



Shared Research Monthly Wrap – January 2015

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Monthly musings

Market view from Sendagi

Dear readers,

Happy New Year! I wish that for all of you 2015 will be a prosperous year and that all volatility will be upside volatility.

Struggling to get out of the holiday mood, I'm experiencing a bit of writer's block. So let me use some borrowed wisdom—my notes from an interesting **presentation by attorney Hideaki Kubori**, a prominent fighter for Japanese voters' rights, given at the recent Winter Seminar of the Japanese Association of Corporate Directors.

Kubori started his presentation with a commentary on corporate governance in Japan. His conclusion is simple—the current model of so-called **Companies with Audit & Supervisory Board is wrong and broken**. The model contains a logical flaw—and we can probably call it an intentional one—that prevents governance from being executed properly. How is that?

Under the abovementioned system, the board of directors is above the CEO on the corporate org charts and has the legal right to dismiss the chief executive. However, the **paradox** is that **executive directors are, in their daily jobs, reporting to that same chief executive**. Corporate Japan has been resisting and obfuscating for years, but it is time to face the truth—the old system gives managements the tools and incentives to hijack a company and run it as they please, hiding behind notions of stakeholders and a greater societal good, while in fact maintaining the status quo, and in many cases **destroying shareholder wealth**. The fact that there are great companies that still employ this system is not the point—in terms of governance, the flaw is always there and more or less ensures that **CEOs and their small group of insiders have full control**.

What about **external auditors**? Kubori ridicules the notion in the context of executing proper governance—pointing out that these individuals have **no power** besides looking for likely law violations, and even that is without proper access to information or sufficient time commitment.

It is for this reason that Kubori is skeptical about the new suggested form of board governance, so-called Companies with Audit & Supervisory Committee. I'll leave the details for another issue of the Market view—the one I will market as an insomnia drug. Let me just mention that this form of corporate board structure still allows the executive side to effectively control the board, making it easier to restrict the ability of outside directors from representing the interests of shareholders. In short, when you see that a company has decided to employ this system, be somewhat wary of its motives. Having said that, as Japanese companies are conservative by nature and in a transition period, wrong structures may be chosen with the best intentions in mind.

According to Kubori, the only right system is the one adopted by the majority of global companies. Under this system, the **largely independent board of directors appoints three powerful committees**, Audit, Nomination, and Compensation, which **decide who should run the company and how that individual should be compensated**. Japan will most likely introduce this model as one of three optional models. However, there is a possibility that with enough lobbying, the company-with-committees system will be recognized as the best practice by the investment community, particularly by the investment advisors working for GPIF—the public pension fund. Then, nodding to the newly adopted Japan's Stewardship Code, it is conceivable that large listed companies will be pressured into eventually adopting the US-style governance structure.

However, the key point of Kubori's speech was not to criticize corporate governance in Japan—quite the

opposite. **According to him**, despite **Japanese corporate governance** being behind most of the developed world—including archrival South Korea (always perceived by Japan to be a tiny bit inferior to itself)—it is still a **shining star on Japan's governance horizon**. Much **deeper governance problems** lie elsewhere: in the country's political system, namely the **election system**.

I addressed this issue in one of my earlier Market views—the fundamental problem at the core of most of Japan's ills is the simple fact that Japan is a democracy; a democracy where **large cities have substantially less voting power** per voter than small provincial cities and rural areas. On top of that, **older voters are exceptionally politically active** while **younger voters are remarkably passive**. The combination of these two factors means that it is predominantly the recipients of society's resources (regional subsidies of various forms, pensions, medical and elderly care insurance) who form the electoral majority and use it to their advantage. People who contribute more than they receive in monetary terms, especially those with above-average incomes and wealth, end up a minority whose money is used to sustain the status quo in a massive—and economically speaking, highly unproductive—wealth transfer.

By the way, in this light, criticism of Abenomics reforms as ineffective is idiotic. The majority of the population wants change but only such change that doesn't take anything away from them. Add powerful groups that influence policy decisions—from public servants, to doctors, to agricultural cooperatives—and you get an extremely **narrow window of opportunity to truly change** things. That's why Abe deserves a lot of credit for trying as hard as he has and pushing through whatever reforms are possible.

I believe that only a substantial upheaval can bring about fundamental change in the way Japanese democracy operates. I'm also afraid that in the worst case, such a change could be a move *away* from democracy.

Japan finds itself in a very unique situation. In most cases since the dawn of modern democracy, the most politically active part of the population is also the most economically active (and tends to pay taxes). Japan is conducting an experiment—soon to be or already joined by many countries in Europe—of **whether democracy can function** (in a way that leads to long-term economic prosperity) in a rapidly aging society **where most active voters are economically inactive citizens**: citizens who receive more than they contribute.

In Japan, **younger urban voters** are virtually robbed of their power to elect representatives. Someone who lives in a popular residential area of Tokyo has 0.48 of a full vote. Go to certain other areas, say, in Shikoku—and you end up having more or less a full vote. Simply put, this means that Tokyoites end up electing half as many representatives as they would under a one-person-one-vote system. They're also younger and therefore, as I mentioned earlier, much less likely to vote anyway.

Ironically, the alleged historical reasons for this inequality lie in an attempt to achieve equality after WWII. Back then, the rural population was more numerous and therefore the ratios were fair. Another theory I heard and mentioned before is that the system was originally designed to prevent communists and other lefties from ever coming to power by giving disproportionately large voting influence to traditionally conservative rural constituencies.

The system is extremely hard to change, once in place. Over decades, the ruling LDP has honed the skills needed to win most elections. Even when the opposition party, the DPJ, took the parliamentary majority away from the LDP, it did so through skillfully utilizing the features of the current system that Kubori is fighting.

Kubori is a member of a **group of prominent lawyers** that tries to **change the system via court action**. He is highly skeptical that politicians will ever get serious about changing the system, because for them it only means potentially losing their parliamentary seats. "Who is going to like it?" asks Kubori.



“When a monkey falls from a tree—it’s still a monkey. When a lawmaker loses his job, he’s just a common man.” Little surprise that despite all the huffing and puffing, precious little has been done to change the situation at the legislative level.

Legal action—a lawsuit by a group of voters to call the elections null and void due to their unconstitutionality—may thus represent the only way to change things, apart from social unrest or a coup d’état. This lawsuit path was first taken in as far back as 1962, but society and the Supreme Court were clearly not ready. The situation may be finally changing. In a landmark decision in November 2014, Justice Tsuneyuki Yamamoto issued a minority opinion that the **2013 elections** should be “immediately invalidated” due to their **unconstitutionality**. The attentive reader will note that it took Japan’s Supreme Court over a year to reach the decision declaring the 2013 elections to be “in a state of unconstitutionality” (which, by the way, apparently differs from “unconstitutional”).

One of the striking things is that the **Supreme Court holds the keys** to what would be, without a doubt, one of the most important changes in the political system of modern Japan—one that could also have profound and **positive economic consequences**. However, Supreme Court justices have been careful not to ruffle too many feathers. I asked Kubori why. He suggested an inferiority complex—the judicial branch in Japan may feel that it lacks authority vis-à-vis the legislative branch, which has direct popular support (even if it’s gained through a less-than-perfect election system). In the extreme, it’s the fear of being ignored by legislators.

Like everywhere in Japan, change is slow. The consensus-driven, elite-dominated economic and political reality resists any dramatic shifts. However, like with corporate governance, change is here, driven by mavericks like Kubori. We just have to hope that it arrives before it’s too late.

Yours,

Oleg Zuravljov



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TOPIX100 Portfolio

Return Comparison (%)	
TPX100	15.54
Portfolio	12.97
TPX100 Points	
2014/5/2	781.43
2015/1/19	900.29

Start Date	Current Date
2014/5/2	2015/1/19

Weight Rel. To TPX100	
BIG OW	1.9
OW	1.5
MW	1.0
UW	0.0

Ticker	Name	Weight Rel. To TPX100	Total Return (%)	Wgt (%)	Ticker	Name	Weight Rel. To TPX100	Total Return (%)	Wgt (%)
7203 JT Equity	Toyota Motor Corp	OW	34.11	11.0	6326 JT Equity	Kubota Corp	MW	27.62	0.7
8306 JT Equity	Mitsubishi UFJ Financial Group Inc	BOW	9.11	8.0	8750 JT Equity	Dai-ichi Life Insurance Co Ltd/The	MW	8.11	0.7
9984 JT Equity	SoftBank Corp	MW	-12.30	3.7	8725 JT Equity	MS&AD Insurance Group Holdings	OW	16.54	1.0
8316 JT Equity	Sumitomo Mitsui Financial Group Ir	BOW	-3.81	5.9	7974 JT Equity	Nintendo Co Ltd	BOW	10.53	1.3
7267 JT Equity	Honda Motor Co Ltd	MW	6.29	3.0	2503 JT Equity	Kirin Holdings Co Ltd	UW	10.30	0.0
8411 JT Equity	Mizuho Financial Group Inc	BOW	-3.28	4.9	6594 JT Equity	Nidec Corp	MW	32.52	0.6
9432 JT Equity	Nippon Telegraph & Telephone Co	OW	16.17	3.1	9735 JT Equity	Secom Co Ltd	MW	16.61	0.6
2914 JT Equity	Japan Tobacco Inc	UW	-2.88	0.0	6702 JT Equity	Fujitsu Ltd	MW	-7.92	0.6
6954 JT Equity	FANUC Corp	UW	7.79	0.0	2502 JT Equity	Asahi Group Holdings Ltd	UW	30.23	0.0
7751 JT Equity	Canon Inc	MW	21.27	1.8	9983 JT Equity	Fast Retailing Co Ltd	UW	30.21	0.0
4502 JT Equity	Takeda Pharmaceutical Co Ltd	MW	16.85	1.8	9531 JT Equity	Tokyo Gas Co Ltd	MW	26.00	0.6
6501 JT Equity	Hitachi Ltd	UW	17.74	0.0	4578 JT Equity	Otsuka Holdings Co Ltd	OW	27.51	0.9
9433 JT Equity	KDDI Corp	UW	42.05	0.0	4901 JT Equity	FUJIFILM Holdings Corp	OW	44.61	0.9
8802 JT Equity	Mitsubishi Estate Co Ltd	MW	-1.32	1.6	5020 JT Equity	JX Holdings Inc	MW	-18.24	0.6
3382 JT Equity	Seven & I Holdings Co Ltd	MW	3.21	1.6	8002 JT Equity	Marubeni Corp	OW	0.25	0.8
8801 JT Equity	Mitsui Fudosan Co Ltd	MW	-1.60	1.4	8630 JT Equity	NKJ Holdings Inc	OW	9.98	0.8
8058 JT Equity	Mitsubishi Corp	MW	13.29	1.4	5802 JT Equity	Sumitomo Electric Industries Ltd	MW	5.12	0.5
4503 JT Equity	Astellas Pharma Inc	UW	49.89	0.0	4568 JT Equity	Daichi Sankyo Co Ltd	UW	-3.83	0.0
9020 JT Equity	East Japan Railway Co	MW	21.64	1.3	7269 JT Equity	Suzuki Motor Corp	UW	41.16	0.0
9437 JT Equity	NTT DOCOMO Inc	OW	19.45	1.9	1925 JT Equity	Daewa House Industry Co Ltd	MW	28.66	0.5
8031 JT Equity	Mitsui & Co Ltd	OW	6.02	1.9	8035 JT Equity	Tokyo Electron Ltd	MW	45.05	0.5
6752 JT Equity	Panasonic Corp	MW	19.28	1.2	4523 JT Equity	Eisai Co Ltd	MW	33.09	0.5
8604 JT Equity	Nomura Holdings Inc	BOW	-1.05	2.4	3402 JT Equity	Toray Industries Inc	MW	45.04	0.5
7201 JT Equity	Nissan Motor Co Ltd	MW	14.40	1.2	5411 JT Equity	JFE Holdings Inc	OW	28.74	0.7
5108 JT Equity	Bridgestone Corp	MW	24.30	1.2	8308 JT Equity	Resona Holdings Inc	OW	7.95	0.7
6503 JT Equity	Mitsubishi Electric Corp	UW	15.19	0.0	8267 JT Equity	Aeon Co Ltd	BOW	-0.60	0.9
5401 JT Equity	Nippon Steel & Sumitomo Metal Co	MW	5.50	1.2	3407 JT Equity	Asahi Kasei Corp	OW	61.15	0.6
8766 JT Equity	Tokio Marine Holdings Inc	UW	25.56	0.0	1878 JT Equity	Daito Trust Construction Co Ltd	UW	33.37	0.0
6902 JT Equity	Denso Corp	UW	15.15	0.0	9202 JT Equity	ANA Holdings Inc	MW	32.96	0.4
9022 JT Equity	Central Japan Railway Co	UW	44.30	0.0	4661 JT Equity	Oriental Land Co Ltd/Japan	UW	103.61	0.0
4063 JT Equity	Shin-Etsu Chemical Co Ltd	MW	30.07	1.1	8795 JT Equity	T&D Holdings Inc	OW	5.10	0.6
6301 JT Equity	Komatsu Ltd	MW	12.87	1.1	9064 JT Equity	Yamato Holdings Co Ltd	MW	10.66	0.4
4452 JT Equity	Kao Corp	UW	26.21	0.0	5713 JT Equity	Sumitomo Metal Mining Co Ltd	OW	12.38	0.6
6758 JT Equity	Sony Corp	MW	35.75	1.0	6988 JT Equity	Nitto Denko Corp	MW	48.22	0.4
7011 JT Equity	Mitsubishi Heavy Industries Ltd	MW	19.28	0.9	2802 JT Equity	Ajinomoto Co Inc	UW	55.67	0.0
8830 JT Equity	Sumitomo Realty & Development C	UW	-6.10	0.0	9532 JT Equity	Osaka Gas Co Ltd	UW	21.27	0.0
8591 JT Equity	ORIX Corp	BOW	-10.40	1.8	9502 JT Equity	Chubu Electric Power Co Inc	MW	15.55	0.4
6981 JT Equity	Murata Manufacturing Co Ltd	MW	53.41	0.9	1963 JT Equity	JGC Corp	MW	-28.53	0.4
7270 JT Equity	Fuji Heavy Industries Ltd	UW	59.10	0.0	8113 JT Equity	Unicharm Corp	MW	54.40	0.4
8001 JT Equity	ITOCHU Corp	UW	8.08	0.0	1928 JT Equity	Seikisui House Ltd	UW	24.73	0.0
6861 JT Equity	Keyence Corp	UW	34.05	0.0	9021 JT Equity	West Japan Railway Co	OW	41.97	0.5
8309 JT Equity	Sumitomo Mitsui Trust Holdings Irx	MW	-2.12	0.8	9503 JT Equity	Kansai Electric Power Co Inc/The	OW	25.42	0.5
6971 JT Equity	Kyocera Corp	MW	10.58	0.8	7752 JT Equity	Ricoh Co Ltd	BOW	-0.71	0.7
6367 JT Equity	Daikin Industries Ltd	MW	29.88	0.8	7202 JT Equity	Isuzu Motors Ltd	MW	27.47	0.3
1605 JT Equity	Indep Corp	OW	-15.27	1.2	4911 JT Equity	Shiseido Co Ltd	MW	-3.66	0.3
6502 JT Equity	Toshiba Corp	MW	20.13	0.8	8332 JT Equity	Bank of Yokohama Ltd/The	BOW	21.33	0.6
8601 JT Equity	Daiwa Securities Group Inc	OW	10.37	1.1	7731 JT Equity	Nikon Corp	BOW	-9.92	0.6
8053 JT Equity	Sumitomo Corp	BOW	-8.45	1.4	5201 JT Equity	Asahi Glass Co Ltd	BOW	7.50	0.6
7741 JT Equity	Hoya Corp	MW	36.95	0.7	7912 JT Equity	Dai Nippon Printing Co Ltd	OW	11.75	0.4
6273 JT Equity	SMC Corp/Japan	UW	23.74	0.0	4188 JT Equity	Mitsubishi Chemical Holdings Corp	BOW	40.71	0.5

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



New Coverage

Azbil Corporation (6845)

Japan's largest supplier of automatic control systems for HVAC in commercial buildings. Provides a variety of air conditioning-management, energy-saving, and other services using its measurement and control technologies.

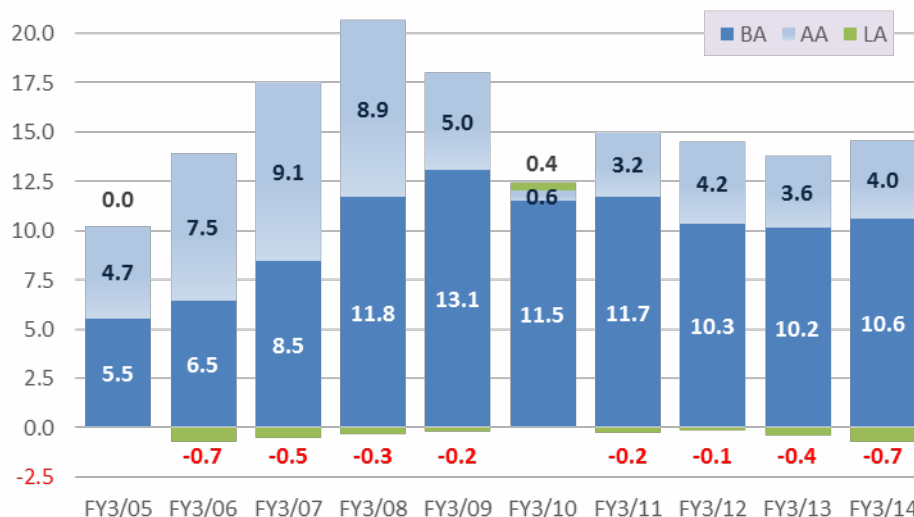
Japan's largest supplier of automatic control systems for HVAC in commercial buildings

Azbil provides a variety of air-conditioning management, energy-saving and other services using its measurement and control technologies. In particular, the company is Japan's largest supplier of automatic control systems for HVAC in commercial buildings. It has three main segments. The Building Automation segment focuses on the building market; Advanced Automation focuses on industrial plants and factories; Life Automation focuses on utilities, residential, health, welfare and nursing care, and life science.

The azbil Group comprises Azbil, 69 subsidiaries and seven affiliated companies. The company has established a consistent business structure in each field, allowing it to respond quickly to the demands of users in all aspects of its operations, including planning, development, sales, manufacturing, and maintenance. This means the company can quickly implement on-site feedback in solutions, helping it improve its on-site technology and services, and lower costs with greater efficiency.

Segments: In FY03/14, Building Automation comprised 44% of sales, Advanced Automation 36%, and Life Automation 20%. Building Automation comprised 76% of operating profit, as maintenance sales in this segment have a high sales composition, resulting in a steady source of revenue. With this segment as its core, cash flow has shown a consistently positive trend. The company is using these funds to enter new areas through acquisitions at home and overseas, as well as to restructure its production base.

Operating profit trends by segment over the past 10 years (JPYbn)



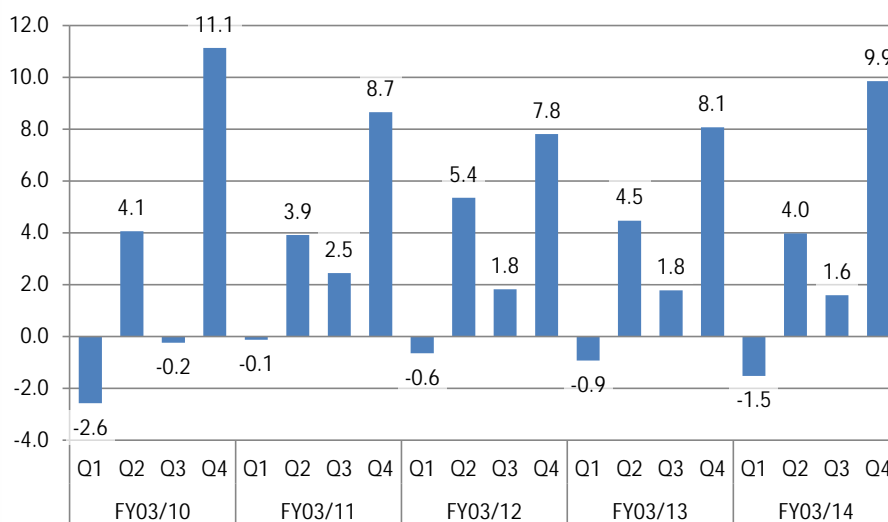
Source: Company data



Quarterly profits

Sales are concentrated in Q2 and Q4. Fixed costs are incurred constantly, so profits in Q1 and Q3 tend to be lower than in the other two quarters. Also, sales in Q4 are typically higher than in Q2. Thus 1H profits tend to be lower than 2H profits.

Quarterly operating profit (JPYbn)



Source: Company data

What does "azbil" mean?

The name azbil is a portmanteau word combining "automation," "zone," and "builder." The company says it wants to convey the idea that it uses automation technology to build zones delivering safety, comfort, and fulfillment in people's lives. These are key concepts in the group's philosophy of human-centered automation. At the same time, azbil aims to contribute to environmental preservation.

Building Automation

FY03/14: 44% of sales, 76% of operating profit

Building Automation		FY03/10	FY03/11	FY03/12	FY03/13	FY03/14
Earnings						
Order sales	(JPYmn)	98,915	97,257	113,381	105,726	108,432
YoY		0.7%	-1.7%	16.6%	-6.8%	2.6%
Sales	(JPYmn)	96,671	102,124	103,895	107,426	109,566
YoY		-3.7%	5.6%	1.7%	3.4%	2.0%
OP	(JPYmn)	11,517	11,748	10,328	10,152	10,593
YoY		-11.9%	2.0%	-12.1%	-1.7%	4.3%
OMP	(%)	11.9%	11.5%	9.9%	9.5%	9.7%
Employees		2,866	2,840	2,852	3,025	2,930
Segment composition						
Order sales		47.2%	44.4%	48.1%	45.5%	42.7%
Sales		45.2%	46.2%	46.1%	46.9%	43.8%
OP		93.0%	78.9%	72.0%	75.7%	76.2%
Employees		34.9%	34.6%	34.2%	31.6%	30.2%

Source: Company data



Overview

Mainstay Building Automation accounts for around half of overall sales and 70-80% of profits. Sales come from the completion of new buildings and maintenance (including recurring maintenance), as well as renewal of systems and equipment installed in buildings. Sales from new buildings fluctuate depending on the amount of construction per year planned by the owner (developer). Yet as most sales come from maintenance and renewal of automated-control equipment and systems in existing buildings, earnings are broadly stable. Due to the maturing of the domestic market, the business has come to rely primarily on maintenance revenues. To achieve topline growth, it is focusing overseas on emerging economies, expecting higher demand for new buildings.

In the medium term, azbil plans to expand the scope of domestic operations, and advance into overseas markets. FY03/17 targets for the division are sales of JPY120bn (+12% from FY03/13), and segment profit of JPY12.5bn (+24%). It aims to expand its suite of high value-added services and coordinate with partners in each region to win more local contracts for overseas growth.

Products and services

This segment develops, manufactures and sells products and systems necessary for automated air-conditioning controls installed in office buildings, factories, laboratories, commercial facilities, hotels, hospitals, and transport and sports facilities. It offers comprehensive services from system engineering and construction through maintenance. Key products and services include automatic control systems for HVAC in commercial buildings, such as temperature/humidity sensors, controllers and valves. The company also offers security systems, renewal services for air-conditioning control systems, and comprehensive energy-management services. Maintenance contracts are typically renewed on a yearly basis. In the existing buildings business there is replacement demand every 15 years or so, primarily for control system and peripheral components, and large-scale projects every 25 years, including heating system renewals. It is difficult for customers to change to another company when renewing systems and components, including equipment renewals such as heat source equipment, due to switching costs. As a result, this segment contributes to stable earnings.

Most profits come from maintenance contracts and the renewal of control systems. Typically, projects for new buildings have lower profitability, so azbil has been working to reduce costs. From 2009, accounting for sales shifted from the completed-contract method to the percentage-of-completion method.

Sources of revenue

Customers by building type: offices 40%; factories 10–15%; other large commercial facilities by type each account for a few percent. A rough sales breakdown: maintenance 40%; renewal 30%; new buildings 20%; and overseas around 10%. Some 2% of sales come from other sources like security.

The company has the leading domestic market share (sales basis) among specialist manufacturers. Johnson Control's Japanese arm is number two, followed by Panasonic (TSE1: 6752). In this business, maintenance demand is generated once systems are installed. First-mover advantage in the domestic market underpins a solid track record and customer base. Its database of accumulated information sustains a large market share, and its construction and engineering capacity and structure allows it to quickly respond to customer needs, and deliver products and systems in line with the end of construction.



Process

Orders for new buildings come from subcontractors. They supply air-conditioning, electrical, and sanitation-related equipment and construction work. This is outsourced to them from general contractors responsible for overall building construction. Maintenance contracts are typically made with the building owner, and renewal contracts for air-conditioning control systems usually come from either the building owner or subcontractors. The company has a strong customer base, and can meet needs of building owners (developers) and architectural firms through general contractors and subcontractors.

2020 Tokyo Olympics

Construction demand in the Tokyo metropolitan region should pick up ahead of the 2020 Tokyo Olympics. Some events will be held in 2019, so completion of associated sporting facilities may peak in 2018. Related sales will likely be booked mainly in FY2017-18. We may see some spillover demand for new buildings to be constructed near the venues, as well as renovation demand.

Overseas development focusing on Asia

The company is focusing on overseas development, primarily in Asia. It is targeting projects that have high specification HVAC systems similar to those used in Japan: contracts for components and systems requiring both comfort and energy efficiency. In overseas markets, non-Japanese manufacturers such as Johnson Controls and Siemens are ahead of the company. However, energy-saving regulations in these countries are driving the need for efficient, quality air-conditioning systems such as those found in Japan. The company says that while it is a late market entrant, these changes imply opportunities. It will use the energy-efficient air-conditioning expertise gained in the Japanese market as it focuses on overseas markets.

Advanced Automation

36% of sales, 29% of operating profit (FY03/14)

Advanced Automation		FY03/10	FY03/11	FY03/12	FY03/13	FY03/14
Earnings						
Order sales	(JPYmn)	69,743	82,986	89,851	86,663	93,105
YoY		-24.6%	19.0%	8.3%	-3.5%	7.4%
Sales	(JPYmn)	76,938	80,975	88,873	87,676	90,826
YoY		-17.8%	5.2%	9.8%	-1.3%	3.6%
OP	(JPYmn)	552	3,233	4,158	3,646	3,966
YoY		-88.9%	485.7%	28.6%	-12.3%	8.8%
OMP	(%)	0.7%	4.0%	4.7%	4.2%	4.4%
Employees		3,354	3,368	3,414	3,508	3,495
Segment composition						
Order sales		33.3%	37.9%	38.1%	37.3%	36.6%
Sales		36.0%	36.7%	39.4%	38.3%	36.3%
OP		4.5%	21.7%	29.0%	27.2%	28.5%
Employees		40.8%	41.0%	41.0%	36.6%	36.0%

Source: Company data



Overview

Advanced Automation supplies plants and factories with systems, controllers, valves, field instruments, and sensors for various manufacturing sites, as well as engineering and maintenance services.

It is concerned with capital investment and thus affected by economic conditions. Profits fluctuate, although less than for other companies in the industry due to azbil's presence in various markets. Compared with Building Automation, this segment has a higher proportion of product sales and lower maintenance sales. The segment is largely divided into the process automation business (60% of segment sales), relating to materials industries like oil refining, chemicals, and steel/nonferrous metals, and the factory automation business (around 40% of segment sales), supplying components to manufacturers such as semiconductor equipment manufacturing companies and industrial furnaces. The company is also developing "hybrid automation," where it can use its expertise in both fields.

The shift of Japanese manufacturing overseas is accelerating. Despite the matured domestic market, the company expects sources of new demand in the safety sector, in the energy sector (such as LNG), and for increasingly added-value devices and equipment. There is likely to be increased demand from manufacturing plants in emerging markets, as well as expanding need for sophisticated management and control products from equipment manufacturers, both overseas and domestically. The company's midterm plans call for enhanced efficiency in mature domestic markets by concentrating and strengthening staff in business areas with potential growth. Overseas, which also has growth prospects, the company aims for a transformation that entails expanding its business activities and offering lifecycle management services including energy conservation. The company also plans to shift production overseas. It aims to enhance efficiency and cut costs by building an efficient international platform. The company reaffirmed its FY03/17 segment targets: sales of JPY105bn (+20%) and segment profit of JPY8.0bn (+120%).

Process automation

Industries served include petrochemicals/chemicals, water/sewage, oil refining, electricity/gas, steel, and ships (LNG ships). Yokogawa Electric (TSE1: 6841) is the market leader, followed by azbil.

Hybrid/factory automation

Industries served include semiconductors/semiconductor manufacturing equipment, industrial furnaces, electrical/electronic components, machine tools, automobiles, pharmaceuticals, and food/packaging. The company supplies components for manufacturing equipment used in processing and assembly. Major competitors (vary by product line): Omron (TSE1: 6645) and Keyence (TSE1: 6861).

Many of the company's clients are chemical companies, although it also operates in various sectors. A strength of the company is that it is not overly reliant on any particular sector.



Life Automation

FY03/14 20% of sales, -5% operating profit (loss-making)

Life Automation		FY03/10	FY03/11	FY03/12	FY03/13	FY03/14
Earnings						
Order sales	(JPYmn)	35,189	32,792	32,441	40,118	52,628
YoY		-2.0%	-6.8%	-1.1%	23.7%	31.2%
Sales	(JPYmn)	34,721	32,620	32,543	33,994	49,597
YoY		-3.3%	-6.1%	-0.2%	4.5%	45.9%
OP	(JPYmn)	352	-227	-127	-399	-671
YoY		-	-	-	-	-
OMP	(%)	1.0%	-0.7%	-0.4%	-1.2%	-1.4%
Employees		1,185	1,194	1,200	2,212	2,329
Segment composition						
Order sales		16.8%	15.0%	13.8%	17.2%	20.7%
Sales		16.3%	14.8%	14.4%	14.8%	19.8%
OP		2.8%	-1.5%	-0.9%	-3.0%	-4.8%
Employees		14.4%	14.5%	14.4%	23.1%	24.0%

Source: Company data

Overview

Life Automation uses the company's technical expertise of measurement, control, and metering in building and factory markets to offer tailored services in areas including utilities (gas and water lines); residences; and health, welfare and nursing care. With its January 2013 acquisition of Spain's Telstar (now Azbil Telstar), which supplies equipment to the pharmaceutical market, the company is developing a life-science engineering business. The company aims to stabilize overall group profits by expanding and developing this segment, which has a different operating environment and cycle from other segments.

The segment was temporarily profitable in FY03/10. This resulted from the full takeover in FY03/09 of Kimmon Manufacturing (now Azbil Kimmon), a company selling gas and water meters that accounted for the bulk of segment sales. Restructuring Kimmon's production factories improved profits. However, Azbil Kimmon's factory operations were interrupted by the March 2011 Tohoku earthquake, and the front-loaded costs of developing and expanding lifestyle-related businesses, as well as the burden of goodwill amortization for acquisitions, resulted in losses.

The plan projects improved profits due to rising sales, improved business structure, and shrinking goodwill amortization costs. The company expects sales of JPY56.0bn (+65%) and segment profit of JPY1.5bn in FY03/17 (JPY300mn loss in FY03/13).

The main businesses included in the Life Automation segment are as follows.

Gas and water meters

The gas and water meters business accounts for about 60% of segment sales. The company has been involved in this business since 2005, when it acquired shares in Kimmon Manufacturing, now Azbil Kimmon. (Kimmon became a wholly-owned subsidiary in 2008.) Due to production cost cuts, this business has posted steady profits even after accounting for goodwill amortization. The total goodwill amortization expense associated with the Kimmon acquisition is JPY600mn per year, and is scheduled to be fully amortized by end FY03/15. Azbil Kimmon (the main business entity) mainly manufactures and sells town gas meters, LP gas meters and water meters. In the gas and water meter business,



replacement demand is generated at regular intervals due to legal regulations. So companies in the business can expect stable sales based on their installation track record and market share. The company has the leading industry share in the town gas meter business, which accounts for the bulk of segment sales. It believes synergies with other companies in the azbil Group will help it expand into the energy supply line business—from production through transmission.

Life science engineering (equipment for pharmaceutical companies' manufacturing lines)

Sales were JPY15.7bn in FY03/14, around 30% of segment sales. It develops, manufactures and sells environmental and manufacturing equipment for pharmaceutical factories, laboratories and hospitals. Azbil Telstar*, bought in January 2013, is responsible for this business. The company has centers in Western Europe (including Spain), Eastern Europe, Central America, South America, and North America. The company's strength is offering a one-stop solution including equipment for pharmaceutical processes in the fields of biologics, anticancer treatments and generic drugs. It is posting losses due to the goodwill amortization burden and the costs of reorganizing businesses after acquisition. The company aims to boost profitability by restructuring and strengthening the entire organization to take advantage of long-term growth in the pharmaceutical market.

*In January 2013, Azbil invested in Spain's Telstar S.A. (currently Azbil Telstar), making it a subsidiary. Azbil Telstar is a company that develops and markets manufacturing and environmental equipment for pharmaceutical factories, laboratories, and hospitals. At the same time, the company launched its life science engineering business, aimed at offering new solutions integrating manufacturing equipment and environmental systems inspired by automation technology. This services markets that contribute to healthcare.

Health, welfare and nursing care and residential central air-conditioning systems

This accounts for around 10% of Life Automation segment sales. The health, welfare and nursing care (emergency alert and nursing support services) business is done through Azbil Care & Support. Azbil itself is responsible for the residential central air-conditioning systems business. The company is investing to develop its customer base, business territories, and new products.

Overseas sales

In FY03/10, overseas sales fell year-on-year as demand slowed after the global financial crisis but subsequently sales have been growing. In FY03/14, overseas sales doubled year-on-year. This was primarily due to the January 2013 purchase of Spain's Telstar, the LSE business operating in Europe, Central and South America, and Asia, which boosted Life Automation segment sales. Existing regions and markets also saw sales growth, aided by the weak yen. The ratio of overseas sales also continued to rise, reaching 18.6% in FY03/14 (10.1% in the previous year).

One of the key targets in the midterm plan is strengthening overseas businesses as part of the company's global development. The FY03/17 target for the overseas sales ratio is at least 20% (+10pp from FY03/13). Key strategies are expansion into new regions and a qualitative shift of focus from product sales to solution services.



Expansion into new regions

The company has been setting up local subsidiaries to enable direct sales and services. It has also been developing business and capital partnerships with local companies. The company is working to tailor its products and services to each region. In addition to China, the company is also developing elsewhere in Asia, and has established subsidiaries in India, the Middle East and South America. It has also set up and strengthened its infrastructure to provide engineering and maintenance services to suit the particular needs of each region. The company is also strengthening development capabilities of its local subsidiaries in North America and the EU, where there are many companies with global operations and technological innovations, and customizing to customers' needs is key.

A qualitative shift of focus

In this strategy, the company is expanding the scope of its operations, from product sales to offering engineering solutions and maintenance services tailored to regional needs. Demand for these types of services is quickly rising in emerging markets in line with economic and social growth. The need for consulting services is rapidly growing. In Building Automation, this includes energy management and facility-operation management. In Advanced Automation, this includes plant asset maintenance and management, and complex energy-saving controls.

In its target Asian markets, Building Automation is creating a track record with major commercial building projects funded by local capital. In Advanced Automation, there has been solid growth in Asia, and sales to US equipment manufacturers have also grown. The company established a specialist manufacturing factory in Saudi Arabia to meet local needs, manufacturing valves ranging from small to large diameters and providing maintenance as it expands into the Middle East.

To increase overseas sales, the company aims to sharpen its competitiveness by building the optimal global structure to handle development, production and sales. It also plans to improve its ability to customize products and services in each of its operating regions, as well as its production platforms and engineering and service capabilities. As part of the company's efforts to shift production overseas and cut costs, it established production subsidiary Azbil Production Thailand.

Overseas sales (JPYmn)	FY03/10	FY03/11	FY03/12	FY03/13	FY03/14
Sales	212,213	219,216	223,499	227,584	248,416
Overseas sales ratio	6.8%	8.3%	8.9%	10.1%	18.6%
Overseas sales	14,500	18,100	19,837	22,955	46,135
Asia	7,100	8,600	9,978	11,115	16,066
China	5,100	6,400	6,690	8,639	11,292
North America	1,000	1,600	1,721	1,589	3,444
EU	900	800	822	895	11,572
Other	400	700	624	715	2,758

Source: Company data

Production and procurement

Production as a share of consolidated sales is around 40%. The company faces a shifting business environment, including Japanese customers transferring production overseas, and increasing capital investment in developing markets. The group is responding by globalizing its production capacities and logistics structure, and strengthening its ability to offer customization and maintenance tailored to particular regional needs. As part of its move to efficiently allocate its domestic and overseas production



capacity, the company established Azbil Production Thailand in FY03/14. In China, it expanded its production line at Azbil Control Instruments (Dalian). These moves gave the company production hubs in Japan, China, and Thailand, enabling it to serve customers with global and local operations. It has the organization to provide design, production, engineering, services and quality assurance tailored to customers' needs and closely matched to the on-site environment. The company is also collaborating on developing and manufacturing technologies and products with capital partners overseas. As a percentage of sales, it aims to raise the share of overseas production for the group from around 20% in FY03/14 to more than 30% within the next few years.

Production	FY03/10	FY03/11	FY03/12	FY03/13	FY03/14
Consolidated total	95,149	88,277	90,311	86,538	98,557
Building Automation	33,204	36,271	36,450	37,365	37,248
Advanced Automation	30,963	34,024	36,219	30,594	31,317
Life Automation	29,093	17,981	17,416	18,578	29,991
Sales ratio					
Consolidated total	44.8%	40.3%	40.4%	38.0%	39.7%
Building Automation	34.3%	35.5%	35.1%	34.8%	34.0%
Advanced Automation	40.2%	42.0%	40.8%	34.9%	34.5%
Life Automation	83.8%	55.1%	53.5%	54.7%	60.5%

Source: Company data

Research and development

Azbil continues to invest JPY8-10bn per year. It has consolidated its domestic marketing and development departments in Fujisawa, Kanagawa Prefecture. Its R&D facilities possess flow-testing equipment, thermal-environment testing facilities, and environmental control laboratories. It established Azbil North America Research and Development to bolster its global R&D.

R&D sales ratio (JPYmn)	FY03/10	FY03/11	FY03/12	FY03/13	FY03/14
R&D costs	8,640	8,952	8,816	7,824	8,767
Sales	212,213	219,216	223,499	227,584	248,416
R&D costs to sales	4.1%	4.1%	3.9%	3.4%	3.5%

Source: Company data

On **December 17, 2014**, Shared Research updated comments on the company's earnings results for 1H FY03/15 after interviewing management.

Quarterly Performance (JPYmm)	FY03/14				FY03/15			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	48,577	62,709	58,356	78,774	51,060	64,639		
YoY	2.9%	8.9%	11.6%	11.6%	5.1%	3.1%		
GP	15,758	21,658	20,008	29,125	16,285	23,206		
GPM	32.4%	34.5%	34.3%	37.0%	31.9%	35.9%		
SG&A	17,281	17,678	18,418	19,268	17,820	18,081		
YoY	7.9%	13.8%	14.1%	14.8%	3.1%	2.3%		
OP	-1,523	3,980	1,589	9,857	-1,534	5,124		
YoY	64.6%	-11.0%	-10.9%	22.0%	-	28.7%		
OPM	-	6.3%	2.7%	12.5%	-	7.9%		
RP	-991	3,752	2,274	9,564	-1,500	5,980		
YoY	-	-12.4%	-7.0%	8.5%	-	59.4%		
NI	-942	1,962	1,612	5,037	-1,272	3,442		
YoY	-	-20.5%	48.4%	-12.1%	-	75.4%		
Cumulative	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	48,577	111,286	169,642	248,416	51,060	115,699		
YoY	2.9%	6.2%	8.0%	9.2%	5.1%	4.0%		
GP	15,758	37,416	57,424	86,549	16,285	39,491		
GPM	32.4%	33.6%	33.9%	34.8%	31.9%	34.1%		
SG&A	17,281	34,959	53,377	72,645	17,820	35,901		
YoY	7.9%	10.8%	11.9%	12.7%	3.1%	2.7%		
OP	-1,523	2,457	4,046	13,903	-1,534	3,590		
YoY	-	-30.7%	-24.1%	3.7%	-	46.1%		
OPM	-	2.2%	2.4%	5.6%	-	3.1%		
RP	-991	2,761	5,035	14,599	-1,500	4,480		
YoY	-	-16.5%	-12.5%	0.2%	-	62.2%		
RPM	-	2.5%	3.0%	5.9%	-	3.9%		
NI	-942	1,020	2,632	7,669	-1,272	2,170		
YoY	-	-31.6%	2.1%	-7.7%	-	112.7%		

Source: Company data

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

Total orders were JPY148.8bn (+8.1%). Orders increased in the Building Automation and Advanced Automation segments, but fell in the Life Automation segment due to difficult conditions overseas. In Building Automation, in addition to renewals of large multi-year service contracts, order growth in the existing building and service areas resulted in about JPY7.6bn as a lump sum.

Sales increased in all three segments, totaling JPY115.7bn (+4.0% YoY). Higher sales and lower COGS pushed operating profit up to JPY3.6bn (+46.1%), despite low margins on some deals in the Life Automation segment and an increase in R&D and information system renewal expenses in the Building Automation and Advanced Automation segments. Recurring profit increased by 62.2% to JPY4.5bn, due to foreign exchange gains related to the weak yen. Net income was up 112.6%, at JPY2.2bn.

View the [full report](#).



NTT Urban Development Corporation (8933)

Real estate company leasing office buildings, commercial facilities, and residential properties. Also sells residential properties, mainly condominiums. Established as a member of the NTT Group (Japan's largest telecoms group), NTT Urban now owns many properties with a higher market value than book value.

NTT Group property firm that originally got its assets as investment-in-kind

NTT Urban was founded in 1986 as a property company for the Nippon Telegraph and Telephone Corporation (NTT) Group, Japan's largest telecoms group. NTT in turn transferred land and properties to NTT Urban as investment-in-kind. NTT Urban has since grown its assets by merging with other NTT real estate companies established across Japan in a similar manner.

As a result of how it was founded and subsequent mergers, NTT Urban holds many properties with a book value significantly less than respective market value. As of March 31, 2014, the total book value of the company's leasing properties was JPY805.9bn, compared with a market value of JPY1.2tn—spelling unrealized gains of JPY404.1bn.

Redeveloping properties in 1990s; buying land and developing from 2006

Through the 1990s, NTT Urban grew its real estate holdings by developing and redeveloping properties with low book values, acquired as investment-in-kind from NTT. The development of these properties wound down in September 2005, with the end of construction of Urbannet Nagoya Building. From the following year, 2006, the company focused on acquiring its own real estate for development, although it also acquired unused land and accommodation and community facilities for redevelopment from the NTT Group.

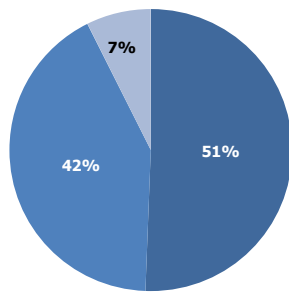
Over the next three to five years, the company aims to use its strengths as a developer to turn a profit on land acquired from outside the NTT Group. At the same time, it plans to take advantage of business opportunities on real estate held by NTT Group.

Leasing segment drives earnings

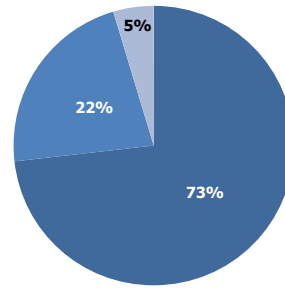
NTT Urban has two segments: Leasing and Residential Property Sales. The Leasing segment drives earnings, accounting for 51% of operating revenue and 73% of operating profit in FY03/14.



Operating revenue (left) and operating profit (right) breakdown by segment (FY03/14)



■ Leasing
■ Residential Property Sales
■ Other



■ Leasing
■ Residential Property Sales
■ Other

Source: Company data



Segments

Segments include Leasing, Residential Property Sales, and Other. In the Leasing segment, NTT Urban develops and operates rental office buildings. In Residential Property Sales, the company develops and sells condominiums. The Other segment includes the office building management business.

Earnings Per Segment (JPYmn)	FY03/07 Act.	FY03/08 Act.	FY03/09 Act.	FY03/10 Act.	FY03/11 Act.	FY03/12 Act.	FY03/13 Act.	FY03/14 Act.
Operating Revenue	128,215	138,206	144,277	149,224	145,693	136,842	163,168	189,186
YoY	15.7%	7.8%	4.4%	3.4%	-2.4%	-6.1%	19.2%	15.9%
Leasing	85,098	89,679	99,210	97,333	91,844	90,323	93,745	95,709
YoY	10.3%	5.4%	10.6%	-1.9%	-5.6%	-1.7%	3.8%	2.1%
% of Total	66.4%	64.9%	68.8%	65.2%	63.0%	66.0%	57.5%	50.6%
Residential Property Sales	32,680	38,414	32,688	41,643	41,725	28,484	54,939	79,527
YoY	38.8%	17.5%	-14.9%	27.4%	0.2%	-31.7%	92.9%	44.8%
% of Total	25.5%	27.8%	22.7%	27.9%	28.6%	20.8%	33.7%	42.0%
Other	10,436	10,111	12,377	10,247	12,124	18,034	14,483	13,949
YoY	2.9%	-3.1%	22.4%	-17.2%	18.3%	48.7%	-19.7%	-3.7%
% of Total	8.1%	7.3%	8.6%	6.9%	8.3%	13.2%	8.9%	7.4%
Operating Profit	25,091	28,718	25,244	22,382	30,972	25,365	27,401	30,458
YoY	-0.7%	14.5%	-12.1%	-11.3%	38.4%	-18.1%	8.0%	11.2%
Leasing	23,184	26,025	35,560	31,521	29,226	27,482	29,216	27,189
YoY	17.3%	12.3%	36.6%	-11.4%	-7.3%	-6.0%	6.3%	-6.9%
% of Total	79.0%	77.5%	114.6%	140.8%	94.4%	86.0%	86.7%	73.2%
Residential Property Sales	5,228	6,593	-6,018	-10,498	533	1,374	2,914	8,222
YoY	16.1%	26.1%	-191.3%	74.4%	-105.1%	157.8%	112.1%	182.2%
% of Total	17.8%	19.6%	-19.4%	-46.9%	1.7%	4.3%	8.6%	22.1%
Other	951	973	1,500	1,358	1,212	3,090	1,580	1,729
YoY	-5.0%	2.3%	54.2%	-9.5%	-10.8%	155.0%	-48.9%	9.4%
% of Total	3.2%	2.9%	4.8%	6.1%	3.9%	9.7%	4.7%	4.7%
Eliminations	-4,273	-4,873	-5,798	-6,252	-6,647	-6,583	-6,310	-6,682

Source: Company data

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

Breakdown of operating profit by segment given before eliminations.

Leasing segment

Leasing accounted for 50.6% of operating revenue and 73.2% of operating profit in FY03/14. NTT Urban leases office buildings, commercial facilities, and residential properties in major urban areas across Japan, including Tokyo, Nagoya, Osaka, Hiroshima, Fukuoka, and Sapporo.

Overview

Real estate (office building) development

The company first acquires the land, then designs, constructs, and operates the building. NTT Urban handles all aspects of the process, except construction which it outsources. Sometimes the company also outsources design to NTT Facilities, Inc. The whole process generally takes about four to five years for a midsize office building (floor space of up to 15,000sqm), though it can take seven to 10 years depending on the timing of land acquisitions, the macro economy, and property size.

During the land acquisition and design stage, net operating income (NOI) and the weighted average cost

of capital (WACC) are indicators of expected revenue. The company targets NOI above the market average, while also looking at WACC as a performance metric. We estimate the company's WACC at about 4%.

Net operating income (NOI): rental revenue – renting costs + depreciation (includes long-term prepaid expenses).

Real estate development



Source: Company data

Earnings structure

Operating revenue

Operating revenue in the Leasing segment depends on total rentable floor space, rent per square meter, and the vacancy rate.

- § **Rentable floor space:** varies according to office building acquisitions, sales, renovations, and changes in contracts.
- § **Vacancy rate:** varies according to the supply of new office space, the age of buildings, and employment trends—which in turn depend on population, the economy, and corporate earnings.
- § **Rent:** generally lags the vacancy rate. NTT Urban revises rents every two to three years. Shared Research understands that the small number of clients in office buildings means vacancy rates and rents are affected by changes in the wider economy, unlike residential properties, which are rented out to numerous individual tenants. Rent for commercial facilities generally features a fixed component and a variable component that depends on tenants' sales.
- § **Revenue from sale of real estate:** the company is replacing assets in its rental real estate portfolio. In order to do so, it reclassifies properties it plans to sell from fixed assets to inventory, then books operating revenue from the sale. Gains from the sale of fixed assets are booked as extraordinary gains.



Leasing Segment: Operating Revenue (JPYmm)	FY03/07 Act.	FY03/08 Act.	FY03/09 Act.	FY03/10 Act.	FY03/11 Act.	FY03/12 Act.	FY03/13 Act.	FY03/14 Act.
Total Operating Revenue	85,312	89,917	99,928	98,092	92,608	91,069	94,509	96,595
YoY	10.5%	5.4%	11.1%	-1.8%	-5.6%	-1.7%	3.8%	2.2%
Office Buildings	79,691	82,483	91,927	90,758	85,807	84,713	88,621	90,833
YoY	11.5%	3.5%	11.4%	-1.3%	-5.5%	-1.3%	4.6%	2.5%
Revenue from the Sale of Real Estate	-	-	-	-	-	-	4,000	7,600
Leasing Revenue	79,691	82,483	91,927	90,758	85,807	84,713	84,621	83,233
Rentable Floor Space (sqm)	1,070,521	1,146,353	1,154,905	1,138,997	1,149,628	1,168,526	1,199,215	1,193,561
YoY	1.8%	7.1%	0.7%	-1.4%	0.9%	1.6%	2.6%	-0.5%
Vacancy Rate (Nationwide)	2.1%	4.2%	3.1%	6.4%	5.7%	5.4%	6.5%	7.4%
Vacancy Rate (Central Tokyo)	0.9%	0.5%	2.8%	6.5%	3.6%	2.0%	4.0%	6.4%
Rent Per Sqm (JPY '000/month)	6.47	6.40	6.91	6.92	6.65	6.45	6.33	6.23
Residential, Other	5,621	7,434	8,000	7,333	6,800	6,356	5,887	5,762
YoY	-2.3%	32.3%	7.6%	-8.3%	-7.3%	-6.5%	-7.4%	-2.1%
Operating Profit	23,184	26,025	35,560	31,521	29,226	27,482	29,216	27,189
YoY	17.3%	12.3%	36.6%	-11.4%	-7.3%	-6.0%	6.3%	-6.9%
OPM	27.2%	28.9%	35.6%	32.1%	31.6%	30.2%	30.9%	28.1%

Source: Company data

Rent per Sqm calculated as: Operating Revenue/Floor Space for Rent * (1 - Vacancy Rate (Nationwide)) / 12.

Floor Space for Rent and Vacancy Rate based on the average of values at the start and end of the year.

Central Tokyo refers to Chiyoda, Chuo, Minato, Shinjuku, and Shibuya.

Costs

NTT Urban releases a breakdown of parent-level costs in its securities filings. The Leasing segment is mainly operated by the parent company, so the parent-level cost structure does not differ significantly from that of the group as a whole. The only difference between the parent and the group is the Akihabara UDX building.

At the parent-level, costs are about 65% of operating revenue in this segment. Costs include depreciation, taxes and duties, and outsourcing expenses. Most costs are fixed.

- § **Depreciation:** on office buildings. Assets depreciate based on the declining-balance (fixed percentage) method applied over their estimated useful lives (15-50 years for buildings). The straight-line method is used for the NTT Makuhari Building, Granpark Tower, the NTT Cred Motomachi Building, and properties acquired after April 1998 (see Balance sheet).
- § **Taxes and duties:** includes fixed asset taxes and real estate acquisition taxes. Acquisition taxes spike when the company acquires large properties.
- § **Outsourcing:** management expenses for office buildings, plus maintenance and upkeep.
- § **Other:** utilities and other expenses. This includes the cost of land and buildings that are sold to generate revenue from real estate sales.



Leasing Segment Costs Breakdown (Parent) (JPYmn)	FY03/07 Act.	FY03/08 Act.	FY03/09 Act.	FY03/10 Act.	FY03/11 Act.	FY03/12 Act.	FY03/13 Act.	FY03/14 Act.
Leasing Segment Operating Revenue	84,985	89,380	91,744	90,573	84,996	82,603	82,208	87,730
Leasing Segment Costs	57,944	59,602	55,780	57,108	53,046	53,961	53,467	57,407
Costs / Operating Revenue	68.2%	66.7%	60.8%	63.1%	62.4%	65.3%	65.0%	65.4%
Personnel	464	365	346	371	427	494	479	461
Personnel / Operating Revenue	0.5%	0.4%	0.4%	0.4%	0.5%	0.6%	0.6%	0.5%
Depreciation	22,235	21,749	21,700	21,500	19,506	20,142	19,550	20,205
Depreciation / Operating Revenue	26.2%	24.3%	23.7%	23.7%	22.9%	24.4%	23.8%	23.0%
Taxes and Duties	7,051	7,235	7,269	7,798	7,894	8,413	8,164	8,034
Taxes and Duties / Operating Revenue	8.3%	8.1%	7.9%	8.6%	9.3%	10.2%	9.9%	9.2%
Outsourcing Expenses	9,771	10,172	10,526	10,826	10,381	10,255	10,478	10,447
Outsourcing Expenses / Operating Revenue	11.5%	11.4%	11.5%	12.0%	12.2%	12.4%	12.7%	11.9%
Other	18,422	20,078	15,937	16,611	14,836	14,656	14,795	18,257
Gross Profit	27,041	29,778	35,964	33,465	31,950	28,642	28,741	30,323
GPM	31.8%	33.3%	39.2%	36.9%	37.6%	34.7%	35.0%	34.6%

Source: Company data

SG&A expenses

Personnel and outsourcing comprise the bulk of SG&A expenses in the Leasing segment. NTT Urban does not release a breakdown of SG&A expenses by segment.

- § **Personnel:** Shared Research estimates personnel expenses were about JPY1.9bn in FY03/14, based on the total number of employees in the segment (193), the average parent-level salary (JPY8.6mn), the company's share of labor expenses such as social insurance.
- § **Outsourcing:** includes brokerage commissions equal to one month's rent, paid to real estate companies.

Leasing Segment: Personnel Expenses (Est.)

(JPYmn)	FY03/07	FY03/08	FY03/09	FY03/10	FY03/11	FY03/12	FY03/13	FY03/14
Personnel Expenses	1,702	1,587	1,656	1,716	1,850	1,869	1,830	1,895
Salaries and Bonuses	1,480	1,380	1,440	1,492	1,609	1,625	1,591	1,648
Number of Employees	160	166	173	188	201	196	189	193
Average Annual Salary	8.7	8.5	8.5	8.3	8.3	8.2	8.3	8.6
Social Insurance	222	207	216	224	241	244	239	247

Source: Company data (salaries and bonuses, social insurance based on Shared Research estimates)

Leasing segment features

NTT Urban focuses on office buildings in this segment, and most tenants are members of NTT Group. The company has properties in a variety of regional locations, but most are located in the Greater Tokyo Area (Tokyo Metropolis, plus Kanagawa, Chiba, Saitama, Ibaraki, Gunma, and Tochigi Prefectures). Within the Greater Tokyo Area, properties in Otemachi and Akihabara generate significant revenue. The company is expanding overseas, having established a UK subsidiary in October 2009.

Focus on office buildings

NTT Urban generates revenues by renting office buildings to corporate clients. The buildings are either transferred from NTT or built by NTT Urban on land it has acquired. At end March 2014, the company held 148 properties for rent, with a total rentable floor space of 1.2mn sqm. In FY03/14, rental revenue from office buildings and commercial facilities generated 93% of net operating income (NOI).



NOI by Type of Property (JPYmn)	FY03/07 Act.	FY03/08 Act.	FY03/09 Act.	FY03/10 Act.	FY03/11 Act.	FY03/12 Act.	FY03/13 Act.	FY03/14 Act.
Total NOI	50,387	52,748	64,277	61,480	56,722	54,318	56,397	56,109
Office Buildings, Commercial Facilities	46,745	47,669	58,209	56,153	51,812	49,702	52,259	52,204
% of Total	92.8%	90.4%	90.6%	91.3%	91.3%	91.5%	92.7%	93.0%
Residential, Others	3,641	5,078	6,068	5,327	4,909	4,615	4,137	3,905
% of Total	7.2%	9.6%	9.4%	8.7%	8.7%	8.5%	7.3%	7.0%

Source: Company data

Main tenants: NTT Group and financial companies

Most tenants are either NTT Group companies or financial companies. Revenues from NTT Group clients accounted for 32.3% of segment operating revenue in FY03/14 (parent-level). NTT Group is reducing the amount of office space it rents, as it cuts costs in the face of fierce competition, and post-war baby boomers retire, leading to a fall in employee numbers. The NTT Group also needs less space for equipment as it takes its network online.

Revenues From NTT Group Companies (Parent) (JPYmn)	FY03/07 Act.	FY03/08 Act.	FY03/09 Act.	FY03/10 Act.	FY03/11 Act.	FY03/12 Act.	FY03/13 Act.	FY03/14 Act.
Leasing Segment Operating Revenue (a)	84,985	89,380	91,744	90,573	84,996	82,603	82,208	87,730
Operating Revenue from NTT Group Companies (b)	23,776	25,144	30,186	31,191	28,236	26,600	26,341	28,366
(b) / (a)	28.0%	28.1%	32.9%	34.4%	33.2%	32.2%	32.0%	32.3%

Source: Company data

Major tenants also include financial companies such as Nomura Securities, Mizuho Securities, and UBS Securities Japan.

Focusing on Greater Tokyo but nationwide presence

At March 2014, the company held 18 major properties for rent in central Tokyo (Chiyoda, Chuo, Minato, Shinjuku, and Shibuya), for a total of 27 in the Greater Tokyo Area, compared with 41 in other regions. By floor space, central Tokyo made up 648,123sqm, out of a total of 881,037sqm in the Greater Tokyo Area; other regions totaled 1.2mn sqm.

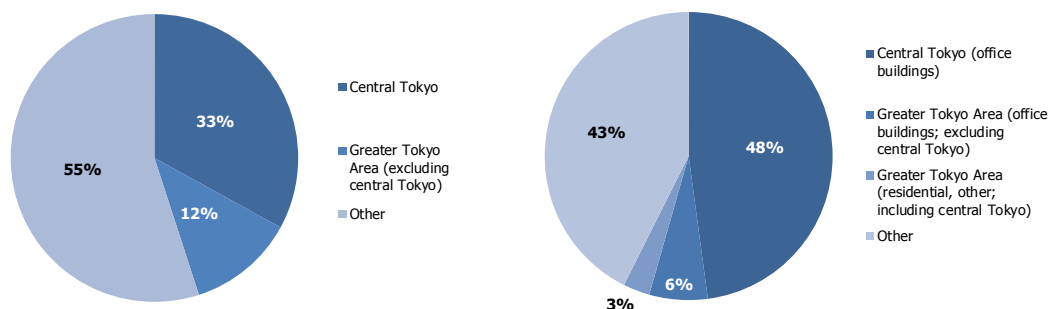
The company holds 534,000sqm of rentable floor space in the Greater Tokyo Area, or 45% of its total, including 391,000sqm (33% of its total) in central Tokyo. In other regions, the company holds 659,000sqm of rentable floor space (55% of its total).

NTT Urban's distribution of floor space by region differs from that of major real estate companies. As of the end of March 2014, 3%, 14%, and 4% of Mitsubishi Estate (TSE1: 8802), Mitsui Fudosan (TSE1: 8801), and Sumitomo Realty & Development (TSE1: 8830)'s rental properties were located outside of Tokyo. NTT Urban has a high proportion of rental properties outside of Tokyo due to mergers with NTT Group regional real estate companies.

In FY03/14, office buildings and commercial facilities in central Tokyo accounted for 48% of net operating income (excluding property sales). Office buildings and commercial facilities in the Greater Tokyo Area (excluding central Tokyo) accounted for 6% of NOI. Other properties accounted for 46% of NOI. Including property sales, office buildings and commercial facilities in central Tokyo accounted for 52% of NOI; those in the Greater Tokyo Area (excluding central Tokyo) accounted for 6%, and other properties accounted for 42%.



Floor space available for rent (left) and NOI (right) by region (FY03/14)



Source: Company data
 Central Tokyo includes Chiyoda, Chuo, Minato, Shinjuku, and Shibuya wards.
 NOI excludes property sales.

or properties.

Greater Tokyo Area properties center on Otemachi, Akihabara, and Minato

Ten major office buildings—including Urbannet Otemachi Building, Otemachi First Square, and the Akihabara UDX building—made up 81% of net operating income in the Greater Tokyo Area (including central Tokyo) in FY03/13. Otemachi and Akihabara (both in Chiyoda) accounted for large shares of Greater Tokyo Area NOI—30% and 22% respectively.

Main properties (Greater Tokyo Area)

Location	Name	Type	Size	Floor Space (sqm)	Land (sqm)	Completed	NOI (FY03/13)
Otemachi, Chiyoda Ward	Urbannet Otemachi Building	Office	22 floors above ground, 5 below	117,618	9,361	Feb. 1990	4,131
	Otemachi First Square	Office	23 floors above ground, 4 below (East Tower) 23 floors above ground, 5 below (West Tower)	54,284	6,236	Feb. 1992 May 1997	3,478
	JA Building, Keidanren Kaikan	Office	37 floors above ground, 4 below	26,517	1,506	Apr. 2009	2,287
	Otemachi Financial City North Tower	Office	31 floors above ground, 4 below	8,949	458	Oct. 2012	-
	Total (Otemachi)				207,368	17,561	-
Chiyoda Ward (excluding Otemachi)	Akihabara UDX	Office	22 floors above ground, 3 below	155,629	11,548	Jan. 2006	7,462
	Urbannet Kanda Building	Office	19 floors above ground, 1 below	14,266	1,855	Jul. 2012	-
	Total (Chiyoda Ward ex. Otemachi)			169,895	13,403	-	7,462
Minato Ward	Seavans N Building	Office	24 floors above ground, 2 below	78,488	13,144	Jan. 1991	2,371
	Granpark Tower	Office	34 floors above ground, 4 below	138,423	14,227	Aug. 1996	4,224
	Granpark Heights	Residential	28 floors above ground, 4 below			Oct. 1996	
	Total (Minato)				216,911	27,371	-
Shinjuku Ward	Tokyo Opera City	Office	36 floors above ground, 1 below	33,086	3,831	Jul. 1996	1,221
Chiba Prefecture	NTT Makuhari Building	Office	26 floors above ground, 1 below	170,499	40,602	Jun. 1993	1,815
Total				797,759	102,768	-	26,989

Source: Company data

For buildings in which the company holds a stake, a proportion of the floor space is given according to NTT Urban's stake.

Excludes property sales.

Properties in Otemachi

Major real estate companies tend to focus on developing entire areas, with considerable property portfolios in those areas. For example, Mitsubishi Estate in Marunouchi (Chiyoda, Tokyo), and Mitsui Fudosan in Nihonbashi (Chuo, Tokyo). Although it is not yet focusing on the entire area, NTT Urban does hold a number of office buildings in Otemachi (Chiyoda, Tokyo).

Otemachi (Chiyoda, Tokyo): along with neighboring areas Marunouchi and Nihonbashi, Otemachi is the home of many financial, trading, and newspaper companies. Otemachi is within walking distance of JR Tokyo Station, and is on a number of Tokyo Metro lines. The area is mostly office buildings, meaning that there are no residential buildings, and zero registered residents. The daytime population is about 72,000.

At end September 2014, asking rents were about JPY11,700/sqm for large office buildings in Otemachi (at least 60sqm per floor)—relatively expensive compared with the rest of central Tokyo, which averaged about JPY5,700/sqm (source: Sanko Estate).

NTT Urban holds the following buildings in Otemachi (district and block numbers in parentheses):

- § JA Building and Keidanren Kaikan (1-3)
- § Otemachi First Square (1-5)
- § Otemachi Financial City North Tower (1-9)
- § Urbannet Otemachi Building (2-2).

The company also has a stake in Otemachi 2-Chome Area 1st Class Urban Redevelopment Project (2-3), which covers land that Nippon Telegraph and Telephone Corporation (NTT) sits on. Shared Research expects that NTT Urban may be able to develop the area as a whole by using land owned by NTT Communications Corp. (2-1), NTT Data (TSE1: 9613) (2-2), and NTT East (2-2).

Otemachi properties and developments



Source: Company data

Akihabara UDX

Completed in March 2006, the Akihabara UDX building is located to the north of JR Akihabara station. It was NTT Urban's first major in-house development project after development wound down on land and properties transferred from the NTT Group between 2000 and 2005.



Akihabara: encompasses Sotokanda near JR Akihabara Station and Kanda-Sakumacho in Chiyoda (Tokyo), along with Akihabara in Taito (Tokyo). JR lines, the Tsukuba Express line, and the Hibiya Line (Tokyo Metro) connect in Akihabara, and the area is within walking distance of Iwamotocho Station (Tokyo Metro; Shinjuku Line) and Suehirocho Station (Tokyo Metro; Ginza Line). Akihabara Electric Town is the home of many electronics and software stores.

As of the end of September 2014, asking rents were about JPY5,300/sqm for large office buildings in Sotokanda and Iwamotocho (at least 60sqm per floor)—slightly lower than the average for central Tokyo of about JPY5,700/sqm (source: Sanko Estate).

In December 2001, the Tokyo Metropolitan Government auctioned off 15,728sqm of land in Akihabara. The government held a design competition where both the acquisition price and entrants' plans for the land were considered. NTT Urban's joint entry with Daibiru Corporation (TSE1: 8806) and Kajima Corporation (TSE1: 1812) won the competition. Funding for the project came from investments from NTT Urban and Kajima, plus financing backed by revenues from the project.

UDX Tokutei Mokuteki Kaisha (UDX TMK; UDX Special Purpose Company) leases the property to tenants. In March 2008, NTT Urban made UDX TMK a consolidated subsidiary after acquiring preferred stock in UDX TMK from Kajima, thus increasing its stake from 50% to 66%. NTT Urban subsequently cut its stake from 66% to 61% in November 2013 with the sale of 5% of the voting rights to the Premier Investment Corporation.

Properties outside Greater Tokyo Area

NTT Urban holds 41 major properties outside Greater Tokyo, accounting for 55% of floor space at major properties (FY03/14) and 43% of net operating income (NOI) (FY03/13). Most were once owned by NTT, and are generally located in urban areas. The lion's share of these properties are small or midsize office buildings; 20 have a floor space of less than 10,000sqm, and the average floor space per building is 19,193sqm (excluding Grand Front Osaka).

The table below shows the eight properties that made significant contributions to NOI in FY03/13. In that year, these properties together made up 49% of total NOI at properties outside the Greater Tokyo Area. Urbannet Nagoya Building (Aichi), NTT Cred Motomachi Building (Hiroshima), and NTT-T Building (Fukuoka) made particularly significant contributions to revenue. The company has not released Grand Front Osaka's contribution to NOI. But its book value was JPY50.7bn when it was completed in FY03/13, and Shared Research expects that it contributes about JPY3bn to NOI.


Main properties (outside the Greater Tokyo Area)

Name, Location	Type	Size	Floor Space (sqm)	Land (sqm)	Completed	NOI (FY03/13)
Urbannet Nagoya (Higashi, Nagoya)	Office	22 floors above ground, 3 below	75,047	5,997	Sep. 2005	2,121
Grand Front Osaka (Kita, Osaka)	Office	38 floors above ground, 3 below	481,628	33,251	Mar. 2013	-
Tradepia Yodoyabashi (Chuo, Osaka)	Office	21 floors above ground, 3 below	48,795	6,517	Oct. 1975	548
NTT Cred Okayama (Kita, Okayama)	Office	21 floors above ground, 2 below	35,685	4,161	Feb. 1999	466
NTT Cred Motomachi (Naka, Hiroshima)	Office	35 floors above ground, 2 below	160,418	21,801	Mar. 1994	3,232
NTT Hakushima (Chuo, Hiroshima)	Office	14 floors above ground, 1 below	38,813	7,052	Apr. 1992	717
NTT-T (Chuo, Fukuoka)	Office	7 floors above ground, 3 below	61,506	8,526	Sep. 1996	2,039
Urbannet Sapporo (Chuo, Sapporo)	Office	10 floors above ground, 1 below	31,255	5,639	Oct. 2004	764
Total						9,887

Source: Company data

Vacancy rates and rents seem stable for regional office buildings. Compared with Tokyo, relatively limited demand is balanced by limited supply. The vacancy rate was higher at regional properties than properties in central Tokyo in FY03/14, with the national vacancy rate at 7.4%, compared with 6.4% in central Tokyo.

Overseas

In October 2009, NTT Urban established a UK subsidiary. In September 2011, the company established an office in Australia, followed by offices in Singapore and the US in April 2013 and October 2013 respectively.

As Japan's population falls, NTT Urban intends to diversify its portfolio by expanding overseas. According to the company, yields are higher on overseas real estate than domestic real estate, although there is forex risk. The company also plans to negate any competitive edge local companies may have by focusing on collecting data, thus making overseas expansion a viable business. Overseas operations generated operating profit of about JPY2.7bn in FY03/13 (mainly from property sales and charges for breaches of contract); this figure fell to about JPY500mn in FY03/14.

London

NTT Urban has acquired four properties in the UK. It has focused on increasing the value of these properties by driving up their occupancy rate, raising rents, and renovating them.

- § **103 Mount Street:** acquired in November 2009, this was the company's first overseas acquisition. It successfully increased the property's value and sold it in February 2012. The company booked revenue from the sale of this property in FY03/13.
- § **1 King William Street (office building):** acquired in June 2011 for GBP67.5mn (about JPY8.9bn). Located at 1 King William Street, London, EC4, this property has seven floors above ground and one below, with a total floor space of about 8,400sqm. It is in the City of London (the Square Mile), where many banks, insurance companies, and brokerages are located. The company began renovating the property in August 2014, and plans to complete construction in 2016.
- § **20 Finsbury Circus, London EC2:** acquired in September 2012 for GBP42.9mn (about JPY5.4bn). This property has seven floors above ground and one below, with a total floor space of 8,000sqm.
- § **265 Strand, London, WC2R 1BH:** acquired in April 2013 for GBP77mn (about JPY11.6bn). This



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property has eight floors above ground and one below, with a total floor space of about 7,000sqm.

Melbourne

NTT Urban began operating in Australia after establishing a subsidiary there in September 2011. In November 2011, the company's subsidiary established a residential development company together with Sumitomo Forestry Co., Ltd. (TSE1: 1911). Both companies had a 50% stake. This residential development company has invested in about 402,500sqm of land in and around Melbourne, spread across 346 lots for residential properties. Against an investment of about JPY1.5bn, the company expects to book revenue of JPY3bn over multiple years, starting in FY03/15.

New York

In October 2013, the company established a subsidiary in the US to invest in and manage real estate assets. In December 2013, NTT Urban announced its participation in a redevelopment project for 119 West 25th Street, a combined office and commercial building in New York City. Construction began in February 2014, and is expected to be completed by March 2015. The total cost of the project is JPY10bn, with NTT Urban's investment at JPY1.3bn (USD/JPY100). The company aims to increase the value of this property by renovating it, and then sell it once the lease period ends.

Southeast Asia

In April 2013, NTT Urban opened a branch in Singapore to serve as a regional base for Asia. The company is using the NTT Group's network of local contacts to build relationships with local partners as it forms a business plan for this region.



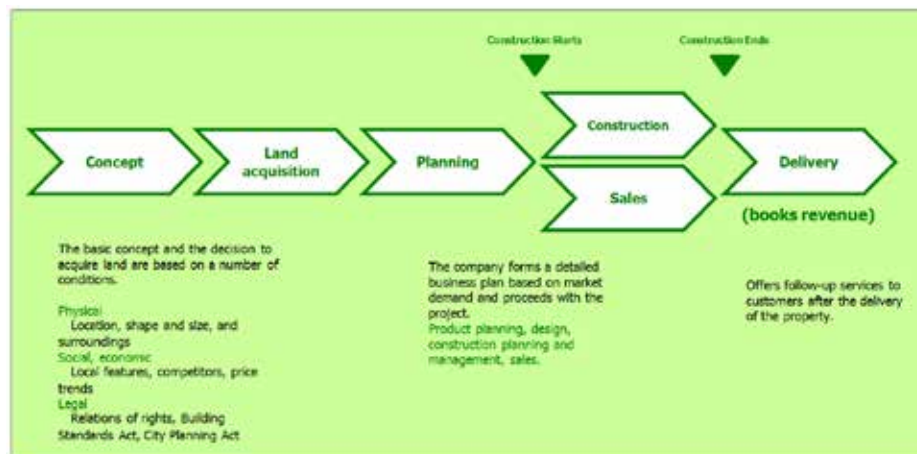
Residential Property Sales segment

This segment accounted for 42.0% of sales and 22.1% of operating profit in FY03/14. NTT Urban sells residential properties, mainly condominiums.

Overview

NTT Urban buys land, then plans and designs, builds, and sells residential properties. The company outsources construction and sales, selecting subcontractors based on the specifics of each property. The whole process takes about two to three years, making product planning based on expected future market conditions and demand difficult. Changes in the wider economy thus affect this segment more than the office leasing business.

Residential property development



Source: Company data

Earnings structure

Operating revenue

Operating revenue depends on the number of properties sold and average price.

- § **Properties sold:** depends on the wider economy, but NTT Urban's condominium sales (by unit) are increasing over the long term. In FY03/13, the company surpassed annual sales of 1,000 units, and its midterm target is to hit 2,000 units per year by FY03/19. Per the medium-term vision, the company plans to focus on profits, while delivering a steady supply of about 1,300 units per year.
- § **Average price:** the company focuses on properties that cost about JPY40mn, but this may change depending on land acquisitions. It targets gross profit of at least 20% when acquiring land for development.



Residential Property Sales: Operating Revenue (JPYmn)	FY03/07 Act.	FY03/08 Act.	FY03/09 Act.	FY03/10 Act.	FY03/11 Act.	FY03/12 Act.	FY03/13 Act.	FY03/14 Act.
Condominiums								
Operating Revenue	25,698	30,319	24,845	30,677	31,626	22,392	47,371	75,486
Number of Properties/Lots	670	625	563	843	716	458	1,052	1,423
Average Price	38.4	48.5	44.1	36.4	44.2	48.9	45.0	53.0
Greater Tokyo Area								
Operating Revenue	18,167	12,299	14,731	15,959	22,948	16,330	27,979	54,073
Number of Properties/Lots	469	212	342	421	463	351	564	876
Average Price	38.7	58.0	43.1	37.9	49.6	46.5	49.6	61.7
Other Regions								
Operating Revenue	7,531	18,020	10,114	14,718	8,678	6,062	19,392	21,413
Number of Properties/Lots	201	413	221	422	253	107	488	547
Average Price	37.5	43.6	45.8	34.9	34.3	56.7	39.7	39.1
Residential Lots								
Operating Revenue	6,981	6,805	7,841	9,040	7,785	4,098	6,618	4,049
Number of Properties/Lots	232	328	387	254	326	48	63	136
Greater Tokyo Area								
Operating Revenue	4,726	3,474	550	2,481	1,957	281	4,195	519
Number of Properties/Lots	193	164	-	12	20	6	6	19
Other Regions								
Operating Revenue	2,255	3,331	7,291	6,559	5,828	3,817	2,423	3,530
Number of Properties/Lots	39	164	387	242	306	42	57	117
Other	-	1,289	-	1,925	2,312	1,993	948	-
Total Operating Revenue	32,680	38,414	32,688	41,643	41,725	28,484	54,939	79,527
YoY	38.8%	17.5%	-14.9%	27.4%	0.2%	-31.7%	92.9%	44.8%
Operating Profit	5,228	6,593	-6,018	-10,498	533	1,374	2,914	8,222
YoY	16.1%	26.1%	-	-	-	157.8%	112.1%	182.2%
OPM	16.0%	17.2%	-	-	1.3%	4.8%	5.3%	10.3%

Source: Company data

Costs

As in the Leasing segment, NTT Urban releases a breakdown of parent-level costs in its securities filings. Excluding FY03/09-FY03/11, the Residential Property Sales segment is operated only by the parent company, so the parent-level cost structure does not differ significantly from that of the group as a whole. Land and administrative expenses are the main costs in this segment.

- § **Land:** about 35% of operating revenue, depending on the mix of properties by area. Compared with regional properties, land accounts for a larger proportion of the selling price in Greater Tokyo Area properties. Because properties take about three years to develop, changes in the price of land during that time affect its share of the costs.
- § **Administrative expenses:** mostly architectural expenses. Administrative expenses are about 45% of operating revenue. Also, per the Accounting Standards for Measurement of Inventories, the company books evaluation losses on inventory as an administrative expense if the net selling price of condominiums falls below the acquisition cost (i.e., if the book value is not recoverable). The company booked such losses in FY03/09 (JPY7.9bn) and FY03/10 (JPY12.7bn).

Accounting Standards for Measurement of Inventories: inventory assets are booked on the balance sheet at the acquisition cost. However, the book value of the asset will be reduced to the net selling price if the net selling price falls below the acquisition cost. In such cases, the company books impairment losses (evaluation losses on inventory).



Residential Property Sales Costs Breakdown (Parent) (JPYmn)	FY03/07	FY03/08	FY03/09	FY03/10	FY03/11	FY03/12	FY03/13	FY03/14
	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.
Residential Property Sales Operating Revenue	32,680	38,415	29,094	36,505	38,014	28,484	54,939	79,537
Residential Property Sales Costs	25,443	28,147	28,808	42,595	33,346	23,392	45,596	62,282
Costs / Operating Revenue	78%	73%	99%	117%	88%	82%	83%	78%
Land	11,321	10,825	6,951	10,914	13,889	10,804	20,930	26,670
Land / Operating Revenue	34.6%	28.2%	23.9%	29.9%	36.5%	37.9%	38.1%	33.5%
Personnel	20	48	24	20	7	18	11	4
Personnel / Operating Revenue	0.1%	0.1%	0.1%	0.1%	0.0%	0.1%	0.0%	0.0%
Administrative Expenses	14,101	17,273	21,832	31,661	19,448	12,570	24,654	35,606
Administrative Expenses / Operating Revenue	43.1%	45.0%	75.0%	86.7%	51.2%	44.1%	44.9%	44.8%
Gross Profit	7,237	10,268	286	-6,090	4,668	5,092	9,343	17,255
GPM	22.1%	26.7%	1.0%	-16.7%	12.3%	17.9%	17.0%	21.7%

Source: Company data

SG&A expenses

Advertising, outsourcing, and personnel expenses comprise the bulk of SG&A expenses in this segment. Most expenses are variable, excluding personnel. NTT Urban does not release a breakdown of SG&A expenses by segment, but Shared Research estimates the SG&A-to-sales ratio was about 11% in this segment in FY03/14.

- § **Advertising:** newspaper advertisements and leaflets in this segment account for most of the group's advertising expenses. These expenses move in line with operating revenue in this segment, and have accounted for 5-7% of segment operating revenue since FY03/10.
- § **Outsourcing:** the company pays real estate companies brokerage commissions at 3% of the selling price of the property (condominium).
- § **Personnel:** Shared Research estimates personnel expenses were about JPY800mn in FY03/14, based on the total number of employees in the segment (80), the average parent-level salary (JPY8.6mn), and the company's share of labor expenses such as social insurance.

Advertising Expenses (JPYmn)	FY03/07	FY03/08	FY03/09	FY03/10	FY03/11	FY03/12	FY03/13	FY03/14
	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.
Advertising Expenses (Cons.)	510	1,817	2,350	2,478	1,985	1,962	3,676	5,138
Advertising Expenses / Residential Property Sales Operating Revenue	1.6%	4.7%	7.2%	6.0%	4.8%	6.9%	6.7%	6.5%

Source: Company data

Residential Property Sales: Personnel Expenses (Est.)

(JPYmn)	FY03/07	FY03/08	FY03/09	FY03/10	FY03/11	FY03/12	FY03/13	FY03/14
Personnel Expenses	538	608	664	694	704	683	689	759
Salaries and Bonuses	467	529	578	603	612	594	599	660
Number of Employees	60	65	71	75	73	72	73	80
Average Annual Salary	8.7	8.5	8.5	8.3	8.3	8.2	8.3	8.6
Social Insurance	70	79	87	91	92	89	90	99

Source: Company data (salaries and bonuses, social insurance based on Shared Research estimates)



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Residential Property Sales segment features

In this segment, NTT Urban sells residential properties, mainly condominiums. The company also has its own condominium brand, Wellith. It primarily develops and sells condominiums for families, mostly in Tokyo, Osaka, and Fukuoka. Most condominiums have three bedrooms, are 70-80sqm in size, and sell for about JPY40mn.

According to the company, its status as a member of the NTT Group reassures potential purchasers of condominiums. But Shared Research understands that barriers to entry are low in the condominium development industry and it is difficult to either pursue economies of scale or gain a competitive edge. According to the Real Estate Economic Institute, the top 10 suppliers (by number of condominiums) accounted for just 45% of the total in financial year 2013 (NTT Urban ranked 16th). Shared Research thus expects that NTT Urban's position in the industry is unlikely to affect its profitability or growth prospects.

View the [full report](#).



SymBio Pharmaceuticals (4582)

Specialty pharmaceutical company focusing on the oncology, hematology, and autoimmune space. In-licenses drugs for niche markets from US and EU biotech companies to address the underserved medical needs of patients in Japan and the rest of Asia.

SymBio licenses drugs for development and sale in Japan and Asia Pacific

President and CEO, Fuminori Yoshida, established SymBio in March 2005 to address underserved medical needs in Japan and the Asia Pacific region, with main focus on oncologic, hematologic and autoimmune diseases. The company aspires to be a leading specialty pharmaceutical company in the Asia Pacific region. Its strategic approach to drug development negates the need for costly and time-consuming investment in earlier-stage R&D activities with an in-house search and evaluation team to identify and assess only quality drug candidates having proof-of-concept established in human subjects.

Strategy Overview (details to follow)

- § **Proof-of-concept:** The company reduces product development risk by focusing on drug candidates undergoing clinical development with preclinical/clinical data establishing safety and efficacy in human subjects.
- § **Screening:** The company uses an in-house search and evaluation team to screen and evaluate drug candidates having a high unmet medical in Japan and other Asia Pacific markets with the potential to secure marketing approval in a shorter clinical development period. A select number of drug candidates will then undergo rigorous review by the company's Scientific Advisory Board (SAB).
- § **Fabless:** The company outsources preclinical/clinical studies and manufacturing to reduce fixed costs.
- § **New areas:** The company targets drugs with the potential to receive orphan drug designation and thus, secure a longer marketing exclusivity period due to high unmet medical needs and smaller patient populations. Larger pharmaceutical companies may be reluctant to develop drugs in niche markets due to limited sales potential—SymBio sees an opportunity to avoid intense competition in the marketplace by focusing on the development of orphan or 'orphan-like' drugs.
- § **Asia expansion strategy:** The company identifies and capitalizes on opportunities to grow sales by acquiring the right to drug candidates, mainly from US or EU pharmaceutical and biotech companies, for clinical development and commercialization in Japan and other key Asia Pacific markets.

Proof-of-concept: Per company materials, "confirming the efficacy and safety of a new drug candidate in human subjects through clinical trials..."

As of September 2014, the company had evaluated over 395 drug candidates from 315 companies since its establishment in March 2005, signing on three deals.

According to the company, the development of a drug—from preclinical studies to approval—usually takes 10 to 17 years. A newly developed chemical compound has a 1/100,000 chance of securing regulatory approval. By contrast, the company's first product, Treakisym, received approval for domestic production only five years after signature of the License Agreement. The company achieved sales of JPY4.2bn in Japan in the third year after launch (FY12/13), equivalent to a market share of over 50%.

An example of the company's ability to identify and pursue quality in-licensing opportunities with proof-of-concept established is the license agreement signed for the development and commercialization right to rigosertib—currently in phase I clinical trials in Japan. In July 2011, once phase II clinical trials in the US established the drug's proof-of-concept, SymBio secured an exclusive right to all indications for rigosertib in Japan and South Korea from Onconova within seven months from the initial meeting between the two companies. The following year, Baxter International Inc. entered into an agreement

with Onconova for the commercialization rights to rigosertib in Europe with a USD50mn upfront payment and USD337.5mn in pre-commercial milestones tied to MDS and pancreatic cancer indications (in addition to an existing equity investment with Onconova of USD55mn), a market that is approximately twice the size of Japan.

Products under development: Treakisym and rigosertib (IV and oral)

Treakisym

For patients that have developed resistance to other drugs, Treakisym is safer and more effective than existing treatments. In October 2010, Symbio received approval to use the drug in Japan for relapsed or refractory low-grade NHL and MCL, having previously received orphan drug designation and priority review for these two indications.

Refractory conditions are difficult to treat, or do not respond to treatment.

A pivotal phase II clinical trial for Treakisym in first-line low-grade NHL and MCL has been completed in Japan, with completion of patient enrollment for the pivotal phase II clinical trial in CLL in November 2014. The company plans to file for marketing approval of first-line low-grade NHL and MCL in FY12/15, and file the sNDA for CLL in 1H FY12/16.

Rigosertib

Rigosertib is a treatment for myelodysplastic syndromes (MDS). According to the company, rigosertib may be used alone or—due to its safety—in combination with other anticancer drugs. The drug is being developed in both intravenous (IV) and oral forms.

In February 2014, Onconova completed phase III clinical trials for the IV form of rigosertib in patients with higher-risk MDS who had progressed on, failed or relapsed after prior therapy with hypomethylating agents (HMAs). For the oral form of the drug, Onconova is conducting a phase II clinical trial in the US for the first-line treatment of transfusion-dependent lower-risk MDS. In Japan, Symbio has been conducting a phase I clinical trial for the oral formulation in lower-risk MDS patients since 2013. The company expects to submit an application in CY2018 and receive marketing approval for the oral form in 2019.

Revenue: milestone payments and Treakisym; profitability target:

FY12/19-FY12/20

Revenue comes from milestone payments and product sales. Operating losses have persisted since the company's foundation with the exception of FY12/08 when the company booked an operating profit due to a one-time contract payment from Eisai for an exclusive domestic right to sell Treakisym (see Historical performance). For FY12/14, the company expects an operating loss and net loss of JPY1.7bn each. Per the mid-term plan, the company expects to post annual operating losses of JPY1.5bn to JPY2.5bn through FY12/16.

Symbio seeks to post a profit in FY12/19-FY12/20 after receiving marketing approval for indications now under development. In light of conversations with management, Shared Research thinks the company may post sales of JPY8.5bn and JPY10.0bn and operating profit of between JPY900mn and JPY2.6bn in FY12/20. Caveat: this assumes that indications for bendamustine and rigosertib receive regulatory approval as planned (see Long-term outlook).

Symbio expects operating losses to total JPY5.8bn-JPY6.5bn through FY12/16. To achieve growth in the mid-term, the company needs to in-license new drug candidates for development and commercialization. In FY12/13, the company had cash and deposits plus securities of about JPY7.3bn. More cash may be

necessary to continue bankrolling growth.

Business strategy

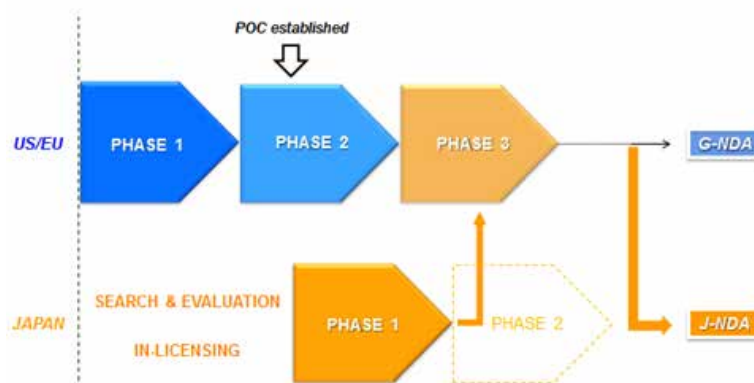
Unlike conventional pharmaceutical companies, SymBio does not conduct basic research or develop its own drug candidates in labs or clinics. Rather, it in-licenses drug candidates from pharmaceutical and biotech companies based in the US or EU.

The company focuses on developing drugs that have strong safety and efficacy data in clinical trials, providing an opportunity to develop new drugs more likely to succeed and secure regulatory approval with the use of bridging data whenever possible to shorten development timelines. Because the company does not conduct basic research, the company can file an NDA and start selling a drug within five to six years of securing the development and commercialization right. The company increases the chance that drug candidates it in-licenses will be approved in the future through an effective in-house screening process and rigorous evaluation by the company's Scientific Advisory Board. The overall aim is to reduce development risk by reducing development costs and shortening approval timelines, lifting earnings.

SymBio targets compounds with an established proof-of-concept

The pharmaceutical business requires substantial financial commitment in terms of upfront investment, not to mention the number of years of development required in order to realize a return on the investment and the high risk of failure in clinical studies from Phase I through III. According to the company, the probability of a chemical compound having a signal with pharmacological activity in a particular disease being approved as a drug is 1/20,000 to 1/25,000, and only 15-20% of drugs that manage to enter the marketplace achieve profitability for the sponsor. Given the high rate of attrition of drug candidates in clinical development, SymBio reduces development risk by only targeting quality drug candidates undergoing clinical development with proof-of-concept established in human subjects and/or market sales. NDA filings that use clinical data generated overseas can expedite product development in Japan and other parts of Asia, slashing development costs and improving the overall success rate.

Post-proof-of-concept strategy



Source: Company data

It may be possible for the company to file NDAs in Japan by bridging Japanese Phase I clinical trials with foreign data through its participation in global Phase III studies, thereby avoiding the need to complete



domestic Phase II and/or Phase III studies for marketing approval.

Screening: independent search network plus evaluation experience

The company identifies quality chemical compounds owned by pharmaceutical and biotech companies in the US or EU using a proprietary “search engine” and rigorous evaluation process. These candidates are first screened in-house by the search and evaluation team, whose members have extensive product development experience working at various pharmaceutical and biotech companies.

Onsite due diligence

After a select team, including the President and CEO, visits the potential licensor to conduct due diligence, a decision is made regarding whether to pursue the in-licensing opportunity based on the results of onsite due diligence and input from the company’s SAB members.

Only four drugs out of 395 have met the company’s stringent criteria since its foundation

As of September 2014, the company had screened 395 products under development or marketed by over 315 companies. It acquired four. The first was Treakisym, which Eisai Co., Ltd. (TSE1: 4523) sells in Japan. Clinical trials for additional Treakisym indications were underway as of July 2014. A second drug candidate, an antiemetic transdermal patch, was in-licensed from Abeille Pharmaceuticals, Inc. in March 2007, but the program was discontinued in 2013 when the phase II trial failed to show statistically significant efficacy versus placebo in reducing radiation-induced nausea and vomiting (RINV) in 189 patients. In addition to Treakisym, the company is also developing both the IV and oral formulations of rigosertib, the third and fourth drugs.

Scientific Advisory Board

The Scientific Advisory Board is comprised of former directors of pharmaceutical companies, researchers, and doctors, and meets three times a year. Typically, the SAB panel evaluates two to three drug candidates that have been selected via the company’s in-house screening process. This in-house screening of only those drug candidates having proof-of-concept established in human subjects with supportive efficacy and safety data followed by SAB assessment enables the company to reduce development risk and to pursue only those opportunities having the best chance of reaching the marketplace.



Scientific Advisory Board members

Name	Profile
George Morstyn, M.D., Ph.D.	Presently Chairman GBS Venture Capital firm, Deputy Chairman Victorian Comprehensive Cancer Centre, Director of Co-operative Research Centre for Cancer Therapeutics and Proacta. Former Senior Vice-President of Development and CMO at Amgen Inc..
Robert Lewis, M.D., Ph.D.	Former Senior Vice-President of US R&D, Aventis Pharmaceuticals; Chief Scientific Officer, Cell Therapeutics; Head of Discovery Research, Syntex Pharmaceuticals; Associate Professor, Harvard Medical School Currently serves as consultant in Immunology/Inflammation, Roche Palo Alto; Adjunct Faculty Member, Rockefeller University, New York
Makoto Ogawa, M.D., Ph.D.	Honorary President, Aichi Cancer Center
Tatsutoshi Nakahata, M.D., Ph.D.	Deputy Director and Professor of Center for iPS Cell Research and Application (CiRA), Institute for Integrated Cell-Material Sciences, Kyoto University Honorary member, The Japanese Society of Hematology
Toshio Suda, M.D., Ph.D.	Professor, Keio University School of Medicine (Chair in Developmental and Differential Biology) Guest Professor, Institute of Molecular Embryology and Genetics, Kumamoto University Vice President, The Japanese Society of Hematology in 2012
Tsutomu Takeuchi, M.D., Ph.D.	Professor of Medicine, Keio University, School of Medicine (Division of Rheumatology, Clinical Immunology, Department of Internal Medicine)
Kenzaburo Tani, M.D., Ph.D.	Director, Medical Institute of Bioregulation, Kyushu University Professor, Kyushu University Hospital (Department of Advanced Molecular and Cell Therapy) Vice-Chairman, The Japan Society of Gene Therapy in 2011 and 2012
Shinji Nakao, M.D., Ph.D.	Professor, Kanazawa University College of Medical, Pharmaceutical and Health Sciences, Division of Cancer Medicine Cellular Transplantation Biology (Hematology/Respirology) Executive Director, The Japanese Society of Hematology in 2012
Toshio Heike, M.D., Ph.D.	Professor, Kyoto University Graduate School of Pharmaceutical Sciences (Developmental Medicine, Pediatrics) Director, Clinical Genetics Unit, Kyoto University Hospital Director, Division for iPS Cell Application Development, Kyoto University Hospital

Source: Company website

A flawless strategy with a lean management team

SymBio seeks to reduce costs and raise profits by finding the right partner(s) to develop and commercialize drugs nimbly and efficiently through flawless execution.

Specifically, the company designs clinical trial protocols and whenever possible, will participate in global phase III studies being conducted by its partner(s) overseas with the aim of shortening development timelines in Japan. It may be possible to file NDAs in Japan using foreign data to support or "bridge" data generated in Japanese clinical trials, thereby avoiding the need to complete domestic Phase II and/or Phase III studies for marketing approval. The company uses its well established network for bendamustine to coordinate with medical professionals, outsourcing routine development duties. Production is also outsourced either to the company that originally granted the product license, or to other domestic or foreign manufacturer(s).



Focusing on rare oncologic, hematologic, and autoimmune diseases

SymBio focuses on drugs for underserved medical needs—even when the market may be as small as JPY10bn—rather than focusing on blockbuster drugs with sales in the hundreds of billions of yen. It aims to take advantage of therapeutic areas that tend to be overlooked in the pharmaceutical industry and thus, lack effective drugs.

According to the company, globally Japan has the third largest oncology market after the US and EU, and the market is expected to continue to expand due to Japan's aging population. However, regarding the type of tumors that anticancer drugs can effectively treat, there is a considerable range of indications with a limited number of patients who will benefit from approved cancer treatments, particularly in the elderly population where the occurrence of serious adverse events can be prohibitive. As a result, barriers to entry are high—developing cancer drugs for niche markets is especially difficult and requires a high level of expertise. Concerns about having sufficient profit margins from marketed drugs to fund large operations means that major pharmaceutical companies may be reluctant to target indications with limited patient numbers for development, presenting an opportunity with fewer competitors in the marketplace for smaller and more specialized pharmaceutical companies such as SymBio.

Strategy for expansion in Asia

Demand for medical services is expected to rise in Asia as economies continue to grow. Yet—as in Japan—there remains a lack of effective treatments for rare oncologic, hematologic, and autoimmune diseases. The company is seeking to develop new drugs that are complementary to Treakisym and rigosertib to sell in China/Hong Kong, Taiwan, South Korea, and Singapore, as well as in Japan.



Pipeline

Name/Code	Category	Licensed Country	Indications	Development Stage	Partner
Treakisym SyB L-0501	Anti-cancer agent	Japan	Refractory/relapsed low-grade NHL	Market approval (2010/10/27)	Eisai Co., Ltd. (co-developed; exclusive sales rights granted to Eisai)
			Refractory/relapsed mantle cell lymphoma	Market approval (2010/10/27)	
			Refractory/relapsed intermediate/high-grade NHL	PII (completed)	
			Initial low-grade NHL	PII (completed)	
			Initial mantle cell lymphoma	PII (completed)	
			CLL	PII (underway)	
		Singapore	low-grade NHL, CLL	Market approval (2010/1/20)	Eisai Co., Ltd. (exclusive development and sales rights granted to Eisai)
		Korea	CLL, MM	Market approval (2011/5/31)	Eisai Co., Ltd. (exclusive development and sales rights granted to Eisai)
			Refractory/relapsed low-grade NHL	Market approval (2014/6/16)	
		China	low-grade NHL	PIII (underway)	Teva Pharmaceutical Industries Ltd. (China) (exclusive development and sales rights granted to Teva)
Hong Kong	low-grade NHL, CLL	Market approval (2009/12/30)			
Taiwan	low-grade NHL, CLL	Market approval (2011/10/18)	Innopharmax, Inc. (Taiwan) (exclusive development and sales rights granted to Innopharmax)		
Rigosertib (intravenous) SyB L-1101	Anti-cancer agent (intravenous)	Japan	Refractory/relapsed high-risk MDS	PI (underway)	—
		Korea		—	—
Rigosertib (oral) SyB C-1101	Anti-cancer agent (oral)	Japan	Blood transfusion-dependent, low-risk MDS	PI (underway)	—
			Initial treatment of intermediate- and high-risk MDS (together with Azacitidine)	PI (underway)	—
		Korea	—	—	—

Source: Company website

SyB L-0501 (generic: bendamustine HCl; product name: Treakisym)

SyB L-0501 (Treakisym) or bendamustine hydrochloride is an anticancer agent. It is used as a treatment for low-grade NHL, MCL, MM and CLL.

*Bendamustine was developed in 1971 by Jenapharm in former East Germany, where it was approved as a first-line treatment for low-grade NHL, MM, and CLL. After the unification of Germany in 1990, bendamustine was again evaluated for its effectiveness against these indications. In 2005, Germany approved the use of the drug for untreated low-grade NHL, MM and CLL. The drug was also approved in several other European countries in 2007. In the US, Treanda (bendamustine) was approved in March 2008 for relapsed or refractory NHL and CLL, with sales in October the same year. A separate application was filed in the US (2008) for the additional indication of previously untreated CLL.

According to the company, no cross-resistance has been shown for this drug, which means it is safer and more effective than existing treatments for target indications. In October 2010, SymBio received regulatory approval in Japan to market the drug for relapsed or refractory low-grade NHL and MCL. Eisai covers 100% of the marketing and sales costs, and has been selling the drug since its launch in December 2010 (see Earnings structure).

The company has completed phase II clinical trials for Treakisym in the first-line treatment of low-grade NHL and MCL. Patient enrollment in a phase II trial for CLL was completed in November 2014. The



company aims to secure approval to market Treakisym for these indications in FY12/16.

Lymphatic cancer

Lymphatic cancer is a malignant growth of lymphatic corpuscles in white blood cells. It causes inflammation of the lymphatic nodes. Lymphatic cancer is divided into Hodgkin's lymphoma (HL) and non-Hodgkin's lymphoma (NHL). Among the Japanese population, only 4% of lymphatic malignancies are HL. About 70-80% of NHL cases affect B-cells; the remaining 20-30% affect T/NK cells. Physicians examine tissue and determine the method of treatment depending on the type of cancerous cells observed: they look at the grade (high, intermediate, or low, depending on the aggressiveness of the disease) and clinical staging, which shows to what extent the cancer has spread.

Lymphatic malignancy: frequency by type

Category	Frequency
Non-Hodgkin's lymphoma	94%
B lymphocytes	69%
T/NK lymphocytes	25%
Hodgkin's lymphoma	4%
Other	2%

Source: Japanese Society for Lymphoreticular Tissue Research (JSLTR)

Treakisym in-licensed from Astellas; Eisai handles sales

In December 2005, SymBio signed a license agreement for the exclusive right to bendamustine in Japan with Astellas Deutschland GmbH ("Astellas"), a subsidiary of Astellas Pharma Inc. The company entered into a second license agreement with Astellas in March 2007 to extend its exclusive development and commercialization right for bendamustine to China/Hong Kong, Taiwan, South Korea, and Singapore.

In August 2008, SymBio granted Eisai Co., Ltd. ("Eisai") the co-development and exclusive marketing right for Treakisym in Japan. Under the agreement, SymBio receives one-time payments from Eisai as well as milestone payments based on the clinical trial stage for a particular indication, plus revenues after supplying Treakisym to Eisai. Eisai shoulders half of the development costs for Treakisym, including labor costs for researchers and outsourcing costs for clinical trials (see Earnings structure).

Approval for relapsed or refractory low-grade NHL, MCL

In October 2010, five years after acquiring the right to Treakisym, SymBio received marketing approval in Japan for relapsed or refractory low-grade NHL and MCL. In FY12/13—three years after the Japan launch of the drug in December 2010—Treakisym sales reached JPY4.2bn. According to company estimates, the drug has achieved a market share of more than 50%.

According to the company, Japan has about 4,700 patients who suffer from relapsed or refractory NHL and MCL. SymBio thinks annual Treakisym sales could reach JPY4.5bn-JPY5.0bn.

Treakisym: adding more indications

As of July 2014, Treakisym was under phase II development by the company for the first-line treatment of low-grade NHL /MCL, and CLL as part of its plans for label expansion.



Market for Treakisym® and number of patients

	Non-Hodgkin's Lymphoma		Chronic Lymphatic Leukemia
	Low-grade B-cell	High and intermediate grade	
Initial treatment	Number of patients: 7,100 Obtain approval in FY12/15 (planned) Phase III trials complete in Europe Phase II trials complete in Japan		Number of patients: 700 Obtain approval in FY12/16 (planned)
Relapsed and refractory conditions	Number of patients: 4,700 Approval obtained Approval obtained in Japan in Oct. 2010 Sales launched in Japan in Dec. 2010	Number of patients: 6,700 Consultation on application underway Phase II trials complete in Japan	Approval obtained in Europe and the US Phase II trials underway

Source: Company data

First-line treatment of low-grade NHL and MCL

In Japan, R-CHOP therapy—a combination of rituximab with CHOP chemotherapy drugs (cyclophosphamide, doxorubicin, vincristine, and prednisolone)—is standard first-line treatment for low-grade NHL and MCL despite the frequent occurrence of adverse events due to toxicity. Researchers have yet to establish the most appropriate method of treatment using rituximab in combination with chemotherapy.

Phase III clinical trials conducted overseas have demonstrated that rituximab in combination with bendamustine (R-B therapy) was safer and more efficacious than standard R-CHOP therapy for previously untreated low-grade B-cell NHL. Based on these results, the National Comprehensive Cancer Network (NCCN) and European Society for Medical Oncology (ESMO) guidelines recommend the use of R-B therapy as first-line therapy for patients with untreated low-grade NHL. The efficacy and safety of R-B therapy demonstrated during clinical trials for previously untreated low-grade NHL led to recommendations as first-line treatment for this indication.

Development status: Astellas seeking approval in Europe

A randomized phase III trial completed in March 2011 by Dr. M. J. Rummel and researchers affiliated with Study Group Indolent Lymphomas (StiL) in Germany investigating efficacy and safety of bendamustine + rituximab (B-R) vs R-CHOP in first-line low-grade NHL and MCL is encouraging. The phase III clinical trial was conducted at 81 facilities in Germany, treating patients who were newly diagnosed between September 2003 and August 2008 with stage III or IV low-grade NHL or MCL. The trials involved a comparison between R-CHOP and the bendamustine-rituximab (B-R) regimen (bendamustine is marketed as Levact®, Ribomustin®, or Ribovact® in Europe). A total of 275 patients underwent R-CHOP therapy, while 274 were administered the B-R combination. The median follow-up period was 45 months. Clinical results showed that the median progression-free survival period was 69.5 months for the bendamustine hydrochloride-rituximab group while that for the R-CHOP group was 31.2 months ($p < 0.0001$), demonstrating the superiority of the B-R therapy.

Results from the BRIGHT study, reported at the 2012 American Society of Hematology (ASH) Annual Meeting, combined with long-term safety data from other studies, suggest that the combination of bendamustine and rituximab may be an important alternative treatment option for the initial therapy of patients with low-grade NHL and MCL (Flinn et al reported in **Blood**). This randomized, noninferiority, phase III study evaluated the efficacy and safety of B-R vs a standard R-CHOP regimen or R-CVP

(rituximab plus cyclophosphamide, vincristine, and prednisone) for treatment-naïve patients with indolent NHL or MCL. The B-R combination was found to be noninferior to commonly used chemotherapy with R-CHOP/R-CVP in terms of complete response rate. Assessed by the primary endpoint of complete response rate, B-R was noninferior to R-CHOP/R-CVP (31% vs 25%, $P = .0225$ for noninferiority). The complete response rate for B-R was greater than the 22% threshold for noninferiority, an 88% margin.

sNDA filing in Japan for 1st-line low-grade NML and MCL in FY12/15

Astellas has filed a marketing application for the approval of bendamustine in first-line low-grade NHL in Europe which includes the StiL and BRIGTH study data, and data generated from Symbio's phase II study for first-line low-grade NHL in Japan. As of July 2014, the application was being reviewed by Germany's Federal Institute for Drugs and Medical Devices (BfArM) under the Decentralised Procedure. Astellas may be able to obtain approval for this indication in Europe in Q4 FY12/14 or Q1 FY12/15 (with eventual approval in 24 European countries—the 23 Concerned Member States plus Germany). After Astellas receives approval in Europe for first-line low-grade NHL, Symbio plans to use data both from its domestic phase II clinical trial and the data package in Europe when it files its sNDA in Japan. The company expects to receive marketing approval in Japan in FY12/16.

Patient population

Symbio estimates that there are 7,100 first-line low-grade NHL and MCL patients in Japan—1.5 times the number of patients with relapsed or refractory low-grade NHL and MCL. Treakisym sales could reach JPY5.5bn-JPY6bn as the Japanese population continues to age.

Targets chronic lymphocytic leukemia (CLL)

Astellas' European subsidiary has obtained approval in the US and the EU to market bendamustine for the indication of untreated CLL. In Japan, Treakisym was designated as an orphan drug (drug for the treatment of rare diseases) in June 2012 by the Review Committee on Unapproved or Off-Label Drugs with High Medical Needs after it was determined that this drug met critical demand for new therapies to treat CLL.

R&D status: application to be submitted in 1H FY12/16

The use of Treakisym to treat CLL has already been approved in the US and Europe. In May 2013, Symbio initiated a pivotal phase II trial for Treakisym in CLL as a joint project with Eisai. With patient enrollment completed in November 2014, the company plans to submit an application to market the drug in 1H FY12/16.

Potential patient population, expected sales

Symbio estimates that there are about 700 CLL patients in Japan. Shared Research estimates that sales could reach JPY300mn-JPY350mn. This estimate is based on Treakisym sales per patient with relapsed or refractory low-grade NHL or MCL.

Relapsed or refractory DLBCL (aggressive NHL)

Diffuse large B-cell lymphoma (DLBCL), or aggressive NHL, progresses rapidly but recovery may be expected in patients for whom anti-cancer drugs are effective. R-CHOP is the standard initial therapy for DLBCL, the most common type of NHL.

But according to the company, DLBCL patients relapse or become refractory to R-CHOP used as first-line therapy in about 40% of cases, and only patients who are 65 or younger can undergo chemotherapy at higher doses together with autologous stem cell transplants. Because the majority of relapsed or refractory DLBCL patients are elderly, physicians must consider potential side effects when selecting a suitable treatment. Weaker patients—due to age or other illnesses—have limited choices for treatment,



and there is a need for a safer, more effective method of treatment such as Treakisym.

R&D status

In March 2012, the company completed final analysis and evaluation of data from its phase II clinical trial using Treakisym in combination with rituximab for relapsed or refractory DLBCL (aggressive NHL). The trial, with clinical trial sites in both Japan and South Korea, demonstrated an improved prognosis with a median progression free survival (PFS) of 6.7 months as well as clinically manageable side effects in elderly patients.

SymBio had planned to file for marketing approval in Japan following completion of the phase II clinical trial and presentation of the data at the 54th American Society of Hematology (ASH) Annual Meeting in December 2012, however, the company decided to delay submission of the marketing application after subsequent consultations with the Pharmaceuticals and Medical Devices Agency (PMDA).

Potential patient population

According to SymBio, the number of relapsed or refractory DLBCL (aggressive NHL) patients in Japan is approximately 6,700.

SyB L-1101 (intravenous)/SyB C-1101 (oral) (generic name : rigosertib)

Rigosertib is a tumor-specific dual-specificity inhibitor, which inhibits both the PI3K (phosphoinositide 3-kinase) and the PLK (polo-like kinase 1) pathway. It is being developed in the US and EU by Onconova as a treatment for myelodysplastic syndromes (MDS) as well as in other indications such as first-line MDS and AML (in combination with Vidaza), and head and neck cancer (solid tumor).

According to SymBio, rigosertib's high safety profile enables the drug to be used as both a monotherapy and in combination with other anticancer drugs. It is being developed in both intravenous and oral forms.

Onconova: A US biopharmaceutical company. Established in 1998, Onconova focuses on discovering and developing small molecule drug candidates to treat cancer.

Myelodysplastic Syndromes (MDS)

MDS is a refractory disease with a poor prognosis and progression to acute myeloid leukemia (AML) in approximately 30% of cases. It leads to abnormalities in hematopoietic stem cells that produce blood cells, resulting in a lack of blood. Blood cells produced this way are abnormally shaped. This change in the cells is called dysplasia. The disease typically leads to frequent anemia with some patients dying from infection or bleeding due to the reduction in blood cells. The average survival period is about three to five years, with some patients surviving 10 years or longer. It is still not clear what environmental or genetic factors are responsible for the occurrence of MDS, although those who have received radiation treatment or taken anti-cancer drugs may have a higher risk of developing the disease (source: Japan Adult Leukemia Study Group: JALSG).

Risk level assigned based on International Prognostic Scoring System

The seriousness of MDS is determined with the use of the International Prognostic Scoring System (IPSS). The IPSS score is calculated based on the ratio of myeloblasts (immature blood cells) in the bone marrow, chromosome analysis, and the results of a general laboratory blood test. The risk level is assessed based on the number of years that the patient is expected to live, disease progression, and the probability that the disease may lead to acute myeloid leukemia. Risk categories: low, intermediate-1, intermediate-2, and high. Lower-risk MDS refers to low and intermediate-1 patients, while higher-risk MDS refers to intermediate-1 and high in the IPSS risk categories.



Acquired rights from Onconova to develop and sell rigosertib in Japan, Korea

In July 2011 SymBio bought the exclusive right to develop and sell the intravenous (IV) and oral forms of rigosertib following completion of Onconova's phase II US clinical trial for the IV form. In September 2012, Baxter International Inc. acquired the exclusive right to develop and sell rigosertib in Europe.

Development status of rigosertib

Onconova has completed its phase III trial for the intravenous form of rigosertib in post-HMA higher-risk MDS patients in the US and Europe. Although there was no statistically significant improvement in survival period in primary outcome measures, the efficacy of the drug was confirmed in a subgroup analysis. In Japan, SymBio is conducting phase I clinical trials for both the IV (started in June 2012) and oral form (started in March 2013), with completion of both trials expected in 1H FY12/15.

Onconova is currently conducting a phase II clinical trial for the oral form of rigosertib in the US as first-line treatment for transfusion-dependent lower-risk MDS. As well as investigating the use of the oral form of rigosertib as a monotherapy, Onconova is conducting a phase II clinical trial combining Vidaza (azacitidine) and the oral form of rigosertib as first-line treatment in patients with MDS and AML, and the use of the agent in solid tumor indications such as head and neck cancer is also being investigated by Onconova in clinical trials.

SymBio plans to begin a phase I clinical trial using this rigosertib-Vidaza combination therapy in Japan in 1H FY12/16.

IV form of Rigosertib for post-HMA higher-risk MDS

Higher-risk MDS is likely to cause a decline in blood cells or lead to leukemia. Treatment may involve stem cell transplants, depending on the patient's age, condition, and the compatibility of the donor. In the US and Europe, Vidaza (azacitidine) and Dacogen (decitabine) are standard drug therapies for this treatment. In Japan, Vidaza (being marketed by Nippon Shinyaku) is also administered in cases where stem cell transplants are not used. (for Vidaza, see Market and value chain)

However, some cases of higher-risk MDS show resistance to standard treatment with hypomethylating agents (HMAs) such as Vidaza and Dacogen, including relapse following treatment. The most advanced research being conducted for rigosertib as of July 2014 was for the treatment of patients with higher-risk MDS who had progressed on, failed or relapsed after prior therapy with HMAs. According to the company, no drugs have been approved for the treatment of post-HMA higher-risk MDS patients.

R&D status: phase III clinical trial demonstrates no significant difference

In February 2014, Onconova completed its phase III ONTIME clinical trial for the intravenous form of the drug in MDS patients in the US who showed resistance to standard treatment with HMAs, or who experienced recurrence of the disease after treatment with HMAs.

Of the 299 patients enrolled in the phase III clinical trial, 199 were administered rigosertib and 100 were placed in the control group. The overall survival (OS) period for those who received rigosertib was 8.2 months, while OS for the control group (BSC) was 5.8 months. However, with a p-value of 0.27, there was no statistically significant difference between the two groups.

Among patients whose condition had deteriorated or not responded to previous treatment using hypomethylating agents (184 of 299 people, or 62%), the overall survival period for higher-risk MDS

patients who received rigosertib was 8.5 months, while for those in the control group (BSC) it was 4.7 months. The p-value was 0.022, showing a statistically significant difference. The hematological toxicity of the conventional anti-cancer agent was approximately 60%. With rigosertib, toxicity of Grade 3 or above did not exceed 7%, and non-hematological toxicity did not exceed 3%, confirming safety of the drug.

Following consultations with the US Food and Drug Administration (FDA) and European regulatory agencies, Onconova plans to continue development work on rigosertib for the above indication. Onconova plans to announce its development plans for the intravenous form of rigosertib in Q4 FY12/14.

Domestic phase I clinical trials to continue

SymBio initiated its phase I clinical trial for intravenous rigosertib to treat relapsed or refractory higher-risk MDS in June 2012. Both the IV and oral phase I trials are scheduled to be completed in 1H FY12/15. The company stated that it would consider its future development plan in Japan and South Korea based on the outcome of Onconova's discussions with the FDA and European regulatory agencies.

In Japan, the company is considering the submission of a marketing application for both IV and oral rigosertib in FY12/18 with an eye to receiving approval in FY12/19. The plan could be delayed by about a year since Onconova's phase III ONTIME trial failed to meet its primary endpoint, demonstrating a numerical but not significant benefit compared to best supportive care (BSC) in the trial.

Oral form of rigosertib for first-line lower-risk MDS

Lower-risk MDS corresponds to all the low-risk categories and intermediate-1 of the IPSS with a blast-cell ratio (the ratio of blast cells in the marrow and peripheral blood) of less than 5%. It is primarily caused by a decline in blood cells. It poses a low risk of progression to acute leukemia.

Patients who do not suffer a large decline in blood cells and who do not have any subjective symptoms are placed under observation instead of being treated. Those who develop anemia receive an infusion of red blood cells in accordance with their age. Sometimes an immunosuppressant is used to prevent lymphocyte cells from attacking hematopoietic stem cells. Depending on a patient's age and condition, and HLA compatibility with a donor, an allogeneic hematopoietic stem cell transplant is sometimes carried out. Patients who are not suitable candidates for an allogeneic hematopoietic stem cell transplant, but who are in critical condition due to hematopoietic failure, may be given Vidaza.

R&D status: US phase II clinical trial in first-line lower-risk MDS demonstrates efficacy

Onconova is conducting a phase II clinical trial in the US for the oral form of rigosertib in first-line transfusion-dependent, lower-risk MDS. As of July 2014, the company was in discussions with the FDA regarding design of the phase III clinical trial, which the company expects to start in FY12/15.

Interim results of the ongoing phase II clinical trial in first-line lower-risk MDS were released in December 2013 at the 55th American Society of Hematology (ASH) Annual Meeting. The trial was conducted in first-line transfusion-dependent, lower-risk MDS patients to determine the efficacy and safety of rigosertib. A combined response rate of 53% was observed in 36 evaluable patients receiving the intermittent dosing schedule. Major adverse effects include toxicity in the bladder (such as trouble urinating, frequent urination, and bloody urine). However, no severe cases of bone marrow suppression were observed (adverse events of anti-cancer agents include lower white blood cell, red blood cell, and platelet counts).

In the clinical trial, 36 patients were given rigosertib twice a day for 14 days, and then did not receive the



drug for the next seven days. This was repeated for at least eight weeks. In the study, transfusion dependency was resolved for 14 (39%) of these patients. To address urinary adverse events, a modified dosing regimen was tested in a cohort, and of the 13 patients receiving the new regimen only one patient reported a Grade 2+ urinary event (8%). The results were promising. At the same time, a whole genome scan was used to identify a methylation signature in 32 patients, helping to relate transfusion independence with the genomic profile in the 32 patients analyzed—genetic markers that could be associated with the elimination of blood transfusion dependency. An additional cohort of 20 lower-risk MDS patients to confirm genomic signature is now being enrolled.

Combination therapy of rigosertib (oral) and Vidaza (azacitidine)

As well as investigating the use of the oral form of rigosertib as a monotherapy, Onconova is conducting a phase II clinical trial combining Vidaza and the oral form of rigosertib as first-line treatment in patients with MDS or AML. Symbio plans to begin a phase I clinical trial using this rigosertib-Vidaza combination therapy in Japan in 1H FY12/16.

Patient population, estimated sales

According to Symbio estimates, patients with lower-risk MDS in Japan number about 7,800, with 3,200 MDS patients classified as higher-risk.

Nippon Shinyaku Co., Ltd. (TSE1: 4516) has been selling azacitidine in Japan as first-line therapy for MDS under the product name Vidaza since March 2011. According to Nippon Shinyaku, sales of Vidaza were JPY9.7bn for FY03/14 (+38.1% YoY). The company expects to book sales of JPY10.8bn for FY03/15. Shared Research thinks that sales of the intravenous and oral forms of rigosertib could match or exceed sales of Vidaza, used when patients who receive treatment with Vidaza relapse.

View the [full report](#).



December 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 **December 22, 2014**, 3-D Matrix Ltd. (3DM) announced the start of clinical use of the locally absorbent hemostatic material PuraStat® in endoscopy.

Clinical use of PuraStat® began in Europe after the company obtained the CE marking on January 14, 2014. Its first clinical use in endoscopy was in France on December 17, 2014, with permission to announce its use granted by the medical institution on December 22, 2014.

Professor Thierry Ponchon of the Hepato-Gastroenterology department at the Edouard Herriot Hospital used PuraStat® to control bleeding during and after endoscopic submucosal dissection (ESD) surgery. This hospital is a leading facility in Europe for endoscopic mucosal resections (EMRs) and ESDs, with about 900 surgeries performed each year. In EMRs and ESDs, surgeons use endoscopes to remove benign and early tumors in the gastrointestinal tract. The techniques are minimally invasive, thus contributing to patients' quality of life. PuraStat® is a liquid locally absorbent hemostatic material that turns into a gel when it comes into contact with the source of the bleeding. It is well suited to endoscopic surgery, which uses thin tubes.

The company aims to increase distribution of PuraStat® by further promoting its use in the European market and forming exclusive sales agreements with marketing partners.

On **the same day**, the company announced the termination of a semi-exclusive sales license agreement for locally absorbent hemostatic material TDM-621 between sales partner Fuso Pharmaceutical Industries, Ltd. (TSE1: 4538) and Kaken Pharmaceutical Co., Ltd. (TSE1: 4521).

3DM developed TDM-621, and is applying for approval to manufacture and market the product as medical equipment. Fuso Pharma and Kaken Pharma planned to sell the product concurrently, but following the cancellation of this agreement, 3DM will consider an alternate system for selling the product. According to the company, its exclusive sales license agreement with Fuso Pharma remains unchanged, and the two companies remain on good terms. The company plans to hold further consultations with Fuso Pharma.

As soon as more information is available, the company plans to disclose details of the effect of the cancellation of the semi-exclusive sales license agreement on full-year earnings estimates for FY02/15 and the medium-term plan announced on June 12, 2014.

On **December 11, 2014**, the company announced the start of domestic clinical trials of endoscopic mucosal resection aid "submucosal injection material for endoscopy (TDM-641)."

3DM is developing TDM-641 using self-assembling peptide technology, for which the Massachusetts Institute of Technology (MIT) granted 3DM the exclusive license.

3DM has been preparing to launch clinical trials for TDM-641 as a medical device since the Pharmaceuticals and Medical Devices Agency (PMDA) received the company's clinical trial application, submitted on September 9, 2014. The clinical trials began on December 11, 2014, with the aim of evaluating and verifying the safety and efficacy of TDM-641 when used in endoscopic mucosal resection (EMR) and endoscopic submucosal dissection (ESD).



3DM plans to apply to the PMDA for approval to manufacture and market TDM-641, after conducting trials at seven domestic trial facilities. After approval is awarded, the company plans to market the product together with Fuso Pharmaceutical Industries, Ltd. (TSE1: 4538), to which it has granted an exclusive domestic sales license for TDM-641.

On **December 11, 2014**, the company announced earnings results for 1H FY04/15 and the booking of foreign currency gains as non-operating profit.

Quarterly Performance (JPYmn)	FY04/14				FY04/15				FY04/15	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of FY	FY Est.
Operating Revenue	48	1	7	51	0	0	-	-	-	10,418
YoY	-	-	-	58.4%	-	-	-	-	-	-
R&D Expenses	146	136	145	171	141	281	-	-	-	-
YoY	59.7%	50.0%	61.6%	39.1%	-3.7%	106.1%	-	-	-	-
SG&A	222	221	232	349	297	286	-	-	-	-
YoY	65.9%	62.6%	40.7%	73.2%	33.6%	29.3%	-	-	-	-
OP	-321	-356	-372	-470	-438	-567	-	-	-	4,483
YoY	-	-	-	-	-	-	-	-	-	-
OPM	-	-	-	-	-	-	-	-	-	-
RP	-341	-361	-357	-466	-471	-514	-	-	-	4,466
YoY	-	-	-	-	-	-	-	-	-	-
RPM	-	-	-	-	-	-	-	-	-	-
NI	-341	-361	-357	-467	-635	-514	-	-	-	3,564
YoY	-	-	-	-	-	-	-	-	-	-
NPM	-	-	-	-	-	-	-	-	-	-

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

Forecasts based on most recently released figures.

Source: Company data

Hemostatic agent (TDM-621)

In January 2014, 3-D Matrix obtained the CE mark for this product, meaning the company can sell or apply to register it without clinical trials in certain countries. As a result, the company launched clinical use of the product in leading facilities in France, Austria, and Germany. The company continued to focus on uptake at leading facilities, thus expanding clinical use of PuraStat®. The company is also negotiating sales agreements with sales partners in Europe.

The company also aims to grow sales of PuraStat® using the CE mark in countries outside Europe. Subsidiary 3-D Matrix Asia Pte. Ltd. (Singapore) obtained approval to register TDM-621 as a medical product in Singapore in September 2014 after applying in June of that year. The company also applied to register TDM-621 as a medical product in Indonesia in July 2014, and use in clinical trials began in Hong Kong in September 2014. The company plans to continue growing sales in Asia and Oceania.

In June 2014, the company established a subsidiary in Brazil, in order to develop sales of PuraStat® in South America. Its use in clinical trials began in Chile in October 2014. The company is also preparing to register the product in South America, and is looking for a potential sales partner.

In Japan, the company is applying to the Pharmaceuticals and Medical Devices Agency (PMDA) for approval to manufacture and sell TDM-621. In the US, the company is negotiating with the Food and Drug Administration (FDA) concerning the launch of clinical trials. The company is also preparing to begin clinical trials in China.

On **December 3, 2014**, the company announced the approval of a patent for modified peptides.

The Massachusetts Institute of Technology (MIT) granted 3DM the exclusive license to self-assembling peptide technology. A US patent has now been approved for a method of modifying self-assembling peptides.



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- § Invention title: self-assembling peptides incorporating modifications and methods of use thereof
- § US patent number: 8901084
- § Patent holder: Massachusetts Institute of Technology

This patent covers the method of applying a short motif sequence to self-assembling peptides in order to stimulate organic functions. The patent was approved following a new patent application after the approval of US patent 7713923 in 2010, which applied only to a limited range of motif sequences for modifying self-assembling peptides. There are no such limits on the motif sequences in the new patent, meaning it has a wider application.

Modified peptides are better for cultivating cells than conventional non-modified self-assembling peptides, as shown with bone, skin, cardiac muscle, and neural tissue. Professor Shuguang Zhang of MIT—the inventor of self-assembling peptides and patent applicant—and partner research institutes are conducting research in preparation for the clinical use of this technology, and plan to release their results via academic papers and conferences.

View the [full report](#).



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AS ONE Corporation (7476)

Specialist trading company in profitable niche selling laboratory and medical instruments through catalogs. Growth from adding new categories and focusing on all aspects of the value chain.

On **December 5, 2014**, Shared Research updated comments on AS ONE Corporation's earnings results for 1H FY03/15 after interviewing management.

Quarterly performance (JPYmn)	FY03/13				FY03/14				FY03/15		FY03/15		FY03/15	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	% of Est.	1H Est.	% of Est.	FY Est.
Sales	11,324	11,048	11,864	13,893	11,488	11,803	12,635	15,266	11,694	11,883	96.6%	24,410	44.5%	52,930
Scientific instruments	6,243	6,152	6,829	8,407	6,538	6,822	7,481	8,914	6,543	6,705				
Industrial instruments	2,352	2,332	2,394	2,361	2,290	2,400	2,440	2,719	2,449	2,468				
Healthcare	2,729	2,564	2,640	3,124	2,661	2,581	2,714	3,632	2,701	2,710				
YoY	2.2%	-0.2%	3.7%	2.0%	1.5%	6.8%	6.5%	9.9%	1.8%	0.7%			4.8%	3.4%
Scientific instruments	-0.3%	-3.2%	2.0%	4.1%	4.7%	10.9%	9.5%	6.0%	0.1%	-1.7%				
Industrial instruments	-1.8%	-4.6%	-2.4%	-7.6%	-2.6%	2.9%	1.9%	15.2%	7.0%	2.8%				
Healthcare	12.4%	13.1%	15.3%	4.6%	-2.5%	0.7%	2.8%	16.3%	1.5%	5.0%				
Gross profit	3,512	3,392	3,718	3,999	3,552	3,575	3,797	4,377	3,597	3,584				
GPM	31.0%	30.7%	31.3%	28.8%	30.9%	30.3%	30.1%	28.7%	30.8%	30.2%				
SG&A expenses	2,235	2,591	2,281	2,213	2,308	2,241	2,409	2,425	2,269	2,293				
YoY	3.2%	21.6%	7.6%	-10.2%	3.3%	-13.5%	5.6%	9.6%	-1.7%	2.3%				
SG&A / sales	19.7%	23.5%	19.2%	15.9%	20.1%	19.0%	19.1%	15.9%	19.4%	19.3%				
Operating profit	1,278	800	1,437	1,785	1,244	1,335	1,389	1,952	1,328	1,292	101.1%	2,590	43.9%	5,970
YoY	-4.3%	-37.7%	1.3%	7.4%	-2.6%	66.8%	-3.4%	9.3%	6.8%	-3.2%			0.4%	0.9%
OPM	11.3%	7.2%	12.1%	12.9%	10.8%	11.3%	11.0%	12.8%	11.4%	10.9%			10.6%	11.3%
Non-operating profit	5	-12	-32	-0	24	-40	5	21	31	25			40	80
Financial income	-1	-4	-5	-0	4	-9	-9	-4	-0	-9				
Gains on foreign exchange	10	2	-21	7	-2	-0	-5	6	-	-				
Gains on real estate investment	-7	-7	-11	-2	5	4	16	16	29	33				
Other non-operating profit	4	-4	5	-5	17	-35	4	4	2	1				
Recurring profit	1,283	788	1,405	1,785	1,268	1,294	1,393	1,973	1,359	1,316	101.7%	2,630	44.2%	6,050
YoY	14.4%	-18.0%	0.3%	10.2%	-1.1%	64.2%	-0.8%	10.5%	7.2%	1.7%			2.6%	2.0%
Net income	803	475	860	1,072	779	784	857	1,166	877	839	104.0%	1,650	45.0%	3,810
YoY	17.6%	-14.2%	25.7%	14.7%	-3.0%	65.3%	-0.3%	8.8%	12.6%	6.9%			5.5%	6.2%

Source: Company data

Universities and government bodies slow to spend budgets in 1H

Despite robust sales of industrial and healthcare instruments, overall sales underperformed the company's target by JPY834mn. This was because universities and government bodies were slow to spend their budgets for scientific instruments.

Budget spending expected to catch up in 2H

The appropriation of research funds and other fraudulent research has become the subject of increasing public concern, so universities and government bodies were cautious about spending their research budgets in 1H due to tighter auditing controls at research institutes. But AS ONE expects full-year results to meet targets, as budget spending quickens in 2H, making up for slow spending in 1H. Orders were up by about 10% YoY as of October, partly due to a new catalog.

Slow budget spending results in a lower share of total sales for non-catalog products

Non-catalog products' share of total sales fell to 10.9%. But this was because universities and government bodies were slow to spend their budgets; the company's strategy of using non-catalog products to push up sales remains unchanged. Furthermore, GPM on non-catalog products is relatively low, so their falling share of total sales—together with an improvement in GPM on these products—has helped make up for the decline in overall gross margins caused by the weak yen.

E-commerce and the Chinese market contribute to higher sales

In 1H, e-commerce sales were up 18.3% YoY (plus JPY286mn); sales to companies within China were up 23.0% (plus JPY114mn), contributing to higher overall sales. It appears the company's medium- to long-term growth strategies are steadily generating higher earnings.

View the [full report](#).



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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 **December 4, 2014**, Bell-Park Co., Ltd. announced November monthly sales estimate.

Monthly Sales	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
2014													
New	37,521	37,268	84,090	30,311	31,067	29,803	36,075	36,118	41,293	34,307	33,662		431,515
YoY	-15.8%	-4.7%	4.8%	-28.2%	-29.7%	-0.4%	13.5%	7.5%	21.4%	-9.2%	-14.7%		
ex-low ARPU handsets (YoY)	28,160	27,016	57,329	18,514	17,990	16,624	20,118	20,380	26,813	25,171	24,587		282,702
Replacement	34,016	31,893	48,944	22,325	23,426	22,687	29,112	28,791	57,084	60,363	65,845		424,486
YoY	-8.9%	23.3%	5.7%	-32.4%	-41.9%	-14.4%	0.2%	-4.3%	55.0%	30.9%	34.3%		
Total	71,537	69,161	133,034	52,636	54,493	52,490	65,187	64,909	98,377	94,670	99,507		856,001
YoY	-12.6%	6.4%	5.2%	-30.0%	-35.5%	-7.0%	7.2%	1.9%	38.8%	12.9%	12.4%		
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 (YoY)	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
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

On **December 2, 2014**, Shared Research updated comments on the company's earnings results for Q3 FY12/14 after interviewing management.

Quarterly Performance (JPYmn)	FY12/13				FY12/14				FY12/14	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of FY	FY Est.
Sales	22,553	18,992	18,854	23,828	26,116	15,410	21,492	-	72.9%	86,400
YoY	15.1%	22.8%	20.9%	0.1%	15.8%	-18.9%	14.0%	-	-	-
GP	4,520	3,840	3,847	4,287	5,957	3,730	4,109	-	-	-
YoY	16.2%	16.7%	25.5%	17.6%	31.8%	-2.9%	6.8%	-	-	-
GPM	20.0%	20.2%	20.4%	18.0%	22.8%	24.2%	19.1%	-	-	-
SG&A	3,311	3,040	3,305	3,598	4,475	3,648	3,794	-	-	-
YoY	16.1%	15.7%	31.0%	30.0%	35.1%	20.0%	14.8%	-	-	-
SG&A / Sales	14.7%	16.0%	17.5%	15.1%	17.1%	23.7%	17.7%	-	-	-
OP	1,209	800	542	689	1,483	82	314	-	85.0%	2,210
YoY	16.5%	20.7%	-0.1%	-21.7%	22.6%	-89.8%	-42.0%	-	-	-
OPM	5.4%	4.2%	2.9%	2.9%	5.7%	0.5%	1.5%	-	-	2.6%
RP	1,285	846	531	764	1,465	72	399	-	88.8%	2,180
YoY	18.5%	33.8%	2.0%	-20.7%	14.0%	-91.5%	-24.8%	-	-	-
RPM	5.7%	4.5%	2.8%	3.2%	5.6%	0.5%	1.9%	-	-	2.5%
NP	709	476	283	411	795	-22	262	-	91.6%	1,130
YoY	16.1%	32.8%	-1.9%	-21.8%	12.2%	-	-7.4%	-	-	-
NPM	3.1%	2.5%	1.5%	1.7%	3.0%	-	1.2%	-	-	1.3%

Source: Company data

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

** The company began reporting consolidated earnings from Q1 FY12/14. Figures shown for FY12/13 are reported on a non-consolidated basis and YoY comparison figures are shown for reference purposes only

Through March 2014, in the cellphone retail market—the company's main area of business—carriers fought to win customers through MNP (mobile number portability). But the market cooled from April onward, and is showing signs of recovery in both new and replacement units due to the introduction of new models of the iPhone. Bell-Park focused on winning MNP customers, selling handsets, and improving customer satisfaction.

View the [full report](#).



Benefit One Inc. (2412)

Pasona Group Inc. affiliate growing into a new type of “service distribution” business through a variety of new ventures based on its Benefit Service business.

On **December 1, 2014**, Shared Research updated comments on Benefit One Inc.’s earnings results for 1H FY03/15 after interviewing management.

Quarterly performance (JPYmn)	FY03/13				FY03/14				FY03/15				FY03/15		FY03/15	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of 1H	1H Est.	% of FY	FY Est.
Sales	3,886	4,290	4,526	4,908	4,552	4,884	5,283	5,637	4,850	5,082			94.6%	10,500	42.3%	23,500
YoY	13.4%	17.9%	20.0%	19.2%	17.1%	13.8%	16.7%	14.9%	6.5%	4.1%			11.3%			15.4%
GP	1,544	1,345	1,855	1,944	1,768	1,526	2,102	2,142	1,936	1,819						
GPM	39.7%	31.4%	41.0%	39.6%	38.8%	31.2%	39.8%	38.0%	39.9%	35.8%						
SG&A	1,075	934	953	994	1,218	1,050	1,005	1,095	1,340	1,177						
YoY	11.2%	12.3%	17.8%	21.1%	13.3%	12.4%	5.5%	10.2%	10.0%	12.1%						
OP	469	411	901	950	549	476	1,097	1,047	596	641			110.4%	1,120	34.2%	3,620
YoY	27.8%	4.8%	4.6%	11.6%	17.1%	15.8%	21.8%	10.2%	8.6%	34.7%						
OPM	12.1%	9.6%	19.9%	19.4%	12.1%	9.7%	20.8%	18.6%	12.3%	12.6%			10.7%			15.4%
RP	470	406	888	950	530	456	1,102	1,057	600	637			112.5%	1,100	34.4%	3,600
YoY	26.7%	5.2%	2.9%	6.5%	12.8%	12.3%	24.1%	11.3%	13.2%	39.7%			11.6%			14.5%
RPM	12.1%	9.5%	19.6%	19.4%	11.6%	9.3%	20.9%	18.8%	12.4%	12.5%			10.5%			15.3%
NI	281	240	541	561	302	263	692	635	368	397			112.5%	680	34.0%	2,250
YoY	31.9%	8.1%	10.0%	7.9%	7.5%	9.6%	27.9%	13.2%	21.9%	51.0%			20.4%			18.9%
NPM	7.2%	5.6%	12.0%	11.4%	6.6%	5.4%	13.1%	11.3%	7.6%	7.8%			6.5%			9.6%

Source: Company data

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

Estimates for 2H FY03/15 based on company outlook as of November 2014.

Earnings grow from mainstay benefit services; new businesses’ contribution increases

Sales and profits were up year-on-year in 1H. Earnings grew steadily from mainstay benefit services, as new businesses’ contribution continued to increase. Sales underperformed the company’s target for 1H, but profits outperformed targets by over 10%.

Promising signs for FY03/16 as Benefit One moves to a new growth stage

New businesses accounted for 47.6% of total 1H sales (+5.0pp YoY) and 31.4% of operating profit (+9.2pp). Efforts to win new customers resulted in a significant contribution to earnings from the personal business, where the company works with clients to offer its services to individual customers. According to the company, the outlook leading up to FY03/16 and beyond is promising. There is also earnings potential in new B2C (or B2B2C) services such as Tabe-Time, and a steady stream of new orders in the incentive business.

Through FY03/16, as part of its strategy of horizontal development Benefit One plans to launch payroll services and increase sales to major cooperatives in the existing benefit services. According to the company, expectations for growth in new businesses have risen as it strengthens existing businesses, propelling it into a new growth stage.

View the [full report](#).



MONTHLY WRAP – January 2015



Chiyoda Co., Ltd. (8185)

Retailer specializing in low-price shoes.

On **December 1, 2014**, Chiyoda announced monthly sales data for November 2014.

Comparable Store Sales	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
FY02/10	-8.6%	-3.0%	-1.4%	-6.8%	-5.7%	-7.9%	-2.8%	-1.3%	-13.2%	2.7%	-3.7%	0.7%
Customer count	-7.6%	-2.4%	-0.6%	-4.5%	-4.7%	-5.7%	-2.1%	1.7%	-8.9%	6.3%	1.0%	4.7%
Spend per customer	-1.1%	0.3%	-0.8%	-2.5%	-1.1%	-2.4%	-0.7%	-3.1%	-4.8%	-3.4%	-4.7%	-3.9%
FY02/11	-6.6%	-6.1%	-7.5%	-4.4%	-4.6%	-8.5%	-7.4%	2.2%	-5.4%	-3.2%	-0.1%	3.0%
Customer count	-1.2%	-2.1%	-3.6%	-1.8%	-2.1%	-5.7%	-3.5%	1.8%	-4.9%	-4.6%	-2.5%	0.3%
Spend per customer	-5.5%	-4.2%	-4.0%	-2.7%	-2.6%	-3.1%	-4.1%	0.3%	-0.6%	1.5%	2.4%	2.7%
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%
Customer count	-19.6%	1.5%	0.9%	0.6%	5.2%	-0.1%	-0.1%	-1.1%	4.1%	1.9%	-0.7%	0.5%
Spend per customer	2.8%	2.5%	1.5%	1.2%	0.1%	1.0%	1.5%	0.6%	2.0%	1.0%	0.2%	0.9%
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%
Customer count	13.3%	0.7%	-5.3%	-3.2%	-6.5%	-4.4%	-0.3%	-9.1%	-0.5%	-4.9%	-3.0%	-7.7%
Spend per customer	2.0%	1.4%	0.7%	2.6%	2.8%	0.9%	0.1%	0.2%	2.0%	2.1%	1.3%	0.9%
FY02/14	2.8%	-9.5%	-2.1%	1.3%	-8.4%	0.3%	-3.0%	-3.7%	-2.2%	-3.4%	-8.5%	17.3%
Customer count	1.7%	-10.7%	-4.1%	0.3%	-8.1%	-1.7%	-5.7%	-5.6%	-5.1%	-4.1%	-9.6%	14.3%
Spend per customer	1.0%	1.3%	2.0%	1.0%	-0.3%	2.0%	2.8%	1.9%	3.0%	0.7%	1.2%	2.6%
FY02/15	15.0%	-8.3%	-3.3%	-9.1%	-4.2%	1.3%	-6.3%	-8.9%	-6.2%			
Customer count	6.3%	-10.6%	-7.8%	-11.8%	-8.7%	-3.5%	-11.3%	-12.8%	-8.5%			
Spend per customer	8.1%	2.6%	4.8%	3.0%	4.8%	4.9%	5.6%	4.4%	2.5%			

All Store Sales	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
FY02/10	-6.4%	-0.1%	2.3%	-3.7%	-3.4%	-4.8%	1.2%	2.8%	-10.0%	5.6%	-0.2%	4.6%
Customer count	-6.5%	-0.8%	1.9%	-1.9%	-2.9%	-3.1%	1.2%	5.2%	-5.8%	8.9%	4.1%	8.3%
Spend per customer	0.0%	0.7%	0.2%	-1.8%	-0.5%	-1.8%	0.0%	-2.3%	-4.6%	-3.1%	-4.2%	-3.5%
FY02/11	-2.5%	-2.8%	-4.4%	-1.3%	-2.0%	-6.1%	-5.9%	3.1%	-5.0%	-3.0%	0.1%	3.7%
Customer count	2.8%	1.5%	-0.5%	1.2%	0.5%	-3.3%	-2.1%	2.7%	-4.8%	-4.7%	-2.3%	0.8%
Spend per customer	-5.2%	-4.2%	-3.9%	-2.6%	-2.5%	-2.9%	-4.0%	0.3%	-0.3%	1.8%	2.5%	2.8%
FY02/12	-18.6%	1.8%	0.9%	0.3%	3.7%	-0.3%	0.3%	-1.5%	4.8%	1.3%	-1.9%	-0.1%
Customer count	-20.9%	-0.8%	-0.7%	-1.0%	3.4%	-1.3%	0.3%	-1.5%	4.8%	1.3%	-1.9%	-0.1%
Spend per customer	2.9%	2.6%	1.6%	1.2%	0.2%	0.9%	1.3%	0.3%	1.9%	0.9%	0.1%	0.8%
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%
Customer count	11.9%	-0.6%	-6.8%	-4.2%	-7.5%	-5.7%	-1.4%	-9.8%	-0.2%	-4.6%	-2.8%	-7.5%
Spend per customer	2.1%	1.4%	0.7%	2.6%	2.8%	0.9%	0.2%	0.4%	2.1%	2.2%	1.3%	1.0%
FY02/14	3.6%	-8.3%	-0.5%	3.3%	-6.6%	1.9%	-1.5%	-2.4%	-1.1%	-2.5%	-7.5%	17.9%
Customer count	2.5%	-9.6%	-2.6%	2.2%	-6.4%	-0.4%	-4.4%	-4.4%	-4.3%	-3.4%	-8.9%	14.7%
Spend per customer	1.0%	1.5%	2.2%	1.0%	-0.3%	2.2%	3.0%	2.0%	3.3%	0.9%	1.4%	2.8%
FY02/15	16.1%	-8.0%	-3.0%	-9.5%	-5.0%	0.8%	-7.2%	-9.7%	-7.4%			
Customer count	7.2%	-10.5%	-7.7%	-12.4%	-9.6%	-4.1%	-12.3%	-13.7%	-9.8%			
Spend per customer	8.2%	2.8%	5.0%	3.2%	5.0%	5.1%	5.7%	4.6%	2.6%			

Source: Company data processed by SR Inc.
Figures may differ from company materials due to differences in rounding methods.
Most recent monthly figures may not be final.

View the [full report](#).



MONTHLY WRAP – January 2015



Comsys Holdings Corporation (1721)

Major telecommunications construction company, with over fifty years of history

On **December 10, 2014**, Shared Research updated the report following interviews with management.

Quarterly Performance (JPYmm)	FY03/14				FY03/15				FY03/15		FY03/15	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of 1H	1H Est.	% of FY	FY Est.
Sales	60,293	80,284	77,787	112,977	66,555	77,732	-	-	96.8%	149,000	41.8%	345,000
YoY	5.7%	6.8%	4.1%	3.5%	10.4%	-3.2%	-	-	-	6.0%	-	9.1%
GP	8,032	11,273	11,442	15,023	9,728	11,706	-	-	-	-	-	-
YoY	25.6%	16.0%	17.2%	-2.2%	21.1%	3.8%	-	-	-	-	-	-
GPM	13.3%	14.0%	14.7%	13.3%	14.6%	15.1%	-	-	-	-	-	-
SG&A	4,401	4,278	4,312	5,209	5,208	5,081	-	-	-	-	-	-
YoY	-7.5%	-6.5%	5.7%	-1.1%	18.3%	18.8%	-	-	-	-	-	-
SG&A / Sales	7.3%	5.3%	5.5%	4.6%	7.8%	6.5%	-	-	-	-	-	-
OP	3,630	6,995	7,131	9,814	4,519	6,625	-	-	101.3%	11,000	38.4%	29,000
YoY	122.2%	36.1%	25.5%	-2.8%	24.5%	-5.3%	-	-	-	3.5%	-	28.6%
OPM	6.0%	8.7%	9.2%	8.7%	6.8%	8.5%	-	-	-	7.4%	-	8.4%
RP	3,793	7,179	7,198	9,908	4,676	6,632	-	-	101.0%	11,200	38.3%	29,500
YoY	102.5%	37.6%	26.6%	-2.3%	23.3%	-7.6%	-	-	-	2.1%	-	28.7%
RPM	6.3%	8.9%	9.3%	8.8%	7.0%	8.5%	-	-	-	7.5%	-	8.6%
NI	2,386	3,777	4,569	5,657	2,808	4,057	-	-	101.0%	6,800	38.1%	18,000
YoY	125.7%	36.8%	38.4%	-8.2%	17.7%	7.4%	-	-	-	10.3%	-	35.5%
NPM	4.0%	4.7%	5.9%	5.0%	4.2%	5.2%	-	-	-	4.6%	-	5.2%

Source: Company data

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

Company forecasts are based on the most recent figures.

Results for 1H FY03/15 were in line with company forecasts, posting year-on-year gains in both sales and profits. Orders were higher both year-on-year and against company forecasts, thanks to strong performance in the NCC engineering and social systems businesses, and the consolidation of Ecosystem Japan. Sales were higher due to higher construction activity in solar power projects, as well as the consolidation of Ecosystem Japan. However, sales results were lower than initial forecasts due to delays in construction periods and completion, stemming from delays in receiving orders. Gains in operating profit and gross profit gains were subdued due to sales underperforming, but implementation of the COMSYS WAY^a ("a" for "advanced") structural reform initiative and lower SG&A expenses produced modest but steady profit gains.

View the [full report](#).



DIC Corporation (4631)

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

On **December 5, 2014**, Shared Research updated comments on DIC Corporation's earnings results for Q3 FY12/14 after interviewing management.

Quarterly performance (JPYmn)	FY12/13			FY12/14				FY12/14	
	Q1	Q2	Q3	Q1	Q2	Q3	Q4	% of 1H	1H CE
Sales	186,503	198,452	320,692	201,564	206,821	206,143	-		
YoY	5.9%	14.2%	-	-	-	-	-		
GP	39,535	41,735	66,344	42,041	42,277	42,304	-		
GPM	21.2%	21.0%	20.7%	20.9%	20.4%	20.5%	-		
SG&A	29,164	29,325	48,944	32,644	31,867	32,436	-		
YoY	9.9%	12.8%	-	-	-	-	-		
OP	10,371	12,410	17,400	9,397	10,410	9,868	-		
YoY	7.2%	38.5%	-	-	-	-	-		
OPM	5.6%	6.3%	5.4%	4.7%	5.0%	4.8%	-		
RP	9,710	10,949	16,464	8,410	9,961	10,110	-		
YoY	15.3%	34.8%	-	-	-	-	-		
NI	4,665	6,017	16,089	5,140	5,179	6,119	-		
YoY	-24.5%	14.4%	-	-	-	-	-		
Cumulative	Q1	Q2	Q3	Q1	Q2	Q3	Q4	% of FY	FY CE
Sales	186,503	384,955	705,647	201,564	408,385	614,528	-	73.2%	840,000
YoY	5.9%	10.0%	-	-	-	-	-		-
GP	39,535	81,270	147,614	42,041	84,318	126,622	-		
GPM	21.2%	21.1%	20.9%	20.9%	20.6%	20.6%	-		
SG&A	29,164	58,489	107,433	32,644	64,511	96,947	-		
YoY	9.9%	11.4%	-	-	-	-	-		
OP	10,371	22,781	40,181	9,397	19,807	29,675	-	74.2%	40,000
YoY	7.2%	22.3%	-	-	-	-	-		-
OPM	5.6%	5.9%	5.7%	4.7%	4.9%	4.8%	-		4.8%
RP	9,710	20,659	37,123	8,410	18,371	28,481	-	75.0%	38,000
YoY	15.3%	24.9%	-	-	-	-	-		-
NI	4,665	10,682	26,771	5,140	10,319	16,438	-	74.7%	22,000
YoY	-24.5%	-6.6%	-	-	-	-	-		-

Source: Company data

Note: Figures may differ from company materials due to differences in rounding methods. Due to a change in accounting periods, FY12/13 is an irregular period of 9 months in Japan and 12 elsewhere.

The continuing economic recovery became clear in North America and Europe. But there was uncertainty across Asia, with growth slowing in China and Southeast Asia. Demand remained weak in the domestic economy, due to the protracted pullback from the rush to beat the consumption tax hike.

Efforts to cut costs contributed JPY200mn to operating profit, but overall operating profit fell by JPY3.7bn, due to a change in volumes and the product mix (minus JPY1.1bn), a delay in passing through cost increases (minus JPY2.1bn), and forex movements (minus JPY600mn). However, the company booked a year-on-year increase in net income, partly because extraordinary losses fell year-on-year.

View the [full report](#).



MONTHLY WRAP – January 2015

Don Quijote Co., Ltd. (7532)

Innovative and iconoclastic general discount retailer with a nationwide presence.

On **December 15, 2014**, Shared Research Inc. updated comments on Don Quijote's Q1 FY06/15 results.

Quarterly Performance (JPY mn)	FY06/13				FY06/14				FY06/15			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	140,379	149,265	138,426	140,307	146,514	156,808	158,454	150,648	163,861	-	-	-
YoY	4.1%	5.1%	5.4%	6.3%	4.4%	5.1%	14.5%	7.4%	11.8%	-	-	-
Gross profit	37,010	39,176	36,888	36,733	39,880	41,195	40,627	39,316	44,235	-	-	-
YoY	6.2%	6.0%	10.2%	7.3%	7.8%	5.2%	10.1%	7.0%	10.9%	-	-	-
GPM	26.4%	26.2%	26.6%	26.2%	27.2%	26.3%	25.6%	26.1%	27.0%	-	-	-
SG&A	28,766	28,747	29,423	30,502	29,740	30,831	32,193	33,962	33,779	-	-	-
YoY	6.3%	4.4%	7.2%	8.2%	3.4%	7.2%	9.4%	11.3%	13.6%	-	-	-
SG&A / Sales	20.5%	19.3%	21.3%	21.7%	20.3%	19.7%	20.3%	22.5%	20.6%	-	-	-
OP	8,244	10,429	7,465	6,231	10,140	10,364	8,434	5,354	10,456	-	-	-
YoY	6.0%	10.5%	23.4%	2.9%	23.0%	-0.6%	13.0%	-14.1%	3.1%	-	-	-
OPM	5.9%	7.0%	5.4%	4.4%	6.9%	6.6%	5.3%	3.6%	6.4%	-	-	-
RP	8,366	10,709	7,653	6,473	10,433	10,702	8,681	5,671	10,822	-	-	-
YoY	13.0%	18.4%	20.0%	0.3%	24.7%	-0.1%	13.4%	-12.4%	3.7%	-	-	-
RPM	6.0%	7.2%	5.5%	4.6%	7.1%	6.8%	5.5%	3.8%	6.6%	-	-	-
NP	5,069	6,708	4,556	4,808	6,416	6,608	5,740	2,707	6,141	-	-	-
YoY	-24.0%	27.5%	14.7%	22.1%	26.6%	-1.5%	26.0%	-43.7%	-4.3%	-	-	-
NPM	3.6%	4.5%	3.3%	3.4%	4.4%	4.2%	3.6%	1.8%	3.7%	-	-	-

Source: Company data

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

Segment Performance (JPY mn)	FY06/13				FY06/14				FY06/15			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Retail												
Sales	135,221	143,767	133,043	134,899	141,100	151,223	152,831	144,922	157,999	-	-	-
Electric appliances	13,142	15,901	14,123	12,607	12,816	15,279	14,737	11,637	12,884	-	-	-
Miscellaneous household foods	30,862	33,256	30,204	31,227	32,872	35,990	34,912	32,429	36,011	-	-	-
Foods	39,009	41,430	40,592	40,839	40,998	44,723	47,974	46,924	48,773	-	-	-
Watches & fashion merchandise	31,812	36,013	30,908	31,744	32,632	36,649	32,303	30,810	34,099	-	-	-
Sporting & leisure goods	10,206	7,584	6,885	8,348	10,685	7,982	7,356	8,566	11,208	-	-	-
DIY goods	4,582	4,112	4,458	4,042	4,828	4,212	4,532	4,223	4,626	-	-	-
Overseas	3,113	3,201	3,609	3,808	3,927	4,105	8,703	7,910	7,861	-	-	-
Others	2,495	2,270	2,264	2,284	2,342	2,284	2,314	2,423	2,537	-	-	-
YoY	4.3%	5.0%	5.4%	6.1%	4.3%	5.2%	14.9%	7.4%	12.0%	-	-	-
Electric appliances	-7.4%	3.7%	0.0%	1.6%	-2.5%	-3.9%	4.3%	-7.7%	0.5%	-	-	-
Miscellaneous household foods	4.8%	5.9%	7.3%	9.8%	6.5%	8.2%	15.6%	3.8%	9.5%	-	-	-
Foods	5.1%	4.4%	4.9%	5.0%	5.1%	7.9%	18.2%	14.9%	19.0%	-	-	-
Watches & fashion merchandise	11.2%	9.5%	9.4%	7.7%	2.6%	1.8%	4.5%	-2.9%	4.5%	-	-	-
Sporting & leisure goods	8.4%	3.7%	9.1%	8.5%	4.7%	5.2%	6.8%	2.6%	4.9%	-	-	-
DIY goods	-2.4%	-6.5%	-3.8%	-0.8%	5.4%	2.4%	1.7%	4.5%	-4.2%	-	-	-
Overseas	-0.8%	4.0%	12.4%	8.4%	26.1%	28.2%	141.1%	107.7%	100.2%	-	-	-
Others	-17.9%	-19.7%	-21.1%	-11.8%	-6.1%	0.6%	2.2%	6.1%	8.3%	-	-	-
% of Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	-	-	-
Electric appliances	9.7%	11.1%	10.6%	9.3%	9.1%	10.1%	9.6%	8.0%	8.2%	-	-	-
Miscellaneous household foods	22.8%	23.1%	22.7%	23.1%	23.3%	23.8%	22.8%	22.4%	22.8%	-	-	-
Foods	28.8%	28.8%	30.5%	30.3%	29.1%	29.6%	31.4%	32.4%	30.9%	-	-	-
Watches & fashion merchandise	23.5%	25.0%	23.2%	23.5%	23.1%	24.2%	21.1%	21.3%	21.6%	-	-	-
Sporting & leisure goods	7.5%	5.3%	5.2%	6.2%	7.6%	5.3%	4.8%	5.9%	7.1%	-	-	-
DIY goods	3.4%	2.9%	3.4%	3.0%	3.4%	2.8%	3.0%	2.9%	2.9%	-	-	-
Overseas	2.3%	2.2%	2.7%	2.8%	2.8%	2.7%	5.7%	5.5%	5.0%	-	-	-
Others	1.8%	1.6%	1.7%	1.7%	1.7%	1.5%	1.5%	1.7%	1.6%	-	-	-
Operating profit	6,331	8,448	5,592	4,957	8,291	8,764	6,039	1,287	6,486	-	-	-
YoY	6.5%	21.1%	28.9%	4.3%	31.0%	3.7%	8.0%	-74.0%	-21.8%	-	-	-
OPM	4.7%	5.9%	4.2%	3.7%	5.9%	5.8%	4.0%	0.9%	4.1%	-	-	-
Rent												
Sales	3,950	4,204	4,076	4,140	4,086	4,262	4,250	4,493	4,448	-	-	-
YoY	-0.7%	7.9%	5.6%	11.2%	3.4%	1.4%	4.3%	8.5%	8.9%	-	-	-
Operating profit	1,338	1,454	1,212	983	1,252	1,320	2,651	1,282	2,853	-	-	-
YoY	3.8%	-29.5%	-16.4%	8.3%	-6.4%	-9.2%	118.7%	30.4%	127.9%	-	-	-
OPM	33.9%	34.6%	29.7%	23.7%	30.6%	31.0%	62.4%	28.5%	64.1%	-	-	-
Others												
Sales	1,208	1,294	1,307	1,269	1,328	1,323	1,373	1,233	1,414	-	-	-
YoY	-4.2%	3.9%	3.6%	11.2%	9.9%	2.2%	5.0%	-2.8%	6.5%	-	-	-
Operating profit	552	513	649	275	566	681	1,254	1,039	1,190	-	-	-
YoY	13.1%	-13.3%	123.0%	-41.7%	2.5%	32.7%	93.2%	277.8%	110.2%	-	-	-
OPM	45.7%	39.6%	49.7%	21.7%	42.6%	51.5%	91.3%	84.3%	84.2%	-	-	-
Adjustments to operating profit	23	14	12	16	31	-401	-1,510	1,746	-73	-	-	-

Source: Company data

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



MONTHLY WRAP – January 2015



Three-tier strategy produced results; GMP improved by 0.8pp

Don Quijote was successful in increasing customer count during Q4 FY06/14 through lowering prices on staple products, and during Q1 FY06/15, the company moved to implement a three-tier pricing system to increase customer spend. Aggressive pricing on processed foods and improved product selection for fresh foods were popular initiatives among existing customers and the price-sensitive family customer segment. As a result, gross profit margin for comparable stores was up by 0.8pp quarter-on-quarter, to 27.0%. The number of customers at comparable stores continued to increase year-on-year during Q1. This trend continued into October and November.

More repeat customers lead to higher year-on-year customer count and customer spend

Under the three-tier product strategy, Don Quijote assembled product portfolios in consisting of products in three distinct pricing brackets. The lowest tier competes based on price, the middle tier provides added value for a slightly higher price, and the highest tier offers significant added value at a significantly higher price. To encourage customers to shift buying into higher tiers, the company worked to improve its product offerings and create attractive merchandising displays. The strategy not only improved gross profit margins, but caused the number of repeat customers to rise as well. Although foot traffic was down due to poor weather conditions, comparable store sales at mainstay Don Quijote stores were up by 2.8% year-on-year (customer count up by 1.9%, customer spend up by 0.9%), and Nagasakiya, which is primarily composed of stores in the MEGA format, demonstrated comparable store sales gains of 4.0%.

On **December 9, 2014**, the company announced sales figures for November.

(YoY)	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Total Stores												
Sales	9.1%	11.2%	12.3%	16.2%	16.1%							
# of Stores	220	221	220	221	222							
Comparable Stores												
Sales	1.4%	2.3%	5.0%	8.3%	7.1%							
# of Customers	1.7%	0.6%	3.5%	5.2%	3.8%							
Avg. Spend per Customer	-0.2%	1.7%	1.5%	2.9%	3.1%							
# of Comparable Stores	196	196	196	195	196							
Electric Appliances	-1.0%	3.1%	14.8%	15.8%	10.2%							
Household Goods	8.3%	10.7%	13.8%	15.9%	17.2%							
Foods	21.0%	21.6%	24.0%	25.8%	23.4%							
Watches & Fashion Merchandise	5.1%	5.4%	7.6%	9.1%	10.9%							
Sporting & Leisure Goods	3.9%	3.5%	10.0%	12.0%	10.3%							
Other Products	14.1%	70.0%	-43.7%	13.6%	28.8%							

(YoY)	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Total Stores												
Sales	6.6%											
# of Stores	217											
Comparable Stores												
Sales	0.8%											
# of Customers	0.1%											
Avg. Spend per Customer	0.7%											
# of Comparable Stores	194											
Electric Appliances	-2.7%											
Household Goods	8.8%											
Foods	13.1%											
Watches & Fashion Merchandise	3.4%											
Sporting & Leisure Goods	5.6%											
Other Products	-1.1%											

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

View the [full report](#).



MONTHLY WRAP – January 2015



Emergency Assistance Japan Co., Ltd. (6063)

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

On **December 18, 2014**, Shared Research updated the report following interviews with management.

Quarterly Performance (JPYmn)	FY12/12				FY12/13				FY12/14			FY12/14		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	% of FY	FY Est.	
Sales	554	435	448	456	548	447	473	515	627	493	524	66.8%	74.1%	2,220~2,460
Medical Assistance	469	349	360	364	457	360	386	423	527	390	419			
Lifestyle Assistance	84	86	88	92	91	87	87	92	100	103	105			
YoY	-	-	-	-	-1.0%	2.7%	5.7%	12.9%	14.3%	10.3%	10.8%			11.9%~24.0%
Medical Assistance					-2.6%	3.2%	7.4%	16.3%	15.2%	8.2%	8.6%			
Lifestyle Assistance					7.9%	0.6%	-1.1%	-0.2%	9.7%	19.2%	20.9%			
GP	138	109	122	137	114	88	106	127	105	91	109			
YoY	-	-	-	-	-17.6%	-18.6%	-13.0%	-7.8%	-7.6%	3.2%	2.9%			
GPM	24.9%	24.9%	27.2%	30.1%	20.7%	19.8%	22.4%	24.6%	16.8%	18.5%	20.8%			
SG&A	84	102	93	78	93	96	106	104	109	104	114			
YoY	-	-	-	-	10.0%	-6.0%	13.3%	33.3%	17.6%	8.0%	8.3%			
SG&A / Sales	15.2%	23.5%	20.8%	17.2%	16.9%	21.5%	22.3%	20.3%	17.4%	21.0%	21.8%			
OP	54	6	29	59	21	-8	0	22	-4	-12	-5			15~110
Medical Assistance	96	69	83	91	64	48	69	74	50	37	53			
Lifestyle Assistance	27	24	22	29	30	22	15	25	31	28	26			
Intragroup/company-level	-70	-86	-77	-61	-74	-78	-83	-77	-85	-77	-84			
YoY					-61.1%	-	-98.7%	-62.4%	-	-	-			
Medical Assistance					-33.1%	-30.8%	-17.1%	-18.5%	-21.9%	-23.5%	-22.5%			
Lifestyle Assistance					10.4%	-6.3%	-32.8%	-16.0%	2.0%	24.5%	71.7%			
OPM	9.7%	1.5%	6.4%	12.9%	3.8%	-1.7%	0.1%	4.3%	-0.6%	-2.5%	-1.0%			
Medical Assistance	17.3%	15.9%	18.6%	19.9%	11.7%	10.7%	14.6%	14.4%	8.0%	7.4%	10.2%			
Lifestyle Assistance	4.9%	5.5%	4.9%	6.4%	5.5%	5.0%	3.1%	4.8%	4.9%	5.6%	4.9%			
RP	53	-11	25	62	18	-13	-1	21	-6	-16	-8			8~103
YoY	-	-	-	-	-65.8%	-	-	-65.3%	-	-	-			
RPM	9.6%	-2.5%	5.6%	13.5%	3.3%	-2.9%	-0.3%	4.2%	-1.0%	-3.3%	-1.5%			
NI	32	-6	15	35	12	-9	1	11	-5	-10	-5			0~50
YoY	-	-	-	-	-63.6%	-	-93.7%	-67.9%	-	-	-			
NPM	5.7%	-1.4%	3.4%	7.6%	2.1%	-2.1%	0.2%	2.2%	-0.8%	-2.1%	-0.9%			

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

Amid mixed market conditions, EAJ posted cumulative Q3 sales of JPY1.6bn (+12.0% YoY). Operating costs rose as the company hired and trained staff with skills for the global marketplace (in preparation for the additional expected workload stemming from a large-scale order in September from Sampo Japan Nipponkoa Insurance Inc. [subsidiary of Sampo Japan Nipponkoa Holdings, Inc.; TSE1: 8630]), expanded its network of medical institutions, and invested in IT to bolster its infrastructure of assistance centers (including capex on high-performance communications equipment and improvements to core systems). The combination of increased operating costs and the weak yen led to increased expenses overall.

View the [full report](#).



Ferrotec Corp. (6890)

Supplies cutting-edge materials to semiconductor and other electronics manufacturers. Searching for new growth businesses based on its long-nurtured core technologies.

On **December 15, 2014**, Shared Research Inc. updated comments on Ferrotec Corp.'s earnings results for 1H FY03/15.

Quarterly Performance (JPYmn)	FY03/13				FY03/14				FY03/15		FY03/15		FY03/15	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	% of 1H 1H Est.	% of FY FY Est.	% of 1H 1H Est.	% of FY FY Est.
Sales	9,503	10,545	9,102	9,274	9,538	10,691	11,356	13,160	14,130	15,108	114.7%	25,500	52.2%	56,000
YoY	-49.5%	-37.7%	-35.2%	-10.1%	0.4%	1.4%	24.8%	41.9%	48.1%	41.3%		26.1%		25.2%
GP	2,023	1,612	1,776	1,566	2,322	2,718	2,585	3,195	3,166	3,512	111.3%	6,000	51.9%	12,878
YoY	-64.2%	-63.4%	-54.9%	-38.4%	14.8%	68.6%	45.6%	104.1%	36.3%	29.2%				
GPM	21.3%	15.3%	19.5%	16.9%	24.3%	25.4%	22.8%	24.3%	22.4%	23.2%				
SG&A	2,494	3,295	2,269	2,527	2,380	2,501	2,496	2,645	2,575	2,903	109.6%	5,000	50.4%	10,878
YoY	-23.6%	2.3%	-23.2%	-14.7%	-4.5%	-24.1%	10.0%	4.7%	8.2%	16.1%				
SG&A / Sales	26.2%	31.2%	24.9%	27.2%	25.0%	23.4%	22.0%	20.1%	18.2%	19.2%				
OP	-471	-1,683	-493	-961	-58	217	89	550	591	609	119.9%	1,000	60.0%	2,000
YoY	-	-	-	-	-	-	-	-	-	180.1%		528.7%		150.6%
OPM	-5.0%	-16.0%	-5.4%	-10.4%	-0.6%	2.0%	0.8%	4.2%	4.2%	4.0%		3.9%		3.6%
RP	-554	-2,157	-448	-306	480	50	-83	815	190	644	166.8%	500	55.6%	1,500
YoY	-	-	-	-	-	-	-	-	-60.4%	1,179.8%		-5.7%		18.8%
RPM	-5.8%	-20.5%	-4.9%	-3.3%	5.0%	0.5%	-0.7%	6.2%	1.3%	4.3%		2.0%		2.7%
NI	-664	-5,493	-1,513	1,137	418	276	-134	831	-44	399	101.3%	350	44.3%	800
YoY	-	-	-	-	-	-	-26.9%	-	-	44.6%		-49.6%		-42.5%
NPM	-7.0%	-52.1%	-16.6%	12.3%	4.4%	2.6%	-1.2%	6.3%	-0.3%	2.6%		1.4%		1.4%

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

1H FY03/15 results confirmed the recovery in sales, and showed significant growth in operating profit. The Equipment-related and Electronic-device segments have contributed to the overall earnings recovery. Operating profit margin rose to 4.1% during 1H due to a sales increase and cost-cutting measures that the company has been implementing since FY03/14. Ferrotec executives stated that the improving operating profit margin, although still low, nevertheless demonstrated that profits are recovering.

Recurring profit also increased by 57.3% YoY, despite losses on foreign exchange. But net income fell by 48.9% from a year earlier, when the company the company booked JPY646mn in gains on the sale of investment securities. Net income fell also because Ferrotec sold a quartz factory in Aizu, North Japan.

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FreeBit Co., Ltd. (3843)

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

On **December 25, 2014**, Shared Research Inc. updated comments on Freebit Co., Ltd.'s 1H FY04/15 earnings results.

Quarterly Performance (JPYmn)	FY04/14				FY04/15				FY04/15	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of FY	FY Est.
Sales	5,253	5,142	4,987	5,283	5,291	5,231	-	-	45.7%	23,000
YoY	-0.4%	-0.2%	-0.9%	1.5%	0.7%	1.7%	-	-		
Gross Profit	1,950	1,982	2,012	2,054	1,960	1,902	-	-		
YoY	9.5%	5.2%	9.4%	2.6%	0.5%	-4.0%	-	-		
GPM	37.1%	38.5%	40.4%	38.9%	37.1%	36.4%	-	-		
SG&A	1,644	1,673	1,720	1,641	1,614	1,648	-	-		
YoY	0.9%	0.1%	5.4%	0.1%	-1.8%	-1.5%	-	-		
SG&A / Sales	31.3%	32.5%	34.5%	31.1%	30.5%	31.5%	-	-		
Operating Profit	307	309	293	412	346	254	-	-	40.0%	1,500
YoY	100.7%	44.8%	40.6%	14.1%	12.7%	-17.9%	-	-		
OPM	5.8%	6.0%	5.9%	7.8%	6.5%	4.9%	-	-		
Recurring Profit	276	260	300	384	325	186	-	-	37.9%	1,350
YoY	144.1%	95.3%	561.1%	103.2%	17.6%	-28.3%	-	-		
RPM	5.3%	5.1%	6.0%	7.3%	6.1%	3.6%	-	-		
Net Income	-64	115	117	68	540	178	-	-	119.7%	600
YoY	-	-	-	414.5%	-	54.8%	-	-		
NPM	-	2.2%	2.3%	1.3%	10.2%	3.4%	-	-		

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

Source: Company data

Net income increased because the company booked deferred tax assets after subsidiary Dream Train Internet, Inc. (DTI) acquired FreeBit Cloud Co., Ltd. on May 1, 2014. The company also reported a gain on changes in equity due to the exercise of new share warrants issued by Full Speed Inc., and gains on the sale of investment securities as Full Speed sold securities. The company maintained its full-year earnings forecasts.

View the [full report](#).

Gamecard-Joyco Holdings, Inc. (6249)

Dominant pachinko machine prepaid-card system provider.

On **December 15, 2014**, Shared Research updated the report after interviewing management.

Quarterly Performance (JPYmn)	FY03/14				FY03/15				FY03/15	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of FY	FY Est.
Sales	8,684	8,645	9,861	7,002	6,127	6,458	-	-	38.6%	30,000
YoY	-14.0%	-13.6%	-10.6%	-16.7%	-29.4%	-25.3%	-	-		-12.3%
GP	2,813	2,836	2,905	2,426	2,456	2,490	-	-		
YoY	-15.3%	-7.3%	-9.9%	6.4%	-12.7%	-12.2%	-	-		
GPM	32.4%	32.8%	29.5%	34.6%	40.1%	38.6%	-	-		
SG&A	1,834	2,076	2,272	3,034	1,855	2,361	-	-		
YoY	-11.6%	-5.2%	1.8%	11.5%	1.1%	13.7%	-	-		
SG&A / Sales	21.1%	24.0%	23.0%	43.3%	30.3%	36.6%	-	-		
OP	979	760	633	-608	601	129	-	-	169.8%	400
YoY	-21.5%	-12.4%	-36.3%	-	-38.6%	-83.0%	-	-		-77.3%
OPM	11.3%	8.8%	6.4%	-	9.8%	2.0%	-	-		1.3%
RP	1,006	777	662	-596	616	134	-	-	187.5%	400
YoY	-20.0%	-9.5%	-32.9%	-	-38.8%	-82.8%	-	-		-78.4%
RPM	11.6%	9.0%	6.7%	-	10.1%	2.1%	-	-		1.3%
NI	616	444	274	-434	352	70	-	-	248.2%	100
YoY	-13.0%	-26.4%	-55.2%	-	-42.9%	-84.2%	-	-		-88.9%
NPM	7.1%	5.1%	2.8%	-	5.7%	1.1%	-	-		0.3%

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

Source: Company data

According to the company, the business environment remains difficult for pachinko halls. With increasing sources of entertainment available, the population of young players is declining. Conventional four-yen pachinko is also stalling due to the entrenchment of low-price pachinko.

Due to factors such as concern for revenues after the consumption tax hike, pachinko halls are cautious when making capex decisions such as new store openings and remodeling existing stores. This is especially true for new equipment purchases. Among pachinko hall operators, the dominant trend appears to be to pass on the consumption tax hike burden to the customer. During 1H FY03/15, the majority of demand was for equipment to meet this new trend, and unit sales of equipment were significantly lower year-on-year as a result. Competition was fierce among rival companies, as there were fewer contracts to compete for, which led to lower equipment sale prices year-on-year. The competitive environment among pachinko halls led to a lower number of member halls, and this resulted in lower sales from card and system-usage fees.

View the [full report](#).



Grandy House Corp. (8999)

Homebuilder in Tochigi, Gunma, Ibaraki prefectures. Commands dominant share in Tochigi.

On **December 17, 2014**, Shared Research updated the report on earnings results for 1H FY03/15 of Grandy House Corp. after interviewing management.

Quarterly Performance (JPYmn)	FY03/14				FY03/15				FY03/15	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of FY	FY Est.
Sales	9,097	9,327	9,265	9,571	8,041	9,891	-	-	47.2%	38,000
YoY	11.7%	15.4%	15.2%	15.7%	-11.6%	6.0%	-	-		16.8%
Gross Profit	1,733	1,781	1,799	1,739	1,429	1,713	-	-		
YoY	11.5%	19.9%	19.4%	15.2%	-17.6%	-3.8%	-	-		
Gross Profit Margin	19.1%	19.1%	19.4%	18.2%	17.8%	17.3%	-	-		
SG&A	973	1,088	1,023	1,036	1,002	1,134	-	-		
YoY	9.4%	11.0%	9.6%	10.6%	3.0%	4.2%	-	-		
SG&A / Sales ratio	10.7%	11.7%	11.0%	10.8%	12.5%	11.5%	-	-		
Operating Profit	759	694	776	703	426	579	-	-	45.7%	2,200
YoY	14.4%	37.1%	35.3%	22.7%	-43.8%	-16.5%	-	-		-5.1%
Operating Profit Margin	8.3%	7.4%	8.4%	7.3%	5.3%	5.9%	-	-		5.8%
Recurring Profit	789	721	797	727	459	595	-	-	45.1%	2,340
YoY	19.3%	34.9%	32.8%	22.0%	-41.8%	-17.5%	-	-		-2.2%
Recurring Profit Margin	8.7%	7.7%	8.6%	7.6%	5.7%	6.0%	-	-		6.2%
Net Income	477	447	475	364	272	369	-	-	43.9%	1,460
YoY	24.3%	54.9%	32.2%	10.5%	-43.1%	-17.4%	-	-		7.2%
Net Margin	5.2%	4.8%	5.1%	3.8%	3.4%	3.7%	-	-		3.8%

Source: Company data

Note: Figures may differ from company materials due to differences in rounding methods. Company forecasts are the most recent figures.

The year-on-year decline in sales was mainly due to a fall in unit sales of new homes to 560 (-2.1% YoY). Profits decreased due to the fall in sales, a drop in gross profit due to intensified competition, and a rise in SG&A expenses.

Difficult conditions for orders continued. The prolonged impact of the consumption tax hike meant that new housing starts fell year-on-year for seven months in a row until September 2014. This was despite policies easing the financial burden for home buyers, such as expanded tax cuts for mortgages in the face of the consumption tax hike and other financial support.

Grandy House focused on expanding its sales area and taking a greater share of the market. In September 2014, the company sold its 10,000th new home since its start in 1996. Sales of pre-cut parts and renovation contracts were also robust. But despite selling more units in Chiba—a key area—overall new home sales and profits fell year-on-year, as they failed to overcome the slump in Q1. This was due to difficult conditions caused by the consumption tax hike.

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MONTHLY WRAP – January 2015



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.

On **December 10, 2014**, Gulliver International Co., Ltd. announced monthly sales data for November 2014.

Total car sales at directly managed stores (units)

	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Total
FY02/11	19,904	15,358	11,992	11,222	11,841	9,602	12,874	12,044	10,829	7,675	11,367	15,100	149,808
YoY	27.5%	31.4%	5.0%	6.0%	-5.8%	-12.4%	9.8%	-19.1%	-14.6%	-11.8%	-7.1%	-3.1%	0.8%
FY02/12	19,156	13,401	10,709	12,284	12,482	9,822	12,344	12,426	10,497	8,987	10,059	14,122	146,289
YoY	-3.8%	-12.7%	-10.7%	9.5%	5.4%	2.3%	-4.1%	3.2%	-3.1%	17.1%	-11.5%	-6.5%	-2.3%
FY02/13	20,685	15,420	10,900	11,670	11,594	11,443	12,220	13,794	13,661	8,285	11,925	17,156	158,753
YoY	8.0%	15.1%	1.8%	-5.0%	-7.1%	16.5%	-1.0%	11.0%	30.1%	-7.8%	18.6%	21.5%	8.5%
FY02/14	23,223	15,921	12,456	12,884	13,123	12,198	13,416	17,181	15,462	10,716	13,258	18,931	178,769
YoY	12.3%	3.2%	14.3%	10.4%	13.2%	6.6%	9.8%	24.6%	13.2%	29.3%	11.2%	10.3%	12.6%
FY02/15	21,580	11,640	9,725	10,374	12,232	13,044	14,136	18,552	15,084	-	-	-	126,367
YoY	-7.1%	-26.9%	-21.9%	-19.5%	-6.8%	6.9%	5.4%	8.0%	-2.4%	-	-	-	-7.0%

Retail sales at directly managed stores (units)

	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Total
FY02/11	4,476	2,879	2,840	2,807	3,089	2,751	2,909	3,269	2,837	2,360	1,995	3,468	35,680
YoY	6.7%	2.3%	-14.2%	-11.0%	-23.1%	-10.7%	-6.9%	-24.4%	-9.6%	-15.7%	-17.0%	-15.1%	-11.8%
FY02/12	3,618	3,191	2,160	2,315	2,858	2,150	2,406	3,142	2,560	2,493	2,307	3,891	33,091
YoY	-19.2%	10.8%	-23.9%	-17.5%	-7.5%	-21.8%	-17.3%	-3.9%	-9.8%	5.6%	15.6%	12.2%	-7.3%
FY02/13	5,758	3,642	3,080	3,761	4,123	3,270	3,789	4,422	3,583	2,771	2,717	4,353	45,269
YoY	59.1%	14.1%	42.6%	62.5%	44.3%	52.1%	57.5%	40.7%	40.0%	11.2%	17.8%	11.9%	36.8%
FY02/14	6,593	4,327	3,441	3,804	4,109	3,027	3,937	4,962	4,660	3,661	2,785	5,080	50,386
YoY	14.5%	18.8%	11.7%	1.1%	-0.3%	-7.4%	3.9%	12.2%	30.1%	32.1%	2.5%	16.7%	11.3%
FY02/15	7,006	3,028	2,806	3,695	4,087	4,448	4,249	5,030	4,840	-	-	-	39,189
YoY	6.3%	-30.0%	-18.5%	-2.9%	-0.5%	46.9%	7.9%	1.4%	3.9%	-	-	-	0.8%

Wholesale sales at directly managed stores (units)

	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Total
FY02/11	15,428	12,479	9,152	8,415	8,752	6,851	9,965	8,775	7,992	5,315	9,372	11,632	114,128
YoY	35.2%	40.7%	12.9%	13.2%	2.3%	-13.0%	15.8%	-17.0%	-16.2%	-9.9%	-4.6%	1.2%	5.5%
FY02/12	15,538	10,210	8,549	9,969	9,624	7,672	9,938	9,284	7,937	6,494	7,752	10,231	113,198
YoY	0.7%	-18.2%	-6.6%	18.5%	10.0%	12.0%	-0.3%	5.8%	-0.7%	22.2%	-17.3%	-12.0%	-0.8%
FY02/13	14,927	11,778	7,820	7,909	7,471	8,173	8,431	9,372	10,078	5,514	9,208	12,803	113,484
YoY	-3.9%	15.4%	-8.5%	-20.7%	-22.4%	6.5%	-15.2%	0.9%	27.0%	-15.1%	18.8%	25.1%	0.3%
FY02/14	16,630	11,594	9,015	9,080	9,014	9,171	9,479	12,219	10,802	7,055	10,473	13,851	128,383
YoY	11.4%	-1.6%	15.3%	14.8%	20.7%	12.2%	12.4%	30.4%	7.2%	27.9%	13.7%	8.2%	13.1%
FY02/15	14,574	8,612	6,919	6,679	8,145	8,596	9,887	13,522	10,244	-	-	-	87,178
YoY	-12.4%	-25.7%	-23.3%	-26.4%	-9.6%	-6.3%	4.3%	10.7%	-5.2%	-	-	-	-10.1%

Store count

	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Term-end
FY02/11	420	419	418	419	419	423	423	422	419	420	421	421	421
Directly managed	290	288	288	288	287	288	288	288	286	286	286	286	286
Franchisee	130	131	130	131	132	135	135	134	133	134	135	135	135
FY02/12	421	417	416	418	415	415	417	418	419	419	417	415	415
Directly managed	286	284	284	286	287	287	289	288	291	291	289	288	288
Franchisee	135	133	132	132	128	128	128	130	128	128	128	127	127
YoY (directly managed)	-4	-4	-4	-2	+0	-1	+1	+0	+5	+5	+3	+2	+2
FY02/13	415	415	413	416	414	414	413	411	411	413	412	412	412
Directly managed	288	291	290	293	293	293	292	292	292	294	293	294	294
Franchisee	127	124	123	123	121	121	119	119	119	119	118	118	118
YoY (directly managed)	+2	+7	+6	+7	+6	+6	+3	+4	+1	+3	+4	+6	+6
FY02/14	411	412	404	404	404	407	409	411	412	408	413	417	417
Directly managed	294	296	294	294	295	297	298	302	303	298	302	304	304
Franchisee	117	116	110	110	109	110	111	109	109	110	111	113	113
YoY (directly managed)	+6	+5	+4	+1	+2	+4	+6	+10	+11	+4	+9	+10	+10
FY02/15	421	421	421	422	424	426	432	439	444	-	-	-	-
Directly managed	308	308	312	313	315	316	321	332	337	-	-	-	-
Franchisee	113	113	109	109	109	110	111	107	107	-	-	-	-
YoY (directly managed)	+14	+12	+18	+19	+20	+19	+23	+30	+34	-	-	-	-

Source: Company data

Note: Total car sales at directly managed stores = Direct customer retail sales and wholesale sales at auctions, etc.

Note: Retail sales at directly managed stores = as mentioned above, units sold directly to customers

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.

On **December 5, 2014**, Shared Research updated the report after interviewing management.

Quarterly Performance (JPYmn)	FY03/14				FY03/15				FY03/15	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of FY	FY Est.
Sales	36,172	51,199	78,090	41,406	40,039	53,398			43.5%	215,000
YoY	-2.0%	30.2%	27.0%	6.0%	10.7%	4.3%				3.9%
Gross Profit	5,020	5,763	8,023	5,233	5,559	6,457				
YoY	-3.5%	15.5%	10.7%	3.4%	10.7%	12.0%				
GPM	13.9%	11.3%	10.3%	12.6%	13.9%	12.1%				
SG&A	4,416	4,815	5,551	5,368	4,728	4,925				
YoY	-0.5%	1.4%	5.2%	5.9%	7.1%	2.3%				
SG&A / Sales	12.2%	9.4%	7.1%	13.0%	11.8%	9.2%				
Operating Profit	604	947	2,472	-135	831	1,531			47.2%	5,000
YoY	-21.1%	292.9%	25.2%	-	37.6%	61.7%				28.6%
OPM	1.7%	1.8%	3.2%	-	2.1%	2.9%				2.3%
Recurring Profit	614	965	2,483	-145	863	1,550			48.3%	5,000
YoY	-23.6%	260.1%	23.9%	-	40.6%	60.6%				27.6%
RPM	1.7%	1.9%	3.2%	-	2.2%	2.9%				2.3%
Net Income	260	1,115	1,248	-157	928	886			51.8%	3,500
YoY	-49.9%	486.8%	-3.0%	-	256.9%	-20.5%				41.9%
NPM	0.7%	2.2%	1.6%	-	2.3%	1.7%				1.6%

Source: Company data

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

Hit products in the Toys and Amusement businesses contributed to robust sales and profits.

Toys

Products featuring Bandai properties Yokai Watch and Kamen Rider Gaim showed strong sales, contributing to higher sales and profits.

Amusement

Sales and profits increased due to contributions from products featuring popular characters. These included Kamen Rider, Yokai Watch and other toy vending machines, plus Yokai Watch, Dragon Ball, Aikatsu! and other digital card games.

According to comments at Happinet's results briefing for 1H FY03/15, toy vending machines account for roughly 60% of sales in this segment; digital card games make up the remaining 40%. Two years ago, these products accounted for 40% and 60% of sales respectively, but Shared Research understands growth in toy vending machine sales has outpaced growth in digital card game sales.

View the [full report](#).



MONTHLY WRAP – January 2015



Harmonic Drive Systems (6324)

World leading manufacturer of Harmonic Drive® compact speed reducers mainly used in industrial robots and precision equipment.

On **December 24, 2014**, Shared Research updated comments on Harmonic Drive Systems Inc. (HDSI) after interviewing management.

Quarterly Performance (JPYmm)	FY03/13				FY03/14				FY03/15		FY03/15		FY03/15	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2(*)	% of 1H	1H Est.	% of FY	FY Est.
Sales	4,957	4,890	4,158	4,126	4,969	5,443	5,475	5,197	6,155	6,545	101.6%	12,500	23.7%	26,000
YoY	-11.8%	-10.9%	-8.0%	-9.0%	0.2%	11.3%	31.7%	26.0%	23.9%	20.2%		20.1%		23.3%
GP	2,119	2,070	1,665	1,515	2,172	2,430	2,436	2,080	2,797	3,237				
YoY	-12.5%	-12.4%	-3.8%	-15.0%	2.5%	17.4%	46.3%	37.3%	28.8%	33.2%				
GPM	42.7%	42.3%	40.1%	36.7%	43.7%	44.6%	44.5%	40.0%	45.4%	49.5%				
SG&A	976	996	1,037	924	1,079	1,118	1,102	1,151	1,189	1,213				
YoY	-4.3%	0.2%	6.7%	-5.6%	10.6%	12.3%	6.3%	24.6%	10.2%	8.4%				
SG&A / Sales	19.7%	20.4%	24.9%	22.4%	21.7%	20.5%	20.1%	22.1%	19.3%	18.5%				
OP	1,143	1,074	628	591	1,093	1,312	1,334	929	1,608	2,025	108.5%	3,350	21.9%	7,350
YoY	-18.4%	-21.6%	-17.2%	-26.5%	-4.3%	22.1%	112.2%	57.3%	47.1%	54.4%		39.3%		57.5%
OPM	23.1%	22.0%	15.1%	14.3%	22.0%	24.1%	24.4%	17.9%	26.1%	30.9%		26.8%		28.3%
RP	1,183	1,025	698	670	1,196	1,362	1,364	902	1,796	2,091	112.6%	3,450	23.2%	7,730
YoY	-20.8%	-28.3%	-22.1%	15.9%	1.0%	32.8%	95.4%	34.7%	50.2%	53.5%		34.9%		60.3%
RPM	23.9%	21.0%	16.8%	16.2%	24.1%	25.0%	24.9%	17.3%	29.2%	31.9%		27.6%		29.7%
NI	722	481	380	378	759	870	843	522	1,113	1,370	110.4%	2,250	22.7%	4,900
YoY	-4.6%	-34.9%	-23.6%	157.4%	5.2%	80.9%	121.8%	37.9%	46.7%	57.5%		38.1%		63.7%
NPM	14.6%	9.8%	9.1%	9.2%	15.3%	16.0%	15.4%	10.0%	18.1%	20.9%		18.0%		18.8%
Orders	5,361	4,313	4,098	4,414	5,316	5,323	5,282	6,400	7,015	6,008				
YoY	-12.3%	-8.3%	6.1%	-4.0%	-0.8%	23.4%	28.9%	45.0%	31.9%	12.9%				
Order backlog	3,270	2,659	2,582	2,962	3,387	3,321	3,119	4,400	5,224	4,677				

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

Source: Company data

Q2 estimates are the difference between 1H estimates and Q1 results.

The market environment was favorable, supported primarily by the electronics sector in Asian countries—primarily China—in which there was active investment in automation and power saving initiatives. Both sales and profits exceeded the company's forecasts.

On November 12, 2014, the company announced a revision to its full-year FY03/15 earnings results and an increase in its dividend, from JPY6 to JPY7 per share. The company issued a 3-for-1 stock split on October 1, 2014. HDSI cited a favorable forecast for order procurement during 2H, primarily in industrial robots.

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Hearts United Group Co., Ltd. (3676)

A debugging business established as a holding company of Digital Hearts.

On **December 19, 2014**, Hearts United Group Co., Ltd. announced the finalization of certain details (such as capital) related to the establishment of a joint venture with ZMP Inc. to provide testing services for the automotive industry, including debugging and data collection. The partnership was announced on November 4, 2014.

Details of the joint venture (finalized details are underlined):

Name: TBD
Representative: President and Representative Director Hisashi Taniguchi
Business details: Testing services for the auto industry such as debugging and data collection
Capital: JPY30mn
Establishment date: January 15, 2015 (expected)
Financial year end: December
Ownership: HUG: 49.0%, ZMP: 51.0%

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 **December 8, 2014**, Shared Research updated comments on Intelligent Wave Inc. (IWI)'s earnings results for Q1 FY06/15 after interviewing management.

Quarterly performance (JPYmn)	FY06/14				FY06/14				FY06/14	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of 1H	1H Est.
Sales	1,279	1,776	1,983	1,521	1,426	-	-	-	50.9%	2,800
YoY	40.4%	0.6%	9.4%	10.0%	11.5%	-	-	-	-	-8.3%
GP	28	465	453	397	392	-	-	-	-	-
GPM	2.2%	26.2%	22.8%	26.1%	27.5%	-	-	-	-	-
SG&A	298	297	297	304	298	-	-	-	-	-
YoY	-0.5%	4.9%	10.9%	1.1%	-0.2%	-	-	-	-	-
OP	-270	167	156	93	95	-	-	-	126.2%	75
YoY	-	-	83.5%	29.2%	-	-	-	-	-	-
OPM	-21.1%	9.4%	7.9%	6.1%	6.6%	-	-	-	-	2.7%
RP	-268	180	162	110	92	-	-	-	114.8%	80
YoY	-	-	82.8%	-29.4%	-	-	-	-	-	-
NI	-246	174	92	67	61	-	-	-	121.1%	50
YoY	-	-	-1.5%	-83.0%	-	-	-	-	-	-
Cumulative	Q1	1H	Q3	2H	Q1	1H	Q3	2H	% of FY	FY Est.
Sales	1,279	3,055	5,038	6,558	1,426	-	-	-	22.3%	6,400
YoY	40.4%	14.1%	12.2%	11.7%	11.5%	-	-	-	-	-2.4%
GP	28	492	945	1,342	392	-	-	-	-	-
GPM	2.2%	16.1%	18.8%	20.5%	27.5%	-	-	-	-	-
SG&A	298	595	892	1,196	298	-	-	-	-	-
YoY	-0.5%	2.1%	4.9%	3.9%	-0.2%	-	-	-	-	-
OP	-270	-103	53	146	95	-	-	-	24.9%	380
YoY	-	-	-	-	-	-	-	-	-	161.1%
OPM	-	-	1.1%	-	-	-	-	-	-	5.9%
RP	-268	-88	74	184	92	-	-	-	23.0%	400
YoY	-	-	-	-	-	-	-	-	-	117.5%
NI	-246	-72	20	87	61	-	-	-	24.2%	250
YoY	-	-	-	-	-	-	-	-	-	188.2%

Source: Company data
 Figures may differ from company materials due to differences in rounding methods.
 Company estimates based on most recent figures.

In the credit card industry (IWI's main business area), electronic money became more common and the range of payment methods increased. There were also efforts to attract tourists from overseas. Amid such conditions, negotiations for new capex projects increased. The company seized upon this opportunity to conduct sales activities, resulting in an increase in sales.

In Q1 FY06/14, IWI booked an operating loss, owing to multiple unprofitable development projects. But there were no such unprofitable projects this year, Q1 FY06/15. Furthermore, the company booked sales of in-house packaged software and hardware, which were expected to be booked in Q2. The result: a significant improvement in operating profit.

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**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 **December 25, 2014**, Ito En, Ltd announced the acquisition of shares (corporate acquisition) of US-based Distant Lands Trading Co.

The company decided to make Distant Lands Trading Co. ("DLTC," headquartered in Delaware, US) a wholly owned subsidiary of Ito En's subsidiary, Ito En (North America) Inc. ("NA"). This will occur through a merger between DLTC and Ito En Acquisition Corporation ("AC"), a new company established for the acquisition by NA. The contract was signed on December 25, 2014 and the transaction is planned for mid-February 2015. The acquisition price will be around JPY10bn, including DLTC shares, advisory expenses and others costs.

This acquisition will happen through a reverse triangular merger, with sellers receiving cash compensation according to the Delaware General Corporation Law.

Reasons for share acquisition

DLTC is a specialty coffee company which sells roasted coffee and green coffee beans to foodservice and retail customers under its own brand and other private brands. In September 2013, DLTC launched a single serve coffee business, one of the fastest growing businesses in the coffee industry, where it expects further growth. In addition, DLTC engages in production of premium coffee beans from the coffee farms and processing mills it owns in Latin America, and procures green coffee beans from trusted third party farms worldwide. The vertically integrated system, from procurement of raw materials to sales, enables DLTC to provide custom coffees and to build a distinct business model.

The acquisition will enable the Ito En group to reinforce sales in North America using DLTC's sales networks and customer relationships. It will also take advantage of DLTC's procurement, technological development, and production power to offer a wider range of products other than RTD bottled beverages. The company believes that this acquisition will help grow the overseas business, especially in North America.

Transaction Details

The acquisition will occur through a reverse triangular merger with the sellers receiving cash as compensation. DLTC will be the surviving company and AC the dissolving company, according to the Delaware General Corporation Law. Upon the merger, shareholders of DLTC will receive cash from NA and all shares of DLTC will be cancelled. Shares of AC, which are owned by NA, will transfer into common shares of DLTC, and NA will acquire 100% of the shares of DLTC. As a result, DLTC will become a wholly-owned subsidiary of Ito En and NA.

Overview of the target subsidiary (DLTC: surviving company)

Trade name: Distant Lands Trading Co.

Business description: Coffee bean cultivation, procurement, processing, production, roasting, sales, etc.

Stated capital: USD87.5mn

Shareholders and ownership ratio: Centre Bregal Partners, LP: 57.3% Doc Allen & Son, Inc.: 14.0%



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DLTC's consolidated business results and financial position for the last three fiscal years

(USDmn)	FY09/12	FY09/13	FY09/14
Net assets	2.7	8.0	4.3
Total assets	87.9	96.3	105.5
Net sales	183.5	161.0	161.1
Operating profit	-5.2	3.2	0.7
Net income	-55.1	-3.0	-7.0

Source: Company data

On **the same day**, Shared Research Inc. updated comments on the company's 1H FY04/15 earnings after interviewing management.

Quarterly Performance (JPYmn)	FY04/14				FY04/15				FY04/15	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of 1H	1H Est.
Sales	119,193	119,791	94,926	103,845	118,700	115,152			-	-
YoY	12.2%	8.7%	4.6%	7.4%	-0.4%	-3.9%				
Gross Profit	55,809	58,135	46,199	51,661	55,616	55,598				
YoY	13.4%	11.1%	6.3%	9.7%	-0.3%	-4.4%				
GPM	46.8%	48.5%	48.7%	49.7%	46.9%	48.3%				
SG&A Expenses	50,240	49,243	45,329	45,892	53,421	49,605				
YoY	14.0%	12.5%	9.0%	8.2%	6.3%	0.7%				
SG&A / Sales	42.2%	41.1%	47.8%	44.2%	45.0%	43.1%				
Operating Profit	5,568	8,893	870	5,769	2,194	5,993			-	-
YoY	8.1%	4.1%	-53.4%	22.9%	-60.6%	-32.6%				
OPM	4.7%	7.4%	0.9%	5.6%	1.8%	5.2%				
Recurring Profit	5,426	8,692	835	5,565	2,082	5,937			-	-
YoY	11.0%	2.5%	-55.3%	19.0%	-61.6%	-31.7%				
RPM	4.6%	7.3%	0.9%	5.4%	1.8%	5.2%				
Net Income	2,987	5,338	378	3,393	937	3,441			-	-
YoY	22.1%	4.6%	-67.1%	33.3%	-68.6%	-35.5%				
NM	2.5%	4.5%	0.4%	3.3%	0.8%	3.0%				
Cumulative data	Q1	1H	Q3	FY	Q1	1H	Q3	FY	% of FY	FY Est.
Sales	119,193	238,984	333,910	437,755	118,700	233,852			53.5%	437,000
YoY	12.2%	10.4%	8.7%	8.4%	-0.4%	-2.1%				-0.2%
Gross Profit	55,809	113,944	160,143	211,804	55,616	111,214			52.8%	210,615
YoY	13.4%	12.2%	10.4%	10.3%	-0.3%	-2.4%				-0.6%
GPM	46.8%	47.7%	48.0%	48.4%	46.9%	47.6%				48.2%
SG&A Expenses	50,240	99,483	144,812	190,704	53,421	103,026			51.9%	198,615
YoY	14.0%	13.2%	11.9%	11.0%	6.3%	3.6%				4.1%
SG&A / Sales	42.2%	41.6%	43.4%	43.6%	45.0%	44.1%				45.4%
Operating Profit	5,568	14,461	15,331	21,100	2,194	8,187			68.2%	12,000
YoY	8.1%	5.6%	-1.4%	4.2%	-60.6%	-43.4%				-43.1%
OPM	4.7%	6.1%	4.6%	4.8%	1.8%	3.5%				2.7%
Recurring Profit	5,426	14,118	14,953	20,518	2,082	8,019			69.1%	11,600
YoY	11.0%	5.6%	-1.9%	3.0%	-61.6%	-43.2%				-43.5%
RPM	4.6%	5.9%	4.5%	4.7%	1.8%	3.4%				2.7%
Net Income	2,987	8,325	8,703	12,096	937	4,378			70.6%	6,200
YoY	22.1%	10.3%	0.1%	7.6%	-68.6%	-47.4%				-48.7%
NPM	2.5%	3.5%	2.6%	2.8%	0.8%	1.9%				1.4%

Source: Company data

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

Q1 earnings were sluggish because of the consumption tax increase and unstable weather conditions in the summer. The company also struggled as major rivals continued to expand their market dominance. The weather remained unfavorable into the fall, with the result that the company's 1H earnings fell below initial targets.



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On **December 5, 2014**, the company announced monthly sales data for November 2014.

Monthly Sales (non-consolidated estimates; % change YoY)	FY04/15												Total	
	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.		
Total Sales	-2.7%	0.5%	-3.9%	-9.4%	-3.8%	0.1%	-2.6%							-3.6%
Tea Leaf	-1.4%	1.0%	-0.3%	-0.8%	2.3%	3.2%	0.1%							0.2%
Beverages	-2.7%	0.5%	-4.1%	-9.8%	-3.9%	-0.3%	-2.4%							-3.9%
Breakdown by Beverage Category														
Japanese Tea Beverages	2.5%	0.2%	-0.9%	-10.2%	-3.1%	1.7%	1.4%							-1.8%
Chinese Tea Beverages	-9.4%	-0.5%	-2.7%	-12.3%	-15.4%	-0.7%	-12.4%							-7.4%
Vegetable Beverages	-19.9%	-10.9%	-13.0%	-16.2%	-10.8%	-5.4%	-10.7%							-12.3%
Fruit Beverages	17.9%	18.9%	-10.0%	-13.9%	57.6%	11.9%	6.3%							6.9%
Coffee Beverages	9.7%	23.9%	4.8%	16.3%	17.1%	10.2%	-4.4%							10.6%
Black Tea Beverages	7.1%	2.7%	-5.8%	-7.0%	-21.9%	-25.7%	-0.6%							-9.4%
Functional Beverages	-32.8%	-15.3%	-14.2%	-16.1%	-13.7%	-0.3%	-7.2%							-16.0%
Mineral Water	-13.7%	-8.2%	-14.2%	-13.4%	-16.8%	-9.8%	-9.3%							-13.0%
Monthly Sales (non-consolidated estimates; % change YoY)	FY04/14												Total	
	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.		
Total Sales	7.2%	6.0%	3.8%	0.3%	-3.0%	4.2%	1.2%	4.4%	6.4%	4.3%	11.7%	-1.6%	3.3%	
Tea Leaf	3.9%	5.5%	8.4%	2.8%	3.1%	8.9%	4.7%	5.4%	9.6%	6.9%	16.0%	1.0%	6.4%	
Beverages	7.8%	6.0%	3.6%	0.2%	-3.3%	3.9%	0.7%	4.2%	6.5%	4.0%	11.2%	-2.0%	3.1%	
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%	13.7%	0.8%	6.3%	
Chinese Tea Beverages	-4.8%	-1.8%	-8.3%	-0.9%	0.1%	-1.6%	-5.6%	-1.9%	-0.7%	-9.5%	14.0%	-7.6%	-3.5%	
Vegetable Beverages	6.3%	-1.0%	1.8%	-2.6%	-1.6%	-1.0%	-6.4%	0.2%	-5.9%	-9.6%	9.6%	-16.4%	-1.6%	
Fruit Beverages	7.4%	0.0%	6.5%	-7.0%	-23.7%	-7.6%	-6.3%	-1.3%	7.2%	29.8%	9.7%	31.7%	2.4%	
Coffee Beverages	11.5%	1.7%	17.0%	-1.7%	12.9%	17.5%	22.2%	14.0%	11.2%	7.5%	21.6%	10.3%	11.7%	
Black Tea Beverages	-34.0%	-31.3%	-22.5%	-3.9%	-24.2%	-25.3%	-22.8%	-22.6%	-23.3%	17.5%	-33.1%	-3.1%	-20.5%	
Functional Beverages	18.5%	20.5%	11.8%	0.8%	-4.0%	-6.3%	3.1%	10.3%	6.2%	-2.0%	-16.0%	-4.1%	3.3%	
Mineral Water	9.5%	25.0%	11.9%	-7.3%	-13.6%	-0.1%	-5.1%	0.2%	6.4%	-11.1%	0.7%	-15.7%	-0.2%	

Source: Company data

On **December 3, 2014**, the company held a briefing session on its 1H FY04/15 results.

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.

On **December 26, 2014**, Shared Research updated the report following interviews with management.

Quarterly performance (JPYmn)	FY03/14				FY03/15				FY03/15	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of FY Est.	FY Est.
Operating Revenue	14,545	14,300	15,172	17,909	15,928	16,051			46.2%	69,291
YoY	47.4%	-2.0%	-6.3%	19.2%	9.5%	12.2%				11.9%
Gross Operating Profit	8,441	7,978	8,237	10,930	8,188	9,348				
YoY	3.2%	-9.0%	-18.4%	39.0%	-3.0%	17.2%				
GPM	58.0%	55.8%	54.3%	61.0%	51.4%	58.2%				
SG&A	6,216	7,971	4,389	3,265	8,546	11,623				
YoY	50.2%	50.0%	-26.9%	-56.1%	37.5%	45.8%				
SG&A / Operating Revenue	42.7%	55.7%	28.9%	18.2%	53.7%	72.4%				
OP	2,225	7	3,847	7,666	-358	-2,274			-	2,656
YoY	-44.9%	-99.8%	-5.9%	1703.8%	-	-				-80.7%
OPM	15.3%	0.0%	25.4%	42.8%	-	-				3.8%
RP	2,262	-601	3,947	7,743	-294	-2,165			-	2,738
YoY	-41.6%	-	-29.4%	1133.0%	-	-				-79.5%
RPM	15.6%	-	26.0%	43.2%	-	-				4.0%
NI	2,005	-861	1,441	8,560	-395	-3,359			-	11,239
YoY	-49.8%	-	-73.5%	1928.4%	-	-				0.8%
NPM	13.8%	-	9.5%	47.8%	-	-				16.2%

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

Operating revenue increased 10.9% YoY to JPY32.0bn. Installment commissions fell due to a decline in the balance of installment advances paid, mainly for cash advances. Collections of accounts receivable were slack, leading to a fall in other financial revenue. The consumption tax hike also resulted in lower sales in the Amusement segment. But in South Korea, operating revenue from the banking business grew because Chinae Savings Bank took over the loans businesses of subsidiaries. In Q1, loan interest at KJI Consumer Finance LLC and HICAPITAL Co., Ltd. also contributed to revenues (in FY03/14, these units were only consolidated on the balance sheet, and did not contribute to group revenues). Revenues were also up in the Real Estate segment because the rush to beat the consumption tax hike meant contracts on some properties were concluded in the previous year but completed and delivered in the current year.

View the [full report](#).



Japan Best Rescue System Co Ltd (2453)

The only listed provider of handyman services. Strong growth, healthy balance sheet. Operates nationwide.

On **December 26, 2014**, Japan Best Rescue System Co., Ltd. (JBR) announced that under Article 4, Paragraph 4-4, Item 1 of the Financial Instruments and Exchange Law, there were significant errors that require disclosure in internal control report documents submitted to the Tokai Local Finance Bureau during FY09/14. As a result, the company announced that internal controls related to the company's financial reporting were not valid.

However, preventative measures have been put into place regarding these errors, and the company maintains that financial reporting for FY09/15 will be without issue.



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advertising and SG&A expenses led to a 1.0pp increase in OPM, to 2.8%. As a result, operating profit was up 73.7% YoY at JPY329mn. But net income was JPY31mn, due to expenses related to retroactive corrections to results in previous years and corporate income taxes.

View the [full report](#).



JIN Co., Ltd. (3046)

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

On **December 5, 2014**, JIN Co., Ltd. released monthly sales data for November 2014.

Comparable Stores Sales Growth (YoY)												
	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
FY08/09	-20.6%	-11.1%	-1.5%	-13.2%	3.8%	-8.3%	-7.8%	-5.1%	6.0%	2.9%	9.9%	15.9%
FY08/10	33.5%	51.1%	36.1%	40.7%	41.1%	42.5%	35.3%	50.4%	36.1%	29.6%	20.2%	21.2%
FY08/11	9.4%	30.3%	8.4%	15.1%	3.1%	5.7%	1.2%	12.7%	3.3%	5.9%	12.9%	14.7%
FY08/12	31.1%	7.9%	5.9%	3.0%	9.3%	28.1%	33.1%	14.9%	23.2%	70.4%	56.2%	41.7%
FY08/13	54.8%	17.8%	68.3%	69.8%	50.3%	51.9%	41.3%	23.8%	33.7%	6.1%	-3.5%	13.3%
FY08/14	-18.6%	-8.1%	-24.5%	-26.3%	-22.2%	-25.1%	-1.9%	-28.4%	-23.6%	-25.1%	-22.1%	-26.3%
FY08/15	-23.3%	-21.5%	-10.2%									

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 **December 17, 2014**, Kenedix, Inc. announced a transfer of fixed assets and the resulting extraordinary gains and losses.

The company decided to transfer assets of a subsidiary (four commercial properties) to Kenedix Retail REIT Corporation. Details of the transaction were finalized on December 17, 2014.

As the result of this transfer, the company expects to book extraordinary losses of about JPY600mn on impairment losses in FY12/14, and about JPY2.3bn in extraordinary gains in FY12/15. It maintains its full-year FY12/14 forecasts.

Kenedix Retail REIT Corporation plans to promptly acquire the four properties, as well as other real estate. Kenedix expects to book operating revenue of about JPY800mn after FY12/15 from the acquisition fee earned through its wholly owned subsidiary, Kenedix Real Estate Fund Management, Inc.

On **the same day**, the company announced the transfer of fixed assets and the booking of an extraordinary loss.

The company decided to transfer the assets of a consolidated subsidiary (one office building). Details of the transaction were finalized on December 17, 2014. As the result of this transfer, the company expects to book an extraordinary loss of about JPY700mn in FY12/14. The loss has already been factored into full-year FY12/14 forecasts.

View the [full report](#).



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Kenko.com Inc. (3325)

Industry leader in sales of health-related products over the internet. Strength is long-tail strategy. Focus on product range, pricing, and customer service.

On **December 11, 2014**, Shared Research updated the report following interviews with management.

Quarterly Performance (JPYmn)	FY03/13				FY12/13 (9 months)			FY12/14				FY12/14	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q1	Q2	Q3	Q4	% of FY Est.	FY Est.
Sales	4,357	4,400	4,378	4,766	4,653	4,843	4,671	5,360	4,757	5,072	-	-	-
YoY	9.7%	-2.4%	3.8%	6.7%	6.8%	10.1%	6.7%	12.5%	2.2%	4.7%	-	-	-
GP	1,463	1,476	1,449	1,577	1,537	1,619	1,536	1,774	1,595	1,656	-	-	-
GPM	33.6%	33.5%	33.1%	33.1%	33.0%	33.4%	32.9%	33.1%	33.5%	32.7%	-	-	-
SG&A	1,458	1,497	1,510	1,632	1,517	1,595	1,554	1,803	1,722	1,759	-	-	-
YoY	4.9%	-11.7%	4.8%	7.9%	4.1%	6.5%	2.9%	10.5%	13.5%	10.3%	-	-	-
OP	5	-22	-61	-55	19	24	-18	-29	-127	-102	-	-	-
YoY	-	-	-	-	328.4%	-	-	-	-	-	-	-	-
OPM	0.1%	-	-	-	0.4%	0.5%	-	-0.5%	-2.7%	-2.0%	-	-	-
RP	-31	-21	-72	-60	15	28	-17	-28	-124	-100	-	-	-
YoY	-	-	-	-	-	-	-	-	-	-	-	-	-
NI	-47	-20	-79	-310	0	42	-22	-34	-129	-214	-	-	-
YoY	-	-	-	-	-	-	-	-	-	-	-	-	-
Cumulative	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q1	Q2	Q3	Q4	% of FY Est.	FY Est.
Sales	4,357	8,758	13,136	17,902	4,653	9,497	14,168	5,360	10,117	15,189	-	69.0%	22,000
YoY	9.7%	3.2%	3.4%	4.3%	6.8%	8.4%	7.9%	12.5%	7.4%	7.2%	-	-	-
GP	1,463	2,938	4,387	5,964	1,537	3,156	4,692	1,774	3,369	5,025	-	-	-
GPM	33.6%	33.6%	33.4%	33.3%	33.0%	33.2%	33.1%	33.1%	33.3%	33.1%	-	-	-
SG&A	1,458	2,955	4,465	6,097	1,517	3,112	4,666	1,803	3,525	5,284	-	-	-
YoY	4.9%	-4.3%	-1.4%	1.0%	4.1%	5.3%	4.5%	10.5%	11.9%	13.2%	-	-	-
OP	5	-17	-78	-133	19	44	26	-29	-156	-258	-	-	10
YoY	-	-	-	-	328.4%	-	-	-	-	-	-	-	-
OPM	0.1%	-	-	-	0.4%	0.5%	0.2%	-0.5%	-1.5%	-1.7%	-	-	-
RP	-31	-52	-125	-184	15	43	26	-28	-153	-253	-	-	-
YoY	-	-	-	-	-	-	-	-	-	-	-	-	-
NI	-47	-67	-146	-456	0	42	20	-34	-163	-377	-	-	-
YoY	-	-	-	-	-	-	-	-	-	-	-	-	-

Source: Company data
 Figures may differ from company materials due to differences in rounding methods.
 FY12/13 is an irregular period of nine months due to a change in the company's financial year.
 YoY comparisons for FY12/14 are performed against the same calendar period in the previous year.

The company focused on such measures as strengthening web-based sales of medications, execution of efficient sales promotion programs, improving profitability through the integration of Kenko.com's operations with Rakuten 24 logistics and system, and generating sales growth. Sales in FY12/14 have faced such difficult circumstances as the impact of the consumption tax hike in April and unseasonal weather. Against this backdrop, robust growth in the Rakuten 24 business has driven year-on-year sales increases. At the profit level, although the company worked to make changes to its shipping policy, improve ROI related to sales promotion programs and logistics, and reduce fixed SG&A expenses, Kenko.com booked losses amid such factors as lower profits accompanying prolonged impact from the rise in consumption tax, and cost increases driven by such developments as higher personnel expenses accompanying revisions to the Pharmaceutical Affairs Law.

View the [full report](#).



KLab Inc. (3656)

Developer and operator of social game apps. Taking advantage of industry trends by moving from browser games to native app games.

On **December 17, 2014**, Shared Research updated the report following interviews with management.

Quarterly Performance (JPYmn)	FY12/13					FY12/14				FY12/13	
	Q1	Q2	Q3	Q4	Q5	Q1	Q2	Q3	Q4	% of FY	FY Est.
Sales	3,546	3,573	3,772	4,598	5,504	4,426	5,160	6,355	-	72.7%	21,940
YoY	-	-	-	-	-	-	-	-	-	-	-
GP	990	660	841	1,136	1,207	1,164	1,548	2,279	-	-	-
YoY	-	-	-	-	-	-	-	-	-	-	-
GPM	27.9%	18.5%	22.3%	24.7%	21.9%	26.3%	30.0%	35.9%	-	-	-
SG&A	1,203	1,329	1,039	985	1,503	1,068	948	1,084	-	-	-
YoY	-	-	-	-	-	-	-	-	-	-	-
SG&A / Sales	33.9%	37.2%	27.6%	21.4%	27.3%	24.1%	18.4%	17.1%	-	-	-
OP	-212	-669	-198	152	-296	96	600	1,195	-	86.3%	2,191
YoY	-	-	-	-	-	-	-	-	-	-	-
OPM	-	-	-	3.3%	-	2.2%	11.6%	18.8%	-	-	-
RP	-154	-573	-124	126	-217	106	594	1,300	-	87.0%	2,299
YoY	-	-	-	-	-	-	-	-	-	-	-
RPM	-	-	-	2.7%	-	2.4%	11.5%	20.5%	-	-	-
NI	-160	-438	-173	51	-1,844	51	490	749	-	85.4%	1,511
YoY	-	-	-	-	-	-	-	-	-	-	-
NPM	-	-	-	1.1%	-	1.2%	9.5%	11.8%	-	-	-

Source: Company data
 Figures may differ from company materials due to differences in rounding methods.
 FY12/13 is an irregular five-quarter year.
 FY08/12 results for parent only.

Love Live! School Idol Festival continued to post strong sales results, and sales generated overseas were also up by 70% quarter-on-quarter. Profits were up significantly, due to higher sales taking the company past its profitability point and the booking of JPY95mn in exchange rate gains as non-operating income. Operating profit and recurring profit doubled compared to Q3, and margins rose as well. An impairment loss of JPY98mn for software used in the development of Kaburin! as an extraordinary loss, but this was outweighed by higher recurring profit. Sales and profits increased for the third quarter in a row, and the company booked its highest sales and profits to date.

View the [full report](#).



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Mac-House Co., Ltd. (7603)

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

On **December 1, 2014**, Mac-House Co., Ltd. announced monthly sales data for November 2014.

Comparable Store Sales	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
FY02/09 Sales	3.3%	-13.7%	-7.0%	-11.9%	-6.1%	-6.7%	-1.0%	-8.8%	1.5%	-12.0%	-9.2%	-14.9%
Cust. count	-2.2%	-12.8%	-9.3%	-11.3%	-3.9%	-9.6%	-2.6%	-8.5%	-	-10.3%	-10.2%	-14.3%
Spend / cust.	5.6%	-1.1%	2.5%	-0.7%	-2.3%	3.1%	1.6%	-0.3%	1.4%	-1.9%	1.1%	-0.7%
FY02/10 Sales	-18.2%	-11.0%	-9.6%	-18.6%	-11.4%	-13.2%	-17.6%	-16.8%	-26.2%	-11.8%	-11.7%	-10.9%
Cust. count	-16.7%	-5.4%	-0.8%	-5.6%	-4.4%	-7.8%	-6.1%	-11.4%	-17.3%	-2.3%	-1.4%	-2.9%
Spend / cust.	-1.8%	-5.8%	-8.9%	-13.8%	-7.3%	-5.9%	-12.2%	-6.1%	-10.8%	-9.8%	-10.4%	-8.3%
FY02/11 Sales	-17.5%	-15.3%	-11.9%	-8.3%	-10.1%	-12.1%	-17.3%	-0.9%	-8.0%	-13.7%	-6.3%	1.5%
Cust. count	-8.5%	-11.8%	-8.2%	-6.3%	-7.3%	-9.5%	-11.3%	5.9%	-1.6%	-12.9%	-7.7%	-1.2%
Spend / cust.	-9.9%	-4.0%	-4.1%	-2.2%	-3.1%	-2.8%	-6.7%	-6.4%	-6.6%	-0.9%	1.6%	2.8%
FY02/12 Sales	-18.1%	7.4%	-6.7%	1.9%	-1.4%	-1.6%	7.5%	-0.9%	1.2%	7.5%	-2.1%	-0.9%
Cust. count	-21.0%	1.4%	-12.4%	-9.0%	-8.8%	-7.6%	-5.1%	-12.6%	-8.3%	2.7%	-7.1%	-3.3%
Spend / cust.	3.6%	5.9%	6.5%	11.9%	8.1%	6.5%	13.3%	13.4%	10.3%	4.7%	5.3%	2.4%
FY02/13 Sales	23.2%	3.8%	-1.3%	-2.2%	-4.0%	1.8%	-7.3%	-9.3%	8.4%	-3.2%	-5.8%	-5.3%
Cust. count	14.3%	-0.6%	-4.7%	-6.1%	-8.0%	0.6%	-7.5%	-11.0%	1.1%	-6.7%	-8.7%	-10.8%
Spend / cust.	7.7%	4.4%	3.6%	4.2%	4.4%	1.2%	0.3%	1.9%	7.3%	3.7%	3.2%	6.2%
FY02/14 Sales	5.8%	-11.4%	-2.8%	2.9%	-8.9%	-4.1%	-6.3%	-14.3%	-9.0%	-8.5%	1.8%	10.5%
Cust. count	3.3%	-12.6%	-3.2%	2.2%	-7.8%	-7.1%	-8.2%	-11.8%	-5.9%	-7.2%	7.9%	17.8%
Spend / cust.	2.4%	1.4%	0.4%	0.7%	-1.2%	3.3%	2.1%	-2.9%	-3.3%	-1.4%	-5.7%	-6.2%
FY02/15 Sales	-4.5%	-6.7%	-1.3%	-1.2%	-1.4%	1.2%	9.0%	4.0%	-0.8%			
Cust. count	-2.7%	-3.1%	-0.3%	-0.9%	-1.6%	0.1%	8.8%	0.6%	-6.3%			
Spend / cust.	-1.8%	-3.8%	-1.0%	-0.2%	0.2%	1.1%	0.1%	3.3%	5.9%			

All Store Sales	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
FY02/09 Sales	10.9%	-8.4%	-2.0%	-5.4%	-0.1%	-0.1%	5.5%	-3.4%	7.9%	-6.4%	-2.6%	-8.4%
Cust. count	6.4%	-6.6%	-3.7%	-3.4%	3.7%	-1.5%	4.8%	-2.2%	7.7%	-3.5%	-2.4%	-6.4%
Spend / cust.	4.3%	-1.9%	1.7%	-2.0%	-3.7%	1.4%	0.7%	-1.2%	0.1%	-3.0%	-0.2%	-2.1%
FY02/10 Sales	-15.4%	-7.6%	-5.0%	-16.4%	-9.7%	-11.6%	-16.2%	-15.2%	-25.9%	-12.6%	-11.9%	-11.9%
Cust. count	-13.0%	-0.9%	5.8%	-2.2%	-1.7%	-5.3%	-3.8%	-8.5%	-16.2%	-2.3%	-1.0%	-3.3%
Spend / cust.	-2.9%	-6.8%	-10.2%	-14.5%	-8.2%	-6.7%	-12.9%	-7.4%	-11.6%	-10.5%	-11.0%	-8.9%
FY02/11 Sales	-18.8%	-17.3%	-14.6%	-10.7%	-12.2%	-14.2%	-19.2%	-5.1%	-12.0%	-17.5%	-10.9%	-3.1%
Cust. count	-11.8%	-13.3%	-10.8%	-8.2%	-8.9%	-11.2%	-13.1%	1.5%	-5.9%	-16.6%	-12.0%	-5.5%
Spend / cust.	-7.9%	-4.5%	-4.2%	-2.7%	-3.7%	-3.4%	-7.1%	-6.4%	-6.5%	-1.1%	1.3%	2.6%
FY02/12 Sales	-21.4%	1.4%	-11.3%	-2.5%	-5.9%	-5.7%	3.1%	-4.8%	-3.1%	3.6%	-6.1%	-5.5%
Cust. count	-24.2%	-4.2%	-16.7%	-12.8%	-12.9%	-11.4%	-8.9%	-15.5%	-11.8%	-0.9%	-10.5%	-7.3%
Spend / cust.	3.6%	5.9%	6.5%	11.9%	8.0%	6.5%	13.2%	12.6%	9.8%	4.5%	4.9%	1.9%
FY02/13 Sales	17.0%	-1.4%	-6.2%	-7.0%	-8.8%	-3.2%	-11.7%	-12.6%	4.9%	-5.3%	-7.9%	-6.9%
Cust. count	9.0%	-5.4%	-9.2%	-10.4%	-12.3%	-4.2%	-12.4%	-14.6%	-2.5%	-9.0%	-11.0%	-12.4%
Spend / cust.	7.4%	4.2%	3.3%	3.8%	4.0%	1.0%	0.8%	2.3%	7.7%	4.0%	3.4%	6.3%
FY02/14 Sales	4.9%	-11.8%	-2.5%	2.9%	-8.8%	-3.9%	-6.0%	-14.2%	-9.1%	-8.2%	0.9%	9.2%
Cust. count	2.5%	-12.9%	-2.9%	2.1%	-7.5%	-6.5%	-7.9%	-11.6%	-5.7%	-6.5%	6.9%	15.9%
Spend / cust.	2.4%	1.3%	0.5%	0.8%	-1.3%	2.9%	2.1%	-3.0%	-3.5%	-1.8%	-5.6%	-5.8%
FY02/15 Sales	-3.3%	-5.8%	-1.4%	-1.8%	-2.6%	0.2%	8.6%	2.8%	-1.5%			
Cust. count	-0.8%	-1.4%	0.3%	-0.7%	-1.9%	-0.1%	9.4%	0.5%	-5.9%			
Spend / cust.	-2.5%	-4.5%	-1.7%	-1.1%	-0.7%	0.3%	-0.7%	2.3%	4.8%			

Source: Company data

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 **December 26, 2014**, Shared Research updated the report after interviewing management.

Quarterly Performance (JPYmn)	FY09/13				FY09/14				FY09/14	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of FY Est.	FY Est.
Sales	517	508	536	549	527	472	419	426	102.4%	1,800
YoY	-4.8%	-11.1%	-1.1%	2.8%	1.9%	-7.2%	-21.8%	-22.3%		-14.7%
GP	241	240	273	272	265	234	161	166		
YoY	-17.8%	-25.3%	1.3%	1.3%	9.8%	-2.2%	-41.2%	-39.0%		
GPM	46.6%	47.1%	51.0%	49.5%	50.2%	49.7%	38.3%	38.9%		
SG&A	418	484	511	490	552	557	559	565		
YoY	-10.6%	3.7%	3.5%	12.5%	32.1%	15.1%	9.3%	15.2%		
SG&A / Sales	80.8%	95.2%	95.3%	89.4%	104.8%	118.1%	133.3%	132.5%		
OP	-177	-245	-238	-219	-287	-323	-398	-399	-	-1,430
YoY	-	-	-	-	-	-	-	-		-
OPM	-	-	-	-	-	-	-	-		-
RP	-139	-347	-246	-220	-273	-365	-403	-297	-	-1,460
YoY	-	-	-	-	-	-	-	-		-
RPM	-	-	-	-	-	-	-	-		-
NI	-141	254	-235	-227	-283	54	-407	-945	-	-1,060
YoY	-	-	-	-	-	-	-	-		-
NPM	-	-	-	-	-	-	-	-		-

Source: Company data

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

The company signed a license agreement with Argos Therapeutics in December 2013 concerning AGS-003, an immuno-cell medical product that the US company is developing for metastatic renal cell cancer. Under the agreement, Argos granted MEDINET an exclusive, royalty-free license to develop and manufacture AGS-003 in Japan. MEDINET booked a one-time charge associated with this transaction. Due to costs such as R&D expenses associated with acquiring the development pipeline for AGS-003, overall R&D expenses for FY09/14 increased by JPY141mn (27.1% YoY).

Notable patents acquired during cumulative FY09/14 included:

- § Method for activation treatment of antigen-presenting cell: Granted patents in the US, in addition to Australia, Japan, and 11 countries in Europe
- § Method for the simultaneous induction of CTL and $\gamma\delta$ T-cells: Granted patent in Japan

On **December 22, 2014**, the company announced a contract to out-license technology to EMO Biomedicine Corporation (Taiwan; unlisted).

The company will out-license its "Method for activation treatment of antigen-preserving cell" (EP1930414) to EMO. MEDINET developed the technology and holds the exclusive rights to it.

Details of and reasons for the out-licensing contract

EMO offers testing services and contracted cell processing services, with approval from the Taiwanese Food and Drug Administration (TFDA), the Ministry of Economic Affairs (MOEA), and the Taiwan Accreditation Foundation (TAF).

MEDINET's R&D efforts together with universities and regional medical institutions led to the establishment of the Method for activation treatment of antigen-preserving cell. This technology efficiently introduces cancer antigens into dendritic cells, allowing for the induction of large quantities of cytotoxic T lymphocytes (CTL; T lymphocytes with the capacity to attack specific cancer cells). In this method of treatment, the induction of CTLs can be increased up to 100x more than conventional methods by co-pulsing dendritic cells with zoledronic acid (a type of bisphosphonate) and cancerous tissues extracted during surgery or with cancer antigen peptides. This method of treatment is expected to be very effective, as the capacity for CTL induction can be increased even further using the Cell



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Loading System, for which MEDINET holds exclusive rights in the Asia Pacific region.

The Method for activation treatment is patented in 11 countries in Europe. With this contract, MEDINET will out-license it to EMO, which intends to conduct clinical trials in Taiwan on dendritic cell vaccines using the out-licensed technology and obtain approval from regulatory agencies. EMO will pay MEDINET royalties in proportion to sales of any approved products based on this method of treatment that go to market in Taiwan.

EMO Biomedicine Corporation

- § Name: EMO Biomedicine Corporation
- § Business: Contracted cell processing services, contracted testing, contracted research and development (creating standard operating procedures, measuring anti-tumor properties), reagent sales
- § Capital: TWD90mn (JPY320mn)
- § Founded: January 15, 2004

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MIRAIT Holdings Corp. (1417)

A major telecom construction company, benefiting from telecom sophistication and expanding its earnings base.

On **December 3, 2014**, Shared Research updated comments on MIRAIT Holdings Corp.'s earnings results for 1H FY03/15 after interviewing management.

Quarterly Performance (JPYmn)	FY03/14				FY03/15				FY03/15	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of FY	FY Est.
Sales (Completed Construction Contracts)	56,780	62,966	66,072	91,902	56,915	66,223	-	-	43.2%	285,000
YoY	8.6%	-2.0%	6.4%	-0.5%	0.2%	5.2%	-	-		2.6%
GP (Completed Construction Contracts)	5,574	6,493	7,361	10,548	6,811	8,611	-	-		
YoY	-4.8%	-7.6%	11.3%	7.1%	22.2%	32.6%	-	-		
GPM	9.8%	10.3%	11.1%	11.5%	12.0%	13.0%	-	-		
SG&A	4,783	4,509	4,603	4,626	4,704	4,775	-	-		
YoY	2.3%	0.8%	-0.4%	-2.1%	-1.7%	5.9%	-	-		
SG&A / Sales	8.4%	7.2%	7.0%	5.0%	8.3%	7.2%	-	-		
OP	791	1,983	2,758	5,922	2,106	3,837	-	-	45.7%	13,000
YoY	-32.9%	-22.3%	38.5%	15.7%	166.2%	93.5%	-	-		13.5%
OPM	1.4%	3.1%	4.2%	6.4%	3.7%	5.8%	-	-		4.6%
RP	1,010	2,107	3,094	6,056	2,341	3,917	-	-	46.0%	13,600
YoY	-27.3%	-25.7%	40.1%	13.6%	131.8%	85.9%	-	-		10.9%
RPM	1.8%	3.3%	4.7%	6.6%	4.1%	5.9%	-	-		4.8%
NI	609	1,137	1,647	3,793	1,559	2,380	-	-	78.1%	9,200
YoY	-	-7.0%	66.4%	20.3%	156.0%	109.3%	-	-		28.0%
NPM	1.1%	1.8%	2.5%	4.1%	2.7%	3.6%	-	-		3.2%

Source: Company data □

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

In the ICT market, wholesale demand increased for fiber-optics amid a maturing market for fixed line broadband services. In the mobile telecoms market, smartphones and tablet devices became more popular. Telecoms carriers—MIRAIT's main clients—focused on promoting higher usage with fixed-fee services. Carriers also built and upgraded high-speed, high-volume mobile networks using LTE and Wi-Fi access points in response to a spike in traffic.

MIRAIT reported growth in overall orders due to expansion in the Multi-carrier segment, as well as the Environmental and Social Innovation segment. These segments contributed to growth in overall sales, despite lower sales in the NTT and ICT Solution segments.

View the [full report](#).



NAGASE & CO., LTD (8012)

Japan's largest specialist chemical trading company, differentiating through research and manufacturing capabilities. Imports, exports and sells chemicals, as well as plastics, electronic materials, cosmetics and food additives.

On **December 18, 2014**, Shared Research updated comments on Nagase and Co., Ltd. after interviewing management.

Quarterly Performance (JPYmn)	FY03/14				FY03/15		FY03/14		FY03/15	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
Sales	171,328	186,882	184,902	180,100	181,337	191,445	-	-	-	-
YoY	2.8%	10.7%	10.6%	10.1%	5.8%	2.4%				
GP	22,174	22,741	22,268	21,753	22,224	22,233				
YoY	6.5%	10.7%	6.8%	6.8%	0.2%	-2.2%				
GPM	12.9%	12.2%	12.0%	12.1%	12.3%	11.6%				
SG&A	18,005	18,225	18,340	18,577	17,793	18,705				
YoY	7.8%	10.4%	9.5%	9.0%	-1.2%	2.6%				
SG&A / Sales	10.5%	9.8%	9.9%	10.3%	9.8%	9.8%				
OP	4,169	4,516	3,928	3,176	4,431	3,528	-	-	-	-
YoY	1.0%	12.0%	-4.0%	-4.5%	6.3%	-21.9%				
OPM	2.4%	2.4%	2.1%	1.8%	2.4%	1.8%				
RP	5,106	4,747	4,694	3,358	5,089	4,014	-	-	-	-
YoY	9.6%	18.4%	-9.3%	-17.8%	-0.3%	-15.4%				
RPM	3.0%	2.5%	2.5%	1.9%	2.8%	2.1%				
NI	3,527	3,685	3,938	513	3,512	3,152	-	-	-	-
YoY	3.5%	-21.3%	26.4%	13.0%	-0.4%	-14.5%				
NPM	2.1%	2.0%	2.1%	0.3%	1.9%	1.6%				
Cumulative	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of FY Est.	FY CE
Sales	171,328	358,210	543,112	723,212	181,337	372,782	-	-	49.1%	760,000
YoY	2.8%	6.8%	8.0%	8.5%	5.8%	4.1%				5.1%
GP	22,174	44,915	67,183	88,936	22,224	44,457				
YoY	6.5%	8.6%	8.0%	7.7%	0.2%	-1.0%				
GPM	12.9%	12.5%	12.4%	12.3%	12.3%	11.9%				
SG&A	18,005	36,230	54,570	73,147	17,793	36,498				
YoY	7.8%	9.1%	9.2%	9.2%	-1.2%	0.7%				
SG&A / Sales	10.5%	10.1%	10.0%	10.1%	9.8%	9.8%				
OP	4,169	8,685	12,613	15,789	4,431	7,959	-	-	47.4%	16,800
YoY	1.0%	6.4%	2.9%	1.4%	6.3%	-8.4%				6.4%
OPM	2.4%	2.4%	2.3%	2.2%	2.4%	2.1%				2.2%
RP	5,106	9,853	14,547	17,905	5,089	9,103	-	-	48.7%	18,700
YoY	9.7%	13.8%	5.2%	0.0%	-0.2%	-7.5%				4.4%
RPM	3.0%	2.8%	2.7%	2.5%	2.8%	2.4%				2.5%
NI	3,527	7,212	11,150	11,663	3,512	6,664	-	-	52.1%	12,800
YoY	3.5%	-10.9%	-0.5%	0.0%	-0.4%	-7.6%				9.7%

Source: Company data

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

Domestic and overseas sales reached JPY185.4bn (+2.3% YoY) and JPY187.4bn (+5.9% YoY), respectively. Gross profit was JPY44.5bn (-1.0% YoY) despite an increase in sales due to lower profitability of the electronics-related business. Operating profit was helped by a decrease in retirement-benefit expenses (about JPY900mn). Even so, it fell 8.4% YoY because the company's Taiwan subsidiary set aside JPY1.1bn provisions for doubtful accounts receivable. Recurring profit was JPY9.1bn (-7.6%YoY) due to lower forex gains even as investment income from equity-method affiliates rose. As a result, net income was JPY6.7bn (-7.6% YoY).

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NanoCarrier Co. (4571)

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

On **December 12, 2014**, NanoCarrier Co. announced the establishment of a cosmetics business division.

In October 2013, NanoCarrier and ALBION Co., Ltd. together launched sales of Eclafutur, a skincare serum that combines medical and cosmetic technologies. Since then, NanoCarrier and ALBION have reached another agreement to jointly develop new cosmetic products such as skincare and hair growth serums.

According to the company, the cosmetics business is producing consistent results. In a bid to further expand this business, NanoCarrier will grant it greater autonomy in R&D, planning, and management. As such, the company will create a new business department for cosmetics, and devote additional resources to organizational structure and personnel. Previously, R&D was conducted by small teams with experience in cosmetics. However, the new independent structure will allow the cosmetics business to take advantage of strengths in medical and cosmetic development, leading to synergies in developing new products and allowing NanoCarrier to pursue higher earnings.

On **the same day**, Shared Research updated the report following interviews with management.

Quarterly Performance (JPYmn)	FY03/14				FY03/15				FY03/15	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of FY	FY Est.
Sales	150	176	119	28	57	254	-	-	55.6%	560
YoY	1430.2%	96.4%	16.7%	-83.9%	-62.0%	44.7%	-	-	-	18.6%
GP	98	125	53	14	27	177	-	-	-	-
YoY	-	209.9%	-14.9%	-51.1%	-72.4%	41.2%	-	-	-	-
GPM	65.2%	71.4%	44.8%	48.9%	47.4%	69.6%	-	-	-	-
SG&A	375	349	336	352	409	303	-	-	-	-
YoY	151.8%	172.2%	114.6%	81.9%	8.9%	-13.3%	-	-	-	-
SG&A / Sales	250.2%	198.7%	283.5%	1266.7%	717.5%	119.1%	-	-	-	-
OP	-277	-224	-283	-339	-382	-126	-	-	-	-1,428
YoY	-	-	-	-	-	-	-	-	-	-
OPM	-	-	-	-	-	-	-	-	-	-
RP	-190	-246	-197	-462	-461	312	-	-	-	-1,029
YoY	-	-	-	-	-	-	-	-	-	-
RPM	-	-	-	-	-	122.5%	-	-	-	-
NI	-191	-246	-197	-479	-462	310	-	-	-	-1,070
YoY	-	-	-	-	-	-	-	-	-	-
NPM	-	-	-	-	-	121.9%	-	-	-	-

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

Source: Company data

Cisplatin Guiding Micelle (NC-6004 Nanoplatin®)

Orient Europharma Co., Ltd. (OEP) is the licensee for the Asia region (excluding Japan, China, and India; including Oceania). Together with OEP, the company is conducting Phase III clinical trials on patients with metastatic and advanced pancreatic cancer in Taiwan, Hong Kong, and Singapore, and has begun administering the drug and registering patients. The company plans to go ahead with Phase III clinical trials in mainland China and South Korea. In Korea, the company obtained approval for the trials and expects to begin administering the drug soon. In China, the company is preparing to submit an application for trials.

In Japan and the US, the company is developing the drug in-house. In Japan, Phase I clinical trials on patients with solid tumors are underway. In the US, the company is conducting major clinical trials



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(Phase Ib/II) for patients with lung cancer (non-small cell lung cancer). Trials are underway at multiple facilities, including the University of Texas MD Anderson Cancer Center.

DACH-Platin Guiding Micelle (NC-4016)

In the US, Phase I clinical trials on patients with solid tumors are underway. Drug administration to patients and patient registration has been underway since December 2013 at the University of Texas MD Anderson Cancer Center.

View the [full report](#).



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Nippon Parking Development (2353)

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

On **December 22, 2014**, Nippon Parking Development Co., Ltd. announced the establishment of a local subsidiary in Indonesia, planned for February 2015.

Reasons for the establishment

The company established local subsidiaries in Bangkok (October 2010), Shanghai (June 2011), and Seoul (July 2014). To further accelerate its development in Asia, it decided to establish a local subsidiary in Indonesia, the fourth most populous country in the world.

The company is aiming for 50 projects within three years following the establishment. It plans to win contracts by proposing improved safety, profitability, and service to building owners mainly in Jakarta, and by cooperating with companies that own many parking lots. The new subsidiary is likely to have little impact on earnings within the first fiscal year after its establishment, but the company expects it to contribute to profits in the long term.

Name: PT. NPD SOLUTIONS INDONESIA

Location: Jakarta, Republic of Indonesia

Business details: Parking lot management, operation, and consulting services in Indonesia

Capital: IDR10bn (about JPY95mn)

Major shareholders: Nippon Parking Development Co., Ltd. (owns 95.0%); PT. Corfina Mitrakreasi (5.0%)

On **December 12, 2014**, Shared Research updated comments on the company's earnings results for Q1 FY07/15 after interviewing management.

Quarterly Performance (JPYmn)	FY07/13				FY07/14				FY07/15		FY 07/15		FY 07/15	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2(*)	% of FY	FY Est.	% of FY	FY Est.
Sales	2,296	3,929	4,217	2,995	3,064	4,401	4,448	3,206	3,218	5,022	39.1%	8,240	18.8%	17,100
Parking Lot Business	2,258	2,291	2,348	2,504	2,474	2,563	2,524	2,650	2,662				23.0%	11,570
Ski Resort Business	38	1,638	1,869	492	590	1,838	1,924	556	554				10.1%	5,500
YoY	8.2%	35.3%	29.5%	29.7%	33.4%	12.0%	5.5%	7.0%	5.0%		10.4%			13.1%
Parking Lot Business	7.8%	6.7%	6.8%	9.6%	9.6%	11.9%	7.5%	5.8%	7.6%					13.3%
Ski Resort Business	39.0%	116.6%	76.5%	1,891.8%	1,439.4%	12.2%	2.9%	12.9%	-6.0%					12.1%
Gross Profit	807	1,820	2,026	1,105	1,238	2,188	2,063	1,105	1,252					
YoY	4.8%	36.8%	28.7%	28.7%	53.3%	20.2%	1.8%	0.0%	1.1%					
Gross Profit Margin	35.2%	46.3%	48.0%	36.9%	40.4%	49.7%	46.4%	34.5%	38.9%					
SG&A	610	1,099	1,093	935	926	1,295	1,063	974	1,015					
YoY	9.4%	42.1%	46.5%	47.3%	51.8%	17.9%	-2.8%	4.2%	9.7%					
Operating Profit	197	722	932	170	312	892	999	131	236	1,034	18.6%	1,270	8.1%	2,900
Parking Lot Business	536	519	543	571	543	605	564	648	604				30.5%	1,980
Ski Resort Business	-193	383	559	-245	-81	499	619	-313	-175				-18.4%	950
YoY	-7.1%	29.4%	12.6%	-24.0%	58.1%	23.6%	7.2%	-22.8%	-24.3%		5.5%			24.2%
Parking Lot Business	0.1%	-7.0%	-2.4%	-4.0%	1.4%	16.5%	3.8%	13.4%	11.2%					-16.1%
Ski Resort Business	-	147.3%	29.9%	-	-	30.1%	10.8%	-	-					31.1%
Operating Profit Margin	8.6%	18.4%	22.1%	5.7%	10.2%	20.3%	22.5%	4.1%	7.3%		15.4%			17.0%
Parking Lot Business	23.7%	22.7%	23.1%	22.8%	22.0%	23.6%	22.3%	24.4%	22.7%					17.1%
Ski Resort Business	-503.8%	23.4%	29.9%	-49.7%	-13.6%	27.1%	32.2%	-56.3%	-31.5%					17.3%
Recurring Profit	214	819	982	220	354	989	1,058	190	414	856	32.6%	1,270	14.3%	2,900
YoY	6.0%	44.1%	7.7%	-1.6%	65.2%	20.8%	7.7%	-13.6%	16.8%					11.9%
Recurring Profit Margin	9.3%	20.8%	23.3%	7.4%	11.6%	22.5%	23.8%	5.9%	12.9%		15.4%			17.0%
Net Income	115	539	646	79	199	670	656	56	972	568	63.1%	1,540	37.1%	2,620
YoY	21.6%	69.1%	-	-32.6%	73.5%	24.5%	1.6%	-29.5%	387.2%					65.7%
Net Income Margin	5.0%	13.7%	15.3%	2.6%	6.5%	15.2%	14.8%	1.7%	30.2%		18.7%			15.3%

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

Source: Company data



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Recurring profit was a record high, bolstered by sales of investment securities and the effects of a weaker yen. The company also recorded JPY760mn in extraordinary profit from a capital increase at subsidiary Nippon Ski Resort Development via a third-party allotment, yielding a record amount of net income as well.

Q1 profits in line with company plans, newly consolidated subsidiary deserves attention in Q2 on

Although sales were slightly weaker than planned, profits were generally in line with the company's estimates. In Q2 and later, Meiho Kogen Development, which became a consolidated subsidiary in October 2014, is expected to contribute to earnings. The subsidiary manages the Meiho Ski Resort in Gujo City, Gifu Prefecture.

Some of the company's ski courses were affected by an earthquake around Hakuba Village of Nagano Prefecture on November 22, 2014. However, slope damages were taken care of before the resorts opened in December for the winter season. Major national highways have been reopened, and while restoration work continues on other damaged roads, detours are available to large vehicles such as buses.

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.

On **December 15, 2014**, Shared Research Inc. updated comments on Paris Miki Holdings' 1H FY03/15 earnings results after interviewing management.

Quarterly Performance (JPYmn)	FY03/13				FY03/14				FY03/15		FY03/15	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	% of FY	FY Est.
Sales	14,452	14,687	13,594	12,686	14,121	15,253	13,910	13,619	13,873	14,359	49.3%	57,258
YoY	-5.2%	-10.1%	-7.2%	-4.7%	-2.3%	3.9%	2.3%	7.4%	-1.8%	-5.9%		0.6%
GP	9,759	10,011	8,888	9,053	9,529	10,250	9,324	9,385	9,547	9,785		
YoY	-5.0%	-9.7%	-7.1%	2.0%	-2.4%	2.4%	4.9%	3.7%	0.2%	-4.5%		
GPM	67.5%	68.2%	65.4%	71.4%	67.5%	67.2%	67.0%	68.9%	68.8%	68.1%		
SG&A	9,319	9,484	9,400	9,080	9,325	9,332	9,314	9,709	9,082	9,330		
YoY	-9.2%	-8.4%	-6.9%	-1.3%	0.1%	-1.6%	-0.9%	6.9%	-2.6%	-0.0%		
SG&A / Sales	64.5%	64.6%	69.1%	71.6%	66.0%	61.2%	67.0%	71.3%	65.5%	65.0%		
OP	440	526	-511	-28	203	919	9	-323	465	455	80.7%	1,140
YoY	4,300.0%	-28.3%	-	-	-53.9%	74.7%	-	-	129.1%	-50.5%		41.1%
OPM	3.0%	3.6%	-3.8%	-0.2%	1.4%	6.0%	0.1%	-2.4%	3.4%	3.2%		2.0%
RP	447	616	-333	336	302	958	67	-292	532	535	95.1%	1,122
YoY	520.8%	-8.9%	-	-	-32.4%	55.5%	-	-	76.2%	-44.2%		8.4%
RPM	3.1%	4.2%	-2.4%	2.6%	2.1%	6.3%	0.5%	-2.1%	3.8%	3.7%		2.0%
NI	96	200	-292	99	263	600	32	-476	227	307	104.9%	509
YoY	-	-51.1%	-	-	174.0%	200.0%	-	-	-13.7%	-48.8%		21.5%
NPM	0.7%	1.4%	-2.1%	0.8%	1.9%	3.9%	0.2%	-3.5%	1.6%	2.1%		0.9%

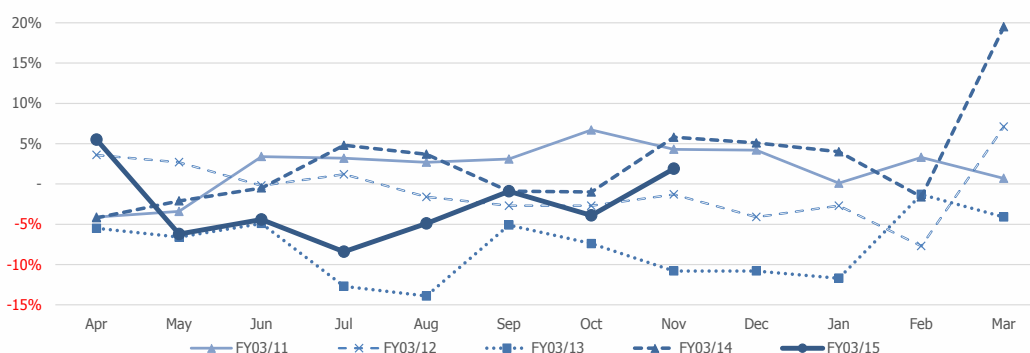
Figures may differ from company materials due to differences in rounding methods
Source: Company data

The company did not modify its full-year estimates. Sales were down year-on-year at main subsidiary Miki because of a pullback in demand following the consumption tax hike, and the closing of unprofitable stores. (Overall sales were down 4.7% YoY to JPY25.3bn.) Sales declined more than the company had expected.

The company's overseas business posted an operating loss of JPY66mn in Q2 compared with an operating profit of JPY31mn for the preceding quarter. The loss stemmed from a decline in sales at a subsidiary in Southeast Asia that had previously contributed to the overall operating profit. Thus, the loss was not due to an increase in the number of unprofitable subsidiaries or an expansion of their losses.

Store closings resulted in a decrease in advertisement and promotion expenses, and thus lower than expected SG&A expenses. However, store closings also affected sales, resulting in a year-on-year decrease in operating profit.

On **December 1, 2014**, the company announced November 2014 sales figures.



View the [full report](#).



Pigeon Corp. (7956)

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

On **December 24, 2014**, Shared Research Inc. updated comments on Pigeon Corp. after interviewing management concerning the company's Q3 FY01/15 earnings and forecast revisions.

Quarterly Performance (JPYmn)	FY01/14				FY01/15				FY01/15	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of FY	FY Est.
Sales	16,896	19,726	20,919	19,925	18,859	20,370	21,939	-	-	-
YoY	17.8%	17.0%	24.7%	16.6%	11.6%	3.3%	4.9%	-	-	-
GP	7,351	8,813	9,483	8,817	8,379	9,323	10,172	-	-	-
YoY	20.5%	23.3%	30.0%	22.2%	14.0%	5.8%	7.3%	-	-	-
GPM	43.5%	44.7%	45.3%	44.3%	44.4%	45.8%	46.4%	-	-	-
SG&A	5,438	5,912	5,876	6,872	5,696	6,021	6,444	-	-	-
YoY	15.9%	10.9%	15.4%	23.6%	4.7%	1.8%	9.7%	-	-	-
SG&A / Sales	32.2%	30.0%	28.1%	34.5%	30.2%	29.6%	29.4%	-	-	-
OP	1,913	2,901	3,607	1,944	2,684	3,302	3,728	-	-	-
YoY	35.9%	59.6%	63.6%	17.4%	40.3%	13.8%	3.4%	-	-	-
OPM	11.3%	14.7%	17.2%	9.8%	14.2%	16.2%	17.0%	-	-	-
RP	2,188	2,974	3,729	2,111	2,660	3,298	3,992	-	-	-
YoY	36.1%	79.3%	65.8%	12.6%	21.6%	10.9%	7.1%	-	-	-
RPM	12.9%	15.1%	17.8%	10.6%	14.1%	16.2%	18.2%	-	-	-
NI	1,328	1,793	2,517	1,347	1,773	2,302	2,303	-	-	-
YoY	26.4%	108.5%	63.7%	19.8%	33.5%	28.4%	-8.5%	-	-	-
NPM	7.9%	9.1%	12.0%	6.8%	9.4%	11.3%	10.5%	-	-	-
Cumulative	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of FY	FY Est.
Sales	16,896	36,622	57,540	77,465	18,859	39,229	61,168	-	73.1%	83,700
YoY	17.8%	17.3%	19.9%	19.0%	11.6%	7.1%	6.3%	-	-	8.0%
GP	7,351	16,164	25,648	34,464	8,379	17,702	27,874	-	-	-
YoY	20.5%	22.0%	24.8%	24.1%	14.0%	9.5%	8.7%	-	-	-
GPM	43.5%	44.1%	44.6%	44.5%	44.4%	45.1%	45.6%	-	-	-
SG&A	5,438	11,350	17,226	24,099	5,696	11,716	18,160	-	-	-
YoY	15.9%	13.3%	14.0%	16.6%	4.7%	3.2%	5.4%	-	-	-
SG&A / Sales	32.2%	31.0%	29.9%	31.1%	30.2%	29.9%	29.7%	-	-	-
OP	1,913	4,814	8,421	10,366	2,684	5,986	9,714	-	80.3%	12,100
YoY	35.9%	49.3%	55.1%	46.3%	40.3%	24.3%	15.4%	-	-	16.7%
OPM	11.3%	13.1%	14.6%	13.4%	14.2%	15.3%	15.9%	-	-	14.5%
RP	2,188	5,162	8,891	11,002	2,660	5,958	9,950	-	80.9%	12,300
YoY	36.1%	58.0%	61.2%	48.9%	21.6%	15.4%	11.9%	-	-	11.8%
RPM	12.9%	14.1%	15.5%	14.2%	14.1%	15.2%	16.3%	-	-	14.7%
NI	1,328	3,121	5,638	6,986	1,773	4,074	6,377	-	81.8%	7,800
YoY	26.4%	63.3%	63.5%	52.7%	33.5%	30.5%	13.1%	-	-	11.7%
NPM	7.9%	8.5%	9.8%	9.0%	9.4%	10.4%	10.4%	-	-	9.3%

Source: Company data

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

Sales for the cumulative Q3 period exceeded forecast due to strong demand in overseas markets. Operating profit and recurring profit increased as sales rose and the utilization of production facilities expanded. The company's cost-to-sales ratio improved to 54.4% from 55.4% for a year earlier. Net income also exceeded the previous year even though the company took a JPY207mn charge linked to voluntary product recalls.

Pigeon revised its full-year earnings forecasts in light of results for Q3. It revised its sales forecast downward, partly owing to weak sales of disposable diapers in China. But it revised its profit forecasts upward due to the weak yen and robust sales in North America and Europe. Manufacturing subsidiaries also operated at a higher capacity as sales grew.

The company also revised its year-end dividend forecast upward by JPY7 to JPY52 per share, in light of revisions to full-year earnings forecasts, and the company's aim of returning 45-50% of profits to shareholders, as per its fifth medium-term plan. The company's full-year dividend forecast is thus JPY97 (JPY90 in FY01/14).

View the [full report](#).



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Round One Corp. (4680)

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

On **December 8, 2014**, Round One Corporation released monthly sales data for November 2014.

Monthly Sales Trends												
FY03/15												
	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Total Sales (JPYmm)	6,408	7,024	5,913	6,134	9,318	6,321	5,793	6,071				
Bowling	2,001	2,064	1,688	1,686	2,649	1,756	1,624	1,660				
Game	2,686	3,070	2,652	2,894	3,955	2,898	2,661	2,777				
Karaoke	641	711	625	650	927	645	569	595				
SPO-CHA	878	956	745	700	1,531	805	730	834				
Other	199	221	201	202	254	216	207	203				
Total Sales YoY	-3.3%	0.1%	-6.0%	-0.6%	8.4%	-4.4%	3.7%	9.9%				
Bowling	-13.2%	-14.7%	-20.4%	-12.3%	-2.4%	-16.8%	-9.5%	-3.9%				
Game	3.4%	11.1%	3.2%	6.4%	12.9%	5.2%	11.9%	16.7%				
Karaoke	1.6%	6.5%	-0.4%	1.8%	10.6%	2.3%	5.7%	10.9%				
SPO-CHA	1.8%	4.2%	0.9%	4.9%	19.8%	-8.6%	9.3%	21.8%				
Other	-12.2%	-9.6%	-12.8%	-7.6%	-3.9%	-6.7%	2.0%	5.8%				
Comparable Store Sales YoY	-3.3%	0.1%	-6.0%	-0.6%	8.4%	-4.4%	2.0%	7.3%				
Bowling	-13.2%	14.7%	-20.4%	-12.3%	-2.4%	-16.8%	-10.6%	-5.6%				
Game	3.4%	11.1%	3.2%	6.4%	12.9%	5.2%	10.0%	13.4%				
Karaoke	1.6%	6.5%	-0.4%	1.8%	10.6%	2.3%	4.5%	9.0%				
SPO-CHA	1.8%	4.2%	0.9%	4.9%	19.8%	-8.6%	5.4%	18.2%				
Other	-12.2%	-9.6%	-12.8%	-7.6%	-3.9%	-6.7%	1.7%	5.3%				

Monthly Sales Trends												
FY03/14												
	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Total Sales (JPYmm)	6,625	7,015	6,291	6,168	8,597	6,611	5,586	5,522	7,284	8,596	6,146	8,548
Bowling	2,306	2,420	2,122	1,922	2,713	2,110	1,795	1,727	2,237	2,708	1,965	2,908
Game	2,598	2,763	2,571	2,719	3,502	2,756	2,379	2,380	3,145	3,621	2,580	3,239
Karaoke	630	667	627	639	838	631	538	537	816	824	601	812
SPO-CHA	862	918	738	668	1,278	881	668	684	880	1,205	802	1,355
Other	227	245	231	219	264	231	203	192	204	235	197	231
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%	2.1%
Bowling	-4.9%	-7.3%	-3.9%	-12.3%	-7.2%	-12.1%	-10.9%	-7.2%	-7.7%	-13.2%	-14.5%	-7.5%
Game	-4.7%	-11.4%	0.5%	-2.7%	1.7%	-2.0%	-8.6%	-2.9%	9.9%	9.2%	2.5%	11.1%
Karaoke	3.2%	2.5%	3.2%	-5.2%	1.8%	-8.0%	-9.0%	-2.3%	2.0%	3.2%	0.3%	5.3%
SPO-CHA	10.7%	0.4%	10.2%	-6.7%	-1.4%	3.7%	-0.3%	8.9%	16.9%	15.5%	5.9%	6.0%
Other	-3.5%	-4.7%	-2.4%	-7.5%	-4.2%	-7.5%	-8.2%	-8.2%	-13.2%	-11.9%	-15.3%	-11.9%
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%	2.1%
Bowling	-8.6%	-8.9%	-5.7%	-14.1%	-8.6%	-14.2%	-13.2%	-9.0%	-13.2%	-14.5%	-7.5%	
Game	-10.0%	-13.9%	-2.5%	-5.4%	-0.9%	-4.8%	-11.3%	-5.9%	8.6%	9.2%	2.5%	11.1%
Karaoke	-1.7%	0.4%	1.0%	-7.2%	-0.1%	-10.3%	-11.3%	-4.9%	0.4%	3.2%	0.3%	5.3%
SPO-CHA	-3.9%	0.4%	10.2%	-6.7%	-1.4%	3.7%	-0.3%	8.9%	16.9%	15.5%	5.9%	6.0%
Other	-7.4%	-7.0%	-4.6%	-9.9%	-6.5%	-10.1%	-10.9%	-10.3%	-13.6%	-11.9%	-15.3%	-11.9%

Source: Company data

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

On **December 1, 2014**, Shared Research updated the report following interviews with management.

Quarterly Performance (JPYmm)	FY03/14				FY03/15				FY03/15		FY03/15	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of 1H	1H Est.	% of FY	FY Est.
Sales	20,165	21,706	18,715	23,686	19,694	22,155	-	-	100.1%	41,800	48.9%	85,500
YoY	-2.8%	-3.7%	-1.9%	0.5%	-2.3%	2.1%	-	-		-3.4%		-0.5%
GP	2,665	3,051	632	5,375	1,559	2,995	-	-				
YoY	1.4%	-26.8%	-40.7%	-1.7%	-41.5%	-1.8%	-	-				
GPM	13.2%	14.1%	3.4%	22.7%	7.9%	13.5%	-	-				
SG&A	409	398	465	362	406	403	-	-				
YoY	-3.3%	-2.5%	1.8%	-23.6%	-0.7%	1.3%	-	-				
SG&A / Sales	2.0%	1.8%	2.5%	1.5%	2.1%	1.8%	-	-				
OP	2,256	2,652	168	5,012	1,152	2,593	-	-	81.4%	4,600	37.5%	8,800
YoY	2.4%	-29.5%	-72.5%	0.4%	-48.9%	-2.2%	-	-		-22.9%		-23.9%
OPM	11.2%	12.2%	0.9%	21.2%	5.8%	11.7%	-	-		11.0%		10.3%
RP	1,642	1,970	-278	4,484	830	2,577	-	-	85.2%	4,000	37.9%	8,000
YoY	63.1%	-29.7%	-	2.4%	-49.5%	30.8%	-	-		5.0%		-2.6%
RPM	8.1%	9.1%	-	18.9%	4.2%	11.6%	-	-		9.6%		9.4%
NI	631	-11,371	-3,681	-5,260	778	1,527	-	-	96.0%	2,400	46.1%	4,500
YoY	43.9%	-	-	-	23.3%	-	-	-		18.9%		-
NPM	3.1%	-	-	-	4.0%	6.9%	-	-		5.7%		5.3%

Source: Company data

Company estimates are the most recent figures.

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



MONTHLY WRAP – January 2015

The company made use of Disney characters in promotional campaigns and planning, and used the LINE messaging app to attract customers. The company also used popular celebrities in television commercials to advertise a new, better-value pricing structure. In 1H FY03/14, the company booked impairment losses relating to the decision to sell and lease back fixed assets. The absence of such losses this year, 1H FY03/15, resulted in higher net income.

At the end of 1H FY03/15, the company had 114 centers (unchanged YoY), with a total operational period of 684 months (+5 months YoY). By service, bowling sales fell significantly. Amusement, karaoke, and SPO-CHA sales grew.

View the [full report](#).



MONTHLY WRAP – January 2015



Ryohin Keikaku Co., Ltd. (7453)

A global specialty retailer selling household goods, apparel and fashion items, and food under a single brand: MUJI (Mujirushi Ryohin). The bulk of sales come from Japan and increasingly, China.

On **December 2, 2014**, Ryohin Keikaku announced monthly sales data for November 2014.

YoY sales changes

FY02/15	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
Directly managed stores (comparable)	22.2%	-2.3%	1.6%	4.9%	1.9%	-0.8%	1.8%	-2.2%	0.7%			
Directly managed total	28.4%	2.1%	5.6%	8.2%	6.6%	3.9%	7.0%	4.7%	7.5%			
Licensed Stores (Inc. Seiyu) (comparable)	20.5%	-2.2%	0.7%	5.0%	-1.3%	-1.5%	1.1%	-3.0%	-1.6%			
Licensed Stores (Inc. Seiyu) total	21.7%	-1.9%	2.0%	3.8%	0.0%	1.3%	0.4%	-3.1%	2.1%			
Instore (comparable)	21.9%	-2.2%	1.4%	5.0%	1.2%	-0.9%	1.7%	-2.4%	0.3%			
Instore total	27.0%	1.3%	4.9%	7.3%	5.3%	3.4%	5.8%	3.2%	6.5%			
Total	30.6%	12.0%	11.0%	13.6%	22.7%	13.2%	18.1%	8.6%	12.2%			

FY02/14	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
Directly managed stores (comparable)	9.2%	-4.2%	1.4%	3.0%	-2.8%	4.7%	-0.6%	8.0%	8.2%	6.8%	7.7%	3.1%
Directly managed total	11.0%	-2.1%	5.8%	8.1%	0.8%	7.7%	2.7%	11.2%	9.9%	10.1%	9.7%	3.4%
Licensed Stores (Inc. Seiyu) (comparable)	7.2%	-7.5%	-1.7%	0.9%	-1.1%	6.6%	-0.6%	9.2%	8.2%	8.2%	9.6%	6.3%
Licensed Stores (Inc. Seiyu) total	7.6%	-6.4%	-0.9%	1.8%	-1.4%	5.4%	-4.8%	6.1%	6.6%	6.7%	8.1%	9.9%
Instore (comparable)	8.8%	-4.8%	0.8%	2.6%	-2.5%	5.1%	-0.6%	8.2%	8.2%	7.1%	8.1%	3.7%
Instore total	10.3%	-3.0%	4.4%	6.8%	0.4%	7.3%	1.2%	10.1%	9.2%	9.4%	9.4%	4.6%
Total	10.4%	7.0%	8.0%	12.6%	6.4%	16.9%	7.2%	19.6%	14.8%	18.6%	15.7%	14.0%

FY02/13	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
Directly managed stores (comparable)	14.4%	-1.0%	0.1%	-4.1%	0.5%	2.5%	2.9%	-1.8%	2.6%	-5.5%	-4.9%	1.3%
Directly managed total	18.7%	3.8%	2.9%	-1.8%	3.0%	5.8%	5.8%	1.1%	5.6%	-2.3%	-2.2%	3.7%
Licensed Stores (Inc. Seiyu) (comparable)	4.9%	-2.4%	-1.9%	-5.6%	-2.0%	-3.2%	-0.7%	-5.5%	-0.3%	-5.4%	-2.6%	-0.7%
Licensed Stores (Inc. Seiyu) total	5.5%	-1.4%	-2.2%	-6.8%	-3.3%	-3.7%	2.3%	-3.2%	1.8%	-4.1%	-3.6%	-2.6%
Instore (comparable)	12.1%	-1.3%	-0.3%	-4.4%	0.0%	1.3%	2.2%	-2.6%	1.9%	-5.5%	-4.5%	0.9%
Instore total	15.7%	2.7%	1.8%	-2.9%	1.7%	3.8%	5.1%	0.2%	4.8%	-2.7%	-2.5%	2.4%
Total	17.6%	3.2%	5.7%	-0.7%	3.8%	4.8%	3.8%	2.2%	6.7%	-2.7%	4.2%	7.3%

FY02/15	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
Directly managed stores (comparable)	22.2%	-2.3%	1.6%	4.9%	1.9%	-0.8%	1.8%	-2.2%	0.7%			
Apparel	11.4%	6.8%	5.0%	6.5%	5.9%	0.6%	9.5%	-0.2%	2.6%			
Household Goods	31.8%	-8.7%	-1.9%	3.2%	2.8%	-0.6%	-1.3%	-1.0%	2.2%			
Food	2.8%	1.9%	6.5%	8.3%	-16.1%	-7.0%	-9.4%	-17.9%	-16.6%			
Customers Traffic	3.0%	-0.3%	3.6%	3.2%	0.9%	0.0%	-2.2%	-6.3%	-3.7%			
Spending per Customer	18.7%	-1.9%	-2.0%	1.7%	0.9%	-0.8%	4.1%	4.3%	4.6%			

FY02/14	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
Directly managed stores (comparable)	9.2%	-4.2%	1.4%	3.0%	-2.8%	4.7%	-0.6%	8.0%	8.2%	6.8%	7.7%	3.1%
Apparel	23.1%	-3.7%	3.8%	4.9%	-8.0%	1.2%	1.8%	5.8%	6.0%	5.1%	5.7%	1.2%
Household Goods	2.5%	-4.8%	0.2%	3.5%	-4.5%	5.7%	-2.6%	6.1%	7.4%	5.9%	7.7%	4.1%
Food	11.8%	-2.5%	-2.4%	-4.9%	41.0%	17.7%	6.0%	39.0%	30.4%	25.0%	19.1%	5.9%
Customers Traffic	3.9%	-4.8%	-1.8%	-0.9%	0.1%	2.2%	-1.8%	4.7%	6.0%	2.7%	2.6%	-4.6%
Spending per Customer	5.1%	0.7%	3.2%	3.9%	-3.0%	2.5%	1.2%	3.2%	2.1%	4.0%	5.0%	8.1%

FY02/13	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
Directly managed stores (comparable)	14.4%	-1.0%	0.1%	-4.1%	0.5%	2.5%	2.9%	-1.8%	2.6%	-5.5%	-4.9%	1.3%
Apparel	20.9%	7.1%	9.2%	-1.6%	10.5%	17.9%	5.2%	5.4%	13.4%	-2.4%	-2.4%	15.4%
Household Goods	13.4%	-4.7%	-5.8%	-6.9%	-4.3%	-4.1%	2.1%	-5.8%	-3.3%	-6.7%	-5.7%	-3.1%
Food	3.3%	-7.8%	-2.9%	3.0%	-11.2%	-6.4%	2.0%	-9.9%	-10.8%	-10.4%	-9.0%	-8.1%
Customers Traffic	8.5%	-6.8%	-7.1%	-6.9%	-7.8%	-4.2%	-2.6%	-6.4%	-4.7%	-8.4%	-9.1%	-3.1%
Spending per Customer	5.4%	6.2%	7.8%	3.0%	9.1%	7.1%	5.7%	4.9%	7.6%	3.2%	4.7%	4.6%

Source: Company data, SR Inc. research

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

Comparable stores are considered those open for at least two years.

Licensed stores are wholesale client firms other than FamilyMart and com KIOSK stores.

View the [full report](#).



Sanix Incorporated (4651)

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

On **December 4, 2014**, Shared Research updated the report following interviews with management.

Quarterly Performance (JPYmn)	FY03/14				FY03/15				FY03/15	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of FY	FY Est.
Sales	15,753	15,939	19,841	32,689	21,714	22,294	-	-	37.3%	118,000
YoY	78.6%	70.3%	115.2%	104.8%	37.8%	39.9%	-	-		40.1%
GP	4,631	4,372	5,065	7,353	4,806	4,537	-	-		
YoY	81.3%	32.8%	74.5%	59.1%	3.8%	3.8%	-	-		
GPM	29.4%	27.4%	25.5%	22.5%	22.1%	20.4%	-	-		
SG&A	3,666	3,842	4,140	5,266	5,935	6,125	-	-		
YoY	37.3%	44.8%	27.0%	80.5%	61.9%	59.4%	-	-		
SG&A / Sales	23.3%	24.1%	20.9%	16.1%	27.3%	27.5%	-	-		
OP	966	530	925	2,087	-1,129	-1,588	-	-	-	3,640
YoY	-	-17.2%	-	22.5%	-	-	-	-		-19.3%
OPM	6.1%	3.3%	4.7%	6.4%	-	-	-	-		3.1%
RP	925	518	743	2,124	-1,005	-1,854	-	-	-	3,200
YoY	-	-17.0%	-	24.6%	-	-	-	-		-25.8%
RPM	5.9%	3.3%	3.7%	6.5%	-	-	-	-		2.7%
NI	779	273	249	1,664	-1,222	-1,972	-	-	-	1,300
YoY	-	-50.3%	-	-2.2%	-	-	-	-		-56.2%
NPM	4.9%	1.7%	1.3%	5.1%	-	-	-	-		1.1%

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

Source: Company data

Sales of PV systems increased in the SE segment. In the Environmental Resources Development (ERD) segment, electricity sales were up at the Tomakomai Power Plant, but sales of plastic fuel and organic waste processing fell due to a decrease in collection volume. The company transferred the PV systems business from the HS and ES segments to the SE segment, resulting in a significant fall in sales for these segments as their main business became sanitation maintenance.

The company booked an operating loss in the SE segment because higher sales of PV systems were not enough to absorb fixed costs. This was due to prolonged technical investigations by power companies prior to grid connections. The company was also unable to conduct construction work in most of Kyushu because Kyushu Electric Power Co. put on hold requests by solar-power facility operators to connect their systems with its power distribution network. Profits fell in the ERD segment due to lower volumes. Sales fell in the HS and ES segments as the company restructured and made maintenance these segments' core business. As a result, sales and profits fell.

View the [full report](#).

Sanrio Co., Ltd. (8136)

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

On **December 16, 2014**, Sanrio Co., Ltd. announced that it had been named as a defendant in a lawsuit.

Motions were filed against the company on December 8, 2014, along with subsidiary Sanrio GmbH (Sanrio Germany) on November 28, 2014, at the Milan District Court. The plaintiff, Camomilla Srl, is seeking approximately EUR140mn (JPY20.6bn) in damages.

The company maintains that the lawsuit is frivolous and plans to defend itself in court.

On **December 11, 2014**, Shared Research updated the report after interviewing management.

Quarterly Performance (JPYmm)	FY03/14				FY03/15				FY03/15	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of FY	FY Est.
Sales	17,242	17,674	22,373	19,720	17,994	17,530	-	-	46.9%	75,800
YoY	2.2%	2.6%	4.4%	5.4%	4.4%	-0.8%	-	-		-1.6%
Gross Profit	11,957	12,930	15,021	13,451	12,034	12,641	-	-		
YoY	6.7%	10.3%	9.9%	4.6%	0.6%	-2.2%	-	-		
GPM	69.3%	73.2%	67.1%	68.2%	66.9%	72.1%	-	-		
SG&A Expenses	7,278	7,851	8,058	9,153	7,717	8,489	-	-		
YoY	2.6%	7.0%	10.6%	21.4%	6.0%	8.1%	-	-		
SG&A / Sales	42.2%	44.4%	36.0%	46.4%	42.9%	48.4%	-	-		
Operating Profit	4,678	5,079	6,964	4,298	4,316	4,153	-	-	43.9%	19,300
YoY	13.9%	15.7%	9.1%	-19.2%	-7.7%	-18.2%	-	-		-8.2%
OPM	27.1%	28.7%	31.1%	21.8%	24.0%	23.7%	-	-		
Recurring Profit	4,133	4,915	6,593	4,539	4,288	4,733	-	-	44.9%	20,100
YoY	-3.8%	5.9%	14.7%	-8.5%	3.8%	-3.7%	-	-		-0.4%
RPM	24.0%	27.8%	29.5%	23.0%	23.8%	27.0%	-	-		
Net Income	2,635	3,214	4,295	2,658	2,805	3,241	-	-	45.8%	13,200
YoY	-9.5%	20.0%	17.3%	-19.0%	6.5%	0.8%	-	-		3.1%
NPM	15.3%	18.2%	19.2%	13.5%	15.6%	18.5%	-	-		

Source: Company data

Reversal of allowance for sales returns is subtracted from gross profit.

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

Although harsh conditions persist in Europe and the US, performance was strong in the licensing business in South America and Asia, while special merchandise for convenience stores and corporate promotional licensing demonstrated growth in the domestic market, yielding higher sales. Operating profit was down year-on-year as the licensing business in Europe and the US showed signs of weakness and increased retirement and advertising expenses in the domestic market. Recurring profit was down despite the booking of JPY400mn in extraordinary profits from exchange rate gains. Net income increased thanks to changes to the corporate tax rate and a higher proportion of sales generated by countries in Asia, which typically have high margins.

View the [full report](#).



SBS Holdings, Inc. (2384)

General logistics specialist: logistics accounts for 93% of sales and 30% of operating profit. Over 60% of operating profit from property management.

On **December 22, 2014**, Shared Research updated the report after interviewing management.

Quarterly Performance (JPYmn)	FY12/13				FY12/14				FY12/14	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of FY	FY Est.
Sales	29,833	31,973	33,138	37,261	32,266	33,511	37,373	-	75.3%	137,000
YoY	-3.7%	0.3%	2.4%	13.9%	8.2%	4.8%	12.8%	-		3.6%
GP	2,312	3,111	3,132	4,904	2,935	3,091	4,476	-		
YoY	-20.8%	-3.3%	2.9%	44.8%	27.0%	-0.6%	42.9%	-		
GPM	7.7%	9.7%	9.5%	13.2%	9.1%	9.2%	12.0%	-		
SG&A	2,375	2,344	2,294	2,306	2,260	2,285	2,668	-		
YoY	-0.5%	-3.0%	-2.7%	-8.0%	-4.8%	-2.5%	16.3%	-		
SG&A / Sales	8.0%	7.3%	6.9%	6.2%	7.0%	6.8%	7.1%	-		
OP	-63	767	838	2,599	674	806	1,808	-	68.5%	4,800
YoY	-	-4.4%	21.9%	194.9%	-	5.1%	115.6%	-		15.9%
OPM	-	2.4%	2.5%	7.0%	2.1%	2.4%	4.8%	-		3.5%
RP	-195	730	743	2,524	570	803	1,560	-	66.7%	4,400
YoY	-	-0.1%	29.0%	227.9%	-	10.1%	110.0%	-		15.8%
RPM	-	2.3%	2.2%	6.8%	1.8%	2.4%	4.2%	-		3.2%
NI	-157	307	418	1,004	390	1,371	740	-	71.5%	3,500
YoY	-	15.6%	199.5%	47.9%	-	347.1%	77.2%	-		122.8%
NPM	-	1.0%	1.3%	2.7%	1.2%	4.1%	2.0%	-		2.6%

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

Overall sales were up due to rising sales in the logistics and personnel businesses, and the transfer of trust beneficiary rights to a private-placement fund in the real estate business. Costs increased for vehicle-hire and part-time workers, and the company booked costs for the acquisition of an overseas subsidiary. But overall profits were up due to a gain of JPY1.2bn on the transfer of trust beneficiary rights. Net income grew significantly due to rising profits from operations and an extraordinary gain of JPY1.4bn on the sale of fixed assets, including an office building in Iidabashi (Tokyo) in April 2014.

View the [full report](#).



MONTHLY WRAP – January 2015



Ship Healthcare Holdings Inc. (3360)

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

On **December 24, 2014**, Shared Research updated comments on Ship Healthcare Holdings Inc.'s 1H FY03/15 earnings after interviewing management.

Quarterly Performance (JPYmm)	FY03/13				FY03/14				FY03/15		FY03/15		FY03/15	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	% of 1H	1H Est.	% of FY	FY Est.
Sales	51,185	56,624	52,906	63,648	55,330	54,256	58,337	91,266	51,504	73,852	101.1%	124,000	44.8%	280,000
YoY	23.1%	43.2%	11.2%	5.8%	8.1%	-4.2%	10.3%	43.4%	-6.9%	36.1%		13.2%		8.0%
GP	7,484	8,030	6,716	8,731	7,255	6,966	7,549	11,787	6,569	9,711				
YoY	21.5%	40.4%	1.1%	2.0%	-3.1%	-13.3%	12.4%	35.0%	-9.5%	39.4%				
GPM	14.6%	14.2%	12.7%	13.7%	13.1%	12.8%	12.9%	12.9%	12.8%	13.1%				
SG&A	4,361	4,401	4,635	5,020	4,744	4,632	4,924	5,399	5,302	5,197				
YoY	14.5%	17.3%	11.0%	-3.7%	8.8%	5.3%	6.2%	7.6%	11.8%	12.2%				
SG&A / Sales	8.5%	7.8%	8.8%	7.9%	8.6%	8.5%	8.4%	5.9%	10.3%	7.0%				
OP	3,122	3,629	2,081	3,711	2,511	2,333	2,625	6,388	1,267	4,514	115.6%	5,000	39.6%	14,600
YoY	32.9%	84.5%	-15.7%	10.9%	-19.6%	-35.7%	26.1%	72.1%	-49.5%	93.5%		3.2%		5.4%
OPM	6.1%	6.4%	3.9%	5.8%	4.5%	4.3%	4.5%	7.0%	2.5%	6.1%		4.0%		5.2%
RP	3,460	3,824	2,282	4,023	2,779	2,534	2,859	6,582	1,538	4,694	115.4%	5,400	41.5%	15,000
YoY	30.9%	66.8%	-15.9%	11.7%	-19.7%	-33.7%	25.3%	63.6%	-44.7%	85.2%		1.6%		1.7%
RPM	6.8%	6.8%	4.3%	6.3%	5.0%	4.7%	4.9%	7.2%	3.0%	6.4%		4.4%		5.4%
NI	2,149	2,257	1,390	2,793	1,597	1,377	1,615	3,934	570	2,623	106.4%	3,000	36.3%	8,800
YoY	31.0%	65.1%	-6.4%	10.2%	-25.7%	-39.0%	16.2%	40.8%	-64.3%	90.5%		0.9%		3.3%
NPM	4.2%	4.0%	2.6%	4.4%	2.9%	2.5%	2.8%	4.3%	1.1%	3.6%		2.4%		3.1%

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

Solid earnings except for the Healthcare segment

Sales and operating profit exceeded forecasts as large-scale projects in the Total Pack Produce segment proceeded according to plan, despite the Healthcare segment missing targets because of a delay in the opening of a nursing care facility in Sendai City (opening in July, a month later than expected).

Shared Research believes that Ship Healthcare is on course to meet or exceed its full-year earnings target, excluding the Healthcare segment.

Capital procurement totaling JPY21.6bn

The company announced in October 2014 that it would sell shares to designated buyers and to the public to raise JPY21.6bn (7mn new shares, 1mn treasury shares, and 1.2mn shares through over-allotment). The company will use JPY14.8bn to build a facility in Osaka for heavy-ion radiotherapy (JPY11.8bn for the facility and JPY3bn for a new subsidiary to operate the facility) and JPY3.6bn for overseas projects (JPY3.4bn in Bangladesh and JPY215mn in Myanmar).

The capital raising is part of the company's long-term plan to expand its annual sales to JPY1tn. Shared Research believes that Ship Healthcare will increase investments in operations centered on heavy-ion cancer treatment facilities, which could become a fifth segment for the company. The company will also expand its overseas operations and seek more acquisition targets.

View the [full report](#).



SMS Co., Ltd. (2175)

SMS provides recruitment services and managing professional community websites.

On **December 22, 2014**, Shared Research updated comments on SMS Co., Ltd.'s earnings results for 1H FY03/15 after interviewing management.

Quarterly Performance (JPYmn)	FY03/14				FY03/15				FY03/15	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of FY	Est.
Sales	3,823	2,598	2,300	3,326	4,390	3,103	-	-	47.9%	15,658
YoY	18.1%	17.9%	17.2%	19.7%	14.8%	19.4%	-	-		53.8%
GP	3,634	2,417	2,071	2,971	4,075	2,829	-	-		
YoY	18.9%	16.4%	13.5%	17.7%	12.1%	17.0%	-	-		
GPM	95.0%	93.1%	90.1%	89.3%	92.8%	91.2%	-	-		
SG&A	2,300	2,412	2,318	2,333	2,837	2,767	-	-		
YoY	14.0%	18.6%	16.9%	24.4%	23.3%	14.7%	-	-		
SG&A / Sales	60.2%	92.9%	100.8%	70.1%	64.6%	89.2%	-	-		
OP	1,333	5	-246	638	1,238	62	-	-	68.2%	1,904
YoY	28.5%	-88.9%	-	-1.5%	-7.2%	-	-	-		21.2%
OPM	34.9%	0.2%	-	19.2%	28.2%	2.0%	-	-		12.2%
RP	1,552	94	-189	883	1,506	151	-	-	59.1%	2,549
YoY	36.0%	-12.9%	-	8.0%	-2.9%	60.3%	-	-		28.1%
RPM	40.6%	3.6%	-	26.5%	34.3%	4.9%	-	-		16.3%
NI	1,022	59	-149	448	1,211	85	-	-	75.8%	1,709
YoY	39.2%	-6.7%	-	-7.5%	18.5%	43.1%	-	-		39.3%
NPM	26.7%	2.3%	-	13.5%	27.6%	2.7%	-	-		10.9%

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

Source: Company data

Sales increased to JPY7.5bn (+16.7% YoY). Growth in existing businesses contributed about JPY720mn to the increase in sales, the Kaipoke service for small and mid-sized nursing care providers contributed about JPY110mn, and new services contributed about JPY250mn.

Operating profit fell to JPY1.3bn (-2.9%). Profits grew by about JPY540mn at existing businesses, but increased costs for the Kaipoke service for small and mid-sized nursing care providers depressed profits by about JPY390mn, and investment in new businesses cost about JPY190mn. Costs related to the Kaipoke service increased as—in addition to the existing software for nursing care invoicing—SMS also renewed a comprehensive support service for financial management and operational efficiency.

Recurring profit grew to JPY1.7bn (+0.7% YoY), as gains on equity-method investments outweighed the fall in operating profit.

The company acquired more stock in eChannelling PLC and turned it from an equity-method affiliate to a consolidated subsidiary, thus realizing an extraordinary gain on the difference in the price of the stock (between the initial and subsequent acquisitions). The result: net income was up 19.8% at JPY1.3bn.

View the [full report](#).



SOURCENEXT Corporation (4344)

Plans, develops and sells PC software and smartphone apps. An industry forerunner that also handles other companies' software. One of the top three manufacturers of security software in Japan.

On **December 19, 2014**, SOURCENEXT Corporation announced the acquisition of shares in Money Forward, Inc.

On December 19, 2014, the company agreed to participate in Money Forward's third-party allocation of shares. SOURCENEXT will be one of the companies investing in the new shares, through which Money Forward is attempting to raise a total of JPY1.5bn.

Money Forward offers one of the largest automatic personal accounting and asset management services in Japan for individuals, with about 1.8mn users. SOURCENEXT formed a business alliance with Money Forward in March 2014, and currently sells apps and computer software for the automatic accounting and asset management service. It aims to strengthen new services and channels through the acquisition, to promote further growth of both companies.

On **December 15, 2014**, Shared Research updated comments on the company's earnings results for 1H FY03/15 after interviewing management.

Quarterly Performance (JPYmn)	FY03/14				FY03/15				FY03/15		FY03/15	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4				
Sales	1,262	1,373	1,778	1,323	1,392	1,363			-	-	-	-
YoY	2.8%	16.8%	10.4%	15.7%	10.3%	-0.7%						
GP	966	979	1,325	966	1,047	1,038						
GPM	76.6%	71.3%	74.5%	73.0%	75.2%	76.2%						
SG&A	691	737	842	721	729	749						
YoY	6.8%	16.9%	9.4%	7.6%	5.5%	1.6%						
OP	276	241	484	245	355	254			-	-	-	-
YoY	104.4%	34.1%	44.5%	99.0%	28.5%	5.1%						
OPM	21.9%	17.6%	27.2%	18.5%	25.5%	18.6%						
RP	262	241	479	243	357	260			-	-	-	-
YoY	92.7%	51.5%	48.8%	118.2%	36.4%	7.5%						
NI	294	282	471	174	368	325			-	-	-	-
YoY	87.8%	69.0%	46.7%	8.2%	25.2%	15.3%						
Cumulative	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of 1H Est.	1H Est.	% of FY Est.	FY Est.
Sales	1,262	2,635	4,413	5,736	1,392	2,756			95.1%	2,899	44.8%	6,153
YoY	2.8%	9.6%	10.0%	11.2%	10.3%	4.6%				10.0%		19.3%
GP	966	1,945	3,270	4,236	1,047	2,086						
GPM	76.6%	73.8%	74.1%	73.9%	75.2%	75.7%						
SG&A	691	1,428	2,269	2,991	729	1,478						
YoY	6.8%	11.8%	10.9%	10.1%	5.5%	3.5%						
OP	276	517	1,001	1,246	355	608			107.5%	566	46.7%	1,303
YoY	104.4%	64.2%	54.0%	61.2%	28.5%	17.6%				9.4%		68.6%
OPM	21.9%	19.6%	22.7%	21.7%	25.5%	22.1%				19.5%		21.2%
RP	262	503	983	1,226	357	617			109.2%	565	47.4%	1,302
YoY	92.7%	70.4%	59.2%	68.2%	36.4%	22.5%				12.3%		78.7%
NI	294	576	1,047	1,221	368	693			134.8%	514	60.8%	1,140
YoY	87.8%	78.1%	62.4%	51.6%	25.2%	20.4%				-10.7%		41.6%

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

Sales declined 0.7% YoY in Q2 FY03/15 after rising 10.3% during Q1. While demand for personal computers surged prior to the April 2014 consumption tax increase, sales of the company's security software rose during Q1 FY03/15. Second-quarter sales declined in reaction to the Q1 increase. First-quarter operating profit increased 28.5% YoY due to the sales increase. Although sales fell in Q2, operating profit increased 5.1% due to an improved product mix.

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MONTHLY WRAP – January 2015

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

On **December 26, 2014**, Takashimaya Co., Ltd. announced earnings results for Q3 FY02/15.

Quarterly Performer (JPYmn)	FY02/13				FY02/14				FY02/15				FY02/15	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4(*)	% of FY	FY Est.
Operating Revenue	207,348	212,482	209,350	241,152	214,007	221,284	212,900	255,989	224,269	217,404	213,824	260,503	71.6%	916,000
YoY	6.5%	-1.3%	2.3%	-0.9%	3.2%	4.1%	1.7%	6.2%	4.8%	-1.8%	0.4%	1.8%		1.3%
Sales	193,702	198,995	195,951	226,739	199,848	206,571	198,598	240,768	209,100	202,393	198,825	245,682	71.3%	856,000
YoY	6.6%	-1.6%	2.2%	-1.5%	3.2%	3.8%	1.4%	6.2%	4.6%	-2.0%	0.1%	2.0%		1.2%
GP	50,813	51,300	50,335	57,252	51,934	52,291	50,729	59,719	53,109	50,907	50,716	61,368	71.6%	216,100
YoY	7.2%	-1.9%	0.9%	-2.4%	2.2%	1.9%	0.8%	4.3%	2.3%	-2.6%	-0.0%	2.8%		0.7%
GPM	26.2%	25.8%	25.7%	25.3%	26.0%	25.3%	25.5%	24.8%	25.4%	25.2%	25.5%	25.0%		25.2%
SG&A	58,574	60,547	59,482	60,566	59,999	61,941	59,725	62,304	60,743	61,239	60,088	62,030	74.6%	244,100
YoY	2.9%	1.1%	0.0%	-4.2%	2.4%	2.3%	0.4%	2.9%	1.2%	-1.1%	0.6%	-0.4%		0.1%
SG&A / Sales	30.2%	30.4%	30.4%	26.7%	30.0%	30.0%	30.1%	25.9%	29.0%	30.3%	30.2%	25.2%		28.5%
OP	5,884	4,240	4,251	11,092	6,094	5,062	5,317	12,626	7,535	4,679	5,627	14,159	55.8%	32,000
YoY	68.7%	-24.0%	28.1%	27.3%	3.6%	19.4%	25.1%	13.8%	23.6%	-7.6%	5.8%	12.1%		10.0%
OP / Operating Revenue	3.0%	2.1%	2.2%	4.9%	3.0%	2.5%	2.7%	5.2%	3.6%	2.3%	2.8%	5.8%		3.7%
RP	6,374	5,366	5,445	12,681	7,715	5,777	6,151	13,707	8,552	5,650	6,358	14,440	58.7%	35,000
YoY	47.0%	-16.8%	36.5%	32.4%	21.0%	7.7%	13.0%	8.1%	10.8%	-2.2%	3.4%	5.3%		4.9%
RP / Operating Revenue	3.3%	2.7%	2.8%	5.6%	3.9%	2.8%	3.1%	5.7%	4.1%	2.8%	3.2%	5.9%		4.1%
NI	3,860	2,744	2,501	7,435	4,016	3,598	2,995	8,107	4,551	5,028	3,453	8,468	60.6%	21,500
YoY	125.6%	-25.1%	71.3%	83.2%	4.0%	31.1%	19.8%	9.0%	13.3%	39.7%	15.3%	4.5%		14.9%
NPM	2.0%	1.4%	1.3%	3.3%	2.0%	1.7%	1.5%	3.4%	2.2%	2.5%	1.7%	3.4%		2.5%

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

Source: Company data

Q4 estimates calculated by subtracting cumulative Q3 results from full-year earnings forecasts.

Department stores

Takashimaya renovated its Tamagawa and Kashiwa outlets—mostly women's clothing and accessories—to improve access to adjacent shopping centers as part of a "town development" strategy. The company also revamped Yokohama store's food and specialty-product sections.

Construction

Takashimaya Space Create Co. Ltd. posted strong earnings from its existing operations. Revenue from home renovation businesses also increased as the company worked closely with group department stores to attract customers. Revenue and profits surged as a result.

On **December 1, 2014**, the company released monthly store sales data for November 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	-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	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	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)	32.3%	-13.2%	-7.0%	-4.9%	-4.4%	0.1%	-0.3%	-0.4%	0.8%			
Domestic Department Stores	31.7%	-13.5%	-6.5%	-4.9%	-4.3%	0.0%	-0.4%	-0.5%	0.6%			
Corporate Business	55.4%	-21.1%	-17.9%	-15.6%	1.2%	-5.3%	-3.6%	-1.3%				
Cross-Media Business	5.4%	-33.8%	-36.0%	-25.2%	-12.8%	-3.4%	-11.7%	1.0%				

Source: Company data

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

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MONTHLY WRAP – January 2015



Takihyo Co., Ltd. (9982)

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

On **December 25, 2014**, Takihyo Co., Ltd. announced earnings results for Q3 FY02/15.

Quarterly Performance (JPYmn)	FY02/13				FY02/14				FY02/15				FY02/15	
	Q1	Q2	Q3	Q4	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	19,384	16,650	22,118	23,848	43.9%	82,000
YoY	15.4%	6.2%	6.2%	2.9%	4.5%	7.8%	9.0%	4.3%	-1.3%	-5.8%	-6.7%	29.8%		3.3%
GP	4,695	3,660	5,020	3,424	4,110	3,522	4,897	3,486	4,068	3,270	4,773	-		
YoY	31.6%	17.5%	3.7%	-1.9%	-12.5%	-3.8%	-2.5%	1.8%	-1.0%	-7.2%	-2.5%	-		
GPM	25.0%	22.3%	23.1%	19.4%	20.9%	19.9%	20.7%	19.0%	21.0%	19.6%	21.6%	-		
SG&A	3,650	3,317	3,515	3,573	3,736	3,408	3,550	3,399	3,512	3,247	3,437	-		
YoY	13.2%	6.4%	8.0%	7.3%	2.4%	2.7%	1.0%	-4.9%	-6.0%	-4.7%	-3.2%	-		
SG&A / Sales	19.4%	20.2%	16.2%	20.3%	19.0%	19.3%	15.0%	18.5%	18.1%	19.5%	15.5%	-		
OP	1,045	342	1,505	-148	373	115	1,347	86	555	23	1,336	186	27.5%	2,100
YoY	203.9%	-	-5.2%	-	-64.3%	-66.4%	-10.5%	-	48.8%	-80.0%	-0.8%	116.3%		9.3%
OPM	5.6%	2.1%	6.9%	-	1.9%	0.7%	5.7%	0.5%	2.9%	0.1%	6.0%	0.8%		2.6%
RP	1,070	351	1,519	-65	453	105	1,367	85	605	61	1,407	27	31.7%	2,100
YoY	192.0%	-	-4.3%	-	-57.7%	-	-10.0%	-	33.6%	-41.9%	2.9%	-68.2%		4.5%
RPM	5.7%	2.1%	7.0%	-	2.3%	0.6%	5.8%	0.5%	3.1%	0.4%	6.4%	0.1%		2.6%
NI	589	158	907	-210	271	79	854	-52	429	15	521	35	44.4%	1,000
YoY	-	-	-3.1%	-	-54.0%	-50.0%	-5.8%	-	58.3%	-81.0%	-39.0%	-		-13.2%
NPM	3.1%	1.0%	4.2%	-	1.4%	0.4%	3.6%	-	2.2%	0.1%	2.4%	0.1%		1.2%
Inventories	3,494	3,675	3,953	3,950	4,238	4,381	5,131	4,152	3,705	3,967				
YoY	-11.6%	-4.8%	-6.6%	7.6%	21.3%	19.2%	29.8%	5.1%	-12.6%	-9.4%				
Days in Inventory	23.2	25.7	20.8	25.4	24.1	27.8	23.1	28.4	23.4	26.2				

*Figures for Q4 FY02/15 were calculated by subtracting cumulative Q1 through Q3 results from full-year company forecasts.

Source: Company data

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

Sales for cumulative Q3 FY02/15 were JPY58.2bn, down 4.7% YoY. However, operating profit rose 4.3% to JPY1.9bn after the company adopted the following three measures: establishing new production facilities in the ASEAN countries and inland China; raising product prices; and reducing distribution costs, which comprise about 30% of its SG&A expenses.

Net income fell 19.8% YoY to JPY965mn after the company took a JPY340mn charge linked with the acquisition of Max & Growing Co., Ltd. Takihyo wrote down the value of goodwill and the new subsidiary's fixed assets during Q3 FY02/15. The extraordinary loss was expected, as the company stated that it would take a charge connected with Max & Growing when it released its Q2 FY02/15 earnings.

View the [full report](#).



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 **December 26, 2014**, Tamagawa Holdings Co., Ltd. announced the launch of a new business (geothermal power generation) and the issuance of warrants (No. 6 warrants with an option to adjust the exercise price).

The company held a board meeting on December 26, 2014 and decided to start a geothermal power business.

New operations

Tamagawa, which operates a solar-power business, has been seeking another source of renewable energy to bolster its earnings. The company held talks with the holder of rights to the geothermal power source in Beppu City, Oita Prefecture, and conducted feasibility studies. (The company stated that it would build a 125kW geothermal plant and that it would submit the plan to Kyushu Electric Power Co. and the Ministry of Economy, Trade and Industry on December 26, 2014 or later.) The power plant can be built on a small plot of land, and it will provide the company with a stable and efficient source of electricity.

Geothermal power plants, according to the company, are environmentally sustainable because they use steam from underground reservoirs. Unlike solar power generation, geothermal plants can provide stable electricity 24 hours a day, 365 days a year, regardless of weather conditions. Moreover, geothermal plants do not require a large amount of space, allowing for efficient operations. Under the FY2014 feed-in-tariff system, the price for electricity produced by solar power plants is JPY32 per kilowatt and the purchase period is 20 years (consumption tax not included for 10kW or more). In contrast, the price for electricity produced through geothermal power plants is JPY40 per kilowatt and the purchase period is 15 years (consumption tax not included for 15,000Kw or less).

Tamagawa will build a binary cycle power plant that uses underground steam to rotate a turbine. Binary power plants generate electricity through a medium that has a lower boiling point than water. The medium is vaporized with hot water or steam. There is no need for the company to seek a new energy source because it will use a power source already being used for a hot spring nearby. Thus, the company will be able to start operations within a short period of time at a relatively low cost. Most of the steam taken from the underground reservoir will be returned to its source. Therefore, the plant will have little impact on the environment.

The company will spend JPY92mn to build facilities, install pipes, acquire rights to the power source, and purchase land. The project began on December 26, 2014. The company plans to sell electricity starting in August 2015.

Tamagawa also decided to allocate No. 6 warrants to Macquarie Bank Limited. The purchase agreement will be signed after regulatory filings based on the Financial Instruments and Exchange Act.

Overview of the warrants

§Allocation date: January 16, 2015

§Number of warrants: 10,000

§Issuance amount: JPY2.2bn (JPY1,960 per warrant)

§Potential new shares: 10,000,000 (1,000 shares per warrant): the number of potential new shares remains unchanged even if the exercise price is changed.

§Amount to be raised: JPY2.2bn (After fees: JPY2.18bn; JPY20mn from warrants and JPY2.18bn from

the exercise of warrants)

§Exercise price: The exercise price is fixed at JPY218 per share. However, the company has an option, if necessary for fund-raising purposes, to adopt a mechanism in which the exercise price is adjusted based on the closing price of the stock. The company may adopt the mechanism on January 16, 2015 and afterward upon the board's approval. When this option is adopted, the exercise price will be adjusted to 90% of the closing price on the Tokyo Stock Exchange on a day immediately prior to the effective date of the exercise. However, if the adjusted price falls below JPY153 (the minimum exercise price), it will be re-adjusted to JPY153.

§Allocation method: third-party allocation

§Party to which warrants are allocated: Macquarie Bank Limited

§Exercise period: January 19, 2015-January 18, 2017

The party to which the warrants are allocated must guarantee that it will exercise the option and acquire a certain number of shares during the exercise period provided that certain conditions are fulfilled. The company may write letters to the party to which the warrants are allocated and specify the period during which the party must guarantee share purchases. The company may do so up to five times. During the period of guaranteed share purchases, the party must exercise the purchase option and make payments equivalent to the guaranteed exercise price in accordance with the liquidity of the shares at that time. The guaranteed exercise price will be based on whichever the lowest: the average daily trading price during a five-day period prior to the period of purchase guarantee, or the average daily trading price during a 20-day period prior to the period of purchase guarantee.

Use of funds

Tamagawa will use the funds to finance subsidiaries' solar power and geothermal power projects.

Use	Amount	Time Frame
To repay loans used to acquire land for a power plant in Misawa City, Aomori Prefecture	JPY250mn	January 2015-March 2015
To invest in, or provide loans to, four subsidiaries that will operate the Misawa plant	JPY879mn	January 2015-March 2016
To invest in, or provide loans to, a subsidiary that operates a power plant in Minamishimabara City, Nagasaki Prefecture	JPY127mn	January 2015-March 2016
To invest in, or provide loans to, a subsidiary that operates a geothermal plant in Beppu City	JPY21mn	January 2015-August 2015
To invest in, or provide loans to, subsidiaries that may operate solar power or geothermal power plants other than those mentioned above	JPY904mn	January 2015-January 2017
Total	JPY2,183mn	—

On **the same day**, the company released an update on its partnership with ISE Power.

Tamagawa on May 30, 2014 signed an agreement with ISE Power to cooperate on the operation of solar power plants.

Tamagawa and ISE Power agreed that three Tamagawa subsidiaries will acquire a power operator license in Misawa City, Aomori Prefecture from ISE Power, effective December 26, 2014, and build and run a solar power plant. The move is part of the two companies' plan to expand their cooperation in solar businesses.



Tamagawa acquired the land for the power plant on December 16, 2014. The flat land located on the Pacific Ocean side was previously used by Ise Foods Inc. for a chicken farm. The company stated that the land is suitable for a power plant because it has plenty of sunlight and not much snow.

Tamagawa expects to start selling electricity generated at the plant by March 2016. (It is not certain, however, when the company will sign a contract with Tohoku Electric Power Co.)

Tamagawa added that these developments will have little impact on the company's earnings for FY03/15.

Overview of the power plant

Location: 5-chome, Mukawame, Misawa City, Aomori Prefecture

Operator: GP Energy A, GP Energy B, GP Energy C, GP Energy D (wholly owned units)

Premises: 153,000sqm

Capacity: 10 megawatt

Electricity price: JPY36/kWh (tax excluded; fixed for 20 years)

Revenue: JPY390mn a year (estimate)

Initial-year power generation: 10,852,814 kWh (estimate)

On **December 15, 2014**, Shared Research updated the report following interviews with management.

Quarterly Performance (JPYmn)	FY03/14				FY03/15				FY03/15		FY03/15	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of FY Est.	1H Est.	% of FY Est.	FY Est.
Sales	914	906	918	1,433	835	1,089			91.9%	2,092	42.4%	4,534
YoY	23.9%	6.3%	-3.4%	26.7%	-8.7%	20.1%				14.9%		23.5%
GP	253	293	301	350	261	356						
YoY	51.0%	24.7%	-9.6%	12.2%	3.0%	21.3%						
GPM	27.7%	32.4%	32.8%	24.4%	31.2%	32.7%						
SG&A	164	167	200	190	204	201						
YoY	10.2%	4.5%	14.1%	-0.7%	24.0%	20.0%						
SG&A / Sales	17.9%	18.5%	21.8%	13.2%	24.4%	18.5%						
OP	89	126	101	161	57	155			105.6%	201	42.0%	506
YoY	371.9%	68.0%	-35.9%	32.5%	-35.8%	23.2%				-6.6%		35.5%
OPM	9.8%	13.9%	11.0%	11.2%	6.9%	14.2%				9.6%		11.2%
RP	95	124	100	159	56	154			107.1%	196	42.9%	489
YoY	847.7%	69.1%	-36.6%	19.1%	-40.8%	24.1%				-10.5%		30.5%
RPM	10.4%	13.7%	10.9%	11.1%	6.8%	14.1%				9.4%		10.8%
NI	90	101	114	131	26	94			94.0%	128	26.7%	450
YoY	939.0%	22.0%	-26.8%	42.6%	-71.1%	-6.6%				-32.9%		32.4%
NPM	9.8%	11.1%	12.5%	9.2%	3.1%	8.7%				6.1%		9.9%

Source: Company data

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

Electronics and Telecoms Equipment

In Q1 FY03/15 (April-June), mobile telecoms companies changed construction plans, resulting in a slow start for base station-related capex. But orders began growing year-on-year in Q2 (July-September), and overall base station-related sales for 1H were up 11.2% YoY. Sales related to public expenditure for defense facilities and public wireless facilities were up 52.1% and 16.3% YoY, respectively. The company's focus on proposals for high-end products paid off, as these high-margin products contributed JPY696mn to sales (+67.7% YoY).

Solar System Sales

Although the company worked to make sales operations more efficient, there were shipment delays as clients pushed back construction commencement dates.

On **December 12, 2014**, the company announced the acquisition of a fixed asset by lease (a solar park).



Subsidiary GP Energy 5 Co., Ltd. acquired a solar power plant being planned for construction in Sodegaura (Chiba Prefecture) with an output of about 1.3MW, after signing a lease agreement with Ricoh Leasing Company, Ltd. (a subsidiary of Ricoh Company, Ltd. [TSE1: 7752]). This lease scheme provides an efficient way for the company to deploy capital.

Leased assets

Name: Sodegaura Solar Park, Chiba Prefecture
Location: Sodegaura, Chiba Prefecture
Details: A complete solar power system
Lease amount: JPY511mn
Acquisition value: JPY360mn

Sodegaura Solar Park, Chiba Prefecture

Area: Approx. 15,000sqm
Output: Approx. 1.3MW
Feed-in-tariff: JPY36/kWh (pre-tax; fixed for 20 years)
Revenue: Approx. JPY60mn per year expected from the sale of electricity
Electricity volume: Approx. 1,733,518kWh (expected to be generated in the first year)

View the [full report](#).



MONTHLY WRAP – January 2015



TOKAI Holdings Corporation (3167)

Natural gas supplier that has successfully diversified operations to include information and communications, CATV, building and real estate, and bottled water delivery.

On **December 2, 2014**, Shared Research updated comments on TOKAI Holdings Corporation's earnings results for 1H FY03/15 after interviewing management.

Quarterly Performance (JPYmm)	FY03/14				FY03/15				FY03/15		FY03/15	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of 1H	1H Est.	% of FY	FY Est.
Sales	43,038	41,277	48,644	56,028	44,302	42,972	-	-	-	-	-	-
YoY	-0.7%	2.5%	2.9%	10.3%	2.9%	4.1%	-	-	-	-	-	-
GP	15,842	14,906	17,897	19,696	16,513	15,272	-	-	-	-	-	-
YoY	-3.5%	-3.5%	-0.4%	3.8%	4.2%	2.5%	-	-	-	-	-	-
GPM	36.8%	36.1%	36.8%	35.2%	37.3%	35.5%	-	-	-	-	-	-
SG&A	15,194	15,143	15,112	15,500	14,855	15,114	-	-	-	-	-	-
YoY	3.4%	3.8%	1.7%	-1.5%	-2.2%	-0.2%	-	-	-	-	-	-
SG&A / Sales	35.3%	36.7%	31.1%	27.7%	33.5%	35.2%	-	-	-	-	-	-
OP	648	-237	2,785	4,196	1,657	159	-	-	-	-	-	-
YoY	-62.3%	-	-10.7%	29.3%	155.7%	-	-	-	-	-	-	-
OPM	1.5%	-	5.7%	7.5%	3.7%	0.4%	-	-	-	-	-	-
RP	549	-246	2,656	4,054	1,547	38	-	-	-	-	-	-
YoY	-63.2%	-	-4.9%	30.1%	181.8%	-	-	-	-	-	-	-
RPM	1.3%	-	5.5%	7.2%	3.5%	0.1%	-	-	-	-	-	-
NI	149	-503	1,274	1,678	713	-488	-	-	-	-	-	-
YoY	-72.7%	-	-11.3%	27.3%	378.5%	-	-	-	-	-	-	-
NPM	0.3%	-	2.6%	3.0%	1.6%	-	-	-	-	-	-	-
Cumulative	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of 1H	1H Est.	% of FY	FY Est.
Sales	43,038	84,315	132,959	188,987	44,302	87,274	-	-	98.6%	88,500	44.3%	196,900
YoY	-0.7%	0.8%	1.6%	4.0%	2.9%	3.5%	-	-	-	5.0%	-	4.2%
GP	15,842	30,748	48,645	68,341	16,513	31,785	-	-	-	-	-	-
YoY	-3.5%	-3.5%	-2.4%	-0.7%	4.2%	3.4%	-	-	-	-	-	-
GPM	36.8%	74.5%	100.0%	122.0%	37.3%	74.0%	-	-	-	-	-	-
SG&A	15,194	30,337	45,449	60,949	14,855	29,969	-	-	-	-	-	-
YoY	3.4%	3.6%	3.0%	1.8%	-2.2%	-1.2%	-	-	-	-	-	-
SG&A / Sales	35.3%	73.5%	93.4%	108.8%	33.5%	69.7%	-	-	-	-	-	-
OP	648	411	3,196	7,392	1,657	1,816	-	-	252.2%	720	20.5%	8,870
YoY	-62.3%	-84.0%	-43.8%	-17.3%	155.7%	341.8%	-	-	-	75.2%	-	20.0%
OPM	1.5%	1.0%	6.6%	13.2%	3.7%	4.2%	-	-	-	0.8%	-	4.5%
RP	549	303	2,959	7,013	1,547	1,585	-	-	587.0%	270	19.1%	8,320
YoY	-63.2%	-85.9%	-40.2%	-13.0%	-63.2%	423.1%	-	-	-	-10.9%	-	18.6%
RPM	1.3%	0.7%	6.1%	12.5%	3.5%	3.7%	-	-	-	0.3%	-	4.2%
NI	149	-354	920	2,598	713	225	-	-	-	-670	6.0%	3,740
YoY	-72.9%	-	-47.9%	-15.8%	378.5%	-	-	-	-	-	-	44.0%
NPM	0.3%	-	1.9%	4.6%	1.6%	0.5%	-	-	-	-	-	1.9%

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

Source: Company data

The customer base for recurring services increased by 37,000 YoY to 2.5mn (+16,000 from the end of FY03/14). The broadband and aqua businesses both saw robust growth in subscriber count. TLC membership also increased by 50,000 from the end of FY03/14 to 356,000. TOKAI launched the TLC Membership Service in order to increase customer loyalty.

Sales increased due to a rising subscriber count in the aqua and broadband businesses, and a modified pricing structure in the LP gas business. More contracts for corporate telecoms carrier services and system development, and the sale of large condominiums also contributed to sales growth. Profits increased significantly—the result of lower marketing and customer acquisition costs due to more efficient sales in the aqua business, coupled with higher productivity and other streamlining initiatives in the LP gas business. The Gas and Petroleum and Information Communications segments reported growth in sales and profits. Sales also increased significantly in the Aqua segment.

View the [full report](#).



MONTHLY WRAP – January 2015

Verite Co., Ltd. (9904)

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

On **December 19, 2014**, Shared Research updated comments on Verite Co.'s earnings results for 1H FY03/15 after interviewing management.

Quarterly Performance (JPYmn)	FY03/13				FY03/14				FY03/15				FY03/15	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of FY	FY Est.
Sales	2,217	2,392	2,589	3,367	2,251	2,296	2,505	2,726	1,747	2,009			41.7%	9,000
YoY	7.8%	1.3%	-5.1%	-8.5%	1.5%	-4.0%	-3.2%	-19.0%	-22.4%	-12.5%				
GP	1,162	1,257	1,783	1,521	1,127	1,200	1,280	1,270	902	1,022				
YoY	-0.2%	-4.6%	14.7%	0.2%	-3.0%	-4.5%	-28.2%	-16.5%	-20.0%	-14.8%				
GPM	52.4%	52.6%	68.9%	45.2%	50.1%	52.3%	51.1%	46.6%	51.6%	50.9%				
SG&A	1,371	1,333	1,368	1,446	1,169	1,148	1,140	1,198	1,027	861				
YoY	8.6%	-3.8%	-3.6%	1.1%	-14.7%	-13.9%	-16.7%	-17.2%	-12.1%	-25.0%				
SG&A / Sales	61.8%	55.7%	52.8%	42.9%	51.9%	50.0%	45.5%	43.9%	58.8%	42.9%				
OP	-209	-75	414	79	-42	52	140	90	-125	20			-43.8%	240
YoY	-	-	204.4%	2.6%	-	-	-66.2%	13.9%	-	-61.5%				
OPM	-	-	16.0%	2.3%	-	2.3%	5.6%	3.3%	-	1.0%				
RP	-238	-105	378	39	-66	-1	81	6	-151	-3			-154.0%	100
YoY	-	-	220.3%	77.3%	-	-	-78.6%	-84.6%	-	-				
RPM	-	-	14.6%	1.2%	-	-	3.2%	0.2%	-	-				
NI	-254	-202	354	215	-58	-16	69	157	-164	-25			-472.5%	40
YoY	-	-	306.9%	-	-	-	-80.5%	-27.0%	-	-				
NPM	-	-	13.7%	6.4%	-	-	2.8%	5.8%	-	-				

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

The retail jewelry market faced difficult conditions in 1H, namely due to the pullback in demand after the rush to beat the consumption tax hike and poor weather. It appears that internally, the company anticipated an operating loss due to difficult conditions in 1H. But the recovery was even slower than expected. However, the company has maintained its full-year earnings targets, as demand for jewelry usually peaks in December-March. The company is also focusing on sales activities, in a bid to maintain earnings on par with FY03/14.

On **December 5, 2014**, the company announced November 2014 sales figures.

Monthly Sales (YoY)	FY03/15												1H	FY	
	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.			
All Stores															
Sales	-27.6%	-15.0%	-10.9%	-9.1%	-16.2%	-11.7%	-13.0%	-15.7%						-14.7%	-14.6%
Customer Count	-38.7%	-24.9%	-18.2%	-19.7%	-19.3%	-15.9%	-14.4%	-15.4%						-23.2%	-21.4%
Sales Per Customer	18.0%	13.2%	9.0%	13.2%	3.7%	5.0%	1.6%	-0.4%						11.2%	8.7%
Stores	81	81	81	80	80	80	83	83						80	83
Comparable Stores															
Sales	-21.8%	-8.6%	-11.1%	-2.3%	-9.7%	-10.6%	-10.7%	-11.7%						-10.3%	-10.5%
Customer Count	-33.6%	-23.9%	-17.4%	-18.1%	-17.4%	-14.9%	-14.9%	-12.2%						-21.0%	-19.4%
Sales Per Customer	17.7%	20.1%	7.7%	19.3%	9.3%	5.1%	4.9%	0.6%						13.5%	11.0%
Stores	76	79	79	80	79	79	79	80						79	80
FY03/14															
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%	-0.3%	-3.8%	-2.0%	
Customer Count	17.4%	2.5%	-9.5%	-7.2%	-14.2%	-11.6%	-9.4%	-8.9%	-12.6%	-14.6%	-30.0%	-19.4%	-4.3%	-10.3%	
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%	23.7%	0.5%	9.3%	
Stores	87	84	83	83	83	82	82	84	84	82	81	80	82	80	
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%	0.7%	0.4%	3.6%	
Customer Count	18.6%	1.8%	-1.6%	-0.6%	-8.0%	-4.6%	-0.1%	-3.5%	-3.6%	-7.6%	-23.9%	-12.8%	0.6%	-4.1%	
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%	15.5%	-0.2%	8.0%	
Stores	81	78	78	77	77	76	77	78	79	79	76	77	76	77	
FY03/13															
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	

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

View the [full report](#).



WirelessGate Inc (9419)

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

On **December 18, 2014**, WirelessGate Inc. announced that would start selling a wireless prepaid SIM card, geared toward inbound visitors from overseas.

The wireless prepaid SIM card allows visitors from overseas to use unlocked smartphones and tablets on Docomo's LTE and 3G networks, as well as at 40,000 wireless LAN hotspots in Japan. The service will offer assorted prices and plans to meet varying customer needs. Electronics retailer Yodobashi Camera—the first store to offer this service—will begin sales at its online store, <http://www.yodobashi.com/>, starting December 19, 2014.

On **the same day**, the company announced the expansion of its WirelessGate WiFi + LTE SIM card service.

The company will now offer two plans under the WirelessGate WiFi + LTE SIM card service: one that allows users up to 2GB of data per month for JPY990/month including tax (the same pricing as the former 1GB plan); and a 4GB/month plan for JPY1,380/month including tax. Both plans will be introduced on December 19, 2014.



On **December 9, 2014**, Shared Research updated comments on the company's earnings results for Q3 FY12/14 after interviewing management.

Quarterly Performance (JPYmn)	FY12/13				FY12/14				FY12/14	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of FY	FY Est.
Sales	1,617	1,729	1,811	1,898	2,046	2,159	2,369	-	-	-
YoY	31.3%	29.9%	27.3%	25.3%	26.5%	24.8%	30.8%	-	-	-
GP	502	529	564	571	594	603	633	-	-	-
YoY	17.4%	19.0%	21.6%	22.3%	18.2%	14.1%	12.3%	-	-	-
GPM	31.0%	30.6%	31.1%	30.1%	29.0%	27.9%	26.7%	-	-	-
SG&A	326	339	354	361	386	404	457	-	-	-
YoY	18.7%	9.2%	17.5%	13.2%	18.3%	19.1%	29.2%	-	-	-
SG&A / Sales	20.2%	19.6%	19.6%	19.0%	18.9%	18.7%	19.3%	-	-	-
OP	176	190	210	210	208	200	176	-	-	-
YoY	15.1%	41.8%	29.3%	41.9%	18.2%	5.1%	-16.2%	-	-	-
OPM	10.9%	11.0%	11.6%	11.1%	10.2%	9.3%	7.4%	-	-	-
RP	176	190	209	210	207	199	174	-	-	-
YoY	15.1%	44.2%	45.1%	42.4%	17.9%	5.0%	-16.9%	-	-	-
RPM	10.9%	11.0%	11.5%	11.0%	10.1%	9.2%	7.3%	-	-	-
NI	108	117	129	129	127	131	110	-	-	-
YoY	-29.0%	14.5%	53.2%	52.4%	16.8%	12.5%	-15.0%	-	-	-
NPM	6.7%	6.8%	7.1%	6.8%	6.2%	6.1%	4.6%	-	-	-
Cumulative	Q1	1H	Q3	FY	Q1	1H	Q3	FY	% of FY	FY Est.
Sales	1,617	3,346	5,157	7,055	2,046	4,204	6,574	-	77.3%	8,509
YoY	31.3%	30.6%	29.4%	28.3%	26.5%	25.6%	27.5%	-	-	20.6%
GP	502	1,031	1,595	2,165	594	1,197	1,830	-	-	-
YoY	17.4%	18.2%	19.4%	20.1%	18.2%	16.1%	14.8%	-	-	-
GPM	31.0%	30.8%	30.9%	30.7%	29.0%	28.5%	27.8%	-	-	-
SG&A	326	665	1,019	1,380	386	789	1,247	-	-	-
YoY	18.7%	13.6%	14.9%	14.5%	18.3%	18.7%	22.3%	-	-	-
SG&A / Sales	20.2%	19.9%	19.8%	19.6%	18.9%	18.8%	19.0%	-	-	-
OP	176	366	576	786	208	408	583	-	64.8%	900
YoY	15.1%	27.6%	28.2%	31.6%	18.2%	11.4%	1.3%	-	-	14.6%
OPM	10.9%	10.9%	11.2%	11.1%	10.2%	9.7%	8.9%	-	-	10.6%
RP	176	366	575	785	207	407	580	-	64.6%	898
YoY	15.1%	28.6%	34.1%	36.2%	17.9%	11.2%	1.0%	-	-	14.5%
RPM	10.9%	10.9%	11.1%	11.1%	10.1%	9.7%	8.8%	-	-	10.6%
NI	108	225	354	483	127	258	368	-	67.7%	543
YoY	-29.0%	-11.6%	4.5%	14.1%	16.8%	14.6%	3.8%	-	-	12.4%
NPM	6.7%	6.7%	6.9%	6.8%	6.2%	6.1%	5.6%	-	-	6.4%

Source: Company data

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

Sales stayed firm mainly in its key WirelessGate Wi-Fi and WirelessGate Wi-Fi WiMAX services. In terms of profits, there was an unexpected effect of maintenance and operational costs in preparing the launch of LTE SIM cards, the business not planned at the beginning of the term. Although there was a rise in costs for access line procurement and sales promotion on the commencement of the WirelessGate Wi-Fi+LTE SIM card service (the LTE SIM business) in September 2014, increases in sales and gross profit led to the YoY rise in operating income.

View the [full report](#).

Yumeshin Holdings Co., Ltd. (2362)

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

On **December 3, 2014**, Shared Research updated the report following interviews with management.

Quarterly Performance (JPYmn)	FY09/13				FY09/14				FY09/14	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of FY	FY Est.
Sales	3,006	3,127	3,029	3,376	3,780	4,186	4,148	4,369	91.6%	18,000
YoY	12.8%	13.0%	11.9%	18.8%	25.8%	33.9%	36.9%	29.4%		63.9%
GP	894	951	754	852	1,004	1,245	1,151	1,182		
YoY	20.9%	15.7%	-5.4%	6.3%	12.4%	30.9%	52.7%	38.9%		
GPM	29.7%	30.4%	24.9%	25.2%	26.6%	29.7%	27.7%	27.1%		
SG&A	499	573	539	608	699	678	658	691		
YoY	6.3%	15.2%	9.2%	20.9%	40.1%	18.3%	22.0%	13.5%		
SG&A / Sales	16.6%	18.3%	17.8%	18.0%	18.5%	16.2%	15.9%	15.8%		
OP	394	378	215	243	305	567	493	492		
YoY	46.1%	16.5%	-29.1%	-18.3%	-22.7%	50.1%	129.7%	102.3%		
OPM	13.1%	12.1%	7.1%	7.2%	8.1%	13.6%	11.9%	11.3%		-
RP	477	479	268	546	365	1,612	514	461		3,200 ~ 4,200
YoY	68.7%	34.7%	-17.7%	65.1%	-23.4%	236.2%	91.5%	-15.7%		80.7% ~ 137.1%
RPM	15.9%	15.3%	8.9%	16.2%	9.7%	38.5%	12.4%	10.5%		-
NI	311	273	182	622	299	1,119	435	392		2,100 ~ 2,600
YoY	75.0%	26.4%	0.7%	279.6%	-3.9%	310.0%	138.7%	-37.0%		51.2% ~ 87.2%
NPM	10.3%	8.7%	6.0%	18.4%	7.9%	26.7%	10.5%	9.0%		

Figures may differ from company materials due to differences in rounding methods. Company forecasts based on most recently released figures.

Source: Company data

Construction Technician Temporary Staffing

Due to an aging workforce and shortage of young workers, dispatch demand at general contractors remained firm. The company focused on hiring, with a target of 1,600 technicians over the year in preparation for higher domestic infrastructure investment in disaster-resistant construction, reconstruction efforts in northern Japan, and construction related to the 2020 Tokyo Olympic Games. The company hired 1,628 new technicians in FY09/14 (1,233 in FY09/13). The average number of technicians was 2,101 (1,376 the previous year) and that of technicians registered in the company's books at end September 2014 was 2,277 (1,729 at end September 2013).

Sales were higher as more technicians were dispatched. However, despite increased hiring as mentioned above, the total number of technicians on the company's books fell short of initial company plans, which called for a total of 2,900 people. This was because more technicians left the company than initially estimated. Employee retention for FY09/14 (number of technicians at end FY09/14 divided by the sum of the number of technicians at the beginning of FY09/14 and new hires in FY09/14) was 67.8%, down by 6.1pp YoY.

Engineer Temporary Staffing

Production recovered at core manufacturing clients, particularly auto manufacturers, supported by a correction to the yen's appreciation. Yumeshin also dispatches IT engineers in the IT industry, where corporate systems investment is picking up after a few years of restricted investment. The company focused on hiring machinery and IT engineers, acquiring new clients, and increasing utilization rates.

View the [full report](#).



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ZAPPALLAS, INC. (3770)

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

On **December 26, 2014**, Shared Research updated comments on ZAPPALLAS, INC.'s earnings results for 1H FY04/15 after interviewing management.

Quarterly Performance (JPYmn)	FY04/14				FY04/15				FY04/15	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of FY	FY Est.
Sales	1,882	2,017	1,912	2,343	1,678	2,091	-	-	-	-
YoY	-20.6%	-8.5%	-6.9%	3.6%	-10.8%	3.7%	-	-	-	-
Gross Profit	1,295	1,371	1,331	1,398	1,052	1,156	-	-	-	-
GPM	68.8%	68.0%	69.6%	59.7%	62.7%	55.3%	-	-	-	-
SG&A Expenses	1,120	1,275	1,138	1,123	968	987	-	-	-	-
YoY	6.7%	3.7%	1.5%	-14.0%	-13.6%	-22.6%	-	-	-	-
Operating Profit	175	93	191	263	60	177	-	-	-	-
YoY	-70.9%	-69.7%	-33.9%	17.4%	-65.9%	90.1%	-	-	-	-
OPM	9.3%	4.6%	10.0%	11.2%	3.6%	8.5%	-	-	-	-
Recurring Profit	152	100	247	253	63	260	-	-	-	-
YoY	-74.9%	-68.1%	-41.1%	-19.7%	-58.4%	159.5%	-	-	-	-
Net Income	86	72	161	56	52	160	-	-	-	-
YoY	-75.2%	-70.9%	-46.2%	151.2%	-40.3%	122.0%	-	-	-	-
Cumulative	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of FY	FY Est.
Sales	1,882	3,899	5,812	8,155	1,678	3,769	-	-	50.3%	7,500
YoY	-20.6%	-14.8%	-12.3%	-8.3%	-10.8%	-3.3%	-	-	-	-15.6%
Gross Profit	1,295	2,666	3,997	5,396	1,052	2,208	-	-	-	-
GPM	68.8%	68.4%	68.8%	66.2%	62.7%	58.6%	-	-	-	-
SG&A Expenses	1,120	2,395	3,533	4,656	968	1,955	-	-	-	-
YoY	6.7%	5.1%	3.9%	-1.1%	-13.6%	-18.4%	-	-	-	-
Operating Profit	175	268	459	722	60	237	-	-	-	0
YoY	-70.9%	-70.5%	-61.7%	-49.2%	-65.9%	-11.8%	-	-	-	-100.0%
OPM	9.3%	13.3%	-	30.8%	3.6%	11.3%	-	-	-	0.0%
Recurring Profit	152	253	500	752	63	324	-	-	-	0
YoY	-74.9%	-72.6%	-62.7%	-54.5%	-58.4%	28.2%	-	-	-	-100.0%
Net Income	86	158	319	376	52	211	-	-	-	-13
YoY	-75.2%	-73.4%	-64.3%	-59.0%	-40.3%	33.4%	-	-	-	-101.4%

Source: Company data
 Figures may differ from company materials due to differences in rounding methods.
 Gross profit excludes provision for sales returns.

Sales were down year-on-year in the mainstay Contents segment as feature phone users continued to fall. But sales were up in the Commerce segment and the Others segment. Tight controls on costs led to lower SG&A expenses, but overall operating profit fell owing to lower sales in the high-margin Contents segment. Recurring profit and net income rose due to forex gains and a decrease in provisions for doubtful accounts.

Smartphones continue to increase in popularity. MM Research Institute Ltd. forecasts that smartphones will account for 70.9% of all mobile phone contracts by the end of March 2019, up from 47.0% at the end of March 2014. Faced with these conditions, Zappallas focused on attracting new customers from among the increasing number of smartphone users, and expanding its range of products catered to its core user base (women aged between 20 and 50).

View the [full report](#).



ZIGExN Co., Ltd. (3679)

Comprehensive search aggregator connects users with multiple websites, such as those specializing in job listings. Convenience for users and performance-based fee structure sustain profits and growth.

On **December 9**, Shared Research updated comments on ZIGExN Co., Ltd.'s earnings results for 1H FY03/15 after interviewing management.

Quarterly Performance (JPYmn)	FY03/14 (Cons.)				FY03/15 (Cons.)				FY03/15 (Cons.)	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of FY	FY Est.
Sales	458	439	465	565	572	580	-	-	-	-
YoY	121.1%	76.9%	66.8%	28.9%	24.9%	32.1%	-	-	-	-
GP	429	407	431	532	546	538	-	-	-	-
YoY	-	-	-	38.6%	27.2%	32.2%	-	-	-	-
GPM	93.8%	92.8%	92.6%	94.2%	95.5%	92.9%	-	-	-	-
SG&A	194	207	218	255	286	290	-	-	-	-
YoY	-	-	-	47.0%	47.0%	40.3%	-	-	-	-
SG&A / Sales	42.4%	47.1%	46.8%	45.1%	50.0%	50.1%	-	-	-	-
OP	235	200	213	277	260	248	-	-	-	-
YoY	113.7%	60.1%	44.8%	31.8%	10.8%	23.9%	-	-	-	-
OPM	51.4%	45.6%	45.8%	49.1%	45.6%	42.8%	-	-	-	-
RP	236	199	194	278	260	247	-	-	-	-
YoY	-	-	-	32.3%	10.4%	24.5%	-	-	-	-
RPM	51.5%	45.3%	41.7%	49.3%	45.5%	42.6%	-	-	-	-
NI	144	122	93	178	159	141	-	-	-	-
YoY	-	-	-	40.1%	11.0%	16.1%	-	-	-	-
NPM	31.4%	27.8%	20.0%	31.4%	27.9%	24.4%	-	-	-	-
Cumulative	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of FY	FY Est.
Sales	458	896	1,362	1,927	572	1,151	-	-	42.4%	2,718
YoY	121.1%	97.0%	85.5%	64.4%	24.9%	28.4%	-	-	-	-
GP	429	836	1,267	1,800	546	1,084	-	-	-	-
YoY	-	-	91.1%	71.9%	27.2%	29.6%	-	-	-	-
GPM	93.8%	93.3%	93.1%	93.4%	95.5%	94.2%	-	-	-	-
SG&A	194	401	619	874	286	576	-	-	-	-
YoY	-	-	119.6%	91.9%	47.0%	43.6%	-	-	-	-
SG&A / Sales	42.4%	44.7%	45.5%	45.4%	50.0%	50.0%	-	-	-	-
OP	235	435	648	926	260	508	-	-	42.4%	1,199
YoY	113.7%	85.2%	70.1%	56.5%	10.8%	16.8%	-	-	-	-
OPM	51.4%	48.5%	47.6%	48.0%	45.6%	44.2%	-	-	-	-
RP	236	434	628	907	260	507	-	-	42.3%	1,199
YoY	-	-	64.9%	53.3%	10.4%	16.8%	-	-	-	-
RPM	51.5%	48.4%	46.1%	47.0%	45.5%	44.1%	-	-	-	-
NI	144	265	359	536	159	301	-	-	47.7%	631
YoY	-	-	55.9%	50.3%	11.0%	13.3%	-	-	-	-
NPM	31.4%	60.5%	77.1%	94.9%	27.9%	51.9%	-	-	-	23.2%

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

Source: Company data, SR Inc.

Sales rose 1.4% and operating profit fell 4.8% from the preceding quarter (Q1 FY03/15). The company's sales, particularly from real state websites, tend to rise in Q4 since business is usually slow during Q2 and Q3. In FY03/14, Q2 sales and operating profit declined 4.2% and 14.9%, respectively, from Q1.

However, this year sales rose for Q2 from Q1 because the company acquired Greenlabo Inc. in July 2014 and Rejob Co., Ltd. in September. Operating profit declined 4.8% from the first quarter due to an increase in labor costs associated with the acquisition and expanding operations. Even so, the rate of profit decline was smaller than that for Q2 FY03/14, when it fell 14.9% QoQ. It is also worth noting that the company reduced its advertising spending for Q3 through various cost-cutting measures, even as sales rose.

View the [full report](#).



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