

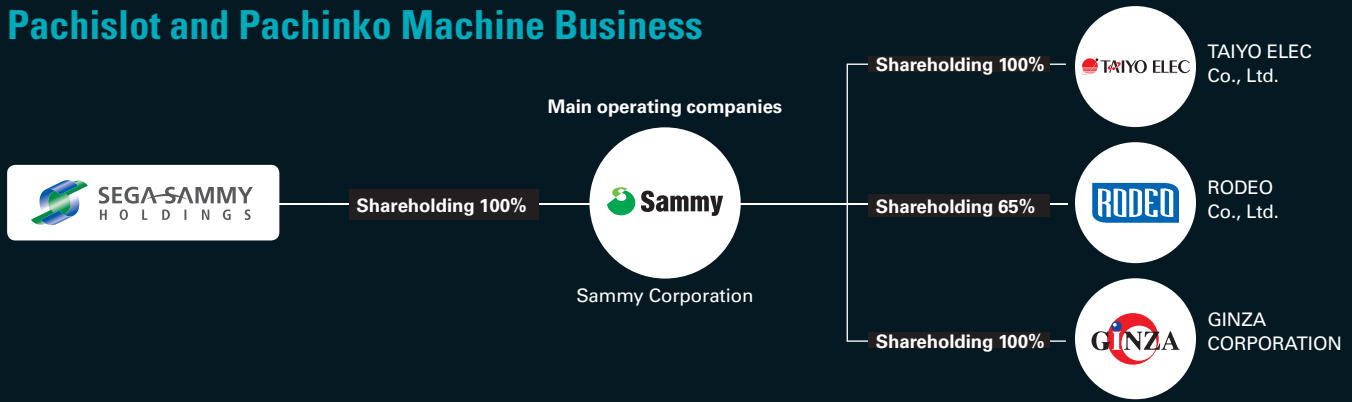
# the OPERATING SEGMENTS

the PAST, PRESENT, and FUTURE

Business Segments Past, Present, and Future

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# Pachislot and Pachinko Machine Business



## the PAST

**1975** Established Sammy Industry Co., Ltd.

**1989** Launched *Aladdin* single-bonus hitter pachislot machine

**1998** Launched industry's first pachislot machine including CT (challenge time) function, *Ultraman Club 3*



Pachislot Juoh ©Sammy

**1999** Launched industry's first pachislot machine incorporating an LCD, *GeGeGe No Kitaro*

**2000** Made RODEO Co., Ltd. (formerly Barcrest Co., Ltd.), a subsidiary



Pachislot Hokuto No Ken ©Buronson & Tetsuo Hara ©Sammy

**2001** Launched pachislot machine including AT (assist time) function, *Pachislot Juoh*

**2003** Launched pachislot machine that set new unit sales record, *Hokuto No Ken*

**2007** Made TAIYO ELEC Co., Ltd., a subsidiary

**2008** Launched *Pachinko CR Hokuto No Ken* pachinko machine



Pachinko CR Hokuto No Ken ©Buronson & Tetsuo Hara / NSP1983, ©NSP2007 Approved No.SAE-307 ©Sammy

**2009** Made GINZA CORPORATION a subsidiary

**2012** Completed construction of new Kawagoe Factory and distribution center



Kawagoe Factory

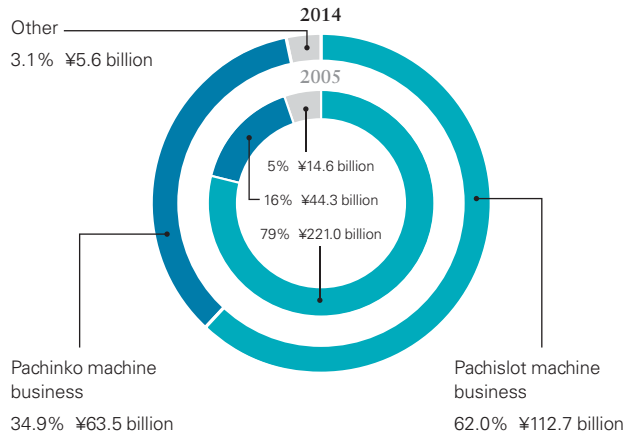
## the PRESENT

### Comparing Fiscal 2014 and Fiscal 2005

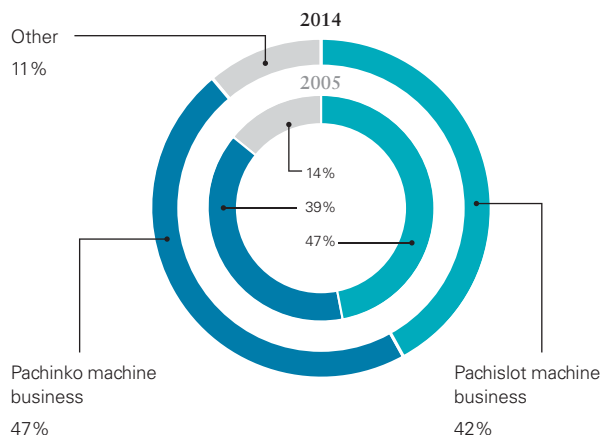
#### Net Sales



#### Net Sales Breakdown



#### Employee Breakdown





Pachislot Lost Island  
©Sammy



Pachislot SOUTEN-NO-KEN 2  
©Tetsuo Hara & Buronson / NSP2001,  
Approved No.YKU-127 ©Sammy

## Fiscal 2014 Overview

### Net Sales

¥181.8 billion | 28% ↑

### Operating Income

¥45.2 billion | 92% ↑

### Pachislot Machine Unit Sales

301,000 units | 49% ↑

### Pachinko Machine Unit Sales

200,000 units | -8% ↓

## Fiscal 2014 Overview

In fiscal 2014, the segment's net sales increased 28% year on year, to ¥181.8 billion.

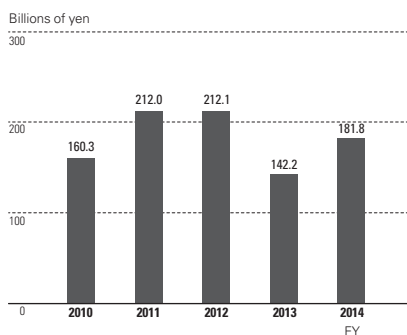
In the pachislot machine business, net sales rose 76% year on year, to ¥112.7 billion, while the pachinko machine business recorded a 12% year-on-year decline in net sales, to ¥63.5 billion. The segment's operating income was up 92% year on year, to ¥45.2 billion. The operating margin rose 8.4 percentage points year on year, to 24.9%, thanks to higher pachislot machine unit sales and cost reductions resulting from component reuse. Furthermore, R&D expenses and content production expenses increased ¥1.5 billion, to ¥19.5 billion.

In the pachislot machine business, we postponed the launch of some titles. However, such titles as *Pachislot Hokuto No Ken Chapter of Resurrection* and *Pachislot Eureka Seven 2*—both under the Sammy brand—posted solid sales. As a result, unit sales rose a significant 99,000 units year on year, to 301,000 units. The business launched nine titles, up one from the previous fiscal year.

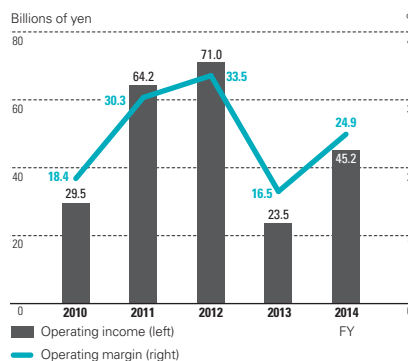
As for the pachinko machine business, although sales of such Sammy brand titles as *Pachinko CR Hokuto No Ken 5 Hyakuretsu* and *Pachinko CR Monster Hunter* were firm, the business launched only 10 titles, four fewer than in the previous fiscal year. Due to slumping market conditions, sales of non-mainstay titles were lackluster. Consequently, unit sales decreased 16,000 units, to 200,000 units, and pachinko board sales as a percentage of net sales rose 21.9 percentage points, to 48.1%.

In 2013, the market share of the pachislot machine business increased 6.4 percentage points, to 21.7%, while the market share of the pachinko machine business was up 1.1 percentage points, to 9.8%.

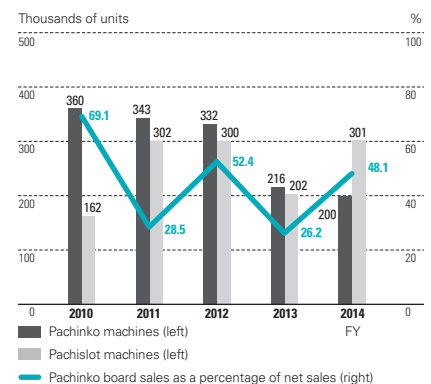
### Net Sales



### Operating Income / Operating Margin




### Pachislot and Pachinko Machine Unit Sales



## Pachislot and Pachinko Machine Business

### Business Model

The Pachislot and Pachinko Machine Business segment plans, develops, and manufactures products in-house, which it sells to pachinko hall operators through a proprietary sales network and through sales agencies across Japan. The lead time for creating a commercial pachislot or pachinko machine is approximately two years. Generally, pachislot and pachinko machine shipments peak in the initial period after launches. In recent years, due to pachinko hall operators' reduced capital investment capacity, the replacement demand for new machines, or annual turnover\*, has decreased to less than once a year. As a result, demand has focused increasingly on titles with proven high utilization rates. Consequently, developmental capabilities and brand power have become more important than ever.

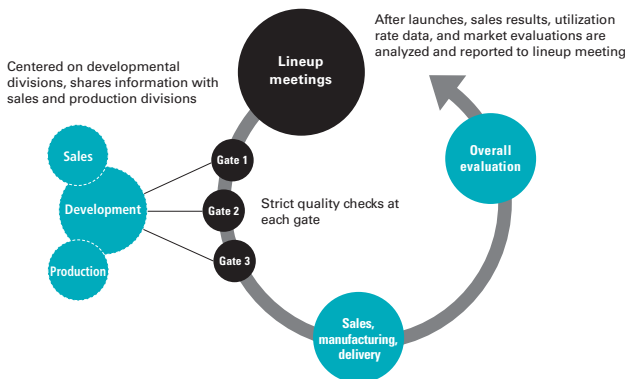
\* Annual turnover  For details, please see "Get to Know the Pachinko and Pachislot Machine Market" on page 57.

## the FUTURE

### STRENGTHS

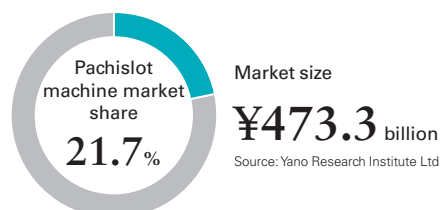
#### • Market-driven development system based on close coordination among three divisions

Using market information that our market research division collects, our development, sales, and production divisions share an integrated series of processes that stretches from preparing launch schedules through to sales, manufacturing, and delivery. Furthermore, we use a "gate management" system that entails strict checks at three stages, or "gates," during the development process. At each of these gates, we also check for any changes in the market environment, which can occur during products' development periods, and flexibly adjust plans if needed. This system is enhancing the product appeal of our pachislot and pachinko machines steadily.



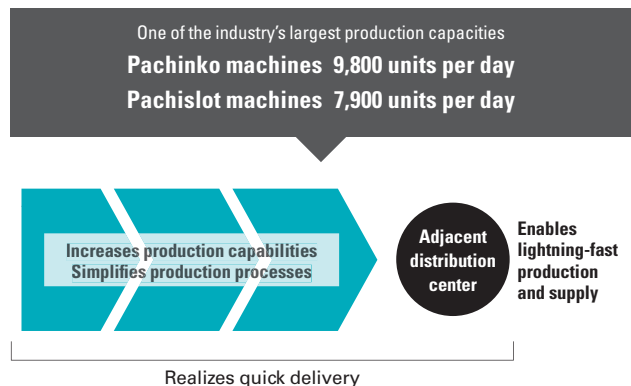
#### • Significant share of the pachislot machine market

Recent years have seen demand tend to concentrate on machines that promise stable utilization rates. We are confident we can maintain a substantial share of the pachislot machine market by continuing to make products that capitalize on our strong brand power and outstanding developmental system.



#### • Lightning-fast production and supply

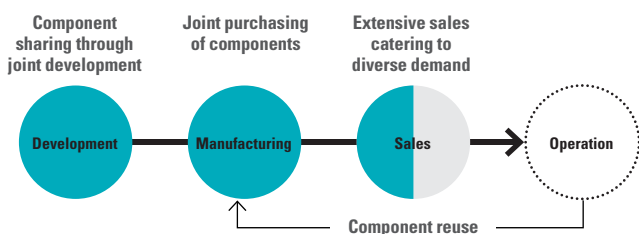
Our lightning-fast production and supply system has a daily production capacity of 7,900 pachislot machines and 9,800 pachinko machines and a distribution system that shortens production lead times significantly. This system minimizes sales opportunity loss by accurately catering to demand for pachislot and pachinko machines, which tends to be most intense in the initial period after launching pachislot and pachinko machines.



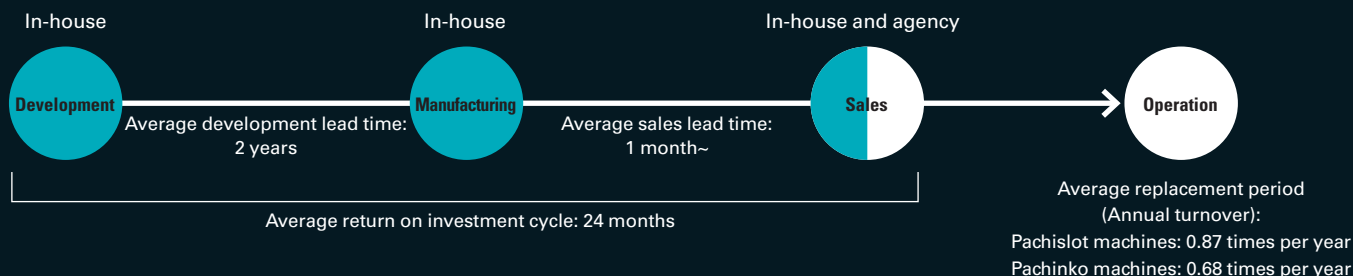
#### • Multibrand strategy

Our multibrand strategy based on Sammy Corporation, TAIYO ELEC Co., Ltd., RODEO Co., Ltd., and GINZA CORPORATION enables us to cater to diverse market demand and increases component reuse benefits and reduces production costs through joint purchasing and component sharing among the companies.

#### Synergies Multibrand Strategy Creates



## Supply Chain of Pachislot and Pachinko Machine Business



## WEAKNESSES

### • Variability of earnings due to regulatory changes

The volatility of earnings in the pachinko and pachislot machine market is due to such external factors as the amendment of various laws and regulations and risks associated with new products' sales licenses.

[in Detail ▶▶ P.57](#)

### • Business development restricted to Japan

The segment only operates in the market that relevant domestic laws stipulate. Consequently, its business development is restricted to Japan.

## OPPORTUNITIES

### • Pachinko machine growth potential

Compared with our pachislot machine market share, our share of the pachinko machine market is small. We view this as representing scope for significant growth of the Pachislot and Pachinko Machine Business segment.



### • Higher-value-added machines

A shakeout of manufacturers is under way as gameplay becomes more sophisticated and such components as LCDs and ROMs become more expensive. Amid these conditions, our advanced developmental capabilities and abundant funds for development could become even stronger competitive advantages.

## THREATS

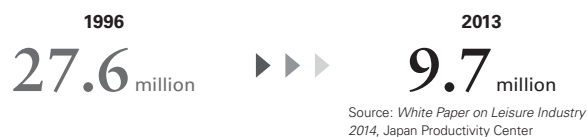
### • Decline of player population

In the pachinko and pachislot machine market, the player population is gradually decreasing. This is worsening the financial positions of pachinko hall operators, causing them to adopt conservative capital investment stances.

#### Number of Pachinko Halls



#### Player Population

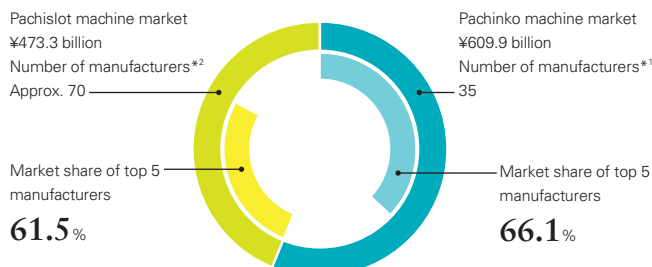


[in Detail ▶▶ P.57](#)

### • Further strengthening of oligopoly in the pachinko machine market

In terms of brand power, the segment lags behind the top pachinko machine manufacturers. Given the emerging demand bias toward popular titles, the Group faces the risk of sluggish sales centered on its second-tier titles.

#### Leading Manufacturers' Market Shares



\*1 Source: Yano Research Institute Ltd. (As of July 2014)

\*2 Due to the large number of organizations and companies, the number of pachislot machine manufacturers is the Group's estimate.

## Pachislot and Pachinko Machine Business



Pachinko CR Bakemonogatari  
©Nisioisin / Kodansha, Aniplex Inc., SHAFT INC.  
©Sammy



CR Maoyoken 3  
©2002 RED / TakahashiRumiko ©2002  
KADOKAWA CORPORATION ENTERBRAIN  
©TAIYO ELEC

### Growth Strategies

Our basic strategy calls on the pachislot machine business to maintain a leading market share and calls on the pachinko machine business to claim a leading market share in the medium-to-long term. As demand concentrates on leading manufacturers and machines that promise stable utilization rates, we will further strengthen developmental capabilities by increasing investment in R&D and improving developmental systems. With a particular emphasis on young adults, we will expand our player base by creating fresh machines that break with traditional pachislot and pachinko machine concepts. Furthermore, we will continue efforts to lessen the concentration of new machine launches in the second half of fiscal years.

The Pachislot and Pachinko Machine Business segment is advancing a multibrand strategy based on four Group companies. In fiscal 2014, the strategy moved into its component-sharing phase. We will reduce costs through joint purchasing and component reuse centered on Sammy's plant. In addition, by developing inexpensive machines that curb developmental costs and shorten lead times, we will diversify the product portfolio and reduce costs comprehensively.

### Fiscal 2015 Outlook

In fiscal 2015, against the backdrop of pachinko hall operators' weak investment appetite, the pachislot machine market is expected to perform steadily, but flagging demand in the pachinko machine market and the bias in demand favoring popular titles are likely to continue.

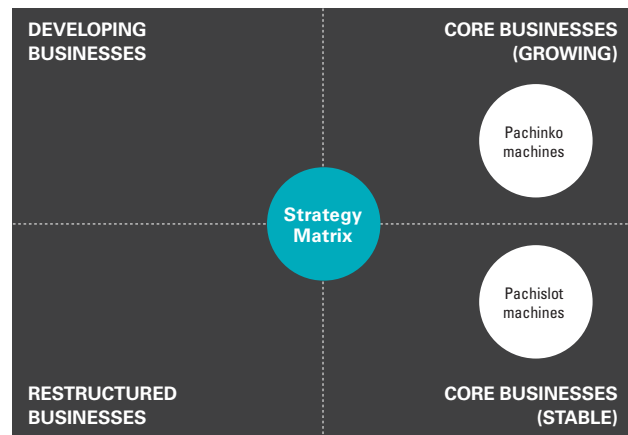
In these conditions, we are targeting a 20% year-on-year rise in revenues, to ¥217.5 billion. To reach this target, we will increase unit sales significantly by bringing mainstay titles to market through the pachislot machine and the pachinko machine businesses.

In the pachislot machine business, during the current fiscal year we will launch 10 titles, including *Pachislot SOUTEN-NO-KEN 2* and several other mainstay titles. As a result, we aim to elevate unit sales 73,000 units year on year, to 374,000 units.

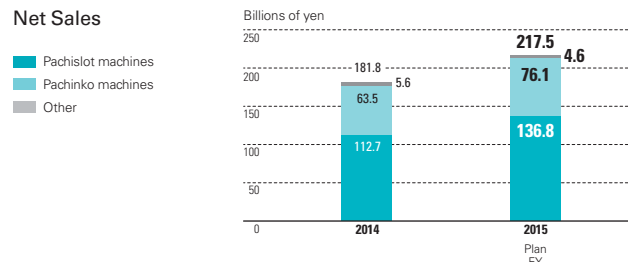
In the pachinko machine business, we plan to boost unit sales 49,000 units year on year, to 250,000 units, by marketing 14 titles during the current fiscal year, including several major titles.

As for earnings, the segment is likely to see its profit margin dip temporarily due to higher costs as the capacities of ROMs for image processing increase and movable gadgets increase. As a result, we project year-on-year decreases of 10% in operating income, to ¥40.5 billion, and 6.3 percentage points in the operating margin, to 18.6%.

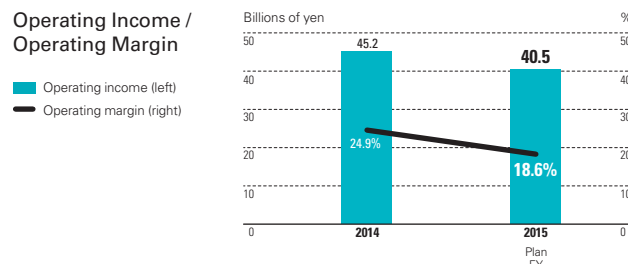
### Strategy Matrix



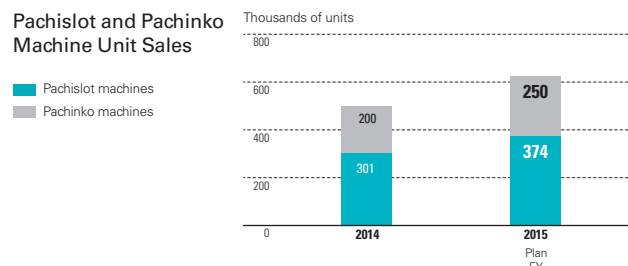
### Net Sales



### Operating Income / Operating Margin



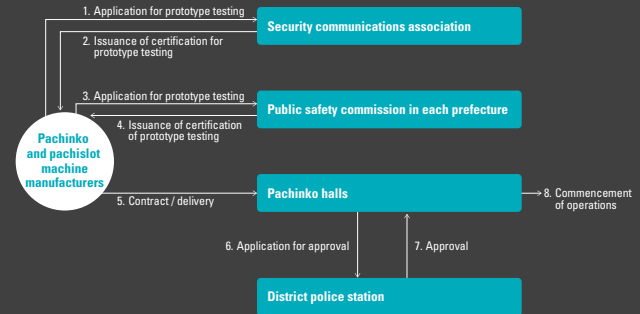
### Pachislot and Pachinko Machine Unit Sales



## Pachinko and Pachislot Machine Market's Regulatory Process

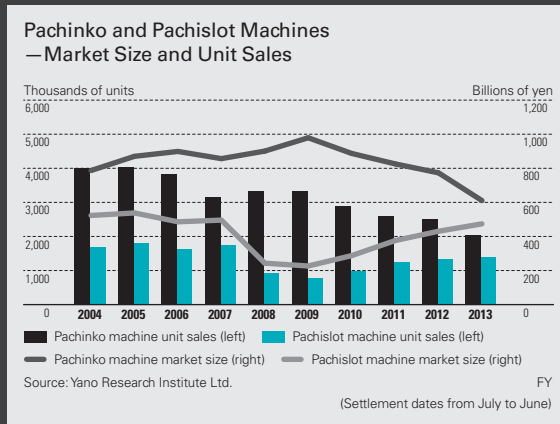
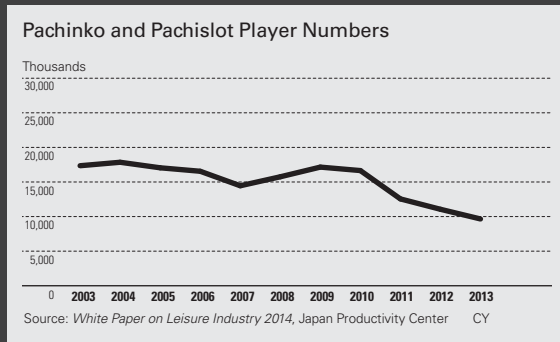
Before launching new products, pachinko and pachislot machine manufacturers have to proceed through various approval processes based on the Entertainment Establishments Control Law. These approval processes inspect products to determine whether their materials, functions, and gameplay conform to the specifications that current regulations set. Not receiving certification can severely affect sales plans. Also, regulatory revision can affect gameplay.

### Approval Process for Pachinko and Pachislot Machines

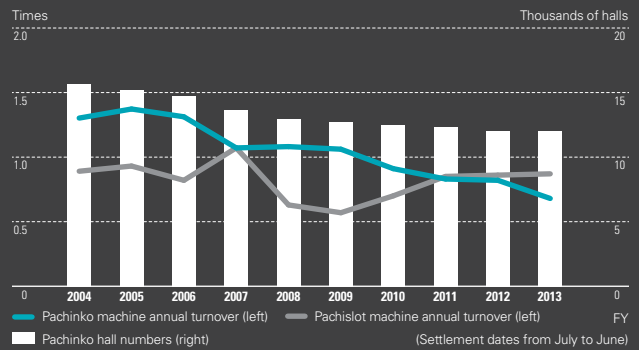


## Current Market Conditions

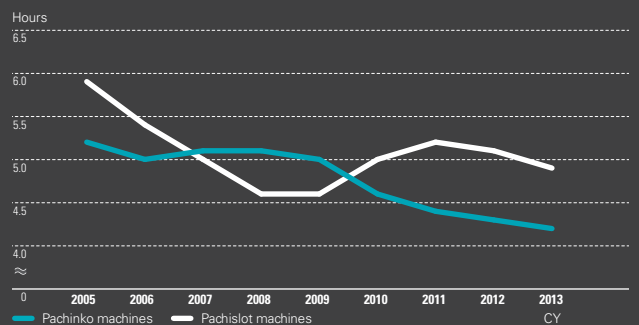
In the pachinko and pachislot machine market, the player population continues to decrease. Focused on controlling excessive gambling elements, the regulatory revision of July 2004 rapidly changed pachislot machines' gameplay and caused players to leave the market. Meanwhile, although sales of pachinko machines remained favorable, the increasing installation of pachinko machines with strong gambling elements accelerated the decrease in casual players. Also, the price of pachinko machines rose. The resulting downturn in sales and higher investment burden worsened pachinko hall operators' business results. This led to a slump in machine replacement demand, the emergence of a bias in demand towards manufacturers and titles able to provide reliable returns on investment, and a cycle of peaks and troughs in pachinko and pachislot machine sales.



### Annual Turnover\* and Pachinko Hall Numbers



### Utilization Time\*



# Amusement Machine Sales Business



Shareholding 100%



SEGA CORPORATION

Shareholding 100%



DARTSLIVE Co., Ltd.

## the PAST

- 1960** Developed first domestically produced jukebox, *SEGA 1000*
- 1964** Began manufacturing amusement arcade machines
- 1985** Launched world's first force feedback game, *Hang On*  
Launched *UFO Catcher*
- 1990** Launched world's first amusement arcade machine able to rotate 360 degrees in all directions, *R-360*
- 1993** Launched world's first 3D computer graphics fighting game for amusement arcade machine, *Virtua Fighter*
- 1995** Launched *Print Club* with *ATLUS Co., Ltd.*
- 1999** Launched first title in *DERBY OWNERS CLUB* series of amusement arcade machines
- 2003** Launched world's first kids' card game, *The King of Beetles "MUSHIKING"*
- 2004** Launched SEGA's infrastructure linking amusement centers, *ALL.NET*



SEGA 1000  
©SEGA



UFO Catcher  
©SEGA



Print Club  
©SEGA / ATLUS



The King of Beetles  
"MUSHIKING"  
©SEGA

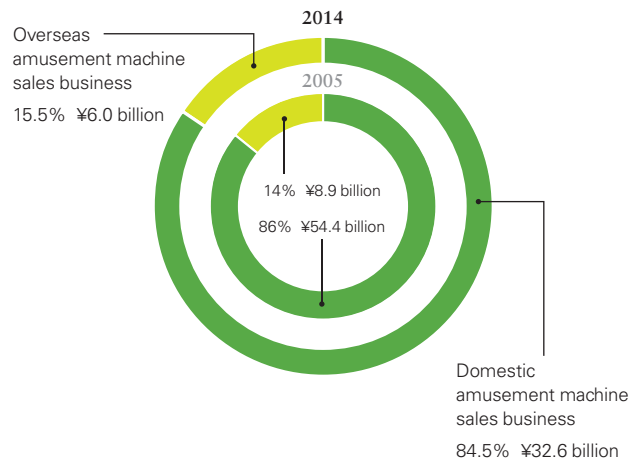
## the PRESENT

### Comparing Fiscal 2014 and Fiscal 2005

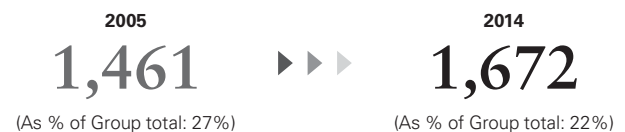
#### Net Sales



#### Net Sales Breakdown



#### Employee Numbers







WORLD CLUB Champion Football series  
©SEGA ©Panini S.p.A. All Rights Reserved  
The game is made by SEGA in association with Panini.



CODE OF JOKER  
©SEGA

### Fiscal 2014 Overview

#### Net Sales

¥38.6 billion | -1%

#### Operating Loss

¥1.2 billion

#### R&D Expenses, Content Production Expenses

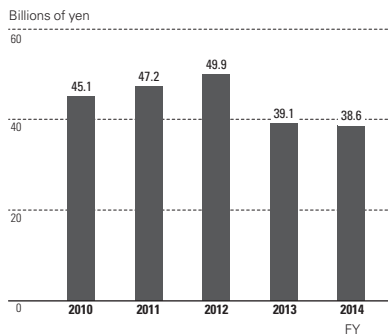
¥8.9 billion

### Fiscal 2014 Overview

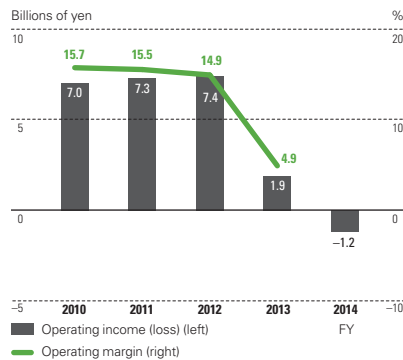
In fiscal 2014, the segment's net sales decreased 1% year on year, to ¥38.6 billion, due to sluggish sales of such new titles as *THE WORLD of THREE KINGDOMS*. Meanwhile, the segment sold CVT kits, cards, and other consumables for *WORLD CLUB Champion Football*. Also, the segment recorded revenues from revenue-sharing titles, including *CODE OF JOKER*. R&D expenses and content production expenses were ¥8.9 billion.

As a result of the above, the segment incurred an operating loss of ¥1.2 billion, compared with the previous fiscal year's operating income of ¥1.9 billion.

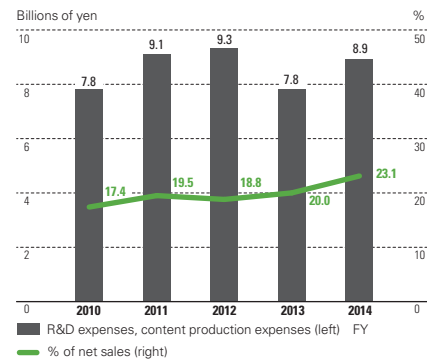
#### Net Sales



#### Operating Income (Loss) / Operating Margin



#### R&D Expenses, Content Production Expenses\* / % of Net Sales



\* The aggregate calculation method has changed as of fiscal 2014. Consequently, R&D expenses and content production expenses include amortization cost of digital game titles. Until fiscal 2013, depreciation and amortization included amortization cost of digital game titles.

## Amusement Machine Sales Business

### Business Model

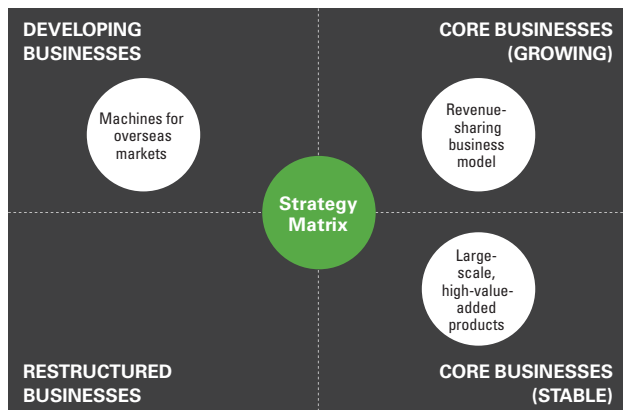
The Amusement Machine Sales Business segment plans and develops products in-house and outsources manufacturing. Developmental lead time varies depending on the amusement arcade machine, while return on investment cycles differ for each business model. In recent years, we have been lessening amusement center operators' investment burden by introducing a revenue-sharing business model—a system that enables content upgrades through board replacement or new content downloads.

## the FUTURE

### Growth Strategies

In this business segment, invigorating the amusement center industry is a priority task because it affects the segment's business results significantly. Accordingly, we are promoting a revenue-sharing business model and CVT kits that lighten amusement center operators' initial investment burden and such business models as free-to-play (F2P), which broaden the player base. Furthermore, we are pursuing other initiatives to extend the player base so that it includes not only core players but also families. At the same time, we are optimizing management resources by allocating them to the digital game area. Regarding development, aiming to supply products that match market demand, we will rethink the segment's development-led, production-oriented approach.

### Strategy Matrix

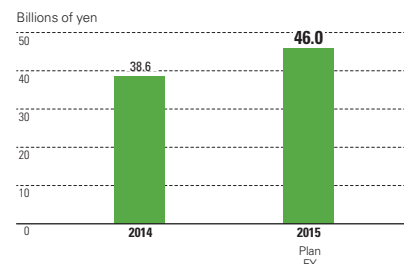


### Fiscal 2015 Outlook

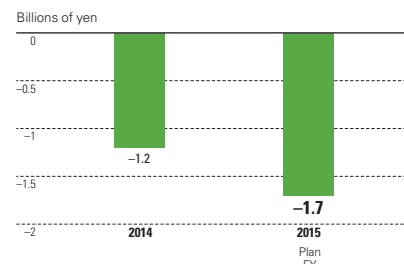
In fiscal 2015, challenging market conditions are likely as an increase in consumption tax curbs amusement center operators' investment. The segment is targeting a 19% year-on-year rise in net sales, to ¥46.0 billion. However, advance investment to build a product lineup that reflects changes in industry conditions is expected to increase operating loss from fiscal 2014's ¥1.2 billion to ¥1.7 billion. Furthermore, R&D expenses and content production expenses are projected to rise 3% year on year, to ¥9.2 billion.

STRENGTHS	WEAKNESSES
<ul style="list-style-type: none"> <li>Very competitive products in high-end market</li> <li>Precise identification of market needs through collaboration with Amusement Center Operations segment</li> <li>Developmental personnel</li> </ul>	<ul style="list-style-type: none"> <li>Low profitability of overseas businesses</li> <li>Development-led, production-oriented approach</li> <li>High-cost structure</li> </ul>
OPPORTUNITIES	THREATS
<ul style="list-style-type: none"> <li>Growth potential of overseas markets centered on Asia</li> <li>Tie-ins with consumer generated media (CGM)</li> </ul>	<ul style="list-style-type: none"> <li>Amusement center operators' challenging financial position</li> <li>Risk of lower revenues from revenue-sharing business model due to slumping consumer spending</li> </ul>

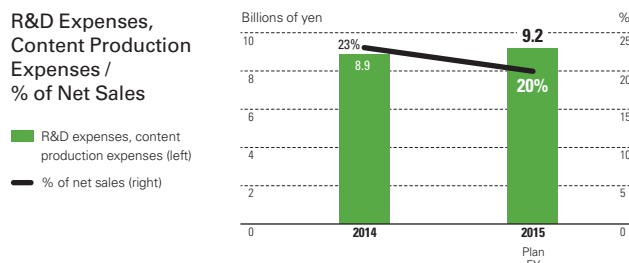
### Net Sales



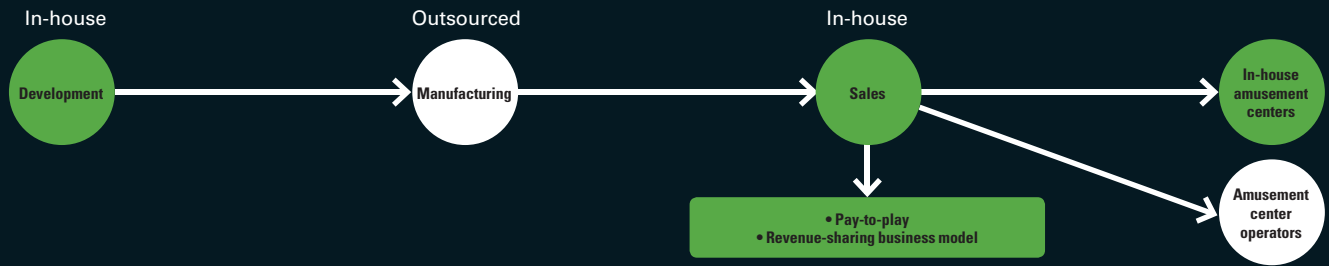
### Operating Loss



### R&D Expenses, Content Production Expenses / % of Net Sales



## Supply Chain of the Amusement Machine Sales Business



## COLUMN Get to Know the Amusement Machine Sales Business

Aiming to invigorate the industry, we are deploying a wide variety of business models.

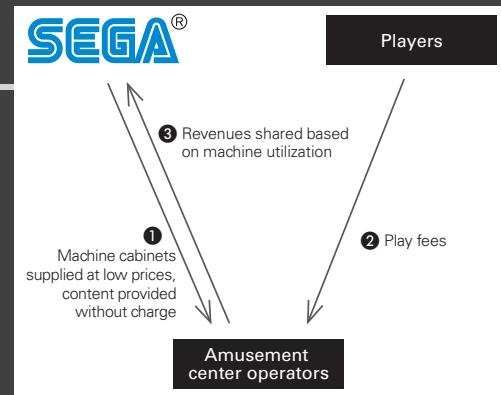
### CVT Kits

CVT kits enable amusement center operators to upgrade games without purchasing new machine cabinets. Operators use the kits to replace the boards, software, and exteriors of their existing machines. In fiscal 2015, plans call for marketing CVT kits for such mainstay titles as *INITIAL D ARCADE STAGE 8 INFINITY* and *StarHorse3 Season III CHASE THE WIND*.



### Revenue-Sharing Business Model

In the revenue-sharing business model, SEGA provides amusement center operators with low-priced machine cabinets and free content. Through the infrastructure of SEGA's *ALL.NET* network service, SEGA and amusement center operators share revenues from the utilization of the amusement arcade machines, in other words play fees from players. Under this model, amusement center operators are able to introduce new products for a small initial investment. Meanwhile, the business model extends SEGA's involvement beyond the sales of amusement arcade machines. It allows us to sustain earnings by upgrading content periodically and thereby maintain the market value of our amusement arcade machines.

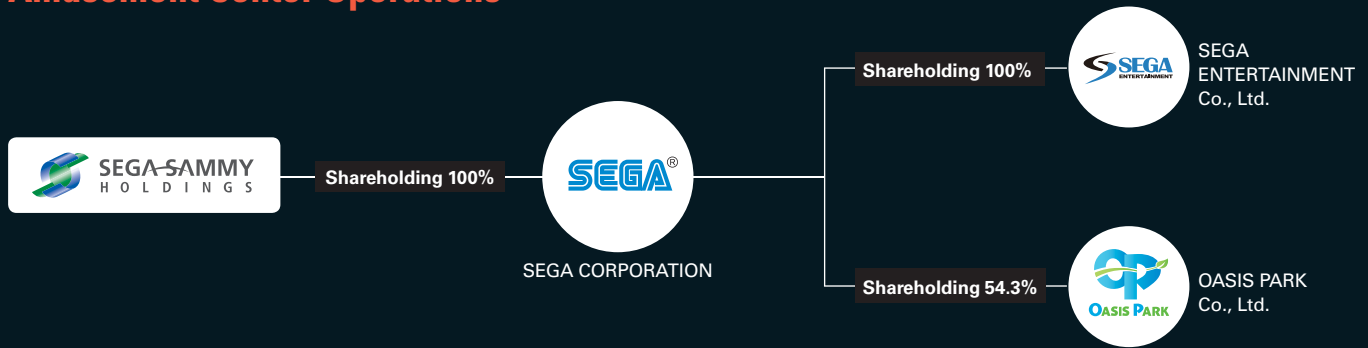


### Free-to-Play (F2P)

Under this business model, games can be played for free, but players pay fees to purchase items within the games or to continue stages. In fiscal 2014, we rolled out the amusement arcade machine industry's first title incorporating an F2P business model, *Puyopuyo!! Quest Arcade*. By using broadly popular intellectual property for this new game format, we hope to attract women and families. In the future, we aim to strengthen the linkage between amusement centers and the digital game area further so that they grow each other's customer bases.



# Amusement Center Operations



## the PAST

**1965** Started operation of amusement centers

**1996** Opened indoor theme park, *TOKYO JOYPOLIS*



TOKYO JOYPOLIS

**2002** Opened our first darts bar, *Bee SHIBUYA*

**2009** Opened indoor theme park, *SEGA REPUBLIC*, in United Arab Emirates based on license agreement

**2012** Consolidated Group companies engaged in amusement center operations to establish SEGA ENTERTAINMENT Co., Ltd.

**2013** Opened world's first nature simulation museum, *Orbi Yokohama*



Orbi Yokohama

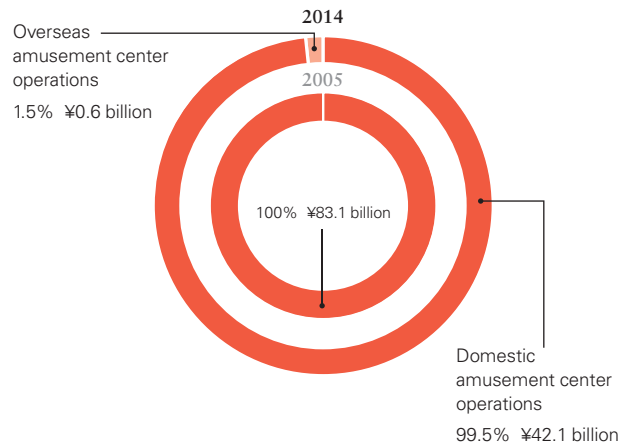
## the PRESENT

### Comparing Fiscal 2014 and Fiscal 2005

#### Net Sales



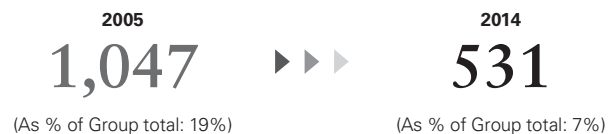
#### Net Sales Breakdown



#### Number of Domestic Amusement Centers\*<sup>2</sup>



#### Employee Numbers





TOKYO JOYPOLIS



Orbi Yokohama

### Fiscal 2014 Overview

#### Net sales

¥43.2 billion | 1% ↑

#### Operating Income

¥0.0 billion | — ↓

#### Existing Domestic Amusement Center Sales Year on Year

96.1%

### Fiscal 2014 Overview

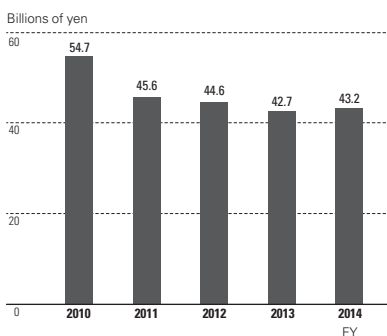
In fiscal 2014, the Amusement Center Operations segment's net sales rose 1% year on year, to ¥43.2 billion. Despite continuing efforts to strengthen the management capabilities of existing amusement centers, the absence of market-driving titles led to a 3.9%\*<sup>1</sup> decrease in the net sales of existing domestic amusement centers. Capital expenditures decreased 3% year on year, to ¥7.7 billion, and depreciation and amortization rose marginally, to ¥4.7 billion.

As of March 31, 2014, the segment had 198 domestic amusement centers. Furthermore, in partnership with BBC Worldwide Limited, SEGA unveiled the world's first nature simulation museum, *Orbi Yokohama*, in August 2013.

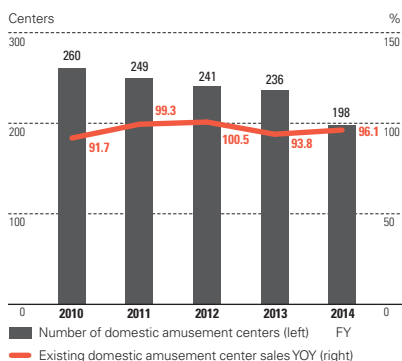
Operating income declined from the previous fiscal year's ¥1.1 billion to ¥60 million.

\*<sup>1</sup> The establishment of SEGA ENTERTAINMENT Co., Ltd., integrated the Group's amusement center operations. As a result, the amusement centers classified as existing amusement centers and the aggregate calculation method for the number of amusement centers have changed as of fiscal 2014.

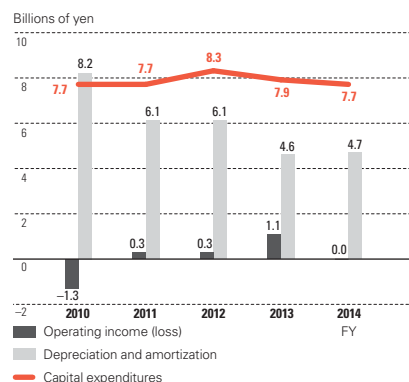
#### Net Sales



#### Number of Domestic Amusement Centers\*<sup>2</sup> / Existing Domestic Amusement Center Sales YOY\*<sup>3</sup>



#### Operating Income (Loss) / Capital Expenditures / Depreciation and Amortization\*<sup>4</sup>



\*<sup>2</sup> The establishment of SEGA ENTERTAINMENT Co., Ltd., integrated the Group's amusement center operations. As a result, the aggregate calculation method for the number of amusement centers has changed as of fiscal 2014.

\*<sup>3</sup> As a result of the above-mentioned integration, the amusement centers classified as existing amusement centers have changed as of fiscal 2014.

\*<sup>4</sup> The aggregate calculation method has changed as of fiscal 2014. Consequently, R&D expenses and content production expenses include amortization cost of digital game titles. Until fiscal 2013, depreciation and amortization included amortization cost of digital game titles.

## Amusement Center Operations

### Business Model

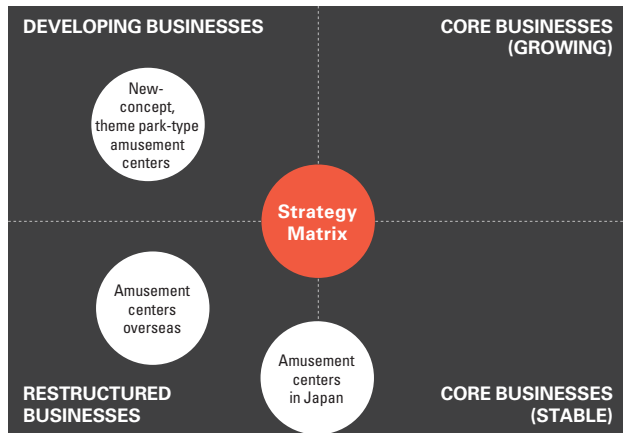
We categorize this segment's operations into conventional amusement centers and theme park-type amusement centers, such as *TOKYO JOYPOLIS* and *Orbi Yokohama*. In addition to the Group's amusement arcade machines, the segment sources amusement arcade machines from a variety of vendors to cater to the needs of a wide range of players.

## the FUTURE

### Growth Strategies

In Japan, we will continue revising our portfolio of conventional amusement centers. Also, we will advance initiatives in new areas by opening more amusement centers for families in shopping centers and opening amusement centers integrated with restaurants and other business formats. Furthermore, we will improve profitability by bolstering amusement centers' operational capabilities and will heighten the earning power of theme park-type amusement centers through development and management while developing them overseas through licensing out.

### Strategy Matrix



### Fiscal 2015 Outlook

In fiscal 2015, existing amusement centers' earnings are likely to deteriorate due to effect of the increase in the consumption tax. As a result, the segment is expected to record year-on-year decreases of 2.5% in existing amusement centers' sales and 3% in net sales, to ¥42.0 billion, and a ¥0.6 billion operating loss. Capital expenditures are projected to decrease 19% year on year, to ¥6.2 billion, while depreciation and amortization is expected to increase 15% year on year, to ¥5.4 billion. In Japan, plans call for opening three amusement centers and closing seven, giving a total of 194 amusement centers at the end of the current fiscal year.

### STRENGTHS

- Rightsized amusement centers portfolio
- Product lineup catering to broad range of player groups

### WEAKNESSES

- Low profit margins and capital turnover ratio

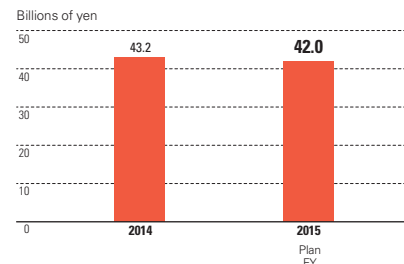
### OPPORTUNITIES

- Growth potential of overseas markets centered on Asia
- Formation of seniors market
- Expansion into new facilities such as restaurants and sports facilities

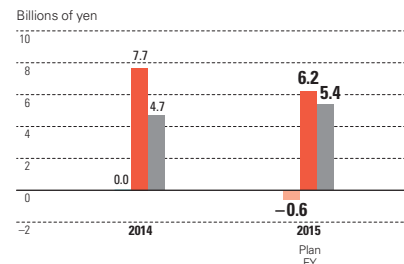
### THREATS

- Market contraction due to slump in consumer spending
- Decline in player numbers due to aging society

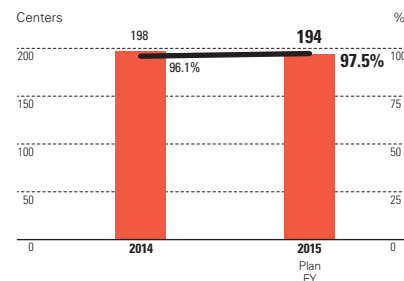
### Net Sales



### Operating Income (Loss) / Capital Expenditures / Depreciation and Amortization



### Number of Domestic Amusement Centers / Existing Domestic Amusement Center Sales YOY



# Consumer Business

Packaged game software and digital games



Animation



Digital animation



Toy sales



Packaged game software



ATLUS. CO., LTD.

Digital games



Sammy NetWorks Co., Ltd.



SEGA Networks, Ltd.

## the PAST

**1983** Launched 8-bit home video game platform, *SG-1000*

**1988** Launched 16-bit home video game platform, *Mega Drive*

**1991** Launched first title in the *Sonic the Hedgehog* series

**1994** Launched 32-bit home video game platform, *SEGA Saturn*

**1998** Launched home video game platform with Internet connectivity, *Dreamcast*

**2000** Launched first networked role-playing game (RPG) for home video game platform, *PHANTASY STAR ONLINE*

**2001** Withdrew from home video game platform business

**2005** Launched first title in *Ryu ga Gotoku* home video game series

**2007** Launched *Mario & Sonic at the Olympic Games™* home video game

**2012** Established SEGA Networks, Ltd.



Mega Drive ©SEGA



Sonic the Hedgehog ©SEGA



Dreamcast ©SEGA



PHANTASY STAR ONLINE ©SEGA



Ryu ga Gotoku ©SEGA

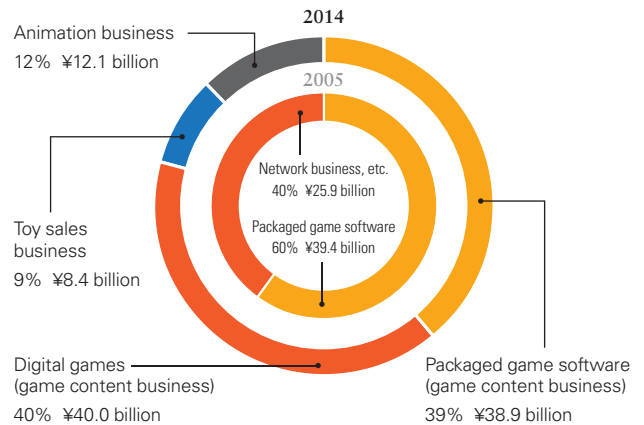
## the PRESENT

### Comparing Fiscal 2014 and Fiscal 2005

Net Sales



Net Sales Breakdown



\* For fiscal 2014, corporate and eliminations of ¥0.4 billion have been excluded.

Employee Numbers



## Consumer Business



PHANTASY STAR ONLINE 2  
©SEGA



Total War: ROME II  
©SEGA. The Creative Assembly and the Total War logo are trademarks or registered trademarks of The Creative Assembly Limited. SEGA and the SEGA logo are either registered trademarks or registered trademarks of SEGA Corporation. All Rights Reserved. All other trademarks are the property of their respective owners.

### Fiscal 2014 Overview

#### Net Sales

¥99.8 billion | 19% ↑

#### Operating Income

¥2.0 billion | Moves into black

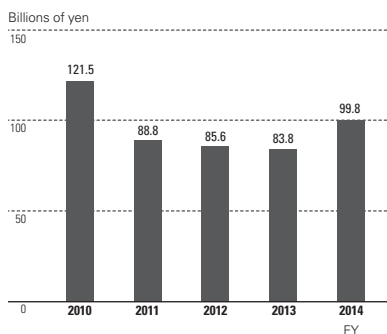
#### Home Video Game Software Unit Sales

8.73 million units | -19% ↓

#### R&D Expenses, Content Production Expenses

¥30.1 billion | —

#### Net Sales



### Fiscal 2014 Overview

In fiscal 2014, thanks to higher earnings from the digital game area, net sales rose 19% year on year, to ¥99.8 billion. Furthermore, the segment moved into the black, posting operating income of ¥2.0 billion, compared with the previous fiscal year's operating loss of ¥0.7 billion. Also, reflecting efforts to strengthen content in the digital game area, R&D expenses and content production expenses were ¥30.1 billion.

In the packaged game software area, launches of several new titles, including *Total War: ROME II* and *Football Manager 2014* did not completely offset lackluster sales of some titles amid tough market conditions. As a result, sales declined 2.05 million units, to 8.73 million units. Net sales rose 9%, to ¥38.9 billion.

In addition, Index Corporation transferred its businesses to us in November 2013. Furthermore, on April 1, 2014, we executed a company split to establish its home video game software business as ATLUS. CO., LTD., and its contents and solutions business as Index Corporation.

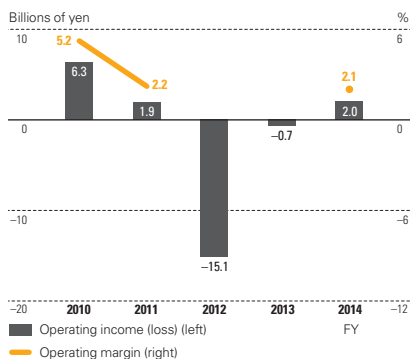
In the digital game area, sales of online RPG *PHANTASY STAR ONLINE 2* and, for smartphones, *Puyopuyo!! Quest* and *CHAIN CHRONICLE* were brisk.

In Japan, as of March 31, 2014, the segment distributed 141 titles, of which 73 were pay-to-play and 68 were free-to-play (F2P).

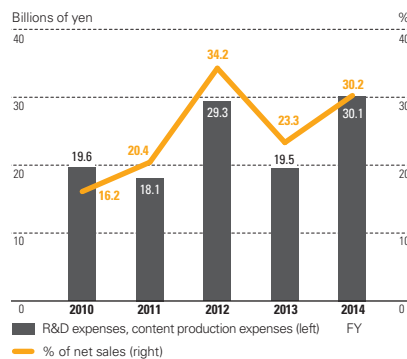
As a result of the above, net sales grew 35% year on year, to ¥40.0 billion.

The toy sales business posted sales of ¥8.4 billion, which was approximately the same level year on year, while the animation business achieved a 15% year-on-year increase in sales, to ¥12.1 billion. The toy sales business marketed mainstay products in such series as *ANPANMAN* and *Jewel Pod*, but its sales remained sluggish overall. Meanwhile, the animation business performed favorably, with the movie-theater version of *LUPIN THE 3rd VS DETECTIVE CONAN THE MOVIE* recording more than 3 million viewers.

#### Operating Income (Loss) / Operating Margin



#### R&D Expenses, Content Production Expenses\* / % of Net Sales



\* The aggregate calculation method has changed as of fiscal 2014. Consequently, R&D expenses and content production expenses include amortization cost of digital game titles. Until fiscal 2013, depreciation and amortization included amortization cost of digital game titles.

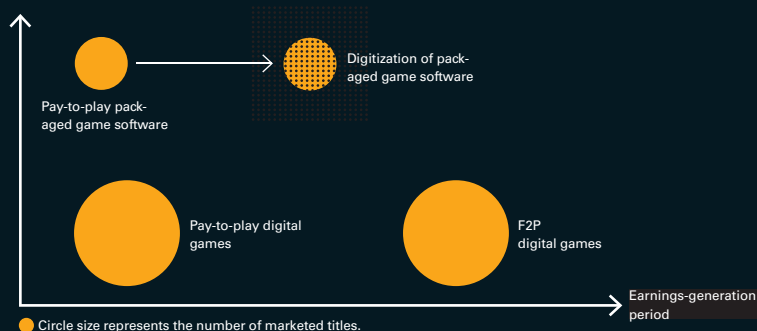


### Business Model (Game content)

Developmental lead times for digital games, for which the main business model is F2P\*, are relatively short compared with those for pay-to-play packaged game software. Furthermore, because developing digital games is less costly than developing packaged game software, the digital game market sees numerous title launches. Accordingly, achieving a high percentage of hit products—and thereby heightening market presence—is important.

\* These are games based on a business model that provides basic play for free but generates continuous earnings by charging fees for additional items within the games.

### Development Expenses per Title (Developmental lead time)



## the FUTURE

### STRENGTHS

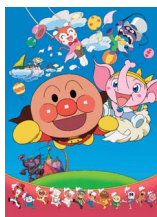
#### Rich management resources in the digital game area

As well as boasting strong brand-name recognition in markets worldwide, SEGA has abundant intellectual properties and developmental personnel. Particularly in the digital game area, these management resources enable SEGA to create a rich product lineup that spans an extensive array of game genres, differentiates the company, and gives it a significant competitive advantage.

#### Team specializing in building business models

In relation to games for smart devices, we have consolidated such “selling” capabilities as control of title lineup composition, market analysis, marketing, and operational management in SEGA Networks, Ltd. One of this segment’s strengths is a system that efficiently monetizes abundant management resources. [in Detail ▶▶ P.46](#)

#### Some of the best animation assets in Japan



ANPANMAN: Fly! Handkerchief of hope  
©TAKASHI YANASE / froebel-kan-TMS-NTV  
©TAKASHI YANASE / ANPANMAN  
PROJECT2013



LUPIN THE 3rd VS DETECTIVE CONAN THE MOVIE  
©Monkey Punch, Goshō Aoyama / “Lupin the 3rd vs.  
Detective Conan” Film Partners

### WEAKNESSES

#### Decline in sales and profitability of packaged game software

In the packaged game software area, profitability remains low. We are rebuilding the business by focusing more strongly on the development and sale of major intellectual properties.

#### Low profit margin of toy sales business

### OPPORTUNITIES

- Rapid growth of online game content market in Japan
- Possible invigoration of packaged game software market due to release of next-generation home video game consoles
- Expansion of PC online games in Asia market

### THREATS

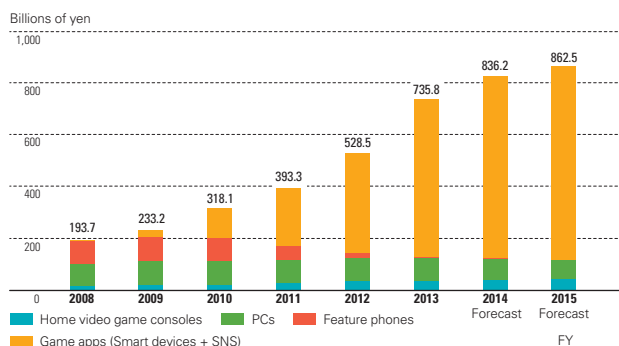
#### Market contraction and continuous high development costs for packaged game software

The packaged game software market remains in a slump, while increasingly advanced hardware is keeping development expenses high. This has led to the further strengthening of an oligopoly comprising titles and companies with significant developmental capacity.

#### Intensification of competition in digital game area

Companies inside and outside the entertainment industry are entering the online game content market as it grows conspicuously. To create hit titles stably, companies have to distribute titles across a wide variety of genres continuously.

#### Japan Market for Online Game Content



## Consumer Business



PHANTASY STAR  
ONLINE 2  
©SEGA



CHAIN CHRONICLE –  
Kizuna no Shintairiku  
©SEGA / ©SEGA Networks



Puyopuyo!! Quest  
©SEGA ©SEGA Networks

### Growth Strategies

In the packaged game software area, we will realize stable earnings generation by continuing to rationalize. In conjunction with these efforts, we will maximize earnings opportunities by pursuing a cross-platform strategy, which enables the sharing of video game data among devices. Moreover, we will promote the digital conversion of existing packaged game software intellectual properties. Also, the segment will use SEGA's management resources to maximize the added value of the intellectual properties of ATLUS. CO., LTD.

In the digital game area, SEGA and SEGA Networks will spearhead efforts to heighten the segment's percentage of hit products and market presence by leveraging highly specialized business divisions and an extensive title lineup based on rich intellectual properties and developmental resources. In addition, focusing on other parts of Asia, we plan active overseas rollouts of titles that have become hits in Japan.

In the toy sales business, while stepping up sales of mainstay products, we will revamp value chains with a view to improving profitability.

As for the animation business, TMS ENTERTAINMENT, LTD., which owns a large portfolio of valuable animation assets, will concentrate on creating new television series and developing related businesses. Furthermore, MARZA ANIMATION PLANET INC. will exploit some of Japan's most advanced animation production technology to develop new initiatives.

### Fiscal 2015 Outlook

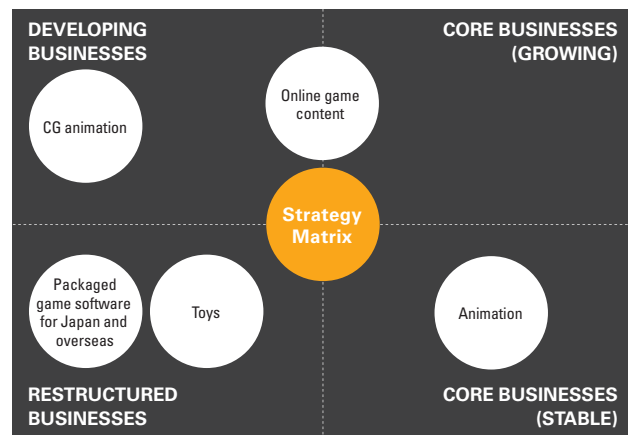
In fiscal 2015, due to higher revenues from the digital game area the Consumer Business is expected to record year-on-year increases of 29% in net sales, to ¥128.5 billion, and 230% in operating income, to ¥6.6 billion. We anticipate that stepped-up development will increase R&D expenses and content production expenses 16% year on year, to ¥34.9 billion.

Looking at sales by business, we project year-on-year increases of 26% in the packaged game software area, 31% in the digital game area, 15% in the toy sales business, and 15% in the animation business.

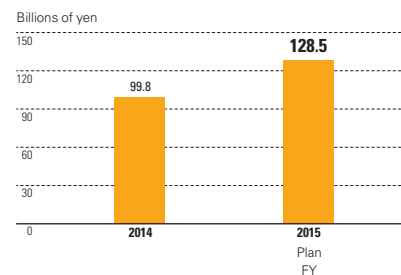
In the packaged game software area, we aim to grow unit sales 4.05 million units, to 12.78 million units, by rolling out titles under the ATLUS. brand in earnest as well as marketing powerful existing intellectual properties.

As for the digital game area, we will bring to market new titles for smart devices under major intellectual properties and embark upon full-fledged rollouts of domestic titles in Asia. Furthermore, in Japan plans call for marketing 43 titles, comprising 13 pay-to-play and 30 F2P.

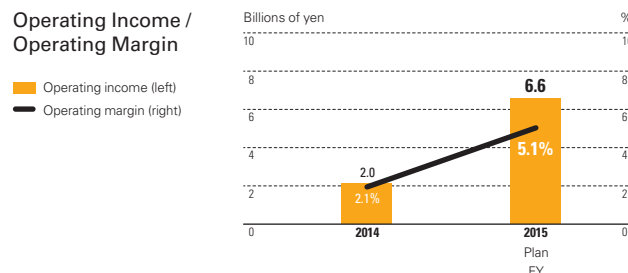
### Strategy Matrix



### Net Sales



### Operating Income / Operating Margin



### R&D Expenses, Content Production Expenses / % of Net Sales

