

Geniee (6562)

Business evolution driving higher returns

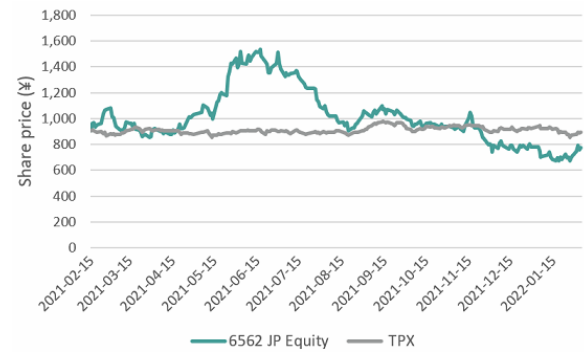
Share price: ¥815

Market cap: ¥14.7bn

Initiating coverage

- **Leading domestic AdTech company** – Geniee is a domestic market leader providing a comprehensive online sales and marketing platform. This acts as an intermediary between online media and advertisers, facilitating automated sales and transmission of adverts. Geniee has top domestic market share of 29% in its ‘SSP’ supply side platform service which allows media to monetise ad space effectively.
- **Business expansion bearing fruit** – the company has undertaken business expansion on two fronts which are beginning to deliver positive earnings; developing a Marketing SaaS business, and building a footprint overseas in South East Asian markets.

14 February 2022



Shift to positive sales mix

- **Improving profitability** – Geniee demonstrated record EBITDA margins in Q3 FY3/2022, driven by 1) improving sales mix as Marketing SaaS sales grew 94% YoY, and 2) prioritising high margin business in the mainstay Ad Platform segment, in particular the ‘DSP’ demand side platform service. We believe this trend will continue with this segment booking record-high quarterly gross profit in Q3 FY3/2022.
- **Longer term growth drivers** – Geniee is a Softbank Group (9984) company and this relationship is yet to be fully leveraged. It has been building a presence in South East Asian markets which contribute over 10% of total FY sales – we believe this provides growth prospects for the longer term.
- **Capital policy/shareholder returns** – management has emphasised capital allocation for business investment and M&A. However, there is a 1.94% share buyback program in place.
- **ESG** – we score the company as ‘Amber’ under our Astris-Sustainability model scorecard.
- **Valuations** – The shares are trading on an estimated PER FY3/2023 multiple of 11.4x and an estimated free cash flow yield of 10.8%.

Price performance

	YTD	1mth	3mth	12mth
Abs (%)	+4.1	+19.3	-13.7	-6.2
Rel (%)	+7.4	+22.8	-9.9	-6.2

Company sector

Advertising Services
Interactive Media & Services (GICS)

Stock data

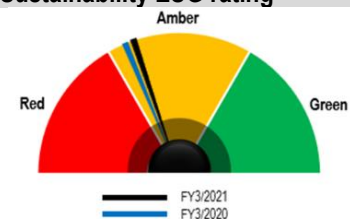
Price (¥)	815
Mkt cap (¥bn)	14.7
Mkt cap (\$m)	127.8
52-week range (¥)	650-1,611
Shares O/S (m)	18.0
Average daily value (\$m)	0.4
Free float (%)	23.4
Foreign shareholding (%)	6.3
Ticker	6562
Exchange	Tokyo Mothers
Net Debt/Equity (x)	0.1
FFO leverage (x)	0.6
BBG BUY HOLD SELL	0 0 0

Year end	3/2020	3/2021	3/2022E	3/2023E	3/2024E
Sales (¥bn)	14.35	14.06	14.06	18.28	22.85
OP (¥bn)	(0.09)	0.20	0.70	1.37	1.83
NP (¥bn)	(0.18)	0.10	0.63	1.28	1.72
EPS (¥)	(9.99)	5.66	35.25	71.32	95.91
DPS (¥)	-	-	-	-	-
Sales growth YoY (%)	-4.1	-2.0	-	+30.0	+25.0
OP growth YoY (%)	n/a	n/a	+259.3	+95.0	+33.3
NP growth YoY (%)	N/A	N/A	+523.1	+102.3	+34.5
EPS growth YoY (%)	N/A	N/A	+522.8	+102.3	+34.5
PER (x)	N/A	144.0	23.1	11.4	8.5
EV/EBITDA (x)	69.8	25.5	13.7	8.0	6.1
EV/Sales (x)	1.0	1.1	1.1	0.8	0.7
PBR (x)	5.8	5.5	6.4	5.7	4.5
ROE (%)	(7.0)	3.8	27.6	50.1	52.6
ROCE (%)	(3.2)	5.6	22.4	40.3	44.4
FCF yield (%)	(1.9)	(1.1)	2.8	10.8	15.1
Dividend yield (%)	-	-	-	-	-

Business Overview

Geniee is an online marketing technology company, providing a cost efficient solution to place online ads. Its Marketing SaaS offering is experiencing fast growth, and it has an expanding overseas footprint in South East Asia.

Astris-Sustainability ESG rating



Next events

FY3/2022 results May 2022

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This report has been commissioned and paid for by the company

Summary

Geniee is a domestic market leader providing a comprehensive online sales and marketing platform. This acts as an intermediary between online media and advertisers, facilitating automated sales and transmission of adverts. Geniee has top market share of 29% in its 'SSP' supply side platform service which allows media to monetise ad space effectively.

It has undergone business expansion on two fronts with the aim of improving overall profitability – developing a Marketing SaaS business and expanding its footprint overseas in South East Asia. Recent results highlighted these investments are beginning to yield results, with quarterly EBITDA margins reaching a record high of 9.6% in Q3 FY3/2022 (versus a 3-year average of 1.8%).

We estimate that Geniee will experience sustainable growth for the medium term driven by the following factors:

- **Key driver is sales mix improvements** – with the Ad Platform business prioritising higher margin business and Marketing SaaS enhancing overall profitability, we estimate operating margins will rise significantly to 7.5% in FY3/2023. We are lower than the company target range mid-point of 9.1% OPM for FY3/2024.
- **Topline growth driven by Marketing SaaS** – this segment made up 8% of total sales in Q3 YTD FY3/2022 and grew 94% YoY. We estimate through a combination of new customer acquisitions and low churn rate will drive overall sales growth for the company into FY3/2023E.
- **Free cash flow generation to increase significantly** - we estimate business expansion costs will be materially offset by increasing sales volume. Capex requirements have been on a steady increase but we think this will flatten into FY3/2022 and beyond. With limited working capital requirements we estimate FCF margins should improve.

The shares are trading on an estimated PER FY3/2023 multiple of 11.4x and an estimated free cash flow yield of 10.8%.

Company description

Overview

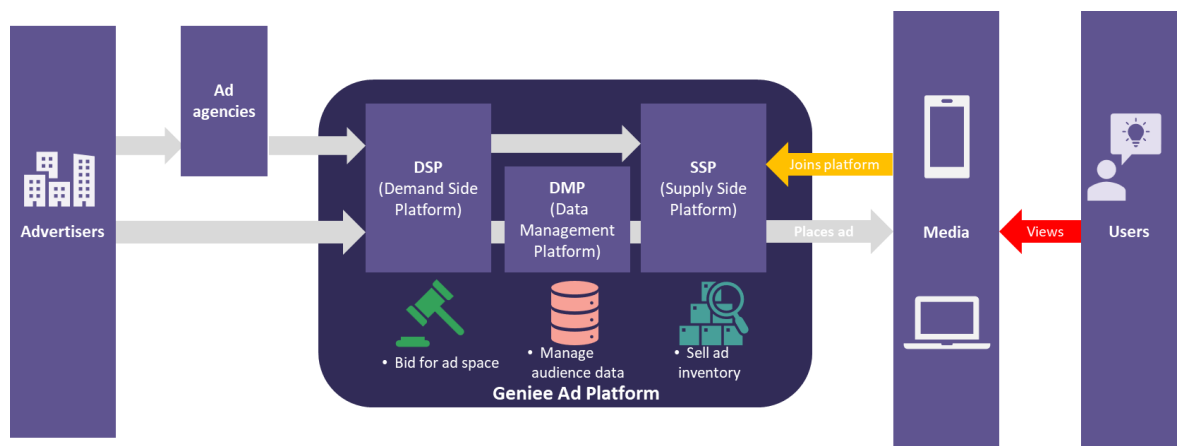
Geniee Inc was founded in April 2010 by founder CEO Tomoaki Kudo (formerly of Recruit Holdings) and operates as a **comprehensive online sales and marketing business**. The core business provides an online advertising platform which acts as an intermediary between websites/apps and advertisers, facilitating automated sales and transmission of adverts on a real-time basis like a digital exchange. There are broadly three components:

- Demand Side Platform (DSP) – a platform where advertisers and agencies can buy ad space, where inventory is aggregated for efficiency.
- Data Management Platform (DMP) – a data store which helps advertisers build campaigns by building a target audience.
- Supply Side Platform (SSP) – a platform where media sell ad space, maximizing revenue by attracting the most attractive offers.

The domestic **Demand Side Platform (DSP)** market is roughly twice the size of the SSP market, and Geniee is seeing rapid growth here with gross profits for this product growing 81% YoY in H1 FY3/2022. The DSP market is dominated by Google Ads with around 60%-70% market share, followed by Yahoo Japan with around sub 5% (source: *Japan Fair Trade Commission*).

Similarly Google Ads has around 50%-60% share in the **Supply Side Platform (SSP)** market. Around 30%-40% of the market is operated by independent Ad Tech companies such as Geniee – **at 29.1%** (source: *Deloitte Tohmatsu MIC Research Institute, 2019*) **Geniee has the largest domestic market share in the SSP category** which manages the supply and distribution of ad inventories, having business ties with over 20,000 companies (mainly small and medium-sized businesses). Geniee also operates its advertising platform business overseas in South East Asia which contributes over 10% of total sales.

Figure 1: AdTech workflow



Source: Company

Delivering impactful advertising is paramount for ad platforms but Geniee also competes to deliver **best-in-class cost effectiveness** for its customers. Management believes this is



achieved by a combination of in-house technological expertise and continued investment in the platform.

Business expansion

The domestic online advertising has secular growth prospects but remains crowded and competitive. Geniee has therefore expanded its business in the following manner:

- **Digital OOH (Out Of Home) media** – digital signage that appear in outdoor environments (such as station billboards and taxis) that can be managed online, just like online adverts. This business commenced in February 2019.
- **Marketing SaaS** – Geniee has developed four SaaS products that complement existing online marketing activities and has an installed base of over 10,000 domestic companies and are often sold as a bundled service. These are:
 - **SFA/CRM (formerly Chikyu)**– a salesforce automation (SFA)/customer relationship management (CRM) tool (launched June 2018). There are over 4,500 customers are across diverse verticals and include Bic Camera (3048), ASKUL (2678) and Duskin (4665).
 - **MA (formerly MAJIN)**– a tool to automate online marketing (launched July 2016). Customers include Rakuten (4755).
 - **CHAT (formerly Chamo)** – chatbot designed to increase the conversion rate with online customers (launched November 2018).
 - **SEARCH (formerly Probo)** – website search solution for company websites and ecommerce sites. This product is developed by 100% acquired Business Search Technologies Corp in October 2020 (consideration was ¥1.1 billion).
- **Overseas expansion** – the company believes that emerging markets will be a long-term earnings driver. The first operation was Singapore in August 2012, Vietnam in September 2013, Indonesia in September 2015 and Thailand in August 2017.
- **M&A** – the company is expanding its product offering by acquiring bolt-on technology companies.

Currently 4 core products in Marketing SaaS

Business segment details

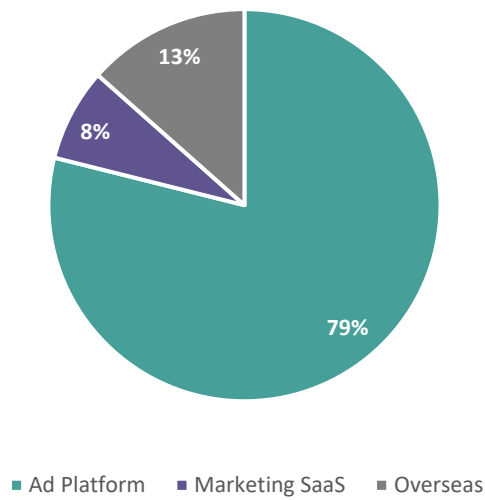
The company has adjusted disclosure of business segments from FY3/2022. The Ad Platform business now includes Ad management (procurement and then selling-on of advertising space); previously it was included in Marketing Solutions (now called Marketing SaaS) segment.

Business segment details

Business segment	Key services	Description
Ad Platform	<ul style="list-style-type: none"> • SSP • DSP • DOOH • Ad management • Others 	Core AdTech business serving customers on both the supply and demand side platforms.
Marketing SaaS (previously Marketing Solutions)	<ul style="list-style-type: none"> • SFA/CRM • MA • CHAT • SEARCH 	Marketing SaaS tools that are complimentary to the Ad Platform business.
Overseas		Sales of services in South East Asian markets.

Source: Company

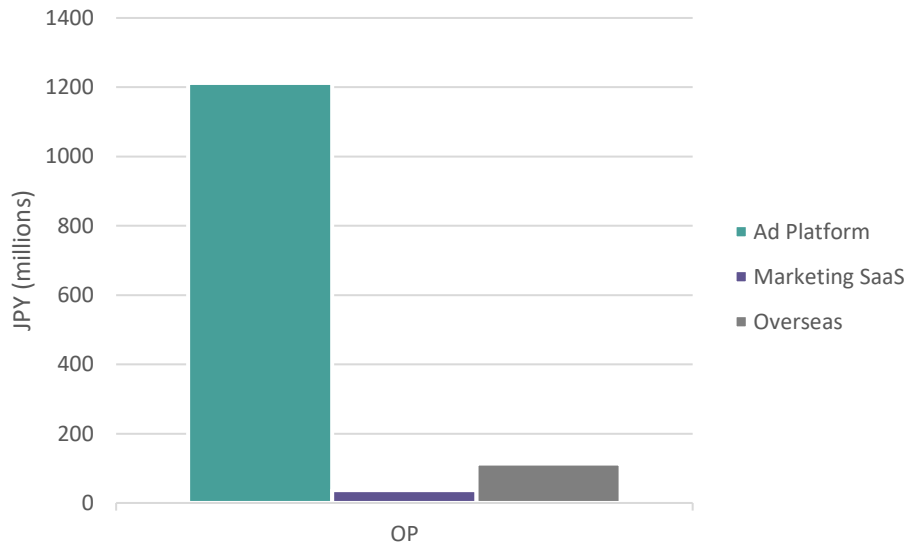
Figure 2: Q3 YTD FY3/2022 revenues by segment



Source: Company



Figure 3: Q3 YTD FY3/2022 operating profit by segment



Source: Company

Change in revenue recognition policy

From FY3/2022 Geniee has made a significant change to its revenue recognition policy, introducing ASC606 under FASB, IFRS15 under IASB and ASB Japan 29. This allows an entity to assess whether it is a principal or an agent for promised goods or services – and in Geniee’s case as an agent can recognize revenue at the net amount (i.e. the commission received). This is applicable for Geniee’s Ad management business. Thus policy change has the following impact:

- Guidance range for FY3/2022 sales is below FY3/2021 actual based on gross revenue accounting for Ad management business.
- Net revenue recognition assists in raising profitability metrics.



Business expansion highlighting positive sales mix shift

Over the last two years Geniee’s efforts at business expansion has required investment which has led to falling returns. FY3/2022 company guidance implies a significant turnaround with the previously loss-making new activities operating in the black.

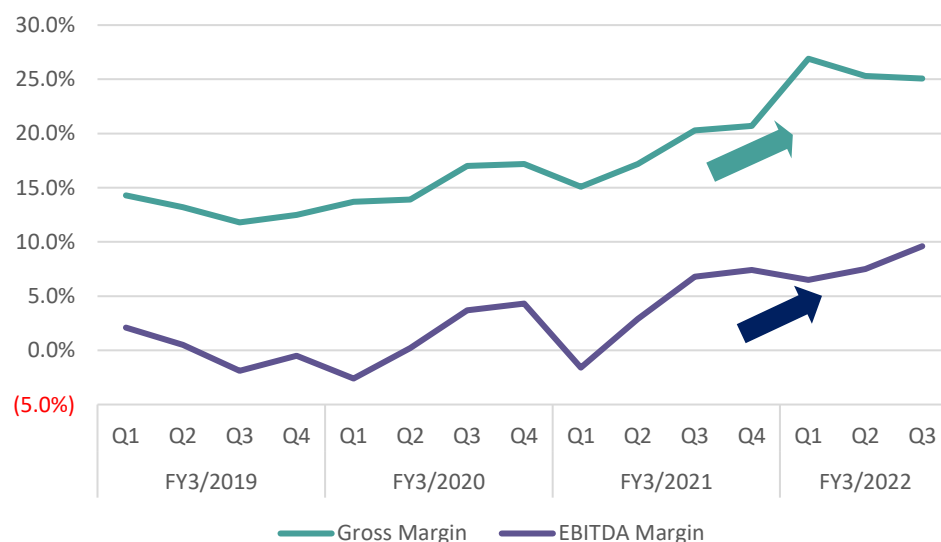
Profitability turnaround per product division

	FY2/2020	FY2/2021	FY2/2022CE
OPM (%)	-0.9	1.4	5.4 (at midpoint)
Approximate OP generated by profitable businesses (¥m)	500	700	770 – 970
Profitable businesses by products:	SSP	SSP	SSP
	DOOH	DSP	DSP
	DMS	DMS	DMS
		Overseas	Overseas
		BST	Saas/BST
Approximate operating losses generated by new activities (¥m)	(600)	(500)	(100)
New activities by product:	DSP	DOOH	DOOH
	Overseas	SaaS	Others
	SaaS	Others	
	Others		

Source: Company

We observe that the new activities turning profitable is having a **beneficial impact on the sales mix**. Gross margins have been trending up on a quarterly basis to record high levels, driven with the growth of higher margin services within Ad Platform together with Marketing SaaS scaling.

Figure 4: Sales mix impact on profitability – quarterly basis



Source: Company



Peer group analysis

Geniee's core Ad Platform business has its three sub-categories of SSP, DSP and DMP which all have their peers with some crossover. Marketing SaaS is a fragmented market with many players both domestic and overseas. Both business segments show attractive structural growth driven by existing online trends such as ecommerce and digital transformation – hence the very high level of competition.

The SSP market has experienced some consolidation but the following domestic peers continue to compete for market share:

- Fluct – owned by **Carta Holdings (3688)**
- Ad Generation by **Supership Holdings (unlisted)**
- Adstir – owned by **UNITED INC (2497)**
- MicroAd Compass – majority stake held at **Cyber Agent (4751)**
- GMO SSP – owned by **GMO Ad Partners (4784)**

Overseas there are significantly larger players catering to an international audience, such as OpenX, Index Exchange, PubMatic, Magnite and Sovrn. Hence, it makes sense for Geniee to establish an overseas footprint in emerging markets.

SaaS is a software licensing and delivery model where software is centrally hosted and the service is made available by subscription. The revenue model is attractive as it is recurring, and customer success results in low churn, high renewal rates and high lifetime customer value. Gross margins can typically range from 60% to 80%.

Domestic SaaS heavyweights include CRM player **Sansan (4443)** as well as niche players such as **KnowledgeSuite (3999)**, **Softbrain (delisted)** and **Chatworks (4448)**. We have some concerns that major overseas players such as Salesforce, Hubspot and Zoho have already entrenched themselves in Japan and new entrants will find it hard to cultivate market share. Where Geniee is in a position of strength is the ability to focus on small and medium sized businesses where customer acquisition costs should be manageable.

Geniee has seen a marked increase in EPS revision over the last 12 months

Peer analysis on key valuation and leverage metrics – Ad Tech

Ticker	Company	Mkt Cap US\$ (m)	DIVIDEND YIELD			PROFITABILITY				EPS REVISIONS			LEVERAGE		EV / EBITDA		PER		Price/Book	
			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
6562	Geniee, Inc.	121	0.0%	0.0%	0.0%	0.9%	3.5%	-3.9%	13.8%	0.0%	0.0%	346.2%	0.1x	0.3x	na	21.6x	na	50.9x	5.1x	6.2x
4784	GMO AD Partners Inc.	59	1.3%	2.4%	108.8%	2.0%	1.2%	4.5%	2.7%	0.0%	0.0%	-23.2%	-1.0x	-8.7x	na	na	na	na	1.2x	1.8x
7068	Feedforce Group Inc.	101	0.0%	0.0%	0.0%	11.5%	38.4%	18.6%	27.0%	0.0%	-21.8%	-7.5%	-0.5x	-1.1x	9.1x	22.8x	24.5x	52.0x	4.3x	14.7x
2159	Full Speed Inc.	46	0.2%	0.9%	8.1%	5.4%	4.8%	25.5%	12.4%	0.0%	0.0%	-7%	-0.8x	-4.4x	na	na	na	15.2x	1.1x	6.4x
3688	Carta Holdings, Inc.	440	1.4%	2.5%	42.3%	8.7%	18.0%	15.5%	11.8%	0.0%	1.8%	68%	-0.7x	-3.2x	4.9x	5.6x	13.6x	17.3x	1.9x	2.7x
Simple average			0.6%	1.2%	31.8%	5.7%	13.2%	12.0%	13.6%	0.0%	-4.0%	75.2%	-0.6x	-3.4x	7.0x	16.7x	19.0x	33.9x	2.7x	6.4x

Source: FactSet

Peer analysis on key valuation and leverage metrics - SaaS

Ticker	Company	Mkt Cap US\$ (m)	DIVIDEND YIELD			PROFITABILITY				EPS REVISIONS			LEVERAGE		EV / EBITDA		PER		Price/Book	
			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
6562	Geniee, Inc.	121	0.0%	0.0%	0.0%	0.9%	3.5%	-3.9%	13.8%	0.0%	0.0%	346.2%	0.1x	0.3x	na	21.6x	na	50.9x	5.1x	6.2x
4443	Sansan, Inc.	1,390	0.0%	0.0%	0.0%	-11.2%	-0.5%	-112%	3.2%	-10.2%	-19.7%	-38.8%	-0.8x	-15.8x	55.6x	103.1x	170.6x	253.5x	13.3x	22.1x
4060	rakumo Inc.	61	0.0%	0.0%	0.0%	6.2%	21.6%	-27.4%	25.0%	0.0%	0.0%	-0.6%	-1.3x	-4.7x	na	na	24.2x	63.7x	7.8x	15.7x
4478	freee K.K.	2,294	0.0%	0.0%	0.0%	-41.8%	-23.4%	-20.7%	-10.0%	0.2%	-7.2%	-430%	-1.0x	20.5x	-261.7x	na	-183.3x	na	5.6x	19.6x
4019	Stamen Co., Ltd.	49	0.0%	0.0%	0.0%	-44.3%	3.3%	-20.0%	0.8%	0.0%	0.0%	-36%	-1.3x	-34.5x	na	na	na	435.5x	6.3x	9.8x
3923	RAKUS Co., Ltd.	3,528	0.1%	0.1%	14.3%	17.3%	17.3%	29.0%	29.6%	0.0%	-2.2%	-59%	-0.6x	-1.4x	121.9x	85.2x	219.1x	135.1x	50.1x	30.6x
4448	Chatwork Co.Ltd.	244	0.0%	0.0%	0.0%	-5.6%	-19.2%	0.0%	-25.1%	0.0%	2.0%	-297%	-0.6x	3.8x	-87.4x	96.6x	-70.9x	126.1x	17.1x	27.6x
Simple average			0.0%	0.0%	2.0%	-11.2%	1.7%	-22.2%	5.3%	-1.4%	-3.9%	-73.5%	-0.8x	-4.5x	-42.9x	76.6x	32.0x	177.5x	15.1x	18.8x

Source: FactSet

OPM LTM has improved significantly compared to the OPM 10Y average for SaaS players



Group structure

Geniee has the following group companies:

Group companies

Focus on South
East Asian
markets

Subsidiaries	Group company status	Stake	Description
Geniee International Pte.	Consolidated	100.0%	Singapore-based, core operation is in Ad Platform
Geniee Vietnam Co.	Consolidated	100.0%	Hanoi-based, core operation is in Ad Platform
PT. Geniee Technology Indonesia	Consolidated	100.0%	Jakarta-based, core operation is in Ad Platform
PT. Adstars Media Pariwara	Consolidated	51.0%	Jakarta-based, core operation is in Ad Platform
Geniee Adtechnology (Thailand) Co.	Consolidated	100.0%	Bangkok-based, core operation is in Ad Platform
Business Search Technology	Consolidated	100.0%	Part of Marketing SaaS providing the 'Probo' product

Source: Company

Geniee issued equity to the Softbank Group (9984) in October 2014 and commenced a business partnership. Softbank Group currently owns 31.2% of Geniee, making it a Softbank Group associate company.

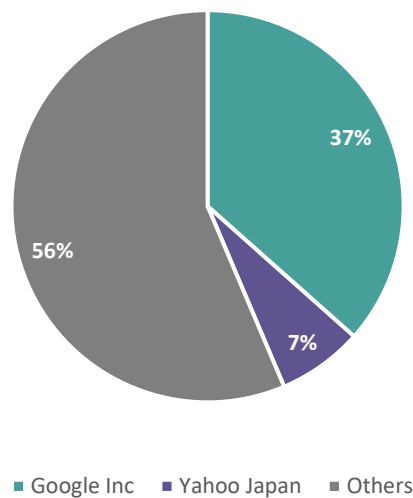
Relationship with Softbank Group

The business partnership agreement between Geniee and Softbank Group is a rolling annual contract that encompasses the following:

- Softbank Group can use Geniee's systems in Japan, and having non-exclusive license to sub-license to third parties.
- To share data from Softbank's own SSP, and to strengthen its sales efforts.
- To exchange human resources.
- Softbank Group outsources ad distribution and posting to Geniee.
- Geniee acts as a sales agent for Softbank Group's ad platform on a non-exclusive basis to third parties.

In terms of sales volume, FY3/2021 saw sister company Yahoo Japan (4689) contributing 7% of total sales whilst Softbank Group made up 10.6% of total.

Figure 5: Top three contributors to FY3/2021 sales



Source: Company

Geniee also has one director on the board from Softbank Group – Mr Koichi Machida. Appointed in June 2020, this is a non-executive directorship and he currently heads up Softbank’s digital marketing division.

The business partnership said to be on offer with Softbank Group can be quantified as follows:

- Access to Softbank Group’s customer data – monthly impressions total 60 billion.
- Ties with 3,000 active customers.
- Ad distribution via co-developed Ad Platform operation.
- Cross-border ad distribution to attract inbound tourists and cross-border ecommerce.
- Joint projects in the South East Asian region.

R&D

Company disclosure for FY3/2021 show that there was only ¥2.18 million R&D expense which is a low amount. Spending here was said to be focused on relationship analysis between advertisers and online users. There was also research conducted on net media categorisation.

This disclosure does not accurately convey the level of R&D being conducted. This is because there is a process of continual improvements being performed on the Ad Platform, partly brought on by implementing customer requests for new functionalities. Geniee does not classify these as standalone R&D spend, with some work being capitalised as software work-in-progress.

Business model

Ad Platform

Geniee's Ad Platform business generates sales in the following manner:

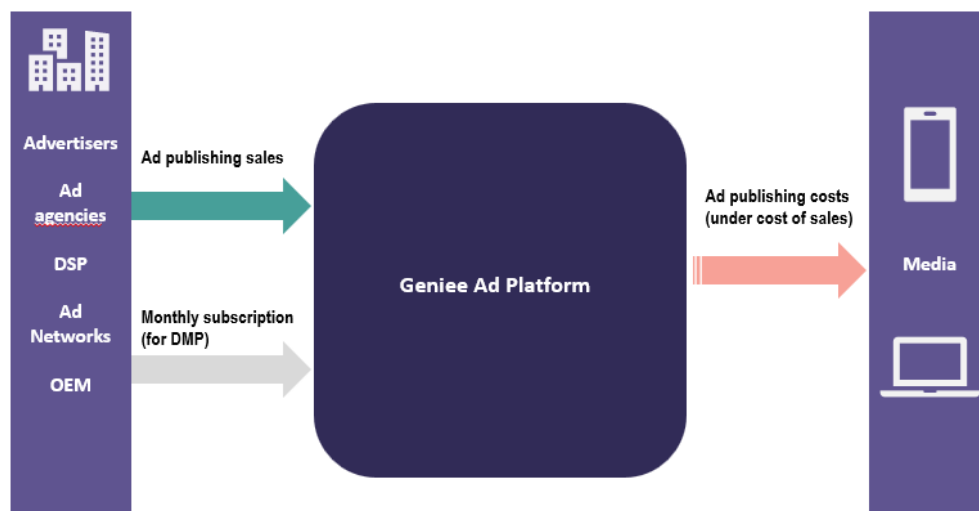
- Advertisement publication fees:
 - Geniee receives an ad publication fee based on display occurrences direct from the advertiser.
 - An indirect fee from the advertiser via ad agencies, external DSPs, Ad Network or OEM ad platform systems.
- Monthly usage fees for the DMP (Data Management Platform) used by advertisers.

There is seasonality of ad demand, with peaks in March and December.

Demand drivers for the Ad Platform business include:

- Increasing allocation of advertising budget to online media.
- Product-driven demand e.g. nesting consumption ecommerce.
- Introduction of new advertising formats e.g. rewarded video ads, a format that gives users a reward in exchange for time spent viewing an ad.

Figure 6: Ad Platform earnings model



Source: Company

This business becomes competitive via:

- **Establishing scale** – inviting as many media sites (websites and apps) as possible with a zero joining fee, and providing a large number of impressions (the number of times an ad is displayed).
- **Demonstrating cost benefit** – by maximising impact of advertisers and increasing the yield of ad space for media.



Geniee also conducts OEM business, developing similar ad platforms for third parties both domestic and overseas.

Recent trends

Growth is currently being driven in the DSP area with a focus on ecommerce which has seen a major hike in activity due to the pandemic. The mainstay SSP business is focused on increase sales channels and making cost efficiencies to drive profitability.

This has resulted in a notable decline in customer numbers over the last 2 years, although accompanied by a major jump in sales per customer.

Marketing SaaS

As a marketing technology company, Geniee has access to a wealth of valuable online user engagement data. This data can be utilised by marketing-focused SaaS tools to improve customer advertising efforts.

The sales channel is primarily direct and targeted towards small and medium sized businesses. The business is aiming for more large enterprise customers which allows for higher pricing.

Marketing SaaS tools provide the following benefits to Geniee:

- A **recurring monthly subscription-based revenue** stream.
- **Ability to upsell** to existing customers in the Ad Platform business.
- **Higher gross margins**, allowing for improvements in the sales mix.

Recent trends

The Marketing SaaS segment has witnessed the following recent trends:

- Q3 FY3/2022 paying accounts grew approximately 50% YoY to over 9,000, driven by expanding tool functionality and strengthening sales channels.
- Q3 FY3/2022 quarterly sales grew 36% YoY. Growth benefitted from the acquisitive impact of REACT (purchased in August 2021) which strengthened the 'Chamo' chatbot offering.
- Company disclosure shows that recent customer churn has stabilised at below 1% per quarter. This implies that gross revenue retention (GRR) has also improved.
- On a quarterly basis this segment has turned to positive operating profit from Q2 FY3/2022.

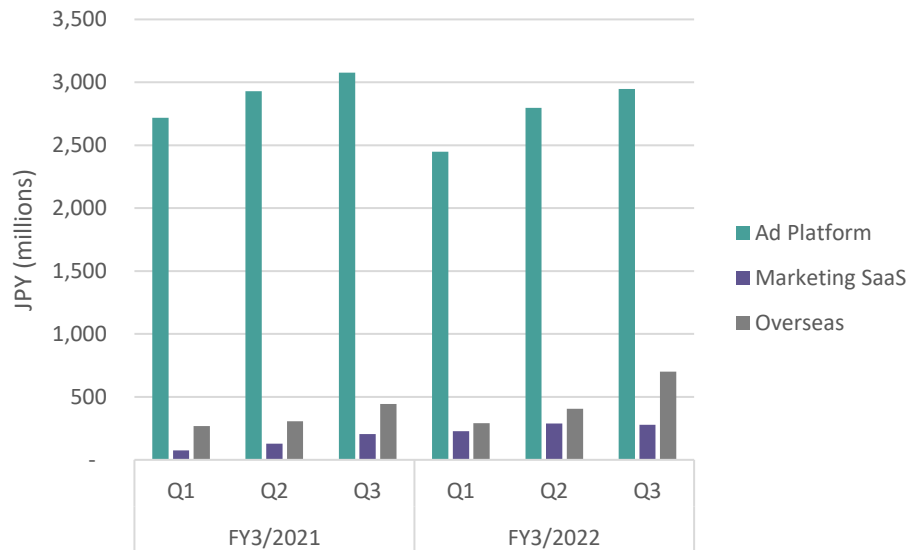
Overseas

Geniee is growing its overseas footprint by primarily acting as a reseller/partner for online marketing platforms such as Google. It is also developing local resellers and partnerships for its Ad Platform. In FY3/2022 the company has disclosed partnerships with videostreaming service provider Dailymotion Asia Pacific PTE.

Recent quarterly sales and OP trends by segment

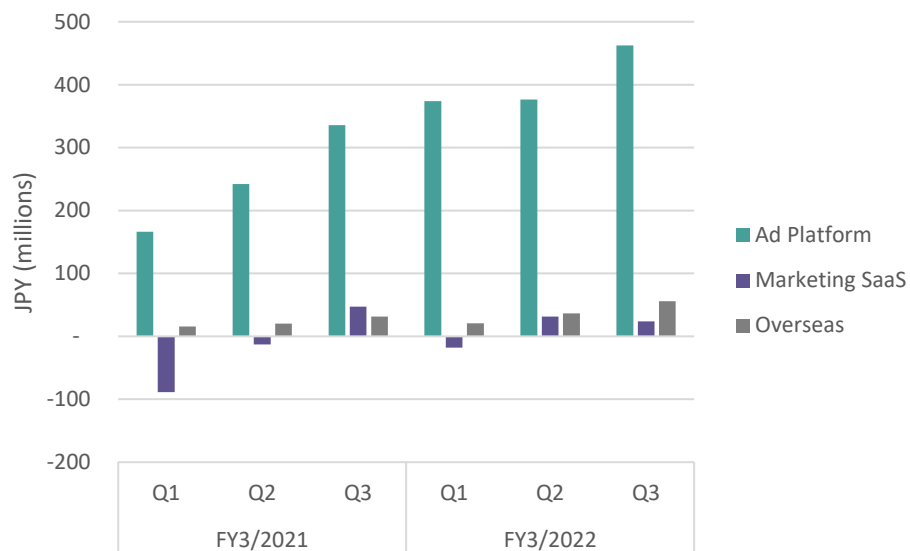
As identified by the improvement in the sales mix in Figure 4., we see that all business segments recorded positive segmental operating profit margins in Q2 FY3/2022. The largest change was seen in Marketing SaaS, which we believe will become the highest margin segment at Geniee in the next year.

Figure 7: Quarterly sales trend under new business segment disclosure



Source: Company

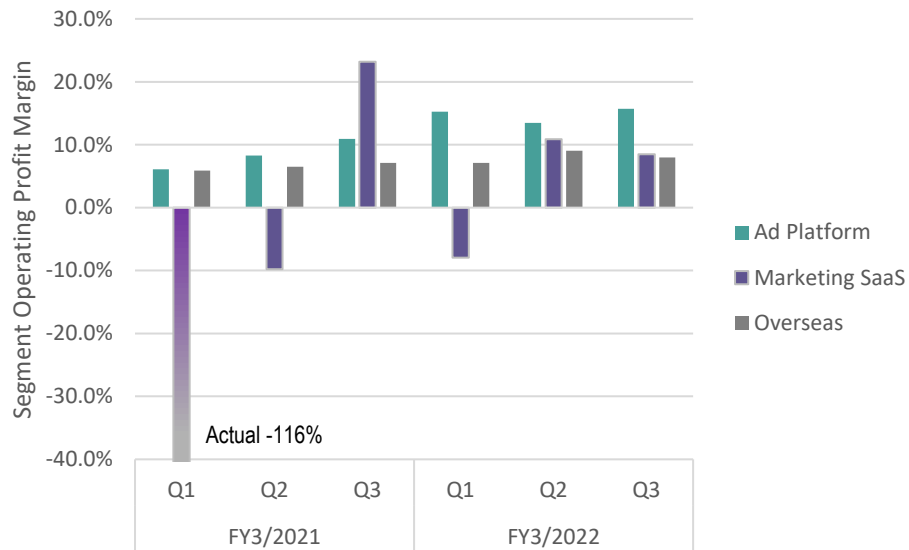
Figure 8: Quarterly OP trend under new business segment disclosure



Source: Company



Figure 9: Quarterly OP margin trend under new business segment disclosure (pre-eliminations)



Source: Company

Addressable market

- Geniee estimates that its strategic addressable market is worth ¥1.2 trillion, achievable by both strengthening and expanding its products and services range.
- The **total addressable market is estimated to be worth ¥3.0 trillion.**

The above figures illustrate that the market for online advertising and marketing SaaS is significant – but competition is high with relatively low barriers to entry.

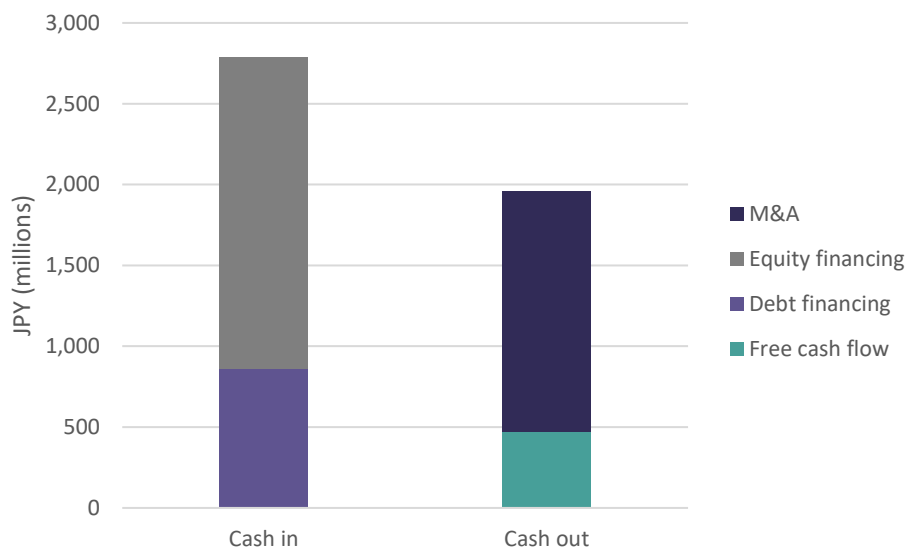


Capital allocation

Over the last 6 years, Geniee 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 four years since listing in December 2017.
- Equity issuance via IPO in 2018 remains the largest source of funding to date.
- Debt issuance was driven primarily by borrowings made in FY3/2021 to fund M&A activities.
- M&A has been the largest cash-out item as the company aimed for business expansion.

Figure 10: 6-year cumulative capital generation and allocation (FY3/2016 - FY3/2021)

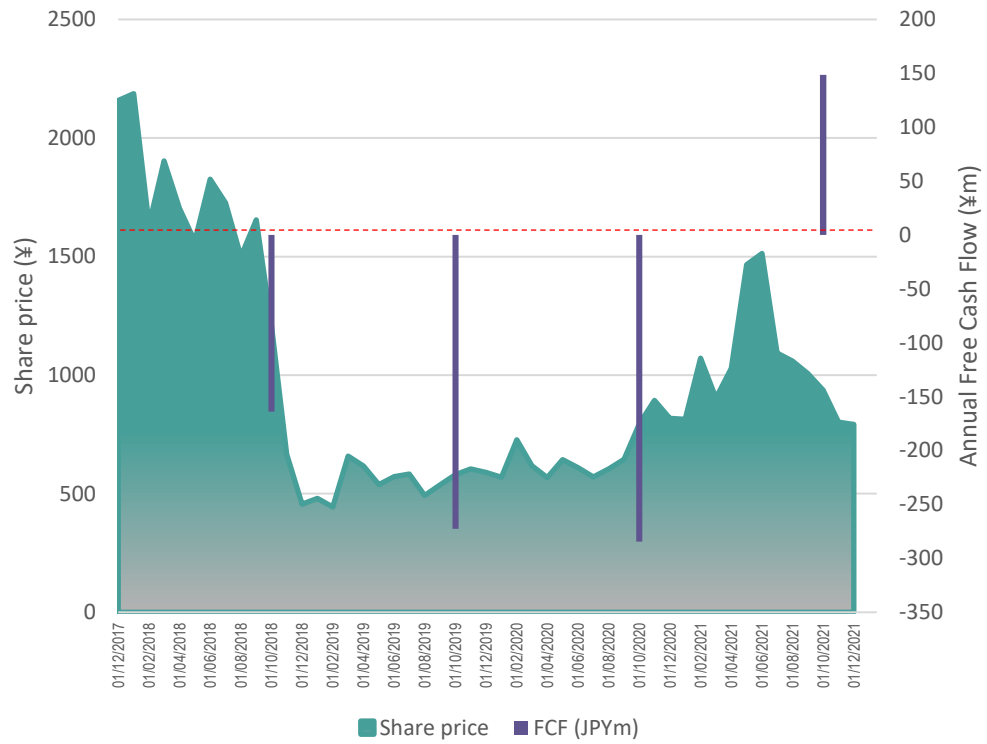


Source: Company



Annual free cash flow and share price performance

Figure 11: Historic Share price performance versus annual FCF generation



Source: Refinitiv, company



Recent results

Q3 YTD FY3/2022 results

Key financials

JPY (millions)	Q3 YTD FY3/2021	Q3 YTD FY3/2022	Growth YoY (%)
Sales	10,156	10,384	+2.2
Operating profit/(loss)	37	400	+971.3
Operating margins	0.3%	3.8%	
Recurring profit/(loss)	2	417	N/A
Net income attributable to parent	(23)	307	N/A

Source: company

Note: Sales growth YoY does not compare like-for-like with change in revenue recognition policy from FY3/2022

Per business segment (pre-elimination)

JPY (millions)	Q3 YTD FY3/2021	Q3 YTD FY3/2022	Growth YoY (%)
Sales			
Ad Platform	8,726	8,193	-6.1
Marketing SaaS	410	794	+93.6
Overseas	1,020	1,396	+36.9
Operating profit/(loss)			
Ad Platform	743	1,212	+63
Marketing SaaS	(53)	36	N/A
Overseas	67	113	+68
Operating margins			
Ad Platform	8.5%	14.8%	
Marketing SaaS	-13.1%	2.5%	
Overseas	6.6%	8.2%	

Source: company

Q3 FY3/2022 results highlighted the following:

- Ad Platform – Geniee is executing well and gaining market share in both the DSP and SSP markets, as well as focusing on winning profitable business to improve margins. Quarterly Q3 FY3/2022 gross profits reached a record-high of ¥0.71 billion, increasing 29% YoY. As mentioned previously, sales volume is declining YoY due to new net accounting standards for revenue recognition.
- Marketing SaaS – sales continue to grow as the company acquires more customers, with the churn rate stable at below 1.0%. A new partnership with SS Technologies has strengthened access to the real estate sector, and Geniee has fully acquired the company REACT to extend and strengthen its chat-based web customer services.
- Overseas – stable growth and margins here as the company expands its footprint in South East Asia acting as a reseller and partner to local players. Growth has been notable with the tie-ups with Dailymotion Asia Pacific and Glicloud.

FY3/2022 outlook

The company has maintained FY2/2022 guidance post Q3 FY2/2022 results.

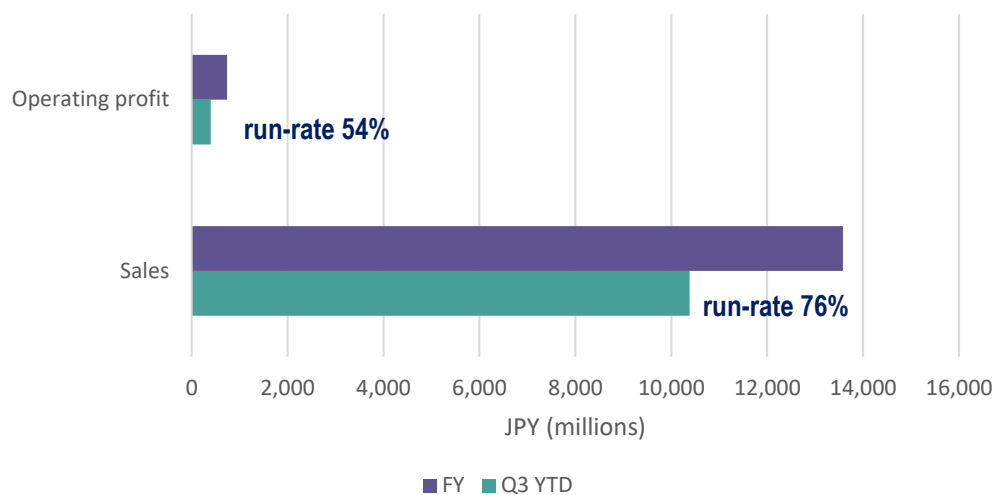
FY3/2022 company guidance

(JPY millions)	FY3/2021 actual	FY3/2022 CE	FY3/2022 CE (restated with unchanged revenue recognition policy)
Sales	14,061	13,425-13,739	15,049-15,363
Growth YoY(%)	-2.0	-3.5*	+8.1*
Operating profit	195	640-840	640-840
OPM (%)	1.4	5.4*	4.9*
EBITDA	587	1,259-1,459	1,259-1,459
Net income	101	526-665	526-665
EPS (JPY)	(5)	33.1*	33.1*
PER (x)	N/A	23.1	23.1

Source: Company, Bloomberg

Note: * at midpoint of range

Figure 12: Q3 YTD FY2/2022 results versus FY3/2022 guidance (at midpoint)



Source: Company

Medium term plan

Targets

Geniee has disclosed the following goals for the medium term:

- To become a market leader in AdTech, growing the Ad Platform business whilst aiming for high growth in Marketing SaaS.
- To list on the Prime Market on the Tokyo Stock Exchange, aiming to clear the thresholds required for liquidity, corporate governance, management track record and financial metrics.
- To investigate the adoption of IFRS accounting standards.

The financial targets for FY3/2024 are as follows:

Medium term plan financials

(JPY millions)	FY3/2021 actual	FY3/2022 CE	FY3/2024 CE
Sales	14,061	13,425-13,739	25,000-30,000
Growth YoY(%)	-2.0	-3.5*	+23.4
Operating profit	195	640-840	2,000-3,000
OPM (%)	1.4	5.4*	9.1*
EBITDA	587	1,259-1,459	2,700-3,200
Net income	101	526-665	N/A
EPS (JPY)	5.6	33.1*	N/A / 97.3**
PER (x)	144.0	24.6	8.4**
ROE (%)	3.8	N/A	N/A

Source: Company, Bloomberg

Note: * at midpoint of range; **estimated EPS with normalized tax rate

M&A

Management has stated that it wishes to undertake complementary bolt-on acquisitions in order to expand its product portfolio in Marketing SaaS, the aim being to provide a one-stop service platform. There have been 4 acquisitions undertaken since FY3/2018 (and one exit).

Recent M&A deals

Name	Date	Description	Deal value
CATS	February 2022	Digital transformation tools	N/A
REACT	August 2021	Develop and operate chatbot service on LINE and Meta	N/A
Business Search Technology	October 2020	Probo product (website search)	¥1.10 billion
Chikyu Inc	April 2018	SFA/CRM tool	¥0.24 billion
EXITED:			
Adskom India Pvt	September 2018	Overseas expansion	N/A

Source: Company, Refinitiv

Shareholder returns

Dividends

The company has not issued a dividend since listing, as management is prioritising capital allocation to business development and to strengthen the balance sheet. By targeting business expansion, management believes this will lead to stable and recurring profit generation.

Share buybacks

There is no formal policy in place, but Geniee announced a voluntary open market share buyback program in August 2021.

Details of current share buyback program

Offer start and end date	16 August 2021 – 15 August 2022
No of shares to repurchase (max)	350,000
% of shares outstanding	1.94%
Total buyback amount (max)	¥0.35 billion
Open market purchases (Y/N)	Y
Shares repurchased to date	47,900 (31 January 2022)

Source: Company

Astris earnings estimates and key assumptions

Astris key earnings forecasts are as follows:

Earnings estimates

Year end	FY3/2022E	FY3/2023E	FY3/2024E
Sales (¥bn)	14.06	18.28	22.85
Growth YoY (%)	-	+30.0	+25.0
OP (¥bn)	0.70	1.37	1.83
OPM (%)	5.0	7.5	8.0
FCF (¥bn)	0.42	1.59	2.21
FCF margin (%)	3.0	8.7	9.7
FCF conversion (%)	65.5	124.1	128.4
FCF yield (%)	2.8	10.8	15.1

Source: Astris Advisory

The core assumptions to these estimates are as follows:

- **Key driver is sales mix improvements** – with the Ad Platform business prioritising higher margin business and Marketing SaaS enhancing overall margins, we estimate operating margins will rise significantly to 7.5% in FY3/2023. We are lower than the company target range mid-point of 9.1% OPM for FY3/2024.
- **Topline growth driven by Marketing SaaS** – this segment made up 8% of total sales in Q3 YTD FY3/2022 and grew 94% YoY. We estimate through a combination of new customer acquisitions and low churn rate will drive overall sales growth for the company into FY3/2023E.
- **Free cash flow generation to increase significantly** - we estimate business expansion costs will be materially offset by increasing sales volume. Capex requirements have been on a steady increase but we estimate this will flatten into FY3/2022 and beyond. With limited working capital requirements we estimate FCF margins to improve.

Company information

Management

On the board of
4 listed
companies

CEO	Tomoaki Kudo
Shareholding (direct)	36.42%
Career history	
2006	Joined Recruit Holdings after graduation
2010	Founded Geniee as CEO
2020	Appointed CEO of subsidiary Business Search Technology

Director	Michimasa Naka
Shareholding (direct)	0.05%
Career history	
1989	Joined Solomon Brothers Asia Securities
2009	Appointed Executive Vice-President of Citigroup Securities K.K.
2014	Appointed non-executive director of iStyle Inc (3660) Appointed non-executive director of Geniee
2015	Appointed director Prevent SAST Insurance
2016	Appointed Representative Director of Broadwalk Capital
2017	Appointed Representative Director of Accelerator Inc
2019	Appointed director VISION Inc (9416)
2020	Appointed director VECTOR Inc (6058)

Executive Officer – Technology Strategy	Meng Xiang Liang
Shareholding (direct)	N/A
Career history	
2018	Joined Geniee Heads up the science team, currently working on improving development efficiencies and strengthening product functionality.

Executive Officer – Marketing SaaS	Hiroataka Ohashi
Shareholding (direct)	N/A
Career history	
2016	Joined Geniee
2019	Appointed executive officer for product management
2021	Appointed Chief Product Officer

Executive Officer – Ad Platform Supply side	Shunsuke Kawasaki
Shareholding (direct)	N/A
Career history	
2015	Joined Geniee from Mitsui Trading
2019	Appointed executive officer

Deputy General Manager – Ad Platform (Demand side)	Ayaka Kobayashi
Shareholding (direct)	N/A
Career history	
2016	Joined Geniee
2021	Appointed deputy manager of the Demand side operation in Ad Platform

Contact details

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 Tel: +81 (3) 5909 8177

Source: Company

Summary history

Key corporate timeline

April 2010	Geniee established in Nishi Shinjuku, Tokyo
February 2011	Commences reseller activities for Google AdSense
April 2011	Geniee SSP business starts
August 2012	Establishes Singapore subsidiary Geniee International Pte.
September 2013	Establishes Vietnamese subsidiary Geniee Vietnam Co.
March 2014	Geniee DSP business starts
September 2015	Establishes Indonesian subsidiary Geniee Technology Indonesia.
July 2016	'MAJIN' marketing SaaS commences
August 2017	Establishes Thai subsidiary Geniee Adtechnology (Thailand) Co.
December 2017	IPO on Tokyo Stock Exchange Mothers
June 2018	Absorbs the CRM/SFA system unit from Chikyu
November 2018	Acquires Chamo, the developer of the self-named chatbot tool
November 2020	Acquires Business Search Technology
August 2021	Acquires REACT
February 2022	To acquire CATS

Source: Company

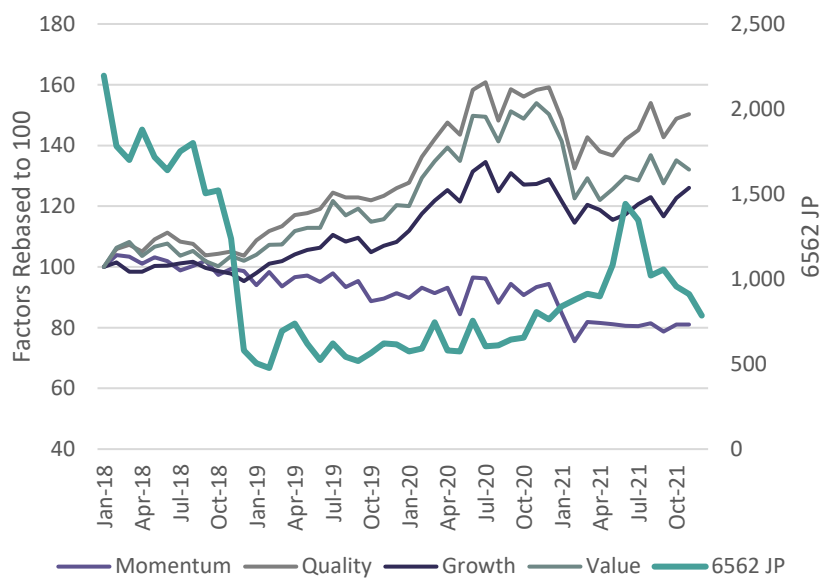
Shareholders details

Major shareholders	Stake (%)
Tomoaki Kudo	35.54
Softbank Group	31.16
Nomura PB Nominees Limited Omnibus Margin	4.22
Hiroshi Hirose	3.71
Takuya Yoshimura	3.29
NICE SATISFY LIMITED	2.22
Japan Custody Bank	1.33
Okasan Online Securities	0.97
BNY GCM CLIENT ACCOUNT JPRD AC ISG	0.97
JP Morgan Securities plc	0.94

Source: Company

Astris Quant Sheet

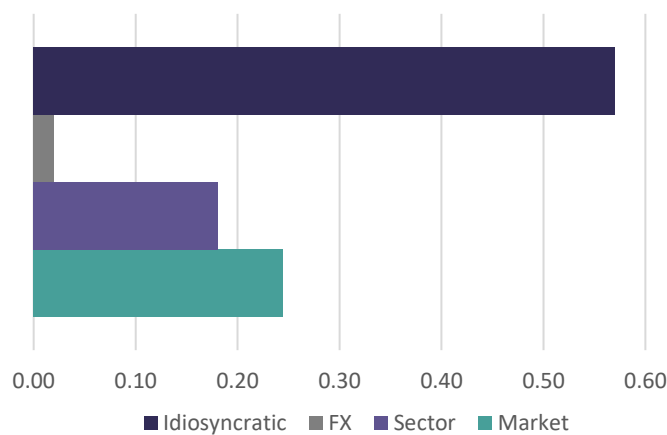
Share price chart and factor analysis



Source: FactSet

Factors	1 year Corr	3 year Corr
Momentum: 12 Month - 1 Month Performance	-0.23	0.07
Quality: ROE, CF to Assets, Debt/ Assets	-0.22	0.06
Growth: OP growth, Asset Growth	-0.22	0.00
Value: Book to Market	-0.10	0.16

Performance drivers



Source: FactSet

Factors	3 Year Corr	10 Year Corr
Topix Services	0.43	0.33
Topix 1st Section	0.35	0.31
TSE Mothers	0.38	0.28
Topix Small Cap Index	0.31	0.30
MSCI Japan	0.36	0.31



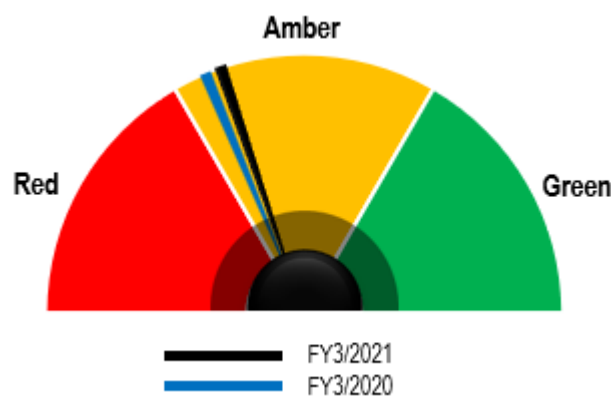
Astris-Sustainability ESG assessment

Ratings and scorecard

Our in-house Astris-Sustainability ESG model rates Geniee with a score of 39%, placing it in the ‘Amber’ rating of our assessment in FY2/2021. The direction of travel is a positive one from FY2/2020 at 37%.

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\$500 million.

Figure 13: Astris-Sustainability ESG model rating for Geniee



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 (8 factors)		
Astris Social score	N/A	N/A
Industry Rank	N/A	N/A
Governance (36 factors)		
Astris Governance score	47.9	50.7
Industry rank	48 out of 85	50 out of 85
TOTAL SCORE	36.8	38.8

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 Geniee is broadly comprised of the following:

- Board of directors – CEO Kudo acts as the chairperson.
- Audit and Supervisory Committee – made up of three independent non-executive directors. This committee meets once a month and on required basis; in FY3/2021 there were 100% attendance.
- Management meeting – held between CEO, the chair of the Audit and Supervisory Committee and operating officers of the business segments (and other staff as required) twice monthly.
- Compliance Committee – held by operating officers, the chair of the Audit and Supervisory Committee and the CEO on a quarterly basis.

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. Marketing SaaS
 - a. When will the company start to disclose more KPIs?
 - b. What are the targets for profitability at operating level for this segment?
 - c. How much sales contribution will this segment make in the medium to long term?
2. Capital allocation
 - a. How much business investment is required in order to reach medium term plan targets? Does this involve M&A?
 - b. What are the expected returns from these investment plans?
3. Relationship with Softbank Group – how will Geniee effectively leverage this relationship, as progress to date appears limited.
4. Shareholder returns – and management’s thinking behind how best to allocate any excess capital in the medium to longer term.
5. Medium term plan – is there a target for Free Cash Flow generation?



JGAAP Financials

	FY	FY	FY	FY	FY
(¥bn)	3/20	3/21	3/22E	3/23E	3/24E
Sales	14.35	14.06	14.06	18.28	22.85
COGS	12.13	11.45	10.83	13.71	16.91
Gross profit	2.22	2.61	3.23	4.57	5.94
Gross profit margin (%)	15.5	18.5	23.0	25.0	26.0
Total OP	(0.09)	0.20	0.70	1.37	1.83
OP margin (%)	(0.6)	1.4	5.0	7.5	8.0
Non-operating income	0.01	0.02	0.01	0.01	0.01
Non-operating expense	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)
Recurring profit	(0.14)	0.15	0.65	1.32	1.78
Extraordinary gains	-	-	-	-	-
Extraordinary losses	(0.03)	(0.01)	-	-	-
Pre-tax profit	(0.17)	0.14	0.65	1.32	1.78
Tax	0.00	0.03	0.02	0.04	0.06
Effective tax rate (%)	(2.8)	25.2	3.1	3.1	3.1
Net income	(0.18)	0.10	0.63	1.28	1.72
Non-controlling NI	0.00	(0.00)	0.00	0.00	0.00
Parent attributable NI	(0.18)	0.10	0.63	1.28	1.72
Sales growth YoY (%)	-4.1	-2.0	-	+30.0	+25.0
OP growth YoY (%)	N/A	N/A	+259.3	+95.0	+33.3
NI growth YoY (%)	N/A	N/A	+523.1	+102.3	+34.5

Balance sheet	FY	FY	FY	FY	FY
(¥bn)	3/20	3/21	3/22E	3/23E	3/24E
Cash & equivalents	1.20	1.09	0.65	1.39	2.75
Trade debtors	1.11	1.45	1.45	1.45	1.45
Stock	-	-	-	-	-
Other	0.17	0.19	0.19	0.19	0.19
Current assets	2.47	2.73	2.29	3.03	4.39
Tangible assets	0.53	0.45	0.44	0.33	0.13
Intangible assets	0.85	2.07	2.12	2.13	2.12
Investment & others	0.41	0.40	0.40	0.40	0.40
Fixed assets	1.79	2.92	2.96	2.87	2.66
Total assets	4.27	5.65	5.24	5.90	7.04
Short term borrowing	0.28	0.66	0.66	0.66	0.66
Trade creditors	0.78	1.01	0.98	1.24	1.53
Other	0.39	0.49	0.47	0.60	0.74
Current liabilities	1.44	2.15	2.11	2.50	2.92
Long term borrowing	0.15	0.71	0.71	0.71	0.71
Other LT liabilities	0.13	0.13	0.13	0.13	0.13
Long term liabilities	0.28	0.84	0.84	0.84	0.84
Shareholder's equity	2.54	2.66	2.29	2.56	3.28
Non-controlling interests	0.01	-	0.00	0.00	0.00
Total net assets	2.55	2.66	2.30	2.56	3.28
Total liabilities & net assets	4.27	5.65	5.24	5.90	7.04

Cash flow statement	FY	FY	FY	FY	FY
(¥bn)	3/20	3/21	3/22E	3/23E	3/24E
Net income/pre-tax profit	(0.18)	0.10	0.63	1.28	1.72
Depreciation/amortization	0.31	0.39	0.39	0.51	0.64
Other non-cash items	0.08	(0.01)	0.03	0.01	0.02
Changes in working capital	(0.13)	(0.05)	(0.05)	0.39	0.43
Cash from Operating Activities	0.07	0.43	1.01	2.19	2.81
Capex	(0.35)	(0.60)	(0.60)	(0.60)	(0.60)
Acquisition of business	(0.07)	(0.86)	(0.86)	(0.86)	(0.86)
Other investing cash flow	0.00	0.00	0.00	0.00	0.00
Cash from Investing Activities	(0.42)	(1.46)	(1.46)	(1.46)	(1.46)
Total cash dividends paid	-	-	-	-	-
Debt issuance/(retirement)	(0.09)	0.91	-	-	-
Equity financing	0.01	0.01	0.01	0.01	0.01
Other	(0.00)	(0.01)	(0.01)	(0.01)	(0.01)
Cash from Financing Activities	(0.08)	0.91	0.00	0.00	0.00
FX impact	(0.00)	0.01	0.00	0.00	0.00
Net cash flow	(0.42)	(0.11)	(0.44)	0.74	1.36
Free cash flow	(0.27)	(0.16)	0.42	1.59	2.21
Free cash flow margin (%)	-1.9	-1.2	3.0	8.7	9.7
Free cash flow conversion (%)	N/A	N/A	65.5	124.1	128.4
Capex/sales (%)	2.4	4.2	4.2	3.3	2.6
Capex/depreciation (%)	112.9	152.0	152.0	117.0	93.6
CFO margin (%)	0.5	3.1	7.2	12.0	12.3

Key metrics	FY	FY	FY	FY	FY
	3/20	3/21	3/22E	3/23E	3/24E
Profitability					
Gross margin (%)	15.5	18.5	23.0	25.0	26.0
Operating margin (%)	(0.6)	1.4	5.0	7.5	8.0
Net margin (%)	(1.2)	0.7	4.5	7.0	7.5
ROA (%)	(4.2)	1.8	12.1	21.8	24.5
ROE (%)	(7.0)	3.8	27.6	50.1	52.6
ROCE (%)	(3.2)	5.6	22.4	40.3	44.4
ROIC (%)	(3.1)	4.2	17.7	35.0	41.3
Liquidity					
Current ratio (x)	1.7	1.3	1.1	1.2	1.5
Quick ratio (x)	1.7	1.3	1.1	1.2	1.5
Leverage					
Debt/Equity ratio (x)	0.2	0.5	0.6	0.5	0.4
Net Debt/Equity ratio (x)	0.3	(0.1)	(0.3)	0.0	0.4
Equity ratio (x)	0.6	0.5	0.4	0.4	0.5
Interest cover (x)	(10.1)	18.8	N/A	N/A	N/A
Net Debt/EBITDA (x)	N/A	0.5	0.7	N/A	N/A
Valuation					
EPS reported (¥)	(9.99)	5.66	35.25	71.32	95.91
PER (x)	N/A	144.0	23.1	11.4	8.5
DPS (¥)	-	-	-	-	-
Dividend payout ratio (%)	-	-	-	-	-
Dividend yield (%)	-	-	-	-	-
Free cash flow yield (%)	(1.9)	(1.1)	2.8	10.8	15.1
PBR (x)	5.8	5.5	6.4	5.7	4.5
EV/sales (x)	1.0	1.1	1.1	0.8	0.7
EV/EBITDA (x)	69.8	25.5	13.7	8.0	6.1
EV/EBIT (x)	(163.8)	76.6	21.3	10.9	8.2
EV/FCF (x)	N/A	N/A	36.1	9.4	6.8



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