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Hamee Corp. (3134 JP)

SHIFTING TO DATA-CENTRIC BUSINESS MODEL

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Contents

Summary – Not Just an iPhone Stock	2
Transforming from Apple-centric to Data-centric Business Model.....	4
The Platform Business – a Platform for E-commerce Value Chain	4
Fees	5
Commerce Business – Transforming from Flow-based to Stock-based	7
Commerce Business – Next Step.....	10
Financials: FY18 Results and FY19 Outlook	12
Medium-Term Management Plan.....	13
Shareholders Return.....	14
Corporate Governance	15
Hamee (3134:JP) Financial Summary	16
General disclaimer and copyright.....	17

Summary – Not Just an iPhone Stock

Hamee (3134 JP) is better known as the creator of the *iFace* series of products – iPhone specific gadgets including protective cases and tempered protective glass, both of which are impact resistant, and a finger ring that can be attached to the back of the phone to enhance grip performance as well as acting as a kickstand and comes in an array of colours. *iFace* is one of the best-selling iPhone accessories in Japan and it is also gaining popularity overseas. However, because of its popularity as an iPhone gadget, the firm's earnings are often considered to be highly correlated to sales of new iPhone models.

The firm has largely two business segments:

1. The Platform Business, which is not at all correlated with iPhone sales and generates circa 17% of total consolidated sales and 25% of operating profits (before adjusting for HQ cost), and
2. The Commerce Business, which generates 83% of total revenue and 75% of operating profits from smartphone accessories.

The Commerce Business is further divided by retail (45%) and wholesale (55%). In the retail business (BtoC), Hamee directly sells *iFace* series merchandise through various e-commerce channels. In wholesale (BtoC), the firm sells *iFace* merchandise to bricks and mortar retailers such as LOFT, Tokyu Hands, Village Vanguard, Yodobashi Camera and Big Camera in Japan. It is the domestic wholesale business in Japan that is more affected by the new iPhone model sales. Overseas sales of *iFace* enjoyed 65% YoY growth in FY18 Q3. A large part of the overseas growth (+95.4% YoY / estimated 35.6% of overseas sales) – both direct sales and wholesale – is in the US.

Management does not see the firm's future growth to be solely reliant on *iFace*. Hamee is in a transition phase, moving away from being essentially a smartphone gadget company to becoming a data platform provider. The firm is confident that with its *Next Engine* service – an e-commerce back office system and data management platform – earnings will continue to expand. Management completed a share buyback programme and has bought back 250,000 shares, circa 2% of the current market cap, as a signal to their investors that they are confident in this strategic shift in the firm's business profile.

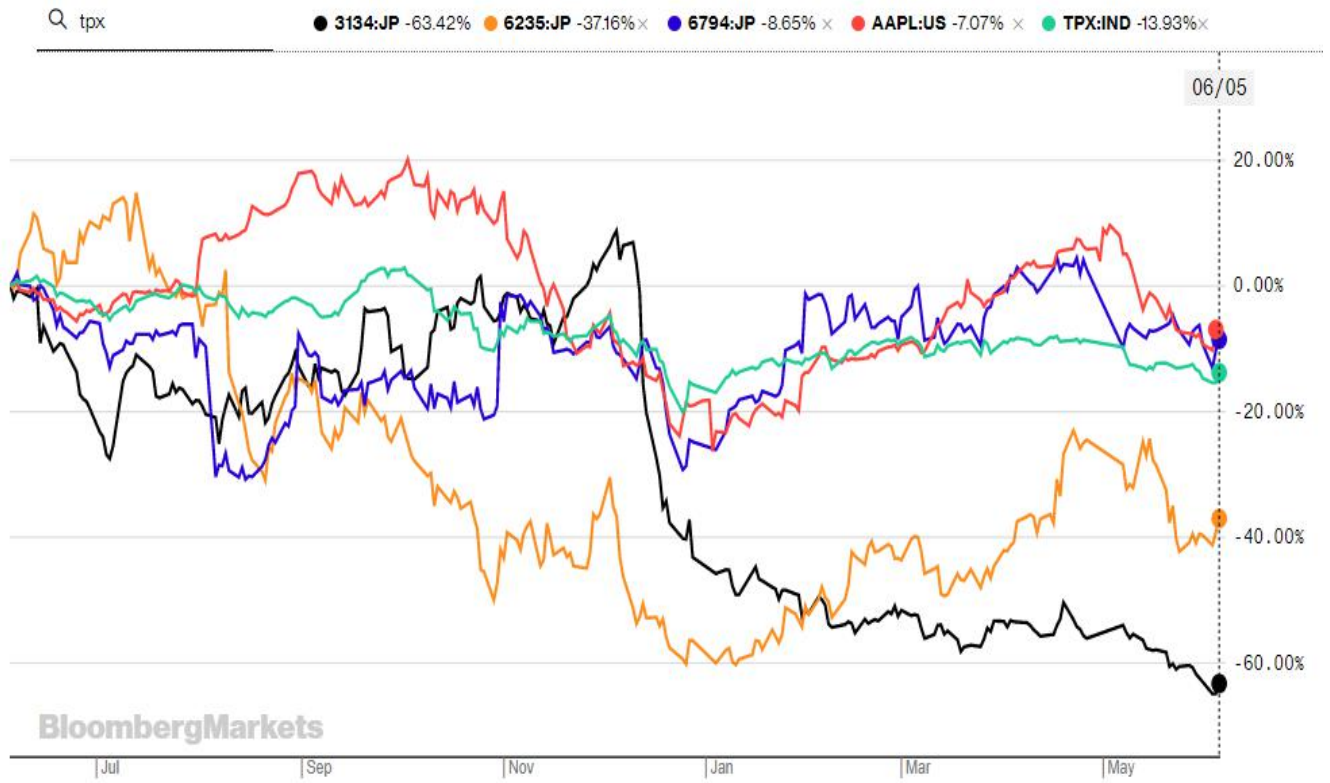
Hamee was selected as one of the 20 “notable IT companies” for data transformation practices by Ministry of Economy, Trade and Industry (METI), which was announced on 23 April 2019. Reasons for the award are the firm's practice of using data to improve its customers' enterprise value via *Next Engine*, and the digital transformation (DX) that the firm aims to realise through the Hamic BEAR product and associated devices that are currently under development.

The firm was also selected by Forbes as one of Asia's top 200 companies with a market cap of less than US\$1 bil in 2018.

Hamee Corp. (3134 JP, TSE1)			FY17	LTM	FY18CE
Stock Price (05/06/19)	634	EV/EBITDA (x)	16.72	8.74	6.73
Liquidity - 22 day average (¥million)	115	PER (X)	11.22	11.15	13.63
Market Cap (03/06/19, ¥million)	10,100	PBR (X)	2.58	2.58	

Source: Nikkei Value Search, CE = Company Estimate

Chart 1: 12-month stock performance of three Japanese small-cap companies whose earnings are considered to be highly correlated with iPhone sales: Hamee (3134 JP), Foster Electric (6794 JP) and Otorun (6235 JP) vs. Apple Inc (AAPL US).



Source: Bloomberg.com

3



Transforming from Apple-centric to Data-centric Business Model

The Platform Business – a Platform for E-commerce Value Chain

Although Hamee is viewed as an iPhone gadget provider, the firm expects the Platform Business to be the future earnings driver thanks to its *Next Engine* service – a SaaS-based operation management system for e-commerce merchants. *Next Engine* is a back-office support solution system that provides a platform for e-Commerce companies to simplify their otherwise complicated, time consuming and mundane back office workload once they have received orders via e-commerce platforms such as *Amazon.com*. By using the system, e-commerce companies are able to concentrate on what they really have to do – create or procure merchandise that attracts consumers – rather than spending a lot of time on dealing with back office work.

Next Engine was initially a back-office software solution developed in-house to support Hamee's Commerce Business operation. The system allowed the firm to become more efficient in dealing with the day-to-day task of managing its e-commerce stores by making the process as automated as possible. At the same time, *Next Engine* enabled Hamee to unify order handling and inventory management across multiple e-commerce stores on the one system. Recognising the potential of this platform as a new pillar of growth, the firm decided to offer the system to other e-commerce ventures.

There are 2 main functions that *Next Engine* provides to e-Commerce merchants:

1. **Shop management integration:** As well as having their own dedicated online stores, e-Commerce merchants also have a presence on the large internet shopping mall sites such as *Amazon*, *Rakuten* and *Yahoo Shopping*. *Next Engine* not only enables the e-Commerce merchants to list their products onto multiple online platforms from this one system, it also gathers information – such as order and inventory from each of its online stores and collates the data – so the e-Commerce merchants are able to analyse the performance of each of its individual shopping channels.
2. **Automated back office processes:** Once an order is received, the system automatically handles the routine – yet mundane – tasks of checking inventory, sending order confirmation emails to customers, processing the order, emailing the expected delivery date, instructs dispatch and sends out the email requesting feedback as well.

Next Engine is designed to complete most of the tasks involved in operating e-Commerce stores. The benefits of using *Next Engine* include:

- a) A more efficient back office process, which reduces the need for staff and overtime
- b) No need to have dedicated staff for each online store, and
- c) Having more time and resources to focus on a firm's sales marketing strategy and merchandise cultivation.

In addition to above two main functions, e-Commerce merchants can add optional functions by subscribing for various applications [Apps] that are available on the *Next Engine* platform. Moreover, the Apps offered are not just those developed in-house but Apps from other developers are also available to Hamee's clients. The availability to access a wide range of Apps – such as CRM, warehouse management system, inventory analysis and Amazon FBA – is one of the of *Next Engine*. The application programming interface (API) is an open system, therefore provides a platform for app developers to offer solutions via the *Next Engine* platform.

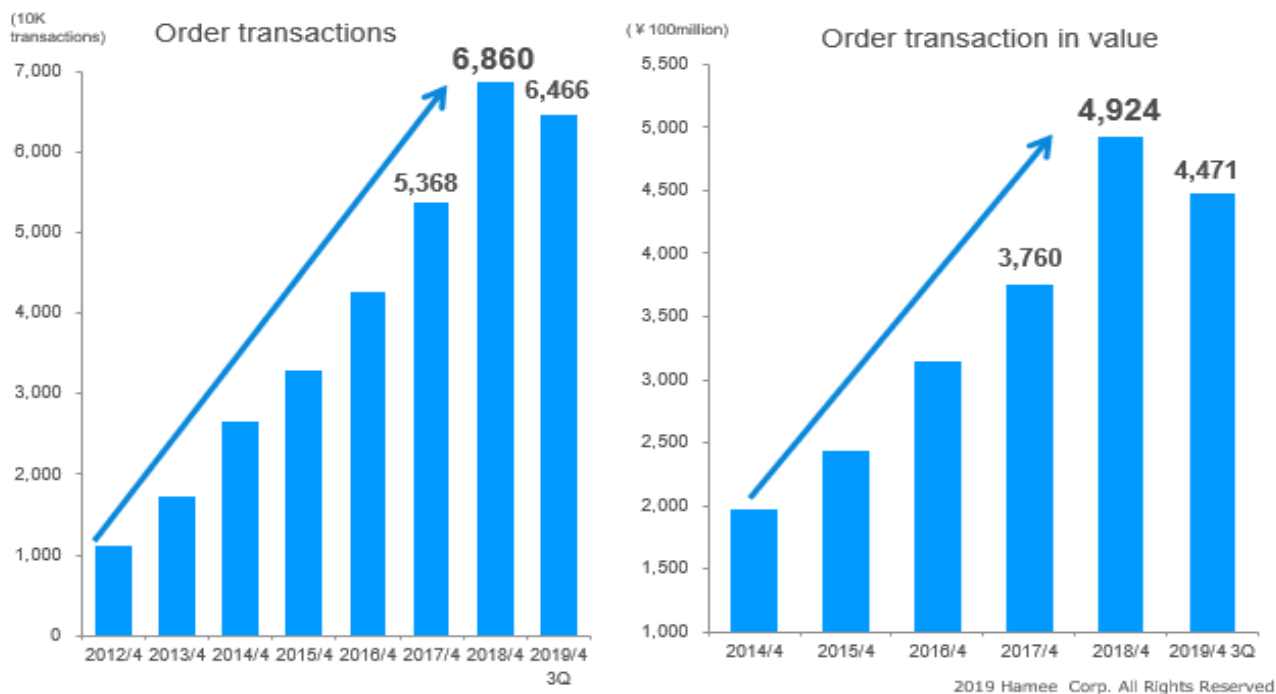
As of Q3 FY4/2019, Hamee has signed up a total of 3,511 subscribers for Main Function (+16.6% YoY), of which those subscribing for Apps hit 1,818 (+22.5% YoY). Cumulative Q1~Q3 transaction volume by users reached 64.66mil (vs FY4/18 full-year total volume of 68.60mil) and transaction value by *Next Engine* users was ¥447.1bil (vs FY4/19 ¥492.4billion).

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

¥million		FY04/17		FY04/18		FY04/19		
		FY Result	YoY (%)	FY Result	YoY (%)	FY CE (Old)	FY CE (New)	YoY (%)
Platform Business	Total Segment Sales	1,018	+26.3	1,238	+21.6	1,670	1,715	+38.5
	Segment GPM (%)	63.0	-4.9pts	54.0	-9.0pts			
	Total Segment OP	388	+113.2	399	+2.8	496	497	+24.6
	Segment OPM (%)	38.1	+15.5	32.2	-5.9pts	29.7	29.0	

Source: Hamee Corp. CE = company estimate

NEXT Engine is becoming a core system for e-commerce transactions



Fees

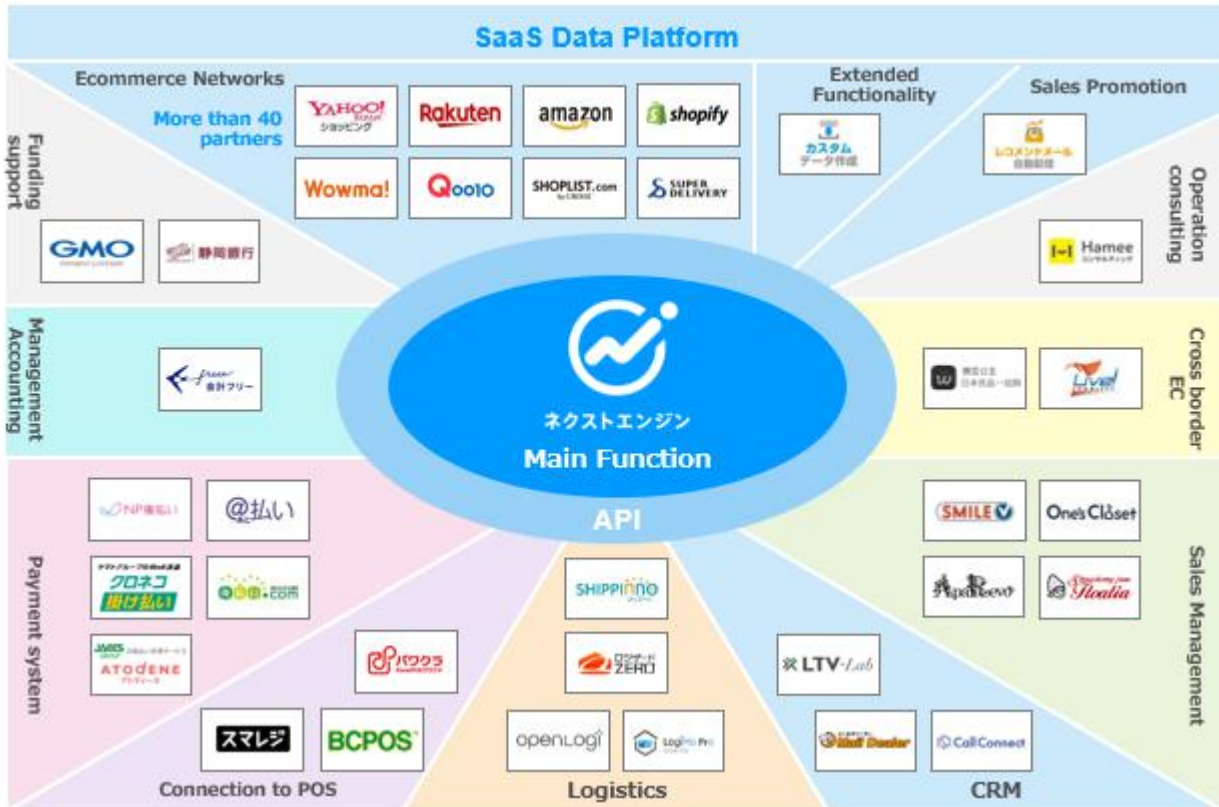
Next Engine users are charged based on their order volume – this is because Hamee designed its fee structure to matches the business size of each user, with pricing for a dedicated server and a customised version of Next Engine being tailored to each client accordingly. Pricing of each App can be either fixed or pay-as-you-go.

For the Platform Business, the most important factors for growth are 1) the data analysis capabilities and 2) the ease of use. Through the Next Engine platform, Hamee also offers data-centric services such as analysis of sales, consumers’ data, pricing trends and inventory levels. The data can then be utilised to launch targeted and personalised advertisements. Systems like Next Engine can enhance clients’ sales as it not only uploads their merchandise on multiple e-Commerce platforms in a single command, it also saves on costs as the program ensures that all the back-office tasks are taken care of.

I’ll Inc (3854 JASDAQ) is considered a competitor for Hamee’s Platform business. The advantage that Hamee has is its ability to link Next Engine to various Apps by allowing access to the Next Engine API. However, the e-commerce back office support solutions system, Cross Mall, developed by I’ll Inc – originally a developer of ERP system software – is perhaps more restricted to its existing customers as they are already using its ERP software. Hamee’s open platform provides greater opportunities to capture a wider audience.

To reduce the churn of customers using Next Engine, Hamee also provides support to customers but also educates those who do not fully utilise the system. As of Q3, some 3,300 customers out of 3,511 subscribers are active users. Hamee used to run its customer service operations in house, however as of FY4/19, it has started gradually outsourcing the call centre work, so it can redirect manpower to marketing.

Next Engine as an e-Commerce Operation Platform



Source: Hamee Corp.

6

<p>Accounting</p> <p>ネクストエンジンと会計ソフトfreeeを連携！ 日々の業務負担を今すぐ軽減！ freee専用 会計ソフト連携アプリ</p> <p>Sync to freee Accounting Software Sync between invoice and bills data on Next Engine to freee's accounting software</p> <p><small>Officially released on 9 March 2019</small></p>	<p>Sales Promotion</p> <p>レコメンドメール 自動配信</p> <p>Auto-send recommend mails Automatically uploading product recommendation by Recommend AI to promotion emails by EC companies.</p> <p><small>Officially released on 13 December 2019</small></p>	<p>E-commerce network</p> <p>shopify</p> <p>150ヶ国に展開!かんたん＆高機能な「海外本店」 Shopify 用 自動連携</p> <p>Automatic sync to Shopify</p>	<p>Logistics</p> <p>SHIPPINNO</p> <p>400店舗以上が利用中のアウトソース先倉庫との自動連携アプリ！ ロジザードZEROへ自動で出荷指示</p> <p>Powered by ネクストエンジン</p> <p>"Shippino" automatic dispatch with Logizard (4391 JP)</p>
<p>CRM</p> <p>顧客管理 顧客分析</p> <p>レポート 利益拡大</p> <p>通販CRM LTV-Lab 同期アプリ</p> <p>Visualise repeat sales / repeat ratio based on database created by Next Engine</p> <p><small>Core Force Co., Limited</small></p>	<p>Funding (Fintech)</p> <p>GMO-PG Transaction Lending</p> <p>Enable speedy non-collateral financing based on data held by Next Engine (sales track record, order data etc.)</p> <p><small>GMO Payment Gateway</small></p>	<p>Cross-boarder EC</p> <p>Wan Do China Platform</p> <p>Cross-boarder EC shopping app to sell merchandises registered with Next Engine in China</p> <p><small>Inagora</small></p>	<p>Extended Functionality</p> <p>カスタム データ作成</p> <p>Next Engine Customised Database</p> <p>Customise data in Next Engine</p> <p><small>2019 Hamee Corp. All Rights Reserved</small></p>

Source: Hamee Corp.

Commerce Business – Transforming from Flow-based to Stock-based

Hamee is considered to be an iPhone-related company given its *iFace* products are the top selling iPhone accessories in Japan. However, the smartphone accessory market is fragmented and, as observed in Hamee's earnings trend, slowing sales of iPhones particularly affects its domestic wholesale revenues.

At retailers, especially electronics retailers, ahead of the launch of a new model, the shelves are usually stocked full of accessory items. The lacklustre launch of the iPhone XS, XS Max and XR in Sept 2018 impacted the performance of wholesale (BtoB) segment, with the company reporting a 5.4% YoY decline in domestic wholesale sales to ¥2,935mil in the Q3 FY4/19, which led to full year revenue growth of just 0.5% YoY.

Hamee (3134:JP): Commerce Business Sales and OP

(¥million)		FY04/17		FY4/18		FY4/19		
		FY Result	YoY (%)	FY Result	YoY (%)	FYCE (Old)	FYCE (New)	YoY (%)
Commerce Business	Retail	3,021	+10.7	3,637	+20.4	3,832		
	Wholesale	4,462	+50.5	4,483	+0.5	4,688		
	Total Segment Sales	7,483	+31.4	8,120	+8.5	8,521	8,292	+2.1
	Total Segment GPM (%)	45.2	+7.6pts	50.1	+4.9pts			
	Total Segment OP	1,349	403.4	1,780	+31.9	1,784	1,530	-14.0
	Segment OPM (%)	18.0	+13.3pts	21.9	+3.9ppts	20.9	18.5	-2.4ppts

Source: Hamee Corp.

Commerce Segment Breakdown in More Details

(¥million, cumulative)		FY4/18	FY4/19		
		Q3	Q3	+/- ¥ Change	YoY % Change
Commerce Segment	Retail Total	2,735	2,893	159	5.8
	Domestic Retail ¹	2,385	2,383	-2	-0.1
	Overseas Retail	350	511	161	46.0
	Wholesale Total	3,391	3,476	85	2.5
	Domestic Wholesale	3,103	2,935	-168	-5.4
	Overseas Wholesale ²	287	541	254	88.3
	Total Segment Sales	6,125	6,370	244	4.0
	Total Segment GPM (%)	49.5	50.2	+0.7ppt	
	Total Segment OP	1,315	1,263	-52.0	-4.0
	Segment OPM (%)	21.5	19.8	-1.7ppt	
	Overseas Commerce ³ (est)	680	1,126	446	65.6
	US	276	539	263	95.3
	Asia etc.	404	587	183	45.3

Source: Hamee Corp., Nippon-IBR

Note¹ Domestic retail includes cross-border e-commerce that is handled by the parent.

Note² Overseas wholesale revenue tends to be volatile due to inter-company transactions

Note³ Overseas commerce here includes cross-border e-commerce, estimated by Nippon-IBR.

Sales of *iFace* accessories for older iPhone models remains solid, despite not being allocated much space on retailers' shelves, as consumers tend to buy directly from Hamee's e-commerce stores. In Japan, the market share of older versions of the iPhone is larger than that of the latest *iPhone X*.

Smartphone Popularity Ranking in Japan based on Data Traffic (Q4 2018)

Rank	Phone model	Market share (%)
1	iPhone 7	15.52
2	iPhone 8	10.70
3	iPhone 6S	8.59
4	iPhone X	7.91
5	iPhone 7 Plus	7.90
6	iPhone 6S	5.68
7	iPhone SE	4.51
8	iPhone 8 Plus	3.86
9	iPhone 6S Plus	2.62
10	iPhone XS	1.40
11	iPhone 5S	1.21
12	iPhone 6 Plus	1.17

Source: DeviceAtlas

In the Commerce Business, Hamee plans, develops and procures smartphone cases, chargers and other mobile accessories. Hamee's own original product was a mobile strap. The idea of mobile strap – an accessory more common in Japan than anywhere in the world – was conceived from a Japanese traditional Netsuke, a small accessory made of miniature sculpture that people used to hang on obi belt back in the 17th century. Hamee held the top market share in Japan, (i.e. in the world) for these mobile straps.

After the launch of the iPhone in 2007, the firm's focus shifted to the smartphone accessory market. In 2010, Hamee opened an e-commerce shop, *iPlus*, in *Yahoo Shopping* and started supplying smartphone accessories mainly for iPhones.

Although there are many smartphone suppliers, Hamee primarily focuses on iPhone accessories and branded its series of iPhone gadgets under the moniker of *iFace*, which includes cases, tempered protective glass, finger ring holders and car mounts. *iFace* products are also available for the Samsung *Galaxy Note 9* and Huawei *Mate 10 Pro* but the number on offer are negligible in size compared to the 10,000 *iFace* items the firm designs for iPhone.

It makes economic sense to focus on the iPhone given its market share in Japan. Unlike the rest of the world, the iPhone dominates the smartphone market in Japan with a 56% market share (as of Q4 2018), according to *Canalys*, the Palo Alto based research company specialising in technology channels and smartphones. By focusing on the most popular smartphone, Hamee is able to undertake product planning and development more efficiently, rather than trying to supply multiple smartphone models that come in an array of sizes.

Global Smartphone Market Share Trend

Quarter	2017Q2	2017Q3	2017Q4	2018Q1	2018Q2	2018Q3	2018Q4
Samsung	22,9%	22,1%	18,9%	23,5%	21,0%	20,3%	18,7%
Apple	11,8%	12,4%	19,6%	15,7%	12,1%	13,2%	18,2%
Huawei	11,0%	10,4%	10,7%	11,8%	15,9%	14,6%	16,1%
OPPO	8,0%	8,1%	6,9%	7,4%	8,6%	8,4%	7,8%
Xiaomi	6,2%	7,5%	7,1%	8,4%	9,5%	9,5%	7,6%
Others	40,1%	39,5%	36,8%	33,2%	32,9%	33,9%	31,6%
TOTAL	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%

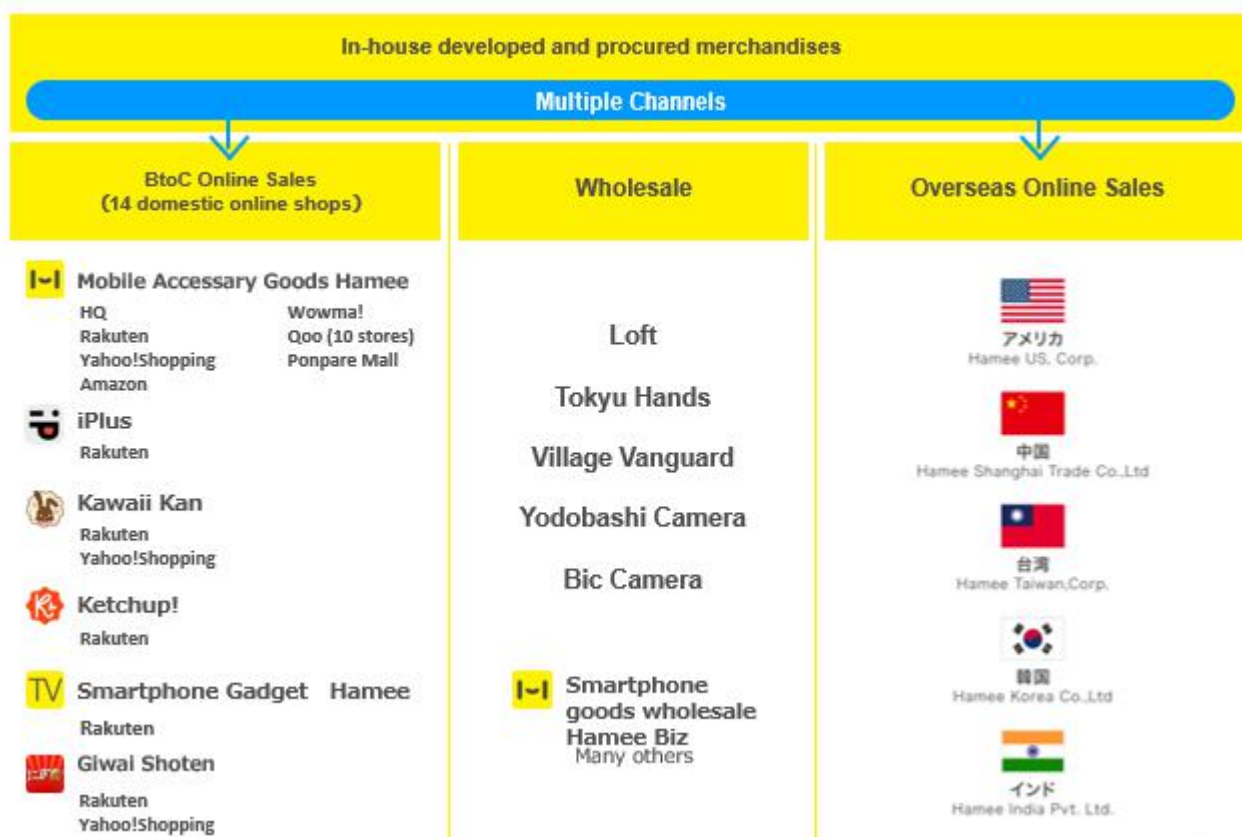
Source: IDC "Global Smart Phone Vendor Market Share"

The smartphone accessory market is highly fragmented hence it is difficult to identify specific competitors. Although *iFace* is widely known among iPhone users, its market share is estimated to be only a fraction of the global mobile phone accessory market (US\$77bil). As of Q3, global shipment unit of the *iFace* series reached 14mil units thanks to successful global e-commerce network.

iFace Series



Source: Hamee Corp.



Source: Hamee Corp.

10

Commerce Business – Next Step

As discussed above, rather than extending the *iFace* series to include products for other smartphone makers, Hamee aims to transform the Commerce Business from a flow-based business model to a stock-based one. The smartphone accessory business does not require after-sales service or maintenance. Therefore, it is important to keep customers informed about new products and to cultivate brand loyalty through SNS (social networking sites). For example, Hamee is constantly dispatching updates of the *iFace* to users via *Instagram* and using the feedback to guide product development.

Management intends to develop a stock-based business model while *iFace* is still successful. The first example of a stock-based merchandise is Hamic BEAR – a bear-shaped messaging robot designed for children who do not carry smartphones. The product is designed to provide a safe and secure communication network service and content. Through a specific smartphone app that can be installed on parents’ smartphones, they can remotely access the Hamic BEAR. Children can simply tap the Hamic BEAR to send message to parents, talk to them or hear messages sent by their parents – thanks to an embedded SIM card – as they are read out by the BEAR. Communication between several Hamic BEARs is also possible. Parent can also remotely observe how their children are doing in their absence.



Source: Hamee Corp.

Although data can be compiled through the Hamic BEAR, its users' profile is not likely to overlap with that of Hamee's e-commerce business users. Hamee plans to deliver more useful AI solutions by consolidating databases built through Hamic BEAR and Hamee's other services such as *Next Engine*.

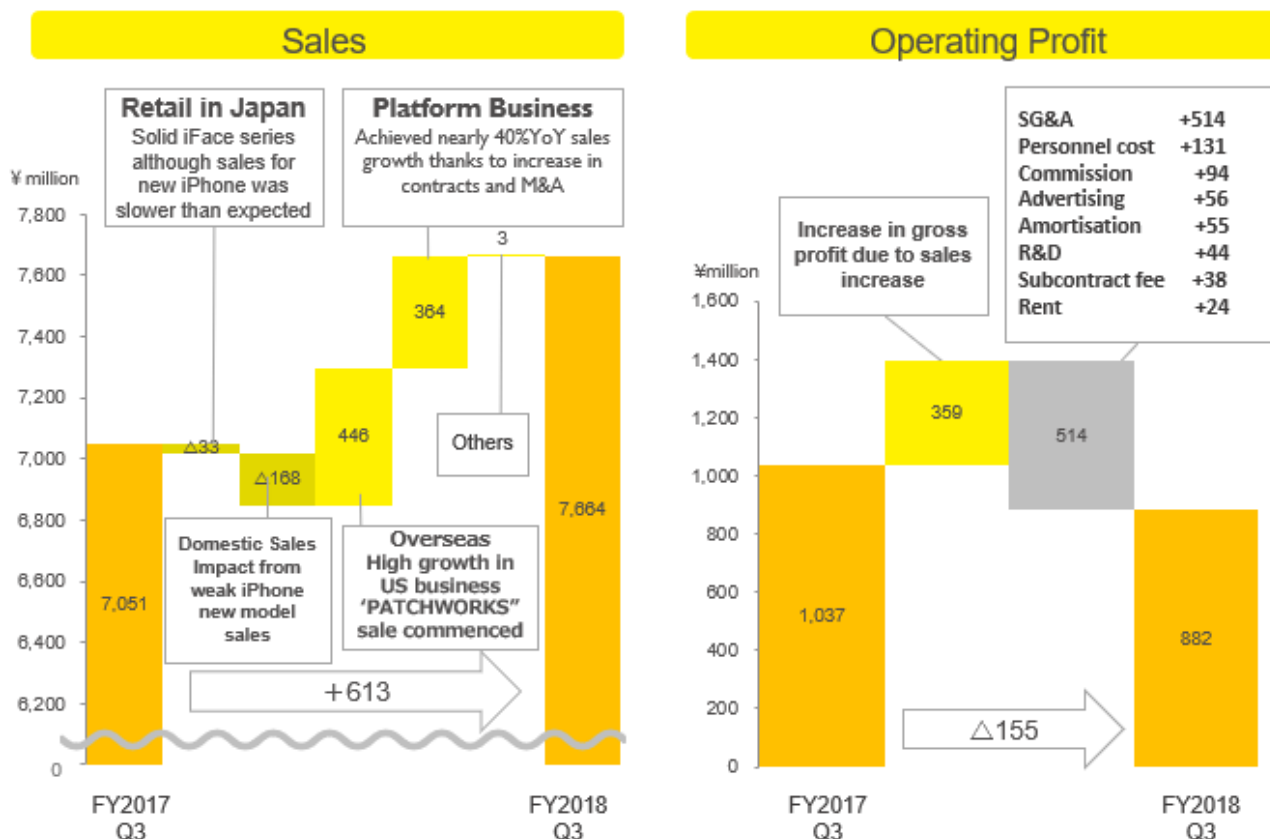
Sales of Hamic BEAR has been slower than expected in Japan. It seems consumers have misunderstood the concept, considering it to be a simpler version of Amazon's (AMZN US) virtual assistant, *Alexa*, or as a speaker system designed for children. While *Alexa* is capable of voice interaction, playing music, providing real-time information etc, Hamic BEAR is a voice message robot designed for children who do not have a smartphone. Hamee did not design the Hamic BEAR with a virtual assistance feature in mind but rather it targeted families with young children, particularly those at school age; so, when the children return home from school to an empty house as both parents are working, there is a message waiting for them.

Hamee specifically developed software application, Hamic, for Hamic BEAR, that can be used in other devices.

Financials: FY18 Results and FY19 Outlook

In FY18 (year to April 2018) Q3, Hamee achieved sales of ¥7,664mil (+8.7% YoY) although operating profit fell 15% YoY to ¥882mil. The sales increase boosted gross profit by ¥359mil, however, that was offset by the rise in SG&A, especially personnel costs which went up by ¥131mil to ¥680mil. The firm revised down full-year guidance mainly due to the underperforming Commerce Business. On the other hand, the firm revised up its outlook for the Platform Business.

Waterfall Charts – Sales and OP YoY Change



Source: Hamee Corp. Q3 Earnings Presentation

Sales and OP for the Platform Business were ¥1,279mil (+39.9% YoY) and ¥374mil (+19.5% YoY) respectively in Q3, thanks to a steady increase in subscribers for both the Main Function service (+16.6%YoY) and optional Apps (+22.1%YoY). The acquisition of JS Consulting in April 2018 also contributed to the segment growth. Consulting to e-Commerce operators enables *Next Engine* services to extended not just to back-office work but to front-office tasks as well.

The Commerce Business in Japan was negatively affected by weak sales of the new iPhone series (X, XS Max and XR), launched in Sept 2018, though there was some QoQ improvement in the domestic wholesale business with Q3 revenues -¥168mil / -5.4% YoY compared to the Q2 decline in revenues of -¥201 mil / -9.8% YoY. Overseas sales, however, rose 65% YoY to ¥446mil as sales of the US subsidiary surged 95.4% YoY to ¥265mil. In the US, wholesale grew thanks to contributions from Claire's – a large specialty store chain – and the retail channel performed favourably on the back of strong Christmas sales. However, profitability in the US is lower compared to the domestic commerce business due to exposure to the wholesale business to a large retailer. As a result, the Commerce Business OP fell 4% YoY to ¥1,263mil.

For FY4/19, the firm expects profitability of the overseas business to continue to worsen due to a deteriorating sales mix and an increase in personnel costs associated with the rapid expansion of the business especially in the

US. In addition, the R&D costs related to Hamic BEAR and the rise in goodwill and amortisation costs for M&A in both business segments is a main reason for the downward revision.

Hamee (3134:JP)

(#million)		FY04/18		FY04/19				
		Q3	FY	Q3	YoY (%)	FYCE (Old)	FYCE (New)	YoY (%)
Commerce Business	Retail	2,734	3,637	2,893	5.8	3,832		
	Wholesale	3,390	4,483	3,476	2.5	4,688		
	Total Segment Sales	6,124	8,120	6,369	4.0	8,521	8,292	2.1
	Total Segment GPM (%)	49.5	50.1	50.2				
	Total Segment OP	1,315	1,780	1,263	-4.0	1,784	1,530	-14.0
	Segment OPM (%)	21.5	21.9	19.8		20.9	18.5	
Platform Business	Total Segment Sales	914	1,238	1,279	39.9	1,670	1,715	38.5
	Segment GPM (%)	54.6	54.0	54.2				
	Total Segment OP	313	399	374	19.5	496	497	24.6
	Segment OPM (%)	34.3	32.2	29.3		29.7	29.0	
Others	Sales	12	18	15	25.0	22	23	27.8
	Total Segment OP	-53	-70	-127		-100	-176	
	Segment OPM (%)							
Business Total	Sales	7,051	9,376	7,664	8.7	10,214	10,031	7.0
	OP	1,576	2,109	1,509	-4.3	2,179	1,851	-12.2
Adjustment	HQ Cost	-538	-729	-627		-776	-824	
Total	Sales	7,051	9,376	7,664	8.7	10,214	10,031	7.0
	GPM (%)	47.3	50.7	51.0				
	OP	1,037	1,379	882	-14.9	1,403	1,027	-25.5
	OPM (%)	14.7	14.7	11.5		13.7	10.2	

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

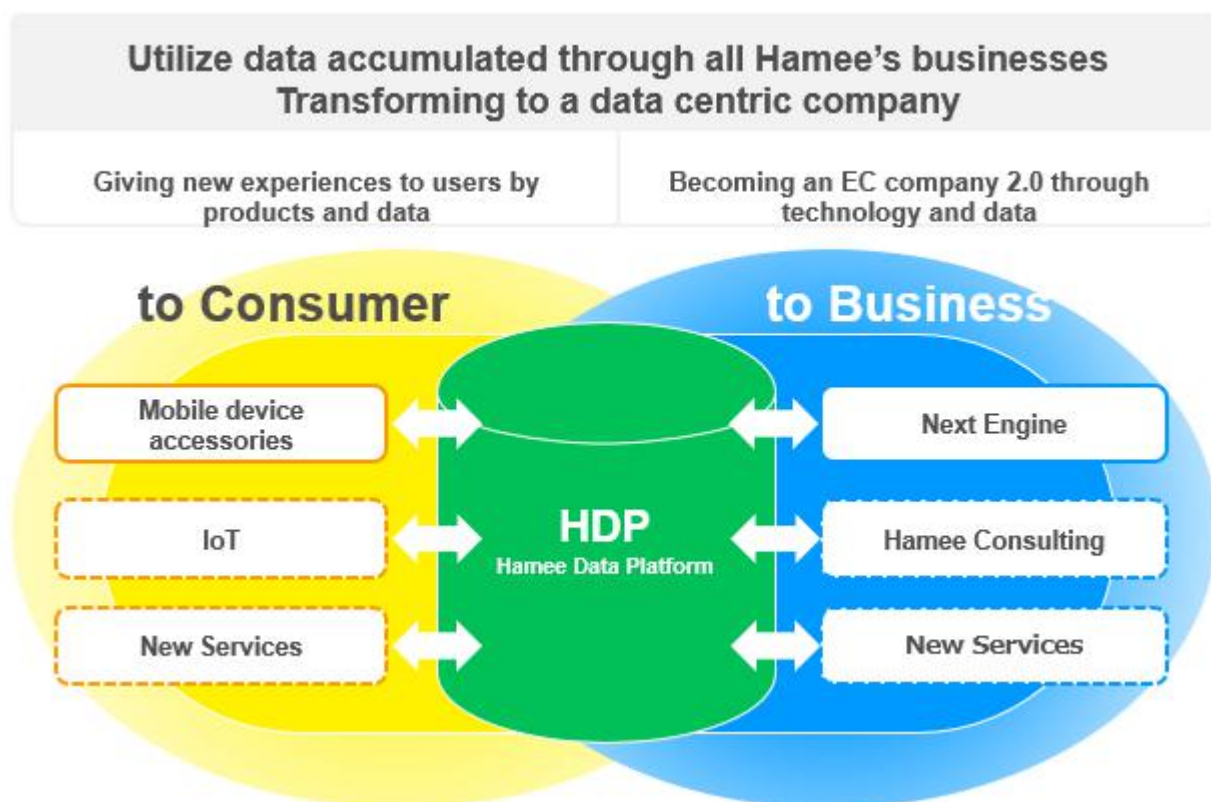
Medium-Term Management Plan

Hamee is on its way to becoming a company with a data-centric business model. The heart of the business model is the Hamee Data Platform – a platform built with databases from both the Commerce and Platform Businesses.

The Commerce Business largely depends on marketing and branding. Hamee acknowledges that the *iFace* business is likely to phase out and is looking to develop new products while *iFace* is still a source of income.

In the Platform Business, to offset the potential decline in *iFace* sales, Hamee is targeting 5,000 Main Function subscribers by FY4/20~FY4/21 – the key to achieving this goal will be in the support system for users of *Next Engine*. To ensure new subscribers have support, Hamee is currently negotiating with a subcontractor to take care of call centre customer support as there is a shortage of staff in-house for this function. This subcontract arrangement should be completed in Oct 2019.

Details of the medium-term management plan are to be released on 12 June, together with FY4/19 earnings result. The key topics of the medium-term plan should be the *Next Engine* business growth, the stock-based business transition in Commerce Business, and new business derived from data accumulated from the two existing businesses.



Source: Hamee Corp.

Shareholders Return

Management decided to do a share buyback as they considered the stock price to be undervalued and not a true reflection of its growth potential, especially for the Platform business and the opportunities to come as it shifts to a data-centric company. The maximum amount of buyback was set at 250,000 shares or ¥200mil (NB: daily trading volume of Hamee's share is circa \$1 million (¥130mil)). Hamee completed the acquisition of all 250,000 shares at the cost of circa ¥195.6mil on 20 May. Repurchased shares are either used for M&A or for directors' remuneration.

Over the past two years, the firm has increased the dividend by ¥1/share every year (¥4.5/share in FY4/17 and ¥5.5/share in FY4/18). In FY4/19, it plans to pay out ¥6.5/share (14% pay-out ratio). If it had not revised down earnings guidance, the estimated pay-out ratio would have been 10.6%.

Hamee appears to be a cash rich company with ¥2.7bil in retained earnings and a 70% shareholder equity ratio. Q3 (November – January) is a seasonal peak in business activity that requires some ¥2.4bil in working capital (defined as sales receivable + inventory – accounts payable). Hamee had ¥1.4bil in cash equivalent on the balance sheet but is still in short of ¥1bil to cover the necessary working capital. Therefore, retained earnings may not be an immediate source of dividends. More importantly, Management would like to invest for growth wherever there is an opportunity, such as the next hit products after *iFace*, the Platform Business and IoT services. It does not rule out M&A but would like to grow organically where possible.

Hamee's ROE has also improved over the past two years, up from 13.8% in 4/16 to near 30% as of 4/18. One notable reason for the improved ROE appears to be the high gross profit margin which has risen from 41.3% in FY4/16, 47.3% in FY4/17 and 50.8% in FY4/18.

Hamee (3134 JP) : ROE based on simplified DuPont Equation

	FY4/16	FY4/17	FY4/18
Net Profit Margin (%)	3.95	8.17	9.30
Asset Turnover (x)	2.20	2.34	2.02
Financial Leverage (x)	1.59	1.55	1.51
ROE (%)	13.8	29.6	28.3

Source: Nippon-IBR

Corporate Governance

Hamee currently has two external independent directors. Mr. Yagi is an entrepreneur from Hamee’s homeland Odawara. He set up his own venture to make electrical appliances and has proven track record of introducing IoT in making appliances. Another external director, Mr. Takagi, is a professor in artificial intelligence (AI) and gives direction in data management and user marketing for *Next Engine*.

Hamee has 10 Board members of which two are external independent directors (as above) and three external auditors. The ratio of external personnel on the Board is 50%.

In the future, Hamee would like to invite external directors specialised in robotics, data management, ad-tech and psychology to enhance its data-centric business model.

It is not yet a company with committees.

Hamee (3134:JP) Financial Summary					
(¥million)	FY4/15	FY4/16	FY4/17	FY4/18	FY4/19
Sales	5,657	6,501	8,502	9,376	10,031
Operating Profit	336	450	1,106	1,379	1,026
Recurring Profit	329	427	1,048	1,266	1,021
Net Profit	192	257	695	872	718
EPS (JPY)	123.90	33.16	44.22	54.69	44.64
Adjusted EPS (JPY)	116.06	31.97	42.95	53.55	-
Cash flow from operation (CFO)	110	71	575	1,245	-
Cash flow from investment (CFI)	-69	-262	-433	-673	-
Cash flow from finance (CFF)	814	-139	69	-230	-
Cash and cash equivalent	1,437	1,102	1,324	1,695	-
Free cash flow (FCF)	41	-191	142	572	-
CFO per share (JPY)	70.67	9.13	36.54	78.02	-
FCF per share (JPY)	26.34	-24.55	9.02	35.84	-
Total asset	2,906	3,016	4,240	5,042	-
Liabilities	1,169	1,022	1,483	1,445	-
Net asset	1,736	1,993	2,756	3,596	-
Capital	519	524	528	533	-
Shareholders' equity	1,736	1,993	2,697	3,467	-
BPS (JPY)	907.62	254.49	170.28	215.97	-
OPM (%)	5.94	6.92	13.01	14.71	10.23
ROE (%)	15.93	13.78	29.64	28.29	-
ROA (%)	14.29	15.10	30.43	29.67	-
Shareholders' equity ratio (%)	59.74	66.08	63.61	68.76	-
D/E ratio (%)	67.34	51.28	54.99	41.68	-
Total asset turnover (X)	2.44	2.20	2.34	2.02	-
Interest coverage (x)	84.00	150.00	553.00	689.50	-
Current ratio (%)	345.48	322.05	253.94	332.66	-
Interest-bearing debt	531	381	467	296	-
EBIT	333	430	1,050	1,268	-
EBIT Margin (%)	5.89	6.61	12.35	13.52	-
EBITDA	391	500	1,216	1,515	-
EBITDA margin (%)	6.91	7.69	14.30	16.16	-
Dividend (JPY)	0.00	3.00	4.50	5.50	6.50
Total dividend payment from retained earnings	-	23	71	88	-
Dividend pay-out ratio (%)	-	9.05	10.20	10.06	-
Shares outstanding (shares)	1,913,500	7,834,800	15,837,600	16,053,600	16,053,600
Treasury (shares)	-	-	286	286	250,286

Source: Nikkei Value Search

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