



Happinet Corporation

Stock Code: 7552

# Fiscal Year 2008 Results Presentation

May 14, 2009

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# FY2008 Results Summary

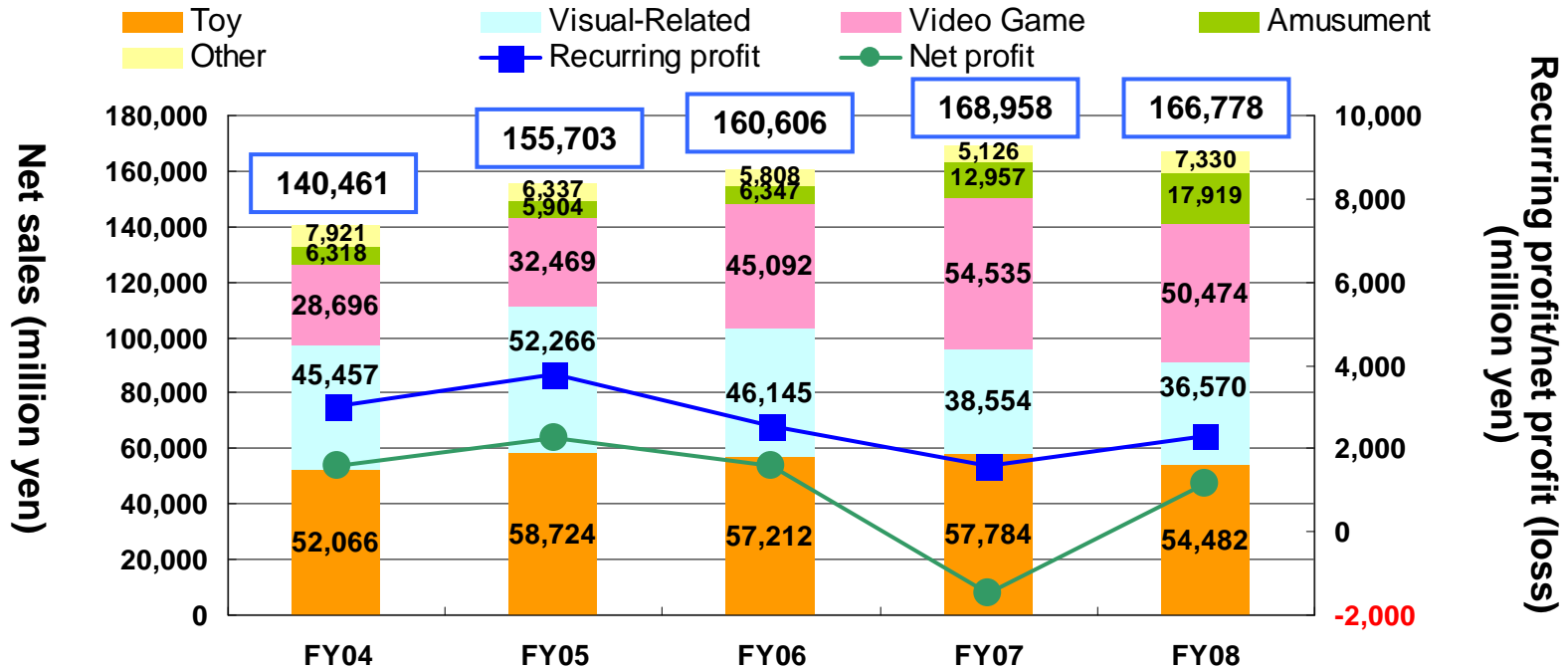
**Hideo Asatsu**

**Director, Managing Director and CFO**

# 4th Medium- and Long-Term Management Plan - Overview

**Kazuhiko Note**  
President and COO

# 4<sup>th</sup> Medium- and Long-Term Management Plan - Overview



Recurring profit	3,030	3,786	2,554	1,569	2,322
Net profit (loss)	1,580	2,270	1,616	-1,490	1,135

## FY04

- Commenced transactions with Amazon
- Acquired Scitron Digital Contents Inc. as subsidiary

## FY05

- Scored big hit with "They're Back! Tamagotchi Plus"

## FY06

- Acquired Mori Toys Co. Ltd. as subsidiary

## FY07

- Acquired Sunlink Co. Ltd. and Apple Corporation as subsidiaries
- Mori Games Co. Ltd. split from Mori Toys Co. Ltd.

## FY08

- Established Happinet Marketing Corporation
- Acquired Wint Corporation as subsidiary
- Merged amusement subsidiaries to create Happinet Vending Service Corporation

## Groupwide vision 1

### Creating new core operations at the heart of next generation business

June 19, 2006 Mori Toys Co. Ltd. Sales: ¥14.5 billion (toy business, video game business)

November 30, 2007 Sunlink Co. Ltd. Sales ¥11.2 billion, Apple Corporation Sales ¥4.9 billion (amusement business)

March 10, 2009 Wint Corporation Sales ¥54.3 billion (visual and music business)

\* Sales figures for fiscal year prior to acquisition as subsidiary

## Groupwide vision 2

### Establishing a business platform to cater to all lines of business

Happinet Logistics Center-East: Site area 24,741m<sup>2</sup>, commenced operations January 2001

Happinet Second Logistics Center-East: Site area 28,151m<sup>2</sup>, commenced operations February 2006

Happinet Logistics Center-West: Site area 11,774m<sup>2</sup>, commenced operations January 2008

## Groupwide vision 3

### Establishing an independent content business

#### Focus on sales

Acquisition of new titles in the interests of expanding range of genres and increasing number of titles stocked



#### **Not Maintaining balance between investment and return**

Fiscal 2007:

Posted loss from operational structural reform



#### Focus on profit

Acquisition of titles in the interests of revenue

# 5th Medium-Term Management Plan

**Kazuhiko Note**  
**President and COO**

## Title

## CAP11

“Change and Progress 11”

Change: Continuing to transform into a more profitable company

Progress: Continuing to evolve as we look to the future

11: 2011 (three year plan running from fiscal 2009 to fiscal 2011)

## Slogan

**Strengthen foundation  
as a comprehensive entertainment  
software trading company**

This slogan indicates our strong resolve to strengthen our business foundation by establishing a solid profit base through the implementation of business restructuring measures and by becoming No.1 in each line of business as a comprehensive entertainment software trading company.



## Groupwide vision 1

### Reforming the profit structure

#### Basic Strategy

Rebuilding the profit structure in order to raise the recurring-profit-to-sales ratio to 1.5% or higher on a groupwide basis by thorough streamlining.

## Groupwide vision 2

### Further strengthening the distribution infrastructure

#### Basic Strategy

Becoming No.1 in terms of sales share in each line of business as a comprehensive entertainment software company.

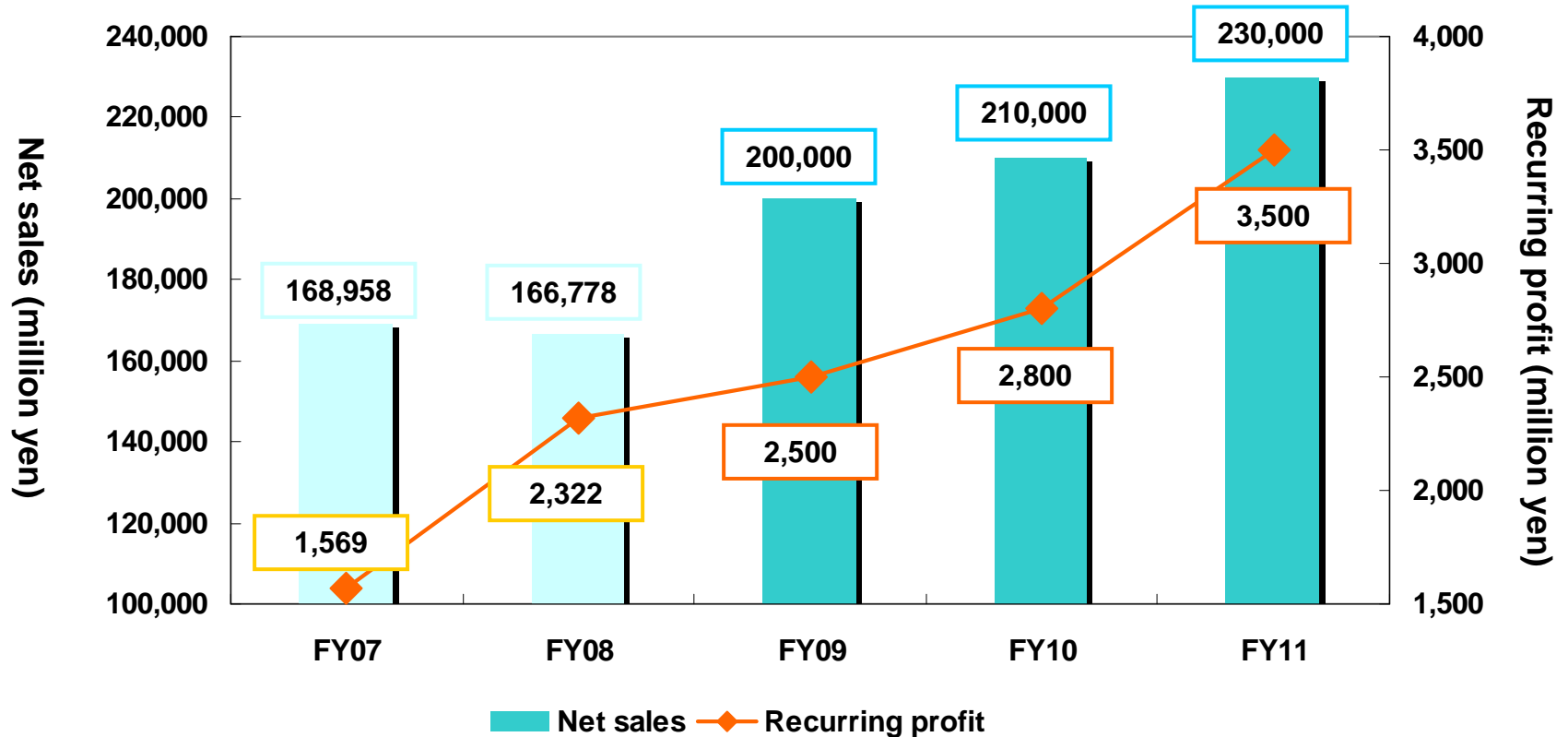
## Groupwide vision 3

### Establishing original/exclusive product business

#### Basic Strategy

Building a corporate foundation that will enable us to generate ¥10 billion each in sales of original products and sales of video game titles and toys handled under exclusive-sale arrangements.

## Projections (consolidated)



## Management targets

**Recurring profit margin: 1.5%**     **Inventory turnover rate: 25 times**  
**Fixed cost productivity: 135%**

# Full Year Projections for FY2009

**Kazuhiko Note**  
**President and COO**

## Toy Business

**We intend to re-establish our profit structure through organizational reform and comprehensive improvements in efficiency, including stock management**

### 1. Reducing stock clearances [strategic initiatives with manufacturers]

#### ► Rigorous management at every stage, from purchasing to sales to stock

• Consolidating purchasing staff and sharing information between stores so as to ensure optimum ordering, thereby reducing stock clearances

- Optimizing purchasing and reducing stock clearances
- Researching and establishing distribution systems
- Reviewing overlap between operations and capabilities



## 2. Securing high profit margins

- ▶ **Researching and placing orders with manufacturers based on product features** (product-specific ordering, short/long-term ordering)
- ▶ **Promoting a differentiation strategy based on increased sales of exclusive and priority products**
  - Stepping up initiatives with manufacturers with development capabilities in an effort to increase sales of exclusive products
  - Assigning sales staff with an eye to exploiting sales channels from the planning stages
  - Stepping up field activities and in-store promotion

### Tirol Unbalance



(c) Tirol Choco Co. Ltd.

**Sold by: MegaHouse Corporation**

Tirol Choco may look sweet at first glance, but it can turn bitter as soon as the game gets underway, forcing you to use your head! This gap between appearances and reality makes for the ultimate stack-and-balance game that is fun for all ages.

### NEW: Ame de Wata-ame



**Sold by: Royal Industries Co. Ltd.**

Introducing a culinary toy that enables you to make your own cotton candy at home whenever you like instead of only eating it at summer festivals or fairs! As this fun gadget makes enables you to make cotton candy from regular candy, you can try cotton candy in a whole host of flavors, from strawberry to soda!

### Zaku Mania



(c) SOTSU Co. Ltd./Sunrise Inc.

**Sold by: PLEX International Design Co. Ltd.**

Have fun playing, decorating and laughing with the latest new concept in action figures. Enjoy piling up mass-produced miniaturized figures based on characters from Kido Senshi Gundam, including Zaku II and Gouf. Combining game-play and interior design elements, these mini items are sure to make you smile.

### Visual-Related Business

We intend to sustain strong profits through in-house titles and license deals and increase our market share in conjunction with Wint Corporation.

#### 1. Creating highly profitable in-house titles and continuing to secure licenses to bring in steady profits

#### Featured titles



(c)2009 HIROSHI TAKAHASHI / CROWS2 FILM PARTNERS



(c) "April Bride" Project



(C) 2008 Focus Features LLC. All rights Reserved.

#### Featured investment titles

Be Sure To Share



(c) 2009 "Be Sure To Share" Film Partners

Scheduled for release August

Une Nuit Blanche



(c) 2009 "Une Nuit Blanche" Film Partners

Scheduled for release September

### 2. Securing the leading share of audio-visual package distribution in collaboration with Wint Corporation

**3<sup>rd</sup> highest sales in industry**  
(approx. ¥36.5 billion)  
*\*Fiscal 2008*

DVD

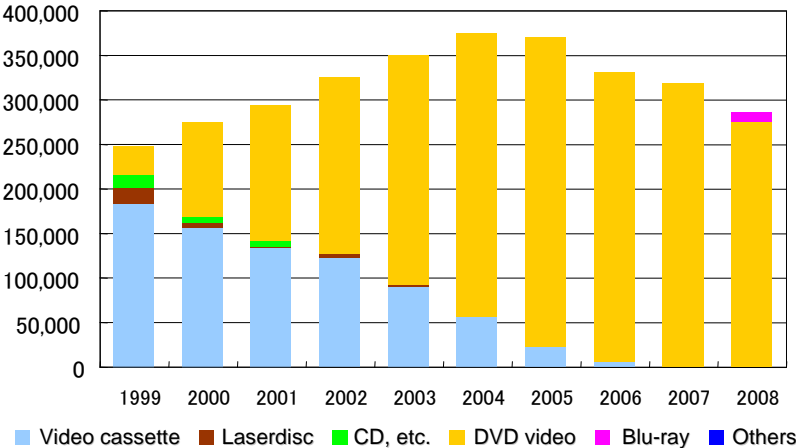
**Collaboration**

**WINT CORPORATION**

**2<sup>nd</sup> highest sales in industry**  
(approx. ¥54.3 billion)  
*\*Year prior to acquisition as subsidiary*

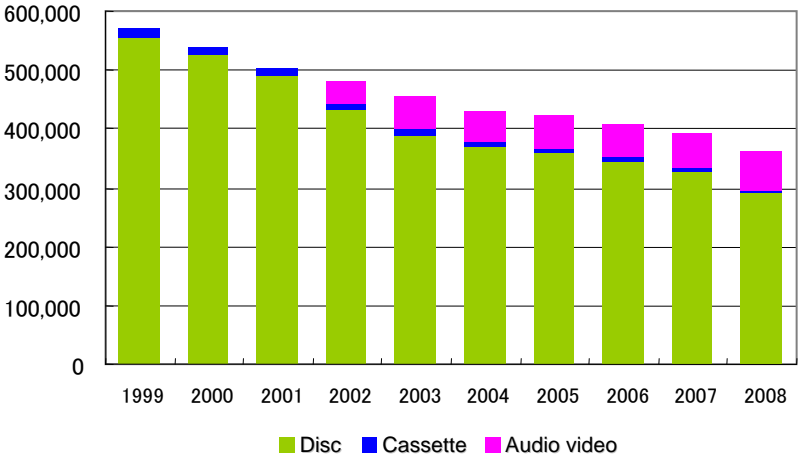
DVD CD

**Sales of visual software according to media**  
(unit: million yen)



\* Reference: Information published by the Japan Video Software Association

**Music software production costs according to media**  
(unit: million yen)



\* Reference: Information published by the Japan Video Software Association

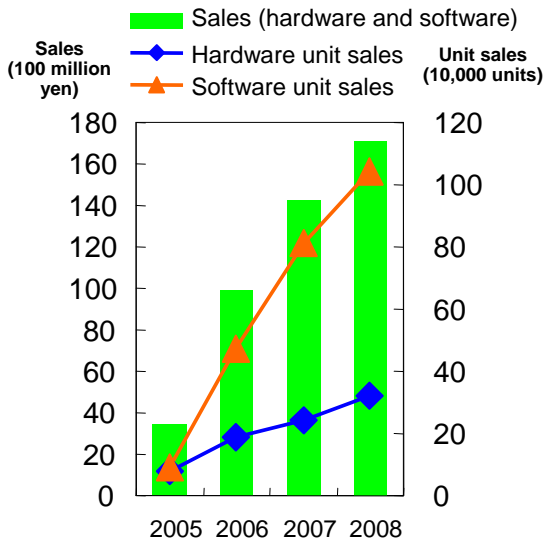
### Video Game Business

**We intend to increase our market share on all platforms and establish strategic partnerships with manufactures for the future.**

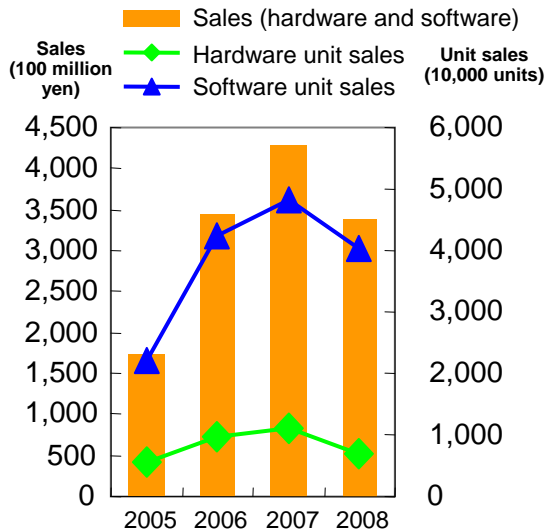
### 1. Strengthening ties with manufacturers and maximizing product sales volumes

#### Market conditions for each platform

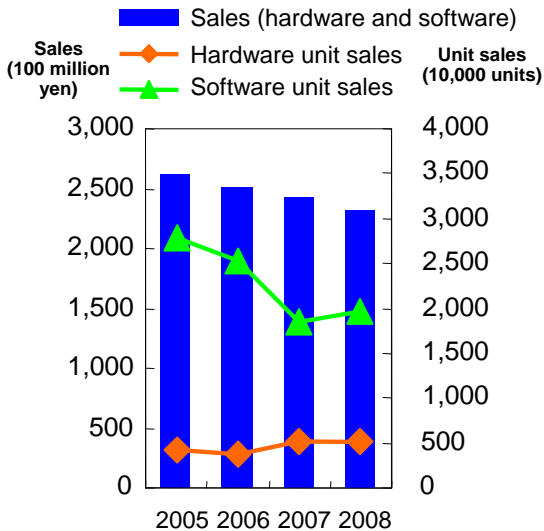
##### Microsoft Corporation



##### Nintendo Co., Ltd.



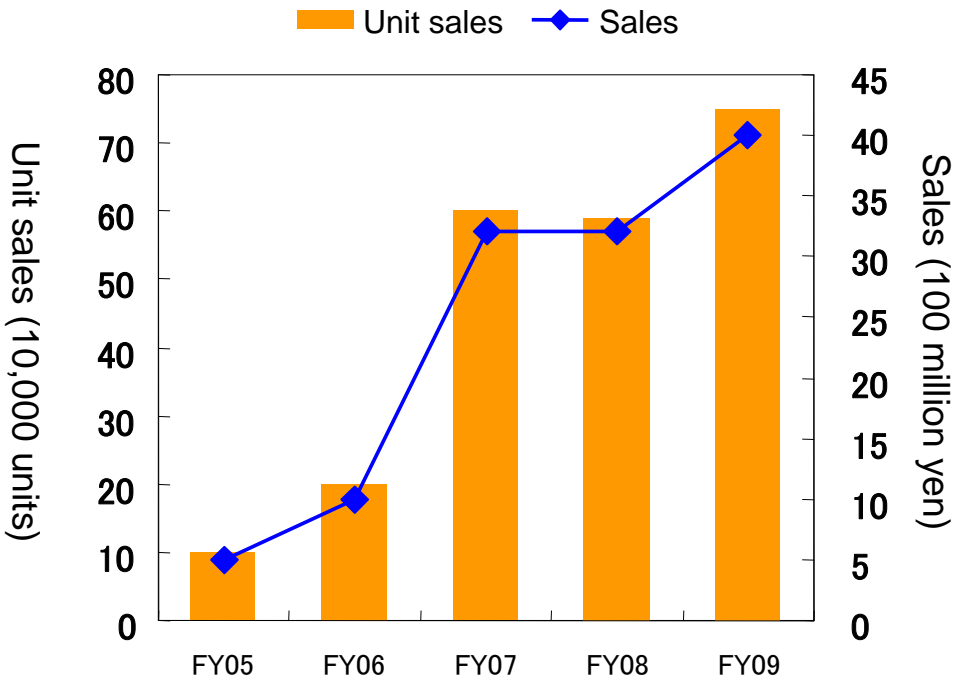
##### Sony Computer Entertainment Inc.



\* Source: White Paper on the Video Game Industry (Media Create Co. Ltd.)



### 2. Expanding range of exclusive and licensed products, establishing market presence and improving profit margins



Manufacturers	1 companies	3 companies	4 companies	6 companies	8 companies
Titles	2 units	6 units	15 units	20 units	20 units

\* Target figures for fiscal 2009

### Higurashi no Naku Koro ni (Vol.2: Omoi)

**Sold by: Alchemist**  
The second volume of *Higurashi no Naku Koro ni*, the DS title based on the story that has shocked people via a range of media, from comics and TV anime to novels and live-action movies, and become a big hit with the adult market.

(C) Ryukishi07 07th Expansion/Frontier Works Alchemist

### Akai Ito DS

**Sold by: Alchemist**  
DS title based on the mobile phone novel *Akai Ito*, which has become a massive best seller, with sales of the five books *Akai Ito (Parts I & II)*, *Akai Ito Destiny (Parts I & II)* and *Akai Ito Precious*, released in January 2007, selling in excess of 1.8 million copies. In addition to the Nintendo DS version, *Akai Ito* has also been made into a TV drama series and a movie.

(C) Mei (Goma Books)/Alchemist

## Amusement Business

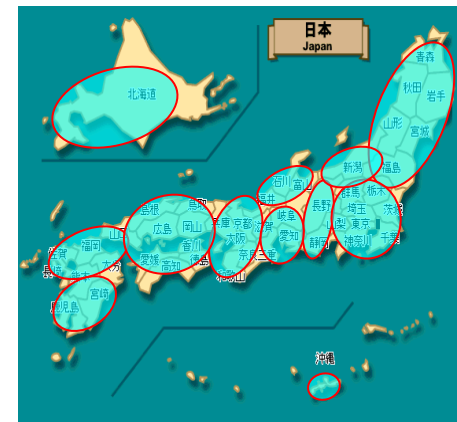
**Promoting structural reforms and harnessing our strong market share to establish a robust profit structure**

### 1. Reviewing transactions and contracts with client companies and securing fair profits

- ▶ Creating a range of costs and services menus and reviewing contracts with individual companies
- ▶ Developing delivery and sales systems

### 2. Formulating area-specific policies based on joint initiatives with partner companies

- ▶ Selecting partner companies and formulating initiative policies (with a focus on revenue)
- ▶ Formulating measures aimed at mutual prosperity  
→ Exploring franchise systems



Forecast consolidated results for fiscal 2009

(Unit: billion yen, %)

	FY08	FY09 E	YoY growth
Net sales	16,677.8	20,000.0	19.9
Operating profit	213.7	230.0	7.6
Recurring profit	232.2	250.0	7.6
Net profit	113.5	130.0	14.4

Sales forecasts for fiscal 2009 by segment

(Unit: billion yen, %)

Segment	FY	FY09 E		
	FY08		Breakdown	YoY growth
Toy business	5,448.2	5,200.0	26.0	-4.6
Visual-related business	3,657.0	7,500.0	37.5	105.1
Video game business	5,047.4	5,000.0	25.0	-0.9
Amusement business	1,791.9	1,800.0	9.0	0.5
Other business	733.0	500.0	2.5	-31.8
<b>Total</b>	<b>16,677.8</b>	<b>20,000.0</b>	<b>100.0</b>	<b>19.9</b>

## **Cautionary Statement**

Estimates of future performance are provided as a reference for investors. They are based on projections and estimates and should not be construed as an assurance or guarantee of future performance. When using this information, please keep in mind that final results may vary.