Business Strategy by Segment

Pachislot and Pachinko Machines Business » P.40
Entertainment Contents Business » P.48
Resort Business » P.56
In the Pachislot and Pachinko Machines Business, we are putting forth new efforts as a game changer of industry and improving profitability with the goal of generating stable profit.

The Pachislot and Pachinko Machines Business is notable that the approval status of prototype testing affects its product cycles when developing new titles in both pachislot and pachinko and the percentage of costs accounted for by electronic components is high. We are making efforts to realize efficient and high-quality development while increasing cost effectiveness by reusing components.

With the player population declining as a result of regulatory changes and entertainment diversification, pachinko hall operators’ financial positions have worsened and the pachinko and pachislot machine market continues to contract. Consequently, the demand for expansion of the participating users is rising.

External factors
Prototype testing rules and internal regulations of industry
Changes in regulations for the development and sales of new pachinko and pachislot machines can affect the gameplay of products as well as the development schedules of pachinko and pachislot machine manufacturers.

Demand side ①
Pachinko halls
As declining player numbers reduce their investment capacity, pachinko hall operators are carefully selecting only those machines that generate return on investment consistently (machines with high utilization rates).

Number of pachinko halls
2005 15,165
2018 10,060
Source: National Police Agency

Demand side ②
Players
Player numbers are declining due to restriction of gambling elements or changes in gameplay. As a result, pachinko halls’ investment capacity is weakening.

Player population
2005 17.1 million
2018 9.5 million

Substitute products
Diversification of entertainment
The young generation is leaving the pachinko and pachislot market as entertainment diversifies, with smartphone apps being a representative example.
In FY20, the approval rate of pachislot machines was lower than expectations, causing unit sales to fall, which in turn led to a lower operating income margin from the initial target. However, operating income margins improved steadily as a result of various measures implemented to increase profit.

** Measures Implemented during Road to 2020 and Results **

<table>
<thead>
<tr>
<th>Key Measures</th>
<th>Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase percentage of reusable components</td>
<td>Designed products with reusability in mind</td>
</tr>
<tr>
<td>Promote commonalization of components</td>
<td>Increased percentage of common components to 88% for pachislot machines and 52% for pachinko machines</td>
</tr>
<tr>
<td>Cost reduction</td>
<td>Enhanced cost management utilizing cost indicators</td>
</tr>
<tr>
<td>Establishment and launch of ZEEG</td>
<td>Reduced costs by transferring outsourced debugging work to in-sourced work and careful selection of exclusive items</td>
</tr>
<tr>
<td>Implement brand strategy</td>
<td>Toward the unification of platform, launched machines using ZEEG-made cabinets from the previous fiscal year</td>
</tr>
<tr>
<td>Improve development efficiency</td>
<td>Integrated into Sammy brands</td>
</tr>
<tr>
<td>Reduce common fixed expenses</td>
<td>Shortened development period (initial targets not reached due to regulation revisions)</td>
</tr>
<tr>
<td></td>
<td>Enhanced review process, narrowed down number of titles to develop</td>
</tr>
<tr>
<td></td>
<td>Made significant reductions to fixed expenses</td>
</tr>
</tbody>
</table>

**Steady progress in improvement of profit margin**
Market Perception
The pachislot machine market is expected to expand as the deadline for the removal of machines made in accordance with the previous regulation is concentrated on October to December of fiscal year 2020. Moreover, No. 6 model machines will allow for shorter play time, which is expected to unearth new demand. Pachinko machines also benefit under the new regulation, which makes it possible to develop machines with high jackpot continuous rate and expands range of gameplay.

Market Environment: Changes of Voluntary Regulation

While gambling elements decline, the range of gameplay will expand.

Strengths
Sammy maintains a set of IP bearing brand strength, headed by the Hokuto no Ken series, which boasts cumulative sales of approximately 2.88 million units. In addition, with Sammy’s top in class numbers of development personnel among the industry, making it possible to run multiple development pipeline in parallel.

Pachislot Market Forecast

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of pachislot units sold</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>45 units</td>
</tr>
<tr>
<td>2019</td>
<td>56 units</td>
</tr>
</tbody>
</table>

Pachinko Market Forecast

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of pachinko units sold</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>137 units</td>
</tr>
<tr>
<td>2019</td>
<td>130 units</td>
</tr>
</tbody>
</table>

Source: Yano Research Institute Ltd.
(2019 figures are SEGA SAMMY forecast)

Sammy’s Strengths (Development Capabilities)

Industry-leading scale
433 development personnel
(As of March 31, 2019)

Sammy’s Strengths (IP)

<table>
<thead>
<tr>
<th>Series</th>
<th>Number of titles in series</th>
<th>Cumulative unit sales*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hokuto no Ken</td>
<td>32</td>
<td>Approx. 2.88 million units</td>
</tr>
<tr>
<td>ALADDIN</td>
<td>14</td>
<td>Approx. 560,000 units</td>
</tr>
<tr>
<td>Breast King</td>
<td>15</td>
<td>Approx. 500,000 units</td>
</tr>
<tr>
<td>SOUTEN-NO-KEN</td>
<td>12</td>
<td>Approx. 470,000 units</td>
</tr>
<tr>
<td>Hokuto Muso</td>
<td>4</td>
<td>Approx. 160,000 units</td>
</tr>
<tr>
<td>Eureka Seven</td>
<td>3</td>
<td>Approx. 130,000 units</td>
</tr>
<tr>
<td>Bakemonogatari / Nisemonogatari</td>
<td>9</td>
<td>Approx. 120,000 units</td>
</tr>
<tr>
<td>Code Geass</td>
<td>3</td>
<td>Approx. 60,000 units</td>
</tr>
</tbody>
</table>

* Including spec changes version
Full-Year Forecast for Fiscal Year 2020

<table>
<thead>
<tr>
<th>Pachislot machines</th>
<th>Sales centered on machines conforming to the new regulation</th>
<th>Expect increase in unit sales due to increased demand from the removal of machines conforming to the previous regulation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pachinko machines</td>
<td>Sales centered on machines conforming to the new regulation</td>
<td>Expect unit sales to be on par with the previous fiscal year</td>
</tr>
</tbody>
</table>

Future Policy and Forecast for Fiscal Year 2020

In pachislot machines, we will continue to submit machines with multiple specifications in order to increase approval ratio, to ensure that we can capture the opportunity associated with the demand to replace machines. We will also continue to introduce titles that utilize common cabinets made by ZEEG Co. Ltd., a joint venture with Universal Entertainment Corporation. Furthermore, we will continue to put forth new titles that reflect market trends, including machines with the number of obtainable medals per game set at a higher range, and machines with payouts that reflect players’ skill. In pachinko machines, as the regulatory revisions will allow Sammy to focus on its specialty—the development of machines with high jackpot continuous rate—we will work actively to introduce new machines that comply with the new regulation.

In fiscal year 2020, we forecast unit sales of pachislot machines to increase by 53,000 units compared with the previous fiscal year, to 120,000, as a result of growing demand due to removal expiration of machines conforming to the previous regulation. Similarly, in pachinko machines we are projecting sales to increase by 4,000 units year on year, to 164,000, due to sales centered on machines conforming to the new regulation. Moreover, we expect a significant increase in profits margin from implementing measures to improve profitability centered on promotion of reuse.

### Future Objectives

- **Improve approval ratio**
  - Submit 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

### ZEEG’s Business Model

- **Purchase using distribution centers / component companies**
- **Provide software development environment**
- **Deliver hardware as units and cabinets**
- **Development and production by manufacturers**
  - Sammy
  - Universal Entertainment
  - Other manufacturers
- **Trade-in collected by manufacturers**
- **Sales from each manufacturer**
- **Pachinko Halls**

### Integrated support for hardware and software
- **Hardware supply**
- **Software development package (provide ZSDK)**

### Improved cost management through reuse
- **Reuse that utilizes economies of scale**
- **Increase reuse ratio of components and ratio of cabinet use**
- **Optimize purchasing costs on an individual component basis**

### Number of Unit Sales (Units)

<table>
<thead>
<tr>
<th></th>
<th>2018 (Results)</th>
<th>2019 (Results)</th>
<th>2020 (Forecast)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pachislot machines</td>
<td>85,401</td>
<td>67,140</td>
<td>120,000</td>
</tr>
<tr>
<td>Pachinko machines</td>
<td>140,013</td>
<td>159,848</td>
<td>164,000</td>
</tr>
<tr>
<td>Board + Frame</td>
<td>97,655</td>
<td>91,858</td>
<td>78,600</td>
</tr>
<tr>
<td>Board</td>
<td>42,358</td>
<td>67,990</td>
<td>85,400</td>
</tr>
</tbody>
</table>
Overview of the Nittaku Group

Established in 1965 as a real estate developer. As a result of diversification, the company is now operating real estate development, rental buildings, pachinko parlors, and game centers under the motto of “Urban leisure and service industries” which is based on profits from commercial real estate located in urban areas. The company’s name “Nittaku” reflects the company’s founding spirit of “Reinventing ourselves daily and opening the way for the future.”

DIALOGUE

Haruki Satomi
President and Group COO (Representative Director)
SEGA SAMMY HOLDINGS INC.

Make pachislot and pachinko machines “a familiar pastime”

As the number of pachislot and pachinko users continues to decline due to the revision of regulations and diversification of entertainment, the pachislot and pachinko industry is required to make concerted efforts to return to “a familiar pastime.”

Takuro Nishimura, President and CEO of Nittaku Holdings CO., Ltd., and Haruki Satomi, Group COO, President of our company, discussed the future of the industry.

Takuro Nishimura
President and Chief Executive Officer
Nittaku Holdings Co., Ltd.

Overview of the Nittaku Group
To make pachislot and pachinko an enjoyable and familiar entertainment regardless of past

Pachinko developed amid the chaos of the postwar era, and during the period of rapid economic growth, it became a familiar form of entertainment.

In fact, the feature of gambling element came later, and it has been established for a long time. In order to control excessive gambling elements, regulations have been revised many times.

This is an industry with a very special history. On every new regulations revision, the pachislot and pachinko manufacturers created new game characteristics within the scope of the rules and contributed to maintaining the vitality of the pachislot and pachinko industry.

I first met with President Nishimura about 15 years ago, and over those 15 years, the market environment has changed drastically due to the revision of regulations. The current situation is that the industry has yet to reach a consensus on whether to restrict "gambling elements" and aim for familiar entertainment, or to pursue high levels of gambling elements within the bounds of regulations.

At its peak in the early 1990s, more than 20 years ago, pachislot and pachinko machines were said to have about 30 million users. However, the number has now fallen to less than about 10 million. In the past, entertainment had limited options, such as movies, travel, and pachinko parlors, but now there is a wide variety of entertainment and the current situation is to compete for disposable time among them. If we want to be a mass entertainer, it’s not easy given the shrinking market and the number of competitors. There are such dilemmas, but as the phrase “gameplay” indicates, we believe that the true essence of pachinko and pachislot is to provide “Play,” and so we should not go beyond that.

That’s right. Humans have a natural desire to seek "more," so it seems that their gambling element has gradually increased, and it has naturally become excessive, not intentionally. To be honest with you, there was a time when the industry as a whole wanted a gaming machine with a high level of gambling element, but I think it was undoubtedly the bubble economy. Instead of dreaming about a return to the past, I think we should move to a "familiar pastime," where we can enjoy ourselves casually while facing reality squarely and gaining the understanding of our customers.
Development of easy-to-play pachislot and pachinko machines and changes in the market environment

Over the past 15 years, there have been constant headwinds in the pachislot and pachinko industry. However, we believe that the revision of regulations in February 2018 and changes in the internal regulations of industry groups since then will provide an opportunity to revitalize the market. With the revision of the internal rules, we can make a machine that can be played in a short time while the gambling element is suppressed. I am hoping that we will be able to create demand again, for example, to stop by on the way home from work to play.

That’s right. In fact, we have seen the emergence of new pachislot machines based on the new regulation (No. 6 model machines) that utilization is extremely well, and we feel the expectations of our customers. As a matter of fact, the overall ratio of utilization in pachinko halls has been improving over the past year. In addition to this trend, pachinko halls will continue to introduce machines conforming to the new regulation that are currently being developed by pachislot and pachinko machine manufacturers. We expect that the outlook for the next one to two years will be bright.

The future of the pachislot and pachinko industry

While there are expectations for the future of new regulation machines, I also hope that “three major reasons why you don’t want to go to pachinko” may be resolved from a long-term perspective.

One is “tobacco.” Smoking rates in pachinko halls are extremely high, and this is one of the reasons why people avoid playing pachinko. In April 2020, the revised Health Promotion Law went into full effect and as a general rule, smoking is prohibited inside restaurants and other facilities. If all pachinko halls had separate smoking rooms and smoking was prohibited at the seats, there would be a possibility that non-smokers would visit the pachinko halls.

The second is the sound. The noise of pachinko balls which are from pachinko balls and medals paid out and sound effects of machines themselves are major causes of annoyance. Some users even play with earplugs. To address this issue, the industry is currently developing pachinko machines with digital payouts and medal-less pachislot machines as well as directional speakers that can be heard only by players. If they are put into practical use in the future and become widespread, we will be able to resolve the problem of sound.

The third is that “it has become difficult to have a jackpot experience." In the current gameplay environment, even if the amount of money you spend is large, you may not be able to draw a jackpot even once. If that happens, it will be difficult for people to think “Let’s come again tomorrow.” As a manufacturer, we want to develop machines that are easy to draw a jackpot and that are supported by users, while restraining the overall gambling element, which could be machines with payout ratios at a high range in some cases so that users can experience more “drawing a jackpot.”

On the other hand, if we can create a structure in which pachinko halls can secure profits by handling fees such as exchange rates, it will be a better environment for not only pachinko halls and users but for manufacturers as well.

Other entertainment such as movies, bowling, and karaoke cost around ¥1,000 per hour. If you look at the average expenses of pachislot and pachinko users, it’s pretty close, but there’s a big difference between winners and losers.

We believe that if everyone can approach that price, it will become a more casual game, bringing back dormant users, and increasing the frequency of visits by existing users.
I think it’s really good if things go that way. On the pachinko hall side, we are also working on the installation of smoking areas and other measures to address the tobacco problem, which is one of the points President Satomi mentioned. I think we will soon be able to resolve this issue. As for the noise, with the cooperation of pachislot and pachinko machine manufacturers, we can expect to see the resolution of this in the future as well. We believe the third, “providing drawing a jackpot experience” can be realized by expanding the use of new regulation machines, enhancement of the regulations, and strengthening operations at pachinko halls.

We would like to support the pachislot and pachinko machine manufacturers who are making efforts to invigorate the market by developing new game machines with our “service.” I think pachinko halls are more difficult to serve customers than any other industries. If you serve delicious food at a restaurant, customers will come again. However, not all customers can have a good experience at a pachinko hall. We can’t continue our business for a long time unless the customers who lost while playing come to our hall again. From that point of view, we are especially trying to improve our service and customer service skills, which will invariably help in making our customers feel like visiting again.

Although the number of pachinko and pachislot players and the number of pachinko halls still remains on a declining trend, we believe that the industry environment will gradually stabilize as the number of pachinko halls reaches an appropriate level for the number of players and the spread of new regulation machines with reduced gambling element.

Regarding the addiction problem

In order to develop the industry in a sustainable manner, it is necessary to face the issue of seeking “countermeasures for addiction.” First of all, I think the important thing is not to put it vaguely in the word “addiction” but to grasp how many people are really having trouble in their daily lives. Without that process, you don’t know how much money or people to invest. The next step is how to support these people, but the important thing is how to prevent addiction before it happens.

It is a very important theme that supports the sustainability of the industry, so we will actively participate in the industry’s efforts.

We have introduced “Self-Declaration and Family Declaration Programs” *1 to reduce the number of times customers are allowed to enter the store beyond the limit set by the customers. In addition, we put up posters to remind customers that “Pachislot and pachinko is a game we should enjoy moderately.” Hall employees are required to attend “Secure Pachinko and Pachislot Advisor” *3 seminars. But whether we can say these efforts will help prevent addiction, the reality is not that easy. I think pachinko halls and pachislot and pachinko machine manufacturers should work together to solve essential problems. I hope that President Satomi and the SEGA SAMMY Group will continue to take the lead in these efforts and in reviving the industry as familiar entertainment.

*1 Self-Declaration Programs: A program that can be used when a player wishes to restrict his/her play by his/her own declaration. (Select three items: Amount of money used, number of games played, and game time. When the specified standard is reached, store staff prompts the player to stop playing.)

*2 Family Declaration Program: A program under which the entry of a player may be restricted by the declaration of the family of the pachislot and pachinko player.

*3 Secure Pachinko and Pachislot Advisor: Personnel in charge of providing appropriate guidance and advice on issues related to gambling addiction at pachinko halls.

The SEGA SAMMY Group’s raison d’etre is to “Continue to create moving experiences.” We believe that the pachislot and pachinko industry is capable of providing numerous moving experiences. Failure to make efforts to be recognized as a “Necessary presence in society” will jeopardize the future of the industry as a whole.

I will take the various problems facing the pachislot and pachinko industry seriously, and at the same time, I will work with all the players in this industry to advance our efforts as “a familiar pastime.”
The Entertainment Contents Business takes full advantage of its wide-ranging business portfolio, abundant intellectual property (IP) assets, and global business base in order to maximize its IP value, which serves its efforts to expand business value.

### Business Portfolio

### Net Sales Breakdown (Fiscal Year 2019)

- **Digital Games**
  - ¥40.8 billion
- **Packaged Games**
  - ¥54.6 billion
- **Amusement Machine Sales**
  - ¥54.7 billion
- **Amusement Center Operations**
  - ¥40.9 billion
- **Animation and Toys**
  - ¥24.5 billion
- **Other and eliminations**
  - ¥4.1 billion

### Industry Structure

The Entertainment Contents Business operates in diverse entertainment areas and is affected by different growth potential and competitive conditions of each market. Furthermore, the business environment is changing with the evolution of digital devices as background, such as global IT companies announcing their entry into subscription-based gaming services.

### Amusement Machine Sales Area (Market size)

- **2005**: ¥199.2 billion
- **2014**: ¥161.1 billion (Contracting)
- **2017**: ¥152.9 billion (Contracting)

**Source:** JAIA, Amusement Industry Survey 2017

### Amusement Center Operations Area (Market size)

- **2005**: ¥682.4 billion
- **2014**: ¥422.2 billion (Contracting)
- **2017**: ¥485.9 billion (Expanding)

**Source:** JAIA, Amusement Industry Survey 2017

### Players (Amusement Machine Sales and Amusement Center Operations area)

- **2005**: 22.7 million
- **2018**: 15.3 million (Contracting)

**Source:** White Paper on Leisure Industry 2019, Japan Productivity Center

### Packaged Games Area (Market size in Japan)

- **2016**: ¥1,217.7 billion
- **2018**: ¥1,374.2 billion (Expanding)

**Source:** CESA Game White Paper 2019

### Players (Packaged Games Area)

The adoption of new game consoles and successive launches of popular software are driving expansion in the Packaged Games area.

### Animation and Toys Area (Market size)

- **2005**: ¥233.9 billion
- **2018**: ¥839.8 billion (Expanding)

**Source:** Media Development Research Institute Inc.

### Digital Games Area (Market size in Japan)

- **2016**: ¥128.2 billion
- **2018**: ¥1,324.3 billion (Expanding)

**Source:** From

### Players (Digital Games Area)

Player base is expanding in a wide range of age groups, not just young male players, who used to be the core player group for video games.
Fiscal Year 2019 Summary

The Packaged Games area saw strong sales of repeat titles, centered on the European and North American markets. We also experienced steady performance in the Amusement Center Operations area and Animation and Toys areas. The Amusement Center Operations area achieved its fifth consecutive year of net sales growth for existing stores. The Animation and Toys area benefited from its Detective Conan movies, which broke box office records of the past series, as well as steady sales of its mainstay products. On the other hand, the Digital Games area recorded losses as a result of the write-down of multiple titles, caused by new titles falling short of expected sales after launch, and the continued stagnation of existing titles. Based on these factors, net sales increased 5% year on year while operating income decreased 33%.

Road to 2020 in Review

Company Earnings Went Below Expectations from Insufficient Hits in the Digital Games Area

Overall performance of the Entertainment Contents Business fell below initial expectations, primarily due to the lack of hit titles in the Digital Games area. In addition to the write-down of multiple titles, a major factor in the drop in operating income within the Digital Games area, the Entertainment Contents Business recorded an impairment loss of approximately ¥7.6 billion as an extraordinary loss. As a countermeasure, the Company is taking steps to narrow down the number of new titles and adjust the number of titles under direct operation.

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

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

Released 8 new titles compare to 12 new titles initially planned
Existing titles stagnated at a speed exceeding expectations
Road to 2020 in Review

Overseas and Repeat Sales in the Packaged Games Area Exceeded Expectations

Although the Entertainment Contents Business did not perform as expected, our efforts in the Packaged Games area to improve quality to date have been successful. This success can be seen in the steady stream of high ratings from external parties in Europe and North America for our packaged games. We have been able to secure long-term sales for titles through continuous distribution via PC-gaming platforms such as STEAM and those contributed to the profit.

Steady Sales of Repeat Titles
Thousands of copies

<table>
<thead>
<tr>
<th></th>
<th>2017 (Result)</th>
<th>2018 (Result)</th>
<th>2019 (Result)</th>
</tr>
</thead>
<tbody>
<tr>
<td>'17</td>
<td>5,040</td>
<td>9,200</td>
<td>19,350</td>
</tr>
<tr>
<td>'18</td>
<td></td>
<td></td>
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<tr>
<td>(FY)</td>
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</tr>
</tbody>
</table>

External Factors
- Markets expanding in Europe, North America, and Asia
- Platform growth

Internal Factors
- Overseas sales expansion for domestic studio IP
- Stable income generated by overseas studio IP
- Improved product quality

Reconsidering Focus Areas
Focus resources in areas where we can leverage our strengths within strong overseas markets

Road to 2020 at Time of Announcement

<table>
<thead>
<tr>
<th></th>
<th>Japan</th>
<th>Asia</th>
<th>Europe and North America</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic studios</td>
<td></td>
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</tr>
<tr>
<td>Package</td>
<td>●</td>
<td>●</td>
<td>●</td>
</tr>
<tr>
<td>CS and PC digital</td>
<td>●</td>
<td>●</td>
<td>●</td>
</tr>
<tr>
<td>Mobile digital</td>
<td>●</td>
<td>●</td>
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<tr>
<td>Mobile digital</td>
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</table>

From Fiscal Year 2020 Onward

<table>
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</tr>
<tr>
<td>Mobile digital</td>
<td>●</td>
<td>●</td>
<td>●</td>
</tr>
</tbody>
</table>
Measures for Fiscal Year 2020

Full-Year Forecast for Fiscal Year 2020

† Expect to improve profitability in the Digital Games area by optimizing the number of titles under development and operation

† Expect significant sales increase in the Packaged Games area from introducing new titles using existing IP, but the development and other costs from launch of new titles will also incur

Digital Games Area

Focusing on new titles, we plan to optimize the number of titles under development and operation, and thereby improve profitability. Moreover, we plan to focus on new title launches that take advantage of existing IP as well as external IP. We are also taking steps to reallocate management resources to key areas such as online and packaged games.

Measures to Improve the Digital Games Area

Optimize the scale of titles under development and operation

† Narrow down the number of new titles under development

† Lineup centered on existing IP titles

† Adjust the number of titles under direct operation

Reallocate resources

† Invest resources in focusing areas, such as online and overseas packaged games

† Proceed with shift of outsourced work on existing titles to insourcing

Packaged Games Area

We plan to introduce major new titles including Total War®: THREE KINGDOMS and the Official Video Games of the Olympic Games Tokyo 2020, and we anticipate a sales increase driven by a significant upswing in new title sales, from 4.09 million units in fiscal year 2019 to 10.69 million units in fiscal year 2020. However, we are planning for a decrease in operating income because of the development and marketing costs associated with the development and marketing costs associated with new title launches coupled with an anticipated drop in repeat sales compared to the previous fiscal year.

Amusement Machine Sales Area

In addition to the launch of StarHorse4, the latest game in the StarHorse series, we are also planning the launch of titles using external IP as well. On the other hand, we also expect running costs associated with the relocation of the head office and other expenses to increase as well.

Amusement Center Operations Area

While expecting the effects of the consumption tax hike, we will continue strengthening operations through measures focused on prize game machines in addition to opening new stores and other efforts.

Animation and Toys Area

In addition to selling mainstay animation and toys, we plan to bring multiple new products to market.

Detective Conan: The Fist of Blue Sapphire box-office revenues have surpassed ¥9.1 billion (as of July 21, 2019).
CREATED AROUND THE WORLD, DELIVERED TO THE WORLD

In the Entertainment Contents Business, we have established development studios and publishing bases in countries around the world with which we maintain flexible relationships, allowing us to build a system that is capable of IP development from a global perspective. Looking closer, we have made efforts to utilize our IPs with a long history while generating new IP. Additionally, we have also made strides toward increasing our lineup by taking advantage of the diverse development capabilities of game studios around the world and through M&A. We are leveraging both the special traits of each studio and the characteristics of each IP to the maximum degree to develop contents for the growing global market and thereby increase earnings.

Investing toward Bearing Fruit in the Long Term

Since 2005, the Entertainment Contents Business has continued to expand its IP pipeline, which we have accomplished through the M&A of excellent IP and highly capable development studios around the world. These ongoing investments, made from a long-term perspective, are showing steady results, with each IP beginning to bolster profits. Our product lineup of high-quality titles created in development studios around the world contributed to earnings, and fiscal year 2019 marked the fourth consecutive year of operating income growth in the Packaged Games area.

IP Expansion Timeline

<table>
<thead>
<tr>
<th>2005</th>
<th>2006</th>
<th>2013</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Creative Assembly (U.K.)</td>
<td>Sports Interactive (U.K.)</td>
<td>Relic Entertainment (Canada)</td>
<td>Demiurge Studios (U.S.A.)</td>
</tr>
</tbody>
</table>

Major Acquired Development Studios

- **The Creative Assembly, Ltd.**
  The Creative Assembly is a development studio based in Horsham, U.K., operating with over 500 staff. Since its acquisition in 2005, the studio primarily specializes in games featuring accurate portrayals of history and stellar quality, as shown in its popular real-time strategy series, Total War™ which has sold over 27.6 million copies in total.

- **Sports Interactive Ltd.**
  Sports Interactive is a London-based development studio with roughly 130 employees that develops the Football Manager series of soccer club management simulator games. The series, which boasts an extensive and accurate database of player information, enjoys the devoted support of fans around the world, selling over 20 million total copies.

Other Studios and Their Characteristics

<table>
<thead>
<tr>
<th>Studio</th>
<th>Major IP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Relic Entertainment</td>
<td>Company of Heroes, Dawn of War series</td>
</tr>
<tr>
<td>Amplitude Studios</td>
<td>Endless Space series and other</td>
</tr>
<tr>
<td>Demiurge Studios</td>
<td>Marvel Puzzle Quest and SEGA Heroes</td>
</tr>
<tr>
<td>Creative Assembly Sofia</td>
<td>Total War Saga: Troy</td>
</tr>
</tbody>
</table>

TOTAL WAR: ROME II
©SEGA.
Developed by The Creative Assembly, Ltd.

Football Manager 2019
©Sports Interactive Limited 2018.
Published by SEGA.
### Other Studios and Their Characteristics

<table>
<thead>
<tr>
<th>Studio</th>
<th>Major IP</th>
<th>Characteristics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Relic Entertainment</td>
<td><em>Company of Heroes</em>, <em>Dawn of War</em> series</td>
<td>This studio, based in Vancouver, Canada has produced several high-quality games with movie-like graphics and highly strategic gameplay.</td>
</tr>
<tr>
<td>Amplitude Studios SAS (France)</td>
<td><em>Endless Space</em> series and other</td>
<td>Based in Paris, France, this studio is notable for developing turn-based strategy games, particularly in the 4X genre*, where it has received rave reviews.</td>
</tr>
<tr>
<td>Demiurge Studios</td>
<td><em>Marvel Puzzle Quest</em>, <em>SEGA Heroes</em></td>
<td>This studio, which operates out of Cambridge, Massachusetts, U.S.A., primarily develops and operates mobile games.</td>
</tr>
<tr>
<td>Creative Assembly Sofia (Bulgaria)</td>
<td><em>Total War Saga: Troy</em></td>
<td>Creative Assembly Sofia is a satellite studio of U.K.-based the Creative Assembly, Ltd. based in Bulgaria and mainly works on development of the Total War™ series.</td>
</tr>
</tbody>
</table>

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### Basic Policy Related to M&A

To expand its business, SEGA Games Co., Ltd., which primarily handles packaged and digital games, needs to expand its lineup, which requires it to develop IP for a variety of regions across multiple platforms. M&A is an effective method we have utilized to this end.

Since 2005, we have pursued acquisitions of overseas studios primarily that develop strategy games of various themes that exude a unique quality distinctive presence in the market. In recent years SEGA Games has established teams dedicated to gathering information and maintaining a growing number of dialogues on outside development studios at all times, and all over the world. M&A candidates are selected based on three major criteria, with a system in place to execute a decision in prompt fashion.

1. The candidate possesses IP with potential for future growth and franchising
2. The candidate demonstrates high competitiveness in a particular area
3. The candidate has a compatible corporate culture that can generate strong synergies

Post M&A, we provide publishing support in cooperation with our publishing bases around the world including support for marketing, sales, licensing, and other business development. In addition, we utilize the specific characteristics of each IP for development into a wide range of areas and platforms. These actions serve to increase the value of the IP itself and support each IP so that it may grow into a pillar of profit. In addition, we also support development studios according to their own individual characteristics to help them establish a better development environment.

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* Games with play focused around four “Xs”: Explore, expand, exploit, and exterminate

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**INTEGRATED REPORT 2019**
Our global sales strategy is aimed at reliably providing contents to the growing global market.

In the Entertainment Contents Business, we have leveraged M&A of development studios to create a system that enables us to develop contents in locations around the world. To ensure that we can reliably deliver these titles worldwide, we are also establishing publishing bases in each region and are working to expand our scope of operation by strengthening internationally the ties between the publishing bases and the development studios. With downloading becoming a more popular method to get contents, it is now possible to deliver games to areas where sales were once difficult for our distribution network; therefore, we are also working to strengthen our download delivery capabilities.

By adopting these strategies and expanding our operating areas, recent years have brought strong results in the packaged segment and sales of older games has also increased. Emerging markets still have room for expansion, and we will further promote our global sales strategy.

Global Market Conditions

The global game market has grown in size by 13.1 trillion in keeping with the expansion of the Chinese market. With the emergence of new platforms and the advancing communication environment, the user base has expanded, and we expect to maintain a high growth rate and expand further in the future.

Global Game Contents Market Size

<table>
<thead>
<tr>
<th></th>
<th>'14</th>
<th>'15</th>
<th>'16</th>
<th>'17</th>
<th>'18</th>
</tr>
</thead>
<tbody>
<tr>
<td>Billions of yen</td>
<td>6,714.8</td>
<td>8,266.7</td>
<td>8,997.7</td>
<td>10,896.4</td>
<td>13,177.4</td>
</tr>
</tbody>
</table>

Source: Famitsu Game White Paper 2019

From Europe to the World

In May 2019, we launched Total War™: THREE KINGDOMS, the latest game in the Total War™ series. This game, which is not set in Europe, but in the Three Kingdoms period of China, has received much support from users in China and other areas in Asia, and sold one million copies faster than any other title in the series’ history, doing so in its first week after launch.

Global Game Contents Market Size

<table>
<thead>
<tr>
<th></th>
<th>Europe</th>
<th>Asia</th>
<th>Japan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Major IP</td>
<td>Total War™</td>
<td>Football Manager</td>
<td>Endless Space</td>
</tr>
<tr>
<td></td>
<td>Two Point Hospital</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Development studio
Sales area
From North America to the World

Sonic the Hedgehog is one of our massively popular series, beloved by users around the world since its launch in 1991, with total sales exceeding 920 million copies. We currently have a brand management team set up at our North American publishing base as part of a multi-lateral development system that goes beyond IP and games.

Sonic the Hedgehog ©SEGA

From Japan to the World

Launched in 2016, Persona5 received the “Best Role-Playing Game” award at The Game Awards 2017, held in Los Angeles U.S.A. Total sales for the game exceed 2.7 million copies worldwide.

Persona5 ©ATLUS ©SEGA All rights reserved.

We will concentrate resources in areas where we can leverage the strengths of our global manufacturing and sales systems to provide moving experiences to the world

In fiscal 2019, we faced a hard struggle in the mobile-focused Digital Games area. The fact that several titles were late to enter the market and were unable to produce hits amid stagnating market conditions and fierce competition is a major cause for concern. At the same time, the Packaged Games area showed strong results and improved performance for PC games produced by European and North American development studios.

Looking at our showing for the fiscal year 2019, we can see that Japan’s mobile market is hitting a standstill. As a result, we are reviewing titles that are under development and in operation and adjusting our scale of involvement. We are also planning to improve profitability by establishing a development management system. On the other hand, we can also expect continued market growth in overseas packaged games and PC digital games. We are planning to devote more resources to the already thriving market in Europe and North America, as well as the expanding market in Asia and are working toward global development.

SEGA Games’ manufacturing and sales system, which comprises both overseas development studios producing unique titles as well as publishing bases, is highly distinct, even compared to other Japanese game companies. The system functions effectively because instead of simply establishing multiple bases overseas, the management teams at each base receive a certain degree of authority which they can demonstrate with the head office in Japan through the latter’s connections with development studios and publishers in each region.

Original members of a development studio prior to M&A are allowed to demonstrate leadership and develop contents that utilize the studio’s specific qualities. Our publishers employ management teams with extensive industry experience who construct sales plans tailored to the characteristics of a title and based on market trends in their territory. In order to make the best use of this unique manufacturing and sales system and maintain flexible ties between bases, overall courses of action are shared between the head office in Japan and regional teams while management policies are communicated to the management teams at each base at regular intervals.

In fiscal 2020, we are planning on putting this manufacturing and sales system to work. In May 2019, U.K.-based studio the Creative Assembly Limited released Total War™: THREE KINGDOMS, the latest in the Total War™ series, a bona fide hit that has amassed large numbers of supporters in Asia. In September 2019, we conducted a simultaneous release in Japan, North America, and Asia of the SEGA Mega Drive Mini (SEGA Genesis Mini in North America), a palm-sized revival of the home video console SEGA Mega Drive, originally launched in 1988. U.K.-based Two Point Studios is developing a console version of Two Point Hospital, originally launched for PC, set for release. Going forward, we will continue to deepen ties between bases, increase the value of individual IP, and develop IP titles for a wide range of devices, regions, and platforms, and make them a valuable part of our future results.
Resort Business

To make the Resort Business a pillar of the Group over the medium to long term, we are building up our know-how in the integrated resort (IR) business in parallel with strengthening the profitability of existing resort facilities.

1. **Japan’s leading complex facilities, Phoenix Seagaia Resort**

   We provide the best resort stay utilizing the blessed environment, such as 3 accommodation facilities like Sheraton Grande Ocean Resort, international class convention facilities that can accommodate up to 5,000 people, the Japan’s leading golf course Phoenix Country Club and tennis club which are spread over within the broad grove of Japanese black pine trees that is around 11 km from north to south and around 700 ha that faces the Pacific Ocean in Miyazaki Prefecture. By continuously improving the value of our facilities, we are working to strengthen our ability to attract customers while accumulating know-how in the operation of resort facilities.

2. **The North Country Golf Club (Chitose, Hokkaido)**

   As part of its activities to promote sports and contribute to the community of Chitose City, the Company runs Sega Sammy Cup Golf Tournament and operates it as a facility for snow activities, North Snowland in Chitose in winter.

3. **South Korea’s first IR facility, PARADISE CITY**

   PARADISE CITY operated by PARADISE SEGASAMMY Co., Ltd., a joint venture with the PARADISE GROUP of South Korea is the first IR facility in South Korea with hotels, casinos, commercial facilities, convention halls, and clubs. We aim to be the top IR facility in Northeast Asia by providing high-quality space and services, and are accumulating development and management know-how with a view to entering the IR business in Japan.
PARADISE CITY Phase 1 Development Finished, Full-Scale “Art-tainment Resort” Completed

PARADISE CITY, which opened in April 2017 as the first integrated resort in South Korea, is based on the concept of “Art-tainment,” which is a fusion of art and entertainment, and offers high-quality services at top-class 5-star hotels, convention halls, and casinos.

The service, which incorporates space and Japanese-style hospitality, has been highly praised by many customers both in Korea and abroad.

As a development facility in Phase 1-2 in September 2018, we opened a boutique hotel, a premium spa, an event-type shopping mall, and a number of other facilities with an emphasis on entertainment. With the opening of indoor family entertainment park Wonderbox, the 1st phase of construction has finished and a true “Art-tainment” resort is completed.

By opening the Phase 1-2 development facility of the project, our group aims to ensure the growth of PARADISE CITY which has attracted more visitors. At the same time, through participation in the operation of the facility, the company is steadily accumulating know-how toward entering the domestic IR business.
WITH RESPONSIBILITY AS A JAPANESE COMPANY

The SEGA SAMMY Group’s Readiness to Participate in the Domestic IR business

Looking toward participation in the IR business in Japan, we are advancing preparations steadily with our sights set on certainly being selected as an operator.

Accumulating IR Know-How Overseas

We have been sending personnel to casino facilities in South Korea since forming an alliance with South Korean casino operator the PARADISE GROUP in 2012. After opening South Korea’s largest IR, PARADISE CITY, we began assigning even more personnel. In areas ranging from dealer duties through to business management, these personnel are accumulating expertise in the operation of IR, which include casinos.

For this reason, we are confident that we have built a decisive lead over other Japanese companies with respect to fostering the Japanese personnel who will be needed when IR are allowed to open in Japan.

Acquiring Expertise of Operating Resort Facilities at One of Japan’s Premier Resort Complexes

In 2012, the Group was joined by PHOENIX RESORT CO., LTD., the operator of a large resort complex in Miyazaki named Phoenix Seagaia Resort. The resort boasts several accommodation facilities—including a high-end resort hotel that is part of the prestigious international Sheraton hotel chain—and a world-class convention center with a maximum capacity of 5,000 people. At the resort complex, we are developing professional skills that will be useful for operating IR. For example, we are formulating measures to tap into MICE* demand.

* MICE is a business tourism format. The acronym stands for Meetings, including training and seminars tour; Incentives, referring to employee-reward tourism; Conferences or Conventions, such as academic conferences and international meetings; and Exhibitions or Events.
Conducting Joint Research on Gambling Addiction

When operating IR in Japan, gambling addiction countermeasures will be essential. With a view to identifying the precursors of dangerous levels of gambling, we are conducting joint research on gambling addiction and prevention with Kyoto University.

We hope that this research helps clarify the onset mechanism of gambling addiction, and we will use the findings to take preventive measures in Japan for the onset, progression, and recurrence of gambling addiction.

Conducting Value Chain Analysis Covering More than 118 Elements

Beginning IR operations requires not only preparations for the operation of facilities and casinos but also for a host of ancillary operations, such as cash management and rigorous security. With this in mind, we have conducted an analysis and identified more than 118 elements that comprise our IR business. More specifically, we have identified elements for which we utilize our resources to provide differentiated services, elements that are required as standard in IRs, and elements that are the external resources of partners or associates that are necessary. In light of this analysis, we are proceeding with multifaceted preparations.

Aquisition of Licence for Casino Machines from Nevada State and Distribution of Them

In December 2017, the Group’s wholly owned subsidiary SEGA SAMMY CREATION INC., and its wholly owned subsidiary, Sega Sammy Creation USA, INC., acquired Nevada state gaming machine manufacture and distribution licenses. Normally, the acquisition of this license takes about two years. However, we were awarded the licenses in the unusually short period of just one year. Meeting the world’s most rigorous licensing standards and eligibility criteria clearly demonstrates the Group’s eligibility to engage in the IR business in Japan.