



Sega Sammy Holdings

WELCOME TO THE NEXT LEVEL!

Starting this year as one of the world's most investible countries, Japan is poised to further entice global dealmakers into its vibrant business community. Significant changes to the Companies Act are expected to be proposed as early as next year, allowing international businesses to use their own stock as consideration for acquisitions—a preferred method known as 'share delivery.' This move will be transformative for corporate Japan, enhancing its competitive stance globally, especially if the yen remains weak. Encouragingly, Goldman Sachs forecasts the yen to maintain its current level over the next 6-12 months, suggesting that several listed companies are currently undervalued, presenting attractive opportunities for investors.

Among the most enticing investment opportunities in Japan are its entertainment and game industries. According to Statista, Japan's entertainment industry is set to achieve a CAGR of 10.3% between 2022 and 2027, reaching a market volume of USD 3.3 billion. While impressive, this figure is overshadowed by the country's video game industry, which ranks as the third-largest globally and is projected to generate USD 28 billion in revenue this year. With industry legends like SEGA, Japanese companies have dominated the global game market since the 1980s. Through unique storytelling, innovative gameplay, and strategies such as simultaneous worldwide releases and cross-play, Japanese game studios consistently create captivating games that transcend cultural barriers.

Formed in 2004, Sega Sammy Holdings resulted from the management integration of two Japanese titans, SEGA and Sammy. The Sega Sammy Group is a comprehensive entertainment company that delivers a wide range of entertainment to the world. In more detail, the Group mainly comprises the Entertainment Contents Business, which offers a diversity of content such as games; the Pachislot and Pachinko Machines Business, which handles everything from development to sales of Pachislot and Pachinko machines; and the Gaming Business, which operates an integrated resort and develops casino gaming products and software. The group currently comprises 43 domestic and 53 overseas companies, controlling a treasure trove of IPs that include many of the industry's most coveted franchises. These beloved IPs, such as Sonic the Hedgehog, the Persona series, and Total War, collectively have a staggering unit and download count of over 1.74 billion.

According to the group's president and Group CEO, Haruki Satomi, before the management integration, his father, Hajime Satomi—who founded Sammy in 1975—was asked by Isao Okawa, the former owner of SEGA, to become SEGA's CEO. "At the time, my father was hesitant to take over the company—he wanted to focus on Sammy," Mr. Satomi recalls.

However, just before Mr. Okawa passed away in 2001, he transferred much of his own assets to SEGA to keep the company afloat. Mr. Satomi says that when Mr. Okawa passed away, his father decided to



Haruki Satomi
President & Group CEO

rescue SEGA, agreeing to the management integration.

SEGA, which boasts the highest sales within the group, brings decades of experience at the forefront of the global game industry and a beloved, iconic brand cherished by millions worldwide. Their influence and recognition extend far beyond Japan, with millions of fans worldwide. From classic arcade games to cutting-edge consoles and beloved characters like Sonic the Hedgehog, SEGA has made an indelible mark on game culture across the globe.

After overcoming some hurdles, including a 'Structural Reform' due to the COVID-19 pandemic, Mr. Satomi proudly asserts that the group's position is now stronger than ever. "Our performance has been nothing short of excellent, particularly over the past three years. In May 2024, we announced a new medium-term plan centered on Transmedia

strategy," explains Mr. Satomi. Fittingly, the goal for the group's new medium-term plan—"WELCOME TO THE NEXT LEVEL!"—is a homage to the famous marketing tagline used for the SEGA Genesis in 1989.

The Sonic IP is the first major success story in Transmedia. The movie 'Sonic the Hedgehog,' released in 2020, became a huge hit, and licensing revenue for the Sonic IP has increased more than tenfold in the past five years. Mr. Satomi states that due to the success of Sonic, there is continued interest from Hollywood producers and studios for other SEGA IPs, and they are prepared to offer them to various media. With an eye towards further growth, the Sonic IP will release a new game titled 'Sonic X Shadow Generations' in October 2024, and the third movie is scheduled for release in December.

COVID-19 has rapidly accelerated the digital distribution of the game industry. The removal of regional and console barriers has allowed more people to engage with games. Furthermore, the ways in which



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people engage with games have diversified. Currently, there are three billion 'Gamers' in the world. 'Gamers' are not limited to just players; they include game streamers and their viewers, as well as esports athletes and their supporters. When considering all of these, we believe that games can reach 3 billion people.

Currently, various platforms such as GAFAM are participating in the game industry. Mr. Satomi says that SEGA has two major strengths in this situation. One is having numerous game studios internationally, as well as owning various titles and IPs. 'Since we don't focus solely on one big game, when a new game platform emerges, we can flexibly provide game titles that meet their preferences and needs as a launch partner,' he explains. The second strength is that the generation that grew up with SEGA has now become business owners and decision-makers. They played SEGA games when they were young, so there is an instant emotional connection. 'It's a big tailwind for our partnership business. It's easy to communicate our ambitions to them,' he says.

Another route to unlock Sega Sammy opportunities is by considering investment in their stock. Since the beginning of this year (4 Jan-4 Jun),



Sega Sammy Holdings' share price has surged by 10.5%. Mr. Satomi maintains that the stock could still be significantly undervalued, especially given the group's recent robust financial performance.

Indeed, the highlights of Sega Sammy Holdings' most recent fiscal year are impressive. Operating income surged by 21.5%, climbing from JPY



46.7 billion to JPY 56.8 billion, while net sales saw a substantial increase of 20.1%, rising from JPY 389.6 billion to JPY 467.8 billion. The group achieved an ROE of 9.6% and provided shareholder returns totalling JPY 20.9 billion, with a total return ratio of 63.3%. "All our businesses are profitable. There's no doubt - we're a growth company now," says Mr. Satomi.

Notably, the Entertainment Contents Business saw a 12.4% increase in sales, attributed to the acquisition of Rovio, powerhouse behind Angry Birds, for USD 776 million as part of its M&A strategy. Rovio, headquartered in Finland, brings significant value to Sega Sammy Holdings' global x mobile domain. Additionally, the group doubled the operating income from its Pachislot and Pachinko Machines business, reaching JPY 41.2 billion.

Mr. Satomi defines the Group's mission and purpose as 'Constantly Creating, Forever Captivating - Making Life More Colorful -'. He adds, "The entertainment business we engage in is not wholly viewed positively by society; it's an industry where negative aspects are also highlighted. However, by providing captivating experiences that outweigh the negatives—with our core aim being to continually deliver value exceeding customer expectations—we're confident in maintaining a welcomed presence in society. Fortunately, now is a time when the content business in Japan is receiving attention. We've gained significant opportunities and will continue to have a positive impact on the world."

In conclusion, Sega Sammy Holdings stands at the forefront of the global entertainment and game industries, poised for continued growth and innovation as it leverages its rich legacy, robust financial performance, and forward-looking strategies to bring joy to audiences worldwide. With an ambitious goal of reaching three billion individuals through its comprehensive Transmedia strategy, the company is positioned to remain a driving force in shaping the future of entertainment on a global scale.



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