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On October 10, 2018, Aeon Fantasy, Co., Ltd. announced earnings results for 1H FY02/19.

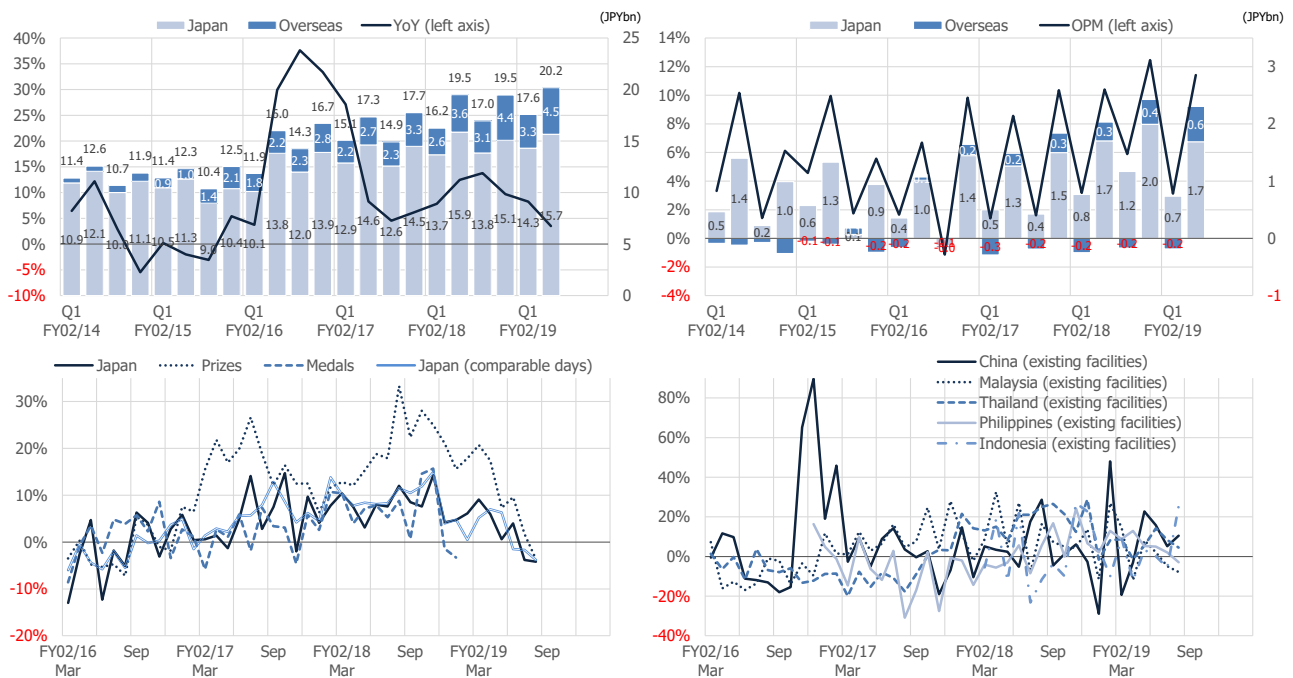
Quarterly earnings (\$100mm)	FY02/16				FY02/17				FY02/18				FY02/19				FY02/18	FY02/18	FY02/18	FY02/18	FY02/18	FY02/18	FY02/18	YoY change	Q1	Q2	1H				
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4												1H	1H	1H	1H
Sales	11,853	16,007	14,258	16,713	15,070	17,334	14,908	17,746	16,249	19,494	16,964	19,468	17,586	20,177	35,743	37,763	38,000	99.4%	65,059	72,174	77,700	83,000	88,800	48.6%	+1,337	+684	+2,021				
Japan	10,102	13,802	11,985	13,889	12,871	14,623	12,578	14,486	13,667	15,862	13,844	15,074	14,318	15,658	29,529	29,976			54,575	58,820	60,600	61,500	62,100	49.5%	+652	-204	+447				
Overseas	1,752	2,205	2,274	2,824	2,199	2,712	2,330	3,260	2,582	3,632	3,120	4,394	3,268	4,520	6,214	7,787			10,501	13,728	17,600	22,250	27,500	44.2%	+685	+888	+1,574				
China	1,163	1,588	1,627	2,046	1,433	1,960	1,524	2,259	1,593	2,592	1,917	2,939	1,924	3,146	4,185	5,070			7,176	9,040	-	-	-	-		+331	+555	+885			
ASEAN	589	617	647	778	766	752	806	1,001	989	1,040	1,203	1,455	1,344	1,373	2,029	2,717			3,325	4,688	-	-	-	-		+355	+333	+688			
YoY	3.7%	29.9%	37.6%	33.4%	27.1%	8.3%	4.6%	6.2%	7.8%	12.5%	13.8%	9.7%	8.2%	3.5%	10.3%	5.7%	6.3%		10.6%	10.9%	7.7%	6.8%	7.0%								
Japan	-3.5%	22.0%	33.8%	33.7%	27.4%	5.9%	5.0%	4.3%	6.2%	8.5%	10.1%	4.1%	4.8%	1.5%	7.4%	1.5%			9.4%	7.8%	3.0%	1.5%	1.0%								
Overseas	84.7%	118.7%	62.1%	32.1%	25.5%	23.0%	2.5%	15.4%	17.4%	33.9%	33.9%	34.8%	26.5%	24.4%	26.5%	25.3%			16.0%	30.7%	28.2%	26.4%	23.6%								
China	119.8%	180.6%	81.2%	33.0%	23.2%	23.4%	-6.3%	10.4%	11.2%	32.2%	25.8%	30.1%	20.8%	21.4%	23.3%	21.2%			11.7%	26.0%	-	-	-								
ASEAN	40.4%	39.6%	28.4%	29.6%	30.2%	21.9%	24.7%	28.6%	29.1%	38.3%	49.2%	45.4%	35.9%	32.0%	33.7%	33.9%			26.4%	41.0%	-	-	-								
Cost of sales	10,807	13,958	13,405	14,117	13,793	14,849	13,650	14,790	14,539	16,207	14,803	15,815	15,715	16,538	30,745	32,253			57,082	61,363	-	-	-				+1,176	+331	+1,507		
YoY	6.4%	34.6%	42.2%	28.2%	27.6%	6.4%	1.8%	4.8%	5.4%	9.1%	8.8%	6.9%	8.1%	2.0%	7.3%	4.9%			7.3%	4.9%	-	-	-								
Gross profit	1,046	2,048	854	2,596	1,277	2,485	1,259	2,956	1,710	3,287	2,161	3,653	1,871	3,639	4,997	5,511			7,977	10,812	-	-	-				+161	+352	+514		
YoY	-17.7%	5.0%	-8.3%	71.4%	22.1%	21.3%	47.5%	13.9%	33.9%	32.3%	71.7%	23.6%	9.4%	10.7%	32.8%	10.3%			21.9%	35.5%	-	-	-								
GPM	8.8%	12.8%	6.0%	15.5%	8.5%	14.3%	8.5%	16.7%	10.5%	16.9%	12.7%	18.8%	10.6%	18.0%	14.0%	14.6%			12.3%	15.0%	-	-	-				+0.1pp	+0.6pp	+0.6pp		
SG&A expenses	850	977	1,016	953	1,068	1,001	1,019	1,120	1,193	1,259	1,162	1,227	1,322	1,337	2,452	2,659			4,208	4,841	-	-	-				+129	+79	+208		
YoY	13.5%	34.8%	25.4%	16.7%	25.6%	2.4%	0.4%	17.5%	11.8%	25.8%	14.0%	9.6%	10.8%	6.2%	18.5%	8.5%			10.8%	15.0%	-	-	-				+0.2pp	+0.2pp	+0.2pp		
SG&A ratio	7.2%	6.1%	7.1%	5.7%	7.1%	5.8%	6.8%	6.3%	7.3%	6.5%	6.8%	6.3%	7.5%	6.6%	6.9%	7.0%			6.5%	6.7%	-	-	-				+0.2pp	+0.2pp	+0.2pp		
Operating profit	196	1,071	-162	1,642	210	1,484	239	1,836	517	2,028	1,000	2,426	549	2,302	6,295	7,261	2,800	101.8%	3,769	5,971	6,600	7,300	8,000	43.2%	+32	+274	+306	+2,745	+2,046		
Japan	354	1,015	-131	1,446	499	1,265	425	1,498	766	1,703	1,168	1,992	735	1,689	2,469	2,425			3,687	5,628	5,900	6,150	6,400	41.1%	-31	-13	-44	+463	+286	+350	
Overseas	-158	57	-31	196	-289	219	-186	339	-248	327	-168	435	-185	614	79	429			198	304	700	1,150	1,600	61.3%	+43	+286	+350	+1,207	+208		
China	-41	-60	-72	52	-48	-29	-66	28	-11	-38	28	64	51	41	-49	92			-115	43	-	-	-				+62	+79	+141		
YoY	-62.4%	-12.6%	-135.3%	-	6.7%	38.5%	-	11.8%	146.6%	36.7%	318.1%	32.1%	6.2%	13.5%	50.3%	12.0%	10.0%		37.2%	58.4%	10.5%	10.6%	9.6%								
Japan	-38.3%	-23.6%	-	53.9%	40.9%	24.7%	-	3.6%	53.6%	34.6%	174.6%	33.0%	-1.1%	-0.8%	40.0%	-1.8%			37.4%	52.7%	4.8%	4.2%	4.1%								
Overseas	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-			27.5%	31.9%	101.9%	64.3%	39.1%								
China	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-			5.8%	8.3%	8.5%	8.8%	9.0%				-0.1pp	+1.0pp	+0.4pp		
ASEAN	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-			0.8%	2.6%	9.7%	10.0%	10.3%				-0.5pp	+0.1pp	-0.3pp		
OPM	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-			1.3%	5.5%	4.0%	5.2%	5.8%				+4.1pp	+3.6pp	+3.6pp		
Non-operating income (expenses)	204	-415	-60	153	-73	-60	-48	-90	-26	-218	-82	-46	-116	-244	-498	-372			-271	-372	-700	-800	-				-56	+102	+446		
Recurring profit	401	657	-222	1,796	137	1,424	191	1,747	491	1,811	917	2,380	467	2,187	2,301	2,654	2,550	104.1%	3,409	5,508	6,000	6,600	7,200	44.2%	-24	+376	+352				
YoY	-16.4%	-49.6%	-	66.8%	65.8%	116.9%	-	7.7%	258.1%	27.1%	380.8%	36.3%	-4.8%	20.8%	47.4%	15.3%	10.8%		33.0%	60.0%	7.2%	10.0%	9.1%								
RPM	3.4%	4.1%	-	10.7%	0.9%	8.2%	1.3%	9.8%	3.0%	9.3%	5.4%	12.2%	2.7%	10.8%	6.4%	7.0%	6.7%		5.4%	7.8%	7.7%	8.0%	8.1%				-0.4pp	+1.5pp	+0.6pp		
Extraordinary gains (losses)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-			-338	-118	-6,600	-7,200	-				+53	-226	-743		
Pre-tax profit	401	570	-267	1,750	66	1,426	58	1,610	399	1,660	699	2,325	426	1,810	2,057	2,236			3,161	5,090	-	-	-				+29	+150	+179		
Income taxes	349	109	6	502	221	464	201	565	397	578	400	692	313	553	1,450	2,287			1,450	2,099	-	-	-				+86	-25	+111		
Implied tax rate	87.2%	19.1%	-2.7%	28.7%	335.2%	32.5%	34.7%	35.1%	100.7%	34.8%	61.6%	29.8%	73.3%	30.6%	47.5%	38.7%			45.8%	41.3%	-	-	-								
Minority interests	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-			13	-	-	-	-								
Net income attrib. to owners of parent	53	464	-270	1,233	-155	960	-140	1,033	17	1,085	264	1,621	108	1,252	1,102	1,361	1,550	87.8%	1,698	2,986	3,300	3,700	4,200	41.2%	+24	+7	31	+91	+168	+259	
YoY	-71.0%	-30.2%	-	154.7%	-107.0%	-	16.3%	-	13.0%	-	56.9%	53.8%	15.5%	36.8%	23.5%	40.7%			14.7%	75.9%	10.5%	12.1%	13.5%								
Net margin	0.5%	2.9%	-	7.4%	-	5.5%	-	5.8%	0.1%	5.6%	1.6%	8.3%	0.6%	6.2%	3.1%	3.6%	4.1%		2.6%	4.1%	4.2%	4.5%	4.7%								

Source: Shared Research based on company data

1H FY02/19 results (out October 10, 2018)

- ▷ Q2 FY02/19: Continued strong sales at existing facilities in Japan, aggressive overseas expansion and revitalization boosted sales (+5.7% YoY). Operating profit up 12.0% YoY, due in part to closing of unprofitable facilities
 - Versus forecasts: Sales were largely in line with plan (0.6% under forecast), operating profit finished marginally (1.8%) above forecast
 - Increase in expenses: Strategy-related costs such as those for developing new businesses increased by JPY206mn, the bulk of which were increase in costs to revitalize existing facilities ahead of schedule, and onetime costs including startup expenses for new businesses in Q1
 - Japan: The prizes division saw sales continue to grow with help of increased lineup of unique limited-edition prizes and promotional effects of YouTube and other media
 - China: Sales up 21.2% YoY, operating profit increased by 2.6x. Revitalization measures implemented at 15 facilities proved effective, increasing sales by 15.9% YoY (+9.7pp versus facilities that did not undergo revitalization)
 - ASEAN: Sales up 33.9% YoY. Operating profit increased in Philippines, Indonesia, and Vietnam while operating loss narrowed in Thailand
- ▷ The online claw game Molly.Online (launched in March 2018) recorded a strong increase in members. Sales have been trending well ahead of the company's forecast
- ▷ Topics: The company opened its second Molly WAKA facility, in Beijing, China, and opened a New Kidzooona facility in Indonesia
- ▷ Full-year plan: The company has left the full-year plan largely unchanged, but has reduced the number of new facilities opening plan from an initial target of 110 to 90
- ▷ The company announced its strategic direction for the medium- to long-term: a) customers; focus on children and their families, b) business; offer "entertainment spaces where parents and children gather," and c) business area; global (50%)

Quarterly earnings (left: sales, right: operating profit, bottom: existing facility sales growth rate)

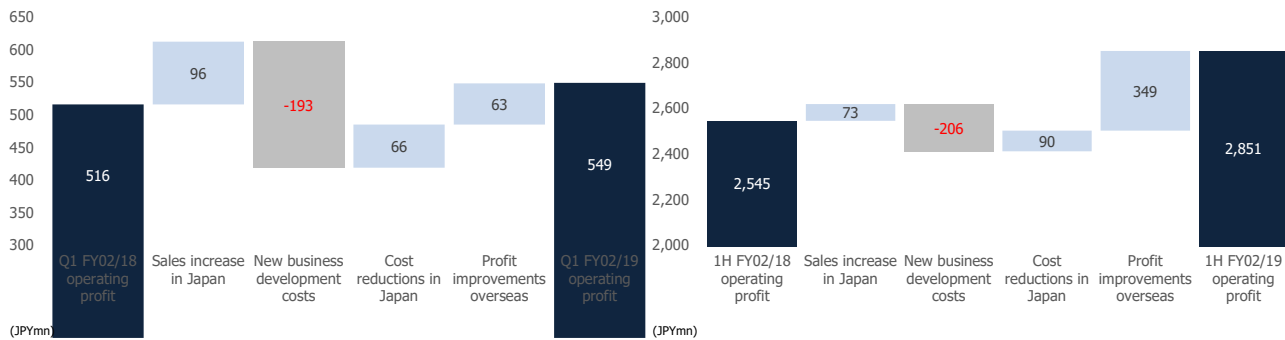


Source: Shared Research based on company data

Seasonality: The company's business is prone to large fluctuations in earnings due to seasonal factors in each quarter. Q2 and Q4 are periods of high demand, while demand tends to decline in Q1 and Q3. Q1 (March–May) is affected by a lack of school holidays and restraint in purchasing following the Chinese New Year, with March marking a low point. Q3 includes the Mid-Autumn Festival (15th day of the 8th month of the lunar calendar, which corresponds to late September to early October of the Western calendar) and the National Foundation holidays (October), with September marking

the low point. Conversely, Q4 coincides with the Chinese New Year holidays (first month of the lunar calendar, which corresponds to the period from late January to early February of the Western calendar), which affect monthly sales. (When the holiday period shifts into February, January sales worsen.)

Factors contributing to changes in operating profit



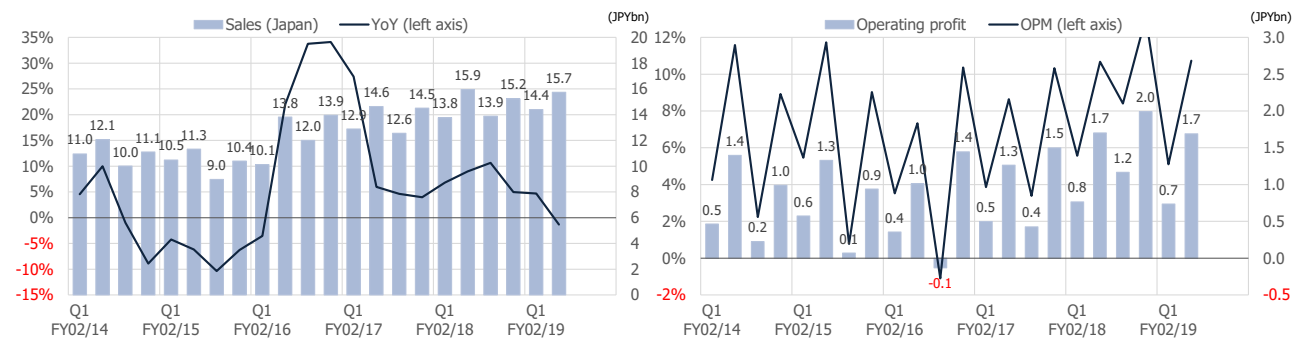
Source: Shared Research based on company data

Earnings summary

In 1H FY02/19, sales were JPY37.8bn (+5.7% YoY, +JPY2.0bn YoY) and operating profit was JPY2.9bn (+1.2.0%, +JPY306mn). The pattern of strong momentum at existing facilities in Japan driving earnings and sales growth from aggressive overseas expansion continued in Q1. We note that investment in new business formats and upfront spending on revitalization measures for existing facilities eroded profits. Sales reached a record high for the eighth year running, and operating profit, recurring profit, and net income attributable to owners of parent all finished at record highs.

Operating profit was depressed by an increase in strategy-related costs such as those for developing new businesses, but this was a onetime expense for only Q1 (JPY193mn) that was almost eliminated in Q2 (1H total of JPY206mn). Costs increased as revitalization of existing facilities was brought forward to coincide with shopping center refurbishments, and due to aggressive expansion in floor space. Of this cost increase the bulk was shipping costs for newly procured fixtures and replacement machines supporting facility revitalization, and for startup costs including those for establishing a manga (comic) corner inside the hot bath facility Oyugiwa opened in April. Launched in March, the online claw game Molly.Online struggled initially, but the number of members steadily increased. Sales exceeded forecast by a large margin, supported increased popularity of unique prizes. Going forward, the company plans to expand further, adding claw game machines.

Domestic earnings



Factors contributing to operating profit change

(JPYmn)	FY02/15				FY02/16				FY02/17				FY02/18				FY02/19	
	FY	FY	FY	FY	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
OP (previous year)	2,536	2,627	2,748	3,769	522	1,226	180	698	196	1,071	-162	1,642	210	1,484	239	1,836	517	2,028
Sales increase in Japan	-1,089	-73	733	1,868	-170	-140	-97	334	130	183	434	-14	356	343	677	492	96	-23
Cost reductions in Japan	1,051	183	270	307	47	54	35	47	35	47	123	65	31	128	78	70	66	24
Profits overseas	-78	343	624	398	-107	53	-89	349	-132	31	-124	18	41	149	168	264	63	350
Other	206	-332	-606	-372	-96	-121	-192	215	-20	152	-32	125	-121	-76	-162	-237	-193	-77
OP (current year)	2,627	2,748	3,769	5,970	196	1,071	-162	1,642	210	1,484	239	1,836	517	2,028	1,000	2,425	549	2,302

Source: Shared Research based on company data

Domestic: Prizes division maintained growth in sales; expanded unique limited-edition prizes and promotions on YouTube contributed

In Japan sales were JPY30.0bn (+1.5% YoY) and operating profit was JPY2.4bn (-1.8% YoY). Sales at existing amusement machine facilities remained solid (+2.7% YoY) on continued strength in the prizes division (+7.1% YoY), facility renovation effects (+8.8% YoY, +8.1pp versus facilities that did not undergo renovation) and increasing floor space, all of which boosted consolidated

earnings. Operating profit was JPY2.4bn (-1.8% YoY) due to a JPY208mn YoY increase in SG&A expenses and up 0.2pp of the SG&A expense ratio, because the company invested in new store brands and booked upfront expenses on renovating existing facilities and other measures. We consider this spending to be investment for growth.

In the prizes division, which accounted for around 45% of sales in FY02/18, strengthening limited-edition prizes in collaboration with a confectionery company and YouTubers and the effect of a promotional YouTube video that recorded 91.8mn views in March–August 2018, exceeding the number of views for the entire FY02/18, lifted sales. Unique limited-edition prizes continued to account for around 30% of all prizes as of Q1, but growing expertise at the company appeared to have raised the likelihood of creating a hit from these prizes (the company has also increased the number of machines by roughly 10% since March). Sales in Q2 lost steam in part due to robust results (+ over 30% YoY thanks to collaboration with a hit movie) in the previous year, but the company plans to implement countermeasures to recover.

Revitalization

The company also renovated 30 facilities in 1H FY02/19 (versus 21 facilities in Q1 FY02/19 and 22 in 1H FY02/18). As a result, sales at existing facilities grew 8.8% (up 8.1pp) YoY after the changes (versus the 0.7% YoY growth recorded prior to the renovations in the previous year). As of Q1 FY02/19: a) The company still planned to renovate 30–35 facilities in FY02/19, down somewhat from the 42 facilities renovated over the course of FY02/18, and b) As the company also was acquiring new knowledge it believed that overall the renovations gradually were yielding results; although the benefits of renovation differed between facilities, some had seen sales subsequently increase by 35% YoY. Shared Research would like to confirm the details at interviews with the company, considering the big impact of revitalization. As a further measure to increase sales, Aeon Fantasy also is actively hunting out idle areas within shopping centers in effort to boost floor base. By filling this additional space with the most popular prize machines, the company is continuing to enhance performance even after renovations.

Four facilities were converted to the PALO brand in FY02/18, and in FY02/19 the focus of revitalization will be on upgrades to machines at Mollyfantasy facilities. In other formats, Aeon Fantasy has identified issues with the Nosica brand and is working to resolve them. In May, for example, the company decreased the number of medal games and increased the number of prize machines, which immediately led to a doubling of sales. While the Nosica brand is still an experiment and not yet at the expansion stage, these improvement efforts nonetheless bear watching.

Yokubari Pass, the company introduced in April 2017, a fixed-price pass that allows users to play as much as they like for a limited period of time remained popular. As of May 2018, the pass was valid at 136 facilities, and this increased to 200 facilities by July 2018 as planned.

Topics: New business formats

Molly.Online

Aeon Fantasy launched its online claw game Molly.Online in March 2018. The new game fared poorly in March, but it gained popularity and membership has since increased steadily with the aid of strengthened advertising via YouTube and the introduction of prizes (developed with collaboration from YouTubers) popular among patrons of physical facilities. The number of members has been increasing by 10,000 members per month, surpassing 60,000 members in August 2018. As sales have thus far seem to have been well above plan, the company believes its full-year target is eminently achievable. When Aeon Fantasy launched premium collaborative prizes available only to Molly.Online players, sales were sharply higher even on weekdays, as unlike games in physical facilities, Molly.Online can be played 24 hours a day. The company plans further expansion, including enlarged booths and increasing numbers of claw game machines. Increased number of members will fully contribute in FY02/20. We will keep a close watch on the development.

Although higher sales have driven up costs for personnel involved in prize delivery, such costs apparently are in line with plan and of no particular concern to the company. Aeon Fantasy plans to continue running regular advertisements on YouTube, and believes that even if earnings from the remotely-played claw game grow, personnel costs will increase only slightly, and

additional machines have already been secured. Aeon Fantasy estimates that rival online claw game Toreba has tens of times as many members, but expects advertising to deliver higher sales and profits for Molly.Online.

Oyugiwa

Opened in April 2018, Aeon Fantasy’s pilot hot bath facility Oyugiwa, apparently is performing below expectations. However, the company says it is gradually reaching the type of customers originally envisioned. Whereas previously there was a high proportion of male customers, the percentage of female customers is now increasing, as planned. Aeon Fantasy is looking at further means of growing the bath facility’s clientele, such as welcoming groups of female customers. Oyugiwa currently runs at a loss, and the company has no plans to open additional hot bath facilities in FY02/19, as it remains in the pilot stage; the company is still trying to work out, for example, the level of profitability appropriate for a newly opened facility of this type.

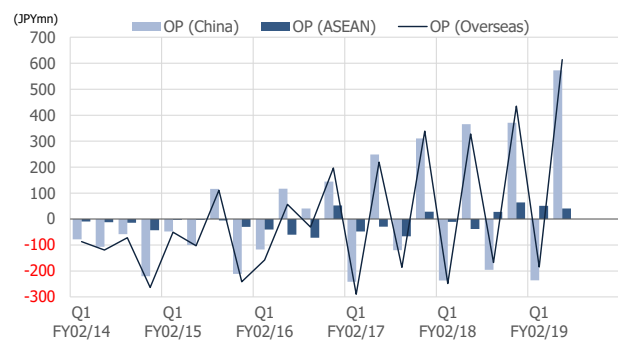
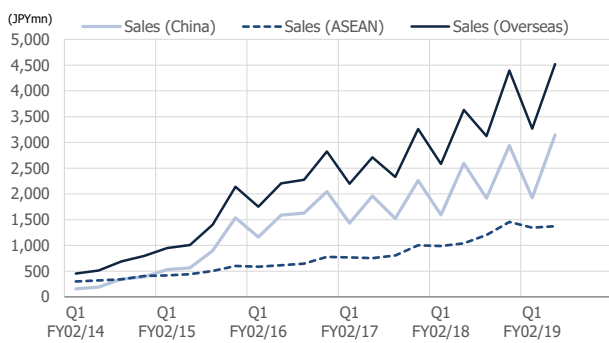


Source: Company data

Ton Ikkyoku

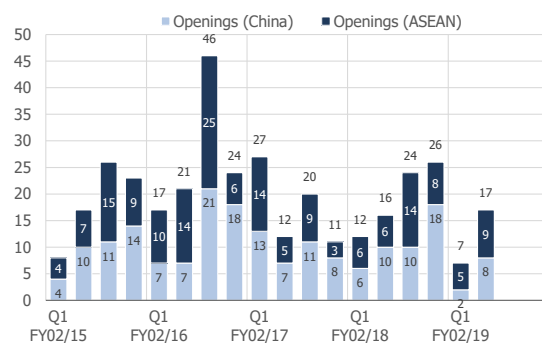
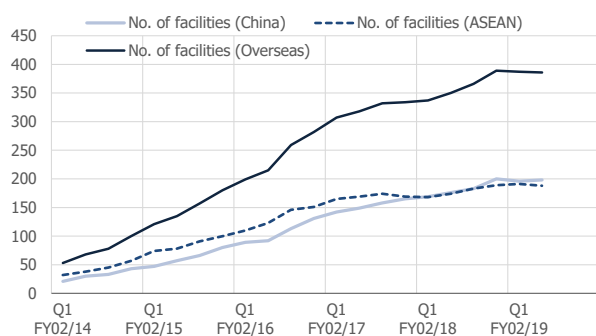
In July 2018, the company opened its second “healthy mahjong” facility (Ton Ikkyoku), which is its first facility in western Japan. This brand is also an experiment. Given the smaller floor space needed and relatively low startup costs (several million yen), if these facilities turn profitable the company looks to open more inside shopping centers, for example. Aeon Fantasy also plans to hold mahjong classes (for a monthly fee of JPY6,400 or JPY8,000), as a means of generating stable sales and attracting more customers.

Quarterly earnings: Overseas



Source: Shared Research based on company data

Number of facilities: Overseas



Source: Shared Research based on company data

China: Sales up 21.2%, operating profit up by 2.6x. Renovation of 15 facilities boosts sales by 15.9% (+9.7pp versus 6.2% at facilities that did not undergo revitalization)

In China, sales were JPY5.1bn (+21.2% YoY) and the operating profit was JPY337mn (2.6x operating profit in 1H FY02/18). Double digit sales growth continued due to opening 10 new facilities, closing 12 unprofitable ones and renovating 15. In particular, Aeon Fantasy thinks it highly significant that the China business was profitable at the facility level, even though newly opened facilities were still finding their feet and Q1 is seasonally a period of lackluster demand. The company attributes this in large part to revitalization measures.

Over the full year, Aeon Fantasy initially planned to open sixty new facilities. However, the company was behind schedule as it opened just 10 new facilities in 1H (two facilities in Q1, eight in Q2). There appear to have been two reasons for this as of Q1: a) as in the previous year, planned openings of new facilities are heavily tilted toward 2H; and b) even though the company has identified candidate sites, it needs to carry out due diligence. At this stage Aeon Fantasy has left its full-year target intact and is still aiming to open sixty new facilities, but the actual number could be closer to fifty. There is also potential, however, for new facilities to open in a burst, if development of new formats (including the Molly WAKA Kids Restaurant outlined below) allows the company to open multiple facilities within the same shopping center. We plan to confirm progress at interviews with the company. Also, as mentioned above the company closed six unprofitable facilities in Q1 when rent contracts came up for renewal (over the full year the plan is to shut 10 facilities); in 1H the company closed 12 stores, exceeding plans, which seems to have contributed to an increase in profit.

Aeon Fantasy has renovated 15 (five in Q1 and 10 in Q2) facilities (mostly Kidzooona) that have been in business four to five years. The company expanded MollyFantasy prize spaces and increase prize lineup, and renewed amusement machines at Kidzooona. Sales of the five renovated facilities increased 15.9% YoY in 1H (+9.7pp versus 6.2% at facilities that did not undergo revitalization). Although it is not clear how many facilities will undergo renovations in FY02/19, the number of candidates for renovation (29 facilities opened in FY02/14) has increased.

Topics: Opened second circus-themed Molly WAKA Kids Restaurant in Beijing, China

On July 14, 2018, the company opened its first Molly WAKA Kids Restaurant, a new business format with a circus theme in Hangzhou, China. This format was concocted by Aeon Fantasy’s new president Nobuyuki Fujiwara, who also has experience in the restaurant and service industry, when he was head of the company’s China business. The company will continue to propose new play facilities that combine food service and entertainment as a new business format that responds to a wider range of consumers amid the ongoing expansion of the children’s market in China. Molly WAKA is a new style of entertainment restaurant that provides menus that are popular among kids and families and family-friendly entertainment such as performances by magicians and clowns. Aeon Fantasy’s China business consists primarily of the Mollyfantasy, Kidzooona, and FÄNPEKKA formats, and the company potentially could open multiple formats within the same shopping center in future, with scope also to export formats back to Japan. The second store was opened in Beijing on August 24, 2018.



Source: Company data

ASEAN: Sales up 33.9%, operating profit increased in the Philippines, Indonesia, and Vietnam, and operating losses in Thailand narrowed.

Sales were JPY2.7bn (+33.9% YoY) and operating profit was JPY92mn in the ASEAN business, getting back to the black (operating loss of JPY49mn in 1H FY02/18). Operating profit grew in the Philippines, Indonesia, and Vietnam, and the operating loss in Thailand narrowed. 14 new facilities opened (one in Cambodia, four in Malaysia, six in the Philippines, one in Vietnam, and two

in Indonesia). In Indonesia the company renovated to make better use of space, opening a new model of Kidzooona facility with an expanded entertainment range.

In Malaysia, operating profit came in at JPY76mn (-JPY17mn YoY), due to the large impact on the time-charge amusement machines from an epidemic among children centered around the busy season in July to August.

The Thai business posted an operating loss of JPY72mn (narrowed by JPY58mn YoY) in 1H. Profit at the facility level improved, causing operating losses to narrow, and although the company still thinks an FY02/19 profit remains out of reach, quarterly profits and a full-year profit in FY02/20 now look attainable. The company pushed ahead with renovation of facilities in Thailand, such as updating Kidzooona play equipment, installing new equipment, and adding a relaxation zone, resulting in a 121.0% YoY sales increase in Q1 FY02/18 versus a 96.8% increase the previous year before the changes. We would like to confirm the situation for Q2. Closure of unprofitable stores appears likely to continue.

In the Philippines, operating profit was JPY36mn (+JPY31mn YoY) in Q1. This was a better result than planned, thanks in large part to strong starts by new facilities opened a year earlier. Among first generation facilities opened, some appear to be operating in the red, but in general newer facilities have been highly successful, contributing significantly to earnings. As of June 2018, Aeon Fantasy Vietnam president Atsushi Iyoda has been appointed president of Aeon Fantasy Group Philippines. The Vietnam unit is performing extremely well, already running at a profit, and over the full year the company expects to turn a profit in the Philippines also.

Looking ahead to Q2 (for reference, as of Q1)

Strategy-related costs such as those for developing new businesses were mainly accountable for the YoY drop in profit in Q1, but such costs appear transitory in nature—consisting mostly of costs for bringing forward revitalization measures and initial costs for Oyugiwa and Molly.Online—and should decrease in Q2. The company aims to renovate eight or nine existing facilities in Q2, and still plans to renovate 35 facilities over the full year. While it will continue advertising Molly.Online on YouTube, Aeon Fantasy expects advertising expenditure to decline. In FY02/18, sales growth was driven for the most part by strong performances at the prizes and medals divisions, which together made up about 70% of sales. In Q2, the company expects summer machine upgrades at the medals division, and machine increases at the prizes division to contribute to sales.

Strategic direction

	At present	Medium- to long-term
Customers	Children and their families, other	Focus on children and their families
Business	Provider of games	Provider of entertainment space where children and parents
Growth area	Asia (19%)	Global (50%)

Source: Shared Research based on company data

In the results briefing materials for 1H, the company stated its strategic direction going forward (shown in the table above). An outline is as follows regarding a) evolution of existing businesses, b) creation and expansion of new businesses, and c) store opening strategy.

Evolution of existing businesses

The company aims to 1) introduce unique games, products and interior decoration, utilizing digital technology, and 2) procure amusement machines and others at lower prices than other companies by taking advantage of overwhelming facility numbers. This will include the world’s first VR game machines for children, digital interior decoration, introduction of signage, original game machines, an eyesight training game (under development), and the indoor playground New Kidzooona.

Creation and expansion of new businesses

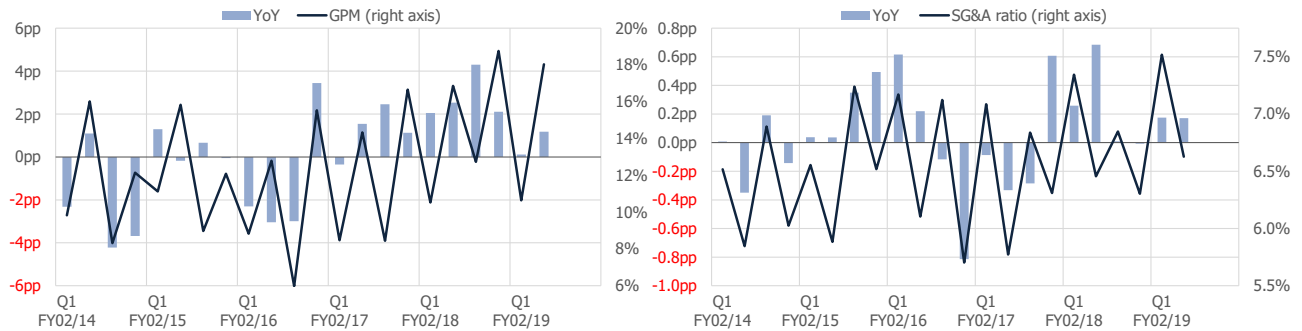
Based on the core concept of “play,” the company plans to combine business areas with high affinity and high growth potential and add “out of the ordinary,” “experience,” and “expertise” by providing the company’s unique value. The company is already operating Oyugiwa, Molly.Online, and Molly WAKA, and it plans to develop edutainment facilities and facilities in collaboration with major brands (currently under planning) in the future. The company also plans to horizontally deploy successful new businesses around the globe.

Store opening strategy

In Japan: open stores in undeveloped channels (department stores, home centers, large electronics retail stores, and others). In China: combine newly created facilities and expand. In ASEAN: open indoor playgrounds at the same business channels with other store brands. The company had originally planned to open 50 facilities in 50 shopping centers, but going forward it plans to open 100 facilities in 20 shopping centers (five facilities per shopping center).

Reference

Gross profit (left), SG&A expenses (right)



Source: Shared Research based on company data

Business performance: Japan (parent)

Performance in Japan (JPYmn)	FY02/17				FY02/18				FY02/19		FY02/17			FY02/18			FY02/19			FY02/20			FY02/21		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	1H	1H	1H	1H	Cons.	Cons.	Cons.	Cons.	Est.	MTP	MTP	Est.	MTP	MTP	
Parent sales	12,883	14,634	12,551	14,505	13,759	15,949	13,886	15,224	14,403	15,739	27,518	29,708	30,142	41,180	49,872	54,575	58,820	60,600	61,500	62,100					
Time-based	4.4%	4.6%	4.5%	4.1%	4.2%	4.4%	4.3%	4.2%	4.3%	4.5%															
Physical activities	9.4%	8.7%	8.6%	8.0%	8.3%	7.4%	7.2%	6.8%	7.2%	7.3%															
Cards	15.9%	15.9%	18.4%	16.4%	15.4%	13.5%	15.6%	14.6%	14.5%	11.5%															
Medals	24.9%	26.3%	24.4%	25.2%	24.9%	25.8%	24.2%	23.6%	22.9%	25.6%															
Prizes	39.8%	39.6%	39.6%	41.9%	42.3%	45.2%	45.2%	47.4%	45.7%	45.7%															
Stickers	4.3%	3.4%	3.1%	2.7%	3.4%	2.5%	2.2%	2.2%	2.8%	2.4%															
Capsules	1.1%	1.0%	1.0%	1.3%	1.2%	0.9%	0.9%	0.9%	0.9%	0.8%															
YoY	27.4%	6.0%	4.6%	4.0%	6.8%	9.0%	10.6%	5.0%	4.7%	-1.3%	15.0%	8.0%	1.5%	-6.7%	21.1%	9.4%	7.8%	3.0%	1.5%	1.0%					
Existing stores YoY (qtr)	0.2%	6.8%	6.6%	6.9%	7.1%	9.6%	10.0%	4.8%	5.5%	-2.1%				-8.0%	-1.5%	5.2%	7.8%	3.0%							
Time-based	5.6%	3.8%	2.4%	-6.2%	-4.9%	-1.2%	1.2%	1.0%	5.2%	-1.9%															
Physical activities	-17.7%	-9.7%	-6.3%	-6.6%	-4.8%	-6.4%	-7.4%	-9.6%	-7.5%	-0.8%															
Cards	-17.6%	-5.2%	8.9%	7.6%	2.8%	-6.9%	-5.5%	-7.0%	1.8%	-14.5%															
Medals	-2.4%	4.2%	0.2%	5.2%	6.9%	7.5%	9.9%	-1.3%	-1.2%	-0.7%															
Prizes	16.3%	12.5%	13.4%	9.0%	13.0%	24.7%	24.9%	18.0%	15.3%	0.6%															
Stickers	-11.9%	-5.9%	-0.9%	-13.1%	-13.3%	-18.3%	-20.5%	-16.3%	-10.0%	-4.8%															
Capsules	9.5%	-7.0%	0.9%	20.7%	20.8%	8.4%	6.6%	-7.7%	-10.5%	-14.1%															
Existing stores YoY (cml. qtr)	0.2%	3.6%	4.5%	5.2%	7.1%	8.4%	8.9%	7.8%	5.4%	1.4%				-8.0%	-1.5%	5.2%	7.8%	-	-	-					
Cost of sales	11,621	12,630	11,400	12,168	12,136	13,393	11,906	12,431	12,761	13,182	24,251	25,529	25,943	36,068	44,474	47,822	49,868	-	-	-					
YoY	26.9%	4.5%	0.0%	2.9%	4.4%	6.0%	4.4%	2.2%	5.1%	-1.6%	100.6%	5.3%	1.6%	-6.8%	23.3%	7.5%	4.3%	-	-	-					
Gross profit	1,262	2,004	1,150	2,336	1,622	2,555	1,979	2,793	1,642	2,556	3,266	4,178	4,198	5,112	5,398	6,754	8,952	-	-	-					
YoY	32.0%	16.4%	92.3%	10.1%	28.5%	27.5%	72.1%	19.6%	1.2%	0.0%	27.8%	-	-	-5.3%	5.6%	25.1%	32.5%	-	-	-					
GPM	9.8%	13.7%	9.2%	16.1%	11.8%	16.0%	14.3%	18.3%	11.4%	16.2%	11.9%	14.1%	13.9%	12.4%	10.8%	12.4%	15.2%	-	-	-					
SG&A expenses	763	739	725	838	856	853	811	801	907	867	1,502	1,709	1,774	2,201	2,715	3,067	3,324	-	-	-					
YoY	27.4%	4.2%	-0.7%	24.1%	12.2%	15.4%	11.9%	-4.4%	6.0%	1.6%	73.2%	-	-	-5.2%	23.3%	13.0%	8.4%	-	-	-					
SG&A ratio	5.9%	5.0%	5.8%	5.8%	6.2%	5.3%	5.8%	5.3%	6.3%	5.5%	5.5%	5.8%	5.9%	5.3%	5.4%	5.6%	5.7%	-	-	-					
Operating profit	498	1,264	425	1,498	766	1,702	1,167	1,991	735	1,689	1,763	2,468	2,424	2,911	2,684	3,687	5,628	5,900	6,150	6,400					
YoY	39.9%	24.8%	-	3.6%	53.8%	34.7%	174.6%	32.9%	-4.0%	-0.8%	4.4%	-	-	-5.4%	-7.8%	37.4%	52.7%	4.8%	4.2%	4.1%					
OPM	3.9%	8.6%	3.4%	10.3%	5.6%	10.7%	8.4%	13.1%	5.1%	10.7%	6.4%	8.3%	8.0%	7.1%	5.4%	6.8%	9.6%	9.7%	10.0%	10.3%					
No. of facilities	497	495	488	481	477	470	470	459	461	458	495	470	458	334	496	481	459	460	465	470					
Openings	7	2	2	1	3	2	3	-	3	2	9	5	5	12	187	12	8	10	10	10					
Closures (est.)	-6	-4	-9	-8	-7	-9	-3	-11	-1	-5	147	142	134	-4	-25	-27	-30	-9	-5	-5					
Sales per facility	25.95	29.50	25.54	29.94	28.72	33.68	29.54	32.78	31.31	34.25	54.93	61.57	64.96	124.79	120.17	111.72	125.15	131.88	132.97	132.83					
Cost per facility	23.41	25.46	23.19	25.11	25.34	28.29	25.33	26.76	27.74	28.69	48.41	52.91	55.91	109.30	107.17	97.89	106.10	-	-	-					
GP per facility	2.54	4.04	2.34	4.82	3.39	5.40	4.21	6.01	3.57	5.56	6.52	8.66	9.05	15.49	13.01	13.83	19.05	-	-	-					
SG&A per facility	1.54	1.49	1.48	1.73	1.79	1.80	1.73	1.72	1.97	1.89	3.00	3.54	3.82	6.67	6.54	6.28	7.07	-	-	-					

Source: Shared Research based on company data

Business performance: Overseas

Overseas performance (JPYmn)	FY02/17				FY02/18				FY02/19		FY02/17			FY02/18			FY02/19			FY02/20			FY02/21		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	1H	1H	1H	Cons.	Cons.	Cons.	Cons.	Est.	MTP	MTP	Est.	MTP	MTP		
China	1,432	1,960	1,524	2,259	1,593	2,591	1,917	2,939	1,923	3,147	3,392	4,184	5,070	3,531	6,423	7,175	9,040	-	-	-	-	-	-		
Sales																									
YoY	23.1%	23.4%	-6.3%	10.5%	11.2%	32.2%	25.8%	30.1%	20.7%	21.5%	7.8%	-	-	225.7%	81.9%	11.7%	26.0%	-	-	-	-	-	-		
Facility costs	1,487	1,543	1,505	1,763	1,627	1,964	1,895	2,261	1,913	2,278	3,030	3,591	4,191	3,274	5,513	6,298	7,747	-	-	-	-	-	-		
YoY	31.0%	18.2%	7.0%	5.8%	9.4%	27.3%	25.9%	28.2%	17.6%	16.0%	33.0%	-	-	189.7%	68.4%	14.2%	23.0%	-	-	-	-	-	-		
Facility profit	-55	417	19	496	-34	627	22	678	10	869	362	593	879	257	910	877	1,293	-	-	-	-	-	-		
YoY	-47.3%	-91.4%	30.9%	-	-50.4%	15.8%	36.7%	-	-38.6%	-58.3%	-	-	-	-254.1%	-3.6%	47.4%	-	-	-	-	-	-	-		
Profit margin	-21.3%	1.2%	22.0%	-	-24.2%	1.1%	23.1%	-	0.5%	27.6%	10.7%	14.2%	17.3%	7.3%	14.2%	12.2%	14.3%	-	-	-	-	-	-		
SG&A expenses	185	169	139	185	202	262	218	307	245	297	354	464	542	501	725	678	989	-	-	-	-	-	-		
YoY	26.7%	2.4%	-22.3%	-21.3%	9.2%	55.0%	56.8%	65.9%	21.3%	13.4%	19.2%	-	-	42.7%	44.7%	-6.5%	45.9%	-	-	-	-	-	-		
SG&A ratio	12.9%	8.6%	9.1%	8.2%	12.7%	10.1%	11.4%	10.4%	12.7%	9.4%	10.4%	11.1%	10.7%	14.2%	11.3%	9.4%	10.9%	-	-	-	-	-	-		
Operating profit	-241	248	-119	310	-236	364	-194	370	-235	572	7	128	337	-243	185	198	304	-	-	-	-	-	-		
YoY	-112.0%	-115.3%	-	-	-46.8%	-19.4%	-	-	-57.1%	-98.8%	-	-	-	-	-	7.0%	53.5%	-	-	-	-	-	-		
OPM	-12.7%	-13.7%	-	-	-14.0%	-12.6%	-	-	-18.2%	0.2%	3.1%	6.6%	-	-	2.9%	2.8%	3.4%	-	-	-	-	-	-		
No. facilities	142	149	158	165	169	176	183	200	196	198	149	176	198	80	131	165	200	250	320	400	-	-	-		
Openings	13	7	11	8	6	10	10	18	2	8	20	16	10	37	53	39	44	60	80	100	-	-	-		
Closures (est.)	-2	-	-2	-1	-2	-3	-3	-1	-6	-6	-69	160	188	-	-2	-5	-9	-10	-10	-20	-	-	-		
Sales per facility	10.49	13.47	9.93	13.99	9.54	15.02	10.68	15.35	9.71	15.97	28.15	25.75	27.11	57.41	60.88	48.48	49.53	-	-	-	-	-	-		
Cost per facility	10.89	10.60	9.80	10.92	9.74	11.39	10.56	11.81	9.66	11.56	25.15	22.10	22.41	53.24	52.26	42.55	42.45	-	-	-	-	-	-		
Profit per facility	-0.40	2.87	0.12	3.07	-0.20	3.63	0.12	3.54	0.05	4.41	3.00	3.65	4.70	4.18	8.63	5.93	7.08	-	-	-	-	-	-		
SG&A per facility	1.36	1.16	0.91	1.15	1.21	1.52	1.21	1.60	1.24	1.51	2.94	2.86	2.90	8.15	6.87	4.58	5.42	-	-	-	-	-	-		

Source: Shared Research based on company data

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