BRIDGE REPORT
ブリッジレポート

Bridge Salon

Bridge Report HAPPINET CORPORATION (7552)

Kazuhiko Note, President

Company	HAPPINET CORPORATION
Code No.	7552
Exchange	First Section, TSE
Industry	Wholesale (Commerce)
President	Kazuhiko Note
HQ Address	Komagata CA Bldg., 2-4-5 Komagata, Taito-ku, Tokyo 111-0043
Business	A comprehensive entertainment trading company of toys, visual and music software, video games, and amusement products. Also HAPPINET leverages its optimal distribution system to provide high value added distribution services. The Company also boasts of strengths in planning and creation of original toys and video contents.
Year End	March
URL	http://www.happinet.co.jp/english/

— Stock Information —

Share Price	Shares Outstanding (ex. Treasury Shares)		Market Cap.	ROE (actual)	Trading Unit
¥632	22,402,130 shares		¥14.158 billion	11.8%	100 shares
DPS (Est.)	Dividend Yield (Est.)	EPS (Est.)	PER (Est.)	BPS (actual)	PBR (actual)
¥22.50	3.6%	¥80.35	7.9x	¥972.13	0.7x

* Share price as of closing on December 13, 2012. Number of shares issued at the end of the most recent quarter excluding treasury shares
ROE and BPS are based on the actual term end amounts.

— Consolidated Earnings Trends — (Units: Million Yen)

Fiscal Year	Sales	Operating Income	Ordinary Income	Net Income	EPS (¥)	Dividend (¥)
March 2009	166,778	2,137	2,322	1,135	97.64	30.00
March 2010	194,246	2,327	2,513	1,179	104.60	30.00
March 2011	190,891	2,855	3,013	1,376	122.56	30.00
March 2012	198,021	4,855	5,032	2,458	109.73	38.75
March 2013 Est.	170,000	2,900	3,000	1,800	80.35	22.50

* Estimates are those of the Company. A 2 for 1 stock split was conducted in December 2011.

This Bridge Report presents HAPPINET CORPORATION's earnings results for the first half of fiscal year March 2013.

1. Company Overview
2. Sixth Medium-Term Management Plan "CAP14" − From FY3/13 to FY3/15
3. First Half of Fiscal Year March 2013 Earnings Results
4. Fiscal Year March 2013 Earnings Estimates
5. Conclusions

Key Points

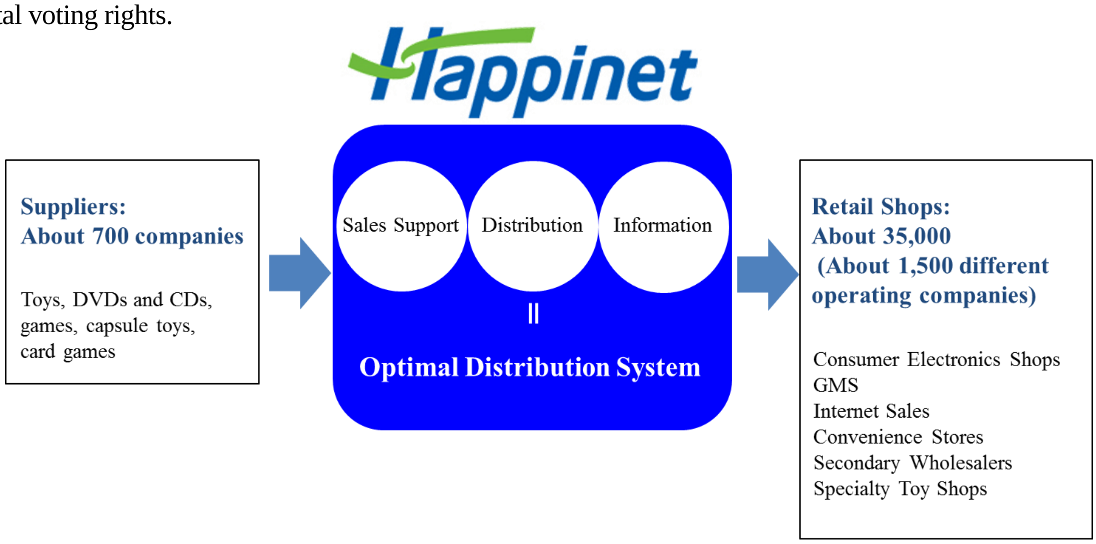
・HAPPINET CORPORATION's sales and ordinary income declined by 13.9% and 55.7% year-over-year respectively during the first half of fiscal year March 2013. A lack of hit products contributed to declines in sales of the toy and amusement businesses. Furthermore the video-game business and visual and music business suffered due to stagnation in the packaged software market and weak demand arising from diffusion of software and social games distribution over the Internet and by phone carriers. Disposal of inventories of over ¥700 million also contributed to a 56.5% year-over-year decline in operating income.

・Earnings estimates for the full fiscal year March 2013 have been revised down to reflect the weak performance in the first half and now call for sales and ordinary income to decline by 14.2% and 40.4% year-over-year respectively. However, HAPPINET is currently seeing a number of positive factors including favorable demand for new products in the approach to the Christmas gift giving season, introduction of original products and products for which sole distributorship rights have been granted, the launch of "Nintendo Wii U", a bottoming in card games and others. A yearend dividend ¥11.25 per share is expected to be paid (Total full year dividend of ¥22.5 per share).

・Part of the performance in the current term may be described as a rebound reaction to the strong business conditions seen during previous fiscal year March 2012. However from the second half of the current term, HAPPINET will take on challenges in new business realms including efforts to expand sales of original products and products for which it has sole distributorship rights, visual products that are produced in-house, and full scale efforts to expand business in the realm of social games. While these endeavors entail risks, they are expected to not only contribute to increases in sales but also to improvements in profitability in the future.

1. Company Overview

HAPPINET CORPORATION is a comprehensive distributor (wholesaler) operating in the realm of entertainment products. The Company conducts operations in a wide range of entertainment business realms spanning from toys, visual and music contents, video games, amusement products (Capsule toys, card games, others), and other product areas in addition to planning and creation of original toys and visual contents. HAPPINET also exceeds the normal bounds of distributors through its provision of retail related services including toy vending machines selling capsule toys, and card games. As of the end of fiscal year March 2012, NAMCO BANDAI Holdings Inc. was the top shareholder with 5.88 million shares or 26.3% of total voting rights.



<Business Segments, Group Structure>

HAPPINET's business can be divided into the toy, visual and music, video-game, and amusement businesses, which accounted for 39.0%, 28.1%, 21.6%, and 11.3% of fiscal year March 2012 sales respectively. By sales channel, specialized store including consumer electronics and camera mass retailers accounted for 31.6% of fiscal year March 2012 sales, mass retailers 20.4%, convenience stores 13.3%, e-commerce 12.7%, and others 22.0%. The HAPPINET Group is comprised of six consolidated subsidiaries and one non-consolidated subsidiary.

Toy Business	HAPPINET CORPORATION (Toy & Hobby Division, Convenience Stores Business Division, Original Toy Development Divison) Happinet Marketing Corporation	Industry's largest wholesaler, handling about 80% of BANDAI's total toy business (BANDAI products account for 54.8% of HAPPINET's total transactions)
Visual and Music Business	HAPPINET CORPORATION (Pictures Division) Happinet Pictures & Music Corporation	The industry's largest wholesaler. Video software accounts for 71%, of which 11% are products developed in-house, and the remaining 60% are wholesale.
Video-Game Business	HAPPINET CORPORATION (Video Game Division) MORI GAMES CO., LTD.	The only wholesaler that deals with all domestic manufacturers of domestic home use video games. PlayStation products (PS3, PSP, PS Vita, others) accounts for 45%, Nintendo (Wii, DS, 3DS) 32%, and Xbox360 and other products 23%.
Amusement Business	Happinet Vending Service Corporation	Operation of toy vending machines and amusement facility product sales, the industry's largest amusement vendor with 60% market share.

<Corporate History − From An Individually Run Toy Distributor to A Comprehensive Entertainment Products Distributor>

In February 1968, the current Chairman and CEO Hiroshi Kawai resigned from BANDAI Co., Ltd. and started a toy wholesale business as an individual. Later this operation became incorporated as a company called Tosho Ltd. in June 1969, and full scale business transactions with BANDAI started in September 1972. In October 1991 Tosho changed its name to HAPPINET along with the absorption of two BANDAI affiliated wholesale companies called Dairin Co., Ltd. and Seiko Co., Ltd. Since then, HAPPINET has expanded the range of its businesses from toys to include amusement, video games and video contents in response to declining birthrates, diversification of the ways children play, and other changes in the market. As a means of diversifying its access to capital, the Company listed on the Japanese OTC Market (Currently known as the JASDAQ Market) in August 1997. In December 1998 it moved to the Second Section Market of the Tokyo Stock Exchange, and then to the First Section Market in March 2000.

<Strengths>

(1) Overwhelmingly Strong Business Foundation

HAPPINET CORPORATION is a distributor operating in the realm of toys, DVDs and CDs, capsule toys and card games, and it boasts of a top market share of about 60% in the capsule toys and card games. In addition, it is the only wholesaler that handles products (Japanese market products) of all the home game equipment manufacturers. And as the industry's largest company, HAPPINET leverages its bountiful experience in its marketing activities to gather information about the needs of consumers at the storefront to be provided as feedback to the manufacturers it serves. At the same time, HAPPINET supports both manufacturers and retailers by conveying strategies of manufacturers to retailers to help optimize the storefront sales strategies, and by providing advice on how to arrange the product lineup.

(2) Optimal Distribution System

Supported by the strength of its information gathering capabilities, HAPPINET boasts of an "Optimal Distribution System" (ODS) that links retailers with manufacturers and leverages electronic data interchange (EDI), POS, and the Internet. The four logistics centers that make up this ODS have a combined floor space of 77,134 square meters, which is equivalent to 1.7 times the floor space of the Tokyo Dome all weather multipurpose stadium. ODS boasts of systems that provide highly accurate information on a real time basis and enables quick and optimized shipment operations that have an error rate of less than 1 in 100,000 units. HAPPINET is also able to support the optimization of production volumes through its supply chain management system and reductions in distribution inventories through its rationalized logistics capabilities. The consolidated subsidiary Happinet Logistics Service Corporation is responsible for operation of the Company's logistics centers.

Facility	Operation Start	Location and Floor Space
Happinet Logistics Center-East Japan	April 2001	Ichikawa City, Chiba Prefecture, 24,741 square meters
Happinet Second Logistics Center-East Japan	February 2006	Funabashi City, Chiba Prefecture, 28,151 square meters
Happinet Logistics Center-West Japan	January 2008	Amagasaki City, Hyogo Prefecture, 11,774 square meters
Happinet Second Logistics Center-West Japan	July 2011	Amagasaki City, Hyogo Prefecture, 12,468 square meters

(3) Management Strengths

Superior management is yet another one of HAPPINET's strengths. Expansion of both commercial rights and operating territory has been achieved through M&A activities, and high levels of profitability have been maintained through effective group and product management. And despite the expansion of its business through M&A, stable cash flow has been realized through strict control of receivables and inventories, and a solid financial foundation has been created without relying upon interest bearing liabilities.

Financial Position (Units: Million Yen)

	FY3/09	FY3/10	FY3/11	FY3/12		FY3/09	FY3/10	FY3/11	FY3/12
Cash	5,463	6,312	8,220	12,359	Payables	20,748	19,832	20,204	23,042
Receivables	25,149	22,937	23,206	26,755	Interest Bearing Liabilities	6,017	2,541	3	2
Inventories	9,345	6,749	6,435	6,168	Liabilities	36,476	30,088	28,704	32,527
Current Assets	44,864	40,140	41,039	48,269	Net Assets	18,184	18,962	19,802	21,795
Fixed Assets	9,797	8,910	7,468	6,054	Total Liabilities, Net Assets	54,661	49,050	48,507	54,323

Profitability and Asset Efficiency (Units: Million Yen)

	FY3/09	FY3/10	FY3/11	FY3/12
Ordinary Income Margin	1.4%	1.3%	1.6%	2.5%
Total Asset Turnover Ratio	3.1	4.0	3.9	3.6
ROA	2.2%	2.3%	2.8%	4.8%

Cash Flow (Units: Million Yen)

	FY3/09	FY3/10	FY3/11	FY3/12
Operating Cash Flow	951	6,232	5,083	4,609
Free Cash Flow	100	5,841	4,768	4,559

2. Sixth Medium-Term Management Plan "CAP14" – From FY3/13 to FY3/15

The Fifth Midterm Business Plan "CAP11" (Change And Progress 11) starting in fiscal year March 2010 and ending in fiscal year March 2012, maintained a central theme of "Strengthen the foundations as a comprehensive entertainment trading company," and placed the highest priority upon implementing measures to reform the Company's earnings structure. While the economic slowdown brought on by the "Lehman Shock", deflationary trends caused by the strengthening of the yen, and the negative influence of the Great East Japan Earthquake made it difficult to grow sales as called for by the Plan, HAPPINET was able to fine tune its profitability (HAPPINET was able to raise its ordinary income to sales margin over the target of 1.5% points to 2.5%.).

Following on the heels of this plan, the Sixth Medium-Term Management Plan "CAP14" (From FY3/13 to FY3/15) has been established with the main theme of "Grow as a comprehensive entertainment trading company and venture into new business domains." And in keeping with this Plan, HAPPINET will continue its efforts to 1) Sustainable growth of existing businesses, 2) Venture into new business domains and 3) Strengthen and establish distributing functions. While the Japanese entertainment market is mature, HAPPINET believes that there is still strong potential for growth based on fortification of its existing business and development of new business realms. Furthermore, HAPPINET plays a critical role in the distribution of various products through its creation of an "integrated support system" linking manufacturers with retailers.

(1) Sustainable Growth of Existing Businesses
HAPPINET seeks to strengthen its relationships with major manufacturers, and to fortify its critical role in expanding sales of products by providing smooth distributing functions to grow existing businesses. Specifically, the Company will strengthen its presence with manufacturers by increasing the share of their various products in line with the targets specified below. HAPPINET also strives to bring about improvements in its profitability by strengthening its efforts in the realm of high profit margin original products and products for which it has sole distributorship rights.

Business Segment	Current, Target Market Shares	Endeavors
Toy Business	30% ⇒ 40%	Increase market share through aggressive development and cultivation of original in-house products, and fortifying its function as a wholesaler (Increase transaction volumes of BANDAI products while expanding the share of other makers products)
Visual and Music Business	14% ⇒ 20%	Expand sales of highly profitable original in-house visual products, in addition to becoming the major manufacturers favored wholesaler for collaborative alliances (Endeavor to achieve over 50% share of manufacturers direct sales)
Video-Game Business	12% ⇒ 20%	Grow market share of hardware through expansion of new game equipment, for which the sales potential is large, and improve profitability and expand sales of products for which HAPPINET has exclusive distribution rights
Amusement Business	60% ⇒ 70%	Expand the scale of this business by finding new locations with ability to attract large numbers of customers in order to maintain high levels of fixed cost productivity. Improve profitability and expand sales of products for which HAPPINET has exclusive distributorship rights.

(2) Venture into New Business Domains
HAPPINET seeks to achieve new growth by taking on challenges in new business realms. Specifically, the Company will aggressively develop businesses in new realms including social games and digital entertainment, in addition to expanding sales of original products and products for which they have exclusive distributorship rights. Furthermore, HAPPINET is also exploring other opportunities in areas related to its various businesses. Moreover, alliances with second tier game manufacturers are being promoted in the social games realm, and distribution of the first card battle type social game called “Astral Saga” was launched on April 9 to iPhone and iPod touch platforms.

Original, Exclusive Distributorship Rights Product Sales Targets

Toy Business	FY3/12: ¥3.0 billion ⇒ FY3/15: ¥5.0 billion
Visual and Music Business	FY3/12: ¥6.0 billion ⇒ FY3/15: ¥14.0 billion
Video-Games Business	FY3/12: ¥3.0 billion ⇒ FY3/15: ¥5.0 billion
Amusement Business	FY3/12: ¥0 billion ⇒ FY3/15: ¥1.0 billion
Total	FY3/12: ¥12.0 billion ⇒ FY3/15: ¥25.0 billion

(3) Strengthen and Establish Distributing Functions
HAPPINET will raise the level of both its hardware and software functions to expand existing businesses and venture into new businesses, and to establish new and fortify existing distributing functions to enable it to see continuous growth. As an integral part of this strategy, HAPPINET is creating an integrated support system linking manufacturers with retailers. Through the use of this support system, manufacturers can realize optimized storefront sales strategies, and leverage storefront sales information to maximize earnings. At the same time, retailers can maximize sales and profits by optimizing their storefront product lineup. Traditionally manufacturers and retailers have relied upon manpower to accurately assess storefront conditions, but HAPPINET can provide highly accurate storefront sales information systematically through its fortified distributing functions. This system will enable HAPPINET to become a vital partner to both manufacturers and retail stores.

3. First Half Fiscal Year March 2013 Earnings Results

First Half Consolidated Earnings (Units: Million Yen)

	1H FY3/12	Share	1H FY3/13	Share	YY Change	Initial Est.	Divergence
Sales	88,508	100.0%	76,211	100.0%	-13.9%	90,000	-15.3%
Gross Income	11,874	13.4%	10,192	13.4%	-14.2%	-	-
SG&A	9,557	10.8%	9,185	12.1%	-3.9%	-	-
Operating Income	2,316	2.6%	1,007	1.3%	-56.5%	1,900	-47.0%
Ordinary Income	2,422	2.7%	1,072	1.4%	-55.7%	2,000	-46.4%
Net Income	1,526	1.7%	709	0.9%	-53.5%	1,200	-40.9%

* Figures include reference figures calculated by Investment Bridge Co., Ltd. Actual results may differ (applies to all tables in this report)

Sales, Ordinary Income Decline by 13.9%, 55.7% Year-Over-Year

Sales declined by 13.9% year-over-year to ¥76.211 billion due in part to the decline in sales of the toys and amusement businesses arising from the lack of hit products compared with the previous first half. At the same time, the rise in popularity of software and social games distributed over the Internet contributed to difficult conditions in the visual and music, and video-game businesses. With regards to profits, gross income margin remained in line with the previous first half due to the increase in sales composition of high profitability toys and amusement businesses. Reductions in sales, general and administrative expenses could not offset the drop in sales and led operating income to fall by 56.5% year-over-year to ¥1.007 billion.

SG&A Expenses

(Units: Million Yen)

	1H FY3/12	Share	1H FY3/13	Share	YY Change
Labor	3,356	3.8%	3,361	4.4%	+0.1%
Consigned labor	743	0.8%	752	1.0%	+1.2%
Depreciation	346	0.4%	322	0.4%	-7.1%
Goodwill amortization	169	0.2%	168	0.2%	-0.2%
Others	4,943	5.6%	4,582	6.0%	-7.3%
Total SG&A	9,557	10.8%	9,185	12.1%	-3.9%

(2) Earnings by Segment, Channels

Segment Sales, Income

(Units: Million Yen)

	1H FY3/12	Share	1H FY3/13	Share	YY Change
Toy	34,092	38.5%	32,410	42.5%	-4.9%
Visual and Music	26,702	30.2%	20,711	27.2%	-22.4%
Video-Games	16,492	18.6%	13,127	17.2%	-20.4%
Amusement	11,220	12.7%	9,962	13.1%	-11.2%
Total Sales	88,508	100.0%	76,211	100.0%	-13.9%
Toy	1,249	53.9%	833	82.7%	-33.3%
Visual and Music	338	14.6%	107	10.7%	-68.2%
Video-Games	404	17.5%	98	9.7%	-75.8%
Amusement	989	42.7%	605	60.1%	-38.8%
Adjustments	-664	-28.7%	-637	-63.2%	-
Total Operating Income	2,316	100.0%	1,007	100.0%	-56.5%

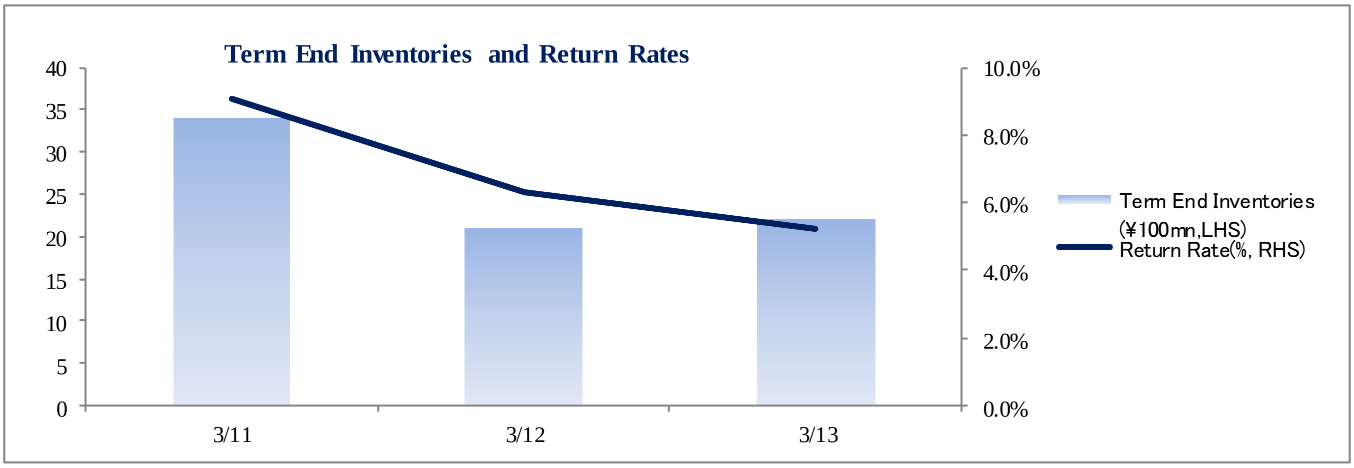
Toy Business

Sales and operating income declined by 4.9% and 33.3% year-over-year to ¥32.410 billion and ¥833 million respectively. BANDAI's new character product "Kamen Rider Wizard" (With transformer belt and related accessories) got off to a good start after its launch in September, and original products also sold favorably (Sales rose from ¥0.9 to ¥1.1 billion to account for

3.4% of sales). However, there was a lack of large hit products compared with the previous term. By manufacturer, sales of BANDAI and TOMY COMPANY, LTD. (TAKARA-TOMY) fell by 8.8% and 19.7% year-over-year to 50.6% and 7.3% of sales respectively. At the same time sales of other manufacturers rose by 2.9% year-over-year to 38.7% of sales. Moreover, inventory disposal of ¥290 million was incurred during the first half (¥310 million in the previous first half), bringing inventories at the end of the first half to ¥3.2 billion (¥3.0 billion at end of the previous first half) and resulted in an inventory turnover ratio of 23.2 times (Compared with 25.7 times in the previous first half). In response to this increase in inventories at the end of the first half, additional inventory disposal was conducted in October.

Visual and Music Business

Sales and operating income declined by 22.4% and 68.2% year-over-year to ¥20.711 billion and ¥107 million respectively due to stagnation in the packaged software market brought on by the diffusion of software over the Internet. The lack of hits in the realm of high profitability original visual products and products for which HAPPINET has sole distributorship rights contributed to this deterioration in profitability. Inventories at the end of the first half remained in line with the previous first half's level at ¥2.2 billion (¥2.1 billion in the previous first half). The inventory turnover ratio fell below the previous first half's level of 22.3 times to 19.9 times in the current first half. However the Company's measures were successful in reducing the return rates from 6.3% in the previous first half to 5.2% in the current first half.



(Source: HAPPINET)

Video-Game Business

Sales and operating income fell by 20.4% and 75.8% year-over-year to¥13.127 billion and ¥98 million respectively due to difficult operating conditions caused by the shift towards social games (An industry wide trend). While sales of Nintendo 3DS related products (Hardware, software and accessories) rose by 2.3 fold to ¥4.2 billion with the introduction of the "Nintendo 3DS LL" portable game in July, a lack of software caused sales of Play Station 3 and other manufacturers including Xbox360 to decline by 31.1% and 49.1% year-over-year to ¥1.8 and ¥2.3 billion respectively.

Amusement Business

Sales and operating income declined by 11.2% and 38.8% year-over-year to ¥9.962 billion and ¥605 million respectively due in part to a lack of hit vending machine toy products and kids' card game machines compared with the previous term. The combination of a decline in sales and an increase in inventories (Rose from ¥120 to ¥350 million) contributed to the large decline in profits. However this increase in inventories was in part deliberate efforts taken in response to an apparent bottoming in the market for vending machine toy products.

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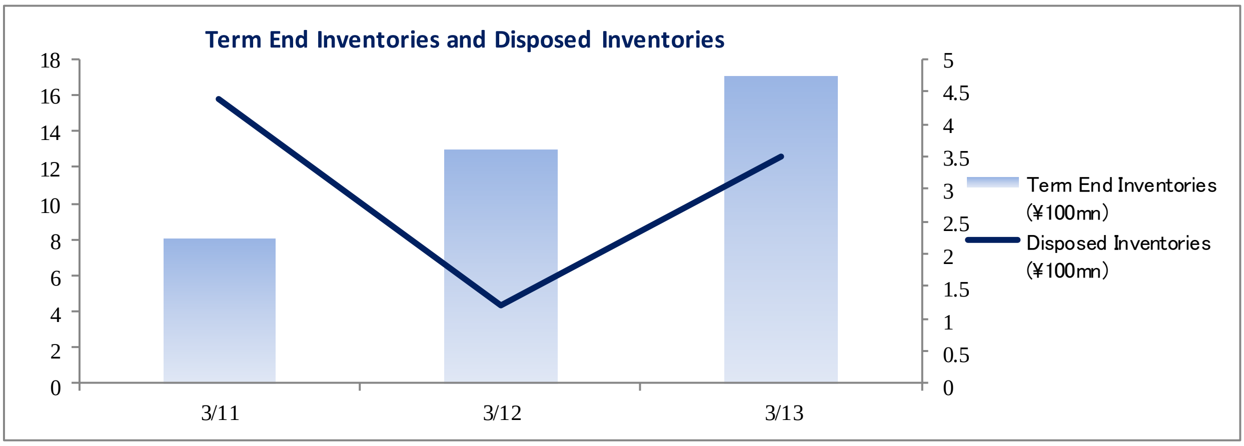

(Source: HAPPINET)

(3) Financial Conditions and Cash Flow

Financial Conditions

(Units: Million Yen)

	FY3/12	FY9/12		FY3/12	FY9/12
Cash	12,359	10,512	Payables	23,042	21,541
Receivables	26,755	23,398	Unpaid expenses	1,605	376
Inventories	6,168	8,405	Bonus Reserves	472	261
Current Assets	48,269	45,318	Current Liabilities	29,617	25,939
Tangible Fixed Assets	1,392	1,353	Retirement reserves	1,780	1,828
Intangible Fixed Assets	1,715	1,331	Fixed Liabilities	2,909	2,927
Investments, Others	2,946	2,999	Net Assets	21,795	22,136
Fixed Assets	6,054	5,685	Total Liabilities, Net Assets	54,323	51,003

At the end of the first half of the current term, total assets declined by ¥3.319 billion to ¥51.003 billion due primarily to deterioration in cash flow. While toy business inventories grew on the back of divergence from demand forecasts, adjustments have already been made. Furthermore HAPPINET maintains a healthy financial foundation based on a total lack of interest bearing liabilities, and its equity ratio improved by 3.3% points to 43.4%.

Cash Flow

(Units: Million Yen)

	1H FY3/12	1H FY3/13	YY Change	
Operating Cash Flow (A)	2,124	-1,306	-3.431	-
Investing Cash Flow (B)	-64	-173	-108	-
Free Cash Flow (A+B)	2,060	-1,479	-3,539	-
Financing Cash Flow	-170	-364	-194	-
Cash and Equivalents at Term End	10,109	10,512	+403	+4.0%

Declines in profit were compounded by increases in inventories and tax expenses (¥1.036 to ¥1.593 billion) and caused operating cash flow to see a net outflow of ¥1.306 billion compared with the net inflow of ¥2.124 billion during the previous first half. The margin of outflow in investing cash flow expanded on the back of investments for system development and capital investments, causing free cash flow to turn to a cash outflow of ¥1.479 billion. The margin of outflow in financing cash flow also grew due to an increase in dividends.

4. Fiscal Year March 2013 Earnings Estimates

(1) Consolidated Earnings (Units: Million Yen)

	FY3/12	Share	FY3/13 Est.	Share	YY Change	Initial Est.	Divergence
Sales	198,021	100.0%	170,000	100.0%	-14.2%	200,000	-15.0%
Operating Income	4,855	2.5%	2,900	1.7%	-40.3%	4,300	-32.6%
Ordinary Income	5,032	2.5%	3,000	1.8%	-40.4%	4,500	-33.3%
Net Income	2,458	1.2%	1,800	1.1%	-26.8%	2,500	-28.0%

Full Year Consolidated Earnings Revised Down, Call for Sales and Ordinary Income to Fall by 14.2% and 40.4%

In order to reflect the weaker first half earnings results, HAPPINET has revised its full year estimates for fiscal year March 2013 downwards. However sales of new products launched in the approach to Christmas is progressing favorably, and numerous other positive factors including the introduction of original products and products for which HAPPINET has sole distributorship rights, the launch of “Nintendo Wii U”, and a bottoming in card games are noted. An additional commemorative dividend of ¥5 per share is not expected to be paid for fiscal year March 2013, bringing the yearend dividend to ¥11.25 (Total full year dividend of ¥22.5 per share).

Second Half Consolidated Earnings

(Units: Million Yen)

	2H FY3/12	Share	2H FY3/13	Share	YY Change	Initial Est.	Divergence
Sales	109,513	100.0%	93,789	100.0%	-14.4%	110,000	-14.7%
Operating Income	2,539	2.3%	1,893	2.0%	-25.4%	2,400	-21.1%
Ordinary Income	2,610	2.4%	1,928	2.1%	-26.1%	2,500	-22.9%
Net Income	932	0.9%	1,091	1.2%	+17.1%	1,300	-16.1%

(2) Business Segment Estimates

Segment Sales, Operating Income (Units: Million Yen)

	FY3/12	Share	FY3/13 Est.	Share	YY Change	Initial Est.	Divergence
Toys	77,313	39.0%	70,000	41.2%	-9.5%	78,000	-10.3%
Visual and Music	55,719	28.1%	48,000	28.2%	-13.9%	55,000	-12.7%
Video-Game	42,704	21.6%	33,000	19.4%	-22.7%	43,000	-23.3%
Amusement	22,282	11.3%	19,000	11.2%	-14.7%	24,000	-20.8%
Total Sales	198,021	100.0%	170,000	100.0%	-14.2%	200,000	-15.0%
Toys	3,009	62.0%	2,400	82.8%	-20.2%	2,900	-17.2%
Visual and Music	448	9.2%	450	15.5%	+0.4%	450	+0.0%
Video-Game	936	19.3%	500	17.3%	-46.6%	900	-44.4%
Amusement	1,801	37.1.%	900	31.0%	-50.0%	1,400	-35.7%
Adjustments	-1,341	-27.6%	-1,350	-46.6%	-	-1,350	-
Total Operating Income	4,855	100.0%	2,900	100.0%	-40.3%	4,300	-32.6%

Toy Business

The “Tamagotchi P’s” with SD card function launched on November 23 has been well received by the market, with high expectations for other products launched in September including “Kamen Rider Wizard Transformer Belt DX Wizard Driver” and “Wizard Ring Series” (Including related accessories). Both of these products can be played along with card games and therefore provide synergies with the amusement business segment.

Visual and Music Business

409,000 people saw the sponsored movie “Nobou No Shiro” during the opening three days (November 2 to 4) for sales of ¥500 million. Also, contributions from the DVD of a popular movie called “Helter Skelter” (Recorded sales of over ¥2.0 billion and over 1.50 million viewers in movie theaters) to be released on December 21. In addition the second CD of the Happinet artist, a three girl unit called “Oha-Garls Chu! Chu! Chu!,” was released on November 20 and is expected to contribute to second half earnings.

Video-Game Business

The sales launch of “Nintendo Wii U” (Suggested manufacturer retail price of ¥26,250 for standard product, and ¥31,500 for premium set including tax), and “New Super Mario Brothers U” and “Monster Hunter 3G HD Version” versions of highly popular game series are expected to take place on December 8. The launch of new game platforms is expected to contribute to resurgence in market activities.

Amusement Business

At the end of the first half, the market for toy vending machine products appear to have bottomed, and card games that use card game equipment linked to animation and toys were introduced. For example, “Kamen Rider Ganbaride” card game equipment has synergies with the toy business segment because it can be played using the Kamen Rider Wizard Transformer Belt “DX Wizard Driver” and “Wizard Ring” (Transformer and Magic Ring) products sold in the toy business segment.

(3) Future Strategy

The Sixth Medium-Term Management Plan “CAP14” (From FY3/13 to FY3/15) currently being implemented has been established with the main theme of “Grow as a comprehensive entertainment trading company and venture into new business domains”. And in keeping with this Plan, HAPPINET will continue its efforts to 1) Sustainable growth of existing businesses, 2) Venture into new business domains, and 3) Strengthen and establish distributing functions. With regards to taking on challenges in new business realms, HAPPINET is launching full scale efforts to expand sales of original products and products for which sole distributorship rights are owned, and conduct aggressive development for SNS games and other products in the realm of digital entertainment and other new business realms during the second half.

Toy Business

HAPPINET will also take on the challenge of developing new business models. While further details of these challenges is expected to be released in the future, an animation production business will be launched in collaboration with major publishing companies, private television broadcasting companies, and United States toy manufacturers. HAPPINET will conduct sales of related toys, DVDs, CDs and other products as a sole distributor within Japan (Sales in the United States and Europe are expected to be conducted by United States toy manufacturers).

Visual and Music Business

HAPPINET is conducting efforts to expand the sales of in-house produced visual products (Products which HAPPINET invests over 50% of total capital) and to acquire comprehensive rights for other visual products. In addition, the Company will expand the number of in-house music artists for which they have sole distributorship rights from their current number of 8, and conduct aggressive efforts to promote them. As part of these efforts, the second CD of the in-house artist “Oha-Garls Chu! Chu! Chu!” was released on November 20. The “Oha-Garls Chu! Chu! Chu!” is an idol group who first appeared on a daily morning television program called “Oha-Sta” broadcast by Television Tokyo. In addition to the sale of their second single “Koisho!!!” on November 20, individual group members also released six CDs.

Video-Game Business

Game packages of the publishing and social games businesses were launched on a full scale basis. Currently development of games for girls, a realm in which there is relatively little competition, is conducted in collaboration with publishing companies in the game package and publishing related business. In addition to the distribution of “Pokehiro+”, “Barbarossa+” and “Astral Saga” in the social game business (For which development costs are low and profitability is high), iPhone game applications like “Senki Zessho Symphogear” are also being developed. These belong to the category called character communication applications and the voices and actions can be manipulated by touching the characters. The “Character and Voice Pack” will be distributed from December. Moreover, “Senki Zessho Symphogear” is a very popular animation cartoon that was aired from January to March 2012 on TOKYO MX television, and used the voices of famous television personalities Nana Mizuki, Minami Takayama, and Ayahi Takagaki. A comic book based on this cartoon is also published by Kadokawa Group Publishing Co., Ltd. In addition, a rhythm action game based on the character of “Senki Zessho Symphogear” is expected to be released, and the second season of this animation is expected to be broadcast during 2013.

Aside from these developments in the amusement business, point of sales (POS) systems have are being introduced into capsule toy vending machines. Until now, the responsibility for restocking of machines was left to the experiences and skill of individual operators, but the introduction of POS data will enable a more efficient approach to operating vending machines. Furthermore, specialized websites will be established for each vending machine location so that sales support can be provided through the ability to provide real time information on product lineup.

Results of POS System Introduction

Capsule Operation Reform	Assess sales conditions prior to visiting machine locations
Improve MD Function	Create the industry's first real time sales data acquisition capability
Eliminate Inventory Loss	Assess differences between ideal and actual inventories
Increase the Appeal to Consumers	Establish specialized websites per machine location to display product lineup in real time

5. Conclusions

Results recorded thus far in fiscal year March 2013 reflect a rebound from the favorable conditions observed during the previous fiscal year March 2012 brought on by strong purchases of children's toys and games by consumers who refrained from travelling in the wake of the Great East Japan Earthquake. Despite the current weaker consumer demand, the domestic toy market is larger than ¥600.0 billion, and when computer games and hardware and software are included, the market is believed to be worth ¥1.200 trillion. Therefore with sales estimated to reach ¥170 billion during the current term, the potential for HAPPINET to expand the scale of it business remains strong. The Sixth Medium-Term Management Plan "CAP14" (From FY3/13 to FY3/15) currently being implemented calls for HAPPINET to continue its efforts to sustainable growth of existing businesses, venture into new business domains, and strengthen and establish distributing functions. With regards to challenges in new business realms, HAPPINET is launching full scale efforts to expand sales of original products and products for which it has sole distributorship rights, and will conduct aggressive development of in-house products for the social game market from the second half. While these endeavors entail business risks, they are taken as part of a strategy to expand not only sales but profitability as well.