Japan's social media heavyweights scrap gambling games

Mari Saito, Reuters

(Reuters) - Japan's leading social gaming companies Gree Inc and DeNA Co Ltd said on Wednesday they would gradually phase out games that contain aspects of gambling as they face increased pressure from regulators.

The game under investigation by Japan's Consumer Affairs Agency is called "complete gacha", which charges users around $3 to $4 to turn over virtual cards. Completing a predetermined set of up to seven cards allows subscribers to claim rare cards or other valuable online rewards.

DeNA chief executive Isao Moriyasu told reporters after a scheduled earnings [1] announcement that it had decided to voluntarily halt the games in question, but did not specify how much impact it would have on its earnings.

"We do not know if we can maintain the growth that we have enjoyed to this point (without these games)," said Moriyasu.

"From here on, we need to properly devise products that are acceptable to society that can also maintain growth."

The announcement to halt the games comes after the two firms posted stellar results for the year, outperforming many of Japan's struggling companies. DeNA logged an operating profit of 63.4 billion yen in the year ended March, up 13 percent from the previous year.

Gree, which boasts operating margins of more than 50 percent from selling virtual cards and accessories for online gaming avatars, announced this week a tripling of operating profit in the quarter ended March 31.

Serkan Toto, a Tokyo-based consultant who advises investors on Japan's social gaming industries, said the firms now face a serious long-term challenge.

"It's an earthquake for these firms. It's not only the platform providers that are affected. They will destroy the third-party providers as well," said Toto.

"These companies, especially Gree, are incredibly dependent on 'complete gacha' ... in other words, this super lucrative game mechanism that these companies have enjoyed is now dead."

Shares of Gree have fallen 30.7 percent so far this week, while DeNA has lost 22.3 percent.

(Additional reporting by Reiji Murai and Tim Kelly; Editing by Jeremy Laurence [2])

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