

Special Feature: Aiming to Be a Global Leading Contents Provider



Strong ongoing growth expected in the global video games market

Steady growth in the global video games market is ongoing. With the advance of digital distribution platforms enabling delivery of game content to more people around the world, the global market is tagged to reach ¥29 trillion by 2025.

Global Video Game Content Market



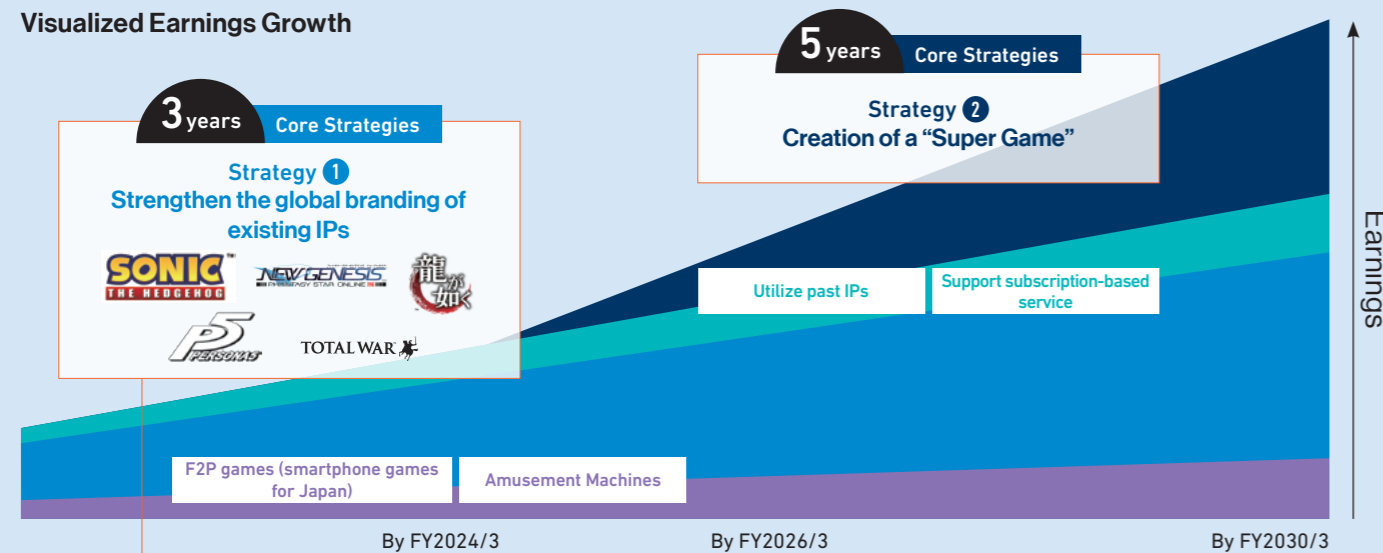
Source: SEGA SAMMY estimates based on data from Newzoo Global Games Market Data (July 2022) (US\$1=¥130)



Key strategies in the medium-term plan

We are moving ahead with two major strategies in the Consumer area of the Entertainment Contents Business. The first is to reinforce existing IPs and build a robust earnings base by the fiscal year ending March 2024. The second is to create a "Super Game" by the fiscal year ending March 2026. Through these two key strategies we will work to further grow earnings.

Visualized Earnings Growth



Growing mainstay IPs into global brands

Image of Brand Expansion		
1 Expanding touchpoints with users <ul style="list-style-type: none"> Strengthening global roll-out Multipatform support Multilingual support 	2 Prolonging product life cycles <ul style="list-style-type: none"> Utilizing IP assets Strengthening digital sales Multichannel monetization 	3 Strengthening user engagement <ul style="list-style-type: none"> Community management Strengthening the mix of media

IP strategy in action

Sonic IP

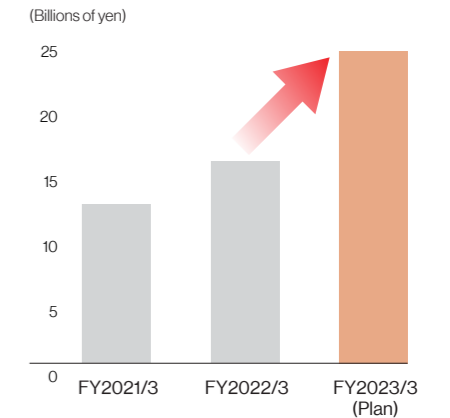


Expanding touchpoints with global audience and continuing to build user engagement

For Sonic IP that stands at the center of SEGA's IP strategy, which continues to grow its popularity in overseas markets, we are strategically developing a global mix of media to expand earnings opportunities. Carrying on the momentum of the *Sonic the Hedgehog 2* global blockbuster movies, we will continue to build a global fan base as we strategically expand our touchpoints actively by creating high-end animation content for a global distribution platform, collaboration with games that enjoy worldwide popularity, and pursuing licensing in various areas, including toys and apparel.

One objective is to deliver a new game to the fast-growing fan base for the Sonic IP, thereby increasing profitability. Following the release of *Sonic Colors: Ultimate* in the fiscal year ended March 2022, we released *Sonic Origins* in the fiscal year ending March 2023 along with the upcoming blockbuster, *Sonic Frontiers*. We are also working on a number of Sonic IP projects for the fiscal year ending March 2024 and beyond. Going forward, we will continue to offer an even more vibrant lineup and increase the value of this IP.

Sales trend of Sonic IP



Where the IP Strategy Is Heading

Strategic development of the mix of media
Global launch of the all-new Netflix animated series, *Sonic Prime*, in 2022

Expanding the fan base on a global level
Partnerships with mega-popular games and their massive audiences: *Minecraft* (June 2021), *ROBLOX* (Started June 2022), *Fall Guys* (Started August 2022)

Expanding touchpoints with users, expanding territories
Animation, Collaborations, Movies, Games, Licensing

Earnings growth
Sonic the Hedgehog 2 followed in the steps of the first Sonic movie in becoming a global box-office hit. Remastered title *Sonic Origins*, New title *Sonic Frontiers*, and Danone Mobile Partnership.

IP strategy in action

Atlus IPs

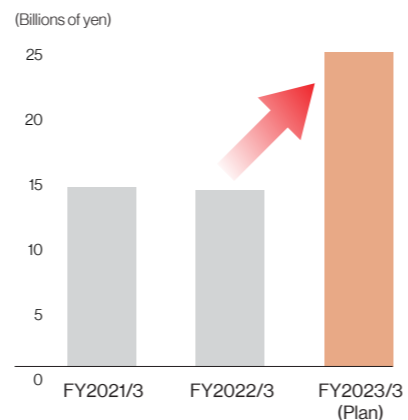
Pursuing global growth of IPs through the full-scale multiplatform deployment of content

ATLUS

Consolidated subsidiary Atlus holds numerous key IPs that have attracted a base of die-hard fans around the world, including the *Persona* and *Shin Megami Tensei* series, and has established its presence in recent years as a developer of highly-rated role-playing games.

The company continues to release new titles: *Shin Megami Tensei V* came out in the fiscal year ending March 2022 to high acclaim, followed in the fiscal year ending March 2023 by *Soul Hackers 2*—the first new title in 25 years for this IP, which first gained popularity as a game for the Sega Saturn console. In the mainstay *Persona* IP, Atlus is starting to strategically remaster past hit titles from the fiscal year ending March 2023, working to further expand the global fan base by actively developing titles for heretofore unsupported platforms.

Sales trend of titles in the *Persona*, *Soul Hackers*, and *Shin Megami Tensei* series



Where the IP Strategy Is Heading

Utilization of a lineup of titles that are highly acclaimed by users

- Remastering, utilization of existing IPs
- Multiplatform deployment

Building a global fan base

• Remastered titles

We will begin the full-fledged release of remastered numbered past titles from the *Persona* series from the fiscal year ending March 2023.



• Utilization of existing IPs

We released *Soul Hackers 2*, the first new title in 25 years for this IP that first gained popularity for the Sega Saturn console.



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• Multiplatform deployment

Measure 1 Expanding touchpoints with users

Measure 2 Prolonging product life cycles

★ In and after FY2023/3 ☆ FY2021/3 ☆ FY2020/3

Title	Original release date	Multiple platforms (selected examples)							Global roll-out, multiple languages		
		Console						PC	Japan	Asia	Europe and America
		PS4	PS5	Xbox One	Xbox S/X	Xbox GamePass	Switch	Steam			
<i>Persona 3 Portable</i>	FY2010/3	★		★	★	★	★	★	★	★	★
<i>Persona 4 Golden</i>	FY2013/3	★		★	★	★	★	★	★	★	★
<i>PERSONA 5 Royal</i>	FY2020/3	★	★	★	★	★	★	★	★	★	★
<i>Soul Hackers 2</i>		★	★	★	★			★	★	★	★

TOP INTERVIEW



Yukio Sugino
President and COO, Representative Director
SEGA CORPORATION



Be a Game Changer

—Serving, inspiring, awakening over 3 billion gamers worldwide—



Shuji Utsumi
Co COO, Director of the Board
SEGA CORPORATION



Tell us what's behind the rapid growth of the Consumer area.

Sugino We set aggressive expansion into global markets as a key thrust of the current medium-term plan. I see our having been able to tap into demand in those markets as a big factor behind this growth. As the weight of global sales in our overall business performance has become more evident in recent years, this is feeding into a burgeoning confidence and general mood within the company that we are capable of competing in markets outside Japan as well. SEGA has put out numerous games over its long history, and I believe this sizable library of titles gave us a leg up in terms of capturing stay-at-home demand during the pandemic.

Utsumi Worldwide, as people curtailed activities outside the home because of COVID-19, this fueled robust demand for games and drove a significant advance in digitalization, which gave incredible momentum to growth in the Consumer business. Meanwhile, major platformers like Google, Amazon, Facebook, Apple, and Microsoft have entered the games industry in earnest, and I think our strategy of building strong relationships with such platformers really paid off. We've been able to build very strong relationships, receiving a range of support including in the area of marketing.



SEGA has gained a reputation for its game development capabilities and the IPs it holds, but this has not always translated directly into earnings. Tell us about the reforms you've made in recent years to address this issue.

Utsumi Throughout its long history, SEGA has created and brought numerous ground-breaking games to the market. We boast a wealth of IP assets. After working at SEGA previously, my career took me into various parts of the entertainment industry. When I eventually came back to SEGA, my first thought was that it was just like Treasure Island.

Unfortunately, we were not able to effectively utilize the many IP assets SEGA holds. So, we took a good, long look at the library, and have begun the strategic remastering and remaking of the promising IPs we identified. In the games industry, the advance of digitalization has driven massive expansion of the market and is

bringing changes to the business model. Now it is possible to connect more people around the world with SEGA's IP. Our strategy for doing this centers on the multiplatform deployment of content and simultaneous worldwide releases. Our previous approach was mainly to release a title on specific platforms in Japan and then go on to deploy the content overseas. Now, advances in the digitalization of distribution have freed us up from time and space constraints, and we're in an era where content can be delivered instantly around the world—giving us a golden opportunity to score big. But that's easier said than done. To get there as fast as possible, we completely revamped our operating



As our track-record overseas becomes more evident, this is giving rise to an atmosphere on the ground that we are capable of competing in global markets as well.

methods, starting on the front lines. For example, to get ready for a simultaneous worldwide release, the development and marketing departments hold online meetings every morning with the studios of our overseas sites, sharing details of plans and progress and making sure everyone is on the same page. We also tweak game content and marketing to address the unique needs of each region. Meanwhile, to ensure a unified look and feel of the world of the game, we've had to make sure our message is shared consistently across all the departments involved. We also had to review the value chain from a global perspective, from planning and development to subsequent commercialization, making drastic changes to the way we work. As we made headway with these efforts, I've sensed a shift toward thinking about how we can gain a following for a game not just by users in Japan but overseas as

well. This is a major contrast to the attitude and atmosphere we saw within the company just a few years ago.

Sugino To add a word about distribution, the global pandemic gave further impetus to the trend of users buying games by means of digital downloads. Digital distribution not only offers freedom from time and space constraints but also has a major advantage in terms of being able to adopt a flexible pricing strategy. Also, in terms of broadening the user base, what is critical is the extent to which we can make inroads into new territories. In particular, we expect progress in digital distribution to play a key role in opening up emerging markets where the conventional distribution network based on brick-and-mortar stores is underdeveloped.

Q What is your thinking about profit margins in the Entertainment Contents Business? How do you plan to manage investments, including in development of a “Super Game”.

Sugino We are keenly aware that maintaining and improving profit margins is a key management issue. Considering that the global video games market is on a sustained growth trend, we are also focusing on growth in net sales. We believe that if we boost our competitiveness on a global level, this will tie in to both higher profit margins and higher net sales. To boost competitiveness, we will press forward with measures including internal organizational reforms, more robust staffing, and steps to foster a culture of embracing challenge.

Utsumi The operating profit margin in the Consumer area has improved significantly—reaching 18.5% for the fiscal year ended March 2022. One distinctive of the Entertainment Contents Business is that profit margins shoot up when we create a hit title. The

key, then, is how to create quality titles and continue to turn out hits. The market shift toward digital distribution will also be a boon for profit margins.

SEGA's profit margins are still relatively low vis-à-vis the competition—but this is another way of saying that we still have ample room to grow. To that end, our first task is strengthening existing IPs. We will capitalize fully on SEGA's strengths: the development capabilities represented by our global studio network, strong brand recognition, and a rich lineup of IPs. Moreover, we will strategically invest in development of a “Super Game” targeting further medium- to long-term growth. The challenges involved are daunting, but we plan to build up a title portfolio while keeping the balance between investment and profitability under careful control.

Holding a rich lineup of globally rolled-out IPs

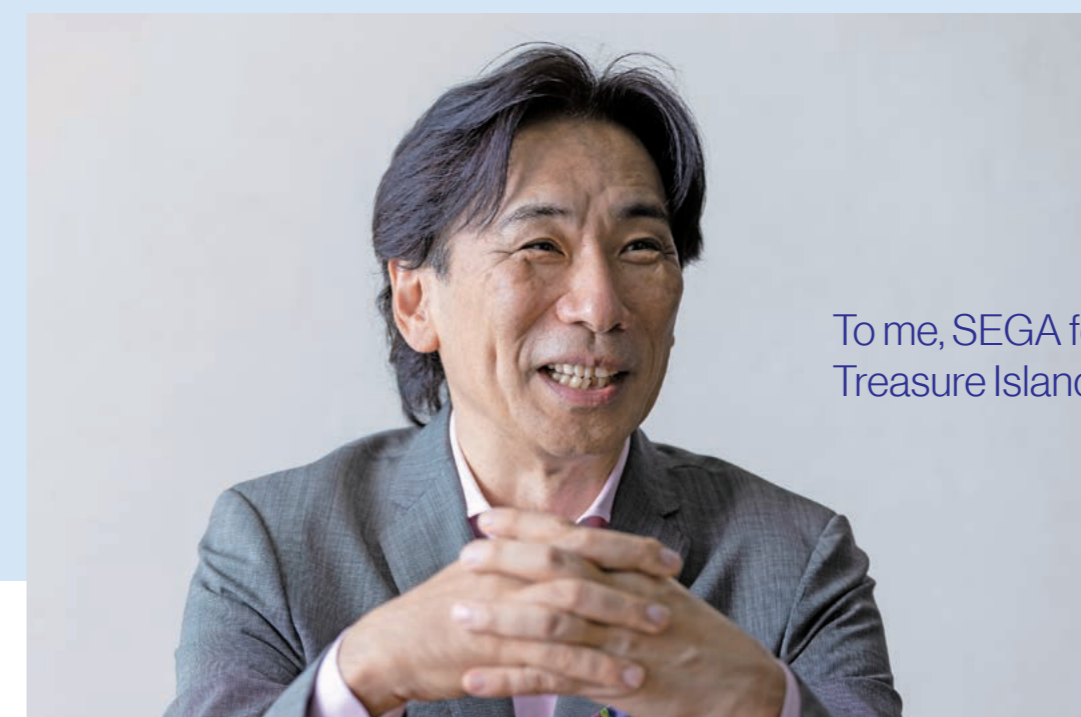
IPs from studios under European supervision	IPs from studios under Japanese supervision
Major past IPs	

Q With the Sonic IP increasing dramatically in value, efforts to monetize this IP are going well. Expanding touchpoints with users and strengthening user engagement will be key to enhancing the value of Sonic and other IPs going forward. What are you doing in this regard?

Utsumi My sense is that the worldwide blockbuster success of the *Sonic* movies was a real breakthrough for the IP. Aside from just the ripple effect on games and other peripheral areas, because we could point to the increased value of the Sonic IP as a result of its box-office performance, we were able to build channels of communication in Hollywood and with other leading media companies overseas. That's quite an achievement. We are currently in discussions with people in Hollywood about IPs other than Sonic, and we're excited about what comes next. As movies, animations, and other media add value to an IP, we are confident this will contribute significantly to earnings from games as well.

around the world, I'm not sure you could find many other IPs that have shown such robust growth. Apart from the Sonic IP, we will also strategically expand touchpoints with users and strengthen user engagement by leveraging SEGA's powerful IP lineup. We are also branching out in new ways to strengthen user engagement: In addition to making use of social media and other channels, we have set up a dedicated video distribution studio, creating an environment that allows direct communication with users. We also manned a SEGA Atlus booth at the Anime Expo 2022 held in Los Angeles in July 2022. We will continue to expand new touchpoints with users, including direct contact with fans, while enhancing the value of our IPs on a global level.

Sugino The Sonic IP has set off a virtuous cycle of expanding touchpoints with users while monetizing the asset. Looking



To me, SEGA feels just like Treasure Island.