Challenges
&
Initiatives
Since fiscal year ended March 2018 (fiscal year 2018), the SEGA SAMMY Group has been advancing measures in accordance with the Road to 2020 medium-term management strategy. In fiscal year ended March 2019 (fiscal year 2019), the second year of the strategy, the Group recorded results below initial targets for the second consecutive fiscal year. As for fiscal year ending March 2020 (fiscal year 2020), the strategy’s final fiscal year, we do not expect to reach performance targets, which were an operating income margin of at least 15% and ROA of at least 5%.

The aim of INTEGRATED REPORT 2019 is to explain to stakeholders the challenges that emerged while pursuing Road to 2020 and the initiatives we are taking in response.

Rapidly and unwaveringly, we will implement initiatives to overcome challenges identified in light of feedback from shareholders, investors, and other stakeholders.
Cultural Inheritance

Innovative DNA

This was the birthplace of milestone innovations.

Company credo: “Creation is Life”

SEGA

A Host of World and Industry Firsts

In 1960, we brought to market the first made-in-Japan jukebox, SEGA 1000. The product name was based on an abbreviation of the company’s name at the time: Service Games Japan. Moreover, this is the origin of the company name “SEGA.”

In 1966, the periscope game Periscope became a worldwide hit. In the 1970s, the company capitalized on the video game boom to increase its standing as a manufacturer of amusement machines.

The SEGA brand became synonymous with innovation by marketing a series of world-first and industry-first products. For example, from the 1980s onward, we launched the motion-controlled game cabinet Hang On and a 3D computer graphics (CG) fighting game, Virtua Fighter. Also, we debuted the Print Club amusement machine for printing stickers, known in Japan as “purikura” and a favorite amusement machine genre to this day. In the 2000s, we released a kids’ card game.

Consistently Innovative

After entering the home video game console market in the 1980s, SEGA remained an innovator. Representative examples of this innovativeness include the first domestically produced handheld game terminal with a color liquid crystal display (LCD) and Dreamcast, which was launched in 1998 as the industry’s first home video game console including a communications modem as a standard feature and offering the players the option of using the internet to enjoy games. This became SEGA’s last hardware offering as the company withdrew from the home video game console area in 2001. However, the intellectual properties (IP) of the home video game console era, such as PHANTASY STAR ONLINE, are valuable management resources that underpin SEGA’s current businesses.

Leveraging the innovative DNA expressed by its “Creation is Life” company credo, SEGA has consistently opened up new horizons in entertainment. We will continue passing this DNA on to future generations.
The history of the “Always Proactive, Always Pioneering” company began in the room of a small apartment.

Company credo: “Always Proactive, Always Pioneering”

A Corporate Culture That Accepts Failure

Sammy’s history goes back to 1965, when current Chairman and Group CEO (Representative Director) Hajime Satomi changed the name of a family-run tofu store to “Satomi” and began selling amusement machines. In 1975, the amusement machine manufacturing and marketing divisions of Satomi Corporation were split off to establish Sammy Industry Co., Ltd. The new company then experienced a series of successes and failures that culminated in the creation of highly original products through the manufacturing and sales of Arrange Ball and earnest entry into the development of amusement machine. The experiences of this era are both the source of a corporate culture that accepts failure if it results from taking on ambitious initiatives as well as the source of the “Always Proactive, Always Pioneering” company credo.

“Always Proactive, Always Pioneering”—The Driver of Sustaining Growth

Sammy entered the pachislot machine market in 1982. To compensate for its comparative lack of brand power, the company competed with major manufacturers by developing products with features that were unprecedented in the industry. The company’s strategy bore fruit with the launch of the single-bonus hitter pachislot machine, ALADDIN.

In 1995, we entered the pachinko machine market and remained at the forefront of the latest developments. For example, we used external IP and incorporated LCD visual effects, features that have now become standard in the industry. A combination of groundbreaking gameplay, tie-in with popular animation, and unique LCD visual effects ensured that pachislot machine Pachislot Hokuto No Ken met with a tremendous acclaim in 2003. The title became a hit for the ages by shipping more than 620,000 units, a single-title sales record that is still unbeaten. Our corporate culture—which maintains an uncompromising, proactive mindset and rigorously pursues quality—is part of our DNA. We will cherish this culture as the force that drives and sustains our growth.
Since its management integration in October 2004, the SEGA SAMMY Group has been implementing reform measures continuously.

### Main Business Developments

**2004**
- Established SEGA SAMMY HOLDINGS INC.

**2005**
- Acquired all of the outstanding shares of The Creative Assembly Ltd. to make it a wholly owned subsidiary

**2006**
- Acquired all of the outstanding shares of SPORTS INTERACTIVE Ltd. to make it a wholly owned subsidiary

**2009**
- Established MARZA ANIMATION PLANET INC. (engaged in production of animation, 3D CG, and other visual content)
- Made Sammy Networks Co., Ltd., SEGA TOYS CO., LTD., and TMS ENTERTAINMENT, LTD., wholly owned subsidiaries

**2010**
- Made PHOENIX RESORT CO., LTD., a wholly owned subsidiary (domestic resort business)
- Established a joint venture with the PARADISE GROUP of South Korea (PARADISE SEGASAMMY Co., Ltd.)
- Established a smartphone games business as a separate company

**2012**
- Acquired ATLUS CO., LTD. (Index Corporation’s game business, etc.)
- Established SEGA SAMMY CREATION INC. (development, manufacture, and sale of casino machines)

**2013**
- Acquired gaming machine manufacture and sales license in the U.S. State of Nevada (SEGA SAMMY CREATION INC., Sega Sammy Creation USA, INC.)
- Opened PARADISE CITY, South Korea’s first integrated resort

**2017**
- Acquired gaming machine manufacture and sales license in the U.S. State of Nevada (SEGA SAMMY CREATION INC., Sega Sammy Creation USA, INC.)
- Opened PARADISE CITY, South Korea’s first integrated resort
- Relocated head office to Osaki (consolidated 20 companies and about 6,500 employees into the Osaki area in Tokyo)

### Main Hit Titles after Management Integration

**2005**
- Launched the first title in the Sangokushi Taisen series of network-enabled trading card games
- Launched the first title in the Ryū ga Gotoku series for home video game consoles

**2008**
- Launched Pachinko Hokuto No Ken series, which set a record for sales of Sammy pachinko machines

**2009**
- Launched Pachislot Psalms of Planets Eureka Seven

**2012**
- Launched PHANTASY STAR ONLINE 2, an online role-playing game (RPG) for PCs

**2013**
- Launched Puyo Puyo! Quest and CHAIN CHRONICLE for smartphone
- Launched Hokuto No Ken Chapter of Resurrection and Pachislot Bakemonogatari

**2016**
- Launched Persona5 for home video game consoles
- Launched Total War™: WARHAMMER for PC

**2017**
- Launched Sonic Mania for home video game consoles

**2018**
- Launched Persona5 for home video game consoles
> Operating Income (Losses) since Management Integration

- **2005**: 105.0 (FY)
- **2006**: 119.1
- **2007**: 76.5
- **2008**: 8.3
- **2009**: -5.8
- **2010**: 36.7
- **2011**: 68.7
- **2012**: 58.3
- **2013**: 38.5
- **2014**: 19.0
- **2015**: 17.4
- **2016**: 17.6
- **2017**: 29.5
- **2018**: 17.7
- **2019 (FY)**: 13.0 billion

<table>
<thead>
<tr>
<th>Measures in Recent Years</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018– 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cost Structure Reform</strong></td>
<td>Reduced fixed expenses by ¥6.0 billion</td>
<td>Revised business portfolio</td>
<td>Implemented various initiatives</td>
<td>Implemented various initiatives</td>
</tr>
<tr>
<td><strong>Business Structure Reform</strong></td>
<td>Clarified core businesses</td>
<td>Growth businesses</td>
<td>Pachislot and Pachinko Machines</td>
<td>ZEEG Co. Ltd. with Universal Entertainment Corporation</td>
</tr>
<tr>
<td></td>
<td>• Reorganized into three business segments</td>
<td>Digital Games</td>
<td>• Established joint venture ZEEG Co. Ltd. with Universal Entertainment Corporation</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Pachislot and Pachinko Machines</td>
<td>IR (Integrated Resort)</td>
<td>Packaged Games</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Entertainment Contents</td>
<td>Other New Areas</td>
<td>Amusement Machine Sales</td>
<td></td>
</tr>
<tr>
<td><strong>Entertainment Contents</strong></td>
<td>Core Businesses</td>
<td>Amusement Center Operations</td>
<td>Animation</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Reform profit structure</td>
<td>• Sold asset (Shinsaibashi, Osaka)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Resort</strong></td>
<td>Improved Business Efficiency</td>
<td>• Transferred business (JOYPOLIS)</td>
<td>• Continued to create moving experiences**</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Pachislot and Pachinko Machines</td>
<td>• Discontinued development of complex facility (Busan, South Korea)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Entertainment Contents</td>
<td>FY2020 Target: Operating income margin 15% / ROA 5%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Mission (Raison d’être)**: "Continuing to create moving experiences" —Making life more colorful—

**Vision (Ideal self)**: Be a Game Changer

**Goal (Specific target)**: "Always Proactive, Always Pioneering"

**Value (Mindset / DNA)**: Sammy...the wellspring of new ideas as an innovator in the industry

**Resort**

**Entertainment Contents**

**Be a Game Changer**
Progress

The Pachislot and Pachinko Machines and the Entertainment Contents businesses have progressed less than initially expected. As a result, we downwardly revised our initial targets in fiscal year 2018 and fiscal year 2019.

Fiscal Year 2018 Initial Targets and Results

<table>
<thead>
<tr>
<th>Net sales</th>
<th>¥380.0 billion</th>
<th>¥323.6 billion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating income</td>
<td>¥20.0 billion</td>
<td>¥17.7 billion</td>
</tr>
</tbody>
</table>

Reasons for shortfall: The Pachislot and Pachinko Machines Business delayed the launch of titles due to regulatory revision. The Digital Games area marketed fewer new titles than we planned.

Fiscal Year 2019 Initial Targets and Results

<table>
<thead>
<tr>
<th>Net sales</th>
<th>¥390.0 billion</th>
<th>¥331.6 billion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating income</td>
<td>¥21.0 billion</td>
<td>¥13.0 billion</td>
</tr>
</tbody>
</table>

Reasons for shortfall: Regulatory revision affected the Pachislot and Pachinko Machines Business, and there were insufficient hit titles in the Digital Games area of the Entertainment Contents Business.

Market Capitalization during the Period of Road to 2020

Billions of yen

![Graph showing market capitalization over time with downward revision announcements on November 30, 2017, and February 5, 2019.]

Road to 2020 Progress

Billions of yen / %

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2019</th>
<th>2020 (forecast)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating income (targets)</td>
<td>20.0</td>
<td>17.7</td>
<td>75.0</td>
</tr>
<tr>
<td>Operating income (results)</td>
<td>30.0</td>
<td>13.0</td>
<td>27.0</td>
</tr>
</tbody>
</table>

Legend:
- Operating income (initial targets)
- Operating income (results and forecast)
- Operating income margin (initial targets)
- Operating income margin (results and forecast)
Challenges & Initiatives

Pachislot and Pachinko Machines Business

**Pachislot Machine Unit Sales**

<table>
<thead>
<tr>
<th>Year</th>
<th>Initial Target</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY2019</td>
<td>103,000 units</td>
<td>67,000 units</td>
</tr>
</tbody>
</table>

Initiatives

- Improve approval rates by applying for multiple specifications for both pachislot and pachinko machines
- Develop pachislot machines reflecting market trends (machines with the number of obtainable medals per game set at a higher range, machines with payouts that reflect players’ skill, effective use of major existing IP)

Entertainment Contents Business

**Digital Games Area Operating Income (Loss)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Initial Target</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY2019</td>
<td>¥9.0 billion</td>
<td>¥1.9 billion</td>
</tr>
</tbody>
</table>

Initiatives

- Improve profitability by optimizing the number of titles under development and operation
- Invest resources in focusing areas such as overseas packaged games
- Proceed with shift of outsourced work on existing titles to insourcing

Challenges

- **Low Approval Rates**
  
  As a result of regulatory revision in February 2018, approval rates in prototype testing have become conspicuously lower. This caused the Group’s pachislot machine unit sales to fall significantly short of the initial target.

- **External Factors**
  - Top-ranking titles remain unchanged
  - Increase of existing IP-based titles
  - Intensified competition in domestic market

- **Internal Factors**
  - Existing titles stagnating
  - Lack of hit titles
  - New titles delayed or canceled during development

In the Digital Games area, stagnation of existing titles went more rapidly than expected. In addition, amid intensified competition of the market we were unable to create hit titles to replace mainstay titles.

Initiatives

- For details, please see P.43.
- For details, please see P.51.
Our Color Pallete

Created through the management integration of Sammy and SEGA, the SEGA SAMMY Group is a comprehensive entertainment corporate group that provides entertainment across a wide range of fields. These fields include pachislot and pachinko machines, game contents for digital games, packaged games, and other games, amusement machine sales, amusement center operations, animation and toys, and resorts.

Pachislot and Pachinko Machines Business

The mainstays of this business are industry-leading pachislot machines and a lineup of pachinko machines that we are making ever-more competitive. Boasting one of the industry’s largest development systems, we will develop appealing new pachislot and pachinko machines that invigorate the industry and realize our “Always Proactive, Always Pioneering” company credo.

Entertainment Contents Business

This business segment has businesses in a broad spectrum of fields, such as digital games and packaged games as well as amusement machine sales, amusement center operations, and animation and toys.

Resort Business

The Resort Business operates an integrated resort and a resort complex. We are taking a variety of measures with a view to accumulating know-how, heightening our profile, and ultimately participating in the integrated resort (IR) business in Japan. For example, we are assigning personnel to South Korea’s first integrated resort, PARADISE CITY, operated through an associate accounted for by the equity method. We also operate Phoenix Seagaia Resort, one of Japan’s premier resort complexes.
Once the mainstay of operating income, the Pachislot and Pachinko Machines Business has been flagging due to regulatory revision. In the Entertainment Contents Business, where we have put effort to enhance, meanwhile, operating income has grown over the past three fiscal years.

Key Performance Indicators for each Business Segment

### Pachislot and Pachinko Machines Business

<table>
<thead>
<tr>
<th>Year</th>
<th>Market share of pachislot machines*</th>
<th>Market share of pachinko machines*</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>14.1%</td>
<td>9.9%</td>
</tr>
<tr>
<td>2018</td>
<td>14.8%</td>
<td>11.6%</td>
</tr>
</tbody>
</table>

### Entertainment Contents Business

<table>
<thead>
<tr>
<th>Area</th>
<th>FY2018</th>
<th>FY2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Digital Games area</td>
<td>¥38.5 billion (Annual sales)</td>
<td>¥40.8 billion</td>
</tr>
<tr>
<td>Packaged Games area</td>
<td>9.2 million units (Repeat sales)</td>
<td>19.35 million units</td>
</tr>
<tr>
<td>Amusement Center Operations area</td>
<td>101.9% (Year-on-year sales at existing amusement centers)</td>
<td>104.0%</td>
</tr>
</tbody>
</table>

Source: Yano Research Institute Ltd.

* * Estimates of Yano Research Institute Ltd. based on settlement dates from July to June
Composition of SEGA SAMMY HOLDINGS INTEGRATED REPORT 2019

To sustainably enhance its corporate value, the SEGA SAMMY Group needs to continue providing society with value through core entertainment businesses. We define the essence of entertainment as continuing to surpass customers’ expectations. In other words, the Group should concentrate on continuing to provide greater-than-expected value. Our continuing to create moving experiences mission encapsulates this imperative.

This integrated report focuses on a “moving experience creation cycle,” which will ensure that the formulation of moving experiences drives sustained enhancement of corporate value. Based on an integrated approach, the report tells a story of continuous corporate value creation and comprises the following components.

1. Target moving experience creation cycle
2. Internal and external challenges that have to be overcome to create virtuous cycles and a road map for tackling challenges
3. Initiatives aimed at strengthening our products and services, customers, and financial foundations
4. Environmental, social, and governance (ESG) initiatives aimed at maintaining virtuous cycles (society, human resources, and organizational capital)

For the convenience of stakeholders when engaged in dialogues with us, we have issued DISCUSSION POINTS 2019, which summarizes particularly important points. Further, we disclose comprehensive ESG information in the “Social Responsibility” section of our website, accessible via the URL below.

https://www.segasammy.co.jp/english/pr/commu/
## Cautionary Statement with Respect to Forward-Looking Statements

Statements in this integrated report regarding the plans, estimates, beliefs, management strategies, perceptions, and other aspects of SEGA SAMMY HOLDINGS INC. ("the Company") and SEGA SAMMY Group Companies ("the Group"), including SEGA CORPORATION and Sammy Corporation, are forward-looking statements based on the information currently available to the Company. Forward-looking statements include, but are not limited to, those statements using words such as "believe," "expect," "plans," "strategy," "prospects," "forecast," "estimate," "project," "anticipates," "aims," "may," and "might," and words of similar meaning in connection with a discussion of future operations, financial performance, events, or conditions. From time to time, oral or written forward-looking statements may also be included in other materials released to the public. These statements are based on management's assumptions and beliefs in light of the information currently available to management. The Company cautions you that a number of important risks and uncertainties could cause actual results to differ materially from those discussed in the forward-looking statements, and therefore you should not place undue reliance on them. You also should not assume that the Company has any obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise. The Company disclaims any such obligation. Actual results may vary significantly from the Company’s forecasts due to various factors. Factors that could influence actual results include, but are not limited to, economic conditions, especially trends in consumer spending, as well as currency exchange rate fluctuations, changes in laws and government systems, pressure from competitors’ pricing and product strategies, declines in the marketability of the Group’s existing and new products, disruptions to production, violations of the Group’s intellectual property rights, rapid advances in technology, and unfavorable verdicts in major litigation. [This INTEGRATED REPORT includes “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended.]

## Cautionary Statement for Investors and Shareholders with Respect to Nevada Gaming Statutes and Regulations

SEGA SAMMY HOLDINGS INC. ("the Company") is registered with the Nevada Commission as a publicly traded corporation and has been found suitable to directly or indirectly own the stock of SEGA SAMMY CREATION INC., and Sega Sammy Creation USA, Inc., both of which are subsidiaries that have been licensed as manufacturers and distributors of gaming devices in Nevada. Pursuant to Nevada law, the Company’s shareholders are subject to the rules and regulations of the Nevada Gaming Authorities. A detailed explanation of Nevada gaming statutes and regulations can be found on the Company’s corporate website: https://www.segasammy.co.jp/english/ir/stock/regulation/