

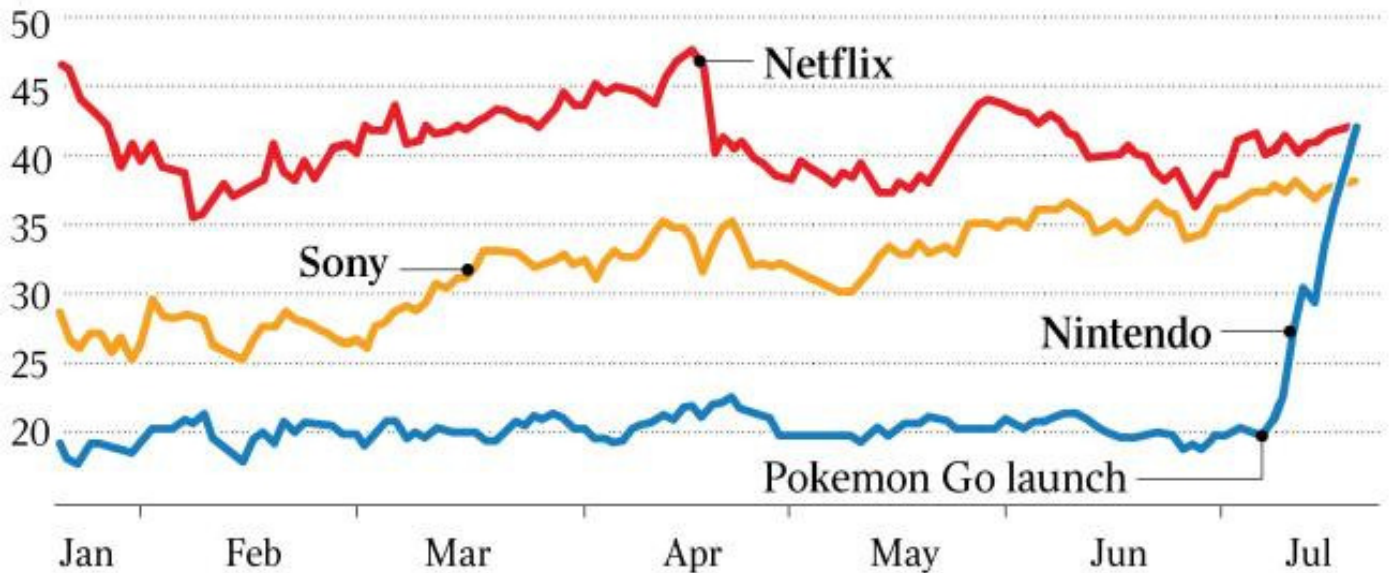
THE AUSTRALIAN

Pokemon Go places Japan Tech on investment map

Market cap milestone

Pokemon craze lifts Nintendo past Sony by value

\$USbn



Source: Bloomberg

Nintendo's Pokemon Go boost.

STIRLING LARKIN THE AUSTRALIAN 12:00AM July 30, 2016

Anyone who has invested in markets — or indeed anyone who has been married — knows that human behaviour is not entirely rational and nothing better could demonstrate this like the current Pokemon Go phenomenon.

Beyond a successful example of augmented reality, or AR, technologies succeeding in the contemporary mainstream, Pokemon Go has raised very timely conversations about what is, will be and could be “Japan Tech”, and digital industry’s future across our societies, but also as a direct investment opportunity for Australian and regional investors.

Passive and even “smart” or enhanced index investing falls short in these times and for those seeking legitimate risk-adjusted returns, concentrated investment positions must be taken — whether they be in “pocket” investment thematics or riskier allocations such as emerging markets.

So this has led many to revisit Japan Tech, given the immediate Pokemon Go boon but also the buoyancy of the “zaibatsu” — the large Japanese conglomerates — who were after all the original players in the “tech boom” first during the early 1960s but then again in the 1980s and beyond.

Specifically on Pokemon Go and Nintendo (7974: JP) it must be remembered that:

- Nintendo only owns a partial stake in the game developer.
- Before any revenue reaches Pokemon Go's producer, Niantic, Apple and Google take a 30 per cent margin of sales.
- In addition, Nintendo only owns a share of the revenues through the game and owns partial stakes in The Pokemon Company and in Niantic. So for Australian investors the challenge is, how do you identify, assess and even access direct Japanese opportunities which are not listed on stockmarkets, distributed via an Australian promoter or financial institution?

According to Hiroaki Yura of Creative Intelligence Arts, an award-winning digital and "Anime" developer: "The world is finally starting to understand what Japan is doing with Intellectual Property."

Yura says Japan "is one of the largest contributors of IP globally and in terms of cashing in on individual IPs. We do that far better than the Americans, with such examples as the Gundam series, Evangelion or Astro Boy."

According to Yura: "Pokemon is one of these IP success stories; it expanded from a little video game, to anime episodes, to licensed products and beyond": Yura ran the most successful crowd-funding campaign for an animated film in history, called *Under the Dog*, raising \$US870,000 for a single 26-minute episode.

The main character designer for Pokemon Go was Yusuke Kozaki, who also worked for *Under the Dog* and now Creative Intelligence Arts Inc.

Before Pokemon Go, marketing was also particularly weak outside of Japan but this is where Creative Intelligence Arts comes into the picture, connecting Japanese digital talent with US, European and Australian markets.

With these barriers to entry and logistic challenges remaining, the astute global investor has remained motivated by the fact that average annualised returns for such "Japan Tech" has: returned 30-200 per cent for video games since 2013; and on tier-one titles, about 50 per cent of all revenues, including licensed products for film franchises, originated in Japan since 2011.

For more mainstream, on-market investment choices, it is expected that Japanese game publishers begin launching console game titles at the 2016 year-end

shopping season.

Major titles due out from Japanese firms include Square Enix's Final Fantasy XV, due for release on September 30, and Sony's Gran Turismo Sport, which is developed in house, available to play in VR mode, and due for release on November 15.

Based on the strength of these product lines and potential earnings contributions, Capcom (9697: JP) and Sony (6758: JP) may be looking at earnings overshoots.

It is expected Sony will start reaping benefits from these titles developed in-house and will return growth to its software profits.

Being "lost in translation" has become a redundant excuse when considering whether to participate in the world's third largest economy and Australia's longest and most robust commercial partner. If Pokemon Go has taught us anything it is to look for hidden treasures in yet unfamiliar places.

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