

# “Growth Drivers”

## 1. Short-to-Medium Term

DIGITAL GAME AREA

### Leveraging Unique Strengths to Vault Even Higher

#### Joining the Leaders after Only Two Years

In 2013, the online game content market grew 39% year on year, to ¥735.8 billion\*<sup>1</sup>. Driving this growth was the rapid expansion of game apps for smartphones and social networking services (SNS), sales of which jumped 57% from those of the previous fiscal year. Aiming to establish a robust position in this market quickly, we have made deploying management resources to the digital game area a priority. The focus of these efforts is SEGA Networks Co., Ltd., established in July 2012 by spinning off the main capabilities of SEGA's content services for smart devices.

Currently, competition in the market is intensifying as many companies enter. Moreover, an oligopoly is steadily taking shape. It comprises companies able to satisfy the demand for higher-end products, which is resulting from native applications' growing popularity; operate multiple developmental lines; conduct powerful marketing and promotion; and use financial strength to support these capabilities. One of the companies meeting such requirements and is in a leading position is SEGA Networks. It has caught up with the leaders just two years after its establishment by offering a rich title lineup catering to diverse player preferences and being one of the industry's most consistent creators of hit products. Testifying to this consistency, many of the company's titles are at the top of sales rankings. For example, *CHAIN CHRONICLE* surpassed 3 million cumulative downloads in June 2014.

SEGA Networks' strengths enable a quality title lineup with an enviable “batting average.”

\*1 Source: Fism



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## Strength 1 Some of the Industry's Largest Developmental Resources

Our primary strength is being able to mobilize flexibly some of the industry's largest developmental resources without transferring personnel or making organizational changes. SEGA has around 2,000 developmental personnel within the Group. As well as in-house developmental resources, partners such as f4samurai, Inc., and Aiming Inc. are involved in development from an early stage. These combined efforts produce titles, which SEGA Networks manages and markets. Normally, more than 10 studios run around 30 developmental lines simultaneously, allowing us to build a lineup of unmatched diversity. Moreover, the game production expertise SEGA has accumulated and passed down during more than half a century of developing home video game software and amusement arcade machines is becoming an ever more conspicuous differentiating factor as demand for richer content grows.

Thus, our in-depth know-how, born of a long history, supports developmental resources that generate a constant stream of innovative

titles. For example, our home video game software developmental division led the creation of *Puyopuyo!! Quest*, which surpassed 10 million downloads in June 2014. Furthermore, the development of *CHAIN CHRONICLE—Kizuna no Shintairiku* centered on our division engaged in amusement arcade machine development.

## Strength 2 Team Specializing in Building Business Models

Roughly half of SEGA Networks' personnel are engaged in such nondevelopment divisions as operational management divisions, which are responsible for title lineup composition, marketing, public relations, and operational infrastructure. The operational management divisions have wide-ranging control over titles. Its responsibilities include establishing monetization business models best suited to each title, which is critical for earnings maximization. We ensure that each developmental team's workplace environment is conducive to focusing on development. Teams of specialists with expertise in

### Industry-Leading Developmental Resources

**Approx. 2,000 developmental personnel + outside partners**  
**→ More than 10 studios run developmental lines simultaneously**

#### Industry-Leading Developmental Resources

- More than 10 studios, including whole SEGA Group and outside partners
- Able to procure personnel without external hiring
- Able to procure personnel without transferring employees

#### Unsurpassed Developmental Capabilities

- Leading-edge technological capabilities for smartphones
- Numerous producers and directors with wealth of experience in game development
- Able to develop diverse genres by exploiting experience in development of amusement arcade machines and home video game software



WORLD CLUB Champion Football series  
 ©SEGA  
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 The game is made by SEGA in association with Panini.



All business functions, including responsibility for lineup composition and operational management, consolidated in SEGA Networks

**Operational management divisions 55%**

Significantly heightening the hit-product percentage by conducting multifaceted analysis, capitalizing on diverse personnel and expertise fostered outside the Group, and centralizing decision-making authority

#### Functions

Title management, analysis, marketing, system infrastructure, etc.



**Business management division 5%**

- Business management personnel

**Developmental division 40%**

- Production
- Direction
- Planning

\* As of June 30, 2014

To market



## Special Feature “Growth Drivers”

a variety of industries pool their capabilities to build and operate business models that maximize the value of titles. The company's inclusion of developmental and operational management capabilities is what drives the creation of products that hit the mark with a high degree of consistency.

The operational management divisions perform more than 20 functions. In title management, it coordinates with developmental teams from the early stages of development and provides publishing functions\*1 to companies outside the Group. Also, the divisions conduct multifaceted, high-precision research, including statistical analysis of data from game playing, benchmark analysis\*2, and insight research\*3. As for marketing, as well as being involved in establishing the ambience of titles' worlds, divisions realize highly effective marketing benefits through statistical analysis that is deeply rooted in markets—a function that as a game publisher SEGA Networks is uniquely qualified to provide. In particular, taking advantage of expertise honed in other business segments, the divisions use points of contact with players at events and amusement centers to implement “real” marketing that differentiates our games significantly.

\*1 Functions related to game promotion and sales

\*2 A management method that analyzes the points of departure between other companies' outstanding strategies and in-house strategies and reflects conclusions in these strategies

\*3 Analysis that unearths players' true needs

### Strength 3 New Growth Foundations—The Noah Pass System

By providing the *Noah Pass* system as a marketing support tool, the operational management divisions of SEGA Networks are developing a service that helps a wide range of companies outside the Group to develop business models. The system enables game developers to reduce their marketing costs and concentrate management resources on development. In return for advertising other companies' games within their games for free, participating companies can advertise their games within other companies' games for free. In addition to reducing spending on advertising aimed at acquiring new players, the *Noah Pass* system helps heighten player continuity and billing rates. Another benefit is that the system does not impose any strategic restrictions.

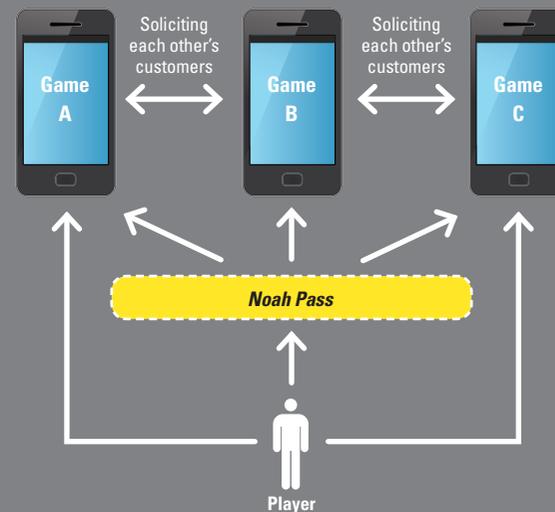
Reflecting many game developers' endorsement of these features, the number of participating companies has risen from 15 just after the service began to 70 as of July 2014. During the same period, participating apps have more than tripled, and total players have grown to 55 million. We will foster this system as a new strength by continuing to evolve it into an even more effective marketing support tool that offers solutions services and other functions.

#### Aiming to Become Top 3 in the Global Market

The SEGA SAMMY Group aims to rank among the top three corporate groups in the global market for digital games, and SEGA Networks will spearhead this drive. In fiscal 2015, the company will intensify its offensive in the market by drawing on its skill in creating hit products with a high degree of success as it launches about 15 titles. Furthermore, we will step up efforts to market such mainstay titles as *CHAIN CHRONICLE* and *Puyopuyo!! Quest*. In July 2014, we began offering

#### Noah Pass System

Reciprocal marketing support tool whereby, in return for advertising other companies' games for free, companies can advertise their games within other companies' games for free



Merits for participating companies

- Reduces marketing costs
- Helps heighten player continuity and billing rates
- Does not have strategic restrictions

*CHAIN CHRONICLE*—*Kizuna no Shintairiku* as the latest title in the *CHAIN CHRONICLE* series, which was launched in July 2013. We will also concentrate on maximizing the value of this intellectual property through a multifaceted rollout including a PlayStation Vita® version, *CHAIN CHRONICLE V*, a manga (comic), and a short animation. In addition, plans call for widening the scope of overseas rollouts. Going beyond Asia-centered rollouts in such countries as South Korea and China—where releases are already meeting solid responses—we will roll out digital titles worldwide through close coordination with gumi Inc., a company with which we have concluded a capital and business tie-up agreement. Other initiatives will include collaborating with local partners to accelerate the marketing of blockbuster titles from Japan, such as *Puyopuyo!! Quest* and *Sakatsuku Shoot!*

At the same time, we will strengthen local developmental systems. By sharing expertise accumulated in Japan, we will develop F2P\*1 content optimized for local markets and localize content appropriately. An example of such initiatives is the locally developed title *Sonic Dash*. Cultivating it as a core title in North America and Europe took *Sonic Dash* beyond 76 million downloads in August 2014. We intend to use this large player pool to grow earnings, including advertising revenues.

While using its unique strengths to produce hit products stably, SEGA Networks will continue providing players with thrilling experiences through networks.

\*1 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.