.7	43.0	38.0	64.7	65.1
Capex/sales (%)	5.3	14.2	5.0	5.0	5.0
Capex/depreciation (%)	127.7	364.6	125.0	125.0	125.0
CFO margin (%)	14.5	19.9	10.4	14.6	14.9

Balance sheet (¥bn)	FY 12/22	FY 12/23	FY 12/24E	FY 12/25E	FY 12/26E
Cash & equivalents	3.30	3.79	2.95	2.70	2.75
Accounts receivables	1.97	0.94	0.94	0.94	0.94
Inventory and WIP	1.29	1.61	1.73	1.86	2.00
Other	0.86	1.75	1.40	1.40	1.40
Current assets	**7.42**	**8.09**	**7.02**	**6.89**	**7.08**
Tangible assets	1.66	3.00	3.38	3.78	4.22
Goodwill	1.55	1.53	1.53	1.53	1.53
Intangible assets	0.35	1.08	1.08	1.08	1.08
Long term investments	1.06	1.96	1.96	1.96	1.96
Other	1.77	2.46	2.46	2.46	2.46
Fixed assets	**6.40**	**10.03**	**10.41**	**10.81**	**11.25**
Total assets	**13.82**	**18.12**	**17.42**	**17.71**	**18.32**
Short term borrowing	1.30	3.50	3.50	3.50	3.50
Trade payables	0.04	0.49	0.37	0.40	0.43
Other	2.53	3.20	2.42	2.61	2.80
Current liabilities	**3.87**	**7.19**	**6.30**	**6.51**	**6.73**
Long term borrowing	1.34	2.22	2.22	2.22	2.22
Other LT liabilities	0.65	0.69	0.69	0.69	0.69
Long term liabilities	**1.99**	**2.91**	**2.91**	**2.91**	**2.91**
Shareholder's equity	**7.57**	**7.45**	**7.80**	**7.84**	**8.20**
Share acquisitions rights	0.00	0.10	0.10	0.10	0.10
Non-controlling interests	0.40	0.48	0.32	0.35	0.39
Total net assets	**7.96**	**8.02**	**8.22**	**8.29**	**8.68**
Total liabilities & net assets	**13.82**	**18.12**	**17.42**	**17.71**	**18.32**

Key metrics	FY 12/22	FY 12/23	FY 12/24E	FY 12/25E	FY 12/26E
Profitability					
Gross margin (%)	96.3	85.5	90.0	90.0	90.0
Operating margin (%)	13.5	12.6	14.0	14.5	15.0
Net margin (%)	10.1	9.2	10.0	10.4	10.7
ROA (%)	11.0	10.2	10.6	12.0	13.0
ROE (%)	21.7	21.7	24.8	26.9	29.1
ROCE (%)	20.0	20.4	23.8	26.3	28.2
ROIC (%)	14.7	13.3	13.9	15.2	16.7
Liquidity					
Current ratio (x)	1.9	1.1	1.1	1.1	1.1
Leverage					
Debt/Equity ratio (x)	0.3	0.8	0.7	0.7	0.7
Net Debt/Equity ratio (x)	net cash	0.3	0.4	0.4	0.4
Equity ratio (x)	0.5	0.4	0.4	0.4	0.4
Interest cover (x)	431.2	185.9	46.2	51.4	57.2
Net Debt/EBITDA (x)	N/A	0.7	0.8	0.8	0.7
Valuation					
EPS reported (¥)	37.17	40.84	47.43	52.70	58.48
PER (x)	**16.6**	**15.1**	**13.0**	**11.7**	**10.6**
Diluted PER (x)	**17.5**	**15.9**	**13.7**	**12.3**	**11.1**
DPS (¥)	6.0	6.0	8.0	10.5	11.7
Dividend payout ratio (%)	16.1	14.7	16.9	20.0	20.0
Dividend yield (%)	**1.0**	**1.0**	**1.3**	**1.7**	**1.9**
Total shareholder return (%)	**1.0**	**5.1**	**3.2**	**3.6**	**3.8**
Free cash flow yield (%)	**5.3**	**3.9**	**4.0**	**7.5**	**8.4**
Diluted FCF yield (%)	**5.0**	**3.7**	**3.8**	**7.1**	**8.0**
PBR (x)	3.4	3.5	3.3	3.3	3.2
EV/sales (x)	1.9	1.6	1.5	1.3	1.3
EV/EBITDA (x)	10.5	9.4	8.1	7.3	6.6
EV/EBIT (x)	13.7	12.3	10.4	9.3	8.4
EV/FCF (x)	20.1	27.0	26.6	14.1	12.6

Source: Company, Astris Advisory

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