

Polaris Holdings (3010)

Definitive signs of stabilization

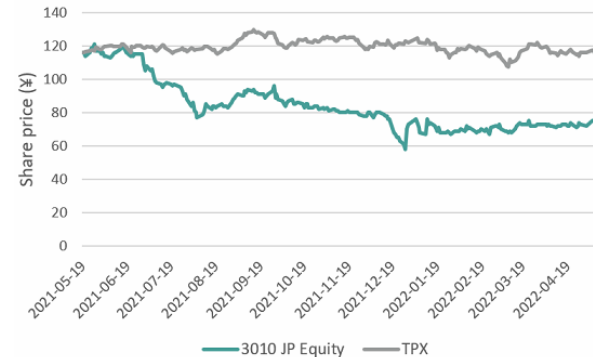
Share price: ¥77

Market cap: ¥7.1bn

FY3/2022 results update

18 May 2022

- FY3/2022 results ahead of our estimates** – Polaris generated higher sales volume and lower operating losses than we expected. We view these results as a positive. Management has executed a comprehensive cost reduction program whilst remaining on the offensive and acquiring new hotel assets to generate revenues.
- The core theme is stabilization** – despite onerous market conditions we believe the core takeaway from FY3/2022 results is stabilization of the company's business. This comes in the form of a durable trend in quarterly gross profit margins, steady revenue volume as well as the availability of sufficient credit particularly from sponsor Star Asia Group.



Source: Bloomberg

Positioned for improving demand

- Making headway in increasing scale** – Polaris announced in February 2022 that they will manage 6 additional hotels under fee-based management contracts from July 2022. After completion, Polaris will have 31 hotels under management totalling 5,706 rooms (+26% growth from previous). The company is making steady headway towards its target of operating 6,396 rooms by FY3/2024.
- A more encouraging market outlook** – the trading environment remains complex and the company has not disclosed FY3/2023 guidance. However, the domestic tourism industry appears to be on a gradual recovery as witnessed by recent trends in hotel occupancy rates. Overseas visitor arrivals have picked up significantly in March 2022 according to the Japan National Tourism Organization, increasing 438% YoY although it remains very low compared to pre-pandemic levels. From June 2022, the Kishida administration highlighted that Japan will continue to ease border controls to be more in line with the other G7 nations.
- Valuations** – The shares are trading on an estimated FY3/2024 free cash flow yield of 30.2% (18.8% on a fully diluted basis).

Price performance

	YTD	1mth	3mth	12mth
Abs (%)	+5.5	+6.9	+10.0	-33.6
Rel (%)	+11.5	+7.6	+12.3	-33.2

Company sector

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

Stock data

Price (¥)	77
Mkt cap (¥bn)	7.1
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 Standard
Net Debt/Equity (x)	N/A
FFO leverage (x)	N/A
BBG BUY HOLD SELL	0 0 0

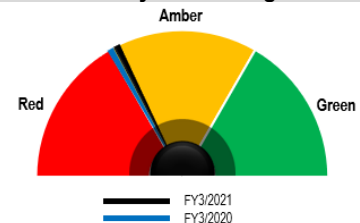
Year end	3/2021	3/2022	3/2023E	3/2024E	3/2025E
Sales (¥bn)	2.97	3.71	4.82	12.03	12.03
OP (¥bn)	(1.63)	(1.33)	(0.87)	1.93	2.05
NP (¥bn)	(2.10)	(1.83)	(1.05)	1.18	1.23
EPS (¥)	(37.83)	(25.98)	(11.52)	12.84	13.39
DPS (¥)	-	-	-	-	-
Sales growth YoY (%)	-45.5	+24.9	+29.8	+149.7	+0.0
OP growth YoY (%)	N/A	N/A	N/A	N/A	+6.3
NP growth YoY (%)	N/A	N/A	N/A	N/A	+4.3
EPS growth YoY (%)	N/A	N/A	N/A	N/A	+4.3
PER (x)	N/A	N/A	N/A	6.0	5.7
EV/EBITDA (x)	(9.9)	(14.0)	(23.2)	6.5	6.2
EV/Sales (x)	4.9	3.9	3.0	1.2	1.2
PBR (x)	(9.0)	36.6	(14.4)	8.3	3.0
ROE (%)	N/A	(949.7)	N/A	137.8	52.0
ROCE (%)	(52.1)	(13.5)	(7.4)	12.3	10.4
FCF yield (%)	(46.6)	(144.2)	(7.2)	30.2	23.4
Dividend yield (%)	-	-	-	-	-

Note: EPS and FCF yield calculations are undiluted

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

Q1 FY3/2023 results August 2022

Tel: +81 3 6868 8762

Email: Corporateresearch@astrisadvisory.com

This report has been commissioned and paid for by the company

FY3/2022 results

Results highlights

Key financials

JPY (millions)	FY3/2021	FY3/2022	Growth YoY (%)	Astris FY3/2022 estimates
Sales	2,972	3,712	+24.9	3,590
Operating profit/(loss)	(1,627)	(1,332)	N/A	(1,440)
Operating margins	-54.7%	-35.8%		-40.0%
Recurring profit/(loss)	(1,685)	(1,623)	N/A	(1,590)
Net income attributable to parent	(2,101)	(1,830)	N/A	(1,670)

Source: Company

Per business segment (pre-elimination)

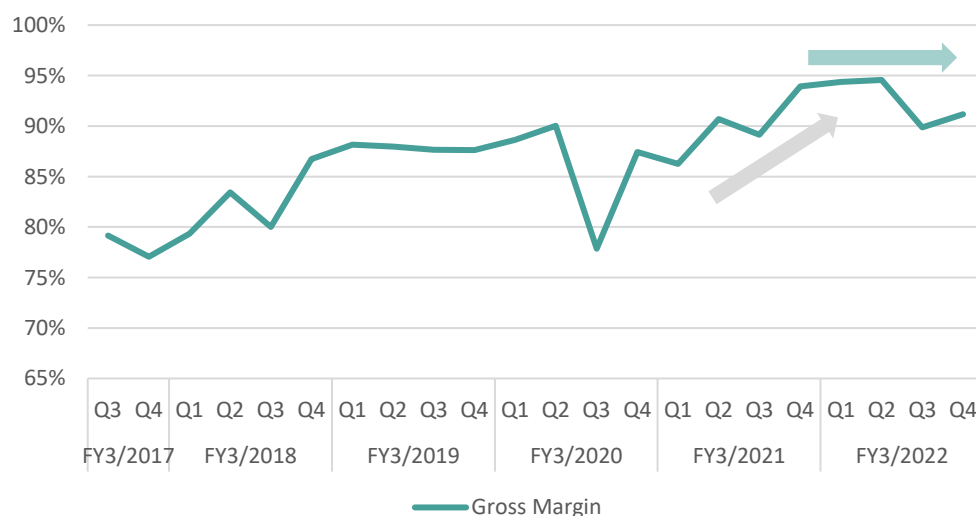
JPY (millions)	FY3/2021	FY3/2022	Growth YoY (%)
Sales			
Hotel operations	2,836	3,673	+36.4
Real estate	135	39	-71
Operating profit/(loss)			
Hotel operations	(1,385)	(1,070)	N/A
Real estate	12	27	-53.4
Operating margins			
Hotel operations	-48.8%	-29.1%	
Real estate	8.7%	68.6%	

Source: Company

FY3/2022 results were ahead of our earnings estimates for sales, with operating losses also better than our expectations. Despite new hotel opening costs, operating losses declined YoY helped by management renegotiating leases with hotel owner and executing cost reduction efforts such as staff expenses and hotel temporary closures.

We note that gross margins have stabilized during FY3/2022, following the decline and recovery during FY3/2020 – FY3/2021.

Figure 1: Gross margin trend – quarterly basis



Source: Company



The quarterly sales trend in Hotel Operations has also stabilised from Q2 FY3/2022, although there has been incremental sales from new hotel additions.

Figure 2: Quarterly sales trend

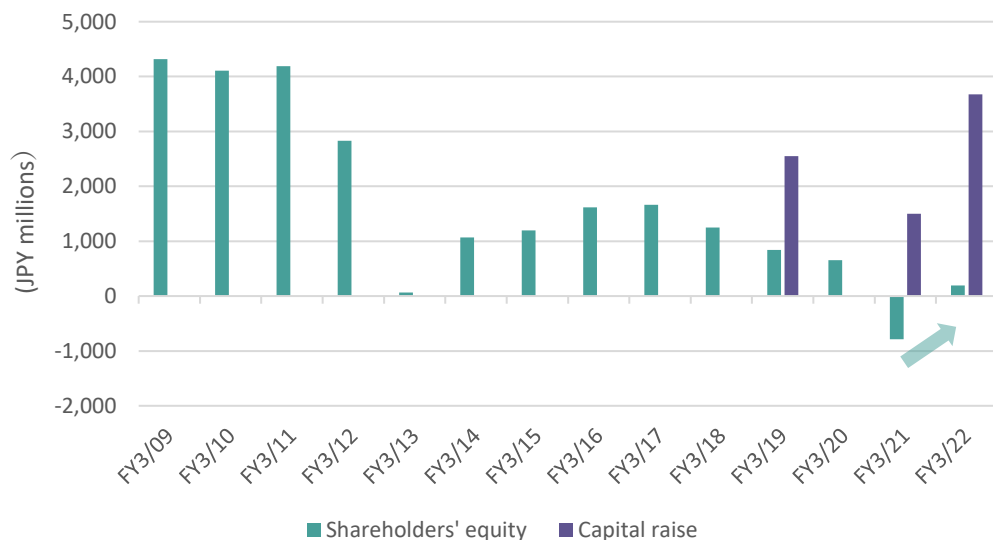


Source: Company

Strengthened capital base

We see the theme of stabilization with regards to the company's capital base. There was positive shareholders' equity in FY3/2022 and significant capital raising to shore up the balance sheet.

Figure 3: Trend in shareholders' equity (FY3/2009 to FY3/2022) and capital raises



Source: Company

Note: FY3/2022 capital raise includes ¥950 million subordinated loan from the Japan Finance Corporation (repayable in September 2040)

We believe management have conducted extensive recapitalisation, consequently placing the business in positive stead for the medium to long term. There are also the following measures to ensure the company has a strong capital outlook:

- An agreement with its main bank for a ¥600 million fixed term loan commitment line signed in September 2020.
- A commitment line worth ¥900 million is available from parent company Star Asia Group.
- Out of the ¥1.5 billion convertible bonds issued in July 2020, ¥600 million has been converted. Conversion of the remaining ¥900 million balance will further boost shareholders' equity.
- Exercise of warrants issued in 2020 will increase net assets by ¥1.442 billion.
- Exercise of warrants issued in November 2021 will boost equity by ¥3.134 billion.
- Management continues to hold discussions for borrowings of ¥210 million that have technically breached debt covenants. The aim is to ensure the lender does not exercise any penalties and to refinance.

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. We believe as sponsor, The Star Asia Group is committed to the business with plans to open new hotels and leveraging the strengths of both parties as the parent works to develop an eco-system utilising all group entities. Management believes there is no significant uncertainty with regards to Polaris Holdings as a going concern.

Economic balance sheet

We wish to highlight the following characteristics of the company's balance sheet.

- Some newly added hotels in FY3/2022 are classified as real estate for sale in current assets. These assets are valued at ¥5.953 billion.
- 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.

Market environment

Statistics from the Japan National Tourism Organization (JNTO) highlight that overseas traveller arrivals have started to trend positively from February 2022. This provides some evidence to suggest that we may have hit a bottom with a robust recovery witnessed in March 2022 of 438.4% YoY.

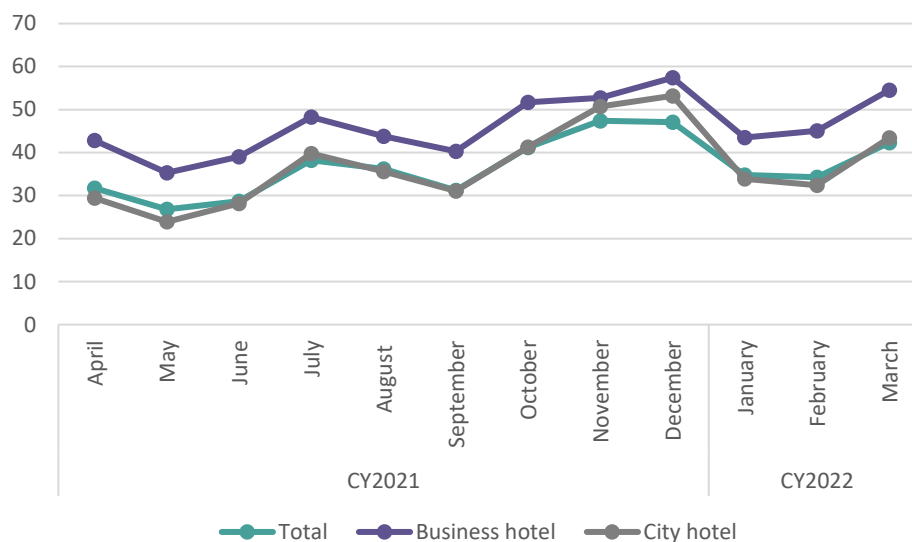
Overseas visitor arrivals

Month	CY2021	CY2022	Growth YoY (%)
January	46,552	17,776	-61.8
February	7,355	16,700	+127.1
March	12,276	66,100	+438.4
CY Quarter 1	66,153	100,600	+52.1

Source: JNTO

We also see an increase in the occupancy rate at hotels, particularly in Business hotels which applies to the company's portfolio which had 54.5% rate in March 2022 versus 42.8% in April 2021. There are clearly low hurdles YoY for occupancy rates into FY3/2023.

Trend in occupancy rate by facility type



Source: Ministry of Land, Infrastructure, Transport and Tourism

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 estimated FY3/2024 free cash flow yield of 30.2% (fully diluted 18.8%).

Company description

Overview

Polaris Holdings is a group company of Star Asia Group LLC (an independent investment group), its core business currently 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 the addition of 6 hotels announced on 14th February 2022, Polaris will have 31 hotels under management totalling 5,706 rooms.

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

Astris earnings estimates and key assumptions (updated)

Astris key earnings forecasts are as follows:

Earnings estimates

Year end	FY3/2023E	FY3/2024E	FY3/2025E
TrevPAR (¥)	3,318	5,226	5,226
Growth YoY (%)	+35.4	+57.5	-
Average No. of rooms	3,979	6,396	6,396
Growth YoY (%)	-4.1	+60.7	-
Sales (¥bn)	4.82	12.03	12.03
Growth YoY (%)	+29.8	+149.7	-
OP (¥bn)	(0.87)	1.93	2.05
OPM (%)	-18.0	16.0	17.0
EBITDA (¥bn)	(0.63)	2.24	2.36
FCF (¥bn)	(0.51)	2.13	1.65
FCF margin (%)	-10.6	17.7	13.7
FCF conversion (%)	N/A	181.2	134.7
FCF yield (%)	(7.2)	30.2	23.4
Diluted FCF yield (%)	(4.5)	18.8	14.6

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 greater 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.

Medium term plan

Targets

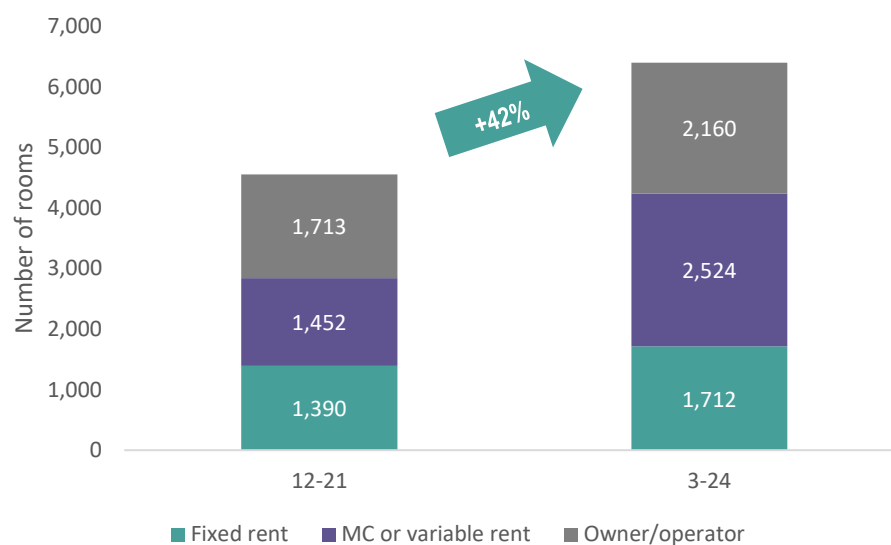
Polaris has disclosed the following targets for FY3/2024:

- 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 4: 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.

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

Yamazaki Kyodo Building
1-12-3, Iwamotocho, Chiyoda-ku
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

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

	FY	FY	FY	FY	FY
(¥bn)	3/21	3/22	3/23E	3/24E	3/25E
Sales	2.97	3.71	4.82	12.03	12.03
COGS	0.29	0.28	0.24	0.48	0.48
Gross profit	2.68	3.43	4.58	11.55	11.55
Gross profit margin (%)	90.3	92.4	95.0	96.0	96.0
Total OP	(1.63)	(1.33)	(0.87)	1.93	2.05
OP margin (%)	(54.7)	(35.9)	(18.0)	16.0	17.0
Non-operating income	0.07	0.05	0.06	0.06	0.06
Non-operating expense	(0.13)	(0.34)	(0.25)	(0.30)	(0.35)
Recurring profit	(1.68)	(1.62)	(1.05)	1.68	1.75
Extraordinary gains	-	-	-	-	-
Extraordinary losses	(0.40)	(0.19)	-	-	-
Pre-tax profit	(2.08)	(1.81)	(1.05)	1.68	1.75
Tax	0.016	0.02	-	0.50	0.53
Effective tax rate (%)	(0.8)	(4.57)	-	30.0	30.0
Net income	(2.10)	(1.83)	(1.05)	1.18	1.23
Non-controlling NI	-	-	-	-	-
Parent attributable NI	(2.10)	(1.83)	(1.05)	1.18	1.23
Sales growth YoY (%)	-45.5	+24.9	+29.8	+149.7	+0.0
OP growth YoY (%)	N/A	N/A	N/A	N/A	+6.3
NI growth YoY (%)	N/A	N/A	N/A	N/A	+4.3

Balance sheet	FY	FY	FY	FY	FY
(¥bn)	3/21	3/22	3/23E	3/24E	3/25E
Cash & equivalents	1.84	2.40	4.61	9.39	13.73
Trade debtors	0.33	0.62	0.49	0.49	0.49
Stock	0.06	5.95	5.95	5.95	5.95
Other	0.28	0.39	0.31	0.31	0.31
Current assets	2.51	9.36	11.36	16.15	20.48
Tangible assets	1.21	1.03	0.84	0.59	0.34
Intangible assets	0.02	0.01	0.01	0.01	0.01
Investment & others	1.26	1.64	1.64	1.64	1.64
Fixed assets	2.48	2.67	2.48	2.23	1.99
Total assets	5.00	12.04	13.85	18.38	22.47
Short term borrowing	1.08	1.49	1.49	1.49	1.49
Trade creditors	0.00	-	-	-	-
Other	0.79	0.70	0.61	1.22	1.22
Current liabilities	1.87	2.19	2.10	2.71	2.71
Long term borrowing	3.76	8.39	10.97	13.56	16.14
Other LT liabilities	0.15	1.27	1.27	1.27	1.27
Long term liabilities	3.91	9.66	12.24	14.82	17.41
Shareholder's equity	(0.78)	0.19	(0.49)	0.85	2.36
Non-controlling interests	-	-	-	-	-
Total net assets	(0.78)	0.19	(0.49)	0.85	2.36
Total liabilities & net assets	5.00	12.04	13.85	18.38	22.47

Cash flow statement	FY	FY	FY	FY	FY
(¥bn)	3/21	3/22	3/23E	3/24E	3/25E
Net income	(2.10)	(1.83)	(1.05)	1.18	1.23
Depreciation/amortization	0.16	0.29	0.24	0.31	0.31
Other non-cash items	0.52	(0.13)	0.20	0.03	0.12
Changes in working capital	(0.09)	(6.15)	0.11	0.61	0.00
Cash from Operating Activities	(1.51)	(7.82)	(0.51)	2.13	1.65
Capex	(0.48)	(0.00)	(0.00)	(0.00)	(0.00)
Acquisition of business	-	-	-	-	-
Other investing cash flow	(0.17)	(0.41)	(0.29)	(0.35)	(0.32)
Cash from Investing Activities	(0.65)	(0.42)	(0.29)	(0.35)	(0.32)
Total cash dividends paid	-	-	-	-	-
Debt issuance/(retirement)	2.06	5.17	2.58	2.58	2.58
Equity financing	0.06	2.65	-	-	-
Other	0.83	0.99	0.42	0.42	0.42
Cash from Financing Activities	2.95	8.80	3.00	3.00	3.00
FX impact	-	-	-	-	-
Net cash flow	0.79	0.56	2.20	4.78	4.33
Free cash flow	(1.99)	(7.82)	(0.51)	2.13	1.65
Free cash flow margin (%)	-67.0	-210.7	-10.6	17.7	13.7
Free cash flow conversion (%)	N/A	N/A	N/A	181.2	134.7
Capex/sales (%)	16.2	0.1	0.1	0.0	0.0
Capex/depreciation (%)	299.0	1.0	1.2	0.9	0.9
CFO margin (%)	-50.8	-210.6	-10.5	17.7	13.8

Key metrics	FY	FY	FY	FY	FY
	3/21	3/22	3/23E	3/24E	3/25E
Profitability					
Gross margin (%)	90.3	92.4	95.0	96.0	96.0
Operating margin (%)	(54.7)	(35.9)	(18.0)	16.0	17.0
Net margin (%)	(70.7)	(49.3)	(21.9)	9.8	10.2
ROA (%)	(42.0)	(15.2)	(7.6)	6.4	5.5
ROE (%)	N/A	(949.7)	N/A	137.8	52.0
ROCE (%)	(52.1)	(13.5)	(7.4)	12.3	10.4
ROIC (%)	(45.1)	(19.7)	(7.9)	9.7	8.0
Liquidity					
Current ratio (x)	1.3	4.3	5.4	6.0	7.6
Quick ratio (x)	1.3	1.6	2.6	3.8	5.4
Leverage					
Debt/Equity ratio (x)	N/A	51.3	N/A	17.6	7.5
Net Debt/Equity ratio (x)	N/A	38.8	N/A	6.6	1.7
Equity ratio (x)	(0.2)	0.0	(0.0)	0.0	0.1
Interest cover (x)	(14.9)	(10.1)	(3.5)	6.4	5.8
Net Debt/EBITDA (x)	(2.0)	(7.2)	(12.5)	2.5	1.7
Valuation					
EPS reported (¥)	(37.83)	(25.98)	(11.52)	12.84	13.39
PER (x)	N/A	N/A	N/A	6.0	5.7
DPS (¥)	-	-	-	-	-
Dividend pay-out ratio (%)	-	-	-	-	-
Dividend yield (%)	-	-	-	-	-
Free cash flow yield (%)	(46.6)	(144.2)	(7.2)	30.2	23.4
Diluted FCF yield (%)	(29.0)	(89.9)	(4.5)	18.8	14.6
PBR (x)	(9.0)	36.6	(14.4)	8.3	3.0
EV/sales (x)	4.9	3.9	3.0	1.2	1.2
EV/EBITDA (x)	(9.9)	(14.0)	(23.2)	6.5	6.2
EV/EBIT (x)	(8.9)	(10.9)	(16.7)	7.5	7.1
EV/FCF (x)	N/A	N/A	N/A	6.8	8.8



Disclaimers

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

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

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

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

Conflict of interest

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

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

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

Limitation of liability

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

Copyright 2022 Astris Advisory Japan K.K. All rights reserved.