

3Q results for Fiscal Year ending March 2021

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

February 25, 2021

SEGA SAMMY HOLDINGS INC.

IR Department, Finance and Accounting Division

(All contents here are the translation of Japanese materials)

■ Date: Friday, February 12, 2021, 13:00-

■ Respondents:

Makoto Takahashi (Senior Vice President and Executive Officer, Manager of Group Representative)

Yoichi Owaki (Senior Vice President and Executive Officer, Managing Director of Finance and Accounting Division of SEGA SAMMY HOLDINGS INC.)

Pachislot and Pachinko Machines Business

Q: Please tell me about the utilization status of pachinko and pachislot, and the response of users and pachinko halls. 43,000 units of "P Shin Hokuto Muso Chapter 3" have been sold, and I think it is a quite huge hit at this time, but do you see the demand for new regulation pachinko machines from machines such as "P Shin Hokuto Muso Chapter 3" being bought quite a lot? Also, the demand trend for 6.1 model pachislot machines is somewhat unclear. Please tell me if the demand is strengthening.

A: The utilization rate of pachinko hall is roughly 70% to 80%. In particular, the utilization rate is weak in the metropolitan area centered on the Kanto region, mainly due to declaration of the state of emergency. As a result, we think pachinko halls are somewhat holding back on the installation of machines. However, as you stated, we installed about 40,000 units of our pachinko machine, "P Shin Hokuto Muso Chapter 3", and other companies have also installed about the same number of machines. Thus, we think the environment is conducive to purchases of new machines if good ones are released. On the other hand, we understand that the 6.1 model pachislot machine has not received a high evaluation yet, so we expect a slight tough situation for pachislot. This is an area that would fare better once we are on the other side of the pandemic and good models are rolled out. We think that this will lead to a higher evaluation of the 6.1 model, so we are working on launching machines that would lead the pack in this recovery.

Q: Is there a possibility for SEGASAMMY of spinning off the Pachislot and Pachinko Machines Business and focusing on the Entertainment Contents Business?

A: The overall market is shrinking, but the Pachislot and Pachinko Machines Business is a high-margin business. So if we can capture a high market share, we would be able to aim for strong profits. Our group is trying to capture and maintain top market share in this industry, so in that sense, we are not thinking of selling the business.

Q: I believe your current sales share of pachislot and pachinko machines is roughly 10% for pachinko machines and 5% for pachislot machines. What is your expected sales share in the next fiscal year?

A: We still haven't announced our plan for the next fiscal year, so we can't share any specific numbers. However, our basic stance is to aim for the top market share, so we intend to incorporate this expectation into our plan.

Q: Assuming that there will be replacement demand of old regulation machines in the next fiscal year, what kind of sales trend in the industry do you expect in the fiscal year after that and beyond? I'm concerned about the pullback in demand.

A: We do not expect a major pullback in demand. We believe the stance of pachinko halls is that the utilization of machines in their stores are the most important, so they will likely invest in good machines. Therefore, the important question is whether the newly released machines are considered beneficial or not.

Entertainment Contents Business

Q: The consumer area in the Entertainment Contents Business has been a major driver of the earnings recovery. What are your views on the sustainability of this robust repeat demand? Should we expect a lineup of new titles that would offset the likely deceleration of at-home demand in the next fiscal year?

A: You are right in part about the tailwind from at-home demand during the current fiscal year, but we also think it's a fact that the entire market is expanding. Our download ratio has increased substantially from 40% range in the previous fiscal year to 60% range in the current fiscal year, and we think this higher download ratio is part of the factor boosting up repeat sales. Also, in this fiscal year, we made a film of the Sonic series, and we think these kinds of initiatives are garnering even greater traction around our IP, which are leading to repeat sales. We are still in the middle of formulating our plan for the lineup in the next fiscal year, so I would like to refrain from answering that question.

Q: About the number of full game titles, you forecast 18 titles to be released in this fiscal year. However, you expected 30 titles in August, then revised that to 22 in November. What are the factors behind this drop in the number of titles?

A: The major factor has been delays in development, especially in the US and Europe due to the impact of lockdowns. Almost none of our employees have been able to commute to the office, and this is a big impact.

Q: About the number of F2P titles, you forecast 22 titles at the end of this fiscal year, meaning that the number of titles is largely unchanged. I assume that you are releasing new titles, but some titles are paused, so these two factors are offsetting each other. Are you operating the business in this way due to considerations of profitability etc.?

A: We decided to reassess the business with poor profit efficiency as we advanced efforts to review the business structure, and we strictly reassessed the F2P titles as well. We will shift personnel to titles with

greater profit efficiency.

Q: About "Sonic The Hedgehog" movie, will you record the allocated revenue from the film in the second half of this fiscal year? Also, you announced new series of TV animation, "Sonic Prime" the other day. Will you monetize the animation itself, or are you looking to raise awareness of the IP so that you can monetize games or other products? Please tell me how we should look at the "Sonic Prime" business.

A: We do not expect profits from "Sonic The Hedgehog" movie in this current fiscal year, and we expect profits to be recorded in the next fiscal year or later. About "Sonic Prime", we're not thinking of monetizing by itself. Our stance is to implement the "Sonic Prime" as part of strengthening the IP.

Q: Considering market capitalization basis of game sector, I get a strong impression that the market is underestimating or not fully estimating the value of SEGA's IP. What kind of measures does the management team intend to take going forward?

A: One of the factors is likely because in the past, pachislot and pachinko machines comprise a major part of our earnings. We think it's possible that this factor related to pachislot and pachinko machines could be causing the discount. However, in the current fiscal year, the Entertainment Contents Business is generating an overwhelmingly large portion of our earnings, and we believe it will keep growing. If, the market participants see us as a game company, which the business environment is stable and growing, there could be a re-rating of our valuation.

Q: Compared to 3Q result, 4Q forecast is much weaker. I get the feeling that it could be a little stronger, but what are the reasons to this?

A: In 4Q, we incorporate a write-down for the full year, as we do every year. In addition, although we have seen significant growth in repeat sales, we have assumed repeat sales slightly to the downside in 4Q compared to 3Q. Due to such factors, we forecast a decline in the profit level for 4Q.

Q: What is the company's evaluation of "Sakura Revolution" in the third quarter? It appears that the ranking has fallen a little, but what is your view on its expansion going forward? Also, Sakura Wars are major parts of your IP, and even when hearing user feedback, users seemed to have evaluated them very highly. Are you aware of any problems that caused actual results to fall short of expectations?

A: We considered it to be performing very well immediately after the launch but has been decelerating rapidly. Although there are titles that the challenge worked out, such as "Re:ZERO -Starting Life in Another World- Lost in Memories", there are also titles that are difficult to be accepted. We will consider how to handle the outlook of figures while taking measures to recover them. We are examining the problems, and we have received all sorts of feedback from fans, so we will review those feedback once again.

Other

Q: About the effects of cost reductions from structural reform, you said that it would improve the P/L by around 15 billion yen. But this time the numbers fall slightly short of that. Has anything changed in your outlook?

A: In the Amusement Center Operations area, we expected to record deep losses due to the impact of COVID-19, and we initially forecasted an improvement of around 5.0 billion yen. However, results at amusement centers have improved due to the efforts of on-the-ground workers and others, so we now expect a smaller negative impact on the current fiscal year than initially anticipated. As a result, we expect an improvement of 3.5 billion yen this time. Also, we expect the number of voluntary retirements to slightly exceed our plan, but considering the range of applicants for voluntary retirement, the improvement expects to be smaller than we forecasted. However, due to voluntary retirement and sale of business, the number of employees will decrease, and the business structure will be simplified in the next fiscal year. We intend to advance fixed cost reductions even more, so we expect that we will be able to realize the initially anticipated level of cost reductions.

Q: Please tell me how much irregular items, such as a write-down, are included in your 4Q forecast.

A: We expect about 5.0 billion yen at the operating income level, due to write-down and etc.

Q: I understand that you plan to return the year-end dividends to 20 yen per share, which is previous year's level. However, the annual dividends is 30 yen per share, and this would be the first dividend cut in a long time. Please tell me your views on shareholder returns in the next fiscal year onward.

A: We expected a considerable impact from COVID-19 and also guided a substantial full-year loss when formulating the interim dividend forecast. Due to these reasons, we have lowered the interim dividends to 10 yen per share, but we have seen our earnings recover considerably thereafter, so we have returned the year-end dividends to 20 yen per share. As you pointed out, annual dividend amount is 30 yen per share, which is lower than the previous year's level. However, we see dividends in terms of each half year, so the larger part of our focus is on the fact that we returned the half-year dividends to 20 yen per share. We will consider our dividend policy for the next fiscal year and later based on earnings as well as our cash flow and investment plans under the next medium-term management plan, which is currently being formulated.

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