

(Translation)

Full Year Results for the Fiscal Year ended Mar 2020 -

Major Questions in Internet/Telephone Conference Briefing about Results for Analysts and Institutional Investors

May 28, 2020
SEGA SAMMY HOLDINGS INC.
IR Department,
Finance and Accounting Division

■ Date: May 13, 2020 (Wed) From 13:00

■ Respondents:

Haruki Satomi (President and Group COO (Representative Director) of SEGA SAMMY HOLDINGS INC.)

Koichi Fukazawa (Executive Vice President and Group CFO (Director of the Board) of SEGA SAMMY HOLDINGS INC.)

Pachislot and Pachinko Machines Business

Q: As the acceptance of applications for prototype testing is restricted at Security Communications Association, we would like to ask about the time when applications will return to normal conditions and the impact on sales forecasts from summer FY2021/3 onward.

A: Although the number of reservation of applications at Security Communications Association is decreasing associated with the declaration of state of emergency, it is really appreciated they keep accepting the reservations even in these circumstances at the first place. The restrictions has been continuing since April to May, but when the declaration of state of emergency will be lifted in the future, it is expected that the situation will gradually return to its normal state.

Regarding the impact on sales forecasts, we postponed sales of two machines scheduled for launch in April, but as we also promoting acquisition of approval during the self-restraint period of sales and the product line-up is getting ready, the impact on sales in the short term is considered to be minor.

However, in the future, if approval rate declines around the summer due to an industry-wise concentration in applications, there may be some impacts on sales in the second half of the fiscal year.

Q: Previous regulation machines are scheduled to be removed by the end of January 2021, but I would like to ask about the possibility that deadline of removal will be extended and the possible impact if it will be extended.

A: We expect it is difficult to complete the replacement of all machines by the end of January 2021. As an industry association, a request was submitted after talking not only with pachinko halls but also with manufacturers. On May 14, the National Public Safety Commission announced an extension of the

transitional period by the amendment of enforcement regulations of the Law on Control and Improvement of Amusement and Entertainment Businesses. We believe that replacement at pachinko halls could proceed smoothly if industry association agrees on a phased replacement (voluntary regulation), such as the planned removal of previous regulation machines.

Q: The timing of the launch of "Pachislot Shin Hokuto Muso" has not been decided yet. I would like to ask about inquiries for this title and expectations for contributions to business results.

A: The launch was postponed due to the impact of the spread of COVID-19, but there are concerns that the specs will become older the later the launch date, we would like to sell the product at an appropriate timing after the declaration of state of emergency will be lifted. However, we do not expect unit sales will go at the similar level with "Pachislot Hokuto No Ken Tenshou", which was launched in FY2020/3.

Q: While there are concerns about the risk of a decline in the motivation of pachinko halls to introduce new machines due to the impact of the COVID-19, I would like to ask about forecast of Pachislot and Pachinko machines market after the impact of the COVID-19 will be regained, including anticipation of pachinko machines in response to the new voluntary regulation and removal of previous regulation machines.

A: There are concerns about a decline in the motivation to purchase new machines from pachinko halls that have been suspended their operation in respond to request for self-restraint.

In terms of avoiding the three closeness, no clusters have actually occurred in pachinko halls, and in the first place, high-frequency ventilation through smoking countermeasures and the installation of panels to remove smoking could have resulted to lower the risk of the spread of viruses. However, even after the declaration of the state of emergency is lifted, sales of pachinko halls may decline due to the measure to avoid three closeness, so it is necessary to carefully observe the situation going forward.

Also, due to the impact of the COVID-19, pachislot and pachinko games for PC, and smartphones, such as 777 Town, which are currently operated by our company group, have seen some growth. In these circumstances, we can see many customers who feel the need of pachislot and pachinko as entertainment, and we would like to expect that customers will return to the halls once the halls are resumed their operation, but we need to carefully examine how much of the customers will come back to the halls after the declaration lifted.

With regard to new regulation machines for pachinko, customers and pachinko halls has high expectation for them, so if the hits of new regulation machines emerge, we expect the demand will probably recover.

Entertainment Contents Business

Q: Regarding "Sonic The Hedgehog," although it made the good start, the delay of the publication occurred in some areas. Can we expect it will not go negative at least on a profit basis in total? Or, given the favourable start and reputation, can we expect a major contribution to profit in FY2021/3?

A: As it could have been published in the U.S. in February 14, just before the spread of the COVID-19 became more significant, and the initial sales was very strong. Despite such major impacts as delays in publishing in some regions and early completion of showing at the theatre, it became a hit more than we had expected. We could publish it in the areas where we have planned to publish except Japan and China. In China, since some movies featuring video games have been a big hit, we are expecting the good results for its publication in China and Japan in the future.

In addition, digital distribution began earlier than usual in Europe and the United States and sales are trending very favorably. It has already been offered as one-time purchase and for rent, and is scheduled to be successively released in subscription in the future.

Since production costs and other expenses have already been recouped, subsequent sales will be on the upside. We expect to receive the allocated revenue during FY2021/3. Since this is not simply a licensing-out, but a co-production business with Paramount, we expect certain level of profit from this.

Q: In the amusement area, while Amusement Machine Sales has been struggling in recent years due to the industry structure centered on prize machine, I think the situation is being pushed down further by the suspension of operations and shortened operation time at Amusement Center Operations following the spread of the COVID-19. I would like to ask you about the possibility of strategic changes in the future such as the plan for fundamental structural reform.

A: We recognize that we need to assess the consumption behavior of our customers at after COVID-19 in particular.

At the stores that have resumed operations at the moment, token-operated and video games are performing well, centering with the core customers. Conversely, casual customers who wanted UFO Catcher, etc., who had been the main source of sales, have not yet returned, so the difficult status is continuing. When it returns to normal, we want to carefully assess what kind of market it will be.

In April 2020, SEGA Games and SEGA Interactive were merged, and as new SEGA, it began shifting its Amusement Machine Sales R & D resources to markets where it is growing so we'll proceed this at the first place.

Q: Although growth of sales and expansion of repeat sales has been proceeding steady in Packaged Games, I think there are still issues in terms of profitability. What do you think is the appropriate level of margins at Packaged Games and the way to achieve it?

A: In the overall market, the ratio of digital sales tends to expand, and if the same number of units are sold, incomes will increase even if sales decline. FY2021/3 can be typical case. The titles sold in FY2020/3 will be contributed as repeat sales, and as new titles is small, R&D expenses and advertising expenses will decline, so while sales are likely to decline compared to FY2020/3, incomes are likely to increase. In digital sales, there is no problem in space to sell and sales can be made on a long-tail basis, so we

believe that an increase in the ratio of digital sales will lead to an improvement in profits in the future. In addition, we are progressing the multi-platform roll-out of titles, including the offering of the 'Yakuza' series to Microsoft's 'Xbox Game Pass', and are preparing for the roll-out in new platforms. We would like to aim for a 15% operating income margin solely on Packaged Games area.

Q: You explained that download sales of Packaged Game overseas has been performing well. Can I ask the names of individual titles and regions or countries that are performing well and the differences in the degree between new titles and repeat titles?

A: In new titles, delays in the opening of soccer leagues worldwide could have caused, "Football Manager 2020", the latest title of 'Football Manager' series we launch every year, posted double-digit growth compared to the previous year, which usually grow around 5%. In 'Total War' series, along with sales of "Total War: THREE KINGDOMS", which was launched in FY2020/3, remained strong, sales of all series titles, including catalogues, has been strong. In 'Yakuza' series, sales of past numbering titles have increased along with the sales of "Ryu ga Gotoku 7" (Japanese version of "Yakuza: Like a Dragon".) In 'Persona' series, "PERSONA 5 ROYAL" was launched in Europe and North America on March 31 and achieving record sales. As package sales are restricted, the ratio of digital sales have risen dramatically, and the performance continues to be strong in FY2021/3.

By country, the rate of growth varies from week to week, could be depending on the status of spread of the COVID-19. It has grew first in Italy and Spain, followed by the United Kingdom, France, and the United States.

Q: Regarding "Mario & Sonic at the Olympic Games Tokyo 2020", there was an explanation that sales would rise again during the Olympics periods previously. How will the marketing strategy change with the postponement of Olympics? Can we expect sales to rise again during the postponed Olympic period?

A: Based on the experience of past works, sales tend to grow by advertising it again in the summer of the held year of the event while starting the sales from Holiday in the previous year. I previously explained about this based on this trend. As the Tokyo 2020 Olympics have been postponed, we are considering changing the measures for marketing. At the same time, "Mario & Sonic at the Olympic Games Tokyo 2020" have continued to sell constantly in conjunction with "Olympic Games Tokyo 2020 - The Official Video Game", and repeat sales continue to occur. There has been a positive impacts from strong performance of 'Nintendo Switch' itself and the rising of digital distribution. We are planning to sell them constantly in long span, with steadily selling them as the games for children in holiday this year, and restructure the marketing plan for Olympics next year. As the expenses have already recorded and only advertising expenses will be incurred for this title, we would like to sell the titles steadily and make it contributed to the profits.

Resort Business

Q: You commented that even the status of the spread of the COVID-19 will be in the worst-case scenario in the future, the company would conduct cash flow management to ensure that the company will not fail. However, I would like to ask about the impact on domestic IR initiatives from this, which require massive investment.

A: The worst-case scenario we assume is one in which a second wave occurs worldwide in the winter of this year with the occurrence of a long-term self-restraint due to another declaration of the state of emergency, and a third wave occurs next year. It is believed that both the government and corporates are working to avoid the worst-case scenario in spread of COVID-19, and we also intend to carry out sound cash management. Currently, various operators overseas have suffered enormous damage, and there is the possibility that their project of entry into IR in Japan will be suspended in the future. We intend to continue to take measures such as how to utilize the commitment lines that we currently have secured, how to further expand it as our safety net in the future, and whether to review non-urgent assets.

Other

Q: As for the next mid-term management plan, I would like to hear the significant change you are planning to make and approach to setting KPIs amid uncertainty over business environment to the extent that is possible at this point.

A: The previous mid-term management plan (Road to2020) used operating income margin and ROA as KPIs, but we are considering changing ROA to ROE and operating income to ordinary income based on the opinions of investors and etc. In addition, we are considering to adopt ROIs and ROIC as an important management indicators internally.

Regarding the initial mid-term management plan, which was originally planned to be announced this time, we had set targets that would not be too aggressive and that would be close if we could achieve the plan. However, we postponed the announcement because we needed to carefully assess the extent of impacts from the spread of COVID-19. We believe that a forecast can be established after a few months or so, and we will disclose it as appropriate timing when it becomes possible to make a disclosure with rational estimates.

Q: Regarding the approach to dividends, you have maintained stable dividends despite fluctuations of results in the past, so can we understand that basically you will continue to follow this approach in the future?

The dividend for June was resolved as planned.

The dividend for FY2021/3 will be determined by taking cash flows and other factors into account, including future conditions, toward the announcement of the forecast for FY2021/3 and the next mid-term management plan. If the situation goes the worst-case scenario, as written above, it will be necessary to reconsider the approach to dividends, but we'd like to consider measures including the for cost in order to maintain the dividend as much as possible.

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