Q1 results for Fiscal Year ending March 2022
Major Questions in Results Briefing for Analysts and Institutional Investors

August 12, 2021
SEGA SAMMY HOLDINGS INC.
IR/SR Department, Corporate Planning Division

(All contents here are the translation of Japanese materials)

■ Date: Friday, August 6, 2021, 13:00-

■ Respondents:

Koichi Fukazawa (Senior Executive Vice President and Group CFO, Director of the Board)

Makoto Takahashi (Senior Vice President, Executive Officer, Managing Director of Corporate Planning Division)

Company-wide

Q: Please tell us the progress against the initial plan for each business quantitatively.

A: In Q1, the Entertainment Contents business and the Pachislot and Pachinko Machines business surpassed expectations, with operating profit of approximately 4.5 billion yen in the Entertainment Contents business and 1.0 billion yen in the Pachislot and Pachinko Machines business, for a total of approximately 6.0 billion yen higher than expected on a consolidated basis. In the Entertainment Contents business, the Consumer and Amusement Machine Sales areas performed well, and despite few sales of new titles, business efficiency improved in the Pachislot and Pachinko Machines business due to structural reforms implemented in the previous fiscal year. In the Consumer area, although sales were weaker compared with Q1 of FY2021/3, which was when repeat sales in NA and EU were strong, compared with Q1 of FY2020/3, it was considerably stronger.

Entertainment Contents Business

Q: Please tell us about the current status of "PHANTASY STAR ONLINE 2 NEW GENESIS" and its forecast.

A: Currently, it is strong in the domestic market compared to the overseas market. Total of domestic and overseas monthly sales have more than tripled compared to level of April and May, which were prior to the update to "PHANTASY STAR ONLINE 2 NEW GENESIS". Going forward, we expect that it continues contributing to earnings.

Q: Which quarter is the volume zone each for repeat sales and new titles in the Consumer area?

A: Regarding repeat sales, Q2 and Q3 are expected to remain at around the same level as Q1.
For new titles, we expect that there will be a volume zone in Q3.

Q: What are the new titles with high expectation in the Consumer area and the timing of their release?

A: Q2: "Sonic Colors: Ultimate," "LOST JUDGMENT," and "HUMANKIND™"

In or after Q3: "Shin Megami Tensei V," "Total War: WARHAMMER III," and "Two Point Campus"

Q: How do you analyze the background of the strong repeat sales?

A: We believe that the overall bottom is rising, as the global gaming market is becoming more active, including the effects of stay-at-home spending. With fewer new titles in FY2021/3, and the significant stay-at-home spending effect of the previous fiscal year having settled, repeat sales in this fiscal year are lower than in FY2021/3, but are expanding compared to FY2020/3. We think it is important how we can create a revenue structure in which that can steadily launch new titles on an ongoing basis each fiscal year and accumulate repeat sales for next fiscal year onward.

Q: Business performance has been volatile in the short term due to the existence or non-existence of major new titles. I would like to hear about plans for the volume and frequency of new title release over the next 3-5 years or so.

A: Our policy for new title release is to focus on how each IPs can be prepared in an optimal manner for each region, including the methods and platforms of delivery, and that they will be rolled out with an emphasis on how they can be broadened globally.

Looking ahead to FY2024/3, which is the final year of our Mid-Term Plan, our main strategy is to expand existing IP assets globally, including remaster, remake, etc. At the same time, we will work on the development of Super Game by FY2026/3, 5 years from now.

Pachislot and Pachinko Machines Business

Q: What is the environment for the Pachislot and Pachinko machines industry and the forecast of the future pipelines?

A: The utilization status of pachinko halls is better compared to when the first declaration of state of emergency was issued last year and has been stable at around 70-80% of the normal utilization level. However, we are not optimistic about the environment surrounding pachinko halls due to the fact that the halls are closing down from small-scale one.

The approval rate of the Security Communications Association has remained at around 20-30%. Although we have obtained the approval to some extent for Pachislot, we need to obtain the approval for the major titles for Pachinko that will be the key in the replacement demand in the future. At present, the risk of components procurement is larger, and there is a possibility that we need to concentrate components for key titles, respond with substitute components, change the title lineup, etc. Although this is a problem of the supply side of the components and difficult for us to predict, we think it is an important management issue.

Resort Business

> Q: Regarding the IR business, what are your plans if the opponents of IR are elected in the Yokohama Mayor's election?

A: As for Yokohama Mayor's election, we can only observe and wait. However, if the new mayor would withdraw the attraction of IR, we would face the reality of losing one of our strategic investment options alongside the Consumer area. In this case, we will not consider immediately withdrawing from the IR business. As we have invested in the IR business for many years, including PARADISE SEGASAMMY in Incheon, we believe that we are the leading company in the IR business in Japan, and we will not give up the opportunity soon. We will need to consider other options such as whether opportunities can be found in other municipalities in Japan.

However, how to use the funds is another story. When we seek other opportunities, the timing of the investment of funds will be late more than the Yokohama IR project. If we follow the financial strategy package which we have already announced, we will need to consider using the funds to control equity to some extent.

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