

FACT BOOK

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

For the Six Months Ended September 30, 2013

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Group Vision, Management Stance, Principle of Conduct

▶ Group Vision

We will further develop Happiness Networking, inspire individuals by creating Entertainment Style, and build a future full of dreams.

▶ Management Stance

We constantly lead changes and advance self-improvement, and blaze trails to new business opportunities.

For Customers

We strengthen cooperation with partners and provide satisfaction to people.

For Employees

We respect each individual, create opportunities for growth and challenge, and foster a rewarding job environment.

For Society

We contribute to the realization of a fun and vibrant society by performing business activities based on our Business Ethics.

For Shareholders

We increase business transparency by actively disclosing information, and engage in activities that earn the trust and expectations of shareholders.

▶ Principles of Conduct

We act while constantly considering what is important and what is right.

The overriding objective of the HAPPINET Group is to create added value to enrich the lifestyle of our customers, which we provide through entertainment business activities developed with a broad array of partners—a “Networking” contributing to the “Happiness” of others.

To create meaningful social value by providing people with excitement and entertainment: That is the HAPPINET Group’s raison d’être.

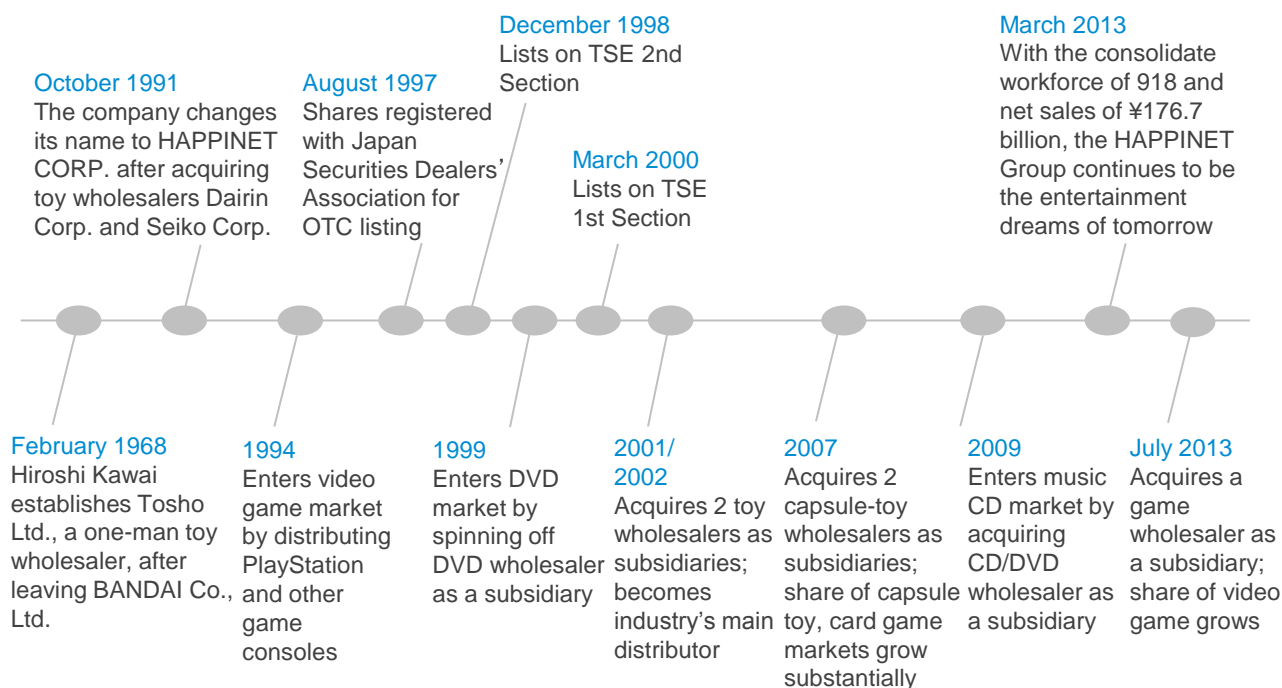


Corporate Profile

	Registered Name	HAPPINET CORPORATION
	URL	http://www.happinet.co.jp/english/
	Head Office	Komagata CA Bldg., 2-4-5 Komagata, Taito-ku, Tokyo 111-0043 Japan
	Established	June 7, 1969
	Representatives	Kazuhiko Note, President and COO
	Main Business	Planning, manufacture and sales of toys; Planning, development and marketing of audio-visual software; Sales of video game hardware and software; Sales of arcade game equipment; Operation of toy vending machines



Major Milestones





Business Segments and Group

Our group operations can be divided into the following four segments: the Toy Business; Visual and Music Business; Video-Game Business; and the Amusement Business. For the first half of fiscal year ended in March 2013, sales from each business respectively accounted for 36.5%, 24.4%, 26.4% and 12.7% of our Group total, reflecting a fairly balanced sales mix. Meanwhile, a breakdown in sales by channel shows that 30.5% of our products were sold through specialty stores, which include consumer electronics and camera stores, 20.1% through general merchandise store, 12.5% through convenience stores, 15.9% through e-commerce, 9.9% through suburban stores, and 11.1% sold through other outlets.

The Happinet Group is comprised of the parent company, seven consolidated subsidiaries and one unconsolidated subsidiary.

Business Lines	Core Operating Companies	Key Characteristics
Toy Business	HAPPINET CORPORATION Happinet Marketing Corp.	One of the largest wholesalers in Japan, our Group handles some 80% of the toys produced by blue-chip toy maker Bandai (which, in turn, comprise about 50% of our Group's product lineup in Toy Business)
Visual and Music Business	HAPPINET CORPORATION Happinet Pictures & Music Corp.	We have achieved parity with the wholesaling industry's largest firms. Visual software accounts for slightly less than 70% of total sales, of which 10% plus represents products that were developed and made in-house (the remaining 30% comes from our music product operation centered on CDs).
Video-Game Business	HAPPINET CORPORATION TOYS UNION CO., LTD. Mori Games Co. Ltd.	We are the only wholesaler in Japan that handles every domestic home game console. The PlayStation series (PS3, PSP,PSVita) account for 16% of all game consoles we handle, while Nintendo products (WiiU, 3DS) account for 75% and the rest, 9%.
Amusement Business	Happinet Vending Service Corp.	We operate toy vending machines and sell arcade game machines. With a market share of 60%, we are also the largest arcade game vendor in Japan.



Strengths

Robust Management Base

Happinet is the leading wholesaler of toys, DVDs, CDs, with some 60% share in the market for operation and sales of capsule toys and card game machines. It is also the Japanese only wholesaler that handles every home game console available in Japan. Today, with the increasing “graying” of Japanese society, manufacturers and retailers are striving to improve management efficiency, while upgrading products and services, in their respective business fields. Yet Happinet, as an industry powerhouse, maintains strong connections with both fields by capitalizing on an abundant information-gathering base and the marketing capability that leverages this information.

Optimal Distribution System

The basis of Happinet’s information-gathering ability is its Optimal Distribution System, which links manufacturers and retailers through such media as EDI (Electronic Data Interchange), POS, the Internet and so forth. As the core locations of ODS, four logistics centers have a combined floor space of 77,134 square meters. The system allows for advanced inventory management on a real-time basis, as well as rapid and reliable shipping operations, with a delivery failure rate of less than one in 100,000 items shipped. Through its advanced supply chain management, ODS also supports the optimization of volume production and contributes to the rationalization of logistics operations by streamlining inventory. It should be noted that Happinet Logistics Service, our consolidated subsidiary, operates the four logistics centers.



Logistics Center-West Japan



Second Logistics Center-West Japan



Logistics Center-East Japan



Second Logistics Center-East Japan

Logistics Center-East Japan

Launched in April 2001

Located in Ichikawa City, Chiba Prefecture
Floor Space: 24,741㎡

Second Logistics Center-East Japan

Launched in February 2006

Located in Funabashi City, Chiba Prefecture
Floor Space: 28,151㎡

Logistics Center-West Japan

Launched in January 2008

Located in Amagasaki City, Hyogo Prefecture
Floor Space: 11,774㎡

Second Logistics Center-West Japan

Launched in July 2011

Located in Amagasaki City, Hyogo Prefecture
Floor Space: 12,468㎡

Assets

(¥ million)	FY3/10 1H end	FY3/11 1H end	FY3/12 1H end	FY3/13 1H end	FY3/14 1H end
Assets					
Total Assets	49,953	49,339	50,392	51,003	60,264
Current assets	40,585	41,210	43,500	45,318	52,951
Cash and deposits	4,206	6,601	10,109	10,512	10,541
Notes and accounts receivable-trade	25,307	23,360	23,655	23,398	28,569
Inventories	7,735	8,198	6,880	8,405	9,049
Other	3,752	3,183	2,930	3,068	4,875
Allowance for doubtful accounts	(418)	(134)	(75)	(66)	(84)
Noncurrent assets	9,368	8,129	6,891	5,685	7,312
Property, plant and equipment	1,826	1,581	1,461	1,353	1,694
Intangible assets	4,255	3,381	2,749	1,331	704
Goodwill	1,635	1,099	707	370	123
Other	2,620	2,282	2,041	961	580
Investments and other assets	3,286	3,165	2,680	2,999	4,914
Investment securities	1,700	1,686	1,352	1,367	1,767
Other	1,842	1,677	1,495	1,764	3,189
Allowance for doubtful accounts	(255)	(198)	(167)	(132)	(42)

Liabilities and Net assets

(¥ million)	FY3/10 1H end	FY3/11 1H end	FY3/12 1H end	FY3/13 1H end	FY3/14 1H end
Liabilities					
Total liabilities	31,508	29,974	29,338	28,867	35,741
Current liabilities	28,476	27,243	26,408	25,939	32,663
Notes and accounts payable-trade	20,738	20,741	21,518	21,541	22,795
Short-term loans payable	2,350	2,350	-	-	6,000
Current portion of long-term loans payable	300	40	-	-	-
Income taxes payable	108	268	804	376	569
Provision for bonuses	446	233	236	261	230
Provision for business structure improvement	376	100	-	-	-
Other provision	42	38	24	40	23
Other	4,113	3,472	3,825	3,719	3,044
Noncurrent liabilities	3,031	2,730	2,930	2,927	3,077
Long-term loans payable	285	-	-	-	-
Provision for retirement benefits	1,410	1,447	1,697	1,828	2,039
Asset retirement obligations	-	45	46	49	50
Negative goodwill	109	70	33	5	-
Other	1,227	1,166	1,152	1,044	987
Net assets					
Total net assets	18,445	19,364	21,053	22,136	24,522
Shareholders' equity	18,226	19,226	20,969	21,994	24,265
Capital stock	2,751	2,751	2,751	2,751	2,751
Capital surplus	2,776	2,775	2,775	2,775	2,775
Retained earnings	13,815	14,681	16,534	17,559	19,727
Treasury stock	(1,116)	(981)	(1,091)	(1,091)	(989)
Accumulated other comprehensive income	218	137	71	117	249
Valuation difference on available-for-sale securities	219	138	72	118	249
Deferred gains or losses on hedges	(0)	(0)	(1)	(1)	(0)
Subscription rights to shares	-	0	11	22	8
Minority interests	-	0	0	1	0
Total liabilities and net assets	49,953	49,339	50,392	51,003	60,264

Consolidated Statements of Income and Comprehensive Income



(¥ million)	FY3/10 1H	FY3/11 1H	FY3/12 1H	FY3/13 1H	FY3/14 1H
Net sales	89,829	85,090	88,508	76,211	87,371
Cost of sales	79,146	74,685	76,634	66,019	76,587
Gross profit	10,683	10,404	11,874	10,192	10,783
Selling, general and administrative expenses	9,752	9,164	9,557	9,185	9,231
Operating income	930	1,240	2,316	1,007	1,551
Non-operating income	179	97	111	70	58
Interest income	4	1	1	1	1
Dividends income	30	28	20	16	21
Amortization of negative goodwill	18	18	18	14	1
Other	126	48	71	38	34
Non-operating expenses	51	22	5	5	30
Interest expenses	32	11	2	2	5
Foreign exchange losses	0	7	0	1	0
Other	-	-	-	-	24
Other	19	3	2	0	0
Ordinary income	1,059	1,314	2,422	1,072	1,579
Extraordinary income	72	35	3	5	411
Gain on sales of noncurrent assets	3	3	2	0	2
Gain on sales of investment securities	11	28	-	5	-
Gain on sales of memberships	-	-	1	-	-
Reversal of allowance for doubtful accounts	57	4	-	-	-
Gain on negative goodwill	-	-	-	-	409
Extraordinary loss	115	78	41	55	152
Loss on sales of noncurrent assets	0	0	7	1	0
Loss on retirement of noncurrent assets	38	11	1	1	0
Loss on sales of investment securities	1	-	0	-	-
Loss on valuation of investment securities	0	17	-	31	7
Loss on valuation of membership	6	-	0	7	-
Loss on sales of membership	-	-	1	-	-
Loss on sales of subsidiaries' stocks	0	-	-	-	-
Loss on liquidation of subsidiaries	-	22	-	-	-
Office transfer expenses	69	-	-	-	-
Loss on adjustment for changes of accounting standard for asset	-	27	-	-	-
Loss on disaster	-	-	29	-	-
Impairment loss	-	-	-	13	33
Directors' retirement benefits	-	-	-	-	110
Income before income taxes and minority interests	1,016	1,271	2,384	1,022	1,838
Income taxes-current	69	276	802	371	557
Income taxes-deferred	288	282	55	(59)	(94)
Total income taxes	358	558	857	312	462
Income before minority interests	657	712	1,527	710	1,376
Minority interests in income (loss)	-	(0)	0	0	0
Net income	657	712	1,526	709	1,375

(¥ million)	FY3/10 1H	FY3/11 1H	FY3/12 1H	FY3/13 1H	FY3/14 1H
Income before minority interests	-	712	1,527	710	1,376
Other comprehensive income	-	(244)	(113)	(11)	57
Valuation difference on available-for-sale securities	-	(243)	(112)	(9)	59
Deferred gains or losses on hedges	-	(1)	(1)	(1)	(2)
Comprehensive income	-	468	1,413	698	1,434
Comprehensive income attributable to owners of the parent	-	468	1,412	698	1,433
Comprehensive income attributable to minority interests	-	(0)	0	0	0

Consolidated Statements of Cash Flows



(¥ million)	FY3/10 1H	FY3/11 1H	FY3/12 1H	FY3/13 1H	FY3/14 1H
Net cash provided by (used in) operating activities					
Net cash provided by (used in) operating activities	2,817	660	2,124	(1,306)	△3,093
Income before income taxes and minority interests	1,016	1,271	2,384	1,022	1,838
Depreciation and amortization	417	384	346	323	309
Impairment loss	-	-	-	13	33
Amortization of goodwill	214	204	150	154	121
Gain on negative goodwill	-	-	-	-	(409)
Increase (decrease) in allowance for doubtful accounts	(88)	(4)	(8)	(5)	12
Share-based compensation expenses	-	0	5	5	-
Increase (decrease) in provision for bonuses	1	(370)	(78)	(211)	(193)
Increase (decrease) in provision for retirement benefits	53	23	66	48	55
Increase (decrease) in provision for business structure improvem	(813)	(77)	(11)	-	-
Interest and dividends income	(34)	(29)	(21)	(17)	(23)
Interest expenses	32	11	2	2	5
Loss (gain) on sales and retirement of noncurrent assets	34	8	6	2	(1)
Loss (gain) on sales of investment securities	(9)	(28)	0	(5)	-
Loss (gain) on valuation of investment securities	0	17	-	31	7
Loss on valuation of membership	6	-	0	7	-
Foreign exchange losses (gains)	0	7	0	1	0
Decrease (increase) in notes and accounts receivable-trade	(279)	(452)	(441)	3,357	618
Decrease (increase) in inventories	1,609	(1,448)	(444)	(2,236)	(1,564)
Increase (decrease) in notes and accounts payable-trade	(10)	908	1,314	(1,501)	(1,030)
Other, net	1,085	668	(131)	(722)	(2,221)
Subtotal	3,234	1,094	3,142	271	(2,440)
Interest and dividends income received	34	29	21	17	23
Interest expenses paid	(31)	(12)	(2)	(2)	(9)
Income taxes paid	(420)	(450)	(1,036)	(1,593)	(666)
Net cash provided by (used in) investing activities					
Net cash provided by (used in) investing activities	(108)	(190)	(64)	(173)	(124)
Proceeds from withdrawal of time deposits	517	-	-	-	-
Purchase of property, plant and equipment	(56)	(11)	(24)	(69)	(156)
Proceeds from sales of property, plant and equipment	7	5	32	1	5
Purchase of intangible assets	(685)	(75)	(86)	(72)	(62)
Purchase of investment securities	(5)	(111)	(4)	(4)	(5)
Proceeds from sales of investment securities	54	115	2	6	-
Purchase of investments in subsidiaries	-	-	-	-	(1)
Other, net	60	(112)	16	(34)	95
Net cash provided by (used in) financing activities					
Net cash provided by (used in) financing activities	(3,447)	(174)	(170)	(364)	3,605
Decrease in short-term loans payable	(2,790)	-	-	-	4,000
Repayment of long-term loans payable	(225)	(100)	-	-	(194)
Proceeds from sales of treasury stock	-	102	-	0	-
Purchase of treasury stock	(216)	(0)	(0)	-	(0)
Cash dividends paid	(170)	(168)	(168)	(363)	(252)
Other, net	(45)	(8)	(1)	(1)	52
Effect of exchange rate change on cash and cash equivalent	(0)	(7)	(0)	(1)	(1)
Net increase (decrease) in cash and cash equivalents	(738)	289	1,888	(1,846)	386
Cash and cash equivalents at beginning of period	4,945	6,312	8,220	12,359	10,155
Cash and cash equivalents at end of period	4,206	6,601	10,109	10,512	10,541

(¥ million)	FY3/10 1H	FY3/11 1H	FY3/12 1H	FY3/13 1H	FY3/14 1H
Toy Business					
Net sales	28,385	30,376	34,092	32,410	31,880
Segment income/Loss	749	860	1,249	833	563
Visual and Music Business					
Net sales	33,483	27,509	26,702	20,711	21,300
Segment income/Loss	(63)	80	338	107	377
Video-game Business					
Net sales	19,395	18,703	16,492	13,127	23,042
Segment income/Loss	420	410	404	98	34
Amusement Business					
Net sales	8,565	8,500	11,220	9,962	11,147
Segment income/Loss	462	502	989	605	1,190
Adjustments					
Net sales	-	-	-	-	-
Segment income/Loss	(639)	(613)	(664)	(637)	(614)
Consolidated					
Net sales	89,829	85,090	88,508	76,211	87,371
Segment income/Loss	930	1,240	2,316	1,007	1,551

Consolidated Growth/Profitability Indicators



(¥ million)	FY3/10 1H	FY3/11 1H	FY3/12 1H	FY3/13 1H	FY3/14 1H
Net Sales	89,829	85,090	88,508	76,211	87,371
Gross Profit	10,683	10,404	11,874	10,192	10,783
SG&A Expenses	9,752	9,164	9,557	9,185	9,231
Operating Income	930	1,240	2,316	1,007	1,551
Ordinary income	1,059	1,314	2,422	1,072	1,579
Net Income	657	712	1,526	709	1,375

(%)	FY3/10 1H	FY3/11 1H	FY3/12 1H	FY3/13 1H	FY3/14 1H
Gross Profit Ratio	11.9	12.2	13.4	13.4	12.3
SG&A Expenses Ratio	10.9	10.8	10.8	12.1	10.6
Operating Income Ratio	1.0	1.5	2.6	1.3	1.8
Ordinary Income Ratio	1.2	1.5	2.7	1.4	1.8
Net Income Ratio	0.7	0.8	1.7	0.9	1.6

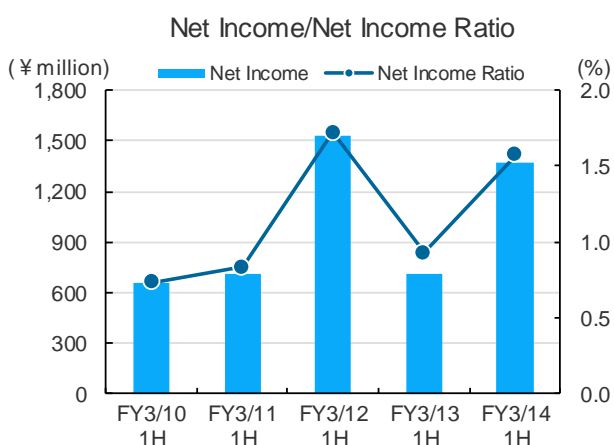
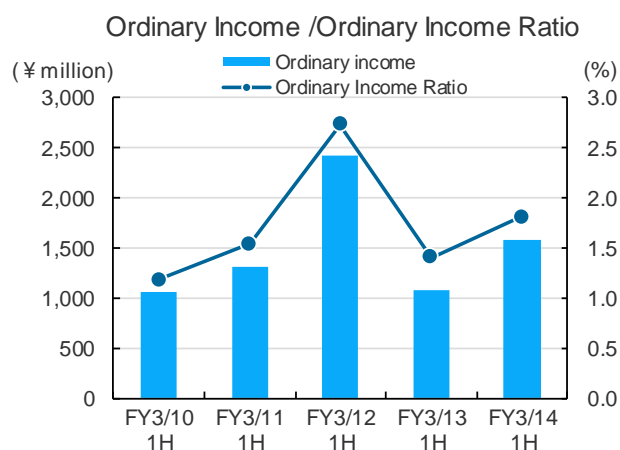
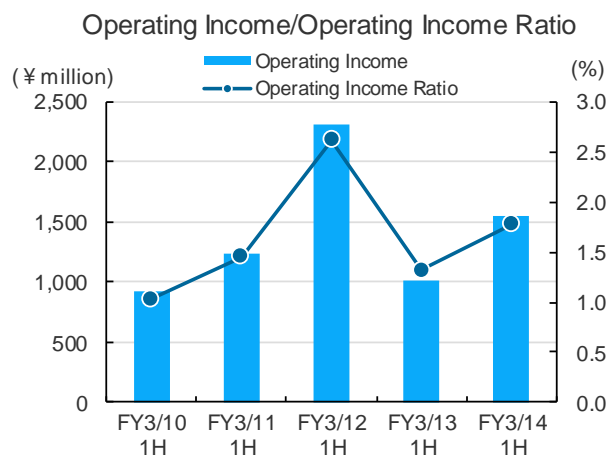
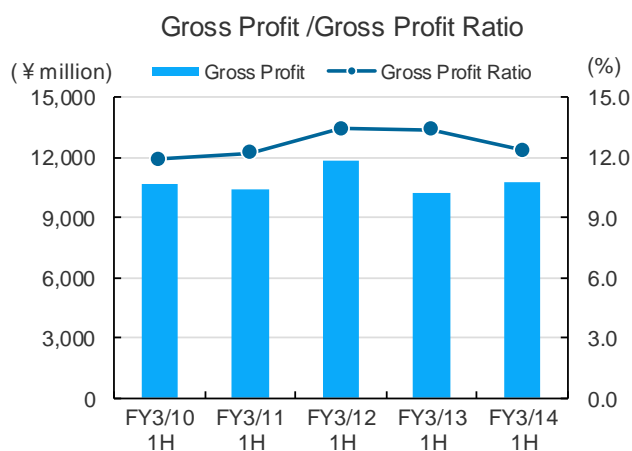
Gross Profit Ratio = Gross Profit/Net Sales

SG&A Expenses Ratio = SG&A Expenses/Net Sales

Operating Income Ratio = Operating Income/Net Sales

Ordinary Income Ratio = Ordinary Income/Net Sales

Net IncomeRatio = Net Income/Net Sales



(times)	FY3/10 1H	FY3/11 1H	FY3/12 1H	FY3/13 1H	FY3/14 1H
Total Assets Turnover	3.4	3.5	3.6	2.9	3.1
Equity Turnover	9.8	8.9	8.7	6.9	7.3
Noncurrent Assets Turnover	18.7	20.0	24.7	26.0	28.2
Current Assets Turnover	4.2	4.2	4.2	3.3	3.5

< Reference (Full Year) >	FY3/10	FY3/11	FY3/12	FY3/13	FY3/14
ROA (%)	2.3	2.8	4.8	3.7	-
ROE (%)	6.4	7.1	11.8	8.9	-

Total Assets Turnover = Net Sales*2/Average Total Assets

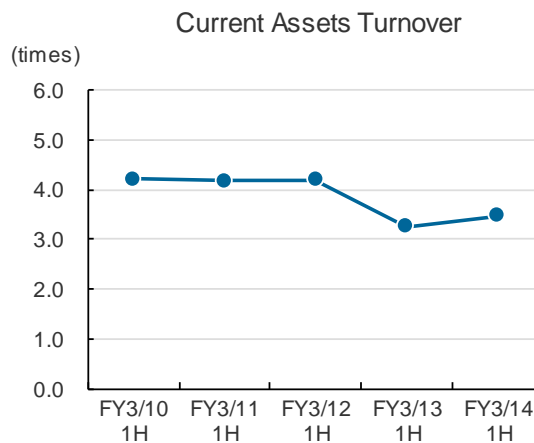
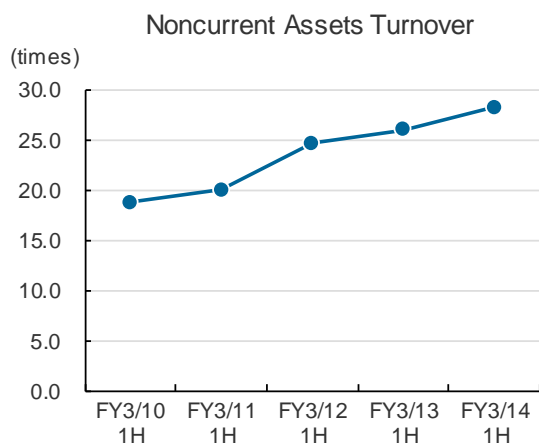
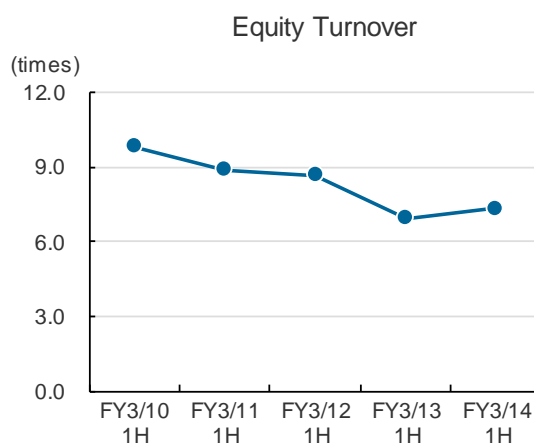
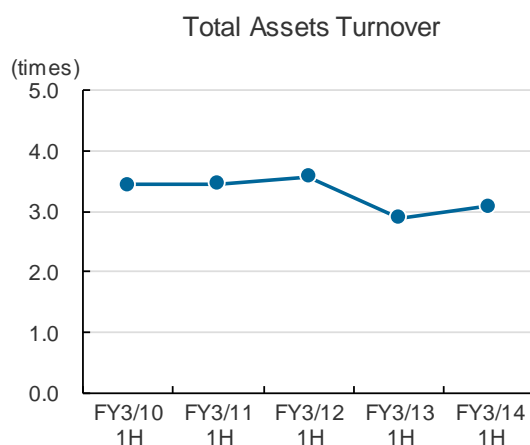
Equity Turnover = Net Sales*2/Average Equity

Noncurrent Assets Turnover = Net Sales*2/Average Noncurrent Assets

Current Assets Turnover = Net Sales*2/Average Current Assets

ROA = Net Income/Average Total Assets

ROE = Net Income/Average Equity



Consolidated Efficiency/Stability Indicators



(¥ million)	FY3/10 1H	FY3/11 1H	FY3/12 1H	FY3/13 1H	FY3/14 1H
Equity	18,445	19,364	21,041	22,112	24,514
Total Assets	49,953	49,339	50,392	51,003	60,264
Noncurrent Assets	9,368	8,129	6,891	5,685	7,312
Noncurrent Liabilities	3,031	2,730	2,930	2,927	3,077
Current Assets	40,585	41,210	43,500	45,318	52,951
Current Liabilities	28,476	27,243	26,408	25,939	32,663
Total net assets	18,445	19,364	21,053	22,136	24,522
Interest-bearing Debt	2,935	2,390	-	-	6,000

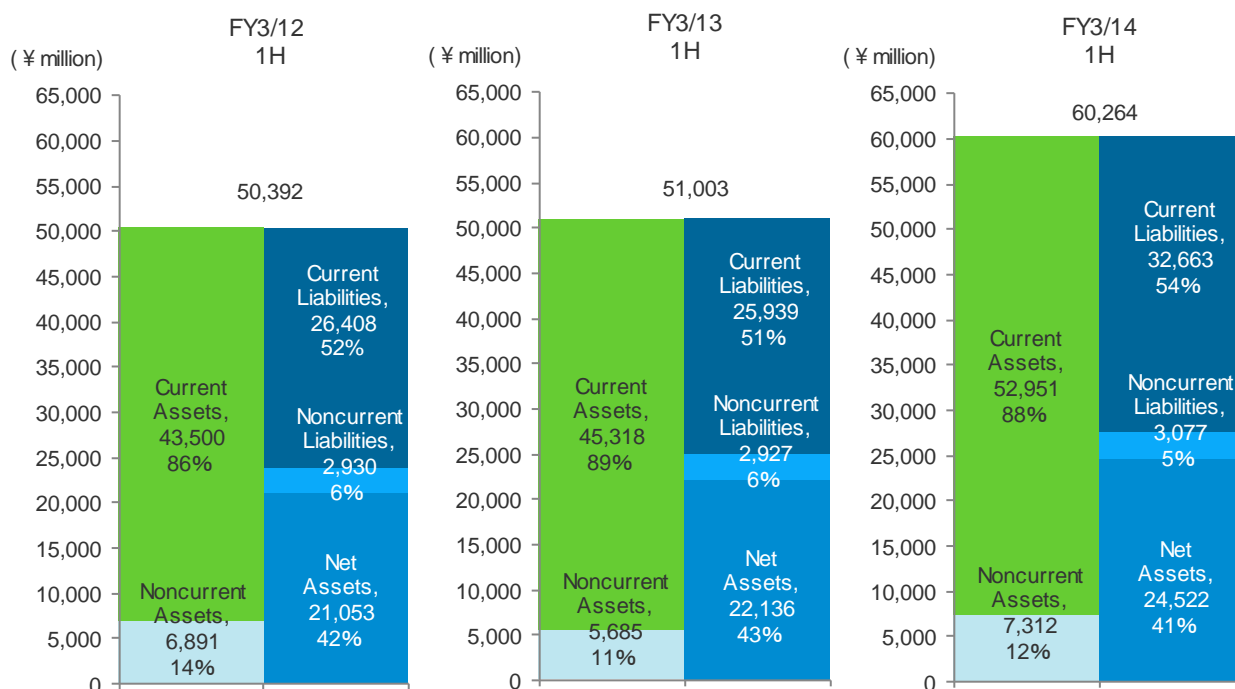
(%)	FY3/10 1H	FY3/11 1H	FY3/12 1H	FY3/13 1H	FY3/14 1H
Equity Ratio	36.9	39.2	41.8	43.4	40.7
D/E Ratio	15.9	12.3	-	-	24.5
Fixed Ratio	50.8	42.0	32.8	25.7	29.8
Current Ratio	142.5	151.3	164.7	174.7	162.1

Equity Ratio = Equity/Average Total Assets

D/E Ratio = Interest-bearing Debt/Equity

Fixed Ratio = Noncurrent Assets/Equity

Current Ratio = Current Assets/Current Liabilities



	FY3/10 1H	FY3/11 1H	FY3/12 1H	FY3/13 1H	FY3/14 1H
Share Price (¥)	1,240	1,056	658	652	754
Outstanding Shares Issued (shares)	12,025,000	12,025,000	24,050,000	24,050,000	24,050,000
Treasury Stock (shares)	823,125	723,555	1,647,630	1,647,870	1,493,290
Earnings per Share (¥)	57.95	63.63	68.14	31.68	61.13
Book Value per Share (¥)	1,646.64	1,713.41	939.25	987.05	1,086.78
Free Cash Flow per Share (¥)	241.81	41.65	91.95	(66.08)	(142.67)
Dividend per Share (¥)	15.00	15.00	22.50	11.25	11.25
EBITDA (¥million)	1,347	1,624	2,662	1,330	1,860

< Reference (Full-Year Indicators) >

	FY3/10	FY3/11	FY3/12	FY3/13	FY3/14
PER (times)	10.9	8.9	8.7	8.7	8.5 (fcst.)
PBR (times)	0.7	0.6	1.0	0.7	-
PCFR (times)	2.2	2.6	5.0	(12.4)	-
EV/EBITDA Ratio (times)	3.1	1.4	1.9	2.4	-
Dividend Yield (%)	2.6	2.7	4.0	2.9	3.0 (fcst.)

Free Cash Flow per Share=(Cash Flows from Operating Activities+Cash Flows from Investing Activities)/(Outstanding Shares Issued-Treasury Stock)

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

EBITDA =Operating Income+Depreciation

EV =Market Value+Interest-bearing Debt-Liquidity in Hand (Cash & Deposits)

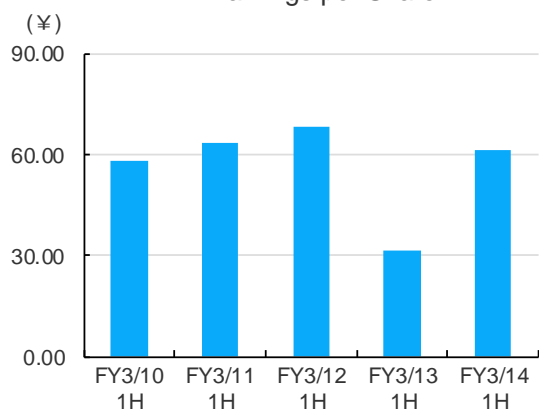
EV/EBITDA Ratio = EV/EBITDA

(fcst.) : FY3/14 forecast

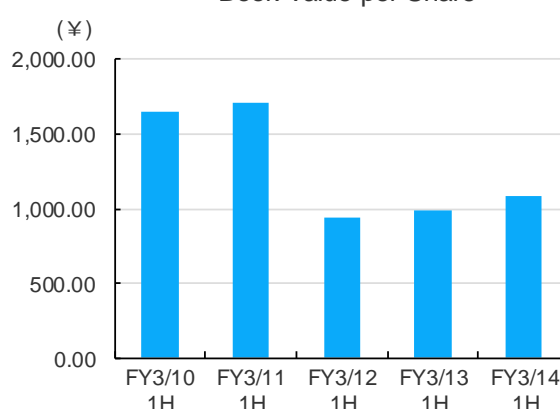
Note : Share splits from 1 to 2 on December 1, 2011

Stock Market Indicators here are calculated assuming the stock split occurred at the beginning of FY3/12.

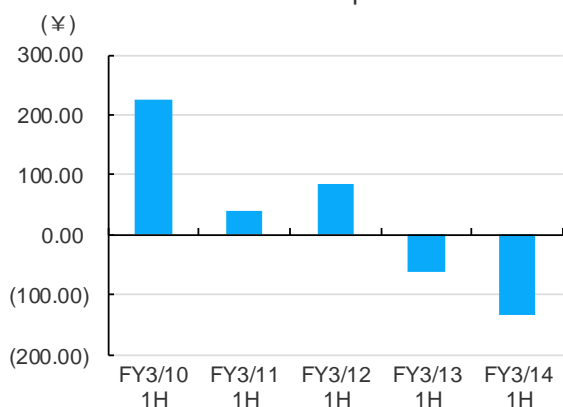
Earnings per Share



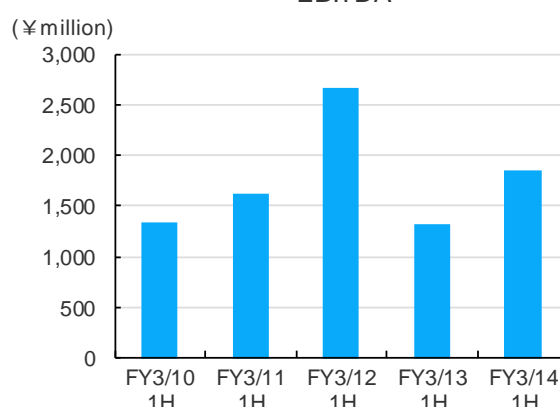
Book Value per Share



Cash Flow per Share



EBITDA



As of September 30, 2013

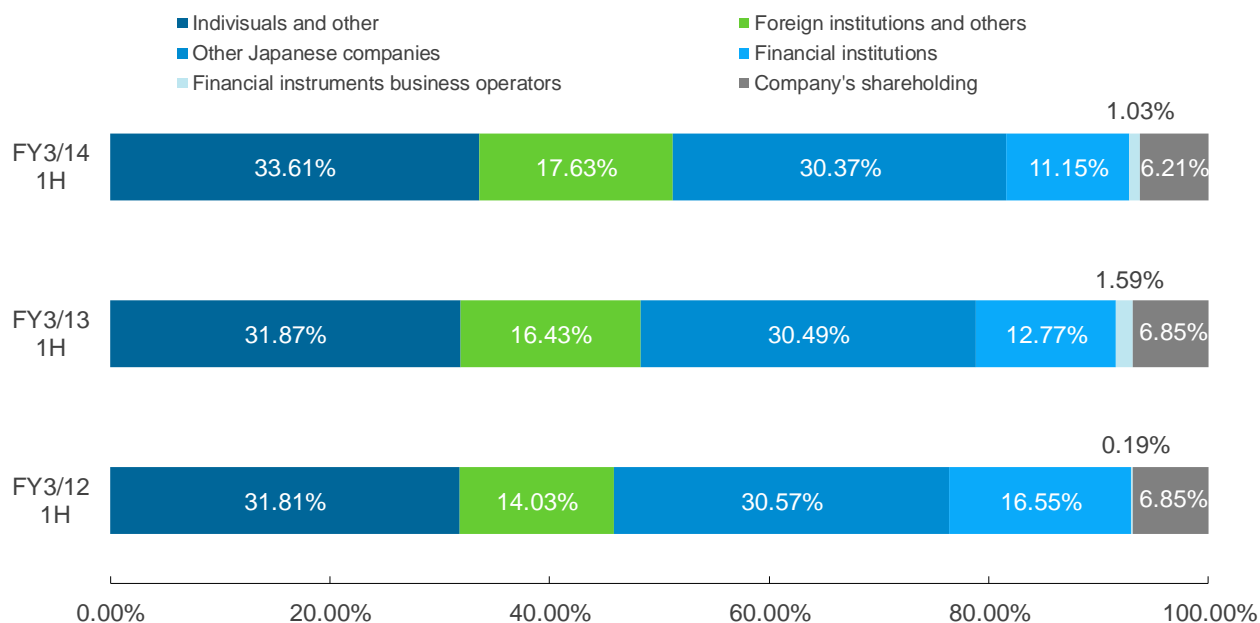
Major Shareholders

	Number of Shares (thousand)	Shareholding Ratio
NAMCO BANDAI Holdings Inc.	5,883	26.0%
ICHIGO Trust	2,337	10.3%
Japan Trustee Services Bank, Ltd. (trust account)	898	3.9%
Idaira, Yasuhiko	763	3.3%
Kawai, Hiroshi	701	3.1%
Japan Trustee Services Bank, Ltd. (trust account for Chuo Mitsui Asset Trust and Banking Company, Limited and employee retirement benefit of Sumitomo Mitsui Banking Corporation)	676	2.9%
Kawai, Kayo	541	2.4%
UBS AG LONDON A/C IPB SEGREGATED CLIENT	414	1.8%
Happinet employee share holders association	398	1.7%
Orient Ltd.	365	1.6%

* In addition to the above, HAPPINET CORPORATION holds 1,493,000 shares.

Shareholding ratio was calculated based on the total number of the issued shares excluding the number of treasury stock.

Breakdown of Type of Shareholder





HAPPINET CORPORATION

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