

(Translation)

FLASH REPORT
CONSOLIDATED FINANCIAL STATEMENTS [Japanese GAAP]
6 Months Ended September 30, 2020

Name of the Company : SEGA SAMMY HOLDINGS INC.
Code number : 6460
 (URL <https://www.segasammy.co.jp/>)
Representative : Haruki Satomi
 President and Group COO, Representative Director
Any inquiry to : Yoichi Owaki
 Senior Vice President, Executive Officer
 Managing Director of Finance & Accounting Division
 Sumitomo Fudosan Osaki Garden Tower,
 1-1-1 Nishi-Shinagawa, Shinagawa-ward, Tokyo
 Tel (03) 6864-2400

Filing of Quarterly Report : November 13, 2020 (plan)

Start of cash dividend payments : December 1, 2020 (plan)

(Amounts below one million yen are rounded down)

1. Consolidated Operating Results for the 6 Months Ended September 30, 2020
(1) RESULTS OF CONSOLIDATED OPERATIONS

(Percentage represents changes from the prior period)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
For 6 months ended September 30, 2020	110,225	(33.4)	(3,076)	-	(3,583)	-	(21,716)	-
For 6 months ended September 30, 2019	165,535	(3.2)	14,601	43.0	12,658	38.5	9,870	47.2

(Note) Comprehensive income

For 6 months ended September 30, 2020 : (¥18,614) million (-%)

For 6 months ended September 30, 2019 : ¥1,164 million ((85.6)%)

	Net income per share	Net income per share (Diluted)
	Yen	Yen
For 6 months ended September 30, 2020	(92.38)	-
For 6 months ended September 30, 2019	42.05	-

(2) CONSOLIDATED FINANCIAL POSITION

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
September 30, 2020	434,445	272,653	62.2
March 31, 2020	458,268	296,858	64.2

(Reference) Shareholders' equity

September 30, 2020 : ¥270,269 million

March 31, 2020 : ¥294,102 million

2. Cash Dividends

	Cash dividends per share				
	First quarter	Second quarter	Third quarter	Year-end	For the year
	Yen	Yen	Yen	Yen	Yen
Year ended March 31, 2020	-	20.00	-	20.00	40.00
Year ending March 31, 2021	-	10.00			
Year ending March 31, 2021 (plan)			-	-	-

(Note) Revision of the forecast from latest announcement: Yes

Dividends for year-end of the fiscal year ending March 31, 2021 are not yet decided.

3. Forecast of Consolidated Operating Results for the Year ending March 31, 2021

(Percentage represents changes from the prior year)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full-year	283,000	(22.8)	(1,500)	-	(5,000)	-	(24,500)	-	(104.21)

(Note) Revision of the forecast from latest announcement: Yes

4. Other

- (1) Significant changes in subsidiaries (scope of consolidation) during period: No
- (2) Adoption of the simplified method of accounting as well as specific accounting for preparing the quarterly consolidated financial statements: Yes
- (3) Changes in accounting principles, procedures, disclosure methods, etc., for preparing the quarterly consolidated financial statements:
 1. Changes associated with revision in accounting standards: No
 2. Other changes: No
- (4) Number of shares outstanding (common stock)
 1. Number of shares outstanding at the end of the period (including treasury stock)
 - September 30, 2020 : 266,229,476
 - March 31, 2020 : 266,229,476
 2. Number of treasury stock at the end of the period
 - September 30, 2020 : 31,136,672
 - March 31, 2020 : 31,138,238
 3. Average number of shares during the period (cumulative from the beginning of the fiscal year)
 - For 6 months ended September 30, 2020 : 235,091,565
 - For 6 months ended September 30, 2019 : 234,748,283

(Note)

- This report is not required the auditing procedures by certified public accountants or accounting auditors.
- The forward-looking statements, such as results forecasts, included in this document are based on information available to the SEGA SAMMY HOLDINGS INC. (the "Company") at the time of the announcement and assumptions considered reasonable. Actual results could differ materially, depending on a range of factors. For the assumptions prerequisite to the results forecasts and the points to be noted in the use of the forecasts, please see "Forecast of Consolidated Operating Results" on page 5.
- The Company plans to hold a briefing on financial results for analysts on November 6, 2020. The contents of the meeting, such as explanations about financial results (video and audio), will be posted on the Company's website.

Operating Results and Financial Position

(1) Overview

With regard to the pachislot and pachinko industry, the level of pachinko hall operation showed a gradual recovery trend since the state of emergency was lifted, but with the extension of the deadline to remove the machines based on former standards, it is expected to continue to take some time for pachinko hall operators' purchasing power to recover.

For pachinko machines, expectations are rising of a recovery in demand, mainly due to the release of popular titles for machines based on new standards.

Regarding the environment of the Entertainment Contents Business, in the consumer field (used in the previous fiscal year, the digital game software field and the packaged game software field), download sales for PCs and home video game consoles are progressing with the advance of digitalization, while rising demand for games was evident, resulting from the impact of consumption from staying at home to prevent the spread of COVID-19. In addition, the game market is expected to further revitalize and expand on a global scale, with an increased interest in the upcoming launch of new platforms, diversified revenue opportunities from new business models and services, and the development of technologies and infrastructure such as 5G and the Cloud. As for the market for amusement centers and amusement machines, although amusement center operation, which had slumped due to the impact of COVID-19, has entered a recovery trend, the number of visitors is down, and it is expected to take some time for purchasing power to recover.

In the resort industry, demand for both domestic and overseas travel has dropped, resulting in a drastically reduced number of tourists due to the impact of COVID-19 and travel restrictions imposed by each country. A recovery in domestic tourism demand is expected however, with the launch of the national government's "Go to Travel Campaign" in July. Also the enforcement order, etc. pertaining to the "Act on the Establishment of Specified Integrated Resort Areas" have been sequentially enforced from April 2019, including the establishment of the Japan Casino Regulatory Commission in January 2020, and the national government's draft basic policy was announced in October 2020, and the application period for the certification of integrated resort district development plans was revised.

In this business environment, net sales for the second quarter of the fiscal year ending March 31, 2021 amounted to ¥110,225 million (a decrease of 33.4% for the same period in the previous fiscal year). The Group posted an operating loss of ¥3,076 million (operating income of ¥14,601 million for the same period in the previous fiscal year), ordinary loss of ¥3,583 million (ordinary income of ¥12,658 million for the same period in the previous fiscal year), and loss attributable to owners of parent of ¥21,716 million (income attributable to owners of parent of ¥9,870 million for the same period in the previous fiscal year). In addition, due to the impact of the structural reform, the initiative being undertaken by the Company, extraordinary losses (structural reform expenses) of ¥18,428 million were recorded in the amusement center operations field.

Result of each segment is as follows.

Net sales in each segment here do not include Inter-segment sales between segments.

In addition, as a reportable segment of the Group, The business operated by SEGA SAMMY CREATION INC., which was previously included in "Entertainment Contents", have been changed to "Pachislot and Pachinko Machines", and the segment income has been changed from "operating income" to "ordinary income" from the first quarter of the fiscal year ending March 31, 2021. The comparison and analysis of the second quarter of the fiscal year are prepared based on the modified segment classification. For details of segment information, refer to "3. Changes to business segments etc." of "SEGMENT INFORMATION" on page 10.

« Pachislot and Pachinko Machines »

For pachislot machines, the Group has launched "Pachislot Shin Hokuto Muso", leading to overall sales of 4,885 units (28,360 units for the same period in the previous fiscal year). For pachinko machines, the Group has sold "P Psalms of Planets Eureka Seven HI-EVOLUTION ZERO" etc., leading to overall sales of 11,342 units (66,140 units for the same period in the previous fiscal year).

As a result, net sales in this segment were ¥10,758 million (a decrease of 75.7% for the same period in the previous fiscal year) and ordinary loss was ¥12,425 million (ordinary income of ¥7,266 million for the same period in the previous fiscal year).

« Entertainment Contents »

In the consumer field, for Full Game*, the Group released new titles including "A Total War Saga: TROY", with strong performance of repeat sales, leading to sales of 19,080 thousand copies (12,100 thousand copies for the same period in the previous fiscal year). For free-to-play games (F2P*), "Re:ZERO -Starting Life in Another World- Lost in Memories" and "Project SEKAI COLORFUL STAGE feat. Hatsune Miku", which were launched in September, made a flying start, and both existing titles and new titles performed strongly.

*Consumer field is classified by following 3 business models.

Full Game	Physical sales and download sales of full game for home video game consoles and PCs. (Download content sales are not included.)
F2P	Sales of contents with offering free basic play and microtransaction for smartphones and PCs.
Others	Sales of additional downloadable contents, consignment sales of 3rd party titles, revenue from consignment development, transfer of titles, offering of titles in batches to 1st parties, sales of non-game software products, etc.

In the amusement machine field, sales focused on UFO CATCHER series and prizes. Although operations are recovering at amusement centers, which are the purchasers, charge income and orders were sluggish due to a decrease in the number of visitors.

In the amusement center operations field, although all centers have resumed operation since mid-June and facility utilization rates are recovering, primarily at centers in suburbs and shopping centers, but like-for-like sales at the existing amusement center operations were 50.1% compared with the same period of the previous fiscal year due to persistently low numbers of visitors at centers in urban areas.

In the animated film and toy field, the Group recorded earnings from video production and distribution, and implemented the sale of mainstay toy products. However, the release of "Detective Conan: The Scarlet Bullet" was delayed due to the impact of COVID-19, and distribution revenues declined significantly.

As a result, net sales in this segment were ¥97,026 million (a decrease of 16.2% for the same period in the previous fiscal year) and ordinary income was ¥16,856 million (an increase of 31.7% for the same period in the previous fiscal year).

« Resort »

In the resort business, at "Phoenix Seagaia Resort", the number of guests continued to fall sharply due to the impact of COVID-19, leading to 46.4% compared with the same period of the previous fiscal year. The recovery in group and corporate demand is expected to take some time, but personal demand particularly is in a recovery trend, due partly to the effect of the "Go to Travel Campaign". In addition, expenses for participating in the domestic integrated resort incurred.

Overseas, PARADISE SEGASAMMY Co., Ltd. (affiliate accounted for using the equity method) is operating "PARADISE CITY" saw substantial decline from January to June, 2020 such as drop amounts (purchased amount of chips by customers at the table) was 47.3%, and the number of guests was 55.9% compared with the same period in the previous fiscal year, respectively. Also, efforts are being made to enhance the efficiency of facility operation, through measures such as the suspension of operations at some facilities and reductions in staff.

*PARADISE SEGASAMMY Co., Ltd. is posted 3 months delay due to the fiscal year ended in December.

As a result, net sales in this segment were ¥2,245 million (a decrease of 59.2% for the same period in the previous fiscal year) and ordinary loss was ¥4,662 million (ordinary loss of ¥3,137 million for the same period in the previous fiscal year).

(2) Forecast of Consolidated Operating Results

The Company has revised the forecast of consolidated operating results for the fiscal year ending March 31, 2021 which was announced on August 5, 2020. With regard to the details, refer to "Notice of Revision of Operating Results Forecast and Determination of Dividends from Retained Earnings (interim dividends)" announced on November 6, 2020.

(3) Other

(Additional information)

Accounting estimates associated with the spread of COVID-19

The Group implemented amusement center operations etc. to suspend temporarily or to reduce opening hours following the declaration of a state of emergency from the government and business suspension requests from the local governments due to the impact from the spread of COVID-19. In addition, accounting estimates are reflected in accounting treatment based on certain assumptions, which have no significant changes from announced additional information on the flash report in the previous fiscal year ended March 31, 2020, including those used to determine the recoverability of deferred tax assets and those used to determine impairment losses, etc.

However, there are many uncertainties over the impact from the spread of COVID-19, which could affect the Group's financial position and operating results for the fiscal year ending March 31, 2021.

CONSOLIDATED FINANCIAL STATEMENTS

SEGA SAMMY HOLDINGS INC.
CONSOLIDATED BALANCE SHEETS
AS OF MARCH 31, 2020 AND SEPTEMBER 30, 2020

(Unit: Millions of yen)

	Prior year (As of March 31, 2020)	Current period (As of September 30, 2020)
Assets		
Current assets		
Cash and deposits	159,013	139,182
Notes and accounts receivable - trade	40,408	26,176
Short-term investment securities	5,398	5,100
Merchandise and finished goods	8,218	11,688
Work in process	20,235	27,278
Raw materials and supplies	18,554	20,733
Other	17,449	32,192
Allowance for doubtful accounts	(302)	(271)
Total current assets	268,976	262,080
Noncurrent assets		
Property, plant and equipment		
Land	21,177	21,181
Other, net	65,472	46,166
Total property, plant and equipment	86,649	67,347
Intangible assets		
Goodwill	5,878	5,296
Other	12,090	12,720
Total intangible assets	17,969	18,016
Investments and other assets		
Investment securities	55,046	58,977
Other	30,078	28,458
Allowance for doubtful accounts	(450)	(434)
Total investments and other assets	84,673	87,001
Total noncurrent assets	189,292	172,365
Total assets	458,268	434,445

SEGA SAMMY HOLDINGS INC.
CONSOLIDATED BALANCE SHEETS
AS OF MARCH 31, 2020 AND SEPTEMBER 30, 2020

(Unit: Millions of yen)

	Prior year (As of March 31, 2020)	Current period (As of September 30, 2020)
Liabilities		
Current liabilities		
Notes and accounts payable - trade	17,834	13,602
Short-term loans payable	13,331	39,150
Current portion of bonds	10,000	-
Income taxes payable	3,383	2,079
Provision for bonuses	7,891	5,031
Provision for others	837	499
Asset retirement obligations	101	95
Other	32,766	26,741
Total current liabilities	86,147	87,199
Noncurrent liabilities		
Bonds payable	10,000	10,000
Long-term loans payable	42,003	42,000
Net defined benefit liability	4,176	4,321
Asset retirement obligations	4,847	4,828
Provision for dismantling of fixed assets	420	420
Other	13,815	13,022
Total noncurrent liabilities	75,263	74,592
Total liabilities	161,410	161,792
Net assets		
Shareholders' equity		
Capital stock	29,953	29,953
Capital surplus	118,564	118,496
Retained earnings	206,334	179,910
Treasury stock	(53,555)	(53,551)
Total shareholders' equity	301,296	274,808
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	4,470	8,098
Deferred gains or losses on hedges	(596)	(938)
Revaluation reserve for land	(1,109)	(1,109)
Foreign currency translation adjustment	(8,480)	(9,107)
Remeasurements of defined benefit plans	(1,478)	(1,481)
Total accumulated other comprehensive income	(7,193)	(4,539)
Subscription rights to shares	813	-
Non-controlling interests	1,941	2,384
Total net assets	296,858	272,653
Total liabilities and net assets	458,268	434,445

SEGA SAMMY HOLDINGS INC.
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
FOR 6 MONTHS ENDED SEPTEMBER 30, 2019 AND 2020

(Unit: Millions of yen)

	Prior period From April 1, 2019 To September 30, 2019	Current period From April 1, 2020 To September 30, 2020
Net sales	165,535	110,225
Cost of sales	98,995	67,235
Gross profit	66,540	42,990
Selling, general and administrative expenses	51,939	46,066
Operating income (loss)	14,601	(3,076)
Non-operating income		
Interest income	116	59
Dividends income	227	308
Foreign exchange gains	51	-
Gain on investments in partnership	428	173
Gain on valuation of investment securities	-	2,218
Other	573	462
Total non-operating income	1,398	3,222
Non-operating expenses		
Interest expenses	254	227
Equity in losses of affiliates	2,155	2,476
Foreign exchange losses	-	482
Commission fee	36	39
Other	893	502
Total non-operating expenses	3,340	3,729
Ordinary income (loss)	12,658	(3,583)
Extraordinary income		
Gain on sales of noncurrent assets	0	9
Gain on sales of investment securities	0	13
Gain on reversal of subscription rights to shares	7	812
Gain on sales of shares of subsidiaries and affiliates	-	112
Subsidy income	-	566
Other	0	0
Total extraordinary income	8	1,514
Extraordinary losses		
Loss on sales of noncurrent assets	0	0
Impairment loss	52	70
Loss on sales of investment securities	97	-
Loss on COVID-19	-	2,608
Structural reform expenses	-	18,428
Other	14	0
Total extraordinary losses	165	21,107
Income (loss) before income taxes	12,501	(23,175)
Income taxes-current	2,455	(1,905)
Total income taxes	2,455	(1,905)
Profit (loss)	10,045	(21,270)
(Breakdown)		
Profit (loss) attributable to owners of parent	9,870	(21,716)
Profit (loss) attributable to non-controlling interests	174	446

SEGA SAMMY HOLDINGS INC.
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
FOR 6 MONTHS ENDED SEPTEMBER 30, 2019 AND 2020

(Unit: Millions of yen)

	Prior period From April 1, 2019 To September 30, 2019	Current period From April 1, 2020 To September 30, 2020
Other comprehensive income		
Valuation difference on available-for-sale securities	(4,841)	3,639
Deferred gains or losses on hedges	(1)	(7)
Foreign currency translation adjustment	(2,051)	361
Remeasurements of defined benefit plans, net of tax	(38)	(4)
Share of other comprehensive income of entities accounted for using equity method	(1,947)	(1,333)
Total other comprehensive income	(8,881)	2,655
Comprehensive income	1,164	(18,614)
(Breakdown)		
Comprehensive income attributable to owners of parent	992	(19,062)
Comprehensive income attributable to non-controlling interests	172	447

SEGMENT INFORMATION

1. Prior period (From April 1, 2019 to September 30, 2019)

Information on the amounts of net sales, income (loss) by each reporting segment

(Unit: Millions of yen)

	Reporting segment			Subtotal	Adjustment (Note)	Amount in consolidated financial statements
	Pachislot Pachinko	Entertainment Contents	Resort			
Net sales						
(1) Sales to third parties	44,277	115,751	5,505	165,534	0	165,535
(2) Inter-segment sales and transfers	458	389	33	881	(881)	-
Total	44,736	116,141	5,538	166,416	(880)	165,535
Segment income (loss)	7,266	12,801	(3,137)	16,930	(4,272)	12,658

(Notes) 1. Elimination of inter-segment transactions of ¥(2) million and general corporate expenses of ¥(4,269) million which are not allocated to the reporting segment are included in the adjustment to segment income (loss) of ¥(4,272) million. General corporate expenses are mainly consisted of the expenses of the Group management incurred by the Company.

2. Adjustment has been made to segment income (loss) and ordinary income in the consolidated financial statements.

2. Current period (From April 1, 2020 to September 30, 2020)

Information on the amounts of net sales, income (loss) by each reporting segment

(Unit: Millions of yen)

	Reporting segment			Subtotal	Adjustment (Note)	Amount in consolidated financial statements
	Pachislot Pachinko	Entertainment Contents	Resort			
Net sales						
(1) Sales to third parties	10,758	97,026	2,245	110,030	194	110,225
(2) Inter-segment sales and transfers	81	440	38	560	(560)	-
Total	10,839	97,467	2,284	110,590	(365)	110,225
Segment income (loss)	(12,425)	16,856	(4,662)	(231)	(3,351)	(3,583)

(Notes) 1. Elimination of inter-segment transactions of ¥9 million and general corporate expenses of ¥(3,361) million which are not allocated to the reporting segment are included in the adjustment to segment income (loss) of ¥(3,351) million. General corporate expenses are mainly consisted of the expenses of the Group management incurred by the Company.

2. Adjustment has been made to segment income (loss) and ordinary income in the consolidated financial statements.

3. Changes to business segments etc.

(Changes to the classification method for business segments)

The business operated by SEGA SAMMY CREATION INC., which was included in the Entertainment Contents Business, has been changed to the Pachislot and Pachinko Machines Business from the first quarter of the fiscal year ending March 31, 2021 in order to further promote the synergic effects of the Pachislot and Pachinko Machines Business in the development of gaming machines. In addition, as an evaluation index for the performance-based remuneration component of bonuses paid to the Company's officers, the method of measuring segment income has been changed from "operating income" to "ordinary income" from the first quarter of the fiscal year ending March 31, 2021 from the perspective of a management approach that the company positions "ordinary income", which is the income obtained by the Group on a recurring basis from the overall business, including equity in earnings and losses of affiliates etc., as an important target figure.

Segment information for the prior period has been prepared based on the new classification method.