

FACT BOOK

HAPPINET CORPORATION (Securities Code 7552/TSE 1st Section)

For the Six Months Ending September 30, 2018

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Group Vision, Management Stance, Principle of Conduct

▶ Group Vision

The Happinet Group provides “happiness networking.” By creating new entertainment styles, we bring a wide range of delight to people, creating dreams for a better future.

▶ Management Stance

We constantly anticipate changes and reinvent ourselves to open up new business opportunities.

For Customers

We partner with our customers to satisfy their needs.

For Employees

We respect each and every employee, create opportunities for them to grow and challenge themselves, nurturing an environment that brings purpose and fulfillment to work.

For Society

Through business activities built on strong business-ethics foundations, we contribute to a fun and vibrant society.

For Shareholders

We disclose information proactively to enhance transparent management, earn the trust of shareholders and live up to their expectations.

Principles of Conduct

Before all action, we ask ourselves, “What is important? And what is right?”

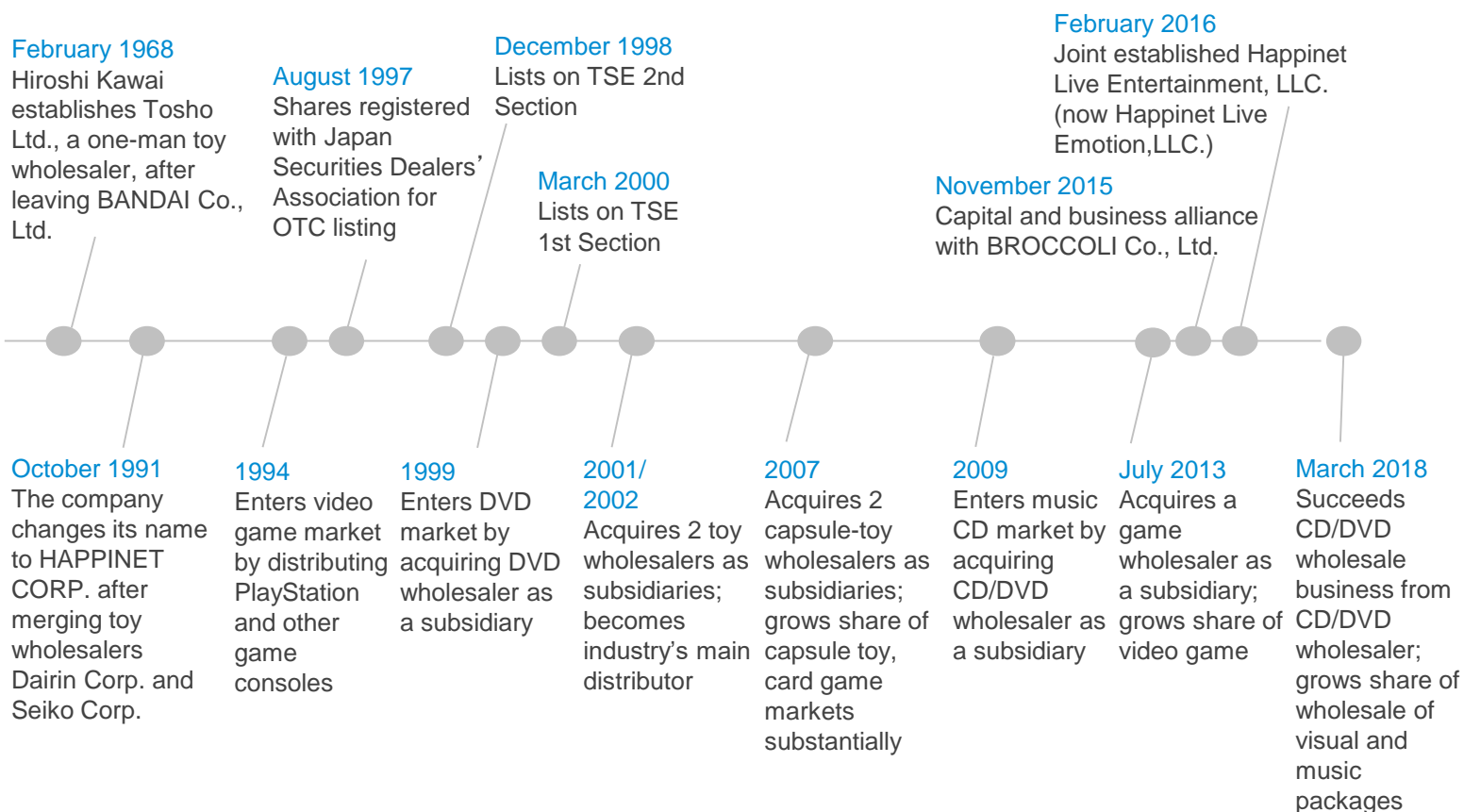
The Happinet Group enriches the lives of millions of people through its entertainment operations, delivering compelling and delightful content. Our aim is to create value for society by crafting dreams of a better tomorrow.

Our mission is a simple one: To contribute to people's happiness. We network with everyone connected to the Group to establish active communications as we strive to propose ideas that enrich modern living.

Corporate Profile

▶ Company Name	HAPPINET CORPORATION
▶ URL	https://www.happinet.co.jp/english/
▶ Head Office	Komagata CA Bldg., 2-4-5 Komagata, Taito-ku, Tokyo 111-0043 Japan
▶ Establishment	June 7, 1969
▶ Representatives	Kazuhiko Note, Representative Director, Chairman and CEO Seiichi Enomoto, Representative Director, President and COO
▶ Main Business	Planning, manufacture and sales of toys; Planning, production and sales of audio-visual software; Planning and sales of video game hardware and software; Operation of toy vending machines; Sales of arcade game equipment

Major Milestones



Business Segments and Group

The Happinet Group's operations can be divided into the following four segments: the Toy Business, the Visual and Music Business, the Video-Game Business, and the Amusement Business.

The Group is comprised of the parent company and four consolidated subsidiaries.

Business Lines	Core Operating Companies	Key Characteristics
Toy Business	HAPPINET CORPORATION Happinet Marketing Corporation	<ul style="list-style-type: none"> - One of the largest intermediate distribution companies among the toy market in Japan (with a market share of over 30%) - Handles some 90% of the toys sold by blue-chip toy maker Bandai in Japan - Plans and manufactures its original products
Visual and Music Business	HAPPINET CORPORATION (*1) Seikodo Marketing Corporation (*3)	<ul style="list-style-type: none"> - Has top-class share among the intermediate distribution industry of DVD/CD market - Engages in video works as a maker by investing in movies and animation works
Video-Game Business	HAPPINET CORPORATION MAXGAMES Corporation (*2)	<ul style="list-style-type: none"> - The only intermediate distribution company in Japan that handles all home game consoles sold domestically - Plans, manufactures and sells mainly video game software products for girls as a maker
Amusement Business	HAPPINET CORPORATION Happinet Vending Service Corporation	<ul style="list-style-type: none"> - One of the largest companies for selling capsule toys and trading card games (with a market share of 60%, the Company's estimate) - Set up capsule toy vending machines nationwide - Optimized operations by introducing cutting-edge system among the competitive companies

(*1) HAPPINET CORPORATION absorbed Happinet Pictures & Music Corporation on April 1, 2014.

(*2) TOYS UNION CO., LTD. absorbed Mori Games Co. Ltd. on July 1, 2014, and was renamed MAXGAMES Corporation.

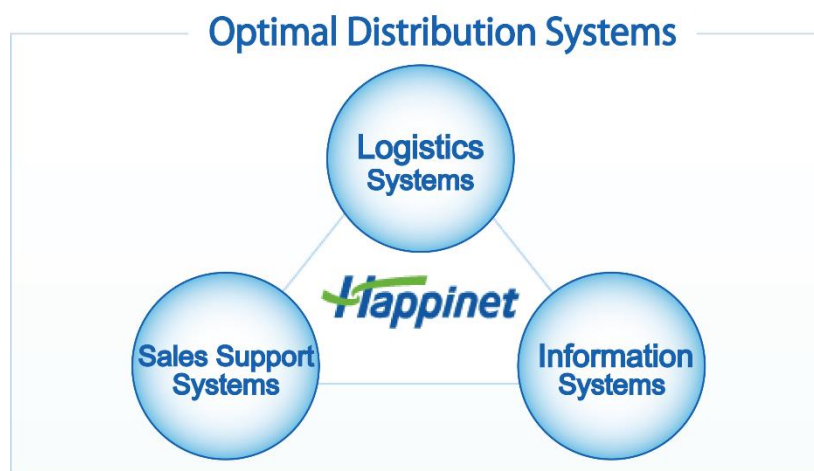
(*3) Some of the rights and obligations which HAPPINET CORPORATION possessed with respect to the wholesale of music and visual packages of Seikodo Co.,Ltd. have been assigned to Seikodo Marketing Corporation on March 1, 2018 (effective date) as a result of the company split.

Business Outline

A Comprehensive Entertainment Trading Company With Top Market Share in Each Field

Happinet is a comprehensive entertainment trading company that boasts either top or near-top market share in each of its four main businesses: toys; visual and music; video games; and amusements. Leveraging its unique market intelligence and proprietary logistics systems, Happinet applies the strengths of each of its partner manufacturers and retailers to maximum advantage.

Optimal Distribution Systems		
Sales Support Systems	Logistics Systems	Information Systems
<p>Happinet plans and proposes sales environments tailored to the characteristics of each store, marshaling infrastructure such as logistics and information systems. These systems attach value-added to the products we deliver.</p>	<p>Logistics, the physical connection between Happinet and its business partners, lies at the heart of business operations. We build out the latest in logistics systems to provide high quality at reasonable cost.</p>	<p>The continuous exchange of profitable information between Happinet and its business partners is an essential part of the Company's operations. Information systems enable this exchange by serving up a steady stream of timely information.</p>



Optimal Distribution Systems That Crystallize Our Expertise as an Intermediate Distributor

The Right Product at the Right Time

As an intermediate distributor, Happinet is uniquely positioned to gather information from both manufacturers and retailers. Based on that intelligence, we analyze the daily shifts in product sales to secure and supply the necessary inventory, to never miss a sales opportunity. We drive logistics systems that are second to none in the industry to perform precise and timely shipments, delivering products to stores across Japan.

The Right Information with the Right Timing

Happinet captures information through some of the most effective sales-support systems in the industry. Drawing on that information, we look carefully at the sales strength of each product to determine sales methods that best respond to the varying needs of each store and retailer. We meticulously plan product display methods, sales development methods and other strategies and table our proposals with optimal timing.

Assets

(¥ million)	FY3/15 1H end	FY3/16 1H end	FY3/17 1H end	FY3/18 1H end	FY3/19 1H end
Assets					
Total Assets	61,985	62,443	58,329	65,126	73,076
Current assets	53,643	53,852	45,314	51,341	58,035
Cash and deposits	11,795	14,992	12,021	12,350	15,436
Notes and accounts receivable - trade	30,167	25,573	22,767	28,884	30,004
Inventories	8,557	9,643	8,008	7,885	9,291
Other	3,128	3,644	2,518	2,222	3,306
Allowance for doubtful accounts	(5)	(1)	(1)	(2)	(2)
Non-current assets	8,341	8,591	13,015	13,784	15,041
Property, plant and equipment	1,013	707	761	765	730
Intangible assets	695	970	1,182	1,291	2,520
Goodwill	-	-	-	-	591
Other	695	970	1,182	1,291	1,928
Investments and other assets*	6,632	6,914	11,072	11,727	11,791
Investment securities	2,126	2,472	6,727	8,151	7,997
Other	4,603	4,533	4,367	3,579	3,796
Allowance for doubtful accounts	(96)	(91)	(22)	(3)	(2)

Liabilities and Net Assets

(¥ million)	FY3/15 1H end	FY3/16 1H end	FY3/17 1H end	FY3/18 1H end	FY3/19 1H end
Liabilities					
Total liabilities	34,628	31,908	27,706	31,288	35,971
Current liabilities	31,248	28,514	23,923	27,329	31,691
Notes and accounts payable - trade	26,540	24,387	21,039	23,646	26,960
Income taxes payable	610	212	183	350	432
Provision for bonuses	249	255	213	201	219
Other provision	18	12	10	11	61
Other	3,828	3,645	2,476	3,119	4,017
Non-current liabilities*	3,379	3,394	3,782	3,958	4,279
Provision for stock-based compensation	-	-	-	-	52
Net defined benefit liability	2,422	2,550	2,848	2,981	3,027
Asset retirement obligations	51	94	164	170	176
Other	906	749	770	805	1,023
Net assets					
Total net assets	27,356	30,535	30,623	33,838	37,105
Shareholders' equity	26,661	29,475	29,207	31,294	34,560
Capital stock	2,751	2,751	2,751	2,751	2,751
Capital surplus	2,775	2,784	2,784	2,795	2,890
Retained earnings	22,071	24,846	25,668	27,665	30,884
Treasury shares	(936)	(906)	(1,996)	(1,917)	(1,966)
Accumulated other comprehensive income	521	785	1,017	2,084	2,026
Valuation difference on available-for-sale securities	519	789	1,019	2,079	2,025
Deferred gains or losses on hedges	1	(4)	(1)	4	1
Share acquisition rights	173	274	398	459	518
Total liabilities and net assets	61,985	62,443	58,329	65,126	73,076

* Due to revised accounting standards, deferred tax assets are classified under investments and other assets (non-current assets), and deferred tax liabilities are classified under non-current liabilities.

Consolidated Statement of Income and Comprehensive Income



(¥ million)	FY3/15 1H	FY3/16 1H	FY3/17 1H	FY3/18 1H	FY3/19 1H
Net sales	93,437	83,993	72,448	84,827	104,580
Cost of sales	81,421	73,386	62,911	74,561	92,850
Gross profit	12,016	10,606	9,537	10,266	11,729
Selling, general and administrative expenses	9,653	8,769	8,693	8,504	9,809
Operating profit	2,362	1,837	844	1,761	1,920
Non-operating income	57	50	43	65	83
Interest income	1	2	0	0	0
Dividend income	21	31	28	47	63
Foreign exchange gains	0	-	2	-	0
Other	35	16	13	17	19
Non-operating expenses	6	31	146	186	151
Interest expenses	0	0	0	0	0
Foreign exchange losses	-	0	-	0	-
Loss on cancellation of leases	5	-	-	-	-
Provision of allowance for doubtful accounts	0	30	-	-	-
Share of loss of entities accounted for using equity method	-	-	142	186	145
Other	0	0	4	0	5
Ordinary profit	2,413	1,857	741	1,640	1,851
Extraordinary income	6	-	0	27	-
Gain on sales of non-current assets	2	-	0	-	-
Gain on sales of investment securities	4	-	-	27	-
Extraordinary losses	525	4	80	0	5
Loss on sales of non-current assets	-	4	0	0	-
Loss on retirement of non-current assets	6	0	30	0	5
Loss on sales of investment securities	0	-	-	-	-
Loss on valuation of investment securities	14	-	-	-	-
Impairment loss	125	-	-	-	-
Loss on revision of retirement benefit plan	379	-	-	-	-
Litigation expenses	-	-	50	-	-
Profit before income taxes	1,894	1,853	661	1,667	1,846
Income taxes - current	600	232	183	369	388
Income taxes - deferred	(520)	434	148	253	353
Total income taxes	79	667	331	623	742
Profit*	1,814	1,185	329	1,044	1,103
Profit attributable to owners of parent*	1,814	1,185	329	1,044	1,103

* Due to changes in accounting policy, Happinet has implemented changes in the method of expression and reclassification as follows:
From "net income before minority interests" to "profit"; and from "net income" to "profit attributable to owners of parent."

(¥ million)	FY3/15 1H	FY3/16 1H	FY3/17 1H	FY3/18 1H	FY3/19 1H
Profit*	1,814	1,185	329	1,044	1,103
Other comprehensive income	143	106	369	916	(152)
Valuation difference on available-for-sale securities	140	110	361	911	(155)
Deferred gains or losses on hedges	2	(4)	7	5	3
Share of other comprehensive income of entities accounted for using equity method	-	-	0	0	(0)
Comprehensive income	1,957	1,291	699	1,961	951
Comprehensive income attributable to owners of parent	1,957	1,291	699	1,961	951

* Due to changes in accounting policy, Happinet has implemented changes in the method of expression and reclassification as follows:
From "income before minority interests" to "profit."

Consolidated Statement of Cash Flows



(¥ million)	FY3/15 1H	FY3/16 1H	FY3/17 1H	FY3/18 1H	FY3/19 1H
Cash flows from operating activities					
Net cash provided by (used in) operating activities	2,325	(167)	2,470	1,502	4,999
Profit before income taxes	1,894	1,853	661	1,667	1,846
Depreciation	184	164	213	165	243
Impairment loss	125	-	-	-	-
Amortization of goodwill	-	-	-	-	66
Increase (decrease) in allowance for doubtful accounts	(8)	23	(10)	(5)	(1)
Increase (decrease) in provision for bonuses	(227)	(519)	(90)	(41)	(286)
Increase (decrease) in provision for directors' bonuses	-	(121)	-	-	(75)
Increase (decrease) in net defined benefit liability	319	21	85	75	33
Interest and dividend income	(22)	(34)	(28)	(48)	(63)
Interest expenses	0	0	0	0	0
Loss (gain) on sales and retirement of non-current assets	3	4	30	0	5
Loss (gain) on sales of investment securities	(3)	-	-	(27)	-
Loss (gain) on valuation of investment securities	14	-	-	-	-
Foreign exchange losses (gains)	(0)	0	(2)	0	(0)
Share of loss (profit) of entities accounted for using equity method	-	-	142	186	145
Decrease (increase) in notes and accounts receivable - trade	(6,062)	108	133	(625)	6,976
Decrease (increase) in inventories	(1,152)	(2,897)	(1,964)	(1,585)	(1,262)
Increase (decrease) in notes and accounts payable - trade	6,441	4,269	2,772	2,095	(824)
Other, net	1,898	(2,019)	853	174	(533)
Subtotal	3,406	852	2,795	2,032	6,271
Interest and dividend income received	22	34	28	48	63
Proceeds from dividend income from entities accounted for using equity method	-	-	44	44	60
Interest expenses paid	(0)	(0)	(0)	(0)	(0)
Income taxes paid	(1,103)	(1,054)	(396)	(624)	(1,395)
Income taxes refund	-	-	-	2	-
Cash flows from investing activities					
Net cash provided by (used in) investing activities	(201)	(371)	(418)	(322)	(470)
Purchase of property, plant and equipment	(95)	(117)	(197)	(63)	(81)
Proceeds from sales of property, plant and equipment	183	-	0	0	-
Purchase of intangible assets	(360)	(247)	(215)	(330)	(272)
Purchase of investment securities	(6)	(5)	(5)	(7)	(106)
Proceeds from sales of investment securities	10	-	-	78	-
Other, net	66	(0)	0	-	(10)
Cash flows from financing activities					
Net cash provided by (used in) financing activities	(323)	(336)	(1,430)	(434)	(551)
Proceeds from disposal of treasury shares	9	2	-	0	0
Purchase of treasury shares	(0)	-	(1,090)	(0)	-
Cash dividends paid	(305)	(338)	(339)	(433)	(544)
Other, net	(27)	(0)	(0)	-	(6)
Effect of exchange rate change on cash and cash equivalents	(0)	(0)	(13)	(0)	0
Net increase (decrease) in cash and cash equivalents	1,799	(875)	608	745	3,977
Cash and cash equivalents at beginning of period	9,996	15,867	11,412	11,605	11,458
Cash and cash equivalents at end of period	11,795	14,992	12,021	12,350	15,436

Information by Segment



(¥ million)	FY3/15 1H	FY3/16 1H	FY3/17 1H	FY3/18 1H	FY3/19 1H
Toy Business					
Net sales	39,479	34,742	31,585	31,206	31,736
Segment income	1,663	1,256	768	891	808
Visual and Music Business					
Net sales	21,376	17,352	16,516	18,930	42,896
Segment income	145	144	146	311	759
Video-game Business					
Net sales	19,939	20,212	14,302	24,856	20,111
Segment income (loss)	(61)	(50)	(36)	402	212
Amusement Business					
Net sales	12,643	11,686	10,045	9,833	9,836
Segment income	1,264	1,154	642	761	762
Adjustments					
Net sales	-	-	-	-	-
Segment income (loss)	(648)	(667)	(675)	(604)	(622)
Consolidated					
Net sales	93,437	83,993	72,448	84,827	104,580
Segment income	2,362	1,837	844	1,761	1,920

(¥ million)	FY3/15 1H	FY3/16 1H	FY3/17 1H	FY3/18 1H	FY3/19 1H
Net sales	93,437	83,993	72,448	84,827	104,580
Gross profit	12,016	10,606	9,537	10,266	11,729
SG&A expenses	9,653	8,769	8,693	8,504	9,809
Operating profit	2,362	1,837	844	1,761	1,920
Ordinary profit	2,413	1,857	741	1,640	1,851
Profit attributable to owners of parent*	1,814	1,185	329	1,044	1,103

* Due to changes in accounting policy, Happinet has implemented changes in the method of expression and reclassification as follows:
From "net income" to "profit attributable to owners of parent."

(%)	FY3/15 1H	FY3/16 1H	FY3/17 1H	FY3/18 1H	FY3/19 1H
Gross profit margin	12.9	12.6	13.2	12.1	11.2
SG&A expenses ratio	10.3	10.4	12.0	10.0	9.4
Operating profit margin	2.5	2.2	1.2	2.1	1.8
Ordinary profit margin	2.6	2.2	1.0	1.9	1.8
Profit attributable to owners of parent margin*	1.9	1.4	0.5	1.2	1.1

* Due to changes in accounting policy, Happinet has implemented changes in the method of expression and reclassification as follows:
From "net income margin" to "profit attributable to owners of parent margin."

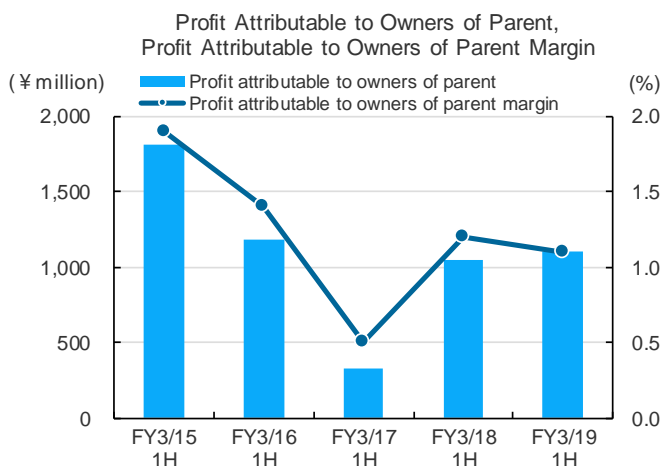
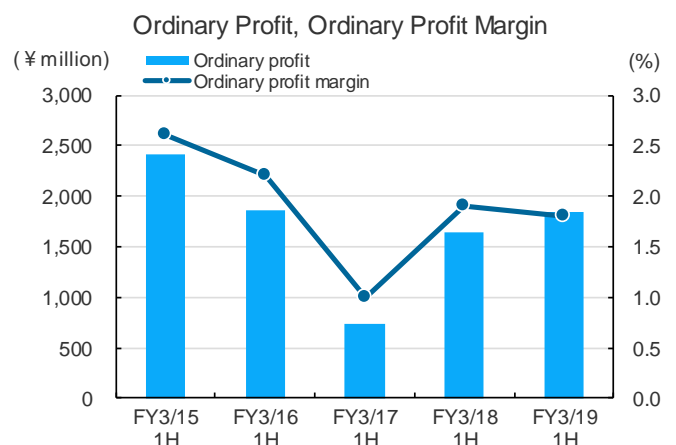
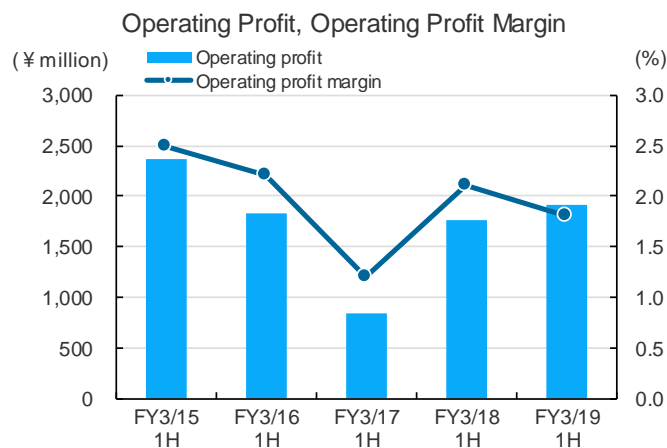
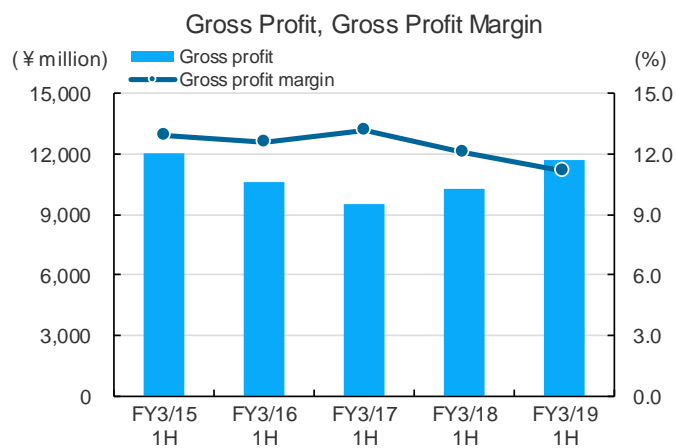
Gross profit margin = Gross profit/Net sales

SG&A expenses ratio = SG&A expenses/Net sales

Operating profit margin = Operating profit/Net sales

Ordinary profit margin = Ordinary profit/Net sales

Profit attributable to owners of parent margin = Profit attributable to owners of parent/Net sales



Consolidated Profitability/Efficiency Indicators



(times)	FY3/15 1H	FY3/16 1H	FY3/17 1H	FY3/18 1H	FY3/19 1H
Total assets turnover	3.2	2.7	2.5	2.7	2.8
Equity turnover	7.1	5.6	4.7	5.2	5.8
Non-current assets turnover	23.1	19.4	11.3	12.6	13.6
Current assets turnover	3.7	3.2	3.2	3.4	3.6

<Reference (Full Year)>	FY3/15	FY3/16	FY3/17	FY3/18	FY3/19
ROA (%)	7.1	4.0	3.5	5.9	-
ROE (%)	14.8	7.8	6.5	11.9	-

Total assets turnover = (Net sales x 2)/Average total assets

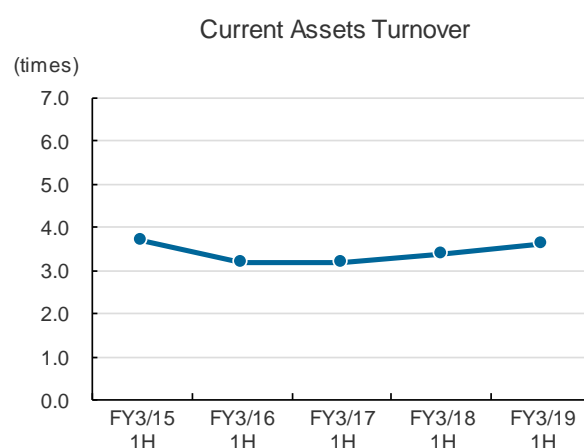
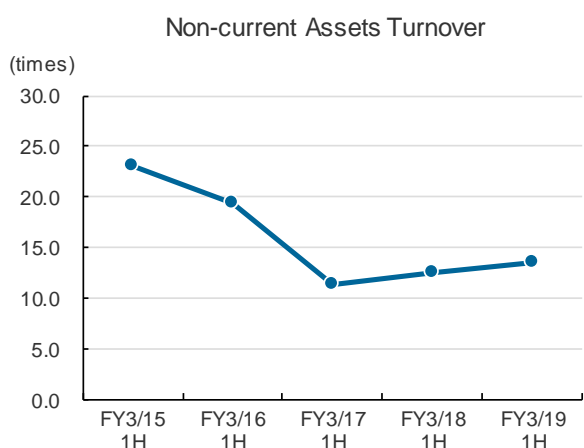
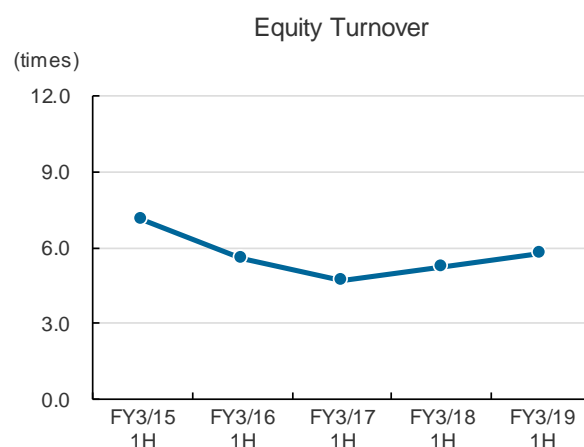
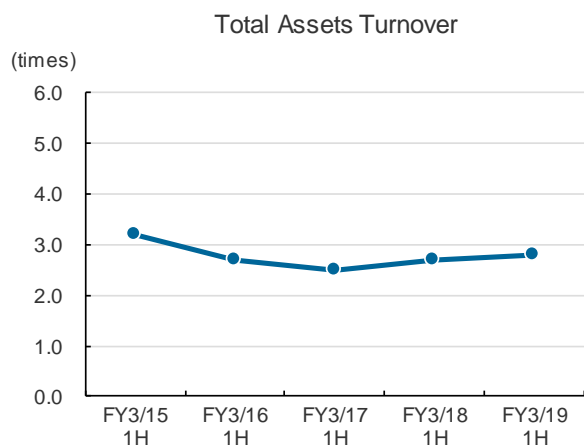
Equity turnover = (Net sales x 2)/Average equity

Non-current assets turnover = (Net sales x 2)/Average non-current assets

Current assets turnover = (Net sales x 2)/Average current assets

ROA = Profit attributable to owners of parent/Average total assets

ROE = Profit attributable to owners of parent/Average equity



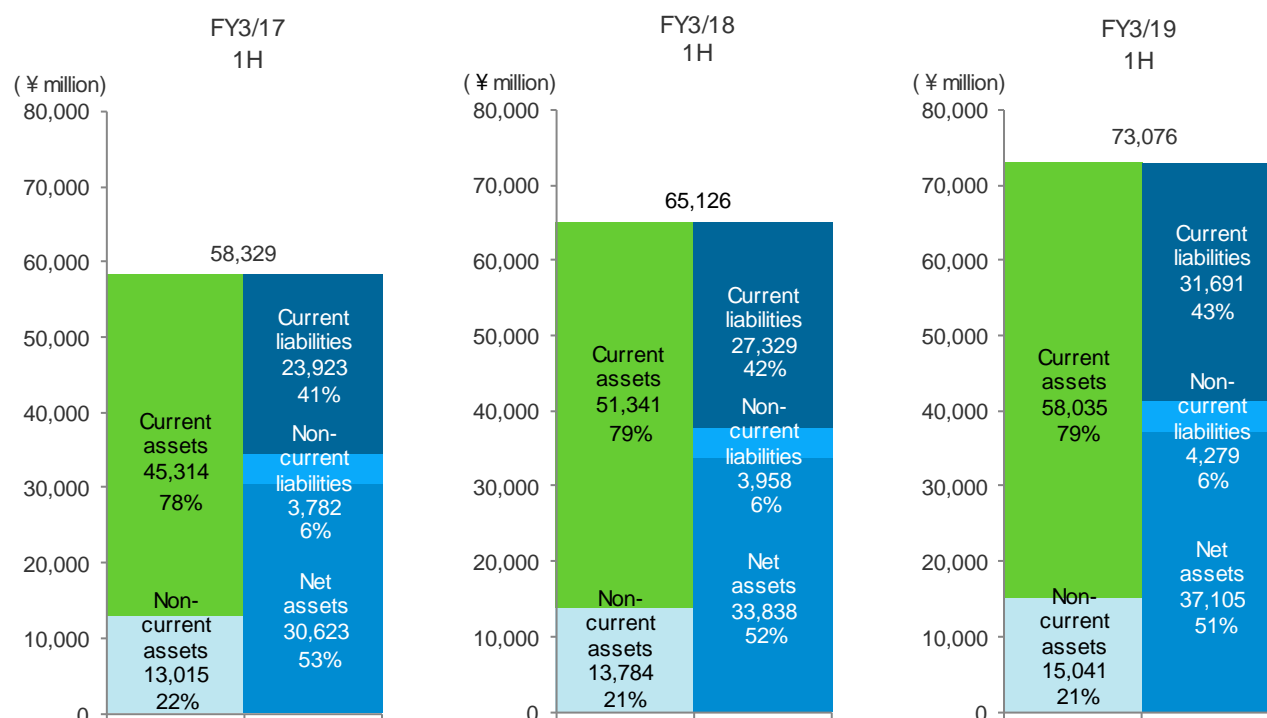
(¥ million)	FY3/15 1H	FY3/16 1H	FY3/17 1H	FY3/18 1H	FY3/19 1H
Equity	27,183	30,260	30,225	33,378	36,586
Total assets	61,985	62,443	58,329	65,126	73,076
Non-current assets	8,341	8,591	13,015	13,784	15,041
Non-current liabilities	3,379	3,394	3,782	3,958	4,279
Current assets	53,643	53,852	45,314	51,341	58,035
Current liabilities	31,248	28,514	23,923	27,329	31,691
Total net assets	27,356	30,535	30,623	33,838	37,105

(%)	FY3/15 1H	FY3/16 1H	FY3/17 1H	FY3/18 1H	FY3/19 1H
Equity ratio	43.9	48.5	51.8	51.3	50.1
Non-current ratio	30.7	28.4	43.1	41.3	41.1
Current ratio	171.7	188.9	189.4	187.9	183.1

Equity ratio = Equity/Average total assets

Non-current ratio= Non-current assets/Equity

Current ratio = Current assets/Current liabilities



	FY3/15 1H	FY3/16 1H	FY3/17 1H	FY3/18 1H	FY3/19 1H
Share price (¥)	1,750	1,162	1,063	1,834	1,997
Outstanding shares issued (shares)	24,050,000	24,050,000	24,050,000	24,050,000	24,050,000
Treasury shares (shares)*	1,413,310	1,367,810	2,367,930	2,272,950	2,228,050
Earnings per share (¥)	80.21	52.33	14.63	48.06	50.60
Book value per share (¥)	1,200.85	1,334.12	1,394.01	1,532.75	1,676.61
Free cash flow per share (¥)	93.83	(23.72)	94.64	54.19	207.54
Dividend per share (¥)	13.50	15.00	15.00	15.00	20.00
EBITDA (¥ million)	2,546	2,001	1,057	1,926	2,163

* The number of treasury shares to be deducted for calculation of the number of treasury shares at FY-end includes the Company's shares held by the Trust & Custody Services Bank, Ltd. (Trust Account E) as assets in trust related to the Stock Benefit Trust (J-ESOP) System.

<Reference (Full Year)>	FY3/15	FY3/16	FY3/17	FY3/18	FY3/19
PER (times)	8.0	9.8	18.7	8.3	13.6 (fcst.)
PBR (times)	1.1	0.7	1.2	0.9	-
PCFR (times)	5.2	25.1	13.6	8.3	-
EV/EBITDA Ratio (times)	3.4	3.4	7.2	4.9	-
Dividend Yield (%)	2.0	2.9	2.0	2.6	2.0 (fcst.)

Free cash flow per share=(Cash flows from operating activities+Cash flows from investing activities)/(Outstanding shares issued-Treasury shares)

PCFR = Share Price/Cash Flows from Operating Activities per Share

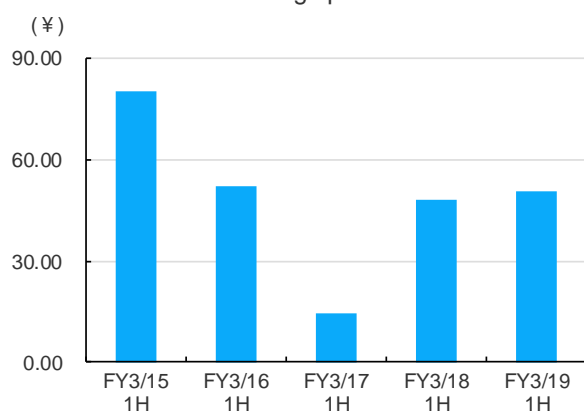
EBITDA = Operating profit+Depreciation

EV/EBITDA ratio = EV/EBITDA

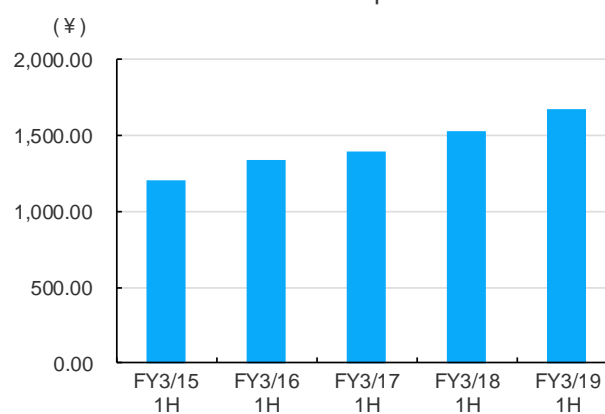
EV = Market value+Interest-bearing debt—Liquidity in hand (Cash & deposits)

(fcst.) : FY3/19 forecast

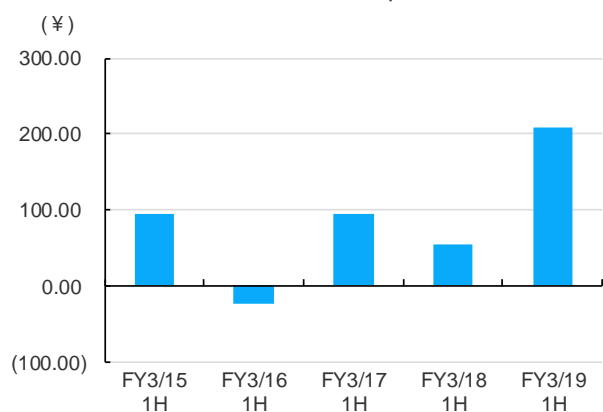
Earnings per Share



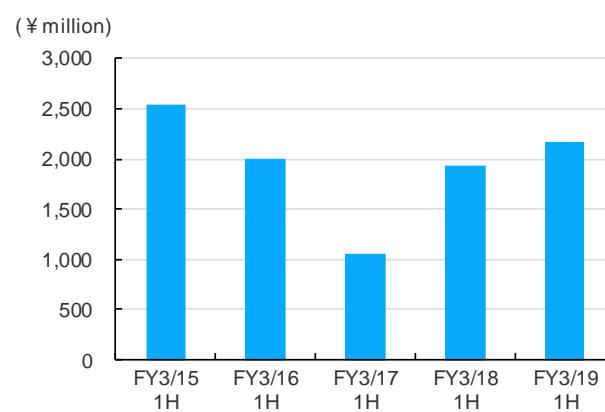
Book Value per Share



Free Cash Flow per Share



EBITDA



Major Shareholders (Top 10)

Top 10 Shareholders

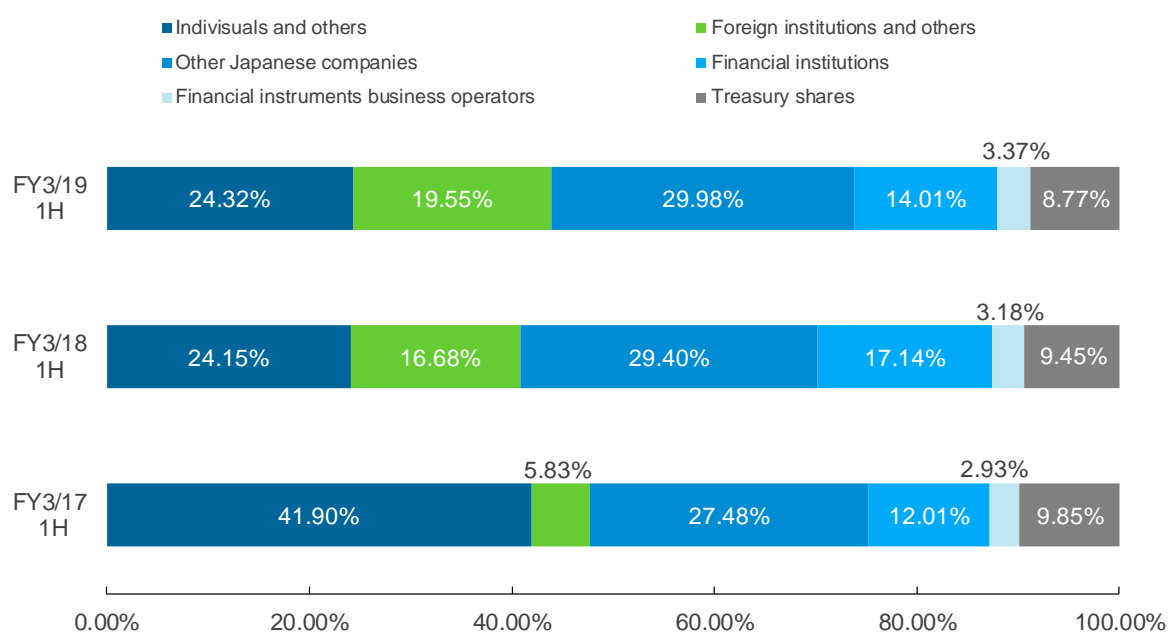
As of September 30, 2018

	Number of Shares	Shareholding Ratio*
BANDAI NAMCO Holdings Inc.	5,883,408	26.81%
SMBC Trust Bank Ltd. (Limited and employee retirement benefit of Sumitomo Mitsui Banking Corporation)	676,000	3.08%
Japan Trustee Services Bank, Limited (trust account)	636,700	2.90%
Yasuhiko Idaira	513,000	2.34%
GOVERNMENT OF NORWAY	473,671	2.16%
The Master Trust Bank of Japan, Limited (trust account)	395,200	1.80%
Nomura Securities Co.,Ltd.	370,097	1.69%
CHASE MANHATTAN BANK GTS CLIENTS ACCOUNT ESCROW	338,080	1.54%
THE BANK OF NEW YORK MELLON 140040	305,557	1.39%
Trust & Custody Services Bank, Limited (security investment trust account)	301,100	1.37%

* Shareholding ratio was calculated based on the total number of the issued shares excluding the number of treasury shares (2,108,050 shares).

* The Company has introduced the Stock Benefit Trust (J-ESOP) System, and as assets in trust related to this program, includes 120,000 shares of the Company's stock held by the Trust & Custody Services Bank, Ltd. (Trust Account E), which are not included in the number of treasury shares.

Breakdown of Type of Shareholder





HAPPINET CORPORATION

Corporate Management Division, Corporate Planning Department,
Corporate Planning Team
Komagata CA Bldg., 2-4-5 Komagata, Taito-ku, Tokyo
Phone: +81-3-3847-0410 (Japanese Only) Fax: +81-3-3847-0420
E-mail: keiki_koho@HSN.happinet.co.jp