

# SEGA SAMMY Management Meeting 2021

2021/12/14

Disclaimer

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# Today's Agenda

Time	Presentation contents	Speaker
16:00 - 16:30	Session 1: Growth strategies of Consumer business	Haruki Satomi Yukio Sugino
16:30 - 17:00	Q&A	
17:00 - 17:20	Session 2: Pachislot & Pachinko Machines business Session 3: Financial strategies	Haruki Satomi Koichi Fukazawa
17:20 - 17:30	Q&A	

# SEGA SAMMY's Initiatives (FY2018/3 to FY2024/3)



	Previous Medium-term plan RT2020 (FY2018/3 to FY2020/3)	Structural Reform Period (FY2021/3)	New Medium-term Plan Beyond The Status Quo (FY2022/3 to FY2024/3)
Target	Operating margin of 15% or more ROA 5% or more		Ordinary income: 45.0 billion yen or more ROE over 10%
Main Measures	<p>&lt; Company-wide &gt;</p> <ul style="list-style-type: none"> <li>■ Consolidation of Group Head Office Functions</li> <li>■ Promotion of Work-Style Reforms</li> </ul> <p>&lt; Entertainment Contents Business &gt;</p> <ul style="list-style-type: none"> <li>■ Creation of global hit titles</li> </ul> <p>&lt; Pachislot and Pachinko Machines Business &gt;</p> <ul style="list-style-type: none"> <li>■ Promotion of reuse</li> <li>■ Improvement of development efficiency</li> </ul>	<p>&lt; Company-wide &gt;</p> <ul style="list-style-type: none"> <li>■ Review of Business Structure</li> <li>■ Reduction of fixed costs</li> <li>■ Sales of non-operating assets                             <ul style="list-style-type: none"> <li>· Real estate, securities, etc.</li> </ul> </li> </ul> <p>&lt; Entertainment Contents Business &gt;</p> <ul style="list-style-type: none"> <li>■ Transfer of amusement facilities operation business</li> <li>■ Focusing resources to Consumer area</li> </ul>	<p>&lt; Company-wide &gt;</p> <ul style="list-style-type: none"> <li>■ Shift to the management focusing on capital efficiency</li> <li>■ Realization of optimal capital structure</li> </ul> <p>&lt; Entertainment Contents Business &gt;</p> <ul style="list-style-type: none"> <li>■ Strengthen the global branding of existing IPs                             <ul style="list-style-type: none"> <li>· Expanding touch points</li> <li>· Prolonging product life cycles</li> <li>· Strengthening user engagement</li> </ul> </li> <li>■ Promote investment toward becoming a global player</li> </ul> <p>&lt; Pachislot and Pachinko Machines Business &gt;</p> <ul style="list-style-type: none"> <li>■ Creation of hits                             <ul style="list-style-type: none"> <li>· Review lineup, create machines from user's perspective</li> </ul> </li> <li>■ Improvement of business efficiency                             <ul style="list-style-type: none"> <li>· Improve development efficiency, cost improvements, etc.</li> </ul> </li> </ul>

-3-

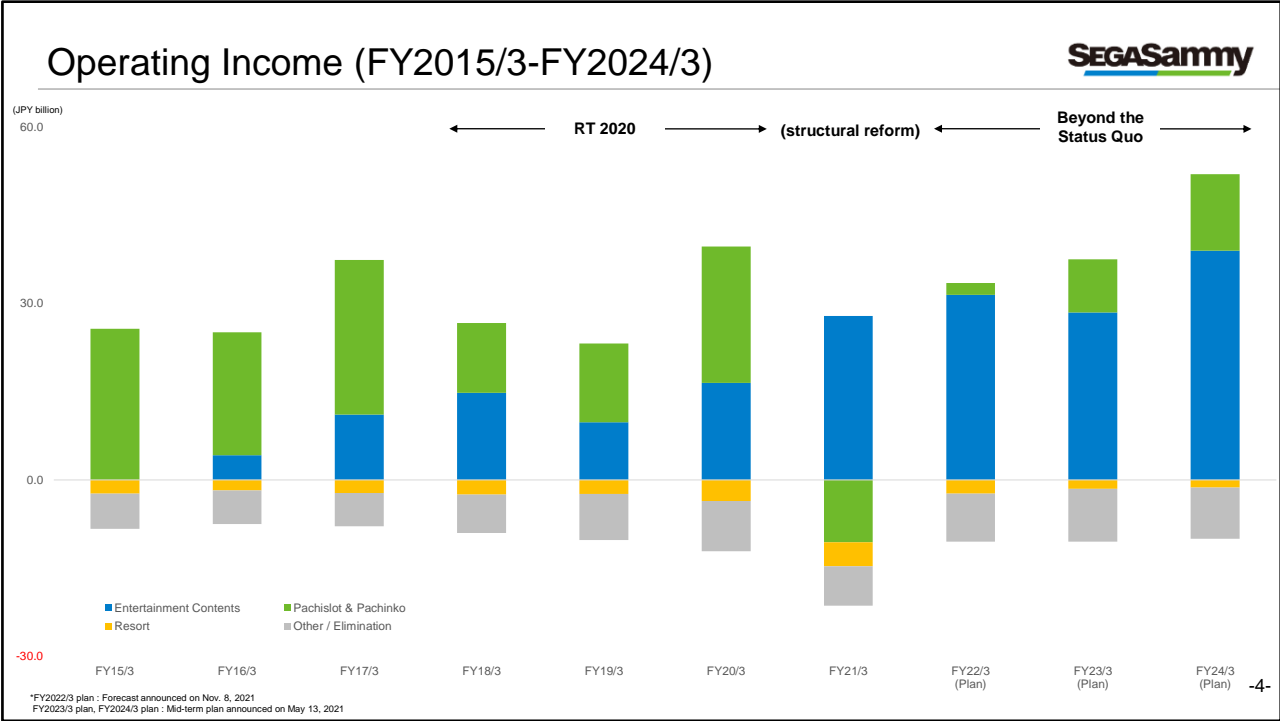
**Speaker:**  
**Haruki Satomi**  
**(President and Group CEO, Representative Director of SEGA SAMMY HOLDINGS INC.)**

Thank you very much for attending today's meeting.

In the Road to 2020, the previous medium-term plan, Sega Sammy Group made a huge transformation.

Also, after the COVID-19 of last year, we have embarked on a rapid structural reform and we had to make very difficult decisions in some cases, but as it turns out, we have been able to become a more muscular and strong corporate group as a result of these efforts.

In the new medium-term plan, under the theme of “Beyond the Status Quo -Breaking the Current Situation and Becoming a Sustainable Company-”, we will implement various management measures so that we can establish the foundation for a dramatic growth for the future.



Please take a look at the trend of the operating profits.

The Entertainment Contents business, which hadn't been able to make profit at the point of FY2015/3, has been growing sustainably.

In Pachinko and Pachislot Machines business, it was largely affected from revision of regulation and shortage of components, etc. recently, but due to the deregulation scheduled for the future, etc. we believe the Pachislot and Pachinko Machines business will also be able to achieve a recovery going forward.

In new medium-term plan, we will make a huge investment in the consumer area of Entertainment Content business, which market is expanding globally, to propel our growth for the future.

Sugino, the president of SEGA CORPORATION will explain the growth strategy for Consumer business in more detail from now onwards.

# Growth Strategies of Consumer Business

**Yukio Sugino**

President and COO (Representative Director)  
of SEGA CORPORATION

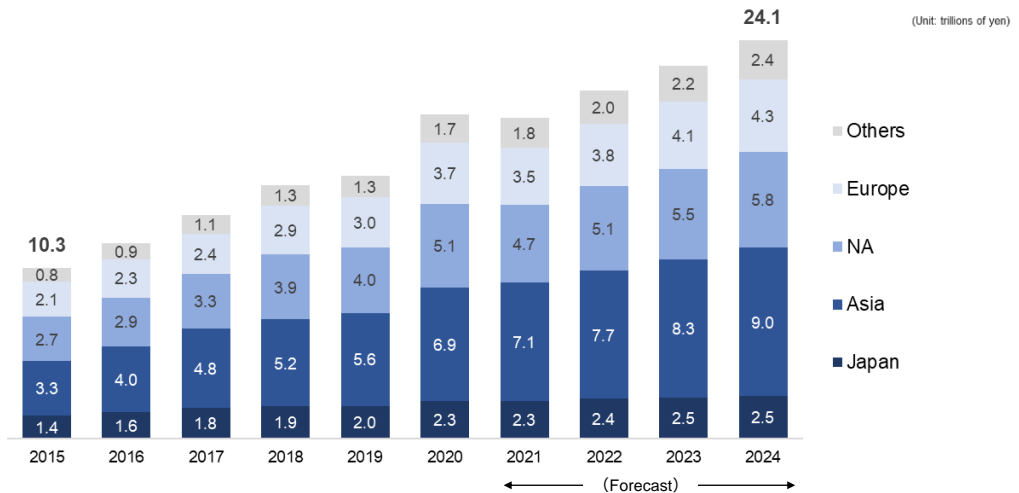
**Speaker:**

**Yukio Sugino (President and COO (Representative Director) of SEGA CORPORATION)**

01

## Market Environment

## Growth of Consumer business continuing globally



\*In-house estimation based on Newzoo Global Games Market Data June 2021 (Exchange rate: 1 USD = ¥110)

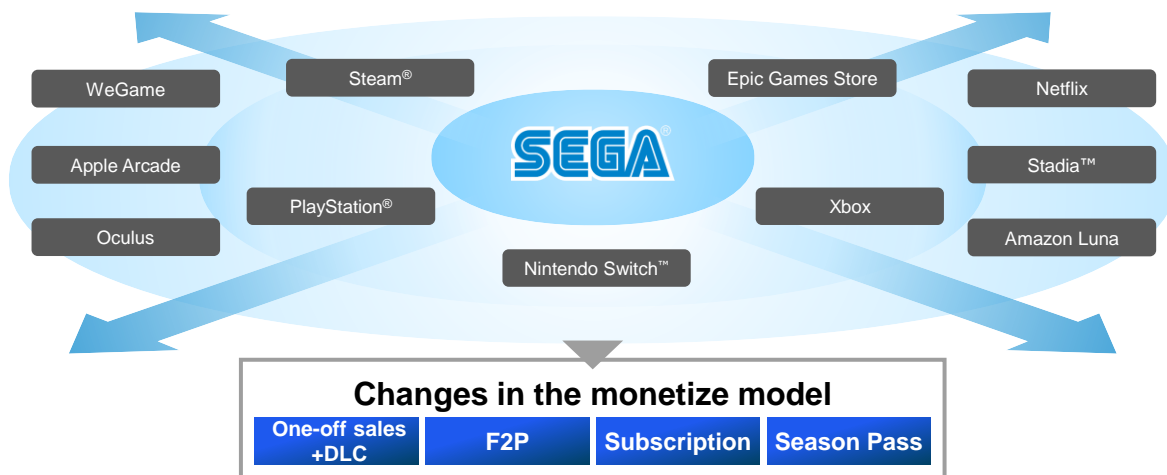
-7-

Now I'm going to talk about the market environment.

The Consumer business's global growth is continuing, and most recently, the market size has grown to 20 trillion yen or so with the strong push of stay-at-home spending due to COVID-19.

This is expected to grow to around 24 trillion yen to 25 trillion yen in 2024 to 2025.

**Barriers between devices and regions disappear,  
points of contact with users increase**



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With targeting such market, in addition to existing platformers like Nintendo, Sony, and Microsoft, more than 10 different platforms you can see in this slide are now already existing including ones at the market entry in the market recently, mainly because the borders between devices and regions are disappearing rapidly.

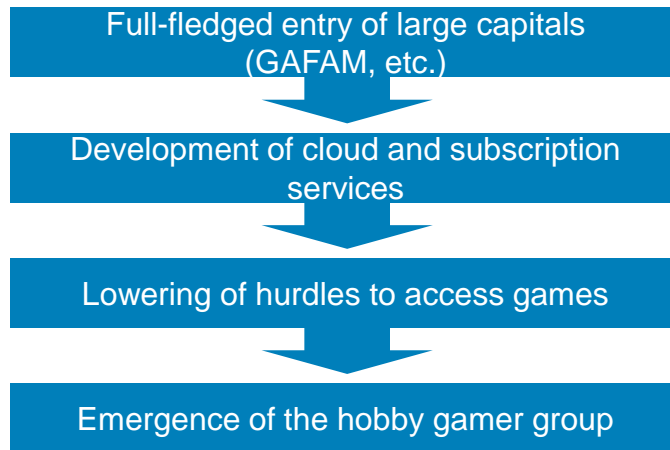
We, too, are exchanging opinions and negotiating with such platformers on a daily basis.

The market is also changing drastically from the perspective of monetization model.

In addition to the one-off sales model, the download content sales, free-to-play, recently emerged model play-to-earn, and various flat rate models, such as subscription, season pass, and battle pass are becoming available.



**Games will become a giant industry with a global reach of 3.0 billion people**



-9-

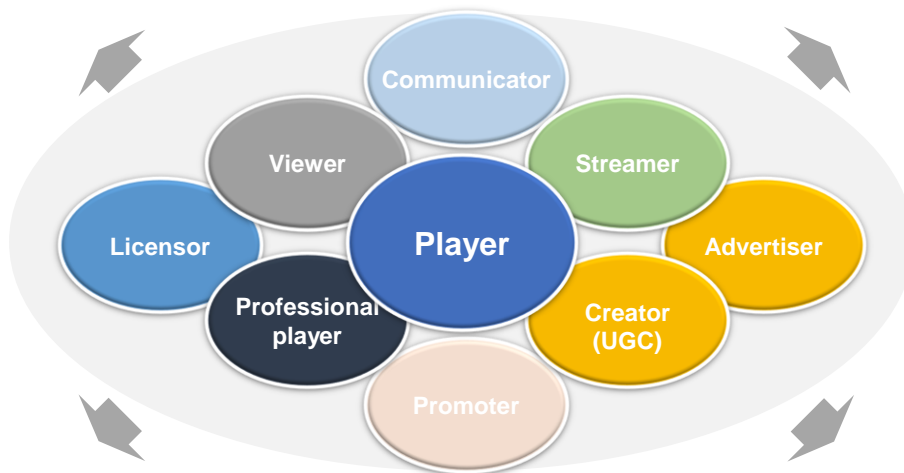
The market expansion continues in such background and game industry is now becoming the scale which reaches 3.0 billion people globally.

Due to the full-fledged entry of mega platformers with large capitals including GAFAM (\*Facebook changed the company name to Meta), etc., huge amount of money, including the infrastructure, is now flowing into the game industry.

As well as the content itself, infrastructure for other cloud and initiatives for subscription businesses, which are the neighboring businesses to them, are proceeding and we feel the hurdles for users to access games is lowering.

“Hobby gamers” is a coined word that we are using ourselves in SEGA and is the image of more casual gamers rather than those people who have a video game console in their living room. Those people who used to play games in the past are coming back to games again because of COVID-19, using smartphones, tablets or PCs, and they are now becoming a significant segment in terms of numbers in global scale.

**Involvement in games becomes diverse and ecosystem is expanding**



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In such environment, the ecosystem is also expanding.

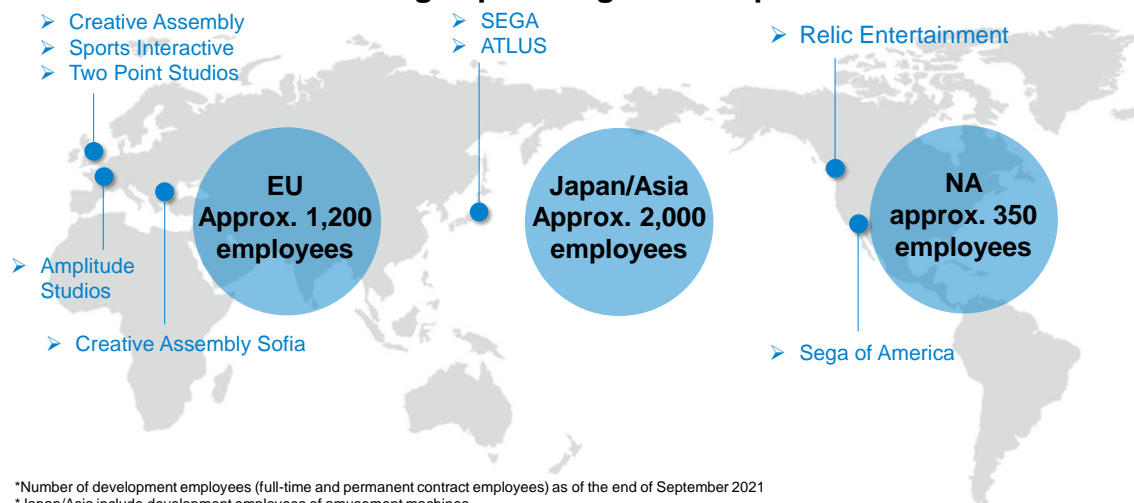
That is because the people who are getting involved in the game industry from various roles are increasing, not limiting to the people who just play the games, such as the people who enjoy viewing the game play rather than playing the game themselves, who provide live broadcasting, who create the character within the game themselves.

Altogether, we estimate that there are about 3.0 billion people who are engaged in games in different formats, so we are constantly discussing that it is important to develop contents being mindful of such people.

02

## Strengths of SEGA

### Holding the largest scale global studio structure among Japanese game companies



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From here, I would like to talk about the internal environment, starting off with the strength of SEGA.

As a Japanese game company, we believe we have the largest global studio structure for R&D. In terms of R&D resource, we have 1,200 people in Europe, 2,000 people in Japan and Asia, and 350 people in North America as full-time employees.

## History of Overseas Studio M&A

	2005	2006	2013	2016	2019
Development studio					
Location	U.K.	U.K.	Canada	France	U.K.
Employees	Approx. 660	Approx. 180	Approx. 280	Approx. 130	Approx. 30
Main IPs				 	
Most recent new titles (plan)			"Age of Empires IV" *Published by Microsoft		

\*Number of development employees (full-time and permanent contract employees) as of the end of September 2021

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I'd like to introduce our overseas studio here. We have a history of expanding through a series of M&A since 2005. The Creative Assembly which we acquired in 2005, it was a company with only around 60 people but now they grown to a scale which have 660 people now. They have Total War series as a major IP, and "Total War: WARHAMMER III", is scheduled to be released this fiscal year.

In 2006, we acquired Sports Interactive which is also an UK studio. This studio has Football Manager, which is a game that manage football team, as a major IP, and released "Football Manager 2022" this fiscal year.

In 2013, we acquired Relic Entertainment in Canada. For the major IPs, they have Company of Heroes series which we announced the new title in the series recently and it is off to a very strong start. They are also working for the contract development of "Age of Empires IV", a major IP for Microsoft.

In 2016, we conducted M&A of Amplitude in France. This year, they have released "HUMANKIND™" which is a new IP. They are good at developing the title in the area called 4X.

In 2019, Two Point Studio in the UK joined the group with M&A. They are a very small-scale studio with a few dozen people, but it is characterized by a very high profitability. The bestselling IP for them is "Two Point Hospital", which is the game set its theme on the simulation of the hospital management and it will release "Two Point Campus" in the future, which is another simulation game that sets its stage in University.

## Rich Lineup of IPs (examples of major IPs)

### Studios under management of Europe



### Studios under management of Japan



### Past IPs

\*Major examples



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IPs are now getting richer in terms of the availability or variety.

I talked about the M&A of overseas studio previously, but in Japan, ATLUS joined SEGA Group in 2013. They are holding IPs such as Persona and Megami Tensei, which have already become global IPs.

Due to the blockbuster popularity of the Sonic movie, the value of our past IPs including Sonic is now reviewed and we are receiving a lot of inquiries for collaboration.

We listed the major examples of past IPs in the slide and we will look into the right approach for roll-out and try to utilize them one after another.

## Example of Overseas Titles (Reference)



- Developer: Amplitude Studios
- Release: August 2021
- Genre: Strategy



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Although I just talked about the overseas title a little, we don't have opportunity to talk about them so much usually, so I want to introduce them with showing some graphics.

This is the title called "HUMANKIND™". This is very well received and actually, we have won several awards.

## Example of Overseas Titles (Reference)



- Developer: Creative Assembly
- Release: February 2022
- Genre: Real Time Strategy



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This is “Total War: WARHAMMER III”. This will be released on February next year, as the third of the series.



# COMPANY OF HEROES 3

- Developer: Relic Entertainment
- Release: 2022
- Genre: Real Time Strategy



©SEGA, Developed by Relic Entertainment.

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This is “Company of Heroes 3”.

This will be released next year. There is the system called “wishlist”, which people who are interested in this game will pick in Steam. The “wishlist” of this title recorded the great numbers which is similar to the top titles of SEGA’s past title, so I think we are looking at very good signs for this title.



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<https://www.totalwarbattles.com/warhammer/>

Please watch the video

Each studio has already started collaborations with many different companies on a global scale.

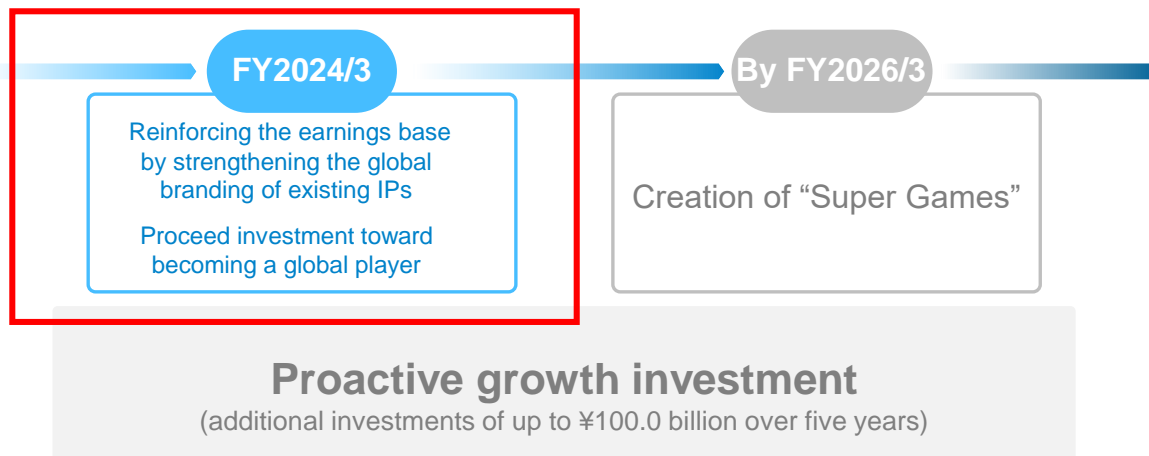
As an example of those, I'd like to introduce "Total War Battles: WARHAMMER" which is planning to roll out globally for smartphone with collaborated with NetEase of China.

I think it is a very high-quality title.

03

## Medium-term Plan (By FY2024/3)

## Becoming a Global Leading Contents Provider



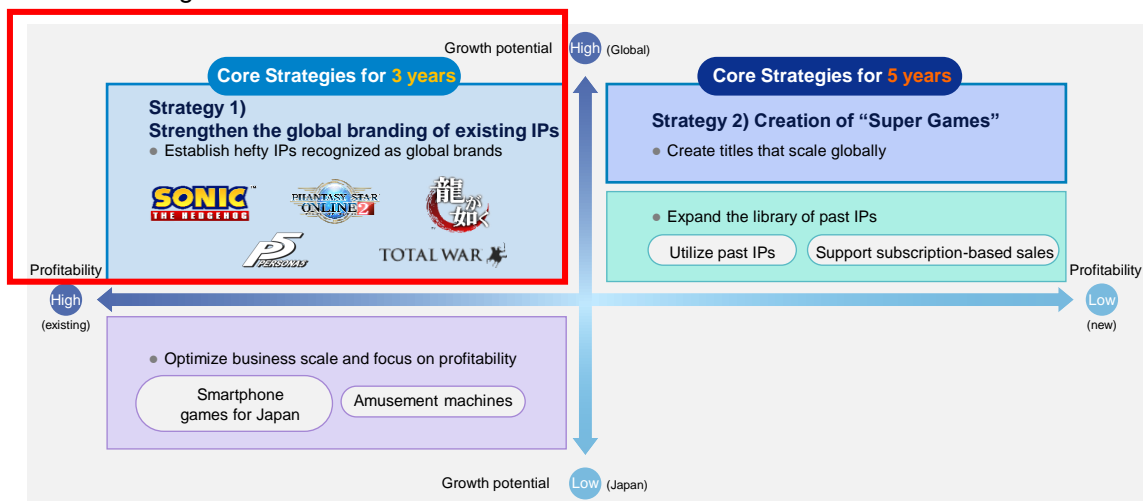
-20-

Now I'd like to move on to our medium-term plan.

First of all, about our target to become a global leading contents provider, although we are talking about creation of Super Games, for the first 3 years, we would like to focus on growing the existing IPs so that they can steadily generate earnings.

In this endeavor, including Super Games, we are planning for additional investment of up to 100.0 billion yen scale for the next 5 years as the proactive growth investment.

## 【Core Strategies】



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As for our strategy portfolio, I'd like to explain about core strategies for 3 years at the upper left.

We'd like to grow each major existing IPs here with a target of 20.0 billion yen in annual sales as a benchmark.

## Growing mainstay IPs into global brands

**1**

### Expanding touch points with users

- Strengthening global roll-out
- Multiplatform support
- Multilingual support

**2**

### Prolonging product life cycles

- Utilizing IP assets
- Strengthening digital sales
- Multichannel monetization

**3**

### Strengthening user engagement

- Community management
- Strengthening the mix of media

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Specifically, we are setting the following as the tactical pillars to rollout and grow them; “Expanding our touch points with users”, “Prolonging product life cycle”, and “Strengthening user engagement”.

The approach will be different by IP, but the core tactics will be based on these three pillars moving forward. For SONIC, Yakuza series and Total War, we will talk about them later.

Regarding IP other than them, for Phantasy Online 2, we have been able to release it globally and we are trying out many different elements, a little similar to Metaverse like holding live events inside the game, so that we can reach out to a broader audience going forward.

For Persona, we are proceeding the media mix roll-out, and live and animations are drawing a lot of great reviews. We would like to increase our revenue by creating various touchpoints and enhancing user community.

04

## Growth Strategy for IPs



(Yakuza series in the West)





## Expansion of touch points with users

- Strengthening global roll-out
  - Multiplatform support
  - Multilingual support



- Simultaneous Global Launch/Multiplatform Support  
⇒ “Lost Judgment” (Released in September)

## Prolonging product life cycles

- Utilizing IP assets
- Strengthening digital sales
- Multichannel monetization



- Spin-Off/Change of motif  
⇒ “Ryu ga Gotoku: Kenzan!”,  
“Ryu ga Gotoku: Ishin”,  
Judgment series, etc.
- Remake/Remaster ⇒ “Yakuza: Kiwami”
- Support of subscription service (Xbox Game Pass)

## Strengthening user engagement

- Community management
- Strengthening the mix of media



- Strengthening digital marketing

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I’d like to explain about the growth strategy for IPs with specific examples.

First, for expansion of touch points with users for Ryu ga Gotoku (Yakuza for Western market) IP, we have been increasing touch points by progressively promoting global, multi-platform and multilingual support.

We have also been prolonging the product life cycle by releasing PC version for Steam, etc. and supporting subscription business from the perspective of strengthening digital sales.

Also, while using the same engine, we released spin off titles and the titles with using different motifs, such as “Ryu ga Gotoku: Ishin”, which incorporating the look and feel of historical drama and JUDGMENT series which starring Takuya Kimura as a main character.

And for user engagement, we have been strengthening the digital marketing.



## Multiplatform support (support PC)

(FY2019/3~)



**Unit sales of PC version  
2.80 million units**

## Simultaneous Global Launch

(FY2022/3)



**Initial speed of sales in  
Europe and North America  
+76% compared to the  
previous title in the series\***

\*Previous title in the series = "Judgment"

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Due to the expansion of reach to users, as we started the support of PC platform with this series from FY2019/3, we recorded quite strong sales result with unit sales of approximately 2.80 million units worldwide.

As for "LOST JUDGMENT", although the overseas version was launched behind Japanese version in previous series, we have done a simultaneous global launch this time. This resulted in 76% increase of initial sales in Western regions.

## Image of Strategic Roll-out



SEGA Sammy

Before FY2017/3

FY2018/3

FY2019/3

FY2020/3

FY2021/3

FY2022/3

### Strategy 1) Expansion of touch points

		Titles	Original release date (FY)	Multi-platform (The information shown is an example)								
				Console					PC	Global expansion/Multi-language		
				PS4	PS5	Xbox One	Xbox S/X	Xbox Game Pass	Steam	Japan	Asia	NA/EU
Strategy 2) Prolonging the product life cycle Utilization of IP assets (Remaster/Remake)	Remake	Yakuza Kiwami	2006/3	✓	✓	✓	✓	✓	✓	✓	✓	✓
	Remake	Yakuza Kiwami 2	2007/3	✓	✓	✓	✓	✓	✓	✓	✓	✓
	Remaster	Yakuza 3	2009/3	✓	✓	✓	✓	✓	✓	✓	✓	✓
	Remaster	Yakuza 4	2010/3	✓	✓	✓	✓	✓	✓	✓	✓	✓
	Remaster	Yakuza 5	2013/3	✓	✓	✓	✓	✓	✓	✓	✓	✓
		Yakuza 0	2015/3	✓	✓	✓	✓	✓	✓	✓	✓	✓
		Yakuza 6: The Song of Life	2017/3	✓	✓	✓	✓	✓	✓	✓	✓	✓
	Remaster	Judgment	2019/3	✓	✓		✓			✓	✓	✓
		Yakuza: Like a Dragon	2020/3	✓	✓	✓	✓	✓	✓	✓	✓	✓
		Lost Judgment	2022/3	✓	✓	✓	✓			✓	✓	✓

\*PS5 includes compatibility with PS4, Xbox S/X includes compatibility with Xbox Game Pass

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This is the image of strategic roll-out. The horizontal axis shows the platform, the vertical axis shows the title, and the regions are written in right end.

You can see this matrix has been filled in by progressively expanding the region first and then the platform.

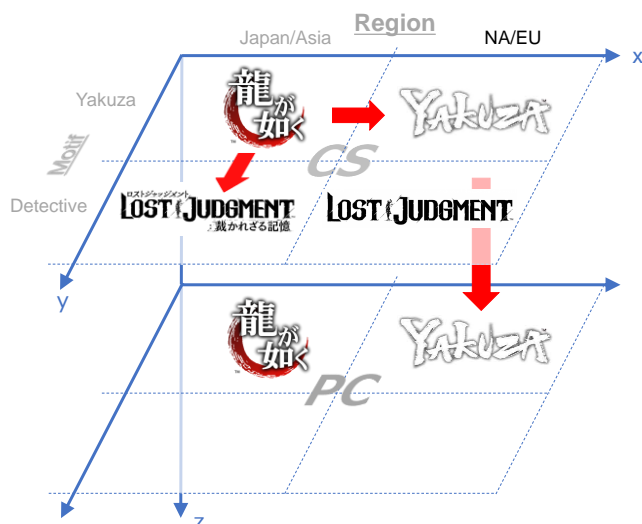
Also, it is notable that we have been able to steadily generate high profit in each area.

## Image of Strategic Roll-out

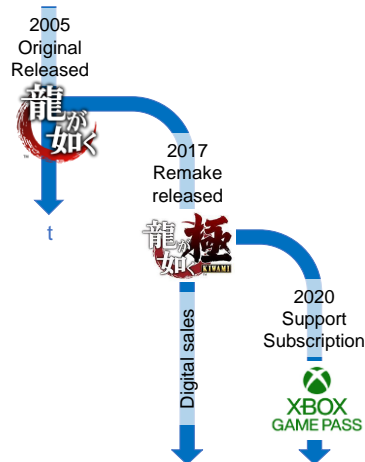


SEGA Sammy

### Expansion of touch points with users



### Prolonging product life cycles



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In addition, in this document, we presented motifs on the Y-axis, regions on the X-axis, and platforms on the Z-axis. By expanding to the PC platform, I think we have increased the touch points considerably.

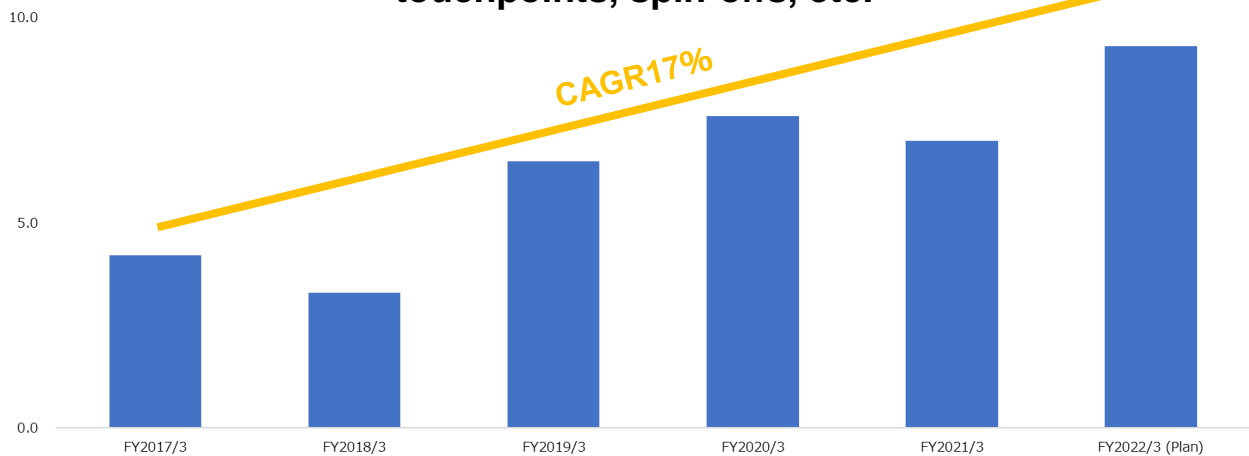
By releasing Yakuza: Kiwami, which is a remake series, we were able to recall the history of the series and also able to reach many more users. In addition, by selling them digitally, with the push of stay-at-home spending as well, I believe that the sales figures have increased considerably.

Further, with the subscription, we offered it to the Xbox Game Pass, and also by using the same engine as a base for titles such as "LOST JUDGMENT", I think we have been able to add more depth as an IP.



(Unit: billion yen)

**Sales has been growing through expansion of touchpoints, spin-offs, etc.**



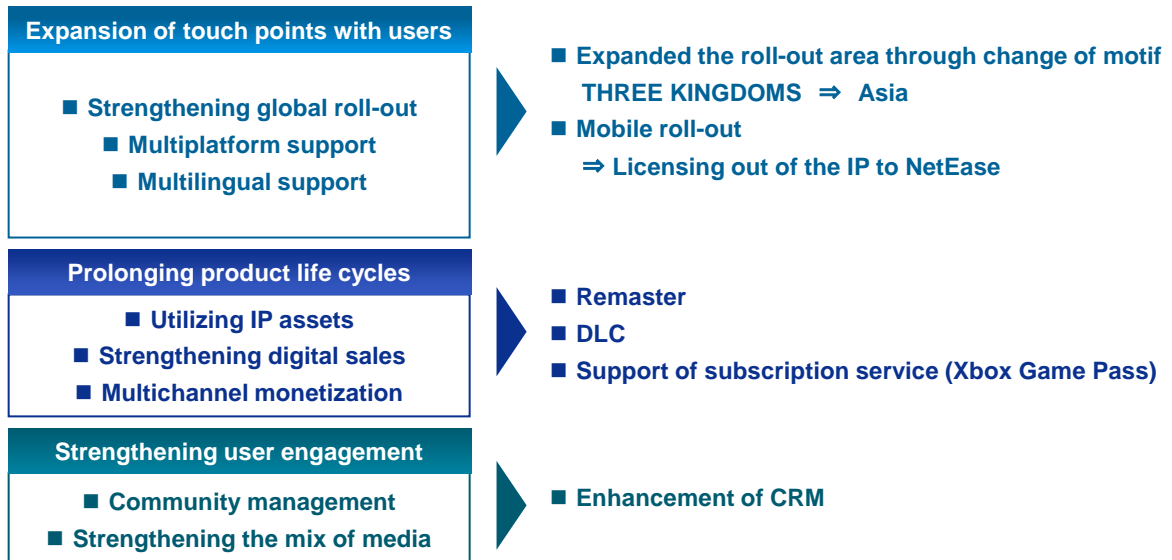
\*Sales of the series in Consumer area, including "JUDGMENT" series

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To see how much this IP is growing, the CAGR grow 17% from FY2017/3 to FY2022/3.

**TOTAL WAR™**





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For Total War series, similarly, we have been expanding touch points with a global rollout, multi-platform and multilingual support. We have been using Warhammer to appeal particularly on US audience in mind. With the Three Kingdoms, we appealed to Asian region, using three kingdoms motif. In addition, we 'd like to further expand the Asian market by collaborating with the Chinese partners.

From the perspective of product life cycle, we released the remaster, released additional DLC by communicating with the users, and is proceeding the support of subscription service.

From the perspective of strengthening user engagement, each of the studio is building the place to communicate with the users. With that, we would like to strengthen the CRM in the future.

Expanded Asian market with  
Three Kingdom motif



Sales in the Asian region  
+167% compared to the  
previous title in the series\*

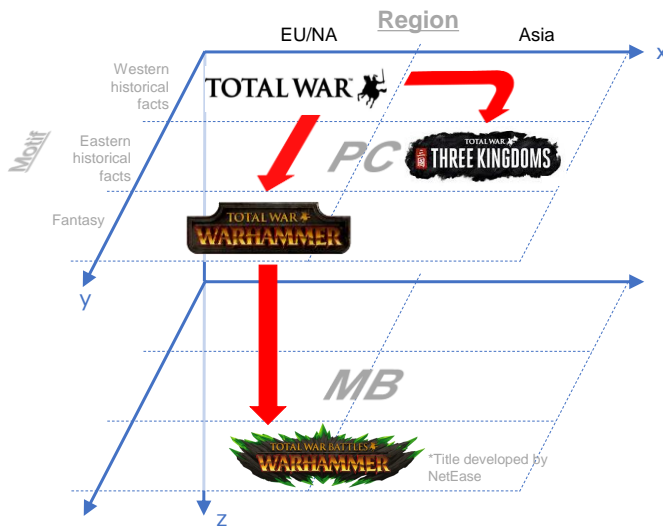
\*Previous title in the series= comparison with "Total War: WARHAMMER II"

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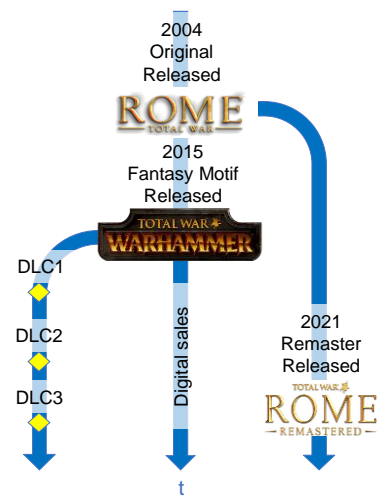
As for specific results, with "Total War: THRE KINGDOMS", sales in the Asian region increased by 167% compared to the previous title due to the roll-out of the title using three kingdoms motif.



## Expansion of touch points with users



## Prolonging product life cycles

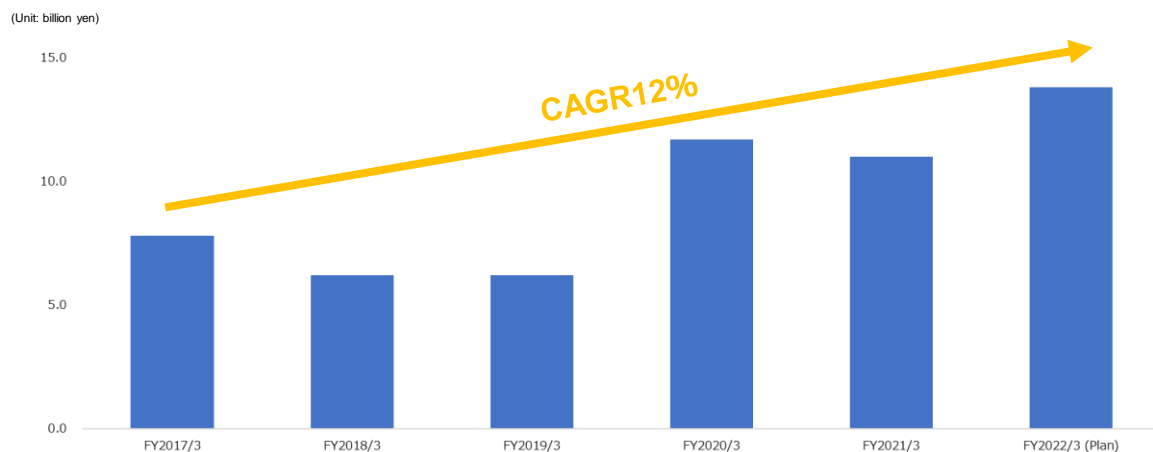


-33-

To explain like we did for Yakuza series, for Total War, we also presented motifs on the Y-axis and regions on the X-axis. For the Z-axis, it was PC in Yakuza but for this IP, it is the roll-out to mobile with PC as the base.

For the global roll-out of mobile version, I think we will work with partners more often. As you can see here, we have been able to change the motif or offer DLCs continuously for Total War and we have been tracking the number of players and active users for all titles continuously. Within this, the number of players has not decreased and we have been able to connect it to the next title and DLC. We think we are maintaining good KPIs.

Sales has been growing through motif change, remaster, etc.



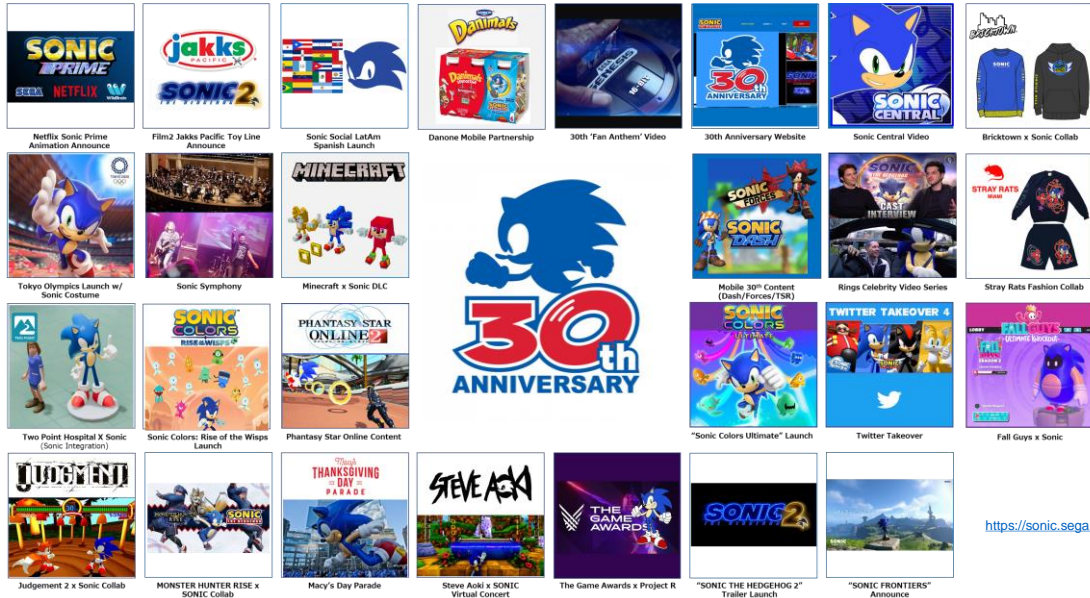
\*Sales of the series in Consumer area

-34-

There are up and down depending on the year whether new title was released or not, but the CAGR for Total War is 12%.



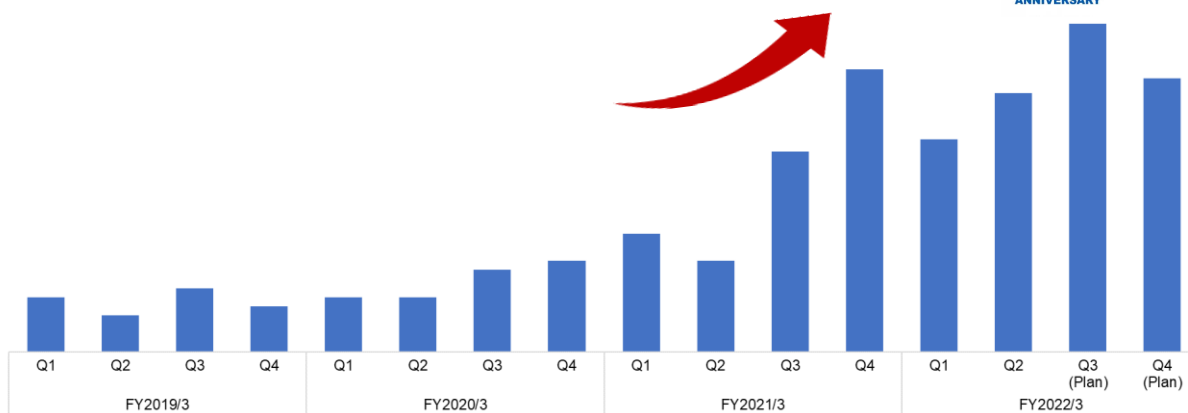
## Examples of Collaboration in Sonic 30th Anniversary (in 2021)



<https://sonic.sega.jp/30th/>

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For SONIC, as 2021 was the 30th anniversary, we have done a lot of collaboration and events, including live, etc. and as a result, we believe we have been able to further expand the IP recognition.

**Sharp increase in business offers  
after the release of movie**

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After the release of movie and it's hit, we have been receiving a lot of inquiries from our global customers and the license revenue is growing significantly. I would like to continue to grow this.

2021

2022



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Scheduled to be released in U.S.  
nationwide on April 8, 2022[https://youtu.be/eMV\\_lm9VEmY](https://youtu.be/eMV_lm9VEmY)Scheduled to release new title  
"SONIC FRONTIERS"

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From 2021 to 2022, we are planning to develop a large media mix.

The teaser of Sonic the Hedgehog 2 movie has been announced on December 10, and the reception was much better than we expected, so both Paramount and ourselves are very happy with this.

With Netflix, "SONIC PRIME" will start from next year.

On December 10, in addition to the movie, we have also announced "SONIC FRONTIERS", a brand-new game for Sonic. I feel that the expectation for this is also becoming very high.



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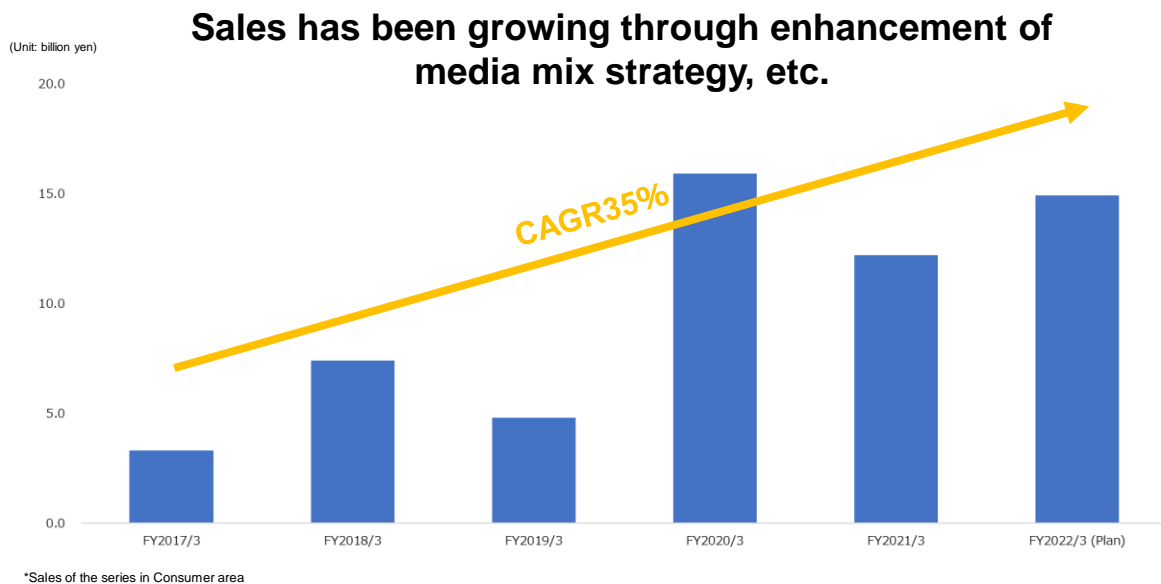
<https://youtu.be/aSZ28-qX8u4>

Please watch the video

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For “SONIC FRONTIERS”, I think some of you may have not seen it yet, so I would like to introduce this using video.

We are aiming for a simultaneous worldwide release on multiple platforms on holiday season next year.



For Sonic, CAGR is 35% growth from FY2017/3 to FY2022/3.

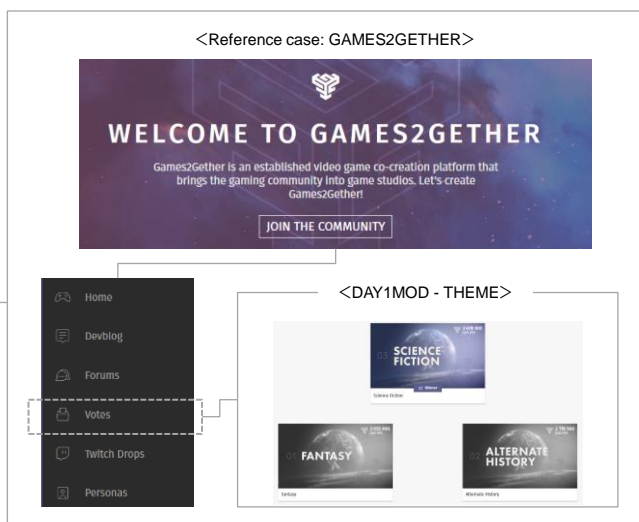


### Strengthening user engagement

**Jointly develop the games  
incorporating user feedbacks**



**Improvement of communication  
and services**

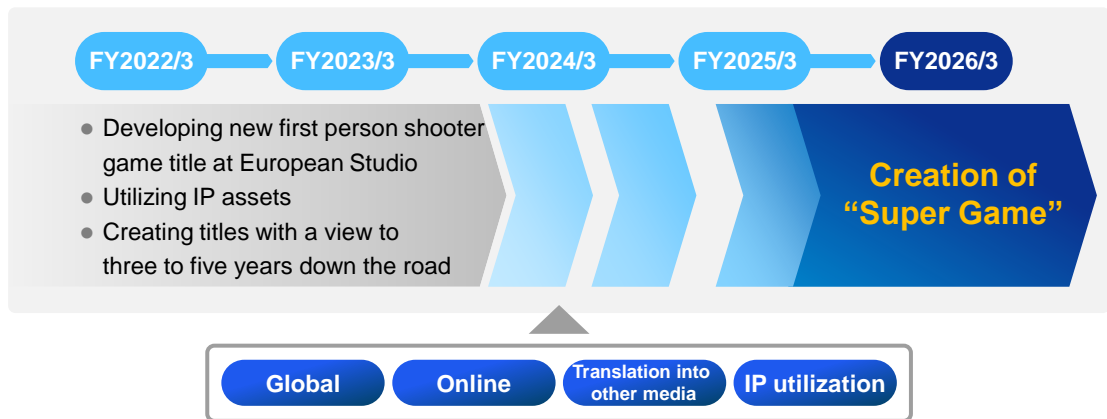


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Last but not least, I want to talk about engagement with users as a theme we will be focusing on going forward.

At the development studio in France and Canada, we have already started the initiative called Games2gether as written in this slide. It's a system like where the studio and users will operate the test like beta test under closed environment, and creating the game together with by exchanging the opinions.

This is becoming very effective. We don't know how much more we can implement this globally, including in other studios, but we would like to move forward with expanding this aggressively.

**Taking on the challenge of creating major global titles**

**Target lifetime sales of 100.0 billion yen**

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Of course, for Super Games, we are now doing a lot of preparation for their release on 5 years later.

Keywords for Super Games are global, online, translation into other media and IP. With supporting those, we'd like to create a game that matches the world of five years from now.

### Started exploring strategic alliance with Microsoft towards creation of “Super Games”

(Major areas to consider)

Develop games utilizing technologies of Microsoft in Microsoft’s Azure cloud platform

Technical collaboration to turn SEGA’s current development environment into a next generation environment built on Microsoft’s Azure cloud platform

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Recently, we made an announcement “Notice regarding the agreement between SEGA and Microsoft to Explore Strategic Alliance”.

Under the policy of adopting advanced and superior technologies other of companies aggressively, Microsoft was also interested in SEGA's strategy and gave us the offer to work together, so we are now in the process of discussing the specifics.

05

## Toward the Next Fiscal Year and After

# Review of the Current Fiscal Year

## ■ FY2022/3 Major New Titles (Full Game)



"Sonic Colors: Ultimate"

©SEGA



"Lost Judgment"

©SEGA



"HUMANKIND™"

©2021 Amplitude Studios SAS. Published by SEGA.



"Super Monkey Ball Banana Mania"

©SEGA



"Shin Megami Tensei V"

©ATLUS.  
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"Football Manager 2022"

© Sports Interactive Limited 2021.  
Published by SEGA Publishing Europe Limited.



"Total War: WARHAMMER III"

© Games Workshop Limited 2021.  
Published by SEGA.

Next is the look-back of this fiscal year.

For the first half, we had released "Sonic Colors: Ultimate", "LOST JUDGMENT", and "HUMANKIND™". For the second half, we have released or will release "Super Monkey Ball Banana Mania", "Shin Megami Tensei V", "Football Manager 2022", and "Total War: WARHAMMER III".

At this point, the marketing of each title has been very successful and the sales status of "Shin Megami Tensei V", which was just released recently has been quite good.

### ■ FY2022/3 Major New Titles (F2P)



"PHANTASY STAR ONLINE 2 NEW GENESIS"

©SEGA



"HATSUNE MIKU: COLORFUL STAGE!"

© SEGA © CP © CFM



"Sin Chronicle"  
(Scheduled to be released on spring 2022)

©SEGA

Regarding free-to-play, we are planning for the first big update for "PHANTASY STAR ONLINE 2 NEW GENESIS" tomorrow.

Also, at very recently, we have released "HATSUNE MIKU: COLORFUL STAGE!" globally.

We will also release the brand-new title called "Sin Chronicle" as the title positioned as sequel to "CHAIN CHRONICLE", for spring of next year.

Titles already announced (to be released in or after 2022)



**"SONIC FRONTIERS"**  
(scheduled to be released in 2022)  
©SEGA



**"Company of Heroes 3"**  
©SEGA. Developed by Relic Entertainment.



**"PROJECT Re FANTASY"**  
©ATLUS ©SEGA All rights reserved.

The latest title of  
Yakuza series

Beyond the next fiscal year, we are preparing many major titles, such as "SONIC FRONTIERS" and "Company of Heroes 3" which we have just introduced, "PROJECT Re FANTASY", a totally new RPG title by ATLUS first in a long time, the latest title of Yakuza series, which we haven't announced the visual yet, major FPS title developed by European studio, etc., and also titles we haven' announced yet.

# **Pachislot and Pachinko Machines business**

## **Overview of Smart Pachislot and Pachinko**

### **Haruki Satomi**

President and Group CEO, Representative Director of SEGA SAMMY HOLDINGS INC.  
President and CEO, Representative Director of Sammy Corporation

**Speaker:**

**Haruki Satomi**

**(President and Group CEO, Representative Director of SEGA SAMMY HOLDING INC.)**

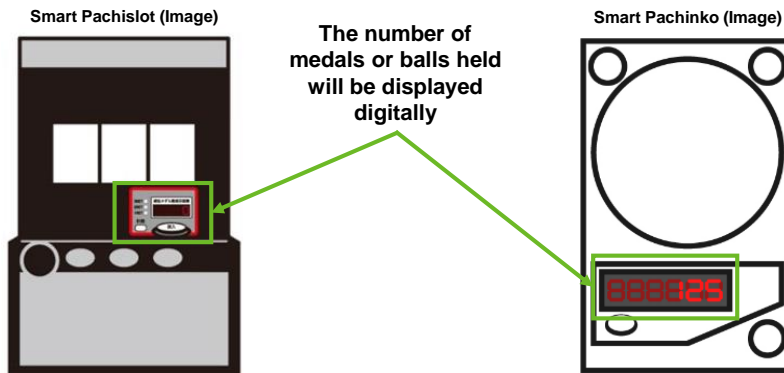
**(President and CEO, Representative Director of Sammy Corporation)**



## Overview of Smart Pachislot and Pachinko

- Physical payout of medals and balls does not occur
- Associations will be able to collect play data, etc.

**There will be no significant change in appearance compared to the existing pachislot and pachinko machines**



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I will explain about smart pachinko and smart pachislot.

First, about the difference, it's very easy to understand that the physical payout of balls and medals will no longer be there. Also, the play data will be connected online, and the association for both pachinko and pachislot will be able to collect such data. So, the association will be able to spot illegal plays, etc. from the data, such as balls or medals being paid out illegally from attachment of illegal chips. These points have been approved to be digitalized.

There's no significant difference in terms of appearance, but in terms of performance and function, there is a great difference such as disappearance of physical payout in the bottom tray.

## Advantages from Installation (by viewpoint)

### Manufacturer

- **Improves gameplay**  
⇒ Due to relaxing of regulation, various game design will be possible
- **Reduction of the number of components**  
⇒ Components related to payout, etc. will not be needed

### User

- **Solves dissatisfaction of users**  
⇒ Due to relaxing of regulation, disadvantages of users will be solved
- **Measure against infection**  
⇒ Improves hygiene because the users don't have to touch the medals and balls directly

### Pachinko Hall

- **Ease the burden**  
⇒ Simplifies the operation
- **Eradication of crimes**  
⇒ Prevents crimes such as bringing in medals and balls, etc.
- **Improvement of pachinko hall's environment**  
⇒ Noises from collisions of medals and balls will be reduced
- **Lowers the hurdle of new store opening**  
⇒ Reduces initial cost

### Other

- **Measure against addiction**  
⇒ Associations will be able to collect play data, etc.

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About the benefits of introduction, first, from the manufacturer's point of view, we have gained deregulation in both pachinko and pachislot, in order to spread this. I cannot talk about details at this moment, but we are taking this quite positively, and I think we are able to design a machine in smart pachislot, that can meet the expectations of users who is feeling dissatisfied now through this new regulation. Also, the number of components will decrease, such as hopper in pachislot machines.

From the user's point of view, manufacturers can design better machines through the deregulation I mentioned earlier, and also for the measure against infections, players don't have to touch the medals and balls anymore.

By the way, from the player's task of inserting medals will not be needed, played games will increase at least 5%. So, for the pachinko halls, there is a benefit of time inserting medals changing into utilization of machines.

From the pachinko hall's point of view, the operation burden will come down. There is no need of carrying balls and medals, and counting them. Also, pachinko halls are said to be noisy, but from collision noise of balls, etc. will come down, the sound coming out from the machines can be set lower. In addition, as I mentioned earlier, about illegal plays, bringing in balls or medals from other halls will be not be possible, and also, prevention of illegal plays will be possible digitally.

Finally, I think the biggest benefit is that the initial cost of opening a new store will come down because facility needed for each pachislot and pachinko machine's row, and also equipment for cleaning medals and balls will not be needed. Because facility needed for each pachislot and pachinko machine's row will not be needed, more units can be installed per space. In addition, number of employees in pachinko halls can be reduced at the same time, so if smart pachislot and pachinko only shop will open in the future, there maybe a chance of changing dramatically.

Also, from being able to collect play data, we would also like to utilize this to prevention of addiction.

**Abolishment of upper limit of number of games has been decided exclusive to smart pachislot**

**1) Improves gameplay**

**Various game design will be possible**

**2) Solves dissatisfaction**

**Solves disadvantages of users accompanying with the upper limit of number of games**

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As for smart pachislot, the upper limit of number of games will be abolished, so we will be able to design various game types. Also, user disadvantages due to the upper limit of number of games will no longer be there.

Manufacturers are already applying for prototype testing

Start of application  
reception

Start of market  
installation



Smart  
Pachislot

From Oct. 2021  
(When application for prototype testing that applies the  
relaxing of regulation indicated in the previous page starts)

From summer  
2022 onward

Smart  
Pachinko

Under application

Existing pachislot  
and pachinko

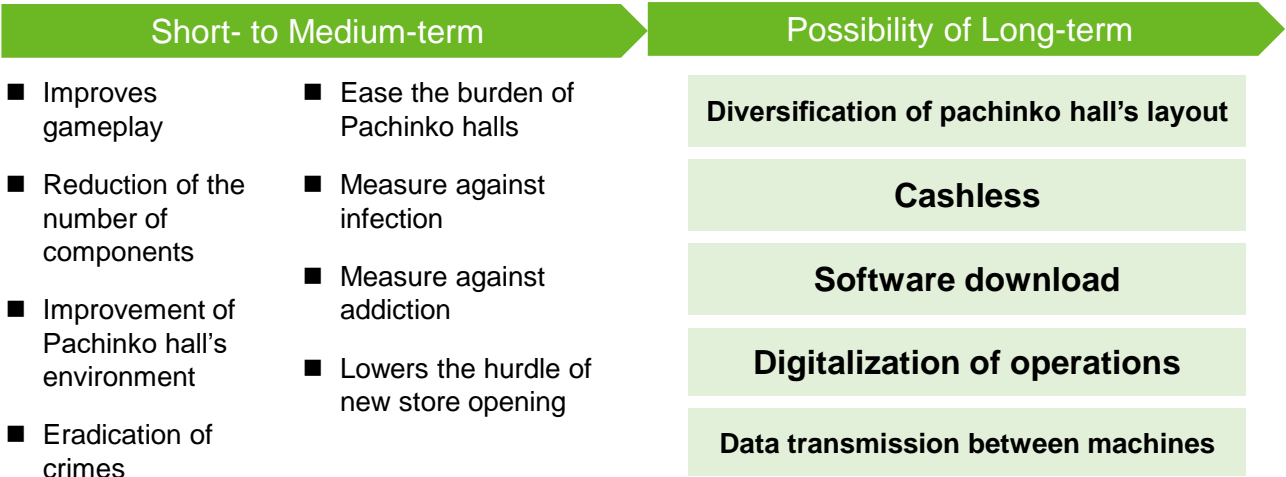
Coexistence (New applications are also possible)

Next is about the installation schedule.

As for smart pachislot, the application has now already started to be received, but I think machines that install the further deregulation I mentioned before, will be applied from the beginning of next year onwards. So, around the summer of next year, we will aim for installation in the market. After that, I think smart pachinko will also be installed.

As for the existing pachislot and pachinko machines, I think they will coexist in the market for few more years.

Consider various possibilities outside the box



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I think various possibilities outside the box will appear, without being bound by conventional thinking.

As I have mentioned before, layout of pachinko hall's will become more free, because facility needed for each pachislot and pachinko machine's row will not be needed. So, efficiency per space will increase. Therefore, number of roadside pachinko halls are decreasing now, but if number of machines that can be placed will increase, and also the cost will decrease, there is a possibility that pachinko halls that can pay for those area's rent may appear. Also, pachinko hall's that are located in the upper floors are rare because the facilities are very heavy now, but these may also become possible in downtown.

Cashless may also become possible in the future. Also, software download could become available in the future further down the road. When all machines are connected online, like arcade games, once you get up in the morning, the version may become upgraded, new direction may be added, or specification can be changed. These are technically possible, so we would like to consider about this possibility, including the change of regulation. There is also possibility of digitalization of operations and data transmission between machines.

Many benefits will occur when smart pachislot and pachinko spreads. The industry has been in a dark situation for the past 5-6 years due to regulation getting tighter and tighter, but at last, the end of the tunnel has appeared from this being realized.

We now can see a world where pachinko halls, users, and also manufacturers can gain benefit if this will widespread. I expect things that can change the industry dramatically will spread throughout the industry, for example, opening of a pachinko hall with smart pachislot and pachinko only around 2023, when lineup of smart pachislot and pachinko machines become abundant.

# Financial Strategies

**Koichi Fukazawa**

Senior Executive Vice President and Group CFO,  
Director of the Board of SEGA SAMMY HOLDINGS INC.

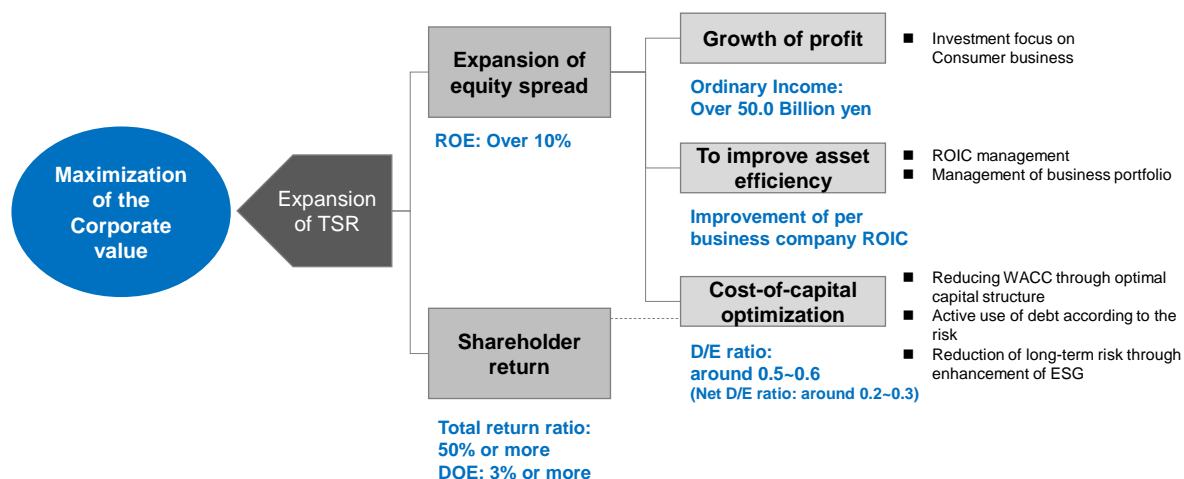
**Speaker:**

**Koichi Fukazawa**

**(Senior Executive Vice President and Group CFO, Director of the Board of SEGA SAMMY HOLDINGS INC.)**

## To maximize the Corporate Value (~FY2026/3)

### Shift to the management focusing on capital efficiency



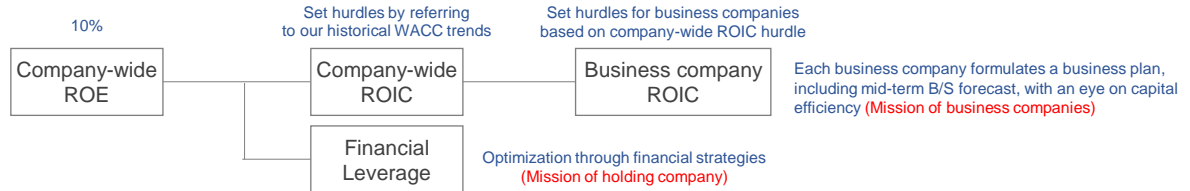
-55-

I would like to talk about the package of financial strategy. We have talked only about the introduce of ROIC, but today, we would like to talk mainly about what we are doing specifically.

The upper row is about expansion of equity spread, and aiming for ROE over 10%, but we have not drilled this down from left to right. We have drilled it up from right to left. On the far right, there are 3 boxes, but the starting point is the lowest box, which is the cost-of-capital optimization. Rather than cost-of-capital, we have considered about how to structure the optimal capital structure at first.

CEO, Haruki Satomi, has been repeating about the release of excess cash, which we had held in order to participate in the Yokohama IR. About the stacked up cost of owning the cash, cash discount has been occurring. We have been suppressing investment before, but we would like to invest for future growth. Starting from here, about the optimal capital structure, bringing D/E ratio to 0.5 to 0.6 times is the most efficient, and also can absorb the risk buffer, so we have made this the starting point. On the other hand, about the capital efficiency of business companies, it is meaningless if there is no return from investment, so from the perspective of strengthening their power to earn cash, we have introduced ROIC to the business companies this time.

## Basic Concept about ROIC Hurdle and Operation



	Company-wide (SSHD consolidated) ROIC	ROIC of Business Companies										
Denominator	<div>B/S procurement side (Measure investment efficiency from the perspective of investor)</div> <table><tr><td>Non-business asset</td><td rowspan="2">Interest-bearing debt</td></tr><tr><td>Net working capital</td></tr><tr><td>Fixed asset</td><td>Shareholders' equity</td></tr></table>	Non-business asset	Interest-bearing debt	Net working capital	Fixed asset	Shareholders' equity	<div>B/S management side (Improve efficiency of business investment from the perspective of company)</div> <table><tr><td>Non-business asset</td><td rowspan="2">Interest-bearing debt</td></tr><tr><td>Net working capital</td></tr><tr><td>Fixed asset</td><td>Shareholders' equity</td></tr></table>	Non-business asset	Interest-bearing debt	Net working capital	Fixed asset	Shareholders' equity
	Non-business asset	Interest-bearing debt										
Net working capital												
Fixed asset	Shareholders' equity											
Non-business asset	Interest-bearing debt											
Net working capital												
Fixed asset	Shareholders' equity											
Numerator	Net income + interest expenses	<div>After-tax adjusted ordinary income*</div> <div>*Excluding the affects from expenses that does not result from business investment, such as the expenses based on group policy including management guidance fee to parent company, etc., and lawsuit settlement expenses</div> <div>*Applied the flat rate of 30% for the tax rate to calculate business company ROIC for convenience.</div>										

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About achieving ROE of more than 10%, it says company-wide-ROIC in the center of the above tree. This is the consolidated ROIC of all group companies. This target is set based on the average WACC of past 5 years until FY2021/3, and this is in the range of around 7.2% to 7.3%.

Regarding the structuring of optimal capital structure, on the premise that we will utilize leverage to some extent and increase D/E ratio to around 0.5 to 0.6 times level, the financial leverage will be in the range of around 1.25 to 1.30 times.

About the ROIC hurdle rate of business companies, nature of the business is different depending on the company, and regarding the consumer business of SEGA, we will actively invest for the time being. So, rather than ROIC becoming higher and higher, invested capital will stack up higher and higher, but in order to achieve ROE of 10% as a whole, average ROIC of business companies have to be over 13% to 14%, and I think all of you noticed this already.

Recently, the market risk premium has been increasing slightly, so the WACC is on a rising trend, but anyhow, we are thinking about this formula from these perspective.

About the bottom table, the left-hand is a general thing, so I will skip this. The difficult part is the business company ROIC on the right-hand. It is hard for the business companies to operate it on the left-hand pattern that seeing the return against the invested capital, so we are taking approach of management side on the balance sheet.

Now, we are connecting CMS (Cash Management System) globally, including SEGA's overseas group companies, so surplus cash of business companies are centrally aggregated. Setting net working capital and fixed asset, excluding this CMS part, as a denominator, the numerator is the after-tax adjusted ordinary income, which is based on the ordinary income of each company, which is positioned as a company-wide major management indicator. The average hurdle rate of business companies is 13%, but taking the difference of business nature of each company etc. into account, the ROIC target is different between companies.



## Implemented 7 sessions of ROIC management introduction from second half of FY2021/3

<div>Day 0</div> <div>&lt;Case Session&gt; Understanding finance and structure of ROIC Indicator</div>	<div>Day 1</div> <div>&lt;Dialog Session&gt; Dialogue on meaning of introducing ROIC, operational rules and targets</div>	<div>Day 1.5</div> <div>&lt;Dialog Session&gt; Dialogue on meaning of introducing ROIC, operational rules and targets  *For managements of division</div>	
<div>Day 2</div> <div>&lt;Output Session&gt; Planning measures and action to improve ROIC  Set by managements of each company through internal discussion</div>	<div>Day 3</div> <div>&lt;CFO Session&gt; Dialogue on measures to improve ROIC based on the mid-term strategy 1)  Discussion about priority of effect and execution degree of measurement</div>	<div>Day 4</div> <div>&lt;CFO Session&gt; Dialogue on measures to improve ROIC based on the mid-term strategy 2)  KPI set again through internal discussion of each company</div>	<div>Day 5</div> <div>&lt;CFO Session&gt; Session on remaining assignment</div>

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It is important to fixate through dialogue, because people cannot follow just by saying we will introduce ROIC to business companies suddenly. 5 companies are subject: SEGA, Sammy, SEGA TOYS, TMS Entertainment, and DARTSLIVE.

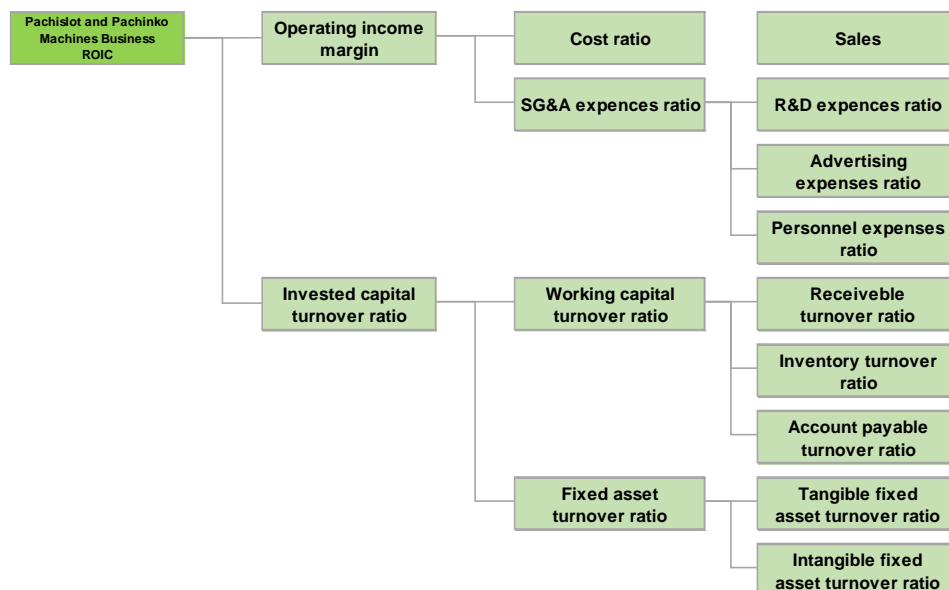
These companies, as indicated here, have done 7 sessions as introduction. In upper row of day 0 to 1.5, it was about why we are introducing ROIC. In short, it is to strengthen power to generate cash, but they don't know how to do that just by hearing this, so we have done this session targeting on commonization and standardization of management's perspective.

Next, when we order companies to do like this, they say we cannot. This is obvious, so, according to their business nature and internal environment, of course external environment too, depending on these facts, we have to think about what approach is the best to take in order to improve ROIC. As I mentioned before, it is the approach of operating side, but when breaking it down specifically, in order to be able to manage, it has to be a content that people on site can follow. So, after internal discussion of management and staff function of each company, we asked them to plan measures and action roughly in day 2.

After that, including myself and president of each business company, we repeated sessions of discussing if the KPI is possible to operate or not, why they chose this KPI, if the priority of effect is high or not, etc. We have tuned them in day 3 and day 4 by repeating such sessions, and finally, after commonization of perception of what the remaining assignments are, we have started this fiscal year.

We have already done the first monitoring meeting, but once every six months, we are continuously dialoging with each company, how the progress is, and if there is anything to change or not. We would like to achieve each business company's ROIC hurdle rate by tuning and by changing the content if needed. Now, we are on the start line.

## ROIC Tree (Pachislot and Pachinko Machines Business)



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This is the ROIC tree of pachislot and pachinko machines business of Sammy.

It's obvious, but by increasing NOPAT or decreasing invested capital, ROIC will increase. However, as I mentioned before, business investment is what we are going to be active about, and particularly for SEGA, we are going to invest for growth proactively. So, it is meaningless to improve ROIC through decreasing invested capital. This is quite challenging.

We will increase NOPAT while investing more and more, so there will of course be a time lag, but we would like to gain more return while making large investment, and generate cash.

## Examples of Measures to Improve ROIC (Pachislot and Pachinko Machines Business)

Key Drivers for improvement	KPI to set	Action plan
<u>Sales</u>	Utilization share	Pursuit of optimal title balance Create topics and promoting fans through strategic and integrated utilization of digital media
	Profit composition ratio	Promotion of new business Continuous exploration of new seeds
<u>Cost ratio</u>	Surplus loss ratio	Shortening lead time Improvement of components commonization
	Ratio of parts subject to reuse	Improvement of components commonization Strengthen cooperation between teams of development (design) and production (manufacturing and reuse process)
	Direct material cost ratio to sales	Improvement of components commonization Pursuit of cost performance at the time of design
<u>R&amp;D expenses ratio</u>	R&D expenses	Reduction of development cost per title (reduction of cut number in images, increasing commonization and diversion ratio of images) Optimization of title numbers, launch of derivative and low cost titles
<u>Selling expenses ratio</u>	Selling expenses per unit	Full shift to e-commerce and efficient use of it

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This was considered by people on site of Sammy. Now they are managing by actually using this in order to improve ROIC through these KPI. The most above is about raising NOPAT, and in cost ratio, other than raising NOPAT, many things that has an effect of lowering invested capital are also listed. Regarding ratio of parts subject to reuse, it is what improves margin, so it has an effect of raising NOPAT. So, specific management will actually be possible.

Today, I have raised Sammy's pachislot and pachinko machines business as an example, that they are setting KPIs that can be cared in daily work. Like this, we are now installing it to the 5 companies I have mentioned before.

That's all for me. Thank you.



<https://www.segasammy.co.jp/>

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