Shared Research Monthly Wrap - April 2014

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Monthly musings

Market view from Sendagi

さすが花ちるにみれんはなかりけり
When cherry blossoms scatter… no regrets.

Hanami season is over. Every year, when sakura trees start blossoming in early April, millions of Japanese perform the same ritual: snap countless pictures of sakura cherry blossoms on cameras and smartphones; then form groups, secure a tiny patch of ground underneath or near a cherry tree, buy beer and snacks and get festive, without paying much attention to the abovementioned blossoms. Both activities reportedly represent traditional Japanese sensibilities—getting **touchy-feely about the ephemeral nature of things** while observing fragile cherry blossoms fall down, without regrets or clinging to the past.

This year the Japanese stock market has joined the cherry blossoms, reminding weary investors that its nature can be just as ephemeral. **The correction is underway**. So far, we are firmly in the trading box, set by last spring's breakout. Interesting opportunities should emerge from a trading perspective over the next few weeks. Do we test resistance of the 1,050 level (Topix), also testing the nerves of market participants, or consolidate for a rally? I repeat that my personal view is **a rally**, most likely set off by government policy announcement or its anticipation.

At the same time, I remind myself that currency movements and the "dog that wags the tails"—the US stocks that indirectly drive the Japanese market—will be key to sustaining the trend. In that sense, the **extended nature of the US bull market**—where a bull phase tended to last for roughly five years in the past few cycles—is a worry. However, in the end markets are driven by economic fundamentals—as the Oracle of Omaha loves reminding us. US fundamentals appear strong, fueled by cheap energy and the spirit of capitalism. My confident bet is that Japanese fundamentals will continue to strengthen, although it is critically important that they strengthen *enough*.

The Japanese government must hope that its people do not look back, or hold back, now that they're paying the **brand-new 8% consumption tax** from April 1st. The first necessary step toward stabilizing Japanese public finances has been made. **Wage inflation** also seems to have started, at least in such industries as retailing and construction. These are all good things.

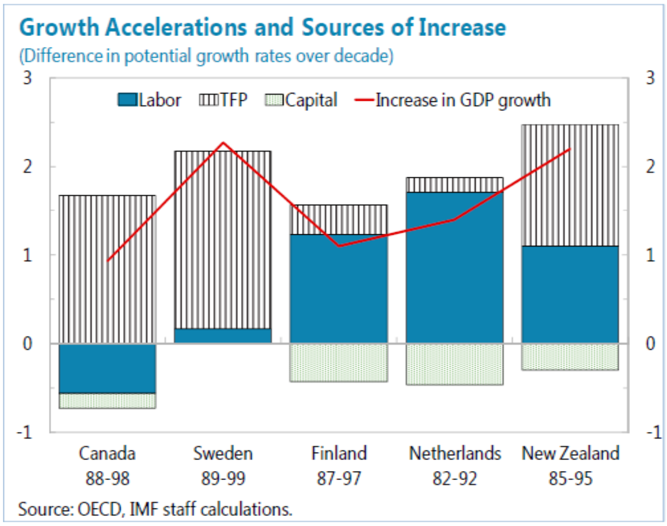
I probably represent the domestic consensus when I say that I **expect additional quantitative easing**, despite the BOJ's recent statements to the contrary, **and policy announcements** in the coming months. The critically important task has now shifted toward hitting real and nominal GDP growth targets, the difference being a healthy inflation rate. Japan needs to raise its consumption tax again next year. This means continued short-term pressures on consumer demand. Higher wages will offset that but also mean cost pressures for businesses. Overcoming the challenges and definitively escaping the gravity pull of deflation is not easy.

In the last few installments of the Market View, I've discussed productivity growth issues. Specifically for Japan, my conclusions were:

a) In the 1990-2000s, Japan made a choice to keep the excess labor capacity after the burst of its economic bubble to maintain social harmony and a uniform standard of living. The country and its economy paid for this with lower productivity, innovation, and growth;
b) Structural adjustments in the Japanese economy, from baby boomers exiting the workforce, to the inflationary policies of the BOJ, to new drivers such as the birth of Japan as a worldwide tourist destination—will mean that productivity should rise incrementally and contribute to economic growth for at least several years.

However, **Japan, like any mature economy, must innovate to grow**. It actually must innovate more than others, enough to offset inevitable and steep decline in population as the country resists allowing more immigration. After substantial research on the topic of innovation and growth for developed economies, my conclusion is that **the only reliable driver of innovation is economic freedom**. I've therefore come full circle in my discussion of the Japanese economy and its issues. I conclude that to ensure a bright future for its people, Japan needs to foster free enterprise through deregulation (targeting the labor market and protected sectors) and lower taxes for businesses and entrepreneurs.

Last time I finished the discussion with this chart, showing the sources of economic growth in several economies post serious economic crises.



I thought it might be interesting to look at one country in this chart that is known as exceptionally welfare-oriented but also as an effective and prosperous economy—Finland (I chose it over Sweden for sentimental reasons).

Located north of my tiny home country of Estonia, Finland has only a slightly smaller territory (338,424 sq. km) than Japan (377,944 sq. km) but is extremely sparsely populated (only 5.4mn inhabitants compared to Japan's 127.6mn and neighboring Sweden's 9.5mn).

One thing that immediately strikes any observer is that the Finnish economy—like many other economies in post-war Europe—was heavily regulated until the late 1980s. The government was everywhere—setting prices for goods, taxing, and licensing. The deep recession of the early 90s, exacerbated by the substantial dependence of Finnish exports on the Soviet Union—which promptly collapsed in 1991, highlighted the need for both decisive macroeconomic policy and deregulation.

Deregulation in Finland began as early as 1985, with the establishment of a competition and price committee which started with setting the guidelines for removing price regulation. In 1989, the country began a program of administrative reform. At the time Finland had about 1,700 types of administrative permits, including a large number of business licenses. The country made a wholesale move to a notification system, as opposed to licensing. That happened, for instance in the real estate business in 1993. The country then liberalized foreign ownership of Finnish companies and joined the EU in 1995, opening its markets and removing protectionist barriers. The mobile telecommunication network was opened to competition as early as 1990. Energy sector deregulation followed in 1995.

Discussing the current state of affairs of the Finnish economy is beyond the scope of this essay. Finland was extremely successful in remaking it from a sleepy overregulated lumber supplier for the Soviet Union into the dynamic ICT-driven economy that it is now. The country still has its fair share of issues, highlighting the fact that reforms and deregulation should be a continuous process. However, the Finnish lesson shows that deregulation works, even for countries with deeply seated problems and structural disadvantages (for Finland—dependence on the Soviet Union, relative remoteness, and scarce population).

Here in Japan, regulatory reform is also increasingly accepted as good and necessary. The problem however, starts when anybody tries to actually implement the reform. We at Shared Research had an opportunity to partially document one farcical example of the deregulation struggle in our upcoming report on Kenko.com, an online purveyor of health-related merchandise. The seemingly simple issue of permission to sell drugs online has been stymied by powerful interest groups. Other issues riding high on the government's regulatory reform agenda are labor regulatory reform, deregulation of childcare services, and reform in the energy industry (e.g., separation of the generation and transmission of electricity). On most of these issues, despite the obvious urgency and apparent simplicity of solutions for at least some of them, the progress has been slow.

However, slow progress is better than no progress. It appears highly likely that thanks to the stable political situation (no general elections till 2016), the Abe government will push through more reforms than Japan has seen in decades. This is precisely what makes me optimistic about the economic performance of this country over the next 3-7 years. However, whatever happens beyond the current cycle, the secular trend is more important. My big concern is that the reform in Japan, despite accelerating, may not be enough to unleash true innovation.

Innovation should not be understood simply as technological innovation or a breakthrough scientific discovery. Innovation means adding value through new approaches and products, in any field. This view of innovation demonstrates that the only way for the government to truly support innovation is to create a more level playing field, and let entrepreneurs dream and realize their dreams—be it making money or helping the world.

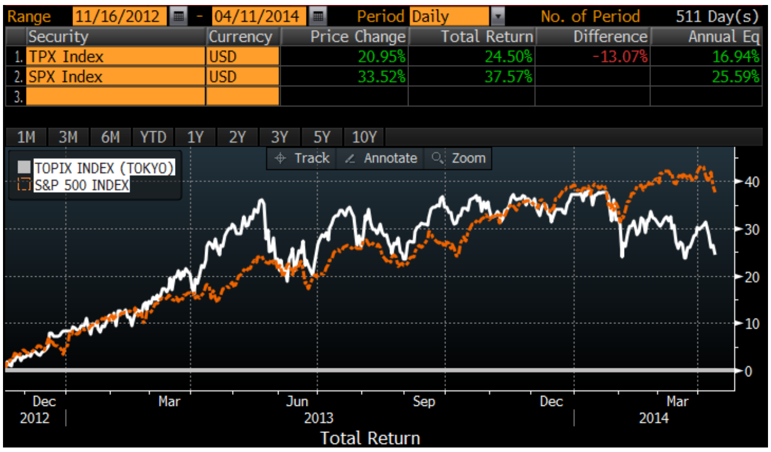
A report by the Asian Studies Center of The Heritage Foundation discusses issues impacting innovation in Japan and spells out conditions for effective government involvement: let innovation happen everywhere and not just in the advanced technology field, don't pre-select desired outcomes, and allow competition to be the biggest driver of innovation. I couldn't agree more. Unfortunately, in Japan the government tends to increase its intervention when it gets excited about something and this is what we observe today with many initiatives born out of Abenomics.

So the key question may not be "can Japan innovate?" but "can Japan let innovate?" We should start seeing some answers soon.

Have a nice day,

Oleg Zuravljov

P.S. Here is my usual chart for you.



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TOPIX100 Portfolio

Return Comparison (%)	
TPX100	-5.17
Portfolio	-5.41
TPX100	**Points**
2013/10/11	797.18
2014/4/14	748.89

Start Date	Current Date
2013/10/11	2014/4/14

Weight Rel. To TPX100	
BIG OW	2.0
OW	1.5
MW	1.0
UW	0.5
BIG UW	0

Ticker	Name	Weight Rel. To TPX100	Total Return (%)	Wgt (%)
7203	Toyota Motor Corp	UW	-15.60	4.1
8306	Mitsubishi UFJ FG	BIG OW	-14.47	9.2
8316	Sumitomo Mitsui FG	OW	-14.83	5.2
9984	Softbank Corp	UW	-5.98	1.7
7267	Honda Motor	UW	-11.15	1.7
8411	Mizuho Financial Group	OW	-2.68	3.8
9432	NTT	UW	-0.81	1.1
2914	Japan Tobacco	MW	-8.48	2.1
8802	Mitsubishi Estate	OW	-19.21	2.8
4502	Takeda Pharmaceutical	MW	-3.53	1.8
7751	Canon	MW	2.33	1.7
6954	FANUC Corp	MW	6.78	1.7
8801	Mitsui Fudosan	MW	-12.16	1.5
9020	East Japan Railway	MW	-13.14	1.5
8058	Mitsubishi Corp	BIG OW	-7.67	3.0
8604	Nomura Holdings	MW	-20.18	1.5
3382	Seven & I Holdings	MW	2.09	1.5
5401	NSSMC	MW	-21.73	1.5
6501	Hitachi	MW	14.93	1.4
9433	KDDI Corp	BIG UW	-0.63	0.0
9437	NTT DOCOMO	OW	-0.30	1.8
7201	Nissan Motor	UW	-9.71	0.6
8031	Mitsui &	BIG OW	2.96	2.3
6758	Sony Corp	UW	-2.55	0.6
8766	Tokio Marine Holdings	MW	-4.80	1.2
6902	Denso Corp	UW	-2.17	0.6
6301	Komatsu	MW	-9.93	1.1
5108	Bridgestone Corp	MW	-0.62	1.1
4503	Astellas Pharma	BIG UW	8.78	0.0
4063	Shin-Etsu Chemical	OW	0.42	1.6
8830	Sumitomo Realty	UW	-16.14	0.6
9022	Central Japan Railway	MW	-12.34	1.1
6752	Panasonic Corp	MW	13.53	1.1
6503	Mitsubishi Electric Corp	OW	4.07	1.5
7011	Mitsubishi Heavy Industries	MW	-5.33	1.0
8309	Sumitomo Mitsui Trust HD	OW	-14.93	1.4
8591	ORIX Corp	OW	-16.45	1.4
8001	ITOCHU Corp	MW	-2.82	0.9
6861	Keyence Corp	OW	9.68	1.3
8601	Daiwa Securities Group	OW	-10.19	1.2
6502	Toshiba Corp	BIG OW	-2.15	1.6
6971	Kyocera Corp	UW	-11.12	0.4
4452	Kao Corp	BIG UW	18.02	0.0
6981	Murata Manufacturing	OW	19.66	1.1
6326	Kubota Corp	BIG UW	-10.16	0.0
8053	Sumitomo Corp	BIG OW	-2.00	1.5
9983	Fast Retailing	BIG UW	-1.55	0.0
8725	MS&AD Insurance Group HD	MW	-10.75	0.7
6367	Daikin Industries	MW	6.38	0.7
8750	Dai-ichi Life Insurance	MW	1.27	0.7

Ticker	Name	Weight Rel. To TPX100	Total Return (%)	Wgt (%)
6273	SMC Corp/Japan	MW	7.49	0.7
2503	Kirin Holdings	OW	-0.44	1.0
5411	JFE Holdings	BIG OW	-25.74	1.3
7974	Nintendo	MW	-2.42	0.6
9735	Secom	OW	-4.73	0.9
9531	Tokyo Gas	UW	-5.60	0.3
1605	Inpex Corp	OW	20.48	0.9
2502	Asahi Group Holdings	MW	1.24	0.6
8002	Marubeni Corp	MW	-10.24	0.6
4568	Daiichi Sankyo	UW	-2.12	0.3
7741	Hoya Corp	OW	25.58	0.8
1925	Daiwa House Industry	MW	-6.69	0.5
4578	Otsuka Holdings	MW	6.21	0.5
5020	JX Holdings	OW	4.61	0.8
8630	NKSJ Holdings	UW	1.91	0.3
5802	Sumitomo Electric	MW	-2.31	0.5
9503	Kansai Electric Power	UW	-31.16	0.3
4901	FUJIFILM Holdings Corp	BIG OW	14.84	1.0
4661	Oriental Land/Japan	MW	-6.21	0.5
4523	Eisai	UW	0.47	0.3
3402	Toray Industries	MW	6.74	0.5
7269	Suzuki Motor Corp	UW	15.18	0.2
8267	Aeon	UW	-15.30	0.2
6988	Nitto Denko Corp	UW	-16.03	0.2
8308	Resona Holdings	MW	-3.57	0.5
6594	Nidec Corp	MW	36.43	0.5
3407	Asahi Kasei Corp	BIG UW	-4.94	0.0
8035	Tokyo Electron	MW	11.14	0.4
1878	Daito Trust Construction	UW	-0.65	0.2
1928	Sekisui House	UW	-4.58	0.2
9502	Chubu Electric Power	OW	-19.99	0.6
1963	JGC Corp	UW	-8.67	0.2
9202	ANA Holdings	MW	2.30	0.4
9532	Osaka Gas	MW	-8.46	0.4
8795	T&D Holdings	OW	-1.67	0.6
9064	Yamato Holdings	MW	-3.51	0.4
7202	Isuzu Motors	MW	-7.19	0.4
2802	Ajinomoto	UW	13.34	0.2
6702	Fujitsu	UW	53.21	0.2
9021	West Japan Railway	MW	-5.36	0.4
5713	Sumitomo Metal Mining	UW	5.03	0.2
8113	Unicharm Corp	UW	-7.45	0.2
7731	Nikon Corp	OW	-11.13	0.5
8332	Bank of Yokohama/The	MW	-10.10	0.3
7752	Ricoh	UW	3.32	0.2
4911	Shiseido	BIG UW	1.01	0.0
7912	Dai Nippon Printing	OW	-11.06	0.5
5201	Asahi Glass	MW	-4.58	0.3
4188	Mitsubishi Chemical HD	MW	-8.11	0.3
9831	Yamada Denki	MW	43.20	0.1

(The views above are random musings and not a recommendation to buy, sell, or look for a finance job.)

New Coverage

ArtSpark Holdings Inc. (3663)

Joint holding company formed by the merger of Celsys Inc. and HI Corp. Known for ComicStudio, software to produce manga and an e-book distribution solution for mobile phones, and 3D rendering software for mobile phones. Mainstay products hold top market shares in Japan.

Dual-company business model sets ArtSpark apart

ArtSpark is a joint holding company formed by the merger of Celsys Inc and HI Corp in April 2012. Celsys was known for ComicStudio, software to produce manga and an e-book distribution solutions for mobile phones. HI was strong in 3D rendering software for cell phones. The products of the two companies hold the top market shares in Japan, respectively.

CELSYS		HI	
Main businesses	Main products	Main businesses	Main products
Software for use in creating anime and manga	CLIP STUDIO RETAS STUDIO Comic Studio	3D rendering engine for cell phones Font rendering engine	MascotCapsule Higlyph
e-book distribution system for cell phones	BS Reader BS Reader for Browser BS Reader S	UI development for embedded devices	exbeans UI Conductor

Source: SR, based on company materials

The two companies needed to change their business models as the core of the cell phone market was rapidly shifting to smartphones from feature phones. The purpose of the integration was to strengthen their competitive edge by combining the technologies and customer bases of the two companies. Both were strong in their respective markets. ArtSpark said that it aims to reinforce the existing businesses and create new businesses by gathering the resources of Celsys (strong in applications) and HI (middleware).

Establishes own base in human-centered design

Technologies to display graphics are advancing, spurred by a greater range of internet devices, and the profusion of consumer electronics devices like digital cameras, in-vehicle devices, electronic billboards and store information terminals. The popularity of the iPhone and iPad has increased demand for ease of use over variety of functions.

While general electronic devices have been made on the idea of function-centered design, the iPhone and iPad, which offer ease of use, are based on human-centered design. The UI/UX concept is key. The UI/UX business is a total design process. All in one, it provides solutions for development and implementation by combining UI (user interface), the way of connecting users to devices and software, with UX (user experience), pleasure, ease of use and other experience from devices and software. Since the function-centered idea has been dominant in Japan, human-centered design has not taken root. However, the need for comfortable operations is likely to increase as more functions appear.

Celsys and HI had developed software for cell phones and held number one positions in their respective industries. ArtSpark is thus the leader in accumulating knowledge for image processing on low-end devices. The company is proceeding with operations in cooperation with designers and engineers in the areas of planning, development and implementation.

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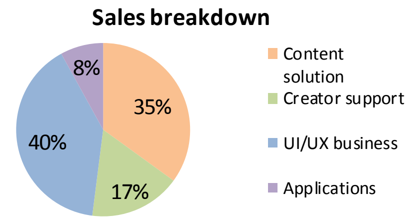
Compatibility of design and operability is vital in UI development. The designers and engineers exchange ideas to create better products. Engineers theoretically examine visual elements proposed by designers. The company said that few design offices in Japan employ 20-30 designers. Plus few companies have both designers and engineers for cooperative projects. The company has more than 100 employees, including 20 designers, to develop collaborative software products. The company plans to capitalize on its advantages through acquisitions and business alliances.



Source: Company materials
Figures are adjusted for intragroup transactions.

ArtSpark Holdings Group development team

(people)	Engineers	Designers
HI	70	20
CELSYS	60	-
Clouds	15	2
Total	145	22

Source: SR, based on interviews with the company

Note: correct as of December 2013.
HI and CELSYS are subsidiaries of the company. Clouds is an equity-method affliate.

Segments

The company's business segments: Content Solution, Creator Support, UI/UX and Applications. They follow the segments of Celsys and HI, pre-merger. Celsys handles Content Solution and Creator Support. HI handles UI/UX and Applications. In FY12/13, Content Solutions accounted for 35% of overall sales, Creator Support 17%, UI/UX 40%, and Applications 8%. UI/UX was the top sales contributor; Content Solution contributed most to profits.

	Sales			Operating Profit			OPM		
	FY12/12	FY13/12	FY13/12	FY12/12	FY13/12	FY13/12	FY12/12	FY13/12	FY13/12
(JPYmn)	4Q	4Q	FY	4Q	4Q	FY	4Q	4Q	FY
Segment									
Content Solution	355	345	1283	-8	47	119	-	-	9.3%
Creator Support	131	183	637	-112	4	-94	-	2.2%	-
UI/UX	247	365	1489	-68	-62	-188	-	-	-
Applications	178	48	299	-58	7	28	-	13.6%	9.3%
Subtotal	911	942	3709	-246	-4	-135	-	-	-
Adjustments	-4	-20	-23	1	16	66	-	-	-
Total	907	921	3685	-245	12	-69	-	1.3%	-
Composition (Exc. Adjustments)									
Content Solution	39%	37%	35%	-	-	-	-	-	-
Creator Support	14%	19%	17%	-	-	-	-	-	-
UI/UX	27%	39%	40%	-	-	-	-	-	-
Applications	20%	5%	8%	-	-	-	-	-	-

Source: Company data, SR

Content Solution

FY12/13: 35% of sales

BS Reader for browser

As the product allows users to browse e-books on web browsers, users do not need to download viewer applications to look around content at e-book store sites. A variety of content can be distributed: comics, novels and photo books.

The content solution business provides software and knowledge of services based on research and development of graphic technologies as solutions. The core product is the BS Reader series of e-book viewers, developed by Celsys. The company has not unveiled a detailed sales breakdown, though it said that the BS Reader series accounted for 70-80% of sales and almost all the segment's profit. The segment also develops and sells (or leases out) BS BookStudio, authoring software for processing manga and other publications for mobile devices, and develops and provides ComicDC, a data server for content distribution.

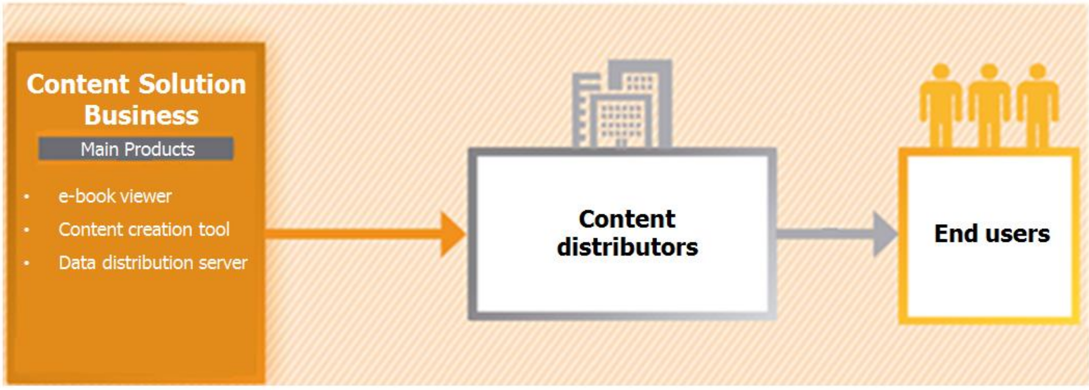
BS Reader

As the necessary software for browsing e-books, the company provides the product, or grants a license, to content providers, which distribute content to feature phone and smartphone users, and telecom carriers, and receives certain royalty rates depending on sales of content by using the viewer.

Its BS Reader holds a viewer share of more than 90% for cell phones. Though competitors have joined the viewer market for smartphones, its BS Reader for smartphones is compatible with that for feature phones. Despite the rapid spread of smartphones, nearly half of cell phone users do not use smartphones. For content holders, ArtSpark's BS Reader is seen to be more attractive than other competitors' products as it can provide one-stop solutions both for cellphones and smartphones.

The company changed part of its segment classification in FY12/13. Content Solution was previously called e-Book Support. The company restructured its graphics operations for corporate clients in the creator support business, in a bid to strengthen comprehensive content-related solutions. It transferred revenue from royalties and revenue from custom operations to e-Book Support, changing the name to Content Solution.

Business Flow



Source: Company materials

Creator Support

FY12/13: 17% of sales

CLIP STUDIO PAINT (PRO, EX)

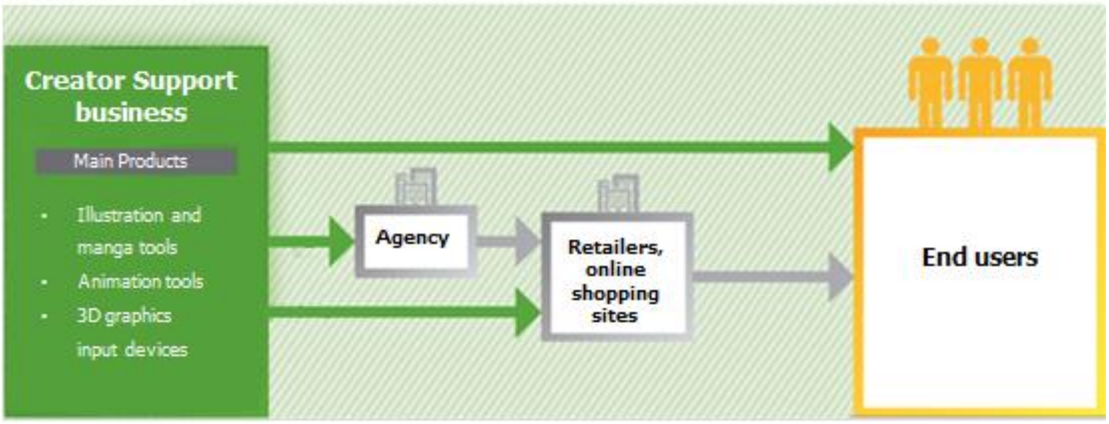
Illustration and manga production software with various uses, such as monochrome and color drawings for printing on commercial magazines and manga for websites and digital devices. In addition to drawing and painting features for color illustrations, it has features that cover all production processes of manga including rough sketches, frame cuts, inking, background, effect, lettering and management of multiple pages. It is the world's first dedicated manga production software. (Compatible with both Windows and Mac.)

The creator support business is a specialized business-to-consumer business for creators. Main products: CLIP STUDIO PAINT, an illustration and manga production software; Illust Studio for illustrations; ComicStudio series for manga production; and Retasstudio to support production of animations. Celsys, a subsidiary, is in charge of planning, development, and support of all the software.

The company sells these software products through personal computer distributors and retailers. It also operates CLIP, a website providing total support for creators of illustrations, manga, animations and novels. It receives fees from users. In the Japanese market, its software products related to manga and animations are de-facto standards among professionals and more than 90% of television animations use its products.

In FY12/13, the company changed the segment classification for the creator support business, transferring royalties from corporate clients and revenue from custom development to the content solution business.

Business Flow



Source: Company materials

UI/UX (formerly Middleware)

FY12/13: 40% of sales

exbeans® UI Conductor

A UI authoring tool (middleware) that allows users to launch their creations in runtime, thereby experiencing the designer's concept as he or she imagined it. The controls are intuitive, allowing users to drag and drop all elements of UI creation—including design, user interaction, animations, and screen transitions. Users can also easily create UIs across multiple devices and languages, and change designs and mechanisms as they see fit. Thus, this comprehensive line of UI authoring software provides users with a number of features that simplify the development process.

The UI/UX business provides UI solutions for digital consumer electronics devices, licensing graphics-related products and receiving custom development orders.

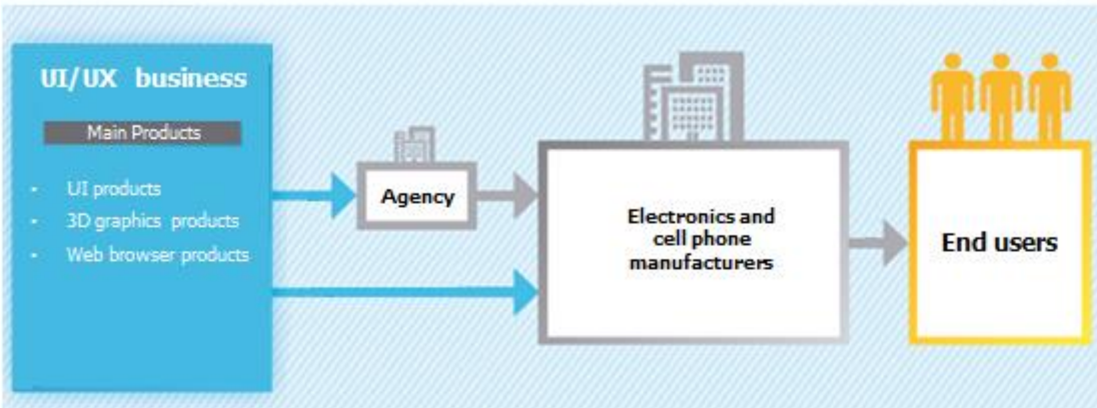
The company's strength in the business is in a string of products that are supported by provision of UI design by designers and endorsed by de-facto standard 3D graphics technologies. Core products were developed by HI, an ArtSpark subsidiary, including:

- exbeans UI Conductor (provides a UI development environment for embedded devices).
- Higlyph (a scalable font rendering engine with an emphasis on design; provides high speeds and beautiful rendering even on embedded devices).
- W10 Browser (a browser application for embedded devices compatible with HTML5).

UI solutions-related products are adopted for in-vehicle devices, digital cameras and karaoke equipment. W10 Browser is used for browsers compatible with multimedia broadcast. The company has developed UI for the SLR cameras of Olympus Imaging Corp, all-in-one printers of Brother Industries (TSE1: 6448) and Clarion Co Ltd (TSE1: 6796) touch panel audio-display screens for Suzuki Motor Corp (TSE1: 7269) K-cars. The company receives revenue from licensing those graphics-related products as UI solutions. It also receives revenue from the development, maintenance and support of custom UI design, software development and implementation. In addition, the core of this business has shifted from middleware products for mobile devices to UI solutions. The company changed the name of the business accordingly in FY12/13, from middleware to UI/UX.

K-car: A Japanese car category—literally "light car". Engine displacement limited to 660cc. The number plates of private cars have a yellow base (black base for commercial vehicles).

Business Flow



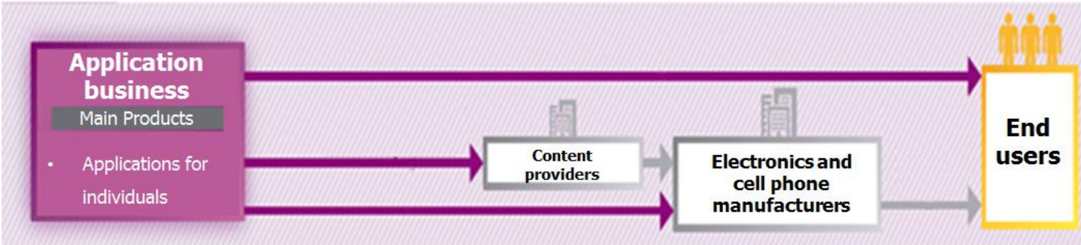
Source: Company materials

Applications

FY12/13: 8% of sales

The Applications business develops products using graphics-related technologies cultivated in the UI/UX business. The company receives fees from content providers and telecom carriers to develop game and services. The service component also receives royalties and management fees. However, profitability has been low from contract-based operations and the company does not promote this segment of the business. As a result it plans to scale back in this area. The main revenue sources are from ongoing projects and service operations.

Business Flow



Source: Company materials

Manufacturing and sales

HI	(JPYmn)	FY03/09	FY03/10	FY03/11	FY03/12	FY12/12
Manufacturing (Production expenditure)	Middleware*	720	721	704	893	561
	Applications	550	713	632	485	408
	Total	1,270	1,434	1,336	1,379	969
Sales	Middleware*	1,517	1,509	1,429	1,359	789
	Applications	400	750	781	504	357
	Total	1,918	2,259	2,210	1,863	1,146
CELSYS	**(JPYmn)**	**FY03/09**	**FY03/10**	**FY03/11**	**FY03/12**	**FY12/12**
Manufacturing (Production expenditure)	e-book support*	667	874	949	1,052	630
	Creator support	295	609	1,089	1,208	1,179
	Content creation	487	299	-	-	-
	Total	1,449	1,782	2,039	2,260	1,809
Purchasing (Cost of purchases)	e-book support*	148	180	193	188	94
	Creator support	91	100	80	88	261
	Content creation	0	0	0	0	0
	Total	239	279	273	276	354
Sales	e-book support*	1,505	1,942	2,200	2,091	987
	Creator support	382	450	521	611	500
	Content creation	559	304	0	0	0
	Total	2,446	2,696	2,721	2,702	1,487

Source: SR, based on company materials

Note, FY12/12 figures are for ArtSpark Holdings (irregular period of nine months).
Sales figures are adjusted for intragroup transactions.
*Former segment names have been used. In FY12/13 the company changed the name of the middleware business to the UI/UX business, and the name of the e-book support business to the content support business.

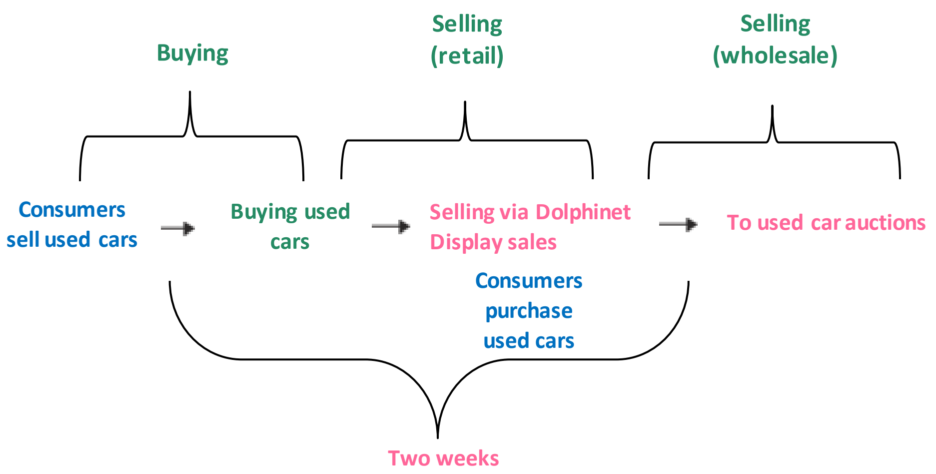
View the full report.

Gulliver International Co., Ltd. (7599)

Core business in buying and wholesaling used vehicles. Japan's largest buyer of used vehicles and the first to introduce nationwide unified purchase prices. Pioneer in use of computers to showcase and sell used vehicles.

The company's core business is buying and wholesaling used vehicles. The introduction of unified purchasing prices nationwide was the key to the company's growth. Used vehicle prices vary widely, and the market value for used vehicles was difficult to assess. Gulliver was the first to introduce nationwide unified purchase prices. This straightforward rule and use of a franchise model during its founding worked. The company is Japan's largest buyer of used vehicles.

In FY02/13, the company spent around JPY100bn purchasing about 140,000 vehicles at its directly operated stores. The company then sells vehicles via three channels.
Wholesale (nearly 70% of sales in FY02/13), selling purchased vehicles at auction.
Retail (30% of the total), selling retail through the screen-based Dolphinet system.
Display sales (showroom-based retail), from FY02/14.



Source: SR diagram, based on interviews with the company

To guard against sudden declines in value and to limit inventory risk, Gulliver restricts retail (Dolphinet and showroom) sales to a two-week period after purchasing a vehicle. If the vehicle remains unsold after two weeks, it is sold via auction.

Wholesale auctions account for around 70% of consolidated sales. Dolphinet retail operations, meanwhile, account for about 50% of consolidated gross profit (FY02/13, SR estimates). Gross profit per vehicle is around JPY100,000-150,000 at auction, and JPY300,000-400,000 for retail.

FY02/13	Purchases (directly managed stores)	Purchases (franchises)	Auctions (wholesale business)	Dolphinet (retail business)	Others (franchise revenue, peripheral sales etc)
Units	144,402	53,000	11,245	45,269	-
Average purchase price	~JPY700,000	-	-	-	-
Average sale price	-	-	JPY900,000*	JPY1.1mn	-
Gross profit per unit	-	-	JPY100,000-150,000	JPY300,000-400,000	-
% of sales	-	-	70%*	30%*	~2%
% of gross profit	-	-	~35%	~50%	~15%

Source: SR based on company data
Note, % of sales and % of gross profit figures are SR estimates.
*Just under.

Purchasing

In FY02/13, Gulliver's vehicle COGS was around JPY100bn, for approximately 197,000 vehicles purchased. Directly managed stores bought 144,000 vehicles (73% of total) and franchises bought 53,000 (27%). Average purchase price: around JPY700,000.

The used-vehicle purchase price that Gulliver offers is based on nationwide auction transactions, and the price is the same nationwide. Before the company began operations in 1990, there were two ways a vehicle owner could sell a vehicle. They had the choice of trade-in when buying a new vehicle from a new-vehicle dealer, or selling directly to a used-vehicle dealer. There was not a clear boundary between the discounts on the new vehicle and the trade-in price the new-vehicle dealer offered. Prices offered by used-vehicle dealers were unclear, with wide discrepancies among individual dealers. Spotting an opportunity, Gulliver created a database based on auction results and made purchase prices transparent. Since it pays the same purchase price nationwide, its used-vehicle prices are uniform across the country.

FY02/13	Cars purchased	Average purchase price
Directly managed stores	144,402	~JPY700,000
Franchise stores	53,000	

Source: Company materials, SR
Note, Average purchase price figures are SR estimates.

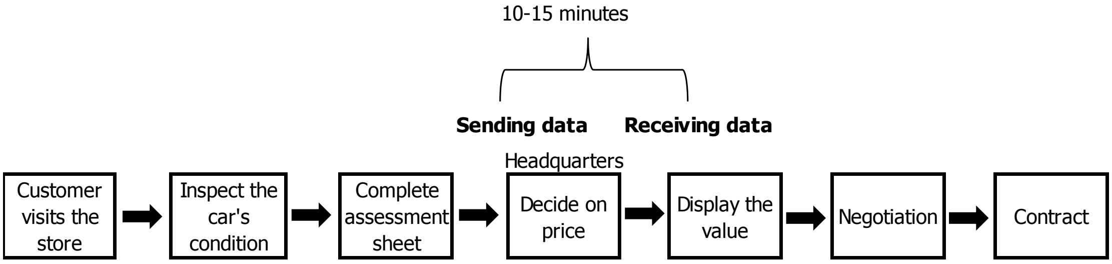
Gulliver sets its standard purchase prices by using the prices paid at the bestselling auction houses in the country and deducting a gross margin (JPY100,000-150,000). Gulliver provides feedback on the purchase price to each of its shops, and thus pays the same price for each model nationwide. The company only holds inventory for two weeks, limiting its exposure to inventory risk. Thus, it is able to offer higher purchase prices than used-vehicle dealers with showrooms.

Gulliver's purchasing flows

Gulliver's used-vehicle purchasing process has been optimized for easy inspection, assessment and decision-making. The only aspect it leaves up to individual stores is vehicle inspection, which is based on companywide standards set by corporate headquarters. HQ determines valuations based on the results of inspections, and decides on when and where to send vehicles for auction.

Buyers make appointments via the internet or Gulliver's call centers. In some cases a sales person visits customers' homes. In others, the customer visits the store. We note that 60% of purchases are from the customer visiting the store, and 40% relates to home visits. In regions that do not have a regional office, a representative from one of the directly operated stores will personally visit the customer.

At each store the vehicle's condition is first assessed. This takes about 20 minutes. The results are noted on an assessment sheet, with data sent to HQ. HQ then takes about 10-15 minutes to price the vehicle based on its condition and corresponding auction value, and sends the data back to the store. In over a third of cases, this results in a transaction.



Source: SR based on company materials

The purchasing store network comprises 294 directly managed stores (including 50 regional offices) and 118 member stores. Around 60 companies run the member stores and some of the larger companies control up to four or five stores. Since FY02/01, when its brand recognition increased, Gulliver has been shrinking the member network and opening more directly managed stores, which contribute more to profits. Also, because Gulliver put a hold on new store openings starting in FY02/10 as part of efforts to improve its financial standing, and store numbers overall have been shrinking. From FY02/14, as the company was beefing up its retail (showroom) business, it restarted its store openings, focusing on new showroom formats.

Sales through Dolphinet (directly managed stores)

In FY02/13 SR estimates that this segment accounted for sales of nearly JPY50bn (slightly under 30% of the total), and around JPY16bn in gross profit (about 50% of the total).

Information on all vehicles purchased by directly managed stores and franchises is uploaded to Gulliver's used-vehicle information system, Dolphinet. Through this system, Gulliver sells around 45,000 vehicles to customers (28% of the company's volume). Retail margins are about two to three times wholesaling margins.

Some customers selling their vehicle at a Gulliver store would buy a different vehicle on the spot, using the in-store Dolphinet terminal to search the available inventory. Dolphinet displays an array of detailed information, including pictures, specifications and repair history. Selling vehicles on-screen without the customer being able to see the actual vehicle was thought impossible. But thanks to its trusted brand and an advanced pricing system based on real-time auction data, Gulliver was able to overcome this challenge and become a successful pioneer of selling cars sight unseen.

The sale of vehicles through Dolphinet—utilizing pictures without the need for stores or display areas—has kept store opening costs in check. As flagged, Gulliver limits the time to sell vehicles it has purchased to two weeks, and sells them to consumers through Dolphinet directly to consumers. By limiting the holding period to two weeks, Gulliver cuts inventory risk.

Auction sales (wholesale)

Sales at auctions in FY02/13 reached nearly JPY100bn, 70% of the total, with gross profit of about JPY11bn, or 35% of the total (SR estimate). Gulliver sold 111,000 vehicles at auction (72% of sales volume).

Vehicles not sold within two weeks of listing on Dolphinet are put to auctions operated by major car auction companies. When purchasing vehicles, Gulliver pays customers an amount equal to the best auction price minus its gross margin. Auction and transport fees are accounted for as an incidental portion of CoGS.

Companies such as USS (TSE1: 4732), TAA (Toyota Auto Auctions), JAA (Japan Automobile Auctions) and CAA (Chubu Auto Auctions) operate the auction centers. Market shares in 2012: USS 31.5%; TAA 9.7%, and JAA 8.6%. In FY02/13, USS sold JPY62.3bn of Gulliver's stock—43.5% of Gulliver's sales.

USS is a pioneer in the used-vehicle auction field, starting in 1980 as Aichi Automobile General Services. It had the top market share in the industry in FY2012. USS has 17 auction sites nationwide, which hold weekly auctions, and had 45,000 employees in FY03/13. Among USS' subsidiaries are R&W, which operates a specialty vehicle purchasing chain, Rabbit, one of Gulliver's competitors.

Retail (display sales)

The company has been conducting display sales since FY02/13. Until recently, the main sales channel for Gulliver was Dolphinet, in which the customer did not personally see the physical vehicle. From FY02/13 onward, the company started selling vehicles through display sales at directly run stores, as part of its retail sales push. By end FY02/18, the company plans to have 400 stores using display sales for retail customers.

For display vehicles as well, the company will auction those not sold within two weeks. In line with increased retail sales, ancillary income (maintenance, insurance etc) should also rise. SR estimates that these brought in around JPY1bn in FY02/13.

New stores are categorized into one of several types. WOW! TOWN stores divide vehicles into different segments such as outdoor, leisure, family, and active. LIBERALA specializes in high-end imported vehicles such as Porsche and Ferrari. Minikuru provides an environment catering to women, with soothing colors and a café atmosphere. Gulliver Outlet showcases less-than-perfect vehicles, such as those with scrapes or dents, or cars with unpopular colors for low prices and no warranty.

Average retail price varies with store format, with a rough breakdown below. Retail margins are about two to three times wholesale margins.

- LIBERALA (red): High-end imported vehicles. Estimated average price: JPY7mn.
- LIBERALA (black): Imported vehicles. Estimated average price: JPY2.5mn.
- WOW! TOWN: Large showroom. Estimated average price: JPY1.7mn.
- SNAP HOUSE: Minivan specialist. Estimated average price: JPY1.5mn.
- Gulliver: Flagship store brand. Estimated average price: JPY1.2mn.
- Minikuru: Light vehicles. Estimated average price: JPY900,000.
- Gulliver Outlet: Low cost vehicles. Estimated average price: JPY800,000.

According to the company, when opening new retail showrooms it tries to depict lifestyles associated with the particular type of vehicle, showing customers how these vehicles might fit into their daily lives.

WOW Town! does not use designations such as minivan, light vehicle, compact vehicle etc, but family, fashion, eco & eco, active and driving pleasure, in line with the buyer's lifestyle. The company has divided the display space into zones with five scenes. Also, to attract more women, Gulliver has installed cafes and children's play rooms in its stores. At first most of the customers visiting the stores were replacing used vehicles. But the company said that now it is seeing increasing numbers of customers replacing vehicles they had bought new.

Gulliver plans to open 100 shops yearly through FY02/18, or a total of 400. The company said it costs JPY60-80mn to build a shop (prior to FY02/14); the land is leased, and Gulliver handles construction work. The average shop covers 1,000 sq m and payback is around two years.

From FY02/10 through FY02/13, Gulliver restrained the number of (used-vehicle purchasing) store openings, so it has well over one hundred assistant store managers who have store manager qualifications (company's own standards). As these assistant managers are store manager candidates, it has two years' worth of reserve store managers for the store rollout program.

Revenue from member stores

In addition to retail and wholesale sales, Gulliver receives revenue from member stores. SR estimates that in FY02/13, member stores contributed around JPY2.5bn to sales (2% of the total), with gross profit of just under JPY2.5bn (about 10% of the total). At end FY02/13, Gulliver had 118 member stores.

New member stores pay JPY8mn to join, with royalties fixed at JPY900,000 per month. In FY02/13, royalty income was JPY1.2bn, around half of Gulliver's revenue from member stores. When member stores (118 stores) or used-vehicle dealer members (20,000-30,000 stores) use Dolphinet to sell used vehicles to consumers (2,000 vehicles in FY02/13) they pay an auction commission to Gulliver. The commission is JPY24,500 for member stores and JPY34,500 for other used-vehicle dealers. If a directly owned store sells a vehicle held by a member store, the member store pays a commission of JPY22,500 as a contract fee.

Revenue	Amount	FY02/13	Details
New franchise fees	JPY8mn		When stores become part of the franchise
Renewal fees	JPY3mn	-	When stores renew their franchise contracts
Royalty fees	JPY900,000/month		A fixed monthly amount
Dolphinet commission (completed deals)	JPY22,500/unit	~4,000 units	When directly managed stores purchase a car via a franchise store
Dolphinet commission (successful bids)	JPY24,500, JPY34,500/unit	~9,000 units	When franchise stores sell a car
Auction agency commission	JPY7,000/unit	28,000 units	When unsold cars are taken to auction en masse

Source: Company materials, SR

In line with company policy, franchisees auction off vehicles that are not sold within two weeks. Gulliver bundles the franchisees' stock with its own when putting vehicles to auction, for reasons of efficiency. The franchisees pay JPY7,000 in auction fees to the auctioneers and another JPY7,000/vehicle to Gulliver as an auction agency commission. Gulliver also receives contract renewal fees. The first renewal is for five years and costs JPY3mn; subsequent renewals are JPY3mn for three years.

If directly run stores buy vehicles through franchisees, they add a margin of JPY200,000-250,000—as usual when selling to consumers. The franchisees pay a contract closing fee of JPY22,500 to Gulliver.

Overseas expansion

In November 2004, the company established Gulliver USA. In 2007 and 2008 it planned to open in emerging markets such as China and India. Its subsidiary G-Trading was exporting construction equipment to Russia. However, the company withdrew from all overseas markets except for the US in 2009 amid the global financial crisis to concentrate management resources on the domestic business.

In 2014, Gulliver was again intent on expanding overseas. The company said one necessary condition for a used-vehicle market to develop was a certain number of new vehicles. It said that Thailand, with more than 1mn new vehicle sales a year, was an attractive market. It planned to start overseas expansion with Thailand from FY02/15 onwards. Gulliver said that the Thai used-vehicle market was already around 2.1mn vehicles per year.

Gulliver's first step was to set up a joint venture (49% Gulliver owned) with the Viriyah Group, the leading property and casualty insurance company in Thailand, to start a franchise business. The joint venture will receive a franchise membership fee of JPY8mn, and monthly royalties of JPY900,000, the same as the domestic franchise operations, with 30% going to Gulliver as licensing fees. The company said that used-vehicle supply in Thailand is small, so prices tend not to fall too much. Thus, rather than an auction-dependent business model, the joint venture would take on a degree of inventory risk (a few months) by lengthening its holding period, and develop the retail business.

Gulliver aimed to have 800 stores overseas as well as in Japan by FY02/18. In addition to 300 in Thailand, it planned to have shops in other ASEAN countries, such as Indonesia, Malaysia and Myanmar.

On **March 28, 2014**, the company announced a revision to its FY02/14 earnings and dividends forecasts.

<u>FY02/14 full-year earnings forecast</u>
Sales: JPY169.3bn (Previous forecast: JPY145bn)
Operating profit: JPY7.1bn (JPY5.8bn)
Recurring profit: JPY7.2bn (JPY5.8bn)
Net income: JPY4.4bn (JPY3.3bn)

The number of vehicles sold across all store types was approximately 50,000 units, in line with the company's initial expectations. Sales were especially brisk at newly opened stores for different retail channels, such as outlet stores (low cost vehicles) and LIBERALA stores (luxury vehicles). Vehicles purchased by the company across all store types were higher than initial estimates, a result of increased customer traffic from higher sales. In light of these facts, Gulliver has made an upward revision to its full-year earnings forecast.

The year-end dividends forecast for FY02/14 has been revised upward by JPY3 per share to JPY8 per share. In line with this change, the total full-year dividend forecast was revised to JPY13 per share.

View the full report.

Happinet Corporation (7552)

Leading intermediary distributor for toys, DVDs, CDs and video games, with a 60% market share in capsule toys and card games. Manages inventories and handles orders/shipments.

Leading intermediary distributor for toys, DVDs, CDs and video games. The company buys goods from makers and distributes to retailers, managing inventories and handling orders/shipments. Segment breakdown: toys (42.2% FY03/13 sales), visual and music (25.4%), video-game (20.8%), and amusement (11.6%).

Consolidated Sales and OP by Segment (million yen)			FY03/09 Act.	FY03/10 Act.	FY03/11 Act.	FY03/12 Act.	FY03/13 Act.	FY03/14 Est.
Sale	Toy		61,813	65,654	69,104	77,313	74,660	75,000
		YoY	-1.7%	6.2%	5.3%	11.9%	-3.4%	0.5%
		Composition	37.1%	33.8%	36.2%	39.0%	42.2%	36.6%
	Visual and Music		36,570	67,838	57,759	55,719	44,810	41,000
		YoY	-5.1%	85.5%	-14.9%	-3.5%	-19.6%	-8.5%
		Composition	21.9%	34.9%	30.3%	28.1%	25.4%	20.0%
	Video Game		50,474	44,372	46,447	42,704	36,839	68,000
		YoY	-7.4%	-12.1%	4.7%	-8.1%	-13.7%	84.6%
		Composition	30.3%	22.8%	24.3%	21.6%	20.8%	33.2%
	Amusement		17,919	16,381	17,579	22,282	20,447	21,000
		YoY	38.3%	-8.6%	7.3%	26.8%	-8.2%	2.7%
		Composition	10.7%	8.4%	9.2%	11.3%	11.6%	10.2%
Total			166,778	194,246	190,891	198,021	176,757	205,000
		YoY	-1.3%	16.5%	-1.7%	3.7%	-10.7%	16.0%
OP	Toy		996	1,865	2,321	3,009	2,055	2,100
		YoY	-24.6%	87.2%	24.4%	29.6%	-31.7%	2.2%
		Composition	29.1%	50.4%	55.8%	48.6%	47.7%	44.7%
	Visual and Music		1,330	253	-656	448	309	600
		YoY	3494.6%	-81.0%	-359.3%	-	-31.0%	94.2%
		Composition	38.9%	6.9%	-15.8%	7.2%	7.2%	12.8%
	Video Game		1,221	1,035	1,156	936	678	800
		YoY	-7.6%	-15.2%	11.7%	-19.0%	-27.6%	18.0%
		Composition	35.7%	28.0%	27.8%	15.1%	15.7%	17.0%
	Amusement		-127	544	1,340	1,801	1,265	1,200
		YoY	-	-	146.3%	34.4%	-29.8%	-5.1%
		Composition	-3.7%	14.7%	32.2%	29.1%	29.4%	25.5%
Total			3,420	3,699	4,162	6,196	4,309	4,700
Adjustments			-1,283	-1,371	-1,307	-1,341	-1,335	-1,300
Consolidated Operating Profit			2,137	2,327	2,855	4,855	2,973	3,400
		YoY	47.3%	8.9%	22.7%	70.0%	-38.8%	14.4%

Source: Company data, SR Inc. Research
Figures may differ from company materials due to differences in rounding methods.

Distribution channels are specialty stores, including consumer electronics and camera stores (34.2% FY03/13 sales), general merchandise stores (20.9%), convenience stores (12.9%), E-commerce (10.9%), large-format suburban specialty stores (9.8%), and others (11.3%).

Sales by Channel (million yen)			FY03/09 Act.	FY03/10 Act.	FY03/11 Act.	FY03/12 Act.	FY03/13 Act.
Sales	Specialty Stores		55,200	63,900	65,300	62,500	60,400
		YoY	8.4%	15.8%	2.2%	-4.3%	-3.4%
		Composition	33.1%	33.0%	34.3%	31.6%	34.2%
	General Merchandise Stores		27,000	35,600	36,700	40,300	36,900
		YoY	-9.4%	31.9%	3.1%	9.8%	-8.4%
		Composition	16.2%	18.4%	19.3%	20.4%	20.9%
	Convenience Stores		14,100	21,500	21,300	26,300	22,800
		YoY	11.9%	52.5%	-0.9%	23.5%	-13.3%
		Composition	8.5%	11.1%	11.2%	13.3%	12.9%
	E-Commerce		28,800	22,200	24,100	25,000	19,200
		YoY	-17.7%	-22.9%	8.6%	3.7%	-23.2%
		Composition	17.3%	11.4%	12.7%	12.6%	10.9%
	Large-format Suburban Specialty Stores		9,000	19,300	18,500	19,300	17,200
		YoY	-33.3%	114.4%	-4.1%	4.3%	-10.9%
		Composition	5.4%	10.0%	9.7%	9.7%	9.7%
	Wholesalers		17,000	21,500	15,400	15,200	11,500
		YoY	14.1%	26.5%	-28.4%	-1.3%	-24.3%
		Composition	10.2%	11.1%	8.1%	7.7%	6.5%
	Others		15,300	9,900	9,200	9,100	8,500
		YoY	27.5%	-35.3%	-7.1%	-1.1%	-6.6%
		Composition	9.2%	5.1%	4.8%	4.6%	4.8%
Total			166,700	193,900	190,500	198,000	176,700
		YoY	-1.3%	16.5%	-1.7%	3.7%	-10.7%

Source: Company data, SR Inc. Research
Figures may differ from company materials due to differences in rounding methods.
* Others include Department Stores

Happinet is the largest intermediary distributor of toys, DVDs and CDs in the industry, with a 60% market share in capsule toys and card games.

Toys business (42.2% FY03/13 consolidated sales; 47.7% operating profit)

Happinet is Japan's largest intermediary distributor of toys, with a 30% market share. It handles 80% of toy distribution in Japan for Bandai (a Namco Bandai Holdings [TSE1: 7832] subsidiary).

In this segment, Happinet enjoys a gross profit margin buying goods from toy makers and selling them to retailers. The company liquidates unsold inventories each month. Gross profit margin moves up or down by 1% given fluctuating inventory write-offs.

The company buys goods from big toy makers like Bandai and Tomy and sells them to toy retailers such as Toys"R"Us-Japan Ltd (unlisted), large consumer electronics stores and retail chains, and major online retailers.

Japan's toy market centers on fads, rather than long-selling, staple products. Goods featuring characters from TV animation series tend to have a one-year sales cycle with products refreshed when a new series begins. Popularity drops and sales falter for products whose TV programs have finished.

Also, toy manufacturers often make use of overseas factories, particularly in China. It takes about three months from when toys are manufactured till they are ready to be sold by retailers, due to strict procedures for managing and checking quality—after all, these are products that will be used by children.

Intermediary distributors like Happinet lie between manufacturers and retailers, and add value by absorbing inventory risk. By trading with intermediary distributors, retailers need only take inventory risks for the goods on their store shelves.

Toy distribution:

- Happinet and toymakers agree on order quantities three months prior to the release of new products.
- On product launch, toymakers deliver toys to the company, which in turn delivers them to retailers that shoulder inventory risk.
- The company holds inventories worth roughly two weeks of sales and partially distributes them in response to additional orders from retailers. Here, the company bears the inventory risk.

Happinet typically sells out most of its inventories at end December and recognizes losses on inventories by disposing of inventories or making inventory write-downs at end March the following year. For toys, annual inventory disposal is 1-2% of annual sales.

SR understands that the company's rise to prominence as the largest intermediary distributor of toys began in the 1990s with the relaxation of the Large Scale Retail Store Law. Happinet responded to changes in the business environment. Distributors began to need advanced information and logistics systems in order to keep up with the growing size of retailers. Also, the growth in Bandai's toy sales was another contributing factor in Happinet's growth.

SR understands that Bandai—a group company and one of Happinet's main toy suppliers—specializes in making products and accessories that feature characters from popular TV animated cartoons. Bandai has leveraged these character goods to increase its domestic toy sales.

Bandai's character goods portfolio

Leading toy characters with the highest sales rankings at Bandai are those from the Super Sentai, Kamen Rider, and Precure series. Toei or Toei Animation makes these series; TV Asahi broadcasts them on Sundays. Program sponsor Bandai merchandises related toys. This system has a long history. The Super Sentai series, the longest-running of the trio, started with Himitsu Sentai Gorenger in 1975. Its 37th series, Zyuden Sentai Kyoryuger, aired in 2013. In the 30-minute Super Sentai program, a team of three to five people use special items to become superheroes wearing helmets and color-coded jumpsuits, and fight bad guys or monsters. In each episode the enemy, once defeated, is reborn as a giant monster and the heroes ride a giant robot to destroy it. Each year a TV series starts in February and a movie version is launched in August. With new characters and items added during the year, Bandai merchandises all the transforming items, weapons and robots. All super hero toys are ready for Christmas when sales peak.

Visual and music business (25.4% FY03/13 consolidated sales; 7.2% operating profit)

This segment comprises the visual wholesale section (58.0% of sales in visual and music business), the visual manufacturing section (12.5%), and the music section (29.5%).

Visual wholesale section

Happinet makes a gross profit margin from buying DVDs from visual content manufacturers and selling them to retailers. The company said that intermediary distributors, like itself, do not need to hold substantial inventories compared with toymakers since retailer orders are made and delivered in a week.

As wholesalers do not shoulder much inventory risk, the gross profit margin is slimmer than in toy wholesaling.

The company buys products from all major content makers, but it has been Nikkatsu Corp's (unlisted) sole distributor since 2009 and Bandai Visual Co Ltd's (a Namco Bandai subsidiary) sole distributor since 2010. The company distributes products to major online retailers and consumer electronics chains.

Visual manufacturing section

Happinet invests in movie production partnerships, thus obtaining videogram rights, or obtains existing videogram rights and then makes and sells DVD products. Income hinges on the amount and ratio of investment in partnerships, box-office proceeds, DVD sales volumes, and videogram royalties.

Videogram is a Japanese legal term, used to refer to visual media (movies and TV programs) on a certain format (eg, VHS, DVD) and its packaging. Videogram rights here refer to the rights to manufacture, release, and sell this media.

The movie industry and movie production partnerships handle production, distribution, exhibition, and secondary use (renting/selling movie content to consumers). Video content makers obtain videogram rights to movies by investing in production partnerships or by purchasing the rights from their holders. Rights to receive box-office proceeds are distributed in proportion to the amount invested in the production partnership. Box-office profits are defined as proceeds—ie, number of viewers multiplied by ticket prices—less expenses (cinema operators and distributors, production, and advertising). According to the company, it is difficult to predict the profitability of investing in production partnerships, because production costs, investment stake, and box-office proceeds differ from movie to movie. Also, as part of the conditions for investing in a production partnership, the company obtains videogram rights to the movie, and will therefore sell it as a DVD.

Another way to obtain videogram rights is from copyright holders, such as production partnerships. This can be done either by paying for the rights, or by paying a minimum guarantee (MG). According to the company, videogram royalties differ widely by movie, so it is difficult to calculate an average profitability for videogram rights.

Music wholesale section

In the music section, Happinet takes its gross profit margin from buying products from music content makers and selling them to retailers. As in its visual wholesale section, the company does not shoulder much inventory risk. Therefore, gross profit margins are tighter than in the toy wholesaling business.

The company buys goods from big music software makers and distributes them to online shops and consumer electronics chains.

Japan's resale price maintenance system (recommended retail price)—as established by Japanese copyright law—means the creators of music media are able to force retailers to observe a certain retail price. Thus the distribution of music media differs from that of visual media. Although in both cases companies are effectively purchasing stock, for music media a limit is set for a proportion of the sales that may be returned, and the seller sometimes ends up taking these returns back.

The proportion of sales that may be returned differs between the manufacturer and the distributor, and between the distributor and the retailer. Therefore, the distributor must accept some inventory risk in cases where there is more leeway for the retailer to return stock to the distributor, than for the distributor to return it to the manufacturer.

Music CDs: resale price maintenance

A maker or supplier of music imposes selling prices on wholesalers and retailers who abide by this. The resale maintenance system of music software (such as CDs) is approved as an exception to the Antimonopoly Act which normally prohibits such conduct as unfair trading practices.

Video game business (20.8% FY03/13 consolidated sales; 15.7% operating profit)

Happinet makes a margin by buying video game consoles and game software from makers and distributing it to shops. This business has the lowest gross profit margin of all the company's businesses, which stems from the company bearing little inventory risk due to short order placement/delivery times.

Happinet buys products from Nintendo Co Ltd (TSE1: 7974), Sony Computer Entertainment Inc (a subsidiary of Sony [TSE1: 6758]), and Microsoft Corp. It is the only wholesaler handling all consumer game consoles available in Japan.

Nintendo products account for over half of sales, with Sony products next at over 30%. The company distributes products to major online retailers and consumer electronics chains. SR estimates the company's share of Nintendo's game-related sales at around 25%. The company is virtually the sole distributor of Sony Computer Entertainment games and toys, and has exclusive distribution agreements in Japan with Microsoft.

Happinet creates and sells original game software and operates social network game sites but profit impact is small (December 2013).

The company entered video gaming in 1994 and expanded sales by acquiring distributors. There is a possibility that there will be an increase in M&A between companies in this industry, as the market in games sold at bricks and mortar stores is expected to shrink—perhaps providing an opportunity for the company to increase its market share.

Amusement business (11.6% FY03/13 total consolidated sales; 29.4% operating profit)

The company's amusement business includes toy vending machine operations and card game operations.

Toy vending machine section

The company sells toys in capsules from vending machines at major retail and electronics stores, and shopping malls. It purchases vending machines and capsule toys from Bandai. This business is close to retail, and therefore has the highest gross profit margin of all the company's businesses.

Capsule toys retail at between JPY100 and JPY500. The vending machines work thus: a capsule toy comes out when the customer inserts money, in coins, and turns the crank in the middle of the machine. The toys themselves are varied, ranging from scale models of animation characters and animal figures, to mobile phone accessories. There is an element of entertainment in the fact that, although the vending machines are themed, the customer does not know the exact contents of the capsule he or she will receive.

As of December 2013, the company had machines at 4,800 locations nationwide.

In November 2007, Happinet acquired the two leading operators of toy vending machines in the industry, Sunlink Co Ltd and The Apple Corporation. Then, after merging the amusement businesses of these companies with its own in October 2008, the company established Happinet Vending Service

Corporation—a consolidated subsidiary that then continued running this business.

According to Happinet, the three companies—Happinet, Sunlink, and The Apple Corporation—together had vending machines at around 8,600 locations nationwide in 2007, but nearly half of these locations were unprofitable. When operating toy vending machines, staff members still need to visit machine sites to monitor sales, refill capsules, and collect takings. The company must therefore allocate labor according to the number of machines at sites and the frequency of visits. There were many unprofitable areas where sales did not cover fixed costs.

After integration, Happinet scrapped and streamlined unprofitable sites and business offices, reducing the number of sites to 4,800 from 8,600. The amusement arm reported an operating profit in FY03/10.

Digital card game section

The company operates card game machines based on popular animation characters, in major retail and electronics stores. As in the toy vending machine section, gross profits are high for the digital card game section because it is close to retail.

To play on a digital card game machine, a customer inserts JPY100 and the machine ejects an IC card, on which an animation character is shown and electronic data (offensive and defensive abilities, and a special move, in the case of a battle game) is printed in transparent ink. The game unfolds on an LCD, affected by input from a panel that reads the data on the cards. The cards themselves are also collectors' items. The company buys and leases digital card game machines from Bandai, which also supplies the cards.

As of December 2013, the company operated card games based on Dragon Ball, Kamen Rider, Mobile Suit Gundam, and Aikatsu!.

On **March 11, 2014**, the company announced the merger of Toys Union Co., Ltd. and Mori Games Co., Ltd., both wholly-owned subsidiaries of the company.

Toys Union is a wholesaler of video game products. According to the company, it trades a much greater amount of Nintendo Co., Ltd. video game consoles and software products since acquiring Toys Union as a subsidiary in July 2013. The company aims to further strengthen its relationship with Nintendo by merging Toys Union and Mori Games, which are both involved in wholesaling videogames. It also hopes that streamlining its organization in this way will lead to earnings growth.

The company plans to merge the two companies on July 1, 2014. Toys Union will be the absorbing firm.

View the full report.

J Trust Co Ltd (8508)

Active in financial, real estate, amusement, and international segments. Financial is the overwhelming revenue and profits contributor, consisting mostly of credit card and other consumer finance. Provides savings bank services in Korea, a long-term growth driver.

Financial: lion's share of earnings. J Trust has several segments—financial, real estate, amusement, and international. However, financial is the overwhelming revenue and profits contributor. International, the company provides savings bank services in Korea, a long-term growth driver.

Operating revenue/OP by segment (JPYmn)	FY03/09 Cons.	FY03/10 Cons.	FY03/11 Cons.	FY03/12 Cons.	FY03/13 Cons.
Operating revenue	4,946	16,541	16,908	24,508	55,683
YoY	54.5%	234.4%	2.2%	44.9%	127.2%
Financial	3,772	14,634	13,326	19,605	33,186
YoY	32.8%	288.0%	-8.9%	47.1%	69.3%
% of Total	76.3%	88.5%	78.8%	80.0%	59.6%
Real Estate	1,173	1,557	3,166	2,645	4,285
YoY	224.9%	32.7%	103.3%	-16.5%	62.0%
% of Total	23.7%	9.4%	18.7%	10.8%	7.7%
Amusement	-	-	-	-	13,484
YoY	-	-	-	-	-
% of Total	-	-	-	-	24.2%
International	-	-	-	1,916	2,793
YoY	-	-	-	-	45.8%
% of Total	-	-	-	7.8%	5.0%
Operating profit	328	4,292	4,466	6,050	12,647
YoY	326.0%	1208.5%	4.1%	35.5%	109.0%
Financial	-159	3,888	4,017	5,571	12,293
YoY	-	-	3.3%	38.7%	120.7%
% of Total	-	90.6%	89.9%	92.1%	97.2%
Real estate	488	340	407	131	270
YoY	-	-30.3%	19.7%	-67.8%	106.1%
% of Total	-	7.9%	9.1%	2.2%	2.1%
Amusement	-	-	-	-	250
YoY	-	-	-	-	-
% of Total	-	-	-	-	2.0%
International	-	-	-	303	-336
YoY	-	-	-	-	-
% of Total	-	-	-	5.0%	-

Source: Company data, SR

Financial (59.6% of operating revenue, 97.2% of operating profit in FY03/13)

Balance by product (JPYmn)	FY03/09 Cons.	FY03/10 Cons.	FY03/11 Cons.	FY03/12 Cons.	FY03/13 Cons.
Commercial notes (current assets)	990	1,497	1,900	2,119	1,656
YoY	-12.2%	51.2%	26.9%	11.5%	-21.8%
Operating loans (current assets)	28,236	18,039	11,725	27,713	18,227
YoY	317.6%	-36.1%	-35.0%	136.4%	-34.2%
Advances paid-installment (current assets)	6,343	3,825	1,443	65,024	48,133
YoY	-	-39.7%	-62.3%	4406.2%	-26.0%
Purchased receivables (current assets)	1,313	5,407	4,008	2,310	2,529
YoY	-	311.8%	-25.9%	-42.4%	9.5%
LT operating loans receivable (investments and other assets)	1,858	2,776	2,286	8,487	4,686
YoY	1573.9%	49.4%	-17.7%	271.3%	-44.8%
Credit guarantee balance (off-balance sheet)	2,455	7,536	9,699	22,072	33,194
YoY	-37.2%	207.0%	28.7%	127.6%	50.4%

Source: Company data, SR

Financial business operating revenue breakdown (JPYmn)	FY03/09 Cons.	FY03/10 Cons.	FY03/11 Cons.	FY03/12 Cons.	FY03/13 Cons.
Interest on loans, discount revenue (for consumers)	96	4,277	2,801	3,479	4,964
Other financial revenue	1,293	6,068	5,823	3,358	6,868
Collection on purchased receivables	1,556	2,106	2,669	2,740	2,403
Commissions on installment payments	-	1,222	616	9,236	10,016
Guarantee commissions received	131	340	513	801	1,751
Gain on bad debt recovered	-	-	-	536	6,634

Source: Company data, SR

Segment operating revenue (FY03/13 %)

Credit card and consumer credit services: 30.2
Consumer loan services: 15.0
Servicer operations: 7.2
Credit guarantee services: 5.3
Business loan services: 1.0

Drivers: credit card, and consumer credit services and credit guarantee services.

Credit card and consumer credit services

(30.2% of financial business operating revenue in FY03/13)

KC Card (bought August 2011) provides credit card services, handling more than 620,000 credit cardholders (December 2013). Setting its offering aside from the pack is a generous point rewards (mileage points) program, resulting in about 40% of issued cards being used at least once a month. In Japan, given the credit card glut, a credit card is doing well if more than half of all holders use it at least once a year. KC Card earns money from commissions on installment payments and interest income on cash advances. Cardholders pay annualized interest rates of 13.08-18.00% on installment payments. Cash advances, available up to JPY500,000, command an annualized 18% interest rate. KC Card also issues KC Money Cards exclusively for cash advances up to JPY3mn (4.6-18.0% interest rate).

Balance sheet treatment: advances paid on cardholder installment payments and the balance of cash advances are booked as installment advances paid (current assets) and as long-term operating loans receivable (fixed assets) if the loans have been delinquent for one year, or those that are likely to take at least one year to collect. **P&L:** revenues are commissions on installment payments. Commissions on installment payments are noted as credit card revenue, and interest income on cash advances is recorded as financing revenue.

Balance of advances paid-installment (JPYmn)	FY03/09 Cons.	FY03/10 Cons.	FY03/11 Cons.	FY03/12 Cons.	FY03/13 Cons.
Advances paid-installment	6,343	3,825	1,443	65,024	48,133
Long-term operating loans receivable	2	44	31	7,115	3,205
Total (balance of advances paid-installment)	6,345	3,870	1,475	72,139	51,338

Source: Company data

Installment payment paying for commission (JPYmn)	FY03/09 Cons.	FY03/10 Cons.	FY03/11 Cons.	FY03/12 Cons.	FY03/13 Cons.
Credit card revenue	-	-	-	2,028	2,853
Financing revenue	-	-	-	6,926	6,937
Installment payment paying for commission	-	1,222	616	281	224
Total (installment payment paying for commission)	-	1,222	616	9,236	10,016

Source: Company data

Balance of installment advances paid—declining. This was mainly owing to lower cashing volumes amid stable balance of shopping installment payments. The company sees no growth in cashing-only cards, given loan ceiling regulations and in turn migration of balances to large banks and related service providers (who have more marketing clout). Thus J Trust intends to focus more on the credit guarantee services subsegment. In its credit card services J Trust aims to increase cardholder numbers and loan balance thereby boosting revenues. To expand its cardholder base the company: 1) jointly runs Rental! Adores, a DVD/CD rental chain, with Adores; and 2) operates eMoMoT.com, a membership online shopping site. Longer term J Trust wants synergistic alliances with companies sporting a big customer base. Acquisitions are possible.

Credit guarantee services

(5.3% of financial business operating revenue in FY03/13)

Group companies Nihon Hoshou, KC Card, and Credia provide credit guarantees on consumer loans to banks and cooperative-type financial institutions. It had seven partner banks as of February 2014.

The credit guarantee business is to guarantee consumer loans and property-backed loans by banks and other lenders. The business does not tie up assets and thus does not impact the balance sheet. The P&L entry is guarantee commissions received.

Credit guarantee balance, guarantee commission received (JPYmn)	FY03/09 Cons.	FY03/10 Cons.	FY03/11 Cons.	FY03/12 Cons.	FY03/13 Cons.
Unsecured	8	4,743	4,594	9,614	16,458
Secured	2,446	2,792	5,104	12,457	16,735
Total credit guarantee balance	2,455	7,536	9,699	22,072	33,194
Guarantee commission received	131	340	513	801	1,751

Source: Company data

Court ruling. In January 2006 Japan's Supreme Court ruled that the interest rate gap between the Investment Act and the Interest Rate Restriction Act was not valid. The upshot: consumer lenders are forced to lend money at lower rates while implementing more stringent borrower screening. In June 2010 the Money Lending Business Act was revised. The revised law restricts loans up to one third of the annual income of borrowers, paring opportunities for consumer loan businesses to lend. So Japan is unlikely to see many more people taking out consumer loans or going for higher balances. Banks though are exempt from the lending ceiling restrictions and that increased their presence and influence in the market. Yet banks lack screening and loan recovery expertise when it comes to higher-risk unsecured consumer loans, so are turning to consumer financial firms to guarantee loans. In the guarantor business, the guarantor firm will be the one that repays the bank in the event that a borrower becomes unable to make loan payments.

J Trust has expanded its credit guarantee balance through unique services, targeting small regional banks. It sends credit guarantee specialists to these banks. This arrangement is win-win for J Trust and partner banks, providing J Trust with solid revenues and letting banks access specialist knowledge.

- Customers of J Trust (eg, Nihon Hoshou and KC Card) are introduced to a partner bank. Credit guarantee specialists from J Trust also help the bank to collect debt and extend additional/new loans.
- A consumer loan customer introduced to a partner bank becomes a consumer loan customer of the bank. Rates on unsecured loans are about 15% and 8% for secured loans. The change of lenders from a consumer financial firm to a bank can make the borrower feel more comfortable.
- The partner bank and the company split the interest income: on unsecured loans the bank receives about one-third of interest income and the company receives two-thirds; on secured loans the bank and the company receive half the interest income each. Since the company is providing its unique expertise to the partner bank, the company receives a higher share of interest income than is typical for other companies.

Banks lack consumer loan receivables collection skill and have little incentive to collect, especially when the receivables are subject to a credit guarantee (no risk of loss). Under J Trust's credit guarantee scheme, dispatched debt collection specialists sharply reduce loan losses. J Trust's credit loss rate hovers at 1% vis-à-vis 4% at other credit guarantee firms. J Trust intends to partner with more banks and build up its credit guarantee balance by using the customer base of KC Card and Takefuji Corp (defunct). J Trust aims to grow its credit guarantee balance further by having dispatched specialists take an active stance toward the extension of additional loans or finding new customers.

Consumer loan services

(15.0% of financial business operating revenue in FY03/13)
J Trust makes unsecured loans at 15-18% interest rate. Group companies Nihon Hoshou, Credia, and Saikyo Card (removed from the group in January 2014) handle these services. Loans extended are booked on the balance sheet as accounts receivable, operating loans, or long-term operating loans receivable. Interest income is recorded on the P&L as interest on loans.

Sum of loans receivable, interest on loans (JPYmn)	FY03/09 Cons.	FY03/10 Cons.	FY03/11 Cons.	FY03/12 Cons.	FY03/13 Cons.
Accounts receivable-operating loans	25,663	16,256	9,504	20,903	12,025
Long-term loans receivable	1,772	2,672	2,224	1,322	1,405
Total (sum of loans receivable)	27,435	18,928	11,728	22,226	13,431
Interest on loans	96	4,277	2,801	3,479	4,964

Source: Company data

The balance of consumer loans is trending south driven by customer introductions to partner banks in the credit guarantee services subsegment.

Bad debt recovery services

(20.0% of financial business operating revenue in FY03/13)
J Trust uses its expertise to accelerate bad debt recovery. According to J Trust the purchased

receivables it assumed from Takefuji (defunct) included performing receivables along with bad debt already written off the balance sheet. Written-off bad debt has no book value, so recovery implies zero-cost profits. Through use of its proprietary expertise, the company is making progress in recoveries. Revenues from bad debt recovery are booked on the P&L as gain on bad debt recovered. In FY03/13 the gain hit JPY6.6bn.

Other financing revenues
(20.7% of financial business operating revenue in FY03/13)
In factoring services, the difference between the recovered amount for loan receivables and the cost of purchasing loan receivables is booked as other financing revenue—this mainly applies to loan receivables inherited from Takefuji. In FY03/13, other financing revenues were JPY6.9bn.

Costs in the financial business
J Trust does not disclose gross operating profits by segment. However, estimating from P&L data, it seems that the main operating cost in the financial business is interest on borrowings. Main selling and general expenses: provisions for bad debts, provisions for losses on interest repayments, provisions for losses on credit guarantees, personnel costs, and other overheads.

Provisions for losses on interest repayments: Business accounting in Japan requires that repayment of interest that has been overpaid on loans with so-called "gray zone" interest rates that were in excess of maximums set forth in the Interest Rate Restriction Act must be provided for in the accounts of loan lenders. The provision for loss on interest repayments is calculated as follows. First, the estimated provision for loss on interest repayments at the end of the current period is calculated. Next, the loss on interest repayments for the current year is deducted from the provision balance at the end of the previous year. If there is a shortfall after allocating the current year's losses, provisions must be topped up, and recorded as SG&A expenses.

Provisions for credit guarantee losses: provisions for credit guarantees from periods prior to the current one where there is a high likelihood of losses.

Provisions for allowances (JPYmn)	FY03/09 Cons.	FY03/10 Cons.	FY03/11 Cons.	FY03/12 Cons.	FY03/13 Cons.
Provisions for allowance for doubtful accounts	1,075	2,041	0	2,019	71
Provisions for losses on interest repayment	296	2,457	2,535	1,460	1,195
Provisions for bad debts	0	66	0	87	1,484

Source: Company data, SR Inc.

Provisions of allowance for bad debts rose due to the consolidation of KC Card in FY03/12. In FY03/13, provisions fell as falls in the relevant balance and loan loss ratio saw the inflow of new provisions decline. Provisions for losses on interest repayments are on a downward trend. The number of claims is falling, and J Trust has made progress on reaching voluntary settlements with creditors.

Provision for loss on guarantees in FY03/13 included not only loss provision related to credit guarantee services, but also provision of allowance for contingent liabilities. The allowance was reversed in FY03/14 because the liabilities were fully repaid.

Personnel and sundry expenses are on an uptrend due to the bigger scale of the business and employee numbers following M&A activity.

International business
(5.0% operating revenue, JPY336mn operating loss (FY03/13)
Long-term focus: expanding savings bank services. J Trust's international business has two subsegments: savings bank services and consumer loan services.

Savings bank services (Korea)

Chinae Savings Bank is very profitable. In October 2012 J Trust set up Chinae Savings Bank in Korea, and began offering consumer loan services there integrating its expertise in credit screening and receivables management. Neoline Credit joined J Trust group in 2011 having previously launched a Korean consumer financial business in 2009. Neoline Credit had been tracking steady growth. As such J Trust, via Neoline Credit, already had knowledge of Korea's consumer loan market before it established Chinae Savings Bank. Korea's consumer financial arena can be more profitable than Japan's. Korea allows higher loan rates (up to 39% at present, and scheduled to be up to 34.9% in April 2014), has no overcharged interest problem, and levies a lower corporate tax rate. Chinae Savings Bank lends to consumers at about a 29% interest rate. Per J Trust, Korea's credit loss rates at around 10-15% are higher than Japan's. Yet Chinae Savings Bank is highly profitable.

Loans by the banking business hit JPY48.2bn at end FY03/13. Loans extended here are recorded on the balance sheet as loans by the banking business. Interest income is booked on the P&L as operating revenue from banking operations. The company has continued increasing its receivables balance in Korea. In October 2012 J Trust took over about JPY20bn of consumer credit loan receivables from Mirae Savings Bank. In January 2013 the company bought JPY29.9bn of consumer loan receivables from Solomon Savings Bank. In June 2013 J Trust bought JPY15.3bn of consumer loan receivables from HK Savings Bank. At end Q2 FY03/14 the banking business' loan balance was JPY51.7bn.

Bail-out fund: moral hazard. In 1H FY03/14 the Korean government launched the People's Happiness Fund to help heavily indebted people, to fulfill an election promise by President Park Guen-hye. By June 2013 J Trust had sold applicable loans receivable worth about JPY2.6bn to the fund. Acceptance of applications for the bailout program was terminated in December 2013.

People's Happiness Fund: a Korean government program to address household debt. The target group is those with less than KRW100mn (approximately JPY9mn) debt in arrears for more than six months at end February 2013. The debt is written down by up to 50% and debtors need to repay the balance to the fund by installment. Lenders need to sell applicable debt to the fund for about 8% of its value (some 92% impairment). The initial application period was from April 2013 to October 2013 but this was extended to end December 2013.

According to J Trust, other Japanese corporations entered the market by investing in existing mutual savings banks. They thus felt the impact of existing bad debts directly. However Chinae Savings Bank purchased only the good assets and liabilities (deposits) of bankrupt financial institutions, so there is limited bad debt impact. In January 2014, the company resolved that KC Card will underwrite a capital increase in Chinae Savings Bank—in order to improve the bank's BIS capital ratio—but will limit the amount to around JPY5.0bn.

View the full report.

Star Mica (3230)

Purchaser and reseller of pre-owned condominiums. Buys pre-owned individual condominium units that are being rented, renovates these apartments when the tenants move out, and sells them for a profit.

Star Mica's primary business is to buy pre-owned condominiums, and earn rental income and profits from sales. This business comprised 91.6% of the company's overall sales and 84.3% of its operating profit for FY11/13.

The company's growth strategy focuses on an expansion of its existing operations and the development of new businesses. The company plans to expand its pre-owned condominium business and increase the number of such properties by borrowing money until its capital-to-asset ratio reaches 25%. The company will at the same time expand its property rental and brokerage services involving pre-owned condominiums.

Operations

The company's main pre-owned condominium business is fairly unique for a large listed real estate company: it buys pre-owned individual condominium units that are being rented, renovates these apartments when the tenants move out, and sells them for a profit.

In Japan, purchasers of pre-owned condominiums with tenants are limited because these properties cannot be sold immediately after purchase and because according to local convention the buyer cannot inspect the inside. As a result, such condominiums tend to be cheaper than vacant pre-owned properties. Star Mica acquires such individual tenant-occupied condominiums that are being rented. The company first earns rental income and then makes a profit from the fact that there are always price differences between properties that are being rented and those that are vacant.

Instead of acquiring entire buildings, the company buys individual pre-owned condominiums to spread the risk (accidents, natural disasters, price fluctuations, and the tenant's length of stay). This approach allows the company to own a variety of apartments in different locations. The age of the condominiums also varies. The downside of this method is that acquiring a single condominium property can be inefficient and cumbersome. However, there is little competition to acquire such properties, allowing the company to buy them cheaply.

The company quickly assesses the value of properties and makes swift purchase decisions. The company also has the ability to raise funds and enjoys a track record of successful transactions. As a result, the company is in a strong position to gather information on pre-owned condominiums that have been put up for sale. Another factor that sets the company apart is the ability to assess the value of a large number of properties and execute many transactions. Star Mica also has access to loans that are not tied to any specific properties, allowing the company to quickly sign a purchase agreement without making a separate loan application each time a property is found.

Main business segments

The company's business segments comprise Pre-Owned Condominium, Investment, and Advisory services. Sales composition for FY11/13: Pre-Owned Condominium, 91.6%; Investment, 5.6%; advisory, 2.7%. Operating composition for FY11/13: Pre-Owned Condominium, 84.3%, Investment, 2.2%, Advisory, 13.5%. Hence the Pre-Owned Condominium business is the company's main business.

Sales and OP by Segment (JPYmn)	FY11/09 Act.	FY11/10 Act.	FY11/11 Act.	FY11/12 Act.	FY11/13 Est.
Sales	13,310	12,403	12,719	12,858	13,544
YoY	-5.5%	-6.8%	2.5%	1.1%	5.3%
Pre-owned Condominium	12,273	11,440	11,834	11,775	12,411
YoY	1.1%	-6.8%	3.4%	-0.5%	5.4%
Composition	92.2%	92.2%	93.0%	91.6%	91.6%
Investment	852	759	585	774	763
YoY	-45.8%	-10.9%	-23.0%	32.4%	-1.5%
Composition	6.4%	6.1%	4.6%	6.0%	5.6%
Advisory Services	184	204	301	308	370
YoY	-50.8%	10.5%	47.6%	2.6%	19.9%
Composition	1.4%	1.6%	2.4%	2.4%	2.7%
Operating Profit	1,377	1,610	1,858	1,542	1,804
YoY	-16.8%	16.9%	15.4%	-17.0%	17.0%
Pre-owned Condominium	1,622	1,697	1,807	1,585	1,846
YoY	-9.8%	4.6%	6.5%	-12.3%	16.4%
Composition	100.6%	91.8%	85.4%	85.8%	84.3%
Investment	-92	21	78	31	48
YoY	-	-	264.0%	-60.5%	55.8%
Composition	-	1.2%	3.7%	1.7%	2.2%
Advisory Services	83	131	230	231	295
YoY	-59.0%	58.2%	75.7%	0.7%	27.5%
Composition	5.1%	7.1%	10.9%	12.5%	13.5%

Source: Company data, SR research

Figures may differ from company materials due to differences in rounding methods

Operating profit composition percentages are calculated using the sum of segment operating profit before eliminations.

Pre-Owned Condominium (91.6% contribution to FY11/13 sales, 84.3% contribution to operating profit)

The company makes profits from price differences between pre-owned apartments with tenants and those that are vacant. The company purchases pre-owned family-size apartments with tenants and earns rental income until the tenant leaves. Then, it renovates the apartments and sells them for a profit.

The process:

- The company buys a pre-owned apartment with a tenant through a real estate broker;
- The company takes over the leasing agreement and earns rental income until the tenant moves out;
- After the tenant leaves, the company renovates the apartment and sells it through a broker.

The exact cost varies according to the property in question, but in a typical case a pre-owned, family-size condominium located in or around Tokyo costs Star Mica about JPY20mn on average. The company earns about JPY120,000 per month in rent until the tenant leaves. Then, the company spends about JPY3.5mn to renovate the apartments and sells them for about JPY28mn.

The company's renovation of pre-owned condominiums includes new wallpaper, wooden flooring, doors, bath units, sinks, and restrooms.

The company buys single condominium units with the following features:

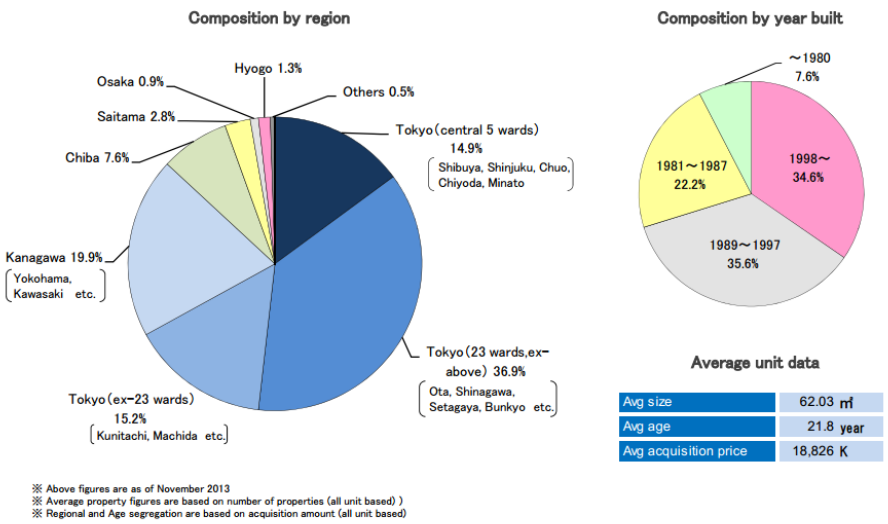
- Pre-owned, family-size apartments currently being rented, in and around Tokyo of at least 50m^2 in size;
- Between 10 and 30 years old;

- Cost price around JPY20mn.

As of November 2013, the company was acquiring about 500 such apartments on an annual basis and holding more than 1,000 units at any given time. According to the company, the average size of these family apartments is 64.2m^2, the average age is 21.8 years, and the average cost price is JPY18.8mn (end FY11/13). When purchasing an apartment, the company considers how easy it will be to sell on, and is particularly conscious of liquidity and convenience.

As of November 2013, about 70% of the company's properties are in the Tokyo Metropolis. However, only 14.9% of them are located in the major five wards (Shibuya, Shinjuku, Chuo, Chiyoda, and Minato). Those located in other wards of Tokyo comprise 36.9% of the total. Those in Kanagawa Prefecture comprise 19.9%, followed by Chiba Prefecture at 7.6% and Saitama Prefecture at 2.8%. About 70% of the properties were built after 1988 and the rest were built between 1980 and 1988.

Pre-owned condominiums by area and age



Source: Company materials

Price differences between pre-owned apartments that are being rented and those that are vacant allow the company to make a profit after selling the properties. According to the company, apartments that are being rented are cheaper for the following reasons:

- **Limited liquidity:** Such apartments are purchased for investment purposes and not for residential purposes. Thus, the pool of buyers is limited.
- **Uncertain time horizon:** These apartments, once purchased, cannot be sold until the tenant moves out. There is a possibility that the tenant will stay for a long time.
- **Uncertain cost**: The inside of the apartments cannot be seen since there is a sitting tenant. Thus, it is difficult to estimate the amount of renovation expenses that would be incurred after the tenants leave.

As a result, apartments that are being rented are usually sold between 20-30% cheaper than vacant properties.

Liquidity and uncertainty vary widely between properties when purchasing pre-owned condominiums with tenants. Thus, the value and profitability of small portfolios of properties is heavily affected by the individual characteristics of each property. However, the company owns over 1,000 properties, and is therefore able to reduce investment risk through the benefit of diversification.

The prices of some properties—such as studio apartments for investors, new family condominiums, and expensive properties in desirable urban locations—fluctuate widely depending on conditions in the real estate market. However, price fluctuations are small for pre-owned family-size condominiums. The reason for this, according to the company, is that there is always a certain level of demand for apartments catering to families, and therefore prices will not fall by any great amount. If property prices were to fall, demand for properties would rise among those who live in rental houses—since the difference between what they currently pay in rent and their potential loan payments would become smaller. Therefore pre-owned condominium prices will not fall below the level where monthly loan payments would far undercut rent costs.

During FY11/13, the company's average pre-owned 70.8m^2 condominium was sold for JPY30.8mn. The monthly rent for a similar apartment would be JPY152,000. Since the monthly housing loan payment (35 year amortizing mortgage with an interest rate of 1%) for this condominium would be JPY85,000 as of November 2013, the buyer would spend less money on monthly mortgage repayments.

Differentiation

According to the company, it quickly assesses the value of properties and makes swift purchase decisions. It also has the ability to raise funds and a track record of successful transactions. As a result, the company is in a strong position to gather information on pre-owned apartments that have been put up for sale.

When assessing the value of properties, the company uses its own database that has detailed information on the apartments that it acquired or considered acquiring in the past. According to the company, it uses a sales comparison approach (a method to determine the value of a property based on the transaction prices and list prices of neighboring properties) to provide appropriate and swift price assessments.

It is important to make swift purchase decisions. Real estate brokers are reluctant to disclose property information to other brokers because they want to maximize their earnings by receiving commissions from both the seller and the buyer. However, when a broker signs a contract with a property owner and agrees to find a buyer for the property, the broker is required by the Building Lots and Buildings Transactions Business Act to disclose information on the property. This information is disclosed through the Real Estate Information Network System, which is accessible to other brokers. These brokers then may come forward with their own buy offers, depriving the first broker of a chance to earn commissions from the buyer of its own. SR understands that the broker would be able to avoid sharing the information if a buyer is found before the five-day period ends. Then, the broker would be able to earn commissions from both the seller and the buyer. That means a buyer who can make a quick purchase decision is an important customer for brokers. Such a buyer would receive property information before anyone else does.

Brokers are also eager to introduce properties to Star Mica because of its ability to raise funds. That is why the company receives property information more quickly than other potential buyers.

Barriers to entry

SR believes that new market entrants will face difficulty competing with Star Mica, which makes diversified investments based on statistical analysis and its own history of transactions. The company has the financial resources to acquire a large number of pre-owned apartments. It also has knowledge on apartment renovation and expertise in handling a variety of tasks associated with this business.

As it is unknown when tenants will leave, it is impossible to tell when revenue from the sale of an individual pre-owned condominium that is being rented will come in. Further, there is no way to tell whether or not there are flaws with the property before purchase, because purchasers cannot see inside the property (given that someone lives there). Thus new market entrants—those with no track record of purchasing pre-owned condominiums that are being rented—are unlikely to purchase these types of properties thanks to uncertainty over their liquidity and the condition of the interior. Also, buyers with small portfolios are exposed to the pros and cons of individual properties. Star Mica purchases a large number of pre-owned apartments to spread this risk. Some individual properties could be problematic. However, profits from these properties tend to converge at a statistical mean. When taken as a whole, these apartments generate a certain level of income for the company. As a result, the buying and selling of pre-owned condominiums that are being rented can be a viable business.

The company was seeking to improve the value of its pre-owned condominiums through renovation as of November 2013. The company created Shiawase Renove Kenkyujo, a product planning organization made up mostly of female employees. The goal is to create condominiums with plenty of storage and elbow room, and pursue comfort from the standpoint of women.

Star Mica is also trying new initiatives. For example, the company is working with Mikihouse Child & Family Research and Marketing Institute, a subsidiary of Miki House (privately held), to create a room layout and develop equipment for parents with small children.

Pre-owned condominium business (rental)

Contribution to sales for FY11/13: 13.7%; contribution to gross profit: 42.0%

After purchasing a property, the company takes over the existing leasing agreement with the tenant, who continues to live in the apartment and pays the rent.

According to Star Mica, the average tenant stays for about two and a half years after the company makes a purchase. SR estimates that the company owned about 1,400 condominium units as of end-FY11/13.

The company's rental income can be calculated by multiplying the average rent payment by the number of condominium units it owns. Thus, the number of pre-owned condominiums held (for sale) determines this segment's sales and profits. The company has been increasing the number of properties it holds. The number rose by 51.6% during a five-year period from FY11/09 until FY11/13 (8.6% average annual increase).

Expenses in this segment include property maintenance fees, payments for reserve funds for building repairs, taxes on fixed assets, and rental administration fees. The company farms out some of the administration work to a subsidiary, Fan Investment Co Ltd. According to an estimate by SR, the nominal yield of the company's properties is about 8%, with a gross profit margin of 70%.

Pre-owned condominium business (sale)

Contribution to sales for FY11/13: 77.9%; contribution to gross profit: 44.3%

The company's revenue from this business can be calculated by multiplying the sale price per unit by the number of apartments sold. The average tenant continues to stay for 2.5 years, meaning that the company sells between 30% and 40% of the apartments it owns each year. (SR estimates that the average length of stay in the company's pre-owned condominiums was 3.8 years during FY11/13 and that the company sold about a quarter of its properties during that year.) The company sells a certain number of its condominiums on a regular basis, and therefore the number of condominiums held for sale determines the company's sales and profits.

The sale price is influenced by price movements in the pre-owned condominium market but, as previously mentioned, the impact of these movements is minimal. Primary expenses include the initial purchase price, brokerage commissions, taxes, and renovation expenses. Gross profit margin for this business is between 10% and 15%.

Pre-Owned Condominium (Sales): Sales, Gross Profit, and Nominal Yield (million yen)

	FY11/09 Act.	FY11/10 Act.	FY11/11 Act.	FY11/12 Act.	FY11/13 Act.
Sales (JPYmn)	10,746	10,025	10,184	10,065	10,550
YoY	1.7%	-6.7%	1.6%	-1.2%	4.8%
Gross Profit (JPYmn)	1,163	1,443	1,518	1,334	1,434
YoY	-6.7%	24.1%	5.2%	-12.1%	7.5%
Gross Profit Margin	10.8%	14.4%	14.9%	13.3%	13.6%
Average sale price (JPY '000)	-	-	26,107	27,302	30,770
Properties sold	-	-	390	369	343
Real estate for sale (JPYmn)	17,797	21,256	24,191	23,986	26,978
Average cost price (JPY '000)	19,159	20,986	20,860	20,127	18,826
Total properties	929	1,013	1,160	1,192	1,433
Properties sold/average total properties	-	-	0.36	0.31	0.26
Average years held	-	-	2.8	3.2	3.8

Source: Company data, SR Research

Note: Total properties, average rent, and nominal yield are estimates by SR and may differ from actual figures. Formulas used for calculating estimates are as below. In addition to these formulas, the average vacancy rate is estimated at 12.5% based on SR's interviews with Star Mica management.

Total properties=real estate for sale÷average cost price

Average rent=sales÷total properties averaged between beginning and end of term÷vacancy rate

Nominal yield=sales÷real estate for sale averaged between beginning and end of term÷vacancy rate

The pre-owned condominium business is handled at the parent level. The segment's SG&A expenses are almost identical to those of the parent company. Most of the SG&A expenses for these operations are fixed costs, such as personnel and office expenses.

On **March 31, 2014**, the company announced earnings results for Q1 FY11/14.

Quarterly Performance	FY11/12				FY11/13				FY11/14				FY11/14	
(JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of FY Est.	1H Est.
Sales	3,172	3,369	3,208	3,110	2,602	3,565	4,006	3,371	3,118	-	-	-	43.6%	7,159
YoY	*10.7%*	*0.5%*	*-3.9%*	*-1.8%*	*-18.0%*	*5.8%*	*24.9%*	*8.4%*	*19.8%*	-	-	-		*16.1%*
GP	696	765	706	603	671	908	908	753	870	-	-	-		
YoY	*-9.0%*	*-9.0%*	*-0.3%*	*-15.5%*	*-3.7%*	*18.6%*	*28.5%*	*24.9%*	*29.7%*	-	-	-		
GPM	22.0%	22.7%	22.0%	19.4%	25.8%	25.5%	22.7%	22.3%	27.9%	-	-	-		
SG&A	288	306	289	346	304	391	310	430	304	-	-	-		
YoY	*11.4%*	*7.6%*	*-4.0%*	*6.0%*	*5.5%*	*27.9%*	*7.3%*	*24.3%*	*0.0%*	-	-	-		
SG&A / Sales	9.1%	9.1%	9.0%	11.1%	11.7%	11.0%	7.7%	12.8%	9.7%	-	-	-		
OP	408	460	417	257	367	516	598	323	566	-	-	-	56.9%	996
YoY	*-19.4%*	*-17.5%*	*2.4%*	*-33.7%*	*-10.1%*	*12.4%*	*43.2%*	*25.8%*	*54.5%*	-	-	-		*12.8%*
OPM	12.9%	13.6%	13.0%	8.3%	14.1%	14.5%	14.9%	9.6%	18.2%	-	-	-		13.9%
RP	263	323	282	121	230	372	449	179	415	-	-	-	59.9%	693
YoY	*-30.4%*	*-22.6%*	*2.5%*	*-51.0%*	*-12.5%*	*15.2%*	*59.6%*	*47.4%*	*80.4%*	-	-	-		*15.1%*
RPM	8.3%	9.6%	8.8%	3.9%	8.9%	10.4%	11.2%	5.3%	13.3%	-	-	-		9.7%
NI	149	171	166	52	136	208	292	109	253	-	-	-	60.7%	417
YoY	*-32.9%*	*-25.3%*	*2.9%*	*-59.3%*	*-8.7%*	*21.6%*	*75.3%*	*107.9%*	*86.2%*	-	-	-		*21.2%*
NPM	4.7%	5.1%	5.2%	1.7%	5.2%	5.8%	7.3%	3.2%	8.1%	-	-	-		5.8%

Figures may differ from company materials due to differences in rounding methods

Source: Company data

As for the company's progress toward its FY11/14 target, Q1 sales were somewhat short of forecast. However, the company stated that profits exceeded the target. The company does not rush to sell properties in part because prices of pre-owned condominiums may rise in the near future. The company now sells properties at high prices. Thus, SR believes that a failure of Q1 sales to meet the target is not a major concern for the company.

View the full report.

March 2014 Client Updates

3-D Matrix, Ltd. (7777)

Medical technology company. Exclusively licensed from MIT, core technology is based on unique characteristics of self-assembling peptides.

On **March 14, 2014**, the company announced earnings results for Q3 FY04/14 and revised its FY04/14 full-year earnings forecast and medium-term business plan.

Quarterly Performance	FY04/13				FY04/14				FY04/14	
(JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of FY	FY Est.
Operating Revenue	0	0	0	32	48	1	7	-	53.3%	106
YoY	-	-	-	-95.5%	-	-	-	-		-
R&D Expenses	92	91	90	123	146	136	145	-		
YoY	130.1%	93.8%	101.2%	2.9%	59.7%	50.0%	61.6%	-		
SG&A	134	136	165	201	222	221	232	-		
YoY	-10.6%	30.1%	46.4%	52.3%	65.9%	62.6%	40.7%	-		
OP	-226	-227	-254	-292	-321	-356	-372	-	-	-1,464
YoY	-	-	-	-	-	-	-	-		-
OPM	-	-	-	-	-	-	-	-		-
RP	-232	-226	-238	-281	-341	-361	-357	-	-	-1,475
YoY	-	-	-	-	-	-	-	-		-
RPM	-	-	-	-	-	-	-	-		-
NI	-232	-226	-239	-281	-341	-361	-357	-	-	-1,476
YoY	-	-	-	-	-	-	-	-		-
NPM	-	-	-	-	-	-	-	-		-

Figures may differ from company materials due to differences in rounding methods.
Source: Company data, SR Inc. Research

At the beginning of FY04/14, 3DM forecasted that it would receive domestic approval for manufacture and sales of its absorbent topical hemostatic agent, and planned for revenue from milestone payments and product sales. Concerning TDM-621 in the US market, the company had planned to establish a business partnership with a firm in the US by the end of April 2014, and receive a one-time payment for licensing rights.

However, although the company worked to move forward with the PMDA approval process, as of March 2014, the agent is still under review. As such, approval is expected to be beyond April 2014. In light of this, revenue from milestone payments and sales are now planned to be booked in FY04/15.

In addition to the US, sales licensing negotiations in the EU are behind schedule. 3DM is currently in talks with a number of different companies, but any agreements will not be reached in time to be booked in FY04/14. As a result, the company is now aiming to establish agreements during FY04/15, and record one-time licensing payments in FY04/15.

Revised FY04/14 full-year earnings forecast
Sales: JPY106mn (Previous forecast: JPY4.2bn)
Operating loss: JPY1.5bn (Operating profit of JPY1.7bn)
Recurring loss: JPY1.5bn (Recurring profit of JPY1.6bn)
Net loss: JPY1.5bn (Net income of JPY1.5bn)
Loss per share: JPY75.57 (Earnings per share of JPY78.76)

Revision to the medium-term business plan
In light of the revision to the FY04/14 full-year earnings forecast, 3DM has revised the timing of when it plans to receive revenue from milestone payments and sales that were originally planned to be booked in FY04/14.

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Ai Holdings Corp. (3076)

Holding company built via acquisitions with subsidiaries dominant in security cameras, card-issuance equipment, cutting plotters and other niche businesses.

On **March 4, 2014**, SR updated comments on Ai Holdings Corp.'s Q2 FY06/14 results after interviewing management.

Quarterly Performanc	FY06/13				FY06/14				FY06/14	Est.
(million yen)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of FY	FY Est.
Sales	8,481	7,598	9,546	6,764	8,564	9,249	-	-	50.0%	35,600
YoY	16.3%	13.8%	15.8%	13.7%	1.0%	21.7%	-	-		9.9%
Gross Profit	3,031	3,090	3,714	3,208	3,673	3,879	-	-		
YoY	16.6%	19.9%	20.7%	28.4%	21.2%	*25.5%*	-	-		
GPM	35.7%	40.7%	38.9%	47.4%	42.9%	41.9%	-	-		
SG&A	1,865	1,930	2,010	2,264	2,188	2,356	-	-		
YoY	8.7%	9.7%	12.7%	15.9%	17.3%	22.1%	-	-		
SG&A / Sales	22.0%	25.4%	21.1%	33.5%	25.5%	25.5%	-	-		
Operating Profit	1,166	1,160	1,704	944	1,484	1,523	-	-	50.1%	6,000
YoY	32.0%	41.8%	31.5%	73.2%	27.3%	31.3%	-	-		20.6%
OPM	13.7%	15.3%	17.9%	14.0%	17.3%	16.5%	-	-		16.9%
Recurring Profit	1,203	1,239	1,679	959	1,513	1,577	-	-	50.7%	6,100
YoY	19.5%	28.3%	18.2%	66.2%	25.8%	27.3%	-	-		20.1%
RPM	14.2%	16.3%	17.6%	14.2%	17.7%	17.1%	-	-		17.1%
Net Income	765	562	1,052	595	929	994	-	-	51.3%	3,750
YoY	29.9%	3.1%	8.9%	94.4%	21.4%	76.9%	-	-		26.1%
NPM	9.0%	7.4%	11.0%	8.8%	10.8%	10.7%	-	-		10.5%

Figures may differ from company materials due to differences in rounding methods.
Company forecast figures are based on the most recently issued company forecast.
Source: Company data, SR Inc. Research

The company revised its forecasts upward in light of 1H FY06/14 results exceeding expectations.

Security Equipment
Sales: JPY4.2bn (+12.7% YoY); Segment profit: JPY1.3bn (+16.7%)
New installations and replacements for condominium security systems were strong, yielding increases in both sales and profit.

Card Equipment and Other Office Equipment
Sales: JPY1.5bn (+26.2% YoY); Segment profit: JPY427mn (+63.0%)
Sales of card issuance equipment were strong. Sales of CAD software for steel-frame construction also increased.

Maintenance Service
Sales: JPY879mn (+1.2% YoY); Segment profit: JPY89mn (-0.3%)

Peripheral Computer Equipment Sales
Sales: JPY5.3bn (+40.5% YoY); Segment profit: JPY586mn (+59.9%)
New products contributed to sales, and compact cutting machines for general consumer use sold well.

Measuring and Environmental Testing Devices
Sales: JPY1bn (+12.3% YoY); Segment profit: JPY134mn (+49.1%)
Brisk sales of data loggers, the segment's mainstay product, and growth in orders for environmental testing devices led the way for improved results.

View the full report.

Apamanshop Holdings Co., Ltd. (8889)

Japan's leading rental property broker, offering comprehensive services through its proprietary real estate information network.

On **March 14, 2014**, SR updated comments on Apamanshop Holdings Q1 FY09/14 earnings results after interviewing management.

Quarterly Performance	FY09/13				FY09/14				FY09/14	
(million yen)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of FY	FY Est.
Sales	9,000	9,734	9,105	8,803	8,872	-	-	-	24.0%	37,000
YoY	*-7.2%*	*-5.3%*	*-3.9%*	*-4.0%*	*-1.4%*	-	-	-		-4.2%
GP	2,192	2,583	2,573	2,566	2,199	-	-	-		
YoY	*-10.3%*	*-3.5%*	*3.4%*	*5.8%*	*0.3%*	-	-	-		
GPM	24.4%	26.5%	28.3%	29.1%	24.8%	-	-	-		
SG&A	1,915	1,807	1,963	1,918	1,911	-	-	-		
YoY	*-3.2%*	*-4.1%*	*-3.8%*	*5.7%*	*-0.2%*	-	-	-		
SG&A / Sales	21.3%	18.6%	21.6%	21.8%	21.5%	-	-	-		
OP	276	777	610	647	288	-	-	-	12.0%	2,400
YoY	*-40.6%*	*-1.9%*	*36.2%*	*5.9%*	*4.3%*	-	-	-		3.6%
OPM	3.1%	8.0%	6.7%	7.3%	3.2%	-	-	-		6.5%
RP	-32	677	458	305	126	-	-	-	7.4%	1,700
YoY	-	*13.4%*	*133.7%*	*-4.4%*	-	-	-	-		25.6%
RPM	-	7.0%	5.0%	3.5%	1.4%	-	-	-		4.6%
NI	-425	1,878	75	685	929	-	-	-	46.5%	2,000
YoY	-	*1576.8%*	*-58.3%*	*-32.7%*	-	-	-	-		2050.5%
NPM	-	19.3%	0.8%	7.8%	10.5%	-	-	-		5.4%

Figures may differ from company materials due to differences in rounding methods.
Source: Company data processed by SR Inc.

According to the company, comparable store results at directly managed agencies (ie, excluding newly opened stores) are growing healthily, with an 11% increase in sales and a 42% increase in operating profit.

Sales were strong in the Related Services business, which Apamanshop has been strengthening as its third main earnings source. These services include acting as a sales agent for services such as internet connections, insurance, and furniture movers, and products such as room deodorizers and fire extinguishers.

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Bell-Park Co., Ltd. (9441)

Independent mobile phone distributor focusing on SoftBank Mobile shops. Differentiation through efficient stores and personnel investments. Growth through acquisitions

On **March 28, 2014**, SR Inc. updated comments on Bell-Park's FY12/13 results after interviewing management.

Quarterly Performance	FY12/12				FY12/13				FY12/13	
(Million Yen)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of FY	FY Est.
Sales	19,599	15,466	15,599	23,806	22,553	18,992	18,854	23,828	97.7%	86,200
YoY	*19.3%*	*-3.4%*	*1.6%*	*4.5%*	*15.1%*	*22.8%*	*20.9%*	*0.1%*		*15.8%*
GP	3,890	3,292	3,065	3,647	4,520	3,840	3,847	4,287		
YoY	*33.2%*	*21.6%*	*5.7%*	*1.6%*	*16.2%*	*16.7%*	*25.5%*	*17.6%*		
GPM	*19.8%*	*21.3%*	*19.6%*	*15.3%*	*20.0%*	*20.2%*	*20.4%*	*18.0%*		
SG&A	2,852	2,629	2,523	2,767	3,311	3,040	3,305	3,598		
YoY	*30.3%*	*19.8%*	*8.7%*	*8.0%*	*16.1%*	*15.7%*	*31.0%*	*30.0%*		
SG&A / Sales	*14.6%*	*17.0%*	*16.2%*	*11.6%*	*14.7%*	*16.0%*	*17.5%*	*15.1%*		
OP	1,038	663	542	879	1,209	800	542	689	101.2%	3,200
YoY	*41.9%*	*29.4%*	*-6.2%*	*-14.4%*	*16.5%*	*20.7%*	*-0.1%*	*-21.7%*		*2.5%*
OPM	*5.3%*	*4.3%*	*3.5%*	*3.7%*	*5.4%*	*4.2%*	*2.9%*	*2.9%*		*3.7%*
RP	1,085	632	520	964	1,285	846	531	764	103.5%	3,310
YoY	*49.3%*	*28.7%*	*-2.3%*	*-6.5%*	*18.5%*	*33.8%*	*2.0%*	*-20.7%*		*3.4%*
RPM	*5.5%*	*4.1%*	*3.3%*	*4.0%*	*5.7%*	*4.5%*	*2.8%*	*3.2%*		*3.8%*
NP	611	358	289	526	709	476	283	411	102.7%	1,830
YoY	*64.2%*	*30.9%*	*-1.2%*	*-4.7%*	*16.1%*	*32.8%*	*-1.9%*	*-21.8%*		*2.6%*
NPM	*3.1%*	*2.3%*	*1.9%*	*2.2%*	*3.1%*	*2.5%*	*1.5%*	*1.7%*		*2.1%*

Source: Company data, SR Inc. Research
Figures may differ from company materials due to differences in rounding methods.
Company forecasts are the most recent figures.

In September 2013, NTT Docomo (TSE1: 9437) began sales of the iPhone. Now, all three Japanese major wireless carriers offer the iPhone. Being a relatively universal device which is largely independent of the network it operates on, popularity of the iPhone is making differentiation for devices, services, and networks among the carriers difficult. The company believes that distributors will play increasingly important roles in aiding consumers in the purchasing process.

In contrast, carriers are altering commissions paid to distributors. Income from carriers is now tied very strongly to performance and customer satisfaction. Carriers are seeking to filter out poor performers, and the company stated that distributors that are unable to meet these demands are already starting to show signs of trouble.

For the full-year, replacement sales were the main area of growth. Sales volume was 934,233 units (+5.3% YoY): 493,068 units in new handset sales (-1.5%) and 441,165 units in replacement sales (+14.2%).

On **March 26, 2014**, the company announced a share buyback.

On March 27, 2014, at 8:45AM, the company will conduct a share buyback on the Tokyo Stock Exchange via the Tokyo Stock Exchange Trading NeTwork (ToSTNeT-3) system at the closing price for March 26, 2014, of JPY2,430 per share.

MONTHLY WRAP – April 2014

On **March 6, 2014**, the company announced February monthly sales estimate.

Monthly Sales	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
2014													
New	37,521	37,493											**75,014**
YoY	-15.8%	-4.2%											
ex-low ARPU handsets	28,160	27,090											**55,250**
(YoY)	24.8%	36.3%											
Replacement	34,016	31,927											**65,943**
YoY	-8.9%	23.4%											
Total	**71,537**	**69,420**											**140,957**
YoY	**-12.6%**	**6.8%**											
2013													
New	44,561	39,123	80,207	42,188	44,188	29,921	31,772	33,596	34,022	37,766	39,479	36,245	**493,068**
YoY	15.8%	2.9%	20.1%	0.3%	4.4%	-0.9%	-10.9%	7.4%	-11.4%	-18.9%	-19.9%	-12.3%	
ex-low ARPU handsets	22,566	19,882	40,417	23,187	24,066	19,059	21,191	24,508	22,890	22,919	25,087	25,944	**291,716**
(YoY)	-23.0%	-32.5%	-22.2%	-27.5%	-23.4%	-5.7%	-12.7%	18.4%	-4.4%	-7.4%	5.8%	18.1%	
Replacement	37,325	25,865	46,305	33,039	40,335	26,499	29,059	30,075	36,832	46,110	49,021	40,700	**441,165**
YoY	9.0%	9.5%	64.8%	37.4%	63.5%	31.9%	8.4%	25.3%	11.6%	-12.5%	-16.1%	10.6%	
Total	**81,886**	**64,988**	**126,512**	**75,227**	**84,523**	**56,420**	**60,831**	**63,671**	**70,854**	**83,876**	**88,500**	**76,945**	**934,233**
YoY	**12.6%**	**5.4%**	**33.4%**	**13.7%**	**26.2%**	**12.2%**	**-2.6%**	**15.2%**	**-0.8%**	**-15.5%**	**-17.8%**	**-1.5%**	

Source: Company data, SR Inc. Research
Figures may differ from company materials due to differences in rounding methods.
Low ARPU handsets: Mimamori Mobile handsets, PhotoVision digital photo frames, and USIM

View the full report.

Chiome Bioscience Inc. (4583)

Independent private sector corporation involved in biotech drug discovery, having its roots in the independent administrative institution Riken. Holding joint ownership and exclusive commercialization rights for ADLib® system, a cutting edge platform technology, Chiome pursues the discovery of "made-to-order drugs."

On **March 31, 2014**, Chiome Bioscience Inc. revised its earnings forecast for FY03/14.

Earnings forecast revision for FY03/14

Sales:	JPY435mn	(Previous forecast: JPY740mn)
Operating loss:	JPY687mn	(Previous forecast: JPY522mn)
Recurring loss:	JPY689mn	(Previous forecast: JPY596mn)
Net loss:	JPY739bn	(Previous forecast: JPY599mn)
Loss per share:	JPY77.38	(Previous forecast: JPY63.37)

Reason for the revision:
Sales may have missed forecast for FY03/14 because the planned licensing of Anti-Semaphorin 3A antibody in the Lead Antibody Licensing segment was delayed.

Chiome in February 2013 submitted a patent application for Anti-Semaphorin 3A based on data that demonstrated its effectiveness against sepsis during experiments on animals. According to the company, subsequent studies have identified a clinically significant biomarker associated with Anti-Semaphorin 3A. Furthermore, Anti-Semaphorin 3A was also effective in blocking the infiltration of cancer cells and in eliminating their drug resistance. In February 2014, the company filed a Patent Cooperation Treaty (PCT) application based on these data. The company stated that these developments have increased the likelihood of the licensing of Anti-Semaphorin 3A.

The performance of the Drug Discovery Alliances segment and the Core Technology Licensing segment were probably in line with forecast.

Operating profit, recurring profit, and net income may also have fallen short due to the sales forecast revision outlined above.

On **March 18, 2014**, the company announced that it had succeeded in development of its Fully Human ADLib® system.

According to the company, after creation and testing of a diversified library using superior cell lines that were created by crossing over human antibody genes with light and heavy antibody genes of the gene regions in avian B lymphoma-derived DT40 cells, it had succeeded in creating a practical application of its Fully Human ADLib® system.

On **March 14, 2014**, the company announced a stock split.

On the record date of March 31, 2014, and the effective date of April 1, 2014, the company will execute a two-for-one stock split. With this, the number of shares outstanding will increase from 10,087,000 to 20,174,000.

On **March 10, 2014**, SR updated comments on the company's Q3 FY03/14 earnings results after interviewing management.

View the full report.

Chiyoda Co., Ltd. (8185)

Retailer specializing in low-price shoes.

Chiyoda Co., Ltd. announced monthly sales data for February 2014 on **March 3, 2014** and for March 2014 on **April 1, 2014**.

Comparable Store Sales	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
FY02/11	-6.5%	-6.1%	-7.5%	-4.4%	-4.6%	-8.5%	-7.4%	2.2%	-5.4%	-3.2%	-0.1%	3.1%
FY02/12	-17.3%	4.1%	2.4%	1.9%	5.4%	1.0%	1.5%	-0.5%	6.3%	3.0%	-0.4%	1.4%
FY02/13	15.7%	2.2%	-4.6%	-0.6%	-3.8%	-3.5%	-0.2%	-8.9%	1.5%	-2.8%	-1.7%	-6.9%
FY02/14	2.8%	-11.4%	-2.1%	1.3%	-8.4%	0.2%	-3.2%	-3.9%	-2.2%	-3.4%	-8.5%	17.0%
FY02/15	14.7%											

Source: Company data processed by SR Inc.
Figures may differ from company materials due to differences in rounding methods.

All Store Sales	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
FY02/11	-2.2%	-2.6%	-4.2%	-1.2%	-1.6%	-5.8%	-5.7%	3.3%	-4.8%	-2.7%	0.4%	4.0%
FY02/12	-18.5%	2.1%	1.2%	0.5%	3.9%	-0.1%	0.5%	-1.3%	4.9%	1.5%	-1.8%	0.0%
FY02/13	14.3%	0.8%	-6.1%	-1.7%	-4.9%	-4.7%	-1.2%	-9.4%	2.0%	-2.5%	-1.5%	-6.6%
FY02/14	3.6%	-8.3%	-0.5%	3.3%	-6.7%	1.8%	-1.7%	-2.6%	-1.2%	-2.5%	-7.6%	17.7%
FY02/15	15.5%											

Source: Company data processed by SR Inc.
Figures may differ from company materials due to differences in rounding methods.

On **March 19, 2014**, the company announced a revision to its FY02/14 year-end dividend.

In light of its earnings results, financial standing, and striving to meet its goal of returning 50% of profits to shareholders to maximize shareholder returns, the company announced that it will provide a JPY10 per share special year-end dividend for FY02/14. This, combined with the standard dividend of JPY30 per share, will amount to a total year-end dividend of JPY40 per share. Combined with the mid-term dividend of JPY30 per share, the total full-year dividend will be JPY70 per share (versus the previous forecast of JPY60 per share).

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DIC Corporation (4631)

DIC has four business segments: printing inks, fine chemicals, polymers, and application materials.

On **March 20, 2014**, DIC Corporation announced that its wholly-owned subsidiary, Sun Chemical Corporation, will construct a new plant in Turkey to produce liquid ink for packaging.

Sun Chemical, based in the US, will increase its production capacity to target growth markets in Europe, the Middle East, and Africa. It is also seeking further expansion of its presence in Turkey, where it already has a significant share of the market. The new plant will begin construction in Q2 FY12/14, and is scheduled to begin operations in Q3 FY12/15.

In the DIC105 medium term management plan, which began in FY12/13, liquid ink for packaging is a core product in the company's mainstay printing ink business. DIC Corporation will continue to implement measures tailored to each region's unique needs.

View the full report.

Digital Garage Inc. (4819)

An online payment and marketing-support firm with a business incubation unit focused on early stage e-commerce investments. Also has a stake in Twitter.

On **March 27, 2014**, Digital Garage Inc. announced development of Streamication O2O, a new type of promotional service that is adapted to the mental and physical states of smartphone users.

The company has developed Streamication O2O, a new promotional service which fulfills the needs of users, client companies, and storefronts through a smartphone app that is popular with certain user segments. As a first project, the service will work together with "Luna Luna Lite," a popular smartphone app released by MTI Ltd. (JASDAQ: 9438). With cooperation from cocokara fine Inc. (TSE1: 3098), one of the top drug store chains in Japan, the promotion will be held at cocokara fine's 1,300 stores nationwide.

Streamication O2O first stores various information about the smartphone app users such as their attributes, mental, and physical states. Based on this information, it accurately matches users with cosmetics, healthcare, and other daily necessities produced by client firms. After matching, users are then provided with product information or discount coupons.

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Don Quijote Co., Ltd. (7532)

Innovative and iconoclastic general discount retailer with a nationwide presence.

On **March 10, 2014**, Don Quijote announced sales figures for February.

(YoY)

	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Total Stores												
Sales	5.2%	8.2%	4.3%	5.1%	4.9%	5.4%	5.2%	3.5%				
# of Stores	200	201	200	203	208	211	212	212				
Comparable Stores												
Sales	-0.5%	1.8%	-0.6%	0.0%	0.0%	-0.9%	-1.3%	-2.3%				
# of Customers	0.0%	1.1%	-2.5%	-0.4%	-0.1%	-0.5%	-0.5%	-2.4%				
Avg. Spend per Customer	-0.5%	0.6%	2.0%	0.4%	0.1%	-0.5%	-0.8%	0.1%				
# of Comparable Stores	184	185	185	186	187	189	192	191				
Electric Appliances	0.9%	3.7%	-2.4%	-0.6%	0.5%	-4.1%	-0.4%	-5.0%				
Household Goods	5.7%	10.0%	4.1%	8.2%	6.2%	8.0%	5.9%	5.4%				
Foods	6.6%	9.6%	3.3%	5.1%	6.8%	9.4%	8.6%	9.9%				
Watches & Fashion Merchandise	5.4%	9.1%	1.8%	4.4%	4.4%	4.2%	3.9%	0.0%				
Sporting & Leisure Goods	8.6%	6.8%	0.4%	4.9%	5.5%	6.9%	7.0%	2.7%				
Other Products	-13.3%	-12.0%	103.4%	7.9%	-5.7%	8.3%	5.1%	-7.2%				

(YoY)

(Fiscal Year Ending)	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Total Stores												
Sales	22.2%	37.6%	20.3%	19.8%	11.8%	7.2%	6.5%	5.9%	6.1%	5.9%	6.2%	7.1%
# of Stores	53	70	93	107	122	135	148	150	162	169	185	200
Comparable Stores												
Sales	-1.4%	-1.8%	-2.4%	2.0%	2.9%	0.4%	-3.3%	0.5%	-1.5%	3.4%	0.5%	-0.1%
# of Customers	1.2%	0.5%	-2.8%	0.3%	-0.4%	-0.7%	-2.2%	4.5%	3.8%	3.1%	-0.8%	-0.5%
Avg. Spend per Customer	-2.5%	-2.3%	0.4%	1.7%	3.3%	1.1%	-1.2%	-3.8%	-5.1%	0.3%	1.3%	0.4%
# of Comparable Stores	31	48	70	89	104	117	123	144	149	158	164	179
Electric Appliances	18.5%	29.4%	17.1%	17.0%	12.2%	4.0%	-2.7%	-4.8%	-3.6%	5.1%	-2.2%	-0.5%
Household Goods	22.6%	37.4%	15.1%	15.5%	12.9%	10.4%	8.2%	9.8%	9.1%	7.9%	6.7%	7.9%
Foods	27.7%	42.0%	25.6%	23.1%	9.2%	5.1%	10.9%	20.8%	14.4%	4.5%	7.3%	8.9%
Watches & Fashion Merchandise	28.0%	48.1%	25.6%	23.4%	14.0%	7.0%	6.3%	0.0%	1.7%	4.3%	11.9%	11.2%
Sporting & Leisure Goods	10.6%	24.8%	18.6%	14.1%	7.2%	13.3%	5.5%	4.1%	5.5%	8.2%	2.0%	8.3%
Other Products	8.9%	28.1%	6.0%	19.4%	-7.8%	-1.3%	0.1%	10.4%	21.7%	29.7%	10.9%	-22.6%

Source: Company data, SR Inc. Research
Figures may differ from company materials due to differences in rounding methods.

Comparable store sales fell by 2.3% YoY in February 2014. Customer count fell 2.4% YoY as heavy snow meant more people stayed indoors. However, foods and household goods picked up once the weather settled down, and exhibited YoY growth by the end of the month. Electric appliances and watches and fashion merchandise, however, had little chance to recover before the month was over.

View the full report.

Emergency Assistance Japan Co., Ltd. (6063)

Japan's sole independent provider of global medical assistance services. Expanding businesses related to medical tourism.

On **March 17, 2014**, SR Inc. updated comments on FY12/13 earnings results by Emergency Assistance Japan Co., Ltd. (EAJ) after interviewing management.

Quarterly Performance	FY12/12				FY12/13				FY12/13	
(Million Yen)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of FY	FY Est.
Sales	554	435	448	456	548	447	473	515	99.2%	2,000
YoY	-	-	-	-	*-1.0%*	*2.7%*	*5.7%*	*12.9%*		5.7%
GP	138	109	122	137	114	88	106	127		
YoY	-	-	-	-	*-17.6%*	*-18.6%*	*-13.0%*	*-7.8%*		
GPM	24.9%	24.9%	27.2%	30.1%	20.7%	19.8%	22.4%	24.6%		
SG&A	84	102	93	78	93	96	106	104		
YoY	-	-	-	-	*10.0%*	*-6.0%*	*13.3%*	*33.3%*		
SG&A / Sales	15.2%	23.5%	20.8%	17.2%	16.9%	21.5%	22.3%	20.3%		
OP	54	6	29	59	21	-8	0	22	119.2%	30
YoY	-	-	-	-	*-61.1%*	-	*-98.7%*	*-62.4%*		12.0%
OPM	9.7%	1.5%	6.4%	12.9%	3.8%	-	0.1%	4.3%		1.5%
RP	53	-11	25	62	18	-13	-1	21	115.4%	22
YoY	-	-	-	-	*-65.8%*	-	-	*-65.3%*		20.3%
RPM	9.6%	-	5.6%	13.5%	3.3%	-	-	4.2%		1.1%
NI	32	-6	15	35	12	-9	1	11	118.8%	12
YoY	-	-	-	-	*-63.6%*	-	*-93.7%*	*-67.9%*		26.0%
NPM	5.7%	-	3.4%	7.6%	2.1%	-	0.2%	2.2%		0.6%

Figures may differ from company materials due to differences in rounding methods
Source: Company data, SR Inc.

A steady increase in providing medical assistance services led to sales that were up 4.8% YoY to JPY2bn, but operating profit fell 75.8% YoY to JPY35mn because of investments for future growth, increased costs at overseas offices, and accounting costs incurred from a weaker yen. However, it should be noted that in comparison to forecasts released by the company on July 16, 2013, operating profit was JPY5mn higher, recurring profit was JPY3mn higher, and net income was JPY2mn higher.

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en–japan Inc. (4849)

Pioneer of online recruitment information websites, with a particular focus on mid-career and experienced worker hiring. Now looking to expand into Asia and bilingual staff recruiting.

On **March 4, 2014**, SR updated comments on en-japan Inc.'s Q3 FY03/14 earnings results after interviewing management.

Quarterly Performance	FY03/13				FY03/14				FY03/14	
(million yen)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of FY Est.	FY Est.
Sales	3,297	3,138	3,801	3,327	3,652	3,835	4,595	-	74.1%	16,300
YoY	-	-	-	-	10.7%	22.2%	20.9%			*20.2%*
GP	2,824	2,687	3,300	2,820	3,219	3,401	4,096	-		
YoY	-	-	-	-	14.0%	26.5%	24.1%			
GPM	85.7%	85.6%	86.8%	84.8%	88.2%	88.7%	89.1%	-		
SG&A	2,101	2,129	2,265	2,353	2,506	2,497	2,918	-		
YoY	-	-	-	-	19.3%	17.3%	28.8%			
SG&A / Sales	63.7%	67.8%	59.6%	70.7%	68.6%	65.1%	63.5%	-		
OP	724	558	1,034	467	713	903	1,177	-	87.3%	3,200
YoY	-	-	-	-	-1.4%	61.8%	13.8%			*15.0%*
OPM	21.9%	17.8%	27.2%	14.0%	19.5%	23.6%	25.6%	-		19.6%
RP	782	576	1,045	437	902	925	1,274	-	94.5%	3,280
YoY	-	-	-	-	15.3%	60.6%	21.9%			*15.5%*
RPM	23.7%	18.4%	27.5%	13.1%	24.7%	24.1%	27.7%	-		20.1%
NI	468	338	653	86	1,771	546	772	-	114.8%	2,690
YoY	-	-	-	-	278.6%	61.4%	18.1%			*74.0%*
NPM	14.2%	10.8%	17.2%	2.6%	48.5%	14.2%	16.8%	-		16.5%

Figures may differ from company materials due to differences in rounding methods.
Source: Company data, SR Inc. Research

Cumulative Q3 sales were JPY1.8bn higher (+18.0%) YoY. Contributing to this increase were: en world Japan K.K. (EWJ), +JPY312mn (+13.6%); [en] Career Change Info, +JPY722mn; and overseas subsidiaries, +JPY531mn. EWJ felt the positive effects of increased hiring activity by global companies, [en] Career Change Info saw robust sales of job advertising space from increased hiring activity by client companies, and overseas subsidiaries were included in the scope of consolidation beginning in FY03/14 (beginning in Q3, income from the Navigos Group in Vietnam was also consolidated).

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Fields Corp. (2767)

Pachinko and pachislot planning, development and sales specialist firm. Largest independent distributor in Japan.

On **March 18, 2014**, Fields Corporation announced a revision to its FY03/14 earnings forecast.

Revised FY03/14 earnings forecast:
Sales: JPY114bn (previous forecast: JPY120bn)
Operating profit: JPY9.6bn (JPY12.5bn)
Recurring profit: JPY10.3bn (JPY12.5bn)
Net income: JPY5.2bn (JPY6.3bn)

The pachislot business held steady from efforts by the company to strengthen and enhance its product lineup. However, the company modified the release date of a new machine to FY03/15, and this required a revision to its FY03/14 earnings forecast. In interactive media, Fields moved to concentrate its efforts on select social game titles in order to increase intellectual property value and maximize revenue. As a result, the company stated that number of titles released in FY03/14 decreased.

On **March 3, 2014**, SR updated comments on the company's Q3 FY03/14 results after interviewing management.

Quarterly Performance	FY03/13				FY03/14				FY03/14	
(JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of FY	FY Est.
Sales	21,145	7,973	18,627	60,396	5,748	30,637	17,819		47.5%	114,000
YoY	19.9%	-49.3%	91.9%	22.9%	-72.8%	284.3%	-4.3%			5.4%
GP	5,566	3,258	6,239	18,216	2,027	11,621	5,709			
YoY	9.7%	-52.8%	43.7%	21.4%	-63.6%	256.7%	-8.5%			
GPM	26.3%	40.9%	33.5%	30.2%	35.3%	37.9%	32.0%			
SG&A	5,282	5,402	5,535	6,745	5,856	5,615	5,849			
YoY	-0.4%	5.9%	-6.2%	3.8%	10.9%	3.9%	5.7%			
SG&A / Sales	25.0%	67.8%	29.7%	11.2%	101.9%	18.3%	32.8%			
OP	283	-2,142	703	11,470	-3,829	6,005	-140		21.2%	9,600
YoY	-	-	-	34.9%	-	-	-			-6.9%
OPM	1.3%	-	3.8%	19.0%	-	19.6%	-			8.4%
RP	574	-2,312	763	11,243	-3,759	5,903	-78		20.1%	10,300
YoY	-	-	-	31.4%	-	-	-			0.3%
RPM	2.7%	-	4.1%	18.6%	-	19.3%	-			9.0%
NI	342	-1,322	303	5,397	-2,290	3,724	-207		23.6%	5,200
YoY	-	-	-	11.1%	-	-	-			10.2%
NPM	1.6%	-	1.6%	8.9%	-	12.2%	-			4.6%

Source: Company data, SR Inc.; figures may differ from company materials due to differences in rounding methods

In cumulative Q3, sales accounted for 45.2%, and operating profit stood at 16.3% of the company's full-year FY03/14 estimates. In Q4 FY03/14, the company is scheduled to release two pachinko machines and four pachislot machines (see below), which will be close to the same number of releases conducted in the first nine months of FY03/14 combined. SR believes that this will cause significant changes in the company's results.

View the full report.

FreeBit Co., Ltd. (3843)

FreeBit provides Internet-based infrastructure services that it terms Smart Infrastructure services.

On **March 20, 2014**, SR updated comments on FreeBit Co., Ltd.'s Q3 FY04/14 results after interviewing management.

Quarterly Performance	FY04/13				FY04/14				FY04/14	
(Million Yen)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of FY	FY Est.
Sales	5,274	5,153	5,030	5,203	5,252	5,143	4,987	-	76.9%	20,000
YoY	5.5%	0.9%	-6.2%	-6.0%	-0.4%	-0.2%	-0.9%	-		
GP	1,781	1,884	1,840	2,001	1,950	1,982	2,012	-		
YoY	6.4%	19.2%	7.5%	2.7%	9.5%	5.2%	9.3%	-		
GPM	33.8%	36.6%	36.6%	38.5%	37.1%	38.5%	40.3%	-		
SG&A	1,628	1,670	1,632	1,640	1,643	1,673	1,720	-		
YoY	6.5%	13.1%	9.3%	3.3%	0.9%	0.2%	5.4%	-		
SG&A / Sales	30.9%	32.4%	32.4%	31.5%	31.3%	32.5%	34.5%	-		
Operating Profit	152	214	208	361	306	309	293	-	75.7%	1,200
YoY	4.7%	107.8%	-5.0%	-0.6%	100.7%	44.4%	40.9%	-		
OPM	2.9%	4.2%	4.1%	6.9%	5.8%	6.0%	5.9%	-		
Recurring Profit	113	133	45	189	276	260	300	-	83.6%	1,000
YoY	-40.5%	-15.3%	-80.3%	-47.9%	144.1%	95.5%	566.7%	-		
RPM	2.1%	2.6%	0.9%	3.6%	5.3%	5.1%	6.0%	-		
Net Income	-33	-125	-40	12	-64	114	117	-	167.0%	100
YoY	-	-	-	-94.3%	-	-	-	-		
NPM	-	-	-	0.2%	-	2.2%	2.3%	-		

Figures may differ from company materials due to differences in rounding methods.
Source: Company data, SR Inc.

For FY04/14, the company adopted a strategy with emphasis on mobile services. In line with the launch of freebit mobile, the company is accelerating its shift to mobile. The company is also focusing on expanding freebit mobile to encompass B2C services under the freebit mobile brand.

View the full report.

GCA Savvian Corp. (2174)

An independent M&A advisory firm, pushing "repeat-client model" and other unique initiatives toward winning more cross-border deals.

On **March 25, 2014**, GCA Savvian announced the forecasted effects of voluntary adoption of the International Financial Reporting Standards (IFRS).

In addition to Japanese Generally Accepted Accounting Principles (JGAAP), the company is planning to disclose its earnings under IFRS beginning in Q1 FY12/14. JGAAP allows for consolidation of investment business limited partnerships (funds) operated by the company's Mezzanine Corp. subsidiary, but these are outside the scope of consolidation under IFRS. GCA Savvian India Investment Advisors Private Limited and GCA Savvian China Co., Ltd. are two subsidiaries that are not considered significant and thus excluded from consolidation under JGAAP, but these are within the scope of consolidation under IFRS. The method used for calculating depreciation will be changed to the straight-line method, the useful lives of assets will be adjusted, and a reserve for paid vacations will be recorded, but these amounts will not have any material effect on the company's financial standing.

Comparison between FY12/13 IFRS (unaudited) results and JGAAP results:
Sales: JPY9.6bn (JGAAP: JPY22.4bn)
Operating profit: JPY1.7bn (JPY4.2bn)
Net income: JPY1.1bn (JPY1.1bn)

Comparison between FY12/13 IFRS (unaudited) results and voluntarily disclosed fund-unconsolidated (JGAAP) results:
Sales: JPY9.6bn (JGAAP: JPY9.6bn)
Operating profit: JPY1.7bn (JPY1.7bn)
Net income: JPY1.1bn (JPY1.1bn)

View the full report.

Infomart Corp. (2492)

B2B e-commerce platform operator looking to become industry standard for the food sector. Branching out overseas and into other industry sectors with its online B2B platforms.

On **March 3, 2014**, SR Inc. updated comments on Infomart's full-year FY12/13 earnings results after interviewing management.

Quarterly Performance	FY12/12				FY12/13				FY12/13	
(million yen)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of FY	FY Est.
Sales	876	918	966	1,024	1,006	1,060	1,110	1,163	98.9%	4,388
YoY	*12.3%*	*13.4%*	*14.2%*	*15.3%*	*14.9%*	*15.5%*	*14.9%*	*13.6%*		15.9%
GP	558	593	631	696	679	718	742	710	101.2%	2,816
YoY	*8.9%*	*11.5%*	*8.2%*	*12.7%*	*21.6%*	*21.0%*	*17.7%*	*2.1%*		13.6%
GPM	63.8%	64.6%	65.3%	67.9%	67.5%	67.7%	66.9%	61.1%		64.2%
SG&A	401	419	429	414	432	434	442	447	96.5%	1,818
YoY	*5.2%*	*7.6%*	*2.4%*	*2.1%*	*7.6%*	*3.5%*	*3.1%*	*7.9%*		9.3%
SG&A / Sales	45.8%	45.6%	44.4%	40.4%	42.9%	40.9%	39.8%	38.4%		41.4%
OP	157	174	202	282	247	284	300	263	109.8%	997
YoY	*19.9%*	*22.4%*	*22.9%*	*33.0%*	*57.3%*	*62.9%*	*48.5%*	*-6.5%*		22.3%
OPM	17.9%	19.0%	20.9%	27.5%	24.6%	26.8%	27.1%	22.6%		22.7%
RP	159	169	198	289	253	286	297	270	112.0%	988
YoY	*20.6%*	*21.2%*	*21.7%*	*36.9%*	*58.8%*	*69.1%*	*50.0%*	*-6.4%*		21.2%
RPM	18.2%	18.4%	20.5%	28.2%	25.2%	27.0%	26.8%	23.2%		22.5%
NI	92	88	47	270	155	167	177	133	106.2%	594
YoY	*26.0%*	*12.3%*	*-49.8%*	*132.0%*	*69.0%*	*88.5%*	*278.2%*	*-50.8%*		19.6%
NPM	10.5%	9.6%	4.8%	26.3%	15.4%	15.7%	15.9%	11.4%		13.5%

Source: Company data, SR Inc. Research. Figures may differ from company materials due to differences in rounding methods.

Sales were largely in line with the company's forecast (JPY4.4bn). However, operating profit exceeded the company's forecast (JPY997mn) by 9.8%. This was mainly attributable to the later release of the next-generation B2B Platform (September instead of May), which meant amortization was put back, and lower expenses due to such factors as the sales promotion budget not being fully used.

View the full report.

Intelligent Wave Inc. (4847)

Software company strong in credit card processing software. Information security a next growth driver? Significant relationship with DNP

On **March 7, 2014,** SR updated comments on Intelligent Wave's Q2 FY06/14 after interviewing management.

Quarterly Performance (JPYmn)	FY06/13 Q1	FY06/13 Q2	FY06/13 Q3	FY06/13 Q4	FY06/14 Q1	FY06/14 Q2	FY06/14 Q3	FY06/14 Q4	FY06/14 % of FY	FY06/14 FY Est.
Sales	911	1,766	1,812	1,382	1,279	1,776	-	-	-	-
YoY	-16.8%	23.1%	35.5%	0.4%	40.4%	0.6%	-	-		
GP	-314	62	353	372	28	465	-	-		
YoY	-	-84.4%	-3.1%	10.7%	-	647.4%	-	-		
GPM	-34.4%	3.5%	19.5%	26.9%	2.2%	26.2%	-	-		
SG&A	300	283	268	301	298	297	-	-		
YoY	-10.2%	-9.1%	-9.0%	-0.9%	-0.5%	4.9%	-	-		
SG&A / Sales	32.9%	16.0%	14.8%	21.8%	23.3%	16.7%	-	-		
OP	-613	-221	85	72	-270	167	-	-	-	-
YoY	-	-	21.7%	119.2%	-	-	-	-		
OPM	-67.3%	-12.5%	4.7%	5.2%	-21.1%	9.4%	-	-		
RP	-617	-215	89	155	-268	180	-	-	-	-
YoY	-	-	28.9%	197.5%	-	-	-	-		
RPM	-67.7%	-12.2%	4.9%	11.2%	-21.0%	10.1%	-	-		
NI	-385	-450	94	392	-246	174	-	-	-	-
YoY	-	-	75.9%	827.0%	-	-	-	-		
NPM	-42.3%	-25.5%	5.2%	28.4%	-19.2%	9.8%	-	-		
Cumulative	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**% of FY**	**FY Est.**
Sales	911	2,677	4,488	5,871	1,279	3,055	-	-	50.9%	6,000
YoY	-16.8%	5.8%	16.1%	12.0%	40.4%	14.1%	-	-		2.2%
GP	-314	-252	101	473	28	492	-	-		
GPM	-	-	5.6%	34.3%	2.2%	27.7%	-	-		
SG&A	300	583	851	1,151	298	595	-	-		
YoY	-10.2%	-9.6%	-9.4%	-7.4%	-0.5%	2.1%	-	-		
OP	-613	-834	-750	-678	-270	-103	-	-	-25.8%	400
YoY	956.7%	-2952.3%	-856.7%	-614.5%	-55.9%	-87.7%	-	-		-159.0%
OPM	-	-	-	-	-	-	-	-		6.7%
RP	-617	-831	-742	-587	-268	-88	-	-	-22.0%	400
YoY	996.5%	-2579.4%	-825.4%	-479.7%	-56.5%	-89.4%	-	-		-168.1%
NI	-385	-835	-741	-349	-246	-72	-	-	-28.8%	250
YoY	895.2%	-577.1%	-424.9%	-229.1%	-36.2%	-91.4%	-	-		-171.6%

Source: Company data, SR Research. Figures may differ from company materials due to differences in rounding methods.
Company forecasts are based on the most recent figures.

In the credit card industry (the company's main business area) there was an increase in capex projects, both for the likes of system renewals and hardware replacements, and also for new offerings, such as prepaid cards and mobile payment terminals. The company seized upon this opportunity to conduct sales activities, resulting in an increase in sales.

View the full report.

Ito En, Ltd. (2593)

Beverage company specializing in green tea beverages, such as its flagship "Oi Ocha" brand, as well as vegetable and coffee drinks.

On **March 7, 2014**, ITO EN, Ltd. announced monthly sales data for February 2014.

Monthly Sales (non-consolidated estimates; % change YoY)						FY04/14							
	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	Total
Total Sales	7.2%	6.0%	3.8%	0.3%	-3.0%	4.2%	1.2%	4.4%	6.4%	4.3%			3.0%
Tea Leaf	3.9%	5.5%	8.4%	2.8%	3.1%	8.9%	4.7%	5.4%	9.6%	6.9%			5.6%
Beverages	7.8%	6.0%	3.6%	0.2%	-3.3%	3.9%	0.7%	4.2%	6.5%	4.0%			2.8%
Breakdown by Beverage Category													
Japanese Tea Beverages	9.4%	11.7%	7.3%	3.6%	-2.7%	8.9%	3.0%	6.7%	11.3%	9.0%			6.1%
Chinese Tea Beverages	-4.8%	-1.8%	-8.3%	-0.9%	0.1%	-1.6%	-5.6%	-1.9%	-0.7%	-9.5%			-4.1%
Vegetable Beverages	6.3%	-1.0%	1.8%	-2.6%	-1.6%	-1.0%	-6.4%	0.2%	-5.9%	-9.6%			-1.2%
Fruit Beverages	7.4%	0.0%	6.5%	-7.0%	-23.7%	-7.6%	-6.3%	-1.3%	7.2%	29.8%			-1.1%
Coffee Beverages	11.5%	1.7%	17.0%	-1.7%	12.9%	17.5%	22.2%	14.0%	11.2%	7.5%			11.3%
Black Tea Beverages	-34.0%	-31.3%	-22.5%	-3.9%	-24.2%	-25.3%	-22.8%	-22.6%	-23.3%	17.5%			-21.2%
Functional Beverages	18.5%	20.5%	11.8%	0.8%	-4.0%	-6.3%	3.1%	10.3%	6.2%	-2.0%			5.1%
Mineral Water	9.5%	25.0%	11.9%	-7.3%	-13.6%	-0.1%	-5.1%	0.2%	6.4%	-11.1%			1.4%
Monthly Sales (non-consolidated estimates; % change YoY)						**FY04/13**							
	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	Total
Total Sales	4.1%	-0.7%	3.7%	16.7%	7.3%	10.6%	7.4%	0.9%	6.1%	1.9%	5.4%	4.1%	5.9%
Tea Leaf	-3.5%	-1.7%	-3.5%	1.9%	1.9%	-0.4%	6.3%	2.4%	-1.9%	-2.3%	-2.5%	3.4%	-1.2%
Beverages	5.0%	-0.4%	4.4%	17.9%	7.9%	12.0%	7.7%	0.9%	7.2%	2.4%	6.2%	4.6%	6.7%
Breakdown by Beverage Category													
Japanese Tea Beverages	-5.9%	-6.9%	-1.2%	12.1%	2.6%	2.2%	4.2%	-2.2%	-1.3%	-1.8%	1.2%	0.2%	0.5%
Chinese Tea Beverages	28.0%	24.2%	7.1%	4.7%	0.5%	22.1%	24.5%	-1.9%	14.6%	11.0%	5.0%	-9.7%	9.9%
Vegetable Beverages	30.3%	14.6%	16.5%	23.4%	15.5%	25.9%	18.6%	14.5%	30.6%	9.5%	6.3%	12.3%	18.4%
Fruit Beverages	47.8%	20.6%	-19.8%	17.2%	-6.7%	30.5%	0.1%	-4.2%	6.3%	1.1%	32.8%	-2.6%	2.5%
Coffee Beverages	-4.9%	10.7%	37.3%	46.6%	30.1%	10.9%	27.6%	23.2%	30.8%	27.1%	9.7%	22.4%	21.5%
Black Tea Beverages	26.3%	-9.5%	-11.9%	22.1%	1.2%	16.0%	4.0%	-18.0%	-21.6%	-34.1%	4.2%	-23.4%	-5.5%
Functional Beverages	30.8%	-3.9%	-17.4%	0.5%	-3.5%	1.6%	-11.8%	0.2%	20.6%	24.2%	47.8%	21.5%	3.6%
Mineral Water	5.6%	-9.0%	-6.5%	5.9%	12.7%	20.9%	1.4%	-1.5%	12.8%	8.2%	5.1%	35.4%	5.6%

Source: Company data, SR Inc. Research

On **the same day**, SR updated comments on the company's Q3 FY04/14 results after interviewing management.

Quarterly Performance	FY04/13				FY04/14				FY04/14	
(JPYmn)	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	% of FY	FY Est.
Sales	106,236	110,232	90,782	96,707	119,193	119,791	94,926	-	75.9%	440,000
Growth YoY	3.4%	12.3%	13.4%	9.6%	12.2%	8.7%	4.6%	-		8.9%
Gross Profit	49,224	52,317	43,452	47,095	55,809	58,135	46,199	-		
Growth YoY	-2.7%	18.6%	12.1%	8.0%	13.4%	11.1%	6.3%	-		
GPM	46.3%	47.5%	47.9%	48.7%	46.8%	48.5%	48.7%	-		
SG&A Expenses	44,074	43,776	41,586	42,401	50,240	49,243	45,329	-		
Growth YoY	0.5%	16.2%	11.5%	7.7%	14.0%	12.5%	9.0%	-		
SG&A / Sales ratio	41.5%	39.7%	45.8%	43.8%	42.2%	41.1%	47.8%	-		
Operating Profit	5,149	8,541	1,866	4,694	5,568	8,893	870	-	66.7%	23,000
Growth YoY	-23.5%	32.6%	25.8%	10.5%	8.1%	4.1%	-53.4%	-		13.6%
Operating Profit Margin	4.8%	7.7%	2.1%	4.9%	4.7%	7.4%	0.9%	-		5.2%
Recurring Profit	4,890	8,483	1,866	4,675	5,426	8,692	835	-	69.5%	21,500
Growth YoY	-22.8%	38.3%	39.6%	11.8%	11.0%	2.5%	-55.3%	-		8.0%
Recurring Profit Margin	4.6%	7.7%	2.1%	4.8%	4.6%	7.3%	0.9%	-		4.9%
Net Income	2,447	5,103	1,148	2,546	2,987	5,338	378	-	70.8%	12,300
Growth YoY	-27.6%	40.4%	5942.1%	14.9%	22.1%	4.6%	-67.1%	-		9.4%
Net Profit Margin	2.3%	4.6%	1.3%	2.6%	2.5%	4.5%	0.4%	-		2.8%

Figures may differ from company materials due to differences in rounding methods.

Source: Company data, SR Inc. Research

Gross profit margin (GPM) at the parent level rose to 46.0% from 45.7%, thanks to the company's efforts to cut materials' costs. Six of the company's manufacturing plants are now equipped to handle new, lighter PET bottles (against four at end-FY04/13), and the contribution to GPM will likely be felt from next year onward.

Parent-level operating profit was JPY10.8bn (-14.5% YoY) due to heavy competition, which resulted in higher SG&A expenses. However, contributions from Tully's Coffee Japan and other subsidiaries acted as a counterbalance, and net income was down only slightly, at -1.4% YoY. Results thus far appear to indicate that fulfilling its full-year targets will be no easy task, but the company maintains that it is still aiming to achieve its net income forecast and a dividend payout ratio of 40%.

View the full report.

JIN Co., Ltd. (3046)

Mall-based eyewear retailer, aggressive growth strategy using private-label retailing model.

On **March 5, 2014**, JIN released monthly sales data for February 2014.

Comparable Stores Sales Growth (YoY)

	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
2008	2.4%	-1.0%	-5.8%	4.0%	-6.6%	-8.8%	0.1%	-8.8%	-10.7%	-7.8%	-5.6%	-7.5%
2009	-20.6%	-11.1%	-1.5%	-13.2%	3.8%	-8.3%	-7.8%	-5.1%	6.0%	2.9%	9.9%	15.9%
2010	33.5%	51.1%	36.1%	40.7%	41.1%	42.5%	35.3%	50.4%	36.1%	29.6%	20.2%	21.2%
2011	9.4%	30.3%	8.4%	15.1%	3.1%	5.7%	1.2%	12.7%	3.3%	5.9%	12.9%	14.7%
2012	31.1%	7.9%	5.9%	3.0%	9.3%	28.1%	33.1%	14.9%	23.2%	70.4%	56.2%	41.7%
2013	54.8%	17.8%	68.3%	69.8%	50.3%	51.9%	41.3%	23.8%	33.7%	6.1%	-3.5%	13.3%
2014	-18.6%	-8.1%	-24.5%	-26.3%	-22.2%	-25.1%						

Source: Company data, SR Inc. Research

View the full report.

Kenedix, Inc. (4321)

Japan's largest, independent real estate fund manager. After rightsizing its balance sheet, now aiming to grow assets under management.

On **March 27, 2014**, Kenedix Inc. announced the transfer of a subsidiary.
Previously, the company chose to make a silent partnership investment of JPY1.1bn in KRF43, a special-purpose company (SPC). Kenedix Office Investment Corporation (KDO), which is managed by Kenedix subsidiary Kenedix Real Estate Fund Management, Inc., resolved to make an additional silent partnership investment of JPY1.1bn on March 27, 2014. Due to these two investments, Kenedix and KDO will have a combined equity interest of 55% in KRF43, which will make the SPC a consolidated subsidiary of the company.

On March 18, 2014, the company announced that Kenedix Private Investment Corporation (KPI) will start operations and that Kenedix will purchase KPI investment units. Please click here to go to the text of the release.
Operations will start on March 28 at KPI, which is the first private real estate investment trust (REIT) established by Kenedix. Furthermore, to provide support to KPI, Kenedix will purchase KPI investment units by making an investment of about JPY5.5bn (acquiring an interest of approximately 35%).

On the same day, the company announced a sale of fixed assets. Please click here to go to the text of the release.
The company has decided to sell the TKS Musashikosugi Building, which is owned by consolidated subsidiary Godo Kaisha KRF41, to Kenedix Office Investment Corporation (KDO).
As a result of a change in the sub-leasing agreement in line with this transaction, total expenses of approximately JPY400mn are expected to be recorded. Kenedix also expects to record an extraordinary profit of around JPY 2.7bn from the sale in FY12/014.

On the same day, the company announced a sale of fixed assets and the emergence of revenue from asset management-related business. Please click here to go to the text of the release.
Kenedix expects to record an extraordinary loss due to a decision on March 18, 2014 to sell fixed assets. In addition, in association with a decision to sell real estate owned by a fund that receives asset management services from Kenedix, revenue from asset management-related business is also expected.
Kenedix expects to record an extraordinary loss of approximately JPY300mn in line with the sale in FY12/14.
Kenedix expects to record revenue from asset management-related business in association with the sale of an office building owned by a special-purpose company (SPC) that receives asset management services from Kenedix. In FY12/14, the company expects to record operating revenue of around JPY400mn on a consolidated basis.

On **March 12, 2014**, the company announced a change to a subsidiary along with the acquisition of fixed assets.
The company announced that it will make a new silent partnership investment in Godo Kaisha KRF50 (an SPC), thereby making KRF50 a consolidated subsidiary. Furthermore, via KRF50 the company will acquire a 65% quasi joint ownership stake in trust beneficiary rights backed by KDX Toyosu Grandsquare. Kenedix Private Investment Corp. (KPI) will acquire the remaining 35% quasi joint ownership stake in the trust beneficiary rights.

View the full report.

Mac-House Co., Ltd. (7603)

Low-cost specialty retailer of everyday casual wear with nationwide appeal.

Mac House Co., Ltd. announced monthly sales data for February on **March 3, 2014** and for March on **April 1, 2014**.

Comparable Store Sales	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
FY02/09	3.3%	-13.7%	-7.0%	-11.9%	-6.1%	-6.7%	-1.0%	-8.8%	1.5%	-12.0%	-9.2%	-14.9%
FY02/10	-18.2%	-11.0%	-9.6%	-18.6%	-11.4%	-13.2%	-17.6%	-16.8%	-26.2%	-11.8%	-11.7%	-10.9%
FY02/11	-17.5%	-15.3%	-11.9%	-8.3%	-10.1%	-12.1%	-17.3%	-0.9%	-8.0%	-13.7%	-6.3%	1.5%
FY02/12	-18.1%	7.4%	-6.7%	1.9%	-1.4%	-1.6%	7.5%	-0.9%	1.2%	7.5%	-2.1%	-0.9%
FY02/13	23.2%	3.8%	-1.3%	-2.2%	-4.0%	1.8%	-7.3%	-9.3%	8.4%	-3.2%	-5.8%	-5.3%
FY02/14	5.8%	-11.4%	-2.8%	2.9%	-8.9%	-4.1%	-6.2%	-14.3%	-9.0%	-8.5%	1.8%	10.5%
FY02/15	-4.5%											

Source: Company data processed by SR Inc.
Figures may differ from company materials due to differences in rounding methods.

All Store Sales	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
FY02/09	10.9%	-8.4%	-2.0%	-5.4%	-0.1%	-0.1%	5.5%	-3.4%	7.9%	-6.4%	-2.6%	-8.4%
FY02/10	-15.4%	-7.6%	-5.0%	-16.4%	-9.7%	-11.6%	-16.2%	-15.2%	-25.9%	-12.6%	-11.9%	-11.9%
FY02/11	-18.8%	-17.3%	-14.6%	-10.7%	-12.2%	-14.2%	-19.2%	-5.1%	-12.0%	-17.5%	-10.9%	-3.1%
FY02/12	-21.4%	1.4%	-11.3%	-2.5%	-5.9%	-5.7%	3.1%	-4.8%	-3.1%	3.6%	-6.1%	-5.5%
FY02/13	17.0%	-1.4%	-6.2%	-7.0%	-8.8%	-3.2%	-11.7%	-12.6%	4.9%	-5.3%	-7.9%	-6.9%
FY02/14	4.9%	-11.8%	-2.5%	2.9%	-8.8%	-3.9%	-6.0%	-14.2%	-9.1%	-8.2%	0.9%	9.2%
FY02/15	-3.3%											

Source: Company data processed by SR Inc.
Figures may differ from company materials due to differences in rounding methods.

View the full report.

Medinet Co., Ltd. (2370)

Biotech company that enables medical institutions to provide immuno-cell therapy

On **March 11, 2014**, MEDINET Co., Ltd. announced a strategic partnership with TC BioPharm Ltd. (UK), for the development and sale of an immuno-cell medicinal product in Europe.

The company agreed a strategic partnership with TC BioPharm on February 21, 2014. The aim of the partnership is to develop and sell a new immuno-cell medicinal product for cancer patients in the UK and Europe.

The company has agreed to provide financing to TC BioPharm along with licenses for the use of MEDINET's innovative technology in this area. TC BioPharm will be able to take advantage of this technology and the company's joint research with the University of Tokyo as it begins clinical trials for the use of immuno-cell therapy to treat cancer. It is hoped that the company will thus obtain approval to develop and commercialize this type of therapy in the UK and Europe.

MEDINET contributed funds together with Scottish investors to establish TC BioPharm, for the purpose of developing a type of immuno-cell therapy that uses autologous cells. It has already received subsidies from the Scottish government, the Scottish Enterprise High Growth Start-Up Unit, and Glasgow City Council, for the development and commercialization of immuno-cell therapy that it is now embarking on. (The funding from the Scottish government comes in the form of Regional Selective Assistance Grant Funding.)

The company believes that this strategic partnership with TC BioPharm will accelerate the process of obtaining UK and European approval to manufacture and sell immuno-cell medicinal products that use its technology.

On **March 10, 2014**, the company announced that it will begin joint clinical studies of the combination therapy of adoptive immunotherapy with chemoradiotherapy for pancreatic cancer, together with Gunma University and Seta Clinic Group.

The company's partners in these investigator led clinical trials will be Gunma University—a national university—and KOSHIKAI, a Non-Profit Medical Corporation of the Seta Clinic Group. Together they will trial the use of adoptive immunotherapy as a means of preventing the recurrence or metastasis of pancreatic cancer after chemoradiotherapy.

On **March 5, 2014**, the company announced a recording of extraordinary profit from a gain on sales of investment securities.

The company sold a portion of its investment security holdings, and will record an extraordinary profit in Q2 FY09/14 of JPY440mn as a gain on sales of investment securities.

View the full report.

mobcast inc. (3664)

Sports game developer and provider for mobile social platforms.

On **March 12, 2014**, mobcast inc. announced the issue of Series 20, 21, and 22 share warrants via third-party allotment. The company has also entered into a commitment agreement.

The details of this funding arrangement are as follows:

- Allocation date: April 2, 2014
- In the event that all warrants are exercised, the total amount of funding raised will be JPY2.9bn, and up to 1,500,000 new shares will be delivered. Control of the company will be diluted by 10.8%.
- The company will use this funding to create new features for mobcast, its mobile platform; to release blockbuster titles overseas; and to develop major new releases. The company aims thereby to increase revenues and strengthen its financial base, as well as take a larger share of the increasingly competitive mobile social games market.

View the full report.

NAIGAI TRANS LINE LTD. (9384)

Non-vessel operating common carrier (NVOCC) providing international ocean freight transport services.

On **March 6, 2014**, SR updated comments on Naigai Trans Line Ltd. (NTL) full-year FY12/13 earnings results after interviewing management.

Quarterly Performance	FY12/12				FY12/13				FY12/13	
(million yen)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of FY	FY Est.
Sales	2,982	3,503	3,377	3,544	3,465	4,034	4,494	4,803	101.8%	16,500
YoY	*2.5%*	*6.3%*	*6.7%*	*11.8%*	*16.2%*	*15.1%*	*33.1%*	*35.5%*		
GP	952	1,090	1,006	1,066	1,014	1,215	1,270	1,344		
YoY	*2.0%*	*4.8%*	*1.1%*	*5.3%*	*6.4%*	*11.5%*	*26.2%*	*26.0%*		
GPM	31.9%	31.1%	29.8%	30.1%	29.3%	30.1%	28.3%	28.0%		
SG&A	733	826	815	833	837	921	960	961		
YoY	*4.8%*	*12.6%*	*10.5%*	*13.6%*	*14.2%*	*11.5%*	*17.9%*	*15.4%*		
SG&A / Sales	24.6%	23.6%	24.1%	23.5%	24.1%	22.8%	21.4%	20.0%		
OP	220	263	192	233	176	293	311	361	103.9%	1,100
YoY	*-6.8%*	*-13.7%*	*-25.5%*	*-16.7%*	*-19.5%*	*11.5%*	*62.4%*	*162.4%*		
OPM	7.4%	7.5%	5.7%	6.6%	5.1%	7.3%	6.9%	7.5%		
RP	248	273	198	256	201	308	330	364	104.7%	1,150
YoY	*3.5%*	*5.0%*	*-23.3%*	*-11.0%*	*-18.7%*	*13.0%*	*66.6%*	*42.3%*		
RPM	8.3%	7.8%	5.9%	7.2%	5.8%	7.6%	7.3%	7.6%		
NI	148	166	109	36	117	191	202	220	100.0%	730
YoY	*15.7%*	*3.1%*	*-23.8%*	*-73.4%*	*-20.8%*	*14.8%*	*86.1%*	*503.3%*		
NPM	5.0%	4.7%	3.2%	1.0%	3.4%	4.7%	4.5%	4.6%		

Figures may differ from company materials due to differences in rounding methods.
Source: Company data, SR Inc. Research

Domestic sales in mainstay less-than-container-load (LCL) exports at the parent company were JPY4.6bn (-2.4% YoY), but there were definite signs of recovery in Q4 (October-December) compared to the slump that this business saw in 1H. Sales were up 10.9% in October, up 10.1% in November and up 6.7% in December, with overall Q4 sales turning up.

However, full-container-load (FCL) export sales at the parent company—which the company has been focusing its management policies on— were JPY1.7bn (+11.6% YoY) in FY12/13. In Q4, FCL sales increased sharply YoY, up 65.6% in October, 69.5% in November and 73.2% in December. Import sales at the parent level were up 14.3%. Overall, full-year domestic sales were up to JPY11.8bn (+20.7%), due to the factors listed above and an increase in sales across the group—such as new business by Flying Fish Co., Ltd. (from July 2013), and the contribution to full-year earnings of UCI Airfreight Japan, Inc., which the company acquired the previous year.

However, domestic operating profit dropped slightly to JPY630mn (-1.2% YoY), due to the amortization of goodwill and business start-up costs related to the acquisition of Flying Fish. The company said that sales of Flying Fish have been growing smoothly and the subsidiary turned into the black before the amortization of goodwill. Thanks to Flying Fish's contribution, the ratio of import services rose to 27% from 22% in the previous year.

View the full report.

NanoCarrier Co. (4571)

Biotech pharmaceutical company. Developer of new therapeutic drugs using micellar nanoparticle technology for drug targeting and delivery.

On **March 18, 2014**, NanoCarrier Co., Ltd. announced that it was granted a substance patent in the US for Antibody/Drug-conjugated Micelles (ADCM).

Antibody/Drug-conjugated Micelles (ADCM) are a combination of sensors that can target cancer cells and diseased parts of the body and securely deliver large quantities of drugs to these locations. The company has already secured substance patents for this technology in Japan, Europe, Canada, Australia, and China. According to the company, the acquisition of a US patent means that it now holds intellectual property rights to the technology in the US, and ADCM is therefore the company's global intellectual property.

On **the same day**, SR updated comments on the company's Q3 FY03/14 results after interviewing management.

Quarterly Performance	FY03/13				FY03/14				FY03/14	
(million yen)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of FY	FY Est.
Sales	10	90	102	173	150	176	119	-	95.4%	466
YoY	120.1%	-56.5%	6064.4%	28.3%	1430.2%	96.4%	16.7%	-		24.7%
GP	-30	40	62	28	98	125	53	-		
YoY	-	-79.1%	-	-65.6%	-	209.9%	-14.9%	-		
GPM	-	45.2%	61.4%	16.1%	65.2%	71.4%	44.8%	-		
SG&A	149	128	157	194	375	349	336	-		
YoY	0.9%	-13.5%	21.7%	49.0%	151.8%	172.2%	114.6%	-		
SG&A / Sales	1520.7%	143.3%	154.1%	112.1%	250.2%	198.7%	283.5%	-		
OP	-179	-88	-94	-166	-277	-224	-283	-	-	-1,174
YoY	-	-	-	-	-	-	-	-		-
OPM	-	-	-	-	-	-	-	-		-
RP	-179	-87	-88	-77	-190	-246	-197	-	-	-1,176
YoY	-	-	-	-	-	-	-	-		-
RPM	-	-	-	-	-	-	-	-		-
NI	-180	-88	-88	-128	-191	-246	-197	-	-	-1,198
YoY	-	-	-	-	-	-	-	-		-
NPM	-	-	-	-	-	-	-	-		-

Figures may differ from company materials due to differences in rounding methods
Source: Company data

In cumulative Q3, sales were JPY444mn (+121.1% YoY), attributable to milestone and clinical trial medication payment from license and co-development agreements with Orient Eurpharma Co., Ltd. (OEP) and Kowa Co., Ltd. (Kowa), as well as cosmetic material supply and lump-sum payment from a collaborative development agreement with Albion Co., Ltd. Mainly due to a rise in R&D costs, operating loss was JPY785mn (JPY361mn loss a year earlier), recurring loss was JPY633mn (JPY355mn loss a year earlier), and net loss was JPY633mn (JPY356mn loss a year earlier).

On **March 10, 2014**, the company announced progress of development of its product pipelines.

The company used to disclose qualitative information on the state of progress of developing its product pipelines using micelle nanoparticle technology when it announced its quarterly earnings results. However, as the number of pipelines should expand in the future, NanoCarrier decided to disclose progress of development of pipelines in a more understandable manner.

View the full report.

Nippon Parking Development (2353)

Operator of legally mandated parking lots in office buildings. High ROE based on its unique business model.

On **March 12, 2014**, SR updated comments on Nippon Parking Development Co Ltd's (NPD) Q2 FY07/14 earnings results after interviewing management.

Quarterly Performance	FY07/13				FY07/14				FY07/14	
(million yen)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of FY	FY Est.
Sales	2,296	3,929	4,217	2,995	3,064	4,401	-	-	49.8%	15,000
Growth YoY	8.2%	35.3%	29.5%	29.7%	33.4%	12.0%	-	-		11.6%
Gross Profit	807	1,820	2,026	1,105	1,238	2,188	-	-		
Growth YoY	4.8%	36.8%	28.7%	28.7%	53.3%	20.2%	-	-		
Gross Profit Margin	35.2%	46.3%	48.0%	36.9%	40.4%	49.7%	-	-		
SG&A	610	1,099	1,093	935	926	1,295	-	-		
Growth YoY	9.4%	42.1%	46.5%	47.3%	51.8%	17.9%	-	-		
SG&A / Sales	26.6%	28.0%	25.9%	31.2%	30.2%	29.4%	-	-		
Operating Profit	197	722	932	170	312	892	-	-	50.2%	2,400
Growth YoY	-7.1%	29.4%	12.6%	-24.0%	58.1%	23.6%	-	-		18.7%
Operating Profit Margin	8.6%	18.4%	22.1%	5.7%	10.2%	20.3%	-	-		16.0%
Recurring Profit	214	819	982	220	354	989	-	-	54.8%	2,450
Growth YoY	6.0%	44.1%	7.7%	-1.6%	65.2%	20.8%	-	-		9.6%
Recurring Profit Margin	9.3%	20.8%	23.3%	7.4%	11.6%	22.5%	-	-		16.3%
Net Income	115	539	646	79	199	670	-	-	58.0%	1,500
Growth YoY	21.6%	69.1%	-	-32.6%	73.5%	24.5%	-	-		8.8%
Net Income Margin	5.0%	13.7%	15.3%	2.6%	6.5%	15.2%	-	-		10.0%

Figures may differ from company materials due to differences in rounding methods.
Company forecasts are most recently announced figures
Source: Company data, SR Inc. Research

Operating income was higher as a result of an increase in both the number and size of parking lots in the domestic parking lot business. Improvements in profitability of the overseas parking lot business as well as a jump in visitors in the ski resort business were also contributing factors. Recurring profit was bolstered by sales of investment securities and receipt of dividends.

View the full report.

NS TOOL Co., Ltd. (6157)

Leading Japanese maker of carbide miniature end mills with sound financials, aiming for growth by keeping with the miniaturization trend of end products.

On **March 11, 2014**, NS Tool announced a revision to its dividend forecast for FY03/14 (to commemorate the company's 60th year).

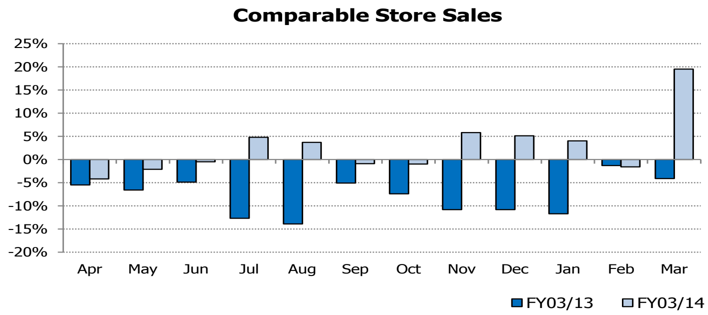
The company plans to increase its year-end dividend from its previous forecast of JPY40 to JPY60. The increase of JPY20 is a special anniversary dividend to mark the fact that on December 1 2014 it will have been 60 years since the company was founded.

View the full report.

Paris Miki Holdings Inc. (7455)

Eyeglass retailer focusing on depth of product offering and selling across the price spectrum. Largest store network in Japan. Strong financial position.

Paris Miki Holdings announced sales figures for February 2014 On **March 3** and for March on **April 1, 2014**.



Source: Company data, SR Inc. Research

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Pigeon Corp. (7956)

Manufacturer of baby bottles, nipples, and other baby goods, seeking a greater global presence.

On **March 20, 2014**, SR updated comments on Pigeon Corp.'s FY01/14 earnings based on an interview with the company.

Quarterly Performance	FY01/13				FY01/14				FY01/14	
(million yen)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of FY	FY Est.
Sales	14,346	16,862	16,778	17,090	16,896	19,726	20,919	19,925	100.3%	77,200
YoY	*10.0%*	*9.6%*	*10.7%*	*9.9%*	*17.8%*	*17.0%*	*24.7%*	*16.6%*		
GP	6,096	7,150	7,292	7,206	7,364	8,822	9,466	8,821		
YoY	*15.7%*	*13.6%*	*15.6%*	*11.5%*	*20.8%*	*23.4%*	*29.8%*	*22.4%*		
GPM	42.5%	42.4%	43.5%	42.2%	43.6%	44.7%	45.3%	44.3%		
SG&A	4,691	5,331	5,092	5,561	5,438	5,912	5,876	6,872		
YoY	*2.5%*	*9.1%*	*5.1%*	*12.0%*	*15.9%*	*10.9%*	*15.4%*	*23.6%*		
SG&A / Sales	32.7%	31.6%	30.3%	32.5%	32.2%	30.0%	28.1%	34.5%		
OP	1,408	1,817	2,205	1,656	1,913	2,901	3,607	1,944	101.6%	10,200
YoY	*105.4%*	*29.6%*	*50.5%*	*11.1%*	*35.9%*	*59.6%*	*63.6%*	*17.4%*		
OPM	9.8%	10.8%	13.1%	9.7%	11.3%	14.7%	17.2%	9.8%		
RP	1,608	1,659	2,249	1,874	2,188	2,974	3,729	2,111	102.8%	10,700
YoY	*119.0%*	*24.6%*	*65.2%*	*25.8%*	*36.1%*	*79.3%*	*65.8%*	*12.6%*		
RPM	11.2%	9.8%	13.4%	11.0%	12.9%	15.1%	17.8%	10.6%		
NI	1,051	860	1,538	1,125	1,328	1,793	2,517	1,347	107.5%	6,500
YoY	*211.3%*	*-1.9%*	*75.7%*	*2.9%*	*26.4%*	*108.5%*	*63.7%*	*19.8%*		
NPM	7.3%	5.1%	9.2%	6.6%	7.9%	9.1%	12.0%	6.8%		

Source: Company data, SR research.
Figures may differ from company materials due to differences in rounding methods.

On **March 7 2014**, SR updated comments on the company's FY01/14 earnings based on the company's results briefing.

On **March 3, 2014**, the company also announced its fifth mid-term management plan and an upward revision to its dividend for FY01/14.

The company raised its year-end dividend from the forecasted JPY37 to JPY55 per share. With this upward revision, the annual dividend is JPY88 per share (forecasted: JPY70). (Note, on August 1, 2013, the company carried out a 2-for-1 stock split. The interim dividend is calculated based on post-split levels.)

The company has also established its fifth mid-term management plan, which will begin in FY01/15 (and run until FY01/17). The plan calls for the following results in FY01/17:

- Sales: JPY100.0bn (versus sales of JPY77.4bn in FY01/14);
- Gross profit: JPY44.2bn (versus JPY34.4bn);
- Operating profit: JPY15.0bn (versus JPY10.3bn);
- Recurring profit: JPY15.0bn (versus JPY11.0bn);
- Net income: JPY9.0bn (versus JPY6.9bn);
- ROE: at least 21.0% (versus 19.7%);
- ROIC: at least 15.0% (versus 14.2%).

View the full report.

Resorttrust, Inc. (4681)

The pioneer and leader in Japan's membership-based resort industry.

On **March 4, 2014**, SR updated comments on Resorttrust, Inc.'s Q3 FY03/14 earnings results after interviewing management.

Quarterly Performance	FY03/13				FY03/14				FY03/14	
(million yen)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of FY	FY Est.
Sales	25,052	27,608	27,886	24,765	27,342	30,401	30,787	-	77.4%	114,400
YoY	10.4%	4.6%	10.2%	-2.8%	9.1%	10.1%	10.4%	-		
GP	20,501	22,532	22,724	19,559	22,369	25,059	25,024	-		
YoY	11.5%	4.6%	9.9%	-2.5%	9.1%	11.2%	10.1%	-		
GPM	81.8%	81.6%	81.5%	79.0%	81.8%	82.4%	81.3%	-		
SG&A	17,949	18,089	18,372	18,851	19,330	19,729	19,066	-		
YoY	6.4%	1.3%	5.0%	1.5%	7.7%	9.1%	3.8%	-		
SG&A / Sales	71.6%	65.5%	65.9%	76.1%	70.7%	64.9%	61.9%	-		
OP	2,552	4,443	4,351	708	3,039	5,330	5,957	-	99.5%	14,400
YoY	66.7%	20.6%	36.6%	-52.5%	19.1%	20.0%	36.9%	-		
OPM	10.2%	16.1%	15.6%	2.9%	11.1%	17.5%	19.3%	-		
RP	2,589	4,641	4,575	1,171	4,188	5,366	6,159	-	99.4%	15,800
YoY	32.5%	20.6%	32.2%	543.4%	61.8%	15.6%	34.6%	-		
RPM	10.3%	16.8%	16.4%	4.7%	15.3%	17.7%	20.0%	-		
NI	1,385	2,947	2,838	-43	1,623	3,289	3,754	-	102.0%	8,500
YoY	7.9%	28.7%	37.5%	-	17.2%	11.6%	32.3%	-		
NPM	5.5%	10.7%	10.2%	-	5.9%	10.8%	12.2%	-		

Figures may differ from company materials due to differences in rounding methods

Source: Company Data, SR Inc. Research

As of the end of Q3, the company had achieved 77.4% of its full-year sales target and 99.5% of its operating profit target. It had outperformed its full-year net income target by 2.0% (102.0% of its full-year target). In light of these figures, the company's upward revisions to its forecasts still appear conservative, even allowing for JPY700mn in maintenance costs and JPY400mn in impairment losses in Q4.

Revenue in FY03/15 will be hampered by the fact that profit from real estate sales of facilities under construction will not be recorded until the facilities open for business. However, the company is nevertheless aiming for an increase in earnings in FY03/15, given that FY03/14 saw it record JPY700mn in facility maintenance costs, and JPY500mn in costs relating to opening June Hotel Trusty Kanazawa and the renewal and reopening of Resorpia Hakone.

View the full report.

MONTHLY WRAP – April 2014

Round One Corp. (4680)

Nationwide operator of amusement complex centers with bowling at their core.

On **March 7, 2014**, Round One released monthly sales data for February 2014.

Monthly Sales Trends FY03/14	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Total Sales (Million Yen)	**6,625**	**7,015**	**6,291**	**6,168**	**8,597**	**6,611**	**5,586**	**5,522**	**7,284**	**8,596**	**6,146**	
Bowling	2,306	2,420	2,122	1,922	2,713	2,110	1,795	1,727	2,237	2,708	1,965	
Game	2,598	2,763	2,571	2,719	3,502	2,756	2,379	2,380	3,145	3,621	2,580	
Karaoke	630	667	627	639	838	631	538	537	816	824	601	
SPO-CHA	862	918	738	668	1,278	881	668	684	880	1,205	802	
Other	227	245	231	219	264	231	203	192	204	235	197	
Total Sales YoY	**-2.2%**	**-7.1%**	**0.2%**	**-6.7%**	**-1.9%**	**-5.5%**	**-8.5%**	**-3.1%**	**2.9%**	**0.6%**	**-4.0%**	
Bowling	-4.9%	-7.3%	-3.9%	-12.3%	-7.2%	-12.1%	-10.9%	-7.2%	-7.7%	-13.2%	-14.5%	
Game	-4.7%	-11.4%	0.5%	-2.7%	1.7%	-2.0%	-8.6%	-2.9%	9.9%	9.2%	2.5%	
Karaoke	3.2%	2.5%	3.2%	-5.2%	1.8%	-8.0%	-9.0%	-2.3%	2.0%	3.2%	0.3%	
SPO-CHA	10.7%	0.4%	10.2%	-6.7%	-1.4%	3.7%	-0.3%	8.9%	16.9%	15.5%	5.9%	
Other	-3.5%	-4.7%	-2.4%	-7.5%	-4.2%	-7.5%	-8.2%	-8.2%	-13.2%	-11.9%	-15.3%	
Comparable Store Sales YoY	**-7.1%**	**-8.9%**	**-2.0%**	**-8.8%**	**-3.7%**	**-7.7%**	**-10.7%**	**-5.5%**	**1.8%**	**0.6%**	**-4.0%**	
Bowling	-8.6%	-8.9%	-5.7%	-14.1%	-8.6%	-14.2%	-13.2%	-9.5%	-9.0%	-13.2%	-14.5%	
Game	-10.0%	-13.9%	-2.5%	-5.4%	-0.9%	-4.8%	-11.3%	-5.9%	8.6%	9.2%	2.5%	
Karaoke	-1.7%	0.4%	1.0%	-7.2%	-0.1%	-10.3%	-11.3%	-4.9%	0.4%	3.2%	0.3%	
SPO-CHA	-3.9%	0.4%	10.2%	-6.7%	-1.4%	3.7%	-0.3%	8.9%	16.9%	15.5%	5.9%	
Other	-7.4%	-7.0%	-4.6%	-9.9%	-6.5%	-10.1%	-10.9%	-10.3%	-13.6%	-11.9%	-15.3%	
FY03/13	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**
Total Sales (Million Yen)	**6,777**	**7,555**	**6,281**	**6,615**	**8,764**	**6,997**	**6,102**	**5,700**	**7,075**	**8,543**	**6,405**	**8,363**
Bowling	2,425	2,612	2,208	2,193	2,923	2,400	2,016	1,861	2,424	3,118	2,298	3,134
Game	2,725	3,119	2,557	2,794	3,443	2,811	2,601	2,451	2,860	3,315	2,516	2,915
Karaoke	611	651	608	673	823	686	592	550	800	798	600	771
SPO-CHA	779	914	670	716	1,297	849	671	628	753	1,043	757	1,277
Other	235	257	236	237	276	250	221	209	235	267	232	263
Total Sales YoY	**-7.0%**	**-10.1%**	**-2.0%**	**-7.7%**	**-4.1%**	**-4.4%**	**-8.2%**	**-5.7%**	**-4.6%**	**2.7%**	**-0.3%**	**-1.1%**
Bowling	-10.6%	-15.6%	-5.0%	-11.5%	-9.2%	-8.2%	-13.8%	-11.4%	-3.1%	-1.5%	-5.8%	-6.0%
Game	-7.5%	-7.6%	-4.3%	-9.2%	-6.2%	-8.1%	-8.0%	-4.4%	-11.6%	6.3%	-1.0%	-4.0%
Karaoke	-6.2%	-9.0%	3.4%	-2.5%	1.7%	3.7%	-2.6%	-2.7%	4.9%	5.4%	6.1%	2.0%
SPO-CHA	7.4%	-2.5%	15.6%	9.5%	13.8%	17.7%	7.1%	6.2%	11.8%	4.0%	17.1%	16.1%
Other	-5.3%	-8.5%	-2.6%	-9.7%	-6.8%	-5.3%	-9.3%	-6.7%	-2.9%	-1.9%	-0.4%	17.5%
Comparable Store Sales YoY	**-9.1%**	**-15.1%**	**-7.4%**	**-12.7%**	**-9.2%**	**-8.4%**	**-11.6%**	**-9.2%**	**-9.4%**	**-2.7%**	**-6.4%**	**-6.9%**
Bowling	-11.7%	-18.5%	-8.4%	-14.8%	-12.3%	-10.6%	-15.6%	-13.4%	-6.4%	-5.1%	-10.0%	-9.9%
Game	-10.4%	-13.5%	-9.9%	-14.6%	-12.2%	-12.1%	-11.4%	-7.9%	-16.5%	-0.3%	-7.7%	-10.6%
Karaoke	-7.8%	-12.7%	-0.9%	-6.7%	-2.6%	0.1%	-5.6%	-5.6%	0.5%	0.3%	0.2%	-3.5%
SPO-CHA	4.2%	-12.7%	0.6%	-2.9%	4.5%	6.2%	-3.6%	-4.1%	1.1%	-3.8%	5.6%	6.4%
Other	-6.2%	-10.6%	-4.9%	-12.0%	-9.8%	-8.4%	-11.0%	-8.5%	-6.5%	-6.6%	-5.1%	11.8%

Source: Company data, SR Inc. Research

Figures may differ from company materials due to differences in rounding methods.

View the full report.

Sanix Incorporated (4651)

Commercial solar power generation and environmental resources development (i.e., power generation and waste recycling)

On **March 10, 2014**, Sanix Incorporated announced monthly sales data for February 2014.

FY03/14 Consolidated Monthly Sales	Apr.	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
Total Sales	5,521	5,091	5,141	5,274	5,349	5,316	6,184	6,631	7,025	7,810	8,460		67,802
YoY	107.9%	68.6%	71.7%	63.8%	92.8%	57.8%	124.8%	134.8%	92.9%	77.8%	58.2%		
Sales by Category													
Commercial Photovoltaic (PV) Solution	-	2,401	2,450	2,604	2,634	2,380	3,620	3,949	5,391	5,562	6,109		37,100
YoY	-	-	-	-	-	-	-	-	633.6%	161.8%	125.7%		
Home Sanitation (HS)	3,842	1,091	1,059	1,079	971	917	824	797	723	688	727		12,718
YoY	179.0%	-26.1%	-25.4%	-28.2%	-21.2%	-39.9%	-27.4%	-27.7%	-35.6%	-5.7%	-31.1%		
Establishment Sanitation (ES)	398	311	491	408	411	619	431	437	445	328	501		4,780
YoY	70.1%	31.8%	93.8%	64.6%	88.1%	135.3%	125.8%	57..3%	26.8%	-7.0%	30.6%		
Environmental Resources Development	1,281	1,288	1,407	1,183	1,333	1,344	1,309	1,448	1,446	1,232	1,123		14,394
YoY	22.7%	8.8%	2.7%	-8.2%	13.1%	-0.2%	14.3%	32.7%	0.9%	3.8%	-6.7%		

Source: Company data, SR Inc. Research
Figures in the category breakdown are preliminarly and their sums may differ from finalized monthly sales figures.

On **March 6, 2014**, the company announced the construction of a new factory for manufacturing machinery associated with photovoltaic (PV) power generation systems.

Sanix provides comprehensive service for commercial PV systems, including design, sales, installation, and maintenance. Although the company has strong business fundamentals, keeping up with increasing demand has been a challenge. To cope with this, and to reduce costs, the company will construct new facilities for manufacturing machinery associated with PV power generation systems. The new factory will strengthen and expand production capabilities.

Factory summary
Product to be manufactured: Power conditioners for PV systems
Investment amount: JPY845mn (JPY170mn for the acquisition of real estate and buildings)
Operations begin: August 2014 (tentative)

View the full report.

MONTHLY WRAP – April 2014

Sanrio Co., Ltd. (8136)

Character management company. Owns Hello Kitty. Growing worldwide licensing business.

On **March 6, 2014,** SR updated comments on Sanrio Co Ltd's Q3 FY03/14 after interviewing management.

Quarterly Performance	FY03/13				FY03/14				FY03/14	
(JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of FY	FY Est.
Sales	16,875	17,220	21,435	18,703	17,242	17,674	22,373	-	74.4%	77,000
YoY	3.2%	-4.1%	-3.6%	1.6%	2.2%	2.6%	4.4%	-		
GP	11,205	11,723	13,670	12,856	11,957	12,930	15,021	-		
YoY	4.4%	-0.7%	-1.2%	9.5%	6.7%	10.3%	9.9%	-		
GPM	66.4%	68.1%	63.8%	68.7%	69.3%	73.2%	67.1%	-		
SG&A	7,097	7,335	7,286	7,537	7,278	7,851	8,058	-		
YoY	4.9%	-1.8%	-7.2%	5.9%	2.6%	7.0%	10.6%	-		
SG&A / Sales	42.1%	42.6%	34.0%	40.3%	42.2%	44.4%	36.0%	-		
OP	4,108	4,388	6,384	5,318	4,678	5,079	6,964	-	75.7%	22,100
YoY	3.5%	1.2%	6.8%	15.0%	13.9%	15.7%	9.1%	-		
OPM	24.3%	25.5%	29.8%	28.4%	27.1%	28.7%	31.1%	-		
RP	4,296	4,643	5,749	4,958	4,133	4,915	6,593	-	74.1%	21,100
YoY	11.1%	14.1%	-6.1%	15.0%	-3.8%	5.9%	14.7%	-		
RPM	25.5%	27.0%	26.8%	26.5%	24.0%	27.8%	29.5%	-		
NI	2,913	2,678	3,663	3,282	2,635	3,214	4,295	-	75.1%	13,500
YoY	1.7%	-0.7%	-36.6%	7.9%	-9.5%	20.0%	17.3%	-		
NPM	17.3%	15.6%	17.1%	17.5%	15.3%	18.2%	19.2%	-		

*Reversal of allowance for sales returns is subtracted from gross profit; figures may differ from company materials due to differences in rounding methods

Source: Company data, SR Inc.

The company maintained its full-year forecasts. The cumulative Q3 sales and operating profit were 74.4% and 75.7% of full-year estimates, respectively.

For the period, the Overseas business had sales of JPY32.9bn (+15.0% YoY) and operating profit of JPY16.0bn (+18.3%). The Domestic business posted sales of JPY37.1bn (-0.8% YoY) and operating profit of JPY700mn (-46.9%).

The Domestic Licensing business saw sales of JPY7.0bn (-5.9% YoY) and operating profit of JPY4.8bn (-7.7%). Sales in the Domestic Product Sales sub-segment were JPY15.6bn (-1.0%), and operating profit was JPY1.4bn (+0.1%). Theme Parks business sales were JPY4.9bn (+3.2%), and operating loss was JPY200mn (JPY200mn loss a year earlier). Concerning Domestic Licensing, the company states that effects of a large-scale collaborative project implemented in the previous year led to reduced sales, and unfavorable weather conditions held back growth in sales of outerwear and toys. General and administrative expenses associated with the Domestic business were JPY5.9bn (JPY5.6bn a year earlier).

View the full report.

Ship Healthcare Holdings Inc. (3360)

Hospital design and supply solution specialist firm benefiting from structural change in the medical industry.

On **March 3, 2014**, SR updated comments on Ship Healthcare Holdings Inc.'s (Ship Healthcare) earnings results for Q3 FY03/14 after interviewing management.

Quarterly Performance	FY03/13				FY03/13				FY03/13	
(million yen)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of FY	FY Est.
Sales	51,185	56,624	52,906	63,648	55,330	54,256	58,337	-	69.2%	242,500
YoY	23.1%	43.2%	11.2%	5.8%	8.1%	-4.2%	10.3%	-		*8.1%*
GP	7,484	8,030	6,716	8,731	7,255	6,966	7,549	-		
YoY	21.5%	40.4%	1.1%	2.0%	-3.1%	-13.3%	12.4%	-		
GPM	14.6%	14.2%	12.7%	13.7%	13.1%	12.8%	12.9%	-		
SG&A	4,361	4,401	4,635	5,020	4,744	4,632	4,924	-		
YoY	14.5%	17.3%	11.0%	-3.7%	8.8%	5.3%	6.2%	-		
SG&A / Sales	8.5%	7.8%	8.8%	7.9%	8.6%	8.5%	8.4%	-		
OP	3,122	3,629	2,081	3,711	2,511	2,333	2,625	-	55.3%	13,500
YoY	32.9%	84.5%	-15.7%	10.9%	-19.6%	-35.7%	26.1%	-		*7.6%*
OPM	6.1%	6.4%	3.9%	5.8%	4.5%	4.3%	4.5%	-		5.6%
RP	3,460	3,824	2,282	4,023	2,779	2,534	2,859	-	56.4%	14,500
YoY	30.9%	66.8%	-15.9%	11.7%	-19.7%	-33.7%	25.3%	-		*6.7%*
RPM	6.8%	6.8%	4.3%	6.3%	5.0%	4.7%	4.9%	-		6.0%
NI	2,149	2,257	1,390	2,793	1,597	1,377	1,615	-	53.4%	8,600
YoY	31.0%	65.1%	-6.4%	10.2%	-25.7%	-39.0%	16.2%	-		*0.1%*
NPM	4.2%	4.0%	2.6%	4.4%	2.9%	2.5%	2.8%	-		3.5%

Figures may differ from company materials due to differences in rounding methods
Source: Company data, SR Inc. Research

In Q3, new orders for Supply Processing and Distribution (SPD) facilities remained on track, and together with dispensing pharmacy operations acquired in FY03/13, the company saw higher sales. However, operating profit declined due to the company's expectations that; large-scale projects will be concentrated in the end of the financial year, coupled with a number of projects concentrated in 2H of the previous year, and delays in improving occupancy rates at nursing care facilities.

View the full report.

SMS Co., Ltd. (2175)

SMS provides recruitment services and managing professional community websites.

On **March 17, 2014**, SR Inc. updated comments on SMS Co., Ltd. Q3 FY03/14 earnings results after interviewing management.

Quarterly Performance	FY03/13				FY03/14				FY03/14	
(million yen)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of FY Est.	FY Est.
Sales	3,237	2,204	1,962	2,779	3,823	2,598	2,300	-	69.9%	12,475
YoY	17.1%	17.2%	23.2%	13.1%	18.1%	17.9%	17.2%	-		22.5%
GP	3,056	2,077	1,824	2,524	3,634	2,417	2,071	-		
YoY	12.4%	14.4%	21.6%	13.4%	18.9%	16.4%	13.5%	-		
GPM	94.4%	94.2%	93.0%	90.8%	95.0%	93.1%	90.1%	-		
SG&A	2,019	2,035	1,982	1,875	2,300	2,412	2,318	-		
YoY	24.4%	19.7%	14.1%	11.6%	14.0%	18.6%	16.9%	-		
SG&A / Sales	62.4%	92.3%	101.1%	67.5%	60.2%	92.9%	100.8%	-		
OP	1,038	42	-158	648	1,333	5	-246	-	75.2%	1,780
YoY	-5.4%	-63.2%	-	18.8%	28.5%	-88.9%	-	-		13.3%
OPM	32.1%	1.9%	-	23.3%	34.9%	0.2%	-	-		14.3%
RP	1,141	109	-77	818	1,552	94	-189	-	72.7%	2,263
YoY	-2.4%	-23.6%	-	20.8%	36.0%	-12.9%	-	-		13.7%
RPM	35.2%	4.9%	-	29.4%	40.6%	3.6%	-	-		18.1%
NI	734	64	-55	484	1,022	59	-149	-	79.0%	1,369
YoY	2.7%	-29.5%	-	27.1%	39.2%	-6.7%	-	-		11.6%
NPM	22.7%	2.9%	-	17.4%	26.7%	2.3%	-	-		11.0%

Figures may differ from company materials due to differences in rounding methods

Source: Company data, SR

Nursing Care segment

Earnings were favorable for the daily use nursing care business, where SMS offers business portal services (Kaipoke Biz) for small and medium-size nursing care providers. The main reason was an increase in the number of member companies using the company's software for nursing care insurance billing.

Earnings rose in the non-daily nursing care business, where the company offers Care personnel bank recruitment services for care managers, and its PT/OT Personnel Bank recruitment services for physical therapists, occupational therapists, and speech therapists, due mainly to expansion of the sales force and a higher productivity, ie, a higher number of contracts signed per consultant, than in any cumulative Q3 to date.

Medical Care segment

In the daily use medical care segment, earnings for the Pure Nurse catalog-sales service for nurses showed little year-on-year change.

In the non-daily medical care business, earnings for the nursing recruitment service—Nurse personnel bank—showed steady growth attributable to an increase in sales personnel and increased orders for new products.

View the full report.

Takashimaya Co., Ltd. (8233)

Major Japanese department store operator aiming for further growth driven by greater presence in the shopping center sector and in Asia

Takashimaya released monthly store sales data for February on **March 3, 2014**, and for March on **April 1, 2014**,

All Store Sales	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
FY02/12												
Takashimaya (Parent)	-15.6%	-1.9%	-3.5%	0.8%	0.1%	-1.1%	-1.6%	-0.1%	-1.7%	0.9%	-1.8%	0.7%
Domestic Department Stores (18 Stores)	-16.8%	-0.9%	-2.8%	0.6%	0.8%	-1.2%	-1.9%	0.3%	-1.4%	0.3%	-1.8%	-1.0%
Corporate Business	14.7%	-22.0%	-22.3%	3.5%	-19.2%	3.1%	-4.9%	-11.8%	-11.5%	14.4%	-0.9%	16.8%
Cross-Media Business	2.7%	-0.3%	5.3%	6.7%	1.0%	-13.6%	1.8%	1.5%	-6.6%	6.7%	-5.3%	-0.3%
FY02/13												
Takashimaya (Parent)	16.5%	2.8%	-0.2%	-0.9%	-1.9%	0.6%	1.9%	-1.0%	2.4%	-2.7%	-2.2%	-0.3%
Domestic Department Stores (18 Stores)	16.9%	1.9%	-0.7%	-0.5%	-3.0%	-0.6%	1.1%	-1.6%	1.6%	-2.6%	-2.9%	0.3%
Corporate Business	0.1%	23.6%	9.0%	-2.5%	31.5%	20.0%	26.1%	10.3%	21.8%	-7.8%	5.2%	-5.6%
Cross-Media Business	13.4%	-10.3%	-3.8%	-11.7%	-1.4%	22.3%	0.9%	3.6%	7.1%	-0.8%	13.8%	-6.1%
FY02/14												
Takashimaya (Parent)	2.9%	-1.3%	2.5%	8.9%	-3.6%	0.4%	1.9%	-2.6%	2.2%	1.8%	4.1%	3.7%
Domestic Department Stores (18 Stores)	4.9%	-0.5%	1.0%	7.8%	-4.0%	0.3%	2.6%	-2.3%	3.0%	1.8%	4.1%	3.9%
Corporate Business	29.1%	-11.5%	20.7%	38.8%	6.0%	-3.0%	3.7%	-4.2%	-5.9%	11.7%	7.5%	3.0%
Cross-Media Business	-1.8%	4.5%	11.3%	0.6%	3.9%	13.2%	-18.3%	-5.3%	-11.2%	-7.0%	-0.7%	-5.8%
FY02/15												
Takashimaya (Parent)	32.7%											
Domestic Department Stores (18 Stores)	32.1%											
Corporate Business												
Cross-Media Business												

Source: Company data processed by SR Inc.
Figures may differ from company materials due to differences in rounding methods.

View the full report.

Takihyo Co., Ltd. (9982)

Textiles and apparel trading house with over 260 years of history.

On **March 31, 2014**, Takihyo Co., Ltd. announced earnings results for FY02/14.

Quarterly Performance	FY02/13				FY02/14				FY02/14	
(million yen)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of FY	FY Est.
Sales	18,796	16,392	21,752	17,607	19,635	17,666	23,701	18,368	99.2%	80,000
YoY	*15.4%*	*6.2%*	*6.2%*	*2.9%*	*4.5%*	*7.8%*	*9.0%*	*4.3%*		
GP	4,698	3,652	5,041	3,397	4,111	3,519	4,914	3,464		
YoY	*31.8%*	*17.4%*	*3.7%*	*-2.6%*	*-12.5%*	*-3.6%*	*-2.5%*	*2.0%*		
GPM	25.0%	22.3%	23.2%	19.3%	20.9%	19.9%	20.7%	18.9%		
SG&A	3,650	3,317	3,515	3,573	3,736	3,408	3,550	3,399		
YoY	*13.2%*	*6.4%*	*8.0%*	*7.3%*	*2.4%*	*2.7%*	*1.0%*	*-4.9%*		
SG&A / Sales	19.4%	20.2%	16.2%	20.3%	19.0%	19.3%	15.0%	18.5%		
OP	1,045	342	1,505	-148	373	115	1,347	86	109.8%	1,750
YoY	*203.9%*	-	*-5.2%*	-	*-64.3%*	*-66.4%*	*-10.5%*	-		
OPM	5.6%	2.1%	6.9%	-	1.9%	0.7%	5.7%	0.5%		
RP	1,070	351	1,519	-65	453	105	1,367	85	105.8%	1,900
YoY	*192.0%*	-	*-4.3%*	-	*-57.7%*	-	*-10.0%*	-		
RPM	5.7%	2.1%	7.0%	-	2.3%	0.6%	5.8%	0.5%		
NI	589	158	907	-210	271	79	854	-52	96.0%	1,200
YoY	-	-	*-3.1%*	-	*-54.0%*	*-50.0%*	*-5.8%*	-		
NPM	3.1%	1.0%	4.2%	-	1.4%	0.4%	3.6%	-		

Source: Company data, SR Inc. Research; figures may differ from company materials due to differences in rounding methods.

Sales were JPY79.4bn (+6.5% YoY). The company grew sales of mainstay women's apparel to large specialty stores and catalogue-shopping companies, particularly driven by bottom items. Exports of fabric to the United States and Europe were also robust. The company launched new brand BERARDI from Spring/Summer 2013, with 30 shops opened at major department stores nationwide.

View the full report.

MONTHLY WRAP – April 2014

Tamagawa Holdings Co., Ltd. (6838)

Tamagawa has two business segments: 1) the electronics and telecoms equipment business, which it has been involved in since the founding of consolidated subsidiary Tamagawa Electric Co Ltd in 1968; and 2) the solar business, launched in FY03/12.

On **March 18, 2014**, SR updated comments on Tamagawa Holdings Co., Ltd. Q3 FY03/14 results after interviewing management.

Quarterly Performance	FY03/13				FY03/14				FY03/14	
(million yen)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of FY Est.	FY Est.
Sales	738	852	950	1,131	914	906	918	-	60.8%	4,504
YoY	49.0%	40.7%	-4.4%	11.8%	23.9%	6.3%	-3.4%			22.7%
GP	168	235	334	312	253	293	301	-		
YoY	68.7%	71.7%	92.2%	73.6%	51.0%	24.7%	-9.6%			
GPM	22.7%	27.6%	35.1%	27.6%	27.7%	32.4%	32.8%	-		
SG&A	149	160	175	191	164	167	200	-		
YoY	9.5%	13.1%	-2.5%	17.8%	10.2%	4.5%	14.1%			
SG&A / Sales	20.2%	18.8%	18.5%	16.9%	17.9%	18.5%	21.8%	-		
OP	19	75	158	121	89	126	101	-	64.2%	493
YoY	-	-	-	581.8%	371.9%	68.0%	-35.9%			32.0%
OPM	2.6%	8.8%	16.7%	10.7%	9.8%	13.9%	11.0%	-		10.9%
RP	10	73	158	134	95	124	100	-	65.3%	488
YoY	-	-	-	563.1%	847.7%	69.1%	-36.6%			30.2%
RPM	1.4%	8.6%	16.6%	11.8%	10.4%	13.7%	10.9%	-		10.8%
NI	9	83	156	92	90	101	114	-	68.0%	449
YoY	-	-	-	415.9%	939.0%	22.0%	-26.8%			32.1%
NPM	1.2%	9.7%	16.5%	8.1%	9.8%	11.1%	12.5%	-		10.0%

Source: Company data

Figures may differ from company materials due to differences in rounding methods.

According to the company, the electronics and telecoms equipment business outperformed forecasts. Results in the solar system sales segment came out in line with the company's plan, but sales and profits tend to be weighted toward Q4 in this segment. There is a risk in the solar system sales segment that transformer supply will not be able to keep up with the surge in demand as clients build solar power stations. This would mean delayed deliveries, followed by a deferral of sales to the following year. However, at present overall performance is on track to meet the company's targets.

View the full report.

MONTHLY WRAP – April 2014

Verite Co., Ltd. (9904)

Jewelry retailer acquired by Indian jewelry conglomerate specializing in diamond rings.

On **March 7, 2014**, Verite announced February 2014 sales figures.

Monthly Sales (YoY) FY03/14	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	1H	FY
All Stores														
Sales	8.5%	-8.7%	-7.4%	-0.8%	-9.8%	-1.9%	-7.0%	4.2%	2.3%	8.4%	-10.8%		-3.8%	-2.2%
Customer Count	17.4%	2.5%	-9.5%	-7.2%	-14.2%	-11.6%	-9.4%	-8.9%	-12.6%	-14.6%	-30.0%		-4.3%	-9.3%
Sales Per Customer	-7.6%	-11.0%	2.4%	6.9%	5.1%	11.0%	2.6%	14.4%	17.0%	26.9%	27.4%		0.5%	7.9%
Stores	87	84	83	83	83	82	82	84	84	82	81		82	81
Comparable Stores														
Sales	7.7%	-9.0%	6.7%	0.5%	-4.0%	2.4%	-0.2%	12.2%	11.8%	18.7%	-4.1%		0.4%	3.9%
Customer Count	18.6%	1.8%	-1.6%	-0.6%	-8.0%	-4.6%	-0.1%	-3.5%	-3.6%	-7.6%	-23.9%		0.6%	-3.2%
Sales Per Customer	-9.2%	-10.7%	8.5%	1.2%	4.4%	7.3%	-0.1%	16.3%	16.0%	28.4%	26.0%		-0.2%	7.4%
Stores	81	78	78	77	77	76	77	78	79	79	76		76	76
FY03/13	**Apr.**	**May**	**Jun.**	**Jul.**	**Aug.**	**Sep.**	**Oct.**	**Nov.**	**Dec.**	**Jan.**	**Feb.**	**Mar.**	**1H**	**FY**
All Stores														
Sales	7.4%	8.6%	-12.1%	-7.3%	4.0%	1.1%	-2.0%	-12.7%	-10.9%	-3.9%	0.7%	-7.1%	-0.5%	-3.7%
Customer Count	-4.1%	-6.9%	2.6%	-8.7%	-0.1%	-5.5%	-12.4%	-7.4%	-6.8%	3.4%	3.2%	5.5%	-3.9%	-3.1%
Sales Per Customer	12.0%	16.6%	-14.3%	1.5%	4.1%	7.0%	11.8%	-5.7%	-4.3%	-7.0%	-2.4%	-12.0%	3.5%	-0.6%
Stores	100	100	101	101	101	102	103	104	104	102	99	97	97	97
Comparable Stores														
Sales	6.4%	9.8%	-11.3%	-4.2%	1.3%	-1.5%	-2.2%	-6.1%	-9.1%	-4.2%	2.3%	-2.8%	-0.4%	-2.4%
Customer Count	-2.9%	-3.7%	1.0%	-8.6%	-2.4%	-8.2%	-14.8%	-5.3%	-5.2%	3.1%	6.1%	9.5%	-4.3%	-2.7%
Sales Per Customer	9.6%	14.0%	-12.2%	4.8%	3.8%	7.3%	14.8%	-0.8%	-4.1%	-7.1%	-3.6%	-11.3%	4.0%	0.3%
Stores	81	81	82	84	85	90	92	96	96	95	90	90	90	90
FY03/12	**Apr.**	**May**	**Jun.**	**Jul.**	**Aug.**	**Sep.**	**Oct.**	**Nov.**	**Dec.**	**Jan.**	**Feb.**	**Mar.**	**1H**	**FY**
All Stores														
Sales	-14.7%	-19.7%	0.6%	-12.2%	0.8%	-10.4%	-3.2%	-6.2%	1.9%	3.9%	24.5%	39.3%	-11.1%	-1.0%
Customer Count	-3.8%	-0.6%	-1.2%	-4.8%	-8.9%	-14.5%	-5.6%	-4.0%	-5.3%	-3.8%	2.2%	6.6%	-5.9%	3.9%
Sales Per Customer	-11.7%	-19.2%	1.8%	-7.8%	10.7%	4.8%	2.5%	-2.2%	7.6%	8.0%	21.8%	30.7%	-5.5%	3.0%
Stores	90	89	89	91	90	92	94	98	99	99	98	100	92	100
Comparable Stores														
Sales	-11.5%	-15.9%	-1.3%	-7.4%	7.9%	-6.7%	2.4%	-8.2%	2.2%	2.9%	18.9%	46.6%	-7.7%	1.3%
Customer Count	-4.2%	0.4%	1.1%	0.7%	-5.3%	-10.4%	2.0%	0.1%	-2.3%	-4.1%	4.1%	15.0%	-3.0%	-0.5%
Sales Per Customer	-18.1%	-16.2%	-2.4%	-8.1%	13.9%	4.1%	0.4%	-8.3%	4.6%	7.3%	14.2%	27.5%	-4.8%	1.8%
Stores	82	80	80	80	77	77	79	79	79	79	78	80	77	80

Source: Company data, SR Inc. Research
Figures may differ from company materials due to differences in rounding methods.

On **March 3, 2014**, SR updated comments on the company's Q3 FY03/14 earnings results after interviewing management.

Quarterly Performance (million yen)	FY03/13 Q1	Q2	Q3	Q4	FY03/14 Q1	Q2	Q3	Q4	FY03/14 % of FY	FY Est.
Sales	2,217	2,392	2,589	3,367	2,251	2,296	2,505	-	82.0%	8,600
YoY	-	-	-	-	*1.5%*	*-4.0%*	*-3.2%*	-		
GP	1,162	1,257	1,783	1,521	1,127	1,200	1,280	-		
YoY	-	-	-	-	*-25.9%*	*-4.5%*	*-28.2%*	-		
GPM	52.4%	52.6%	68.9%	45.2%	50.1%	52.3%	51.1%	-		
SG&A	1,371	1,333	1,368	1,446	1,169	1,148	1,140	-		
YoY	-	-	-	-	*-19.2%*	*-13.9%*	*-16.7%*	-		
SG&A / Sales	61.8%	55.7%	52.8%	42.9%	51.9%	50.0%	45.5%	-		
OP	-209	-75	414	79	-42	52	140	-	38.5%	390
YoY	-	-	-	-	-	*-169.3%*	*-66.2%*	-		
OPM	-	-	16.0%	2.3%	-	2.3%	5.6%	-		
RP	-238	-105	378	39	-66	-1	81	-	5.8%	240
YoY	-	-	-	-	-	*-99.0%*	*-78.6%*	-		
RPM	-	-	14.6%	1.2%	-	-	3.2%	-		
NI	-254	-202	354	215	-58	-16	69	-	-	130
YoY	-	-	-	-	-	*-92.1%*	*-80.5%*	-		
NPM	-	-	13.7%	6.4%	-	-	2.8%	-		

Figures may differ from company materials due to differences in rounding methods
Source: Company data

In FY03/15, the company plans to continue focusing on new sales channels (wholesaling to catalog retailers and so forth) and sales at exhibitions. It appears that exhibitions are patronized by many wealthy customers, and therefore the effect of the consumption tax hike will be smaller than on store sales. The company intends to continue holding exhibitions catering to wealthy customers in the future. The company will lift sales per customer by inviting the 90,000 members of its CRM database to exhibitions that center on expensive products.

View the full report.

WirelessGate Inc (9419)

Japan's first mobile virtual network operator (MVNO) and aggregator.

On **March 26, 2014**, WirelessGate Inc. announced an absorption-type merger with a consolidated subsidiary.

The company has resolved to conduct an absorption-type merger with Wireless Technology Labo, a wholly-owned consolidated subsidiary, with an effective date of July 1, 2014. By combining the technology departments of both companies, particularly research and development of wireless transmission services and network system operations conducted by Wireless Technology Labo, the company seeks to strengthen its technological expertise.

The merger is between the parent company and a wholly-owned consolidated subsidiary and will not have any effect on the company's consolidated earnings results.

On **March 12, 2014**, SR updated the company's report.

View the full report.

Yellow Hat Ltd (9882)

Nationwide auto parts distributor. Restructured store network to clear the path for renewed growth. Financial condition improving.

On **March 24, 2012**, Yellow Hat raised its FY03/14 year-end DPS forecast by JPY4 for a total of JPY22. With this upward revision, annual DPS will be JPY40.

View the full report.

MONTHLY WRAP – April 2014

Yumeshin Holdings Co., Ltd. (2362)

Staffing company focused on the construction industry. Expanding into other areas to secure long-term growth

On **March 7, 2014**, Yumeshin Holdings released monthly sales and hiring data for February 2014.

Monthly Sales FY09/14	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Total
Sales (Million Yen)	**821**	**890**	**908**	**933**	**983**								**4,535**
(YoY)	33.6%	43.5%	40.8%	40.4%	42.2%								
Hired Numbers of Construction Staffing													
Est.	100	100	115	115	115	115	180	180	180	170	115	115	1,600
Act.	97	104	74	151	145								571
(Difference)	-3	4	-41	36	30								26

Source: Company data, SR Inc. Research
Figures may differ from company materials due to differences in rounding methods.

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ZAPPALLAS, INC. (3770)

A web-based business, mainly offering digital contents centered on fortune-telling.

On **March 24, 2014**, SR updated comments on ZAPPALLAS' Q3 FY04/14 results after interviewing management.

Quarterly Performance	FY04/13				FY04/14				FY04/13	
(million yen)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of FY	FY Est.
Sales	2,369	2,205	2,053	2,262	1,882	2,017	1,912	2,388	70.9%	8,200
YoY	*-16.8%*	*-9.9%*	*-15.0%*	*-4.9%*	*-20.6%*	*-8.5%*	*-6.9%*	*5.6%*		
GP	1,658	1,520	1,411	1,530	1,295	1,371	1,331			
YoY	*-12.8%*	*-7.4%*	*-14.1%*	*-8.8%*	*-21.9%*	*-9.8%*	*-5.6%*			
GPM	70.0%	69.0%	68.7%	67.6%	68.8%	68.0%	69.6%			
SG&A	1,049	1,229	1,122	1,306	1,120	1,275	1,138			
YoY	*-7.5%*	*23.6%*	*10.2%*	*17.4%*	*6.7%*	*3.7%*	*1.5%*			
SG&A / Sales	44.3%	55.8%	54.6%	57.7%	59.5%	63.2%	59.5%			
OP	604	307	289	224	175	93	191	241	65.6%	700
YoY	*-21.3%*	*-52.6%*	*-54.2%*	*-58.6%*	*-70.9%*	*-69.7%*	*-33.9%*	*7.6%*		
OPM	25.5%	13.9%	14.1%	9.9%	9.3%	4.6%	10.0%	10.1%		
RP	607	315	419	315	152	100	247	210	70.4%	710
YoY	*-21.1%*	*-51.4%*	*-33.8%*	*-42.2%*	*-74.9%*	*-68.1%*	*-41.1%*	*-33.2%*		
RPM	25.6%	14.3%	20.4%	13.9%	8.1%	5.0%	12.9%	8.8%		
NI	348	247	299	22	86	72	161	61	84.0%	380
YoY	*-23.4%*	*-34.7%*	*-29.2%*	*-93.1%*	*-75.2%*	*-70.9%*	*-46.2%*	*170.4%*		
Cumulative	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of FY	FY Est.
Sales	2,369	4,574	6,628	8,890	1,882	3,899	5,812	8,200	70.9%	8,200
YoY	*-16.8%*	*-13.6%*	*-14.0%*	*-11.9%*	*-20.6%*	*-14.8%*	*-12.3%*	*-7.8%*		-7.8%
GP	1,658	3,178	4,589	6,118	1,295	2,666	3,997	-		
YoY	*-12.8%*	*-10.3%*	*-11.5%*	*-10.8%*	*-21.9%*	*-16.1%*	*-12.9%*	-		
GPM	70.0%	69.5%	69.2%	68.8%	68.8%	68.4%	68.8%	-		
SG&A	1,049	2,279	3,400	4,706	1,120	2,395	3,533	-		
YoY	*-7.5%*	*7.0%*	*8.1%*	*10.5%*	*6.7%*	*5.1%*	*3.9%*	-		
SG&A / Sales	44.3%	103.3%	165.6%	208.0%	59.5%	118.7%	-	-		
OP	604	910	1,199	1,423	175	268	459	700	65.6%	700
YoY	*-21.3%*	*-35.6%*	*-41.3%*	*-44.9%*	*-70.9%*	*-70.5%*	*-61.7%*	*-50.8%*		-50.8%
OPM	25.5%	41.3%	58.4%	62.9%	9.3%	13.3%	-	-		8.5%
RP	607	921	1,340	1,655	152	253	500	710	70.4%	710
YoY	*-21.1%*	*-35.0%*	*-34.6%*	*-36.2%*	*-74.9%*	*-72.6%*	*-62.7%*	*-57.1%*		-57.1%
RPM	25.6%	41.8%	65.3%	73.2%	8.1%	12.5%	-	-		8.7%
NI	348	596	895	917	86	158	319	380	84.0%	380
YoY	*-23.4%*	*-28.5%*	*-28.7%*	*-41.9%*	*-75.2%*	*-73.4%*	*-64.3%*	*-58.6%*		-58.6%

Source: Company data, SR Inc. Research; figures may differ from company materials due to differences in rounding methods.
Gross profit excludes provision for sales returns.

The fall in sales in Q3 was attributable to a decline in wholesale operations at BxE, a subsidiary, and a fall in subscribers to feature phone services in the Contents segment. However, operating profit rose QoQ as the company cut back on promotional and marketing expenses.

On **March 7, 2014**, the company announced revisions to its full-year earnings forecasts.

	Revised FY04/14 Forecast	Previous Forecast
Sales	8,200 million（-7.8%YoY）	10,100 million（+13.6% YoY）
Operating Profit	700 million (-50.8% YoY)	1,000 million（-29.7%YoY）
Recurring Profit	710 million（-57.1% YoY）	1,000 million（-39.6% YoY）
Net Income	380 million（ -58.6% YoY）	620 million（ -32.4% YoY）

Source: Company data, SR Inc. Research

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