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Bridge Report HAPPINET CORPORATION (7552)


Kazuhiko Note, President

Company	HAPPINET CORPRATION
Code No.	7552
Exchange	First Section, TSE
Industry	Wholesale (Commerce)
President	Kazuhiko Note
HQ Address	Komagata CA Bldg., 2-4-5 Komagata, Taito-ku, Tokyo 111-0043
Business	A comprehensive entertainment trading company of toys, visual and music software, video games, and amusement products. Also HAPPINET leverages its optimal distribution system to provide high value added distribution services. The Company also boasts of strengths in planning and creation of original toys and video contents.
Year End	March
URL	http://www.hap-net.com/english/index.html

— Stock Information —

Share Price	Shares Outstanding (ex. Treasury Shares)		Market Cap.	ROE (actual)	Trading Unit
¥794	22,456,630 shares		¥17.831 billion	8.9%	100 shares
DPS (Est.)	**Dividend Yield (Est.)**	**EPS (Est.)**	**PER (Est.)**	**BPS (actual)**	**PBR (actual)**
¥22.50	2.8%	¥89.06	8.9x	¥1,036.23	0.8x

* Share price as of closing on May 24, 2013. Number of shares issued at the end of the most recent quarter excluding treasury shares

— Consolidated Earnings Trends — (Units: Million Yen)

Fiscal Year	Sales	Operating Income	Ordinary Income	Net Income	EPS (¥)	Dividend (¥)
March 2010	194,246	2,327	2,513	1,179	104.60	30.00
March 2011	190,891	2,855	3,013	1,376	122.56	30.00
March 2012	198,021	4,855	5,032	2,458	109.73	38.75
March 2013	176,757	2,973	3,081	2,011	89.75	22.50
March 2014 Est.	180,000	3,400	3,500	2,000	89.06	22.50

* Estimates are those of the Company. A 2 for 1 stock split was conducted in December 2011.

This Bridge Report presents HAPPINET CORPORATION's earnings results for the fiscal year March 2013.

Key Points

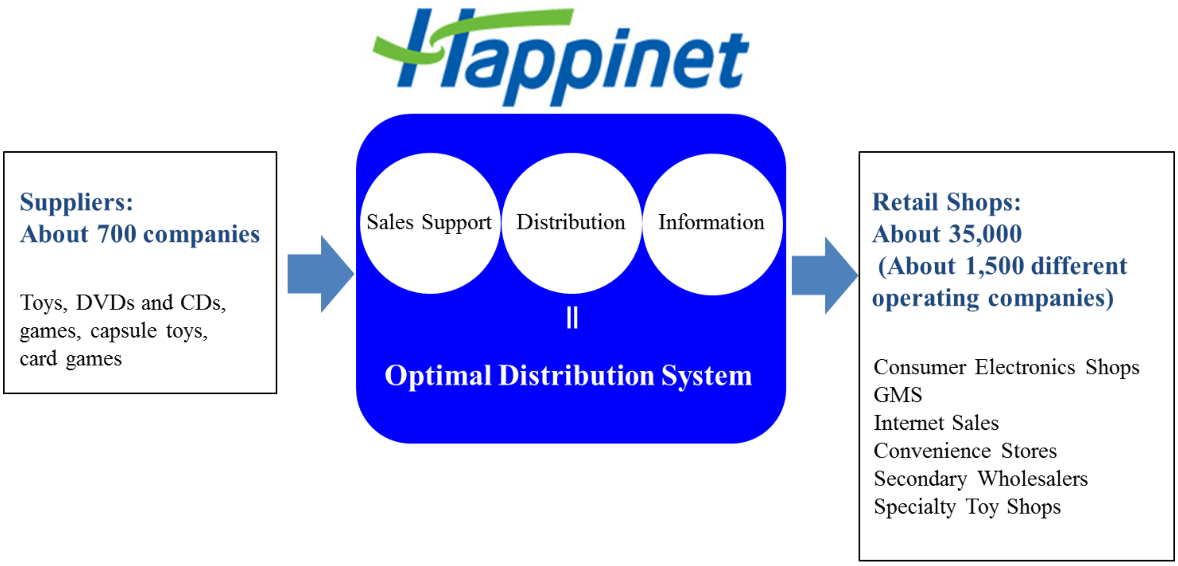
・ Sales and ordinary income declined by 10.7% and 38.8% year-over-year during fiscal year March 2013. The disappearance of the influence of extraordinary demand created by the Great East Japan Earthquake as many Japanese stayed close to home and a lack of hit products caused sales of the Amusement Business to decline. At the same time, the diffusion of software distribution and social games caused the packaged software market to stagnate and led to difficult conditions in the Visual and Music Business. However, sales appear to have bottomed out and a recovery was noted on a quarterly basis.

・ HAPPINET's estimates for fiscal year March 2014 call for 1.8% and 13.6% year-over-year increases in sales and ordinary income. The sales of Toys and Amusement businesses are expected to remain unchanged, but sales of the Video-Game Business is expected to rise on the back of the introduction of the new "Play Station 4" game platform. And while the sales of Visual and Music Business are expected to decline, the introduction of major new products produced in-house and products with sole distributorship rights is expected to contribute to an improvement in profitability of this segment and allow operating income to nearly double. A dividend of ¥22.5 per share is anticipated.

・ The disappearance of various positive factors observed during fiscal year March 2012 led to difficult conditions during fiscal year March 2013. However, profitability remains above the trend line called for by management over the intermediate to long term and the earnings are still on the growth path. During fiscal year March 2014, the achievement of sales and profit estimates is crucial. Furthermore, over the intermediate term, the "Manga2.5" and "Manga2.5 Platform" concepts launched in February are key developments to keep a close watch upon. In particular, these new concepts will allow HAPPINET to leverage its function as a manufacturer in "Manga2.5" and as a distributor in "Manga2.5 Platform."

1. Company Overview

HAPPINET CORPORATION is a comprehensive entertainment trading company. The Company conducts operations in a wide range of entertainment businesses including toys, visual and music software, video games, amusement products (capsule toys, card games), and other product areas in addition to planning and creating original toys and visual contents. HAPPINET also exceeds the normal boundary of distributors(trading business) through its provision of retail related services including toy vending machines selling capsule toys, and card games. As of the end of fiscal year March 2013, NAMCO BANDAI Holdings Inc. was the company's largest shareholder with 5.88 million shares or 26.5% of total voting rights.



<Business, Group Structure>

HAPPINET's operations can be divided into the Toy, Visual and Music, Video-Game, and Amusement businesses , which accounted for 42.2%, 25.4%, 20.8% and 11.6% of the total sales in fiscal year March 2013 respectively. By sales channel, specialized stores including electronics and camera retail stores accounted for 34.2% of the total sales in fiscal year March 2013, other mass retailers 20.9%, convenience stores 12.9%, e-commerce 10.9%, suburban stores 9.8% and wholesalers and others 11.3%.

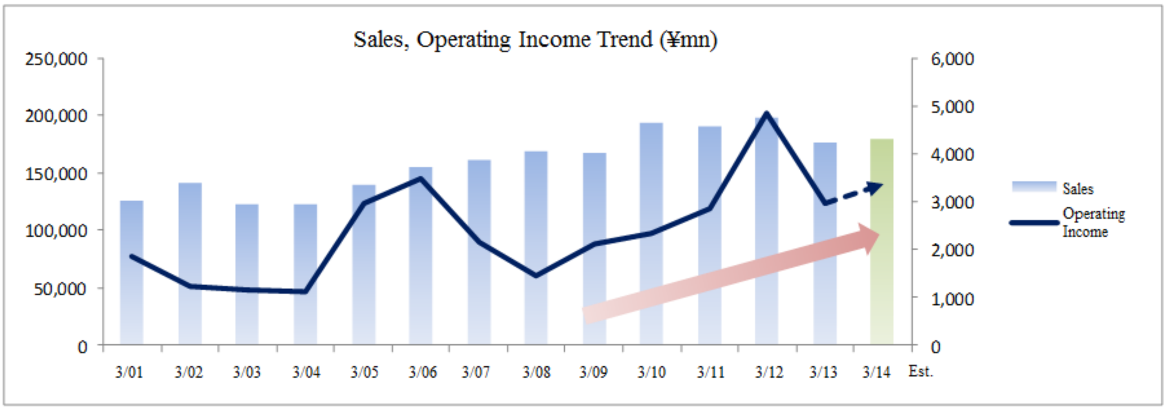
<HAPPINET Group>

The HAPPINET Group is comprised of six consolidated subsidiaries and one non-consolidated subsidiary.

Toy Business	HAPPINET CORPORATION (Toy& Hobby Division, CVS Division, Original Toy Development Division) Happinet Marketing Corporation	Industry's largest wholesaler, handling about 80% of BANDAI's total toy business (BANDAI products account for 52.0% of HAPPINET's total transactions)
Visual and Music Business	HAPPINET CORPORATION (Pictures Division) Happinet Pictures & Music Corporation	The industry's largest wholesaler. Video software accounts for 70.5%, of which 12.5% are products developed in-house, and the remaining 58% are wholesale.
Video-Game Business	HAPPINET CORPORATION (Video Game Division) MORI GAMES CO., LTD.	The only wholesaler that deals with all domestic manufacturers of domestic home use video games. PlayStation-related products (PS3, PSP, PSVIta, others) accounts for 33.8%, Nintendo (Wii, WiiU, DS, 3DS) 50.8%, and Xbox360 and other products 15.4%.
Amusement Business	Happinet Vending Service Corporation	Operating toy vending machines and selling products for amusement facilities, the industry's largest amusement vendor with 60% market share.

<Corporate History－From A Private Toy Distributor to A Comprehensive Entertainment Trading Company>

In February 1968, the current Chairman and CEO Hiroshi Kawai resigned from BANDAI Co., Ltd. and started a toy wholesale business privately. Later, this operation became incorporated as a company called Tosho Ltd. in June 1969, and full scale business transactions with BANDAI started in September 1972. In October 1991, Tosho changed its name to HAPPINET along with the absorption of two BANDAI affiliated wholesale companies called Dairin Co., Ltd. and Seiko Co., Ltd. Since then, HAPPINET has expanded the range of its businesses from Toy to Amusement, Video-Game and Visual contents in response to declining birthrates, diversification of the ways children play, and other changes in the market. HAPPINET listed its shares on the Japanese OTC Market (Currently known as the JASDAQ Market) in August 1997. In December 1998 it moved to the Second Section of the Tokyo Stock Exchange, and then to the First Section in March 2000.



During fiscal year March 2012, earnings expanded thanks to the launch of several hit products in the Toy and Amusement businesses in addition to the positive influence of the Great East Japan Earthquake that led to an increase in spending upon children's toys while curtailing travels and other activities. In fiscal year March 2013, the disappearance of the positive influence of the Great East Japan Earthquake led to a large drop in profits, but the growth pace has maintained the medium to long term trend level. And in fiscal year March 2014, both sales and profits are expected to recover to the growth trend and expand, and profitability is also expected to improve.

<Strengths>

(1) Overwhelmingly Strong Business Foundation

HAPPINET CORPORATION is a wholesaler dealing with toys, DVDs and CDs, capsule toys and card games, and it boasts of a top market share in each area, particularly in capsule toys and card games with the share of about 60%. In addition, it is the only wholesaler that handles products (Japanese market products) of all the home game equipment manufacturers. And as the industry's largest company, HAPPINET leverages its abundant experience in its marketing activities to gather information about the needs of consumers at the storefront to be provided as feedback to the manufacturers. At the same time, HAPPINET supports both manufacturers and retailers by conveying strategies of manufacturers to retailers to help optimize storefront sales strategies and their product lineup.

(2) Optimal Distribution System

Supported by the strength of its information gathering capabilities, HAPPINET boasts of an "Optimal Distribution System" (ODS) that links retailers with manufacturers and leverages electronic data interchange (EDI), point of sales systems (POS), and the Internet. The four logistics centers that make up this ODS have a combined floor space of 77,134 square meters, which is equivalent to 1.7 times of the Tokyo Dome all weather multipurpose baseball stadium. ODS boasts of systems that provide highly accurate information on a real time basis and enables quick and appropriate shipment operations that have an error rate of less than 1 in 100,000 units. ODS also contributes to the rationalization of logistics by supporting the optimization of production volumes through its supply chain management system and reductions in distribution stocks. The consolidated subsidiary Happinet Logistics Service Corporation is responsible for operation of the Company's logistics centers.

Happinet Logistics Center-East Japan	April 2001	Ichikawa City, Chiba Prefecture, 24,741 square meters
Happinet Second Logistics Center-East Japan	February 2006	Funabashi City, Chiba Prefecture, 28,151 square meters
Happinet Logistics Center-West Japan	January 2008	Amagasaki City, Hyogo Prefecture, 11,774 square meters
Happinet Second Logistics Center-West Japan	July 2011	Amagasaki City, Hyogo Prefecture, 12,468 square meters

(3) Management Strengths

Superior management is yet another one of HAPPINET's strengths. Expansion of both commercial rights and operating territory has been achieved through M&A activities, and the high profitability has been maintained through effective group and product management. And despite the expansion of its business through M&A, stable cash flow has been realized through strict control of receivables and inventories, and a solid financial foundation has been created without relying upon interest bearing liabilities.

2. Growth Strategy

Amongst the key points of HAPPINET's growth strategy include its ability to fortify its self-driven businesses and its function as an intermediate distributor, which is the core of its earnings structure. As specific measures to be implemented from fiscal year March 2014, HAPPINET has identified the following three points of "creating an environment which supports the company's manufacturing division to invent hit products," "pursuing the acquisition of digital contents and rights," and "expanding its share in the distribution industry."

Creating an Environment to Support Manufacturing Division to Invent Hit Products

HAPPINET seeks to acquire contents and to establish a cross-business project team to cover toys, capsule toys, games, novelty goods, books, distribution, CDs and DVDs, as well as to create a working environment which supports its manufacturing division to invent hit products. As a part of these measures, the company has acquired two new contents and will launch new toys, books, DVDs, and TV animation series based on these contents.

Pursuing the Acquisition of Digital Contents and Rights

HAPPINET is pursuing the development of original video game products produced in-house (either by developing in-house or to acquiring the secondary usage rights), and synergies with social games. Five titles are expected to be released during fiscal year March 2014 with a plan to sell 200,000 copies in total. Furthermore, the Company will seek to diversify its earnings sources through distribution of social games via "App Store" and "Google Play Store" (both of them are the services to provide an access to download applications). Because the course of events are determined in the acquisition of users immediately after games are released, HAPPINET seeks to increase the number of users acquired in the initial stages by tying up with publishers that own the rights to characters for promotions. As part of this strategy, HAPPINET is strengthening its collaboration with its partners including Shogakukan-Shueisha Productions Co., Ltd. and Alchemist, which deals with planning, creating and selling of family computer game software, animation, and character goods.

First Original Product

Nintendo 3DS "Chibi☆ Devi! 2 Witches Dream Book"
Expected Launch July 2013
Currently a popular content carried by the number 1 young girl's comic book "Ciao" (800,000 circulation)
1.2 million copies of the independent book sold
TV animation carried on NHK (E Television) broadcast within "Dai! Tensai Terebi-Kun"

(Source: HAPPINET)

(4) Digital Contents Platform "Mnaga2.5": Promoting Japanese Manga (Comics) Throughout the World

The motion comic brand "Manga2.5" was established on February 19, 2013 in cooperation with Inception Media Group to distribute Japanese manga (comics) via "iTunes Store" in 52 countries.

Promoting Japanese Manga Throughout the World

"Manga2.5" is designed to be a new brand that promotes motion type comics that are widely recognized and highly regarded in Europe and North America. Motion comic is a new form of comic which uses voices, colors, and background music in place of written captions. This new motion comic maintains a high quality of conventional comic books, while at the same time provides the dynamic sense of animation. The use of motion comics is designed to make Japanese comics with their unique progression of scene frames and pages more familiar to foreigners.

Process of Creating Motion Comics

Frames are cut out from the comics for written text captions to be replaced with voices and to add colors.

By adding voices instead of written texts, background music and other audio effects to connect to each frame, they look more like an animation. But the production cost of motion comics is only ¥3 million, which is about one fifth of complete animation whose cost is around ¥15.00 million.

(Source: HAPPINET)

Distribution will be performed in cooperation with Inception Media Group, which has strong ties with Apple Inc. of the United States, over "iTunes Store," which boasts of a large number of users globally. The first two titles were launched in February and another in March. In the future, HAPPINET will cooperate with publishers for the launch of Japanese manga contents over the "Manga2.5" platform with one to two titles expected to be released per month.

Importance of the "Manga2.5" Launch

There are over 10,000 manga released every year within Japan, with only a handful of them turned into animations or moving pictures and many of them with high quality remain undiscovered. Furthermore, while Japanese manga are highly regarded in overseas markets, only a few of them get translated into foreign languages and therefore most remain out of the reach of manga fans who cannot read Japanese. In response to this condition, "Manga2.5" was launched for the purpose of rectifying this language barrier by distributing high-quality Japanese manga in the form of comics, which are popular in North America and in Europe, so that non-Japanese speaking fans in the world can gain access to them. The 2.5 of "Manga2.5" is used to describe the positioning of motion format manga, with normal mangas (comic books) assigned a value of 1.0, electronic manga 2.0, and animated manga 3.0, and motion comics falling half way between electronic manga and animated manga.

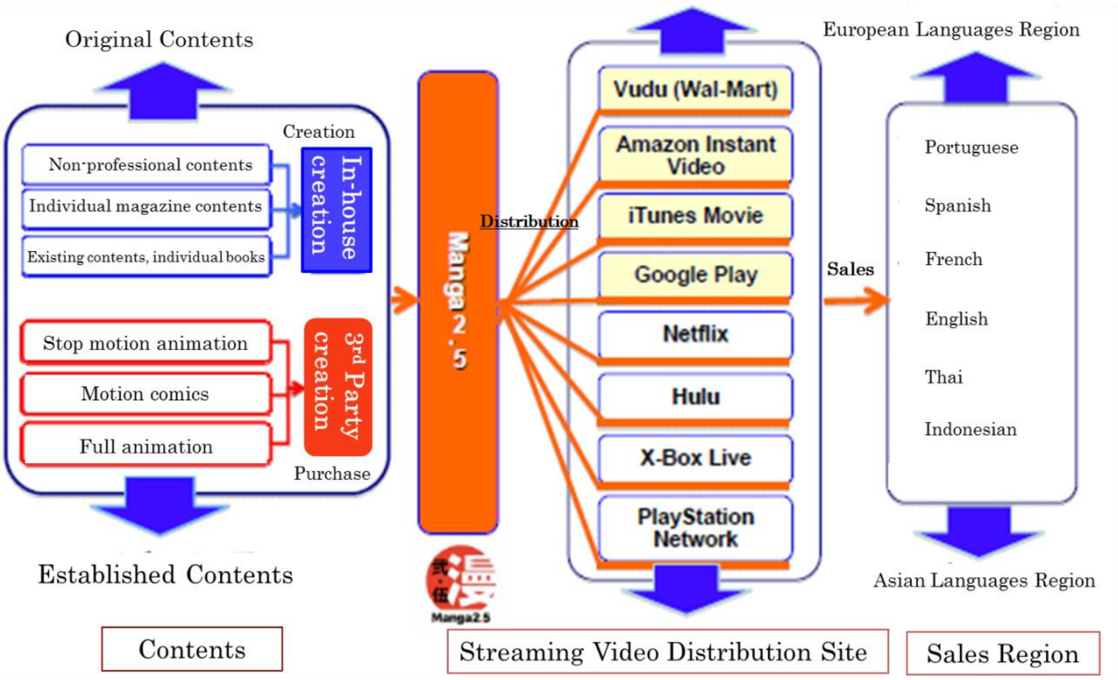
iTunes Store

Contents are designed to be used by the "iTunes" free application distributed by Apple Inc. This application allows music, movies, applications, games and other contents to be downloaded either free of charge or fee-based over the Internet to personal computers, smartphones, cellular telephones, tablet terminals, Apple TV and other hardware. "App Store" is a service that allows applications to be downloaded to iPhones, iPod touch and iPad.

Inception Media Group

Inception Media Group is a media company that is headquartered in Los Angeles which specializes in the creation, purchase, and distribution of movies and other visual contents across all media platforms and distribution channels.

Future Concept: Manga2.5 Platform



(Source: HAPPINET)

Over the medium term, HAPPINET expects to fortify its product lineup not only of its own products created in-house but also those of other manufacturers by expanding its alliances within the new "Manga2.5 Platform" framework. In addition, the Company will focus not only upon motion comics but also on traditional electronic manga and animation for distribution. In other words, HAPPINET will conduct its normal distribution function over the Internet through the "Manga2.5 Platform" in addition to pursuing the function as a manufacturer as part of the "Manga2.5" concept. Moreover, HAPPINET expects the sales of about 80 titles of"Manga2.5" to reach breakeven point levels, which will contribute between ¥0.5 to ¥1.0 billion in profits within the next three to five years.

3. Fiscal Year March 2013 Earnings Results

(1) Consolidated Earnings

(Units: Million Yen)

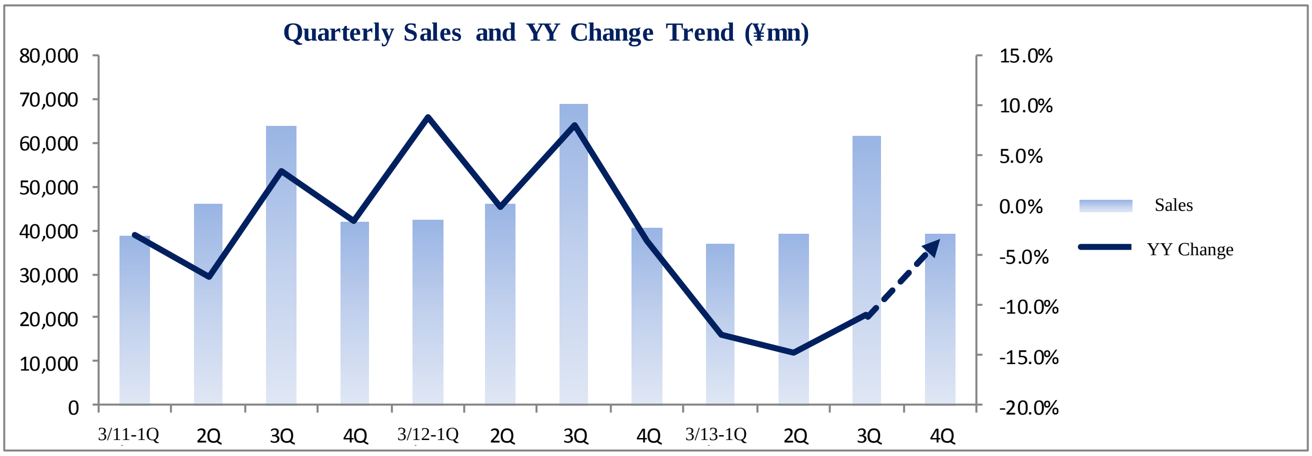
	FY3/12	Share	FY3/13	Share	YY Change	Revised Est. as of 2Q	Divergence
Sales	198,021	100.0%	176,757	100.0%	-10.7%	170,000	+4.0%
Gross Income	25,007	12.6%	22,501	12.7%	-10.0%	-	-
SG&A	20,151	10.2%	19,527	11.0%	-3.1%	-	-
Operating Income	4,855	2.5%	2,973	1.7%	-38.8%	2,900	+2.5%
Ordinary Income	5,032	2.5%	3,081	1.7%	-38.8%	3,000	+2.7%
Net Income	2,458	1.2%	2,011	1.1%	-18.2%	1,800	+11.7%

* Figures include reference figures calculated by Investment Bridge Co., Ltd. Actual results may differ (applies to all tables in this report)

Sales, Ordinary Income Decline by 10.7%, 38.8% Year-Over-Year

Sales fell by 10.7% year-over-year to ¥176.757 billion due in part to the disappearance of the positive influence of the Great East Japan Earthquake, a lack of hit products, and subsequent lower sales of the Toy and Amusement Businesses. In addition, competition from software distribution and social games caused the packaged software market to stagnate and led to difficult operating conditions in the Visual and Music, and Video-Game Businesses.

Operating income fell by 38.8% year-over-year to ¥2.973 billion on the back of an increase in stock clearance from ¥2.191 billion in the previous term to ¥2.353 billion in the current term made to maintain the financial health of the balance sheet. At the same time, gross margin improved by 0.1% point from the previous term to 12.7% during the current term due to a change in sales composition (the shares of Toy and Amusement Businesses increased). While sales, general and administrative expenses declined on the back of cost reductions, they were not enough to make up for the decline in sales. The margin of decline in net income was lower at 18.2% year-over-year due in part to a fall in impairment losses from ¥669 million in the previous term to ¥89 million in the current term. Moreover, sales bottomed out during the second quarter (July to September), and have begun to recover in the subsequent quarters.



Sales by Channel

(Units: Million Yen)

	FY3/12	Share	FY3/13	Share	YY Change
Retailers Specialized in Consumer Electronics, Camera	625	31.6%	604	34.2%	-3.5%
Mass Retailers	403	20.4%	369	20.9%	-8.5%
Convenience Stores	263	13.3%	228	12.9%	-13.4%
e-Commerce	250	12.7%	192	10.9%	-23.4%
Suburban Stores	193	9.7%	172	9.8%	-10.5%
Wholesalers	152	7.7%	115	6.5%	-23.8%
Others (Including Department Stores)	91	4.6%	85	4.8%	-6.8%
Total Consolidated Sales	1,980	100.0%	1,767	100.0%	-10.7%

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* The decline in sales through convenience stores was derived from a struggle for trading cards. The reduction in e-Commerce was attributed to changes in accounting methods by large transactional partners, so its impact upon profits was negligible.

(2) Consolidated Earnings Trends by Business

Segment Sales, Income

(Units: Million Yen)

	FY3/12	Share	FY3/13	Share	YY Change
Toy	77,313	39.0%	74,660	42.2%	-3.4%
Visual and Music	55,719	28.1%	44,810	25.4%	-19.6%
Video-Games	42,704	21.6%	36,839	20.8%	-13.7%
Amusement	22,282	11.3%	20,447	11.6%	-8.2%
Total Sales	198,021	100.0%	176,757	100.0%	-10.7%
Toy	3,009	48.6%	2,055	47.7%	-31.7%
Visual and Music	448	7.2%	309	7.2%	-30.9%
Video-Game	936	15.1%	678	15.7%	-27.6%
Amusement	1,801	29.1%	1,265	29.4%	-29.8%
Adjustments	-1,341	-	-1,335	-	-
Total Operating Income	4,855	-	2,973	-	-38.8%

Toy Business

Sales and operating income declined by 3.4% and 31.7% year-over-year to ¥74.660 and ¥2.055 billion respectively. Sales of original products developed by HAPPINET rose by 12.4% year-over-year to ¥2.5 billion, but weak sales of "battle game" trading cards and other character products led to an 8.3% year-over-year decline in sales of BANDAI products. Sales of products by Tomy Company, Ltd. (Takara-Tomy) also fell by 14.7% year-over-year to ¥5.3 billion. And while the stock turnover rate declined from 33.6 times in the previous term to 30.7 times in the current term, ¥1.3 billion in stock clearance allowed term-end inventories to remain in line with the previous fiscal year (¥2.3 billion) at ¥2.4 billion.

Visual and Music Business

Sales and operating income declined by 19.6% and 30.9% year-over-year to ¥44.810 and ¥0.309 billion respectively. Within this segment, sales of visual products and music products fell by 20.3% and 17.9% year-over-year to ¥31.5 and ¥13.2 billion respectively. While the movie "Helter Skelter" starring Erika Sawajiri was very popular, the overall market of packaged software struggled due to competition from contents distributed over the internet. Within the visual product segment, distribution sales fell by 22.8% year-over-year to ¥25.9 billion and manufactured products sales (including sponsored movies and movies with sole distributorship rights) fell by 5.7% year-over-year to ¥5.6 billion. Effective stock controls allowed the return rate to decline from 6.2% in the previous term to 4.7% in the current term, and stocks and the stock turnover rate remained in line with the previous term (¥1.8 billion and 24.6 times) at ¥1.7 billion and 24.5 times during the current term.

Video-Game Business

Sales and operating income declined by 13.7% and 27.6% year-over-year to ¥36.839 and ¥0.678 billion respectively. The launch of a new game equipment and some hit software products were noted, but the growing popularity of social games continued to contribute to a difficult operating environment. By hardware platform, a lack of popular software for PlayStation was noted and caused sales to consoles and portable PlayStation games to decline by 22.6% and 41.9% year-over-year to ¥5.3 and ¥7.1 billion respectively. At the same time, fortification of software for Nintendo products allowed sales to consoles and portable game equipments to rise by 35.1% and 36.7% year-over-year to ¥4.4 and ¥14.2 billion respectively. In addition, sales to Xbox hardware platforms fell by 42.2% year-over-year to ¥5.6 billion.

Amusement Business

Sales and operating income fell by 8.2% and 29.8% year-over-year to ¥20.447 and ¥1.265 billion respectively. A lack of hit products caused sales of capsule toy vending machines and kids' card game equipments to decline from the previous year. The stock turnover ratio fell from 17.3 times in the previous term to 14.3 times in the current term, but stocks at the term end remained in line with the previous year's levels at ¥1.4 billion.

(2) Financial Conditions and Cash Flow

Total assets decreased by ¥1.320 billion from the end of the previous term to ¥53.003 billion at the end of the current term. An increase in shipments of Nintendo products to general merchandising stores (comprehensive supermarkets), for which the compensation recovery cycle is long, contributed to an increase in accounts receivables, and original products in the visual and video-game businesses led to an increase in prepayments (up from ¥634 million to ¥1.389 billion). At the same time, cash and equivalents declined on the back of these factors, and both depreciation and impairment losses on tangible and intangible fixed assets decreased. Net assets increased, while outstanding payments and unpaid corporate taxes declined. HAPPINET continues to maintain a healthy financial structure that does not rely upon debt, and it has high levels of liquidity. Also, capital ratio improved by 3.8% points to 43.9%.

With regards to cash flow, the combination of the long compensation recovery cycle of general merchandising stores and the short payment cycle for Nintendo products caused advances and working capital to increase, and led to a net outflow of cash in operating activities of ¥1.505 billion during the current term, compared with the net inflow of ¥4.609 billion during the previous term. Capital investments and dividend payments contributed to net cash outflow in both investment and financial activities as well.

Financial Conditions

(Units: Million Yen)

	March 2012	March 2013		March 2012	March 2013
Cash	12,359	10,155	Payables	23,042	22,672
Receivables	26,755	27,234	Outstanding Payments	3,351	2,656
Inventories	6,168	6,529	Unpaid Taxes	1,605	678
Current Assets	48,269	47,930	Current Liabilities	29,617	26,883
Tangible Fixed Assets	1,392	1,110	Retirement Benefit Reserves	1,780	1,830
Intangible Fixed Assets	1,715	985	Fixed Liabilities	2,909	2,829
Investments, Others	2,946	2,976	Net Assets	21,795	23,289
Fixed Assets	6,054	5,072	Total Liabilities, Net Assets	54,323	53,003

Cash Flow

(Units: Million Yen)

	FY3/12	FY3/13	YY Change	
Operating Cash Flow (A)	4,609	-1,505	-6,115	-
Investment Cash Flow (B)	-50	-108	-58	+116.0%
Financial Cash Flow	-421	-588	-166	-
Cash and Equivalents	12,359	10,155	-2,203	-17.8%

4. Fiscal Year March 2014 Earnings Estimates

(1) Consolidated Earnings

(Units: Million Yen)

	FY3/13	Share	FY3/14 Est.	Share	YY Change
Sales	176,757	100.0%	180,000	100.0%	+1.8%
Operating Income	2,973	1.7%	3,400	1.9%	+14.4%
Ordinary Income	3,081	1.7%	3,500	1.9%	+13.6%
Net Income	2,011	1.1%	2,000	1.1%	-0.6%

Sales, Ordinary Income Expected to Rise by 1.8%, 13.6% in FY3/14

While sales of Toy and Amusement businesses are expected to remain unchanged, sales of Video-Game business are expected to benefit from the launch of the new Sony "Play Station 4" game platform. Furthermore, sales of Visual and Music business are expected to decline, but the introduction of products produced in-house or products for which HAPPINET has sole distributorship rights are expected to contribute to an improvement in profitability allowing this segment's operating income to nearly double. Dividend payment of ¥22.5 per share is anticipated (¥11.25 at the end of both the interim period and full year).

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(2) Outlook by Business

Sales, Income by Business (Units: Million Yen)

	FY3/13	Share	FY3/14 Est.	Share	YY Change
Toys	74,660	42.2%	75,000	41.7%	+0.5%
Visual and Music	44,810	25.4%	41,000	22.8%	-8.5%
Video-Games	36,839	20.8%	43,000	23.9%	+16.7%
Amusement	20,447	11.6%	21,000	11.6%	+2.7%
Total Sales	176,757	100.0%	180,000	100.0%	+1.8%
Toys	2,055	47.7%	2,100	44.7%	+2.1%
Visual and Music	309	7.2%	600	12.8%	+93.6%
Video-Games	678	15.7%	800	17.0%	+18.0%
Amusement	1,265	29.4%	1,200	25.5%	-5.1%
Adjustments	-1,335	-	-1,300	-	-
Total Operating Income	2,973	-	3,400	-	+14.4%

Toy Business

Sales and operating income are expected to rise by 0.5% and 2.1% year-over-year to ¥75.0 and ¥2.1 billion respectively. In the near term, “battle games” are expected to recover with favorable sales of “Beast Warrior Kyouryuger” characters (sales of this product rose 250% year-over-year during April and May). In addition, sales of character product related to “Aikatsu” animation series, currently being broadcast on TV Tokyo Corporation every Thursday from 6PM, are expected to contribute to this segment’s earnings during the first half.

Visual and Music Business

Sales are expected to fall by 8.5% year-over-year to ¥41.0 billion and operating income to rise by 93.6% year-over-year to ¥0.6 billion. HAPPINET is endeavoring to cultivate major products produced in-house and products for which it has sole distributorship rights as part of its efforts to expand its capability as a contents manufacturer. During the first half, “Castle of Nobou” starring Mansai Nomura, the Academy Award winning movie called “Zero Dark Thirty” about the assassination of the terrorist criminal Osama Bin Laden responsible for “9.11,” the comedy movie “Ore Wa Mada Honki Dashiteinai Dake” (I Haven’t Even Started Trying Yet) starring Shinichi Tsutsumi to be released on June 15, “ZOIDS Blu-Ray BOX (only first pressing)” DVD that will be released on August 2, and the hit movie “JACKIE COGAN” starring Brad Pitt and amongst the new products expected to be launched.

Video-Game Business

Sales and operating income are expected to rise by 16.7% and 18.0% year-over-year to ¥43.0 and ¥0.8 billion respectively. Sony's new “Play Station 4” game platform is to be launched in time for the year-end shopping season, and Microsoft is also planning to launch a new game platform “Xbox One” (a replacement for “Xbox 360” launched in December 2005) during the coming term. HAPPINET seeks to realize an optimal distribution system for games and software through strategic partnerships with all manufacturers, while at the same time implementing measures to cultivate social games to capture the growth in that market. During the coming term, the company is expected to launch five native application titles (software applications downloaded to handheld terminals) in the realm of social games.

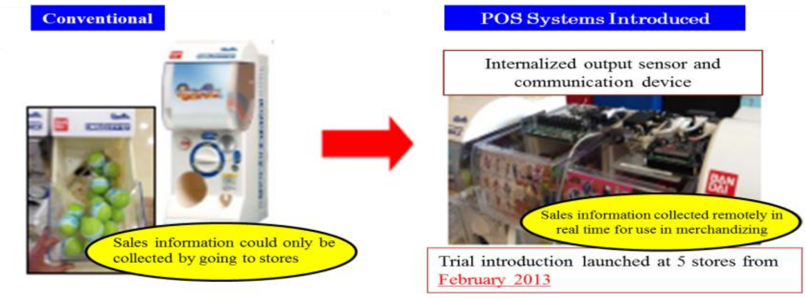
Amusement Business

Sales are expected to rise by 2.7% year-over-year to ¥21.0 billion and operating income to fall by 5.1% year-over-year to ¥1.2 billion. A sales data acquisition system (POS: Point Of Sales information management system) for capsule toy vending machines (included in toy vending machines) is expected to be introduced on a full scale during the coming term. This new system was introduced on a trial basis at five stores in February 2013 and has demonstrated a notable improvement in sales, therefore the company intends to introduce the system at some 200 stores during the coming term.

Income Comparison of Stores where POS Systems Introduced and Not Introduced (Compared with February)

	March 2013	April 2013
Stores Where Introduced	117.6%	144.0%
Stores Where Not Introduced	110.8%	112.5%

Until now, sales conditions could not be confirmed without physically going to stores, but the introduction of this POS system for toy vending machines allows sales information to be gathered remotely at the time of sale, which enables real time sales data to be used more effectively in merchandizing activities. In addition, this system has the potential to greatly reduce the operational burden of managing vending machines and will create new business opportunities by making it possible to install vending machines in difficult locations.



(Source: HAPPINET)

5. Conclusions

The disappearance of the positive factors during the previous term contributed to difficult operating conditions during fiscal year March 2013. However, it is important to note that the pace of profit growth is still above the medium to long term trend level and that HAPPINET's ability to achieve its earnings estimates in fiscal year March 2014 will confirm this fact. In addition to the actual numbers for sales and profits, the progress in its growth strategy including "creating an environment which supports the company's manufacturing division to invent hit products," "pursuing the acquisition of digital contents and rights," and "expanding its share in the distribution industry" must also be watched closely.

Also, the recently launched "Manga2.5" and "Manga2.5 Platform" concepts are expected to contribute to earnings over the medium term. HAPPINET will leverage its newer capability as a manufacturer in the "Manga2.5" concept, and its traditional capability as a distributor in the "Manga2.5 Platform" concept as part of its efforts to diversify its business model and fortify its in-house produced products as part of its long term growth strategy.