

# A Message from the CEO



**Haruki Satomi**

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

Steady growth in both sales and profit as we moved toward achieving our slogan: Beyond the Status Quo

## What does it mean for SEGA SAMMY to continue creating experiences that move the heart?

The SEGA SAMMY Group Mission / Purpose (Raison d'être) is *Constantly Creating, Forever Captivating — Making Life More Colorful—*. For our Group, whose business is grounded in entertainment, creating experiences that move the heart is the very purpose of our existence.

Moreover, creating experiences that captivate and move the heart only once is pointless. To pursue sustainability, it is equally vital that we continue creating such experiences. Two notions go into the word "colorful" in the second half of the Mission. One is to respect diversity, putting value on empathy with people of different values, cultures, genders, and races. The other notion involves facing up squarely to negative aspects including addiction that emerge in the course of the Group's business that we cannot simply pretend not to look at. Rather, by facing up to and minimizing these aspects, we add bright hues to society by means of the experiences that move the heart that we offer. This is the kind of Group we are striving to be.

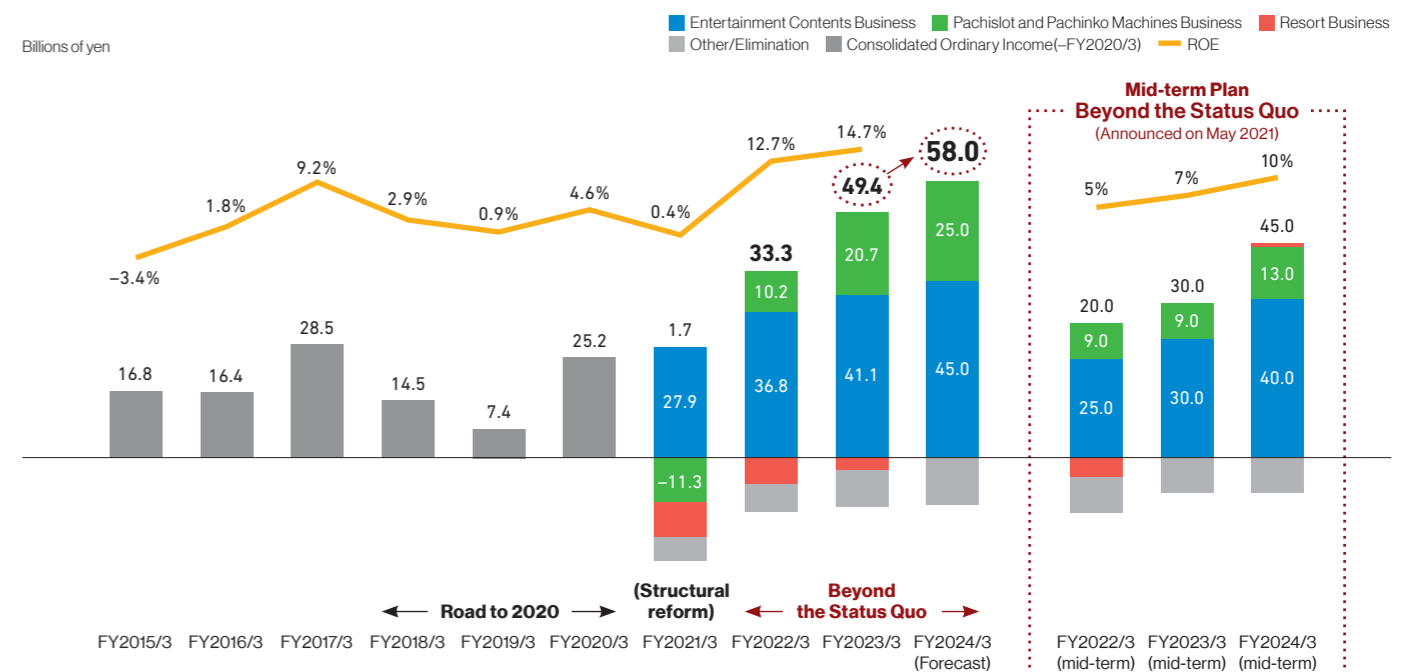
## The second year of the medium-term plan saw significant strides in business performance

In the Consumer area of the Entertainment Contents Business, *Sonic Frontiers* and *Persona 5 Royal (Remaster)* were hits and performance in F2P titles was also brisk. In the Pachislot and Pachinko Machines Business, sales of pachislot machines were robust, especially *Pachislot Kabaneri of the Iron Fortress*, driving a significant year-on-year increase in both sales and profits. The Resort Business also experienced recovery, with *Phoenix Seagaia Resort* achieving profitability for the first time since it joined the Group. Segment sales were up significantly year on year as a result, and the loss margin narrowed.

In this way, sales and profits were up significantly year on year across all of our businesses, while losses narrowed. The result was net sales of ¥389.6 billion, ordinary income of ¥49.4 billion, and ROE of 14.7%—in other words, we were able to reach our targets for the final year of the medium-term plan a year ahead of schedule. Thus, for the fiscal year ending March 2024, the final year of the plan, we have significantly revised our performance targets upward.

### Medium-Term Plan: Changes in Ordinary Income (FY2015/3–FY2024/3)

### Growth in Entertainment Contents and Pachislot and Pachinko Machines businesses drove achievement of targets a year ahead of schedule



## Review of Entertainment Contents Business

### Creating worldwide hits

In the mainstay Consumer area, new Japan-based titles such as *Sonic Frontiers* and *Persona 5 Royal (Remaster)* are enjoying significant sales growth overseas. On the other hand, the sales of new Europe-based titles that we had looked for failed to materialize, shedding a light on some issues. In today's game market, users increasingly tend to read numerous reviews and media information before they buy a game. Talked-about titles with high ratings can record phenomenal sales worldwide, but we see a growing number of cases where sales are sluggish for games that fail to catch the attention of users. The key to making hit games that generate huge sales is to create games that offer new, never-before-seen experiences, increase engagement with users, and get widely talked about.

In addition, as playing games via downloading has become mainstream, digital distribution platforms are now available that allow games to be delivered instantly around the world. This has surely increased the odds of creating a worldwide hit. Even in Southeast Asia and the Middle East, where we expect to see major expansion of the games market going forward, user access to our games has become much easier than ever before. We will take full advantage of this opportunity.

Given this context, we believe it is important to continue to maximize the value of our powerful IP lineup, delivering high-quality products and services to game users around the world.

### Further acceleration of the IP strategy

The Sonic IP, which arose out of our games, has seen steady expansion into movies, anime, and other media. Sonic has now grown into a huge IP, the most successful example of our IP strategy. More than anything else, the secret behind this success lies in our continued pursuit of the sheer fun of the game where it got its start.

For the hugely popular *Sonic Frontiers* title, the development team tested the game over and over again, even postponing the release date, insisting on raising the quality of the game to the utmost limit. As a result, *Sonic Frontiers* has become one of the best games in the entire Sonic IP game series, winning over many new Sonic fans.

Success with Sonic IP has equipped the Group with a wealth of knowledge regarding IP development, which we plan to harness in actively pursuing measures to expand other excellent IPs on a global scale as well. SEGA has created many compelling IPs over its long history. To maximize their potential, we will further advance and pursue our IP strategy.

### Acquisition of Rovio Entertainment Corporation

We completed our acquisition of Rovio Entertainment Corporation in August 2023, bringing the company into the SEGA SAMMY Group.

Established in Finland in 2003, Rovio develops and operates mobile games—it is most known for Angry Birds. It also engages in a licensing business to expand its IP into areas other than games.

Rovio has particular strengths in the mobile games field, where it is positioned to compete in the growing global market. We believe Rovio is the ideal partner to fill in the missing pieces in our quest to achieve further growth for the Group.

SEGA has the ability to develop and operate major titles for video game consoles and PCs, a lineup of globally recognized IPs like Sonic, and a track record and expertise in the mobile games market in Japan. Rovio, meanwhile, possesses the Angry Birds IP, which boasts a global fan base centered in Europe and North America. It also has the ability to develop and operate global mobile games and has the game operation support tool *Beacon*, the platform supporting its games. Our two companies clearly have a mutually beneficial relationship.

SEGA has now built up a track record in acquisitions, mainly in Europe. Going forward, we will aim to generate new synergies by capitalizing on complementary capabilities based on the shared values of both companies.

## Review of Pachislot and Pachinko Machines Business

### Birth of hit titles and full recovery to a growth trajectory

In the Pachislot and Pachinko Machines Business, revised regulations have made it possible to develop machines that meet user demands better than ever before, paving the way for the creation of hit titles.

The medal-based No. 6.5 model *Pachislot Kabaneri of the Iron Fortress* became a huge hit in the fiscal year ended March 2023, maintaining high utilization rates and generating multiple additional sales after debuting in halls. Furthermore, following its April 2023 launch, *Smart Pachislot Hokuto No Ken* continues to have the kind of high utilization rate that has been unprecedented in recent years. The new *Smart Pachislot Hokuto No Ken* machine is a remake of the historic hit of around two decades ago, *Pachislot Hokuto No Ken*, with new elements added. Many dormant users who had moved away from pachislot and pachinko machines for quite some time are returning to the pachinko halls. The smart pachislot game has also gained support across generations, offering compelling gameplay and interesting production elements that have caught on even among young new users. It is no exaggeration to say with pride that *Smart Pachislot Hokuto No Ken* is driving current growth in the smart pachislot market.

Smart pachislot offers significant benefits for both users and pachinko halls. It allows users to play in comfort, with less obtrusive sounds and no need to insert medals. Halls, meanwhile, are freed from tasks such as carrying medals back to machines, and can lower power consumption. For this reason, we see growing moves at various halls to expand their floorspace dedicated to smart pachislot. The popularity of smart pachislot and smart pachinko are outstripping initial expectations.

To fully capture these market tailwinds and changes in the industry and sustainably grow the Pachislot and Pachinko Machines Business, developing new hit machines is essential. The crucial point here is for the development department to adequately gauge the various demands of a diverse range of players. To support this, we launched a project, called Parlor Sammy, setting up a mock hall on company premises. Here, employees can freely try out machines and provide feedback about their impressions and suggestions for improvement to the development department. By gathering and analyzing the various opinions coming out of Parlor Sammy and establishing a flow for refining machines under development, we are steadily enhancing the quality of our machines.

Another key issue is responding quickly and flexibly to the increase in the number of hit machines. In the fiscal year ended March 2023, we were unable to fully meet robust demand for machines due to shortages of semiconductors and other parts—this is an ongoing issue. Going forward, we plan to further refine our demand forecasts, ensure the sufficient supply of parts, and strengthen the framework for the stable supply of products by introducing standardized parts.

Our structural reforms have succeeded in improving profitability in the Pachislot and Pachinko Machines Business, and the segment is returning to a growth trajectory. To take this business forward even further, we will continue to carry through with the various measures that have borne fruit so far.

## Actively pursuing human capital management

The essential element in achieving the Group Mission / Purpose (Raison d'être) is personnel who can "light a fire (passion)" in their hearts. We believe that the ideal employee is someone who can gradually transfer that fire to others and spread it throughout the Group. Valuing such personnel and empowering them to play an active role in the business is the linchpin of the Group's human resources strategy. To this end, we are working on various reforms to our personnel systems, including revising our compensation system and doing away with seniority-based job assignments. Furthermore, we are working to enhance various training programs offering language education and other opportunities for staff to acquire new skills to enable them to make contributions even in times of rapid change.

Thanks in part to these efforts, we are seeing gradual improvement in our engagement score, which we set as a non-financial indicator for the material issue of human

resources. In addition, in employment rankings sponsored by Mynavi and newspaper publisher Nikkei, SEGA ranked 6th among university students in the sciences, 11th among students in the humanities, and 8th overall. Our rise to the top 10 in these rankings is a welcome change.

On the other hand, it is also true that the public in some respects still has a negative impression of the Group's business. This is why we must face up to social issues even more rigorously than other companies, and create new value that has a positive impact on society. By continuing to act with this conviction, we can gain empathy from people, and as we do, our employees will be even more proud of the Group. I want all of our employees to do their jobs with pride. This has been my unchanging desire since I took over leadership of the Group. We will continue to actively promote human capital management so that we can go on building a team of people who can "light a fire" in their heart and enable them to play an active role in the business.



**While minimizing the negative impact we have on society, we strive to maximize the positive impact our businesses generate to a far greater extent**

## Making governance stronger is a never-ending goal

At present, half of our board of directors is made up of outside officers. Of the outside directors, more than half are women and the group also includes foreign nationals. We have ensured adequate diversity. We have also established a Group Management Committee for the sole purpose of carrying out discussions before Board of Directors meetings. In the fiscal year ended March 2023, the committee held a total of around 32 hours of discussions on management issues. The quality of our discussions has improved dramatically compared to before, with lively and sometimes unexpected opinions being expressed from a variety of perspectives. Outside directors sometimes offer extremely critical opinions, which generates a healthy sense of tension at meetings.

In September 2022, internal and external directors, executive officers, and executives from major Group companies all gathered at *Phoenix Seagaia Resort* in Miyazaki Prefecture for a two-day management retreat. The aim was to foster extended discussions around management from a long-term perspective. In an atmosphere of speaking to one another in a thoroughly candid way, the discussions were often heated, even on topics that are difficult to address at regular Board meetings. It was a very meaningful event.

We are also actively developing a framework for sustainability governance. One part of this involved setting up a Group Sustainability Subcommittee in April 2022 under the Group Management Committee, which is a voluntary committee in the Group. The subcommittee has allowed directors to more accurately grasp the significance of our material issues and gauge the progress of initiatives. It also enabled us to visualize issues requiring attention going forward.

At all of these meetings, we will continue to take on board the opinions of outside directors and other experts, considering them as invaluable feedback from our stakeholders, and will actively reflect them in our management plans.

Moreover, as uncertainties mount throughout the world and the Group's businesses become more global, the critical importance of global governance increases year by year. With businesses operating around the world, SEGA held a Global Legal Meeting at its Osaka head office in May 2023, the first time in four years. SEGA staff from Japan, America, and Europe came together to share information on legal matters and intellectual property. We were able to share issues faced by each site and reinforce the collaboration needed to address them. We will expand these events to provide more opportunities for communication and proactively strengthen global governance.

## In Closing

The Group has steadily expanded its sales and profits over the period of the medium-term plan. Our slogan, Beyond the Status Quo, is quickly becoming a reality.

The fiscal year ending March 2024, the final year of the plan, will be a pivotal year in which we will continue this favorable trend while further accelerating growth as we work to realize our long-term vision. To make this happen, it will be vital to further boost the motivation of our employees, who are the driving force behind all our actions. As Group CEO, I have many roles and responsibilities, but the most important thing for me is to get our employees to fully understand and empathize with our Mission and Vision, and to help bring out their passion and energy. I believe an ideal organization is one in which every individual takes on tasks and issues with a sense of purpose, which causes both employees and the Company to grow.

We will continue working to minimize the negative impact we have on society, including the issue of addiction. At the same time, we will strive to maximize the positive impact our businesses generate to a far greater extent. As the Group's representative, I will personally work to guide management with integrity and humility, and would like to ask all of our stakeholders for their empathy with the Group's business activities and for their continued support as I do so.

# Message from the CFO

Proceeding with a financial strategy that balances proactive growth investments with shareholder returns to enhance corporate value



**Koichi Fukazawa**  
Senior Executive Vice President and Group CFO, Director of the Board

## Solid performance across businesses boosted total shareholder return

In the medium-term plan that began in the fiscal year ended March 2022, we have been aggressively expanding our equity spread and shareholder returns with the aim of maximizing the Group's corporate value.

In the fiscal year ended March 2023, we achieved steady profit growth in the Entertainment Contents Business, particularly in the Consumer area. In the Pachislot and Pachinko Machines Business, earnings rebounded sharply, fueled by growth in sales of new No. 6.5 model pachislot machines that take advantage of revised regulations. Given the current robust performance of smart pachislot machines, we expect further growth in the fiscal year ending March 2024, when the roll-out of new titles will be fully underway.

In addition to this growth in profitability, the return on invested capital (ROIC) for each business segment is on an upward trend, and a lower tax burden has led to a large increase in ROE and, as a result, equity spreads are trending positive. Total shareholder return has also continued to rise as the share price maintained its upward trajectory on the back of significant improvement in business performance.

We were also able to achieve ordinary income of ¥45.0 billion—the target for the final year of our medium-term plan—

ahead of schedule. This strong performance is the fruit of the growth strategies we have carried out so far in each business, which were well timed for these favorable market conditions.

For the fiscal year ending March 2024, the final year of the plan, we expect continued profit growth with net sales of ¥433.0 billion and ordinary income of ¥58.0 billion.

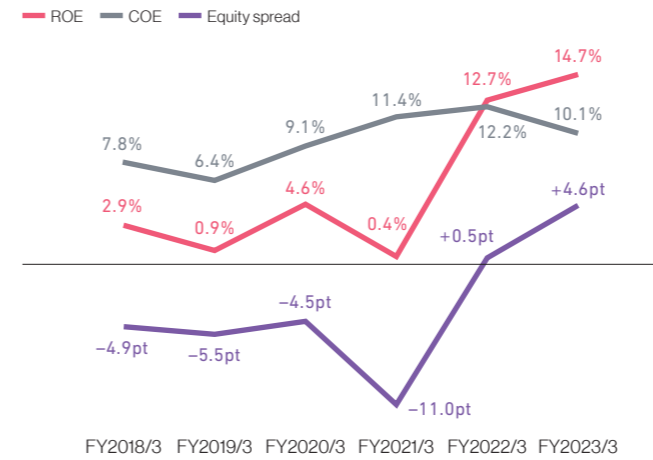
## Balancing profit growth and efficiency

We are pursuing profit growth, including through aggressive growth investments. At the same time, we aim to maintain a certain level of capital efficiency using ROIC as an indicator.

In the Pachislot and Pachinko Machines Business, the structural reforms we undertook in the fiscal year ended March 2021 have led to substantially lower fixed costs. On top of that, by efficiently developing machines and increasing the volume of machines sold, we have been able to achieve a sizable return on invested capital. I am confident that the Pachislot and Pachinko Machines Business going forward will be able to maintain consistently high ROIC.

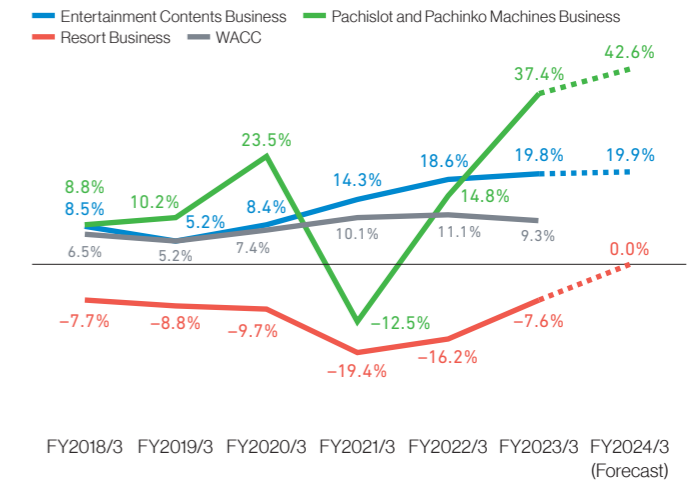
The Entertainment Contents Business has also steadily increased ROIC, although we expect somewhat lower ROIC in the near term due to goodwill amortization associated with our recent acquisition of Rovio. Still, we have put in place

## Trend of ROE, COE and Equity Spread



\* ROE: Return on equity  
COE: Cost of equity (Source: Bloomberg)  
Equity spread: ROE-COE

## Per business ROIC trend



\* Per business ROIC: Adjusted profits per business/Investment capital per business

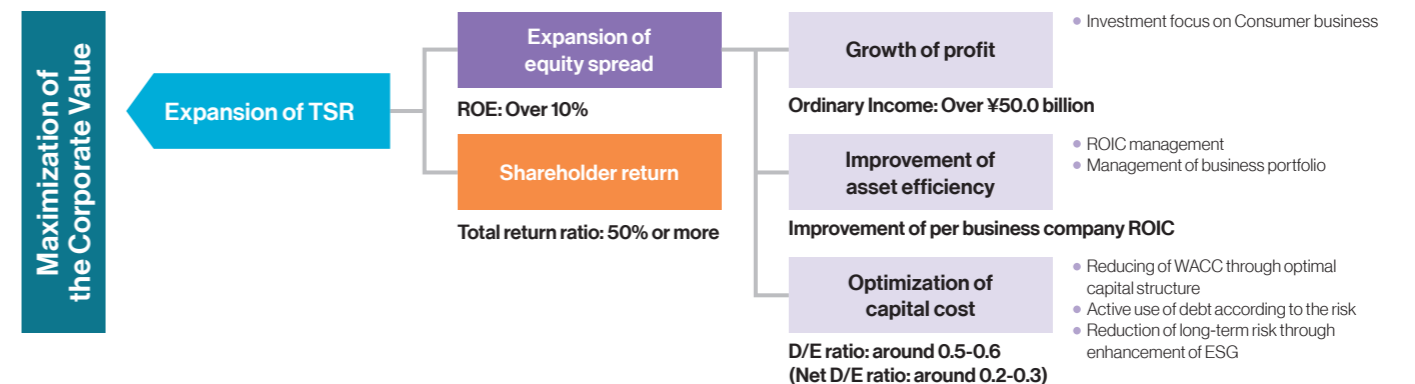
appropriate hurdle rates for such acquisitions, and expect ROIC to improve over the longer term.

With the acquisition of Rovio, we have filled in a crucial missing piece in this business, which we expect to contribute significantly to future business growth. The global games market has been growing rapidly in recent years, with mobile games expanding to account for half of the market. In contrast, the mobile games business accounted for only about 30% of sales in the Consumer area before the acquisition, most of which was generated in the Japanese market. With Rovio joining the Group, we will be able to greatly expand sales in the overseas mobile games business, a huge market,

thereby rectifying the strong domestic weighting of the business model to date. We expect to be able to secure profits going forward by realizing synergies with our existing business at an early stage.

Our basic policy regarding shareholder returns is to adopt a total return ratio of 50% or more or a dividend on equity ratio (DOE) of 3% or more, whichever is higher. Based on this policy, we decided to pay a dividend of ¥59 per share (including an interim dividend of ¥20) for the fiscal year ended March 2023. Also, in 2023, we resolved to buy back ¥10.0 billion in treasury stock (up to 8 million shares).

## Shift to the management focusing on capital efficiency



Concept of Investment in Growth (–FY2026/3)

	Areas of consideration for investment		Progress
<b>Consumer Area</b> Approx. ¥100.0 billion	Strengthen development resources	<ul style="list-style-type: none"> <li>Expansion of organic development pipeline</li> <li>Strengthen global mobile and online games</li> </ul>	<ul style="list-style-type: none"> <li>Establishment of SEGA Sapporo Studio</li> <li>TOB of Rovio Entertainment Corporation</li> </ul>
	Investment in new ecosystem	<ul style="list-style-type: none"> <li>Strengthen CRM functions to revitalize user communities</li> <li>Investment in newly emerging business areas</li> </ul>	
<b>Gaming Area</b> Approx. ¥100.0 billion	Careful assessment of investment opportunities in the Gaming area	<ul style="list-style-type: none"> <li>Online casino and sports betting overseas</li> <li>Land-based casinos overseas</li> <li>Both domestic and overseas IR</li> </ul>	<ul style="list-style-type: none"> <li>Step back from domestic and overseas IR</li> <li>Considering online gaming area</li> </ul>
<b>Other</b> Approx. ¥50.0 billion	Expand CVC investment limit (Total limit: ¥15.0 billion)	<ul style="list-style-type: none"> <li>Strengthen open innovation activities, including investment in start-up companies</li> </ul>	<ul style="list-style-type: none"> <li>Implement 18 new investments, approx. ¥3.0 billion <small>Exit from existing investment portfolio x 4</small></li> <li>Establishment of joint venture with PAPYLESS CO., LTD.</li> <li>“GAPOLI” service released</li> </ul>
	Creation of new business, acquisition of IPs, etc.		
<b>Total ¥250.0 billion</b>			

Continuing to invest in future earnings drivers

The Rovio acquisition used around ¥100.0 billion out of the ¥250.0 billion we had earmarked for growth investments in the medium-term plan. The allocation of the investment amount indicated in the plan is not strictly determined, and we are still around the halfway mark.

Going forward, depending on the level of accumulated cash and the growth potential of an investment target, we will consider increasing the investment budget.

Apart from the Rovio acquisition, we are considering other aggressive growth investments that will significantly change the balance sheet. We will thus need to consider reviewing our financial strategy framework. Now more than ever, we must also work together with Group companies to improve capital efficiency, including ROIC management and business portfolio management.

Regarding leverage, even after the Rovio acquisition, we have room to make use of borrowing to raise funds. To achieve sustainable growth for the Group in the next five to ten years, we will continue to maintain an aggressive investment stance that includes the use of debt, so that we can reinforce existing businesses and develop new businesses.

Moreover, we are continuing our strategic investments in the Gaming area, which we expect to become a third driver of earnings for the Group. A specific target is iGaming (online

casinos) in North America. So far, only a limited number of states have lifted their bans on such casinos, but discussions are unfolding in many areas. To be able to adapt to such developments at an early stage, we are exploring entry into the B2B business, including both consumer side and platform strategies. Whichever approach we take, making further inroads into global markets has to start with building a foundation in North America, so we will actively move forward with investments with an eye toward possible acquisitions.

Linking financial indicators and business strategies

We are always looking for ways of measuring the impact of non-financial factors on our finances.

For this reason, the Group's first priority is to clarify scenarios showing how the strengthening of non-financial capital will contribute to and support our business strategies. We are currently developing such scenarios with a view to incorporating them into our next medium-term plan.

Quantitatively analyzing the financial impact of climate change, particularly in terms of carbon credits related to carbon neutrality, is relatively straightforward. However, in deliberations going forward, it will be vital to consider how the improvement of our human capital indicators exerts a positive

impact on finances. We must ensure that our human resources strategies and business strategies are aligned. We have set up SEGA SAMMY College, a program for developing the Group's core human resources. The College offers a full range of seminars on personnel development for all levels, starting with Satomi Cram School, a program for staff in management positions.

We will continue to verify whether these various human resource development measures have a positive impact on the Group over the longer term, and adjust them accordingly.

As our network of overseas subsidiaries grows in line with our accelerating overseas expansion, the SEGA SAMMY Group Mission Pyramid, the shared model expressing the Group's significance to society, will take on an even more critical role. By sharing this set of values across our international operations, while also preserving the outstanding corporate culture unique to each business company, I am confident that we can greatly contribute to enhancing corporate value.

The role of the CFO is to help enhance corporate value

We have a longstanding emphasis on engaging with the capital markets. Through dialogue with investors and shareholders, we seek to gain understanding of our management and business strategies. Such dialogue also allows us to reflect the thinking of investors and shareholders in our management strategy. We see this as an essential process for enhancing corporate value. I see the role of the CFO as one of steering this process so that it functions smoothly. Going forward, I will fulfill my duties as a CFO in terms of finance as well as in a wide range of areas that affect corporate value, including formulating management strategies, ESG, and engaging with capital markets. I appreciate your interest in the ongoing growth of the Group.



We will clarify scenarios showing how the strengthening of non-financial capital will contribute to and support our business strategies