

Polaris Holdings (3010)

Transforming for a major sector turnaround

Share price: ¥69

Market cap: ¥6.3bn

Initiating coverage

- **Major business model transformation** – Polaris Holdings is a hotel operator undergoing a strategic recapitalisation and repositioning to shift its business model to achieve higher returns. The aim is to change the contract mix away from legacy contracts with costly long term fixed leases to fee-based management contracts, together with running an owner/operator model with no third-party rent leakage to generate sustainable earning growth and potential capital gains.
- **Extensive recapitalisation** – the company has undergone significant balance sheet restructuring under its sponsor Star Asia Group. The latest financing round in November 2021 raised ¥2.8 billion via new equity issuance. This has and will allow Polaris to continue executing on attractive growth opportunities.

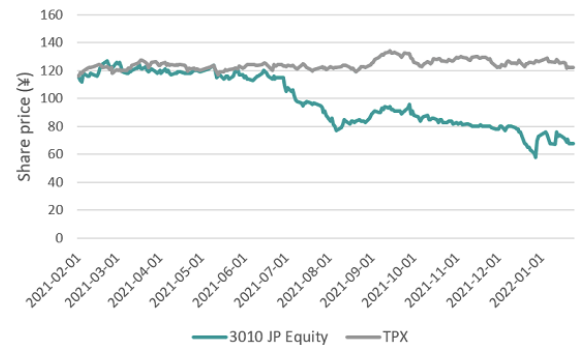
Actively positioning for growth

- **Significant progress** – Polaris has executed the following during the pandemic: 1) established a new hotel brand KOKO HOTEL operating under management contracts or variable rent leases, providing a low risk earnings stream, 2) closed down unprofitable hotel operations with high fixed lease costs, and 3) acquired three competitive hotels to operate as owner/operator, taking advantage of distressed hospitality market conditions. The change in contract mix is a very positive development, resulting in record high gross margins of 94.6% in Q2 FY3/2022 (vs. 90.7% in Q2 FY3/2021).
- **Positioned for normalisation and recovery** – we estimate that business conditions similar to CY2019 will return in FY3/2024, driving sales through increasing TRevPAR and room count, improving profitability and generating strong free cash flow.
- **ESG** – we score the company as 'Amber' under our Astris-Sustainability model scorecard.
- **Valuations** – The shares are trading on an estimated FY3/2024 free cash flow yield of 36.0% (22.4% on a fully diluted basis).

Year end	3/2020	3/2021	3/2022E	3/2023E	3/2024E
Sales (¥bn)	5.45	2.97	3.59	4.82	12.03
OP (¥bn)	(0.18)	(1.63)	(1.44)	(0.87)	1.93
NP (¥bn)	(0.19)	(2.10)	(1.67)	(1.06)	1.68
EPS (¥)	(3.56)	(37.83)	(18.20)	(11.55)	18.31
DPS (¥)	-	-	-	-	-
Sales growth YoY (%)	+7.2	-45.5	+20.8	+34.2	+149.7
OP growth YoY (%)	N/A	N/A	N/A	N/A	N/A
NP growth YoY (%)	N/A	N/A	N/A	N/A	N/A
EPS growth YoY (%)	N/A	N/A	N/A	N/A	N/A
PER (x)	N/A	N/A	N/A	N/A	3.7
EV/EBITDA (x)	(320.4)	(8.6)	(10.2)	(20.9)	5.6
EV/Sales (x)	2.3	4.3	3.5	2.6	1.1
PBR (x)	9.7	(8.1)	3.5	4.0	1.5
ROE (%)	(29.3)	267.9	(92.2)	(67.4)	41.0
ROCE (%)	(7.9)	(52.1)	(13.5)	(6.7)	10.8
FCF yield (%)	2.7	(52.0)	(115.0)	(12.9)	36.0
Dividend yield (%)	-	-	-	-	-

Note: EPS and FCF yield calculations are undiluted

1 February 2022



Source: Bloomberg

Price performance

	YTD	1mth	3mth	12mth
Abs (%)	-5.5	-5.5	-16.9	-40.5
Rel (%)	-0.7	-0.7	-10.3	-42.6

Company sector

Real Estate Management/Services
Hotels, Restaurants & Leisure (GICS)

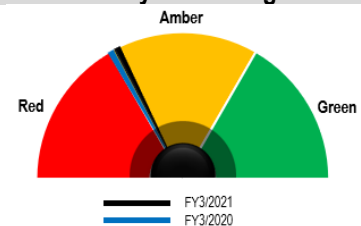
Stock data

Price (¥)	69
Mkt cap (¥bn)	6.3
Mkt cap (\$m)	55.0
52-week range (¥)	58-149
Shares O/S (m)	91.6
Average daily value (\$m)	0.1
Free float (%)	22.4
Foreign shareholding (%)	78.7
Ticker	3010
Exchange	Tokyo 2nd
Net Debt/Equity (x)	N/A
FFO leverage (x)	N/A
BBG BUY HOLD SELL	0 0 0

Business Overview

Polaris Holdings is a hotel operator with three key franchises - Best Western Japan, KOKO HOTEL and Value The Hotel. It is shifting its business model towards low risk management contracts and as an owner/operator.

Astris-Sustainability ESG rating



Next events

Q3 FY3/2022 results 10th February 2022

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This report has been commissioned and paid for by the company

Summary

Polaris Holdings is a domestic hotel operator with three franchises – Best Western Japan, KOKO HOTEL and Value The Hotel. It has undergone significant capital raising and is positioned to capitalize on the recovering hotel demand in a post-pandemic environment.

Under the sponsorship of Star Asia Group, Polaris has undergone significant reforms with the key thematic to effectively utilise resources, to take advantage of the dislocated hotel market, and to target stable earnings growth.

The core element of this is **to strategically shift the hotel operator model:**

Shifting hotel operator model to higher return formats

- from the domestic legacy model involving long term fixed rent leases towards low risk **“Fee-For-Service”** management contracts.
- Another facet is to further scale the **owner/operator model** taking advantage of the dislocated hotel market as well as Star Asia Group’s extensive experience, a capital intensive method that allows for high current returns and potential sizeable capital gains for Polaris as the hotel owner without paying rent or management fees.

We estimate that Polaris Holdings will experience major growth in FY3/2024 driven by the following factors:

- The business environment will return to similar levels seen in CY2019.
- Consequent improving demand and sales mix will drive TRevPAR recovery.
- The lowered fixed cost base will allow for greater operating leverage. We estimate an operating margin of 16%.

The shares are trading on an estimate an estimated FY3/2024 free cash flow yield of 36.0% (fully diluted 22.4%).

Company description

Overview

Polaris Holdings is a group company of Star Asia Group LLC (an independent investment group), its core business operating 25 hotels. It operates three domestic hotel franchises:

- **Best Western Japan** – 11 sites targeting accommodations for leisure and business travellers, the global brand originally established in the United States in 1946.
- **KOKO HOTEL** – proprietary brand of 7 business hotels located in in-fill, metropolitan locations. 5 out of 7 assets are formerly HOTEL UNIZO owned by real estate fund Lone Star (which acquired Unizo Holdings in April 2020). Business commenced in September 2020 via management contracts from Star Asia Group (which acquired these hotels at deep discounts in the 3rd quarter 2020 during the COVID pandemic.
- **Value The Hotel** – 5 hotels based in the Tohoku area, designed for medium to long term stays originally intended for people involved in local regeneration projects after the Tohoku earthquake.
- There are 2 other hotels operating under other brands (Kinuura Grand Hotel and Fino Hotel Sapporo Odori).

With a long history, Polaris has undergone changes to both business model and ownership. Originally established in 1912 as 'Jomonenshi', it was a manufacturer and seller of plied silk in Gunma prefecture. In 1961 it began trading futures at the Yokohama Silk Exchange and listed on the 2nd Section of the Tokyo Stock Exchange. It began to diversify into real estate activities in 1972, insurance broking in 1986 and broadband-related activities in 2001. In October 2006, the company officially changed its affiliated sector from textiles to real estate at the Tokyo Stock Exchange.

The real estate business expanded but the cyclical economic downturn in 2008 led to the company's strategy of becoming a hotel operator and to scale down real estate development. Also in 2008, it acquired domestic hotel chain Hotel Fino and the company changed its name to 'Kachikaihatsu'. In 2009 the company signed an 'Area Development Organization' contract with Best Western to promote the brand in Japan.

Figure 1: Sales mix comparison – FY3/2008 versus FY3/2021



Source : FactSet

The two-year period ending FY3/2013 led to a succession of extraordinary losses stemming from fixed asset disposals to bolster liquidity and investment losses. This resulted in the company experiencing financial distress, requiring a capital injection from domestic hotel operator Rembrandt Holdings in May 2013 who became sponsor and leading shareholder with a 14.71% stake. To formalise this business model change, the company reclassified its affiliated sector to services from real estate at the Tokyo Stock Exchange in October 2015.

Developing a relationship with Star Asia Group

In October 2018 a deal was announced with Star Asia Opportunity III LP (SAO) who acquired a 32.02% stake in the company via newly issued shares (17.27%) and share transfer from existing shareholders (14.65%) including former sponsor Rembrandt Holdings. SAO is an affiliate of Star Asia Group (SAG), an independent investment group focused exclusively on Japanese real estate and real estate-related assets.

First capital raise with Star Asia Opportunity III LP

Deal summary	Detail
Date announced	25 th October 2018
Total new shares issued	2,800,000
Offer price	¥230
Premium to pre-bid (1 week)	-2.5%
New equity raise	¥644 million
% of shareholding from new shares	17.27%
Shares transferred from existing shareholders	2,391,200
% of shares transferred from existing shareholders	14.75%
Resultant % holding by SAO	32.02%

Source: Company, Refinitiv

Recording consecutive net losses in FY3/2018 and FY3/2019 would have resulted in negative shareholder's equity for the company, prompting management to seek more capital. SAO and its affiliated directors participated in a capital tie-up agreement in February 2019 through new equity issuance and a debt/equity swap. SAO's stake subsequently grew to 75.54%.

Second capital raise with Star Asia Opportunity III LP

Deal summary	Detail
Date announced	27 th February 2019
Total new shares issued	37,416,800
Offer price	¥51
Premium to pre-bid (1 week)	-73.0%
New equity raise	¥1,908 million (of which ¥965 million from Debt/Equity swap)
Resultant % holding by SAO	75.54%

Source: Company, Refinitiv

The unprecedented crisis caused by COVID-19 has been a challenging period since FY3/2020, but with Star Asia Group as sponsor the company has significantly re-developed and repositioned its business model. Key achievements to date include:

- The company has opened 11 new hotels since FY3/2020.
- Number of rooms has increased 45% from 3,109 in March 2020 to 4,515 in December 2021.
- Launched a new, proprietary hotel brand called KOKO HOTEL.

- The company also changed its name to Polaris Holdings in May 2021. Polaris is the pole star or North Star, which is the brightest and most recognizable star in the constellation. With the most stable position in the northern sky, Polaris has been steadfast and essential for accurate navigation.

Financing and maintaining financial flexibility to promote stability and growth has been an ongoing theme as the company aimed to deleverage as well as invest and expand its hotel operating platform.

The third capital raise was announced in July 2020 and involved ¥1.5 billion zero coupon convertible bonds. There were also warrants issued with a strike price of ¥122.5 (which would raise ¥1.5 billion on exercise). The counterparty was Capital RE LLC, a private vehicle 33.3% owned by SAO, 26.7% by the Evolution Financial Group and 40% by Japan Opportunities Master Fund, funded by an affiliate of BlackRock.

Third capital raise with Star Asia Opportunity III and Evolution – convertible bonds

Deal summary	Detail
Date announced	30 th July 2020
Convertible bond raise	¥1,500 million
Strike price	¥123 => ¥122.5 (changed November 2021)
Coupon	Zero
Maturity	28 th July 2023
Soft call	If the shares trade above strike for 20 consecutive trading days, the remaining bonds can be bought back at par.

Source: Company, Refinitiv

Third capital raise with Star Asia Opportunity III and Evolution – warrants

Deal summary	Detail
Date announced	30 th July 2020
Total warrants issued	121,951 (1 warrant equals to 100 share lots)
Warrant price	¥32
Warrant raise	¥3.9 million
Strike price	¥123
Maturity	28 th July 2023
Soft call	If the shares trade above strike for 20 consecutive trading days, the remaining bonds can be bought back at par.

Source: Company, Refinitiv

To significantly improve the balance sheet and to secure more capital to fund further growth, Polaris completed a fourth funding round in November 2021. This latest round came in two parts - 1) raising ¥2,800 million from new equity issuance which was comparatively much larger than the last two rounds, and 2) warrants if exercised that would boost equity by ¥3,127 million – these will expire on 22nd November 2024. The institutional investors consisted of SAO and its affiliated directors and staff, Hazelview Securities Inc, Quadrant Real Estate Partners, Evolution Group, Charlestown Capital Advisors, Deutsche Bank as well as company management..

Fourth capital raise - equity

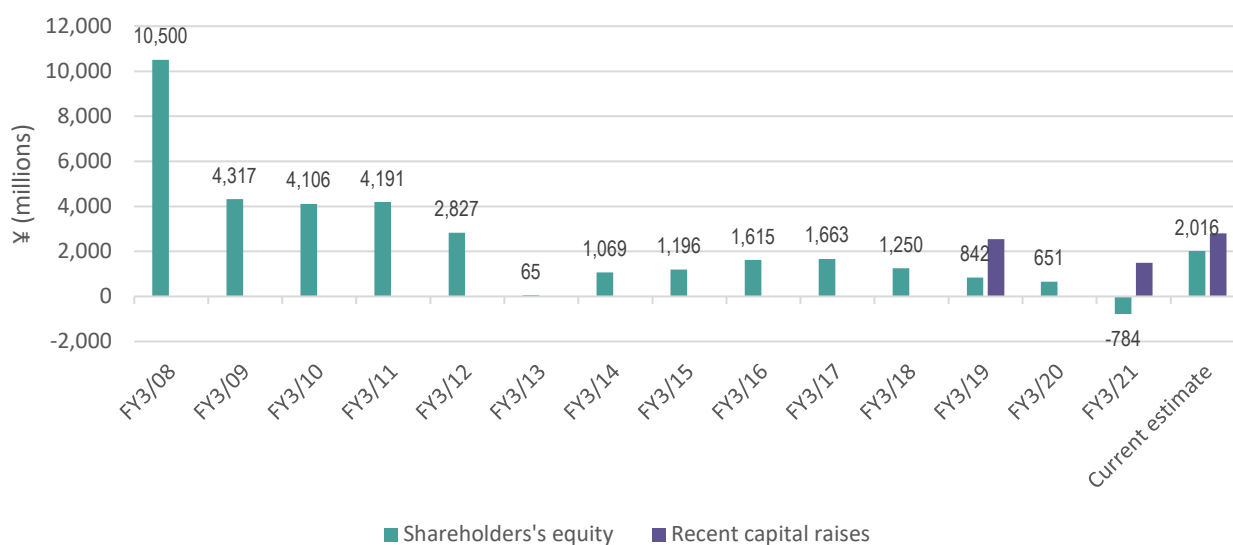
Deal summary	Detail
Date announced	15 th October 2021
Total new shares issued	32,557,500
Offer price	¥86
Premium to pre-bid (1 week)	-1.5%
New equity raise	¥2,799 million
Resultant % holding by SAO	73.49%

Source: Company, Refinitiv

Fourth capital raise - warrants

Deal summary	Detail
Date announced	15 th October 2021
Total warrants issued	325,575 (series 1), 38,001 (series 2) (1 warrant equals to 100 share lots)
Warrant price	¥0
Warrant raise	¥0
Strike price	¥86
Source: Company	

Figure 2: Trend in shareholders' equity FY3/2008 to current estimate with recent capital raises



Source: Company, Astris Advisory

Dilution tracker from financing rounds

Date	Financing method	Shares outstanding brought forward	New shares issued (or equivalent on exercise)	Dilutive impact at point of issuance
October 2018	Equity issuance	13,412,541	2,800,000	20.8
February 2019	Equity issuance	16,212,541	37,416,800	230.7
July 2020	Convertible bonds	53,640,841	12,195,120	22.7
	Warrants		12,195,120	22.7
October 2021	Equity issuance	59,012,889	32,557,500	55.1
	Warrants		32,557,500	55.1
December 2021		91,576,389		
CURRENT OUTSTANDING DILUTION*				60.5

Source: Company, Refinitiv

*Note: current outstanding dilution based on outstanding CBs at September 30th 2021 + warrants issued – estimate totally diluted shares 146,976,023 shares

The need for future financing will be dependent on the future impact of the pandemic. However, this could provide further opportunities to acquire hotel assets at distressed prices.

Business model change

Under sponsorship of Star Asia Group, Polaris has undergone significant reforms with the key thematic being to effectively utilise resources and to target stable growth.

The core element of this is **to shift the hotel operator model**:

- from the domestic legacy model involving long term fixed rent leases towards lower risk **“Fee-For-Service”** management contracts.
- Another facet is to start scaling the **owner/operator model** taking advantage of dislocated hotel market as well as Star Asia Group’s extensive experience, a capital intensive method that allows for high current returns and potential significant capital gains for Polaris as the hotel owner without paying rent or management fees.

Shifting hotel
operator model to
higher return
formats

A positive impact from the pandemic has been the hotel asset market has seen a dramatic decline in buyers, allowing for competitive and commercially lucrative hotels to be opportunistically acquired at attractive discounts. Polaris is aiming to capitalise on this trend to further build its owner/operator model.

Business segment details

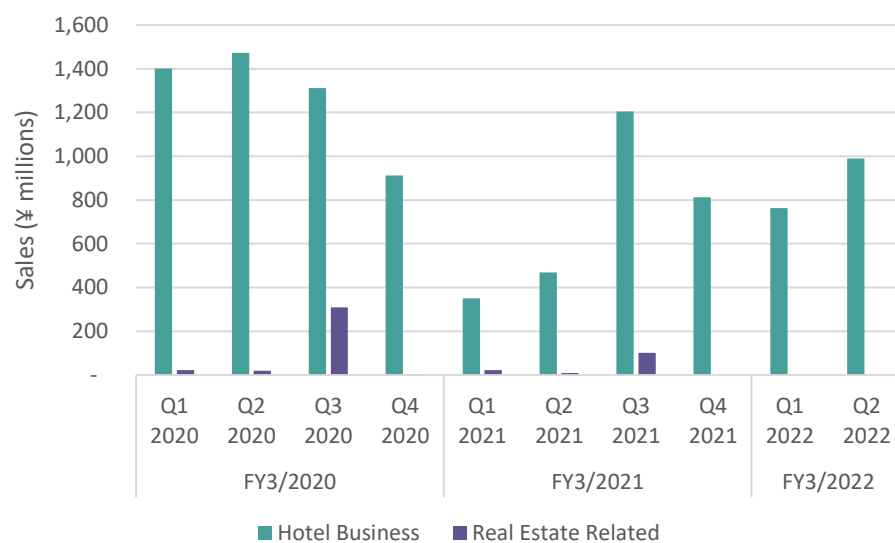
Polaris has two business segments – Hotel Operations and Real Estate.

Business segment details

Business segment	Key services	Description
Hotel Operations	<ul style="list-style-type: none"> • Management • Operations • Consulting • Franchise 	<ul style="list-style-type: none"> • Owner/operator of hotels • Operating hotels under lease or management contracts • Aiming to improve new openings or existing hotels • Memberships for the 'Best Western Hotel' franchise
Real Estate		

Source: Company

Figure 3: Recent quarterly sales trend per segment



Source: Company

Lowering fixed costs

Polaris has executed the following measures to lower the fixed cost base of the business, achieving a lower break-even point:

- Introducing a centralized revenue management team to oversee all the hotels to maximise revenue and gross operating profit. This has allowed to reduce staffing costs of expensive General Managers who oversaw individual hotels.
- The company has reduced staff per hotel by optimizing staff shifts and introducing multi-tasking roles. Consequently, payroll per available room has been reduced by 30%.
- An annual expense deduction of ¥100 million is expected via changing and streamlining cleaning, building maintenance and other contracts.

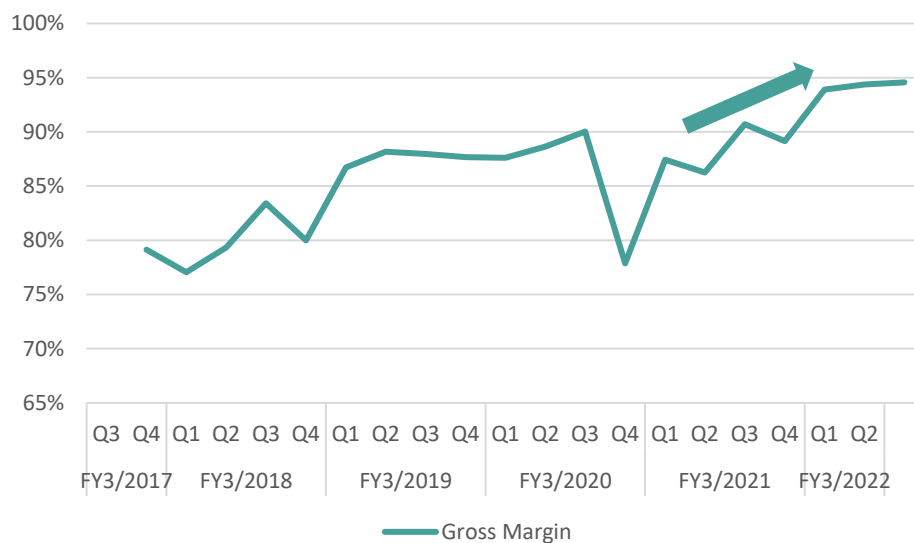
This has led to the company building a profit structure where the company can maintain EBITDA breakeven at a level where RevPAR is 17% below historical CY2019 levels.

Other measures undertaken include:

- Acquiring competitively located hotel assets ideally with 200 or more rooms for operational economics of scale, thereby improving the sales mix.
- New hotel openings with competitive hotels and higher return business models.
- Terminating contracts of unprofitable hotels.

The pandemic has had a negative impact on sales volume, but there is an improving trend in gross margins (hitting a record high of 94.6% in Q1 FY3/2022) which indicate there will be higher returns once volumes return.

Figure 4: Gross margin trend – quarterly basis



Source: Company

Peer group analysis

Our identified peer group for Polaris comprise of a mixture of hotel and dormitory operators, owner/operators and members-only resorts show the following generalised characteristics:

- Profitability is relatively low, with the 10-year average OPM being 1.2%. However, the LTM OPM levels are significantly lower to historic levels, highlighting scope for recovery.
- Larger firms with more scale tend to generate higher profitability – the key is to expand operations.
- Prospective (1 year) EPS projections are beginning to see less steeper declines compared to 12 months ago. A return to positive net income is expected in places.
- Dividend-based shareholder returns tend to be limited.

Operating margins have significant scope to return to historical levels

Less steep declines in estimated prospective EPS pointing to improving prospects

Peer analysis on key valuation and leverage metrics

Ticker	Company	DIVIDEND YIELD				PROFITABILITY				EPS REVISIONS			LEVERAGE		EV / EBITDA		PER		Price/Book	
		Mkt Cap US\$ (m)	5 Yr Ave Yield	Yield LTM	Payout LTM	OPM 10Y Ave	OPM LTM	ROE 10Y Ave	ROE LTM	Δ in EPS	3M Δ EPS FY1	12M Δ EPS FY1	Net debt/Equity	Net debt/EBITDA	12M Fwd	10 yr Avg	12M Fwd	10 yr Avg	PBR LTM	10 yr Avg
3010	Polaris Holdings Co., Ltd	54	0.0%	0.0%	0.0%	-9.5%	-37.2%	-78.1%	na	na	na	na	na	-4.7x	na	na	na	na	-2.5x	9.5x
9616	Kyoritsu Maintenance Co., Ltd.	1,365	1.1%	0.5%	-9.3%	5.9%	-7.7%	8.0%	-11.8%	-29.7%	-64.8%	-92.4%	1.8x	-25.3x	24.2x	13.6x	41.5x	22.5x	2.3x	2.1x
4681	Resorttrust, Inc.	1,798	2.2%	1.6%	-30.7%	10.8%	6.0%	9.0%	-8.9%	12.6%	17.9%	-38.0%	0.6x	2.7x	11.5x	9.9x	26.5x	17.8x	2.0x	2.1x
9708	Imperial Hotel Ltd	960	0.7%	0.2%	-2.2%	1.0%	-40.6%	1.9%	-22.5%	0.0%	-55.7%	-2314%	-0.7x	3.8x	37.8x	33.7x	-105.3x	41.7x	2.6x	2.4x
9722	Fujita Kanko Inc.	255	0.9%	0.0%	0.0%	-9.5%	-60.5%	-4.0%	64.3%	0.0%	0.0%	4271%	0.5x	-1.4x	11.0x	23.3x	40.1x	43.1x	1.5x	2.2x
9713	Royal Hotel, Ltd.	104	0.0%	0.0%	0.0%	-3.8%	-56.4%	2.1%	-67.0%	na	na	na	4.6x	-4.8x	na	na	na	na	-1.6x	13.2x
6565	ABHOTEL Co., Ltd.	143	0.3%	0.1%	7.1%	22.4%	7.0%	14.4%	3.4%	0.0%	0.0%	273.2%	1.5x	7.9x	na	15.0x	na	29.2x	2.7x	4.5x
5261	Resol Holdings Co., Ltd.	202	1.4%	1.2%	20.4%	4.7%	7.8%	6.9%	11.7%	0.0%	0.0%	0.0%	1.2x	5.6x	na	na	na	na	1.9x	1.6x
6076	Amaze Co., Ltd.	114	2.6%	2.3%	192.5%	16.9%	10.3%	17.4%	1.4%	0.0%	0.0%	-33.3%	1.2x	5.3x	na	na	na	9.5x	1.1x	1.8x
9723	Kyoto Hotel, Ltd.	66	0.4%	0.0%	0.0%	-3.4%	-49.6%	-19.7%	-73.0%	na	na	na	8.2x	-9.1x	na	na	na	23.0x	19.6x	5.6x
6547	Greens Co. Ltd.	60	1.6%	0.0%	0.0%	-4.4%	-45.2%	-34.1%	na	143.5%	143.5%	212.3%	-3.6x	-2.2x	na	6.3x	6.6x	10.1x	-1.6x	1.8x
9704	Agora Hospitality Group	59	0.0%	0.0%	0.0%	-9.6%	-41.5%	-5.3%	-22.5%	na	na	na	0.8x	-5.4x	na	na	na	na	1.2x	1.1x
9720	Hotel Newgrand Co., Ltd.	40	0.6%	0.0%	0.0%	-5.5%	-20.7%	-18.3%	-37.0%	0.0%	na	na	2.5x	-8.9x	na	na	na	na	3.5x	1.0x
Simple average			0.9%	0.5%	13.7%	1.2%	-25.2%	-7.7%	-14.7%	14.0%	5.1%	285.0%	1.1x	-2.8x	21.1x	17.0x	1.9x	24.6x	2.5x	3.8x

Source: FactSet

Historically low profitability – smaller players tend to have lower profit potential



Group structure

Polaris Holdings has the following group companies:

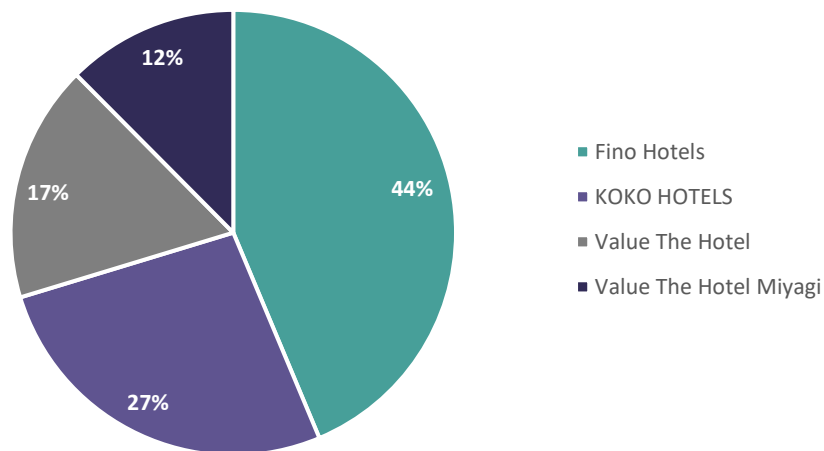
Group companies

Subsidiaries	Group company status	Stake	Description
Fino Hotels	Consolidated	100.0%	Manages and operates the Best Western hotels
KOKO Hotels	Consolidated	100.0%	Hotel operations of KOKO HOTEL
Kinuura Grand Hotel	Consolidated	100.0%	Hotel management
Value The Hotel	Consolidated	100.0%	Hotel management
Value The Hotel Miyagi	Consolidated	100.0%	Hotel management
Premium Resort Operations	Consolidated	86.36%	Hotel management
Best Western Hotels Japan	Consolidated	100.0%	Franchise business
Asarigawa Onsen Development	Consolidated	100.0%	Real estate development
Tohoku Rapid Reconstruction Fund LLC	Consolidated	100.0%	Real estate trust
Value The Hotel Fund LLC	Consolidated	100.0%	Real estate trust

Source: Company

In FY3/2021 the sales split for the core hotel operations looked as follows:

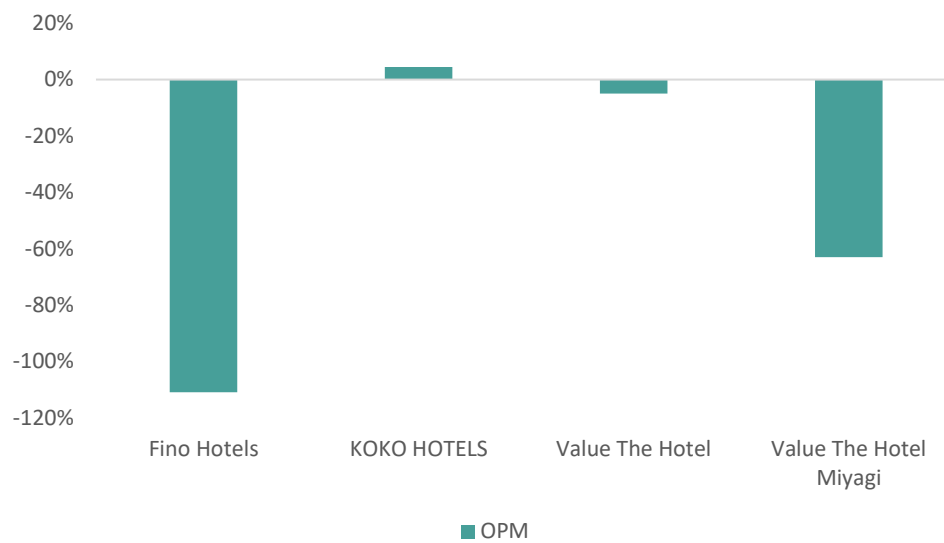
図表 5: FY3/2021 sales split by key group companies



Source: Company

Despite difficult trading conditions, KOKO HOTEL operating under low-risk management contracts broke even for the period.

Figure 6: FY3/2021 OPM by key group companies



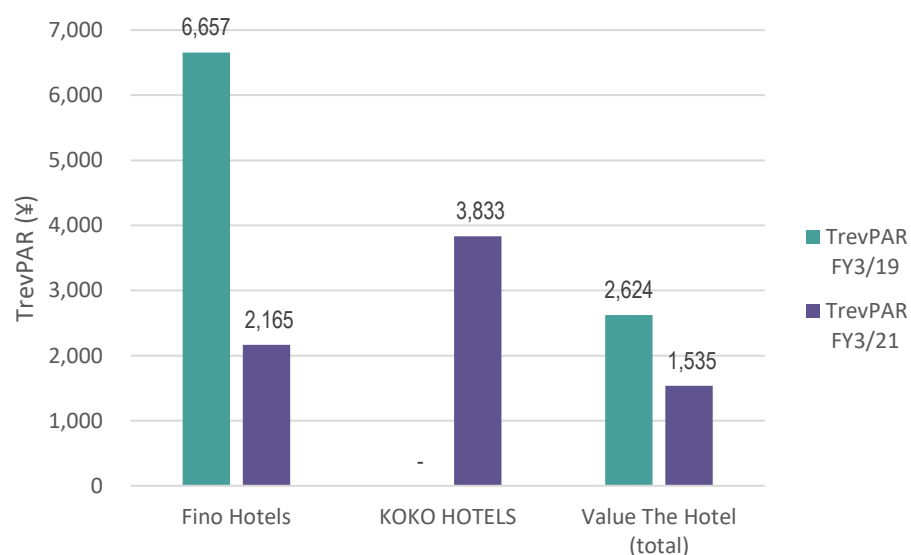
Source: Company

Total revenue per available room estimates

From company disclosure we have estimated the total revenue per available room (TrevPAR) from the following:

- Total FY sales for FY3/2019 and FY3/2021 for the group companies operating the hotels.
- The rooms available.

Figure 7: Estimated TrevPAR for hotel operations – FY3/2019 vs FY3/2021



Source: Company

Notes: 1) Fino Hotels include Kinuura Grand Hotel 2)* Value The Hotel is a combination of Value The Hotel and Value The Hotel Miyagi subsidiaries

Our calculations highlight the following:

- Fino Hotels experienced a 67% drop in TrevPAR and Value The Hotel experienced a 41% drop YoY.
- KOKO Hotels' estimated TrevPAR was the highest of the group in FY3/2021, demonstrating its ability to improve the sales mix.

Star Asia Group LLC

Star Asia Group LLC is a holding company and ultimate 73.05% owner of Polaris Holdings. It acts as sponsor to Polaris, providing significant financial and management resources, and is collaborating in further developing and growing the KOKO HOTEL franchise.

Star Asia Investment Corporation (3468)

Star Asia Investment Corporation ("SAIC") is diversified listed J-REIT. Under Star Asia Group's sponsorship, SAIC has steadily and accretively grown its assets from JPY62 billion at the time of the IPO in April 2015 to JPY180 billion in August 2021. Star Asia Group has implemented creative and value-add growth strategies to maximize investor returns, including the unprecedented merger between SAIC and Sakura Sogo REIT. SAIC is the owner of KOKO HOTEL Osaka Namba which opened in December 2021 under a full variable rent structure.

Star Asia Group

Overview

Founded by Taro Masuyama and Malcolm F. MacLean IV in 2006 who are directors of Polaris, Star Asia Group is an independent fund management company focused on Japanese real estate and real estate related assets. Since its founding Star Asia Group has invested over ¥940 billion and has current assets under management of over ¥400 billion. Star Asia Group has 371 officers and employees with over 55 professionals with finance, investment, real estate, and hospitality expertise located primarily in Japan and in the United States.

Star Asia Group's strong track record and long-term partnership approach with investors have been integral in attracting capital from sophisticated global investors, including large U.S. university endowments and foundations, sovereign wealth funds, Japanese and European pension funds, U.S. and Asia-based family offices as well as other global real estate investors.

Group structure

Star Asia Group is made up of the following business lines and companies.

Star Asia Group – business lines and companies

Business line	Company	Detail
Private fund management	Star Asia Management	<ul style="list-style-type: none"> Registered Investment Advisor with the US SEC Manages private funds including its flagship Star Asia Japan Special Situations funds Sponsors and supports other group entities providing strategic and technical advice as well as leadership resources
Asset management	Star Asia Asset Advisors	<ul style="list-style-type: none"> Registered for Financial Instruments Business (2nd Financial Instruments, Investment Advisory, Agency and Investment Management*) with Kanto Financial Bureau Provides asset management, property management and brokerages services for Polaris, SAG, Group entities as well as third parties
Property development	Star Asia Sogo Kaihatsu	<ul style="list-style-type: none"> Provides development expertise and pipeline for Polaris, SAIC and other SAG Group entities
Publicly traded JREIT	Star Asia Investment Corporation (TSE: 3468)	<ul style="list-style-type: none"> Managed by Star Asia Investment Management, registered for Financial Instruments Business (Investment Management) Diversified JREIT with JPY177 billion in asset under management (as of July 2021)
Publicly traded hospitality operation and development company	Polaris Holdings (TSE: 3010)	<ul style="list-style-type: none"> Sponsored by Star Asia Group Develops and operates hospitality properties with 31 hotels and 5,305 rooms currently under management across Japan (as of September 2021)

Source: Star Asia Group

Business model

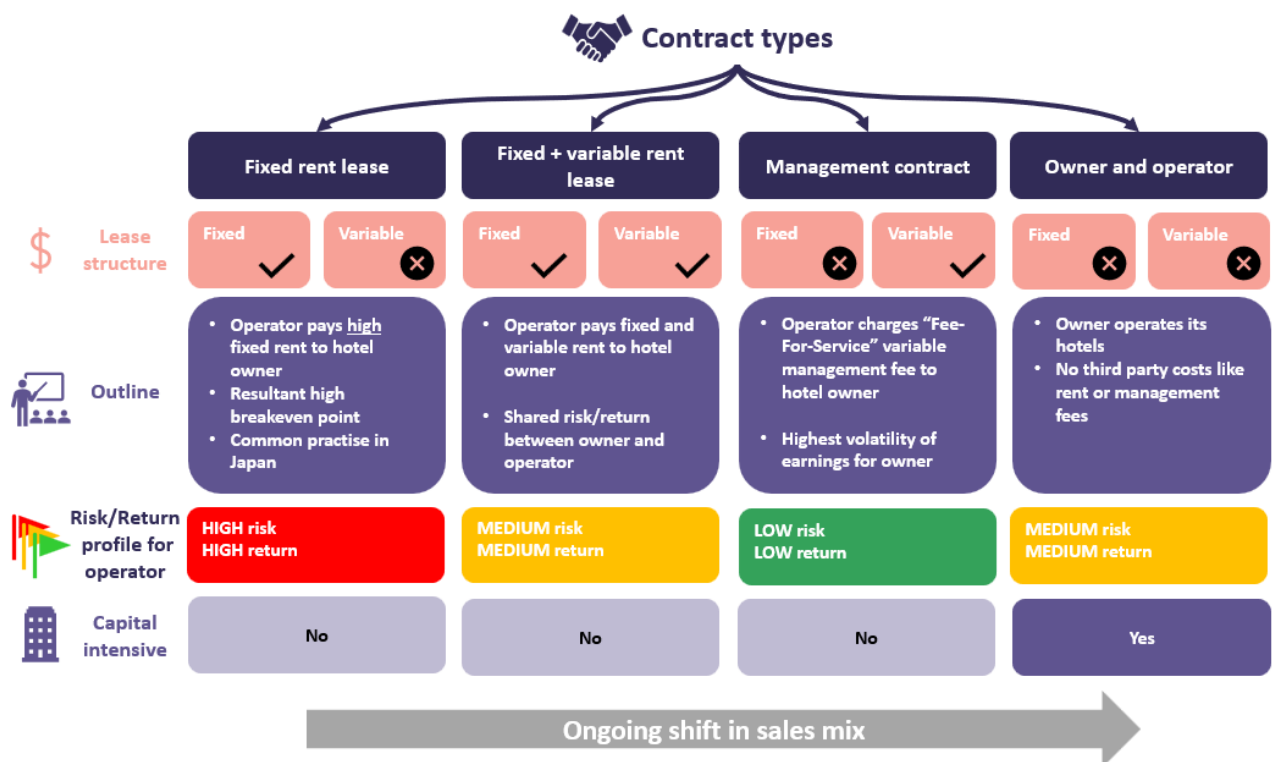
Hotel operations

The hotel operations business has four earnings models based on operating contracts, the key difference being the lease structure and its impact on the risk/return profile. The company's key strategy is to move:

- Away from long term fixed rent fixed leases and towards variable lease and/or management contracts.
- Increase the level of 'owner and operator' assets taking advantage of the dislocated hotel market as well as Star Asia Group's extensive experience, allowing it to operate without third party rent leakage and significant potential capital gain in the future.

These efforts should enable the business to improve its overall sales mix as well as de-risking. The company is positioned to benefit having Star Asia Group as sponsor in order to execute this transition.

Figure 8: Type of hotel operating contracts and risk/return profile



Source: Company

The current hotel line-up is classified as follows. We see that during the pandemic Polaris has been active in re-positioning its portfolio in order to maximize returns in the run-up to a recovery in demand.

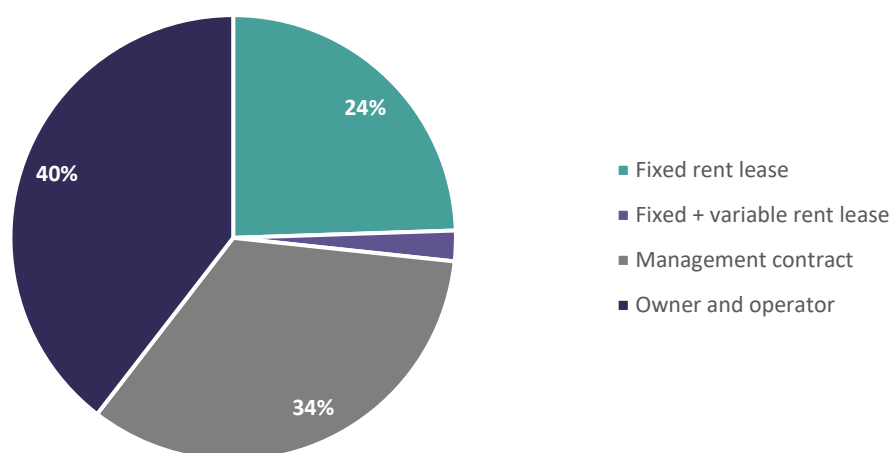
Hotels and rooms per contract type

Fixed rent lease	Rooms	Variable rent lease	Rooms	Management contract	Rooms	Owner and operator	Rooms
BW Osaka Tsukamoto	105			BW Hotel Fino Osaka Shinsaibashi	179	BW Plus Fukuoka Tenjin Minami (start March 2021)	236
BW Sapporo Odori Koen	60	KOKO HOTEL Osaka Namba (full variable rent – start December 2021)	100	BW Okinawa Koki Beach	64	VTH Higashi Matsushima Yamoto	407
BW Plus Hotel Fino Chitose	154			BW Okinawa Onna Beach	49	VTH Sendai Naton	314
BW Plus Hotel Fino Osaka Kitahama	129			KOKO HOTEL Ginza Itchome (start September 2020)	305	VTH Furukawa Sanbongi	495
BW Hotel Fino Tokyo Akasaka	87			KOKO HOTEL Sapporo Ekimae (start September 2020)	224	KOKO HOTEL Tsukiji Ginza (start September 2021)	188
BW Hotel Fino Shin Yokohama	108			KOKO HOTEL Fukuoka Tenjin (start September 2020)	159		
VTH Ishinomaki	82			KOKO HOTEL Hiroshima Ekimae (start September 2020)	250		
VTH Narahakidoekimae	107			KOKO HOTEL Kagoshima Tenmonkan (start September 2020)	295		
Kinuura Grand Hotel	165						
Sure Stay Plus Hotel Shin-Osaka	108						
CLOSED DOWN BW Nagoya – December 2021	140						
CHANGED CONTRACT Fino Hotel Sapporo Odori – December 2021	145						
						Fino Hotel Sapporo Odori – start December 2021	145
TOTAL ROOMS	1,105	TOTAL ROOMS	100	TOTAL ROOMS	1,525	TOTAL ROOMS	1,785
						GRAND TOTAL *	4,515

Source: Company (*grand total 4,515 disclosed in H1 FY3/2022 results)



Figure 9: Rooms per contract type



Source: Company

Recent developments

The key recent development in December 2021 are as follows:

- The closure of Best Western Nagoya (fixed rent lease).
- Acquiring Fino Hotel Sapporo Odori, and converting the operation from fixed rent lease to owner and operator. This was financed by ¥2,459 million of borrowing and ¥10 million from SAO.
- Operating KOKO HOTEL Osaka Namba with a full variable rent lease contract from Star Asia Investment Corporation (3468).

Real estate

Real estate rental, sales and development is a minor activity compared to hotel operations. The objectives here are to operate a fee business as agents and to assess opportunities over developments and renovation projects.

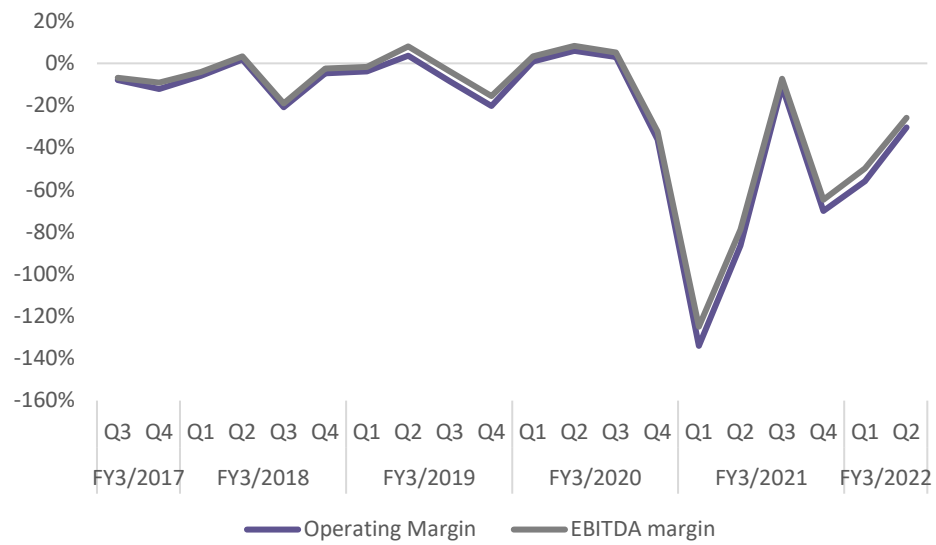
Recent trends

- There has been no revenues booked in this segment since Q3 FY3/2021.
- The company has disclosed estimates of unrealised gains on hotel assets to the tune of ¥2.204 billion at Q1 FY3/2022.

Recent quarterly profitability trends by segment

We have observed a steady improvement in quarterly gross margins (see Figure 10), a challenging environment has meant limited underlying sales growth. This has meant that quarterly profitability trends remain in negative territory given the ongoing pandemic.

Figure 10: Quarterly profitability trend – total EBITDA and OP margins



Source: Company

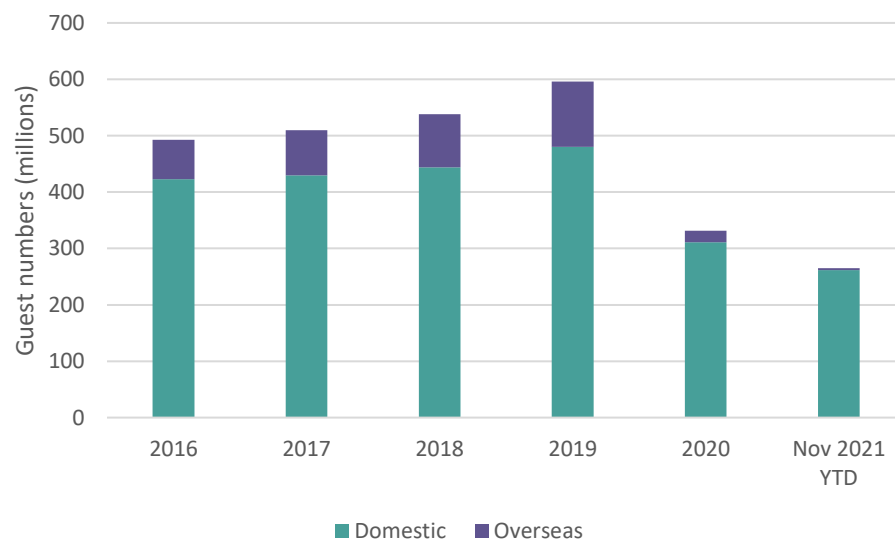
Addressable market

Looking back at pre-pandemic data on Japan's tourism industry gives an indication of what a normalised market environment would look like. For reference we look at historical data for the following:

- Annual number of guest stays, with the split between domestic and overseas travellers.
- Occupancy rates.
- An indication of where overseas visitors reside.

According to data from the Japan Tourism Agency, the hotel and accommodation industry peaked in CY2019, with guest numbers for overnight stays nearly reaching 600 million – 19.4% were overseas visitors. Numbers remained subdued YTD in November 2021.

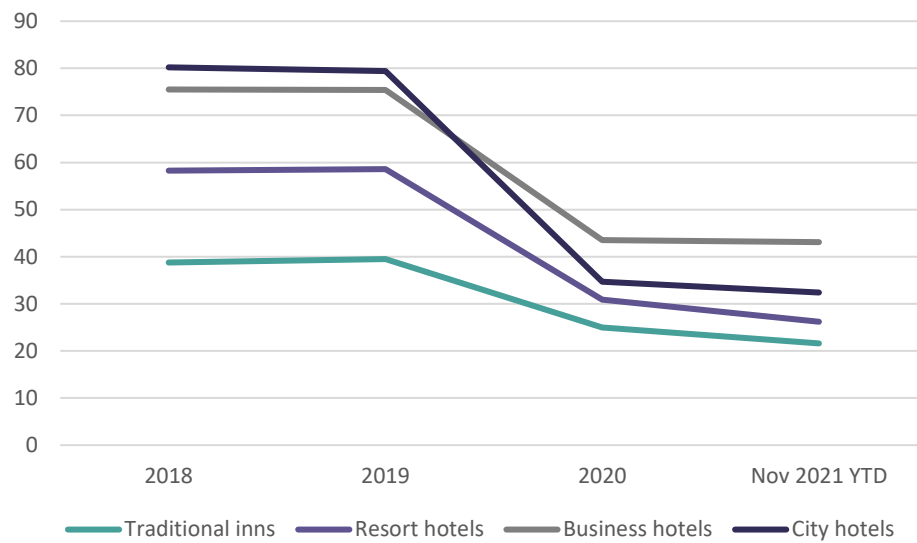
Figure 11: Overnight travel statistics



Source: Japan Tourism Agency

Occupancy rates also remain low YTD for November 2021. Polaris has a relatively higher exposure to business hotels which has seen rates remain relatively supportive versus formats such as resort hotels.

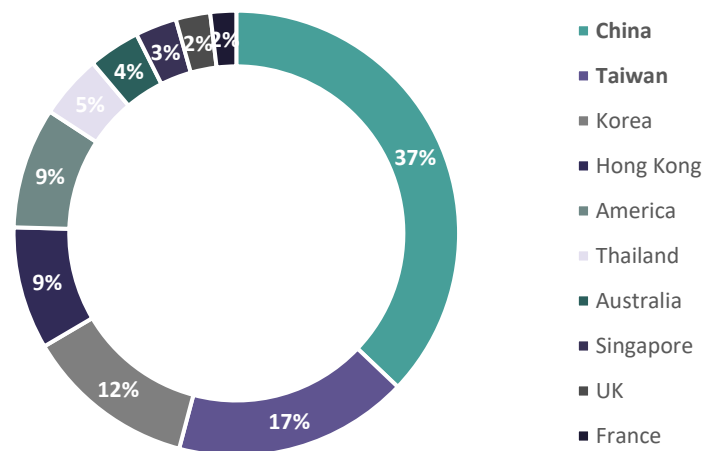
Figure 12: Occupancy rates per accommodation format



Source: Japan Tourism Agency

Inbound tourism has been driven significantly over the last 10 years by visitors from Asia – the profile for CY2019 shows China and Taiwan being the top two visitors to Japan.

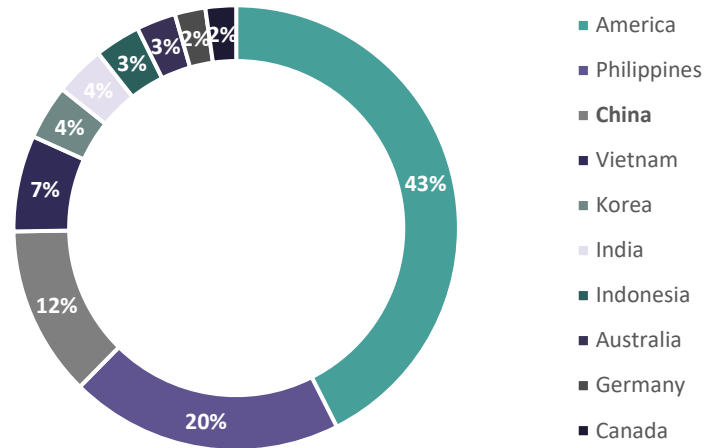
Figure 13: Origin of overseas visitors – CY2019



Source: Japan Tourism Agency

The data for the month of November 2021 shows that visitor profile by country has changed significantly from the peak days of 2019 with China down in third place with 12% share.

Figure 14: Origin of overseas visitors - November 2021

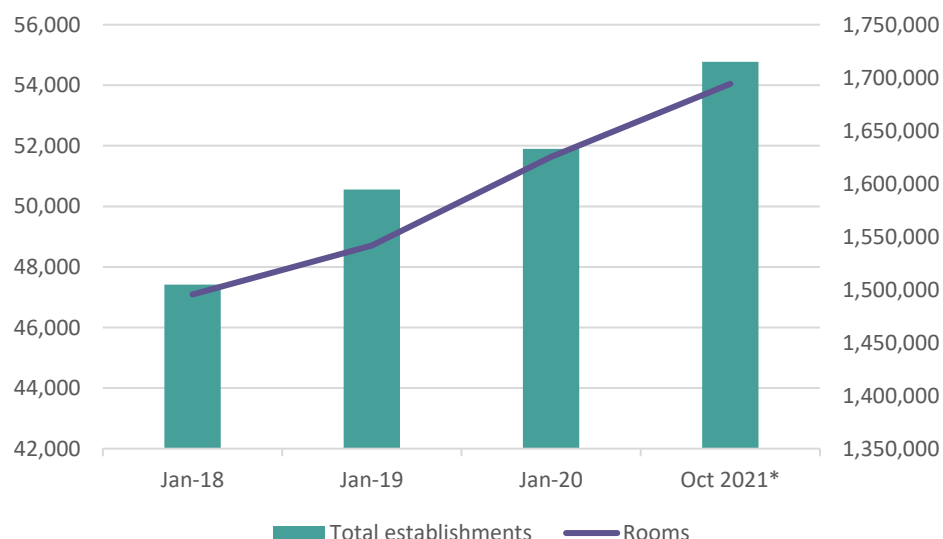


Source: Japan Tourism Agency

Industry supply still growing

There has been a significant build-up of hotels being built with the run-up to the Tokyo Olympics. According to data from Metroengine Research, the number of accommodation and available rooms have been growing at 4.3% and 4.9% CAGR (January 2018-October 2021) respectively in Japan.

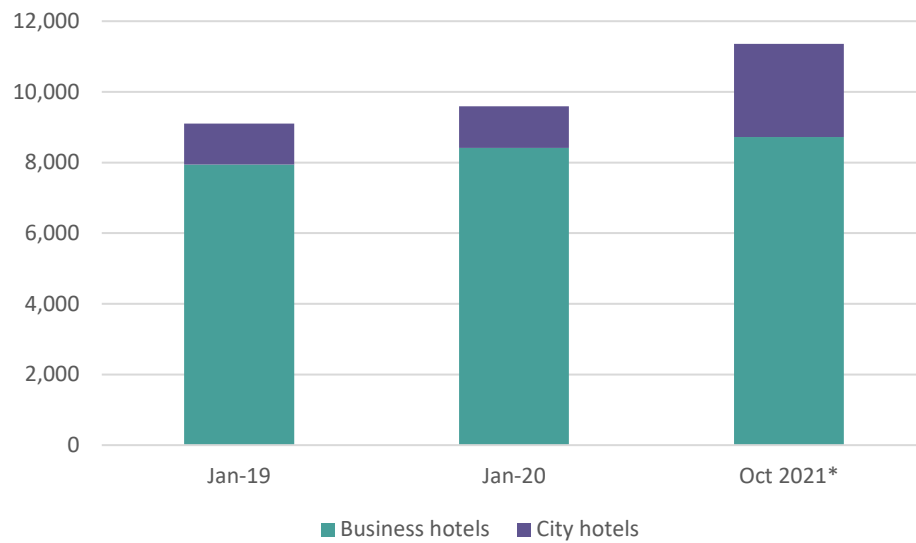
Figure 15: Japan - total market number of hotels and rooms



Source: HotelBank, Metroengine Research

We also note that Polaris' main market of business and city hotels (more services and amenities) have risen at around 5% CAGR since 2019.

Figure 16: Number of business and city hotels



Source: HotelBank, Metroengine Research

From this we surmise that:

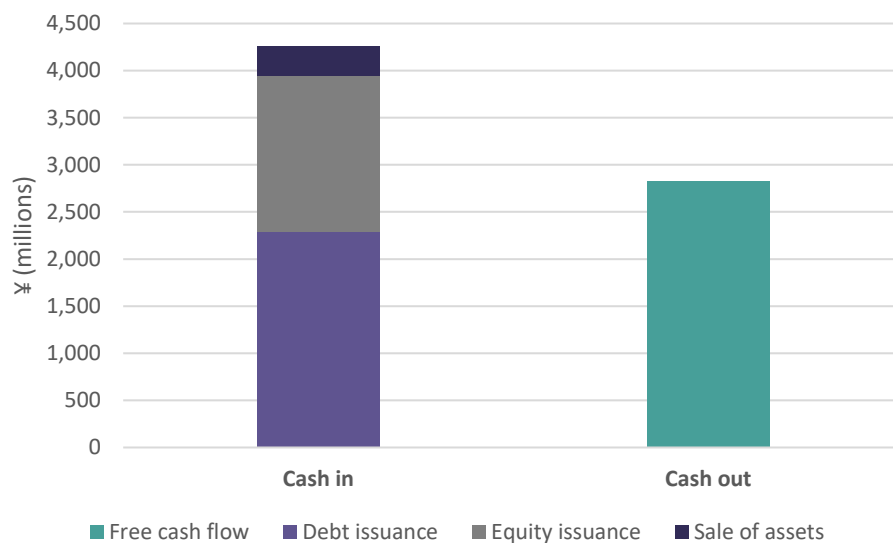
- Supply has remained on the increase. However, according to Polaris management the incremental increase in hotels during the COVID pandemic represents completed hotel development pipeline that were planned prior to the pandemic. Currently, new construction of the hotels have significantly decreased as developers re-assess their project profitability and feasibility, thereby near term supply of new hotels are very limited.
- Guests have greater choice and potentially higher bargaining power until visitor volumes recover to pre-pandemic levels and occupancy rates rise.

Capital allocation

Over the last 5 years to FY3/2021, Polaris has the following track record of cumulative capital allocation:

- Free cash flow generation has been inconsistent; the company has burnt cash in three of the last five years.
- Debt and equity issuance have both been required, the latter with the arrival of the Star Asia Group.
- Debt issuance was driven primarily by refinancing long-term debt in FY3/2021.

Figure 17: 5-year cumulative capital generation and allocation



Source: Company

Debt outstanding

At FY3/2021 the company had the following outstanding straight debt.

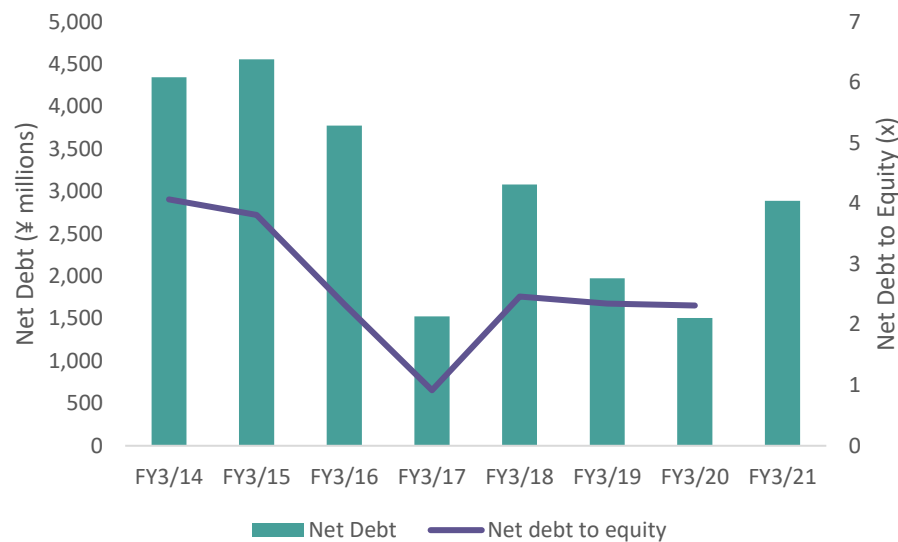
Details of borrowings – FY3/2021

Item	Balance b/f (¥m)	Balance c/f (¥m)	Average interest rate (%)	Repayment scheduling
Short term borrowing	746	693	1.47	-
Long term borrowing due within one year	372	367	2.10	-
Lease payments due within one year	16	28	-	-
Long term borrowing	1,013	1,628	1.75	2022 – 2030
Subordinated loan	-	950	0.50	2040
Lease payments due over one year	187	169	-	2022 – 2027
Other interest bearing securities	225	112	-	2021 – 2025
TOTAL	2,561	3,939	-	-

Source: Company

There was ¥900 million of convertible bonds outstanding (from the ¥1,500 million issued in in 2020) H1 FY3/2022.

Figure 18: Trend in net debt to equity[PHD: Please disclose and/or share raw data with us, just in case.]



Source: Company
Note: there was negative equity in FY3/2021

Economic balance sheet

The reported balance sheet of the company (reporting under JGAAP) omits the following areas of value that are not recognized under conventional Japanese accounting:

- The company has disclosed an unrealised gain of ¥2.20 billion on acquired inventory assets. This is made up of the following:
 - Purchase of Best Western Plus Fukuoka Tenjin Minami which led to ¥2.07 billion unrealised gain on its third-party independent appraisal value.
 - Polaris and sponsor jointly purchased KOKO HOTEL Tsukiji Ginza at a discounted price, resulting in a total ¥1.94 billion unrealised gain – of which Polaris has 6.9% share worth ¥0.13 billion).
- A 0.5% 20-year term COVID-19 subordinated loan worth ¥0.95 billion was raised from the Japan Finance Corporation in October 2020. This can be classified as equity for financial audit purposes by financial institutions.

Consequently, the company can be viewed as having an extra ¥3.15 billion in book value, equivalent to 46% of current market capitalisation.

Recent results

H1 FY3/2022 results

Key financials

JPY (millions)	H1 FY3/2021	H1 FY3/2022	Growth YoY (%)
Sales	852	1,754	+105.8
Operating profit/(loss)	(914)	(728)	N/A
Operating margins	-107%	-41%	
Recurring profit/(loss)	(982)	(778)	N/A
Net income attributable to parent	(1,071)	(792)	N/A

Source: company

Per business segment (pre-elimination)

JPY (millions)	H1 FY3/2021	H1 FY3/2022	Growth YoY (%)
Sales			
Hotel operations	819	1,753	+114.0
Real estate	33	1	-96.9
Operating profit/(loss)			
Hotel operations	(812)	(572)	N/A
Real estate	4	(13)	N/A
Operating margins			
Hotel operations	-99.1%	-32.6%	
Real estate	12.2%	N/A	

Source: company

H1 FY3/2022 results highlighted the following:

- Hotel operations – sales grew strongly 114% YoY with the impact of 10 new hotels (3 Best Western, 1 Fino HOTEL and 6 KOKO HOTEL) added YoY, with one new KOKO HOTEL opening during Q2 FY3/2022. Operating losses declined YoY despite new hotel opening costs, through a combination of renegotiating leases with hotel owners, cost reduction efforts and hotel temporary closures.
- Management's recovery efforts have included:
 - Establishing new sales channels such as tie-ups with airlines.
 - Joining a benefits program to attract new customers.
 - Formulating plans related to the pandemic for medical workers and teleworking staff.
 - Outsourcing restaurant operations.
 - Negotiating down leases.
 - Efforts to reduce costs at head office, such as staff attendance management and re-negotiating service contracts for building maintenance and cleaning.

FY3/2022 outlook

The company is said to issue FY3/2022 guidance when it is possible to do so.



Medium term plan

Targets

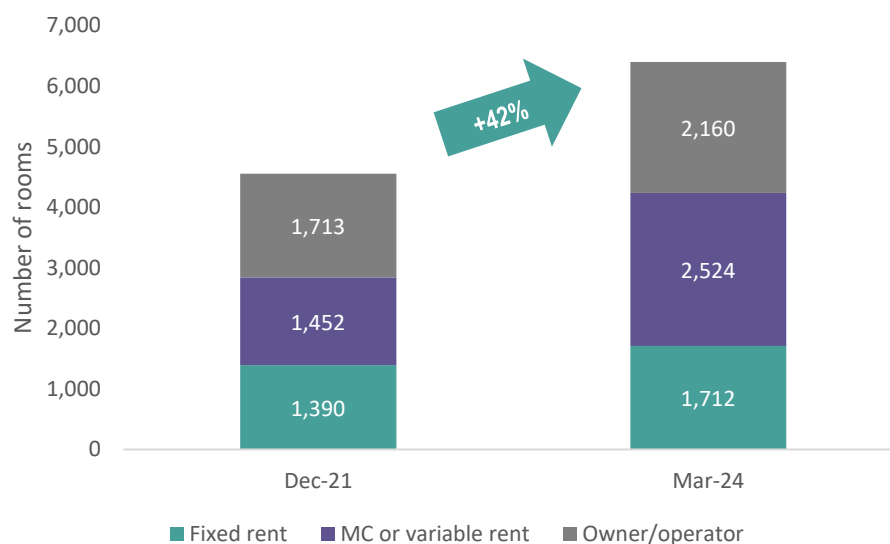
Polaris has disclosed the following targets for FY3/2024:

- EBITDA ¥2.26 billion
- ROE 15%

The key drivers are as follows:

- Target to operate 34 hotels with a total of 6,396 rooms from 4,515 in December 2021.

Figure 19: Number of rooms by contract type



Source: Company

- To shift the mix of contracts so the lower risk management contracts (MC) or variable contracts make up the majority at 39% in FY3/2024 (up from 32% in December 2021).

Hotel acquisitions

Management wants to increase room numbers under the owner/operator model. We expect these assets to be acquired as tradeable real estate, as an element of the company's business model is to generate gains from real estate development and sales.

We note that as Japan continues to close its borders to foreigners and restrict its citizens' economic/social activities, the stress in Japan's hotel market continues unabated. This will further create opportunities for Polaris to acquire competitive hotels at very attractive prices, ideally below their replacement costs, fully utilizing Star Asia Group's extensive network and financial resources.

Shareholder returns

Dividends

The company has not issued a notable dividend since FY3/2009.

Currently there are no plans for dividends to be reinstated. Once the company is on a sound financial footing and capital has been effectively utilised, management are open to discussing dividend distribution.

Share buybacks

There is no formal policy in place. It is worth noting that the sponsor Star Asia Group has a culture of focusing on maximizing value for stakeholders.

Astris earnings estimates and key assumptions

Astris key earnings forecasts are as follows:

Earnings estimates

Year end	FY3/2022E	FY3/2023E	FY3/2024E
TrevPAR (¥)	2,370	3,318	5,226
Growth YoY (%)	-	+40.0	+57.5
Average No. of rooms	4,150	3,979	6,396
Growth YoY (%)	+21.8	-4.1	+60.7
Sales (¥bn)	3.59	4.82	12.03
Growth YoY (%)	+20.8	+34.2	+149.7
OP (¥bn)	(1.44)	(0.87)	1.93
OPM (%)	-40.0	-18.0	16.0
EBITDA (¥bn)	(1.24)	(0.61)	2.26
FCF (¥bn)	(7.26)	(0.82)	2.27
FCF margin (%)	-202.4	-16.9	18.9
FCF conversion (%)	N/A	N/A	135.6
FCF yield (%)	(115.0)	(12.9)	36.0
Diluted FCF yield (%)	(71.6)	(8.0)	22.4

Source: Astris Advisory

The core assumptions to these estimates are as follows:

- **A sustained recovery in business environment** – we estimate that in FY3/2024 both domestic and inbound demand will recover to a comparable level to demand experienced in CY2019 pre-pandemic.
- **TrevPAR** (total revenue per available room) – we estimate sustained double-digit growth as guest traffic begins to normalise and occupancy rates increase. The improvement in sales mix via contract types will also drive this increase.
- **Operating profit margins** – to recover to positive territory in FY3/2024 as rising sales volumes and changed sales mix as well as reduced cost structure results in reater profitability.
- **Free cash flow generation to turn positive** – we estimate that FY3/2024 will see a start to the company generating some positive free cash flow. However, this will be dependent on the size of purchase of hotel assets to increase exposure to the owner/operator model.

We are not estimating any one-time gains from sale of tradeable real estate assets.

Company information

Management

48 years of experience in the hospitality industry and is a director at 11 hotel groups across Japan

Executive Chairman	Shigeru Takakura
Shareholding (direct)	0.14%
Career history	
Prior	Various executive level roles at Hilton International
2005	Appointed General Manager at Solare Hotels & Resorts
2011	Appointed General Manager and director of Rembrandt Holdings
2013	Joined Polaris Holdings in Sales and Marketing, appointed director
2014	Appointed President of Polaris Holdings
2020	Appointed Chairman

Over 30 years of experience in real estate development, construction, leasing and sales

President & CEO	Atsuo Umeki
Shareholding (direct)	0.03%
Career history	
1986	Joined Tomen Corp in real estate development
2006	Appointed President at Meiho Enterprises Co. Ltd (8927)
2009	Appointed director of Meiho Properties
2015	Appointed director at House Saison Enterprise KK
2017	Appointed President and CEO at Star Asia Sogo Kaihatsu Co Ltd
2019	Joined Polaris Holdings as Principal & Chairman
2020	Appointed President & CEO of Polaris Holdings

Director, COO & CFO	Satoshi Hosono
Shareholding (direct)	0.07%
Career history	
2003	Joined Daiwa Securities Co Ltd
2006	Joined Mizuho Securities Ltd Securities Co Ltd Real Estate Finance
2012	Appointed manager at Xymax Corporation
2015	Appointed Director at Star Asia Management Japan
2018	Joined Polaris Holdings as Corporate Officer
2019	Appointed CFO/IR and director of Polaris Holdings
2020	Appointed COO in addition to existing duties

Executive Officer - Head of Hotel Business	Yohei Taguchi
Shareholding (direct)	0.02%
Career history	
2007	Joined Accenture Japan as Consultant
2016	Joined Ichigo Investment Advisors in Hotel REIT Asset management
2020	Joined Star Asia Management Japan in Hotel Investment
2021	Appointed Head of Hotel Operations at Polaris Holdings

Co-founder of Star Asia Group

Director	Malcolm F. MacLean IV
Shareholding (direct)	1.71%
Career history	
1992	Appointed Vice President Kidder Peabody & Co.
1995	Appointed Senior Vice President PaineWebber Incorporated
2000	President and Portfolio Manager Mercury Real Estate Advisors LLC
2006	Star Asia Group Founder and Managing Partner
2019	Appointed Director of Polaris Holdings

Co-founder of Star Asia Group

Director	Taro Masuyama
Shareholding (direct)	1.71%
Career history	
1990	Joined Accenture Japan as Consultant
1994	Appointed Vice President Bankers Trust Company
1999	Appointed Managing Director Merrill Lynch
2007	Star Asia Group Founder and Managing Partner
2019	Appointed Director of Polaris Holdings

Director	Ryutaro Hashimoto
Shareholding (direct)	0.17%
2008	Joined Merrill Lynch Japan Securities
2010	Joined Blackstone Group Japan
2015	Appointed Managing Director Star Asia Management Japan
2019	Joined Polaris Holdings and appointed Director
2020	Appointed Director of SAGL Advisors

Contact details

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Tokyo 101-0032
Japan
www.polaris-holdings.com

IR Contact: Satoshi Hosono
Tel: +81 (3) 5822 3010

Source: Company

Summary history

Key corporate timeline	
September 1912	Established a silk plying factory in Gunma Prefecture as Jomoneshi
April 1961	IPO on the Tokyo Stock Exchange 2nd Section
April 1972	Commence real estate-related operations
October 2006	Change affiliated sector on TSE from 'textiles' to 'real estate'.
April 2008	Establishes Asarigawa Onsen Development
October 2008	Acquire Fino Hotels and convert into subsidiary
	Change name to Kachikaihatsu
January 2009	Establishes Best Western Hotel Japan
December 2009	Establishes Kinuura Grand Hotel
July 2015	Change affiliated sector on TSE from 'real estate' to 'services'.
March 2019	Star Asia Opportunity III LP invests in the company
May 2021	Change company name from Kachikaihatsu to Polaris Holdings

Source: Company

Shareholders details

Major shareholders	Stake (%)
Star Asia Management Ltd.	73.49
Four Quadrant Global Real Estate Partners	4.29
MacLean Malcolm Fraser IV	1.71
Masuyama Taro	1.71
Hazelview Global Real Estate Fund	1.43
EVO FUND	1.10
Charlestown Energy Partners LLC	0.70
Murayama Shinya	0.52
Ochiai Koichi	0.28
Yamada Kyo	0.22

Source: Factset

Astris Quant Sheet

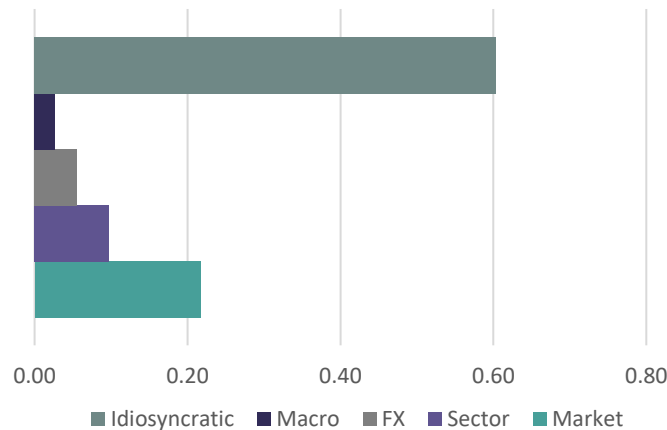
Share price chart and factor analysis



Source: FactSet

Factors	1 year Corr	3 year Corr
Momentum: 12 Month - 1 Month Performance	-0.27	-0.19
Quality: ROE, CF to Assets, Debt/ Assets	-0.30	-0.29
Growth: OP growth, Asset Growth	-0.30	-0.43
Value: Book to Market	-0.17	-0.26

Performance drivers



Source: FactSet

Factors	3 Year Corr	10 Year Corr
Topix REIT	0.33	0.27
Topix 1st Section	0.48	0.34
Topix 2nd Section	0.49	0.51
Topix Small Cap Index	0.49	0.46
MSCI Japan	0.47	0.32

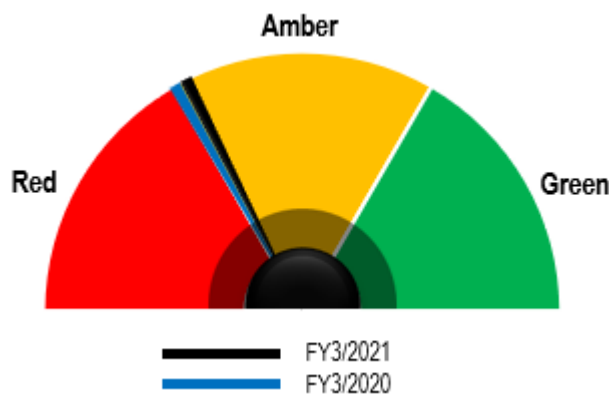
Astris-Sustainability ESG assessment

Ratings and scorecard

Our in-house Astris-Sustainability ESG model rates Polaris with a score of 34.5%, placing it in the 'Amber' rating of our assessment in FY3/2021. The direction of travel is a positive, up from 32.9% and the borderline 'Amber' rating FY3/2020.

Our in-house methodology* takes what we have selected as core measurable ESG factors, ranking its performance versus its domestic Global Industry Classification Standard (GICS) peers with market capitalisation of under US\$250 million.

Figure 20: Astris-Sustainability ESG model rating for Polaris Holdings



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

ESG scorecards

Environmental (3 factors)	FY3/2020	FY3/2021
Astris Environmental score	N/A	N/A
Industry Rank	N/A	N/A
Social (7 factors)		
Astris Social score	N/A	N/A
Industry Rank	N/A	N/A
Governance (34 factors)		
Astris Governance score	42.5	44.6
Industry rank	5 out of 18	5 out of 18
TOTAL SCORE	32.9	34.5

Source: Company, FactSet, Astris Corporate Advisory

Our methodology has highlighted the following key topics:

Environmental

The company has no disclosure of policies.

Social

The company has no disclosure of policies.



Governance

The corporate governance system at Polaris is a broad mix of experienced veterans with a total of 9 board members:

- Board of directors – 9 board members led by Chairman (former President and CEO of 7 years) Shigeru Takakura.
- Audit and Supervisory Committee – made up of two independent non-executive directors and one executive director, Koichi Akiyama. in FY3/2021 there was a 96% level attendance.
- Star Asia Management Japan – well represented on the board and senior management ranks at Polaris. Associates of Star Asia Management hold a 5-seat majority on the board and the top 3 executive positions, including President and CEO.
- Independent Directors – 2 of the 9 board members are independent with 3 board seats held by executive directors.

There is also a management committee chaired by CEO Umeki held on a quarterly basis, and a risk and compliance committee chaired by Director Hosono.

Controversies

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

Areas of discussion

Highlighting key topics for investors

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

1. Financing requirements
 - a. Is there currently sufficient capital to execute the growth strategy target for FY3/2024?
 - b. In the event the outstanding warrants are not exercised, will this have an impact on financing plans going forwards?
2. Contract mix
 - a. Has Star Asia Group as sponsor lined up assets for sale to Polaris to boost its owner/operator model?
 - b. Is the company readying any more exits from fixed lease contracts?
 - c. How will the KOKO HOTEL franchise be grown?
3. Unrealised gains on hotel assets
 - a. How does management view current and future unrealised gains on its owner/operator hotel assets?
 - b. What would trigger a sale?
4. Overseas guest volumes
 - a. How reliant on overseas visitors are the three key franchises?
 - b. Will the planned increase in hotel rooms target overseas guest business or domestic?
5. Outlook for TrevPAR growth in the medium term



JGAAP Financials

Income statement (¥bn)	FY 3/20	FY 3/21	FY 3/22E	FY 3/23E	FY 3/24E
Sales	5.45	2.97	3.59	4.82	12.03
COGS	0.78	0.29	0.22	0.24	0.48
Gross profit	4.67	2.68	3.37	4.58	11.55
Gross profit margin (%)	85.6	90.3	94.0	95.0	96.0
Total OP	(0.18)	(1.63)	(1.44)	(0.87)	1.93
OP margin (%)	(3.3)	(54.7)	(40.0)	(18.0)	16.0
Non-operating income	0.00	0.07	0.04	0.06	0.05
Non-operating expense	(0.12)	(0.13)	(0.20)	(0.25)	(0.29)
Recurring profit	(0.30)	(1.68)	(1.59)	(1.06)	1.68
Extraordinary gains	-	-	-	-	-
Extraordinary losses	(0.01)	(0.40)	-	-	-
Pre-tax profit	(0.17)	(2.08)	(1.59)	(1.06)	1.68
Tax	0.019	0.016	0.07	-	-
Effective tax rate (%)	(10.9)	(0.8)	(4.57)	-	-
Net income	(0.19)	(2.10)	(1.67)	(1.06)	1.68
Non-controlling NI	-	-	-	-	-
Parent attributable NI	(0.19)	(2.10)	(1.67)	(1.06)	1.68
Sales growth YoY (%)	+7.2	-45.5	+20.8	+34.2	+149.7
OP growth YoY (%)	N/A	N/A	N/A	N/A	N/A
NI growth YoY (%)	N/A	N/A	N/A	N/A	N/A

Balance sheet (¥bn)	FY 3/20	FY 3/21	FY 3/22E	FY 3/23E	FY 3/24E
Cash & equivalents	1.05	1.84	3.46	5.52	10.73
Trade debtors	0.17	0.33	0.33	0.33	0.33
Stock	0.13	0.06	5.24	5.24	5.24
Other	0.05	0.28	0.28	0.28	0.28
Current assets	1.40	2.51	9.31	11.37	16.59
Tangible assets	1.23	1.21	1.44	1.61	1.73
Intangible assets	0.03	0.02	0.07	0.12	0.15
Investment & others	1.33	1.26	1.26	1.26	1.26
Fixed assets	2.59	2.48	2.77	2.99	3.14
Total assets	3.99	5.00	12.08	14.36	19.73
Short term borrowing	1.14	1.08	1.08	1.08	1.08
Trade creditors	0.00	0.00	0.00	0.00	0.00
Other	0.56	0.79	0.34	0.38	0.75
Current liabilities	1.70	1.87	1.41	1.45	1.83
Long term borrowing	1.43	3.76	8.71	11.19	13.67
Other LT liabilities	0.22	0.15	0.15	0.15	0.15
Long term liabilities	1.64	3.91	8.86	11.34	13.82
Shareholder's equity	0.65	(0.78)	1.81	1.57	4.09
Non-controlling interests	-	-	-	-	-
Total net assets	0.65	(0.78)	1.81	1.57	4.09
Total liabilities & net assets	3.99	5.00	12.08	14.36	19.73

Cash flow statement (¥bn)	FY 3/20	FY 3/21	FY 3/22E	FY 3/23E	FY 3/24E
Net income	(0.19)	(2.10)	(1.67)	(1.06)	1.68
Depreciation/amortization	0.14	0.16	0.20	0.26	0.33
Other non-cash items	0.14	0.52	0.33	0.42	0.38
Changes in working capital	0.05	(0.09)	(5.64)	0.04	0.37
Cash from Operating Activities	0.14	(1.51)	(6.78)	(0.33)	2.76
Capex	(0.04)	(0.48)	(0.48)	(0.48)	(0.48)
Acquisition of business	-	-	-	-	-
Other investing cash flow	0.37	(0.17)	0.10	(0.03)	0.03
Cash from Investing Activities	0.33	(0.65)	(0.38)	(0.52)	(0.45)
Total cash dividends paid	-	-	-	-	-
Debt issuance/(retirement)	(0.95)	2.06	4.95	2.48	2.48
Equity financing	-	0.06	2.80	-	-
Other	(0.08)	0.83	1.03	0.43	0.43
Cash from Financing Activities	(1.03)	2.95	8.78	2.91	2.91
FX impact	-	-	-	-	-
Net cash flow	(0.56)	0.79	1.62	2.06	5.22
Free cash flow	0.10	(1.99)	(7.26)	(0.82)	2.27
Free cash flow margin (%)	1.8	-67.0	-202.4	-16.9	18.9
Free cash flow conversion (%)	-52.4	N/A	N/A	N/A	135.6
Capex/sales (%)	0.7	16.2	13.4	10.0	4.0
Capex/depreciation (%)	26.8	299.0	247.5	184.4	145.9
CFO margin (%)	2.5	-50.8	-188.9	-6.9	22.9

Key metrics	FY 3/20	FY 3/21	FY 3/22E	FY 3/23E	FY 3/24E
Profitability					
Gross margin (%)	85.6	90.3	94.0	95.0	96.0
Operating margin (%)	(3.3)	(54.7)	(40.0)	(18.0)	16.0
Net margin (%)	(3.5)	(70.7)	(46.4)	(21.9)	13.9
ROA (%)	(4.8)	(42.0)	(13.8)	(7.4)	8.5
ROE (%)	(29.3)	267.9	(92.2)	(67.4)	41.0
ROCE (%)	(7.9)	(52.1)	(13.5)	(6.7)	10.8
ROIC (%)	(5.3)	(45.1)	(19.2)	(6.8)	11.8
Liquidity					
Current ratio (x)	0.8	1.3	6.6	7.8	9.1
Quick ratio (x)	0.7	1.3	2.9	4.2	6.2
Leverage					
Debt/Equity ratio (x)	3.9	(6.2)	5.4	7.8	3.6
Net Debt/Equity ratio (x)	2.3	N/A	3.5	4.3	1.0
Equity ratio (x)	0.2	(0.2)	0.1	0.1	0.2
Interest cover (x)	(2.1)	(14.9)	(7.3)	(3.5)	6.5
Net Debt/EBITDA (x)	-38.2	-2.0	-5.1	-11.1	1.8
Valuation					
EPS reported (¥)	(3.56)	(37.8)	(18.2)	(11.5)	18.3
PER (x)	N/A	N/A	N/A	N/A	4.0
DPS (¥)	-	-	-	-	-
Dividend payout ratio (%)	-	-	-	-	-
Dividend yield (%)	-	-	-	-	-
Free cash flow yield (%)	2.7	(52.0)	(115)	(12.9)	36.0
Diluted FCF yield (%)	N/A	(32.4)	(71.6)	(8.0)	22.4
PBR (x)	9.7	(8.1)	3.5	4.0	1.5
EV/sales (x)	2.3	4.3	3.5	2.6	1.1
EV/EBITDA (x)	(320.4)	(8.6)	(10.2)	(20.9)	5.6
EV/EBIT (x)	(69.8)	(7.8)	(8.8)	(14.6)	6.6
EV/FCF (x)	126.5	N/A	N/A	N/A	5.6



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