

FACT BOOK

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

For the Six Months Ending September 30, 2014

■ Corporate Profile	[2-5]
■ Consolidated Balance Sheet	[6]
■ Consolidated Statement of Income and Comprehensive Income	[7]
■ Consolidated Statement of Cash Flows	[8]
■ Information by Segment	[9]
■ Consolidated Growth/Profitability Indicators	[10]
■ Consolidated Profitability/Efficiency Indicators	[11]
■ Consolidated Efficiency/Stability Indicators	[12]
■ Stock Market Indicators	[13]
■ Stock Information	[14]



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.

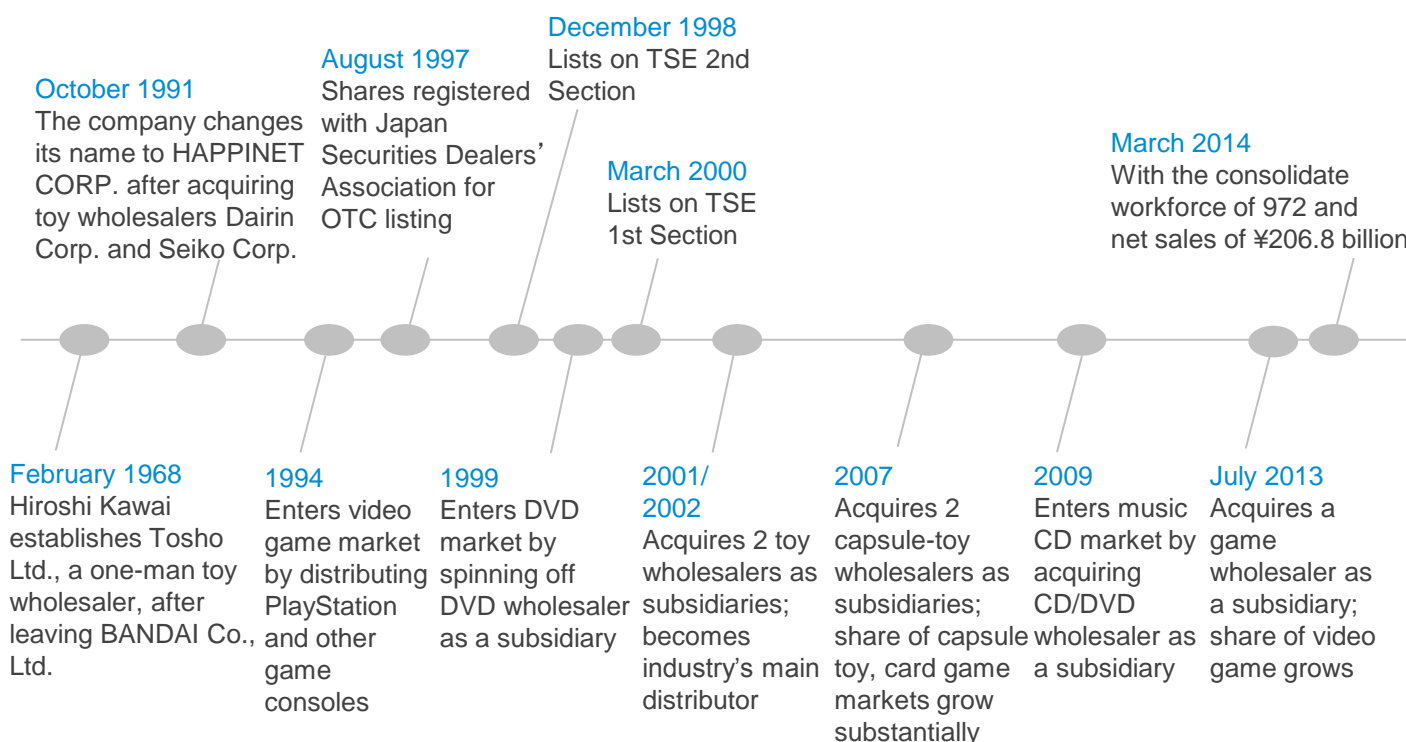
The overriding objective of the HAPPINET Group is to create added value to enrich the lifestyle of our customers, which we provide through entertainment business activities developed with a broad array of partners — a “Networking” contributing to the “Happiness” of others.

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 & 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 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 2015, sales from each business respectively accounted for 42.3%, 22.9%, 21.3% and 13.5% of our Group total, reflecting a fairly balanced sales mix.

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

Business Lines	Core Operating Companies	Key Characteristics
Toy Business	HAPPINET CORPORATION Toy·Hobby Unit HAPPINET CORPORATION CVS Unit HAPPINET CORPORATION Toy ·Original Unit Happinet Marketing Corporation	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 50% plus of our Group's product lineup)
Visual and Music Business	HAPPINET CORPORATION Happinet PM Unit (*1) HAPPINET CORPORATION Pictures Unit	We have achieved parity with the wholesaling industry's largest firms. Visual software accounts for 70% plus of total sales, of which approx.15% represents products that were developed and made in-house (the remaining less than 30% comes from our music product operation centered on CDs).
Video-Game Business	HAPPINET CORPORATION Video - game Unit MAXGAMES Corporation (*2)	We are the only wholesaler in Japan that handles every domestic home game console. Nintendo products (WiiU, 3DS) account for approx.75% of all games consoles we handle, while the PlayStation series (PS4, PSP, PSVita) account for approx. 15% and the rest approx.10%.
Amusement Business	HAPPINET CORPORATION Amusement Unit HAPPINET CORPORATION Happinet Vending Service Corporation	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.

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

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

Strengths

Robust Management Base

Happinet is the leading wholesaler of toys, DVDs, CDs, capsule toys and card games, with some 60% share of a market that spans the operation and sales of capsule toys and card games. 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. At the core of the ODS are four logistics centers, with a combined floor space of 76,835 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: 24,741m²

Second Logistics Center-East Japan

Launched in February 2006

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

Logistics Center-West Japan

Launched in January 2008

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

Second Logistics Center-West Japan

Launched in July 2011

Located in Amagasaki City, Hyogo Prefecture
Floor Space: 12,169m²

Assets

(¥ million)	FY3/11 1H end	FY3/12 1H end	FY3/13 1H end	FY3/14 1H end	FY3/15 1H end
Assets					
Total Assets	49,339	50,392	51,003	60,264	61,985
Current assets	41,210	43,500	45,318	52,951	54,439
Cash and deposits	6,601	10,109	10,512	10,541	11,795
Notes and accounts receivable - trade	23,360	23,655	23,398	28,569	30,167
Inventories	8,199	6,880	8,405	9,049	8,557
Other	3,183	2,930	3,068	4,875	3,924
Allowance for doubtful accounts	(134)	(75)	(66)	(84)	(5)
Non-current assets	8,129	6,891	5,685	7,312	7,546
Property, plant and equipment	1,581	1,461	1,353	1,694	1,013
Intangible assets	3,381	2,749	1,331	704	695
Goodwill	1,099	707	370	123	-
Other	2,282	2,041	961	580	695
Investments and other assets	3,165	2,680	2,999	4,914	5,836
Investment securities	1,686	1,352	1,367	1,767	2,126
Other	1,677	1,495	1,764	3,189	3,807
Allowance for doubtful accounts	(198)	(167)	(132)	(42)	(96)

Liabilities and Net assets

(¥ million)	FY3/11 1H end	FY3/12 1H end	FY3/13 1H end	FY3/14 1H end	FY3/15 1H end
Liabilities					
Total liabilities	29,974	29,338	28,867	35,741	34,628
Current liabilities	27,243	26,408	25,939	32,663	31,248
Notes and accounts payable - trade	20,741	21,518	21,541	22,795	26,540
Short-term loans payable	2,350	-	-	6,000	-
Current portion of long-term loans payable	40	-	-	-	-
Income taxes payable	268	804	376	569	610
Provision for bonuses	233	236	261	230	249
Provision for business structure improvement	100	-	-	-	-
Other provision	38	24	40	23	18
Other	3,472	3,825	3,719	3,044	3,828
Non-current liabilities	2,730	2,930	2,927	3,077	3,380
Provision for retirement benefits	1,447	1,697	1,828	2,039	-
Provision for directors' retirement benefits	-	-	-	-	2,422
Asset retirement obligations	45	46	49	50	51
Negative goodwill	70	33	5	-	-
Other	1,166	1,152	1,044	987	906
Net assets					
Total net assets	19,364	21,053	22,136	24,522	27,356
Shareholders' equity	19,226	20,969	21,994	24,265	26,661
Capital stock	2,751	2,751	2,751	2,751	2,751
Capital surplus	2,775	2,775	2,775	2,775	2,775
Retained earnings	14,681	16,534	17,559	19,727	22,071
Treasury shares	(981)	(1,091)	(1,091)	(989)	(936)
Accumulated other comprehensive income	137	71	117	249	521
Valuation difference on available-for-sale securities	138	72	118	249	519
Deferred gains or losses on hedges	(0)	(1)	(1)	(0)	1
Subscription rights to shares	0	11	22	8	173
Minority interests	0	0	1	0	-
Total liabilities and net assets	49,339	50,392	51,003	60,264	61,985

Consolidated Statement of Income and Comprehensive Income



(¥ million)	FY3/11 1H	FY3/12 1H	FY3/13 1H	FY3/14 1H	FY3/15 1H
Net sales	85,090	88,508	76,211	87,371	93,437
Cost of sales	74,685	76,634	66,019	76,587	81,421
Gross profit	10,404	11,874	10,192	10,783	12,016
Selling, general and administrative expenses	9,164	9,557	9,185	9,231	9,653
Operating income	1,240	2,316	1,007	1,551	2,362
Non-operating income	97	111	70	58	57
Interest income	1	1	1	1	1
Dividend income	28	20	16	21	21
Amortization of negative goodwill	18	18	14	1	-
Other	48	71	38	34	35
Non-operating expenses	22	5	5	30	6
Interest expenses	11	2	2	5	0
Foreign exchange losses	7	0	1	0	-
Loss on cancellation of lease contract	0	0	0	0	5
Provision of allowance for doubtful accounts	-	-	-	24	0
Other	3	1	0	0	0
Ordinary income	1,314	2,422	1,072	1,579	2,413
Extraordinary income	35	3	5	411	6
Gain on sales of non-current assets	3	2	0	2	2
Gain on sales of investment securities	-	-	5	-	4
Gain on sales of memberships	-	1	-	-	-
Reversal of allowance for doubtful accounts	-	-	-	-	-
Gain on bargain purchase	-	-	-	409	-
Extraordinary losses	78	41	55	152	525
Loss on sales of non-current assets	0	7	1	0	-
Loss on retirement of non-current assets	11	1	1	0	6
Loss on sales of investment securities	-	0	-	-	0
Loss on valuation of investment securities	-	-	31	7	14
Loss on valuation of membership	-	0	7	-	-
Loss on sales of membership	-	1	-	-	-
Loss on liquidation of subsidiaries	-	-	-	-	-
Loss on adjustment for changes of accounting standard for asset retirement obligations	-	-	-	-	-
Loss on disaster	-	29	-	-	-
Impairment loss	-	-	13	33	125
Loss on revision of retirement benefit plan	-	-	-	-	379
Directors' retirement benefits	-	-	-	110	-
Income before income taxes and minority interests	1,271	2,384	1,022	1,838	1,894
Income taxes - current	276	802	371	557	600
Income taxes - deferred	282	55	(59)	(94)	(520)
Total income taxes	558	857	312	462	79
Income before minority interests	712	1,527	710	1,376	1,814
Minority interests in income (loss)	(0)	0	0	0	-
Net income	712	1,526	709	1,375	1,814

(¥ million)	FY3/11 1H	FY3/12 1H	FY3/13 1H	FY3/14 1H	FY3/15 1H
Other comprehensive income	(244)	(113)	(11)	57	143
Valuation difference on available-for-sale securities	(243)	(112)	(9)	59	140
Deferred gains or losses on hedges	(1)	(1)	(1)	(2)	2
Comprehensive income	468	1,413	698	1,434	1,957
Comprehensive income attributable to owners of the parent	468	1,412	698	1,433	1,957
Comprehensive income attributable to minority interests	(0)	0	0	0	-

Consolidated Statement of Cash Flows



(¥ million)	FY3/11 1H	FY3/12 1H	FY3/13 1H	FY3/14 1H	FY3/15 1H
Cash flows from operating activities					
Net cash provided by (used in) operating activities	660	2,124	(1,306)	(3,093)	2,325
Income before income taxes and minority interests	1,271	2,384	1,022	1,838	1,894
Depreciation	384	346	323	309	184
Impairment loss	-	-	13	33	125
Amortization of goodwill	204	150	154	121	-
Gain on bargain purchase	-	-	-	(409)	-
Increase (decrease) in allowance for doubtful accounts	(4)	(8)	(5)	12	(8)
Share-based compensation expenses	0	5	5	-	-
Increase (decrease) in provision for bonuses	(370)	(78)	(211)	(193)	(227)
Increase (decrease) in provision for retirement benefits	23	66	48	55	-
Increase (decrease) in net defined benefit liability	-	-	-	-	319
Increase (decrease) in provision for business structure improvement	(77)	(11)	-	-	-
Interest and dividend income	(29)	(21)	(17)	(23)	(22)
Interest expenses	11	2	2	5	0
Loss (gain) on sales and retirement of non-current assets	8	6	2	(1)	3
Loss (gain) on sales of investment securities	(28)	0	(5)	-	(3)
Loss (gain) on valuation of investment securities	17	-	31	7	14
Loss on valuation of membership	-	0	7	-	-
Foreign exchange losses (gains)	7	0	1	0	(0)
Decrease (increase) in notes and accounts receivable - trade	(452)	(441)	3,357	618	(6,062)
Decrease (increase) in inventories	(1,448)	(444)	(2,236)	(1,564)	(1,152)
Increase (decrease) in notes and accounts payable - trade	908	1,314	(1,501)	(1,030)	6,441
Other, net	668	(131)	(722)	(2,221)	1,898
Subtotal	1,094	3,142	271	(2,440)	3,406
Interest and dividend income received	29	21	17	23	22
Interest expenses paid	(12)	(2)	(2)	(9)	(0)
Income taxes paid	(450)	(1,036)	(1,593)	(666)	(1,103)
Cash flows from investing activities	0	0	0	0	0
Net cash provided by (used in) investing activities	(190)	(64)	(173)	(124)	(201)
Purchase of property, plant and equipment	(11)	(24)	(69)	(156)	(95)
Proceeds from sales of property, plant and equipment	5	32	1	5	183
Purchase of intangible assets	(75)	(86)	(72)	(62)	(360)
Purchase of investment securities	(111)	(4)	(4)	(5)	(6)
Proceeds from sales of investment securities	115	2	6	-	10
Purchase of shares of subsidiaries	-	-	-	(1)	-
Other, net	(112)	16	(34)	95	66
Cash flows from financing activities	0	0	0	0	0
Net cash provided by (used in) financing activities	(174)	(170)	(364)	3,605	(323)
Net increase (decrease) in short-term loans payable	-	-	-	4,000	-
Repayments of long-term loans payable	(100)	-	-	(194)	-
Proceeds from disposal of treasury shares	102	-	0	53	9
Purchase of treasury shares	(0)	(0)	-	(0)	(0)
Cash dividends paid	(168)	(168)	(363)	(252)	(305)
Other, net	(8)	(1)	(1)	(1)	(27)
Effect of exchange rate change on cash and cash equivalents	(7)	(0)	(1)	(1)	(0)
Net increase (decrease) in cash and cash equivalents	289	1,888	(1,846)	386	1,799
Cash and cash equivalents at beginning of period	6,312	8,220	12,359	10,155	9,996
Cash and cash equivalents at end of period	6,601	10,109	10,512	10,541	11,795

Information by Segment



(¥ million)	FY3/11 1H	FY3/12 1H	FY3/13 1H	FY3/14 1H	FY3/15 1H
Toy Business					
Net sales	30,376	34,092	32,410	31,880	39,479
Segment income	860	1,249	833	563	1,663
Visual and Music Business					
Net sales	27,509	26,702	20,711	21,300	21,376
Segment income	80	338	107	377	145
Video-game Business					
Net sales	18,703	16,492	13,127	23,042	19,939
Segment income	410	404	98	34	(61)
Amusement Business					
Net sales	8,500	11,220	9,962	11,147	12,643
Segment income	502	989	605	1,190	1,264
Adjustments					
Net sales	-	-	-	-	-
Segment income (loss)	(613)	(664)	(637)	(614)	(648)
Consolidated					
Net sales	85,090	88,508	76,211	87,371	93,437
Segment income	1,240	2,316	1,007	1,551	2,362

Consolidated Growth/Profitability Indicators



(¥ million)	FY3/11 1H	FY3/12 1H	FY3/13 1H	FY3/14 1H	FY3/15 1H
Net Sales	85,090	88,508	76,211	87,371	93,437
Gross Profit	10,404	11,874	10,192	10,783	12,016
SG&A Expenses	9,164	9,557	9,185	9,231	9,653
Operating Income	1,240	2,316	1,007	1,551	2,362
Ordinary Income	1,314	2,422	1,072	1,579	2,413
Net Income	712	1,526	709	1,375	1,814

(%)	FY3/11 1H	FY3/12 1H	FY3/13 1H	FY3/14 1H	FY3/15 1H
Gross Profit Ratio	12.2	13.4	13.4	12.3	12.9
SG&A Expenses Ratio	10.8	10.8	12.1	10.6	10.3
Operating Income Ratio	1.5	2.6	1.3	1.8	2.5
Ordinary Income Ratio	1.5	2.7	1.4	1.8	2.6
Net Income Ratio	0.8	1.7	0.9	1.6	1.9

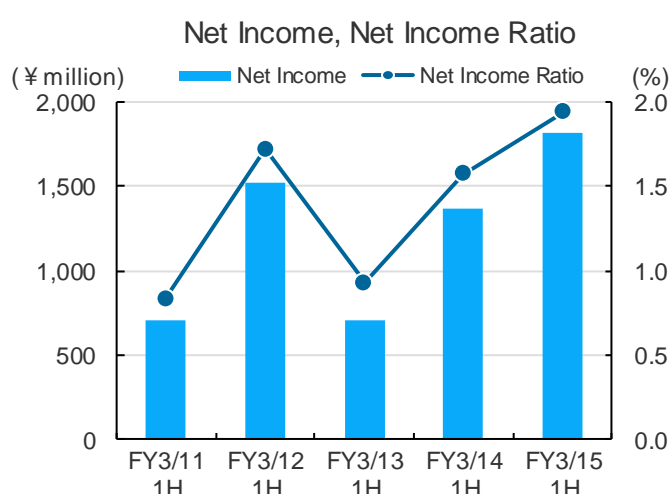
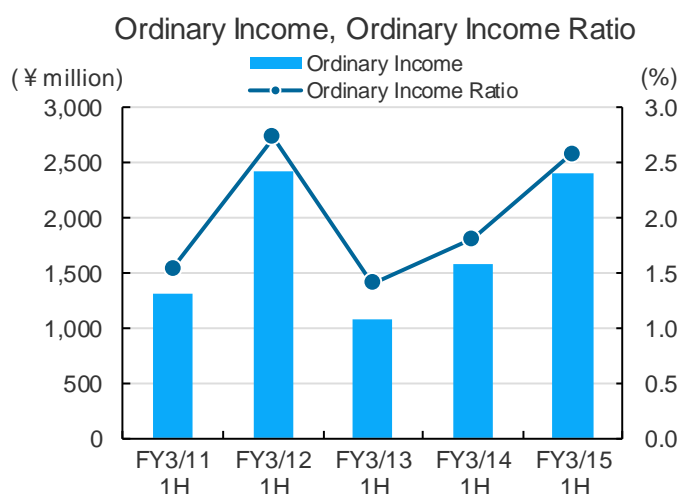
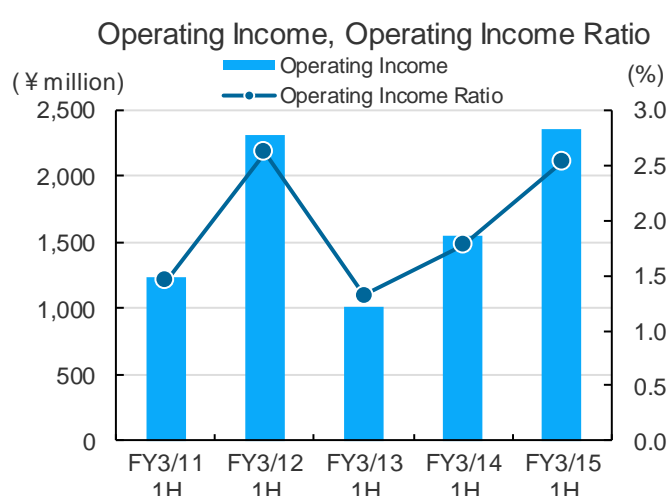
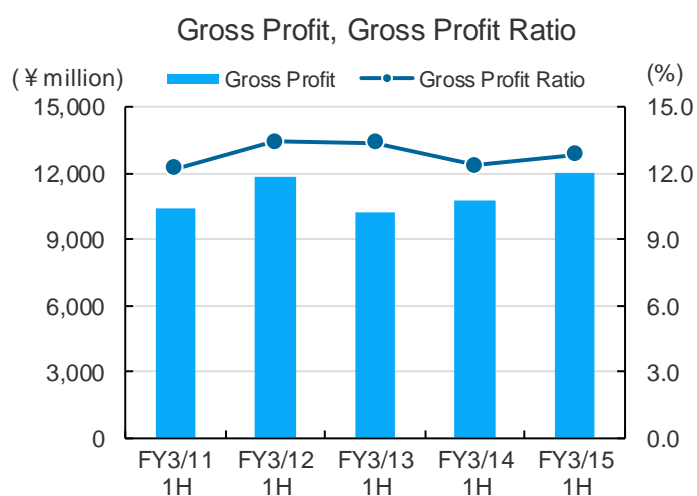
Gross Profit Ratio = Gross Profit/Net Sales

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

Operating Income Ratio = Operating Income/Net Sales

Ordinary Income Ratio = Ordinary Income/Net Sales

Net Income Ratio = Net Income/Net Sales



Consolidated Profitability/Efficiency Indicators



(times)	FY3/11 1H	FY3/12 1H	FY3/13 1H	FY3/14 1H	FY3/15 1H
Total Assets Turnover	3.5	3.6	2.9	3.1	3.2
Equity Turnover	8.9	8.7	6.9	7.3	7.1
Non-current Assets Turnover	20.0	24.7	26.0	28.2	26.0
Current Assets Turnover	4.2	4.2	3.3	3.5	3.7

<Reference (Full Year)>	FY3/11	FY3/12	FY3/13	FY3/14	FY3/15
ROA (%)	2.8	4.8	3.7	4.6	-
ROE (%)	7.1	11.8	8.9	10.1	-

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

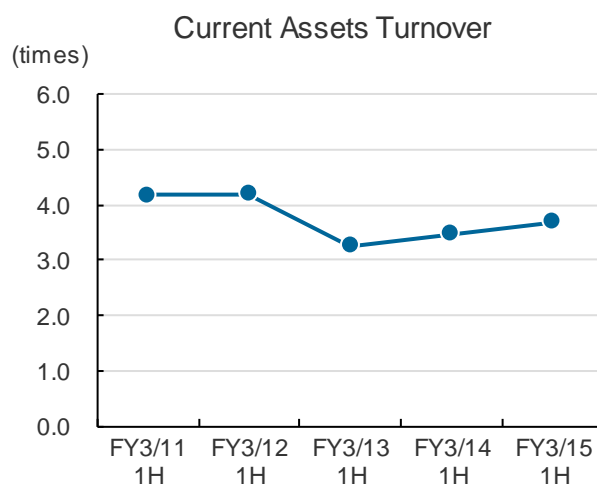
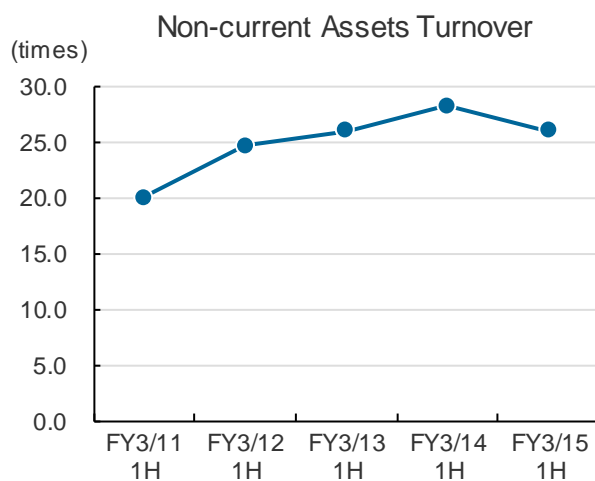
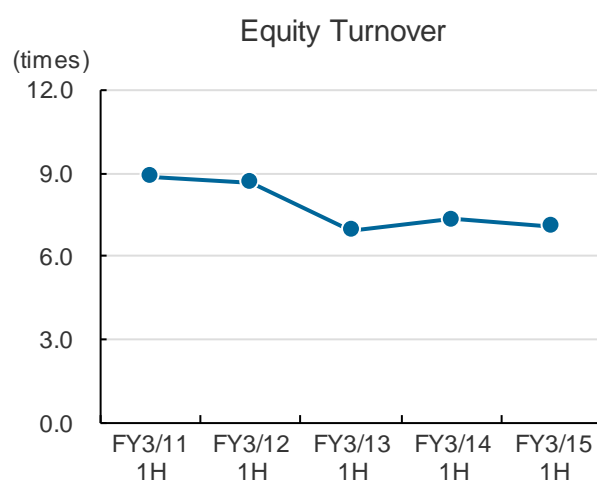
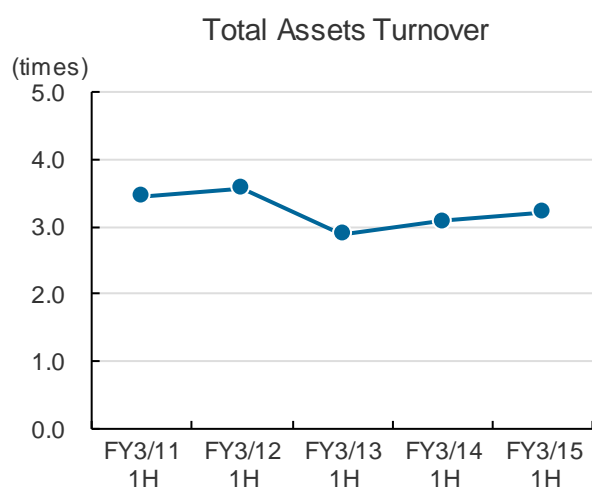
Equity Turnover = Net Sales*2/Average Equity

Non-current Assets Turnover = Net Sales*2/Average Non-current 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)	FY3/11 1H	FY3/12 1H	FY3/13 1H	FY3/14 1H	FY3/15 1H
Equity	19,364	21,041	22,112	24,514	27,183
Total Assets	49,339	50,392	51,003	60,264	61,985
Non-current Assets	8,129	6,891	5,685	7,312	7,546
Non-current Liabilities	2,730	2,930	2,927	3,077	3,380
Current Assets	41,210	43,500	45,318	52,951	54,439
Current Liabilities	27,243	26,408	25,939	32,663	31,248
Total Net Assets	19,364	21,053	22,136	24,522	27,356
Interest-bearing Debt	2,390	-	-	6,000	-

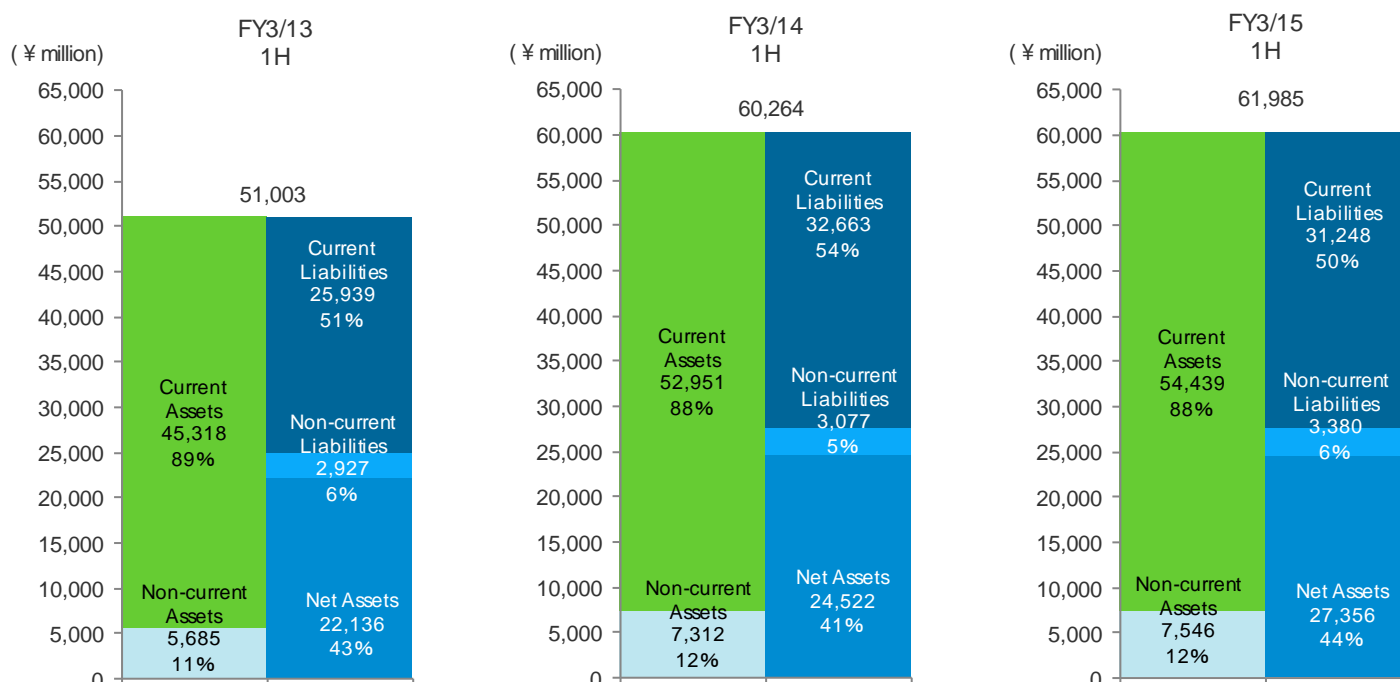
(%)	FY3/11 1H	FY3/12 1H	FY3/13 1H	FY3/14 1H	FY3/15 1H
Equity Ratio	39.2	41.8	43.4	40.7	43.9
D/E Ratio	12.3	-	-	24.5	-
Non-current Ratio	42.0	32.8	25.7	29.8	27.8
Current Ratio	151.3	164.7	174.7	162.1	174.2

Equity Ratio = Equity/Average Total Assets

D/E Ratio = Interest-bearing Debt/Equity

Non-current = Non-current Assets/Equity

Current Ratio = Current Assets/Current Liabilities



	FY3/11 1H	FY3/12 1H	FY3/13 1H	FY3/14 1H	FY3/15 1H
Share Price (¥)	1,056	658	652	754	1,750
Outstanding Shares Issued (shares)	12,025,000	24,050,000	24,050,000	24,050,000	24,050,000
Treasury Shares (shares)	723,555	1,647,630	1,647,870	1,493,290	1,413,310
Earnings per Share (¥)	63.63	68.14	31.68	61.13	80.21
Book Value per Share (¥)	1,713.41	939.25	987.05	1,086.78	1,200.85
Free Cash Flow per Share (¥)	41.59	91.95	(66.02)	(142.02)	93.83
Dividend per Share (¥)	15.00	22.50	11.25	11.25	13.50
EBITDA (¥ million)	1,624	2,662	1,330	1,860	2,546

<Reference (Full Year)>	FY3/11	FY3/12	FY3/13	FY3/14	FY3/15
PER (times)	8.9	8.7	8.7	7.9	11.3 (fcst.)
PBR (times)	0.6	1.0	0.7	0.8	-
PCFR (times)	2.6	5.0	(12.4)	8.1	-
EV/EBITDA Ratio (times)	1.4	1.9	2.4	2.4	-
Dividend Yield (%)	2.7	4.0	2.9	2.9	1.5 (fcst.)

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

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

EBITDA = Operating Income+Depreciation

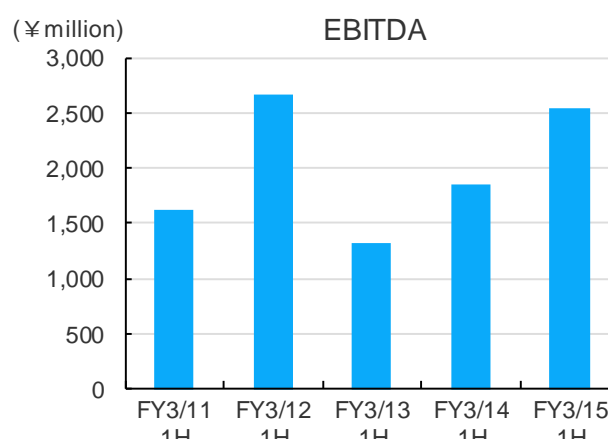
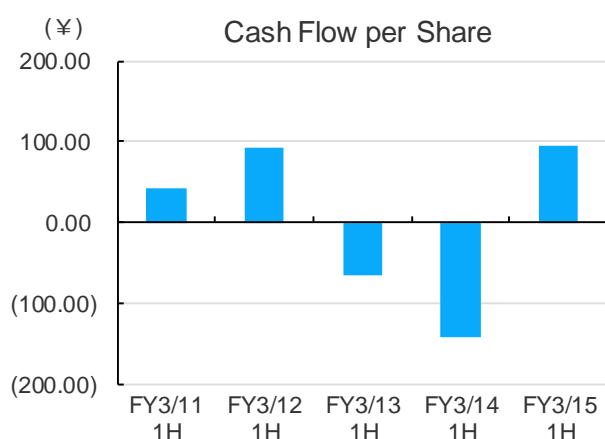
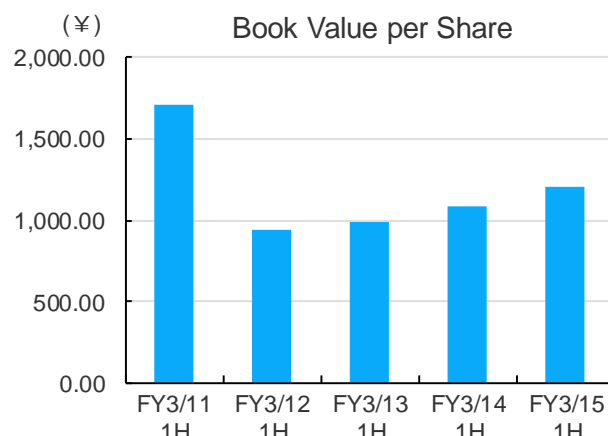
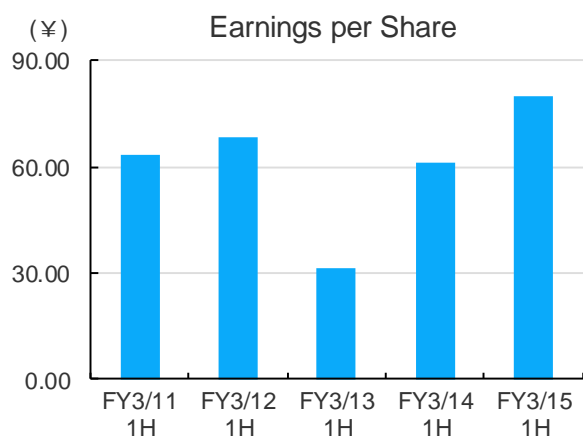
EV = Market Value+Interest-bearing Debt – Liquidity in Hand (Cash & Deposits)

EV/EBITDA Ratio = EV/EBITDA

(fcst.) : FY3/15 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.



Major Shareholders

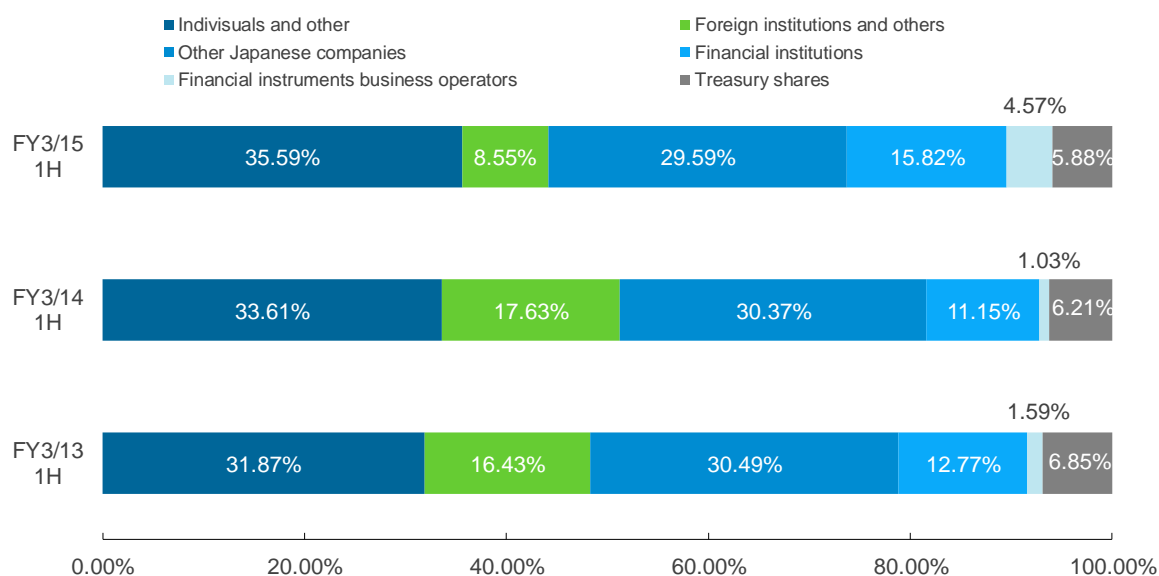
As of September 30, 2014

	Number of Shares (thousand)	Shareholding Ratio
BANDAI NAMCO Holdings Inc.	5,883	25.9%
The Master Trust Bank of Japan, Ltd. (trust account)	890	3.9%
Japan Trustee Services Bank, Limited (trust account for Sumitomo Mitsui Trust Bank, Limited and employee retirement benefit of Sumitomo Mitsui Banking Corporation)	676	2.9%
Yasuhiko Idaira	563	2.4%
Japan Trustee Services Bank, Ltd. (trust account)	486	2.1%
Trust & Custody Services Bank, Ltd. (securities investment trust account)	375	1.6%
Happinet employee shareholders association	357	1.5%
Sun River	316	1.3%
Hiroshi Kawai	300	1.3%
Takashi Nishimura	286	1.2%

* In addition to the above, HAPPINET CORPORATION holds 1,413,000 shares.

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

Breakdown of Type of Shareholder





HAPPINET CORPORATION

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Corporate Communication Team
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