

Review of Business Activities

Toward the enhancing IP value and improving profitability

FIELDS CORPORATION aim to enhance IP value and improve profitability, the Group is concentrating investments in a series of IP that are expected to become major products or that can be serialized, and is focusing on the expansion of IP on a domestic and global scale through cooperation with its business partners both in Japan and overseas.



CONTENTS

Consolidated Financial Highlights	28
Business Results Review	29
Business Overview	31
Market Data	36

Consolidated Financial Highlights

6-Year Summary of Key Financial Indicators

Results of Operations (Millions of yen)	FY03/2012		FY03/2013		FY03/2014		FY03/2015		FY03/2016		FY03/2017	
		YoY change (%)		YoY change (%)		YoY change (%)		YoY change (%)		YoY change (%)		YoY change (%)
Net sales	92,195	(11.0)	108,141	17.3	114,904	6.3	99,554	(13.4)	94,476	(5.1)	76,668	(18.8)
Gross profit	31,330	(10.8)	33,279	6.2	33,812	1.6	28,468	(15.8)	25,480	(10.5)	17,641	(30.8)
Gross profit margin (%)	34.0		30.8		29.4		28.6		27.0		23.0	
Operating income	8,527	(35.1)	10,314	21.0	9,791	(5.1)	4,743	(51.6)	1,411*1	(70.4)	(5,374)	-
Operating margin (%)	9.2		9.5		8.5		4.8		1.5		-	
Ordinary income	8,661	(36.7)	10,268	18.6	9,765	(4.9)	5,491	(43.8)	1,380	(74.9)	(9,068)	-
Ordinary margin (%)	9.4		9.5		8.5		5.5		1.5		-	
Net income attributable to owners of parent	5,991	(20.3)	4,720	(21.2)	5,370	13.7	3,018	(43.8)	118	(96.1)	(12,483)	-
Net margin (%)	6.5		4.4		4.7		3.0		0.1		-	

*1 From FY03/16, business contract fee calculation categorization changed.

Financial Position (Millions of yen)	FY03/2012		FY03/2013		FY03/2014		FY03/2015		FY03/2016		FY03/2017	
		YoY change		YoY change		YoY change		YoY change		YoY change		YoY change
Total assets	93,601	14,630	106,628	13,026	104,869	(1,758)	110,316	5,447	92,478	(17,838)	80,397	(12,080)
Total net assets	51,555	4,533	55,098	3,543	58,753	3,654	60,246	1,493	58,291	(1,954)	43,227	(15,064)
Shareholders' equity	51,071	4,291	54,559	3,487	58,279	3,720	59,492	1,212	57,304	(2,188)	42,225	(15,078)
Interest-bearing liabilities	1,662	(172)	1,052	(609)	743	(308)	4,065	3,321	11,423	7,357	15,489	4,066
Cash Flows (Millions of yen)		YoY change		YoY change		YoY change		YoY change		YoY change		YoY change
Cash flows from operating activities	10,015	2,010	13,570	3,554	16,322	2,752	(9,086)	(25,408)	13,353	22,439	(7,319)	(20,673)
Cash flows from investing activities	(4,798)	(441)	(6,263)	(1,465)	(8,018)	(1,754)	(6,297)	1,720	(2,191)	4,106	(3,927)	(1,735)
Cash flows from financing activities	(2,565)	1,349	(2,277)	288	(2,018)	258	1,624	3,643	5,214	3,590	2,136	(3,077)
Free cash flow	5,217	1,568	7,307	2,088	8,303	997	(15,384)	(23,687)	11,162	26,546	(11,246)	(22,408)
Per share data (JPY)*2												
Net income	180.45		142.27		161.83		90.97		3.58		(376.19)	
Total net assets	1,539.04		1,644.15		1,756.27		1,792.83		1,726.88		1,272.48	
Dividends per share	50		50		50		60		50		50	
Key Financial Indicators (%)												
Return on equity (ROE)	12.2		8.9		9.5		5.1		0.2		(25.1)	
Return on assets (ROA)	10		10.3		9.2		5.1		1.4		(10.5)	
Shareholders' equity ratio	54.6		51.2		55.6		53.9		62.0		52.5	

*2 October 1, 2012, a stock split at a ratio of 100 shares for each common share was executed, thus the retroactive calculation takes into account this stock split retroactively.

Business Results Review

Consolidated Business Performance Overview

Business performance in FY03/17 was as follows. In particular, our business results were impacted by regulation in the pachinko and pachislot field and postponement of titles scheduled for launch to the next fiscal year and later.

Results of Operations (Millions of yen)	FY03/2016		FY03/2017		FY03/2018	
	Full-year	YoY change (%)	Full-year	YoY change (%)	Full-year forecast	YoY change (%)
Net sales	94,476	(5.1)	76,668	(18.8)	82,000 – 85,000	7.0 – 10.9
Gross profit	25,480	(10.5)	17,641	(30.8)		
As a percent of sales	27.0%		23.0%			
Operating income	1,411	(70.4)	(5,374)	–	1,000 – 2,000	–
As a percent of sales	1.5%		–			
Ordinary income	1,380	(74.9)	(9,068)	–	0 – 2,000	–
As a percent of sales	1.5%		–			
Net income attributable to owners of parent	118	(96.1)	(12,483)	–	0 – 1,000	–
As a percent of sales	0.1%		–			

Total Assets, Liabilities and Net Assets

Total assets decreased ¥12,080 million from the end of the previous fiscal year to ¥80,397 million. This was due mainly to a decrease in cash and cash equivalents, resulting in an ¥7,077 million decrease in total current assets from the end of the previous fiscal year.

Total liabilities rose ¥2,983 million from the end of the previous fiscal year, to ¥37,170 million. This was mainly due to the decrease in short-term borrowings in current liabilities and the increase in long-term borrowings in fixed liabilities resulting from the implementation of fund procurement in line with business.

Total net assets decrease shrank ¥15,064 million from the end of the previous fiscal year, to ¥43,227 million. This was due mainly to a ¥14,142 million decrease in retained earnings from the end of the previous fiscal year.

(Unit: Millions of yen)

	At March 31, 2016	At March 31, 2017	Increase/Decrease
Total current assets	52,934	45,856	(7,077)
Tangible fixed assets	11,447	10,366	(1,081)
Intangible fixed assets	3,746	2,469	(1,277)
Investments and other assets	24,348	21,705	(2,643)
Investments and other assets	92,478	80,397	(12,080)

	At March 31, 2016	At March 31, 2017	Increase/Decrease
Total current liabilities	29,809	20,475	(9,334)
Total fixed liabilities	4,376	16,694	12,318
Net assets	58,291	43,227	(15,064)
Total liabilities and net assets	92,478	80,397	(12,080)

Cash Flows

Net cash expenditure in operating activities amounted to ¥7,319 million, compared with ¥13,353 million provided by operating activities in the previous fiscal year. This was mainly due to a loss before income taxes and minority interests of ¥10,517 million, an increase in notes and accounts receivable—trade of ¥5,249 million, and an equity method investment loss of ¥3,866 million.

Net cash expenditure in investment activities amounted to ¥3,927 million, compared with ¥2,191 million in the previous fiscal year. This was mainly due to expenditure for loans totaling ¥4,640 million, proceeds from repayments of loans totaling ¥2,037 million, and expenditure for equity investment totaling ¥969 million.

Net cash provided in financing activities amounted to ¥2,136 million, compared with ¥5,214 million provided by financing activities in the previous fiscal year. This was mainly attributable to proceeds from long-term borrowings totaling ¥15,500 million, a decrease in short-term borrowings of ¥11,133 million, and dividends paid totaling ¥1,659 million.

As a result, free cash flows was negative ¥11,246 million.

(Unit: Millions of yen)

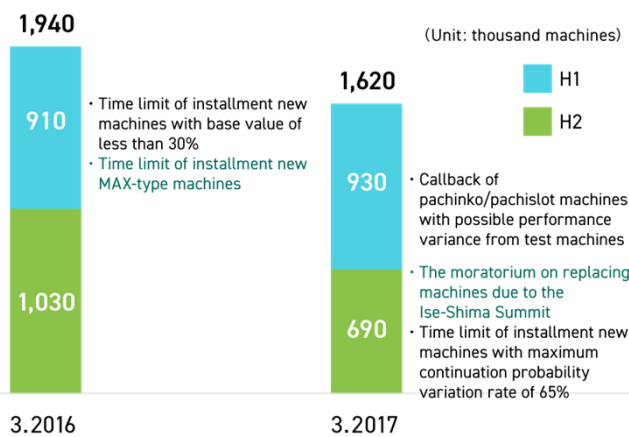
	FY03/2016	FY03/2017	Increase/Decrease
Cash flows from operating activities	13,353	(7,319)	(20,673)
Cash flows from investing activities	(2,191)	(3,927)	(1,735)
Cash flows from financing activities	5,214	2,136	(3,077)

Business Overview

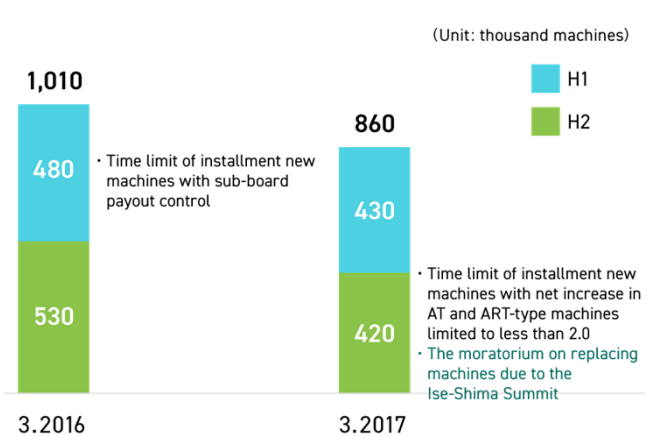
Pachinko and Pachislot

The market for pachinko and pachislot field is continuously shrinking, due to a series of regulations triggered by changes in the model certification test method for pachislot machines in September 2014. In first half of fiscal 2016, the pachinko and pachislot machines market felt the impact of regulations, as well as from the moratorium on replacement of machines during the G7 Ise-Shima Summit in May 2016, and as a consequence, the number of pachinko and pachislot machines sold fell when compared to the same period of the previous year. During the second half of the period, demand for replacement of pachinko machines rose during the October–December period as the December 2016 deadline approached for removing “pachinko machines with possible performance variance from test machines,” and despite the subsequent downturn in demand during the January–March period, the number of machines sold in the pachinko market was steady when compared to the same period of the previous year. With pachislot machines, although there was a certain demand for proven machine series, there is some way to go before the machines on offer fully meet customer needs. Consequently, there was a downward trend in the number of machines sold during the second half of the fiscal year. As a result, total sales of pachinko and pachislot machines in fiscal 2016 were approximately 2.48 million units (*according to the Company), down about 15% from the same period of the previous year.

Number of the pachinko machine sales in PS market



Number of the pachislot machine sales in PS market



*Machines sales in the market: FY03/2016—FY03/2017
*FIELDS' research

In this market environment, we sold 15 titles under 7 brands and strived to expand sales, with a focus on major titles targeting the New Year holiday shopping season, during which demand was expected to increase. 2 of the major titles released in December demonstrated steady sales. Another title released in January was coupled with multimedia expansion, including not only the creation of pachinko and pachislot machines but also visual adaptation, resulting in additional orders being received immediately after their installation. Moreover, the number of machines sold per title continued to exceed the market average, owing mainly to the Group's strength in marketing.

However, orders were sluggish for some of the pachislot titles released in the January–March period due to the effects of a slump in demand. In addition, as stated in the “Notification of Revisions to Performance Forecast,” announced on January 20, 2017, the release of 6 titles, which had been scheduled for this period, was postponed to at least the next period. As a result, the number of pachinko machines sold was 155,000 units (down 6,000 units from the previous year), pachislot machine sales totaled 87,000 units (down 38,000 units), and the total sales volume was 243,000 units (down 45,000 units).

In the future, we will strive to strengthen our distribution base, expand the products we handle based on the Medium-Term Management Plan announced in May 2017, and develop a lineup for stable product supply throughout the year. In addition, we will build a business structure that will not be affected by changes in the market environment, and will focus on providing pachinko and pachislot solutions.

Explanation of Recent Pachinko and Pachislot Market Regulations and Other Developments

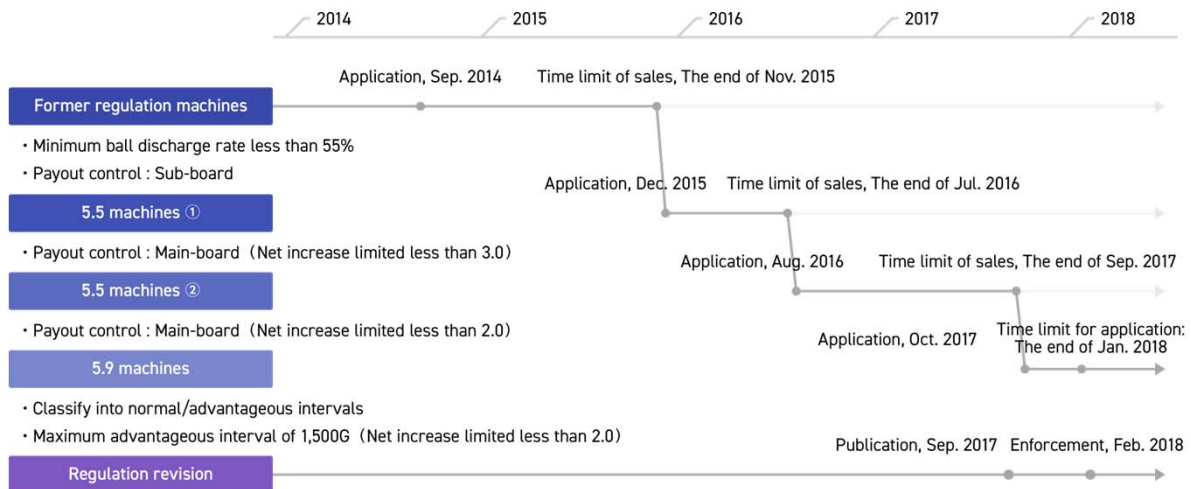
In August 2014, the National Police Agency (NPA) informed industry bodies of partial changes in the model certification test method for pachislot machines. Along with this, several announcements were made by industry bodies pertaining to pachislot machine specifications requiring design reviews in multiple areas. About this time, in March 2015, industrial bodies announced “initiatives to restrict gambling” affecting pachinko machines.

Consequently, with a sales deadline for old standard pachinko and pachislot machines, the market became confused, seeing a sharp decline in test conformance, convergence of sales due to the sales deadline, and a sharp drop in sales immediately following the deadline.

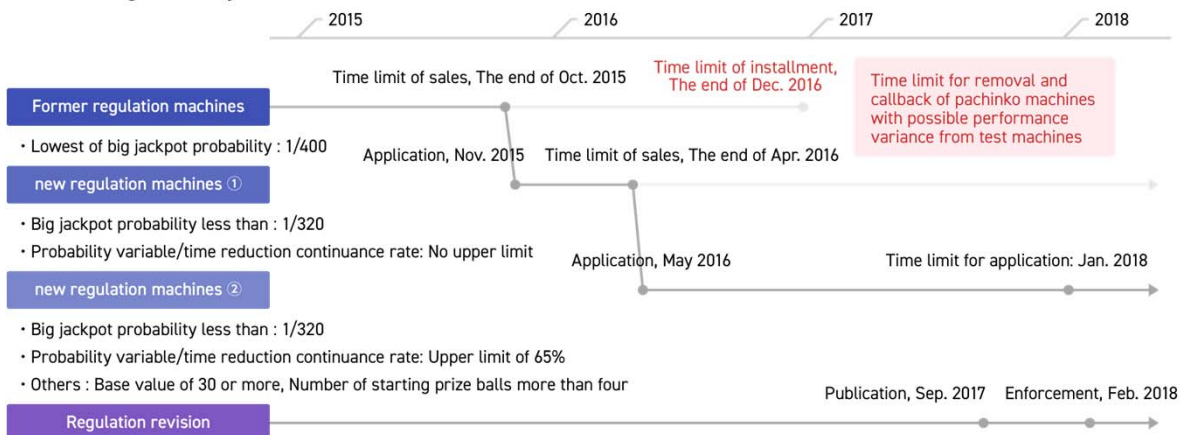
On July 11, 2017 the National Police Agency announced the “Draft Regulation Partially Amending the Ordinance for Enforcement of the Act on Control and Improvement of Amusement Business, etc. and the Regulations for the Verification of Licenses, Formats and Other Aspects of Pachinko and Pachislot Machines,” including pachinko payout regulations. This is expected to come into force on February 1, 2018.

Given these circumstances and future market forecasts, FIELDS intends to build a business foundation that will not be affected by changes in the market environment. Consequently, we are working on various measures such as reinforcing our distribution base, which is our strength, boosting relationships with partner manufacturers, and expanding our handled products. In addition, the FIELDS CORPORATION GROUP is planning to temporarily reduce the speed of investment in private brands.

Pachislot Regulatory Trends



Pachinko Regulatory Trends



Structure of related laws and regulations



Game

In the game field, there was a conspicuous slowdown in growth in the social games market in Japan, caused by increasing competition. Development and operating costs have continued upward due to the increased functionality of smartphones.

In FY03/17, social games titles using leading IP, such as AKB48, continued to contribute to the Group's earnings. Meanwhile, the delay in the release of new titles, termination of service for 3 existing titles, and the suspension of development of some consumer games due to business selection and focus resulted in earnings falling below those of the same period of the previous year.

Title Examples

THE TOWER OF PRINCESS



©FIELDS

AKB48 Stage Fighter



©AKS ©GREE, Inc.

AKB48 Group Official Music Game



©AKS ©S&P






Based on the Medium-Term Management Plan, FIELDS will promote global game development and game content development utilizing overseas game engines, in coordination with domestic and overseas partner companies, starting from IP that can be organized in the medium- to long-term, and we will attempt to monetize them.

Visual

In the visual field, with the rise of new platforms including SVOD (Subscription Video On Demand), it is anticipated that the market will expand remarkably both in Japan and overseas.

In FY03/17, we collaborated with powerful businesses in the entertainment industry and SVOD operators in the United States and other countries in the launch of visuals for seven IP, including the full-3D CG animation GANTZ:O, MAJESTIC PRINCE THE MOVIE, and TV anime ACTIVERAID - Special Public Security Fifth Division Third Mobile Assault Eighth Unit -, and BERSERK. As a result of promoting multiple visual projects, there was an increase in the visual-related amortization expense, plus an increase in production expenses for certain large projects undertaken by affiliates, leading to the recording of a temporary loss.

Major Broadcasts and Releases Works

GANTZ:O	MAJESTIC PRINCE THE MOVIE	ULTRAMAN ORB The Movie	ACTIVERAID – Special Public Security Fifth Division Third Mobile Assault Eighth Unit –	BERSERK
				
©奥浩哉／集英社・「GANTZ:O」製作委員会	©2016 創通・フィールズ／MJP製作委員会	©劇場版ウルトラマンオーブ製作委員会	©2016 創通・フィールズ・フライングドッグ／ACTIVERAID PARTNERS	©KENTAROU MIURA(STUDIO GAGA) HAKUSENSHA/BERSERK PARTNERSHIP

Moving forward, we will develop collaborative productions with United States and Chinese visual distributors and advance global development, based on the Medium-Term Management Plan. In addition, we will promote merchandising in the global market, using visuals as a hook, and utilize digital data of visuals to implement cross-media development such as games, and pachinko and pachislot machines, in conjunction with each business platform.

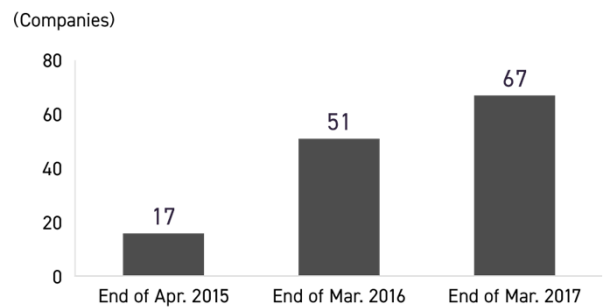
Licensing

In the license field, there has been a flurry of movement across the market to open up new opportunities both in Japan and overseas, such as the new usage of popular characters and licensing such characters in apparel for adults.

In FY03/17, we strengthened collaboration with leading companies in various business fields to expand the scope of the IP business and to establish a new licensing business. In addition, the Group promoted activities to establish partnership mainly in Asia, aiming to find market opportunities overseas. These efforts led to an increase in royalty revenue from the licensing of Ultraman series and other IP compared to the same period of the previous year.

In addition, A Man of Ultra, a conceptual license launched in 2015, won the Japan Brand License Award in June 2016, and we intend to accelerate its expansion further in the future.

A MAN of ULTRA: change in the number of license companies



A MAN of ULTRA



©A MAN of ULTRA ©TSUBURAYA PROD.

TOYOTA86×A MAN of ULTRA
M78×86



©A MAN of ULTRA ©TSUBURAYA PROD.

Pop-up Shops Image



©A MAN of ULTRA ©TSUBURAYA PROD.

Based on the Medium-Term Management Plan, we will make effective use of “Ultraman” IP not only in Japan, but also promoting partnerships with companies in Asia including China, and will also aim to expand license income in various media, such as games and merchandising.

Comic

In the comic field, the e-book market leveraging devices such as smartphones and tablet PCs is expanding steadily through popularization of subscription all-you-can-read services, while the market size for published materials, such as books and magazines, is shrinking.

In FY03/17, we began serialization of 4 new works through HERO'S Monthly comic magazine, bringing the total number of created works to 71. In addition, we have promoted a project for creation of visuals from the hero's IP created in this comic, including TV anime and SVOD services. In October 2016, we began distribution of an official app Comic HERO's. In addition, we promoted diversification of distribution methods in the e-book platform, and developed e-books and books in 11 languages in 24 countries and regions.

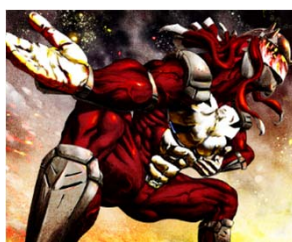
New Series Productions

Iris on the soles of the feet



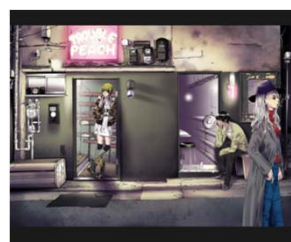
© Kentaro Kurimoto / Saki / HERO'S

CAPTAIN HANZOMON



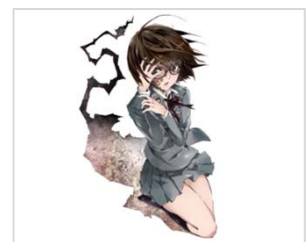
© Hiroyuki Takahashi / HERO'S

KINRYO ROCK



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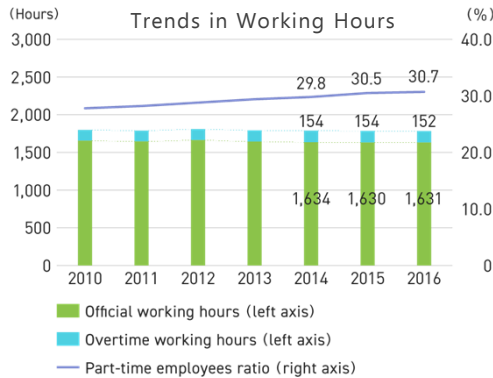
HIMENOSPIA



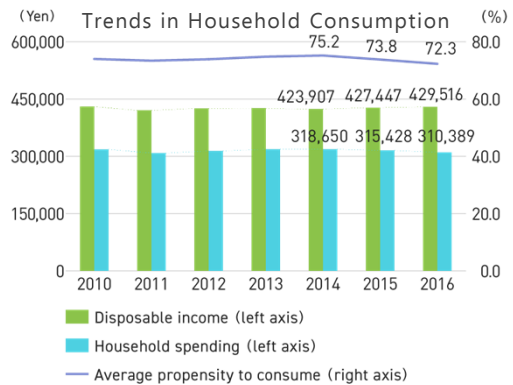
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Market Data

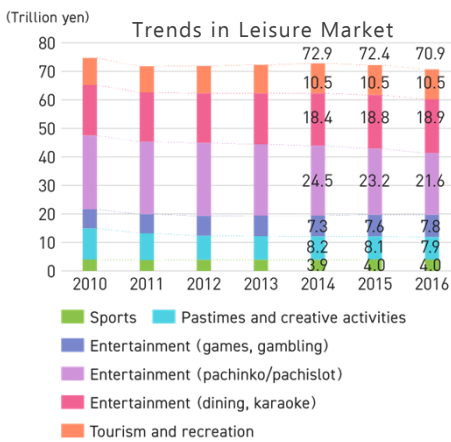
The Environment Surrounding Leisure



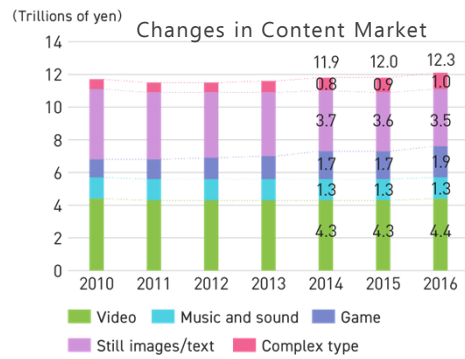
Source: Monthly Labor Survey, Ministry of Health, Labor and Welfare



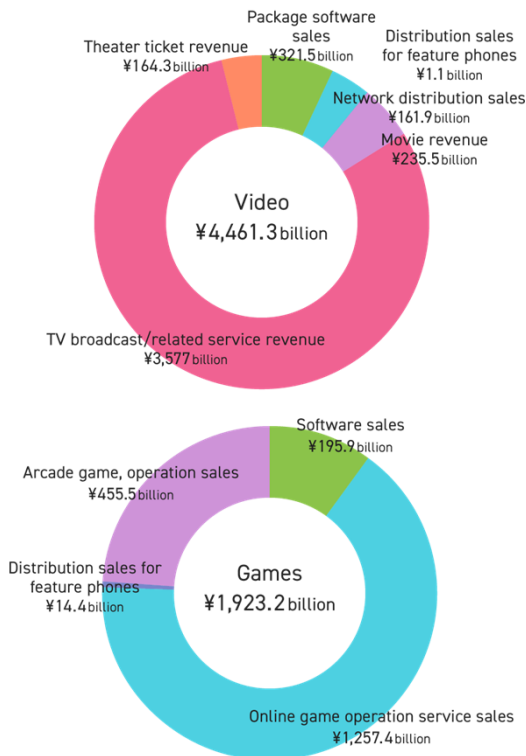
Source: Survey of Household Economy, Ministry of Internal Affairs and Communications



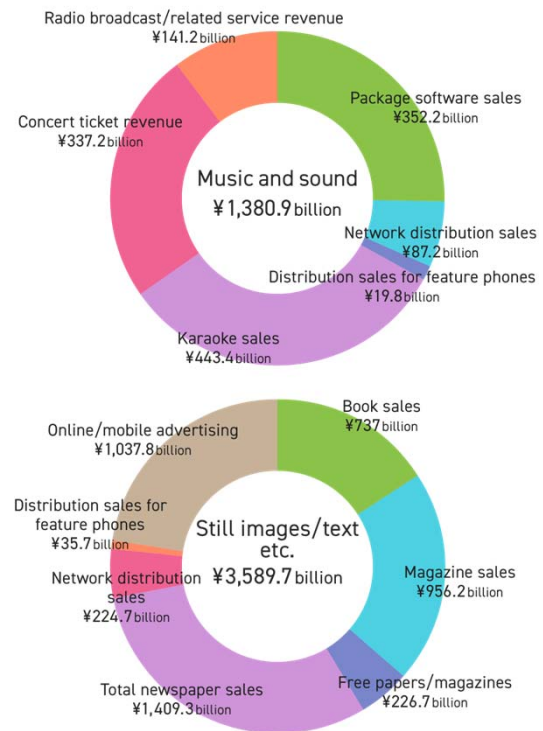
Source: White Paper on Leisure 2017, Japan Productivity Center



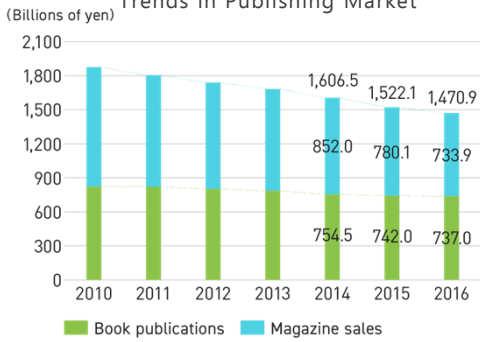
Source: White Paper on Digital Content 2017, Digital Content Association of Japan



Source: White Paper on Digital Content 2017, Digital Content Association of Japan

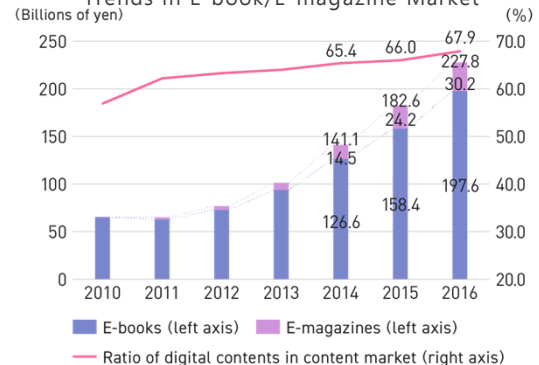


Trends in Publishing Market



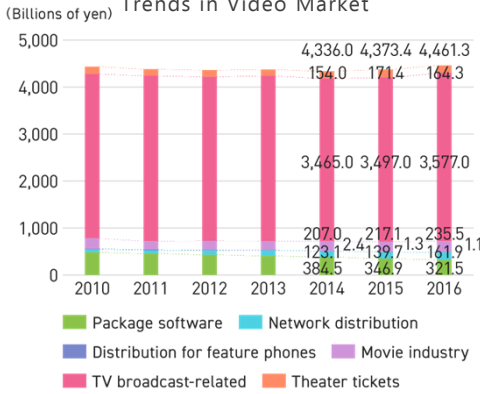
Source: White Paper on Digital Content 2017, Digital Content Association of Japan

Trends in E-book/E-magazine Market



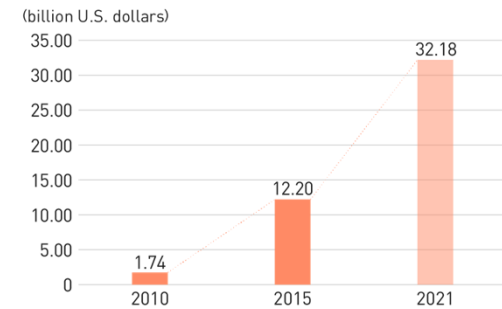
Source: White Paper on Digital Content 2017, Digital Content Association of Japan

Trends in Video Market



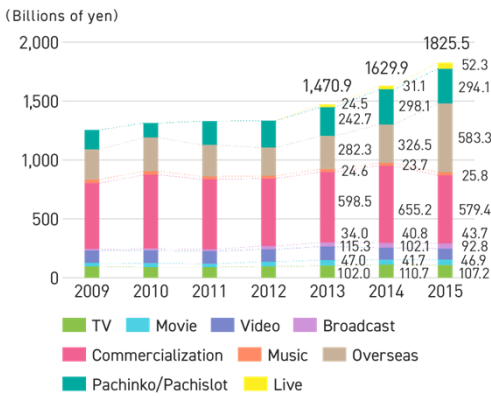
Source: White Paper on Digital Content 2017, published by the Digital Content Association of Japan

Global SVOD Market Forecast



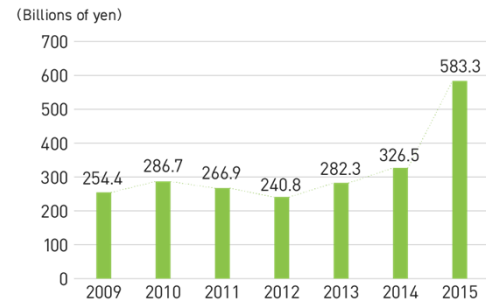
Source: Digital TV Research

Changes in Scale of Animation Industry Market



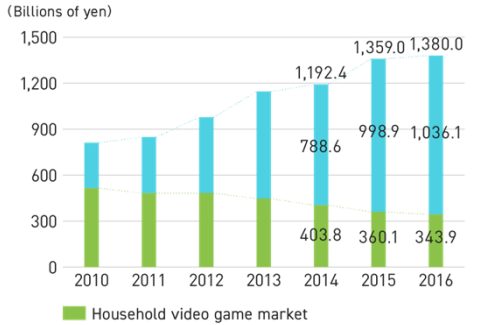
Source: Report on Japanese Animation Industry 2016, Association of Japanese Animation

Overseas Sales for Japanese Animation Industry Market



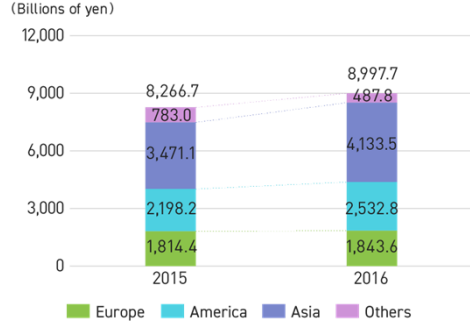
Source: Report on Japanese Animation Industry 2016, Association of Japanese Animation

Changes in Scale of Game Market in Japan



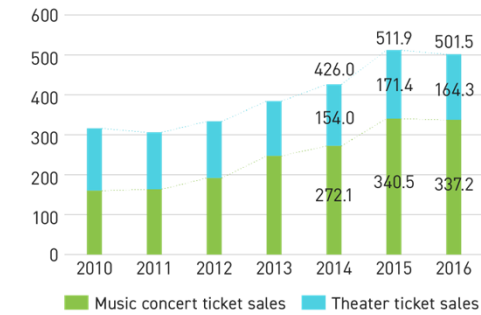
*Numerical values of less than ¥100 million have been rounded down.
Source: White Paper on Famitsu Games 2017, Gzbrain Inc.

Scale of Overseas Game Content Market



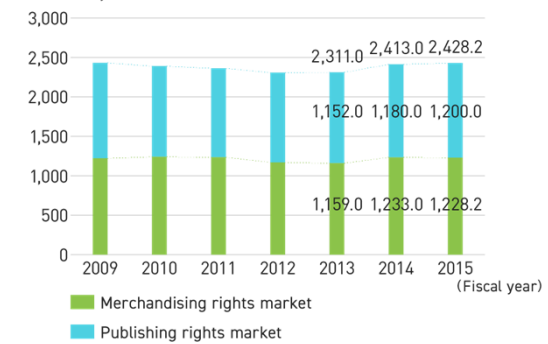
Source: White Paper on Famitsu Games 2017, Gzbrain Inc.

Changes in Live Entertainment Market
(Billions of yen)



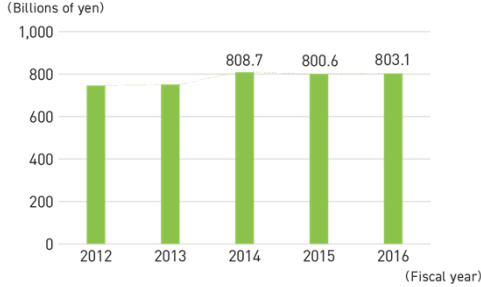
Source: White Paper on Digital Content 2017, published by the Digital Content Association of Japan

Trends in Character Business Market
(Billions of yen)



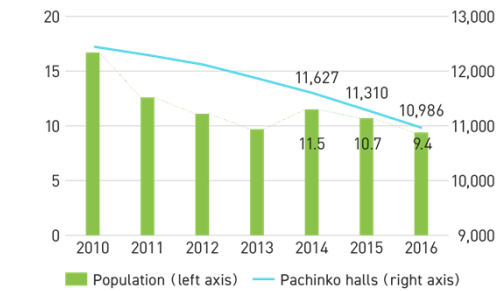
Source: Licensed Character Business in Japan: Key Research Findings 2016, Yano Research Institute, Ltd

Changes in Scale of Toy Market
(Billions of yen)



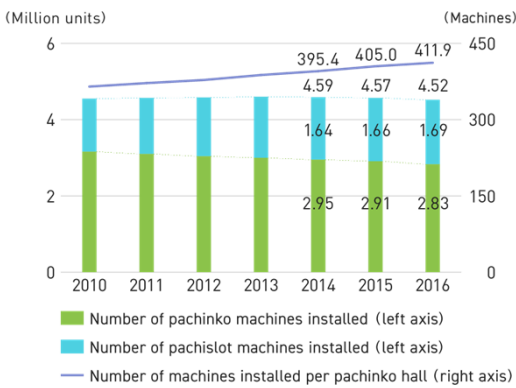
Source: Data released by the Japan Toy Association

Trends in Playing Population/
Changes in Number of Pachinko Halls
(Million people) (Halls)



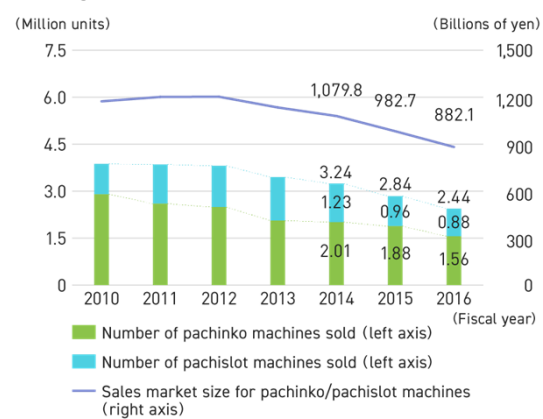
Source: White Paper on Leisure 2017, Japan Productivity Center
2016 White Paper on Adult Entertainment Businesses, National Police Agency

Changes in Number of Pachinko and Pachislot Machine Installations



Source: 2016 White Paper on Adult Entertainment Businesses, National Police Agency

Changes in Pachinko and Pachislot Machine Sales



Source: Pachinko Maker Trends 2017, Yano Research Institute, Ltd