



Happinet / 7552

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Research Coverage Report by Shared Research Inc.

INDEX

How to read a Shared Research report: This report begins with the trends and outlook section, which discusses the company’s most recent earnings. First-time readers should start at the business section later in the report.

Key financial data	3
Recent updates	4
Highlights	4
Trends and outlook	5
Business	14
Description	14
Strengths and weaknesses	24
Market and value chain	25
Strategy	28
Historical performance	30
Historical financial statements	30
Other information	38
History	38
News and topics	39
Major shareholders	43
Profile	44

Key financial data

Income statement (JPYmn)	FY03/09	FY03/10	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19
	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Est.
Total sales	166,778	194,246	190,891	198,021	176,757	206,867	217,232	187,274	174,059	197,607	230,000
YoY	-1.3%	16.5%	-1.7%	3.7%	-10.7%	17.0%	5.0%	-13.8%	-7.1%	13.5%	16.4%
Gross profit	19,990	22,467	22,326	25,007	22,501	24,039	26,152	21,997	21,971	22,880	
YoY	9.2%	12.4%	-0.6%	12.0%	-10.0%	6.8%	8.8%	-15.9%	-0.1%	4.1%	
GPM	12.0%	11.6%	11.7%	12.6%	12.7%	11.6%	12.0%	11.7%	12.6%	11.6%	
Operating profit	2,137	2,327	2,855	4,855	2,973	3,888	5,056	3,450	3,698	4,806	5,000
YoY	47.3%	8.9%	22.7%	70.1%	-38.8%	30.8%	30.0%	-31.8%	7.2%	30.0%	4.0%
OPM	1.3%	1.2%	1.5%	2.5%	1.7%	1.9%	2.3%	1.8%	2.1%	2.4%	2.2%
Recurring profit	2,322	2,513	3,013	5,032	3,081	3,917	5,124	3,497	3,479	4,701	4,800
YoY	48.0%	8.2%	19.9%	67.0%	-38.8%	27.1%	30.8%	-31.8%	-0.5%	35.1%	2.1%
RPM	1.4%	1.3%	1.6%	2.5%	1.7%	1.9%	2.4%	1.9%	2.0%	2.4%	2.1%
Net income	1,135	1,179	1,376	2,458	2,011	2,466	4,049	2,359	2,040	4,031	3,200
YoY	-	3.9%	16.7%	78.6%	-18.2%	22.6%	64.2%	-41.7%	-13.5%	97.6%	-20.6%
Net margin	0.7%	0.6%	0.7%	1.2%	1.1%	1.2%	1.9%	1.3%	1.2%	2.0%	1.4%
Per share data (JPY)											
Shares issued (year end; '000)	12,025	12,025	12,025	24,050	24,050	24,050	24,050	24,050	24,050	24,050	
EPS	48.8	52.3	61.3	109.7	89.8	109.4	178.9	104.1	92.3	185.3	147.1
EPS (fully diluted)	-	-	-	109.6	89.6	108.1	176.2	102.2	90.4	181.1	
Dividend per share	15.00	15.00	15.00	27.50	22.50	24.75	28.50	30.00	35.00	40.00	40.00
Book value per share	799.5	846.4	883.7	972.1	1,036.2	1,128.3	1,293.0	1,364.8	1,464.8	1,659.3	
Balance sheet (JPYmn)											
Cash and cash equivalents	5,463	6,312	8,220	12,359	10,155	9,996	15,867	11,412	11,605	11,458	
Total current assets	44,864	40,140	41,039	48,269	47,930	47,025	52,449	44,905	48,975	60,484	
Tangible fixed assets	1,952	1,668	1,555	1,392	1,110	1,342	688	753	777	758	
Intangible fixed assets	4,488	3,836	3,132	1,715	985	446	854	1,086	1,005	2,465	
Investments and other assets	3,355	3,405	2,780	2,946	2,976	5,065	5,900	10,047	10,579	11,614	
Total fixed assets	9,797	8,910	7,468	6,054	5,072	6,854	7,443	11,887	12,361	14,838	
Total assets	54,661	49,050	48,507	54,323	53,003	53,879	59,893	56,793	61,337	75,323	
Notes and accounts payable	20,748	19,832	20,204	23,042	22,672	20,099	20,118	18,282	21,550	27,785	
Short-term debt	5,520	2,460	-	-	-	-	-	-	-	-	
Total current liabilities	33,171	27,436	25,837	29,617	26,883	25,036	26,957	21,817	25,188	34,354	
Long-term debt	430	30	-	-	-	-	-	-	-	-	
Total fixed liabilities	3,305	2,651	2,867	2,909	2,829	3,148	3,355	3,621	3,837	4,269	
Total liabilities	36,476	30,088	28,704	32,527	29,713	28,185	30,312	25,438	29,026	38,624	
Net assets	18,184	18,962	19,802	21,795	23,289	25,694	29,580	31,355	32,311	36,698	
Total interest-bearing debt	5,950	2,490	-	-	-	-	-	-	-	-	
Cash flow statement (JPYmn)											
Cash flows from operating activities	951	6,232	5,083	4,609	-1,505	2,547	6,658	978	3,055	4,453	
Cash flows from investing activities	-851	-391	-315	-50	-108	-87	-158	-4,752	-1,107	-3,837	
Cash flows from financing activities	-975	-4,481	-2,852	-421	-588	-2,618	-628	-677	-1,754	-762	
Financial ratios											
ROA (RP-based)	4.5%	4.8%	6.2%	9.8%	5.7%	7.3%	9.0%	6.0%	5.9%	6.9%	
ROE	6.2%	6.3%	7.1%	11.8%	8.9%	10.1%	14.8%	7.8%	6.5%	11.9%	
Equity ratio	33.3%	38.7%	40.8%	40.1%	43.9%	47.7%	49.4%	55.2%	52.7%	48.7%	

Source: Shared Research based on company data

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

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

Note: Net income from FY03/16 onward refers to net income attributable to parent company shareholders.

Recent updates

Highlights

On **June 25, 2018**, Shared Research updated the report following interviews with Happinet Corporation.

On **May 11, 2018**, the company announced earnings results for full-year FY03/18; see the results section for details.

For previous releases and developments, please refer to the News and topics section.

Trends and outlook

Quarterly results

Cumulative (JPYmn)	FY03/17				FY03/18				FY03/18	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of FY	FY Est.
Sales	32,757	72,448	133,902	174,059	35,150	84,827	153,682	197,607	102.4%	193,000
YoY	-12.2%	-13.7%	-10.7%	-7.1%	7.3%	17.1%	14.8%	13.5%		10.9%
Gross profit	4,312	9,537	17,139	21,971	4,582	10,266	17,954	22,880		
YoY	-14.4%	-10.1%	0.0%	-0.1%	6.3%	7.6%	4.8%	4.1%		
GPM	13.2%	13.2%	12.8%	12.6%	13.0%	12.1%	11.7%	11.6%		
SG&A expenses	4,160	8,693	13,869	18,273	4,133	8,504	13,260	18,074		
YoY	-2.3%	-0.9%	-0.4%	-1.5%	-0.6%	-2.2%	-4.4%	-1.1%		
SG&A ratio	12.7%	12.0%	10.4%	10.5%	11.8%	10.0%	8.6%	9.1%		
Operating profit	152	844	3,270	3,698	449	1,761	4,694	4,806	100.1%	4,800
YoY	-80.5%	-54.1%	1.8%	7.2%	195.4%	108.6%	43.5%	30.0%		29.8%
OPM	0.5%	1.2%	2.4%	2.1%	1.3%	2.1%	3.1%	2.4%		2.5%
Recurring profit	95	741	3,090	3,479	392	1,640	4,540	4,701	102.2%	4,600
YoY	-88.0%	-60.1%	-5.0%	-0.5%	312.6%	121.1%	46.9%	35.1%		14.9%
RPM	0.3%	1.0%	2.3%	2.0%	1.1%	1.9%	3.0%	2.4%		2.4%
Net income	-26	329	1,793	2,040	177	1,044	3,793	4,031	106.1%	3,800
YoY	-	-72.2%	-15.1%	-13.5%	-	217.0%	111.5%	97.6%		86.3%
Net margin	-	0.5%	1.3%	1.2%	0.5%	1.2%	2.5%	2.0%		2.0%

Quarterly (JPYmn)	FY03/17				FY03/18			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	32,757	39,691	61,454	40,157	35,150	49,677	68,855	43,925
YoY	-12.2%	-15.0%	-6.9%	7.8%	7.3%	25.2%	12.0%	9.4%
Gross profit	4,312	5,225	7,602	4,832	4,582	5,684	7,688	4,926
YoY	-14.4%	-6.2%	16.3%	-0.4%	6.3%	8.8%	1.1%	1.9%
GPM	13.2%	13.2%	12.4%	12.0%	13.0%	11.4%	11.2%	11.2%
SG&A expenses	4,160	4,533	5,176	4,404	4,133	4,371	4,756	4,814
YoY	-2.3%	0.4%	0.3%	-4.6%	-0.6%	-3.6%	-8.1%	9.3%
SG&A ratio	12.7%	11.4%	8.4%	11.0%	11.8%	8.8%	6.9%	11.0%
Operating profit	152	692	2,426	428	449	1,312	2,933	112
YoY	-80.5%	-34.6%	76.3%	80.6%	195.4%	89.6%	20.9%	-73.8%
OPM	0.5%	1.7%	3.9%	1.1%	1.3%	2.6%	4.3%	0.3%
Recurring profit	95	646	2,349	389	392	1,248	2,900	161
YoY	-88.0%	-39.2%	68.5%	58.1%	312.6%	93.2%	23.5%	-58.6%
RPM	0.3%	1.6%	3.8%	1.0%	1.1%	2.5%	4.2%	0.4%
Net income	-26	355	1,464	247	177	867	2,749	238
YoY	-	-50.3%	58.1%	-0.4%	-	144.2%	87.8%	-3.6%
Net margin	-	0.9%	2.4%	0.6%	0.5%	1.7%	4.0%	0.5%

Source: Shared Research based on company data

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

Note: Three-month quarterly figures are calculated as the cumulative figures minus the previous quarter's cumulative figures.

Note: Net income refers to net income attributable to parent company shareholders.

Seasonality: The Toys business typically accounts for 40% of annual sales and 60% 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.

Performance by segment

Segments (cumulative) (JPYmn)	FY03/17				FY03/18			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	32,757	72,448	133,902	174,059	35,150	84,827	153,682	197,607
YoY	-12.2%	-13.7%	-10.7%	-7.1%	7.3%	17.1%	14.8%	13.5%
Toys	14,300	31,585	59,433	73,725	13,450	31,206	58,145	71,403
YoY	-6.0%	-9.1%	-4.8%	-4.1%	-5.9%	-1.2%	-2.2%	-3.1%
Visual and Music	8,138	16,516	25,801	34,890	7,944	18,930	28,148	42,466
YoY	-5.4%	-4.8%	-10.0%	-9.1%	-2.4%	14.6%	9.1%	21.7%
Videogames	5,832	14,302	33,476	44,793	9,263	24,856	52,424	63,107
YoY	-27.3%	-29.2%	-20.5%	-10.4%	58.8%	73.8%	56.6%	40.9%
Amusement	4,487	10,045	15,190	20,649	4,492	9,833	14,963	20,630
YoY	-17.8%	-14.0%	-9.5%	-6.2%	0.1%	-2.1%	-1.5%	-0.1%
Segment profit	152	844	3,270	3,698	449	1,761	4,694	4,806
YoY	-80.5%	-54.1%	1.8%	7.2%	195.4%	108.6%	43.5%	30.0%
Toys	284	768	2,827	3,044	300	891	2,765	2,467
YoY	-46.6%	-38.9%	9.6%	6.9%	5.6%	16.0%	-2.2%	-19.0%
Visual and Music	-54	146	358	418	89	311	482	882
YoY	-	1.4%	14.7%	-10.3%	-	112.5%	34.6%	111.0%
Videogames	-129	-36	249	384	61	402	1,194	1,180
YoY	-	-	982.6%	-	-	-	379.5%	207.3%
Amusement	345	642	889	1,281	305	761	1,232	1,678
YoY	-39.8%	-44.4%	-32.1%	-22.5%	-11.6%	18.5%	38.6%	31.0%
Adjustments	-292	-675	-1,054	-1,430	-306	-604	-981	-1,402

Segments (quarterly) (JPYmn)	FY03/17				FY03/18			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	32,757	39,691	61,454	40,157	35,150	49,677	68,855	43,925
YoY	-12.2%	-15.0%	-6.9%	7.8%	7.3%	25.2%	12.0%	9.4%
Toys	14,300	17,285	27,848	14,292	13,450	17,756	26,939	13,258
YoY	-6.0%	-11.5%	0.5%	-0.9%	-5.9%	2.7%	-3.3%	-7.2%
Visual and Music	8,138	8,378	9,285	9,089	7,944	10,986	9,218	14,318
YoY	-5.4%	-4.3%	-17.9%	-6.4%	-2.4%	31.1%	-0.7%	57.5%
Videogames	5,832	8,470	19,174	11,317	9,263	15,593	27,568	10,683
YoY	-27.3%	-30.5%	-12.5%	43.4%	58.8%	84.1%	43.8%	-5.6%
Amusement	4,487	5,558	5,145	5,459	4,492	5,341	5,130	5,667
YoY	-17.8%	-10.7%	0.8%	4.4%	0.1%	-3.9%	-0.3%	3.8%
Segment profit	152	692	2,426	428	449	1,312	2,933	112
YoY	-80.5%	-34.6%	76.3%	80.6%	195.4%	89.6%	20.9%	-73.8%
Toys	284	484	2,059	217	300	591	1,874	-298
YoY	-46.6%	-33.1%	55.6%	-19.3%	5.6%	22.1%	-9.0%	-
Visual and Music	-54	200	212	60	89	222	171	400
YoY	-	65.3%	26.2%	-61.0%	-	11.0%	-19.3%	566.7%
Videogames	-129	93	285	135	61	341	792	-14
YoY	-	-	290.4%	-	-	266.7%	177.9%	-
Amusement	345	297	247	392	305	456	471	446
YoY	-39.8%	-48.9%	59.4%	14.3%	-11.6%	53.5%	90.7%	13.8%
Adjustments	-292	-383	-379	-376	-306	-298	-377	-421

Source: Shared Research based on company data

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

Note: Three-month quarterly figures are calculated as the cumulative figures minus the previous quarter's cumulative figures.

Note: Figures larger than 1,000% are represented as a dash (-)

Toys segment

(JPYmn)	FY03/17				FY03/18			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	14,300	31,585	59,433	73,725	13,450	31,206	58,145	71,403
YoY	-6.0%	-9.1%	-4.8%	-4.1%	-5.9%	-1.2%	-2.2%	-3.2%
Bandai	6,400	15,400	29,700	37,600	6,000	15,100	29,100	36,500
YoY	-	-18.9%	-12.8%	-10.4%	-6.1%	-2.1%	-2.3%	-3.0%
% of total	45.2%	48.9%	50.1%	51.0%	45.1%	48.5%	50.1%	51.1%
TAKARA TOMY	1,400	3,000	5,700	7,000	1,500	3,200	5,800	7,300
YoY	-	61.2%	43.7%	41.6%	7.8%	7.5%	2.7%	4.0%
% of total	9.9%	9.7%	9.7%	9.6%	11.4%	10.5%	10.1%	10.3%
Happinet original	400	800	1,400	1,700	200	700	1,300	1,600
YoY	-	59.0%	-6.8%	10.6%	-45.2%	-11.1%	-9.1%	-6.8%
% of total	3.2%	2.8%	2.5%	2.4%	1.9%	2.5%	2.3%	2.3%
Other	5,900	12,200	22,400	27,200	5,500	12,000	21,700	25,900
YoY	-	-7.8%	-1.2%	-3.6%	-6.1%	-1.5%	-2.8%	-5.0%
% of total	41.7%	38.6%	37.7%	37.0%	41.6%	38.5%	37.5%	36.3%
Segment profit	284	768	2,827	3,044	300	891	2,765	2,467
YoY	-46.6%	-38.9%	9.6%	6.9%	5.6%	16.0%	-2.2%	-19.0%
Segment profit margin	2.0%	2.4%	4.8%	4.1%	2.2%	2.9%	4.8%	3.5%

Source: Shared Research based on company data

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

Visual and Music segment

(JPYmn)	FY03/17				FY03/18			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	8,138	16,516	25,801	34,890	7,944	18,930	28,148	42,466
YoY	-5.4%	-4.8%	-10.0%	-9.1%	-2.4%	14.6%	9.1%	21.7%
Visual	6,200	12,600	19,700	26,700	6,500	15,200	22,600	32,500
YoY	-	-2.6%	-10.4%	-10.2%	4.5%	20.6%	14.4%	21.7%
% of total	77.0%	76.6%	76.6%	76.6%	82.4%	80.6%	80.4%	76.6%
Wholesale	5,200	10,700	16,300	22,200	5,300	12,900	19,300	28,000
YoY	-	-3.9%	-10.6%	-5.8%	1.9%	20.5%	18.3%	26.1%
% of total	63.9%	65.0%	63.4%	63.8%	66.7%	68.3%	68.7%	66.1%
Manufacturers	1,000	1,900	3,400	4,400	1,200	2,300	3,200	4,400
YoY	-	5.4%	-9.7%	-9.5%	17.2%	21.1%	-4.0%	-0.1%
% of total	13.1%	11.6%	13.3%	12.8%	15.7%	12.3%	11.7%	10.5%
Music	1,800	3,800	6,000	8,100	1,300	3,600	5,500	9,900
YoY	-	-11.5%	-8.5%	-7.7%	-25.4%	-5.0%	-8.4%	21.8%
% of total	23.0%	23.4%	23.4%	23.4%	17.6%	19.4%	19.6%	23.4%
Segment profit	-54	146	358	418	89	311	482	882
YoY	-	1.4%	14.7%	-10.3%	-	112.5%	34.6%	111.0%
Segment profit margin	-	0.9%	1.4%	1.2%	1.1%	1.6%	1.7%	2.1%

Source: Shared Research based on company data
Note: Figures may differ from company materials due to differences in rounding methods.

Videogames segment

(JPYmn)	FY03/17				FY03/18			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	5,832	14,302	33,476	44,793	9,263	24,856	52,424	63,107
YoY	-27.3%	-29.2%	-20.5%	-10.4%	58.8%	73.8%	56.6%	40.9%
Nintendo products	4,300	10,100	24,800	33,800	7,600	21,200	46,100	53,900
YoY	-	-35.2%	-29.8%	-16.5%	76.7%	108.9%	85.7%	59.4%
% of total	73.9%	71.2%	74.3%	75.6%	82.2%	85.5%	88.1%	85.6%
SIE products	1,200	3,700	7,900	9,900	1,500	3,300	5,700	8,300
YoY	-	11.8%	43.0%	24.8%	19.8%	-10.2%	-27.5%	-15.3%
% of total	22.2%	26.0%	23.8%	22.1%	16.8%	13.4%	11.0%	13.3%
Others	200	400	600	1,000	0	200	400	700
YoY	-	-65.9%	-43.3%	-33.6%	-56.9%	-35.5%	-25.8%	-28.9%
% of total	3.9%	2.8%	1.9%	2.3%	1.0%	1.1%	0.9%	1.1%
Segment profit	-129	-36	249	384	61	402	1,194	1,180
YoY	-	-	982.6%	-	-	-	379.5%	207.3%
Segment profit margin	-	-	0.7%	0.9%	0.7%	1.6%	2.3%	1.9%

Source: Shared Research based on company data
Note: Figures may differ from company materials due to differences in rounding methods.
Note: SIE is Sony Interactive Entertainment Inc.

Amusement segment

(JPYmn)	FY03/17				FY03/18			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	4,487	10,045	15,190	20,649	4,492	9,833	14,963	20,630
YoY	-17.8%	-14.0%	-9.5%	-6.2%	0.1%	-2.1%	-1.5%	-0.1%
Capsule toys	2,200	4,800	7,000	9,400	2,400	5,300	8,000	10,900
YoY	-	-11.8%	-5.8%	-8.6%	7.6%	10.1%	14.2%	15.2%
% of total	49.5%	48.4%	46.2%	45.8%	53.5%	54.4%	53.5%	52.9%
Card games	1,800	4,200	6,600	9,100	1,600	3,700	5,700	8,000
YoY	-	-12.5%	-7.5%	-1.7%	-10.8%	-11.6%	-13.1%	-11.7%
% of total	40.1%	42.3%	43.5%	44.4%	37.2%	38.2%	38.4%	39.2%
Other	400	900	1,500	2,000	400	700	1,200	1,600
YoY	-	-29.1%	-28.7%	-13.9%	3.4%	-22.1%	-22.8%	-19.1%
% of total	10.4%	7.4%	10.3%	9.8%	9.3%	7.4%	8.1%	7.9%
Segment profit	345	642	889	1,281	305	761	1,232	1,678
YoY	-39.8%	-44.4%	-32.1%	-22.5%	-11.6%	18.5%	38.6%	31.0%
Segment profit margin	7.7%	6.4%	5.9%	6.2%	6.8%	7.7%	8.2%	8.1%

Source: Shared Research based on company data
Note: Figures may differ from company materials due to differences in rounding methods.

Full-year FY03/18 results

- ▷ Sales: JPY197.6bn (+13.5% YoY)
- ▷ Operating profit: JPY4.8bn (+30.0%)
- ▷ Recurring profit: JPY4.7bn (+35.1%)
- ▷ Net income*: JPY4.0bn (+97.6%)

*Net income refers to net income attributable to parent company shareholders.

Sales and operating profit increased as sales were robust for the Nintendo Switch and related software in the Videogames segment, and select products were hits in the Visual and Music segment. In light of the announcement of verdict regarding the lawsuit between Happinet and Software Research Associates, Inc. (SRA), the company booked an extraordinary gain of JPY1.2bn in compensation for damage.

In terms of the market environment surrounding the company, the videogame industry saw steady growth driven by hit products, but conditions remained harsh in the toy industry that face diversifying consumer needs, and the visual and music industry hurt by the spread of various viewing and listening options such as streaming services.

Toys

In the Toys segment, sales fell 3.1% YoY to JPY71.4bn while segment profit slipped 19.0% to JPY2.5bn.

Both segment sales and earnings came in below year-ago levels as strong videogames market siphoned off demand for toys during the year-end shopping season. There were a few success stories, though, including Bandai products related to TV series *Kamen Rider Build* and anime *Hugtto! PreCure*.

Broken down by manufacturer, sales of Bandai products totaled JPY36.5bn (-3.0% YoY) for a share of 51.1% of the total (versus 51.0% in FY03/17). Sales of Takara Tomy products were JPY7.3bn (+4.0% YoY) for a share of 10.3% (+9.6%) and sales of its own products were JPY1.6bn (-6.8%) for a share of 2.3% (2.4%).

Sales of the toy and hobby segment (see below) of Bandai Namco Holdings Inc. came to JPY222.4bn (+2.0% YoY on post-segment changes sales) in FY03/18. According to Bandai Namco materials, merchandise sales were brisk for mainstay IP such as the Kamen Rider, PreCure, and Dragon Ball series. Bandai Namco booked higher sales, although the company sales of Bandai products fell YoY due to the impact of the product mix.

Note: In FY03/18, Bandai Namco Holdings moved its business related to prizes won at convenience store drawings and prizes at amusement centers from the Network Entertainment segment to the Toys and Hobby segment.

Sales of the Japan segment of Tomy came to JPY145.9bn (+10.7% YoY) in FY03/18. Sales of Licca-chan products, which marked its 50th anniversary, grew and mainstay IP such as the TV animation series, Tomica Hyper Rescue Drive Head, continued to be strong.

In addition to a decrease in sales, JPY1.3bn in losses resulting from the clearing out inventory (JPY700mn in losses from clearing out inventory in FY03/17) led to lower profit.

Visual and Music

In the Visual and Music segment, sales rose 21.7% YoY to JPY42.5bn and segment profit was JPY882mn (+111.0%).

Sales rose YoY on acquisition of certain rights and obligations concerning the music and video wholesale business of Seikodo Co., Ltd., and due to strong performance of the packaged versions of *Kiseki: Ano Hi no Sobito*, an internally managed movie, and the film *Kimi no Na wa*. In the Visual subsegment, sales of the wholesale business were JPY28.0bn (+26.1% YoY) and sales of the

manufacturing business were JPY4.4bn (-0.1%), while sales of the Music subsegment came to JPY9.9bn (+21.8%). In March 2018, company subsidiary Seikodo Marketing took over the wholesale business of Seikodo Co., Ltd., booking sales of JPY3.7bn in the wholesale business of the Visual subsegment and JPY1.9bn in the Music subsegment.

In addition to temporary commission income from taking over businesses from Seikodo, segment profit benefited from higher sales, a reactionary gain after booking an investment loss on a movie the company produced in Q1 FY03/17, and the earnings contribution of exhibition revenue and sales of the packaged version released in July 2017 of *Kiseki: Ano Hi no Sobito* (released in January 2017 at theaters).

Videogames

In the Videogames segment, sales rose 40.9% YoY to JPY63.1bn, with segment profit of JPY1.2bn (+207.3%).

The sharp jump in sales and earnings was driven by sales of the Nintendo Switch game console (launched in March 2017) and related software such as *Splatoon 2*, and *Super Mario Odyssey*, and PlayStation4 software *Monster Hunter: World*.

By manufacturer, sales of Nintendo products were JPY53.9bn (+59.4% YoY) and sales of Sony Interactive Entertainment products were JPY8.3bn (-15.3%).

Amusement

In the Amusement segment, sales declined 0.1% YoY to JPY20.6bn, while segment profit increased 31.0% to JPY1.7bn.

Robust performance of capsule toys, aided by strong sales of *Kamen Rider*-related goods and favorable locations for vending machines (such as highway rest stops, stations, and large-scale shopping malls), offset the sluggishness in card game machines. As a result, sales were on par year on year. Sales of capsule toys totaled JPY10.9bn (+15.2% YoY) and sales of card games were JPY8.0bn (-11.7%).

In addition to efforts to secure favorable locations for capsule toys as described above, the company pulled out of unprofitable locations. As a result, sales for capsule toys rose and outsourcing costs for replenishing capsule toys fell as the company narrowed down its locations, leading to profit increase.

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

Full-year company forecasts

(JPYmn)	FY03/18			FY03/19		
	1H Act.	2H Act.	FY Act.	1H Est.	2H Est.	FY Est.
Sales	84,827	112,780	197,607	100,000	130,000	230,000
Cost of sales	74,561	100,166	174,727			
Gross profit	10,266	12,614	22,880			
GPM	12.1%	11.2%	11.6%			
SG&A expenses	8,504	9,570	18,074			
SG&A ratio	10.0%	8.5%	9.1%			
Operating profit	1,761	3,045	4,806	1,600	3,400	5,000
OPM	2.1%	2.7%	2.4%	1.6%	2.6%	2.2%
Recurring profit	1,640	3,061	4,701	1,500	3,300	4,800
RPM	1.9%	2.7%	2.4%	1.5%	2.5%	2.1%
Net income	1,044	2,987	4,031	1,000	2,200	3,200
Net margin	1.2%	2.6%	2.0%	1.0%	1.7%	1.4%

Source: Shared Research based on company data

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

Note: 2H results are the product of subtracting 1H results from full-year results.

Note: Net income refers to net income attributable to parent company shareholders.

Forecasts by segment

(JPYmn)	FY03/18			FY03/19
	1H Act.	2H Act.	FY Act.	FY Est.
Sales	84,827	112,780	197,607	230,000
YoY	17.1%	11.0%	13.5%	16.4%
Toys	31,206	40,197	71,403	72,000
YoY	-1.2%	-4.6%	-3.1%	0.8%
Visual and Music	18,930	23,536	42,466	78,000
YoY	14.6%	28.1%	21.7%	83.7%
Videogames	24,856	38,251	63,107	60,000
YoY	73.8%	25.5%	40.9%	-4.9%
Amusement	9,833	10,797	20,630	20,000
YoY	-2.1%	1.8%	-0.1%	-3.1%
Segment profit	1,761	3,045	4,806	5,000
YoY	108.6%	6.7%	30.0%	4.0%
Toys	891	1,576	2,467	2,850
YoY	16.0%	-30.8%	-19.0%	15.5%
OPM	2.9%	3.9%	3.5%	4.0%
Visual and Music	311	571	882	700
YoY	113.0%	109.9%	110.9%	-20.6%
OPM	1.6%	2.4%	2.1%	0.9%
Videogames	402	778	1,180	1,200
YoY	-	85.2%	207.0%	1.6%
OPM	1.6%	2.0%	1.9%	2.0%
Amusement	761	917	1,678	1,650
YoY	18.5%	43.5%	31.0%	-1.7%
OPM	7.7%	8.5%	8.1%	8.3%
Adjustments	-604	-798	-1,402	-1,400

Source: Shared Research based on company data

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

Note: 2H results are the product of subtracting 1H results from full-year results.

FY03/19 is the first year of the company's eighth medium term business plan. In addition to targeting a growth in market share for its distribution business, the company aims to improve profitability and productivity by reviewing its operations. In the manufacturing business, in addition to promoting the development of original products and works, the company intends to enter new entertainment realms, including forming alliances with other companies. While sustaining its focus on entertainment, the company will strive to research and develop new businesses.

Full-year FY03/19 forecasts

- ▷ Sales: JPY230.0bn (+16.4% YoY)
- ▷ Operating profit: JPY5.0bn (+4.0%)
- ▷ Recurring profit: JPY4.8bn (+2.1%)

▷ Net income*: JPY3.2bn (-20.6%)

*Net income refers to net income attributable to parent company shareholders.

In March 2018, Happinet took over the wholesale business for music and visual products from Seikodo Co., Ltd. following a company split (company name after split: Seikodo Marketing). The company expects this business succession to contribute approximately JPY40.0bn in sales to FY03/19 results (JPY5.6bn in FY03/18). However, Shared Research estimates that the contribution to profit will be minimal due to amortization of goodwill. According to the company, it will cut costs by integrating logistics and systems of Seikodo Marketing and the company in the medium term, which will contribute to profits.

Toys

The company forecasts sales of JPY72.0bn (+0.8% YoY) and operating profit of JPY2.9bn (+15.5%). As a harsh business environment continues, the company expects profit growth by lowering losses from clearing out inventories as it enhances its inventory management.

In the segment, Bandai products comprise approximately half of sales (Bandai products comprised 51.1% of sales in FY03/18). Bandai Namco Holdings Inc. (TSE1: 7832) forecasts a 3.4% YoY rise in sales for its toys and hobby segment in FY03/19. In the domestic toys and hobby segment, it forecasts JPY22.5bn (-9.3% YoY) in sales for products related to the Kamen Rider series and YoY sales growth for products related to the Super Sentai series.

Visual and Music

Happinet forecasts sales of JPY78.0bn (+83.7% YoY) and operating profit of JPY700mn (-20.6%). Sales are forecasted to increase due to the full year contribution of the wholesale business (Seikodo Marketing) taken over from Seikodo Co., Ltd. in FY03/18.

After Seikodo Co., Ltd. executed a company split, the company took over its wholesale business for music and visual products in FY03/18 (company name after company split: Seikodo Marketing). The company forecasts this business will contribute around JPY40.0bn (JPY5.6bn in FY03/18) to FY03/19 sales. However, Shared Research estimates its contribution to profits will be minimal due to amortization of goodwill.

In the manufacturing business, as in the previous year, the company intends to produce internally managed works and invest in animated works and Japanese films. As in FY03/18, the company plans to generate profits by solidifying its business model, which would lead to sales of its packaged versions and rights of its internally managed works and works which it has invested in.

Videogame

The company forecasts sales of JPY60.0bn (-4.9% YoY) and operating profit of JPY1.2bn (+1.6%).

While sales of Nintendo Switch console, which was launched in March 2017, are expected to wind down, the company expects sales to remain roughly even YoY due to sales of new game titles. The company will continue to propose and execute optimized support strategies for each sales channel in order to maximize the sale of the Nintendo Switch. It will also optimize logistics and services by cooperating with Nintendo Sales Inc. For exclusive Nintendo Switch games, *Super Smash Bros. Ultimate* (tentative title) is planned to be launched in 2018 and *Donkey Kong Country: Tropical Freeze* was launched in May 2018.

The company expects the sale of new titles to contribute to profits because game software is more profitable than console sales. It aims to improve profitability by expanding sales of its exclusively distributed products and gaming peripheral products.

Amusement

The company forecasts sales of JPY20.0bn (-3.1% YoY) and operating profit of JPY1.7bn (-1.7%).

As in FY03/18, the company aims to secure favorable locations for capsule toy machines, expand its user base by promoting product planning and development, and improve efficiency by innovating operations with the use of IT.

Medium-term outlook

Medium-term plan

In May 2018 Happinet unveiled its eighth medium-term business plan for FY03/19 to FY03/21. In its eighth medium-term business plan, the company aims to reach JPY230.0bn in sales (+16.4% compared with FY03/18), JPY5.8bn operating profit (+20.7%), JPY5.6bn recurring profit (+19.1%), and a record high in recurring profit in FY03/21. The company will in principle continue the policies of the seventh medium-term business plan and aim for improved profits through the wholesale business for music and visual products it took over from Seikodo in FY03/18 and cost reduction as it integrates logistics and systems.

Eighth medium-term business plan targets

8th medium-term plan (JPYmn)	FY03/18 Act.	FY03/19 Est.	FY03/21 Target
Sales	197,607	230,000	230,000
Vs. FY03/18	-	16.4%	16.4%
Operating profit	4,806	5,000	5,800
Vs. FY03/18	-	4.0%	20.7%
OPM	2.4%	2.2%	2.5%
Recurring profit	4,701	4,800	5,600
Vs. FY03/18	-	2.1%	19.1%
RPM	2.4%	2.1%	2.4%

Source: Shared Research based on company data

Initiatives for eighth medium-term business plan

Toys segment

According to the company, the market environment during the eighth medium-term business plan will continue to be harsh as the number of toy stores decreases due to the rise in e-commerce and the shrinking child population. In this environment, the company will strengthen its relationships with manufacturers, including Bandai Namco, as an intermediary distributor. The company plans to compile know-how regarding product lineups and sales displays unique to the company and aims to achieve an overwhelmingly favorable position as an intermediary distributor of toys in the long term. As a manufacturer, the company plans to enhance its lineup of original products.

Visual and Music segment

The company aims to expand its distribution market share by strengthening its manufacturing business and integrating systems and logistics with the business it took over from Seikodo.

Business succession from Seikodo Co., Ltd.

In FY03/19, the company forecasts sales of JPY40.0bn (JPY5.6bn in FY03/18) for Seikodo Marketing, a company subsidiary which it assumed from Seikodo Co., Ltd. as a business succession. According to Shared Research estimates, there are approximately no profits after amortization of goodwill. From FY03/20, the company aims for this subsidiary to contribute to profits by cutting costs and integrating logistics and systems. Goodwill from this business succession was JPY658mn at end-FY03/18 with an amortization period of five years.

According to the company, the following were the market shares of intermediary distributors for domestic visual and music products: Seikodo 17%, Happinet 11%, others 13% (including 10% market share of companies which only distribute for parent companies) while 59% of distribution was a direct transaction with manufacturers. By taking over the business of Seikodo, the company share would rise to 28%. Excluding the 59% share of direct transactions with manufacturers and the 10% share of companies which only distribute for parent companies, the company in essence holds exclusive control over the market.

Recent business figures and financial condition of Seikodo

Fiscal year	FY06/15	FY06/16	FY06/17
Sales	JPY58.5bn	JPY55.1bn	JPY53.3bn
Operating profit	(JPY103mn)	(JPY55mn)	(JPY123mn)
Recurring profit	(JPY219mn)	(JPY190mn)	(JPY257mn)
Net income	(JPY252mn)	(JPY216mn)	(JPY1.5bn)

Source: Shared Research based on company data

Strengthen manufacturing business

In the manufacturing business, the company plans to continue to create internally managed works and invest in projects, primarily animated works and Japanese films. By strengthening its initiatives with manufacturers, the company aims to increase its share of direct transactions with manufacturers.

In the eighth medium-term business plan, the company plans to strengthen its productions by focusing on Japanese films, which have seen a higher percentage of hits thanks to compiled know-how, and animated works, which are capable of expanding into multiple product areas, including toys and games.

Videogame segment

The company will propose and execute optimized support strategies for each sales channel in order to maximize the sale of the Nintendo Switch. It will also optimize distribution and services by cooperating with Nintendo Sales Inc. The company aims to improve profitability by expanding sales of its gaming peripheral products and exclusively distributed products, which are more profitable.

The company also launched Asakusa Studio, an original brand in a new category for internally developed products. In FY03/18 this brand developed products for the PC game sales platform Steam. In the future, the company intends to develop two to three works a year, including works on other platforms.

Steam is a digital rights management (DRM) and game download sales platform for PC games operated by US-based Valve Corporation. Its monthly active users exceed 6.7mn (5.3mn users for Xbox Live, over 7.0mn users for PlayStation).

Amusement segment

In this segment, the company aims to strengthen and expand its business foundation by evolving its operational style and generating demand through an expansion of its user bases as it plans and develops products and taps into new locations.

In order to generate demand, the company aims to expand its machine locations to new industries and formats, in addition to making the locations at public transportation hubs (service areas, airports, etc.) it established during the seventh medium-term business plan permanent. The company will continue to focus on installing machines in concert and event halls, in addition to developing products which can reach the housewife and female office worker demographics.

In order to evolve its operational style, the company will continue initiatives to improve efficiency by introducing IT to gain an understanding of timings for replacing products, which had conventionally been done physically through human efforts.

Business

Description

Happinet is a 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 (36.1% of FY03/18 sales), Visual and Music (21.5%), Videogames (31.9%), and Amusement (10.5%).

The group is a major distributor for toys, DVDs, CDs, and holds about 60% market share for capsule toy machine operation and sales, according to the company.

Segment sales and profit

(JPYmn)	FY03/10 Act.	FY03/11 Act.	FY03/12 Act.	FY03/13 Act.	FY03/14 Act.	FY03/15 Act.	FY03/16 Act.	FY03/17 Act.	FY03/18 Act.
Sales	194,246	190,891	198,021	176,757	206,867	217,232	187,274	174,059	197,607
YoY	16.5%	-1.7%	3.7%	-10.7%	17.0%	5.0%	-13.8%	-7.1%	13.5%
Toys	65,654	69,104	77,313	74,660	76,821	93,270	76,874	73,725	71,403
YoY	6.2%	5.3%	11.9%	-3.4%	2.9%	21.4%	-17.6%	-4.1%	-3.2%
% of sales	33.8%	36.2%	39.0%	42.2%	37.1%	42.9%	41.0%	42.4%	36.1%
Visual and Music	67,838	57,759	55,719	44,810	42,955	43,372	38,367	34,890	42,466
YoY	85.5%	-14.9%	-3.5%	-19.6%	-4.1%	1.0%	-11.5%	-9.1%	21.7%
% of sales	34.9%	30.3%	28.1%	25.4%	20.8%	20.0%	20.5%	20.0%	21.5%
Videogames	44,372	46,447	42,704	36,839	63,609	56,448	50,009	44,793	63,107
YoY	-12.1%	4.7%	-8.1%	-13.7%	72.7%	-11.3%	-11.4%	-10.4%	40.9%
% of sales	22.8%	24.3%	21.6%	20.8%	30.7%	26.0%	26.7%	25.7%	31.9%
Amusement	16,381	17,579	22,282	20,447	23,481	24,140	22,023	20,649	20,630
YoY	-8.6%	7.3%	26.8%	-8.2%	14.8%	2.8%	-8.8%	-6.2%	-0.1%
% of sales	8.4%	9.2%	11.3%	11.6%	11.4%	11.1%	11.8%	11.9%	10.5%
Segment profit	2,327	2,855	4,855	2,973	3,888	5,056	3,450	3,698	4,806
YoY	8.9%	22.7%	70.0%	-38.8%	30.8%	30.0%	-31.8%	7.2%	30.0%
Toys	1,865	2,321	3,009	2,055	2,710	4,279	2,848	3,044	2,467
YoY	87.2%	24.4%	29.6%	-31.7%	31.8%	57.9%	-33.4%	6.9%	-19.0%
% of segment profit	50.4%	55.8%	48.6%	47.7%	52.6%	65.5%	57.9%	59.4%	39.7%
Visual and Music	253	-656	448	309	307	202	466	418	882
YoY	-81.0%	-	-	-31.0%	-0.7%	-34.3%	130.7%	-10.3%	110.9%
% of segment profit	6.8%	-15.8%	7.2%	7.2%	6.0%	3.1%	9.5%	8.2%	14.2%
Videogames	1,035	1,156	936	678	79	254	-43	384	1,180
YoY	-15.2%	11.7%	-19.0%	-27.6%	-88.2%	217.9%	-	-	207.0%
% of segment profit	28.0%	27.8%	15.1%	15.7%	1.5%	3.9%	-0.9%	7.5%	19.0%
Amusement	544	1,340	1,801	1,265	2,053	1,796	1,652	1,281	1,678
YoY	-	146.3%	34.4%	-29.8%	62.4%	-12.5%	-8.0%	-22.5%	31.0%
% of segment profit	14.7%	32.2%	29.1%	29.4%	39.9%	27.5%	33.6%	25.0%	27.0%
Adjustments	-1,371	-1,307	-1,341	-1,335	-1,263	-1,475	-1,473	-1,430	-1,402

Source: Shared Research based on company data

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

Note: % of segment profit comparisons are made using operating profit before adjustments.

Toys (36.1% of FY03/18 consolidated sales; 39.7% of operating profit [before adjustments])

In this segment, Happinet generates earnings buying products (toys) from toy makers and selling them to retailers.

It 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. Major toy manufacturers are shown in the following table. Happinet handles about 90% of Bandai's toy distribution in Japan, Japan's largest toy manufacturer.

Toys: main manufacturers

(JPYmn)	FY03/10 Act.	FY03/11 Act.	FY03/12 Act.	FY03/13 Act.	FY03/14 Act.	FY03/15 Act.	FY03/16 Act.	FY03/17 Act.	FY03/18 Act.
Sales	65,654	69,104	77,313	74,660	76,821	93,270	76,874	73,725	71,403
YoY	6.2%	5.3%	11.9%	-3.4%	2.9%	21.4%	-17.6%	-4.1%	-3.2%
Bandai	32,700	37,400	42,300	38,800	40,700	55,400	41,900	37,600	36,500
YoY	13.1%	14.4%	13.1%	-8.3%	5.0%	35.8%	-24.2%	-10.4%	-3.0%
% of sales	49.8%	54.1%	54.7%	52.0%	53.1%	59.4%	54.6%	51.0%	51.1%
TAKARA TOMY	5,000	7,000	6,300	5,300	4,200	4,100	4,900	7,000	7,300
YoY	4.2%	40.0%	-10.0%	-15.9%	-21.6%	-1.6%	20.4%	41.6%	4.0%
% of sales	7.6%	10.1%	8.1%	7.1%	5.5%	4.5%	6.5%	9.6%	10.3%
Happinet original	1,400	1,400	2,200	2,500	2,000	1,900	1,500	1,700	1,600
YoY	16.7%	0.0%	57.1%	13.6%	-17.7%	-8.1%	-16.3%	10.6%	-6.8%
% of sales	2.1%	2.0%	2.8%	3.3%	2.7%	2.0%	2.1%	2.4%	2.3%
Other	18,400	23,100	26,400	27,900	29,700	31,800	28,200	27,200	25,900
YoY	-5.6%	25.5%	14.3%	5.7%	6.5%	6.9%	-11.1%	-3.6%	-5.0%
% of sales	28.0%	33.5%	34.1%	37.4%	38.7%	34.1%	36.8%	37.0%	36.3%

Source: Shared Research based on company data
 Note: Figures may differ from company materials due to differences in rounding methods.
 Note: 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. These toys are different in nature from automobiles or consumer electronics, which usually remain in production for an extended period of time. Toymakers must adjust their production based on demand forecasts and produce items within a limited time frame. 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, forecast demand, 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.

For toys, annual inventory disposal is 1–2% of annual sales. Annual inventory write-off amounts are trending lower, however. This positive trend is due to the company's heightened efforts to maintain inventory levels to match product sales. The company is also working more closely with retailers, providing product-specific sales data to help forecast trends. In addition to controlling store inventories, this information helps to drive sales promotions, and keeping a lid on inventory disposal levels is indispensable in improving the company's profit ratio.

The company carries out monthly disposal of inventory, but differences in the accuracy of predictions give corresponding variations in losses on disposal of inventory, and fluctuations of 1% in GPM.

Toy earnings

(JPYmn)	FY03/10 Act.	FY03/11 Act.	FY03/12 Act.	FY03/13 Act.	FY03/14 Act.	FY03/15 Act.	FY03/16 Act.	FY03/17 Act.	FY03/18 Act.
Sales	65,654	69,104	77,313	74,660	76,821	93,270	76,874	73,725	71,403
YoY	6.2%	5.3%	11.9%	-3.4%	2.9%	21.4%	-17.6%	-4.1%	-3.2%
Segment profit	1,865	2,321	3,009	2,055	2,710	4,279	2,848	3,044	2,467
YoY	87.2%	24.5%	29.6%	-31.7%	31.9%	57.9%	-33.4%	6.9%	-19.0%
Segment profit margin	2.8%	3.4%	3.9%	2.8%	3.5%	4.6%	3.7%	4.1%	3.5%
Disposal	1,100	1,100	1,300	1,300	1,000	1,600	1,800	700	1,300
Disposal / Sales	1.7%	1.6%	1.7%	1.7%	1.3%	1.7%	2.3%	0.9%	1.8%
Inventory	2,100	2,200	2,300	2,400	2,400	2,300	2,200	2,700	2,900
Inventory turnover	22.7	31.3	33.6	30.7	31.0	38.7	33.6	29.6	25.1

Source: Shared Research based on company data

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

According to Happinet, it is a major intermediary distributor of toys, holding a 30% market share. 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. Distributors began to need advanced information and logistics systems in order to keep up with the growing size of retailers, and Happinet rose to meet the needs of the changing business environment. Additionally, Shared Research notes that growth in toy sales by Bandai Co., Ltd., a subsidiary of Bandai Namco Holdings (TSE1: 7832) that holds 27.1% of Happinet stock has led Happinet to become the largest company in the industry.

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 animations. 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. The 42th series, *Kaitou Sentai Lupinranger VS Keisatsu Sentai Patranger*, aired in 2018.

In the 30-minute *Super Sentai* program, a team of three to nine 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. New characters and items are added during the year based on interest in the TV program, and Bandai merchandises all the transforming items, weapons, and robots. All super hero toys are ready for Christmas when sales peak.

Bandai Sales by Character (Domestic Toy and Hobby)

(JPYbn)	FY03/10 Act.	FY03/11 Act.	FY03/12 Act.	FY03/13 Act.	FY03/14 Act.	FY03/15 Act.	FY03/16 Act.	FY03/17 Act.	FY03/18 Act.
Youkai Watch	-	-	-	-	14	552	308	93	-
Mobile Suit Gundam	144	134	156	165	184	229	258	264	262
Kamen Rider	175	230	283	271	223	206	157	204	248
Super Sentai	105	92	130	96	144	113	78	88	91
Anpanman	84	86	96	100	103	81	94	106	109
Precure series	119	125	107	106	98	65	66	75	81
Dragon Ball	33	27	44	48	64	58	116	103	142
Aikatsu!	-	-	-	15	130	86	26	26	23
Ultraman	31	28	18	20	32	26	27	31	43

Source: Shared Research based on company data

Visual and Music (21.5% FY03/18 consolidated sales; 14.2% of operating profit [before adjustments])

This segment comprises the visual wholesale section (66.1% of segment sales in FY03/18), the visual manufacturing section (10.5%), and the music section (23.4%). In FY03/18, the company assumed the music and visual product wholesale business of Seikodo Co., Ltd. following a company split (company name post-company split: Seikodo Marketing). According to the company, the following were the market shares of intermediary distributors for domestic visual and music products: Seikodo 17%, Happinet 11%, others 13% (including 10% market share of companies which only distribute for parent companies) while 59% of distribution was a direct transaction with manufacturers. By taking over the business of Seikodo, the company share would rise to 28%. Excluding the 59% share of direct transactions with manufacturers and the 10% share of companies which only distribute for parent companies, the company in essence holds exclusive control over the market.

Visual and Music earnings

(JPYmn)	FY03/10	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18
	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.
Sales	67,838	57,759	55,719	44,810	42,955	43,372	38,367	34,890	42,466
YoY	85.5%	-14.9%	-3.5%	-19.6%	-4.1%	1.0%	-11.5%	-9.1%	21.7%
Visual	42,500	40,300	39,600	31,500	31,600	33,000	29,500	26,700	32,500
YoY	16.4%	-5.2%	-1.7%	-20.3%	0.1%	4.4%	-10.4%	-9.5%	21.7%
% of sales	62.6%	69.8%	71.1%	70.5%	73.6%	76.1%	77.1%	76.6%	76.6%
Wholesale	36,800	34,400	33,600	25,900	25,200	26,000	24,800	22,200	28,000
YoY	26.5%	-6.5%	-2.3%	-22.8%	-2.7%	3.3%	-4.9%	-10.2%	26.1%
% of sales	54.2%	59.6%	60.3%	58.0%	58.8%	60.2%	64.7%	63.8%	66.1%
Manufacturers	5,700	5,800	5,900	5,600	6,300	6,900	4,700	4,400	4,400
YoY	-23.0%	1.8%	1.7%	-5.1%	13.3%	8.7%	-31.2%	-5.8%	-0.1%
% of sales	8.4%	10.0%	10.6%	12.5%	14.8%	15.9%	12.4%	12.8%	10.5%
Music	25,200	17,400	16,100	13,200	11,300	10,300	8,700	8,100	9,900
YoY	-	-31.0%	-7.5%	-18.0%	-14.3%	-8.5%	-15.3%	-7.7%	21.8%
% of sales	37.1%	30.1%	28.9%	29.5%	26.4%	23.9%	22.9%	23.4%	23.4%
Segment profit	253	-656	448	309	307	202	466	418	882
YoY	-81.0%	-359.3%	-168.3%	-31.0%	-0.6%	-34.2%	130.7%	-10.3%	111.0%
Segment profit margin	0.4%	-1.1%	0.8%	0.7%	0.7%	0.5%	1.2%	1.2%	2.1%

Source: Shared Research based on company data

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

Visual wholesale section

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

The company buys products from all major content makers. 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 rights concerning existing videograms and then makes and sells the 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 (e.g., 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/distributing movie content to consumers). DVD 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—i.e., 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. In addition to profits related to box office revenue by stake,

based on the conditions for investing in a production partnership, the company obtains videogram rights to the movie, and will therefore sell that videogram as DVD content to obtain sales and profits corresponding to sales volumes.

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 gains earnings from buying CDs from music content makers and selling them to retailers. As in its visual wholesale section, the company does not shoulder much inventory risk. Therefore, GPM is lower than in the toy wholesaling business.

The company buys goods from big music software manufacturers 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 manufacturers are able to force retailers to observe a certain retail price for music software. As product discounting does not occur, 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 accepting these returns.

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.

In this segment, the company established Happinet Live Entertainment LLC (Now Happinet Live Emotion LLC) in February 2016 jointly with Yokocho Planning Co. Ltd., which specializes in live event planning and operations. The company began event and live performance operations and sales of related merchandise in the idol music market. As a result, many manufacturers that had previously conducted such events themselves are now approaching Happinet, asking the company to handle both distribution and these events for them.

Videogames (31.9% of FY03/18 consolidated sales; 19.0% of operating profit [before adjustments])

Happinet generates profits by buying videogame consoles and game software from manufacturers and distributing these to shops. This segment has the lowest GPM 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 Sales Inc, a subsidiary of Nintendo Co., Ltd. (TSE1: 7974), Sony Interactive Entertainment Inc. (a subsidiary of Sony Corporation [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 accounted for approximately 80% of sales in FY03/18, with Sony Interactive Entertainment Inc. products next, at about 10%. 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 Interactive Entertainment Inc videogames, and has an exclusive distribution agreement in Japan with Microsoft.

Videogame sales breakdown

(JPYmn)	FY03/10 Act.	FY03/11 Act.	FY03/12 Act.	FY03/13 Act.	FY03/14 Act.	FY03/15 Act.	FY03/16 Act.	FY03/17 Act.	FY03/18 Act.
Sales	44,372	46,447	42,704	36,839	63,609	56,448	50,009	44,793	63,107
YoY	-12.1%	4.7%	-8.1%	-13.7%	72.7%	-11.3%	-11.4%	-10.4%	40.9%
Nintendo (console)	6,400	4,700	3,200	4,400	10,700	9,000	12,300	8,600	36,800
YoY	52.4%	-26.6%	-31.9%	37.5%	142.4%	-15.3%	36.6%	-30.1%	327.9%
% of sales	14.4%	10.1%	7.5%	11.9%	16.9%	16.2%	24.9%	19.2%	58.3%
Nintendo (mobile)	10,300	9,900	10,400	14,200	40,300	35,600	26,700	22,600	14,000
YoY	7.3%	-3.9%	5.1%	36.7%	182.8%	-8.3%	-27.5%	-15.4%	-38.1%
% of sales	23.2%	21.3%	24.4%	38.7%	63.4%	65.5%	53.6%	50.5%	22.2%
Nintendo (other)	-	-	-	-	-	-	1,200	2,300	2,900
YoY	-	-	-	-	-	-	-	91.7%	26.1%
% of sales	-	-	-	-	-	-	2.4%	5.1%	4.6%
PlayStation (console)	6,900	6,000	6,800	5,300	4,800	3,100	3,400	5,700	5,900
YoY	3.0%	-13.0%	13.3%	-22.1%	-9.1%	-34.8%	11.3%	67.6%	3.5%
% of sales	15.6%	12.9%	15.9%	14.4%	7.6%	5.6%	7.0%	12.7%	9.3%
PlayStation (mobile)	8,000	11,600	12,200	7,100	4,700	4,300	4,400	4,000	2,200
YoY	-22.3%	45.0%	5.2%	-41.8%	-33.1%	-9.4%	3.0%	-9.1%	-45.0%
% of sales	18.0%	25.0%	28.6%	19.3%	7.5%	7.7%	8.9%	8.9%	3.5%
その他	12,500	14,000	9,800	5,600	2,900	2,800	1,500	1,000	0
前年比	-35.6%	12.0%	-30.0%	-42.2%	-48.8%	-1.9%	-2.5%	-33.3%	-100.0%
構成比	28.2%	30.1%	22.9%	15.4%	4.6%	5.0%	5.6%	2.2%	0.0%
Segment profit	1,035	1,156	936	678	79	254	-43	384	1,180
YoY	-15.2%	11.7%	-19.0%	-27.6%	-88.3%	221.5%	-	-	207.0%
Segment profit margin	2.3%	2.5%	2.2%	1.8%	0.1%	0.4%	-	0.9%	1.9%
Disposal	-	-	100	100	800	300	500	100	90
Disposal / Sales	-	-	0.2%	0.3%	1.3%	0.5%	1.0%	0.2%	0.1%

Source: Shared Research based on company data
 Figures may differ from company materials due to differences in rounding methods.

Happinet creates and sells original game software but in FY03/18 profit impact was small. The company also launched Asakusa Studio, an original brand in a new category for internally developed products. In FY03/18 this brand developed products for the PC game sales platform Steam. In the future, the company intends to develop two to three works a year, including works on other platforms.

Steam is a digital rights management (DRM) and game download sales platform for PC games operated by US-based Valve Corporation. Its monthly active users exceed 6.7mn (5.3mn users for Xbox Live, over 7.0mn users for PlayStation).

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— we feel this may provide an opportunity for the company to increase volume handled and its market share.

Amusement (10.5% of FY03/18 consolidated sales; 27.0% of operating profit [before adjustments])

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

Amusement sales breakdown

(JPYmn)	FY03/10 Act.	FY03/11 Act.	FY03/12 Act.	FY03/13 Act.	FY03/14 Act.	FY03/15 Act.	FY03/16 Act.	FY03/17 Act.	FY03/18 Act.
Sales	16,381	17,579	22,282	20,447	23,481	24,140	22,023	20,649	20,630
YoY	-8.6%	7.3%	26.8%	-8.2%	14.8%	2.8%	-8.8%	-6.2%	-0.1%
Capsule toys	-	-	-	-	-	10,100	10,300	9,400	10,900
YoY	-	-	-	-	-	-	2.0%	-8.7%	15.2%
% of sales	-	-	-	-	-	42.1%	47.1%	45.8%	52.9%
Card games	-	-	-	-	-	10,500	9,300	9,100	8,000
YoY	-	-	-	-	-	-	-11.4%	-2.2%	-11.7%
% of sales	-	-	-	-	-	43.6%	42.3%	44.4%	39.2%
Other	-	-	-	-	-	3,400	2,300	2,000	1,600
YoY	-	-	-	-	-	-	-32.4%	-13.0%	-19.1%
% of sales	-	-	-	-	-	14.3%	10.6%	9.8%	7.9%
Segment profit	544	1,340	1,801	1,265	2,053	1,796	1,652	1,281	1,678
YoY	-	146.3%	34.4%	-29.8%	62.3%	-12.5%	-8.0%	-22.5%	31.0%
Segment profit margin	3.3%	7.6%	8.1%	6.2%	8.7%	7.4%	7.5%	6.2%	8.1%

Source: Shared Research based on company data
Figures may differ from company materials due to differences in rounding methods.

Toy vending machine section

The company installs vending machines at major retail and electronics stores and shopping malls, from which it sells capsule toys. It purchases vending machines from Bandai. This format is close to the retail industry, and therefore has the highest GPM of all the company's businesses.

Capsule toys retail at between JPY100-JPY500 (including tax). The vending machines work thus: a capsule toy comes out when the customer inserts coins and turns the crank in the middle of the machine. The toys 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 contents of the capsule.

As of May 2018, the company had about 180,000 machines nationwide.

Capsule-toy vending machines



Source: Shared Research based on 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 unable to turn a profit. When operating toy vending machines, staff members still need to visit machine sites to monitor sales, refill capsules, and collect the money. 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 anime characters, in major retail and electronics stores. As in the toy vending machine section, GPM is 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 (includes tax) 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 2018, the company operates card games including Dragon Ball and Kamen Rider. The company in November 2016 began to install machines that combine the features of card game machines for Disney characters and machines for capsule toys. These two features operate in conjunction with each other in the same machine.

Card game machine



Source: Company data

Group companies

Happinet Group includes Happinet Corp and four consolidated subsidiaries. In particular, Happinet Marketing Corp and MAXGAMES Corporation have a big impact on consolidated performance, each accounting for more than 10% of group sales.

In November 2015, the company entered into a capital and business alliance with Broccoli Co., Ltd., including the underwriting of new Broccoli shares issued through a third-party allocation, making Broccoli an equity-method affiliate as of December 2015.

In March 2018, the company took over the music and visual products wholesale business of Seikodo Co., Ltd., making it a 100% owned subsidiary (company name: Seikodo Marketing Corporation).

Consolidated subsidiaries

Happinet Marketing Corp. (100% owned)

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

(JPYmn)	FY03/10 Act.	FY03/11 Act.	FY03/12 Act.	FY03/13 Act.	FY03/14 Act.	FY03/15 Act.	FY03/16 Act.	FY03/17 Act.
Sales	31,350	31,531	32,236	31,527	32,395	38,383	34,217	32,715
YoY	-3.3%	0.6%	2.2%	-2.2%	2.8%	18.5%	-10.9%	-4.4%
Recurring profit	597	818	950	773	980	1,917	989	1,047
YoY	99.7%	37.0%	16.1%	-18.6%	26.8%	95.6%	-48.4%	5.9%
Net income	349	473	517	465	586	1,164	633	681
YoY	95.0%	35.5%	9.3%	-10.1%	26.0%	98.6%	-45.6%	7.6%

Source: Shared Research based on company data

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

Seikodo Marketing Corp. (100% owned)

Following a company split by Seikodo Co., Ltd., the company assumed its intermediate distribution businesses which had comprised 17% of the intermediate distribution market for domestic visual and music products.

MAXGAMES Corporation (100% owned)

Sells videogame consoles and videogames.

(JPYmn)	FY03/10 Act.	FY03/11 Act.	FY03/12 Act.	FY03/13 Act.	FY03/14 Act.	FY03/15 Act.	FY03/16 Act.	FY03/17 Act.
Sales	-	-	-	35,357	31,868	43,622	41,546	34,670
YoY	-	-	-	-	-9.9%	36.9%	-4.8%	-16.6%
Recurring profit	-	-	-	393	-158	309	199	179
YoY	-	-	-	-	-	-	-35.6%	-10.1%
Net income	-	-	-	194	-296	164	120	92
YoY	-	-	-	-	-	-	-26.8%	-23.3%

Source: Shared Research based on company data

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

Note: 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 Corporation (100% owned)

Operates toy vending machines.

Happinet Logistics Service Corporation (100% owned)

Handles logistics business for group companies.

Equity-method affiliates

Broccoli Co., Ltd. (25.15% ownership)

Plans and produces content (anime, games, music, video, card games), and plans, produces and sells character goods.

	FY02/13	FY02/14	FY02/15	FY02/16	FY02/17	FY02/18
(JPYmn)	Act.	Act.	Act.	Act.	Act.	Act.
Sales	4,372	6,786	6,256	6,429	5,692	5,410
YoY	-	55.2%	-7.8%	2.8%	-11.5%	-5.0%
Recurring profit	833	2,150	1,484	989	728	594
YoY	-	158.1%	-31.0%	-33.4%	-26.4%	-18.4%
Net income	877	1,908	904	622	479	405
YoY	-	117.6%	-52.6%	-31.2%	-23.0%	-15.5%

Source: Shared Research based on company data

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

Strengths and weaknesses

Strengths

- ▶ **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 its 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. Bandai Namco Holdings Inc., Bandai's parent company, is Happinet's largest shareholder with a 27.1% stake, and Happinet distributes about 90% of Bandai toys sold in Japan (company estimate). 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. Given this, Shared Research thinks that as a debutant, 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 pummeled 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

According to the Statistics Bureau (Population Census), the number of people in Japan aged 0–14 decreased from 17.0mn in 2009 to 15.6mn in 2017 (average annual decline of 1.1%). The market for ten types of toys fell from JPY521.7bn in 2009 to an estimated JPY508.2bn in 2017, maintaining an average annual decrease of 0.3%.

Dividing market size by the number of people aged 0–14, spending per head increased from JPY30,670 in 2009 to JPY32,590 in 2017 (up by an average of 0.8 % 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 profits.

Domestic toy market and population

Domestic toy market and population	2009	2010	2011	2012	2013	2014	2015	2016	2017
Market of 10 toy items (JPYbn)	521.7	542.8	563.4	446.1	447.6	490.5	499.8	515.9	508.2
Population at ages of 0–14 ('000)	17,010	16,839	16,705	16,548	16,390	16,233	15,945	15,780	15,592
Average purchase price of 10 toy items (JPY)	30,670	32,230	33,730	26,960	27,310	30,220	31,350	32,690	32,590

Note: The ten toy items are games (excluding videogame-related), card games, trading card games, jigsaw puzzles, high-tech trendy toys, characters for boys, toys for boys, toys for girls, stuffed toys, education toys (excluding automobile related products such as strollers, child seats, and tricycles), and seasonal products.
Source: Shared Research based on data from the Japan Toy Association, National Institute of Population and Social Security Research (IPSS), and the Statistics Bureau's Population Census

The IPSS predicts that the population of children in Japan (0-14 years old) will have decreased to 14.1mn by 2025, due to declining birth rates and the shift toward late marriage. With a rate of decline averaging 1.3% per year since 2016, this would mean potential purchasers of toys were decreasing faster than the rate of decline between 2006 and 2016, when the number fell by an average of 1.0% annually.

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 (cell and rental markets excluding paid video distribution) continues to contract, shrinking at an average annual rate of 5.7% between 2007 and 2017.

Video software market

Video software market (JPYbn)	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total	630.1	574.1	530.7	502.1	480.2	461.5	439.0	417.5	400.2	370.3
YoY	-5.1%	-8.9%	-7.6%	-5.4%	-4.4%	-3.9%	-4.9%	-4.9%	-4.1%	-7.5%
Software for sale	283.2	267.4	263.5	247.9	241.3	243.1	228.7	223.4	217.1	204.4
YoY	-6.8%	-5.6%	-1.5%	-5.9%	-2.7%	0.7%	-5.9%	-2.3%	-2.8%	-5.8%
Software for rental	346.9	306.7	267.2	254.2	238.9	218.4	210.3	194.1	183.1	165.9
YoY	-3.7%	-11.6%	-12.9%	-4.9%	-6.0%	-8.6%	-3.7%	-7.7%	-5.7%	-9.4%

Source: Shared Research based on Japan Video Association
Note: Figures may differ from company materials due to differences in rounding methods.

Shared Research believes the market has been shrinking not because the average customer is reducing purchases or unit prices are falling but because of a drop in the number of software purchasers. According to a report released by the Japan Video Software Association, purchases of video software have been falling, although there has not been a significant decline in the average number of discs purchased by each customer or the average amount spent by each customer.

Video software purchasing ratio, average number of discs purchased, average spending

Video software purchasing survey	2010	2011	2012	2013	2014	2015	2016	2017
Purchase rate (%)	21.2	21.6	19.3	16.3	18.2	16.7	18.2	17.1
Average total purchases (titles)	5.5	3.9	3.8	5.0	4.2	4.2	3.9	4.0
Average total spend (JPY)	23,370	15,706	14,720	18,004	17,745	19,370	18,827	17,456

Source: Shared Research based on Japan Video Association

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

The spread of pay-video distribution hurts sales of visual media. According to the Digital Content Association of Japan, the domestic market of pay-video (video on demand) distribution expanded from JPY76.2bn in 2010 to JPY185.0bn in 2017.

Video on Demand (VOD) market

Video on Demand (VOD) market	2010	2011	2012	2013	2014	2015	2016	2017
VOD market (JPYbn)	76.2	82.6	101.6	123.0	125.5	141.0	163.6	185.0
YoY	-	8.4%	23.0%	21.1%	2.0%	12.4%	16.0%	13.1%

Source: Shared Research based on Digital Content Association of Japan

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 of people aged 15 to 64 will decrease by 0.6% a year from 76.0mn in 2016 to 71.7mn in 2025.

Music content

The paid music distribution market is on a downward trend after peaking in 2007 in both volume and value terms.

Record production and paid distribution music

Record production and paid music distribution	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total (JPYbn)	386.6	340.6	311.0	283.7	282.0	240.2	230.1	229.7	230.6	231.2
YoY	-5.4%	-11.9%	-8.7%	-8.8%	-0.6%	-14.8%	-4.2%	-0.2%	0.4%	0.3%
Music software sales value (excl. music video; JPYbn)	296.1	249.6	225.0	211.7	227.7	198.5	186.4	182.6	177.7	173.9
YoY	-11.2%	-15.7%	-9.9%	-5.9%	7.6%	-12.8%	-6.1%	-2.0%	-2.7%	-2.1%
Paid distribution of music	90.5	91.0	86.0	72.0	54.3	41.7	43.7	47.1	52.9	57.3
YoY	20.0%	0.5%	-5.5%	-16.3%	-24.5%	-23.2%	4.8%	7.8%	12.3%	8.3%
Total (mn)	727.2	682.2	651.5	567.3	489.9	407.0	369.0	348.0	320.0	300.0
YoY	-0.7%	-6.2%	-4.5%	-12.9%	-13.6%	-16.9%	-9.3%	-5.7%	-8.0%	-6.3%
Music software sales volume (excl. music video; mn)	248.0	214.0	210.0	200.0	218.0	191.0	172.0	170.0	161.0	154.0
YoY	-7.1%	-13.7%	-1.9%	-4.8%	9.0%	-12.4%	-9.9%	-1.2%	-5.3%	-4.3%
Paid distribution of music (mn)	479.2	468.2	441.5	367.3	271.9	216.0	197.0	178.0	159.0	146.0
YoY	3.1%	-2.3%	-5.7%	-16.8%	-26.0%	-20.5%	-8.8%	-9.6%	-10.7%	-8.2%

Source: Shared Research based on "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, 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

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.

Shipments of Domestic Home Videogame Consoles

(JPYbn)	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total shipment value	534.2	454.1	425.8	402.8	395.8	409.5	373.4	330.2	330.3	314.7
YoY	-9.7%	-15.0%	-6.2%	-5.4%	-1.7%	3.5%	-8.8%	-11.6%	0.0%	-4.7%
Software	301.3	252.5	259.1	237.9	220.2	253.7	235.6	194.9	195.0	188.0
YoY	4.4%	-16.2%	2.6%	-8.2%	-7.4%	15.2%	-7.1%	-17.3%	0.1%	-3.6%
Hardware	232.9	201.6	166.7	164.9	175.6	155.8	137.8	135.3	135.4	126.7
YoY	-23.2%	-13.4%	-17.3%	-1.1%	6.5%	-11.3%	-11.6%	-1.8%	0.1%	-6.4%

Source: Shared Research based on CESA data

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.

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.

(JPYbn)	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total market (value)	28.5	24.9	25.9	30.1	27.0	27.8	31.9	31.1	27.7	31.9
YoY	-6.6%	-12.6%	4.2%	16.0%	-10.3%	3.0%	14.7%	-2.5%	-10.9%	15.2%

Source: Shared Research based on 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 FY05/17 Kawada reported annual sales of JPY25.0bn (per Kawada's website), compared with JPY26.0bn in FY05/16. Happinet sells much more volume than Kawada and their products are different, so they are not competitors.

Strategy

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 products developed in-house that command wider margins.

Market share expansion

Shared Research predicts that the main markets for the products dealt with by the company—toys, videogames, visual media, and music—will contract given Japan's ageing society and the spread of Internet transactions. The spread of download sales for visual and music software, as well as sites which offer free visuals have in fact been impacting the contraction of the market for software packages.

The contracting market for the company's products is not something that is welcome for its short-term results. However, as reorganization has been underway for intermediate distribution since the late 1990s, the company has continued to expand its sales capacity through acquisitions (see "Historical performance"). Shared Research believes that as reorganization proceeds among intermediary distributors specializing in visual and musical software and videogames, there will be significant room for the company to expand its transactions.

Moreover, the company has indicated that in its eighth medium-term plan which takes effect from FY03/19, one of its basic strategies is to explore new businesses, such as hobby areas like plastic models which are not toys, as well as smartphone games, music concerts, and event planning for its amusement segment.

Visual and Music: scope for expansion

Happinet said that direct transactions between visual/music content makers and retailers were 59% of overall distribution of visual media and music in the year to end March 2018. 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.

Shared Research thinks that handling software makers' sales promotion and distribution functions is a potential money spinner.

In March 2018, Happinet took over the wholesale business for music and visual products from Seikodo Co., Ltd. following a company split (company name after split: Seikodo Marketing). According to the company, the following were the market shares of intermediary distributors for domestic visual and music products: Seikodo 17%, Happinet 11%, others 13% (including 10% market share of companies which only distribute for parent companies) while 59% of distribution was a direct transaction with manufacturers. By taking over the business of Seikodo, the company share would rise to 28%. Excluding the 59% share of direct transactions with manufacturers and the 10% share of companies which only distribute for parent companies, the company in essence holds exclusive control over the market.

Videogames: also scope for expansion

The company consolidated Toys Union (currently Maxgames Corporation) as a subsidiary in July 2013. According to the company, this acquisition means its share of the Nintendo-related market was 25%, making it the second largest distributor of Nintendo-related products.

Nintendo Sales is the largest distributor of Nintendo products. In January 2016, Nintendo acquired 70.0% of JESNET (FY07/15 sales of JPY57.1bn), making it a consolidated subsidiary. Nintendo also acquired the videogame wholesale business of AJIOKA Co Ltd (FY06/16 sales of JPY38.7bn). JESNET was renamed Nintendo Sales in April 2017.

Nintendo Sales and Happinet have a combined domestic market share of almost 100% for Nintendo products. According to Happinet, the company plans to form a partnership with Nintendo Sales.

Originally developed products: increased sales

The company aims to expand sales of original products developed in-house and exclusive products which offer high rates of profitability.

In its eighth medium-term plan starting in FY03/19, the company plans to maintain the policies of its seventh medium-term plan to improve profitability by focusing on markets where it has an advantage related to its internally developed products.

Historical performance

Historical financial statements

Q3 FY03/18 results

- ▷ Sales: JPY153.7bn (+14.8% YoY)
- ▷ Operating profit: JPY4.7bn (+43.5%)
- ▷ Recurring profit: JPY4.5bn (+46.9%)
- ▷ Net income*: JPY3.8bn (+111.5%)

*Net income refers to net income attributable to parent company shareholders.

Sales and operating profit increased as sales were robust for the Nintendo Switch game console and related software in the Videogames segment, and select products were hits in the Visual and Music segment.

While the videogame industry has been continuing to recover, other industries in which the company operates continue to go through a difficult time, due to such factors as the declining birth rate and diversifying consumer needs in the toy industry and diversifying viewing methods owing to the popularity of distribution services in the visual and music industries.

Toys

In the Toys segment, sales fell 2.2% YoY to JPY58.1bn while segment profit slipped 2.2% to JPY2.8bn.

Segment sales came in below year-ago levels as strong videogames market siphoned off demand for toys during the year-end shopping season. There were a few success stories, though, including Bandai products related to the shows *Kamen Rider Build* and *Ultraman Geed* as well as part of goods featuring characters from TV animation series for school-aged girls.

Sales of Bandai's products related to the TV shows *Kamen Rider Build* and *Ultraman Geed*, which began airing in September and July 2017, respectively, as well as hobby products targeting girls, were robust, but not enough to boost the market and sales were down YoY as a result.

Broken down by manufacturer, sales of Bandai products totaled JPY29.1bn (-2.3% YoY) for a share of 50.1% of the total (versus 50.1% in Q3 FY03/17). Sales of Takara Tomy products were JPY5.8bn (+2.7% YoY) for a share of 10.1% (+9.7%) and sales of its own products were JPY1.3bn (-9.1%) for a share of 2.3% (2.5%).

Sales of the toy and hobby segment of Bandai Namco Holdings Inc. came to JPY164.4bn (-0.8% YoY) in Q3 FY03/18. According to Bandai Namco materials, merchandise sales were brisk for mainstay IP such as the Kamen Rider, Super Sentai, and PreCure series. Domestic sales of Yokai Watch-related products totaled JPY3.1bn versus JPY8.5bn in Q3 FY03/17.

Sales of the Japan segment of Tomy came to JPY116.8bn (+11.7% YoY) in Q3 FY03/18. Sales of Licca-chan products, which marked its 50th anniversary, grew and mainstay IP such as the TV animation series, Tomica Hyper Rescue Drive Head, continued to be strong.

In addition to a decrease in sales, increased losses resulting from the clearing out inventory led to lower profit.

Visual and Music

In the Visual and Music segment, sales rose 9.1% YoY to JPY28.1bn and segment profit was JPY482mn (+34.6%).

Sales rose YoY due to the strong performance of the packaged version of *Kiseki: Ano Hi no Sobito* and an internally managed movie, the film *Kimi no Na wa*. In the Visual subsegment, sales of the wholesale business were JPY19.3bn (+18.3% YoY) and sales of the manufacturing business were JPY3.2bn (-4.0%), while sales of the Music subsegment came to JPY5.5bn (-8.4%).

Segment profit benefited from higher sales, a reactionary gain after booking an investment loss on a movie the company produced in Q1 FY03/17, and the earnings contribution of exhibition revenue and sales of the packaged version released in July 2017 of *Kiseki: Ano Hi no Sobito* (released in January 2017 at theaters).

Videogames

In the Videogames segment, sales rose 56.6% YoY to JPY52.4bn, with segment profit of JPY1.2bn (+379.5%).

By manufacturer, sales of Nintendo products were JPY46.1bn (+85.7% YoY) and sales of Sony Interactive Entertainment products were JPY5.7bn (-27.5%).

The increase in sales and earnings was driven by sales of the Nintendo Switch game console and related software (such as *Super Mario Odyssey*), and Nintendo 3DS software *Pokemon Ultrasun-Ultramoon* and also the new *Nintendo Classic Mini-Super FamiCon* game console. Sales of the Nintendo Switch game console were JPY20.3bn (JPY1.4bn in Q3 FY03/17) and software sales were JPY7.7bn (+441.7% YoY).

Profit increased mainly due to sales of the Nintendo Switch related software.

Amusement

In the Amusement segment, sales declined 1.5% YoY to JPY15.0bn, while segment profit increased 38.6% to JPY1.2bn.

Sales of capsule toys totaled JPY8.0bn (+14.2% YoY) and sales of card games were JPY5.7bn (-13.1%). Capsule toys performed well, aided by strong sales of *Kamen Rider*-related goods and favorable locations for vending machines in large-scale shopping malls. However, card game machines performed poorly, leading to lower sales.

As stated above, it strived to secure favorable locations and withdrew from unprofitable locations. This led to higher sales of capsule toys. In addition, narrowing down locations reduced outsourcing costs for replenishing capsule toys, resulting in higher profit.

Other: Special dividend

A JPY10 per share special dividend has been added to the JPY15 ordinary year-end dividend, for a total of JPY25. This is on top of a JPY15 per share dividend paid at the end of 1H, for a total of JPY40 for FY03/17 (JPY30 in ordinary dividends and JPY10 special dividend): the company has now raised dividend payments for five consecutive periods.

1H FY03/18 results

- ▷ Sales: JPY84.8bn (+17.1% YoY)
- ▷ Operating profit: JPY1.8bn (+108.6%)
- ▷ Recurring profit: JPY1.6bn (+121.1%)
- ▷ Net income*: JPY1.0bn (+217.0%)

*Net income refers to net income attributable to parent company shareholders.

Sales and operating profit increased as sales were robust for the Nintendo Switch and related software in the Videogames segment, and select products were hits in the Visual and Music segment.

While the videogame industry has been continuing to recover, other industries in which the company operates continue to go through a difficult time, due to such factors as the declining birth rate and diversifying consumer needs in the toy industry and a slowdown in the market for packaged products owing to the popularity of software downloads in the visual and music industries.

Toys

In the Toys segment, sales fell 1.2% YoY to JPY31.2bn and segment profit increased 16.0% to JPY891mn.

Sales of Bandai's products related to the TV shows *Kamen Rider Build* and *Ultraman Geed*, which began airing in September and July 2017, respectively, as well as hobby products targeting girls, were robust, but not enough to boost the market and sales were down YoY as a result.

Broken down by manufacturer, sales of Bandai products totaled JPY15.1bn (-2.1% YoY) for a share of 48.5% of the total (versus 48.9% in 1H FY03/17). Sales of Takara Tomy products were JPY3.2bn (+7.5% YoY) for a share of 10.5% (+9.7%) and sales of its own products were JPY700mn (-11.1%) for a share of 2.5% (2.8%).

Sales of the toy and hobby segment of Bandai Namco Holdings Inc. came to JPY98.1bn (-5.5% YoY) in Q2 FY03/18. According to Bandai Namco materials, merchandise sales were brisk for mainstay IP such as the Kamen Rider, Super Sentai, and PreCure series. Domestic sales of Yokai Watch-related products totaled JPY2.0bn versus JPY5.6bn in Q2 FY03/17.

Sales of the Japan segment of Tomy came to JPY73.8bn (+20.9% YoY) in Q2 FY03/18. Sales of Licca-chan products, which marked the 50th anniversary, grew and Beyblade Burst and novel egg-and-hatchling pet toy *Umarete Woomo* ("Hatchimals" in English) continued to be strong.

Profits were up thanks to lower SG&A expenses. Specifically, repair expenses that occurred in FY03/17 decreased this year. Losses on inventory disposal increased to JPY390mn from JPY340mn in Q2 FY03/17.

As one of the initiatives in the medium-term plan, the company is expanding market share of hobby products such as plastic models.

Visual and Music

In the Visual and Music segment, sales rose 14.6% YoY to JPY18.9bn and segment profit was JPY311mn (+112.5%).

Sales rose due to the strong performance of the packaged version of *Kiseki: Ano Hi no Sobito*, an internally managed movie (released in January 2017 at theaters), and the film *Kimi no Na wa*. In the Visual subsegment, sales of the wholesale business were JPY12.9bn (+20.5% YoY) and sales of the manufacturing business were JPY2.3bn (+21.1%), while sales of the Music subsegment came to JPY3.6bn (-5.0%).

Segment profit benefited from higher sales, a reactionary gain after booking an investment loss on a movie the company produced a year earlier, and the earnings contribution of exhibition revenue and sales of the packaged version released in July 2017 of *Kiseki: Ano Hi no Sobito* (released in January 2017 at theaters).

Videogames

In the Videogames segment, sales rose 73.8% YoY to JPY24.9bn, with segment profit of JPY402mn (segment loss of JPY36mn in 1H FY03/17).

By manufacturer, sales of Nintendo products were JPY21.2bn (+108.9% YoY) and sales of Sony Interactive Entertainment products were JPY3.3bn (-10.2%).

Sales were robust for Nintendo Switch, *Splatoon 2*, and related software, as well as the hit game *DragonQuest XI: Echoes of an Elusive Age* for the Nintendo 3DS and Playstation 4, resulting in higher sales and segment profit.

Amusement

In the Amusement segment, sales declined 2.1% YoY to JPY9.8bn, while segment profit increased 18.5% to JPY761mn.

Capsule toys performed well as the company secured favorable locations by increasing machines in large-scale shopping malls and selling limited-time only products in stations and highway service areas. However, card game machines performed poorly, leading to lower sales. Sales of capsule toys totaled JPY5.3bn (+10.1% YoY) and sales of card games were JPY3.7bn (-11.6%).

The company was able to increase profits by reviewing its product locations. As stated, it strived to secure favorable locations and withdrew from unprofitable locations. This led to higher sales of capsule toys. In addition, narrowing down locations reduced outsourcing costs for replenishing capsule toys

Q1 FY03/18 results

- ▷ Sales: JPY35.2bn (+7.3% YoY)
- ▷ Operating profit: JPY449mn (+195.4%)
- ▷ Recurring profit: JPY392mn (+312.6%)
- ▷ Net income*: JPY177mn (net loss of JPY26mn in the previous year)

*Net income refers to net income attributable to parent company shareholders.

Sales and operating profit increased as sales were robust in the Videogames segment, and internally managed products were a hit in the Visual and Music segment.

While the videogame industry has been recovering due to the launch of Nintendo Switch and other products, other industries in which the company operates are going through a difficult time, due to such factors as the declining birth rate and diversifying consumer needs in the toy industry and a slowdown in the market for packaged products owing to the popularity of software downloads in the visual and music industries.

Toys

In the Toys segment, sales fell 5.9% YoY to JPY13.5bn and segment profit increased 5.6% to JPY300mn.

Sales of Bandai's *Kamen Rider Ex-Aid* and *Ultraman Orb*-related products were robust, but not enough to boost the market and sales were down YoY as a result. The company is strengthening its range of hobby items such as plastic models as one of its medium-term management plan strategies.

Broken down by manufacturer, sales of Bandai products totaled JPY6.0bn (-6.1% YoY) for a share of 45.1% of the total (versus 45.2% in Q1 FY03/17). Sales of Tomy products were JPY1.5bn (+7.8% YoY) for a share of 11.4% (9.9%) and sales of its own products were JPY200mn (-45.2%) for a share of 1.9% (3.2%).

Sales of the toy and hobby segment of Bandai Namco Holdings Inc. came to JPY42.8bn (-11.0% YoY) in Q1 FY03/18. According to Bandai Namco materials, merchandise sales were brisk for mainstay IP such as the Kamen Rider, Super Sentai, and PreCure series. Domestic sales of Yokai Watch-related products totaled JPY800mn versus JPY2.3bn in Q1 FY03/17.

Sales of the Japan segment of Tomy came to JPY32.4bn (+18.0% YoY) in Q1 FY03/18. Beyblade Burst performed strongly as well as mainstay IP Licca-chan and novel egg-and-hatchling pet toy *Umarete Woomo* ("Hatchimals" in English).

Profits were up thanks to efforts to reduce SG&A expenses. Measures to improve the efficiency of logistics proved effective.

Visual and Music

In the Visual and Music segment, sales fell 2.4% YoY to JPY7.9bn and segment profit was JPY89mn (segment loss of JPY54mn in the previous year).

Sales at the company declined YoY amid ongoing weakness in the overall market for packaged products. In the Visual subsegment, sales of the wholesale business were JPY5.3bn (+1.9% YoY) and sales of the manufacturing business were JPY1.2bn (+17.2%), while sales of the Music subsegment came to JPY1.3bn (-25.4%).

Segment profit benefited from a reactionary gain after booking an investment loss in a movie the company produced a year earlier and the earning contribution of exhibition revenue and sales of the DVD released in July 2017 of *Kiseki: Ano Hi no Sobito*, an internally managed movie that became a hit (released in January 2017 at theaters).

Videogames

In the Videogames segment, sales rose 58.8% YoY to JPY9.3bn, with segment profit of JPY61mn (segment loss of JPY129mn in FY03/16).

By manufacturer, sales of Nintendo products were JPY7.6bn (+76.7% YoY) and sales of Sony Interactive Entertainment products were JPY1.5bn (+19.8%).

Sales of Nintendo Switch units and Mariokart 8 Deluxe software released in March 2017 were robust, resulting in higher sales and segment profit.

Amusement

In the Amusement segment, sales rose 0.1% YoY to JPY4.5bn, while segment profit declined 11.6% to JPY305mn.

While sales of Kamen Rider-related products, both capsule toys and children's card game machines, were robust, it was not enough to boost the market. Sales of capsule toys totaled JPY2.4bn (+7.6% YoY) and sales of card games were JPY1.6bn (-10.8%).

Profits declined due to expenses associated with the renewal of children's card game machines.

Full-year FY03/17 results

- ▷ Sales: JPY174.1bn (-7.1% YoY)
- ▷ Operating profit: JPY3.7bn (+7.2%)
- ▷ Recurring profit: JPY3.5bn (-0.5%)
- ▷ Net income*: JPY2.0bn (-13.5%)

*Net income refers to net income attributable to parent company shareholders.

The industries that the company deals in are going through a difficult time, such as the declining birth rate and diversifying consumer needs in the toy industry, and the increasing prominence of smartphone-based games and video and music download software overshadowing packaged items and hard copies in the video, music, and videogame industries.

Sales were down, but operating profit finished higher YoY as profits showed signs of improvement in response to the company's effort to reduce losses on inventory disposal. Promotion of high-margin products distributed exclusively by Happinet also contributed to higher operating profit. Recurring profit fell below operating profit after Happinet booked a JPY283mn equity-method loss as part of non-operating expenses. The investment loss arising from equity-method accounting was due to the impact of Broccoli Co., Ltd. (25.15% stake), which became an equity-method affiliate through the underwriting of a third-party share allocation in December 2015. Initiatives are proceeding in conjunction with equity-method affiliate Broccoli Co., Ltd., including the establishment of new label "b-sound" and the implementation of campaigns aimed at convenience stores, to create a synergistic effect.

Toys

In the Toys segment, sales fell 4.1% YoY to JPY73.7bn and segment profit increased 6.9% to JPY3.0bn.

Sales of Bandai's character merchandise such as *Kamen Rider Ex-Aid* were robust, but not enough to boost the market and sales were down YoY as a result.

Sales of Bandai products were JPY37.6bn (-10.4% YoY), or 51.0% of overall sales (54.6% in FY03/16), while those of Tomy products reached JPY7.0bn (+41.6% YoY), or 9.6% (6.5% in FY03/16). Sales of original items were JPY1.7bn (+10.6% YoY), or 2.4% (2.1% in FY03/16). Sales of other manufacturers' products were JPY27.2bn (-3.6% YoY), or 37.0% (36.8% in FY03/16).

At Bandai Namco Holdings, sales in the Toy and Hobby segment in FY03/17 were JPY193.2bn (-6.4% YoY). According to documents from Bandai Namco Holdings, sales fell YoY because of a decline in sales of Yokai Watch products, which drove the domestic Toy and Hobby business in FY03/16. However, sales of standard intellectual property items, such as Kamen Rider and PreCure products, remained robust. Domestic sales of Yokai Watch merchandise at Bandai Namco Holdings were JPY9.3bn (JPY30.8bn in FY03/16).

In contrast, at Tomy, FY03/17 sales in the Japan segment were JPY131.8bn (+21.5% YoY). Sales of toys related to Beyblade Burst and Duel Masters were robust. *Umarete Woomo* ("Hatchimals" in English), a toy egg that hatches a magical creature, was also popular during the year-end shopping season.

A reduction in losses from the disposal of inventory contributed to higher profits. Losses on inventory disposal declined to JPY700mn from JPY1.8bn in FY03/16. While in FY03/16 the company failed to anticipate the slow demand for Yokai Watch products and booked large disposal losses, in FY03/17, it succeeded in booking higher profits owing to accurate demand forecasts for Kamen Rider and Super Sentai, and efforts to control inventory levels.

Visual and Music

In the Visual and Music segment, sales fell 9.1% YoY to JPY34.9bn and segment profit 10.3% to JPY418mn.

The wholesale section had sales of JPY22.2bn (-10.2% YoY), the visual manufacturing section JPY4.4bn (-5.8% YoY), and the music section JPY8.1bn (-7.7% YoY).

While the period saw some blockbuster films like Shin Godzilla, sales at the company declined YoY amid ongoing weakness in the overall market for packaged products. Segment profit also fell due to Q1 losses from certain proprietary products.

Kiseki: Ano Hi no Sobito, an internally managed movie released in theaters, generated revenue of JPY1.5bn. The company expects the movie to contribute to earnings in FY03/18 thanks to its box-office distribution and the DVD release slated for July 2017.

Videogames

In the Videogames segment, sales fell 10.4% YoY to JPY44.8bn, with segment profit of JPY384mn (segment loss of JPY43mn in FY03/16).

By manufacturer, Nintendo products generated sales of JPY33.8bn (-16.5% YoY), Sony Interactive Entertainment products JPY9.9bn (+24.8% YoY), and products from other manufacturers JPY1.0bn (-33.6% YoY).

Sales of Nintendo Switch and PlayStation 4 units and related merchandise were robust, but increasing prominence of smartphone games and downloaded software resulted in lower sales. Thanks to strong sales of software distributed exclusively by Happinet and shrinking losses on inventory disposal, the segment achieved a profit. Losses on inventory disposal declined to JPY100mn from JPY500mn in FY03/16.

Although Nintendo Switch did contribute to sales, the contribution took place only in Q4. Sales of Nintendo consoles were JPY5.2bn for FY03/17 (-17.6% YoY). Nintendo Switch's contribution to profits was limited during FY03/17 because the profitability of hardware tends to be lower than that of software. According to Happinet, however, the Nintendo Switch console remains highly popular and is difficult to get ahold of. The company expects to benefit from sales of hardware and profits from software in FY03/18.

Amusement

In the Amusement segment, sales declined 6.2% YoY to JPY20.6bn, while segment profit declined 22.5% to JPY1.3bn.

The company conducted event sales at locations with strong customer draw, but the lack of hit products led to lower sales. Sales of toys in capsules were JPY9.4bn (-8.6% YoY) while those of card games came to be JPY9.1bn (-1.7% YoY).

Profit fell because sales declined even as the company spent JPY550mn for new chassis for children's card game machines.

FY03/16 results

- ▷ Sales: JPY187.3bn (-13.8% YoY)
- ▷ Operating profit: JPY3.5bn (-31.8% YoY)
- ▷ Recurring profit: JPY3.5bn (-31.8% YoY)
- ▷ Net income attributable to parent company shareholders: JPY2.4bn (-41.7% YoY)

The industries that the company deals in are going through a difficult time, such as the declining birth rate and diversifying consumer needs in the toy industry, and the increasing prominence of smartphone-based games and video and music download software over packaged items and hard copies in the video, music, and videogame industries.

Although sales and profits at the company's manufacturing businesses saw improvement by concentrating investment on predominant markets, sales and profits at its distribution business were both down due to a lack of hit products during the prime year-end shopping rush.

Toys segment

In the Toys segment, sales fell 17.6% YoY to JPY76.9bn and segment profit declined 33.4% to JPY2.8bn.

Toys segment sales fell due to a lack of hit products during the year-end shopping rush. According to documents from Bandai Namco Holdings, Inc., sales shrank YoY for character products such as Kamen Rider, Super Sentai, and Aikatsu! products. Sales of Yokai Watch products (Bandai Namco Holdings, Inc.), the mainstay of sales the preceding year, contributed JPY30.8bn to sales (JPY55.2bn the preceding year).

A drop in profits was the result of a reduction in gross profit from lower sales, combined with a loss on disposal of inventory of about JPY1.8bn from the write-off of excess inventory that exceeded the previous year (about JPY1.6bn).

Visual and Music segment

In the Visual and Music segment, sales fell 11.5% YoY to JPY38.4bn and segment profit rose 130.7% to JPY466mn.

The drop in sales reflected ongoing weakness in the overall market for packaged products, as more and more users switch to downloading off the internet.

However, lower fixed costs at its distribution division, the contribution to earnings from exclusively distributed animated DVD box set products, and an improvement in profitability at its manufacturing businesses attributable to a decline in investment loss resulted in a significant boost in segment profit.

Videogames segment

In the Videogames segment, sales fell 11.4% YoY to JPY50.0bn, with segment loss of JPY43mn (segment profit of JPY254mn in the previous year).

The increasing prominence of smartphone games and download software continued to negatively impact the market for packaged products, with a lack of hit products leading to a decrease in sales.

The segment booked a loss due to disposal of excess inventory of about JPY500mn (about JPY300mn in the previous year) resulting from a failure to meet sales forecasts for exclusively distributed products and sluggish performance of the company's original products.

Amusement segment

In the Amusement segment, sales declined 8.8% YoY to JPY22.0bn, while segment profit declined 8.0% to JPY1.7bn.

Due to a booking of inventory write-downs and a lack of products that boosted sales in comparison to the previous year, both sales and profits from children's card game machines and toy vending machines were down.

According to materials from Bandai Namco Holdings, Inc., only 233mn digital cards were sold (269mn in the previous year), marking a YoY drop.

Other information

History

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.

- 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).
- 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.
- 2014** Merges Happinet PM
- 2014** Toys Union Co., Ltd. and Mori Games Co., Ltd. merged; renamed Maxgames Corporation (presently a consolidated subsidiary)
- 2015** Creates capital business alliance with Broccoli Co., Ltd. (now an equity-method affiliate)
- 2016** Joint establishment of Happinet Live Entertainment LLC (now Happinet Live Emotion LLC).
- 2018** Took over wholesale business for music and visual products from Seikodo Co., Ltd. following company split

News and topics

February 2018

On **February 8, 2018**, the company announced revisions to its forecast for full-year results and its fiscal year-end dividend payment (payment of a special dividend).

Revised forecast for FY03/18 sales and earnings

- ▷ Sales: JPY193.0bn (versus previous forecast of JPY180.0bn)
- ▷ Operating profit: JPY4.8bn (JPY4.2bn)
- ▷ Recurring profit: JPY4.6bn (JPY4.0bn)
- ▷ Net income*: JPY3.8bn (JPY3.2bn)
- ▷ EPS: JPY171.95 (JPY144.80)

*Net income attributable to parent company shareholders

Reasons for the revision

Explaining the upward revision, the company said sales of the Nintendo Switch game console and related software (under its Videogame segment) during the all-important Christmas and year-end sales season were strong and that, as a result, sales and earnings were expected to finish the year above its previous forecast.

Dividend forecast revision

Taking into consideration the stronger-than-expected earnings outlook for the full year, the company decided to raise its dividend payment at the end of the fiscal year to JPY25 per share, leaving its regular dividend payment unchanged at JPY15 while adding special dividend payment of JPY10.

December 2017

On **December 18, 2017**, the company announced a revision to earnings forecasts.

FY03/18 earnings forecasts

- ▷ Sales: JPY180.0bn (previous forecast was JPY180.0bn)
- ▷ Operating profit: JPY4.2bn (JPY4.2bn)
- ▷ Recurring profit: JPY4.0bn (JPY4.0bn)
- ▷ Net income*: JPY3.2bn (JPY2.5bn)

*Net income attributable to parent company shareholders

Reasons for the revisions

In line with the verdict regarding the lawsuit between the company and Software Research Associates, Inc. (SRA), during cumulative Q3 the company booked an extraordinary gain. It now expects net income to come in above previous forecasts.

On **December 13, 2017**, the company announced a verdict from a lawsuit.

Happinet announced that on the same day, it received a verdict from the Tokyo High Court in regard to the lawsuit between the company and Software Research Associates, Inc. (SRA; a subsidiary of SRA Holdings, Inc.). The details of the verdict were largely in line with the Tokyo District Court's judgement of first instance (dated October 31, 2016), in which the company's position had been upheld. The company is currently evaluating the impact of this verdict on its consolidated and parent company earnings for FY03/18.

On **December 11, 2017**, the company announced that it will take over the music and video wholesale business of Seikodo Co., Ltd. via an absorption-type company split, making it into a subsidiary.

At a board of director's meeting held on December 11, 2017, the company agreed to take over the music and video wholesale business of Seikodo, and to make it into a wholly owned subsidiary through a company split (company name: Seikodo Marketing). The absorption-type split will be effective March 1, 2018.

Reasons and goals of the business transfer

The packaged music and video market is sluggish, given the spread of music and video software distribution, and wholesale market for packaged software is seeing a decline in orders. As such, by acquiring the music and video wholesale business of Seikodo, one of the leading industry players, the company aims to enhance the shared use of logistics functions and systems, and provide market-oriented services. The aim is to use the strengths of both companies to enhance the nation-wide logistics network and solidify customer relationships, as well as expand the market by strengthening partnerships with multiple manufacturers.

Earnings and financial condition of Seikodo (JPYmn)

Fiscal year	FY06/15	FY06/16	FY06/17
Sales	58,520	55,061	53,327
Operating profit	-103	-55	-123
Recurring profit	-219	-190	-257
Net income	-252	-216	-1,471
Net assets	2,126	1,903	432
Total assets	19,343	18,158	17,803

The earnings of the business transferred in the company split are roughly equivalent to the earnings and financial conditions of Seikodo.

September 2017

On **September 25, 2017**, the company announced a revision to its earnings forecasts.

Revisions to 1H FY03/18 earnings forecasts

- ▷ Sales: JPY83.0bn (previous forecast was JPY77.0bn)
- ▷ Operating profit: JPY1.6bn (JPY1.2bn)
- ▷ Recurring profit: JPY1.5bn (JPY1.1bn)
- ▷ Net income*: JPY900mn (JPY700mn)

*Net income attributable to parent company shareholders

Reasons for the revisions

The strong performance of the Videogames segment in 1H FY03/18 backed by robust sales of Nintendo Switch units and related software resulted in an upward revision of sales, operating profit, recurring profit, and net income attributable to parent company shareholders versus previous forecasts.

The company has not changed the full-year forecasts for FY03/18, since the situation surrounding the prime year-end shopping rush still remains unclear.

February 2017

On **February 9, 2017**, the company announced earnings results for Q3 FY03/17, revision of the full-year earnings forecasts, and revision of the FY03/17 year-end dividend.

Revised forecasts for full-year FY03/17 (previous forecasts in parentheses)

- ▷ Sales: JPY172.0bn (JPY190.0bn)
- ▷ Operating profit: JPY3.7bn (JPY4.0bn)
- ▷ Recurring profit: JPY3.5bn (JPY4.0bn)
- ▷ Net income*: JPY2.2bn (JPY2.6bn)

*Net income attributable to parent company shareholders

Reasons for revision

During the company's prime year-end shopping rush, sales were strong despite a lack of hit products, but this was not enough to cover for the disappointing results through Q2, so sales and profits are both expected to come in below the initial forecasts.

Revision of FY03/17 year-end dividend

A JPY5 per share commemorative dividend has been added to the JPY15 ordinary year-end dividend, for a total of JPY20. This is on top of a JPY15 per share dividend paid at the end of 1H, for a total of JPY35 for FY03/17 (JPY30 in ordinary dividends and JPY5 commemorative dividend).

November 2016

On **November 22, 2016**, investment fund Effissimo Capital Management Pte Ltd submitted a substantial shareholding report to the Kanto Finance Bureau. The report stated it acquired 1,413,000 Happinet shares (5.87% of total outstanding shares).

October 2016

On **October 31, 2016**, the company announced the decisions from two lawsuits. On November 2, 2016, the company announced that the Tokyo District Court revised one of the verdicts. On November 9, 2016, the company announced that Software Research Associates, Inc. (SRA) filed an appeal against the company. On November 11, 2016, the company announced that it filed an appeal.

Happinet outsourced development to Software Research Associates, Inc. (SRA), and in 2005 put SRA in charge of developing a next-generation core system. However, the sales system (a feature of the core system) was not delivered within the agreed upon period. As a result, Happinet filed a lawsuit against SRA, and SRA countersued. On October 31, 2016, the Tokyo District Court announced its verdicts.

Verdict details

- Happinet shall pay SRA JPY22mn and an interest rate of 6% on the JPY22mn for each year the lawsuit was active.
- SRA shall pay Happinet JPY790mn and an interest rate of 6% on the JPY790mn for each year the lawsuit was active. The Tokyo District Court increased the fine to JPY822mn on November 1, 2016.
- SRA will pay for 75% of the litigation costs and Happinet 25%.

Appeals filed by SRA and Happinet

On November 8, 2016, SRA disagreed with the verdicts and appealed to the Tokyo High Court. The Tokyo District Court accepted a part of SRA's claims and rejected a part of the company's claims. On November 11, 2016, Happinet filed an appeal to the Tokyo High Court since it disagreed with the verdict.

September 2016

On **September 2, 2016**, the company announced the status of its share buyback program, saying that it had completed the purchase.

On September 1, Happinet acquired 58,300 of its own shares for JPY65,415,000 (on a contractual basis), completing a share buyback program adopted at a board meeting on August 24, 2016.

Number of shares acquired as of September 1, 2016 (on a contractual basis)

- ▷ Number of acquired shares: 1,000,000
- ▷ Amount spent on share buyback: JPY1,090,524,700

August 2016

On **August 24, 2016**, the company announced revisions to earnings forecast for 1H FY03/17, and acquisition of treasury stock.

Forecast revisions for 1H FY03/17 (previous forecasts in the parentheses)

- ▷ Sales: JPY71.0bn (JPY80.0bn)
- ▷ Operating income: JPY800mn (JPY1.5bn)
- ▷ Recurring income: JPY650mn (JPY1.5bn)
- ▷ Net income: JPY300mn (JPY1.0bn)

Reasons for the revisions

In 1H FY03/17, the company was struggling due to a lack of hit product in the mainstay distribution businesses such as the Toys and Amusement segments, and sluggish sales of seasonal products during summer. In the content business, it booked investment losses from some proprietary products in the Visual and Music segment. As a result, 1H sales and profits at all levels have been revised down significantly from the previous forecasts. For the full year of FY03/17, the company did not make revisions to forecasts, due to anticipating a sales peak season during Christmas and New Year's.

Acquisition of treasury stock

Outline of acquisition

Type of shares to be acquired	Ordinary shares of Happinet Corporation
Number of shares to be acquired	Maximum of 1,000,000 shares (4.41% of shares outstanding)
Total value of shares to be acquired	Maximum of JPY1.5bn
Acquisition period	August 25, 2016–December 30, 2016

Major shareholders

Top shareholders (as of end-March 2018)	Amount held
Bandai Namco Holdings Inc.	27.0%
CHASE MANHATTAN BANK GTS CLIENTS ACCOUNT ESCROW	3.2%
SMBC Trust Bank Ltd. (SMBC Employee Pension Trust)	3.1%
Japan Trustee Services Bank, Ltd. (Trust account)	2.6%
Japan Trustee Services Bank, Ltd. (Trust account 9)	2.6%
The Master Trust Bank of Japan (Trust account)	2.5%
Yasuhiko Idaira	2.4%
GOVERNMENT OF NORWAY	2.2%
Hiroshi Kawai	1.4%
Trust & Custody Services Bank, Ltd. (Securities Trust Account)	1.2%

Source: Shared Research based on company data
 Note: Excluding 2,273,050 shares of treasury stock

Profile

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

We offer corporate clients comprehensive report coverage, a service that allows them to better inform investors and other stakeholders by presenting a continuously updated third-party view of business fundamentals, independent of investment biases. Shared Research can be found on the web at <http://www.sharedresearch.jp>.

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ADJUVANT COSME JAPAN CO., LTD.	FURYU CORPORATION	PARIS MIKI HOLDINGS Inc.
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Aeon Fantasy Co., Ltd.	GCA Corporation	RACCOON CO., LTD.
Ai Holdings Corporation	Grandy House Corporation	RESORTTRUST, INC.
AnGes Inc.	Hakuto Co., Ltd.	ROUND ONE Corporation
Anicom Holdings, Inc.	Happinet Corporation	RVH Inc.
Anritsu Corporation	Harmonic Drive Systems Inc.	RYOHIN KEIKAKU CO., LTD.
Apaman Co., Ltd.	Hearts United Group Co., Ltd.	SanBio Company Limited
Arealink Co.,Ltd.	IDOM Inc.	SANIX INCORPORATED
Artspark Holdings Inc.	IGNIS LTD.	Sanrio Company, Ltd.
AS ONE CORPORATION	Inabata & Co., Ltd.	SATO HOLDINGS CORPORATION
Ateam Inc.	Infocom Corporation	SBS Holdings, Inc.
Aucfan Co., Ltd.	Infomart Corporation	Seikagaku Corporation
Axell Corporation	Intelligent Wave, Inc.	Seria Co.,Ltd.
Azbil Corporation	istyle Inc.	SHIP HEALTHCARE HOLDINGS, INC.
BEENOS Inc.	Itochu Enex Co., Ltd.	Showcase-Tv Inc.
Bell-Park Co., Ltd.	JSB Co., Ltd.	SMS Co., Ltd.
Benefit One Inc.	J Trust Co., Ltd	Snow Peak, Inc.
B-lot Co.,Ltd.	Japan Best Rescue System Co., Ltd.	Solasia Pharma K.K.
Canon Marketing Japan Inc.	JINS Inc.	SOURCENEXT Corporation
Carna Biosciences, Inc.	JP-HOLDINGS, INC.	Star Mica Co., Ltd.
CERES INC.	KAMEDA SEIKA CO., LTD.	Strike Co., Ltd.
Chiyoda Co., Ltd.	Kenedix, Inc.	SymBio Pharmaceuticals Limited
Chugoku Marine Paints, Ltd.	KFC Holdings Japan, Ltd.	Synchro Food Co., Ltd.
cocokara fine Inc.	KI-Star Real Estate Co., Ltd.	TAIYO HOLDINGS CO., LTD.
COMSYS Holdings Corporation	LAC Co., Ltd.	Takashimaya Company, Limited
CRE, Inc.	Lasertec Corporation	Takihyo Co., Ltd.
CREEK & RIVER Co., Ltd.	MATSUI SECURITIES CO., LTD.	TAMAGAWA HOLDINGS CO., LTD.
Daiseki Co., Ltd.	Medical System Network Co., Ltd.	TEAR Corporation
DIC Corporation	MEDINET Co., Ltd.	3-D Matrix, Ltd.
Digital Arts Inc.	Milbon Co., Ltd.	TKC Corporation
Digital Garage Inc.	MIRAIT Holdings Corporation	TOKAI Holdings Corporation
Don Quijote Holdings Co., Ltd.	Monex Goup Inc.	Tri-Stage Inc.
Dream Incubator Inc.	NAGASE & CO., LTD	VISION INC.
EARTH CHEMICAL CO., LTD.	NAIGAI TRANS LINE LTD.	VISIONARY HOLDINGS CO., LTD.
Elecom Co., Ltd.	NanoCarrier Co., Ltd.	VOYAGE GROUP, INC.
Emergency Assistance Japan Co., Ltd.	Net One Systems Co.,Ltd.	WirelessGate, Inc.
en-Japan Inc.	Nichi-Iko Pharmaceutical Co., Ltd.	YELLOW HAT LTD.
euglena Co., Ltd.	NIPPON PARKING DEVELOPMENT Co., Ltd.	YUMESHIN HOLDINGS CO., LTD.
Ferrotec Holdings Corporation	Nisshinbo Holdings Inc.	Yume no Machi Souzou Iinkai Co., Ltd.
FIELDS CORPORATION	NS TOOL CO., LTD.	Yushiro Chemical Industry Co., Ltd.
Financial Products Group Co., Ltd.	NTT URBAN DEVELOPMENT CORPORATION	ZAPPALLAS, INC.

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