



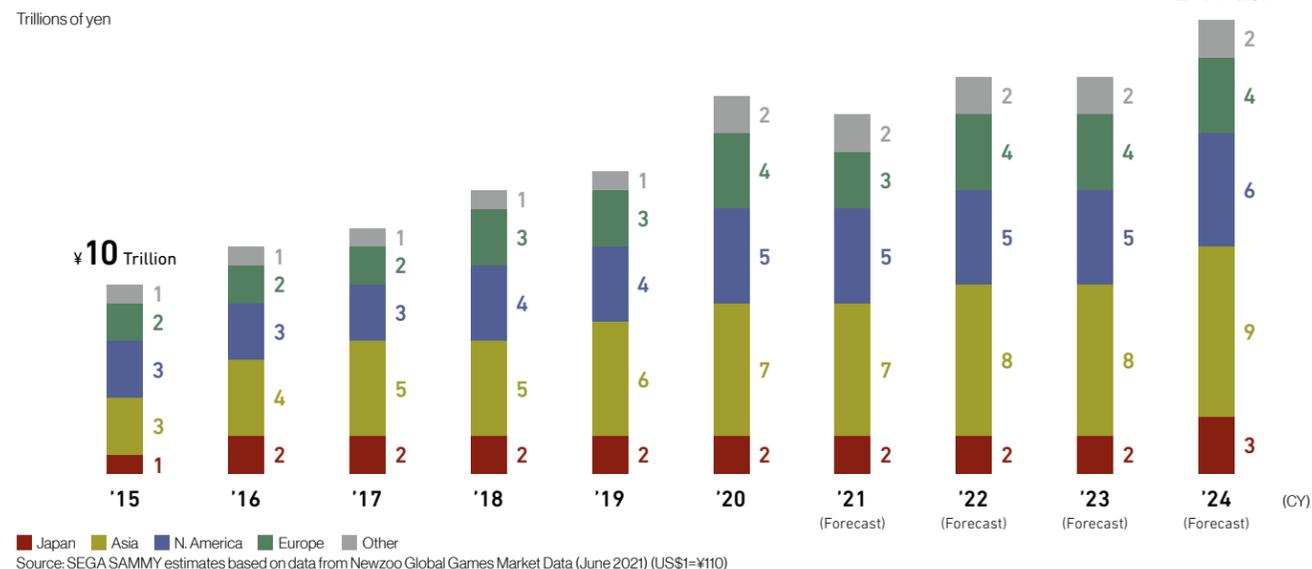
Growth Strategies for the Consumer Area

Market Environment

Ongoing growth in the game content market on a global level

The global market for game content has continued to expand steadily, supported in part by stay-at-home demand during the COVID-19 pandemic. This has been particularly notable in the Asian region, which includes numerous emerging economies. The market there was ¥3 trillion in 2015, but more than doubled in five years to reach ¥7 trillion in 2020. The global market on the whole continues to grow into a massive industry, projected to exceed ¥24 trillion in 2024.

Scale of Game Content Market

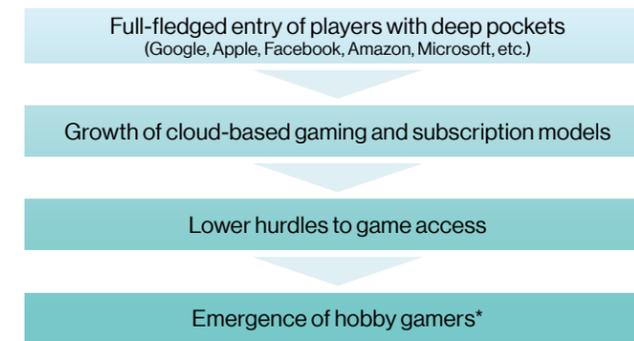


An ecosystem of 3.0 billion users

It is estimated that the number of users who play games on a regular basis currently stands at around 3.0 billion. The world's largest tech firms are investing heavily in the gaming field, in both cloud-based gaming and subscription models as well as existing gaming areas. Hurdles to game access will eventually fall, as an environment takes shape in which anyone in the world can enjoy services at low cost without the need for a costly device. One result has been the emergence of "hobby gamers*," a layer of users who habitually enjoy games at intervals during their daily lives using smartphones or PCs, rather than playing for long periods of time using costly dedicated game consoles connected to televisions. The number of such users is growing every year. The pandemic has also greatly accelerated digital transformation on a global level. Such major changes in the environment are helping to drive a significant increase in the game-playing population.

The way people interact with games is also becoming far more diverse than in the past. Game players are naturally at the center of the ecosystem. The broader ecosystem is also expanding, though, as games draw together many people on a global scale, to encompass not only game players but also, for example, streamers who broadcast their games and their viewers. These factors are also expected to fuel growth in the game population going forward.

Games Grow into Global Industry with 3.0 Billion Users



More Diverse Interactions with Games, Expanding Ecosystem



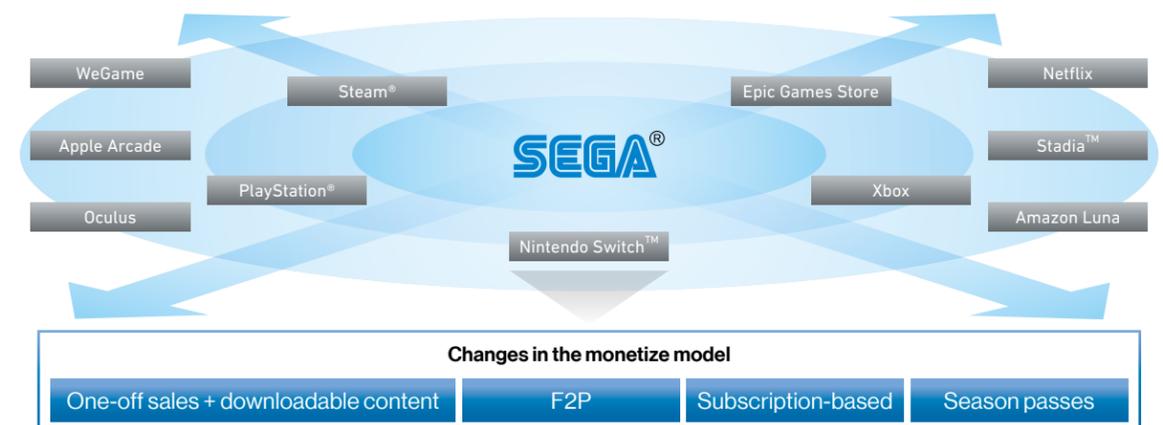
* A term coined by SEGA SAMMY, indicating the layer of users who habitually enjoy games at intervals during their daily lives using smartphones or PCs.

Barriers between devices and regions disappear, points of contact with users increase

Advances in digital transformation are helping barriers in the games market to come down with increasing speed, both between devices and between regions. An environment is taking shape in which a range of game content can be released quickly in every direction, including PlayStation, Switch, Xbox, PCs, and other platforms, as well as emerging cloud-based platforms.

The Group is working to build a multilayered profit model as well, ranging from conventional one-off package sales to free-to-play (F2P), subscription-based, and season pass models. We aim to raise profit levels by continuing to deliver services in ways that are best suited to the market context.

Barriers between devices and regions disappear, points of contact with users increase

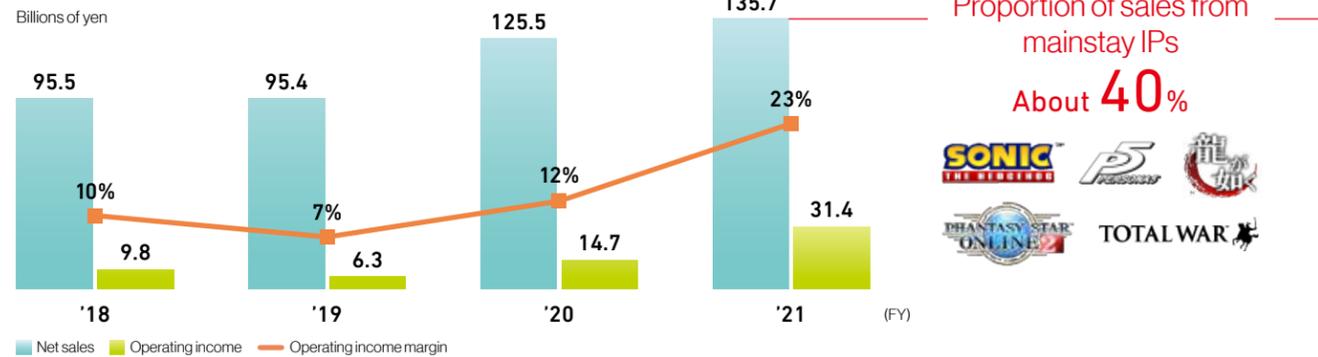


Strategies for the Consumer Area

Mainstay IPs drive medium-term growth in the Consumer area

In the fiscal year ended March 31, 2021, net sales, operating income, and the operating income margin in the Consumer area all increased significantly, owing in part to stay-at-home demand amid the pandemic. Titles positioned as SEGA's mainstay IPs made particularly strong contributions to performance: *Sonic*, *Persona*, *YAKUZA (Ryu ga Gotoku)*, *PHANTASY STAR*, and *Total War* together accounted for about 40% of sales. These mainstay IPs also enjoy robust repeat demand, and are continuing to generate profits for many years.

Consumer Area Performance



Reinforcing a powerful studio network extending across the globe

The development studio network SEGA has built up is among the largest of any Japanese game company. Starting with the acquisition of a studio in the U.K. in 2005, we have steadily expanded the scale of the network and attracted talented personnel. The key IPs of each studio have enjoyed success in various regions and are currently playing a pivotal role in our worldwide expansion. To further strengthen the studio network on a global scale, we will continue to explore acquisitions of studios that show potential, both in Japan and abroad.

Studio Network

	2005	2006	2013	2014	2016	2019
Development studio						
Location	U.K.	U.K.	Canada	Japan	France	U.K.
Developers	About 620	About 160	About 270	About 180	About 110	About 30
Main IPs	TOTAL WAR	FOOTBALL MANAGER	COMPANY OF HEROES	Persona	Legend	TWO POINT HOSPITAL
FY2022/3 New titles (planned)	WARHAMMER	FOOTBALL MANAGER 2022	Age of Empires IV * Published by Microsoft	YAKUZA	HUMANKIND	TWO POINT CAMPUS

Interview with Top Management



Yukio Sugino
President and COO
(Representative Director)
SEGA CORPORATION

Q1: Can you give us some specifics about how SEGA plans to grow existing mainstay IPs as global brands over the medium term?

Last year, SEGA ranked No. 1 among global game publishers on the review site Metacritic. To be recognized as a global brand first and foremost means providing high-quality products and services. At the same time, in the expanding global games market, leading publishers with deep pockets, mainly in Europe and North America, are trying to capture users by pouring massive investments into developing and launching AAA titles. To hold our own in this highly competitive environment and to get users to choose SEGA titles, I believe it is critical to manage the portfolio so that we can strategically focus our resources. We merged two companies last year, one focused on the Consumer

area and the other on the amusement machines area, giving SEGA a new framework. Our main objective was to make it easier to reallocate resources in a more agile and more optimal manner by consolidating development resources, better positioning SEGA to compete in global markets.

Within this overarching framework, we are working to implement the following specific measures over the medium term. Our three measures are expanding touch points with users, prolonging product life cycles, and strengthening user engagement. I'd like to elaborate using concrete examples.

Grow mainstay IPs as global brands

Pursuing quality and focusing investments

1 Expanding touch points with users

2 Prolonging product life cycles

3 Strengthening user engagement

Regarding expanding touch points with users, one example is *Ryu ga Gotoku (YAKUZA in Western countries)*, a series that has remained popular for more than 15 years. In the past, it has been released on specific platforms and in terms of regions, the Japanese market was the series' main focus. As the game console market softened in Japan, however, we gradually expanded elsewhere into Asia, Europe, and North America. Since then, as we have pushed forward with multiplatform development, including PCs, which offer a large market in Europe and North America, and have been expanding touch points with users, sales of *YAKUZA* have increased with each series released. As a result of expansion in the market, about

70% of sales of *YAKUZA: LIKE A DRAGON*, released in January 2020, are generated overseas. With *LOST JUDGMENT*, the latest title released in September 2021, we took on the challenges of multiplatform development across nine different languages and simultaneous worldwide release. Sales are off to a good start. The global games market is currently very active, with the emergence of new game consoles and the entry of new platformers. We see these as major opportunities for SEGA, and want to greatly expand touch points with users through a dual strategy of multiplatform development and simultaneous worldwide release.

With regard to prolonging product life cycles, let me use the

Persona series as an example. In 2020, we launched *Persona 4 Golden* on Steam, a PC platform. This is a remastered version of a title released for PlayStation Vita in 2012. Sales were much stronger than expected, proving that quality titles from the past can do well in today's market. SEGA boasts a rich lineup of IPs, cultivated over a long history. Our strategy is to capture additional market opportunities by remastering and remaking these IPs and releasing them at the level of quality demanded in the

current market. Moreover, we expect further advances in digital sales to free the environment from physical constraints, enabling the sale of titles with a long tail. Fed by SEGA's rich lineup of titles, repeat sales are growing and are currently a major pillar of performance. Going forward, as the platformer-led subscription service market grows, we can expect to see an environment in which users can, over a longer time span, continue to choose and enjoy SEGA content.

Utilization of IP assets



Finally, regarding user engagement, *Sonic* offers a good illustration. In 2020, the live-action movie *Sonic the Hedgehog* was a huge worldwide hit, reaching sixth place in global box office revenues for that year. The secret of the movie's huge success was precisely the strength of the global *Sonic* fan community. We made the movie's character designs public as a pre-release promotion. In response, many fans posted harshly critical comments about the designs on various social media. We listened carefully to these voices and took the criticism seriously, and made major design changes. The result was a marked improvement in fan satisfaction. The fan community became positive influencers for the movie, which spread to the wider public, drawing a big response and driving the huge success of the movie.

This success dramatically increased exposure for the IP, contributing significantly to game sales and giving great impetus to the whole *Sonic* franchise. We have already decided to distribute a new animation series through Netflix, and have been approached with numerous other offers for business opportunities. Our approach—taking feedback from fans to heart and reflecting their concerns in development and in actions to grow the IP—these kinds of actions to build fan engagement have become critical.

So, through the efforts I have outlined, we are aiming to grow our existing mainstay IPs as global brands and achieve the growth targets of the current medium-term plan.

Q2: Tell us about SEGA's long-term growth narrative.

Over the medium term, growth will largely be driven by globalization of our existing mainstay IPs. In tandem with that, we will pursue initiatives for long-term growth. As I said earlier, the way people interact with games is becoming more diverse and the ecosystem is growing exponentially. In this context, SEGA wants to go beyond the boundaries of conventional games and take on the challenge of creating super games that excite the gaming community, which is a web of diverse relationships. Keeping our finger firmly on the pulse of gaming trends, which are changing daily, we will anticipate the emerging landscape of the gaming community and move forward with the development of games that strike a chord.

Naturally, we project that the scale of investment in the development of such super games will be sizable. We will need to incorporate new technologies and trends. To this end, we will have to invest from the perspective of developing the pipeline and shoring up our value chains. I think back to when we acquired and consolidated Atlus. This brought us two major benefits. One was the highly appealing, world-class IPs Atlus had developed in the role-playing game genre. The other was the solid localization capabilities of the U.S.-based site. Drawing on these localization capabilities, very Japanese IPs like *YAKUZA* and *HATSUNE MIKU* have been translated using expressions that really resonate with local users, which has

enhanced game quality. The outcome of this is clearly evident in the rising Metacritic scores, which in turn is leading to growing sales in overseas markets. These kinds of acquisitions that enhance our functionality will definitely be a major strength in the long run, and we will continue to proactively explore investments from this point of view.

Also, SEGA over many years has brought game development studios from all over the world into the Group, and maintains the largest global studio network among Japanese game companies. Strengthening this network will lead to further substantial growth in global performance.

For details on the studio network see page 30.

Q3: What do you see as the challenges for growing the Consumer area going forward?

I recognize that SEGA hasn't done as well as we should have in staying in dialogue with the markets. We have to seriously reflect on the fact that, despite drastic changes in the global markets, such as the way users interact with games and the rise of new platformers, we have tended to stick with our own internal reasoning and approaches. There is a mounting sense of crisis that if we do not clearly ascertain the direction the market is moving, we will soon get left behind. Changes in the market have also brought us new awareness—such as how highly past titles have been reevaluated amid the wave of stay-at-home demand. As I said before, even though we boasted a lot of amazing IPs that other companies didn't have, and despite the major opportunities open to us, we weren't able to fully take advantage of them.

This is exactly what the market, dramatically reshaped by COVID-19, brought back home to us.

I also have the sense that our collaboration with other companies has been lacking. Now, in part to better respond to rapid changes in the market, we are increasing opportunities to be in communication with our various business partners. More robust collaboration has enabled us to enhance game quality and gain footholds in the development of new services and games. Of course, collaboration brings challenges. But backed by our strong brand recognition and a rich lineup of IPs, SEGA stands firmly in position of strength. This gives me great confidence going forward that we will be able to hold our own even in competition with top global groups.

