

Financial Results for Q3 of the Fiscal Year Ending March, 2025

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

February 26, 2025

SEGA SAMMY HOLDINGS INC.

IR/SR Department, Corporate Planning Division

■ Date & Time: Friday, February 7, 2025, 13:00-

■ Respondents

Makoto Takahashi (Executive Vice President, Executive Officer, Managing Director of Corporate Planning Division of SEGA SAMMY HOLDINGS INC.)

Nobuaki Yoshii (Director, IR/SR Department, Corporate Planning Division, SEGA SAMMY HOLDINGS INC.)

<DISCLAIMER>

*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.

*This is an English translation from the original Japanese-language version. The translation is provided for your reference and convenience only and without any warranty as to its accuracy or otherwise. The Company assumes no responsibility for this translation and for direct, indirect or any other forms of damages arising from the translations. Should there be any inconsistency between the translation and the original Japanese document, the Japanese language version shall prevail.

Entertainment Contents Business

Q: For Consumer area, why did you revise sales downward and operating income upward in the revised plan?

A: Sales is expected to be lower than initially expected due to the cancellation of sales of the new title of Full Game *Football Manager 25* and the fact that new titles of F2P have not yet been launched. On the other hand, *SONIC X SHADOW GENERATIONS* and *Metaphor: ReFantazio* launched in the Q3 are performing better than expected, and repeat sales of Full Games, DLC (Downloadable Content) sales, and licensing income centered on *Sonic* contributed to earnings. In addition, there were the positive effect on earnings due to yen's depreciation. As a result, the operating income was revised upward from the initial forecast.

Q: Sales of *Metaphor: ReFantazio* seem to be unsatisfied in comparison with the reviews and awards it received. Do you think the pricing strategy, etc. also are affecting this?

A: The recent number of units sold has been steadily increasing and is on pace to exceed our initial forecast. Those responses support our confident about the title, and we believe we can expect

the further sales by raising awareness of the title in the future. We will continue the effort to increase repeat sales while always closely monitor the appropriate price levels.

Q: What made the decision to cancel the development of *Football Manager 25* so quickly?

A: We have been reviewing our development process and improving transparency through structural reforms in Europe implemented in the last fiscal year and this decision was also reached after sound discussions between the management and the studio based on it. Of course, we will reflect on the result we reached, the cancelation of the development, this time, learn from it, and leverage it to the development of the next title.

Q: Don't you think there are any issues in development capabilities or structural issues in operations that led to the cancellation of development of *Football Manager 25*?

A: We aimed for the largest-ever renewal of the UI and graphics of the game in order to improve the quality of the series in the future, but it turned out that it would take more time than expected to reach the quality we targeted, so we decided to discontinue its development. The decision was made after close discussions between management and the studio, and we believe we reached the best solution at this point. Therefore, we do not think there are any structural problems. We will focus on the development of the next title from now on.

Q: Following the cancellation of *Football Manager 25*, how do you plan to maintain engagement with users and carry this over to the next instalment?

A: First of all, we would like to enhance dialogue with the user community and then create an environment where they can look forward to our next title. In addition to continuing to sell *Football Manager 2024*, we are also looking into the ways to enable players to continue playing it through a subscription service.

Q: Please tell us the amount of the loss recorded as a write-down of inventories due to the cancellation of the development of *Football Manager 25*.

A: In Q3, we recorded a one-time expense of about 4.0 billion yen, mainly due to the write-down of development assets for *Football Manager 25*.

Q: Why has the work-in-progress balance of the Content production expenses in B/S* increased from Q2 to Q3 although the major new titles have been launched? Are there still development expenses left for *Football Manager 25*? (*Presented on p. 8 of the [Data Appendix \(FY2025/3 Q3\)](#))

A: Development costs are to be amortized 25% in the first month of release and amortized over the following 23 months using the straight-line method. Associated with the cancelation, not the whole development costs of *Football Manager 25* were recorded as expenses, and those that can be utilized for the next title remain as inventory assets.

Q: Please tell us about the current status of the two F2P titles that were scheduled to launch this fiscal year, including the development progress and whether there is any risk of cancellation.

A: Development of both titles is almost completed, and we have already started the test and promotion for them. As for *Sonic Rumble*, we are currently discussing areas for improvement with Rovio which were found during the testing process in some regions, and plan to launch the service globally as soon as we can see the path to make improvements. Although we expect each title to generate a certain level of monthly sales, we don't expect a large contribution to profits in our initial plan because the marketing and other costs for them is expected to be incurred at the same time as the service launches.

Q: Regarding Animation area, when will the third *Sonic* movie start contributing to earnings?

A: In the current fiscal year, allocated revenues from the first and second *Sonic* movies have continued to be recorded. We expect that the third *Sonic* movie will contribute from the next fiscal year onward.

Q: Do you expect to record one-time expenses such as write-downs of development assets in Q4?

A: We do not expect anything special, but we are being somewhat conservative with development costs, etc.

Q: What is your outlook of Entertainment Contents Business in FY2026/3?

A: The plan is currently being formulated, but we expect the volume of new titles in Full Game to be lower than this fiscal year. On the other hand, we expect continuous revenue contribution from repeat sales of new titles in Full Game this fiscal year and full-scale revenue contribution from new title in F2P. In addition, we expect that licensing revenue from transmedia development and earnings contributions from animation business, etc. will also continue to contribute to earnings.

Q: How should we view the growth in Animation area in the next fiscal year?

A: In addition to the contribution of *Sonic* movies to earnings, TMS ENTERTAINMENT, an animation production company in our group, is taking the lead in strengthening its efforts to produce animation works based on other companies' IPs. We hope that the global development of these works will lead to growth in Animation area.

Q: The reviews of your titles have improved in recent years. Please tell us about any initiatives that have been successful.

A: We think the titles developed by our domestic studios have been highly acclaimed for a while already, and we believe that our efforts to strengthen the external and internal evaluation process have been successful. On the other hand, we understood that the fact that the similar process was not being carried out properly at our European studios was one of the factors that led to structural

reforms in the previous fiscal year, and we are gradually introducing the processes that have been successful in Japan from this fiscal year.

Q: SEGA has several studios, but where will it focus its efforts among them in the future? Is it considering M&A as well?

A: We have not set any order of priority particularly. For example, ATLUS is an important studio for us to expand Japanese IPs overseas and we think it is necessary to strengthen it, and the studios involved in the *Sonic* and *Like a Dragon* IPs are also short of staff, and we are looking to reinforce personnel through additional hiring and M&A.

Pachislot & Pachinko Machines Business

Q: Why will there be not much profit in Q4?

A: We assume that Q4 alone will not be profitable due to reasons such as the number of units sold is not large and that sales are expected to be centered on pachinko, which has a low profit margin compared to pachislot.

Q: Launch of some titles that were scheduled to launch for this fiscal year were postponed, but does that mean we can have high expectations for the next fiscal year's performance?

A: Since we delayed the release of titles, which should have been released in this fiscal year, to the next fiscal year, we, including our develop team, are working to launch high-quality titles. We are aiming for a higher profit level in the next fiscal year than in the current fiscal year by promoting the measures such as development and sales of each title in consideration of new rules and regulations and the market environment.

Q: Will the titles that were postponed from this fiscal year be launched in the beginning of the next fiscal year?

A: Since the lineup for the next fiscal year is currently being formulated, we refrain from giving an answer at this time. We will formulate the lineup for the next fiscal year while proceeding with the acquisition of approvals, including titles that have been postponed from the current fiscal year.

Q: Is the reason for the current weak sales a problem with individual titles or a problem with brand strength?

A: Including the titles launched in Q3, we have not been able to sell many titles that exceed the expectations of pachinko halls and users in this fiscal year. As *Smart Pachislot Hokuto No Ken* contributed to utilization at pachinko halls for a long time in the previous fiscal year, which had a positive impact on other titles, we aim to once again become an entity that pachinko halls and users have high expectations, by introducing mainstay titles, etc. in the next fiscal year.

Q: Other companies in the industry are releasing hit titles that reflect the latest regulatory reviews, etc. Isn't the Group lagging behind in responding to regulatory reviews? How are you going to respond to them going forward?

A: We recognize that some of the titles we have released recently did not meet the needs of users and the

utilization weren't high. Going forward, through the review of our development system, etc., we will make an effort to respond quickly to changes in the regulatory environment and user preferences, and aim to create hit titles while respecting Sammy's originality.

Q: Regarding the sales lineup, I have an impression that there is a gap between the actual number of titles and units sold, and the initial plans. How are you going to improve this?

A: There is no overall delay in development, but we have postponed the launch of some titles in order to respond to changes in user preferences, etc. We are working to mitigate the impact of this delay by bringing forward titles that were scheduled for the launch in the next fiscal year, and by selling titles that were not originally planned, such as specification changed titles, to the extent possible. Going forward, we are working with a sense of urgency to ensure that we can launch high-quality titles in accordance with the plan.

-End-