

**HAMEE (3134 JP)****THE FIRM RETAINS CONSERVATIVE FY2019 OUTLOOK****FY2018 RESULTS**

Hamee (3134 JP) reported FY18 (to April 2019) results on 12 June: Operating profit was ¥1,210mil (-12.2%YoY) on revenue of ¥10,302mil (+9.9% YoY) – both figures came in ahead of company guidance for the year

**PLATFORM BUSINESS**

The Platform Business segment FY18 OP was ¥527mil (+32%YoY) on revenues of ¥1,722mil (+39%YoY) in FY2018, thanks to growth in subscribers for Next Engine – an eCommerce operational solution platform. The year-end number of subscribers hit 3,622 (+20.3%YoY), with newly added subscribers totaling 527 – the highest growth in subscribers since the launch of Next Engine.

The number of orders processed via Next Engine rose 29.4%YoY to 85.71mil transactions from 68.60mil transactions in FY17. The value of orders handled via Next Engine also improved from ¥492.4billion in FY2017 to ¥598.5billion (+21.5%YoY) in FY2018. A total of 28,006 eCommerce stores have introduced Next Engine as their core back office system as of April 2019, an increase of 4,154 stores compared to a year ago. Those eCommerce shops newly subscribed to the Next Engine platform includes some multinational names such as Nestle and The Body Shop.

In FY2018, the organic sales growth of the Platform Business was 16.6%YoY, up from ¥1,238mil to ¥1,443mil. Hamee acquired JS Consulting, a firm that specialises in consulting services for eCommerce companies in January 2018. Sales from the acquired company (now called Hamee Consulting) contributed ¥278mil to the segment sales.

**COMMERCE BUSINESS**

Commerce Business segment OP was ¥1,684mil (+12.2%YoY) on segment sales of ¥8,544mil (+5.1%YoY). Both domestic retail and wholesale revenues were basically flat: domestic retail sales were ¥3,192mil (+0.2% YoY) and domestic wholesale sales were ¥4,038mil (-0.4%YoY).

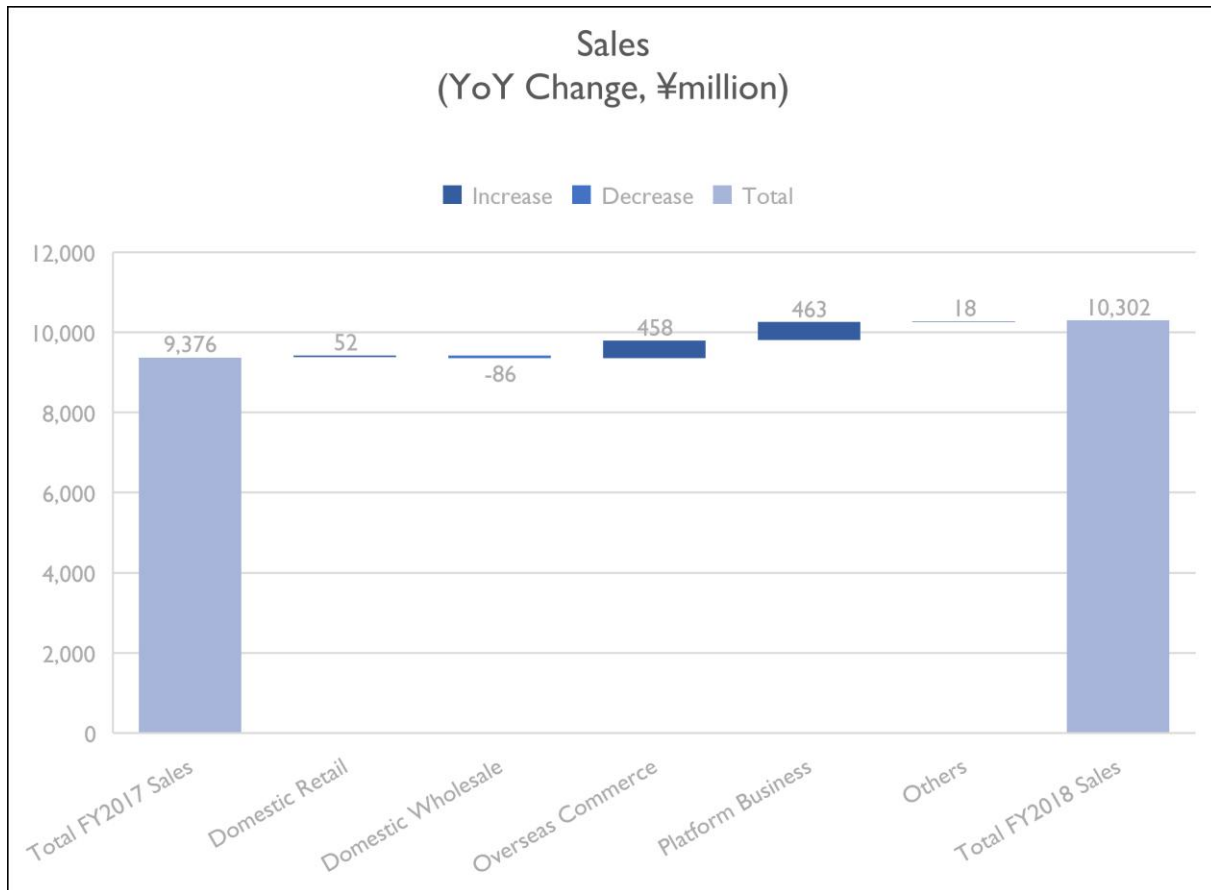
Sales of iFace for older versions of the iPhone remains solid in the domestic retail business. Wholesale business, however, was affected by the poor sales of the new iPhone models (X and beyond), especially in HI because retailers did not stock up on iFace accessories for the iPhone X, XS and XR given the lacklustre sales of those models in Japan.

Segment sales (+53.6% YoY to ¥1,313mil) was led by growth in the overseas business, mainly in the US (+65.5% YoY to ¥662mil) thanks to a strong performance in US accessories chain Claire.

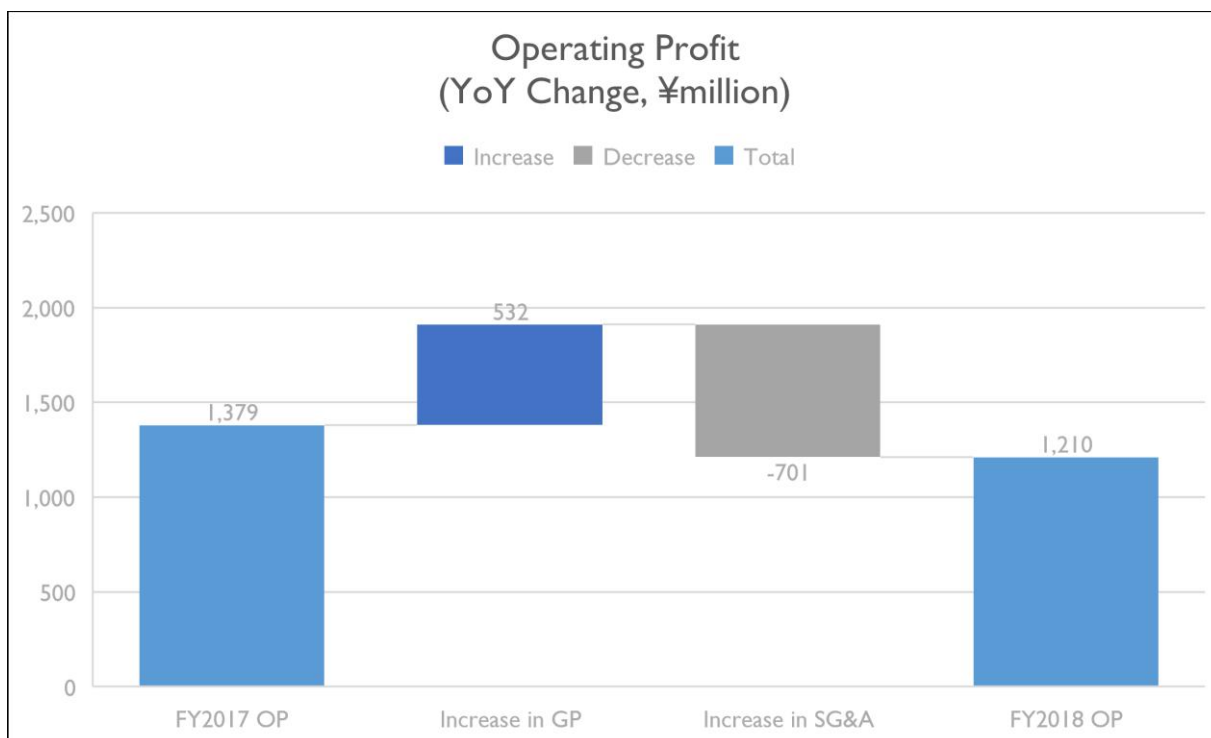
**EXECUTIVE SUMMARY**

- FY2018 earnings came ahead of company guidance.
- While FY18 OP fell 12.2% YoY, gross profit improved 11.2% YoY (+¥532mil) thanks higher sales. However, SG&A rose by ¥699mil, with personnel costs surging 25% YoY (+¥186mi) to ¥925mil and commission payments up by 21% YoY (+¥126mil) to ¥700mil.
- Platform Business sales and profit surged 39% YoY and 32% YoY respectively, thanks to a rise in Next Engine subscribers. In FY2019, the firm has conservative forecasts for the segment to take into account the initial cost incurred by an outsourcing call centre for Next Engine as well as higher personnel costs related to the newly acquired consulting business. FY19 segment OP is expected to drop 7.7% YoY.
- Commerce Business growth was driven by a strong performance overseas in FY18, while the domestic business was flat. In FY19, the firm continues to expect rapid growth in the overseas business while view for H2 overseas business appears moderate. For the full-year, the segment revenue growth is estimated at +5.1% YoY.
- Hamee announced its medium-term management plan to FY21 (to April 2022) which targets sales of at least ¥13,800mil (CAGR 8%); an OPM of 16% and a dividend pay-out ratio of 20%.

WATERFALL CHARTS



Source: Hamee Corp. FY2018 Results Material



Source: Hamee Corp. FY2018 Results Material

## SALES AND OP BREAKDOWN

**Hamee (3134:JP): Sales and OP Breakdown by Segment**

| ¥mil                     |                           | FY04/16 | FY04/17 | FY04/18 | FY04/19 |        |         | FY4/2020 |         |
|--------------------------|---------------------------|---------|---------|---------|---------|--------|---------|----------|---------|
|                          |                           | FY      | FY      | FY      | FYCE    | Actual | YoY (%) | FYCE     | YoY (%) |
| Commerce Business        | Retail                    | 2,730   | 3,021   | 3,637   | n/a     | 3,956  | 8.8     | 4,317    | 9.1     |
|                          | Wholesale                 | 2,964   | 4,462   | 4,483   | n/a     | 4,587  | 2.3     | 4,660    | 1.6     |
|                          | Total Segment Sales       | 5,694   | 7,483   | 8,120   | 8,292   | 8,544  | 5.2     | 8,977    | 5.1     |
|                          | Total Segment GPM (%)     | 37.6    | 45.2    | 50.1    | n/a     | 50.3   | +0.2ppt | 50.3     | +0.0ppt |
|                          | Total Segment OP          | 268     | 1,349   | 1,780   | 1,530   | 1,684  | -5.4    | 1,890    | 12.2    |
|                          | Segment OPM (%)           | 4.7     | 18.0    | 21.9    | 18.5    | 19.7   | -2.2ppt | 21.1     | +1.4ppt |
| Platform Business        | Total Segment Sales       | 806     | 1,018   | 1,238   | 1,715   | 1,722  | 39.1    | 1,841    | 6.9     |
|                          | Segment GPM (estimate, %) | 67.9    | 63.0    | 54.0    | n/a     | 56.2   | +2.2ppt | 56.2     | +0.0ppt |
|                          | Total Segment OP          | 182     | 388     | 399     | 497     | 527    | 32.1    | 487      | -7.6    |
|                          | Segment OPM (%)           | 22.6    | 38.1    | 32.2    | 29.0    | 30.6   | -1.6ppt | 26.5     | -4.1ppt |
| Others                   | Sales                     | 0       | 0       | 18      | 23      | 37     | 105.6   | 130      | 251.4   |
|                          | Total Segment OP          | 0       | 0       | -70     | -176    | -161   | n/a     | -359     | n/a     |
|                          | Segment OPM (%)           | 0       | 0       | n/a     | n/a     | n/a    | n/a     | n/a      | n/a     |
| Business Total           | Sales                     | 6,501   | 8,502   | 9,376   | 10,031  | 10,302 | 9.9     | 10,949   | 6.3     |
|                          | OP                        | 450     | 1,738   | 2,109   | 1,851   | 2,050  | -2.8    | 2,018    | -1.6    |
| Adjustment               | HQ Cost                   | 0       | -632    | -729    | -824    | -839   | n/a     | -925     | n/a     |
| Consolidated P&L Figures | Sales                     | 6,501   | 8,502   | 9,376   | 10,031  | 10,302 | 9.9     | 10,949   | 6.3     |
|                          | GPM (%)                   | 58.6    | 41.4    | 50.7    | n/a     | 49.3   | -1.4ppt | 49.3     | +0.0ppt |
|                          | OP                        | 450     | 1,106   | 1,379   | 1,027   | 1,210  | -12.3   | 1,092    | -9.8    |
|                          | OPM (%)                   | 6.9     | 13.0    | 14.7    | 10.2    | 11.8   | -2.9ppt | 10.0     | -1.8ppt |

Source: Hamee Corp., Nikkei Value Search and Nippon-IBR

**Commerce Segment – Sales by Regions**

| ¥mil             |                    | FY04/16 | FY04/17 | FY4/18 | FY4/19 | FY4/20CE |
|------------------|--------------------|---------|---------|--------|--------|----------|
|                  |                    | FY      | FY      | FY     | FY     | FY       |
| Commerce Segment | Japan              | 5,283   | 6,930   | 7,264  | 7,230  | 7,371    |
|                  | Domestic Retail    | 2,363   | 2,727   | 3,140  | 3,192  | 3,331    |
|                  | Domestic Wholesale | 2,920   | 4,203   | 4,124  | 4,038  | 4,040    |
|                  | Korea              | 106     | 276     | 229    | 375    | 544      |
|                  | US                 | 157     | 167     | 400    | 662    | 738      |
|                  | Taiwan             | 78      | 73      | 58     | 41     | 7        |
|                  | India              | 0       | 0       | 3      | 6      | 26       |
|                  | Shanghai           | 0       | 0       | 94     | 138    | 217      |
|                  | Cross border EC    | 67      | 36      | 68     | 87     | 77       |
|                  | Overseas Total     | 410     | 533     | 855    | 1,313  | 1,612    |
|                  | Cross border EC    | 67      | 36      | 68     | 87     | 77       |
|                  | Overseas Retail    | 298     | 258     | 358    | 673    | 915      |
|                  | Overseas Wholesale | 45      | 239     | 428    | 553    | 620      |

Source: Hamee Corp.

## FY2019 OUTLOOK

Hamee guides for operating profit of ¥1,092mil (-9.8% YoY) on sales of ¥10,949mil (+6.3% YoY) in FY2019. The drop in OP mainly stems from the Platform Business (-7.6% YoY in segment OP) and the Domestic Wholesale Business (+1.6% YoY growth in sales (the firm does not disclose the OP for the latter)).

## PLATFORM BUSINESS

Platform Business segment OP is estimated to fall 7.6% YoY to ¥487mil despite a 6.9% YoY rise in sales to ¥1,841mil. The firm plans to shift call centre operations for customers to an outsourcing company, to free up circa 20 employees to other tasks associated with Next Engine. Hamee started transferring call centre operation as of Autumn 2018 and expects to incur additional initial set-up costs before the call centre gets up and running from H2.

The firm claims its forecast for the Platform Business is conservative. Since the business generates fees on a pay-as-you-go basis, the more transactions handled via Next Engine, the more revenue it generates. The forecast is based on existing customers and does not include potential new customers that may subscribe to the Next Engine platform. In H1 FY18, the firm gained 350 new subscribers, although new subscriber number dropped back to only 177, due to a lack of call centre support during the transfer period. Management reckons that once the shift to the new centre is completed, the firm is likely to see a pick-up in the pace of new subscribers back to the 350 level in the 2H.

Next Engine services are currently only offered domestically. The domestic eCommerce market is estimated to reach ¥18tril (+9% YoY) in FY2018, according to Yano Research. Hamee reckons that its strength lies in the fact it can reflect system updates in the shopping mall platforms on the real time basis. Backed by its experience of running its own eCommerce shops for the iFace series, Hamee is acutely aware of the need to have concurrent updates for both front and back office systems. Next Engine provides a seamless service for both the platform operators and the subscribers.

**Hamee (3134:JP): Platform Business: Sales and OP**

| ¥mil              |                     | FY04/17 |         | FY04/18 |         | FY04/19 |         | FY04/20CE |         |
|-------------------|---------------------|---------|---------|---------|---------|---------|---------|-----------|---------|
|                   |                     | FY      | YoY (%) | FY      | YoY (%) | FY      | YoY (%) | FYCE      | YoY (%) |
| Platform Business | Total Segment Sales | 1,018   | 26.3    | 1,238   | 21.6    | 1,722   | 39.1    | 1,841     | 6.9     |
|                   | incl. Next Engine   | n/a     | n/a     | n/a     | n/a     | 1,443   | n/a     | 1,559     | 8.0     |
|                   | Segment GPM (%)     | 63.0    | -4.9pts | 54.0    | -9.0pts | 56.2    | +2.2pts | 56.2      | +0.0pts |
|                   | Total Segment OP    | 388     | 113.2   | 399     | 2.8     | 527     | 32.1    | 487       | -7.6    |
|                   | incl. Next Engine   | n/a     | n/a     | n/a     | n/a     | 501     | n/a     | 556       | 11.0    |
|                   | Segment OPM (%)     | 38.1    | +15.5   | 32.2    | -5.9pts | 30.6    | -1.6ppt | 26.5      | -4.1ppt |
|                   | Next Engine OPM (%) | n/a     | n/a     | n/a     | n/a     | 34.7    | n/a     | 35.7      | +1.0ppt |

Source: Hamee Corp.

## COMMERCE BUSINESS

The Commerce Business – which is split between retail and wholesale in both the domestic and overseas market – Hamee is guiding for OP of ¥1,890mil (+12.2%YoY) on segment revenue of ¥8.977mil (+5.1%YoY). The firm reckons that the domestic wholesale business continues to be weak due to lacklustre sales of the iPhone X / XR / XS. However, although Hamee expects the domestic retail sales to enjoy solid sales of iFace accessories for older iPhone models – in particular, the recently launched glass case has been well received by iPhone users – it assumes the domestic wholesale business will remain flat in FY19.

The Overseas Business is expected to continue its growth. The firm participates in the latest CES2019 in Las Vegas, introducing iFace and PATCHWORKS, a brand developed for male users who prefer heavy duty smartphone cases. Sales in the US is estimated to grow 11.4% YoY in FY2019, thanks to strong sales of the iFace products at Claire – a large accessories chain.

As the table that below demonstrates, revenues for the Retail Business is forecast to reach ¥4,317mil (+9.1% YoY) and for the Wholesale Business ¥4,660mil (+1.6% YoY).

## Commerce Segment

| (¥mil)           |                                 | FY4/18 |       | FY4/19   |        | FY4/20CE |          |        |
|------------------|---------------------------------|--------|-------|----------|--------|----------|----------|--------|
|                  |                                 | FY     | FY    | YoY chg. | YoY(%) | FY       | YoY chg. | YoY(%) |
| Commerce Segment | Retail Total                    | 3,637  | 3,956 | 319      | 8.8    | 4,317    | 361      | 9.1    |
|                  | Domestic Retail <sup>1</sup>    | 3,279  | 3,283 | 4        | 0.1    | 3,402    | 119      | 3.6    |
|                  | Overseas Retail                 | 358    | 673   | 315      | 88.0   | 915      | 242      | 36.0   |
|                  | Wholesale Total                 | 4,483  | 4,587 | 104      | 2.3    | 4,660    | 73       | 1.6    |
|                  | Domestic Wholesale              | 4,055  | 4,034 | -21      | -0.5   | 4,040    | 6        | 0.1    |
|                  | Overseas Wholesale <sup>3</sup> | 428    | 553   | 125      | 29.2   | 620      | 67       | 12.1   |
|                  | Total Segment Sales             | 8,120  | 8,544 | 424      | 5.2    | 8,977    | 433      | 5.1    |
|                  | Total Segment GPM (%)           | 50.1   | 50.3  | +0.7ppt  |        | 50.3     | +0.0ppt  |        |
|                  | Total Segment OP                | 1,780  | 1,684 | -96      | -5.4   | 1,890    | 206      | 12.2   |
|                  | Segment OPM (%)                 | 21.9   | 19.7  | -1.7ppt  |        | 21.1     | +1.4ppt  |        |

Source: Hamee Corp., Nippon-IBR

Note<sup>1</sup> Domestic retail includes cross boarder EC that is handled by the parent.

## MEDIUM-TERM MANAGEMENT PLAN

Hamee announced a medium-term management plan to FY21 (ending April 2022) – the first of such with numerical targets – and is targeting sales above ¥13,800mil (CAGR of 8% over the next 3 years) and an OPM of 16%+.

### Medium-Term Management Plan

| (¥mil)                    | Total  | Platform | Commerce | New Business |
|---------------------------|--------|----------|----------|--------------|
| FY18 Sales                | 10,300 | 1,700    | 8,500    | 30           |
| FY21 Sales target         | 13,800 | 2,600    | 10,000   | 1,200        |
| Sales CAGR (ca., %)       | 10.3   | 15.3     | 5.6      | 243          |
| FY18 OP margin (%)        | 11.8   | 30.7     | 19.7     | n/a          |
| FY21 OP margin target (%) | 16.0   | 34.0     | 23.0     | 17.0         |

Source: Hamee Corp. FY18 Result Presentation

The Platform Business target for OPM is 34% with revenues guided to reach ¥2,600mil (CAGR +15.3%) in FY21. The key to achieving this goal is a steady increase in both subscriber numbers and transaction volumes. Hamee launched Next Engine in Korea this year to build the stock-based business model overseas. As in Japan, there are several eCommerce malls operating in Korea. The firm sees eCommerce merchants who operate multiple stores in different malls as strong contenders to become a potential customer base for Next Engine. The firm expects Next Engine to generate sales of ¥6mil in FY2019, ¥25mil in FY2020 and ¥55mil in FY2021 in Korea.

The current medium-term target does not include the potential contribution from a new business linked to the Recommend Mail service – basically targeted promotional emails – in the Platform segment. Currently, Recommend Mail generates ¥2mil/month in OP and that profit is factored into the medium-term plan figures. The new service will see Hamee start charging customers for the Recommend Mail services on a pay-as-you-go basis, however, the firm has not reflected any contributions from this in the Medium-Term Plan. Commission will be charged if a Recommend Mail user generates sales based on the recommendation linked to the promotional email sent via Next Engine. The firm reckons that potential upside for earnings from this service can be significant. In FY3/19, the transaction value of orders processed via Next Engine were as much as ¥600bil – this is the market for the Recommend Mail service. Commission on such transactions will be pure profit, which should further boost the segment OPM if successful.

The Commerce Business targets call for an OPM of 34% in FY21, with sales of ¥2.6bil (CAGR 5.6%). Hamee's aim is to strengthen its own brand in both the domestic and overseas market. Its focus will be almost entirely on iPhone accessories. While the development of the overseas business will play a vital role in the segment growth, the firm is also trying to put the domestic wholesale business back on a recovery track. Hamee reached an agreement with one of Japan's major mobile operator's shops to carry iFace accessories not only for new iPhone models but for the older versions from Jan 2019, on a wholesale basis. The operator has more than 2,000 branches nationwide so Hamee anticipates a positive impact given the carrier's extensive network. However, at this stage, any impact from this new line of revenue has not been included in the medium-term management plan.

Under the new medium-term plan, the firm also aims to turn around the new business that includes Hamic BEAR. Currently, Hamic BEAR generates one-off sales when the BEAR is sold to parents for the safe communication with their children who do not own smartphones. Management plans to turn around this one-off business to a stock-based business model by launching the next Hamic series with a SIM card. This move has the potential to generate a monthly fee. The segment medium-term growth is based on contributions from the SIM card model; this will become the core pillar of the firm's data centric business model. The Hamic business is estimated to achieve sales of ¥1,200mil, compared to just ¥30mil in FY2018 (CAGR 243%) and generate an OPM of 17.0% in FY21.

### Hamee (3134:JP) Financial Summary

| (¥mil)  | FY4/16    | FY4/17     | FY4/18     | FY4/19     | FY4/20CE |
|---|-----------|------------|------------|------------|----------|
| Sales   | 6,501     | 8,502      | 9,376      | 10,302     | 10,949   |
| Operating Profit                              | 450       | 1,106      | 1,379      | 1,210      | 1,092    |
| Recurring Profit                              | 427       | 1,048      | 1,266      | 1,226      | 1,082    |
| Net Profit                                    | 257       | 695        | 872        | 856        | 801      |
| EPS (JPY)                                     | 33.16     | 44.22      | 54.69      | 53.35      | 49.79    |
| Adjusted EPS (JPY)                            | 31.97     | 42.95      | 53.55      | 52.75      | -        |
| Cash flow from operation (CFO)                | 71        | 575        | 1,245      | 711        | -        |
| Cash flow from investment (CFI)               | -262      | -433       | -673       | -731       | -        |
| Cash flow from finance (CFF)                  | -139      | 69         | -230       | -7         | -        |
| Cash and cash equivalent                      | 1,102     | 1,324      | 1,695      | 1,660      | -        |
| Free cash flow (FCF)                          | -191      | 142        | 572        | -          | -        |
| CFO per share (JPY)                           | 9.13      | 36.54      | 78.02      | -          | -        |
| FCF per share (JPY)                           | -24.55    | 9.02       | 35.84      | -          | -        |
| Total asset                                   | 3,016     | 4,240      | 5,042      | 5,797      | -        |
| Liabilities                                   | 1,022     | 1,483      | 1,445      | 1,572      | -        |
| Net asset                                     | 1,993     | 2,756      | 3,596      | 4,225      | -        |
| Capital                                       | 524       | 528        | 533        | 535        | -        |
| Shareholders' equity                          | 1,993     | 2,697      | 3,467      | 4,085      | -        |
| BPS (JPY)                                     | 254.49    | 170.28     | 215.97     | 256.44     | -        |
| OPM (%)                                       | 6.92      | 13.01      | 14.71      | 11.75      | 9.97     |
| ROE (%)                                       | 13.78     | 29.64      | 28.29      | 22.67      | -        |
| ROA (%)                                       | 15.10     | 30.43      | 29.67      | 22.25      | -        |
| Shareholders' equity ratio (%)                | 66.08     | 63.61      | 68.76      | 70.47      | -        |
| D/E ratio (%)                                 | 51.28     | 54.99      | 41.68      | 38.48      | -        |
| Total asset turnover (X)                      | 2.20      | 2.34       | 2.02       | 1.90       | -        |
| Interest coverage (x)                         | 150.00    | 553.00     | 689.50     | 242.20     | -        |
| Current ratio (%)                             | 322.05    | 253.94     | 332.66     | 320.06     | -        |
| Interest-bearing debt                         | 381       | 467        | 296        | 499        | -        |
| EBIT  | 430       | 1,050      | 1,268      | -          | -        |
| EBIT Margin (%)                               | 6.61      | 12.35      | 13.52      | -          | -        |
| EBITDA  | 500       | 1,216      | 1,515      | 1,515      | -        |
| EBITDA margin (%)                             | 7.69      | 14.30      | 16.16      | 14.71      | -        |
| Dividend (JPY)                                | 3.00      | 4.50       | 5.50       | 6.50       | 6.50     |
| Total dividend payment from retained earnings | 23        | 71         | 88         | 103        | -        |
| Dividend pay-out ratio (%)                    | 9.05      | 10.20      | 10.06      | 12.20      | -        |
| Shares outstanding (shares)                   | 7,834,800 | 15,837,600 | 16,053,600 | 16,087,600 | -        |
| Treasury (shares)                             | -         | 286        | 286        | 159,875    | -        |

Source: Nikkei Value Search

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