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Linking Japan

November 2015



Fun on Many Levels

President Masahiko Sugino's Round1 is
Firmly Entrenched in Japan's Leisure Lexicon

Moving the Goalposts

Abenomics is Back, with One Eye on
Voters and the Other on Reform

Out and About

Indications of a Gradual Recovery in
Japan's Leisure Market

Dashboard on Japanese Economy November 2015

Publisher’s Note

We are fast approaching the end of the year. ISIS has just wreaked havoc in France and a tenuous bond has once again been constructed between the allies. Society’s addiction to dispensing death is definitely getting to me but like all good residents of Japan I will probably brush it off. Wishing peace to all victims of violence.

Meanwhile in Japan, Prime Minister Shinzo Abe has taken his second quiver of arrows out and is firing at will. He seems to be like I was in my younger years in Art class, getting an A for effort but a D for results. I believe any successful future for Japan is dependent on the emergence of a great entrepreneurial class that is willing to take on the world. Something that is sadly lacking today.

Round1 is not a virtual world entrepreneur. He is rather someone who has packaged real world games together into a large entertainment product and with a small start has taken on America, with seeming success. Who would have thought that bowling could drive growth?

As Japan continues to be a master of sustainable decline, I continue to hope that vested interests learn dynamism and that new Japanese names begin to fly around cyberspace in much the same way as Sony, Toyota and Hitachi still do today. We have missed an entire generation, now what will the new generation achieve while existing players use their meager powers to sculpt out a future.

I pray that while I wait for that particular miracle, the world will discover the miracle of living together without mass violence or murders (and excellent cuisine), Japan’s true gifts to the world.

J. Michael Owen
Chairman
Transpacific Enterprises



Moving the Goalposts

Abenomics is Back, with One Eye on Voters and the Other on Reform

Abenomics for the majority of 2015 felt like a dirty word. The government of Prime Minister Shinzo Abe was busy with its domestically unpopular security reform drive, leaving the economy playing second fiddle. Huge amounts of political capital were used up on the defense reforms, which people protested in the streets. Parliament went through debate after debate on the legislation. But with the security bills passed, the prime minister says Abenomics is back.

Government spending, monetary easing and economic reform made up Abenomics last year. Now, the prime minister speaks of Abenomics 2.0. His new program sweeps away the three old arrows — fiscal spending, monetary easing and regulatory reform — for three new ones. Under the new system, the government will focus on improving the economy by: raising nominal gross domestic product by 20% to 600 trillion yen by 2021; improving the fertility rate to 1.8; and getting the number of elderly on waiting lists for care down to zero within a decade.

Lawmaker Katsunobu Kato will spearhead much of the effort, taking on the oddly titled job of “minister in charge of promoting the dynamic engagement of all citizens.” Kato, who has six other posts in the cabinet, has until the end of the year to sort out what his new position actually entails.

The new targets are high on ambition and low on specifics of how they will be achieved. “What they are talking about and what they are going to try and get Minister Kato to do is not doable,” says Michael Cucek, adjunct professor, Faculty of the Social Sciences, Waseda University. “If they make a concerted effort to attack the issues involved, certainly it will slow down the inevitable decay. That is the good side. Unfortunately, [new Abenomics] is based upon estimates that are economical with the truth.”

The original program was incredibly complicated. It aimed to tackle issues across a wide spectrum of industries and interests, but had lost momentum — Japan looks likely to be back in recession. New Abenomics, therefore, can be seen as an appeal to voters for more time. Abe “wanted to announce something new so that he can tell the nation that he will focus on the economy again,” after being “so busy for months in passing the self-defense related laws,” said Akihiko Mizuno, head of capital markets at JLL Japan.

Beyond the rhetoric and short-term data points, Abenomics has seen mixed results. Assessing the full impact of such a policy platform will take years, but for now, there are mixed signals about the direction in which Japan is headed.

High Scoring

Team Abe’s plan was assessed by the Financial Times (FT). Its score sheet for the policy platform was broadly sympathetic. The government ranked highly on corporate governance, women, energy and agriculture, though the FT said not enough had been done in the areas of immigration and labor. “Many analysts in Tokyo give Prime Minister Abe considerable credit, saying he has tackled some of Japan’s most entrenched interest groups,” the newspaper wrote.

Be that as it may, many in the markets were expecting further Bank of Japan (BOJ) action in late October. The central bank, however, held firm. For each data set that naysayers point to, Governor Haruhiko Kuroda has an answer. Inflation not emerging? September shows that the consumer price index (excluding food and energy) rose 0.8%, after rising 0.7% a month earlier. Recession? Look to China, look to emerging

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markets and look to global volatility to explain that. No wage inflation? With 124 openings for every 100 job seekers, it is just a matter of time until wages start rising; average wages for contracted workers rose above 1,600 yen an hour for the first time in August. Still, its 2% inflation target is in doubt.

“According to the BOJ there is actually positive inflation in Japan,” says Takuji Okubo, chief economist at Japan Macro Advisors. “CPI excluding fresh food and energy, the preferred index nowadays, was 0.4% at the beginning of the year and in September it was 1%. So we have moderately accelerating inflation.

“Growth must have disappointed the BOJ. But zero growth is not bad for Japan, given that the potential growth rate is very close to zero. But it shouldn’t lead to deflation. Economic growth has been weaker than ideal, but that is not a reason for more easing.”

Even the central bank, however, has tempered its positivity. “Although the timing of reaching around 2% depends on developments in crude oil prices, it is projected to be around the second half of fiscal 2016, assuming that crude oil prices will rise moderately from the recent level,” the central bank wrote in its most recent Outlook for Economic Prices and Activity, released in late October. “Thereafter, Japan’s economy is expected to gradually shift to a growth path that sustains such inflation in a stable manner.” The bank had previously stated that the inflation target would be reached in the first half of next year. Before that, it saw late 2015 as the time for reaching 2%.

“Such extensions (or softening) of the timeline [for achieving 2% inflation] are beginning to look routine,” Barclays Capital wrote in a report. Going further, the company wrote, “It now appears to be describing an ‘outlook’ and no longer a ‘target’ for the CPI, giving the impression of weaker calendar-based forward guidance.

Okubo’s JMA also sees the bank as being too relaxed in its assessment of economic conditions. “In our view,” the company wrote, “the BOJ is wrong to think it has time on its side to patiently wait for a desirable inflation to emerge. The assumption that the economy will keep on growing without disruption seems too naive for us. The last global recession ended six years ago and a major downside risk could be around the corner.”

Positives

One marquee achievement for the government was the signing of the Trans-Pacific Partnership (TPP) trade agreement. Government estimates suggest it could add 0.66%, or 3.2 trillion yen, to the nation’s gross domestic product. Japan’s auto industry is among the big winners. Tariffs will be scrapped by the U.S. on 87.4% of auto parts made in the Northeast Asian

nation. For importers, tariffs on 95% of goods from TPP nations will be eliminated.

That, however, is just the start. By creating a regulatory framework for trade, Japanese corporations could see benefits in areas of Southeast Asia and Latin America where informal economies lead to corruption, inefficiency and red-tape quagmires. And closer to home, Abe is doing more to tackle farmers.

Japan Agriculture, the powerful lobby that in the past could make or break politicians, was already in Abe’s sights. Planned changes to the law on agriculture will make it more difficult for the organization to collect funds or operate as a political lobby, as well as decentralizing its power. Now, with the TPP, cheaper fruit and vegetables are expected to reach the market. More competition will likely mean a push for more efficiency in a sector where the average worker is nearly 70 years old.

“I think the Japanese economy has scored a tremendous point by signing the TPP,” Yoshihiko Miyauchi, senior chairman of Orix Corp., said in Tokyo the day after the deal was signed. “This will lead to greater trade and increased structural reform.



“From the perspective of Japan, the area of agriculture is going to have to change,” he added. “For consumers, this will be a positive thing. But producers are going to have to change the way they do business. Agriculture is so weak in Japan at the moment, it is difficult to call it an industry. But it can improve, become competitive and export.”

The TPP “might help accelerate agricultural reform,” says Noah Smith, an assistant professor in finance at Stony Brook University, in the U.S. “Japan has a lot of land used for inefficient agriculture. It might be used to help Abe in his project to force small farmers to give up the ghost and sell to agribusiness. With budget worries, Japan might take a harsh approach, telling inefficient farmers to get off their land and get agribusiness to take over. This needs to happen for efficiency’s sake, though people do not want to give up their traditional lifestyle.”

Corporate governance has also shown progress. New codes on stewardship and governance introduced during the course of Abenomics push companies to improve their day-to-day operations through the use of outside directors and erase the “old boy’s club” nature of cross-shareholding in Japan. According to the government, more than 2,000 companies have signed up to the corporate governance code and 197 institutional investors to the one for stewardship.

Nicholas Benes, representative director of the Board Director Training Institute of Japan, says the reforms “are a good start,” but not enough in themselves. A look at recent shareholder meetings suggests Benes is correct. In June, the vast majority of proposals for dividend increases and share buybacks were rejected by shareholders, in line with company wishes.

It is still, however, the early days. “What you will see in the next few years is a divergence between those companies that get it and those that are doing the old stuff,” Benes says. “The ones that get it will serve as examples for those that don’t.”

Smith sees this as being an area where foreign investors are essential. “Japan needs foreign investors to enforce the corporate governance code,” he says. “Investors are ultimately responsible for creating shareholder value. And Japanese investors need to get in on this. Foreign investors are doing by far the majority of the policing. That is not sustainable.”

Getting Women Working

In other areas, there is still plenty to be done. Gender equality reform has stalled. In an embarrassment for the government, a program it set up offering 120 million yen in subsidies to companies that promote women to senior management received zero applicants. An official at the labor ministry told media that the application process for the program, which offered up to 300,000 yen to companies promoting women, was overly complicated.

“The real enforcement mechanism will be a star-rating system for companies that are women friendly from spring,” says Smith. “Local governments and the central government are going to start awarding public contracts preferably to people who have more stars. That is going to be a giant incentive. The Japanese government has ways of getting what it wants from companies, and one of those is preferential awarding of pork. It’s going to be important.”

A further issue, however, is that while more women are going into the workplace now, they are often taking jobs on contracts or with part time hours. Getting them into Japan’s jobs-for-life *seishain* system may be necessary. “The real problem is the two-track labor market,” says Smith. “That’s what’s keeping women out of the top jobs. The number of women in

seishain positions is slowly crawling up, but it is nowhere near where it needs to be.”

But the *seishain* system itself is a problem. With little job market liquidity and few options for companies looking to dismiss unproductive or unneeded staff, the economy is not able to realize its potential. “It’s the big one,” Smith says. “If Japan can’t kill [the *seishain* system], reforms will always have a limited effect.”

Time Running Out?

Recession risks, emerging market weakness, China’s headwinds and the unpredictability of monetary policy at other central banks add up to a risky 2016 for the global economy. There are also issues for the government and central bank in Japan. How much easing would be too much? Are the reforms put in place by Abe enough?

“For a developed economy like Japan to function, it has to have a liquid and functioning financial market,” says Okubo. “At some point, it will become evident that Japanese Government Bonds (JGBs) are not a fair market, and people will start to mistrust the price.” Today, the BOJ owns 30% of the JGBs on the market, and Okubo expects that to rise above 50% by 2018 or earlier. “There is a good reason to start thinking the BOJ and government should explore other means of stimulating the economy,” he adds.

Patience is running low. “Compared to his first set of arrows, people are not paying a lot of attention to the new goals [for Abenomics],” says Mizuno of JLL. “I think people want to see real results [such as] wage increases, inflation [and] women at work.”

As always, it is a waiting game. Japan continues to lose hundreds of thousands of consumers annually because of demographic issues, making the task of keeping the economy on a growth path ever more difficult. The country, however, remains on the right track. “Over time, wages will go higher,” Okubo says. “But it is taking more time than expected.”

Smith believes that with patience, improvement will come. “In terms of structural reforms, that stuff under the best of conditions takes five or ten years to work, because you have to have flows of new hires to change companies and management systems and to implement reorganizations and restructuring of companies. Most initiatives Abe has tried have gone through. The labor reform spectacularly failed, but TPP, womenomics and corporate governance reform are all going to be big. They got three out of four but labor was the biggie.”

So there’s still reason, over the long term, to put money in Japan. Mizuno is confident foreign investors will continue to do so. “Overseas investors continue to buy,” he says. “They are a big player in the market.”



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COVER STORY

Fun on Many Levels

President Masahiko Sugino's Round1 is Firmly Entrenched in Japan's Leisure Lexicon

Today Round1 is listed on the first tier of the Tokyo Stock Exchange, employs more than 6,000 people and owns and operates 113 locations across Japan and 8 in the United States, offering leisure activities including bowling, karaoke, arcade games, billiards, and "spo-cha" (a variety of sporting activities).



The city of Sakai in south-central Osaka Prefecture evolved into one of Japan's key seaports connecting Japan to China, Spain and Portugal during the Sengoku Period (1467-1603) and became Japan's dominant business headquarters. The city

modernized rapidly following the Meiji Restoration, and today industry in the area is centered on environmental energy and electronic components and devices.

The popularity of bowling peaked in Japan in the 1970s and 1980s. Early in this period, a man opened and operated a bowling center in Izumiotsu, just southwest of Sakai. The operation struggled, however, and he was forced to close within a couple of years. After several years of having leased the property to a furniture retailer – which then vacated the property – the man

thought that a roller skating rink might be successful given the high concentration of families with young children in the area. The roller skate rink soon opened as one of only four or five such rinks in the entire country. Initially it met with tremendous success, but about a year later – with virtually no investments made in the facility, and no air conditioning in the summer – patronage had declined to the point where he was left with no choice but to close the doors. His son, Masahiko, was a student at Momoyama Gakuin’s Faculty of Economics, and once he learned of his father’s decision he began spending time helping him to handle the many tasks related to closing the business.

As they waded through the various steps of the depressing process, Masahiko pondered ways they might revive the business. Though the popularity of bowling had begun to wane slightly, he was confident that bringing activities such as bowling, billiards and arcade games into a single facility would attract not only the elementary school children in the area who had patronized the skating rink, but also university students with free time and money to spend. He pitched the idea to his father, and gained not only his approval, but a loan of 20 million yen to finance the change in direction of the facility. In 1982 Masahiko assumed management of the company, at the time called Sugino Kosan Co., Ltd. Over the course of the next 15 years or so Sugino changed the name of the company to Round1, entered into tie-ups with companies operating bowling facilities, and listed on the second section of the Osaka Securities Exchange and Tokyo Stock Exchange in 1997 and 1998, respectively.

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offering leisure activities including bowling, karaoke, arcade games, billiards, basketball and more.

Areas of Business

Bowling

Ordinary bowling alleys have been established to attract people who enjoy bowling. These facilities have in many cases kept the focus on the game itself and upgraded the equipment but not changed the experience significantly. Round1, however, has incorporated bowling into its overall entertainment experience, and offers a variety of campaigns, competitions, clubs for avid bowlers, and online or smartphone lane reservations among other things. In 2012, Round1 attracted about 16.6 million bowlers, and through the first nine months of 2015 bowling has accounted for 29% of sales.

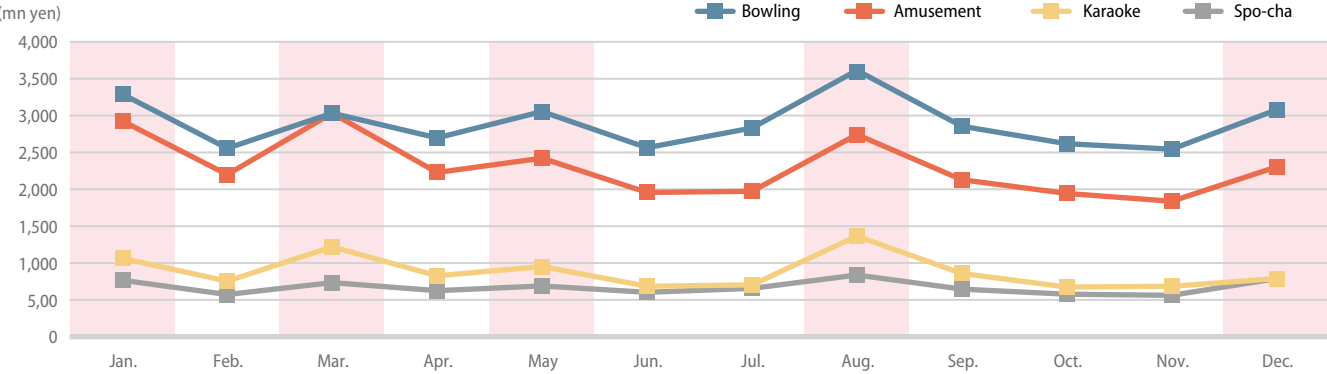
Amusement

This segment has accounted for 42% of sales through September 2015. On average a single facility houses over 200 different game machines, and Round1 offers campaigns and packages for families, discussion forums for avid gamers, and shares information on new games via its social media accounts.

Key Figures 2011 – 2015

	Unit	2011	2012	2013	2014	2015
Net Sales	mn yen	84,303	89,568	85,903	84,272	83,905
Gross Profit	mn yen	13,273	17,789	13,328	11,723	8,395
Operating Income	mn yen	11,416	16,036	11,565	10,088	6,641
Ordinary Income	mn yen	6,929	11,481	8,217	7,818	6,150
Net Income	mn yen	-12,673	2,781	601	-19,681	-4,568
EPS	yen	-136.24	29.19	6.31	-206.56	-47.95
ROE	%	NA	3.5	0.8	NA	NA

Round1 Five-Year Average Monthly Sales 2011-2015 by Segment



* October – December sales are the average monthly sales for 2011-2014.

Karaoke

Round1’s karaoke rooms are spacious, enabling larger groups to enjoy singing, eating and drinking together. The rooms are equipped with high-quality sound systems and some rooms even offer double monitors, massage chairs, and stages, and there are special rooms for kids’ gatherings as well. Karaoke sales have comprised nearly 10% of all sales through the first nine months of this year.

Spo-cha

“Spo-cha” is short for “sports challenge,” and provides visitors with the opportunity to enjoy a host of sporting activities and games including roller skating, “pokebai (pocket bikes),” or very small motorbikes; fishing ponds, mini-bowling, a reading room with massage chairs and a vast selection of manga comic books, billiards and rodeo machines. There are activities

inside the facility, and establishments with activities on the roof of the building offer soft tennis, futsal (Futbol de Salon), 3-on-3 basketball, miniature golf, batting cages and a number of other sports and games. Spo-cha sales have increased steadily over the past five years, and have accounted for 15.6% of sales during the first nine months of 2015.

Changing Environments

Twenty years ago, people were more likely to go outside or travel longer distances to reach entertainment destinations. In Japan, says Sugino, while social media and smartphones have certainly had their impact, there’s a more elemental factor at play. “Compared to twenty years ago, there are fewer young people who own their own cars, or have access to cars they can use freely. Twenty years ago, people would suddenly decide to

Participation in Activities by Type

Leisure Activity	Male					Female				
	2000	2005	2010	2011	2012	2000	2005	2010	2011	2012
Jogging, marathons	28.0	22.2	31.7	32.5	31.9	21.7	16.3	19.1	18.2	16.4
Table tennis	13.9	8.4	8.8	8.8	7.9	11.9	7.2	8.1	7.7	8.2
Bowling	34.6	29.4	20.5	19.4	17.3	26.7	20.9	14.5	13.6	11.1
Soccer	10.9	11.4	9.3	8.5	9.5	2	1.7	2.3	2.8	1.9
Tennis	7.5	6.5	7.7	7.1	6.9	7.5	6.7	7.0	6.1	5.2
Playing home-use video games	31.2	29.9	45.1	35.8	34.5	24.2	20.4	38.8	29.5	26.1
Game centers, game corners	22.5	22.4	30.7	19.7	19.5	18.5	18.8	28.0	17.6	17.2
Billiards	11.0	9.3	12.1	4.9	6.4	2.9	3.6	4.4	2.4	2.7
Eating out	67.8	61.4	55.9	47.7	46.4	71.4	68.0	62.1	57.2	54.7
Bars, snack bars, pubs	50.0	41.5	38.9	32.6	30.4	25.9	24.1	23.4	19.1	17.2
Nightclubs, cabarets	5.6	5.6	9.6	6.6	6.5	0.6	0.9	1.5	1.2	0.9
Enjoy videotapes (including rentals)	44.6	42.7	47.9	41.7	34.1	40.7	38.4	41.3	35.9	33.1
Personal computers (games, for pleasure, correspondence, etc.)	38.0	43.4	80.6	75.3	72.2	24.7	33.9	71.9	64.4	63.6
Visiting amusement parks	30.6	23.8	24.9	17.4	18.9	34.8	29.3	29.1	23.7	24.4
Driving a car	58.1	50.5	62.2	51.2	51.9	53.6	44.3	61.0	53.7	50.0
Mountain climbing	8.6	7.3	12.9	9.0	9.3	8.6	4.7	8.4	6.8	7.5
Sea bathing	23.4	16.9	17.4	9.0	10.6	21.6	18.3	11.9	8.8	8.9

* Figures indicate percentage of survey respondents who participate in the activity at least once a year.
** Only selected activities from the survey results are displayed.
Source: Japan Productivity Centre.



go out, pile into the car and take off, in some cases not even knowing exactly where they were headed – deciding in the car to go bowling, get something to eat, play video games, whatever it might be. This doesn’t happen so much anymore. Young people have a world of information at their fingertips. They can communicate with friends, check platforms like Yelp in the U.S. to read reviews on restaurants and entertainment facilities, and even play games. The motivation to leave home is much different now – when young people in Japan go out, they generally will go in groups and have barbecues or perhaps go to the beach. It’s become more important than ever that we provide them with an experience they can only enjoy by being at a Round1 facility.”

Over the past year or so, Round1 has reduced the number of commercials it airs on television, as the people in its target demographic don’t gather around the TV at home as people would in the past. Social media platforms and mobile applications are new channels Sugino has embraced, and the company is active in both areas.

“We are now offering a mobile app called RouPoke (Round One Pocket). Going forward, the number of app downloads will be a prime determinant in the effectiveness of a company’s promotions and its market recognition. These days, if young people want to watch something, they’ve either recorded it in advance – in which case they skip the commercials anyway – or simply go to YouTube to watch it. Now customers who download our app can see 15-second commercials with a single click. Whereas with a television commercial we are in something of a passive position, with the mobile app we can be proactive in reaching out more directly to the people we’re targeting with our message.” Sugino says that the reduction in commercials contributed to a savings of about 1 billion yen in advertising

costs over the past year, but that he does intend to maintain a presence on television to a certain extent.

Though technology is advancing at an unprecedented rate, it remains a two-dimensional experience, says Sugino, so the challenge now is to use these new channels to reach their targets and entice them to visit Round1, where they can enjoy a multisensory experience beyond what’s available to them in the comforts of home. “Most of the customers who have downloaded our app are college students. There are millions of companies that want direct access to this demographic, and mobile apps may be the only way to really reach them. We will look at tie-ups with developers of smartphone and online games, and helping to link them with the college students. At present we can really only get people to spend money at Round1 by coming to the facilities, but going forward via newly established alliances we can get the young people to spend money on us and our partners via their devices.”

Fun for Everyone


The company initially established Round One U.S.A. Corporation in December 2003, but dissolved it in 2006 and then established Round One Entertainment in April 2009, 16 months ahead of the opening of their inaugural facility, in Los Angeles. Based on market size, median income and projections for growth – the population of the U.S. is forecast to increase to 400 million over the next twenty years – Sugino was convinced the U.S. was the most promising overseas location in which to begin developing the Round1 entertainment complex concept. “The population of our target demographic (from elementary school students through people in their twenties) had dropped in Japan to about 60% of where it was when we

“While a certain segment of our shareholders wanted steady growth and stable returns, most were interested in seeing more significant growth. We knew we could not achieve that kind of growth if we limited ourselves to domestic operations.”

Masahiko Sugino
President, Round1

“Shibuya and Shinjuku in Tokyo, and Umeda and Namba in Osaka, are cities centered around major mass transit hubs – the U.S. doesn’t really have such cities. The most similar settings in our view were large shopping centers that serve as retail destinations. Not only were we confident of heavy traffic, but we also knew we’d benefit from the perspective of advertising costs.”

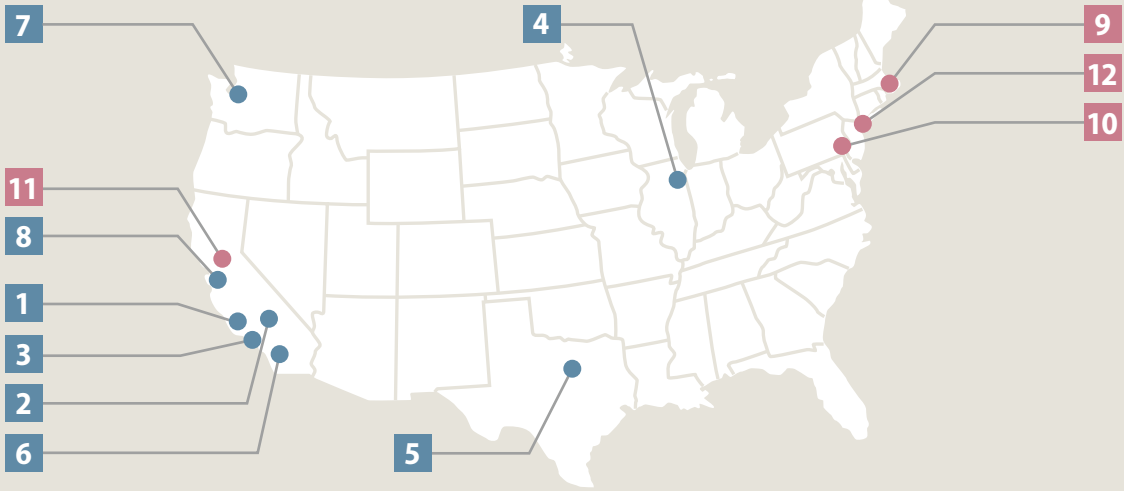
Their research revealed that there were about 900 shopping centers ranging in area from 700,000 to 2 million sq. ft. that met their criteria, and that each center was generally in competition with three or four others in the area. Despite the fact that the key tenants were primarily the usual suspects – H&M, JC Penney, Sears, and Macy’s – financial performance differed



“RouPoke,” Round1’s mobile app. Customers who register are able to book bowling lanes and karaoke rooms in advance, and are also eligible for a variety of discounts, special deals, gifts and more.

Specs for New Shops	
Candidate locations	Openings in large shopping malls in the U.S. (approx. 900 malls meet prescribed conditions)
Operating floor area	42,000 ~ 64,000 sq. ft.
Demographics	Over 150,000 residents within 5 miles Over 400,000 residents within 10 miles
Target customers	Shopping mall customers (young adults at night, primarily college students) / Male/female 50-50
Avg. spend/customer	~\$14
Sales breakdown	Amusement 58%, bowling 20%, food & beverage 17%, other 3%
Investment	~\$6 million (Facility-related \$2.8 million, amusement machines \$2.7 million, other facilities (bowling) \$1.3 million, opening expenses \$0.4 million)
Lease terms	Amusement machine depreciation in 3 years; other facilities (bowling) depreciation in 7 years; lease fees decrease after 4 years





Existing and Planned Facilities

No.	Opened/Scheduled Opening	Shop Name	Region	Operating Floor Area
1	August 2010	Puente Hills	Los Angeles, California	60,000 sq. ft.
2	September 2012	Moreno Valley	Riverside, California	44,448 sq. ft.
3	August 2013	Lakewood	Lakewood, California	43,523 sq. ft.
4	October 2014	Stratford	Chicago, Illinois	39,893 sq. ft.
5	December 2014	Arlington Parks	Arlington, Texas	64,911 sq. ft.
6	May 2015	Santa Ana Mainplace	Santa Ana, California	40,676 sq. ft.
7	July 2015	Seattle Southcenter	Seattle, Washington	41,672 sq. ft.
8	September 2015	San Jose Eastridge	San Jose, California	52,064 sq. ft.
9	January 2016	Taunton Silver City	Taunton, Massachusetts	TBD
10	March 2016	Bensalem Neshaminy	Bensalem, Pennsylvania	TBD
11	March 2016	Sunvalley	Concord, California	TBD
12	Spring 2016	Broadway	Hicksville, New York	TBD

considerably. So how would he decide which mall in a particular area was the optimum site for the next Round1 complex? “Naturally you want to be in one of the top two centers in the area. You could choose, say, the fourth ranking center and secure lower rents, but it’s not a good choice. You have to look at things such as how easy it is for customers to get from the parking lot to the facility – particularly at night – and how much of the center they have to walk through before they arrive at Round1. Analyses of these criteria are some of the reasons why Round1 continues to perform well in the top shopping centers of the U.S.”

The Road Taken

Neither the breadth to which Sugino will expand Round1, nor his motivation for running the company, can be expressed in numerical figures or revenue targets. “The entertainment industry in Japan serves some 50 million people, with the biggest customers being high school and college students – young people

who are not yet employed. Instead of just having the kids come and sing karaoke or bowl a few games and then go home, we felt like we had a societal responsibility, and wanted to create a much fuller experience. We also realized the impact we had on these students, who were still developing as people. Our hope was that since we were in the communities of our customers, we would contribute something positive with our presence there. “When I established the very first location, I had to decide how many more locations I wanted. Honestly, at the time, I would have made more than enough money from just a couple of locations operating as a family business. If I did expand, I knew that if it was with my own cash, I would never be able to grow beyond about ten locations in my lifetime. Setting up a single location costs thousands of millions of yen. Beyond that I’d have to use leverage or borrow capital, meaning I’d have to list the company to procure the necessary funding. Even with the listing and plans for growth, I still do not have specific ultimate targets for growth. It’s when I look back at how this started that I realize just how big it’s become.”



Japan offers an amazing array of leisure-time options despite being a country with a land area of only about 380,000km² (the combined total of the four main islands of Honshu, Hokkaido, Shikoku and Kyushu, and just over half the land area of the state of Texas in the U.S.). The winter brings skiing and snowboarding at Naeba, Niseko and Hakuba; springtime is great for hiking, cherry blossom viewing parties, and for visiting the many stunning botanical and traditional gardens; in summer, the race is on as people flock to the beaches, to enjoy outdoor concerts or one of hundreds of fireworks displays around the country, or to one of Japan’s many theme and amusement parks; and viewing the autumn foliage in areas such as Nikko (Tochigi Prefecture) and Kyoto are traditionally tremendously popular. The country is passionate about soccer, baseball, rugby, golf and marathons, and one sport or another is available to be enjoyed either as a participant or as a spectator year round. Japan’s small land area naturally also requires the most intelligent use of available space, which has given birth to some highly innovative sport and game activity centers developed by companies such as Sega Sammy and Round1, at which customers can take part in a variety of sports and games, and also enjoy food and drink. Japan is also a great place for golf

enthusiasts, too, with over 2,300 golf courses (the only nation in the Asia Pacific with more than 500) and even more driving ranges, many with multiple tiers. Or, if sports and games are not your cup of green tea, perhaps you can instead visit one of the country’s 5,000+ history, art and science museums, catch the latest Hollywood, Japanese or European films, or take advantage of the sophisticated rail network and tour the countryside.



According to the Japan Productivity Center, the leisure market in Japan recorded revenue of over 72.9 trillion yen in 2014, up 0.6% from the preceding year. There was a definite uptick in people participating in activities outside the home. Domestic tourism and travel, though down 3.4% in 2014, held the top spot for the fourth consecutive year and remains the single most popular recreational activity. Outside activities that involve walking such as window shopping (+27.4%), going to shopping centers and outlet malls (+20%), and simply taking walks (+16.3%) rose significantly.

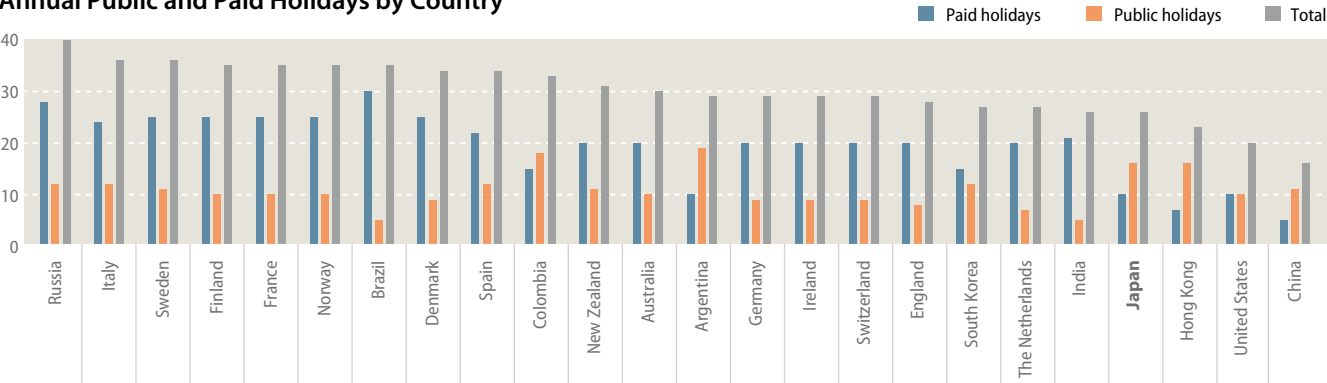
Measures have been proposed by the Abe administration to reduce working hours, and to enable employees to use more of their paid holiday entitlements. Some companies have shifted the standard work timeframe to an earlier start with the aim of

Leisure Activity Participants 2013 and 2014 by Category

Activity Category	2013		2014		Change (%)
	Rank	Participants*	Rank	Participants*	
Domestic tourism/travel	1	55.9	1	54.0	-3.4
Recreational driving	2	46.9	4	48.7	3.8
Dining out	3	44.7	2	50.0	11.8
Reading (excluding work, study)	4	44.4	3	49.9	12.4
Movies	5	37.8	7	40.5	7.1
Shopping centers, outlet malls	6	36.9	6	44.3	20.0
Window shopping	7	35.4	5	45.1	27.4
Zoos, botanical gardens, museums, aquariums	8	35.0	8	36.9	5.4
Karaoke	9	33.6	13	34.0	1.2
Lottery	10	33.3	14	33.4	0.3
Watching videos	11	31.2	10	35.9	15.1
Walking	11	31.2	9	36.3	16.3
Listening to music (excluding live)	13	31.1	12	35.6	14.5
Bathing facilities	14	30.6	11	35.7	16.7
Gardening	15	27.9	15	30.0	7.5
Video games (home-use)	16	25.3	18	26.8	5.9
Musical performances	17	25.1	19	25.6	2.0
Cards, board games	18	25.0	16	29.0	16.0
Visiting hometown	19	22.5	OUT	NA	NA
Digital communication (SNS)	20	22.3	17	27.7	24.2

* Participants in units of millions
Source: Japan Productivity Center White Paper, July 30, 2015.

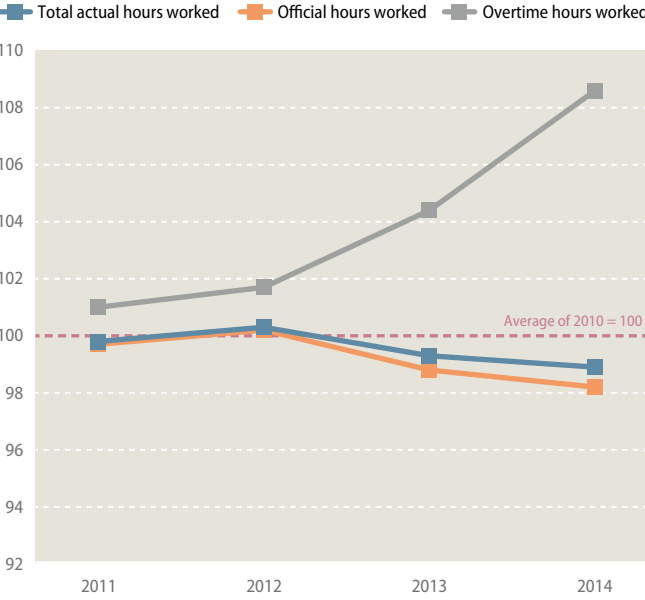
Annual Public and Paid Holidays by Country



Source: Data compiled by Hotels.com (2013).

enabling workers to get out of the office or workplace earlier to spend time on recreation or with family. Over the past couple of years figures show a decided decline in the total number of hours worked though overtime increased. If standard working hours are reduced, even if the total number of hours worked remained the same, the difference would be recorded as overtime, leading to the relative increase. The shift to an earlier work start time is no easy answer to reducing total work hours – Itochu, where the system has actually been implemented, has met with some success – but in many cases the disruption to everyday life and the re-arranging of routines results in a net loss for workers. Yet, despite the fact that many measures are still in the early stage and others have yet to gain traction, Japanese people are increasingly participating in leisure and recreation.

Index of Total Hours Worked 2011-2014



Source: Ministry of Economy, Trade and Industry statistics (October 22, 2015).

All Bets are Off

Legislation to legalize casinos in Japan – proposed in April 2015 – has stalled on a number of occasions, and cannot possibly be resolved within 2015. Casinos as an industry in Japan are believed to have the potential to generate some \$40 billion in revenue annually, and 2022 is now recognized as the earliest realistic target for the opening of the country’s inaugural Vegas-style casinos – slim hopes of introducing the first casino in 2020, the year of the Tokyo Olympics, have all but disappeared.

The Japan Gaming Congress – the second edition of the annual gathering – originally scheduled for October 7 – 9 at the Mandarin Oriental in Tokyo, has been postponed to December or January. The 10th annual Japan IR (Integrated Resort) summit, organized by the Izumizano Rinku International Tourism Promotion Conference toward the promotion of tourism in the Kansai region, did take place as scheduled on October 30. During a panel discussion comprised of members of the IR caucus of the Alliance for the Promotion of International Tourism, Lower House member Hodaka Maruyama noted that due to the 2016 Upper House election, the next ordinary Diet session will not be extended; it will close in June, and so it was crucial for the IR caucus to formulate its strategy to ensure the IR bill is enacted during the next session.

It Takes Balls

There are differing opinions on just how pachinko got its start – it used to be commonly acknowledged that it is a derivative of games such as Corinthian Bagatelle (a horizontal board game with balls and pins or dowels), introduced from the West during Japan’s Taisho period (1912-1926). However it began, pachinko soon became wildly popular, and parlors were frequently seen in the vicinity of train stations. The pachinko industry, which posted record sales of around 31 trillion yen in 1995, by 2013 had contracted to under 19 trillion yen.

Pachinko and pachislot (pachinko slot machines) parlors, coping with an aging population, reduced dispensable income and a generally male demographic, have over the past several years begun beautifying their interiors and creating non-smoking sections with the aim of attracting a broader group of customers, including younger women. They’ve also introduced “1-yen pachinko,” where the cost of a single ball has traditionally been 4 yen, enabling smaller initial investments. More changes are also afoot, however.

Effective November 2, the Tokyo Pachinko and Pachislot Cooperative Association implemented an increase in the price of items for which the customer exchanges balls they’ve accumulated. This will lead to the decline and eventual demise of the practice of “equivalent exchange” in Tokyo. Association

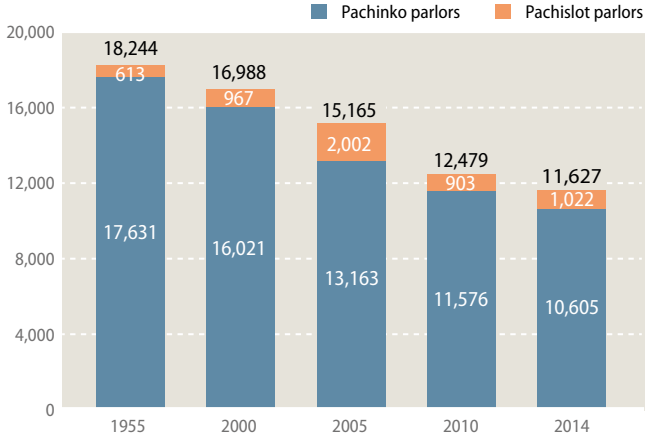


spokesperson Tetsuto Takayanagi said that this measure had been taken in consideration of the future of both players of pachinko and of the parlors.

At most pachinko parlors, the cost of one ball is 4 yen, meaning 250 balls can be purchased for 1,000 yen. After having played, the customer exchanges the balls they’ve managed to collect for a gold-colored token on the premises, then leaves the parlor, taking the token to a location nearby to conduct another exchange, this time for cash. With the price of tokens rising, but no similar increase in the cost to the player of each ball, according to a November 1 Livedoor online article, there will be an estimated 10% decrease in the value of prizes, reducing the allure of winning.

The number of pachinko and pachislot parlors nationwide has declined by about 37% since 1995. “Recently pachinko has been transformed from a recreational activity into a form of ‘gambling,’ says Takayanagi. As the number of players who view it as gambling has grown, many fans of pachinko have stopped visiting the parlors. We reached a point where we had no choice but to take action.”

Number of Pachinko and Pachislot Parlors Nationwide 1995-2014



Source: Data compiled by National Police Agency.

Riding the Wave

From April 2014 through March 2015, the Ministry of Economy, Trade and Industry says that theme parks in Japan racked up total sales of nearly 630 billion yen, an increase of about 7% year-on-year, and the first time this figure has ever exceeded the 600 billion yen mark.

Tokyo Disneyland and DisneySea continue to hold down the top spots – in fiscal 2015, they attracted close to 32 million visitors combined. Oriental Land (4661), operator of the parks, announced in its 2016 Medium-Term Business Plan its intent to invest 500 billion yen in its theme park business over the next decade, with the money allocated primarily to the redevelopment of Fantasyland, upgrading of existing attractions, development of new attractions, and maintenance and upgrading of infrastructure.

Universal Studios Japan (USJ), which ranked second in FY2015 with nearly 13 million visitors – its best figure ever – is also working to enhance the customer experience. In July 2014, it launched a new area called The Wizarding World of Harry Potter, which for its featured attraction – Harry Potter and the Forbidden Journey – employs cutting-edge 4K technology and is available in 3D. Comcast recently committed to the acquisition of a 51% stake in USJ, which had actually been preparing to list but has put that on the back burner. Concerning the acquisition price of 183 billion yen, Fisco analyst Hirozumi Kobayashi said, “They acquired a company with a total market value of 700 billion yen,” saying USJ might have done better to go ahead and list. In FY2015 USJ logged a 44% increase

Theme Park – Ranking by Attendance – FY2015
(April 2014 - March 2015)

	Park	Visitors	Year-on-year
1	Tokyo Disneyland / Disney Sea	31,377,000	100.30%
2	Universal Studios Japan	12,700,000	121.00%
3	Huis Ten Bosch	2,794,000	112.80%
4	Shima Spain Village	1,339,000	94.40%
5	Sanrio Puroland	1,260,000	106.00%

Amusement Parks – Ranking by Attendance – FY2015
(April 2014 - March 2015)

	Park	Visitors	Year-on-year
1	Suzuka Circuit	1,989,000	101.30%
2	Yomiuri Land	1,342,000	108.80%
3	Hirakata Park	1,093,070	114.90%
4	Toshimaen	1,033,561	99.00%
5	Twin Ring Motegi	674,211	110.30%

in sales to 138.5 billion yen, and operating profit jumped to nearly 40 billion yen.

Number three Huis Ten Bosch, visited by close to 3 million people last fiscal year, is owned by major travel firm H.I.S., and over the past several years has implemented fairly large-scale measures to enhance the customer experience. This past summer, it opened Henn Na Hotel (“Strange Hotel”), at which many service positions are filled by humanoid robots. Furthermore, in a clear move to take on competitors Disney and USJ, Huis Ten Bosch has created an animated feature film based on a traditional Japanese story called “Gamba: Gamba to Nakama Tachi” (Gamba and his friends), in the inaugural work of what is reportedly to evolve into an area of business.



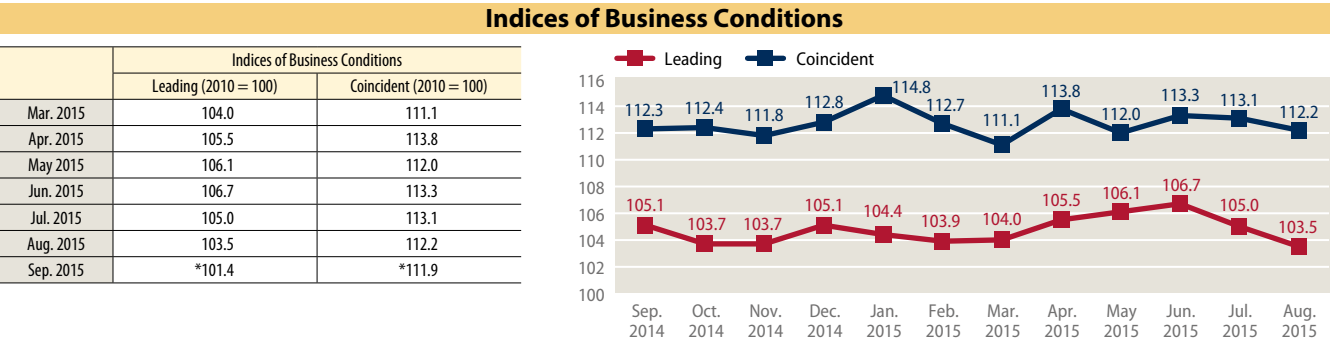
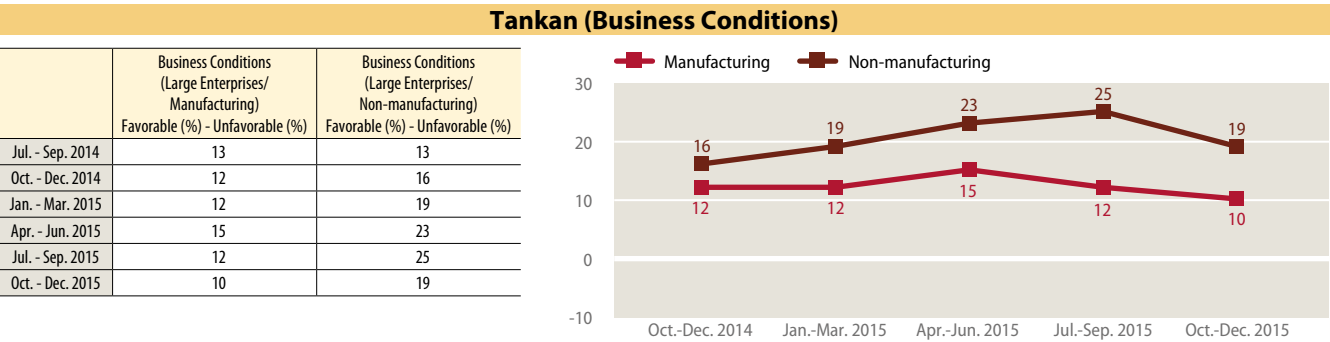
Dashboard on
Japanese Economy
November 2015

Data accurate as of November 13, 2015.

Linking Japan provides regular updates of major Japanese economic indices. Our hope is that this information will adequately convey an overview of Japanese economic trends to our readers. In order to refine and better meet this objective, please provide us with feedback and requests regarding the information posted here. The fiscal year for most Japanese companies runs from April 1 through March 31.

* Indicates provisional figures.
** Data not available at time of publication.

GDP (Gross Domestic Product)				
	Nominal Gross Domestic Product (trillion yen)	Nominal Growth Rate period-on-period (%)	Real Gross Domestic Product (trillion yen)	Real Growth Rate period-on-period (%)
FY2011	474.2	-1.3	514.7	0.4
FY2012	474.6	0.1	519.8	1.0
FY2013	483.1	1.8	530.6	2.1
FY2014	*490.8	*1.6	*525.9	*-0.9
Jan. - Mar. 2015	*499.7	*8.9	*530.5	*4.5
Apr. - Jun. 2015	*499.9	*0.2	*529.0	*-1.2



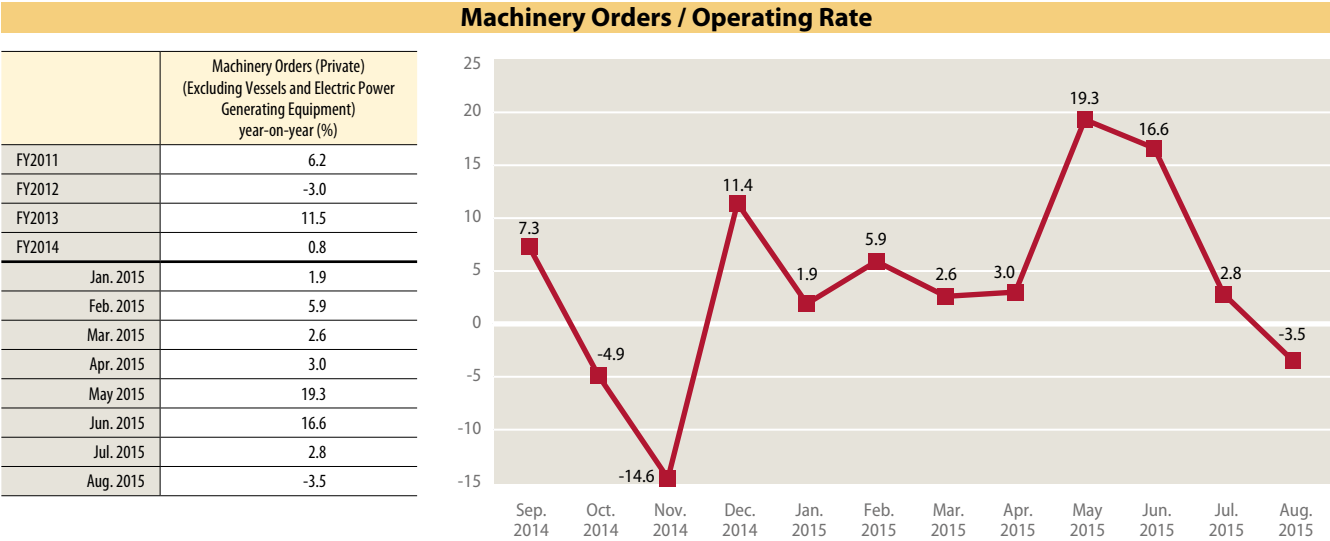
Consumption				
	Consumption Expenditure year-on-year (%)	Retail Sales Value year-on-year (%)	Number of New Cars Sold (thousand)	Department Store Sales year-on-year (%)
Mar. 2015	-10.6	-9.7	69.5	-19.7
Apr. 2015	-1.3	4.9	31.9	13.7
May 2015	4.8	3.0	33.6	6.3
Jun. 2015	-2.0	1.0	44.3	0.4
Jul. 2015	-0.2	1.8	42.5	3.4
Aug. 2015	2.9	0.8	32.7	2.7
Sep. 2015	-0.4	*-0.2	47.9	1.8

Consumption Expenditure: Household with two or more people, change from actual results of previous year.

Number of New Cars Sold: Total of passenger cars, trucks and busses. Includes light motor vehicles. Survey conducted by Japan Automobile Dealers Association and Japan Mini Vehicle Association.

Department Store Sales: Based on existing department stores. Survey conducted by Japan Department Stores Association.

Housing					
	Number of New Housing Construction Starts (thousand units)	Number of Condominiums Sold		Orders Received for Construction Year-on-year (%)	Contracted Amount of Public Works Year-on-year (%)
		Tokyo Metropolitan Area (units)	Kinki Region (units)		
FY2011	841	45,173	20,415	7.1	-0.5
FY2012	893	46,754	24,114	2.4	10.3
FY2013	987	55,245	23,338	20.1	17.7
FY2014	880	44,529	19,840	8.2	-0.3
Jan. 2015	864	1,679	1,314	27.5	-13.7
Feb. 2015	905	2,598	1,905	1.0	2.3
Mar. 2015	920	4,457	2,019	10.8	-12.4
Apr. 2015	913	2,286	1,189	-12.1	4.4
May 2015	911	3,495	1,920	-7.4	-14.0
Jun. 2015	1,033	3,503	1,755	15.4	-1.8
Jul. 2015	914	4,785	1,258	-4.0	-10.1
Aug. 2015	931	2,610	969	-15.6	-1.3
Sep. 2015	900	2,430	1,798	6.7	-10.9



Indices of Industrial Production				
	Shipments		Inventories	
	Change Month-on-month (%)	Change Year-on-year (%)	Change Month-on-month (%)	Change Year-on-year (%)
FY2011	-	-1.5	—	5.2
FY2012	—	-1.8	—	4.5
FY2013	—	2.9	—	-3.4
FY2014	—	-1.1	—	4.1
Jan. 2015	5.5	-2.1	-0.4	5.6
Feb. 2015	-4.4	-2.9	1.1	7.0
Mar. 2015	-0.6	-2.3	0.4	6.2
Apr. 2015	0.6	0.2	0.4	6.6
May 2015	-1.9	-3.2	-0.8	3.9
Jun. 2015	0.6	1.8	1.5	4.0
Jul. 2015	-0.4	-0.8	-0.8	2.7
Aug. 2015	-0.7	0.6	0.3	2.1
Sep. 2015	*1.3	*-1.6	*-0.4	*2.0

Industry			
	Indices of Production Integrated Circuits Year-on-year (%)	Crude Steel Production (thousand tons)	Indices of Tertiary Industry Activity (2010 = 100)
FY2011	-14.0	106,642	100.7
FY2012	-4.0	107,305	102.0
FY2013	7.1	111,524	103.2
FY2014	6.9	109,844	102.1
Jan. 2015	17.5	9,022	103.6
Feb. 2015	12.8	8,441	103.4
Mar. 2015	7.8	9,282	103.0
Apr. 2015	18.1	8,402	103.3
May 2015	10.6	8,918	102.8
Jun. 2015	16.6	8,535	103.2
Jul. 2015	5.7	8,841	*103.2
Aug. 2015	-4.5	8,796	*103.3
Sep. 2015	*0.4	*8,575	**

Monthly data for Indices of Tertiary Industry Activity are seasonally adjusted values.

Unemployment Rate and Active Job Openings-to-Applicants Ratio		
	Unemployment Rate (%)	Active job openings-to-applicants ratio (times)
FY2011	4.5	0.68
FY2012	4.3	0.82
FY2013	3.9	0.97
FY2014	3.5	1.11
Jan. 2015	3.6	1.14
Feb. 2015	3.5	1.15
Mar. 2015	3.4	1.15
Apr. 2015	3.3	1.17
May 2015	3.3	1.19
Jun. 2015	3.4	1.19
Jul. 2015	3.3	1.21
Aug. 2015	3.4	1.23
Sep. 2015	3.4	1.24

Unemployment Rates from March to August 2011 are supplementary estimates including those for three prefectures of Iwate, Miyagi and Fukushima.

Finance				
	Monetary Basis Year-on-year (%)	Total Outstanding Loans of Banks Year-on-year (%)	Domestically Licensed Bank Weighted Average Lending Rate Annual Rate (%)	Newly Issued Government Bond Yields (10 years) Annual Rate (%)
FY2011	14.9	-0.1	1.477	0.985
FY2012	8.7	1.1	1.383	0.560
FY2013	44.0	2.3	1.280	0.640
FY2014	39.3	2.5	1.200	0.400
Jan. 2015	37.4	2.6	1.179	0.275
Feb. 2015	36.7	2.6	1.173	0.330
Mar. 2015	35.2	2.7	1.158	0.400
Apr. 2015	35.2	2.7	1.157	0.340
May 2015	35.6	2.6	1.153	0.390
Jun. 2015	34.2	2.5	1.141	0.455
Jul. 2015	32.8	2.7	1.137	0.410
Aug. 2015	33.3	2.8	1.135	0.380
Sep. 2015	35.1	*2.6	**	0.350
Oct. 2015	32.5	**	**	0.300

Total Outstanding Loans of Banks: Average of outstanding loans.
Newly Issued Government Bond Yields (10 years): Figures as of end of the period. Announced by Japan Bond Trading.

Consumer Price Index			
	Consumer Price Index (general, excluding fresh food)		
	All Japan (2010 = 100)	Month-on-month (%)	Year-on-year (%)
FY2011	99.8	—	0.0
FY2012	99.6	—	-0.2
FY2013	100.4	—	0.8
FY2014	103.2	—	2.8
Jan. 2015	102.6	-0.6	2.2
Feb. 2015	102.5	-0.1	2.0
Mar. 2015	103.0	0.4	2.2
Apr. 2015	103.3	0.3	0.3
May 2015	103.4	0.2	0.1
Jun. 2015	103.4	0.0	0.1
Jul. 2015	103.4	0.0	0.0
Aug. 2015	103.4	0.0	-0.1
Sep. 2015	103.4	0.0	-0.1

Trade			
	Trade and Customs Clearance		Import Price Indices Year-on-year (%)
	Export (billion yen)	Import (billion yen)	
FY2011	65,288.50	69,710.60	7
FY2012	63,940.00	72,097.80	1.7
FY2013	70,856.50	84,612.90	13.5
FY2014	74,670.30	83,814.60	0.2
Jan. 2015	6,143.40	7,317.20	-6.6
Feb. 2015	5,941.40	6,369.90	-10.1
Mar. 2015	6,926.80	6,704.20	-8.2
Apr. 2015	6,550.20	6,609.50	-9.8
May 2015	5,740.30	5,960.90	-8.9
Jun. 2015	6,505.70	6,580.10	-5.9
Jul. 2015	6,663.70	6,934.10	-7.3
Aug. 2015	5,881.80	6,453.30	-9.7
Sep. 2015	6,417.00	*6,532.80	*-15.5

Nikkei Stock Average: Average for the period.
Yen Exchange Rates: Tokyo, interbank, spot trading, average for the period.