

**Fiscal Year ended March 2023**

**Major Questions in Results Briefing for Analysts and Institutional Investors (Summary)**

May 16, 2023

SEGA SAMMY HOLDINGS INC.

IR/SR Department, Corporate Planning Division

(All contents here are the translation of Japanese materials)

■ Date: Friday, April 28, 2023, 13:00-

■ Respondents:

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

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\*This document is an excerpt and summary of the Q&A session at the financial results briefing, and some edits and modifications have been made to improve comprehensibility.

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**Entertainment Contents Business**

Q: What were the factors behind the lack of performance growth in the Consumer area in Q4 of FY2023/3?

A: The weak sales of some new titles in the Full Game category and the write-down of inventory assets were the main factors.

Q: How are the risks and returns of titles taken into account in the FY2024/3 forecast? Also, are licensing revenues expected to contribute as same as in FY2023/3?

A: Sale of new Full Game, including titles not yet announced, are planned to be considerable. Repeat sales are expected to be at the same level as FY2021/3, which is higher than FY2023/3, due to the contribution of semi-new titles released in FY2023/3. The majority of licensing revenue comes from the Sonic IP, and the number of licensing partners has been increasing along with the expansion of the IP. Also, they have a high profit margin and are a big contributor to our earnings.

Q: Please tell us why the unit sales price of the new game is set higher in the FY2024/3 plan. Do you actually plan to increase the unit sales price? Or will the unit sales price increase due to the impact of recording of license fees and in-game revenues, etc?

A: In the global marketplace, AAA game titles for console have been sold at \$59.99 for many years, but titles sold at \$69.99 have appeared in the last year. We would like to review the prices of titles that we believe are commensurate with price increases, while also keeping an eye on market conditions. Also, for titles that are planned to be offered via subscription services, revenue made via contract deals are also included in sales figures, so we would like you to be aware that when these figures are divided by the number of units, there is an apparent impact on the increase in unit price.

Q: Stay-at-home demand has stabilized as the COVID-19 situation settles down, and the selection of titles for core gamers is progressing. Under such circumstances, the perception is that titles that sold well and titles that did not sell well has become more clear. What kind of measures are you considering for this?

A: We think that titles such as Persona and Like a Dragon (Ryu ga Gotoku) are well-received by core gamers. We will continue to release new titles for Sonic, and for "Sonic Frontiers", which sold 3.2 million units in FY2023/3, we plan to continue to grow unit sales through updates in FY2024/3. In addition, European studios also have been able to release titles that are accepted by core gamers in certain genres, and we believe they are being able to leverage their strengths.

Q: We can see each company working to improve their brand power through the movie production of their video game IPs, but is SEGA thinking of movie production anything other than Sonic?

A: If we can match the timing of game launches to the release of movies, it would be extremely effective from a marketing perspective and there are also significant benefits, such as increasing awareness of our IP and increasing the number of touch points for customers, as we achieved with the Sonic movie. We would like to take on challenges outside of the Sonic IP should the opportunity arise.

Q: I believe it is considered that casual games are strong in the overseas mobile games market. How do you strategically respond to this point, including Rovio?

A: Although it is prior to the passage of TOB, Rovio's titles have been very well received by casual gamers. They own not only Angry Birds, but also a game studio that develops hyper-casual games and thus possesses strengths that our Group does not. Once the acquisition is successfully complete, we expect to be able to obtain such expertise and capabilities.

## **Pachislot and Pachinko Machines Business**

Q: Forecast of pachislot unit sales for FY2024/3 is 146,000 units, but is there a possibility of exceeding this forecast due to upside of "Smart Pachislot Hokuto No Ken", etc?

A: Regarding "Smart Pachislot Hokuto No Ken," second-hand price is over 3.0 million yen, and the demand is exceeding the forecast. Although it is difficult to meet all demands in a timely manner,

parts procurement has improved significantly compared to the previous year, so we recognize that in this environment, we are able to sell over 146,000 units of pachislot as a whole.

Q: Particularly for pachislot, there is a tailwind from revision of regulations. How long do you think this environment will continue?

A: We recognize that it will continue for at least next few years. Regarding the revision of regulations this time, the industry as a whole is working to restrain excessive gambling aspects in advance by incorporating the "complete function". Also, in addition to Smart Pachislot, we expect the full-scale installation of Smart Pachinko from now on. For smart pachinko hall that only installs smart machines, the investment burden will be lighter when opening a new pachinko hall compared to conventional pachinko hall, so we expect that opening of new pachinko halls in this way will also proceed.

Q: Regarding pachislot, what kind of market-building is expected to proceed in the future?

A: We assume that early No. 6 model titles will be replaced by No. 6.5 models, including Smart Pachislot.

Q: There was a talk about the strong performance of smart pachinko hall. Will opening of such pachinko halls accelerate in the future?

A: Some smart pachinko halls are gaining reputation for their high utilization, but we believe that the initial movement will be centered on changing parts of the existing pachinko halls to smart area. We hear from people concerned with pachinko halls that it is possible to open a new smart pachinko hall with the gross profit level of current Smart Pachislot. Also, because the weight of facility in smart pachinko hall will be lighter, we think that operation in higher floor of building, which rent is cheaper, will be possible, so we expect that new opening of smart pachinko hall will increase in the future.

Q: How far do you think the installation ratio of smart machines will proceed in the future?

A: Regarding the installation ratio of smart machines, it depends on the period we estimate, but at least pachinko will be 100% in the future, and for pachislot, 30-phi medal machines are very popular in some regions, so there will be manufacturers who continue to produce 30-phi medal machines for the time being, but if these can be made to smart machines, the ratio will be close to 100% in the long run. As there are restrictions on the supply of dedicated units for smart machines, speed of replacement to smart machines will be affected, but in the future, we think sales of smart machines will proceed in industry as a whole.

Q: Previously, you mentioned that there is a significant meaning in pachislot and pachinko machine being able to connect online. I would like to know the industry's consensus and what do you talk about this with the administration.

A: Regarding smart machine, pachislot and pachinko machine information terminal located in associations are able to monitor payout online and this works as a countermeasure against improper

modifications. In this way, if there is no fear for improper modification, we would like to proceed with DX of pachislot and pachinko machine utilizing online. Rather than a consensus within the industry, it is a medium-to long-term story, so it is not an immediate realization.

## Growth Investment

Q: Regarding the remaining 150.0 billion yen of investment at the moment, you suggested the potential for acquisition in the online gaming area. Where do you want to target within the global context?

A: Many states grant online casino licenses in the form of so-called sub-licences from the main license of land-based casino, so it is important to adapt properly to this.

While we have accumulated knowledge of the casino business through the operation of land-based casino, online casino requires a new and stricter system for compliance. Organically structuring them ourselves will be a high hurdle, so we are considering that M&A will be the basis for entry into the market. As for the market, while the market has matured to some extent and the shake-out has begun in Europe, the ban on the online casino market has been rapidly lifted over the past 1-2 years, and the market is becoming active, with major players promoting and expanding their customer base, among other things in North America. So, we would like to carefully assess the status.

Q: Please tell us the status of online casino and sports betting in Japan, as well as Sega Sammy's intentions towards this.

A: As for the situation in Japan, there have been active discussions for the future led by the Ministry of Economy, Trade and Industry (METI) and with the participation of the private companies since around last year.

In the past, when we started looking into entering the Japanese IR, there were arguments that it would not be possible for Japanese companies, including the government. If the ban on online gaming, such as online casino and sports betting, were to be lifted in Japan, it would be a new business for Japan and, as in the case of IR, we assume that there would be discussions on whether Japanese companies alone could do it. When we start from obtaining license for online gaming overseas and firmly developing this business overseas, we believe that we can enter the market as a leading company, being a Japanese-affiliated company with an established track record overseas if the ban will be lifted in Japan. However, the current outlook is that it will be a long way ahead.

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