

Market Analysis

Explanation of Market Trends and Forecasts



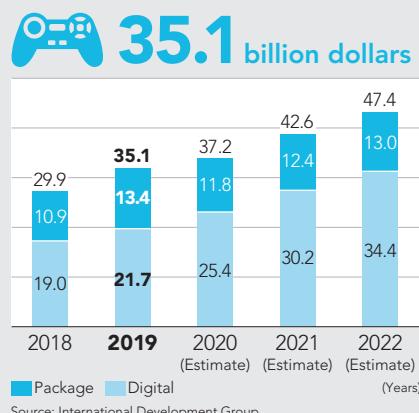
Consumer Market (Package + Digital)

In 2019, the consumer (package + digital) market grew to 35.1 billion dollars (up 17.4% from the previous year). This was due primarily to favorable packaged and digital sales. Digital sales have continued to expand in North America and Europe where such sales account for 87% of the market. The highly profitable digital contents market now accounts for roughly 62% of the consumer market.

The forecast for 2020 is for the market

to reach 37.2 billion dollars (up 6.0% from the previous year) owing to continued growth of the digital market and revitalization of the market with the release of new hardware. In the medium term, we see the digital market expanding rapidly in Asia and new game delivery methods such as streaming and subscriptions performing well. As such, we expect the market to grow to 53.2 billion dollars by 2024 (up 51.6% compared to 2019).

Consumer Market (billion dollars)



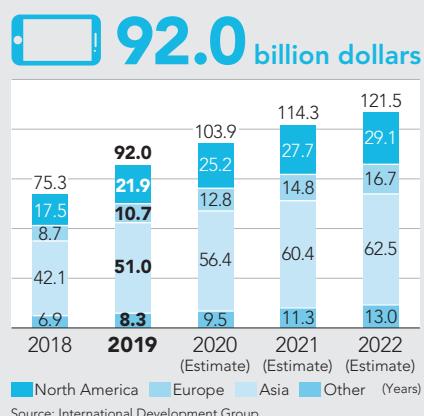
Mobile Contents Market

In 2019, the mobile contents market was worth 92.0 billion dollars (up 22.2% from the previous year), maintaining a high growth rate even after expanding to more than half the size of the overall game software market. The main reason for this was the continued momentum of online games such as battle royale games that have been popular since 2017, driving growth of the market despite annual smartphone shipments declining for the third year in a row to 1.37 billion units (down 2.3% from the previous year) in 2019. By region, the Asian market including Japan was worth 51.0 billion dollars (up 21.1% from the previous year), the North American market was worth 21.9 billion dollars (up 25.1% from the previous year), the European market was worth 10.7

billion dollars (up 23.0% from the previous year), and other regional markets were worth 8.3 billion dollars (up 20.3% from the previous year), all showing continued growth.

In the medium term, the domestic market is maturing, but we expect continued growth in Asia and emerging countries. Moreover, once 5G next-generation mobile networks are up and running, it will be possible to deliver large volumes of content at high speeds, so we believe there is potential for market expansion. We expect the 2020 mobile market to increase to 103.9 billion dollars (up 12.9% from the previous year) and grow significantly to 129.9 billion dollars by 2024 (up 41.2% from 2019).

Mobile Contents Market (billion dollars)

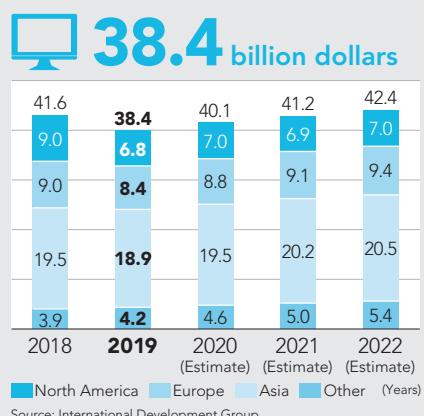


PC Online Market

In 2019, the PC online market shrank to 38.4 billion dollars (down 7.7% from the previous year) due to further integration with the consumer market resulting from growth of online play on consoles.

We expect slower growth in PC Online relative to the game market overall, increasing to 40.1 billion dollars (up 4.4% from the previous year) in 2020 and 43.3 billion dollars by 2024 (up 12.8% from 2019).

PC Online Market (billion dollars)





Arcade Operations Market

The domestic arcade facilities market grew during the previous fiscal year (ended March 31, 2019) for the fourth year in a row to 520.1 billion yen (up 7.0% from the previous year). This was due to improvements in the number of visitors and sales per customer due to the continued effect of the restrictions on the time that minors can be in arcades while accompanied by a guardian being relaxed in the Law on Control and Improvement of Amusement and Entertainment Businesses (Entertainment Business Law) in June 2016.

The total number of stores decreased to 12,167 (down 7.1% from the previous year), but the number of units installed at each store increased to 35.5 (up 2.3 units from the previous year). Annual sales per stores increased to 42.74 million yen (up 15.3% from the previous year), demonstrating that the management

streamlining many companies have engaged in, closing small unprofitable locations with fewer machines and focusing on profitable stores in good locations, has been successful.

This year (ended March 31, 2020), the market continued to exhibit a gentle recovery overall owing to hit products appearing one after another in the prizes found in prize game machines, including popular character merchandise and figurines, despite the impact of several large-scale typhoons and the consumption tax hike on sales in arcade operations.

In the next fiscal year (ending March 31, 2021), we expect difficulties arising from decreased profitability due to temporary closures and curtailed cabinet operations as well as the increased costs of disinfecting arcades and cabinets in response to the spread of COVID-19.



Gaming Machines Market

In the previous fiscal year (ended March 31, 2019), the gaming machine market shrank for the sixth consecutive year to 672.3 billion yen (down 11.4% from the previous year). This was due to pachislo machines being hit hard by diminishing investment appetite for gaming machines among halls due to sluggish operations of gaming machines with gambling restraints, which were implemented in response to changes to model certification methods, as well as a decrease in the number of new stores opened.

The market showed signs of recovery this year (ended March 31, 2020) as new machines began to gain traction. In the next fiscal year (ending March 31, 2021), although we expect continued replacement demand as a result of revised gaming machine regulations, the situation will remain severe due to temporary hall closures to address COVID-19 on top of the investment required for the introduction of new machines compliant with the new gaming machine regulations.

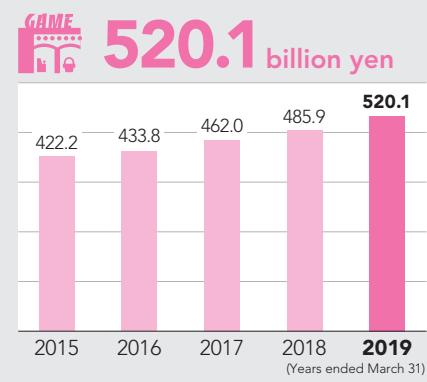


Esports Business

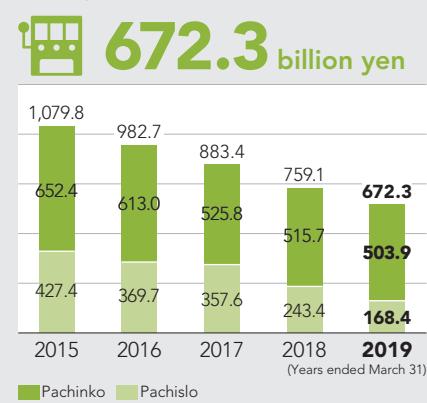
In the previous year (ended March 31, 2019), the esports market grew 23.3% year on year to 950 million U.S. dollars. In 2020, we expect the market to grow to 1.05 billion U.S. dollars (up 10.6% from the previous year) owing to increased sponsorship and media rights fees, primarily in China, which

accounts for the largest share. There is increasing uncertainty with respect to market forecasts for this year and beyond due to the spread of COVID-19, but we expect the market to grow to 1.59 billion U.S. dollars by 2023.

Arcade Operations Market (billion yen)



Gaming Machines Market (billion yen)



Esports (million U.S. dollars)

