



Consolidated Financial Results

for the 2nd Quarter of the Fiscal Year Ending March 31, 2019

November 9, 2018

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This document contains forward-looking statements that are based on management’s estimates, assumptions and projections at the time of publication. A number of factors could cause actual results to differ materially from expectation.

Consolidated Financial Results
for the 2nd Quarter of the Fiscal Year Ending March 31, 2019 [Japanese GAAP]

Company name HAPPINET CORPORATION
 Stock listing Tokyo Stock Exchange
 Code No. 7552 URL: <https://www.happinet.co.jp/>
 Representative Seiichi Enomoto, Representative Director, President and COO
 Contact Toru Shibata, Director, Executive Officer, Head of the Corporate Management Division
 Scheduled filing date of the quarterly report November 12, 2018
 Scheduled starting date for dividend payments: December 5, 2018
 The additional materials of the financial results: Yes
 The information session of the financial results: Yes (For Analysts)

(Figures are in millions of yen, rounded down)

1. Consolidated Results for the 2nd Quarter of the Fiscal Year Ending March 31, 2019
(April 1, 2018 - September 30, 2018)

(1) Consolidated Operating Results (For the six months Ended September 30, 2018)

(Percentages indicate year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Quarterly Profit attributable to owners of parent	
	¥ million	%	¥ million	%	¥ million	%	¥ million	%
2nd Quarter of the Fiscal Year Ending March 31, 2019	104,580	23.3	1,920	9.0	1,851	12.9	1,103	5.7
2nd Quarter of the Fiscal Year Ended March 31, 2018	84,827	17.1	1,761	108.6	1,640	121.1	1,044	217.0

Note: Comprehensive income: As of September 30, 2018 951million yen (△51.5%)
 As of September 30, 2017 1,961million yen (180.5%)

	Quarterly Earnings per share	Quarterly Earnings per share (diluted)
	¥	¥
2nd Quarter of the Fiscal Year Ending March 31, 2019	50.60	49.50
2nd Quarter of the Fiscal Year Ended March 31, 2018	48.06	46.96

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	¥ million	¥ million	%
As of September 30, 2018	73,076	37,105	50.1
As of March 31, 2018	75,281	36,698	48.0

(Reference)

Shareholder's equity: As of September 30, 2018 36,586million yen
 As of March 31, 2018 36,134million yen

2. Dividend

Dividend record dates	Dividend per share				
	End of 1Q	End of 2Q	End of 3Q	Fiscal Year-end	Total
	¥	¥	¥	¥	¥
Fiscal Year Ended March 31, 2018	—	15.00	—	25.00	40.00
Fiscal Year Ending March 31, 2019	—	20.00			
(Projection) Fiscal Year Ending March 31, 2019			—	20.00	40.00

(Note) Revision to the projections: No

Year-end dividends of FY2017 Ordinary dividends:15.00yen Special dividends:10.00yen

3. Consolidated Projections for the Fiscal Year ending March 31, 2019 (April 1, 2018 - March 31, 2019)

(Percentages indicate year-on-year changes)

	Net sales		Operating income		Ordinary income		Quarterly Profit attributable to owners of parent		Earnings per share
	¥ million	%	¥ million	%	¥ million	%	¥ million	%	¥
Full Year	230,000	16.4	5,000	4.0	4,800	2.1	3,200	△ 20.6	147.09

(Note) Revision to the projections: No

※ Other Information

- (1) Significant changes in consolidated subsidiaries during the period: No
- (2) Application of special accounting methods for quarterly consolidated financial statements: No
- (3) Changes in accounting principles, accounting estimation change and error correction.
 - a) Changes in accounting principles due to revisions to accounting standards and other regulations: No
 - b) Changes in accounting principles due to revisions to other reasons: No
 - c) Changes in accounting estimation: No
 - d) Error correction: No
- (4) Number of shares issued (common shares)
 - a) Number of shares issued at the end of the period (including treasury shares)

2nd quarter of the fiscal year ending March 31, 2019	24,050,000shares
Fiscal year ended March 31, 2018	24,050,000shares
 - b) Number of treasury shares at the end of the period

2nd quarter of the fiscal year ending March 31, 2019	2,228,050shares
Fiscal year ended March 31, 2018	2,273,050shares
 - c) Average number of shares during the period

For the 2nd quarter of the fiscal year ending March 31, 2019	21,813,825shares
For the 2nd quarter of the fiscal year ended March 31, 2018	21,733,840shares

*Financial Summary that is not covered by Certified Public Accountants and Audit Corporations.

*Proper use of earnings projections, and other special matters

The above projections are based on information available to the Company as of the date of the announcement of these materials. Actual business results may differ from the projections due to a number of factors in the future

*The way to access the Supplement material

We will post the Supplement material in the site(http://www.happinet.co.jp/happinet_english/index.html) on.(Nov 15,

II . Consolidated Quarterly Financial Statements
(i) Consolidated Quarterly Balance Sheets

(¥ million)

	Prior Fiscal Year (As of Mar. 31, 2018)	Current 2nd Quarter (As of Sep. 30, 2018)
Assets		
Current assets		
Cash and deposits	11,458	15,436
Notes and accounts receivable - trade	36,979	30,004
Inventories	8,028	9,291
Other	3,011	3,306
Allowance for doubtful accounts	Δ3	Δ2
Total current assets	59,474	58,035
Non-current assets		
Property, plant and equipment	758	730
Intangible assets		
Goodwill	658	591
Other	1,807	1,928
Total intangible assets	2,465	2,520
Investments and other assets		
Investment securities	8,323	7,997
Other	4,263	3,796
Allowance for doubtful accounts	Δ3	Δ2
Total investments and other assets	12,583	11,791
Total non-current assets	15,807	15,041
Total assets	75,281	73,076
Liabilities		
Current liabilities		
Notes and accounts payable - trade	27,785	26,960
Income taxes payable	1,476	432
Provision for bonuses	505	219
Provision for directors' bonuses	75	—
Other provision	60	61
Other	4,451	4,017
Total current liabilities	34,354	31,691
Non-current liabilities		
Provision for stocks payment	—	52
Net defined benefit liability	2,993	3,027
Other	1,235	1,199
Total non-current liabilities	4,228	4,279
Total liabilities	38,583	35,971
Net assets		
Shareholders' equity		
Capital stock	2,751	2,751
Capital surplus	2,795	2,890
Retained earnings	30,325	30,884
Treasury shares	Δ1,917	Δ1,966
Total shareholders' equity	33,954	34,560
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2,181	2,025
Deferred gains or losses on hedges	Δ2	1
Total accumulated other comprehensive income	2,179	2,026
Share acquisition rights	564	518
Total net assets	36,698	37,105
Total liabilities and net assets	75,281	73,076

(ii) Consolidated Quarterly Statements of Income and Consolidated Quarterly Statements of Comprehensive Income (Consolidated Quarterly Statements of Income)

(¥ million)

	Prior Fiscal Year (Apr. 1, 2017 - Sept. 30, 2017)	Current Fiscal Year (Apr. 1, 2018 - Sept. 30, 2018)
Net sales	84,827	104,580
Cost of sales	74,561	92,850
Gross profit	10,266	11,729
Selling, general and administrative expenses	8,504	9,809
Operating profit	1,761	1,920
Non-operating income		
Interest income	0	0
Dividend income	47	63
Other	17	20
Total non-operating income	65	83
Non-operating expenses		
Interest expenses	0	0
Share of loss of entities accounted for using equity method	186	145
Other	0	5
Total non-operating expenses	186	151
Ordinary profit	1,640	1,851
Extraordinary income		
Gain on sales of investment securities	27	—
Total extraordinary income	27	—
Extraordinary losses		
Loss on sales of non-current assets	0	—
Loss on retirement of non-current assets	0	5
Total extraordinary losses	0	5
Profit before income taxes	1,667	1,846
Income taxes - current	369	388
Income taxes - deferred	253	353
Total income taxes	623	742
Profit	1,044	1,103
Profit attributable to owners of parent	1,044	1,103

(Consolidated Quarterly Statements of Comprehensive Income)

(¥ million)

	Prior Fiscal Year (Apr. 1, 2017 - Sept. 30, 2017)	Current Fiscal Year (Apr. 1, 2018 - Sept. 30, 2018)
Profit	1,044	1,103
Other comprehensive income		
Valuation difference on available-for-sale securities	911	△155
Deferred gains or losses on hedges	5	3
Share of other comprehensive income of entities accounted for using equity method	0	△0
Total other comprehensive income	916	△152
Comprehensive income	1,961	951
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,961	951
Comprehensive income attributable to non-controlling interests	—	—

(iii) Consolidated Quarterly Statements of Cash Flows

(¥ million)

	Prior Fiscal Year (Apr. 1, 2017 - Sept. 30, 2017)	Current Fiscal Year (Apr. 1, 2018 - Sept. 30, 2018)
Cash flows from operating activities		
Profit before income taxes	1,667	1,846
Depreciation	165	243
Amortization of goodwill	—	66
Increase (decrease) in allowance for doubtful accounts	△5	△1
Increase (decrease) in provision for bonuses	△41	△286
Increase (decrease) in provision for directors' bonuses	—	△75
Increase (decrease) in net defined benefit liability	75	33
Interest and dividend income	△48	△63
Interest expenses	0	0
Loss (gain) on sales and retirement of non-current assets	0	5
Loss (gain) on sales of investment securities	△27	—
Foreign exchange losses (gains)	0	△0
Share of loss (profit) of entities accounted for using equity method	186	145
Decrease (increase) in notes and accounts receivable - trade	△625	6,976
Decrease (increase) in inventories	△1,585	△1,262
Increase (decrease) in notes and accounts payable - trade	2,095	△824
Other, net	174	△533
Subtotal	2,032	6,271
Interest and dividend income received	48	63
Proceeds from dividend income from entities accounted for using equity method	44	60
Interest expenses paid	△0	△0
Income taxes paid	△624	△1,395
Income taxes refund	2	—
Net cash provided by (used in) operating activities	1,502	4,999
Cash flows from investing activities		
Purchase of property, plant and equipment	△63	△81
Proceeds from sales of property, plant and equipment	0	—
Purchase of intangible assets	△330	△272
Purchase of investment securities	△7	△106
Proceeds from sales of investment securities	78	—
Other, net	—	△10
Net cash provided by (used in) investing activities	△322	△470
Cash flows from financing activities		
Proceeds from disposal of treasury shares	0	0
Purchase of treasury shares	△0	—
Cash dividends paid	△433	△544
Other, net	—	△6
Net cash provided by (used in) financing activities	△434	△551
Effect of exchange rate change on cash and cash equivalents	△0	0
Net increase (decrease) in cash and cash equivalents	745	3,977
Cash and cash equivalents at beginning of period	11,605	11,458
Cash and cash equivalents at end of period	12,350	15,436

(iv) Notes to the Consolidated Financial Statements

(Notes regarding going concern assumptions)
Not applicable

(Notes regarding significant changes in shareholders' equity accounts)
Not applicable

III. Consolidated Quarterly Financial Results by Business Segments

(1) 2nd Quarter of the Fiscal Year Ended March 31, 2018 (April 1, 2017 - September 30, 2017)

Information on net sales and profits or losses by reported segment

(¥ million)

	Segments					Adjustment *1	Consolidated Total *2
	Toy business	Visual and Music business	Video-game business	Amusement business	Total		
Net sales							
To external customers	31,206	18,930	24,856	9,833	84,827	—	84,827
Inter-segment sales and transfers	—	—	—	—	—	—	—
Total	31,206	18,930	24,856	9,833	84,827	—	84,827
Segment income(loss)	891	311	402	761	2,366	△ 604	1,761

*1 The △604 million yen adjustment to segment income includes unallocated operating expenses.

The expenses cannot be assigned to any particular segment and are mostly administrative expenses incurred by the administration sector of the HAPPINET CORPORATION.

*2 Segment income is adjusted to be consistent with operating income shown on the consolidated quarterly statements of income.

(2) 2nd Quarter of the Fiscal Year Ending March 31, 2019 (April 1, 2018 - September 30, 2018)

Information on net sales and profits or losses by reported segment

(¥ million)

	Segments					Adjustment *1	Consolidated Total *2
	Toy business	Visual and Music business	Video-game business	Amusement business	Total		
Net sales							
To external customers	31,736	42,896	20,111	9,836	104,580	—	104,580
Inter-segment sales and transfers	—	—	—	—	—	—	—
Total	31,736	42,896	20,111	9,836	104,580	—	104,580
Segment income	808	759	212	762	2,542	△ 622	1,920

*1 The △622 million yen adjustment to segment income includes unallocated operating expenses.

The expenses cannot be assigned to any particular segment and are mostly administrative expenses incurred by the administration sector of the HAPPINET CORPORATION.

*2 Segment income is adjusted to be consistent with operating income shown on the consolidated quarterly statements of income.