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SR Research Report  
2014/12/5

## Happinet Corporation (7552)

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## Key financial data

Income Statement (JPYmn)	FY03/10 Cons.	FY03/11 Cons.	FY03/12 Cons.	FY03/13 Cons.	FY03/14 Cons.	FY03/15 Est.
<b>Total Sales</b>	<b>194,246</b>	<b>190,891</b>	<b>198,021</b>	<b>176,757</b>	<b>206,867</b>	<b>215,000</b>
YoY	16.5%	-1.7%	3.7%	-10.7%	17.0%	3.9%
<b>Gross Profit</b>	<b>22,467</b>	<b>22,326</b>	<b>25,007</b>	<b>22,501</b>	<b>24,039</b>	
YoY	12.4%	-0.6%	12.0%	-10.0%	6.8%	
GPM	11.6%	11.7%	12.6%	12.7%	11.6%	
<b>Operating Profit</b>	<b>2,327</b>	<b>2,855</b>	<b>4,855</b>	<b>2,973</b>	<b>3,888</b>	<b>5,000</b>
YoY	8.9%	22.7%	70.1%	-38.8%	30.8%	28.6%
OPM	1.2%	1.5%	2.5%	1.7%	1.9%	2.3%
<b>Recurring Profit</b>	<b>2,513</b>	<b>3,013</b>	<b>5,032</b>	<b>3,081</b>	<b>3,917</b>	<b>5,000</b>
YoY	8.2%	19.9%	67.0%	-38.8%	27.1%	27.6%
RPM	1.3%	1.6%	2.5%	1.7%	1.9%	2.3%
<b>Net Income</b>	<b>1,179</b>	<b>1,376</b>	<b>2,458</b>	<b>2,011</b>	<b>2,466</b>	<b>3,500</b>
YoY	3.9%	16.7%	78.6%	-18.2%	22.6%	41.9%
Net Margin	0.6%	0.7%	1.2%	1.1%	1.2%	1.6%
<b>Per Share Data (JPY)</b>						
Number of Shares (thousands)	12,025	12,025	24,050	24,050	24,050	
EPS	52.3	61.3	109.7	89.8	109.4	154.6
EPS (Fully Diluted)	-	-	109.6	89.6	108.1	
Dividend Per Share	15.00	15.00	27.50	22.50	24.75	27.00
Book Value Per Share	846.4	883.7	972.1	1,036.2	1,128.3	
<b>Balance Sheet (JPYmn)</b>						
Cash and Equivalents	6,312	8,220	12,359	10,155	9,996	
<b>Total Current Assets</b>	<b>40,140</b>	<b>41,039</b>	<b>48,269</b>	<b>47,930</b>	<b>47,025</b>	
Tangible Fixed Assets, net	1,668	1,555	1,392	1,110	1,342	
Other Fixed Assets	3,405	2,780	2,946	2,976	5,065	
Intangible Assets	3,836	3,132	1,715	985	446	
<b>Total Assets</b>	<b>49,050</b>	<b>48,507</b>	<b>54,323</b>	<b>53,003</b>	<b>53,879</b>	
Notes and Accounts Payable	19,832	20,204	23,042	22,672	20,099	
Short-Term Debt	2,460	-	-	-	-	
<b>Total Current Liabilities</b>	<b>27,436</b>	<b>25,837</b>	<b>29,617</b>	<b>26,883</b>	<b>25,036</b>	
Long-Term Debt	30	-	-	-	-	
<b>Total Fixed Liabilities</b>	<b>2,651</b>	<b>2,867</b>	<b>2,909</b>	<b>2,829</b>	<b>3,148</b>	
<b>Total Liabilities</b>	<b>30,088</b>	<b>28,704</b>	<b>32,527</b>	<b>29,713</b>	<b>28,185</b>	
<b>Net Assets</b>	<b>18,962</b>	<b>19,802</b>	<b>21,795</b>	<b>23,289</b>	<b>25,694</b>	
Interest-Bearing Debt	2,490	-	-	-	-	
<b>Cash Flow Statement (JPYmn)</b>						
Operating Cash Flow	6,232	5,083	4,609	-1,505	2,547	
Investment Cash Flow	-391	-315	-50	-108	-87	
Financing Cash Flow	-4,481	-2,852	-421	-588	-2,618	
<b>Financial Ratios</b>						
ROA	2.3%	2.8%	4.8%	3.7%	4.6%	
ROE	6.3%	7.1%	11.8%	8.9%	10.1%	
Equity Ratio	38.7%	40.8%	40.1%	43.9%	47.7%	

Source: Company data

Figures may differ from company materials due to differences in rounding methods.

Per share data adjusted for the 2-for-1 stock split on December 1, 2011. Per share data is retroactively restated.



## Recent updates

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### Highlights

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On **December 5, 2014**, Shared Research updated the report after interviewing management.

On **November 12, 2014**, Happinet Corp. announced 1H FY03/15 earnings results; see the results section for details.

On **November 7, 2014**, the company announced revisions to its 1H FY03/15 and full-year FY03/15 earnings forecasts.

#### Revised 1H FY03/15 earnings forecast (previous forecast in parentheses)

Sales:	JPY93.0bn	(JPY90.0bn)
Operating profit:	JPY2.4bn	(JPY1.6bn)
Recurring profit:	JPY2.4bn	(JPY1.6bn)
Net income:	JPY1.8bn	(JPY1.1bn)

#### Revised full-year FY03/15 earnings forecast (previous forecast in parentheses)

Sales:	JPY215.0bn	(JPY210.0bn)
Operating profit:	JPY5.0bn	(JPY4.0bn)
Recurring profit:	JPY5.0bn	(JPY4.0bn)
Net income:	JPY3.5bn	(JPY2.6bn)

#### Revision details

Although the company booked one-time fees associated with the merger of subsidiaries in the videogame business, sales in the toys and amusement businesses were robust. Major contributors were products featuring Bandai properties Yokai Watch and Kamen Rider Giam. Sales and profits are now forecast to exceed initial company estimates for 1H FY03/15 and the full year.

**For corporate releases and developments more than three months old, please refer to the News and topics section.**



**Trends and outlook**

**Quarterly results**

Quarterly Performance (JPYmn)	FY03/14				FY03/15				FY03/15	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of FY	FY Est.
Sales	36,172	51,199	78,090	41,406	40,039	53,398			43.5%	215,000
YoY	-2.0%	30.2%	27.0%	6.0%	10.7%	4.3%				3.9%
Gross Profit	5,020	5,763	8,023	5,233	5,559	6,457				
YoY	-3.5%	15.5%	10.7%	3.4%	10.7%	12.0%				
GPM	13.9%	11.3%	10.3%	12.6%	13.9%	12.1%				
SG&A	4,416	4,815	5,551	5,368	4,728	4,925				
YoY	-0.5%	1.4%	5.2%	5.9%	7.1%	2.3%				
SG&A / Sales	12.2%	9.4%	7.1%	13.0%	11.8%	9.2%				
Operating Profit	604	947	2,472	-135	831	1,531			47.2%	5,000
YoY	-21.1%	292.9%	25.2%	-	37.6%	61.7%				28.6%
OPM	1.7%	1.8%	3.2%	-	2.1%	2.9%				2.3%
Recurring Profit	614	965	2,483	-145	863	1,550			48.3%	5,000
YoY	-23.6%	260.1%	23.9%	-	40.6%	60.6%				27.6%
RPM	1.7%	1.9%	3.2%	-	2.2%	2.9%				2.3%
Net Income	260	1,115	1,248	-157	928	886			51.8%	3,500
YoY	-49.9%	486.8%	-3.0%	-	256.9%	-20.5%				41.9%
NPM	0.7%	2.2%	1.6%	-	2.3%	1.7%				1.6%

Source: Company data

Figures may differ from company materials due to differences in rounding methods.

**Seasonality**

The Toy business typically accounts for 40% of annual sales and 50% of operating profit. Retail toy sales peak in the weeks leading up to Christmas, thus the company's sales and operating profit are highest in Q3 which includes December.

**1H FY03/15 results (out November 12, 2014; see table above)**

Sales: JPY93.4bn (+6.9% YoY)  
 Operating profit: JPY2.4bn (+52.3%)  
 Recurring profit: JPY2.4bn (+52.8%)  
 Net income: JPY1.8bn (+31.9%)

On November 7, 2014, the company announced revisions to its 1H FY03/15 and full-year FY03/15 earnings forecasts, and results were in line with revised forecasts.

Hit products in the Toys and Amusement businesses contributed to robust sales and profits.



## Toys

Sales were JPY39.5bn (+23.8% YoY) and operating profit was JPY1.7bn (+195.2%).

Products featuring Bandai properties Yokai Watch and Kamen Rider Gaim showed strong sales, contributing to higher sales and profits.

In line with higher sales, losses on inventory write-offs increased to JPY630mn (JPY480mn in 1H FY03/14).

## Visual and Music

Sales were JPY21.4bn (+0.4% YoY) and operating profit was JPY145mn (-61.4%).

The packaged product market was weak due to the proliferation of online distribution. But Happinet's sales increased on the back of strong demand for products such as the Disney animated blockbuster film *Frozen*, which sold over 3mn units. High-margin original products also contributed to revenues, but there was a lack of hit titles like *Nobou no Shiro*, which the company partially funded and released in 1H FY03/14. The result: operating profit was subdued year-on-year.

## Videogames

Sales were JPY19.9bn (-13.5% YoY) and operating loss was JPY61mn (operating profit of JPY34mn in 1H FY03/14).

Sales of packaged products continue to be weak due to the proliferation of downloadable software and social games. The company had some hit titles, including Yokai Watch for the Nintendo 3DS console. But segment sales and profits fell year-on-year. Expenses related to the consolidation of subsidiaries Toys Union Co. and Mori Games in July 2014 also cost the company about JPY60mn.

## Amusement

Sales were JPY12.6bn (+13.4% YoY) and operating profit was JPY1.3bn (+6.2%).

Sales and profits increased due to contributions from products featuring popular characters. These included Kamen Rider, Yokai Watch and other toy vending machines, plus Yokai Watch, Dragon Ball, Aikatsu! and other digital card games.

According to comments at Happinet's results briefing for 1H FY03/15, toy vending machines account for roughly 60% of sales in this segment; digital card games make up the remaining 40%. Two years ago, these products accounted for 40% and 60% of sales respectively, but Shared Research understands growth in toy vending machine sales has outpaced growth in digital card game sales.

## Q1 FY03/15 results (out August 11, 2014)

Sales:	JPY40.0bn (+10.7% YoY)
Operating profit:	JPY831mn (+37.7%)
Recurring profit:	JPY863mn (+40.6%)
Net income:	JPY928mn (+256.7%)

Although one-time expenses were incurred at a subsidiary in the Videogame business, the company had hit products in the Toys and Amusement businesses, leading to strong results in sales, operating profit, and recurring profit. Happinet booked an extraordinary loss of JPY379mn related to changes to its retirement benefits system, but also recorded deferred tax assets in relation to the consolidation of a subsidiary on April 1, 2014, which yielded a significant increase in net income.



## Toys

Sales were JPY16.4bn (+13.4% YoY) and operating profit was JPY584mn (+154.2%).

Products featuring Bandai properties Yokai Watch and Kamen Rider Gaim showed strong sales, contributing to higher sales and profits. According to distributor Bandai Namco Holdings, Bandai booked sales of about JPY6.5bn on Yokai Watch products.

## Visual and Music

Sales were JPY10.5bn (+4.2% YoY) and operating profit was JPY97mn (-0.0%).

The packaged product market was weak due to the proliferation of online distribution. Although some visual products showed strong demand, leading to higher sales, original products—which produce higher margins—suffered from a lack of hit titles, meaning profit was mostly unchanged year-on-year.

## Videogames

Sales were JPY7.1bn (+8.8% YoY) and operating loss was JPY114m (operating profit of JPY22mn in Q1 FY03/14).

Sales were up as Toys Union Co. became a subsidiary in July 2013. But the company booked an operating loss due to the absence of market-leading hit titles and expenses associated with the streamlining of personnel following the merger of two subsidiaries, Toys Union and Mori Games.

## Amusement

Sales were JPY6.1bn (+18.1% YoY) and operating profit was JPY551mn (+0.7%).

The company booked double-digit year-on-year sales growth in both the toy vending machine division and the digital card game division.

In the toy vending machine division, the company reported robust sales of Yokai Medals (JPY200 per medal, including tax), a capsule toy based on the Bandai Yokai Watch property. According to supplier Bandai Namco Holdings, Bandai sold 32mn Yokai Medals between January and June 2014, and aims to sell a total of 100mn medals over the course of 2014 (January-December).

In the digital card game division, sales were robust for products utilizing Bandai characters such as Aikatsu! and Dragon Ball Heroes. Concerning profits, the company invested in new children's card game machines.

**For details on previous quarterly and annual results, please refer to the Historical financial statements section.**



Full-year outlook (FY03/15)

FY03/15 Forecasts (JPYmn)	FY03/14			FY03/15		
	1H Act.	2H Act.	FY Act.	1H Act.	2H Est.	FY Est.
<b>Sales</b>	<b>87,371</b>	<b>119,496</b>	<b>206,867</b>	<b>93,437</b>	<b>121,563</b>	<b>215,000</b>
CoGS	76,587	106,240	182,828	81,421		
<b>Gross Profit</b>	<b>10,783</b>	<b>13,256</b>	<b>24,039</b>	<b>12,016</b>		
GPM	12.3%	11.1%	11.6%	12.9%		
SG&A	9,231	10,919	20,150	9,653		
SG&A / Sales	10.6%	9.1%	9.7%	10.3%		
<b>Operating Profit</b>	<b>1,551</b>	<b>2,337</b>	<b>3,888</b>	<b>2,362</b>	<b>2,638</b>	<b>5,000</b>
OPM	1.8%	2.0%	1.9%	2.5%	2.2%	2.3%
<b>Recurring Profit</b>	<b>1,579</b>	<b>2,338</b>	<b>3,917</b>	<b>2,413</b>	<b>2,587</b>	<b>5,000</b>
RPM	1.8%	2.0%	1.9%	2.6%	2.1%	2.3%
<b>Net Income</b>	<b>1,375</b>	<b>1,091</b>	<b>2,466</b>	<b>1,814</b>	<b>1,686</b>	<b>3,500</b>
Net Margin	1.6%	0.9%	1.2%	1.9%	1.4%	1.6%

Source: Company data

Figures may differ from company materials due to differences in rounding methods.

Sales, OP by Segment (JPYmn)		FY03/14			FY03/15			
		1H Act.	2H Act.	FY Act.	1H Act.	2H Est.	FY Est.	
Sales	Toys	31,880	44,941	76,821	39,479	45,521	85,000	
	YoY	-1.6%	-1.6%	2.9%	23.8%	1.3%	10.6%	
	Visual and Music	21,300	21,655	42,955	21,376	20,624	42,000	
	YoY	2.8%	2.8%	-4.1%	0.4%	-4.8%	-2.2%	
	Videogames	23,042	40,567	63,609	19,939	44,061	64,000	
	YoY	75.5%	75.5%	72.7%	-13.5%	8.6%	0.6%	
	Amusement	11,147	12,334	23,481	12,643	11,357	24,000	
YoY	11.9%	11.9%	14.8%	13.4%	-7.9%	2.2%		
Total		87,371	119,496	206,867	93,437	121,563	215,000	
YoY		14.6%	14.6%	17.0%	6.9%	1.7%	3.9%	
Operating Profit	Toys	563	2,147	2,710	1,663	2,037	3,700	
	YoY	-32.4%	-32.4%	31.8%	195.2%	-5.1%	36.5%	
	OPM	1.8%	4.8%	3.5%	4.2%	4.5%	4.4%	
	Visual and Music	377	-70	307	145	255	400	
	YoY	250.1%	250.1%	-0.7%	-61.4%	-	30.0%	
	OPM	1.8%	-0.3%	0.7%	0.7%	1.2%	1.0%	
	Videogames	34	45	79	-61	461	400	
	YoY	-64.6%	-64.6%	-88.2%	-	924.4%	400.5%	
	OPM	0.1%	0.1%	0.1%	-0.3%	1.0%	0.6%	
	Amusement	1,190	863	2,053	1,264	536	1,800	
	YoY	96.7%	96.7%	62.4%	6.2%	-37.9%	-12.3%	
	OPM	10.7%	7.0%	8.7%	10.0%	4.7%	7.5%	
	Total		2,164	2,985	5,149	3,011	3,289	6,300
	Adjustments		-614	-649	-1,263	-648	-652	-1,300
Consolidated Operating Profit		1,551	2,337	3,888	2,362	2,638	5,000	
YoY		54.0%	54.0%	30.8%	52.3%	12.9%	28.6%	

Source: Company data

Figures may differ from company materials due to differences in rounding methods.

FY03/15 sales forecast: JPY215.0bn (+3.9% YoY)  
 FY03/15 operating profit forecast: JPY5.0bn (+28.6%)  
 FY03/15 recurring profit forecast: JPY5.0bn (+27.6%)  
 FY03/15 net income forecast: JPY3.5bn (+41.9%).



## Toys

Happinet forecasts sales of JPY85.0bn (+10.6% YoY) and operating profit of JPY3.7bn (+36.5%).

Bandai products account for about half of segment sales. Bandai Namco Holdings (TSE1: 7832) forecasts sales in its toys and hobby segment will increase 12.7% YoY. Per this company's Domestic Toys and Hobby Plan, Yokai Watch sales are expected to increase; Bandai Namco also expects an increase in Mobile Suit Gundam sales. However, this company forecasts a decline in sales of Kamen Rider, Super Sentai, and Aikatsu! products.

A Yokai Watch videogame was released in July 2013, with an animated television series following in January 2014. The cross media strategy—animated cartoons, videogames, and comics—is paying off, and videogames, related toys and capsule toys have sold well. Bandai Namco Holdings expects sales of JPY40.0bn from Yokai Watch products in FY03/15 (JPY1.4bn in FY03/14), following the release of a Yokai Watch movie in December 2014 (*Yokai Watch: Tanjo no Himitsu Da Nyan!*). In response, the company expects to stock about JPY20.0bn in Yokai Watch products in the Toys and Amusement segments.

As a promotional initiative, Happinet is rolling out special fixtures that make use of the characters' worlds. In FY03/14, the company installed super hero areas for boys' toys in 330 stores, and super heroine areas for girls' toys in 150 stores, resulting in higher sales at these stores. In FY03/15, the company aims to increase sales by expanding super hero areas to 500 stores and super heroine areas to 300 stores.

In April 2014, Happinet launched television broadcasts of in-house animated cartoon *Tenkai Knights*, the result of tie-ups with Shogakukan-Shueisha Productions Co., Ltd. and Spin Master Ltd. (the US). Happinet plans to use its exclusive domestic merchandizing and DVD sales rights for Tenkai Knights to sell related toys. The company's initial forecast for full-year sales of these products was JPY2.0bn, but it may struggle to hit that target, according to comments at the results briefing for 1H FY03/15. The company plans to grow sales in 2H FY03/15 by continuing promotions and launching Tenkai Knights toys.

## Visual and Music

Happinet forecasts sales of JPY42.0bn (-2.2% YoY) and operating profit of JPY400mn (+30.3%).

The company aims to increase market share by securing accounts and drive up margins by selling more in-house and exclusive merchandize.

Movies will include *My Man*, based on a Naoki Prize-winning novel, and part-funded *Princess Jellyfish*. Exclusive DVD titles will include European and US movies such as *Non-Stop* and Japanese movies such as *Crows Explode*.

## Videogames

Happinet forecasts sales of JPY64.0bn (+0.6% YoY) and operating profit of JPY400mn (+400.5%).

The company forecasts higher sales as Toys Union—a consolidated subsidiary from July 2013—contributes to full-year sales.

The company merged subsidiaries Toys Union and Mori Games in July 2014, thus cutting costs by consolidating inventories and logistics operations. In addition, in FY03/14 the company booked valuation losses of JPY800mn on excess inventory, including videogame titles and accessories. The company



expects losses on the disposal of inventory to fall in FY03/15.

In FY03/15, Happinet expects contributions to sales from Microsoft's Xbox One videogame console, launched in September 2014, and Pokémon Omega Ruby and Alpha Sapphire, sequels to past blockbusters released on the Nintendo 3DS console in November 2014. There are also Nintendo 3DS games Yokai Watch 2: Ganso and Honke, released in July 2014, and Yokai Watch 2: Shin'uchi, released in December 2014.

The company also released Nintendo 3DS games based on the *Dolly Kanon* and *12-Sai: Honto no Kimochi* series from the Ciao magazine for elementary school girls in November and December 2014 respectively. However, the company expects a negligible contribution to revenues from these games, as the market for games for elementary school girls is small.

## Amusement

Happinet forecasts sales of JPY24.0bn (+2.2% YoY) and operating profit of JPY1.8bn (-12.3%).

The company plans to introduce a sales data acquisition system in more toy vending machines. According to the company, this system makes vending machine maintenance more efficient by allowing the company to check capsule sales remotely. The system thus drives up margins and allows the company to increase the number of locations without hiring more staff. In FY03/14, the company introduced the system across 2,000 machine units, mainly in North East Japan. In FY03/15, the company plans to increase this number to 20,000 machine units across Japan. In 2H FY03/15, the company also plans to introduce a feature for smartphones to check how many capsules are left in machines in real-time, making maintenance more efficient.

The company anticipates a significant contribution to sales from Kamen Rider Drive and Yokai Watch capsules.



## Outlook

### Midterm plan

In May 2012 Happinet unveiled its sixth medium-term business plan for FY03/13 to FY03/15. For the final year the company targets sales of JPY250.0bn and recurring profits of JPY7.0bn. It wants consistent growth in existing businesses and will seek new business areas, in sync with strengthening distribution.

### Existing businesses

The company wants to beef up market share in all existing segments.

Market Share	FY03/13 Actual	FY03/15 Target	Details
Toy	30%	40%	Actively develop original products
Visual and Music	14%	20%	Expand original visual products, strengthen ties with major video makers
Video Game	12%	20%	Boost sales of new consoles, promote products with exclusive selling rights
Amusement	60%	70%	Increase sites for toy vending machines, promote products with exclusive rights

Source: Company data

### New areas

The company aims to increase sales of original products and products with exclusive selling rights based on exclusive selling agreements with makers. The company hopes to lift total sales of such products from JPY12bn in FY03/12 to JPY25bn in FY03/15.

#### Original/Exclusive Products

Segment (JPYbn)	FY03/13 Sales (Actual)	FY03/15 Sales (Target)
Toy	3.0	5.0
Visual and Music	6.0	14.0
Video Game	3.0	5.0
Amusement	0.0	1.0

Source: Company data

In FY03/15, the company forecasts sales of JPY215.0bn and recurring profit of JPY5.0bn—both below the midterm plan. According to the company, this is due to shrinking markets in the visual and music and videogames segments. Growth in sales of in-house products has also failed to meet expectations.

In FY03/15, Happinet aims to grow by laying the groundwork for the manufacturing business and developing the foundations of the distribution business. It has divided the distribution and manufacturing segments, and plans to clarify each segment's responsibilities.

### Sources of midterm growth: in-house products plus more capsule vending machines

Shared Research thinks growth sources lie in expanding in-house development of products in the toy business, and increasing the number of machines and their efficiency in the amusement business, through the introduction of a system for collecting sales data.

#### Toys: strengthening original products

Shared Research thinks that tie-ups with TV programs and movies are vital for original products to be successful and secure stable sales.



The company is formulating a plan for collaborating with publishing companies and TV stations to create and show animated cartoons. The company then plans to develop and sell toys based on characters from these animated cartoons. Shared Research thinks that the company will act on this plan in the course of its medium term business plan (FY03/13 to FY03/15).

In April 2014, Happinet launched television broadcasts of in-house animated cartoon Tenkai Knights, the result of tie-ups with Shogakukan-Shueisha Productions Co., Ltd. and Spin Master Ltd. (the US). Happinet also uses its exclusive domestic merchandizing and DVD sales rights for Tenkai Knights to sell related toys.

Tenkai Knights toys will be priced between JPY700-JPY6,500, aimed at boys aged between seven and nine. Spin Master's factory in China will supply the toys.

The company forecasts sales of these products at JPY2.0bn in FY03/15, with a negligible contribution to profits.

### **The amusement business: expanding the sales data acquisition system plus more machines**

The company wants to expand sales in its operation of toy vending machines, by increasing the number of machines placed at outlets while capping costs through a new POS system providing data on capsule sales.

Happinet developed the POS system, and introduced it as a pilot scheme in five locations in February 2013. In FY03/14, the company rolled out the system across 2,000 machine units, mainly in North East Japan. The system uses an embedded ejection sensor to allow the company to collect real-time sales data.

If the system operates as planned, it will remove the need for Happinet staff to visit outlets frequently, and the company will be able to monitor sales efficiently, refill capsules as required, and collect money from machines. This should prompt higher sales by increasing the number of locations where vending machines are placed without incurring additional labor costs, while also increasing the operating efficiency of existing locations. In FY03/15, the company plans to introduce the system across 20,000 machine units nationwide.

As of November 2014, the company was operating toy vending machines at 4,800 locations nationwide. There were 8,600 locations in 2007 when Happinet acquired Sunlink Co Ltd and The Apple Corporation, so it appears there is significant potential for sales expansion over the medium term with the POS system. The toy vending machine business posts a higher gross profit margin than the distribution business, and thus can be expected to make a sizable contribution to profits.



## Business

### Description

**Leading intermediary distributor for toys, DVDs, CDs and videogames.** The company buys goods from makers and distributes to retailers, managing inventories and handling orders/shipments. Segments comprise toys (37.1% of FY03/14 sales), visual and music (20.8%), videogames (30.7%), and amusement (11.4%).

The visual and music segment's share of sales is declining as this market shrinks. The videogame segment's share increased when Toys Union—a distributor of Nintendo products—became a subsidiary in FY03/14.

Sales and OP by Segment (JPYmm)		FY03/09	FY03/10	FY03/11	FY03/12	FY03/13	FY03/14
		Act.	Act.	Act.	Act.	Act.	Act.
Sales	Toy	61,813	65,654	69,104	77,313	74,660	76,821
	YoY	-1.7%	6.2%	5.3%	11.9%	-3.4%	2.9%
	% of Total	37.1%	33.8%	36.2%	39.0%	42.2%	37.1%
	Visual and Music	36,570	67,838	57,759	55,719	44,810	42,955
	YoY	-5.1%	85.5%	-14.9%	-3.5%	-19.6%	-4.1%
	% of Total	21.9%	34.9%	30.3%	28.1%	25.4%	20.8%
	Video Game	50,474	44,372	46,447	42,704	36,839	63,609
	YoY	-7.4%	-12.1%	4.7%	-8.1%	-13.7%	72.7%
	% of Total	30.3%	22.8%	24.3%	21.6%	20.8%	30.7%
	Amusement	17,919	16,381	17,579	22,282	20,447	23,481
	YoY	38.3%	-8.6%	7.3%	26.8%	-8.2%	14.8%
	% of Total	10.7%	8.4%	9.2%	11.3%	11.6%	11.4%
	Total		166,778	194,246	190,891	198,021	176,757
	YoY	-1.3%	16.5%	-1.7%	3.7%	-10.7%	17.0%
OP	Toy	996	1,865	2,321	3,009	2,055	2,710
	YoY	-24.6%	87.2%	24.4%	29.6%	-31.7%	31.8%
	% of Total	29.1%	50.4%	55.8%	48.6%	47.7%	52.6%
	Visual and Music	1,330	253	-656	448	309	307
	YoY	3494.6%	-81.0%	-359.3%	-	-31.0%	-0.7%
	% of Total	38.9%	6.9%	-15.8%	7.2%	7.2%	6.0%
	Video Game	1,221	1,035	1,156	936	678	79
	YoY	-7.6%	-15.2%	11.7%	-19.0%	-27.6%	-88.2%
	% of Total	35.7%	28.0%	27.8%	15.1%	15.7%	1.5%
	Amusement	-127	544	1,340	1,801	1,265	2,053
	YoY	-	-	146.3%	34.4%	-29.8%	62.4%
	% of Total	-3.7%	14.7%	32.2%	29.1%	29.4%	39.9%
	Total		3,420	3,699	4,162	6,196	4,309
Adjustments		-1,283	-1,371	-1,307	-1,341	-1,335	-1,263
Consolidated Operating Profit		2,137	2,327	2,855	4,855	2,973	3,888
YoY		47.3%	8.9%	22.7%	70.0%	-38.8%	30.8%

Source: Company data

Figures may differ from company materials due to differences in rounding methods.

Distribution channels are specialty stores, including consumer electronics and camera stores (29.6% of FY03/14 sales), general merchandise stores (21.7%), e-commerce (17.9%), convenience stores (10.6%), large suburban specialty stores (10.2%), and others (3.9%).

E-commerce's share of sales increased in FY03/14 when Toys Union—with a high proportion of sales going to major online retailers—became a subsidiary.



Sales by Channel (JPYmn)	FY03/09 Act.	FY03/10 Act.	FY03/11 Act.	FY03/12 Act.	FY03/13 Act.	FY03/14 Act.
Specialty Stores	55,200	63,900	65,300	62,500	60,400	61,100
YoY	8.4%	15.8%	2.2%	-4.3%	-3.4%	1.2%
% of Total	33.1%	33.0%	34.3%	31.6%	34.2%	29.6%
General Merchandise Stores	27,000	35,600	36,700	40,300	36,900	44,900
YoY	-9.4%	31.9%	3.1%	9.8%	-8.4%	21.8%
% of Total	16.2%	18.4%	19.3%	20.4%	20.9%	21.7%
E-Commerce	28,800	22,200	24,100	25,000	19,200	36,900
YoY	-17.7%	-22.9%	8.6%	3.7%	-23.2%	92.6%
% of Total	17.3%	11.4%	12.7%	12.6%	10.9%	17.9%
Convenience Stores	14,100	21,500	21,300	26,300	22,800	21,800
YoY	11.9%	52.5%	-0.9%	23.5%	-13.3%	-4.2%
% of Total	8.5%	11.1%	11.2%	13.3%	12.9%	10.6%
Large-format Suburban Specialty Stores	9,000	19,300	18,500	19,300	17,200	21,100
YoY	-33.3%	114.4%	-4.1%	4.3%	-10.9%	22.6%
% of Total	5.4%	10.0%	9.7%	9.7%	9.7%	10.2%
Wholesalers	17,000	21,500	15,400	15,200	11,500	12,500
YoY	14.1%	26.5%	-28.4%	-1.3%	-24.3%	8.2%
% of Total	10.2%	11.1%	8.1%	7.7%	6.5%	6.1%
Others	15,300	9,900	9,200	9,100	8,500	8,100
YoY	27.5%	-35.3%	-7.1%	-1.1%	-6.6%	-4.4%
% of Total	9.2%	5.1%	4.8%	4.6%	4.8%	3.9%
Total	166,700	193,900	190,500	198,000	176,700	206,800
YoY	-1.3%	16.5%	-1.7%	3.7%	-10.7%	17.0%

Source: Company data

Figures may differ from company materials due to differences in rounding methods.

\* Others include Department Stores

Happinet is the largest intermediary distributor of toys, DVDs and CDs in the industry, with a 60% market share in capsule toys and card games.

### Toys (37.1% FY03/14 consolidated sales; 52.6% operating profit)

**Happinet is Japan's largest intermediary distributor of toys, with a 30% market share.** It handles 80% of toy distribution in Japan for Bandai (a Namco Bandai Holdings [TSE1: 7832] subsidiary).

In this segment, Happinet enjoys a gross profit margin buying goods from toy makers and selling them to retailers. The company liquidates unsold inventories each month. Gross profit margin moves up or down by 1% given fluctuating inventory write-offs.

The company buys goods from big toy makers like Bandai and Tomy and sells them to toy retailers such as Toys"R"Us-Japan Ltd (unlisted), large consumer electronics stores and retail chains, and major online retailers.



Toy Sales Breakdown (JPYmn)	FY03/09	FY03/10	FY03/11	FY03/12	FY03/13	FY03/14
	Act.	Act.	Act.	Act.	Act.	Act.
Bandai	28,900	32,700	37,400	42,300	38,800	40,700
YoY	-3.7%	13.1%	14.4%	13.1%	-8.3%	5.0%
% of Total	46.8%	49.8%	54.1%	54.7%	52.0%	53.1%
TAKARA TOMY	4,800	5,000	7,000	6,300	5,300	4,200
YoY	0.0%	4.2%	40.0%	-10.0%	-15.9%	-21.6%
% of Total	7.8%	7.6%	10.1%	8.2%	7.1%	5.5%
Happinet original	1,200	1,400	1,400	2,200	2,500	2,000
YoY	-53.8%	16.7%	0.0%	57.1%	13.6%	-17.7%
% of Total	1.9%	2.1%	2.0%	2.8%	3.4%	2.7%
Other	19,500	18,400	23,100	26,400	27,900	29,700
YoY	-3.0%	-5.6%	25.5%	14.3%	5.7%	6.5%
% of Total	31.6%	28.0%	33.5%	34.2%	37.4%	38.7%
Other makers	7,300	7,900	-	-	-	-
YoY	-	8.2%	-	-	-	-
% of Total	11.8%	12.0%	-	-	-	-
Total	61,800	65,600	69,100	77,300	74,600	76,800
YoY	-1.7%	6.2%	5.3%	11.9%	-3.4%	2.9%

Source: Company data

Figures may differ from company materials due to differences in rounding methods.

From FY03/11, Other makers are included in the Others segment.

**Japan's toy market centers on fads, rather than long-selling, staple products.** Goods featuring characters from TV animation series tend to have a one-year sales cycle with products refreshed when a new series begins. Popularity drops and sales falter for products whose TV programs have finished.

Also, toy manufacturers often make use of overseas factories, particularly in China. It takes about three months from when toys are manufactured till they are ready to be sold by retailers, due to strict procedures for managing and checking quality—after all, these are products that will be used by children.

Intermediary distributors like Happinet lie between manufacturers and retailers, and add value by absorbing inventory risk. By trading with intermediary distributors, retailers need only take inventory risks for the goods on their store shelves.

Toy distribution:

- § Happinet and toymakers agree on order quantities three months prior to the release of new products.
- § On product launch, toymakers deliver toys to the company, which in turn delivers them to retailers that shoulder inventory risk.
- § The company holds inventories worth roughly two weeks of sales and partially distributes them in response to additional orders from retailers. Here, the company bears the inventory risk.

Happinet typically sells out most of its inventories at end December and recognizes losses on inventories by disposing of inventories or making inventory write-downs at end March the following year. For toys, annual inventory disposal is 1-2% of annual sales.

Shared Research understands that the company's rise to prominence as the largest intermediary distributor of toys began in the 1990s with the relaxation of the Large Scale Retail Store Law. Happinet responded to changes in the business environment. Distributors began to need advanced information and logistics systems in order to keep up with the growing size of retailers. Also, the growth in Bandai's toy sales was another contributing factor in Happinet's growth.

Shared Research understands that Bandai—a group company and one of Happinet's main toy suppliers—specializes in making products and accessories that feature characters from popular TV



animated cartoons. Bandai has leveraged these character goods to increase its domestic toy sales.

#### Bandai's character goods portfolio

Leading toy characters with the highest sales rankings at Bandai are those from the Super Sentai, Kamen Rider, and Precure series. Toei or Toei Animation makes these series; TV Asahi broadcasts them on Sundays. Program sponsor Bandai merchandises related toys. This system has a long history. The Super Sentai series, the longest-running of the trio, started with Himitsu Sentai Gorenger in 1975. Its 37th series, Zyuden Sentai Kyoryuger, aired in 2013. In the 30-minute Super Sentai program, a team of three to five people use special items to become superheroes wearing helmets and color-coded jumpsuits, and fight bad guys or monsters. In each episode the enemy, once defeated, is reborn as a giant monster and the heroes ride a giant robot to destroy it. Each year a TV series starts in February and a movie version is launched in August. With new characters and items added during the year, Bandai merchandises all the transforming items, weapons and robots. All super hero toys are ready for Christmas when sales peak.

#### Bandai Sales by Character (Domesic Toy and Hobby)

(JPYbn)	FY03/09	FY03/10	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15
	Act.	Act.	Act.	Act.	Act.	Act.	Est.
Kamen Rider	8.7	17.5	23.0	28.3	27.1	22.3	20.0
Mobile Suit Gundam	16.0	14.4	13.4	15.6	16.5	18.4	21.0
Super Sentai	12.0	10.5	9.2	13.0	9.6	14.4	12.0
Aikatsu!	-	-	-	-	1.5	13.0	10.0
Anpanman	9.1	8.4	8.6	9.6	10.0	10.3	10.5
Precure Series	10.5	11.9	12.5	10.7	10.6	9.8	10.0
Dragon Ball	3.7	3.3	2.7	4.4	4.8	6.4	5.5
One Piece	1.7	2.0	6.8	11.2	8.3	4.7	3.5
Ultraman	4.3	3.1	2.8	1.8	2.0	3.2	4.0
Youkai Watch	-	-	-	-	-	1.4	7.0

Source: Bandai data

#### Visual and music (20.8% FY03/14 consolidated sales; 6.0% operating profit)

This segment comprises the visual wholesale section (58.8% of segment sales in FY03/14), the visual manufacturing section (14.8%), and the music section (26.4%).



Visual and Music Sales Breakdown (JPYmn)	FY03/09 Act.	FY03/10 Act.	FY03/11 Act.	FY03/12 Act.	FY03/13 Act.	FY03/14 Act.
Visual	36,500	42,500	40,300	39,600	31,500	31,600
YoY	-5.2%	16.4%	-5.2%	-1.7%	-20.5%	0.1%
% of Total	100.0%	62.7%	69.8%	71.1%	70.3%	73.6%
Wholesale	29,100	36,800	34,400	33,600	25,900	25,200
YoY	-2.3%	26.5%	-6.5%	-2.3%	-22.9%	-2.7%
% of Total	79.7%	54.3%	59.6%	60.3%	57.8%	58.8%
Maker	7,400	5,700	5,800	5,900	5,600	6,300
YoY	-14.0%	-23.0%	1.8%	1.7%	-5.1%	13.3%
% of Total	20.3%	8.4%	10.1%	10.6%	12.5%	14.8%
Music	0	25,200	17,400	16,100	13,200	11,300
YoY	-	-	-31.0%	-7.5%	-18.0%	-14.3%
% of Total	0.0%	37.2%	30.2%	28.9%	29.5%	26.4%
Total	36,500	67,800	57,700	55,700	44,800	42,900
YoY	-5.1%	85.5%	-14.9%	-3.5%	-19.6%	-4.1%

Source: Company data

Figures may differ from company materials due to differences in rounding methods.

### Visual wholesale section

Happinet makes a gross profit margin from buying DVDs from visual content manufacturers and selling them to retailers. The company said that intermediary distributors, like itself, do not need to hold substantial inventories compared with toymakers since retailer orders are made and delivered in a week. As wholesalers do not shoulder much inventory risk, the gross profit margin is slimmer than in toy wholesaling.

The company buys products from all major content makers, but it has been Nikkatsu Corp's (unlisted) sole distributor since 2009 and Bandai Visual Co Ltd's (a Namco Bandai subsidiary) sole distributor since 2010. The company distributes products to major online retailers and consumer electronics chains.

### Visual manufacturing section

Happinet invests in movie production partnerships, thus obtaining videogram rights, or obtains existing videogram rights and then makes and sells DVD products. Income hinges on the amount and ratio of investment in partnerships, box-office proceeds, DVD sales volumes, and videogram royalties.

**Videogram** is a Japanese legal term, used to refer to visual media (movies and TV programs) on a certain format (eg, VHS, DVD) and its packaging. Videogram rights here refer to the rights to manufacture, release, and sell this media.

The movie industry and movie production partnerships handle production, distribution, exhibition, and secondary use (renting/selling movie content to consumers). Video content makers obtain videogram rights to movies by investing in production partnerships or by purchasing the rights from their holders. Rights to receive box-office proceeds are distributed in proportion to the amount invested in the production partnership. Box-office profits are defined as proceeds—ie, number of viewers multiplied by ticket prices—less expenses (cinema operators and distributors, production, and advertising). According to the company, it is difficult to predict the profitability of investing in production partnerships, because production costs, investment stake, and box-office proceeds differ from movie to movie. Also, as part of the conditions for investing in a production partnership, the company obtains videogram rights to the movie, and will therefore sell it as a DVD.

Another way to obtain videogram rights is from copyright holders, such as production partnerships. This



can be done either by paying for the rights, or by paying a minimum guarantee (MG). According to the company, videogram royalties differ widely by movie, so it is difficult to calculate an average profitability for videogram rights.

### Music wholesale section

In the music section, Happinet takes its gross profit margin from buying products from music content makers and selling them to retailers. As in its visual wholesale section, the company does not shoulder much inventory risk. Therefore, gross profit margins are tighter than in the toy wholesaling business.

The company buys goods from big music software makers and distributes them to online shops and consumer electronics chains.

Japan's resale price maintenance system (recommended retail price)—as established by Japanese copyright law—means the creators of music media are able to force retailers to observe a certain retail price. Thus the distribution of music media differs from that of visual media. Although in both cases companies are effectively purchasing stock, for music media a limit is set for a proportion of the sales that may be returned, and the seller sometimes ends up taking these returns back.

The proportion of sales that may be returned differs between the manufacturer and the distributor, and between the distributor and the retailer. Therefore, the distributor must accept some inventory risk in cases where there is more leeway for the retailer to return stock to the distributor, than for the distributor to return it to the manufacturer.

#### Music CDs: resale price maintenance

A maker or supplier of music imposes selling prices on wholesalers and retailers who abide by this. The resale maintenance system of music software (such as CDs) is approved as an exception to the Antimonopoly Act which normally prohibits such conduct as unfair trading practices.

### Videogames (30.7% FY03/14 consolidated sales; 1.5% operating profit)

Happinet makes a margin by buying videogame consoles and game software from makers and distributing it to shops. This business has the lowest gross profit margin of all the company's businesses, which stems from the company bearing little inventory risk due to short order placement/delivery times.

Happinet buys products from Nintendo Co Ltd (TSE1: 7974), Sony Computer Entertainment Inc (a subsidiary of Sony [TSE1: 6758]), and Microsoft Corp. It is the only wholesaler handling all consumer game consoles available in Japan.

Following the consolidation of Toys Union—a distributor of Nintendo products—in FY03/14, Nintendo products account for over 80% of sales, with Sony products next at about 15%. The company distributes products to major online retailers and consumer electronics chains.

Shared Research estimates the company's share of Nintendo's game-related sales at around 25%, making it the second largest distributor of Nintendo products. The company is virtually the sole distributor of Sony Computer Entertainment toys, and has an exclusive distribution agreement in Japan with Microsoft.



Videogame Sales Breakdown (JPYmm)	FY03/09 Act.	FY03/10 Act.	FY03/11 Act.	FY03/12 Act.	FY03/13 Act.	FY03/14 Act.
Nintendo (stand-alone)	4,200	6,400	4,700	3,200	4,400	10,700
YoY	-53.3%	52.4%	-26.6%	-31.9%	37.5%	142.4%
% of Total	8.3%	14.4%	10.1%	7.5%	12.0%	16.9%
Nintendo (portable)	9,600	10,300	9,900	10,400	14,200	40,300
YoY	-24.4%	7.3%	-3.9%	5.1%	36.5%	182.8%
% of Total	19.0%	23.3%	21.3%	24.4%	38.6%	63.4%
PlayStation (stand-alone)	6,700	6,900	6,000	6,800	5,300	4,800
YoY	-23.9%	3.0%	-13.0%	13.3%	-22.1%	-9.1%
% of Total	13.3%	15.6%	12.9%	15.9%	14.4%	7.6%
PlayStation (portable)	10,300	8,000	11,600	12,200	7,100	4,700
YoY	10.8%	-22.3%	45.0%	5.2%	-41.8%	-33.1%
% of Total	20.4%	18.1%	25.0%	28.6%	19.3%	7.5%
Others	19,400	12,500	14,000	9,800	5,600	2,900
YoY	35.7%	-35.6%	12.0%	-30.0%	-42.9%	-48.8%
% of Total	38.5%	28.2%	30.2%	23.0%	15.2%	4.6%
Total	50,400	44,300	46,400	42,700	36,800	63,600
YoY	-7.4%	-12.1%	4.7%	-8.1%	-13.7%	72.7%

Source: Company data

Figures may differ from company materials due to differences in rounding methods.

Happinet creates and sells original game software but profit impact is small (November 2014).

The company entered video gaming in 1994 and expanded sales by acquiring distributors. There is a possibility that there will be an increase in M&A between companies in this industry, as the market in games sold at bricks and mortar stores is expected to shrink—perhaps providing an opportunity for the company to increase its market share.

### Amusement (11.4% FY03/14 consolidated sales; 39.9% operating profit)

The company's amusement business includes toy vending machine operations and card game operations.

#### Toy vending machine section

The company sells toys in capsules from vending machines at major retail and electronics stores, and shopping malls. It purchases vending machines and capsule toys from Bandai. This business is close to retail, and therefore has the highest gross profit margin of all the company's businesses.

Capsule toys retail at between JPY100 and JPY500. The vending machines work thus: a capsule toy comes out when the customer inserts money, in coins, and turns the crank in the middle of the machine. The toys themselves are varied, ranging from scale models of animation characters and animal figures, to mobile phone accessories. There is an element of entertainment in the fact that, although the vending machines are themed, the customer does not know the exact contents of the capsule he or she will receive.

As of December 2013, the company had machines at 4,800 locations nationwide.



**Toy vending machines, known as “Gashapon” in Japan.**



Source: Company data

In November 2007, Happinet acquired the two leading operators of toy vending machines in the industry, Sunlink Co Ltd and The Apple Corporation. Then, after merging the amusement businesses of these companies with its own in October 2008, the company established Happinet Vending Service Corporation—a consolidated subsidiary that then continued running this business.

According to Happinet, the three companies—Happinet, Sunlink, and The Apple Corporation—together had vending machines at around 8,600 locations nationwide in 2007, but nearly half of these locations were unprofitable. When operating toy vending machines, staff members still need to visit machine sites to monitor sales, refill capsules, and collect takings. The company must therefore allocate labor according to the number of machines at sites and the frequency of visits. There were many unprofitable areas where sales did not cover fixed costs.

After integration, Happinet scrapped and streamlined unprofitable sites and business offices, reducing the number of sites to 4,800 from 8,600. The amusement arm reported an operating profit in FY03/10.

### **Digital card game section**

The company operates card game machines based on popular animation characters, in major retail and electronics stores. As in the toy vending machine section, gross profits are high for the digital card game section because it is close to retail.

To play on a digital card game machine, a customer inserts JPY100 and the machine ejects an IC card, on which an animation character is shown and electronic data (offensive and defensive abilities, and a special move, in the case of a battle game) is printed in transparent ink. The game unfolds on an LCD, affected by input from a panel that reads the data on the cards. The cards themselves are also collectors' items. The company buys and leases digital card game machines from Bandai, which also supplies the cards.

As of May 2014, the company operated card games based on Dragon Ball, Kamen Rider, Yokai Watch, Mobile Suit Gundam, and Aikatsu!.



**Card game machine**



Source: Company data

**Group companies**

Happinet Group includes Happinet Corp and four consolidated subsidiaries (end November 2014). In particular, Happinet Marketing Corp, MAXGAMES Corporation, and Happinet Vending Service Corp have a big impact on consolidated performance, each accounting for more than 10% of group sales. On April 1, 2014, Happinet Corp. merged with Happinet Pictures & Music in an absorption type split (with Happinet Corp. as the continuing entity and Happinet Pictures & Music being absorbed).

**Happinet Marketing Corp**

The company distributes a wide range of products nationwide, including Bandai products.

Happinet Marketing (JPYmn)	FY03/09 Act.	FY03/10 Act.	FY03/11 Act.	FY03/12 Act.	FY03/13 Act.	FY03/14 Act.
Sales	32,436	31,350	31,531	32,236	31,527	32,395
YoY	-	-3.3%	0.6%	2.2%	-2.2%	2.8%
Recurring Profit	299	597	818	950	773	980
YoY	-	99.7%	37.0%	16.1%	-18.6%	26.8%
Net Income	179	349	473	517	465	586
YoY	-	95.0%	35.5%	9.3%	-10.1%	26.0%

Source: Company data

Figures may differ from company materials due to differences in rounding methods.



## MAXGAMES Corporation

Sells videogame consoles and videogames.

MAXGAMES Corporation (JPYmn)	FY03/09 Act.	FY03/10 Act.	FY03/11 Act.	FY03/12 Act.	FY03/13 Act.	FY03/14 Act.
Sales	-	-	-	-	35,357	31,868
YoY	-	-	-	-	-	-9.9%
Recurring Profit	-	-	-	-	393	-158
YoY	-	-	-	-	-	-
Net Income	-	-	-	-	194	-296
YoY	-	-	-	-	-	-

Source: Company data

Figures may differ from company materials due to differences in rounding methods.

On July 1, 2014, Happinet merged subsidiaries Toys Union and Mori Games, and changed the name of the new company to MAXGAMES Corporation.

## Happinet Vending Service

Operates toy vending machines and digital card game machines.

Happinet Vending Service (JPYmn)	FY03/09 Act.	FY03/10 Act.	FY03/11 Act.	FY03/12 Act.	FY03/13 Act.	FY03/14 Act.
Sales	-	-	-	22,283	20,524	23,552
YoY	-	-	-	-	-7.9%	14.8%
Recurring Profit	-	-	-	1,924	1,324	1,950
YoY	-	-	-	-	-31.2%	47.3%
Net Income	-	-	-	1,100	832	1,225
YoY	-	-	-	-	-24.4%	47.2%

Source: Company data

Figures may differ from company materials due to differences in rounding methods.



## Strengths and weaknesses

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### Strengths

- § **Growing market share amid sector shakeout.** Since the mid 1990s, the company used M&A activities to take advantage of industry reshuffling among toy distributors, thus enlarging its sales and the scope of its operations. This increased the company's sales and broadened the scope of its operations, with the result that the company enjoys a 30% share of the toy wholesale market (December 2013 company estimate). Also, in the visual media and music and videogame businesses, the company may be able to expand in the medium term by employing its financial firepower as the market shrinks and these industries rearrange themselves. The company had cash and deposits totalling JPY10.0bn as of end FY03/14. There was no interest-bearing debt.
- § **Business diversification leading to stable earnings.** Shared Research understands that faddish toy demand makes for big fluctuations in sales. If a distributor is dependent on a particular manufacturer its earnings will be greatly affected by the sales of that manufacturer's products. But Happinet trades with many domestic toy manufacturers, and does not depend solely on Bandai as a supplier. Furthermore, the company has diversified into other fields like videogames, movies, and music. Thus the company's profits may be described as stable.
- § **Solid relationship with Bandai.** Shared Research thinks that Bandai will continue to have a stable domestic toy business. This belief is based on the broad, intergenerational popularity of its products—mainly its character toys portfolio—and its capabilities in developing new character toys. Namco Bandai Holdings Inc, Bandai's parent company, is Happinet's largest shareholder with a 25% stake, and Happinet distributes about 80% of Bandai toys sold in Japan (company estimate, November 2014). We assume the company will continue to enjoy the benefits of doing business with Bandai.

### Weaknesses

- § **Limited scope to add value, create profit opportunities.** Happinet is chiefly an intermediary distributor, buying from manufacturers and selling to retailers. Hence there is little scope to add value by adapting products. Thus the company must accept low gross profit margins, particularly in its visual media and music and videogames businesses. We see limited potential for it to lift sales under its own steam through new products and store openings.
- § **Scant track record developing original products.** Happinet aims to unlock new opportunities for profit by developing non-distribution businesses—mainly rolling out original products. Yet Shared Research understands that the company has scant track record of developing products in-house, especially toys, and it has few distinctive products. For the copyright-holders of popular animations and the like, an incentive exists to pursue merchandising deals with established toy makers where success is more likely. As a debutant therefore the company may struggle to land toy merchandising rights for popular characters.
- § **Shrinking markets.** Shared Research thinks that Happinet's markets will shrink over the medium and long term. Toys sales will suffer from Japan's aging population while sales of visual media and music will be pummelled by online distribution. The company's large market shares in these types of product mean that it is unlikely to be able to escape the impact of these changes on its sales.



## Market and value chain

### Overview

#### Japan's toy market

**Market likely to remain stable.** According to the National Institute of Population and Social Security Research (IPSS), the number of people in Japan aged 0-14 decreased from 17.9mn in 2003 to 16.5mn in 2012 (down 0.8% per year). The market for a basket of eight types of toy was JPY323.2bn in 2003 and JPY316.1bn in 2012.

Dividing market size by the number of people aged 0-14, spending per head increased from JPY18,050 in 2003 to JPY19,100 in 2012 (up 0.6% per year).

According to the company, toy prices are trending upward due to the addition of new features, such as electronic parts. Increasing prices mean the toys market still provides stable opportunities for profit.

Domestic Toy Market and Population	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Market of 8 toy items (JPYbn)	323.2	316.2	317.1	312.9	319.1	320.5	319.0	326.2	325.1	316.1
Population at ages of 0-14 (thousand)	17,905	17,734	17,521	17,434	17,292	17,176	17,010	16,803	16,705	16,547
Average Purchase price of 8 toy items (JPY)	18,050	17,830	18,100	17,950	18,450	18,660	18,750	19,410	19,460	19,100

\* The eight toy items are electronic toys, models, toys for boys, toys for girls, analog games, seasonal and miscellaneous toys, educational toys, and stuffed toys. Video games are not included.

Source: Data from Yano Research Institute Ltd. and the National Institute of Population and Social Security Research

The IPSS predicts that the population of children in Japan (0-14 years old) will have decreased to 13.2mn by 2025, due to declining birth rates and the shift toward late marriage. With a rate of decline averaging 1.6% per year, this would mean potential purchasers of toys were decreasing faster than the rate of decline between 2002 and 2012.

Shared Research thinks the toys market will shrink as Japan's aging population leads to a decreasing target demographic for toys. However, Shared Research also thinks that the rate of this shrinkage will remain slow as long as toy manufacturers continue to raise toy prices by adding value to their products.

#### Japan's visual media market

**The visual media market continues to contract.** It appears a falling percentage of the population is purchasing visual media, resulting in a shrinking market.

Video Software Market (JPYbn)	2005	2006	2007	2008	2009	2010	2011	2012	2013
Software for Sale	312.4	326.4	303.8	283.2	267.4	263.5	247.9	241.3	241.3
YoY	-	0.4%	-0.7%	-0.7%	-0.6%	-0.1%	-0.6%	-0.3%	0.0%
Software for Rental	357.8	343.1	360.4	346.9	306.7	267.2	254.2	238.9	218.4
YoY	-	-0.4%	0.5%	-0.4%	-1.2%	-1.3%	-0.5%	-0.6%	-0.9%
Total	670.2	669.5	664.2	630.1	574.1	530.7	502.1	480.2	459.7
YoY	-	0.0%	-0.1%	-0.5%	-0.9%	-0.8%	-0.5%	-0.4%	-0.4%

Source: Japan Video Association

Figures may differ from company materials due to differences in rounding methods.



Video Software Purchasing Survey	2009	2010	2011	2012	2013
Purchase Rate (%)	31.4	21.2	21.6	19.3	16.3
Average Total Purchases (titles)	4.6	5.5	3.9	3.8	5.0
Average Total Spend (JPY)	17,923	23,370	15,706	14,720	18,004

Source: Japan Video Association

\*Purchase Rate: the percentage of total respondents that had purchased video software. The total number of respondents differs per year.

Reasons for falling purchase amount (per 2013 Japan Video Software Association survey): fewer good titles, slimmer household budgets, and the popularity of free online video and file-sharing software.

The spread of pay-video distribution hurt sales of visual media. According to the Digital Content Association of Japan, the domestic market of pay-video distribution expanded from JPY76.2bn in 2010 to JPY82.6bn in 2011, JPY101.6bn in 2012, and JPY123.0bn in 2013. Reasons for the expansion include increasing membership of mobile carriers' smartphone services, new users for existing services as they adapt to smartphones, and higher sales of services that allow users to catch up on missed television programs.

Shared Research forecasts that the visual media market will continue to decline in the face of free online video, the spread of pay-video distribution and the expected fall in the number of people aged 15-64 (the main buyers). Importantly, the National Institute of Population and Social Security Research estimates that the number people aged 15 to 64 will decrease by 10% a year from 78,996,000 in 2013 to 70,845,000 in 2025.

### Music content

The paid music distribution market has contracted after peaking in 2007 in both volume and value terms.

Record Production and Paid Distribution Music	2005	2006	2007	2008	2009	2010	2011	2012	2013
Music Software Sales Value (JPYbn) exl. Music Video	367.2	351.6	333.3	296.1	249.6	225.0	211.7	227.7	198.5
Paid Distribution of Music (JPYbn)	34.3	53.5	75.5	90.5	91.0	86.0	72.0	54.3	41.7
Total (JPYmn)	4,015	4,051	4,088	3,866	3,406	3,110	2,837	2,820	2,402
Music Software Sales Volume (mn units) exl. Music Video	310	298	267	248	214	210	200	218	218
Paid Distribution of Music (mn plays)	268	368	465	479	468	441	367	272	272
Total (mn units/plays)	578	666	732	727	682	651	567	490	490

Source: "The Recording Industry of Japan" by the Recording Industry Association of Japan

According to the Recording Industry Association of Japan's survey of music media users (2013), the percentage of the population who pay for music content is declining, particularly among respondents aged 20 to 49. Reasons increasingly include satisfaction with current holdings, tight budgets, and satisfaction with video distribution websites and apps.

Shared Research expects that—as with visual media—the music content market will continue to decline given free distribution sites and a falling number of buyers.

### Japan's game market

**Game console market in the doldrums...** Nintendo launched the Family Computer System (later



released as the Nintendo Entertainment System (NES) in America) in 1983, and the overall market for home videogame consoles peaked at JPY760bn in 1997. The market, spearheaded by Nintendo and Sony Computer Entertainment, remained on a downtrend through 2005, dancing to the beat of new consoles and major game releases. Between 2005 and 2007 the market recovered given new portable game consoles including Nintendo's Wii and Sony's PlayStation 3. The market thereafter has been anemic. The game market is now impacted by the popularity of smartphones and online (including social media) games in tandem with new consoles. Since 2010 online gaming has mushroomed yet the game console market remains in the doldrums.

Shipments of Home Video Game Consoles

(JPYbn)	2005	2006	2007	2008	2009	2010	2011	2012	2013
Value	398.5	553.3	591.9	534.2	454.1	425.8	402.8	395.8	409.5
YoY	15.6%	38.8%	7.0%	-9.7%	-15.0%	-6.2%	-5.4%	-1.7%	3.5%
Software	234.3	311.3	288.6	301.3	252.5	259.1	237.9	220.2	253.7
YoY	-0.6%	32.9%	-7.3%	4.4%	-16.2%	2.6%	-8.2%	-7.4%	15.2%
Hardware	164.2	242.0	303.3	232.9	201.6	166.7	164.9	175.6	155.8
YoY	50.8%	47.4%	25.3%	-23.2%	-13.4%	-17.3%	-1.1%	6.5%	-11.3%

Source: CESA data

...with smartphones and online social gaming the culprit. The package game software market is likely to contract due to migration to smartphones and online gaming. Yes, game consoles may be a sunset sector but some sunsets last a long time. Bedrock demand should stay firm given key advantages: low price next to smartphones and PCs, internet access is not needed, software borrowing/lending is possible, and software once bought is free to use (online gaming requires ongoing payments).

### Japanese capsule toy market

**Uptrend.** The size of the capsule toy market has hovered between JPY25bn and JPY35bn for the past 10 years. In 2007 Happinet scrapped unprofitable machines and thereafter the market enjoyed a gradual uptrend. The company said demand is solid but dependent on providing popular products. Kamen Rider toys buoyed 2011 sales.

Capsule Toy Market Size	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Value (JPYbn)	33.0	33.5	30.5	30.5	28.5	24.9	25.9	30.1	27.0	27.8
YoY	6.5%	1.5%	-9.0%	0.0%	-6.6%	-12.6%	4.2%	16.0%	-10.3%	3.0%

Source: Japan Toy Association

### Competition

**Limited competition.** Happinet said that it and Kawada are among the major distributors operating nationwide with a variety of toy manufacturers, and that it is the only company handling a range of products from toys to visual and music products. Kawada distributes original products like block toys and educational toys, with diablock block toys being the most famous. For FY05/14 Kawada reported annual sales of JPY22.0bn (per Kawada's website). Happinet sells much more volume than Kawada and their products are different, so they are not competitors.



## Strategy

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The company's strategy is two-pronged. First, increasing sales by grabbing market share even though the overall pie will continue to get smaller as society ages; and second, selling more in-house products that command wider margins.

## Market share expansion

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Shared Research thinks that the company's main markets—toys, videogames, visual media, and music—will contract given Japan's ageing society and more internet use. Given this dynamic since the mid 1990s Happinet has expanded through M&A. Shared Research sees this strategy continuing to bear fruit.

## Visual and music: scope for expansion

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Happinet said that direct transactions between visual/music content makers and retailers topped 50% of overall distribution of visual media and music in the year to end March 2014. Shared Research thinks that the curtailment of content sold at bricks and mortar stores may cause visual and music software makers to shift part of their sales promotion and distribution operations to intermediary distributors like Happinet in the future. In August 2009 the company and Nikkatsu Corp, a movie producer, agreed that Happinet will become a comprehensive seller of Nikkatsu's visual package products. Bandai Visual (a Namco Bandai subsidiary) began to shift some of its sales operations to Happinet in July 2010. Shared Research thinks that handling software makers' sales promotion and distribution functions is a potential money spinner.

## Videogame: also scope for expansion

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The company consolidated Toys Union as a subsidiary in July 2013. Toys Union handles Nintendo products, racking up sales of JPY35.3bn in FY03/13.

Putting Toys Union under its umbrella should boost Happinet's Nintendo sales to more than JPY50bn and its share of the Nintendo-related market to 25%. This places Happinet at a level equivalent to the second largest distributor of Nintendo-related products. Given the contracting overall market, other distributors may leave the market at an increasing rate, implying opportunities for Happinet to grab market share.

## Original products: increase sales

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The company aims to expand sales of original products developed in-house and exclusive products, in a bid to increase profitability. Shared Research thinks the company is likely to join hands with publishers and TV broadcasters to produce and broadcast original programs, in tandem with creating and selling character toys.



## Historical performance

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### Historical financial statements

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#### FY03/14 results (out May 13, 2014)

The acquisition of Toys Union, distributor of Nintendo products, resulted in a JPY27.2bn increase in sales.

Higher sales and profits in the toys and amusement businesses contributed to the increase in operating profit.

#### Toys

Sales were JPY76.8bn (+2.9% YoY) and operating profit was JPY2.7bn (+31.8%).

Sales and profits increased due to hit products such as Kamen Rider Gaim character products by Bandai, along with Zyuden Sentai Kyoryuger and Yokai Watch. High-margin Bandai products accounted for a larger share of total sales, meaning overall margins were up YoY.

#### Visual and music

Sales were JPY43.0bn (-4.1% YoY) and operating profit was JPY307mn (-0.7%).

Profits and sales fell YoY. Some products were successful hits, such as part-funded Nobou no Shiro and 100% in-house animation Zoids. However, the packaged-product market was weak due to the spread of online distribution. Revenue from some DVD titles fell below the minimum guarantee, resulting in a loss.

#### Videogames

Sales were JPY63.6bn (+72.7% YoY) and operating profit was JPY79mn (-88.2%).

The packaged-product market stalled, but the company achieved YoY growth in sales as Toys Union Co. Ltd. became a subsidiary. Profits fell owing to valuation losses booked on excess inventory of some videogame titles and accessories (about JPY800mn).

#### Amusement

Sales were JPY23.5bn (+14.8% YoY) and operating profit was JPY2.1bn (+62.4%).

Sales were robust for Aikatsu!, Yokai Watch, and Dragon Ball Heroes products for children's card game machines. Sales of Kamen Rider Gaim and Yokai Watch products for toy vending machines were also strong.

Recurring profit was up 27.1%. The increase in net income was 22.6%. The company booked an extraordinary profit of JPY409mn on gains on negative goodwill from the acquisition of Toys Union, but also an extraordinary loss of JPY166mn on withdrawal from the employee pension fund.

#### Q3 FY03/14 results (out February 12, 2014)

For cumulative Q3, sales were JPY165.5bn (+20.2% YoY), operating profit was JPY4.0bn (+34.9% YoY), recurring profit was JPY4.1bn (+32.0% YoY), and net income was JPY2.6bn (+31.5% YoY).

#### Toys

Sales were JPY61bn (+2.8% YoY) and operating profit was JPY2.7bn (+27.3% YoY). Kamen Rider Gaim



character products for boys made by Bandai did well, along with the Aikatsu! character goods for girls (also Bandai).

### Visual and music

Sales were JPY33.0bn (-1.7% YoY) and operating profit was JPY313mn (-24.3% YoY). The packaged-product market was sluggish due to growth in online content distribution. The company posted valuation losses on some products.

### Videogames

Sales were JPY54.3bn (+82.9%YoY) and operating profit was JPY351mn (-44.3% YoY). The overall packaged-game market was weak amid the spread of mobile online games. The sales increase reflects the acquisition of Toys Union Co Ltd, a major wholesaler of Nintendo videogames. Operating profit fell from a year earlier because of valuation losses on high inventory products.

### Amusement

Sales were JPY17.1bn (+13.8% YoY) and operating profit was JPY1.6bn (+96.0% YoY). Products linked to Aikatsu! and Dragon Ball Heroes for card game machines, as well as capsule toy machines, were strong.

The company raised its year-end dividend forecast for FY03/14 to JPY13.5 a share from JPY11.25. The annual dividend is expected to be JPY24.75 as a result. The company announced the dividend forecast revision when it released its 3Q earnings.

### Q2 (1H) FY03/14 results (out November 12, 2013)

1H sales came in at JPY87.3bn (+14.6% YoY); operating profit was JPY1.6bn (+54.0% YoY); recurring profit was JPY1.6bn (+47.3% YoY); and net income was JPY1.4bn (+93.8% YoY).

### Toys

Sales nudged JPY31.8bn (-1.6% YoY) while operating profit hit JPY563mn (-32.4% YoY). Zyuden Sentai Kyoryuger character products for boys made by Bandai did well, along with the Aikatsu! character goods for girls (also Bandai). But adverse changes in the starting months of TV programs featuring some characters of the company's toys dampened overall performance.

### Visual and music

Sales ticked up to JPY21.3bn (+2.8% YoY) while operating profit topped out at JPY377mn (+250.1% YoY). The packaged-product market tracked sideways on growth in online content distribution. Yet original movies—part-funded Nobou no Shiro and 100% in-house Zoids—were very profitable, swelling operating profits.

### Videogames

Sales rose to JPY23.0bn (+75.5% YoY); operating profit fell to JPY34mn (-64.6% YoY). Despite some hit products the overall packaged-game market was weak amid competition from social network games. The sales boost reflects the Toys Union Co Ltd acquisition, a big wholesaler of Nintendo videogames. Profits at Toys Union sank after Happinet overhauled the newly consolidated subsidiary's inventory valuation method to increase efficiency (Happinet's valuation method was applied to Toys Union).

### Amusement

Sales rose to JPY11.1bn (+11.9% YoY) while operating profit soared to JPY1.2bn (+96.7% YoY). Top performers: goods relating to Aikatsu! and Dragon Ball Heroes for card game machines, plus capsule toy machines.



## Other information

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### History

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- 1969** Incorporated as Tosho Ltd (Tosho becomes a stock company in 1972).
- 1972** Starts full-scale transactions with Popy (now Bandai).
- 1991** Company name changes to Happinet Corp with absorption of Dairin Corp and Seiko Corp (integration of Bandai-affiliated toy distributors).

In 1991 Toys"R"Us entered Japan. At that time small toy stores were key outlets for toys in Japan, with distributors serving retailers. Yet Toys"R"Us with its strong selling power started direct transactions with toy makers. Bandai continued to do business with big toy stores and small/medium-sized shops through wholesalers. Yet at the same time it did business with Toys"R"Us and big retailers through Happinet.

Toys"R"Us introduced open pricing to Japan's retail industry. In the early 1990s many retailers set prices according to the wishes of makers. Toys"R"Us thus introduced competition and a price war began. The upshot: toy makers and retailers slashed distribution costs with a lot of intermediary business migrating to big distributors.

In the 1990s the toy wholesale industry saw a shakeout amid post-bubble sluggish consumption, direct makers/shop transactions, and big distributors controlling the market in the wake of the Toys"R"Us incursion. Happinet bought small/medium-sized distributors as they hit hard times, did more business with non-Bandai players, and began distributing non-toy products.

- 1994** Bandai buys more Happinet shares; Happinet joins the Bandai group. Happinet begins distributing PlayStation game consoles and starts distributing videogames.
- 1994** Acquires Taiyo Gangu Shokai, Aichi Prefecture.
- 1995** Acquires Hiranaka, Hokkaido.
- 1999** Buys shares in Beam Entertainment Corp, advancing into DVD distribution business.
- 2001** Buys shares in Toyokuni Corp, Shizuoka Prefecture.
- 2002** Happinet JP Corp takes over the operations of Matsui Sakae Toys, a toy wholesaler in Osaka.
- 2006** Buys shares in Mori Toys, a wholesaler of Nintendo products in Osaka.
- 2007** Buys shares in Sunlink and The Apple Corporation.
- 2009** Buys shares in Wint Corp, the second largest intermediary distributor of visual media and music, advancing into CD wholesaling.
- 2013** Buys shares in Toys Union Co Ltd, a Nintendo distributor.

## News and topics

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### April 2014

On **April 14, 2014**, the company announced a revision to its FY03/14 full-year earnings forecast.

#### FY03/14 full-year earnings forecast

Sales: JPY207.0bn (previous forecast: JPY205.0bn)

Operating profit: JPY3.8bn (JPY3.4bn)

Recurring profit: JPY3.9bn (JPY3.5bn)

Net income: JPY2.4bn (JPY2.0bn)

Earnings per share: JPY106.53 (JPY88.88)



## Revision details

According to the company, although it recorded write-downs on excess inventory of products such as videogame merchandise, the toy and amusement businesses outperformed expectations. Particularly strong sales of products from Bandai franchises Kamen Rider Giam, Aikatsu!, and Yokai Watch paved the way for higher sales, operating profit, recurring profit, and net income compared to previous forecasts.

## **March 2014**

On **March 11, 2014**, the company announced the merger of Toys Union Co., Ltd. and Mori Games Co., Ltd., both wholly-owned subsidiaries of the company.

Toys Union is a wholesaler of videogame products. According to the company, it trades a much greater amount of Nintendo Co., Ltd. videogame consoles and software products since acquiring Toys Union as a subsidiary in July 2013. The company aims to further strengthen its relationship with Nintendo by merging Toys Union and Mori Games, which are both involved in wholesaling videogames. It also hopes that streamlining its organization in this way will lead to earnings growth.

The company plans to merge the two companies on July 1, 2014. Toys Union will be the absorbing firm.

## **Major shareholders**

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Top Shareholders	Amount Held
Namco Bandai Holdings Inc.	25.9%
The Master Trust Bank of Japan, Ltd. (Trust account)	3.9%
Japan Trustee Services Bank, Ltd. Sumitomo Mitsui Trust Bank, Limited	2.9%
Retrust Portion/SMBC Employee Pension Trust	2.4%
Yasuhiko Idaira	2.1%
Japan Trustee Services Bank, Ltd. (Trust account)	1.6%
Trust & Custody Services Bank, Ltd. (Securities investment trust account)	1.5%
Happinet Employees' Stockholding	1.3%
Sun River Inc.	1.3%
Kayo Kawai	1.3%
Takashi Nishimura	1.2%

Source: Company data

As of September 30, 2014

\*Excluding 1,431,000 shares of treasury stock

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## Profile

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<b>Company</b> Happinet Corp	<b>Head office</b> Komagata CA Bldg., 2-4-5, Komagata, Taito-ku, Tokyo, Japan 111-0043
<b>Phone</b> +81-3-3847-0521	<b>Listed on</b> Tokyo Stock Exchange 1st Section
<b>Established</b> June 7, 1969	<b>Exchange listing</b> August 29, 1997
<b>Website</b> <a href="http://www.happinet.co.jp/english/index.html">http://www.happinet.co.jp/english/index.html</a>	<b>Fiscal year-end</b> March
<b>IR web</b> <a href="http://www.happinet.co.jp/english/ir/index.html">http://www.happinet.co.jp/english/ir/index.html</a>	



## About Shared Research Inc.

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AEON DELIGHT Co.	GCA Savvian Corporation	Paris Miki Holdings Inc.
AI Holdings Corp.	Grandy House Corp.	Pigeon Corp.
AnGes MG Inc.	Gulliver International Co., Ltd.	Resorttrust, Inc.
Anicom Holdings, Inc.	Hakuto Co., Ltd.	Round One Corp.
Anritsu Corporation	Happinet Corporation	Ryohin Keikaku Co., Ltd.
Apamanshop Holdings Co., Ltd.	Harmonic Drive Systems Inc.	Sanix Incorporated
ArtSpark Holdings Inc.	Hearts United Group Co., Ltd.	Sanrio Co., Ltd.
AS ONE Corporation	Infomart Corp.	SATO Holdings Corp.
Axell Corporation	Intelligent Wave Inc.	SBS Holdings, Inc.
Bell-Park Co., Ltd.	ITO EN, Ltd.	Ship Healthcare Holdings Inc.
Benefit One Inc.	J Trust Co., Ltd	SMS Co., Ltd.
Canon Marketing Japan Inc.	Japan Best Rescue Co., Ltd.	SOURCENEXT Corporation
Chiyoda Co., Ltd.	JIN Co., Ltd.	Star Mica Co., Ltd.
Comsys Holdings Corporation	Kenedix, Inc.	Symbio Pharmaceuticals Limited
Creek & River Co., Ltd.	Kenko.com Inc.	Takashimaya Co., Ltd.
Daiseki Corp.	KLab Inc.	Takihyo Co., Ltd.
DIC Corporation	Lasertec Corp.	Tamagawa Holdings Co., Ltd
Digital Garage Inc.	MAC-HOUSE Co.	3-D Matrix, Ltd.
Don Oijote Holdings Co., Ltd.	Matsui Securities co., Ltd.	TOKAI Holdings Corp.
Dream Incubator Inc.	Medinet Co., Ltd.	Verite Co., Ltd.
Elecom Co.	MIRAIT Holdings Corp.	WirelessGate, Inc.
EMERGENCY ASSISTANCE JAPAN Co.	NAGASE & CO., LTD	Yellow Hat Ltd.
en-Japan Inc.	NAIGAI TRANS LINE LTD.	Yumeshin Holdings
FerroTec Corp.	NanoCarrier Ltd.	ZAPPALLAS, INC.
Fields Corp.	Nippon Parking Development Co., Ltd.	ZIGEXN Co., Ltd.
FreeBit Co., Ltd.	NS Tool Co.	

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