

(Translation)

1Q Result for the Fiscal Year Ending March 2021

Major Questions in WEB Conference Briefing about Results for Analysts and Institutional Investors

August 19, 2020
SEGA SAMMY HOLDINGS INC.
IR Department,
Finance and Accounting Division

■ Date: August 5, 2020 (Wed), from 13:00

■ Respondents:

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

Koichi Fukazawa (Senior Executive Vice President and Group CFO, Director of the Board of SEGA SAMMY HOLDINGS INC)

Pachislot and Pachinko Machines Business

Q: I assume that there are needs for new regulation machines for pachinko even if there is no demand for removal. I would like to ask you about the forecast of pachinko machines, centered on P Shin Hokuto Muso Chapter 3, which was announced the other day.

A: The launch of "Yu-Time", one of the specs for new regulation machines, is currently proceeding in the marketplace, and we heard it has been well received by customers although it is the machines from other publishers. We have also introduced the first new regulation machines for pachinko, "P Psalms of Planets Eureka Seven HI-EVOLUTION ZERO" this week. We need to assess the performance from now on carefully, but expectations are high at this point. Therefore, the company expecting that there is the chance that "P Shin Hokuto Muso Chapter 3" will be sold bigger than initial plan. It may be because there are few "Yu-Time" machines already launch in the marketplace at the present but we can see the high demand for it in the market now. Therefore, there is also the possibility that the introduction of "Yu-Time" machines will aggressively proceed.

Also, regarding No. 6.1 machines for pachislot may be on the market within this year at the earliest. The No. 6.1 machine has a spec that is suitable for shorter-time play.

Q: Please tell us about the forecast for gross profit margin of pachinko and pachislot machines. As the unit number of ZEEG machine cabinet is increasing, should we understand that the profit margin in the near term is on a declining trend?

A: In the previous fiscal year, profitability improved significantly, mainly due to the aggressive launch of reusable parts. However, in the fiscal year under review, profitability was originally expected to decline at YoY, even without the impact of COVID-19. We think the current fiscal year is the phase to promote the use of ZEEG machine cabinet for new titles and increase them. In addition, when we announced

the e-commerce sales of pachislot machines the other day, there were requests from other manufacturers to sell their machines on our e-commerce platform. We also received the inquiries for the use of ZEEG machine cabinet from other manufacturers. We want to actively increase the introduction numbers of ZEEG cabinets hereafter, leading to future reuse.

Ratio of frame sales which is higher margin will decline in pachinko machines and this is also one of the factors behind the decline in the profit margin.

Q: You have started e-commerce sales of pachinko and pachislot machines recently, but I heard that the procedures were complicated and difficult to use. Can this affect the sales?

A: Originally, we handle the sales of repair parts and other items via the e-commerce site, and nearly 8,000 pachinko halls have already contracted. We only made it possible to purchase pachinko and pachislot machines through this e-commerce site, and it also handles a variety of payment methods. In addition, by accepting orders that we have received by fax through the e-commerce website, both are able to reduce the number of man-hours involved in sales, and we do not believe that the procedures have become more complicated than before from both side.

Entertainment Contents Business

Q: It is surprising that the repeat sales in 1Q are such strong, but looking at the forecast, it is assumed for a slowdown in the future. I would like to ask whether you have already seen some slowdown after 2Q and reflect it to the plan. Please explain about this including the trends by region and platforms.

A: Repeat sales grew sharply from March - April 2020, when "Stay Home" move has started, and we also conduct the sales in conjunction with this, so sales went higher than expected. In March and April, it doubled from the previous year, but in June and July, the growth from the previous year was slowing down, so we do not expect this rapid growth to continue and expects a decrease to keep pace with the actual situation.

By platform, Steam in Europe and the United States is the strongest, thanks to the accumulation of catalogs of digital content for PCs that we have been working on.

Q: In Steam, sales of "Person 4 The Golden" were strong, but are you considering selling new titles in Steam version as well from the start in the future?

A: We remastered "Person 4 The Golden", the title previously sold on PlayStation Vita, and launched on Steam in this fiscal year. The games received high score in the review site and as the sales prices were also low, sales were significantly higher than expected. Going forward, we intend to aggressively promote the porting of previously launched titles to Steam and other new platforms. For new titles in the future, we are negotiating with the 1st parties per title and is considering ways to sell them on favorable terms. Under such direction, we would like to take multi-platform roll-out in account and prepare the PC version and others from the start.

Other

Q: Regarding the cost reduction target of 15 billion yen, please explain when the effect can be seen and what specific actions will be taken to the extent possible.

A: We would like to announce the detailed breakdown of 15 billion yen around 2Q result announcement. As for the timing, we will implement measures during the current fiscal year, and it is expected that the effects will be seen mainly in the next fiscal year. This is not the same with the cost-reduction target, but if we can proceed with the sale of business and/or assets during this fiscal period, there is the chance that we will be able to generate common fixed expenses savings within this fiscal period.

Q: You have stated in the briefing that you would like to aim at breaking even through the implementation of structural reforms, but was that comment about the next fiscal year?

A: For example, if we can proceed with the sale of assets or others, the extraordinary income or non-operating income could be generated, and we would like to aim for making it black in this fiscal period as well with such measures and others.

Q: Regarding the forecast for this fiscal year, can I expect an operating profit in the best case scenario you are assuming?

A: We believe that achieving an operating profit is possible in some extent in the best case scenario, like if unit sales of pachinko and pachislot machines goes above expectations as a result of the removal of previous regulation machines proceeds smoothly and new machines hit in Pachislot and Pachinko Machines Business, repeat sales in the Consumer area significantly exceeds expectations and new titles of Full Game and F2P hits, and if the extent of the losses from Amusement Center Operations, Amusement Machine Sales, and Resorts are restrained.

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