

Q2 Results for the Fiscal Year ending March 2024

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

November 28, 2023

SEGA SAMMY HOLDINGS INC.

IR/SR Department, Corporate Planning Division

■ Date and time: Wednesday, November 8, 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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Company-wide

Q: With regard to the revision of operating results forecast, please explain how you reviewed each segment.

A: In the Entertainment Contents business, we conservatively estimated the unit sales of some new titles in light of market changes and recent sales conditions. On the other hand, although the unit sales of repeat titles are lower than expected, we have been able to maintain selling prices and profits are steady, and we have also reviewed the exchange rate. We hope to increase sales of both repeat and new titles toward the end of the year, when the market becomes most active. In the Pachislot and Pachinko Machines business, performance in the 1st half has significantly exceeded the initial forecast, but we expect that the 2nd half performance will be in line with its initial forecast as we move the release of some titles to next fiscal year and also expect the costs including write-downs of parts.

Entertainment Contents Business

Q: What is the outlook for the Consumer area for the next fiscal year? What can we expect as factors for profit increase?

A: In addition to new titles planned for next fiscal year, as the release of our mainstay titles are concentrated in the 2nd half of this fiscal year, we expect an increase in repeat sales due to them. On the other hand, due to the revision of amortization rules, content production expenses carried over to the next fiscal year are expected to be higher than before.

Q: How do you see the cost reduction effects of the structural reform in Europe?

A: We expect the effect from a review of the office structure at Creative Assembly, in addition to its headcount reduction (consultation with affected employees is currently underway) and other measures. We are also planning to optimize the value chain on global basis.

Q: Please tell us the future structure of your European studios.

A: As part of the process of structural reform centered on Creative Assembly, we intend to optimize the workflow and concentrate their resources on the development of their specialty genres.

Q: How should we think about the impairment in the Consumer area in full-year forecast, other than structural reform in Europe?

A: Results up to Q2 have been factored in, but for the future, we recognize that the asset value will be evaluated based on the progress of development and sales results. However, some write-downs that are highly probable at this point, etc. have been already incorporated into the forecast.

Q: Will the structural reform of the European business have any impact on Super Game, such as reviewing the plan itself?

A: There is no plan to review the development of Super Game.

Q: What do you see as the reason for the lower-than-expected start of *Sonic Superstars*?

A: We believe that the impact of other companies' major title released at the same time is significant, but we plan to expand the promotion towards the holiday season, especially in overseas market. Both the Metacritic score and user score are higher than *SONIC FRONTIERS*, and we would like to continue to sell firmly.

Q: It has been announced that the service for *404 GAME RE:SET -Error Game Reset-* to be terminated. Can you please share your view on the smartphone game market and your future initiatives?

A: We recognize that the domestic smartphone game market has matured, making it difficult to produce hits with new titles. On the other hand, titles such as *Project SEKAI COLORFUL STAGE! feat. Hatsune Miku* and *ONE PIECE Bounty Rush*, developed by SEGA and published by Bandai Namco Entertainment Inc., that have already established the popularity has been performing strongly. In the future, in addition to strengthening the global roll-out of these major existing titles, we will also focus on global F2P expansion, such as *Persona5: The Phantom X* and titles from Rovio.

Q: We recognize that contribution of Rovio's earning to consolidated business performance is negligible at present, but is there a level you are aiming for around 3-5 years?

A: We are currently considering a medium-term plan that includes synergies. In the medium- to long-term, we expect Rovio's own performance to grow, but we also expect that the Group's efforts to create synergies will lead to grow the Group's business performance from the launch of new titles and improved efficiency in existing businesses. The earliest of these will probably emerge in the next fiscal year, but we assume that the contribution of those to earnings would be limited.

Q: Can you tell us the things working well in your domestic development studios, and the things need to be improved in the future?

A: We have been able to expand the scale of our sales by working on multi-platform and simultaneous global releases which we started few years ago. By merging the development teams that were previously divided by devices (consumer game, amusement machine, smartphone, etc.), we have been able to flexibly allocate development resources while leveraging the strengths of each. We believe that these efforts have led to positive results.

Q: For example, do you have any measures to sell 5 million units of the *Persona* series titles, which are also popular overseas, in the first year?

A: We have been increased the platforms and countries/regions to roll out *Persona 5*, and its sales volume is still increasing. For future titles, we believe that it is possible to sell 5 million units in the first year for a mainstream *Persona* title such as the numbered titles, by launching it on multi-platform and simultaneously around the world from the beginning. We also have high expectations for *Metaphor: ReFantazio*, a new IP from the developers of *Persona 5*.

Q: I have the impression that R&D expenses are rising throughout the industry. I would like to ask your thoughts on whether there is a need to change the way of development itself is done from the perspective of efficiency, such as the use of generative AI in development.

A: We are researching automation technology to improve business efficiency. We have also introduced ChatGPT-4 in a closed environment within the company, which can be used by all employees working in Japan, and it is widely used in various business situations. As for generative AI, we want to use it effectively, while carefully investigating the development status of related laws and the needs of customers.

Pachislot and Pachinko Machines Business

Q: In the Pachislot and Pachinko Machines business, why will there be almost no profit in the 2nd half of FY2024/3?

A: We expect a write-down of parts mainly related to traditional pachislot machines which uses medals, as smart pachislot is spreading at a faster pace than expected. In addition, based on the 1st half results, we

are also considering paying bonuses to employees engaged in the Pachislot and Pachinko Machines business. As a result, we expect the expenses will be greater in the 2nd half.

Q: *Smart Pachislot Hokuto No Ken* is driving performance in FY2024/3, but how do you plan to suppress the reactionary decline in FY2025/3?

A: Although it is not easy to incorporate a *Smart Pachislot Hokuto No Ken* class hit in the initial plan, we aim to create new hit titles that exceed the plan by using new IP, etc. while fulfilling the lineup with derivative titles too. The market environment for pachislot is steady centered on smart pachislot, and dedicated unit needed for installing smart pachislot is also spreading, so we think we can expect replacement demand among smart pachislot in the future. In pachinko, including smart pachinko, we would like to sell machines that will stimulate users' desire to play pachinko and pachinko hall's desire to purchase pachinko machines.

Q: What is the business environment for pachinko halls going forward? While the improvement due to the strong performance of smart pachislot is expected, we recognize that there will be costs associated with the introduction of dedicated units for smart machines, etc.

A: There are some factors that are expected to increase costs for pachinko halls in the short term, such as the 2024 problem, the issuance of new banknotes, and the need to install dedicated units for smart machines. On the other hand, after these capital investments have run their course, we expect to see cost efficiency improvements through the use of smart machines. On top of that, if there will be a hit title, we think the market can move to a full-scale recovery period, so we will continue to make an effort to create hit titles.

Q: For pachislot machines, is it correct to understand that resources will be invested mainly in smart pachislot in the future?

A: We are currently planning to launch traditional machines that uses medals such as *Pachislot Psalms of Planets Eureka Seven HI-EVOLUTION ZERO TYPE-ART* and *Pachislot FIRE DRIFT*, but for AT and ART-type machines, there is strong demand for smart pachislot from pachinko halls, so we will shift our sales lineup centered on smart pachislot.

Q: In relation to the petition for the commencement of civil rehabilitation proceedings filed by GAIA Co., Ltd. and its group companies, are you considering any changes to the terms and conditions with pachinko halls or sales methods in the future, etc.?

A: We will consider the terms and conditions with individual companies flexibly. On the other hand, we are not considering making any major changes to the terms and conditions with the entire industry at this time, as we recognize that this case has not caused a credit contraction of financial institutions to the pachislot and pachinko machines industry, including pachinko halls.

Growth investment

Q: Is the online casino business not a very profitable business since it requires huge marketing costs to acquire customers? GAN's performance has also continued to show operating losses. Please tell us the background behind the acquisition.

A: Regarding online sports betting market in North America, many companies have entered the market and spent huge amounts of money on advertising to attract customers, but the three major companies hold an overwhelming share of the market now. GAN does not operate this online sports betting business or iGaming in North America, but is engaged in B2B business. This means that GAN is not doing B2C business in online sports betting in North America, where competition is fierce, and they are the provider of a unique tech platform to support them, as one of the big three in the market is already their significant customer. I'd like you to understand this is what we found them attractive and led to the acquisition. GAN has the technology to provide B2B solutions for online casinos, and SEGA SAMMY CREATION (SSC) has the customer base. We'd like to grow in the B2B area by leveraging each other's user pools to create a flow that enables cross-sales.

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