

Pachislot and Pachinko Machine Business

Long-Term Downward Trend in the Player Population

The number of players peaked in 1995 and began trending downward due to casual players leaving the market because an increasing number of machines featured more complicated gameplay or strong gambling elements. As a result, the pachinko and pachislot machine market*¹ entered a period of long-term decline.

Focused on controlling excessive gambling elements, the regulatory revision of July 2004 narrowed the scope of pachislot machines' gameplay. After the interim measures period*² ended in fall 2007, pachinko hall operators proceeded to replace pachislot machines with those compliant with the new regulations. As a result, the departure of players, particularly pachislot core players, from the market accelerated due to the major change in gameplay.

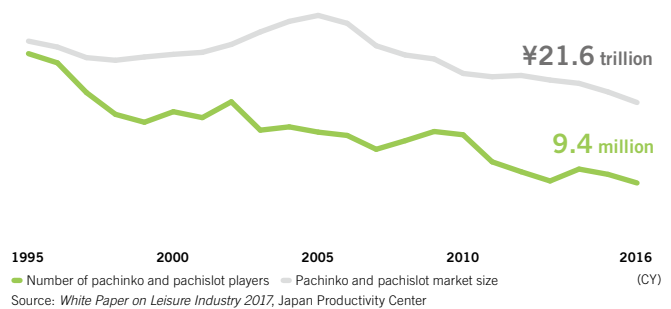
Subsequently, there was a marked decline in interest in pachinko and pachislot among young adults, traditionally the core player group. This decline was attributable to the diversification of pastimes that accompanied the expansion of the market for game apps for smart devices and the further departure of casual players from the pachinko market due to the increasing installation of pachinko machines with a strong gambling element.

As the player population decreased, the deterioration in pachinko hall operators' financial positions became more pronounced, affecting the pachinko and pachislot machine market significantly.

*1 The total of pachinko hall operators' ball rental fees and token rental fees

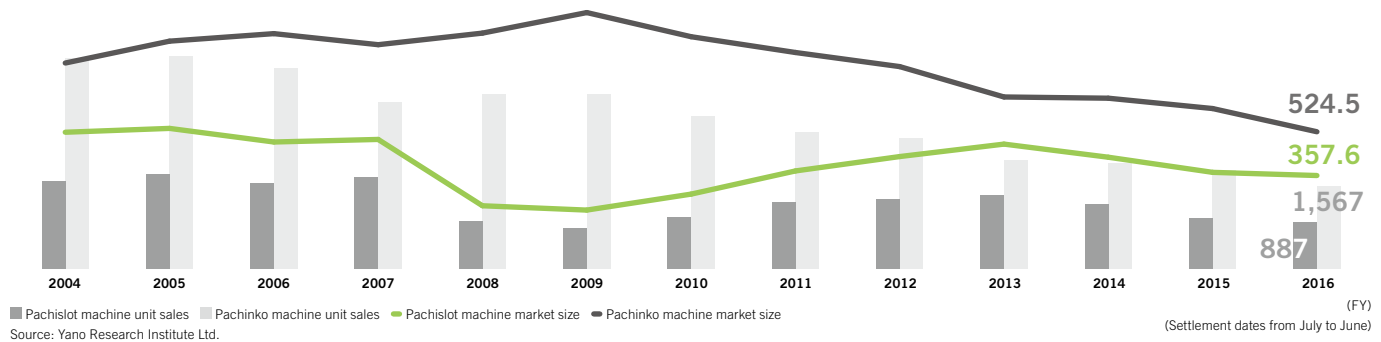
*2 Aiming to mitigate a sudden change of conditions and investment burden of pachinko hall operators, the regulatory revision of July 2004 included a three-year interim measures period for replacing old machines with new-format machines.

Pachinko and Pachislot—Player Numbers and Market Size



Pachinko and Pachislot Machines—Unit Sales and Market Size

Thousands of units / Billions of yen



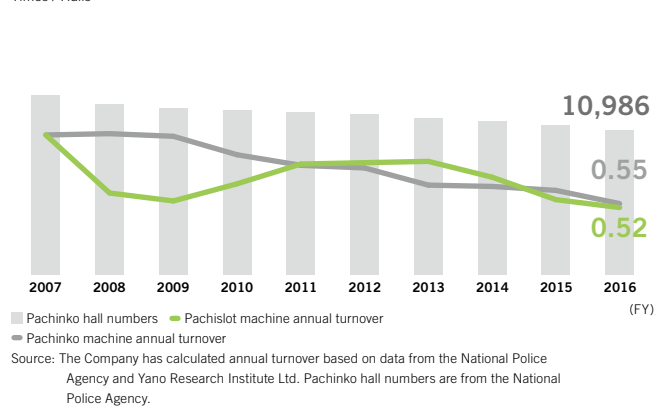
Pachinko Hall Operators' Declining Investment Capacity and Contraction of the Pachinko and Pachislot Machine Market

Facing lower investment capacity as the player population dwindles, stricter regulations, and rising machine prices, pachinko hall operators are replacing machines less often and increasingly selecting only titles and manufacturers that promise consistent returns on investments. This tendency is contributing directly to the shrinkage of the pachinko and pachislot machine market. Further evidence of pachinko hall operators' cautiousness is that annual turnover*³ is trending downward, even though the development of larger pachinko halls is increasing the number of installed pachinko and pachislot machines per pachinko hall.

*³ Annual turnover = Annual pachinko and pachislot machine unit sales ÷ Pachinko and pachislot machine installations

Annual Turnover and Pachinko Hall Numbers

Times / Halls



Need for Initiatives to Break the Negative Cycle

In an effort to broaden the player base, manufacturers developed and pachinko hall operators introduced pachinko machines with weaker gambling elements. Although lowering ball rental fees increased utilization rates^{*4}, it led to a decline in sales per machine for pachinko hall operators, exacerbating the deterioration in their business results. The resulting reduction in pachinko hall operators' capital investment appetite delayed the revitalization of pachinko halls and encouraged pachinko hall operators to seek short-term returns on investments by introducing machine models with stronger gambling elements. However, this change accelerated casual players' departure from the market.

Further, the emergence of addiction as a problem among frequent players and the discovery of improperly modified pachinko and pachislot machines in circulation led to changes in the prototype-testing operation methods of the Security Communications Association in 2014. These changes forced pachinko and pachislot machine manufacturers to change development schedules and voluntarily recall pachinko and pachislot machines that potentially differed from tested pachinko and pachislot machines. To prevent the improper modification of pachinko and pachislot machines, the scope of manufacturers' responsibility has been extended to include post-sales maintenance.

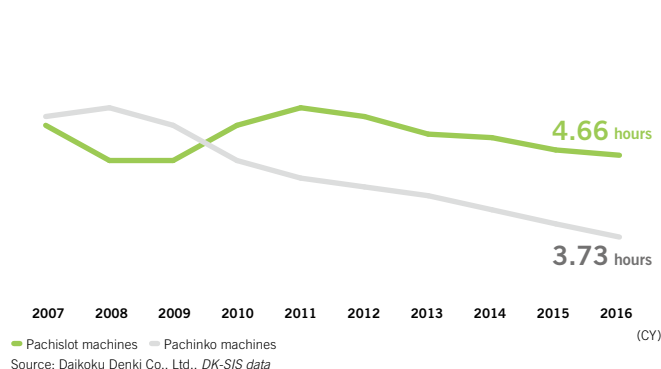
In response to the increasingly tough business conditions described above, pachinko hall operators are seeking reliable returns on the limited investments they can make. Therefore, they have been introducing machines that promise favorable utilization rates. In the pachinko and pachislot machine market, the contrast between winners and losers is becoming even more pronounced due to the difference between leading manufacturers—who have competitive intellectual properties as well as robust financial bases to support development capabilities—and other manufacturers.

Meanwhile, pachinko and pachislot machine manufacturers and pachinko hall operators have been stepping up efforts to increase the industry's soundness and vitality. Manufacturers have been making industry-wide efforts to introduce a series of voluntary regulations aimed at curbing functions that encourage excessive gambling. In addition, although some new-format machines compliant with the new regulations are achieving high utilization rates, pachinko hall operators are being cautious about replacing existing machines with these new machines. Consequently, the pachinko and pachislot machine market is likely to flag over the short-to-medium term.

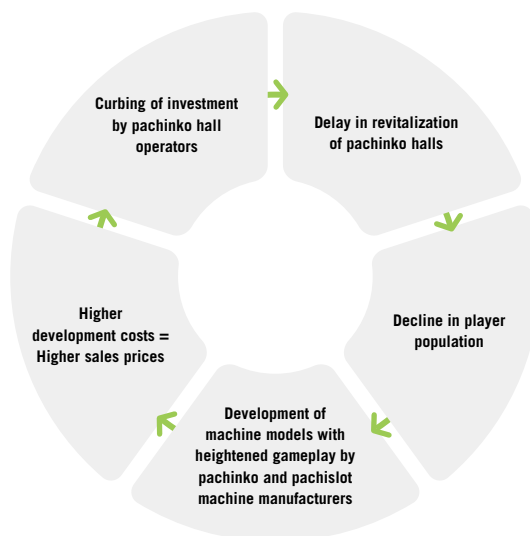
With a view to overcoming such impacts and extending the player base to revitalize the industry over the long term, pachinko and pachislot machine manufacturers are advancing initiatives that are a clear departure from traditional practices in the industry. For example, manufacturers have begun marketing directly to consumers. Other initiatives include the forming of partnerships between an industry competitor that would have been unthinkable previously. These partnerships are focused on establishing industry-wide platforms that will increase joint purchasing of components and the use of common components. Also, development-related collaboration among competitors promises to create new gameplay.

*4 The number of hours per business day that pachinko or pachislot machines are utilized

Utilization Rates*



Negative Cycle of the Pachinko and Pachislot Machine Market



Pachislot Machine Market Trends

	FY2015	FY2016	FY2017	FY2018 (Forecast)
Market unit sales (thousands of units)	1,230	960	880	720
Market units installed (thousands of units)	1,640	1,660	1,690	1,690

Pachinko Machine Market Trends

	FY2015	FY2016	FY2017	FY2018 (Forecast)
Market unit sales (thousands of units)	2,010	1,880	1,560	1,510
Market units installed (thousands of units)	2,950	2,910	2,830	2,720

Sources: National Police Agency and Yano Research Institute Ltd. (Data for which definitive values have not been formally issued and figures for fiscal 2018 are estimates and forecasts of the Group.)

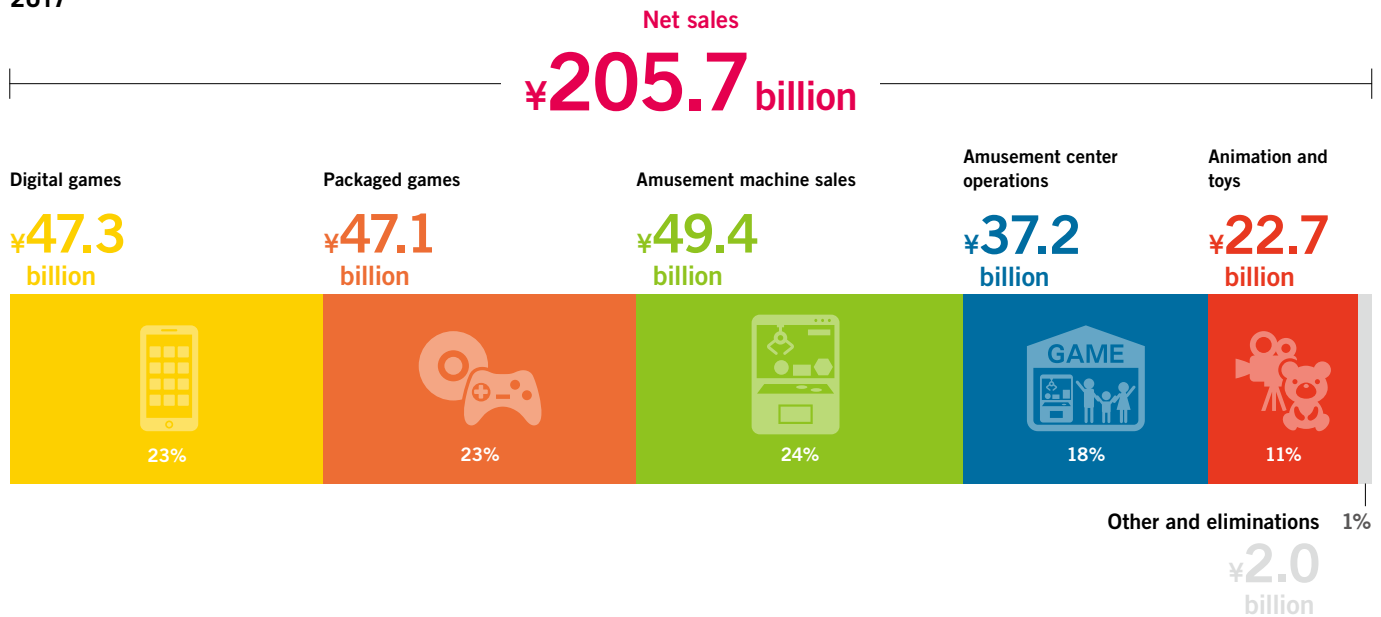
Entertainment Contents Business

The Entertainment Contents Business will exploit an extensive business portfolio, abundant intellectual properties, and global business foundations to maximize the value of intellectual properties, thereby increasing corporate value.

► Business Portfolio

Net Sales Breakdown

2017



Operating Income (Loss)

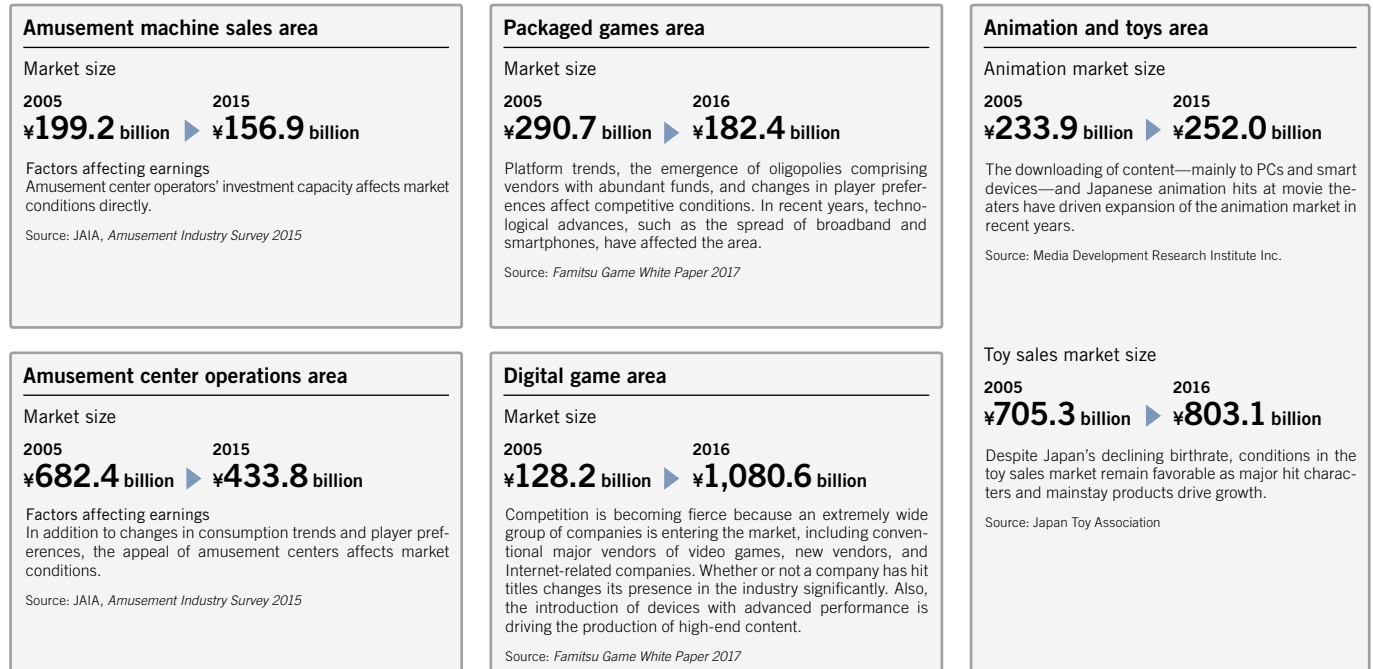
2017



► Industry Structure and SWOT

The business segment is able to take advantage of its broad business portfolio in current business conditions, which are characterized by sluggish markets in existing business areas and continuing growth in the digital game area.

Industry Trends Snapshot



Analyzing SWOT

