

Pachislot and Pachinko Machines Business

Top Message

Changes in the external environment are steadily opening up new opportunities



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Progress of the Medium-Term Plan

The medium-term plan calls for creating hits and improving business efficiency in the Pachislot and Pachinko Machines Business, aiming to generate steady earnings even amid changes in the business environment.

Creating Hits

The current medium-term plan lays out three measures aimed at creating hits. First is a review of the product lineup. We focused our development on the products that could be expected to become solid drivers of earnings and reorganized our sales lineup. Specifically, we launched the Sammy Classic series, which consists of revivals of IPs that were popular in the era of No. 4 model machines. Including titles such as *Pachislot DISC UP*, *Pachislot GAMERA*, and *Pachislot Aladdin A Classic*, this series has recorded robust sales. On the other hand, for No. 6.5 model pachislot machines that offer new gameplay, *Pachislot Kabaneri of the Iron Fortress* became a major hit, far beyond our expectations. This well-aligned approach of capitalizing on past IP while looking ahead and taking on the challenge of new gameplay based on new IP is steadily producing results.

The second measure is increasing the probability of a hit. The main principle at work here is to create many machines that offer a truly entertaining experience to the end-users who actually play the games. Developing machines with gameplay that end-users enjoy leads to higher utilization rates. Creating popular machines with high utilization rates will in turn benefit pachinko halls, our direct customers.

Parlor Sammy is a mock pachinko hall we set up on company premises. It is playing a major role in the development of such interesting machines, allowing employees to freely enjoy machines under development and give their frank, direct evaluations. Their evaluations and comments are collected and fed back to the development department, where they are used to refine the machines. In the past, we left it to the development department to decide when a machine was ready for production and launch, but with the broader perspective provided by Parlor Sammy, we are steadily enhancing the quality of our machines, which improves our chances of creating a hit. Another key factor in creating a hit is strong communication among the developers. To encourage this, we are working to share information more extensively within the development department, giving visibility to the kinds of projects and issues that fellow developers are working on. These efforts are helping us grasp industry trends and fostering a culture that is conducive to new ideas and approaches.

The final measure is strengthening media functions. Even if we create an interesting machine, that will not easily feed into sales growth unless it becomes widely known. This is where coming up with promotions that leverage media functions is so

Medium-term targets

Creation of hits

- ① **Revising the product lineup**
 - Optimizing the product lineup (centered on series machines)
 - Rigorous screening and selection of new IPs
 - Revivals of past IPs
- ② **Increasing hit potential**
 - Creating machines from a user-centric perspective
 - Deeper user analysis by attribute
- ③ **Enhancing media functions**
 - Expanding communication with users through digital media

Improving business efficiency

- ① **Improvement of development efficiency**
 - Use common visual images for pachislot and pachinko machines
 - Rationalize visual production
 - Expand derivative titles, such as spec changes
- ② **Cost reduction**
 - Promote introduction of standardized parts between pachislot and pachinko machines
 - Hold down excess inventory by optimizing first-lot production (medium to long-term target: zero excess inventory)
- ③ **Promote online commerce**
 - Expand online sales support to pachinko machines

essential. We use media strategically according to the target audience. So, for example, for men in their 40s and 50s, we mainly use TV commercials, while for people in their 20s it is mainly social media. With *Smart Pachislot Hokuto No Ken*, one of our current big hits, the aim was to appeal to dormant users in their 40s and 50s. As well as broadcasting TV commercials featuring popular entertainers who are big fans of the original *Pachislot Hokuto No Ken*, we carried out large-scale promotions across a range of channels, including displaying posters at Japanese pubs. These efforts paid off, contributing to high utilization immediately after the machine's launch.

Improving Business Efficiency

To improve business efficiency, our efforts focused on optimizing development operations, an area that involves substantial expenses, and in particular reviewing the number of images used for visual effects. To be sure, an array of visual effects using numerous images makes pachislot and pachinko machines interesting, but in our discussions we questioned the necessity of creating multiple new images for rare visual effects that pop up only once in tens of thousands of times. From this vantage point, we took a careful look at what kind of visual effects really influence gameplay. Then, we were able to curb costs substantially by paring down the number of images created. We are also working to standardize images in cases where the same IP is used in both pachislot and pachinko titles. For series machines, we have also been repurposing images by tweaking visual effects from past machines.

As well as these kinds of optimizations in terms of software

content, we are also working to streamline the costs of hardware, such as reusing machine gimmicks and other internal equipment. This also helps shorten the development time-frame, enabling us to test games on actual machines at an earlier stage than in the past. This allows more time for the process of refining games, which feeds into higher quality.

We also rigorously controlled surplus inventory, a factor that hampers business efficiency. However, currently an even more pressing concern is over issues with the global procurement of semiconductors and other parts, where supply is not keeping up with demand. Procurement conditions are improving somewhat, but our priority for the time being is to ensure a stable supply in preparation for growth in demand.

Recognizing the likelihood of a resurgence in such procurement risks down the road, we will work on fundamental, long-term solutions. While continually updating the supply chain, including diversifying our suppliers, we will pursue product development that enables stable production, including standardizing parts and promoting the reuse of parts.

In fact, going a bit further, if we standardize all of the hardware parts used in our machines, in future it could be possible to create a downloadable pachislot or pachinko machine in which only the software is switched out via a network connection. This would enable us to radically mitigate procurement risks. This is technically possible already, and this approach would also enhance security. Of course, we would need to address any regulatory issues, and will discuss the idea thoroughly with relevant authorities as we make steady progress towards implementation.

Outlook

Some people predict that the number of pachinko halls and pachislot and pachinko players will continue to decrease as Japan's population declines, but I am not so pessimistic. Just as we saw a major expansion of the market in the No. 4 model era, the pachislot and pachinko machines market still has plenty of potential for growth once it gains momentum.

In 2023, the launch of *Smart Pachislot Hokuto No Ken* caused dormant users in their 40s and 50s who had played the original *Pachislot Hokuto No Ken* to return to pachinko halls and energized the market. Rather than letting this be simply a one-off boom, it is important to keep those users in the market. With this in mind, we will continue pursuing aggressive product development centered on the *Classic Series* targeting the dormant user base, while working at the industry association level to give impetus to revitalization of the industry as a whole. Currently, there is a trend for both pachislot and pachinko to undergo regulatory review. So, my hope is that, if the industry

as a whole can draw in users by creating machines that offer new gameplay while complying with the rules and regulations, this will recharge the entire market in the near future.

Smart pachislot and pachinko machines offer an array of advantages and carry huge hidden potential. Not only does eliminating the physical pay-out of medals and pachinko balls lead to lower running costs and energy savings at pachinko halls, but since game data can be collected and managed, it also helps in monitoring the excessive gaming behaviors that can lead to addiction. Meanwhile, adopting cashless payment also makes it possible to monitor individual spending patterns and issue alerts on payments above a certain amount. We recognize addiction as a serious issue that we and all businesses involved in the pachislot and pachinko machines industry have to tackle. We believe that fulfilling our responsibilities to society and promoting a healthy industry image is vital for ensuring the sustainable growth of this market.

Potential Shape of the Future Pachislot and Pachinko

Expectations for all sorts of possibilities unconstrained by existing concepts

Short to medium term

- Improvement of gameplay
- Reduction in the number of parts
- Enhancement of hall environments
- Fraud prevention
- Lower operational burden for pachinko halls
- Measures against infection
- Measures against addiction
- Lower barriers to new store opening

Long-term potential

- More diverse pachinko hall layouts
- Cashless operation
- Machines that can download and replace software
- Digitization of operations
- Communication between pachislot and pachinko machines

Continuing to Take on Challenges

The various measures we have carried out based on the medium-term plan have borne fruit in the Pachislot and Pachinko Machines Business, giving us a framework for generating solid earnings. Going forward, by developing compelling machines that serve, inspire, and awaken users and by creating hit titles, we will drive substantial top line growth. To this end, we will foster an environment of taking on even greater challenges in line with Sammy's corporate value of being "Always proactive,

always pioneering." Continuing to take on challenges naturally sometimes involves failing, but the crucial thing is to draw on such experiences in embracing the next challenge. As I see it, a major role for myself and the rest of the management team is to cultivate the seeds of such challenges and support our human resources. I invite our stakeholders to follow our progress as we continue to drive the upward trend in the Pachislot and Pachinko Machines Business.

Key Person in Creating a Hit

Developing innovative pachislot and pachinko machines that move users

The Hit Pachislot *Kabaneri of the Iron Fortress*

I think the so-called "Tsuranuki specifications" of *Pachislot Kabaneri of the Iron Fortress*, which took full advantage of revised regulations for No. 6.5 model machines—including revisions to the upper limit on medal pay-out—were a major factor in making this machine a hit. We were moving ahead with different specifications when we first started out but switched course in the final stages of development, deciding to change the specifications to capitalize on the features of No. 6.5 models. It was really tough to incorporate the changes in such a short period of time to avoid delaying the launch. But thanks to the agility of the whole team, we were able to launch the machine without a hitch.



Pachislot Kabaneri of the Iron Fortress
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We got a very warm reception from users for the kind of gameplay that can only be experienced with *Pachislot Kabaneri of the Iron Fortress*, such as its unparalleled reel play and exhilarating bonus wins. The machine design strikes a delicate balance between being mild and easy to play while still making users look forward to medal pay-out. My sense is that the overall gameplay, combined with high-quality visual effects using movie and sound elements, has earned high marks from users and is leading them to play the machine for long periods of time.



Hidekazu Kouchi

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The Hit Smart Pachislot *Hokuto No Ken*

Smart Pachislot Hokuto No Ken is based on the concept of a full-fledged remake of the original *Pachislot Hokuto No Ken*, which recorded roughly 620,000 unit sales. We believed the key to success was to find the right way to balance the features the machine should inherit from past models while having the courage not to change and to evolve by adding elements we thought would be desirable. Our greatest focus was on the most appealing aspect of the original machine—a battle bonus that the user doesn't know how long will last. At the start of development, we were considering reproducing the original in a different form, but were able to reflect revised regulations for smart pachislot machines and come up with the ideal combination of inheritance and evolution. We also started running in-house trials from an early stage, and the whole team worked together through trial and error to decide which new features we wanted to incorporate or not until we came up with a product we were satisfied with.

The result was a huge hit, which original fans liked for its nostalgic elements and high degree of faithfulness to the original, while new fans who never knew the original liked the machine's fun and easy-to-understand nature.

The *Hokuto no Ken* series is an IP that has been well-loved by fans for a long time. We will continue to aim for further growth in this series by fusing elements inherited from the original with evolved new elements.



Smart Pachislot Hokuto No Ken
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Continuing to Take on Challenges

The success of these machines, both of which under the new regulations fall into the "mild" category in terms of the moderate pay-in typically needed to hit a jackpot, gives me the sense that we have an environment in which it is easier to offer a wide variety of specifications and gameplay without relying solely on the gambling aspects of the machines.

Also, as various types of entertainment emerge, I feel strongly that pachislot and pachinko need more variety as well. We will continue to take on the challenge of being a company that generates excitement among users by making them wonder what kind of machine we will put out next without relying too heavily on any single aspect, like specifications, gameplay, or the IP.