GCC Management™ Analysis Report

Happiness and D Co.,Ltd.

TSE Standard Market, Code: 3174 2025/11/21

Brand Conglomerate Strategy Envisioned by New CEO

Evolution into Japan's Louis Vuitton (LVMH)

This report conducts corporate value analysis from the perspective of "GCC Management™," a framework developed by J-Phoenix Research Co., Ltd. (hereinafter "JPR") that emphasizes three elements: Growth (revenue growth), Connection (improvement in people and business connections = enhanced return on capital),

The Key to Recovery: What is a Brand Conglomerate?

Happiness and D operates nationwide anniversary gift shops. FY2025 revenues were 8.6 billion yen with a 440 million yen operating loss, raising going concern doubts, but structural reforms are improving performance. In June 2025, Satoshi Maehara (ex-Fuji Bank, Mizuho Securities, Trial Company) became president, bringing AI/data and retail expertise.

The company pursues a "brand conglomerate strategy"—acquiring successor-less Japanese brands via M&A, applying LVMH's model to Japan. Results are emerging: interim gross margin improved to 40% (from 37%), and AI-driven service boosted target product sales 160% YoY. Partnership with StormHarbour Japan Ltd. enables 2-4 M&A deals over three years.

Critical risk: failure to achieve 2026 profitability would collapse the strategy. JPR forecasts FY2035 revenues of 22.2 billion yen, 9.5% operating margin, and 10.1% ROIC, contingent on 2026 profitability, though gold price and M&A integration risks exist. This report evaluates the strategy's feasibility.

Profit-driven M&A cycle toward a Japanese LVMH

JPR forecasts a potential virtuous cycle for Happiness and D. Despite FY2025's ¥8.841bn revenue and ¥404M operating loss, reforms are working: gross margin improved from 38.2% to 40.6%, store consolidation (71→57) cut fixed costs by ¥400M, and monthly break-even dropped 20% (¥950M→¥750M). Jewelry grew +4.0% YoY with 55.3% gross margin. Vintage sales (33 stores, strengthened via November 2025 Clarisse partnership) target ¥800-1,000M annually by 2027.

If FY2026 profitability (+¥30M plan) is achieved, going-concern doubts fade, attracting investors and driving stock appreciation. Rising stock prices enable warrant exercise, unlocking several hundred million yen in funding. Under Storm Harbor partnership, the "Japan LVMH" vision advances from late 2026. M&A success creates further stock gains and fundraising capacity, forming a virtuous cycle to subsequent deals. However, 2026 profitability is the critical prerequisite.

3.5x Stock Price in Three Years: 2,500 Yen Target

JPR forecasts a theoretical market capitalization of ¥6.5 billion as of August 2028. The 11th and 12th series stock acquisition rights, issued in October 2023 to fund M&A and other expansion, are incorporated into JPR’s valuation, implying a target share price of approximately ¥2,500 on a fully diluted basis, with a 10-year target of around ¥6,000.

Premised on achieving profitability in FY2026, if reforms proceed smoothly—gross margin improvement from a shift to jewelry (40% in the FY2025 interim), sales growth driven by AI-based customer service training (160% YoY growth in the targeted product categories), and fixed-cost reductions via unprofitable store closures—JPR estimates FY2028 revenue of ¥11.4 billion, a 5.0% operating margin, and 5.3% ROIC.

However, the roughly 4% cost of capital assumption represents a long-term equilibrium level once “Japan’s first brand conglomerate” has been established. Given current financial risk, the effective cost of capital should be viewed as 15% or higher, implying a very large gap. Short-term investors should note that the risk is extremely high.

Basic Report

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Company Overview	
Location	Chuo-ku, Tokyo
Representative	Satoshi Maehara
Established	1990/9/1
Capital	348.69 million yen
Listing Date	2012/6/22
URL	https://www.happiness-d.co.jp/index.html
Industry	Retail

Key Indicators as of Nov. 20, 2025	
Stock Price	633 Yen
52-Week High	869 Yen
52-Week Low	594 Yen
Shares Outstanding	2,591,600 Stocks
Trading Unit	100 Stocks
Market Capitalization	1,640 mil Yen
Company Forecast Dividend	0 Yen
Forecast EPS	-251 Yen
Forecast P/E Ratio	－ Times
Actual BPS At the end of aug,2025	60.96 Yen

Business Performance Trends	Sales mil Yen	YoY %	Operating Income mil Yen	Operating profit %	Ordinary Income mil Yen	YoY %	Net Profit mil Yen	YoY %	EPS Yen	Stock Price High	Stock Price Low
FY8/23 actual	12,742	–	-216	–	-243	–	-668	–	-263.44	954	880
FY8/24 actual	10,780	-15.3%	-158	–	-186	–	-459	–	-180.39	915	789
FY8/25 actual	8,841	-18.0%	-404	–	-435	–	-808	–	-317.59	869	644
FY8/26 forecast	8,481	-4.1%	30	–	-13	–	-52	–	-20.71	–	–

*Since the company transitioned to consolidated financial statements from the fiscal year ended August 2023, no comparable prior-year figures exist, and the year-on-year change rate for the fiscal year ended August 2023 is not stated.

1. Investment Summary

Shareholder Value Analysis

Estimation Using the Excess Profit Method

Growth Scenario Likely to Be Realized with High Accuracy

JPR estimated shareholder value using the Excess Profit Method (see "Basis of Calculation" in Appendix) within the GCC Management™ framework, considering the future potential of Happiness & D's business development. The following chart visualizes the core elements of the qualitative and quantitative story. The quantitative upside is explicitly presented both qualitatively and quantitatively on the following pages.

Outline of Qualitative Story

Growth	Value Creation Through Milestone Jewelry
Connection	Brand Conglomerate Through Integrated Manufacturing-Sales and Continuous M&A
Confidence	Achieving Both Sustainable Growth and Social Contribution

Anniversary Jewelry: A Company Dedicated to Its Customers

▼

Improving Profitability Through Structural Reform and Closing Unprofitable Stores

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Structural Reform Led by President Maehara, Formerly of Banking, Securities, and Retail

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Building a Brand Conglomerate

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Accelerating Growth Through a Three-Tier Brand Strategy and M&A Synergy

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A 10-Year, ¥22.2 Billion Vision to Become Japan's LVMH

TSE Standard Happiness and D Co., Ltd. [3174] Issued November 21, 2025

[JPY 100 mil]

Growth value	+	Economic profit value	+	Book equity
202		**-38**		**2**

Shareholder value

Shareholder value reflecting 10-year scenario analysis

166

10-year shareholder value projection model

Estimate based on the present value of future cash flows

[JPY 100 mil]

	2025.08	2026.08	2027.08	2028.08	2029.08	2030.08	2031.08	2032.08	2033.08	2034.08	2035.08
Revenue	85	93	103	113	124	137	150	165	182	200	220
Revenue growth rate	-4.1%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%
Change in revenue	-23	8	9	10	11	12	14	15	17	18	20
Operating profit	0.3	2.8	4.1	5.6	7.5	9.6	11.3	13.2	15.5	18.0	20.9
Operating profit margin	0.35%	3.00%	4.00%	5.00%	6.00%	7.00%	7.50%	8.00%	8.50%	9.00%	9.50%
NOPAT	0.2	1.9	2.9	3.9	5.2	6.6	7.8	9.2	10.7	12.5	14.5
NOPATMargin	0.2%	2.1%	2.8%	3.5%	4.2%	4.9%	5.2%	5.6%	5.9%	6.3%	6.6%
Beg. invested capital / revenue	50.9%	50.9%	50.9%	50.9%	50.9%	50.9%	50.9%	50.9%	50.9%	50.9%	50.9%
ROIC	0.5%	4.1%	5.5%	6.8%	8.2%	9.6%	10.3%	10.9%	11.6%	12.3%	13.0%
WACC	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%
ROIC-WACC	-3.9%	-0.3%	1.1%	2.5%	3.8%	5.2%	5.9%	6.6%	7.2%	7.9%	8.6%
ROIC/WACC	0.11	0.94	1.25	1.56	1.88	2.19	2.34	2.50	2.66	2.81	2.97
Beg. invested capital	43.1	47.5	52.2	57.4	63.2	69.5	76.4	84.1	92.5	101.7	111.9
Economic profit	-1.7	-0.1	0.6	1.4	2.4	3.6	4.5	5.5	6.7	8.1	9.6
Change in economic profit	-1.7	1.5	0.7	0.8	1.0	1.2	0.9	1.0	1.2	1.4	1.6
TV (change in economic profit)	-38.4	35.4	16.0	19.3	23.0	27.3	20.2	23.4	27.1	31.2	35.9
PV factor	1.00	0.96	0.92	0.88	0.84	0.81	0.77	0.74	0.71	0.68	0.65
PV of TV (change in economic profit)	**-38.4**	**33.9**	**14.7**	**16.9**	**19.4**	**22.0**	**15.6**	**17.4**	**19.2**	**21.2**	**23.4**
Cumulative shareholder value	-36.4	-2.4	12.3	29.2	48.6	70.6	86.2	103.6	122.8	144.0	167.5
Cumulative shareholder value factor	-1,339.2	-98.8	438.1	1,056.4	1,763.1	2,566.0	3,135.8	3,768.5	4,469.3	5,243.6	6,097.2
Estimated share price (per share; Y5 shareholder value realized in Y3 incl. next 2yrs value)	671 JPY	1,303 JPY	1,934 JPY	2,566 JPY	3,136 JPY	3,769 JPY	4,469 JPY	5,244 JPY	6,097 JPY	6,365 JPY	6,645 JPY
Multiple vs current price	1.00	1.94	2.88	3.82	4.67	5.62	6.66	7.81	9.09	9.49	9.90
Closing price 2025-10-31	671 JPY										

Economic profit value [JPY 100 mil]	-38
Growth value [JPY 100 mil]	202
Shareholders' equity [JPY 100 mil]	2

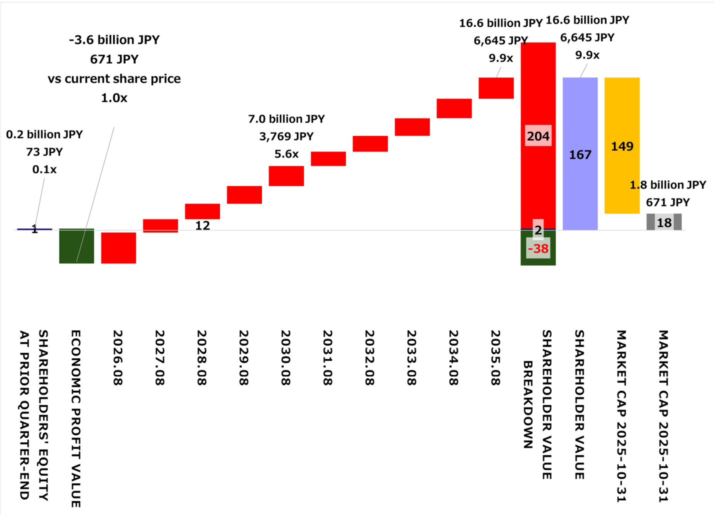
Shareholder value [JPY 100 mil]	166
Share price equivalent	6,645 JPY

Market capitalization [JPY 100 mil] 2025-Oct-31	18
Closing price	671 JPY

[Source] JPR

How many years ahead does the share price look?

10-year shareholder value model – stacked PV of future shareholder value



[Source] JPR

Growth — Value Creation Through Milestone Jewelry

Growth Stories of Employees and the Company Values and Worldviews Aimed at

Weaving family bonds with anniversary gems

Happiness & D positions itself as an "Anniversary Gift Shop," offering special gifts for life's milestones and aiming to deliver "excitement" to all stakeholders. Its core value—hospitality without pushy sales—builds trust through high-quality service that keeps customers returning.This value system fosters autonomous learning—reinforced by AI role-playing and the ABC System—sharpening service skills and customer insight. The offering spans casual to luxury, from everyday suburban gifts to high-end urban jewelry, accompanying customers through every life stage. This strategy blends business innovation with social problem-solving by acquiring succession-challenged Japanese brands and building a vertically integrated model for overseas expansion—a Japanese take on Louis Vuitton's playbook. We infer that management and employees are energized by delivering both security and emotion through jewelry that balances asset value with storytelling, helped by rising precious-metal prices. Stakeholder outcomes include special customer experiences, employee growth, sustainable investor returns, and continuity of Japanese jewelry culture, though risks remain—such as sharp gold price drops and talent shortage.

Growth Story of the Real Market Value Offered and Future Market Size

Building a Japanese Louis Vuitton with a three-tier brand

The company materializes its values through a three-tier brand portfolio. The first tier is the existing core business, serving as the foundation for stable growth by accelerating the shift to precious-metal jewelry, which achieved 174.2% YoY growth in interim FY2025. Targeting suburban families, it aims to raise average spend through ABC System-driven visit promotion.The second tier, AbHeri, is a high-end workshop-linked brand targeting urban affluent and inbound customers, delivering over 64% gross margin through vertical integration. Following Louis Vuitton's "no discounting/direct stores only" model, it enforces strict quality through direct workshop ties. Opened at Osaka Grand Green in March 2025, JPR projects growth from approximately ¥0.5bn to ¥4.5bn by 2035.The third tier, "No.", was founded in October 2023 and launched in November 2024, targeting urban career professionals aged 25-45. JPR projects expansion from approximately ¥0.1bn to ¥2.5bn by 2035.M&A serves as the key growth engine, with 1-2 deals annually (17-18 total) plausible under the Storm Harbor framework, though funding could tighten if profitability slips past 2026. Overall, JPR forecasts ¥22.2bn in sales within 10 years, with a 9.5% operating margin and 10.1% ROIC.

Capital-market growth story metrics Sales outlook

A 10-year path to JPY 22.2 billion powered by portfolio and M&A

JPR's 10-year forecast of ¥22.2bn (FY2035) rests on structural reforms and new business growth. The core Happiness & D unit targets ¥9.5bn through unprofitable store closures and jewelry shift; with precious-metal units at 174.2% YoY in FY2025 interim and 40.0% gross margin, JPR sees 1-2% annual growth as jewelry mix reaches 55%. AbHeri is projected to grow from ~¥0.5bn to ¥4.5bn via March 2025 Osaka launch and China/East Asia expansion from 2026, leveraging top Chinese review rankings (8th at Shin-Maru, 9th in Ginza) and 64%+ gross margin from vertical integration. No. is projected to reach ¥2.5bn through gradual rollout after November 2024 launch, though start-up risks warrant caution. M&A is the primary growth engine, assuming 17-18 acquisitions at 1-2 per year under Storm Harbor, contingent on resolving going-concern disclosures and achieving 2026 profitability to beat the industry's 5-6% CAGR. However, multiple optimistic assumptions underpin this outlook — any slippage in profitability, M&A funding, China demand, or new-brand recognition could cascade, materially missing targets and driving share-price decline.

Connection — Brand Conglomerate Through Integrated Manufacturing-Sales and Continuous M&A

Connection Stories within Employees and Companies Management Resource Connection Strategies

A value chain woven by people and technology

Since September 2024, Happiness & D has deployed AI role-playing training co-developed with Sapeet Inc. across all stores, achieving 160% category sales growth by November 2024. Inspired by Louis Vuitton's "Saturday store inspections," it uses AI to codify and disseminate top sales techniques company-wide. SmartHR digitization cut approximately ¥1.6 million annually in HR costs, while anniversary leave and certification support strengthen retention and service quality. The ABC System (co-developed with NEC, Tangerine, and Yappli in November 2022) integrates visit and purchase data for personalized proposals, and the April 2024 RAIN Inc. alliance rapidly expanded precious-metal jewelry sales through outsourced planning and manufacturing. Together, these initiatives drive a learning cycle that converts insights on brand-succession rescues and inbound demand into material value through M&A and brand-portfolio expansion, though AI-training effects may not yet fully permeate the organization.

Connection story of business resources in the real market Business Model Dynamics

A system for circular value creation

The model combines internal and external resources for leverage: 71 SC stores (Aug 2024), in-house workshops (AbHeri), the ABC customer DB, and AI role-play know-how; plus RAIN outsourcing, an Aug 2024 MOU with Storm Harbor, and buyback-driven sourcing. In FY Aug 2024, variable costs were ~66% of sales and SG&A ~40%. Mirroring Louis Vuitton's "decentralization with control," the firm seeks brand creativity with shared back-office synergies. Gross margin rose from 34.1% to 40.0% in the Aug 2025 interim on a jewelry shift, while fixed costs fell via unprofitable store closures. As of the Aug 2025 interim, inventory was ¥3.69bn; fixed assets ¥0.5bn (tangible) and ¥0.54bn (deposits). Vintage sales lifted inventory turns from 3.5x to 4.0x and fixed assets are being compressed. Forecast: after-tax OPM turns positive in 2026 and targets 6.6% by 2035; invested capital/sales stabilizes near 65.6%; ROIC improves from negative to 3.2% (2026), 7.4% (2030), and 10.1% (2035), with risk that inventory-efficiency gains may underdeliver.

Resource-connection story metrics ROIC outlook

ROIC improvement scenario from 3% to 10% driven by structural reform and capital efficiency

Happiness & D's 10-year ROIC outlook assumes a three-stage recovery. In FY2024, a ¥160 million operating loss and ¥7.05 billion total assets left ROIC incalculable. Stage one (2026-2027) targets profitability turnaround, lifting operating margin from -1.5% to ~3.0% by sustaining 40%+ gross margin through jewelry mix shift, cutting SG&A from 37% to 33% via store closures, and maintaining 65.6% invested-capital-to-sales ratio through faster inventory turns (3.5×→4.0×), yielding 3-4% ROIC. Stage two (2028-2030) seeks stable growth as AbHeri Osaka and No. urban stores ramp, pushing operating margin to 5-7%, SG&A to ~30%, and ROIC to 5-7% while keeping invested capital at ~65.6% of sales. Stage three (2031-2035) aims for high profitability with M&A fully contributing, operating margin around 9.5%, invested capital at ~65.6% of sales, and ROIC near 10.1%. Key risks include bank support, M&A execution, and overseas rollout; if initial profitability slips, inventory compression may stall, obsolescence may rise, and ROIC could remain negative, raising excessive-debt risk.

Confidence — Achieving Both Sustainable Growth and Social Contribution

Trust story among employees and within the company Profitability and financial stability

A certain path to profitability

Happiness & D pursues financial stability through steadier topline and improving ROIC. FY Aug-2024 delivered ¥10.78bn in sales and a ¥160mn operating loss, while FY Aug-2026 targets a return to profitability with ¥280mn in operating profit (3.0% margin). FY2024 disclosures indicate resilient liquidity: operating cash flow was ¥756mn positive, cash and deposits totaled ¥981mn, there are no borrowings with financial covenants, and overdraft headroom remains; lenders have also consented to revised repayment terms and established a cooperative framework. Revenue stability is underpinned by portfolio balance as AbHeri and No. complement legacy formats, diversifying customer segments from casual to luxury. Relationship strength is reinforced by CRM via the ABC System and regular event sales that lift repeat rates and LTV, while the milestone nature of purchases (e.g., anniversaries) raises switching costs once trust is formed. On the balance sheet, lender agreements in Jul 2025 further stabilized cash flows. Although the equity ratio stood at 12.1% at the Aug-2025 interim, a gradual rise is expected through retained earnings after profitability, targeting >30% by 2035. Key sensitivities remain the timing of profit recovery and execution on margin and capital-efficiency initiatives, which will ultimately govern the ROIC trajectory.

+ Trust Stories in the Real Market Social Contribution & Governance

Pioneering the future through social impact solutions

Happiness & D advances E and S through targeted, scalable programs. On the environment, recycled ocean-plastic product lines and a chain-wide vintage sales model reduce waste and promote circularity; industry research indicates the secondary distribution market is expanding at ~9.1% CAGR, reinforcing its social relevance. Echoing Louis Vuitton's "LIFE360," vintage offerings are slated for chain-wide rollout from H2-2025, formalizing reuse as a core operating practice. On the social side, support for the Orange Ribbon Campaign, donations to barrier-free funds, and manufacturing outsourcing in Bangladesh contribute to inclusion and job creation. Succession-problem "brand rescues" via M&A preserve Japanese craftsmanship while revitalizing assets under an integrated manufacturing-retail model; under an Aug-2024 MOU with Storm Harbor Securities, Happiness & D targets 17–18 acquisitions over time at a pace of 1–2 per year. Governance rests on a company with an Audit & Supervisory Committee structure, outside directors with legal and tax expertise, and established internal control, risk management, and information-security rules. Principal risks—going-concern disclosures, gold-price volatility, inbound-demand swings, and M&A integration—are mitigated through >40% gross-margin discipline, prudent precious-metal inventory management, and deeper cultivation of customers, while acknowledging residual integration risk.

= Trust-story evaluation metrics WACC outlook

Gradual decline in the cost of capital

JPR frames two WACC views for Happiness & D: market-data yields 4.23% (β=0.4737), but effective equity cost is ≥15% given going-concern uncertainty, 14.4% equity ratio, and ¥3.96bn debt. Apparent specialty retail shows low betas, but the firm-specific β from five years lacks statistical power amid transformation and illiquidity. A ~4.4% WACC—using industry betas—should be treated as long-run equilibrium if the "brand conglomerate" thesis succeeds. JPR assumes risk premium fades to ~12% (2026-27), ~10% (2028-30), and ~8% (2031-35) — an optimistic path contingent on successful reforms and benign macro. If profitability slips >2 years, WACC could spike to 15-20%, crippling the growth plan. Bottom line: ~4.4% suits diversified long-term holders; concentrated positions should underwrite ≥15% return. Short-term risk remains extreme, and ~4% capital cost is defensible only with ≥5-year horizons.

2. Company Overview

Overview

Company Name	Happiness and D Co.,Ltd. (In Japanese： 株式会社ハピネス･アンド･ディ)
Established	1990/9/1
Representative	Representative Directors: Chairman Yasuo Den, President Satoshi Maehara
Location	1-16-1 Ginza, Chuo-ku, Tokyo, Toka Building 4F
Capital	348.69 million yen
Numbers of Employee	400 employees (as of end of August 2024, including temporary employees on a non-consolidated basis)
Fiscal Year-End	August
Business Description	Manufacturing and sales of jewelry, watches, bags and accessories
Listing Date	2012/6/22
Listed Stock Exchange	Tokyo Stock Exchange Standard Market

[Source] Created by JPR based on company materials.

History

Year	Mon	Contents
1990	Sep	Established Jewelry Den Co., Ltd. in Omigawa-cho, Katori District, Chiba Prefecture (now Katori City, Chiba) with capital of 20,000 thousand yen and opened DEN Kashima store in Kashima City, Ibaraki.
1993	Dec	Opened DEN Kamisu Megane-kan (eyewear specialty store) in Kamisu City, Ibaraki.
2002	Sep	Opened Happiness Takaoka store in AEON Mall Takaoka, Takaoka City, Toyama Prefecture, expanding into the Chubu region.
2012	Jun	Listed on JASDAQ (Standard) market.
2013	Mar	Established 100% subsidiary Happiness and D Korea in Seoul, South Korea.
2013	Dec	Opened GINZA Happiness Makuhari New City store, a new format watch specialty store focusing on luxury brand watches.
2014	Oct	Opened Happy Candle Izumi store, a new format store centered on original brand "Happy Candle".
2015	Apr	Opened Happiness Okinawa Rycom store in AEON Mall Okinawa Rycom, Nakagami District, Okinawa Prefecture, expanding into the Okinawa region.
2016	Jun	Dissolved Korean subsidiary Happiness and D Korea.
2018	Mar	Opened Le Bonheur Parfait AEON Lake Town mori store, a new format store focusing on bags, wallets, and accessories.
2019	Apr	Began collaboration with brand product buyback businesses, expanding sales opportunities for company products through trade-ins and buybacks.
2021	Jun	Opened Brand Shop Happiness Kawaguchi store as flagship store with the concept of best customer service, latest facilities, and largest product lineup, also carrying new category products such as Western tableware.
2022	Dec	Acquired shares of AbHeri Co., Ltd. and made it a consolidated subsidiary.
2023	Oct	Established No. Co., Ltd. and made it a consolidated subsidiary.

[Source] Created by JPR based on company materials.

Major Consolidated Subsidiaries and Group Companies

Company Name	Business Outline	Capital	Investment Ratio
AbHeri Co., Ltd.	Manufacture, wholesale, and retail of jewelry and precious metals	49 Mil Yen	100.0%
No. Co., Ltd.	Planning, development, manufacturing, wholesale, retail, and import/export of precious-metal and jewelry/accessories.	30 Mil Yen	100.0%

[Source] Created by JPR based on company materials.

Major Business and Capital Alliances

Year	Mon	Company	Purpose
2019	Mar	Komehyo Co .,Ltd.	Direct in-store customers to a home-pickup buyback service and earn commissions based on the purchase amount.
2019	Jul	Valuence Holdings Inc. (formerly SOU Inc.)	A scheme where SOU conducts appraisals for trade-ins and purchases of brand-name goods requested by customers.
2024	Apr	RAIN Co., Ltd.	Products are manufactured by RAIN and sold at Happiness stores nationwide.
2024	Aug	StormHarbour Japan Ltd.	Enhance M&A and financing; collaborate on deal sourcing/structuring; coordinate capital policy advice.
2025	Oct	Clarisse Co., Ltd.	Expand reuse purchasing and diversify revenue, strengthening in-store buying, improving CX, and establishing a circular model.

Source: Compiled by JPR based on company data.

3. Summary of GCC Management™ Framework

Growth

Value Creation Through Milestone Jewelry

Differentiation Strategy: Providing "Vessels of Memory"

Competitive Advantage Generated by Multi-Generational Customer Relationships

Anniversary Concierge Philosophy: Transforming Family Happiness into Gems

Happiness and D's competitive advantage lies in clear positioning as an "Anniversary Gift Shop" specializing in life's milestone gifts — wedding anniversaries, coming-of-age ceremonies, 60th birthdays — providing products as "vessels of memory" that connect family bonds across generations, maximizing customer lifetime value. The core differentiation is "omotenashi hospitality service" culture, where sales staff function as concierges understanding customer feelings and making optimal proposals. AI role-playing co-developed with Sapeet systematized and standardized service techniques, achieving 160% YoY sales growth in training target products. However, the accumulation of human capital passing on the intangible "heart" from senior to junior staff is the true competitive advantage. The business model of building multi-generational customer relationships through jewelry passed from parent to child creates sustainable competitive advantage unachievable through short-term profit pursuit.

Maximizing Customer Lifetime Value Through Triple Value

Triple Value Proposition: Asset Value, Emotional Value, and Inheritance Value

Happiness and D's value proposition lies in experiential "anniversary staging" beyond product sales. Sales staff at 71 stores nationwide (FY2024 end) function as concierges deeply understanding customers' budgets, recipients' preferences, and anniversary meanings, proposing optimal items from jewelry, watches, and accessories. The core differentiation is product "triple value": asset value (bullion products maintaining/increasing value with gold prices), emotional value (feelings embedded as spiritual assets evoking happy memories), and inheritance value (items weaving family history across generations). Through this, the company transforms from retail to a service business accompanying customers' lives. However, precious metal prices face international market and exchange rate risks; sharp drops could diminish asset appeal, decline purchasing motivation, and trigger inventory losses. The revenue model relies on ABC System purchase history management and long-term relationships, making optimal proposals at milestones (5th, 10th anniversaries) and supporting lifelong use through after-care (cleaning, resizing, remodeling). The strategy maximizes customer lifetime value via omnichannel integration between stores and e-commerce.

10-Year Leap Scenario Drawn Through Digital × Real × Global

1-2 M&A Deals Per Year, AbHeri Overseas Expansion, No. Development to Reach 22.2 Billion Yen in Sales by 2035

Happiness and D's 10-year growth strategy centers on simultaneous M&A-driven expansion and earnings restructuring, maximizing CEO Maehara's dual expertise in finance and logistics. Integrating fundraising/M&A know-how from finance with data-driven management and inventory control from Trial Company, the company aims to build a brand conglomerate. Through Storm Harbor Securities partnership, it plans 1-2 acquisitions annually (17-18 total, ¥100-500M each), targeting successor-less jewelry and accessory firms for vertical integration, mirroring Louis Vuitton's brand rescue model. However, current going-concern disclosures make bank financing extremely difficult, risking strategy failure. Specific initiatives include AbHeri Osaka Grand Green (March 2025) targeting affluent and inbound customers, though China slowdown risks undermine sales; No. (launched November 2024) targets urban unisex jewelry for ages 25-45, though weak brand recognition risks prolonged start-up losses; and vintage products (from 2025) entering the 9.1% CAGR global pre-owned luxury market, though authentication gaps risk reputation damage. Maehara's Trial experience informs gold inventory risk management and vintage stock optimization. Earnings reforms expand jewelry-focused stores from 22 gradually, applying Trial's low-cost operations to boost productivity post-closures, though mall traffic declines risk missing targets. Fundraising via 11th/12th stock acquisition rights will fund new formats, though weak stock prices risk exercise failure. JPR projects ¥22.2bn sales, 9.5% operating margin, and 10.1% ROIC by 2035 if reforms succeed.

Triple Tailwinds from Inbound Tourism, Asset Management, and Anniversary Demand

A Realistic Scenario for Capturing 3.4% Share of the ¥50 Billion Jewelry Market Within Shopping Centers

Affluent Consumers, Inbound Tourists, and Younger Generations Drive Growth: The Full Picture of Japan's Expanding Jewelry Market

Happiness and D's market opportunity is supported by structural growth in Japan's jewelry market, though external changes risk undermining assumptions. TAM (Total Addressable Market) is projected to grow from $11.29bn (2024) to $188.17bn (2033) at 6% CAGR, driven by affluent asset investment demand, inbound tourism (36.9M visitors, ￥8.1tn spending), and youth self-gifting, though risks include gold price collapse eroding investment demand, geopolitical shocks vaporizing inbound demand, and declining youth disposable income shrinking self-gifting. SAM (Serviceable Available Market) combines anniversary gift and bullion investment markets, expanding with life-milestone gifting and gold-driven asset formation, though aging demographics reducing anniversary events and gold reversal risk contraction. The "Anniversary Gift Shop" positioning and ABC System demonstrate market fit. SOM (Serviceable Obtainable Market) centers on SC jewelry markets, with expansion room from 66 stores to mid-large SCs, though EC competition risks exceeding real-store share erosion and mall traffic declines may force store plan revisions. JPR projects growth from ￥10.78bn (FY2024) to ￥22.2bn (2035), an optimistic scenario contingent on M&A execution, AbHeri/No. success, and EC ratio growth—achievement becomes difficult if multiple risks materialize.

Strategy for Phased Expansion from Achieving Profitability in 2026 to 22.2 Billion Yen in 2035

AbHeri･No.･M&A : A Growth Story Built on Three Pillars

Happiness and D's growth roadmap comprises three phases. Phase 1 "Restructuring" (2024-2026) aims for profitability turnaround from FY2024 actuals of ￥10.78bn sales and ￥160M operating loss. FY2025 company guidance projects ￥8.7bn sales and ￥440M operating loss, achieving fixed-cost reduction through unprofitable store closures, though risks include customer attrition and lease termination penalties delaying profitability. Phase 2 "Growth" (2027-2030) plans 1-2 M&A deals annually (17-18 total, ¥100-500M each) under Storm Harbor Securities partnership, with AbHeri Osaka opening (2025) and No. launch (November 2024). However, if Phase 1 profitability fails, bank lending tightens, funding M&A becomes impossible, and the entire growth strategy collapses. Phase 3 "Leap" (2031-2035) targets ¥22.2bn sales, 9.5% operating margin, and 10.1% ROIC per JPR forecast. The company maintains qualitative mid-term plan policies but has not disclosed specific numerical targets, risking investor confidence erosion and stock price stagnation constraining capital options. Jewelry-focused stores expanded to 22 by February 2025, with AI role-play training achieving 160% YoY sales growth in target products, confirming reform effectiveness.

Connection

AI Customer Service × ABC × M&A Partnership

Brand Conglomerate Through Integrated Manufacturing-Sales and Continuous M&A

AI and DX Accelerate Mechanisms for Enhancing Customer Service and Expanding Profits

Happiness and D's core management resources lie in human and intellectual capital fusion. Human capital centers on AI role-playing co-developed with Sapeet, achieving 160% YoY training target product sales growth, with new staff selling over ￥1.6M post-training. Intellectual capital features the ABC System (app, beacon, CRM) at all stores, integrating visit and purchase data for optimized customer experiences. Industrial capital efficiency improved through jewelry-enhanced store expansion from 17 to 22 stores with sales per store at ¥152M (FY2024: ¥ 10.78bn ÷ 71 stores), and SmartHR introduction cutting annual costs by ￥1.6M through paperless operations. Social relationship capital includes the April 2024 RAIN Corporation partnership for 24K gold product planning and manufacturing, and the August 2024 Storm Harbor Securities cooperation framework providing M&A deal introduction, scheme construction, and fundraising support. Coordination of these resources drove interim FY2025 jewelry sales up 6.0% YoY and gross margin to 40.0% (from 37.0%). However, excessive AI/CRM dependence risks business interruption from system failures, and partnership dissolution could critically obstruct product supply and M&A strategy execution.

New President × AI Training × SmartHR: Three Pillars of Human Resource Strategy

Productivity Revolution Through Fusion of Digital and Traditional Customer Service Techniques

Happiness and D's human capital strategy centers on AI-powered sales staff enhancement. The August 2024 release announced AI role-playing co-developed with Sapeet systematized excellent staff techniques, achieving 160% YoY training target product sales growth and new staff selling over ￥1.6M post-training, with full rollout from September 2024. In June 2025, new President Satoshi Maehara (ex-Fuji Bank, Mizuho Securities) assumed office, bringing financial expertise to drive fundraising, M&A, and new business strategy. The company promotes diversity through improved female manager ratios. SmartHR introduction cut annual costs by ￥1.6M through paperless labor procedures, while anniversary leave and qualification support enhance retention and skills. Personnel costs reached ￥762M in interim FY2025 (from ￥724M prior year), but the personnel cost ratio is improving due to store closures. These measures achieve improved sales per employee while maintaining customer satisfaction. However, risks include long training periods for excellent staff, AI's inability to capture customer service nuances, and potential profitability deterioration from rising personnel costs.

Complete Picture of Revenue Structure Transformation: High Gross Profit of 56.2% for Jewelry

ROIC Improvement Scenario Realized Through Jewelry Shift and Inventory Efficiency

Happiness and D's ROIC improvement strategy is a policy of simultaneously advancing operating profit margin improvement and invested capital efficiency. Regarding operating profit margin, the company aims to achieve profitability through gross profit margin improvement from negative 1.5% (operating loss of 158 million yen ÷ sales of 10,781 million yen) in the August 2024 fiscal year results. According to the interim fiscal 2025 report (interim period), gross profit margin has improved to 40.0% (37.0% in the same period of the previous year), with jewelry sales of 1,679 million yen (6.0% increase year-on-year) and gross profit of 943 million yen (9.9% increase), showing progress in shifting to high gross profit products. Jewelry gross profit margin achieved a high level of 56.2%.

Regarding invested capital efficiency, progress is centered on inventory management and fixed cost reduction. The securities report states inventory assets as of the end of fiscal year August 2024 at 3,693 million yen, with inventory turnover rate of 2.9 times per year. The August 2024 fiscal year financial results summary states that through efforts to optimize purchasing and inventory by product category and advancing inventory asset compression and security deposit recovery, operating cash flow achieved positive 756 million yen. Security deposits and guarantee deposits have been compressed to 548 million yen as of the end of fiscal year August 2024. Regarding SG&A reduction, the interim fiscal 2025 report (interim period) states that as a result of store closure effects from 17 stores in the previous period and efforts to control personnel costs, SG&A was 1,973 million yen (2,168 million yen in the same period of the previous year), realizing a reduction of 195 million yen. Monthly SG&A decreased from 361 million yen in the same period of the previous year to 328 million yen. For fixed cost reduction, head office Through these measures, the plan is to gradually improve the invested capital to sales ratio from the current approximately 65%, improving ROIC together with improved after-tax operating profit margin. Note that regarding specific numerical targets for future ROIC, the company states that new plan figures are being formulated (April 14, 2025 release), and are currently unpublished. However, as the product shift to jewelry advances, there is risk that unsold inventory increases due to inventory obsolescence or fashion changes, and after the SG&A reduction effects from store closures complete their cycle, room for additional cost reductions becomes limited and operating profit margin improvement may stagnate. Furthermore, non-disclosure of ROIC targets may be perceived as lack of accountability to investors, with risk of decreased stock market evaluation.

Confidence

Achieving Both Sustainable Growth and Social Contribution

Securing Financial Stability Through Positive Operating CF and Financial Institution Cooperation

Challenge of 12.1% Equity Ratio and Capital Enhancement Strategy Through Stock Acquisition Rights

Capital Enhancement Through Stock Acquisition Rights and Working Capital Compression

Happiness and D's FY2024 results summary recognizes "material doubt about going concern assumption" exists but concludes "no material uncertainty is recognized," citing positive operating cash flow of ¥756M, cash holdings of ¥981M, no financial covenants, unused overdraft capacity, and bank agreement on loan repayment modification. Third-party allotment of 11th/12th series stock acquisition rights (October 2023, exercise until October 2026) was modified in August 2024, setting ¥712 lower limit exercise price at 90% of prior closing price for jewelry new business/format opening, establishing flexible fundraising. Interim FY2025 balance sheet shows ¥6,233M assets, ¥5,436M liabilities, ¥798M net assets (12.1% equity ratio), and ¥3,608M interest-bearing debt (76% of interim sales) comprising ¥2,028M current-portion long-term borrowings and ¥1,580M long-term borrowings. Positive operating cash flow in FY2024 resulted from inventory compression and deposit recovery. The company judges "financial stability for the time being is sufficiently secured" with no cash flow problems during structural reform.

Environment, Society, Governance: Building a Foundation for Sustainable Growth

Realizing Social Value Creation Through Ocean Plastic Recycled Materials and Regional Collaboration

On environmental initiatives, Happiness and D develops products using ocean plastic recycled materials and private brands at various price points, achieving environmental consideration and differentiation. In January 2024, ethical sunglasses were commercialized using recovered PET bottles in collaboration with Sabae City's "JK Division," strengthening youth outreach and sustainable brand recognition while contributing to gross margin improvement. Social contributions include Orange Ribbon Movement support and barrier-free fund donations. Human resources initiatives feature improved female manager ratios promoting diversity, SmartHR introduction, anniversary leave, and qualification support achieving retention and skill development. Regional collaboration continues with initiatives like Sabae City JK Division cooperation. Governance operates as a company with audit and supervisory committee, appointing outside directors with legal and tax expertise while establishing internal control and risk management frameworks. The June 2025 announcement clarified management responsibility for recent poor performance, and authentication measures were strengthened addressing counterfeit product issues.

Path to WACC Reduction: Two Cost of Capital Models

Coexistence of Two Cost of Capital Worldviews: Theoretical Value of 4.4% and Actual 15% or Higher

Happiness and D's realistic WACC reduction path requires financial risk reduction and business stability improvement. Two worldviews coexist: market-data calculation yields 4.23% (β=0.4737), though statistical significance is extremely low due to business transformation, management crisis, and low liquidity. The ~4.4% WACC obtained by supplementing unstable individual beta with industry standards represents long-term equilibrium when "Japan's first brand conglomerate" is established. The alternative worldview reflects ≥15% shareholder capital cost reality, driven by going-concern material events, 12.1% equity ratio, and ¥3,608M interest-bearing debt. JPR assumes gradual trust recovery lowering premiums to ~12% (2026-2027), ~10% (2028-2030), and ~8% (2031-2035)—an optimistic scenario contingent on successful reforms and benign external environment. Conversely, if profitability delays exceed two years, WACC could spike to 15-20%, making growth strategy execution practically impossible. For diversified long-term investors, 4.4% may be appropriate, but JPR's final view for concentrated individual investment requires ≥15% return premium.

Risk Premium Reduction Strategy Through Financial Improvement and Brand Conglomerate Formation

Path to Gradual Risk Premium Reduction Through Financial Improvement, Jewelry Shift, and Brand Conglomerate Formation

Happiness and D's concrete financial improvement path includes bank agreement on loan repayment modification and cooperative framework establishment. With no financial restriction covenants, room exists for interest rate negotiations; achieving 2026 profitability could improve credit evaluation and reduce borrowing rates. The 11th/12th series stock acquisition rights (exercise until October 2026) will fund M&A and business expansion while strengthening equity capital, improving equity ratio and reducing WACC through equity-based funding. Business risk reduction centers on jewelry shift, with interim FY2025 showing 56.2% gross margin; bullion price fluctuations easily pass to sales prices with relatively low inventory risk. FY2024 operating cash flow of ¥756M positive suggests effective working capital compression, mitigating going-concern doubts and reducing capital market risk premiums. ESG initiatives—ocean plastic products and Orange Ribbon support—build social credit, forming the foundation for medium to long-term cost of capital reduction and corporate value improvement.

4. Assumptions and Calculation Results of the Financial Model

Based on the content explained thus far, financial forecast tables have been created for each segment. The assumptions are detailed in the previous section. They present the 10-year performance outlook for Happiness & D from the fiscal year ending August 2025 through the fiscal year ending August 2035. Sales are projected to grow steadily at an annual rate of 10%, increasing from ¥8.6 billion in 2025 to ¥22.2 billion in 2035.

By business segment, the existing Happiness core business will undergo structural reforms, achieving stable growth from ¥8 billion to ¥9.5 billion to solidify its revenue base. The AbHeri business will grow ninefold from ¥500 million to ¥4.5 billion, and the No. business will grow twenty-fivefold from ¥100 million to ¥2.5 billion, demonstrating steady growth for new brands. The M&A business will expand incrementally from its 2026 launch to ¥5.7 billion, building a track record in constructing a brand conglomerate. Notably, the operating profit margin will improve, rising from -5.1% in the first year to 9.5% in FY2035. This 14.6-point improvement will achieve profitability and transition to a high-profit structure.

Operating profit will achieve a V-shaped recovery, rising from -¥440 million to ¥2.11 billion. capital investment is projected to expand from ¥5.62 billion to ¥14.58 billion, with the capital investment to sales ratio expected to stabilize at 65.6%. ROIC will dramatically improve from -9.8% to 10.1%, achieving capital efficiency consistently exceeding WACC of 4.4% from 2028 onwards.

This forecast quantifies a realistic growth strategy aimed at building a sustainable growth foundation through three engines: transitioning to high-margin products like bullion jewelry and vintage items, developing integrated manufacturing and sales for premium brands, and launching new digital-first brands. Leveraging President Maehara's expertise as a professional in both finance and logistics, data-driven management for inventory efficiency and enhanced M&A execution capability will be key to achieving profitability by 2026 and stable earnings growth thereafter.

Financial Model Calculation Results (JPR Estimates)

Item	2025.8	2026.8	2027.8	2028.8	2029.8	2030.8	2031.8	2032.8	2033.8	2034.8	2035.8
■Sales Revenue (¥ 100 million)											
Total Sales Revenue	86	94	104	114	126	138	152	167	184	202	222
Happiness & D Holdings	80	82	84	85	87	88	90	91	92	93	95
AbHeri	5	8	11	14	18	22	27	32	37	41	45
No.	1	2	3	5	7	10	13	17	21	24	25
M&A Business	0	2	6	10	14	18	22	27	34	44	57
Growth Rate (%)	-20.50%	9.30%	10.60%	9.60%	10.50%	9.50%	10.10%	9.90%	10.20%	9.80%	9.90%
■Operating Profit (¥ 100 million)											
Total Operating Profit	-4.4	2.8	4.1	5.7	7.5	9.7	11.4	13.4	15.6	18.2	21.1
Happiness & D Core Busir	-5	0.4	1.5	2.4	3.3	4.2	5	5.8	6.7	7.6	8.2
AbHeri	0.3	0.8	1.3	2	2.7	3.5	4.2	5.1	5.9	6.5	7
No.	-0.7	-0.2	0.2	0.5	0.8	1.2	1.5	2	2.4	2.8	2.9
M&A Business	0	1.8	1.1	0.8	0.7	0.8	0.7	0.5	0.6	1.3	3
Operating Profit Margin	-5.12%	3.00%	3.95%	5.00%	5.95%	7.03%	7.50%	8.02%	8.48%	9.01%	9.50%
■Capital investment (¥ 100 million)											
Total capital investment	56.2	61.8	68	74.8	82.3	90.5	99.6	109.5	120.5	132.5	145.8
Working Capital	32.3	35.3	38.9	42.7	47	51.7	56.9	62.5	68.8	75.6	83.2
Fixed Assets	23.9	26.5	29.1	32.1	35.3	38.8	42.7	47	51.7	56.9	62.6
Goodwill & Intangible Assets	0	0	0	0	0	0	0	0	0	0	0
Capital investment to Sales Ratio	65.60%	65.60%	65.60%	65.60%	65.60%	65.60%	65.60%	65.60%	65.60%	65.60%	65.60%

[Source] JPR※JPR projections for 2027 and beyond

Overview of Financial Model Assumptions - Sales Revenue

Item	Explanation (Assumptions, Calculation Formula, Growth Drivers)
【Happiness & D Main Unit】	Our existing core business operates nationwide shopping centers, decisively shifting from watches/miscellaneous goods to precious metal jewelry and vintage items, targeting stable growth from ¥8bn (2025) to ¥9.5bn (2035). Achieving profitability through structural reform is top priority. Growth assumptions: stores 71→65 (closing unprofitable), sales per store ¥113M→¥146M (+29%), jewelry ratio 32%→55%, vintage rollout across all stores adding ¥80M gross profit annually, launching buyback business for dual engines. Sales formula: Stores × Sales per Store, with average customer spend up 2-3% annually from rising precious metal prices and asset value emphasis; stable 1-2% annual growth as mature post-reform company. Basis: FY2024 jewelry +9.0% (watches -32.5%, bags -19.0%), interim FY2025 precious metal units +174.2% YoY, vintage trial at Narita successful with sequential expansion from H2, new President Maehara's financial/data expertise from banking/Trial, AI training achieving 160% sales growth, Japan jewelry market 6% CAGR (USD 11.29bn→188.17bn by 2033), gold investment demand exceeding 2 tons annually. Risks: gold price decline (mitigated by inventory adjustment, PB ratio increase, vintage diversification), declining SC traffic (countered by ABC System, event enhancement, omnichannel), labor shortages (AI role-play, evaluation improvements); going concern disclosure is greatest risk, contingent on bank repayment modification (July 2025). Revenue improvement: gross margin 33%→40% (bullion/vintage shift), SG&A reduction via closures/efficiency, operating margin -6.3%→8.6%, profitability by 2026, sustained 5%+ from 2030. Existing business in mature phase prioritizing assured profitability and stability, functioning as stable revenue base over next decade.
【AbHeri】	AbHeri is a premium in-house jewelry brand directly connected to its workshop, specializing in affluent and inbound customers, targeting growth from ¥500M (2025) to ¥4.5bn (2035) through domestic/overseas expansion from current 4 stores. Highly rated on Chinese review sites (8th Shin-Marunouchi, 9th Ginza). Growth assumptions: domestic stores 4→12 (1/year in affluent areas), overseas stores launching 2026 reaching 7 by 2035 (China/East Asia), sales per store domestic ¥125M→¥250M, overseas ¥100M→¥200M, wholesale/EC expanding non-store sales via department stores and proprietary EC, average customer spend maintaining ¥300K+ with high-priced affluent targeting. Growth rate 25% annually reflects AbHeri's high-growth launch phase, referencing Louis Vuitton's 15-20% Japan growth and emerging Japanese luxury brands' 20-30% rates. Formula: Total sales = Domestic stores × Domestic store sales + Overseas stores × Overseas store sales + Wholesale/EC sales; Overseas store sales = First-year ¥100M × (1 + 20%)^Years; Wholesale/EC = Direct store sales × 15-20%. Risks: China slowdown (mitigated by East Asia diversification—Singapore, Taiwan, Korea—Middle East development, domestic affluent deepening), currency fluctuations (local price adjustments, hedging consideration), counterfeits (enhanced anti-counterfeiting, brand protection litigation), quality decline from rapid expansion (preemptive workshop capacity investment). Profit improvement: gross margin 60%+ (integrated manufacturing/sales), SG&A ratio controlled via economies of scale despite store growth, operating margin 6.0%→15.6%. Margins slightly decline during initial overseas expansion (2027-2029) from store investment but stabilize above 10% from 2030, driving group-wide profits as high-margin entity. Store expansion pace moderated from initial projections to balance with acquisition-driven growth model.
【No.】	No. is an urban unisex brand established October 2023, launched digitally in November 2024, gradually transitioning from e-commerce/pop-ups to brick-and-mortar stores, targeting growth from ¥100M (2025) to ¥2.5bn (2035) among urban residents aged 25-45. Growth assumptions: physical stores Tokyo flagship 2026→15 stores by 2035 (3-5/year, compact urban locations), e-commerce ratio 70%→32% (declines with physical expansion), sales per store ¥50M→¥150M mature, e-commerce ¥100M→¥750M (+34% annually), average customer spend ¥30K-50K accessible luxury. Growth rate 100% annually for initial 3 years, then 30-50%, incorporating high launch-phase growth and stable maturity, referencing Japanese emerging lifestyle brands (Global Work, nano･UNIVERSE) at 20-40% annual growth. Formula: Total sales = Physical stores × Store sales + E-commerce sales; EC sales = Online visitors × Conversion rate × Average order value × Repeat rate; Physical store sales = Operating days × Daily visitors × Average order value × Purchase rate; assumes 30-40% annual brand awareness growth via SNS marketing. Basis: November 2024 brand launch (pop-up/EC), concept embedding "No." numerals as eternal icons transcending age/gender/nationality, targeting urban career women thinking "I'm glad I was born," global handbag market 5.25% CAGR ($74.3bn→$95.9bn 2025-2030) with Asia-Pacific primary growth driver, Japanese jewelry market rings/personalization as key drivers. Risks: insufficient recognition (mitigated by ¥100M annual Instagram/TikTok investment, influencer collaboration, fashion magazine placements), e-commerce competition differentiation via physical store experiences, trend fading (short product cycles 4+ rotations/year, inventory compression), launch-phase losses absorbed through group support; interim FY2025 review suggests launch challenges. Profit improvement: gross margin 40%→50% (PB development, brand establishment), SG&A low-cost via e-commerce focus/compact stores, operating margin -70%→12.8%, profitability targeted 2027, stable 8%+ from 2030, achieving highly efficient digital native management. Growth pace moderated from initial projections, prioritizing profitability.
【M&A Business】	M&A serves as the key growth driver accelerating from 2026, gradually acquiring brands lacking successors to build a Japanese-style brand conglomerate, referencing AbHeri's successful model (integrated manufacturing/sales, high gross margins) while expanding multiple brands. Numerous deals in pipeline; Storm Harbor Securities partnership established. Growth assumptions: acquisition pace 1 company (2026)→2 additional (2027)→2/year from 2029, cumulative 17-18 companies; acquisition scale ¥100-500M sales/company at 0.3-0.5x sales; post-acquisition growth maintaining first-year sales→1.5-2x from second year using group infrastructure; operating margin 0-2% at acquisition→5%+ within 3-5 years; goodwill not recorded as zero. Growth rate 30-40% annually based on Louis Vuitton's post-M&A brand growth (sales doubling/tripling within 3-5 years) and Japanese revitalization cases (1.5-2.5x within 5 years), anticipating accelerated growth through group synergy. Formula: Sales = Σ(Acquisition sales × Cumulative growth rate); Post-acquisition growth = (1 + Group infrastructure 20%) × (1 + Management efficiency 10%) × (1 + Sales channel expansion 15%); Average per company ¥200M first year→¥300M after 10 years, cumulative 18 companies totaling ¥5.7bn. Basis: Storm Harbor MOU (August 2024) for M&A deal introduction, scheme structuring, financing; plan 2-4 deals over 3 years at ¥100-300M each starting FY2024; targets manufacturers/wholesalers/retailers with branded products, especially overseas-targeting jewelry/bags/accessories; President Maehara (June 2025) brings banking/securities M&A/funding expertise; AbHeri acquisition (December 2022) achieved 60%+ gross margin via integrated model; numerous Japanese jewelry/brand companies face designer retirements/successor shortages creating abundant fair-priced acquisition opportunities; LVMH-inspired integrated brand conglomerate strategy. Risks: PMI failure (mitigated by AbHeri-proven model, clear designer/management role division, phased integration risk dispersion), acquired company performance deterioration (thorough due diligence emphasizing technology/brand strength, 100-day post-acquisition plan), funding risk significant concern—acquiring 2 companies/year difficult given going concern disclosures, therefore phased acquisition plan accelerating after 2026 profitability, flexible pace adjustment based on market/financial status, conservative initial 1-2/year; first 2026 acquisition success is key. Profit improvement: acquired brand gross margin 35-40%→45-50% post-integration (group purchasing power), SG&A reduced 5-8% via back-office integration, operating margin 0-2%→5%+ after 3-5 years→5-6% maturity; entire M&A business operating margin ~4% (2030)→5.3% (2035), growing into key profit segment as brand conglomerate, targeting sufficient investment recovery with 2035 operating profit ¥3.0bn against cumulative ¥5-8bn investment over 10 years.

[Source] JPR

Summary of Financial Model Assumptions - Operating Income

Item	Explanation (Revenue Model, Cost Structure, Improvement Measures)
【Happiness & D Main Unit】	Cost structure: 2025 gross profit ¥2.6bn - labor ¥1.8bn - rent ¥0.8bn - other SG&A ¥0.5bn = ¥0.5bn loss; 2035 gross profit ¥3.8bn - labor ¥1.7bn - rent ¥0.9bn - other SG&A ¥0.4bn = ¥0.8bn profit. Personnel expenses improved from 23% to 18% of sales via store reductions/efficiency; rent improved from 10% to 9% closing unprofitable stores. Basis: interim FY2025 employee salaries ¥762M (6 months), rent ¥440M (down ¥83M YoY); monthly SG&A ¥364M (FY2022)→¥375M (FY2023)→¥333M (FY2024)→¥300M (FY2025 forecast); store count 86→88→71→66 (forecast) reducing fixed costs; gross margin 34.1% (FY2024)→36.7% (FY2024 standalone)→40.0% (interim FY2025). Improvement measures: ① product mix reform increasing bullion jewelry/vintage (50-60% gross margin) from 32% to 55%, reducing watches (30% margin); ② vintage buyback expanding from 36 to all stores adding ¥80M annual gross profit with 20-30% buyback margin; ③ store efficiency closing 17 unprofitable stores, closing 5 more (FY2025) boosting sales per store +29%; ④ ABC System increasing visit frequency +20%, conversion rate +15% driving sales/gross profit; ⑤ digitalization (SmartHR) cutting back-office costs ¥1.6M annually, company-wide savings ¥30M/year. Profitability & growth: FY2025 -¥500M (-6.3%)→FY2026 ¥50M (0.6%) (turnaround)→FY2028 ¥260M (3.1%) (stable)→FY2035 ¥820M (8.6%). Key KPIs: achieve 35% gross margin (2026), keep fixed costs below 30% of sales (2027); three consecutive positive months post-new president appointment demonstrate profitability certainty. Risks: going concern material events exist—failure achieving 2026 profitability could make fundraising difficult; precious metal price decline reducing sales/gross margin; declining SC foot traffic directly impacting store sales; talent acquisition/development for advanced jewelry sales skills takes time. Business model: low-risk, high-efficiency leveraging existing SC infrastructure—① increase average spend with asset-backed bullion; ② improve inventory turnover with vintage (4→6 rotations/year); ③ maximize customer LTV with ABC system; ④ improve capital efficiency through selective unprofitable store closures and strategic focus. New president's financial expertise (market insight) and data analysis capabilities are key differentiators.
【AbHeri】	Cost structure: 2025 gross profit ¥300M - labor ¥120M - rent ¥80M - other SG&A ¥70M = ¥30M; 2035 gross profit ¥2.7bn - labor ¥900M - rent ¥700M - other SG&A ¥400M = ¥700M. Labor costs increase in absolute terms with more craftsmen/sales staff but maintain 21% of sales; rent increases with flagship openings but stabilizes around 18% of sales. Basis: FY2024 (1H) gross profit ¥172M, gross margin 64.7%, SG&A ¥116M, operating profit ¥56M; integrated manufacturing/sales model maintains 40% cost ratio via in-house workshops, eliminating middle distribution channels. Improvement measures: ① thorough manufacturing/sales integration maintaining 40% cost ratio, eliminating middle channels securing 60%+ gross margin; ② flagship store strategy concentrating high-efficiency stores (¥250M sales/store) in affluent areas; ③ overseas expansion leveraging high Chinese review ratings (8th Shinmaru, 9th Ginza) for cost-effective recognition from 2026; ④ wholesale/e-commerce expansion via non-store channels controlling SG&A ratio; ⑤ workshop efficiency investing ¥200M over 5 years to triple production capacity, reducing labor cost ratio. Profitability & growth: already profitable; operating profit margin 6.0%→8.6% (2026)→10.0% (2028)→11.1% (2035) through phased improvement. Initial overseas expansion (2027-2029) temporarily lowers margin to 7-8% from store investment but stabilizes above 10% from 2030, driving group profits as high-profit brand. Risks: interim FY2025 revenue/profit declined YoY from decreased large overseas buyers, making inbound demand volatility a risk. Business model: integrated manufacturing/retail delivering high gross margins/efficiency—① balances quality control/cost management in proprietary workshops; ② targets affluent/inbound achieving high average transaction values (¥300K+); ③ diversifies risk through flagship + wholesale + e-commerce multi-channel; ④ significant growth potential via overseas expansion. Competitive advantage: capturing both manufacturing and retail profit margins.
【No.】	Cost structure: 2025 gross profit ¥40M - labor ¥50M - marketing ¥30M - other ¥30M = -¥70M; 2035 gross profit ¥1.25bn - labor ¥400M - rent ¥400M - marketing ¥100M - other ¥100M = ¥300M. Labor costs contained to 16% of sales (EC-focused model); marketing maintained at 5-6% of sales leveraging SNS/influencer strategies. Basis: FY2025 August (1H) gross profit ¥4M, gross margin 47.1%, SG&A ¥41M, operating loss -¥37M; brand launch November 14, 2024 with pop-up stores/EC site opening; product development delayed 4 months from initial plan, sales recording commenced November 2024; brand concept utilizes globally shared numbers "No." as eternal icon in product design. Improvement measures: ① EC-centric model controlling fixed costs with low break-even point, initial investment ¥50M only; ② urban small-format stores at ¥30M investment per store, securing ¥10-20M operating profit per store; ③ SNS marketing investing ¥100M annually on Instagram/TikTok, maintaining CPA below ¥1,500; ④ product turnover improvement achieving 6x+ annually through short-cycle procurement reflecting trends, minimizing inventory risk; ⑤ PB advancement—initially procured products (40% gross margin), shifting to PB from 2028 (50% gross margin) improving profit margins. Profitability & growth: 2025 -¥70M (-70%)→2027 ¥10M (3.3%) achieving profitability→2030 ¥120M (10.0%) stable profitability→2035 ¥290M (12.8%). Critical KPIs for profitability: EC sales exceeding ¥300M (2027) and 10 physical stores achieved (2029). Launch phase losses absorbed through group support, ensuring 2027 profitability achievement. Risks: continued launch phase losses—FY2025 August interim operating loss -¥37M representing significant deficit, potential profitability delays; product development delay track record—4-month delay from initial plan with further delay risks. Investment efficiency: 10-year cumulative investment ¥1.5bn (store openings ¥1.2bn, marketing ¥300M) against annual operating profit ¥100-500M from 2030 onwards; payback period 3-5 years standard but risk limited due to low investment amounts. Business model: digital-first × urban small-format store hybrid model—① 32% EC ratio compressing fixed costs; ② small-format stores (50-80㎡) controlling opening costs; ③ SNS marketing achieving low-cost customer acquisition; ④ unisex accessible luxury pioneering new markets; ⑤ short-cycle procurement avoiding inventory risk; targets digital-native generation as new-generation model.
【M&A Business】	Cost structure: 2026 gross profit ¥200M - labor ¥20M - other ¥0M = ¥180M; 2035 gross profit ¥2.9bn - labor ¥1.1bn - rent ¥900M - other ¥600M = ¥300M. Personnel expenses covering artisans/sales staff across brands reduced to 20% of sales through group synergies; rent contained to 13% of sales leveraging existing infrastructure. Basis: Storm Harbor MOU (August 2024) utilizing expertise/global network for M&A deal introductions, structuring, financing; plan 2-4 acquisitions over 3 years at ¥100-300M each starting FY2024; AbHeri acquisition track record (December 2022) achieved 60%+ gross margin via integrated manufacturing/sales model, possessing post-acquisition integration expertise; President Maehara (June 2025) from banking/securities well-versed in M&A execution/funding; numerous Japanese jewelry/brand companies face designer retirements/successor shortages. Improvement measures: ① due diligence emphasizing technology/brand strength, evaluating business viability over finances, selecting urgent no-successor cases; ② PMI (100-Day Plan) immediately integrating back offices (accounting, HR, IT) post-acquisition reducing fixed costs 5-8%; ③ group infrastructure leverage achieving cost reduction/sales expansion through Happiness store network sales, shared e-commerce platforms, integrated logistics/procurement; ④ designer focus system—company handles management while designers concentrate on creation, improving efficiency while maintaining quality; ⑤ phased integration mitigating risk—maintain existing operations Year 1, initiate group integration Year 2, achieve full integration Year 3. Profitability & growth: 2026 ¥180M (90%)→2027 ¥110M (18%)→2030 ¥80M (4.4%)→2035 ¥300M (5.3%); initially high profit margins from fees, shifting to operating margins as acquired brands mature; individual brands achieve margin improvement 0-2% at acquisition→5%+ after 3-5 years→5-6% maturity; stable 3-5% operating margin post-2030. Greatest risk: funding difficulty—given current going concern material events disclosure, securing necessary M&A funds is extremely difficult; achieving 2026 profitability is prerequisite. Investment efficiency: cumulative 10-year investment ¥5-8bn (M&A funds + post-acquisition investment); annual operating profit from 2033 onwards ¥300-500M; individual brand payback periods 3-5 years; overall cumulative investment recovery expected around 2033. Small-scale acquisition model diversifies risk; acquisition pace leveled across fiscal years through phased growth model.

[Source] JPR

Summary of Financial Model Assumptions—Capital Investment

Item	Explanation (Asset Allocation, Investment Plan, Capital Efficiency)
【Happiness & D Main Unit】	Asset composition: 2025 working capital ¥2.9bn (81%), fixed capital ¥0.7bn (19%), total ¥3.6bn; 2035 working capital ¥4.65bn (74%), fixed capital ¥2.3bn (26%), total ¥6.9bn. Inventory-based business model relies primarily on working capital, but working capital ratio trending downward due to inventory efficiency improvements. Working capital breakdown: 2025 inventories ¥3.2bn (bullion/jewelry ¥2.8bn, watches ¥0.2bn, bags/accessories ¥0.2bn), accounts receivable ¥0.35bn, accounts payable -¥0.65bn, total ¥2.9bn (36% of sales); 2035 inventories ¥5.0bn (bullion/jewelry ¥4.4bn, vintage ¥0.4bn, other ¥0.2bn), accounts receivable ¥0.5bn, accounts payable -¥0.85bn, total ¥4.65bn (49% of sales, increased from rising bullion prices). Inventory turnover improved 3.5→4.0 times/year (vintage contribution); days in inventory shortened 103→91 days. Fixed assets: 2025 tangible ¥3.5bn (store fixtures), leasehold/deposits ¥3.5bn (71 stores × average ¥5M), total ¥7.0bn; 2035 tangible ¥1.0bn (65 stores × average ¥15M, renovations/upgrades), deposits ¥1.3bn (65 stores × average ¥20M, increased flagships), total ¥2.3bn. Store count decreases from closures, but assets per store increase (jewelry-focused conversion). Investment plan: cumulative 10-year ¥1.0bn—① store renovations 3-5 stores/year × ¥15M/store × 10 years = ¥500M (jewelry-focused conversion); ② vintage operations authentication equipment/repair workshop ¥200M; ③ ABC system annual operating ¥30M/year × 10 years = ¥300M. Depreciation ¥150M annually; investment ¥100M annually; net cash outflow ¥50M annually. Capital efficiency: IC turnover expected to deteriorate 2.22→1.94 times (from increased inventory value with rising bullion prices), but ROIC improves through gross/operating margin improvements. Capital employed to sales ratio slightly worsens 45%→55% (increased bullion inventory). Countermeasures: ① improve inventory turnover through vintage purchases; ② maintain minimum necessary bullion inventory managing risk; ③ close unprofitable stores recovering deposits for reinvestment. ROIC: -13.9%→14.5% (primarily from improved operating profit).
【AbHeri】	Asset composition: 2025 working capital ¥250M (63%), fixed capital ¥150M (37%), total ¥400M; 2035 working capital ¥2.0bn (50%), fixed capital ¥1.8bn (45%), goodwill ¥0M (5%), total ¥4.0bn. Fixed asset ratio increases from workshop/flagship store investments. Working capital breakdown: 2025 inventory ¥300M (WIP ¥50M, finished goods ¥250M), accounts receivable ¥50M, accounts payable -¥100M, total ¥250M (50% of sales, high inventory value from high-priced products); 2035 inventory ¥2.8bn (WIP ¥0.5bn, finished goods ¥2.3bn), accounts receivable ¥0.5bn, accounts payable -¥1.3bn, total ¥2.0bn (24% of sales, inventory dispersion/improved turnover from store expansion/overseas development). Inventory turnover improves 2.5→4.0 times/year; integrated manufacturing/sales increases made-to-order ratio reducing inventory risk. Fixed assets: 2025 workshop equipment ¥800M, store equipment ¥300M, deposits ¥400M, total ¥1.5bn; 2035 workshop equipment ¥5.0bn (expanding production capacity 1.5x), domestic store equipment ¥8.0bn (20 stores × average ¥40M, flagships ~¥100M), overseas store equipment ¥3.0bn (15 stores × average ¥20M), deposits/guarantees ¥2.0bn, total ¥18.0bn. Strategic workshop/flagship investment establishing AbHeri brand value. Investment plan: cumulative 10-year ¥3.5bn—① domestic expansion 1-2 stores/year × ¥80M/store × 10 years = ¥1.6bn; ② overseas expansion 2-3 stores/year × ¥120M/store × 7 years (from 2026) = ¥1.8bn; ③ workshop expansion ¥200M/year (artisans, equipment renewal, 1.5x capacity). Annual depreciation ¥150M; annual investment ¥350M; net annual cash outflow ¥200M (growth investment phase). Capital efficiency: significantly improve IC turnover 1.25→2.13 times (inventory/fixed asset efficiency); significantly improve ROIC 80%→44%. Measures: ① compress inventory by increasing build-to-order ratio; ② enhance flagship store efficiency (¥250M sales/store); ③ accelerate overseas launches (profitability within 3 years). ROIC: 7.5%→23.5% (ideal high profitability × high turnover model). Demonstrates high capital efficiency of integrated manufacturing-sales model.
【No.】	Asset composition: 2025 working capital ¥0.5bn (83%), fixed capital ¥0.1bn (17%), total ¥0.6bn; 2035 working capital ¥8.0bn (44%), fixed capital ¥10.0bn (56%), total ¥18.0bn. Launch phase dominated by working capital; growth phase increases fixed asset ratio from store investments. Total capital investment remains low via digital-first strategy. Working capital breakdown: 2025 inventory ¥70M (primarily e-commerce stock, trending products), accounts receivable ¥30M, accounts payable -¥50M, total ¥50M (50% of sales); 2035 inventory ¥1.2bn (25 physical stores + e-commerce), accounts receivable ¥300M, accounts payable -¥700M, total ¥800M (15% of sales, inventory compressed via short-cycle replenishment). Inventory turnover improves 4→6+ rotations/year, minimizing risk through short-cycle replenishment (6-8 rotations/year) reflecting trends; inventory days reduced 91→61. Fixed assets: 2025 system investment ¥0.1bn (EC infrastructure ¥50M), no store equipment; 2035 system investment ¥200M (EC platform enhancement, CRM, inventory management), store equipment ¥600M (25 stores × average ¥24M, small stores 50-80㎡), deposits ¥200M, total ¥1.0bn. Fixed assets minimized via small stores/EC focus. Investment plan: 10-year cumulative ¥1.5bn—① store openings 3-5 stores/year × ¥30M/store × 10 years = ¥1.2bn (urban compact stores, low-investment model); ② e-commerce/systems initial ¥50M + annual operation ¥20M × 10 years = ¥250M; ③ marketing ¥100M/year × 3 years (launch-phase concentration) = ¥300M (expensed, not included in invested capital). Depreciation ¥800M annually; investment ¥1.5bn annually; net cash outflow ¥700M annually. Capital efficiency: IC turnover significantly improved 1.67→3.06 times (low inventory × low fixed assets model); capital employed to sales ratio significantly improved 60%→33%. Measures: ① centralized inventory at headquarters via EC focus, minimizing store inventory; ② suppressed opening costs with compact stores; ③ maintained inventory turnover 6+ rotations through short-cycle launches. ROIC: -117%→30.6% (high-efficiency digital native model). Demonstrates new-generation brand high capital efficiency.
【M&A Business】	Asset composition: 2026 working capital ¥30M (20%), fixed assets ¥120M (80%), total ¥150M; 2035 working capital ¥2.96bn (50%), fixed assets ¥2.98bn (50%), total ¥5.94bn. Initial acquisitions start small-scale, gradually expanding acquisition scale and integrated brands; goodwill conservatively recorded as zero. Working capital breakdown: 2026 inventory ¥40M (one acquired brand), accounts receivable ¥10M, accounts payable -¥20M, total ¥30M (15% of sales); 2035 inventory ¥4.0bn (consolidated from 17-18 companies), accounts receivable ¥5.0bn, accounts payable -¥15.4bn, total ¥2.96bn (52% of sales). Inventory turnover improved 3→4 times/year at acquisition through group infrastructure utilization; inventory efficiency advanced via shared manufacturing/logistics. Fixed assets: 2026 one acquired brand stores/equipment ¥120M; 2035 cumulative 17-18 companies' store facilities ¥2.0bn, system investment ¥0.3bn (integrated CRM/inventory management), deposits ¥0.68bn, total ¥2.98bn. Maintain brand independence while reducing fixed costs through back-office integration. Investment plan: cumulative 10-year ¥5.0-8.0bn—① M&A funding 1-2 companies/year × average ¥200-400M/company × 10 years = ¥4-6bn (targeting jewelry/bag/accessory companies lacking successors); ② post-acquisition investment ¥50M/company × cumulative 17-18 companies = ¥1bn (store renovations, system integration); ③ integrated infrastructure ¥1bn (shared CRM, logistics integration, manufacturing consolidation). Annual depreciation ¥2.5bn; annual investment ¥5-8bn; net annual cash outflow ¥2.5-5.5bn. Capital efficiency: IC turnover low initially, gradually improving through group synergies; capital-to-sales ratio over 100% initially→104% by 2035. Measures: ① reduce fixed costs 5-8% through back-office integration; ② cross-sell via Happiness store network sales; ③ joint manufacturing/logistics. ROIC: negative in early acquisition phase→5.1% in 2035 (acquisition brand revitalization model). Achieve brand conglomerate capital efficiency through phased M&A execution/integration.

[Source] JPR

Summary of Financial Model Assumptions - List of Reference Materials

Project	Document Name
Company Announcement Materials	“202504 Earnings Briefing Materials.pdf” (Second Quarter Results for the Fiscal Year Ending August 2025) “Semi-Annual Report.pdf” (Second Quarter of the Fiscal Year Ending August 2025) “Securities Report” (34th Fiscal Year: September 1, 2023 - August 31, 2024) “20241015005.pdf” (Financial Results Summary for Fiscal Year Ending August 2024) “Notice of Memorandum of Understanding Signed with Storm Harbor Securities Co., Ltd.” (August 26, 2024) “Happiness & D and RAIN Enter into Business Alliance” (April 12, 2024)
External Materials	IMARC Group: Japan Luxury Goods Market 2025–2033 IMARC Group: Japan Jewelry Market Report Recycle Tsushin: Brand Reuse Market Survey (2023) JewelleryNet: Revitalising Japan’s Jewellery Market Yano Research Institute: Domestic Luxury Goods & Jewelry Market Report Recycle Tsushin (Reuse Economy Newspaper): Reuse Industry Market Size Estimate 2024 Komehyo Holdings: IR Materials Buycell Technologies: Financial Results Presentation Materials Ministry of the Environment: Consumer Questionnaire Survey Results for the Project to Enhance Environmental Awareness Among Reuse Businesses Secondary (Vintage) Market PEST×SWOT×3C Analysis Overseas Brands & Conglomerates Industry PEST×SWOT×3C Analysis deallab: Global Market Share Analysis of the Luxury & High-End Brands Industry NESTBOWL: Performance Comparison of Three Major Luxury Brands WWDJAPAN: Beauty Strategies of European Luxury Companies FASHIONSNAP: Financial Results Comparison of LVMH, Kering, and Hermès Nikkei Business: LVMH's Lineage and Challenges

5. FY25/8 Financial Results Summary

Profit and Loss Summary

Profit and Loss Summary

Company-Wide Performance

Sales and Operating Results Summary

Gross Margin Reaches 40.6% Through Store Network Optimization and Jewelry Strengthening

Consolidated net sales totaled ¥8,841 million, down 18.0% YoY, primarily due to store closures (71→57 stores) under structural reforms. The gross profit margin improved to 40.6% (from 38.1%) driven by stronger focus on jewelry and bullion. Bullion items (Kihei chains, coins) benefited from sustained demand amid high gold prices, while watches and accessories faced procurement challenges and price pressures, leaving the segment's recovery incomplete. Vintage product expansion is progressing, though quantitative metrics remain limited in disclosures. Key risks include potential inventory losses from gold price declines and temporary SG&A increases from restructuring and settlement costs.

Profit and Loss

Gross Margin Improvement and Cost Review Progress; Operating Loss of ¥404 Million

The operating loss widened to ¥404 million (vs. ¥158 million loss in the prior year). Despite gross profit margin improvement to 40.6% (from 38.2%) on sales of ¥8,841 million (down 18.0% YoY), the decline could not be offset. SG&A expenses totaled ¥3,990 million, resulting in an ordinary loss of ¥435 million (vs. ¥186 million loss prior year). Extraordinary losses of ¥282 million (comprising impairment ¥218M, store closure provision ¥38M, fixed asset disposal ¥23M, and lease cancellation ¥3M) pushed the net loss to ¥808 million (vs. ¥459 million prior year).

Financial Position, Cash Flow, and Capital Policy

Working Capital Optimization Delivers Positive Operating CF, Securing Capital Policy Flexibility

Total assets declined to ¥5,650 million (from ¥7,052 million), with net assets at ¥198 million and equity ratio of 2.7%. Cash stood at ¥689 million. Operating CF was positive at ¥170 million through working capital optimization (inventory and procurement management by product category, deposit recovery), while investing CF was negative ¥113 million and financing CF negative ¥348 million. However, full-year losses eroded equity.

The company maintains stock acquisition rights (11th/12th series, exercise period to October 2026; 11th series: 90% adjustment mechanism, floor price ¥712) for M&A and new format funding, though execution faces dilution risks and depends on stock price and volume. Debt repayment progressed but remains sensitive to interest rates and lender stance. Stabilizing cash flow requires continued improvements in inventory turnover and SG&A reduction. While no going concern note exists, risks include gold price declines, store opening/closing costs, and PMI expenses. Monitoring quarterly KPIs (inventory metrics, deposit recovery, warrant exercise) is critical.

6. JPR's Latest Performance Trend Analysis

Performance Improvement Trends

40.6% Gross Margin and Cost Cuts Drive ~20% Reduction in Break-Even Point

1. Core of Performance Improvement

Lower Break-Even Point and Sustained Gross Margin Improvement

Happiness & D's FY25/8 consolidated results showed net sales of ¥ 8,841M (down 18.0% YoY) and an operating loss of ¥404M, primarily due to temporary revenue declines and cost burdens associated with restructuring and changes in the product mix. The company's disclosed FY26/8 consolidated plan projects operating profit of +¥30M, an ordinary loss of -¥130M, and net loss attributable to owners of the parent of -¥ 520M. JPR assesses that sustained operating profitability by FY27/8 is achievable, assuming the structural reforms take hold and product mix improvements progress.

The essence of the performance improvement is a structural shift toward securing profits without relying on absolute sales volume. On a consolidated basis, the gross margin improved from 38.2% in the previous fiscal year to 40.6% in FY25/8. Monthly dynamics also remained above the 30% level, at 34.0% in July and 33.4% in August, based on " H&D existing stores (standalone) " metrics, which differ from consolidated figures. The standalone plan for FY26/8 targets a gross margin of 41.3%.

Although gross profit declined from ¥4,114M to ¥3,587M, improvements in gross margin and the streamlining of fixed costs have lowered the break-even point. Incorporating store consolidation (see below) and reductions in personnel expenses and rent into JPR's estimates, the monthly sales level required for break-even is estimated to have fallen by roughly 20%, from around ¥950M to around ¥750M.

By product category, jewelry maintained solid performance with sales of ¥3,261M (+4.0% YoY) and gross profit of ¥1,803M (+4.2% YoY). Watches declined to sales of ¥1,048M (-38.7% YoY) and gross profit of ¥ 328M (-35.0% YoY), while bags and accessories fell to sales of ¥4,531M (-23.7% YoY) and gross profit of ¥1,454M (-22.5% YoY). These figures show that jewelry continues to underpin overall profitability, while the scale of watches and bags/accessories is being adjusted downward.

2. Three Structural Improvement Trends

① Strategic Shift in Product Portfolio

Shifting from High-Brand Reliance to Gold, Jewelry & Vintage—Leveraging a 55.3% Jewelry Gross Margin

The company is shifting its focus from high-end brands to gold, jewelry, and vintage items. The gross profit margin for jewelry remained high at approximately 55.3% in FY25/8. Meanwhile, it aims to raise overall gross margins by limiting the scale of watches and bags/accessories, which are prone to profitability instability due to price hikes and market fluctuations.

② Strategic Expansion of Vintage Sales Operations

Expanding to 33 Stores + Clarisse Alliance: Enhancing Sourcing & Inventory Turnover as New Growth Driver

As of the end of FY25/8, vintage offerings had been introduced at 33 stores, and the company plans to continue expanding this initiative in FY26/8. Quantitative metrics (sales amount, gross margin rate, sales per store) are only partially disclosed by the company; therefore, this report's baseline assessment focuses on the steady increase in stores adopting vintage and its contribution to mix improvement.

Furthermore, the business alliance with Clarisse (operator of Gold Plaza), commencing in November 2025, is expected to strengthen purchasing expertise, enhance event acquisition capabilities, and improve procurement efficiency. Incorporating the effects of this alliance (improved yield and turnover rates), JPR projects that the vintage business could expand to annual sales of ¥800–1,000M and gross profit of ¥250–300M by FY27/8.

③ Steady Progress in Fixed Cost Reduction

Store Optimization (71→57) Reduces Costs by ~¥400M Annually, Boosting Efficiency of Remaining Locations

Optimization of the store network progressed from 71 stores at the end of FY24/8 to 57 stores at the end of FY25/8, with 14 stores closed in FY25/8 (compared to 17 stores in the previous period). JPR's cost model anticipates fixed cost reductions of approximately ¥180M annually in rent and lease expenses and approximately ¥220M annually in labor costs, totaling about ¥400M.

Regarding efficiency, applying H&D's standalone sales of ¥8,408M ÷ 57 stores at period-end (≈¥148M per store) and a standalone gross margin of 39.3% yields an estimated gross profit of approximately ¥58M per store. JPR assesses that the closure of unprofitable stores is improving the remaining stores' gross profit generation capacity and inventory turnover efficiency.

Reference: WACC calculation procedure

WACC calculation process

β is calculated as VI (volatility index) × COR (correlation coefficient). VI is the standard deviation of the stock's returns divided by the standard deviation of TOPIX returns, and COR is the correlation between the stock's returns and TOPIX returns. Both metrics use weighted averages of the stock and its industry peers, as shown in the table below. All metrics, including share prices, are based on daily data for the past five years, and all β values are unlevered betas.
RP denotes the equity risk premium and RFR the risk-free rate (10-year Japanese government bond yield, Ministry of Finance). Leverage, defined as 1 + (1 − tax rate) × D/E, captures the incremental risk from debt; levered β = leverage × unlevered β. D is interest-bearing debt at the most recent quarter-end and E is market capitalization on the valuation date. COE (cost of equity) is computed as β × leverage × RP + RFR. The WACC calculation methodology used in this report is described below in greater detail.

β Builder 1 – Company-wide use

Volatility Index (VI) × Correlation Coefficient (COR) = Beta (Unlevered)

Select the desired weights for VI and COR (0–9) to calculate the applicable β.

VI*		Value	Weight	%
	Company VI	1.047	1	20%
	Industry VI	1.752	4	80%
	Ref. industry/peer VI (select)		0	0%
			0	0%
			0	0%
			0	0%
			0	0%
	VI used	1.611		

COR		Value	Weight	%
	Company COR	0.104	1	20%
	Industry COR	0.341	4	80%
	Ref. industry/peer COR (select)		0	0%
			0	0%
			0	0%
			0	0%
			0	0%
	COR used	0.294		

VI* suggested that VI adjsted differs from the original VI

β1 used

0.47369

β Builder 2 – New business use

Weight βs of industries similar to the new business

β2		Value	Weight	%
	Company β2	0.049	1	100%
	Industry β2	0.598	0	0%
	Ref. industry/peer β2 (select)		0	0%
			0	0%
			0	0%
			0	0%
			0	0%
	β2 used	0.05		

WACC calculation process

β used for calculation

β1	0.4737	
E: Market cap [JPY 100 mil]	D: Interest-bearing debt [JPY 100 mil]	TaxRate
18.2	36.2	30.5%
RP	RFR	Leverage
9.000%	1.07%	2.381
COE	Historical interest rate paid	COD
11.22%	1.02%	0.71%
D/(D+E)	E/(D+E)	D/E
66.51%	33.5%	198.6%

COE×E/（E+D）+COD×D/（E+D） =

WACC

4.23%

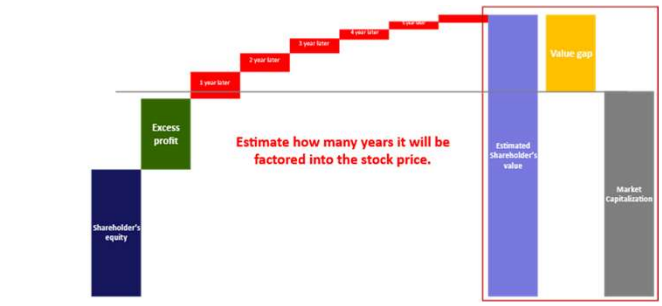
Appendix: Basis of Calculation

Corporate value estimated by use of ROIC

Excess return analysis framework

Excess profit or economic value added is globally used as an indicator to estimate corporate value, evidenced by its adoption by Kao Corporation, a Grand Prix winner of the Tokyo Stock Exchange Fifth Corporate Value Improvement Award (FY2016). In the calculation of excess return, corporate value can be broken down into four elements: invested capital, excess return value, growth value, and non-business assets. This facilitates a better understanding of the structure that creates corporate value. A company might be overvalued or undervalued when its market cap is higher or is lower than its theoretical corporate value, respectively. The contribution of each year's corporate value can be visualized in the following figure, wherein shareholders' equity is simply represented as a sum of invested capital and non-business asset, subtracting interest-bearing debts. The figure below allows us to estimate how many years of growth might be incorporated into the stock price.

Breakdown of corporate value using excess return



[source] JPR

Estimated excess return is profit that exceeds investors' return expectations against invested capital. Its present value is "excess return value," while a potentially growing portion of excess return is "growth value." Moreover, assets not used in business are added as non-business asset value in estimating a theoretical corporate value. Theoretically, the estimated corporate value using excess return should be the same as the value estimated using the discount cash flow (DCF) model. This report calculates excess return by using the following figures in a simplified manner.

- ・Excess return = NOPAT – Invested capital X WACC
- ・Net Operating Profit After Tax (NOPAT) = Operating profit X (1 - Effective tax rate)
- ・Invested capital = Total assets – Non-business assets – Current liabilities excluding Interest-bearing debt
- ・Non-business assets = Cash and deposits exceeding 10% of sales + Short-term investment securities + Investment securities + Deferred gains or losses on hedges + Land revaluation difference + Foreign currency translation adjustments
- ・Weighted average cost of capital (WACC) = After-tax interest rate of interest-bearing debt X(D/(E+D)+Cost of shareholders' equity X(E/D+E)
- ・Cost of shareholders' equity=0.5%+5%Xβ
- ・β = Slope of a linear regression line of five-year daily returns of TOPIX and the stock price of the target company
- ・E = Market cap at the time of calculation
- ・D = Short-term interest-bearing debt + Long-term liabilities + Minority interests in the latest financial statements at the time of calculation

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