Bell-Park / 9441

COVERAGE INITIATED ON: 2010.02.01
LAST UPDATE: 2020.03.23

Shared Research Inc. has produced this report by request from the company discussed in the report. The aim is to provide an "owner's manual" to investors. We at Shared Research Inc. make every effort to provide an accurate, objective, and neutral analysis. In order to highlight any biases, we clearly attribute our data and findings. We will always present opinions from company management as such. Our views are ours where stated. We do not try to convince or influence, only inform. We appreciate your suggestions and feedback. Write to us at sr_inquiries@sharedresearch.jp or find us on Bloomberg.

Research Coverage Report by Shared Research Inc.

INDEX

How to read a Shared Research report: This report begins with the trends and outlook section, which discusses the company's most recent earnings. First-time readers should start at the business section later in the report.

Executive summary

Independent mobile phone store operator with a focus on SoftBank

- Bell-Park operates mobile phone stores affiliated with telecom carriers. Its core business is the sale of mobile devices such as smartphones, tablets, and phone handsets and mobile device accessories, fiber optic services, and after-sales services. It directly runs stores and franchises in major urban centers (Tokyo, Osaka, and Nagoya). The number of stores has been increasing as the company pursues acquisitions (more than 80 deals to date). As of end-FY12/19, the company operated a total of 343 carrier stores (versus 319 at end-FY12/18), including 297 SoftBank stores (versus 285 at end-FY12/18), eight NTT Docomo stores (unchanged), seven au stores (unchanged), 30 Y!mobile stores (18), and one UQ Spot store (unchanged). Revenue is mainly from the sale of mobile devices such as smartphones and tablets to subscribers, accessory sales, commissions on the sale of subscription plans (incentives), agency commissions on applications for various services, stock commissions, and subsidies from mobile phone operators (see the Business section for details).

Earnings results and outlook

- In full-year FY12/19, Bell-Park reported sales of JPY103.3bn (+5.3% YoY), operating profit of JPY4.4bn (+35.5% YoY), recurring profit of JPY4.4bn (+34.5% YoY), and net income attributable to owners of the parent of JPY3.0bn (+43.7% YoY). The company posted record sales and profits. The number of directly operated carrier stores increased in FY12/19 as a result of opening new stores and taking over the operations of other subscription agencies. The number of handsets sold at directly operated carrier stores increased YoY, chiefly in connection with new subscriptions. Higher personnel, sales promotion, and rent expenses associated with the increase in directly operated carrier stores led to a JPY3.0bn increase (+18.2% YoY) in SG&A expenses. However, the growth in sales pushed up gross profit by JPY4.2bn (+21.0% YoY). As a result, the company was able to increase operating profit by JPY1.1bn (+35.5% YoY).
- Japan's Telecommunications Business Act was revised in October 2019. The revision requires carriers to provide usage plans that separate telecommunication fees from handset charges. The revised law also limits the discount on new mobile handset sales to JPY20,000 and the penalty for early plan cancellation to JPY1,000. Rakuten Mobile's mobile network operator service, which had been gaining attention, started with a free program initially targeting 5,000 users (official service scheduled to begin on April 8, 2020).
- For FY12/20, Bell-Park forecasts sales of JPY96.0bn (-7.1% YoY), operating profit of JPY4.0bn (-8.6% YoY), recurring profit of JPY4.0bn (-8.7% YoY), and net income attributable to owners of the parent of JPY2.6bn (-14.5% YoY). The company forecasts an annual DPS of JPY122 (interim dividend JPY61, year-end dividend JPY61), based on a consolidated dividend payout ratio of 30%. Bell-Park's FY12/20 sales forecast for mobile phones and other devices is 809,000 units (-0.9% YoY), referencing recent sales trends after the revised Telecommunications Business Act took effect in October 2019.
- Partly because Bell-Park's core area of operations (selling mobile devices) is undergoing major changes, the company does not publicize medium- to long-term numerical targets. However, it does have three medium-term goals for maintaining stable growth in the longer term: maintain steady growth in communication device sales; expand the business portfolio; and maintain a consolidated dividend payout ratio of at least 30%.
- Revenue at the company's carrier stores is not determined solely by sales volume such as the number of handsets sold and contracts signed, but evaluation from the carriers from time to time on the degree to which important benchmarks have been met by the stores. Commissions received from the carriers can vary dramatically depending on these evaluations. Bell-Park is taking a number of initiatives to improve the profitability of the stores in the medium and long terms, including improving the consulting abilities of its store staff, streamlining store operations, renovating stores to provide a comfortable, welcoming environment, and moving to prime locations with higher customer pulling power. Bell-Park also plans to build a dominant market position by continuing to take over operations of other subscription agencies and expand its store network.

Strengths and weaknesses

We think Bell-Park's strengths lie in its skilled store staff, financial strength, focus on SoftBank products, and prime store locations. Weaknesses include reliance on mobile phone sales and over-reliance on SoftBank Mobile (details in the Strengths and weaknesses section).

Key financial data

Income statement (JPYmn)	FY12/11 Parent	FY12/12 Parent	FY12/13 Parent	FY12/14 Cons.	FY12/15 Cons.	FY12/16 Cons.	FY12/17 Cons.	FY12/18 Cons.	FY12/19 Cons.	FY12/20 Cons.
Sales	**70,573**	**74,469**	**84,228**	**91,486**	**90,145**	**89,629**	**88,894**	**98,088**	**103,304**	**96,000**
YoY	17.3%	5.5%	13.1%	8.6%	-1.5%	-0.6%	-0.8%	10.3%	5.3%	-7.1%
Gross profit	**12,115**	**13,893**	**16,494**	**18,075**	**18,565**	**18,675**	**18,553**	**19,976**	**24,166**	
YoY	12.4%	14.7%	18.7%	9.6%	2.7%	0.6%	-0.7%	7.7%	21.0%	
GPM	17.2%	18.7%	19.6%	19.8%	20.6%	20.8%	20.9%	20.4%	23.4%	
Operating profit	**2,850**	**3,122**	**3,240**	**2,370**	**3,212**	**2,846**	**3,151**	**3,229**	**4,376**	**4,000**
YoY	-1.9%	9.6%	3.8%	-26.8%	35.5%	-11.4%	10.7%	2.5%	35.5%	-8.6%
OPM	4.0%	4.2%	3.8%	2.6%	3.6%	3.2%	3.5%	3.3%	4.2%	4.2%
Recurring profit	**2,781**	**3,201**	**3,426**	**2,493**	**3,270**	**2,927**	**3,184**	**3,257**	**4,379**	**4,000**
YoY	-3.9%	15.1%	7.0%	-27.2%	31.2%	-10.5%	8.8%	2.3%	34.5%	-8.7%
RPM	3.9%	4.3%	4.1%	2.7%	3.6%	3.3%	3.6%	3.3%	4.2%	4.2%
Net income	**1,490**	**1,783**	**1,879**	**1,333**	**1,799**	**1,645**	**2,182**	**2,115**	**3,041**	**2,600**
YoY	-10.2%	19.7%	5.3%	-29.1%	34.9%	-8.5%	32.7%	-3.1%	43.7%	-14.5%
Net margin	2.1%	2.4%	2.2%	1.5%	2.0%	1.8%	2.5%	2.2%	2.9%	2.7%
Per share data (JPY; split-adjusted)										
Shares issued (FY avg.; '000)	6,673	6,609	6,489	6,424	6,414	6,414	6,733	6,733	6,733	
EPS	223.3	269.8	289.5	207.5	280.4	256.5	340.3	329.8	474.1	405.4
EPS (fully diluted)	223.2	-	288.2	205.8	277.4	252.9	-	-	-	
Dividend per share	26.0	30.0	40.0	30.0	30.0	30.0	55.0	70.0	119.0	122.0
Book value per share	1,647.7	1,891.1	2,120.9	2,291.6	2,531.4	2,759.4	3,064.6	3,326.6	3,724.8	
Balance sheet (JPYmn)										
Cash and cash equivalents	6,987	6,766	6,896	7,229	9,948	15,224	16,467	14,873	21,346	
Total current assets	**19,599**	**19,037**	**21,335**	**22,863**	**26,709**	**30,365**	**34,887**	**34,910**	**38,088**	
Tangible fixed assets	769	785	770	1,094	968	984	1,079	1,455	1,781	
Investments and other assets	1,520	1,618	1,703	2,150	2,179	2,361	2,456	2,674	3,131	
Intangible fixed assets	167	208	212	493	349	311	167	232	573	
Total assets	**22,053**	**21,648**	**24,021**	**26,600**	**30,205**	**34,021**	**38,590**	**39,271**	**43,573**	
Accounts payable	8,070	5,856	7,034	8,372	9,835	7,702	10,548	9,564	9,404	
Short-term debt	325	425	-	-	-	15	-	-	-	
Total current liabilities	**10,505**	**8,774**	**9,866**	**11,238**	**13,138**	**10,260**	**12,986**	**12,121**	**13,983**	
Long-term debt	325	-	-	-	-	5,000	5,015	5,015	5,015	
Total liabilities	**11,169**	**9,145**	**10,290**	**11,804**	**13,808**	**16,100**	**18,934**	**17,758**	**19,684**	
Net assets	**10,884**	**12,503**	**13,731**	**14,796**	**16,397**	**17,921**	**19,656**	**21,330**	**23,889**	
Total interest-bearing debt	650	425	-	-	-	5,015	5,015	5,015	5,015	
Cash flow statement (JPYmn)										
Cash flows from operating activities	2,178	432	1,618	2,074	3,051	1,013	2,005	-170	8,585	
Cash flows from investing activities	-379	-348	-546	-1,513	-239	-460	-536	-988	-1,630	
Cash flows from financing activities	-675	-391	-1,124	-330	-193	4,822	-225	-436	-481	
Financial ratios										
ROA (RP-based)	13.8%	14.6%	15.0%	9.8%	11.5%	9.1%	8.8%	8.4%	10.6%	
ROE	14.4%	15.3%	14.3%	9.4%	11.6%	9.7%	11.7%	10.3%	13.4%	
Equity ratio	49.4%	57.8%	57.2%	55.6%	54.3%	52.7%	50.9%	54.6%	54.8%	

Source: Shared Research based on company data
Note: Figures may differ from company materials due to differences in rounding methods.
Note: OC mobile was consolidated in February 2014 and the company adopted consolidated accounting in FY12/14.

Recent updates

Highlights

On **March 23, 2020**, Shared Research updated the report following interviews with Bell-Park Co., Ltd.

On **February 12, 2020**, the company announced earnings results for full-year FY12/19; see the results section for details.

On **February 6, 2020**, the company announced revisions to its full-year consolidated earnings forecast and year-end dividend forecast for FY12/19.

Revised full-year FY12/19 company forecast

- Sales: JPY103.3bn (previous forecast: JPY99.0bn)
- Operating profit: JPY4.4bn (JPY3.0bn)
- Recurring profit: JPY4.4bn (JPY3.7bn)
- Net income*: JPY3.0bn (JPY2.5bn)
- Year-end dividend: JPY81 (JPY60)
- Annual DPS: JPY119 (JPY98)

Reasons for revision

- Following the revision of the Telecommunications Business Act and change in consumption tax that took effect in October 2019, the company expected sales of mobile phones to decrease year on year. However, sales of mobile phones from October to December 2019 accompanying device upgrade contracts were strong and significantly ahead of plan. As a result, the number of optical fiber line contracts and accessories sold to customers with mobile phone sales greatly exceeded expectations. As a result, both sales and profits are expected to exceed previous forecasts.
- Along with the upward revision in its performance forecasts, the company raised its dividend forecast in line with a policy of maintaining a dividend payout ratio of 25% in FY12/19.

For previous releases and developments, please refer to the News and topics section.

Trends and outlook

Quarterly trends and results

Quarterly performance	FY12/18				FY12/19				FY12/19	
(JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
Sales	25,989	22,374	23,222	26,503	28,905	22,474	25,581	26,344		
YoY	10.8%	15.0%	20.1%	-0.5%	11.2%	0.4%	10.2%	-0.6%		
Gross profit	5,184	4,547	4,621	5,624	6,926	5,339	5,905	5,996		
YoY	5.4%	6.5%	10.3%	8.7%	33.6%	17.4%	27.8%	6.6%		
GPM	19.9%	20.3%	19.9%	21.2%	24.0%	23.8%	23.1%	22.8%		
SG&A expenses	3,960	3,873	4,233	4,680	5,185	4,714	4,981	4,910		
YoY	-0.8%	2.2%	12.4%	21.5%	30.9%	21.7%	17.7%	4.9%		
SG&A ratio	15.2%	17.3%	18.2%	17.7%	17.9%	21.0%	19.5%	18.6%		
Operating profit	1,224	674	387	944	1,740	624	924	1,087		
YoY	31.8%	40.4%	-8.5%	-28.4%	42.1%	-7.3%	138.7%	15.1%		
OPM	4.7%	3.0%	1.7%	3.6%	6.0%	2.8%	3.6%	4.1%		
Recurring profit	1,238	675	396	948	1,755	625	937	1,062		
YoY	32.2%	40.8%	-9.5%	-28.8%	41.8%	-7.4%	136.6%	12.0%		
RPM	4.8%	3.0%	1.7%	3.6%	6.1%	2.8%	3.7%	4.0%		
Net income	835	425	244	611	1,199	402	622	817		
YoY	48.4%	51.9%	-11.8%	-42.5%	43.7%	-5.5%	154.7%	33.7%		
Net margin	3.2%	1.9%	1.1%	2.3%	4.1%	1.8%	2.4%	3.1%		
(Cumulative)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of FY	FY Est.
Sales	25,989	48,363	71,585	98,088	28,905	51,379	76,960	103,304	100.0%	103,300
YoY	10.8%	12.7%	15.0%	10.3%	11.2%	6.2%	7.5%	5.3%		5.3%
Gross profit	5,184	9,731	14,351	19,976	6,926	12,264	18,169	24,166		
YoY	5.4%	5.9%	7.3%	7.7%	33.6%	26.0%	26.6%	21.0%		
GPM	19.9%	20.1%	20.0%	20.4%	24.0%	23.9%	23.6%	23.4%		
SG&A expenses	3,960	7,833	12,066	16,747	5,185	9,900	14,881	19,790		
YoY	-0.8%	0.7%	4.5%	8.7%	30.9%	26.4%	23.3%	18.2%		
SG&A ratio	15.2%	16.2%	16.9%	17.1%	17.9%	19.3%	19.3%	19.2%		
Operating profit	1,224	1,898	2,285	3,229	1,740	2,365	3,289	4,376	100.1%	4,370
YoY	31.8%	34.7%	24.7%	2.5%	42.1%	24.6%	43.9%	35.5%		35.3%
OPM	4.7%	3.9%	3.2%	3.3%	6.0%	4.6%	4.3%	4.2%		4.2%
Recurring profit	1,238	1,913	2,309	3,257	1,755	2,380	3,317	4,379	100.2%	4,370
YoY	32.2%	35.1%	24.6%	2.3%	41.8%	24.5%	43.7%	34.5%		34.2%
RPM	4.8%	4.0%	3.2%	3.3%	6.1%	4.6%	4.3%	4.2%		4.2%
Net income	835	1,260	1,505	2,115	1,199	1,601	2,224	3,041	100.0%	3,040
YoY	48.4%	49.6%	34.4%	-3.1%	43.7%	27.1%	47.8%	43.7%		43.7%
Net margin	3.2%	2.6%	2.1%	2.2%	4.1%	3.1%	2.9%	2.9%		2.9%

Source: Shared Research based on company data
Note: Figures may differ from company materials due to differences in rounding methods.

Full-year FY12/19 results (out February 12, 2020)

- ▷ In full-year FY12/19, Bell-Park reported sales of JPY103.3bn (+5.3% YoY), operating profit of JPY4.4bn (+35.5% YoY), recurring profit of JPY4.4bn (+34.5% YoY), and net income attributable to owners of the parent of JPY3.0bn (+43.7% YoY). The company posted record sales and profits.
- ▷ Looking at sales and profits by sales channel, carrier stores posted gains in sales and profits while corporate sales achieved top-line growth but profits declined.
- ▷ Sales up 5.3% YoY: The number of directly operated carrier stores increased in FY12/19 as a result of opening new stores and taking over the operations of other subscription agencies. The number of handsets sold at directly operated carrier stores increased YoY, chiefly in connection with new subscriptions.
- ▷ The number of handsets sold totaled 816,202, an increase of 34,829 units for 4.5% YoY growth. This breaks down to 280,877 new handsets (+8.2% YoY) and 535,325 replacement units (+2.6% YoY). Sales at directly operated stores increased by 60,000 units YoY at new stores but decreased by 8,000 units at existing stores (although new subscriptions were up at existing stores).

- In areas other than handset sales, Bell-Park saw YoY growth in the number of contracts it handled for SoftBank's retail electric power service that has been expanding the coverage area since June 2018 and for Yahoo! JAPAN Card, a credit card business for which Bell-Park began handling applications in April 2018.
- Operating profit up 35.5% YoY: Higher personnel, sales promotion, and rent expenses associated with the increase in directly operated carrier stores led to a JPY3.0bn increase (+18.2% YoY) in SG&A expenses. However, the growth in sales pushed up gross profit by JPY4.2bn (+21.0% YoY). As a result, the company was able to increase operating profit by JPY1.1bn (+35.5% YoY).

Changes in Bell-Park's operating environment

The October 2019 revision of the Telecommunications Business Act requires the complete separation of handset charges from monthly telecommunication fees in order to achieve a simple and easy-to-understand pricing system. Since the revised law went into effect in October 2019, carriers have not been able to offer discounts on handset prices on the condition that the service contract be continued for a certain length of time. The revised law also limits the discounts on new handset sales offered to new mobile telecom service subscribers to JPY20,000. While the law has led carriers to reduce telecom charges, the handset cost burden for their customers has risen. As a result, the number of new mobile phone sales at Bell-Park's carrier stores fell YoY in the October-December 2019 quarter.

Bell-Park's response

- The company's carrier stores have made further progress in the effort started in FY12/18 to make SoftBank stores into dual brand stores (also handling Y!mobile products and services). The group focused on the education of store staff in the handling of both brands and also worked to establish a store structure that permits proposals of fee plans and services from both brands. In addition, it increased the number of directly operated carrier stores by 37 to 281 in FY12/19, mainly by taking over stores of other subscription agencies. With an aim to grow earnings, the company relocated and renovated the newly taken over stores, collaborating with nearby Bell-Park stores for personnel hiring, training, and placement. Initiatives to improve customer satisfaction included promoting online customer reservations to reduce the wait time at carrier stores.
- Corporate sales grew YoY in FY03/19 but profit fell mainly owing to higher SG&A expenses on increased staffing in preparation for future growth.

Store numbers

The company operated a total of 343 carrier stores at end-FY12/19 (319 stores at end-FY12/18). Stores that the company manages were as follows:

- SoftBank: 297 stores (285 at end-December 2018)
- NTT Docomo: 8 stores (unchanged)
- au: 7 stores (unchanged)
- Y!mobile: 30 stores (18)
- UQ Spot: 1 store (unchanged)

For details on previous quarterly and annual results, please refer to the Historical financial statements section.

Full-year company forecasts

	FY12/18			FY12/19			FY12/20		
(JPYmn)	1H Act.	2H Act.	FY Act.	1H Act.	2H Act.	FY Act.	1H Act.	2H Est.	FY Est.
Sales	**48,363**	**49,725**	**98,088**	**51,379**	**51,925**	**103,304**	**47,000**	**49,000**	**96,000**
YoY	12.7%	8.1%	10.3%	6.2%	4.4%	5.3%	-8.5%	-5.6%	-7.1%
Cost of sales	38,632	39,480	78,112	39,114	40,023	79,138			
Gross profit	**9,731**	**10,245**	**19,976**	**12,264**	**11,901**	**24,166**			
YoY	5.9%	9.4%	7.7%	26.0%	16.2%	21.0%			
GPM	20.1%	20.6%	20.4%	23.9%	22.9%	23.4%			
SG&A expenses	**7,833**	8,914	16,747	**9,900**	14,881	19,790			
SG&A ratio	16.2%	17.9%	17.1%	19.3%	28.7%	19.2%			
Operating profit	**1,898**	**1,331**	**3,229**	**2,365**	**2,011**	**4,376**	**2,350**	**1,650**	**4,000**
YoY	34.7%	-23.6%	2.5%	24.6%	51.1%	35.5%	-0.6%	-17.9%	-8.6%
OPM	3.9%	2.7%	3.3%	4.6%	3.9%	4.2%	5.0%	3.4%	4.2%
Recurring profit	**1,913**	**1,344**	**3,257**	**2,380**	**1,999**	**4,379**	**2,350**	**1,650**	**4,000**
YoY	35.1%	-24.0%	2.3%	24.5%	48.7%	34.5%	-1.3%	-17.5%	-8.7%
RPM	4.0%	2.7%	3.3%	4.6%	3.8%	4.2%	5.0%	3.4%	4.2%
Net income	**1,260**	**855**	**2,115**	**1,601**	**1,439**	**3,041**	**1,570**	**1,030**	**2,600**
YoY	49.6%	-36.2%	-3.1%	27.1%	68.3%	43.7%	-2.0%	-28.4%	-14.5%

Source: Shared Research based on company data
Note: Figures may differ from company materials due to differences in rounding methods.
Note: OC mobile was consolidated in February 2014 and the company included it in its consolidated accounts in FY12/14.

Overview

- ▷ For FY12/20, Bell-Park forecasts sales of JPY96.0bn (-7.1% YoY), operating profit of JPY4.0bn (-8.6% YoY), recurring profit of JPY4.0bn (-8.7% YoY), and net income attributable to owners of the parent of JPY2.6bn (-14.5% YoY).
- ▷ The company forecasts an annual DPS of JPY122 (interim dividend JPY61, year-end dividend JPY61), based on a consolidated dividend payout ratio of 30%.

Outlook for changes in business environment

- ▷ The business environment of the mobile phone sales market is changing fast. New subscriptions are trending downward since the revision of the Telecommunications Business Act in October 2019. A YoY comparison of handset sales volume in the October-December 2019 quarter showed that sales from new subscriptions were down, although sales driven by replacement demand were up temporarily, aided by the launch of iPhone11. This trend is negative for handset retailers who generate sales commissions.
- ▷ On the other hand, a positive factor is the planned start of 5G services by mobile telecoms carriers in spring 2020, and the expected launch of new 5G-compatible smartphones. Over the medium term, various products and services that use the latest technologies such as IoT are also expected to boost sales.
- ▷ Competition looks set to intensify further in April 2020, when Rakuten Mobile plans to begin providing a full-scale MNO service.
- ▷ Recruitment of sales staff is likely to remain a seller's market due to chronic labor shortages stemming from an aging population with a low birth rate.

Assumptions underlying FY12/20 earnings forecasts

- ▷ Bell-Park's FY12/20 sales forecast for handsets is 809,000 units (-0.9% YoY), referencing recent sales trends after the revised Telecommunications Business Act took effect in October 2019. The company assumes that the number of replacement units sold will be about the same as in FY12/19, while sales of new handsets will be fewer.
- ▷ The company seeks to increase profitability in the longer term by improving the consulting skills of store staff, streamlining store operations, remodeling stores to offer pleasant and comfortable spaces, and moving stores to better locations for attracting customers.

Start of MNO service by Rakuten Mobile

- ▷ Rakuten Mobile plans to officially launch its mobile network operator (MNO) service on April 8, 2020 (MNOs are operators who provide mobile telecoms services using their own frequency bands and equipment). The MNO service launched in October 2019 was a free pilot service provided to only 5,000 users.
- ▷ The official service will have only one plan, Rakuten UN-LIMIT. As the name implies, data will be unlimited when in areas served by Rakuten Mobile's network. When connected via domestic roaming (on au's network) or overseas roaming, users will have access to 2GB/month of high-speed data transmission, after which transmission speed will be capped at 128kbps unless the user opts to add data for an additional charge of JPY500 (pre-tax) per 1GB.
- ▷ The monthly service charge will be JPY2,980 (pre-tax). The first 3mn subscribers will receive free service for the first year (one line per customer). New subscribers will incur a JPY3,300 (post-tax) contract administration fee, but if they use the Rakuten Link communications app, they can get a reward of 3,300 Rakuten Super Points (equivalent to the administration fee).
- ▷ Domestic voice calls using the Rakuten Link app are free (with some exceptions). Domestic calls not using the app will be charged JPY20 per 30 seconds. International calls to Japan are also free when using the Rakuten Link app.
- ▷ Rakuten Mobile began taking applications for the new service via a web link on March 3 and at Rakuten retail sites on March 4, 2020. Service for current users of Rakuten Mobile's MVNO service and users using mobile number portability to switch from other carriers will start on April 8, 2020.
- ▷ Rakuten Mobile plans to launch a 5G service from June 2020.

Management strategy

The future for carrier stores

Bell-Park thinks the positioning of carrier stores will change significantly over the medium to long term. Amid efforts by the Ministry of Internal Affairs and Communications to foster competition, MVNOs offering discount smartphones and sub-brands by the major telecom companies have risen in prominence and spread. The major carriers offer a variety of payment plans in their main brands, widening the choices available to customers. Meanwhile, the major carriers use their customer base to offer other services such as electricity and credit cards. There was also a great deal of debate and investigation surrounding the Ministry of Internal Affairs and Communications efforts to optimize mobile phone services, resulting in partial revision of the Telecommunications Business Act in October 2019. Given these trends and the impending diffusion of new technologies, such as 5G and IoT, Bell-Park expects carrier stores to move away from simply selling handsets to serving as the coordinator that brings these new technologies to customers. The company therefore believes in the importance of cultivating store staff who have high-level hospitality and consulting skills.

Ahead of the launch of 5G in 2020, 5G frequency bands were assigned in April 2019, and following the field trials and events scheduled during 2019, the commercial 5G services will start in 2020. Characteristics of 5G include: 1) Enhanced mobile broadband (eMBB) to provide ultra-high-resolution displays, 3-D video, and augmented reality (AR); 2) high-volume, communications with a large number of communication endpoints under massive machine-type communication (mMTC) aimed at smart cities and IoT; and 3) ultra-reliable and low latency communication (URLLC) for mission-critical applications such as remote surgery and autonomous driving that depend on real-time telecommunications.

Qualitative medium-term targets

Partly because Bell-Park's business category, selling mobile phones, is undergoing major changes, the company does not publish medium- to long-term numerical targets. However, the company does define three qualitative medium-term objectives: maintain steady growth in the business of selling communication devices; work to expand the business portfolio; and secure a consolidated dividend payout ratio of at least 30%.

Steady growth in the communication device sales business

- To continue receiving high evaluations from its customers and telecoms carrier partners, Bell-Park will work to enhance in-store staff's consultation skills and improve store operating efficiency while also renovating its stores to make them more comfortable and convenient for customers and, when necessary, relocating to better locations.
- The company will continue to use M&A and new store openings to expand its network with profitable stores by keeping related spending at levels that ensure a sound return on investment.

Business portfolio expansion

Bell-Park plans to expand its business portfolio by further developing the skills of employees trained in existing businesses, conducting M&A in other business areas that will be able to utilize the store management expertise accumulated through existing store operations, and forming a special new business development team tasked with developing new IoT products and services.

Consolidated dividend payout ratio of at least 30%

Bell-Park has positioned shareholder returns as one of management's most important objectives. Management is targeting a payout ratio of 30% in FY12/20 and intends to raise this to above 30% in FY12/21 and thereafter.

Focus areas

Bell-Park understands that the following four areas need management's attention.

Steady growth in the communication device sales business

- The number of handsets sold at Bell-Park group carrier stores are in a downward trend owing to the changing business environment, including the new rules imposed by the Ministry of Internal Affairs and Communications (MIC). However, the company thinks these stores are gradually evolving toward revenue generation not just by selling handsets but by providing individuals and families with a range of products and services, including mobile phones, wearable devices, fiber-optic internet services, electric power services, and electronic payments.
- As 5G, IoT and other new technologies come into greater use, Bell-Park expects its carrier shops will increasingly assume the role of a coordinator that connects customers with these cutting-edge technologies.
- To achieve steady growth of the Bell-Park group, management is focused on responding quickly to changes in the market environment, earning high evaluations from customers, and expanding its store network in prime locations that will generate high profit margins.
- To continue earning high evaluations from its customers, the Bell-Park group will constantly enhance in-store staff's consultation skills, improve store operating efficiency, renovate its stores to make them more comfortable and convenient for customers, and, when necessary, relocate stores to locations that have stronger customer drawing power.
- The company will continue to expand its network with profitable stores by using M&A and new store openings, while keeping related spending at levels that ensure a sound return on investment.

Building a broader business portfolio

- The Bell-Park group intends to build a more diversified business portfolio. In addition to its recent entry into such new businesses as matchmaking support services and the planning, import and wholesale IoT devices, the company now is considering moving into personnel-related services and other yet untapped business domains.
- It is also considering entering areas where it can leverage the personnel development and store-operation knowhow accumulated through its current business activities.

Recruiting and developing human resources

- The Bell-Park group vision is to "Become a corporate group that uses highly trained people and innovative services for long-term growth." The company thinks the hiring, training and growth of its employees lead to the development of new services and are essential to sustaining the group's growth over the long term.
- Accordingly, the group intends to pay thorough attention to employees' mental health, satisfaction with their working environment and other conditions, and implement work-style reforms that will promote the growth of its employees over the long term.
- Bell-Park employees conduct their duties on the basis of a core value installed by management that each employee should believe in their own potential and keep challenging themselves, with the knowledge that successes and failures both will lead to individual and corporate growth. Management is dedicated to the further promotion of this Bell-Park corporate culture.
- The company will engage in personnel development as a means to achieving the long-term growth of the Bell-Park group.

Sustainability initiatives, such as environment, social and governance (ESG) measures

- Another core group value is to achieve mutual prosperity with all the group's stakeholders, including customers, employees, business partners, shareholders and local communities. Accordingly, the group has positioned initiatives to help realize a sustainable society as an important management priority.

▷ To achieve a proper balance between sustainable growth of the group and contributions to realizing a sustainable society, the Bell-Park group is planning to implement appropriate measures in all areas related to ESG.

Shared Research's perspective

Shared Research recognizes that mobile telecom carriers' stance toward acquiring customers is significantly different from 10 years ago due to a rise in the penetration rate of subscribers, the maturing of the industry, and regulations. However, we believe the mobile telecom carriers will continue to depend on distributers for subscription and handset sales. In addition to communication services, mobile telecom carriers are bundling a variety of services and products, including electricity and gas, to avoid becoming providers of dumb pipe, and they need people and locations to explain their services and products to end-users. The company has been keeping its distance from mobile virtual network operators (MVNOs), which have a sales model that does not depend on physical stores.

The number of carrier stores is likely to shrink (but stores are expected to grow larger), although not to a point of disrupting user convenience. However, Shared Research believes that there is not necessarily a lot of room for broad cuts to the total amount of sales commissions that the mobile telecom carriers pay to subscription agencies. This is because when these carriers, which do not sell services and handsets directly to general customers, go too far in streamlining sales agency channels and sales commissions, it leaves them susceptible to a decline in the level of services and added value, and could place them at a competitive disadvantage.

Business

Business description

Bell-Park mainly operates mobile phone stores affiliated with telecom carriers. The company's core business is the sale of mobile devices such as smartphones, tablets, and phone handsets and mobile device accessories, fiber optic services, and after-sales services through stores affiliated with telecom carriers.

Bell-Park directly runs stores and franchise outlets in major urban centers (Tokyo, Osaka, and Nagoya). Store count has been increasing as the company pursues acquisitions. As of end-FY12/19, the company operated a total of 343 carrier stores (versus 319 stores at end-FY12/18, 286 at end-FY12/17), including 297 SoftBank stores (versus 285 stores at end-FY12/18, 258 at end-FY12/17), eight NTT Docomo stores (unchanged, unchanged), seven au stores (unchanged, 8), 30 Y!mobile stores (18, 11), and one UQ Spot store (unchanged, unchanged).

SoftBank Shinjuku

SoftBank Nitori Mall Hirakata

Source: Shared Research based on company data

Business model

Bell-Park's business model is centered on operations of stores affiliated with telecom carriers, where it mainly sells handsets and subscriptions as an agency. Main revenue sources: sales of mobile devices such as smartphones and tablets to subscribers, sales of accessories, commissions on the sale of subscription plans (incentives), agency commissions on applications for various services, stock commissions, and subsidies from mobile phone operators.

Sales commission

Telecom carriers buy mobile phones from manufacturers, and subscription agencies buy these handsets from carriers to sell to consumers. Subscription agencies usually sell mobile handsets to consumers at lower prices than carriers.

Subscription agencies would accumulate losses if they kept selling handsets at prices lower than what they paid. Therefore, they receive subsidies from telecom carriers through sales commissions. A portion of the commissions is used to finance rebates for mobile handset purchases, and the remainder becomes profit for the subscription agencies. Sales commissions are booked as revenue, while gift certificates used for sales promotion are treated as sales promotion costs under SG&A expenses.

Telecom carriers usually pay different sales commissions depending on whether the purchase is by a new customer or by an existing subscriber replacing a handset. For carriers, increasing new subscribers is essential for growth. The difference in commissions paid for new subscribers and for existing customers is used mostly to finance handset rebates, so handset prices for new subscribers tend to be lower than those for existing customers.

Sales commission structure

Mobile telecom carriers pay subscription agencies sales commissions, which are determined based on various conditions. Shared Research understands the agency contract between SoftBank and Bell-Park is renewed once a year but commissions are reviewed as necessary.

Commissions are controlled by several factors and complex rules, including the type of handset being purchased; whether the sale is to new subscribers or to existing customers seeking replacement handsets; customer satisfaction; operating performance; and competition among telecom carriers.

- **Purchased handsets**: Carriers pay higher commissions for handsets that may help attract new subscribers, or when they wish to reduce inventories of unpopular models.
- **New subscribers, handset replacement, and number portability**: Commissions are the highest for subscribers switching from another provider with the number portability option, followed by those for new subscribers without the number portability option, and then for existing users replacing their old handsets. In Japan the number of mobile subscribers exceeds the entire population, and there are few new customers without mobile phones. Therefore, mobile carriers must entice customers away from rivals. Carriers accordingly pay high commissions to subscription agencies for customers who choose the number portability option.
- **Customer satisfaction**: Since carriers recoup sales commissions in the form of telecommunication fees, they must ensure that subscribers continue to use the service. Thus, customer satisfaction at agencies that directly deal with customers is important to keep the churn rate low. Subscription agencies with high customer satisfaction receive higher sales commissions.
- **Operating performance**: Carrier stores are ranked by operating performance, with better performing stores more likely to receive higher sales commissions.
- **Competition among telecommunications carriers**: Carriers tend to pay high commissions when there is strong competition. Carrier stores use a large portion of the increased sales commissions to cover rebates to the customers.
- **Other intermediate commissions**: The mobile phone operators each have implemented various measures to increase added value and prevent termination of service contracts. From 2015 onward, package deals have also been introduced to offer discounts when mobile phone service is purchased in tandem with fiber optic internet or electrical power services. Commissions for contracts on these peripherals services also serve as sources of revenue for subscription agencies.

Stock commissions

Subscription agencies receive another type of commission in addition to sales commissions from the carrier for 60 months after the addition of a new subscriber. The amount is the average monthly revenue per user multiplied by a specified factor. While the company does not disclose this multiplication rate or the exact revenue per user, Shared Research estimates the rate has fallen to around the mid-single digit level. Needless to say, these stock commissions are terminated if the subscriber cancels the contract. If subscribers cancel their contract within six months, they must pay cancellation fees to the carrier. Subscription agencies must also pay back sales commissions to the carrier.

Stock commissions are also paid for a specific period of time for handset replacements, based on the idea that to a certain extent, promoting handset replacements helps lock in subscribers. Although accurate numbers and rates are not publicly available for replacements (as in the case of new sales), based on the same concept as for sales commissions Shared Research assumes that stock commissions are lower than for new subscribers.

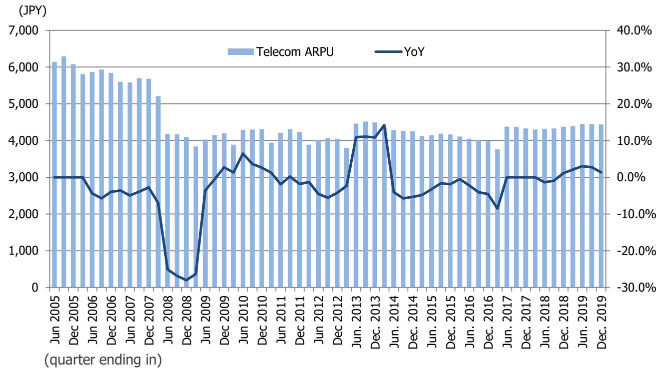
Major determining factors for stock commissions are units sold, churn rate, and the average revenue per user (ARPU).

While Bell-Park does not disclose its churn rate, the average churn rate for SoftBank contracts was 1.04% in 2019 (source: Shared Research calculation based on SoftBank data). SoftBank operates three brands with different features: SoftBank, Y!mobile, and LINE Mobile. Each caters to different customer needs. Y!mobile has attracted a wide following among light users looking for an affordable plan, and has the No. 1 market share in the discount smartphone market. This multi-brand strategy is proceeding smoothly, and in October–December 2019 the smartphone churn rate was 0.53% (0.79% in October–December 2018), a new low. In our view, Bell-Park's churn rate is slightly lower than that of SoftBank; Bell-Park typically operates stores featuring stronger consulting capabilities than competitors, and the company's stores are operated by experienced full-time employees.

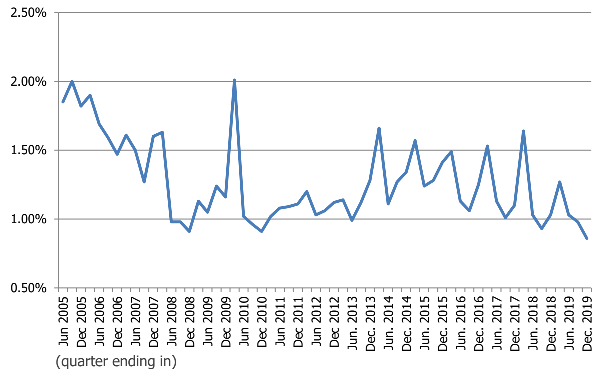
The graphs below show the average revenue per user (ARPU) at SoftBank. Telecom ARPU had been declining since Q2 2014 (April–June) but in October–December 2018 it turned up slightly, rising 1.2% YoY. ARPU has continued to post YoY gains since, rising 3.0% in Q2 2019 (April–June), 2.8% in Q3 (July–September), and 1.4% in Q4 (October–December).

KPI for mobile business of SoftBank

Telecom ARPU and YoY change



Churn rate



Source: Shared Research based on SoftBank Corp. data
Note: ARPU breakdown not disclosed from FY03/15.
Note: ARPU included prices for mobile handsets prior to 2007, but was deleted from SoftBank Mobile's ARPU data in 2006 along with the implementation of requirements that telecommunication fees and the handset prices be separately disclosed. Series break around April–June 2017.

Regarding ARPU for data, which accounts for a large share of telecom ARPU, carriers would not benefit from the availability of a wide range of applications and extensions unless subscribers use them. Subscribers will not change mobile handset use unless they are taught to use new functions. Therefore, for subscription agencies such as Bell-Park, teaching users how to use handsets is key to increasing ARPU.

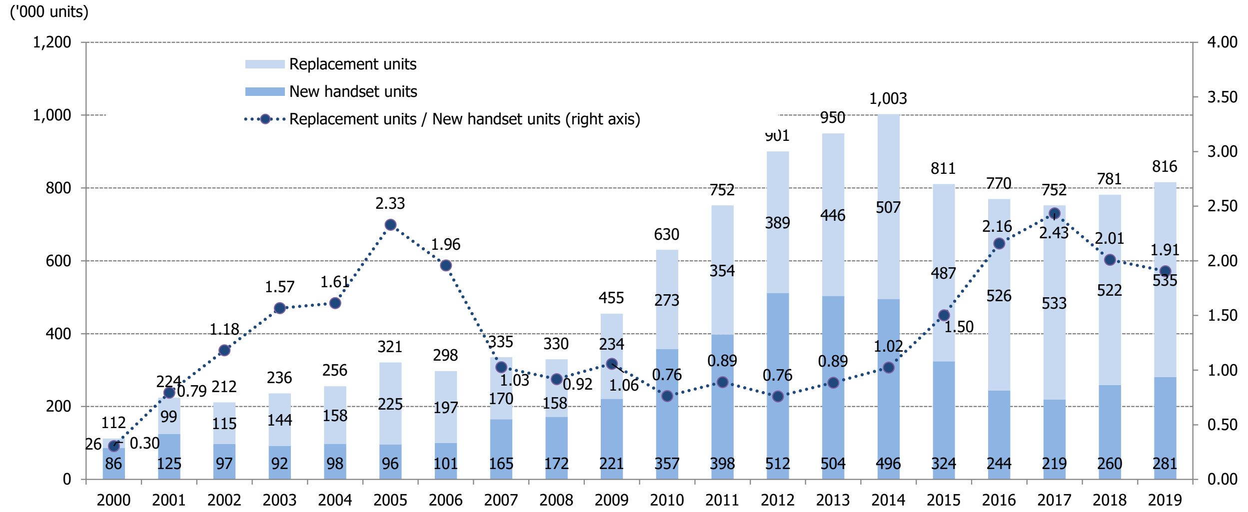
Factors that affect revenue

Gross profit is largely determined by handset sales volume; the more handsets are sold the greater commission volumes.

The company's SG&A-to-sales ratio is about 18% (average from FY12/15 through FY12/19). Personnel expenses have been the largest component, at about 55% of SG&A expenses. Legal complications associated with terminating employees in Japan mean that personnel expenses are more similar to fixed costs than variable costs.

Major variable costs are rent (about 12% of SG&A expenses) and advertising and sales promotion expenses (about 13%). It is Shared Research's understanding that part of the commissions paid to subscription agencies is used for sales promotion such as cash-back deals.

Bell-Park handset sales volume



Source: Shared Research based on company data

New customers have been accounting for a smaller share of mobile handset sales since 2016 (as shown in the above graph). Since FY12/16, major changes have occurred in sales methods for mobile phones. The legacy business model involved generous cash-back deals targeting new contracts through passing on a portion of sales commissions to the consumer. The Ministry of Internal Affairs and Communications—the ministry with primary oversight of the telecom industry—expressed concern that excessive cash-back offers through passing on sales commissions was a factor that obstructed fair competition among carriers, and formulated guidelines limiting excessive discounting on mobile devices. The October 2019 revision to the Telecommunications Business Act has banned discounts on new handset sales conditioned upon users fulfilling the full length of their service contract and capped discounts at the time of entering into a new contract to JPY20,000.

The possibility remains that commission structures may undergo further changes in the future following major reviews of unit sales prices. Therefore it is worth paying close attention to the future development.

Store locations

Bell-Park had 319 carrier-affiliated stores (either directly run or franchise stores) as of end-December 2018: 285 SoftBank stores, 18 Y!mobile stores; seven au stores, eight NTT Docomo stores, and one UQ Spot store. SoftBank (the carrier) controls most of the new store initiatives for SoftBank stores. Bell-Park's stores are mostly rented, and we surmise that opening a new store is relatively inexpensive.

Profitability snapshot and financial ratios

Profit margins (JPYmn)	FY12/09 Parent	FY12/10 Parent	FY12/11 Parent	FY12/12 Parent	FY12/13 Parent	FY12/14 Cons.	FY12/15 Cons.	FY12/16 Cons.	FY12/17 Cons.	FY12/18 Cons.	FY12/19 Cons.
Operating profit	3,576	2,905	2,850	3,122	3,240	2,370	3,212	2,846	3,151	3,229	4,376
OPM	7.6%	4.8%	4.0%	4.2%	3.8%	2.6%	3.6%	3.2%	3.5%	3.3%	4.2%
EBITDA	3,787	3,126	3,095	3,375	3,526	2,762	3,561	3,206	3,476	3,581	4,803
EBITDA margin	8.1%	5.2%	4.4%	4.5%	4.2%	3.0%	4.0%	3.6%	3.9%	3.7%	4.6%
Financial ratios											
ROA (RP-based)	24.4%	16.4%	13.8%	14.6%	15.0%	9.8%	11.5%	9.1%	8.8%	8.4%	10.6%
ROE	29.7%	18.5%	14.4%	15.3%	14.3%	9.4%	11.6%	9.7%	11.7%	10.3%	13.4%
Total asset turnover	3.2	3.4	3.5	3.4	3.7	3.6	3.2	2.8	2.4	2.5	2.5
Inventory turnover	16.0	15.7	17.9	16.5	14.1	13.7	13.4	14.1	12.4	10.5	11.6
Days in inventory	22.8	23.2	20.4	22.1	25.8	26.6	27.3	25.9	29.5	34.9	31.4
Working capital	3,626	3,873	4,119	5,952	6,864	6,633	6,285	6,867	7,314	9,879	6,881
Current ratio	192.9%	206.7%	186.6%	217.0%	216.3%	203.4%	203.3%	296.0%	268.7%	288.0%	272.4%
Quick ratio	150.3%	156.9%	153.0%	163.3%	156.8%	149.9%	157.9%	244.0%	213.4%	214.5%	231.1%
OCF / Current liabilities	13.0%	34.9%	9.4%	22.6%	4.6%	15.3%	17.0%	26.1%	8.7%	16.0%	-1.3%
Net debt / Equity	-53.9%	-50.7%	-58.2%	-50.7%	-50.2%	-48.9%	-60.7%	-57.0%	-58.3%	-46.2%	-68.4%
OCF / Total liabilities	30.8%	10.0%	19.5%	4.7%	15.7%	17.6%	22.1%	6.3%	10.6%	-1.0%	43.6%
Cash conversion cycle (days)	21.2	19.8	16.7	21.0	26.0	24.6	22.2	22.8	25.4	29.5	26.7
Change in working capital	998	247	246	1,833	912	-231	-348	582	447	2,565	-2,998

Source: Shared Research based on company data
Note: Figures may differ from company materials due to differences in rounding methods.

Comparing Bell-Park with industry leader T-Gaia Corp. (TSE1: 3738), the company has a higher net margin (2.9% in FY12/19 versus 2.6% for T-Gaia in FY03/19), but T-Gaia generally maintains higher ROE and ROA (see below). Using DuPont analysis to break down ROE and ROA further shows T-Gaia's higher asset efficiency and financial leverage were the driver behind the higher ROE.

ROE DuPont analysis	FY12/14	FY12/15	FY12/16	FY12/17	FY12/18	FY12/19	FY03/16	FY03/17	FY03/18	FY03/19
	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	T-Gaia (3738)			
Net margin (A)	1.5%	2.0%	1.8%	2.5%	2.2%	2.9%	1.5%	1.8%	1.8%	2.6%
Asset turnover (B)	3.61	3.17	2.79	2.45	2.53	2.50	7.05	6.84	4.70	3.11
Total assets / Shareholders' equity (C)	1.77	1.82	1.87	1.93	1.90	1.83	2.71	2.47	3.57	4.07
ROA (A x B)	5.3%	6.3%	5.1%	6.0%	5.4%	7.4%	10.8%	12.0%	8.6%	8.2%
ROE (A x B x C)	9.3%	11.5%	9.6%	11.6%	10.3%	13.4%	29.3%	29.7%	30.9%	33.3%

Source: Shared Research based on company data
Note: Figures may differ from company materials due to differences in rounding methods.

Strengths and weaknesses

Strengths

- **Skills of in-store staff.** The ability to explain to customers the services provided by mobile carriers and how to use mobile phones is more important than ever before. According to the company, the staff at its carrier stores not only have strong consulting skills but also excel in hospitality. Staff with a combination of knowledge and soft service skills is a major competitive advantage for Bell-Park carrier stores. Bell-Park has also demonstrated its ability to transfer these hard and soft skills to staff at the carrier stores it has acquired, which would allow it to reap the fruit of business successions in the event of further market consolidation.

Enhancing skills of in-store staff**:** Bell-Park says its carrier stores are not simple outlets for the sale of mobile handsets. The company is increasingly using these stores to expand its agency business into other lifestyle infrastructure services, such as optical-fiber internet and electric power services. In the future, carrier stores will increasingly become the contact point for promoting various lifestyle infrastructure services provided by mobile telecom carriers and to help spread the latest technologies, such as 5G and IoT. This expansion of the range of services introduced to customers at Bell-Park carrier stores is requiring in-store staff to raise their own knowledge and skill levels.

Differentiating through training and research**:** The company maintains that its future performance will depend on the level of customer satisfaction and consulting skills demonstrated at its stores. Accordingly, it pushes staff training and has created a large-scale training center (accommodating about 200 people) and a specialized training team. It uses SoftBank staff certificate exams to raise the skill set of its employees. The certification levels break down into executive store director (highest level), store director, store expert, chief advisor, and advisor. We understand the passing rates of the company's staff and the share of staff with the highest-level certification are higher than those of other SoftBank stores.

Bell-Park employees took first and third place at the recent Customer Service No. 1 Grand Prix 2019 hosted by Softbank in February 2020. Company employees have finished in the top three in this competition every year (1st and 2nd place in 2015, 1st and 3rd in 2016, 2nd and 3rd in 2017, and two employees tied for 1st in 2018), further evidence of Bell-Park in-store staff's outstanding customer service skills. Personnel training programs have helped improve customer satisfaction, enabling Bell-Park operated SoftBank carrier stores to achieve higher scores on the NPS customer loyalty index than Softbank stores operated by other companies.

- **Financial strength.** The company has ample cash reserves and is able to choose from a number of fundraising options for its acquisitions. Its reputation as a preferred acquirer is also a strength that can help shape its growth through acquisition strategy.
- **Focus on SoftBank brand and prime store locations**. SoftBank has been growing its market share aggressively following entry into the market in 2006. Bell-Park's focus on the SoftBank Mobile brand means that it stands to benefit from SoftBank's growth through ARPU commissions and a growing supply of potential after-sales service customers. It can leverage the sales expertise gained through relations with SoftBank in future business expansion. 80% of Bell-Park's store network is based in the Kanto, Tokai, and Kansai regions. We understand the company also is effectively using its management resources to build a highly profitable store network.

Weaknesses

- **Reliance on handset sales**. Major competing distributors are growing in related businesses, such as corporate solutions and sales of fixed-line services. Bell-Park's earnings rely on handset sales—meaning mobile phone market trends and handset sales commissions have a significant effect on its earnings. The diffusion rate of mobile phones in Japan exceeds 100%. Further, the mobile operators face pressure to reduce charges from the Ministry of Internal Affairs and Communications. The two main areas with scope for cost reduction while maintaining profit are commissions to subscription agencies (including handset costs) and depreciation related to capex. They may thus review their existing commission structures. Changes such as diversification of sales methods and sales channels, including the spread of online sales, will warrant attention.
- **Reliance on SoftBank.** SoftBank branded handsets, accessories, and plans are the majority of Bell-Park's sales. As a result, Bell-Park's performance is closely tied to the popularity of SoftBank handsets, accessories, and plans. Distributors that carry multiple carriers have a broader product offering in terms of phone plans and handset models. Bell-Park is developing its stores with other carriers, but as of end-December 2019, around 90% of its carrier stores were under the SoftBank brand.

The main focus on SoftBank is both a strength and a weakness, and the relationship could be considered symbiotic, although unequal in profits.

SoftBank receives market intelligence from Bell-Park. It trusts Bell-Park's feedback as Bell-Park focuses on SoftBank. Information provided by Bell-Park is valued as much or more than other SoftBank distributors, a relative advantage given the company's size.

The relationship seems comparable to major soft drink companies and regional bottlers. Soft drink companies are clearly more powerful in the relationship, but the arrangement benefits both parties.

The importance of Bell-Park to SoftBank can be seen in the percentage of SoftBank stores operated by Bell-Park, and in unit sales generated. As of end-December 2019, 297 SoftBank stores were operated by Bell-Park (285 at end-December 2018, 258 at end-December 2017, and 256 at end-December 2016). While SoftBank does not disclose total store numbers, Shared Research estimates that about one in every 10 SoftBank stores is operated by Bell-Park. Bell-Park sold 816,202 devices (for all carriers) in FY12/19, equivalent to 7.0% of the 11,590,000 units sold by SoftBank during the same period (calculated by Shared Research based on data from SoftBank), maintaining the same share of SoftBank handset sales for a second straight year. The sales ratio may appear to be lower than for the number of stores, but electronics retailers, general cell-phone retailers, and corporate sales also contribute to total unit sales for SoftBank. Considering these sales channels, the company's unit sales contribution is significant, especially considering the size of its store network. Shared Research believes this is due to operating efficiency.

Group companies

Bell-Park liquidated its remaining subsidiaries and from FY12/09 consisted of only the main company. Bell-Park has a single business focus, mobile phone retailing, following the divestiture of Japan Pro Staff in 2008.

In February 2014, Bell-Park acquired all shares in Bell-Park Next (formerly OC mobile), and began to release consolidated earnings in FY12/14. The company's primary emphasis remains on mobile phone sales. Also, although currently unconsolidated, Bell-Park established Bellbride, Inc. and B-Lab, Inc. as wholly owned subsidiaries. Bellbride operates wedding consulting centers and provides wedding support services—areas where Bell-Park sees growth potential—and B-Lab plans, imports, and wholesales IoT devices etc.

Market and value chain

Market overview

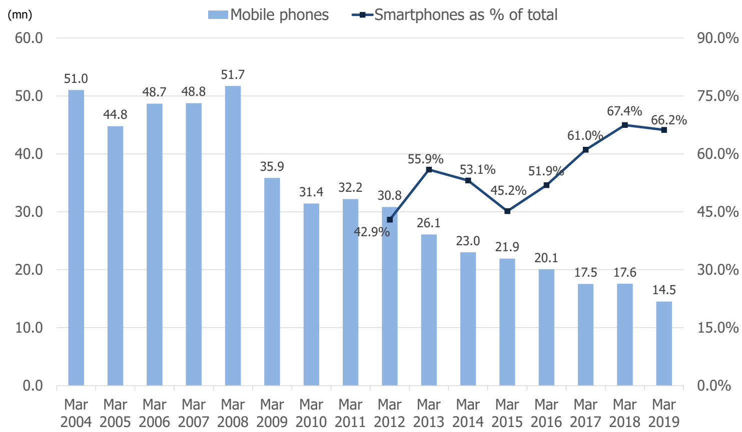
Market scale

- According to industry trend research company Gyokai Doko Search, the market size of the Japanese mobile phone retailing industry in 2018–2019 (total sales of 12 majors) was JPY1.3tn (-2.1% YoY). The top subscription agency (distributor) was T-Gaia Corp. (TSE1: 3738) with total sales of JPY479.2bn (mobile business and solution business combined; FY03/19). Second was Conexio Corp. (TSE1: 9422) with sales of JPY263.9bn (FY03/19), followed by Bell-Park in third place with sales of JPY98.1bn (FY12/18). Hikari Tsushin came in fourth with sales of JPY87.3bn (shop business: FY03/19). These four majors accounted for about 90% of total industry sales (12 companies), indicating the oligopolistic market conditions continue.
- According to Baseconnect, an online knowledge engine that enables searches of data from hundreds of thousands of Japanese companies and businesses, Japan had 2,311 mobile phone subscription agencies (based on searchable result) as of end-February 2019. According to the Ministry of Internal Affairs and Communications (MIC), the number of stores operated by subscription agencies exceeded 16,000 (source: interviews with members of MIC's working group for reviewing and strengthening rules for protection of consumers). There are thought to be about 8,000 primary distributors and about 7,000 secondary distributors, with many of them being small and medium-sized businesses. We understand these companies create acquisition opportunities for larger players as aging business owners seek a successor for their business.

Mobile phone shipments in Japan

- According to MM Research Institute data, shipments of mobile phones in Japan in FY03/19 totaled 34.6bn units (-7.7% YoY). Smartphones accounted for 30.6bn of this total (-6.0% YoY), for an 88.6% share of all mobile phone sales (+1.6pp from a year earlier). SIM-free smartphone shipments fell 4.9% YoY to 3.0mn units and accounted for 9.8% of all smartphone shipments (+0.1pp YoY). MM Research attributes the low shipment volumes to fewer sales by the three major mobile phone carriers, sluggish sales of the new iPhone released in 2018 compared with the previous year's new model, weak sales of SIM-free smartphones, and the continued decline in sales of feature phones.
- In CY2019, domestic shipments of mobile phones totaled 33.4bn units (-4.4% YoY). Smartphones accounted for 29.7bn of that total (-4.7% YoY), for an 88.8% share of all mobile phone shipments.

Shipments of mobile phones in Japan



Source: Shared Research based on MM Research Institute data

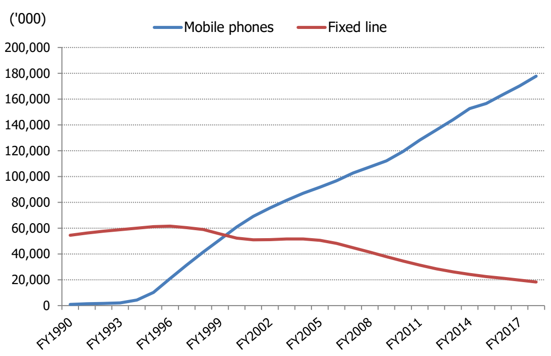
Mobile phone subscribers

The mobile phone market in Japan is saturated. Comparing mobile phone subscriptions to the total Japanese population, the market penetration rate is about 143% as of end-December 2019 (source: Shared Research based on data from the Ministry of Internal Affairs and Communication and the Telecommunications Carriers Association).

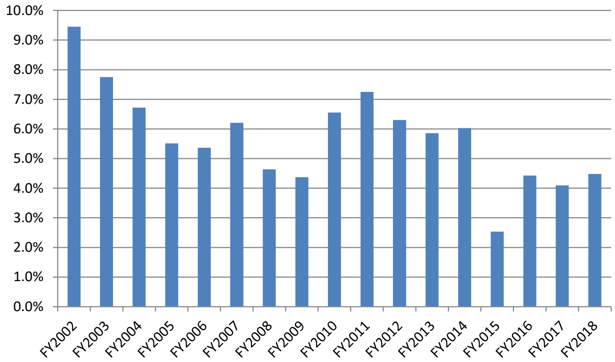
The market is also relatively young–it got its first real boost after the 1995 Kansai Earthquake when fixed-line communications were temporarily unavailable and the value of mobile phones was made clear. The market quickly gained momentum in the late 1990s; total mobile phone subscribers grew from 2mn users in 1995 to 27mn in 1997. To capture this explosive growth, early store networks were designed to maximize exposure to consumers with the goal of quickly growing subscribers (e.g., a kiosk-type location that offers few services other than handling new sign-ups).

Data collected by the Ministry of Internal Affairs and Communications shows that the median YoY growth since 2000 is about 6%. Although growth has begun to flatten as adoption rates increased, the introduction of smartphones from 2010 onward provided additional fuel for growth. The increase flattened once again in 2013, but returned to nearly 6% in 2014. The growth rate is trending downward again, however, due to a rising smartphone penetration rate and changing regulatory climate.

Subscriptions



Mobile phone subscription growth (year-on-year)



Source: Shared Research based on Ministry of Internal Affairs and Communications

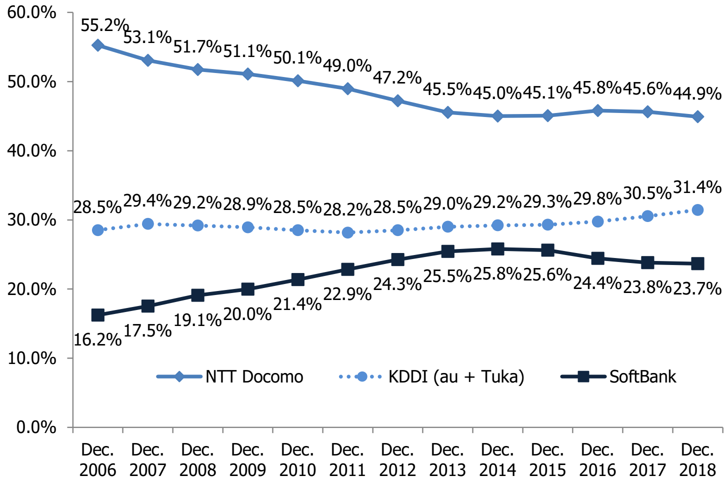
Market development

The first service provider of mobile phone service was Nippon Telegraph & Telephone Corp. (TSE1: 9432) better known as NTT. It later spun out its mobile operations as NTT Docomo Inc. (TSE1: 9437), which began service in 1979 in Tokyo and Osaka. Competitors DDI Cellular and IDO entered the market in the late 1980s, planting the seeds for the modern landscape.

Deregulation in the mid-1990s brought the creation of New Common Carriers (NCCs) and increased competition. Carriers could now subsidize handset sales as opposed to the legacy rental model. NCCs entering the market in 1994 included Digital Phone, Digital Tsuka, and Tsuka Cellular. A wave of M&A activity reshaped the industry in the late 1990s: Digital Phone and Digital Tsuka combined to create J-Phone in 1999; DDI Cellular acquired Tsuka Cellular in 1999, which then merged with IDO to become KDDI Corp. in 2000. J-Phone became part of the Vodafone group in 2001, and officially changed its name to Vodafone in 2003. SoftBank would acquire Vodafone in 2006 and subsequently change the name.

Market share between the top three carriers has shifted significantly; NTT Docomo's 55% share in December 2006 declined to 45% as of December 2014, while SoftBank increased from 16% to 26% over the same period; KDDI's share has essentially been flat, fluctuating between 28% and 29%. SoftBank's market share increased sharply after acquiring a business from Vodafone in 2006. However, from 2015, services provided by the various carriers have reached a point of extreme similarity, and market share fluctuations have decreased.

Subscriber share by carrier



Source: Shared Research based on Telecommunications Carriers Association

Market growth

Mobile phone subscriber data suggests that mobile phone diffusion in Japan has expanding rapidly, with the number of handsets now greater than the Japanese population. Legacy business models revolved around methods to capture as many MNP customers as possible, as the commissions provided for these clients were the most attractive. However, under the guidance of the Ministry of Internal Affairs and Communications, carriers and began revising sales methods from the spring of 2016, eventually completely separating handset costs from telecommunication fees in October 2019. Due to these factors, customer liquidity among the various mobile phone operators may decrease in the future, and it is possible that the purchasing cycle for new handsets may become longer.

On the other hand, the launch of 5G networks capable of faster transmission of large data volumes and advanced handset functions will likely lead to demand growth for mobile phones.

The spread of smartphones has required carrier store staff to know about the devices, creating a more stressful working condition. Shared Research believes this has caused staff turnover rates to rise above those typical in other industries. The ability to secure talented staff is therefore a key to providing high-quality service to store customers.

Reorganization and integration of major subscription agencies

Over the years, changes in the market environment have led to reorganizations and integration of major subscription agencies, as shown below.

- April 2008: ITC (TSE1: 9422; now Conexio Corporation) acquired Hitachi Mobile’s retail arm and merged with Panasonic Telecom Co.
- October 2008: T-Gaia was created between the merger of Telepark and MS Communications
- April 2009: Bell-Park’s acquisition of the SoftBank operations of Panasonic Telecom
- August 2009: ITX Corporation expanded presence through the acquisition of mobile phone sales businesses of Panasonic Corporation (TSE1: 6752) and Sony Corporation (TSE1: 6758)
- June 2013: Marubeni Corporation (TSE1: 8002) consolidated NEC Mobiling Co., Ltd.
- February 2014: Bell-Park acquired OC mobile from Orico Business and Communications (a subsidiary of Orient Corporation [TSE1: 8585])
- March 2014: Nojima Corporation (JASDAQ: 7419) acquired Kenwood Geobit Corporation from JVCKENWOOD Corporation (TSE1: 6632)
- November 2014: Nojima acquired ITX Corporation

- December 2014: RANET Co., Ltd., a unit of Big Camera Inc. (TSE1: 3048), acquired Nepro Mobile Kanto, Nepro Mobile Tokai, and Nepro Mobile Kansai. These units have been renamed RANET Communications.
- April 2016: Kanematsu Telecom Investment (unlisted, 100% subsidiary of Kanematsu Corp. [TSE1: 8020]), acquires Diamond Telecom, Inc. (unlisted, 100% subsidiary of Mitsubishi Electric Corp [TSE1: 6503]).
- April 2017: Kanematsu Communications Ltd. and Diamond Telecom, Inc. merged
- December 2017: T-Gaia Corp. acquired all shares in Quo Card Co., Ltd. (subsidiary of SCSK) and made it a wholly owned subsidiary

Regulations

Subscription agency work for telecom carriers is subject to various laws and regulations, such as the Telecommunications Business Act, as well as ordinances and guidelines that govern their corporate activities. These laws and regulations cover a wide range of subjects, including the environment, fair competition, consumer protection, the protection of personal information, labor issues, and taxes. We limit our discussion to the main changes shown below.

- Telecommunications Business Act: A partial revision to the Telecommunications Business Act (Act No. 86 of 1984) went into effect in October 2019 (after being approved by the National Diet in May 2019). The revision includes provisions requiring the complete separation of handset pricing from telecommunication fees, banning excessive lock-in periods, and introducing a notification system for subscription agencies.
    - Complete separation of handset pricing and telecommunication fees: This provision prohibits offering more attractive telecommunication fees contingent upon the purchase of a new handset. It also prohibits the provision of certain economic benefits upon sale of handsets to users of telecom services (defined by an ordinance of the Ministry of Internal Affairs and Communications). Specifically, the provision of economic benefits on the condition of continuous use of telecommunication services or the purchase of new handsets has been prohibited. Economic benefit in excess of JPY20,000 (pre-tax) provided to customers contracting for telecommunications services and the purchase of a new handset have also been prohibited. The regulation allows for exceptions in some cases, including the sale of low-cost devices, switch to a new handset due to the termination of service plans based on an old communication standard, and clearance sales of old handset inventories.
    - Banning the excessive lock-in periods: Contract lengths are limited to two years (excluding contracts with no penalties for early cancellation). The maximum penalty for early cancellation is limited to JPY1,000 (pre-tax). Maximum monthly fee difference between contracts with and without length restrictions is limited to JPY170.
    - Notification system for subscription agencies: The notification system is intended notify subscription agencies of inappropriate business practices and demand remedial measures be taken.
- Telecommunications Business Act's guidelines for rules to ensure consumer protection: The revision of the Telecommunications Business Act enacted in October 2019 also expanded the list of prohibited acts related to the solicitation of contracts for telecommunications services and implemented a system requiring business operators, including intermediary sales agents, submit notifications. The related guidelines were revised in September 2019.
- Guidelines for ensuring smooth distribution and use of mobile handsets: Revisions made in November 2019 require telecom carriers to release the SIM lock on devices sold via installment sales immediately starting April 2020.

*Background to SIM card release: SIM locks are used by mobile telecom carriers to allow the use of a mobile device on their network only with the use of a carrier-specific SIM card (Subscriber Identity Module card is an IC card issued by a mobile telecom carrier to allow use of its communication network). In September 2007, a Mobile Business Study Group report made the first proposal to considering legally requiring that SIM cards be unlocked. The "Guidelines for Ensuring Smooth Distribution and Use of Mobile Devices" (January 10, 2018) clarified the policy of requiring SIM cards be unlocked to make it possible for users to use their current devices even when switching carriers, thus lowering switching costs. These guidelines were revised on November 22, 2019, to (1) require immediate unlocking of SIM locks after completion of credit verification within 100 days of purchase on an installment payment plans, and (2) make unlocking of SIM lock free, in principle, and (3) require online processing of used mobile devices. (1) and (2) were made available to users without a telecom service contract from November 22, 2019, and to those with contracts from April 6, 2020; (3) will take effect from October 1, 2020.

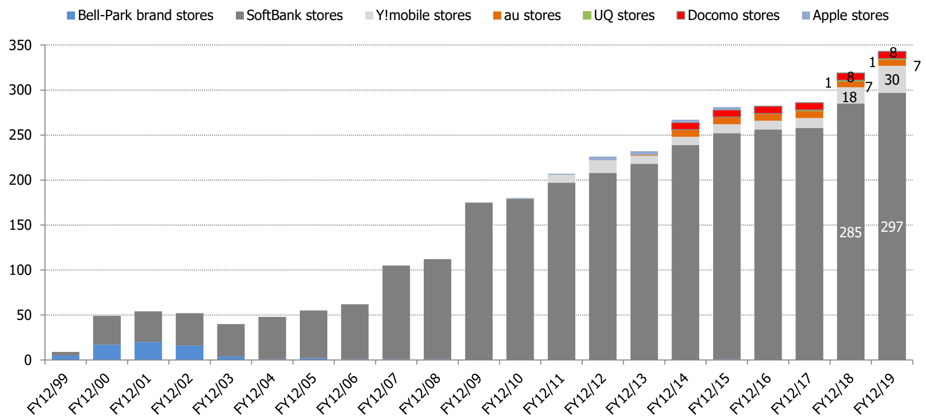
Sales channels

Bell-Park basically has two sales channels.

Carrier stores

- ▷ Carrier stores have been the main sales channel for Bell-Park. Of the 343 stores (directly operated and franchises) as of end-FY12/19. Directly run stores accounted for 82% of the total at 281 outlets, up 37 from a year earlier. The increase mostly came from acquisitions from other operators.
- ▷ Of the 343 total stores (+24 YoY), 297 (+12) were SoftBank stores, eight (unchanged) were NTT Docomo stores, seven were au stores (unchanged), 30 (+12) were Y!mobile stores, and one (unchanged) was a UQ Spot store.
- ▷ The mainstay SoftBank carrier stores directly operated by Bell-Park totaled 239 (+26 YoY), and about 70% of these were dual brand stores that also handled Y!mobile products and services.

Store network



Source: Shared Research based on company data
Note: Only figures for carrier-affiliated stores are shown from FY02/16.

Corporate sales

Bell-Park's customers are primarily SMEs and clients with a small number of lines. The company plans to use its sales network to promote cooperation between its corporate sales team and its directly run stores. It increased staffing in FY12/19 in preparation for future growth of this channel.

Suppliers

Japan's three major carriers —NTT Docomo, KDDI (under the "au" brand), and SoftBank—collectively control over 90% of the mobile communications market. The relative share controlled by each of the big three has changed over the past decade, with NTT Docomo's share generally trending downwards, although its share has been rebounding recently on an increase in lease lines to MVNO operators. Since 2015, share fluctuations have diminished, reflecting the increasingly similar quality of service offered by the three companies (discussed in the Market Development section).

Bell-Park's key supplier is SoftBank. The agency agreement between Bell-Park and SoftBank is automatically renewed each year. Shared Research considers the relationship between SoftBank and Bell-Park to be symbiotic. Bell-Park's position as a sales agent for SoftBank is important for the network operator given Bell-Park's strong sales performance and its large store network. Indeed, for SoftBank getting feedback from Bell-Park in order to gauge the effectiveness of their marketing campaigns is critical.

Barriers to entry

The barriers to entry into mobile phone retailing are few. However, a practical limitation is the store opening policy of mobile telecom carriers. Each company's target store counts could limit new entrants.

Existing mobile phone distributors, like Bell-Park, have already established nationwide networks and competition between the different retail channels is high; a potential entrant would need to rapidly traverse the experience curve to be able to earn margins similar to those earned by current market participants. For this reason, arrival of new large entrants is unlikely.

Competition

Bell-Park's direct competition include other companies that operate SoftBank-branded stores, other distribution channels where consumers can purchase SoftBank phones and service (e.g., electronics mass retailers etc.), as well as other companies that distribute mobile phones other than SoftBank.

Operators of SoftBank branded stores:

- Telecom Service Co., Ltd.: A joint venture between SoftBank Corp. and Infoservice, Inc. (subsidiary of Hikari-Tsushin Inc. [TSE1: 9435])
- T-Gaia Corp. (TSE1: 3738): Operates carrier stores for a number of carriers and has the largest sales agent network. Its main shareholders are Mitsubishi Corp. and Sumitomo Corp.
- Upbeat Corp.: Main business is carrier store operation. Its major shareholder is Nojima Corp. (TSE1: 7419)
- Cosmonet Co., Ltd. (unlisted): Independent ICT services provider. Focus on store operations and corporate sales
- Other retail sales channels for SoftBank mobile phones
- Electronics retailers: Stores like Yamada Denki Co., Ltd. (TSE1: 9831), Bic Camera Inc. (TSE1: 3048), and Yodobashi Camera (unlisted) usually have lower service levels than dedicated stores, with limited after-sale service options

Key companies that distribute phones other than SoftBank

- T-Gaia Corp.: Distributor that operates stores that sell mobile phones other than SoftBank. No.1 handset seller in industry
- Conexio Corp. (TSE1: 9422): No. 1 in number of NTT Docomo stores. No. 2 in industry in number of handset sales. Affiliated with Itochu Corporation
- Kanematsu Communications Ltd.: Consolidated subsidiary of Kanematsu Corp. (TSE1: 8020). Multi-carrier distributor. Expanded in April 2016 with purchase of Diamond Telecom, Inc. (multicarrier distributor, affiliated with of Mitsubishi Electric Corp.)
- ITX Corp.: Operates carrier stores for au and NTT Docomo and primary distributors for Rakuten Mobile and UQ Mobile. Parent company is Nojima Corp. (TSE1: 7419). Originally part of Nissho Iwai (currently Sojitz) group
- MX Mobiling Co., Ltd.: Delisted in September 2013 after being acquired by a subsidiary of NEC [TSE1: 6701], and becoming a second-tier subsidiary of Marubeni Corp. Merged with Marubeni Telecom in April 2015. Is an example of a manufacturer's subsidiary that supplied handsets to carriers becoming a distributor and operating carrier stores

Other competitors (MVNO)

Another source of competition are the MVNOs, companies that provide mobile services under their own brand by leasing the communication networks of major carriers such as NTT Docomo. The Ministry of Internal Affairs and Communications' policy of promoting competition in the telecommunications industry has led a range of companies to enter the market as MVNOs. These operators are acquiring subscribers through atypical sales channels, including online sales and collaboration with major supermarkets. MVNOs' market share is only about 8% (as of the end-September 2019). However, the November 2019 revision of the "Guidelines for Ensuring Smooth Distribution and Use of Mobile Devices" will require mobile telecom carriers to immediately unlock the SIM cards on mobile handsets sold on installment sales plans from April 2020. If this stimulates the market for used devices, greater competition from MVNOs could emerge over the longer term.

Substitutes

Substitutes for retail stores are few; one possibility is online sales, but brick-and-mortar stores have thus far been consumers' dominant purchasing channel. If online sales become more common in the future, we will need to keep a close eye on changes in the business environment, such as the diversification of sales methods and channels.

Historical financial statements

Q3 FY12/19 results (out November 6, 2019)

- ▷ For Q3 FY12/19, Bell-Park reported consolidated sales of JPY77.0bn (+7.5% YoY), operating profit of JPY3.3bn (+43.9% YoY), recurring profit of JPY3.3bn (+43.7% YoY), and net income attributable to owners of the parent of JPY2.2bn (+47.8% YoY).
- ▷ FY12/19 earnings and dividend forecasts revised upward*[1]: As a result of reforms, including relocation and remodeling of stores the company took over from other subscription agencies and optimization of personnel deployment, the number of handsets sold and stock commissions came in above initial forecasts while improvement in carrier evaluation of stores lead to higher commissions. As a result, the company expects full-year results to come in above its initial full-year FY12/19 forecast. Handset sales volume has been on a declining trend after October 2019 due to the consumption tax rate hike and the enactment of a law requiring carriers to separate handset charges from telecommunication fees. However, the full-year FY12/19 forecast was revised upward based on cumulative Q3 FY12/19 results. As a result of the upward revision in the earnings forecast, the year-end dividend forecast was also revised based on a dividend payout ratio of 25%.
- ▷ Q3 FY12/19 sales reached 77.7% of the company's full-year FY12/19 target (revised on November 6, 2019; Q3 FY12/18 was at 73.0% of full-year FY12/18 results), operating profit 88.9% (70.8%), recurring profit 89.7% (70.9%), and net income attributable to owners of the parent 89.0% (71.1%). In Q4, it seems likely there will be a reactionary falloff following last-minute demand leading up to October 1, 2019, when the partial revision of the Telecommunications Business Act came into effect and the consumption tax increased. Furthermore, while there was a new iPhone launch in Q4 FY12/18, there is no such launch planned for Q4 FY12/19. (In 2018, iPhone XS/XS Max models were launched on September 21 and iPhone XR on October 26. In 2019, iPhone 11 / 11 Pro models were launched on September 20.)
- ▷ Sales up 7.5% YoY: The number of handsets sold at directly operated carrier stores increased YoY, chiefly in connection with new subscriptions*[2]. In addition, commission revenue linked to evaluations increased as telecom carriers' evaluations of stores improved. Furthermore, Bell-Park concentrated on brokering contracts for services on which telecom carriers are focusing (such as electricity and credit cards), and commission revenue for these secondary products increased.
- ▷ Operating profit up 43.9% YoY: The SG&A ratio rose 2.4pp YoY to 19.3% on higher personnel, sales promotion, and rent expenses associated with the increase in directly operated carrier stores. As sales increased, the GPM improved 3.6pp YoY to 23.6%. The OPM improved 1.1pp YoY to 4.3%.

*[1] Revised full-year FY12/19 company forecast (announced November 6, 2019):

- ▷ Sales: JPY99.0bn (previous forecast: JPY95.0bn)
- ▷ Operating profit: JPY3.7bn (JPY3.0bn)
- ▷ Recurring profit: JPY3.7bn (JPY3.0bn)
- ▷ Net income*: JPY2.5bn (JPY1.9bn)
- ▷ Year-end dividend: JPY60 (JPY38)
- ▷ Annual DPS: JPY98 (JPY76)

* Net income attributable to owners of the parent

*[2] Bell-Park has not disclosed the number of handsets sold during cumulative Q3, but the majority of its handsets are from SoftBank Corp. (TSE1: 9434), which sold a total of 8.7mn handsets (+3.8% YoY) between January and September 2019 (source: SoftBank Corp. IR material). Of these, 4.6mn were for new subscriptions (+15.8% YoY), while 4.2mn were a change of model (-6.7% YoY), so it was the 15.8% increase in new subscriptions that contributed to the 3.8% increase in the total.

According to BCN Ranking, which compiles home electronics retailer sales data, if the number of units sold in the first week of September 2019 (September 2–8, 2019) is given a value of 1, the second week (September 9–15) was at 1.06 and the third week (September 16–22) at 1.89. The fourth week (September 23–29) reached a value of 2.30, putting the figure at 121.9% of the previous week, indicating a strong week-on-week upward trend. This growth appears to be partly the result of last-minute demand because partial revisions to the Telecommunications Business Act came into effect, and the consumption tax increased leading up to October 1, 2019, but Shared Research believes the timing of the latest iPhone launches was also a factor. Specifically, in 2018, iPhone XS Max was launched in September and iPhone XR in October, causing two bumps in the number of handsets sold at Bell-Park, one in Q3 and one in Q4. By contrast, in 2019, the latest models, iPhone 11, iPhone 11 Pro, and iPhone 11 Pro Max, were all launched in September (causing a bump in Q3 numbers).

Enactment of partial revision of Telecommunications Business Act

- In regard to the mobile phone market, a law to revise a portion of the Telecommunications Business Act took effect on October 1, 2019, with the Ministry of Internal Affairs and Communications establishing detailed rules to materialize the separation of handset charges from telecommunication fees and ban the excess lockup of customers. Specifically, the revision, as a general rule, prohibits the discounting of handsets conditioned upon subscription renewal, although an interim measure allows a discount of up to JPY20,000 (with exceptions), and sets the maximum penalty for breach of contract at JPY1,000 (previously, in the case of "two-year handset bondage," in which the basic fee would initially be discounted on a two-year contract, the user might be charged a JPY9,500 penalty if the contract was broken before the two years were up).
- The business environment is changing dramatically with the progress of competition-promoting regulation, and major carriers are introducing new handset sales methods and price plans in accordance to the new rules.

Launch of Rakuten Mobile's MNO service

Rakuten Mobile, Inc.'s mobile network operator (MNO) service, which had been gaining attention, started with a free program (Free Supporter Program) initially targeting 5,000 users as a prerelease (to be steadily expanded to tens of thousands). The prerelease is to last from October 1, 2019, to March 31, 2020. As conditions to participate in the Free Support Program, users must be Rakuten members living in one of the 23 wards of Tokyo or in Nagoya, Osaka, or Kobe; at least 18 years of age; and must either enter a new subscription or switch to Rakuten Mobile using mobile number portability (MNP) during their current contract period.

Bell-Park initiatives

The Bell-Park group made further progress on the effort started in FY12/18 to make SoftBank stores into dual brand stores (also handling Y!mobile products and services). The group focused on the education of store staff in the handling of both brands and also worked to establish a store structure that permits proposals of fee plans and services from both brands. In addition, it increased the number of directly operated carrier stores by 24 during Q3 FY12/19 by taking over the operations of other subscription agencies. With aims to grow profits, the company is focused on relocating and renovating the newly taken over stores, collaborating with nearby Bell-Park stores for personnel hiring, training, and placement.

Store count

The company operated a total of 330 carrier stores at end-Q3 FY12/19 (313 stores at end-September 2018). Stores that the company manages were as follows:

- SoftBank: 291 stores (283 at end-September 2018)
- NTT Docomo: 8 stores (unchanged)
- au: 7 stores (unchanged)
- Y!mobile: 23 stores (14)
- UQ Spot: 1 store (unchanged)

The company had eight more SoftBank stores and nine more Y!mobile stores than at end-September 2018; the number of NTT Docomo, au, and UQ Spot stores in operation did not change during the quarter.

1H FY12/19 results (out August 6, 2019)

- For 1H FY12/19, Bell-Park reported consolidated sales of JPY51.4bn (+6.2% YoY), operating profit of JPY2.4bn (+24.6% YoY), recurring profit of JPY2.4bn (+24.5% YoY), and net income attributable to owners of the parent of JPY1.6bn (+27.1% YoY).

- 1H FY12/19 sales surpassed the company's 1H FY12/19 target by 2.8%, operating profit by 18.2%, recurring profit by 19.0%, and net income attributable to owners of the parent by 23.2%.
- 1H FY12/19 sales reached 54.1% of the company's full-year FY12/19 target (1H FY12/18 was at 49.3% of full-year FY12/18 results), operating profit 78.8% (58.8%), recurring profit 79.3% (58.7%), and net income attributable to owners of the parent 82.5% (59.6%).
- Sales up 6.2% YoY: The number of handsets sold at directly operated carrier stores increased YoY, chiefly in connection with new subscriptions. (In 1H, handset sales volume including to corporate clients fell 1.9% YoY to 392,012, but out of that number sales to new subscribers amounted to 156,930, a 15.9% YoY increase. Handset replacements fell 11.0% to 235,082.) In addition, commission revenue linked to evaluations increased as telecom carriers' evaluations of stores improved. Furthermore, Bell-Park concentrated on brokering contracts for services on which telecom carriers are focusing (such as electricity and credit cards), and commission revenue for these secondary products increased.
- Operating profit up 24.6% YoY: The SG&A ratio rose 3.1pp YoY to 19.3% on higher personnel, sales promotion, and rent expenses associated with the increase in directly operated carrier stores. As sales increased, the GPM improved 3.8pp YoY to 23.9%. The OPM improved 0.7pp YoY to 4.6%. Increases in the number of handsets sold at directly operated store, the number of contracts handled for services such as electricity and credit cards, and the number of contracts handled for fiber optic internet services all contributed to profits (listed in order of relative weight).
- By sales channel, sales and operating profit rose YoY at carrier stores while sales grew but operating profit fell at corporate sales channel. The decline in operating profit in corporate sales was caused by an increase in SG&A expenses after the company increased personnel aimed at future growth.
- FY12/19 full-year forecasts remain unchanged.

External environment
In regard to the mobile phone market, the company's primary area of operations, in preparation for a partial revision of the Telecommunications Business Act (announced in May 2019 and set to take effect in fall 2019) that makes complete separation of handset costs and telecommunication charges mandatory, the Ministry of Internal Affairs and Communications is considering relevant ordinances and guidelines that set out detailed rules.

In addition, in September 2019 SIM unlocking is to become mandatory for used handsets, and in October 2019 Rakuten plans to launch its mobile network operator (MNO) service (see below). Significant changes in the business environment are therefore anticipated.

Initiatives
The Bell-Park group made further progress on the effort started in FY12/18 to make SoftBank stores into dual brand stores (also handling Y!mobile products and services). The group focused on the education of store staff in the handling of both brands and also worked to establish a store structure that permits proposals of fee plans and services from both brands.

Store count
The company operated a total of 321 carrier stores at end-1H FY12/19 (versus 311 stores at end-June 2018). This number is comprised of 263 directly operated stores (an increase of 29 stores from end-June 2018) and 58 franchise stores (a decrease of 19 stores from end-June 2018). The company is expanding its network of stores through business succession of other mobile phone distributors to achieve greater dominance and improve efficiency in store operations.

There were 321 total carrier stores (319 at end-December 2018) composed of the following:

- SoftBank: 286 stores (285 at end-December 2018)
- NTT Docomo: 8 stores (unchanged)

- au: 7 stores (unchanged)
- Y!mobile: 19 stores (18 at end-December 2018)
- UQ Spot: 1 store (unchanged)

The company had one more SoftBank store and one more Y!mobile store than at end-December 2018. The number of NTT Docomo, au, and UQ Spot stores in operation did not change during the quarter.

FY12/19 full-year company forecasts

Results in 1H surpassed company forecasts (see above). Nevertheless, the company has not revised its full-year forecasts because it is unclear what impact various factors may have on the group from 2H.

Anticipated changes to business environment

- A revision to the Telecommunications Business Act* will restrict the provision of discounted handsets conditional on signing telecommunications service contracts, as has been the convention, and this seems likely to lengthen the cycle for replacement of handsets.
- In September 2019, SIM unlocking for used handsets will become mandatory. Rakuten plans to launch a mobile network operator (MNO) service in October 2019.

*The gist is as follows:
- Complete separation of telecommunication fees and handset prices: a) Uniform prohibition on offering users benefits tied to conditions such as the renewal of telecommunication services and purchase of handsets, b) Prohibition on offering users benefits over JPY20,000 (pre-tax) tied to conditions such as the use of telecommunication services and purchase of handsets
- Banning excessive lock-in periods: Limits on service contracts (two years; excepting cases with no cancellation penalties), cancellation penalties limited to 1,000 yen (pre-tax), ban on automatic renewal of contracts except when certain conditions are met (any of four: omitted), difference in monthly fee between contract with lock-in period and without lock-in limited to JPY170/month (pre-tax).

Rakuten's mobile network operator (MNO) business

Rakuten Mobile, Inc., a consolidated subsidiary of Rakuten, Inc. (TSE1: 4755), is set to commence service of a mobile network operator (MNO) on October 1, 2019. According to Rakuten CEO Hiroshi Mikitani's comments at a Q2 FY12/19 results briefing, Rakuten's MNO service will first undergo a limited launch on October 1, 2019 to confirm market stability for one to two months before executing a medium-scale launch, from which point it will begin accepting the completion of online contracts. Finally, Rakuten Mobile will sponsor a full-scale launch entailing the opening of a network of stores.

Q1 FY12/19 results (out May 8, 2019)

- For Q1 FY12/19, the company reported consolidated sales of JPY28.9bn (+11.2% YoY), operating profit of JPY1.7bn (+42.1% YoY), recurring profit of JPY1.8bn (+41.8% YoY), and net income attributable to owners of the parent of JPY1.2bn (+43.7% YoY).
- Q1 FY12/19 sales reached 64.2% of the company's 1H FY12/19 target (Q1 FY12/18 was at 53.7% of the 1H FY12/18 results), operating profit 124.3% (50.6%), recurring profit 125.4% (64.5%), and net income attributable to owners of the parent 133.3% (64.7%). Q1 FY12/19 sales reached 30.4% of the company's full-year FY12/19 target (Q1 FY12/18 was at 26.5% of full-year FY12/18 results), operating profit 58.0% (23.6%), recurring profit 58.5% (37.9%), and net income attributable to owners of the parent 61.8% (38.0%).
- Sales up 11.2% YoY: The number of handsets sold at SoftBank stores increased YoY, chiefly in connection with new subscriptions*. In addition, commission revenue linked to evaluations increased as telecom carriers' evaluations of stores improved. Furthermore, commission revenue linked to the number of contracts handled for services on which telecom carriers are focusing (such as electricity and credit cards) increased. According to Bell-Park, the dual branding of SoftBank and Y!mobile

stores and the handling of electricity and credit cards began in earnest in Q2 FY12/18, and the YoY figures for Q1 FY12/19 indicate that these measures have contributed to improving earnings.

▷ Operating profit up 42.1% YoY: As sales increased, the GPM improved 4.1pp YoY to 24.0%. The SG&A ratio rose 2.7pp YoY to 17.9% on higher personnel, sales promotion, and rent expenses associated with the increase in directly operated carrier stores. The OPM improved 1.3pp YoY to 6.0%.

*Bell-Park does not disclose the number of handsets sold on a quarterly basis. According to SoftBank data, SoftBank as a whole sold 3.23mn handsets during the January–March 2019 period (-1.4% YoY). This breaks down to 1.75mn new handsets (+7.4% YoY) and 1.48mn replacement units (-10.0% YoY). Incidentally, during the same period, the quarter prior to its announcement of new fee plans, NTT Docomo sold 6.66mn handsets (-2.9% YoY). This breaks down to 3.16mn new handsets (-1.4% YoY) and 3.50mn replacement units (-4.2% YoY).

▷ No change to 1H and full-year FY12/19 forecasts: Q1 progress versus forecasts was higher than in Q1 FY12/18, but the company made no changes due to uncertainty regarding the external environment.

Changes in external environment

In regard to the mobile phone market, the company's primary area of operations, after the Ministry of Internal Affairs and Communications announced an emergency proposal for the optimization of mobile phone services in January 2019, a bill was submitted to the Diet regarding a partial revision of the Telecommunications Business Act, with the goal of completely separating handset costs and telecommunications charges in order to create simple, easy-to-understand fee structures. If a revision of the Act does indeed lead to complete separation of handset costs and telecommunications charges, there are likely to be restrictions on handset discounts conditional on signing telecommunications service contracts, which have been common. In June 2019 NTT Docomo will begin offering new fee plans*, in September 2019 SIM unlocking is to become mandatory for used handsets, and in October 2019 Rakuten plans to launch its mobile network operator (MNO) service. Significant changes in the business environment are therefore anticipated.

*Overview of new NTT Docomo fee plan

NTT Docomo Inc. (TSE1: 9437) on April 15, 2019, announced five new fee plans, including the Gigaho™ and Gigalight™ plans for smartphones and three plans for tablets, with actual launch set for June 1, 2019. The new smartphone fee plans (Gigaho™ and Gigalight™) offer voice communications between family members (equal to the conventional basic fee plan), SP-mode® (ISP), and data transmission (Packet Pack) as single packages (previously these three items were charged separately). These new plans simplify the complex conventional fee system and realize a discount of as much as 40% (in the case of Gigalight with Minna Docomo Wari (three or more lines) and a monthly data usage plan of 1GB or less) in response to Chief Cabinet Secretary Yoshihide Suga's August 2018 remark that domestic mobile carriers had room to lower their fees by 40%.

※Gigaho™ is an unlimited data plan with a monthly fee of JPY5,980 (JPY6,980 from the seventh month onward) when Minna Docomo Wari (family plan with three or more lines) is applied. Speed is limited once the user exceeds 30GB/month, but compared to the conventional maximum data transfer speed of 128kbps, this plan offers a maximum of 1Mbps (about 8x). The plan targets users who want a variety of content, including video and SNS. When the plan is combined with other discounts, the lowest price case would be JPY3,980/month (if Minna Docomo Wari family plan with three or more lines, Docomo Hikari set discount, and Gigaho Wari are all applied).
※Gigalight™ is a plan in which fees are applied incrementally depending on data usage volume. When Minna Docomo Wari (family plan with three or more lines) is applied, the monthly fee is JPY1,980 for up to 1GB/month, JPY2,980 for up to 3GB/month, JPY3,980 for up to 5GB/month, and JPY4,980 for up to 7GB/month. Above 7GB/month the data transfer speed is limited to the previous 128kbps.

Gigaho™ costs about 30% less than under the conventional fee system, while Gigalight™ costs between 20% and 40% less (the latter when Minna Docomo Wari family plan with three or more lines is applied).

SoftBank fees

In contrast, with Ultra GIGA MONSTER Plus (50GB/month + unlimited video SNS) from SoftBank Corp. (TSE1: 9434), the lowest price case in JPY3,480/month (when 1-year discount, Home Bundle Discount, and Everybody Family Discount [4 people] are all applied), cheaper than the lowest price of JPY3,980 with NTT Docomo's Gigaho™. In addition, key video and SNS services have unlimited data usage (they do not count toward total data usage). On the other hand, with the Mini MONSTER pay-per-usage service, the monthly fee is JPY1,980 for up to 1GB/month, JPY3,980 for up to 2GB/month, JPY5,480 for up to 5GB/month, and JPY6,480 for up to 50GB/month (first-year fee for a two-year contract and application of one-year discount and Home Discount Hikari Set). This fee system appears to be more expensive than Gigalight™ at smaller data usage volumes. However, with SoftBank's second brand, Y!mobile, pay-per-usage plans are cheaper than Gigalight™. When various discounts are bundled together, the cost is JPY1,480 for up to 3GB/month, JPY2,280 for up to 9GB/month, and JPY3,980 for up to 21GB/month.

SoftBank announced on May 8, 2019 that it would on June 12, 2019, begin offering a Smartphone Debut Plan that allows users switching from a feature phone to a smartphone to pay as little as JPY980/month when various discounts are bundled together. Together with the launch of the Smartphone

Debut Plan, SoftBank will conduct a campaign in which it will give users signing up for the plan by September 30, 2019, electronic money amounting to JPY1,000/month for a period of six months to be used with the PayPay mobile QR code payment service.

KDDI (au) and Okinawa Cellular fees
KDDI Corp. (TSE1: 9433) and Okinawa Cellular Telephone Company (TSE1: 9436) on May 13, 2019, announced new fee plans as a means of competing with the new fee plans already announced by NTT Docomo. One is the New au Pitatto Plan, a revised version of the au Pitatto Plan adopted in July 2017, which applied incremental fees depending on data volume. The companies will also offer au Flat Plan 7 Plus from June 1, 2019, enabling subscribers to use up to 7GB/month without worrying about the volume of data transmitted during SNS use. In addition, in the summer they plan to begin offering au Data MAX Plan, which has no monthly upper limit on data volume.

※New au Pitatto Plan (for low data volume users) applies incremental fees depending on data volume. When Family Discount Plus (three or more people) is applied, the cost is JPY1,980 for up to 1GB/month, JPY3,480 for up to 4GB/month, and JPY4,980 for up to 7GB/month.

※au Flat Plan 7 Plus (for moderate data volume users) enables subscribers to use up to 7GB/month without worrying about the volume of data transmitted during SNS use. When Family Discount Plus (three or more people) is applied, the cost is JPY4,480/month. (During the period from January to March 2019, 45% of au smartphones used 1GB–7GB.)

→ When a user exceeds 7GB, the data transfer speed is capped at 300kbps (versus 128kbps at NTT Docomo).

※au Data MAX Plan (for high data volume users) will cost JPY7,980/month when Family Discount Plus (three or more people) is applied. When bundled with various discounts, the lowest price case would be JPY5,980/month (when Family Discount Plus with three or more people, au Smart Value, and au Data MAX Plan Smart Campaign are all applied. Launch of this plan is scheduled for summer 2019.

Initiatives

The Bell-Park group made further progress on the effort started in FY12/18 to make SoftBank stores into dual brand stores (also handling Y!mobile products and services). The group focused on the education of store staff in the handling of both brands and on improving brand recognition by replacing signage. It also worked to establish a store structure that permits proposals of fee plans and services from both brands. Thanks to these initiatives, the number of handsets sold at SoftBank stores increased YoY, chiefly in connection with new subscriptions. In addition, commission revenue linked to evaluations increased as telecom carriers' evaluations of stores improved. Furthermore, commission revenue linked to the number of contracts handled for services on which telecom carriers are focusing (such as electricity and credit cards) increased, driving growth in sales and profit.

Store count

The company operated a total of 318 carrier stores as of the end of Q1 FY12/19 (319 stores as of end-FY12/18). Stores that the company manages were as follows:

- SoftBank: 285 stores (unchanged)
- NTT Docomo: 8 stores (unchanged)
- au: 7 stores (unchanged)
- Y!mobile: 7 stores (18 stores)
- UQ Spot: 1 store (unchanged)

The company had one fewer Y!mobile stores compared with end-FY12/18; the number of SoftBank, NTT Docomo, au, and UQ Spot stores in operation did not change during the quarter.

Company forecasts for 1H and full-year FY12/19

Q1 FY12/19 progress versus the company forecasts exceeded expectations. Nevertheless, the company has not revised its 1H and full-year forecasts because it is unclear what impact various factors may have on the group from Q2 onward.

Anticipated changes to business environment

- ▷ A revision to the Telecommunications Business Act will restrict the provision of discounted handsets conditional on signing telecommunications service contracts, as has been the convention, and this seems likely to lengthen the cycle for replacement of handsets.
- ▷ In September 2019, SIM unlocking for used handsets will become mandatory. Rakuten plans to launch a mobile network operator (MNO) service in October 2019.

If 1H FY12/19 earnings and profit turn out to be in line with company forecasts, this will actually mean that Q2 (April–June 2019) sales will fall to JPY16.1bn (-28.1% YoY) and operating profit to -JPY340mn (versus operating profit of JPY674mn in Q2 FY12/18). In light of Q1 FY12/19 performance, Shared Research thinks there is little likelihood such declines will actually occur in Q2, but there are a number of uncertain factors that will arise when NTT Docomo's new fee plans come into effect, including user acquisition trends, handset pricing strategies, and the responses of other carriers.

Full-year FY12/18 results

- ▷ For FY12/18, the company reported consolidated sales of JPY98.1bn (+10.3% YoY), operating profit of JPY3.2bn (+2.5% YoY), recurring profit of JPY3.3bn (+2.3% YoY), and net income attributable to owners of the parent of JPY2.1bn (-3.1% YoY)
- ▷ FY12/18 sales and profit came in above company forecasts. FY12/18 sales reached 103.3% of the company's full-year target, operating profit 107.6%, recurring profit 108.6%), and net income attributable to owners of the parent 108.5%
- ▷ Sales up 10.3% YoY: Sales grew in both the carrier store and corporate businesses. The company's carrier store network expanded by 33 stores. Sales of smartphones and other handsets grew thanks to expansion of the store network and as the company worked to market them in line with carriers' policies (up 27,000 units YoY: down by 19,000 at comparable stores and up by 46,000 at new stores). Sales of computers and mobile phones to the corporate sector were also solid (Shared Research estimates an increase of 2,000 units)
- ▷ Operating profit up 2.5% YoY: Operating profit fell in the carrier store business and grew in the corporate business. Profit fell in the carrier store business due to cost increases (mainly personnel, rent, and equipment costs) associated with store network growth and lower stock commissions from carriers. Profit grew in the corporate business and others outside the carrier store business on sales growth. The consolidated GPM fell 0.5pp YoY while the SG&A ratio improved by 0.2pp to 17.1%; OPM dropped 0.2pp to 3.3%
- ▷ Net income down 3.1% YoY: Net income fell as in FY12/17 there was a JPY286mn gain on reversal of stock acquisition rights
- ▷ Dividend hike: Bell-Park revised up its year-end dividend forecast for FY12/18 by JPY4 from JPY33 to JPY37 per share. Combined with the interim dividend of JPY33, this boosted the annual DPS to JPY70 for a full-year consolidated payout ratio of 21%. This is in line with its policy to raise the consolidated payout ratio in stages to 30% by FY12/20. The FY12/17 DPS was JPY55 (interim dividend JPY20, year-end dividend JPY35 [ordinary dividend JPY30, commemorative dividend JPY5]) for a consolidated payout ratio of 16%. The company forecasts a dividend of JPY76 for FY12/19, up JPY6 YoY (interim dividend JPY38, year-end dividend JPY38) and a consolidated payout ratio of 25%

External environment

In the mobile phone market, the company's primary area of operations, the choices available to consumers expanded due to increased awareness and penetration of the major carriers' sub-brands and budget carriers such as MVNOs, as well as a variety of pricing plans for the main brands of the major carriers. Meanwhile, the major carriers are focusing on areas outside telecommunications, using their customer base to market services such as electricity and credit cards. There is a great deal of debate and investigation surrounding the Ministry of Internal Affairs and Communications' proposals for the optimization of mobile phone services. There may be major changes in the environment in the future, including the complete separation of telecommunications charges and handset costs, with a view to making fee plans simple and easy to understand.

Company initiatives

The Bell-Park group has worked to expand its network of stores by concluding a distributor agreement with Daiei Dentsu Co., Ltd. that operates 16 SoftBank stores in Chugoku and Kyushu region, increasing the number of carrier stores by 33 in FY12/18. Of these, 21 were directly managed, primarily acquired through business succession (seven of which were Y!mobile stores), bringing the number of directly managed stores to 244 at end-FY12/18. Another 12 stores were franchises including those run by Daiei Dentsu, bringing the number of franchises to 75 stores at end-FY12/18. Although costs including personnel expenses, rent, and equipment expenses increased due to the expansion of store network, sales volume of handsets centered on smartphones grew on efforts to increase store count and focusing on initiatives at each telecom carriers. Further, non-carrier store businesses such as the corporate business grew sales, especially of personal computers and mobile phones to businesses.

The company sold 781,373 handsets in FY12/18. There were 259,602 new handset sales (+18.5% YoY), while replacement units fell 2.2% to 521,771.

As of end-FY12/18, the company operated a total of 319 carrier stores (versus 313 acquired through business succession stores at end-Q3 FY12/18, 286 at end-FY12/17). Stores that the company manages were as follows:

- ▷ SoftBank: 285 stores (283 stores at end-Q3 FY12/18, 258 at end-FY12/17)
- ▷ NTT Docomo: 8 stores (unchanged, unchanged)
- ▷ au: 7 stores (unchanged, 8)
- ▷ Y!mobile: 18 stores (14 stores, 11)
- ▷ UQ Spot: 1 store (unchanged, unchanged)

The company had two additional SoftBank store and four more Y!mobile stores compared with end-Q3 FY12/18; the number of NTT Docomo, au, and UQ Spot stores in operation did not change during the quarter. Compared with end-FY12/17, the company added 27 SoftBank stores and seven Y!mobile stores. The number of NTT Docomo and UQ Spot stores was unchanged, and there was one fewer au store (refer to Business section for medium-term trends in store network).

Expansion of Y!mobile sales channel

As of end-FY12/18, the company had 285 SoftBank stores (258 at end-FY12/17) and 18 Y!mobile stores (11) for a total of 303 (269). 202 (65) of the SoftBank stores handled Y!mobile products and services as dual brand stores. As of end-FY12/18, there was a total of 220 Y!mobile or dual brand stores, up 76 from end-FY12/17. As of end-FY12/18, the company had 1,489 full-time employees (up 138 from end-FY12/17) and 468 part-time employees (down 35).

Cumulative Q3 FY12/18 results

Summary

For cumulative Q3 FY12/18, the company reported consolidated sales of JPY71.6bn (+15.0% YoY), operating profit of JPY2.3bn (+24.7% YoY), recurring profit of JPY2.3bn (+24.6% YoY), and net income attributable to owners of the parent of JPY1.5bn (+34.4% YoY). Carrier stores increased more than initially forecast (+27 stores, explained below), resulting in higher store opening costs, but this was absorbed by growth in operating profit (+24.7% YoY), which exceeded that of sales (+15.0% YoY).

Progress

Cumulative Q3 FY12/18 sales reached 75.4% of the company's full-year target (cumulative Q3 FY12/17 sales reached 70.0% of the full-year FY12/17 results), operating profit 76.2% (58.1%), recurring profit 77.0% (58.2%), and net income attributable to owners of the parent 77.2% (51.3%). Progress against full year targets was high in both sales and profit because carrier stores increased beyond initial forecasts and handset sales volume, centered on smartphones, grew on a YoY basis. The company has said, however, that the outlook for handset sales, centered on new iPhone models, in the peak Q4 season remains uncertain.

The Ministry of Internal Affairs and Communications' draft emergency proposal for the optimization of mobile phone services

The Ministry of Internal Affairs and Communications research committee on the competitive environment of the mobile phone market announced on November 26, 2018, a draft emergency proposal for simplified, easy to understand mobile phone payment plans and fair business practices among distributors.

Background

The recommendations pointed out that payment plans offered by telecom carriers can be overly restrictive and difficult for customers to understand, and that this is hindering a customer's ability to make free and appropriate choices and creating unfair competition between telecom carriers as a result. The number of consumer counseling cases received through the Practical Living Information Online Network System (PIO-NET) and by the Ministry of Internal Affairs and Communications regarding telecommunications services are falling, but remain at a high level, with many complaints relating to distributors.

Simplified, easy to understand mobile phone payment plans

The research committee called for the abolition of communications contracts tied to the purchase of a handset (the complete separation of handset prices and telecommunication fees), and a radical re-evaluation of four-year handset upgrade support programs (the prohibition on linking telecommunications contracts). The aim of the policy to separate handset prices and telecommunications plans is to correct the disparity in telecommunications charges depending on handset and bring about a reduction in communication fees. The committee also calls for a re-evaluation of excessively complicated and unreasonable payment plans.

Fair business practices among distributors

In order for the Ministry of Internal Affairs and Communications to directly ascertain those distributors in business, a new notification system will be implemented. This will also enable the Ministry of Internal Affairs and Communications to issue administrative directives to distributors, such as orders to prohibit misleading solicitations, and business improvement orders if the distributor is offering excessive discounts on handsets or engaging in other unfair practices.

To ensure telecom carriers comply with the draft proposal for simplified, easy to understand mobile phone payment plans and fair business practices among distributors, the Ministry is considering submitting draft revisions to the Telecommunications Business Act at the 2019 Ordinary Session of the Diet after evaluating comments it receives from the public in 2018 regarding the proposal.

Events over cumulative Q3 FY12/18

In the mobile market, the company's primary area of operations, budget carriers such as MVNOs and services by telecom carriers have diversified, and the major telecom companies are all offering a variety of separate payment plans (payment plans separating handset and service subscription prices). This has resulted in a greater number of price options that are easier for customers to understand. Further, consumer protection rules are being developed and strengthened and in February 2018 amendments were made to the Act on Development of an Environment that Provides Safe and Secure Internet Use for Young People, advancing the application of services that filter harmful content when minors use mobile phones as part of measures to prevent crimes damaging to minors.

The Bell-Park group has worked to expand its network of stores by concluding a distributor agreement with Daiei Dentsu Co., Ltd. that operates 16 SoftBank stores in Chugoku and Kyushu region, increasing the number of carrier stores in cumulative Q3 by 27. Although costs including personnel expenses, rent, and equipment expenses increased due to the expansion of store network, sales volume of handsets centered on smartphones grew on efforts to increase store count and focusing on initiatives at each telecom carriers. Further, non-carrier store businesses such as the corporate business performed strong, especially sales of personal computers to businesses. Due to partial disposal of shares held by controlling shareholders in FY12/17, the company was no longer subject to taxes on reserves by designated family-oriented companies, resulting in a YoY decline in the proportion of corporate taxes to net income before taxes.

Gross profit was JPY14.4bn (+7.3% YoY), but GPM decreased by 1.5pp YoY from 21.5% to 20.0%, SG&A expenses were JPY12.1bn (+4.5% YoY), with the SG&A-to-sales ratio falling 1.7pp YoY from 18.6% to 16.9%, and OPM improved by 0.2pp to 3.2%.

The company operated a total of 313 carrier stores as of end-September 2018 (311 stores as of end-June 2018). Stores that the company manages were as follows:

- SoftBank: 283 stores (279 stores)
- NTT Docomo: 8 stores (unchanged)
- au: 7 stores (8 stores)
- Y!mobile: 14 stores (15 stores)
- UQ Spot: 1 store (unchanged)

The company had four additional SoftBank store whereas au and Y!mobile stores decreased by one each compared with end-June 2018; the number of NTT Docomo and UQ Spot stores in operation did not change during the quarter.

Income statement

Income statement (JPYmn)	FY12/09 Parent	FY12/10 Parent	FY12/11 Parent	FY12/12 Parent	FY12/13 Parent	FY12/14 Cons.	FY12/15 Cons.	FY12/16 Cons.	FY12/17 Cons.	FY12/18 Cons.	FY12/19 Cons.
Total sales	**46,890**	**60,168**	**70,573**	**74,469**	**84,228**	**91,486**	**90,145**	**89,629**	**88,894**	**98,088**	**103,304**
YoY	40.2%	28.3%	17.3%	5.5%	13.1%	8.6%	-1.5%	-0.6%	-0.8%	10.3%	5.3%
Sales of goods	25,623	31,535	39,181	42,026	47,559	54,001	56,488	-	-	-	-
Commission fee received	21,268	28,633	31,391	32,443	36,668	37,485	33,657	-	-	-	-
Cost of sales	36,577	49,394	58,457	60,576	67,734	73,411	71,580	70,954	70,341	78,112	79,138
Cost of goods sold	33,031	43,894	52,563	54,417	61,133	-	-	-	-	-	-
Commission fee paid	3,546	5,500	5,894	6,159	6,601	-	-	-	-	-	-
Gross profit	**10,313**	**10,775**	**12,115**	**13,893**	**16,494**	**18,075**	**18,565**	**18,675**	**18,553**	**19,976**	**24,166**
GPM	22.0%	17.9%	17.2%	18.7%	19.6%	19.8%	20.6%	20.8%	20.9%	20.4%	23.4%
SG&A expenses	6,737	7,869	9,266	10,770	13,254	15,705	15,352	15,829	15,402	16,747	19,790
SG&A-to-sales ratio	14.4%	13.1%	13.1%	14.5%	15.7%	17.2%	17.0%	17.7%	17.3%	17.1%	19.2%
Personnel expenses	3,826	4,567	5,159	5,838	6,825	8,510	8,361	8,882	8,821	9,282	10,636
Advertising and promotion expenses	666	727	1,153	1,400	2,451	2,546	2,267	1,649	1,529	1,927	2,818
Rents	1,010	1,103	1,243	1,410	1,516	1,827	1,968	2,076	2,153	2,295	2,537
Other	1,235	1,472	1,711	2,122	2,462	2,822	2,757	3,220	2,897	3,241	3,797
Operating profit	**3,576**	**2,905**	**2,850**	**3,122**	**3,240**	**2,370**	**3,212**	**2,846**	**3,151**	**3,229**	**4,376**
YoY	145.0%	-18.7%	-1.9%	9.6%	3.8%	-26.8%	35.5%	-11.4%	10.7%	2.5%	35.5%
OPM	7.6%	4.8%	4.0%	4.2%	3.8%	2.6%	3.6%	3.2%	3.5%	3.3%	4.2%
Non-operating income	28	25	19	106	206	141	69	95	46	38	38
Non-operating expenses	54	36	87	27	20	18	12	14	13	10	34
Recurring profit	**3,550**	**2,894**	**2,781**	**3,201**	**3,426**	**2,493**	**3,270**	**2,927**	**3,184**	**3,257**	**4,379**
YoY	149.5%	-18.5%	-3.9%	15.1%	7.0%	-27.2%	31.2%	-10.5%	8.8%	2.3%	34.5%
RPM	7.6%	4.8%	3.9%	4.3%	4.1%	2.7%	3.6%	3.3%	3.6%	3.3%	4.2%
Extraordinary gains	4	56	0	7	1	1	46	4	287	18	41
Extraordinary losses	37	40	119	39	38	97	161	127	250	152	78
Income taxes	1,471	1,251	1,173	1,385	1,510	1,063	1,356	1,159	1,038	1,007	1,300
Implied tax rate	42%	43%	44%	44%	45%	44%	43%	41%	32%	32%	30%
Net income	**2,046**	**1,660**	**1,490**	**1,783**	**1,879**	**1,333**	**1,799**	**1,645**	**2,182**	**2,115**	**3,041**
YoY	79.0%	-18.9%	-10.2%	19.7%	5.3%	-29.1%	34.9%	-8.5%	32.7%	-3.1%	43.7%
Net margin	4.4%	2.8%	2.1%	2.4%	2.2%	1.5%	2.0%	1.8%	2.5%	2.2%	2.9%

Source: Shared Research based on company data
Note: Figures may differ from company materials due to differences in rounding methods.
Note: OC mobile was consolidated in February 2014 and the company adopted consolidated accounting in FY12/14.

Bell-Park's sales are composed of sales of goods and commission fee received, and fluctuate in proportion to the number of devices sold. Sales growth since FY12/09 has largely been due to the overwhelming success of Apple's iPhone series and store growth through acquisitions. Since FY12/15, however, handset sales have trended downward due to growing smartphone proliferation and changes in the regulatory environment, causing the company's sales growth to slow. Even so, sales are increasing in other areas, such as fiber optic services and accessories.

Gross profit margins have been mostly stable during the past 10 financial years, observing a range between 17.2% and 23.4%. After hitting bottom (17.2%) in FY12/11, it has been gradually improving. In FY12/18 GPM fell 0.5pp YoY to 20.4%, but it rebounded in FY12/19, gaining 3.0ppt to reach a 10-year high of 23.4%.

The company's effective tax rate (tax/pretax income) had been steady at 41–45%, but dropped to 32% in FY12/17, mainly due to the sale of some shares by a controlling shareholder, which became exempt from an accumulated earnings tax on specified family corporations. It remained at a low 32% in FY12/18 and fell further to 30% in FY12/19.

Balance sheet

Balance sheet (JPYmn)	FY12/09 Parent	FY12/10 Parent	FY12/11 Parent	FY12/12 Parent	FY12/13 Parent	FY12/14 Cons.	FY12/15 Cons.	FY12/16 Cons.	FY12/17 Cons.	FY12/18 Cons.	FY12/19 Cons.
ASSETS											
Cash and cash equivalents	5,747	5,911	6,987	6,766	6,896	7,229	9,948	15,224	16,467	14,873	21,346
Accounts receivable	5,718	6,276	9,090	7,560	8,569	9,619	10,796	9,811	11,242	11,133	10,968
Inventories	2,834	3,449	3,099	4,248	5,329	5,386	5,324	4,758	6,620	8,310	5,317
Other current assets	413	414	423	463	541	629	640	572	558	594	457
Total current assets	**14,712**	**16,050**	**19,599**	**19,037**	**21,335**	**22,863**	**26,709**	**30,365**	**34,887**	**34,910**	**38,088**
Fixed assets											
Buildings and structures	869	959	1,219	1,277	1,373	1,676	1,655	1,778	1,941	2,291	2,675
Accumulated depreciation	305	390	524	612	694	771	859	948	995	994	1,069
Other fixed assets	232	270	280	347	363	381	409	436	444	470	519
Accumulated depreciation	164	176	207	227	272	231	276	321	349	351	383
Land	-	-	-	-	-	39	39	39	39	39	39
Total tangible fixed assets	632	662	769	785	770	1,094	968	984	1,079	1,455	1,781
Investments and other assets	1,362	1,401	1,520	1,618	1,703	2,150	2,179	2,361	2,456	2,674	3,131
Total intangible fixed assets	272	204	167	208	212	493	349	311	167	232	573
Total fixed assets	**2,266**	**2,268**	**2,455**	**2,611**	**2,685**	**3,738**	**3,496**	**3,656**	**3,702**	**4,183**	**5,485**
Total assets	**16,978**	**18,318**	**22,054**	**21,648**	**24,021**	**26,600**	**30,205**	**34,021**	**38,590**	**39,093**	**43,573**
LIABILITIES											
Accounts payable	4,926	5,852	8,070	5,856	7,034	8,372	9,835	7,702	10,548	9,564	9,404
Short-term borrowings	-	-	-	100	-	-	-	15	-	-	-
Current portion of long-term debt	325	325	325	325	-	-	-	-	-	-	-
Other current liabilities	2,377	1,589	2,109	2,493	2,831	2,866	3,302	2,543	2,438	2,557	4,579
Total current liabilities	**7,628**	**7,766**	**10,505**	**8,774**	**9,866**	**11,238**	**13,138**	**10,260**	**12,986**	**12,121**	**13,983**
Long-term borrowings	975	650	325	-	-	-	-	5,000	5,015	5,015	5,015
Other long-term liabilities	130	160	340	371	424	566	670	840	933	622	686
Total fixed liabilities	**1,105**	**810**	**665**	**371**	**424**	**566**	**670**	**5,840**	**5,948**	**5,637**	**5,701**
Total interest-bearing debt	**1,300**	**975**	**650**	**425**	**-**	**-**	**-**	**5,015**	**5,015**	**5,015**	**5,015**
Total liabilities	**8,733**	**8,575**	**11,169**	**9,145**	**10,290**	**11,804**	**13,808**	**16,100**	**18,934**	**17,758**	**19,684**
Net assets											
Capital stock	1,124	1,130	1,130	1,133	1,148	1,148	1,148	1,148	1,148	1,148	1,148
Capital surplus	1,848	1,854	1,854	1,857	1,872	1,872	1,872	1,872	1,872	1,872	1,872
Retained earnings	5,273	6,759	8,007	9,619	11,170	12,278	13,830	15,283	17,241	18,920	21,480
Treasury stock	-	-	-107	-107	-506	-611	-611	-611	-611	-611	-612
Total net assets	**8,245**	**9,743**	**10,884**	**12,503**	**13,731**	**14,796**	**16,397**	**17,921**	**19,656**	**21,330**	**23,889**
Working capital	3,626	3,873	4,119	5,952	6,864	6,633	6,285	6,867	7,314	9,879	6,881
Total interest-bearing debt	1,300	975	650	425	-	-	-	5,015	5,015	5,015	5,015
Net debt (net cash)	-4,447	-4,936	-6,337	-6,341	-6,896	-7,229	-9,948	-10,209	-11,452	-9,858	-16,331

Source: Shared Research based on company data
Note: Figures may differ from company materials due to differences in rounding methods.
Note: OC mobile was consolidated in February 2014 and the company adopted consolidated accounting in FY12/14.

Assets

As of end-December 2019, about 90% of Bell-Park's assets were current assets; not surprising for a retail sales agent. Net cash (defined as cash minus interest-bearing debt) has remained in the positive territory from FY12/01 through FY12/19. The company keeps its cash on the balance sheet at a level that is more than enough to cover the working capital (defined as accounts receivable and inventories less accounts payable) it needs. Cash and cash equivalents as of end-December 2019 totaled JPY21.3bn.

Inventory levels are at around two months' stock. Accounts receivable are handset revenues from carriers. Turnover is relatively short: payment is typically received within two months. The company's stores are primarily leased, and since most of Bell-Park's facilities are facilities attached to buildings, fixed assets account for only around 20% of total assets. About 80% of investments and other assets are composed of lease deposits.

Liabilities

As of end-December 2019, around 70% of liabilities being carried by the company was current liabilities, and about 70% of these liabilities were accounts payable–trade. The remaining 30% was accounts payable–other. The company had virtually no interest-bearing debt up to FY12/07. It raised JPY2.9bn from borrowing in FY12/08, but by FY12/13 its interest-bearing debt had been fully eliminated.

Although the company had maintained a non-borrowing management stance, in 2016 Bell-Park took out JPY5.0bn in bank borrowings to take advantage of the low interest rates. The company plans to use these borrowings to sustain growth by investing in existing and new fields of business.

Shareholder's equity

Changes in shareholder equity are mostly attributable to the steady buildup of net income after dividend payments. The company has also taken steps in the past to increase share liquidity. Bell-Park conducted a 3-for-1 stock split on February 20, 2002, and again on February 20, 2004. On January 1, 2013, the company conducted a 100-for-1 split.

Cash flow statement

Cash flow statement (JPYmn)	FY12/09 Parent	FY12/10 Parent	FY12/11 Parent	FY12/12 Parent	FY12/13 Parent	FY12/14 Cons.	FY12/15 Cons.	FY12/16 Cons.	FY12/17 Cons.	FY12/18 Cons.	FY12/19 Cons.
Cash flows from operating activities (A)	2,689	855	2,178	432	1,618	2,074	3,051	1,013	2,005	-170	8,585
Cash flows from investing activities (B)	-815	-204	-379	-348	-546	-1,513	-239	-460	-536	-988	-1,630
Free cash flow (A+B)	**1,875**	**651**	**1,800**	**85**	**1,072**	**560**	**2,812**	**554**	**1,468**	**-1,158**	**6,954**
Cash flows from financing activities	-932	-487	-675	-391	-1,124	-330	-193	4,822	-225	-436	-481
Depreciation and amortization (A)	211	221	245	253	286	392	349	360	325	352	427
Capital expenditures (B)	-112	-196	-231	-143	-367	-441	-166	-302	-278	-545	
Working capital change (C)	998	247	246	1,833	912	-231	-348	582	447	2,565	-2,998
Simple FCF (NI + A + B - C)	**1,147**	**1,437**	**1,258**	**60**	**886**	**1,515**	**2,329**	**1,121**	**1,782**	**-643**	**6,466**

Source: Shared Research based on company data
Note: Figures may differ from company materials due to differences in rounding methods.
Note: Capital expenditures = payments for purchase of tangible fixed asset + proceeds from disposal of tangible fixed assets
Note: OC mobile was consolidated in February 2014 and the company adopted consolidated accounting in FY12/14.

Cash flows from operating activities

Bell-Park's cash flows from operating activities can vary depending upon its net income and fluctuations in working capital. When sales are expanding, operating cash flows tend to fall below net income levels, in line with increases in accounts receivable–trade and inventories. In FY12/19, operating cash flows increased to JPY8.6bn, as pre-tax profit expanded while inventories decreased. The company's fixed assets are only around 20% of its total assets, and as such, depreciation does not have a significant impact on its operating cash flows.

Cash flows from investing activities

Cash flows from investing activities can vary depending on the acquisition of tangible fixed assets for new store openings and payments of lease deposits. Outflows for business acquisitions and investment in intangible assets such as software can also be a factor.

In FY12/09, the company acquired SoftBank stores and the retailing business of Panasonic Telecom. The company also consolidated OC Mobile in FY12/14, both factors leading to larger net cash outflow. In FY12/19, cash flows from investing activities resulted in a larger net outflow owing to business acquisitions and purchases of tangible fixed assets.

Cash flows from financing activities

Cash flows from financing activities have been mostly minor. The company does not have many opportunities to raise capital from interest-bearing debt. The primary influencers are payments of dividends and acquisitions of treasury stock. In FY12/13, negative financial cash flow widened as Bell-Park made payments on long-term borrowings and bought back shares. Taking advantage of low interest rates, in 2016 the company took out JPY5.0bn in bank borrowings to invest in existing and new businesses. Accordingly, the positive gap widened in FY12/16.

Cash conversion cycle (days)	FY12/09 Parent	FY12/10 Parent	FY12/11 Parent	FY12/12 Parent	FY12/13 Parent	FY12/14 Cons.	FY12/15 Cons.	FY12/16 Cons.	FY12/17 Cons.	FY12/18 Cons.	FY12/19 Cons.
Accounts receivable turnover	10.3	10.0	9.2	8.9	10.4	10.1	8.8	8.7	8.4	8.8	9.3
Days in accounts receivable	**35.3**	**36.4**	**39.7**	**40.8**	**34.9**	**36.3**	**41.3**	**42.0**	**43.2**	**41.6**	**39.0**
Inventory turnover	16.0	15.7	17.9	16.5	14.1	13.7	13.4	14.1	12.4	10.5	11.6
Days in inventory	**22.8**	**23.2**	**20.4**	**22.1**	**25.8**	**26.6**	**27.3**	**25.9**	**29.5**	**34.9**	**31.4**
Accounts payable turnover	9.9	9.2	8.4	8.7	10.5	9.5	7.9	8.1	7.7	7.8	8.3
Days in accounts payable	**37.0**	**39.8**	**43.5**	**42.0**	**34.7**	**38.3**	**46.4**	**45.1**	**47.3**	**47.0**	**43.7**
Cash conversion cycle (days)	**21.2**	**19.8**	**16.7**	**21.0**	**26.0**	**24.6**	**22.2**	**22.8**	**25.4**	**29.5**	**26.7**

Inventory (JPYmn)	FY12/09 Parent	FY12/10 Parent	FY12/11 Parent	FY12/12 Parent	FY12/13 Parent	FY12/14 Cons.	FY12/15 Cons.	FY12/16 Cons.	FY12/17 Cons.	FY12/18 Cons.	FY12/19 Cons.
Sales	46,890	60,168	70,573	74,469	84,228	91,486	90,145	89,629	88,894	98,088	103,304
Inventory	2,290	3,141	3,274	3,673	4,788	5,357	5,355	5,041	5,689	7,465	6,813
No. of stores	175	179	206	222	228	264	277	282	286	319	343
Inventory, % of sales	4.9%	5.2%	4.6%	4.9%	5.7%	5.9%	5.9%	5.6%	6.4%	7.6%	6.6%
Inventory per store	13	18	16	17	21	20	19	18	20	23	20

Source: Shared Research based on company data
Note: Figures may differ from company materials due to differences in rounding methods.
Note: Store figures from FY12/16 include carrier-affiliated stores only; other store types are excluded.

Note: this analysis used end of period inventory figures for comparison with stores, and average inventory levels for compared with sales.

Other information

History

Bell-Park was founded in 1993 to sell mobile communication and networking equipment. The company's start was rocky–following the collapse of the asset price bubble in Japan, operations were reduced to only one store, two full time employees, and almost no remaining capital. Cash flows were tight, and the product line (mostly pagers) only had a few profitable items. President Nishikawa attributes the company's turnaround to the commitment of the core team.

Nishikawa bought the company in 1996 (see discussion in Top management section). When Nishikawa took over the company, the store network was all franchisees; the first directly owned store wasn't opened until September 1998. Directly owned stores would be the preferred model for the company going forward.

The store network began rapid expansion in 1999 following the acquisition of West Link Co., Ltd., when the number of stores in 1999 grew by 400% from 9 locations to 49 (FY12/00). Growth through acquisitions would become the preferred means of expansion. Bell-Park listed on the JASDAQ stock market in May 2000.

Bell-Park's expansion effort was put on hold from FY12/00 until FY12/03; store count decreased slightly and the company changed its store branding strategy. Bell-Park branded stores were targeting new subscribers only, and as the market became saturated the company gradually switched to carrier stores which were capable of providing the carrier switchover as well as repair and maintenance services (initially J-Phone stores and later Vodafone stores).

The company restarted store network expansion from 2006—franchise agreements signed in early 2007 with the Kansai-based agents would increase the store network to 105 stores by end-FY12/07 from 62 at end-FY12/06. Although the company indicated that it had preferred to increase store count through direct acquisition, it found the opportunity to expand into Kansai and increase the store network by 70.0% too compelling to resist. Bell-Park gained additional handset volume, creating the potential for scale-related cost reductions.

In June 2008 the company sold 50.0% of Japan Pro Staff Co., Ltd, a wholly owned subsidiary at the time, to P&P Corporation (JASDAQ 2426). Japan Pro Staff was a legacy business (originally called J-Phone Service) created as a specialist recruitment and staffing service for mobile phone store operators. Achieving persistent profitability was difficult, and the company decided to divest its holdings to refocus on core operations.

Bell-Park acquired Panasonic Telecom on June 1, 2009 for JPY520mn. The acquisition increased store count by 52; 22 were direct owned stores and 30 were franchise stores. In December 2009, the company signed an Apple Authorized Premium Reseller agreement with Apple Japan, Inc. In January 2010, the company began operating as an Apple Premium Reseller. In December 2010, the company signed a distributor agreement with WILLCOM, Inc. In February 2011, the company opened its first official WILLCOM Plaza store in Kyodo, Tokyo. In February 2013, Bell-Park signed a distributor agreement with KDDI Corp. and began operations of au stores in June 2013. In February 2014, Bell-Park acquired OC mobile, which operates stores for the three major carriers. Bell-Park's stores increased by 22 as a result (19 directly run stores and 3 franchise stores).

News and topics

June 2019

On **June 27, 2019**, the company announced revisions to its 1H FY12/19 earnings forecast.

Revised forecast for 1H FY12/19

- ▷ Sales: JPY50.0bn (previous forecast: JPY45.0bn)
- ▷ Operating profit: JPY2.0bn (JPY1.4bn)

- Recurring profit: JPY2.0bn (JPY1.4bn)
- Net income*: JPY1.3bn (JPY900mn)
- EPS: JPY202.69 (JPY140.32)

*Net income attributable to owners of the parent

Reasons for revision

The company revised its 1H forecast as efforts to convert SoftBank stores into dual-brand stores (SoftBank stores that also offer Y!mobile products and services) progressed, resulting in higher-than-expected handset unit sales, mainly through new subscriptions. Additionally, commission revenue linked to the number of contracts handled for services on which telecom carriers are focusing, such as credit cards, performed stronger than expected.

FY12/19 full-year forecast

The Ministry of Internal Affairs and Communications is currently working to amend a portion of the Telecommunications Business Act, including relevant ordinances that set out detailed rules, aiming for a fall 2019 implementation. The aim of the policy is to completely separate telecommunications charges and handset costs. Depending on the amendments made, it can greatly affect Bell-Park's business environment. With unclear 2H sales forecasts and commission plans for telecom carriers, Bell-Park decided not to revise its full-year forecast, which was announced on February 12, 2019. Additionally, there have been no revisions to dividend forecasts for FY12/19.

Top management

Takeru Nishikawa: President and CEO, born in 1956. Nishikawa graduated from University of Tokyo, Faculty of Law in 1979 and joined Sumitomo Corporation, where he was involved in the automobile export business. After an offer from a fellow University of Tokyo alumnus, Nishikawa left Sumitomo to join a portable phone venture, Japan Portable Phones. In 1993 the company started a subsidiary (which would later become Bell-Park) reselling portable phones, where Nishikawa was appointed auditor. He would lead a successful restructuring and buy-out of the company in 1996, commenting that "the proposed price was cheaper than I expected."

Nishikawa controls slightly under 50% of Bell-Park stock (including stock owned by his asset management company) and is the key person involved in setting the company's strategy.

Employees

As of end-FY12/19, Bell-Park had 1,666 full-time employees and 472 part-time staff (1,489 and 468 at end-FY12/18). The number of full-time employees increased by 177 and part-time employees also increased by 4 from a year earlier. The company has been converting part-time staff to full-time employees in an effort to bolster their skills and improve staff retention, and accordingly the ratio of full-time employees has increased in FY12/19 following a year earlier.

Major shareholders

Bell-Park's largest shareholder is Takeru Nishikawa, who effectively controls about 50.0% of company voting rights through direct holdings and shares owned by Japan Business Development, Inc. (a company wholly owned by Nishikawa).

Top shareholders	Shares held	Shareholding ratio
Hikari Tsushin, Inc.	1,970,100	30.72%
Japan Business Development Inc.	1,754,400	27.35%
Takeru Nishikawa	1,443,900	22.51%
State Street Bank and Trust Company 505224 (Standing proxy: Mizuho Bank, Ltd. Settlement Department)	484,400	7.55%
SoftBank Corp.	238,500	3.72%
broadpeak inc.	121,400	1.89%
State Street Bank and Trust Client Omnibus Account OM02 505002 (Standing proxy: Mizuho Bank, Ltd. Settlement Department)	22,000	0.34%
Persol Marketing Co., Ltd.	15,900	0.25%
Government of Norway	15,300	0.24%
Bell-Park Employees' Shareholding Association	14,600	0.23%
SUM	6,080,500	94.80%

Source: Shared Research based on company data
As of December 31, 2019

Dividends and shareholder benefits

Bell-Park has positioned shareholder returns as one of management's most important objectives. Management is targeting a payout ratio of 30% in FY12/20 and intends to raise this to above 30% in FY12/21 and thereafter.

	FY12/17	FY12/18	FY12/19 (forecast)	FY12/20 (forecast)
Consolidated dividend payout ratio	16.2%	21.2%	25%	30%

Source: Shared Research based on company data

Beside dividends, the company also distributes QUO prepaid cards (JPY1,000 value) twice a year to those who hold at least 100 shares (one trading unit). The card is accepted at many restaurants, stores, and entertainment facilities in Japan. They also receive one Bellbride shareholder discount coupon.

Investor relations

The company holds bi-annual results analyst meetings. The IR website is: http://www.bellpark.co.jp/ir.

Company profile

Company Name	Head Office
Bell-Park Co Ltd	Hirakawa-cho Center Building 1-4-12, Hirakawa-cho, Chiyoda-ku Tokyo, Japan 102-0093
Phone	**Listed On**
+81-3-3288-5211	TSE JASDAQ Standard
Established	**Exchange Listing**
February 2, 1993	May 25, 2000
Website	**Financial Year-End**
http://www.bellpark.co.jp/English/_1573.html	December
IR Contact	**IR Web**
Takahiro Miyamoto Corporate Planning Division	http://www.bellpark.co.jp/English/_1585.html
IR-Related Inquiries	**IR Phone**
https://www.bellpark.co.jp/contacts/investor.html	+81-3-3288-5211

We offer corporate clients comprehensive report coverage, a service that allows them to better inform investors and other stakeholders by presenting a continuously updated third-party view of business fundamentals, independent of investment biases. Shared Research can be found on the web at https://sharedresearch.jp.

Current Client Coverage of Shared Research Inc.

Accordia Golf Trust
Advance Create Co., Ltd.
ADJUVANT COSME JAPAN CO., LTD.
Aeon Delight Co., Ltd.
Aeon Fantasy Co., Ltd.
Ai Holdings Corporation
AirTrip Corp.
and factory, inc.
ANEST IWATA Corporation
AnGes Inc.
Anicom Holdings, Inc.
Anritsu Corporation
Apaman Co., Ltd.
ARATA CORPORATION
Artspark Holdings Inc.
AS ONE CORPORATION
Ateam Inc.
Aucfan Co., Ltd.
AVANT CORPORATION
Axell Corporation
Azbil Corporation
AZIA CO., LTD.
AZoom, Co., Ltd.
BEENOS Inc.
Bell-Park Co., Ltd.
Benefit One Inc.
B-lot Co.,Ltd.
Broadleaf Co., Ltd.
Canon Marketing Japan Inc.
Career Design Center Co., Ltd.
Carna Biosciences, Inc.
CARTA HOLDINGS, INC
CERES INC.
Chiyoda Co., Ltd.
Chori Co., Ltd.
Chugoku Marine Paints, Ltd.
cocokara fine Inc.
COMSYS Holdings Corporation
COTA CO.,LTD.
CRE, Inc.
CREEK & RIVER Co., Ltd.
Daiichi Kigenso Kagaku Kogyo Co., Ltd.
Daiseki Co., Ltd.
Demae-Can CO., LTD
DIC Corporation
Digital Arts Inc.
Digital Garage Inc.
Doshisha Corporation
Dream Incubator Inc.
Earth Corporation
Elecom Co., Ltd.
en-Japan Inc.
euglena Co., Ltd.
FaithNetwork Co., Ltd.
Ferrotec Holdings Corporation
FIELDS CORPORATION
Financial Products Group Co., Ltd.
First Brothers Col, Ltd.
FreeBit Co., Ltd.
FRONTEO, Inc.
Fujita Kanko Inc.
Gamecard-Joyco Holdings, Inc.
GameWith, Inc.
GCA Corporation
Good Com Asset Co., Ltd.
Grandy House Corporation
Hakuto Co., Ltd.
Hamee Corp.
Happinet Corporation
Harmonic Drive Systems Inc.
HOUSEDO Co., Ltd.
IDOM Inc.
IGNIS LTD.
i-mobile Co.,Ltd.
Inabata & Co., Ltd.
Infocom Corporation
Infomart Corporation
Intelligent Wave, Inc.
ipet Insurance CO., Ltd.
Itochu Enex Co., Ltd.
JSB Co., Ltd.
JTEC Corporation
J Trust Co., Ltd
Japan Best Rescue System Co., Ltd.
JINS HOLDINGS Inc.
JP-HOLDINGS, INC.
KAMEDA SEIKA CO., LTD.
Kanamic Network Co.,LTD
Kawanishi Holdings, Inc.
KFC Holdings Japan, Ltd.
KI-Star Real Estate Co., Ltd.
Kondotec Inc.
Kumiai Chemical Industry Co., Ltd.
Lasertec Corporation
LUCKLAND CO., LTD.
MATSUI SECURITIES CO., LTD.
Media Do Holdings Co., Ltd.
Medical System Network Co., Ltd.
MEDINET Co., Ltd.
MedPeer,Inc.
Mercuria Investment Co., Ltd.
Micronics Japan Co., Ltd.
MIRAIT Holdings Corporation
Monex Goup Inc.
MORINAGA MILK INDUSTRY CO., LTD.
NAGASE & CO., LTD
NAIGAI TRANS LINE LTD.
NanoCarrier Co., Ltd.
Net Marketing Co., Ltd.
Net One Systems Co.,Ltd.
Nichi-Iko Pharmaceutical Co., Ltd.
Nihon Denkei Co., Ltd.
Nippon Koei Co., Ltd.
NIPPON PARKING DEVELOPMENT Co., Ltd.
NIPRO CORPORATION
Nisshinbo Holdings Inc.
NS TOOL CO., LTD.
OHIZUMI MFG. CO., LTD.
Oisix ra daichi Inc.
Oki Electric Industry Co., Ltd
ONO SOKKI Co., Ltd.
ONWARD HOLDINGS CO.,LTD.
Pan Pacific International Holdings Corporation
PARIS MIKI HOLDINGS Inc.
PIGEON CORPORATION
QB Net Holdings Co., Ltd.
RACCOON HOLDINGS, Inc.
Raysum Co., Ltd.
RESORTTRUST, INC.
ROUND ONE Corporation
RVH Inc.
RYOHIN KEIKAKU CO., LTD.
SanBio Company Limited
SANIX INCORPORATED
Sanrio Company, Ltd.
SATO HOLDINGS CORPORATION
SBS Holdings, Inc.
Seikagaku Corporation
Seria Co.,Ltd.
SHIFT Inc.
Shikigaku Co., Ltd
SHIP HEALTHCARE HOLDINGS, INC.
SIGMAXYZ Inc.
SMS Co., Ltd.
Snow Peak, Inc.
Solasia Pharma K.K.
SOURCENEXT Corporation
Star Mica Holdings Co., Ltd.
Strike Co., Ltd.
SymBio Pharmaceuticals Limited
Synchro Food Co., Ltd.
TAIYO HOLDINGS CO., LTD.
Takashimaya Company, Limited
Take and Give Needs Co., Ltd.
Takihyo Co., Ltd.
TEAR Corporation
Tenpo Innovation Inc.
3-D Matrix, Ltd.
TKC Corporation
TKP Corporation
TOCALO Co., Ltd.
TOKAI Holdings Corporation
TOYOBO CO., LTD.
Toyo Ink SC Holdings Co., Ltd
Toyo Tanso Co., Ltd.
Tri-Stage Inc.
TSURUHA Holdings
VISION INC.
VISIONARY HOLDINGS CO., LTD.
WirelessGate, Inc.
YELLOW HAT LTD.
YOSHINOYA HOLDINGS CO., LTD.
YUMESHIN HOLDINGS CO., LTD.
Yushiro Chemical Industry Co., Ltd.
ZAPPALLAS, INC.

Attention: If you would like to see companies you invest in on this list, ask them to become our client, or sponsor a report yourself.

Disclaimer: This document is provided for informational purposes only. No investment opinion or advice is provided, intended, or solicited. Shared Research Inc. offers no warranty, either expressed or implied, regarding the veracity of data or interpretations of data included in this report. We shall not be held responsible for any damage caused by the use of this report. The copyright of this report and the rights regarding the creation and exploitation of the derivative work of this and other Shared Research Reports belong to Shared Research. This report may be reproduced or modified for personal use; distribution, transfer, or other uses of this report are strictly prohibited and a violation of the copyright of this report. Our officers and employees may currently, or in the future, have a position in securities of the companies mentioned in this report, which may affect this report's objectivity.

Japanese Financial Instruments and Exchange Law (FIEL) Disclaimer: The report has been prepared by Shared Research under a contract with the company described in this report ("the company"). Opinions and views presented are ours where so stated. Such opinions and views attributed to the company are interpretations made by Shared Research. We represent that if this report is deemed to include an opinion from us that could influence investment decisions in the company, such an opinion may be in exchange for consideration or promise of consideration from the company to Shared Research.

Contact Details
Shared Research Inc.
3-31-12 Sendagi Bunkyo-ku Tokyo, Japan
https://sharedresearch.jp
Phone: +81 (0)3 5834-8787
Email: info@sharedresearch.jp