

The SEGA SAMMY Group saw a dramatic turnaround in performance in the fiscal year ended March 2023 in the wake of the COVID-19 pandemic, recording financial results that far exceeded our expectations. The past ten years or so have been marked by a great deal of turbulence for the Group, as it sought to navigate technological innovations and mounting competition in the consumer games sector, as well as regulatory changes and contraction in the pachislot and pachinko machines market. In the midst of this turmoil, the Group proceeded with the succession of a new President and Group CEO.

We sat down with Chairman Hajime Satomi and his son, the current President and Group CEO Haruki Satomi, to get their thoughts about how the transition in management came about and what led up to it.



**Haruki Satomi**

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

**Hajime Satomi**

Chairman, Representative Director  
SEGA SAMMY HOLDINGS INC.

**Lead-up to 2017, when Haruki Satomi became President and COO**

**First, Chairman Satomi, I would like to ask: What kind of training opportunities did you provide for CEO Satomi to foster him as someone fit to be a top manager?**

**Hajime:** When Haruki joined Sammy Corporation in 2004, I felt he should experience a range of challenging work environments. As a company, Sammy was familiar to him from childhood, so, the following year, I purposefully transferred him to SEGA CORPORATION. I felt it would be effective to have him take charge of a new business there and gain business experience. Because he was stationed on the West Coast of the United States, he began building his career in an environment where there were no familiar faces around to help him out in a pinch. At his own

request, he also completed an MBA at UC Berkeley School of Business while working. It was during this time that he learned the basics of management. A typical MBA course takes two years of intensive study, but Haruki took three years, attending school on weekends and in the evenings while working at the office during the day. I imagine it was a really tough time for him.

**Haruki:** Out on the West Coast, I was working on a new business distributing SEGA games over the Internet. I had originally been interested in starting up a business, and after graduating from university, I worked for a while at a financial institution to gain expertise. So, being allowed to start this new business was exactly

what I had hoped for. By the way, video game console software at that time was still mainly sold as a package, and the Group still had a conventional sales network. Getting involved in this business in a digitally advanced country like the United States was an invaluable experience, which prepared me for the various technological innovations that were to come.

Balancing the MBA studies and work was demanding and tough to be sure, but looking back now, those three years have informed my whole life.

In 2012, I started up SEGA Networks, a business company specializing in smartphone games. As you know, SEGA's focus had been on developing games for home video game consoles and amusement facilities. In those days of the flip phone, mobile games still felt like a completely different industry, and not many employees were interested in their development. But I went around to SEGA employees pitching the advanced performance of smartphones, which were already becoming more widespread overseas before they reached Japan, and emphasized the future potential of smartphone games. Then, eventually, I was able to make SEGA Networks a separate company. In its first year, the company was unable to achieve its forecasts and ended up in posting a significant loss. However, confident that this business would pan out, I asked my whole team to transfer over from SEGA. At the time, my sense was that we couldn't beat up-and-coming players in the mobile game business without that degree of commitment. After that, we put out a hit title and the business quickly started turning a profit. I'm truly grateful to that team at SEGA Networks who were supportive of my thinking.

**Chairman Satomi, how did you view the transfer of staff to the new company?**

**Hajime:** As I observed a series of developments related to smartphone games, I myself felt keenly that ICT was evolving, so I was fully on board with addressing the emerging era of the smartphone. Also, to accomplish anything it is extremely important to have a manager who is really driven and willing to push himself to the limit, so I also appreciated Haruki's stance of taking initiative in setting up his own operation.

To be honest, though, for someone of my generation, I felt it was difficult to properly gauge what was going on in the fast-changing digital world. So I think it was very fortunate for our Group to have young managers appear on the digital stage with the determination to take on new challenges.

**CEO Satomi, you were also responsible for undertaking structural reforms at SEGA.**

**Haruki:** That's right. I started at SEGA in 2005 and became Senior Vice President in 2014. At that time, SEGA's business performance was in fairly bad shape, so I set out to build the

Company back up. We separated the various businesses into separate companies to clarify earnings responsibilities, established the Mission Pyramid, and aimed to bring the Company together under a shared set of values.

**Hajime:** Sammy's executives approached me around this time and asked me to appoint Haruki as President of Sammy. I was aware that he was helping SEGA bounce back from a very trying situation, but I recall being surprised at how much attention he was attracting within the Group as a whole, much sooner than I expected.

**Haruki became President of Sammy in April 2016. Around that same time, we announced the establishment of ZEEG, a joint venture with competitor Universal Entertainment. The announcement that the two companies vying for the top spot in the industry had come together in a tie-up must have been a big surprise, even within the industry.**

**Haruki:** In tandem with the structural reforms at SEGA, I began laying the groundwork for ZEEG several years before assuming the role of President at Sammy. I knew we could expect this partnership to bring cost benefits through the use of common cabinets and parts and enhance the quality of entertainment through technical collaboration. After a long period of repeated discussions both in and outside the Group, we finally reached this goal.

**Hajime:** When I called Haruki in to speak with me around that time, I got the impression that he knew much more about the businesses of both Sammy and SEGA than I did, including the details of what was going on. If that were the case, I thought, he should take charge of managing the entire Group as COO under my leadership. I brought his appointment as Representative Director, President, and COO of SEGA SAMMY HOLDINGS to a discussion of the Board of Directors meeting in 2017. Under the framework at that point, Haruki was at the forefront of the business, but as CEO I still had full responsibility for management.

**During your time as COO, I heard you felt that you were under the most pressure ever in your career. How did you overcome that?**

**Haruki:** Being entrusted with all the businesses of the Group was a lot of pressure. But I also had the habit for many years of playing out in my mind what it would be like in the future to become the President and writing down bullet points in my notebook about the kind of mission I ought to carry out. So, when I became COO, I looked back at my notes and went about putting them into practice one by one.



## Haruki Satomi spearheading structural reforms in 2020

**People attribute strong performance in the fiscal year ended March 2023 to the structural reforms carried out in 2020 in response to the pandemic, which yielded great results.**

**Haruki:** In our previous medium-term plan Road to 2020, which covered the fiscal years ended March 2018 to March 2020, we did not achieve our targets. However, by running a PDCA cycle on the plan, I think we were able to grasp the weak points and issues of the Group as a whole, which was a good outcome. As you know, the impact of COVID-19 was enormous and our businesses were hugely affected. I thought we should start out by imagining the worst-case scenario and think about what we should do from there.

In our worst-case scenario, we estimated a possible loss of ¥45.0 billion. Even if that were to happen, the Company would not be immediately insolvent, but I felt we should use this crisis as an opportunity to confront long-standing issues and undertake structural reforms at a level that would have been impossible in normal times.

### Overview of Structural Reforms

- Review of business portfolio (transfer of Amusement Center Operations area, resource reallocation from Amusement Machine area to Consumer area)
- Reduction of fixed expenses (call for voluntary retirement)
- Review of non-business assets (disposal of owned assets)

**Hajime:** At the time, when I saw the proposed reforms, as CEO I honestly wondered if we needed to go that far. The Amusement Center Operations area was still profitable, so I thought it would be a waste to sell it off at a low price. But Haruki and our CFO, Koichi Fukazawa, told me that they didn't want to shirk responsibility by having me choose from among several scenarios. Instead, they wanted to make their best choice and take responsibility for seeing it through. When I realized how committed they were, it came across how seriously they were thinking about the Group and its management, so I approved their proposed structural reforms for the sake of the Group's future.

Among the people who took voluntary retirement there were nearly 400 Sammy employees who had supported me since the Company's founding. I set up the opportunity to talk directly with the retiring employees, and did everything in my power to support their career transitions.

**Haruki:** We carried out these reforms because we had Japan's Stewardship Code and Corporate Governance Code in mind. To be honest, if the Group were not a listed company, we likely could have maintained minimal earnings and gradually deteriorated while carrying out business as usual. But that's no way to be accountable to shareholders and other stakeholders. Since we are a listed company, the management team has a duty to elevate the Group further toward a growth trajectory while achieving a certain rate of return on capital. Otherwise, the management team would quickly lose the trust of investors and we would no longer have a reason to exist as a company.

**Hajime:** Along with the reforms, I also decided to step down as CEO. In 2021, I discussed Haruki's appointment with an independent advisory board consisting of all of our outside directors. No one objected.

**Haruki:** From a sustainability perspective, my personal opinion is that the survival of a company is the most important thing. The next important question is how we can increase earnings. It's possible to generate strong earnings in the short term without considering any negative impact on society or the environment. In fact, from time to time companies with such strategies appear, both in the pachislot and pachinko machines sector and in the consumer games sector.

But that kind of approach can't guarantee a company's future prospects. All of the employees and business partners involved with our Group can take pride in the fact that they contribute to society every day. In other words, a company's value increases only if its management takes the straight and narrow path. I'm convinced that the structural reforms we carried out in 2020 were absolutely necessary measures for creating such a framework.

## About management succession and leadership

**In the INTEGRATED REPORT 2021, Kohei Katsukawa, one of the outside directors of SEGA SAMMY, said, "Haruki is someone who played a central role in the structural reforms in 2020 and who is determined to achieve the goals of the new medium-term plan. That's why I feel that the Group under his leadership as CEO is moving into a pivotal period, like a second founding." Chairman Satomi, what are your thoughts now that you have stepped down as CEO?**

**Hajime:** For me, the title of CEO, even more than Chairman or President, encouraged me to work hard to manage the Company with a deep sense of responsibility. From that perspective, passing on the CEO position was a big decision. Now that I have passed on this responsibility, I do not interfere more than necessary in management decision-making.

Although I stepped down as CEO, it is a well-known fact that I founded the Company. If I give directions to the CEO, everyone will feel like I'm still in charge. I've let Haruki assume full responsibility for Group management. In Japan, you often see cases where a company's founder or a charismatic CEO continues to cling to the reins of management even after appointing a successor, and sometimes even dismisses their successor. But if someone doesn't want to cede authority, I think they should continue to shoulder responsibility as CEO.

**Haruki:** Clarifying the authority of the CEO is the essence of corporate governance. Within the scope of their authority, CEOs enhance corporate value and reward shareholders and other stakeholders. The higher level body that oversees this is the Board of Directors. I believe the Board ought to be a place where a diverse range of outside directors evaluate the CEO's management from a variety of perspectives. I am also a Director, but at Board meetings, my position is always to take responsibility for proposing management strategies as the head of the executive officers.

**Hajime:** Going forward, I will take part in management as one of the Directors. Of course, as the Company's founder, I have a strong

desire to return the Group's market capitalization to ¥1 trillion and make SEGA SAMMY a world-leading entertainment company. So, I want to put proactive governance in place that will encourage people to take on this challenge. However, I mustn't forget that I have entrusted the realization of that vision to my successor. In that sense, the Group truly is in a kind of second founding period.

Also, having integrity as a company is something I have insisted on since our founding. More than anyone, I know what the Group has prioritized and how it has acted at various turning points in our history. So, I will be taking a hard look at whether or not the current management team keeps to the right path in this regard.

**Chairman Satomi, tell us about the qualities you think are necessary for a leader.**

**Hajime:** I think the most important quality is being able to obtain buy-in from others. Doing this calls for three things: setting an over-arching direction and not wavering from it; translating this direction into realistic measures and sharing them with employees; and never giving up until you achieve greater success.

I also want leaders to have a bold vision. In 1965, I started selling game machines because I thought I could have a bold vision for that business, considering the huge market potential and the competitive situation at the time. I want Haruki to become a leader who shares that kind of vision with employees and stakeholders.

**CEO Satomi, what did you learn from Chairman Satomi as a leader?**

**Haruki:** I've been observing my father for a long time, and I feel that his courage to believe in people is truly remarkable. People never do exactly what you expect, but if you can believe in them to do their job, trusting your subordinates and business partners, you can obtain greater buy-in. That's something I'm learning every day.

**Hajime:** My creed was never to mislead others, never to take out my anger on others unnecessarily, and never to speak ill of others. In other words, I've lived my life to this point with a clear sense of how my behavior affects my family and my employees. Integrity may also be an important quality for a leader. In business as well, I've never sought to make a profit in a way that would cause people to talk behind my back.

**Haruki:** We are passing on what I learned from my father's management style to employees in the form of five personal skills: drive, initiative, resolve, control, and empathy. I also put a high value on integrity. In business, even if you have to make hard demands on employees or business partners, there should always be integrity at the core. History clearly shows that if you lose your humility and don't act with integrity, you will stop being able to obtain as much buy-in from others and will only go downhill as a leader.

