

**Fiscal Year ended March 2022**

**Major Questions in Results Briefing for Analysts and Institutional Investors (Summary)**

May 20, 2022

SEGA SAMMY HOLDINGS INC.

IR/SR Department, Corporate Planning Division

(All contents here are the translation of Japanese materials)

■ Date: Friday, May 13, 2022, 13:00-

■ Respondents:

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\*This document is an excerpt and summary of the Q&A session at the financial results briefing, and some edits and modifications have been made to improve comprehensibility.

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**Entertainment Contents Business**

Q: Please tell us the assumed exchange rate in the FY2023/3 plan and the exchange sensitivity when the yen depreciates.

A: In FY2022/3 results, the depreciation of the yen against assumed rate in the plan had a positive impact on ordinary income basis of around 3.0 to 4.0 billion yen. Assumed exchange rates in the FY2023/3 plan are 1 USD = 114 yen, 1 EUR = 130 yen, and 1 GBP = 155 yen. Basically, depreciation of the yen against the U.S. dollar and the euro will have a positive impact on income. However, the depreciation of the yen will have a negative impact on the British pound, as it will affect personnel expenses of the development-subsidary in U.K. In addition, Amusement Machine Sales area will have a negative impact if the yen depreciates, as large amounts of products, parts, etc. are manufacturing in abroad. Taking these factors into consideration, the image of the rough impact is that if the yen depreciates against the U.S. dollar by 1 yen, it will have an upward effect in the latter half of 0.2 billion yen, and if it depreciates against the euro by 1 yen, it will have an upward effect of approximately 0.1 billion yen, and if it depreciates against the pound by 1 yen, it will have a downward effect of approximately 0.1 billion yen.

Q: Please tell us about the write-down in FY2022/3. Are there positive effects such as lower costs from FY2023/3 onward?

A: In FY2022/3 total, there was about 5.6 billion yen of write-down, and out of that, about 4.2 billion yen incurred in Q4. It is large compared to Q4 of FY2021/3, but when looking at the full year, it is also about 5.1 billion yen in FY2021/3, so we do not think it is an abnormal value. We will refrain from providing details, but about half of the write-down in FY2022/3 Q4 were R&D expenses of titles scheduled to be released from FY2023/3 onward.

Q: Consumer area's profit margin is approx. 18% for both FY2022/3 results and FY2023/3 forecasts. What are your thoughts on the ideal level of profit margin in the medium to long term?

A: Although there are some companies specializing in online games alone who achieve profit margin of nearly 50%, SEGA's strength is its ability to launch a variety of games on a wide range of platforms. Considering that premise, the dramatic increase in the number of users who purchase console games digitally due to COVID-19 pandemic, is contributing to improvement of profit margin. If this trend continues, we think that in the future we can aim for around 20%, and around 30% if hits are created in F2P.

Q: Consumer area's growth in FY2023/3 is good with figures that makes us feel the confidence of what has been done so far, but the target income for FY2024/3 remains at the same level. I think it's a little sad compared to the trend up to now, so I'd like you to tell me about the background for setting this number.

A: The FY2024/3 targets have not yet been revised from the Mid-term plan figures, and of course, we intend to aim for even higher levels.

Q: Please tell us about the results for FY2022/3 and future estimates about the 100.0 billion yen investment plan of Consumer area and an update on the status of M&A considerations.

A: As for the investment in FY2022/3, as we didn't conduct M&A, it was limited to organic investments. It is difficult to provide the specific figures, but as a guide, the balance of work in progress contents at Consumer area increased by approx. 8.3 billion yen in FY2022/3 compared to the previous fiscal year, and it included some amounts which have already been amortized, so actual investment exceeded this amount. Consideration of M&A is also progressing from a strategic perspective.

Q: Please tell us about the prospects for "SONIC FRONTIERS", even if it is just an image.

A: As we are planning to launch the game in the second half of FY2023/3, and because it is expected to be sold over the long term, we don't plan the significant numbers to that extent within this fiscal year. "SONIC FRONTIERS" will be launched in multi-platform and simultaneously worldwide, and Nintendo Switch™ is continuing to perform well worldwide. In addition, second featured film of Sonic has been a major hit and the stage of Sonic IP are rising one and two, so we think we'll be able to aim for even greater sales volume in the lifetime, including from the next fiscal year onward.

Q: Regarding " SONIC FRONTIERS," I think that the emphasis on quality that you have placed on the development of games has led to the results, but do you set target scores, etc. of external evaluation organization such as Metacritic?

A: We have set internal targets, as the correlation between the scores of external evaluation organizations and sales is high in Europe and the North America. If the game gets a high score, it can become a must-buy game, and possibly generate synergy with sales, so we are currently working hard to improve the quality of the game toward its sales for the holiday season.

Q: There is only 1 new title for F2P in the FY2023/3 forecast. Please tell us your thoughts on the business model of F2P and cross-platform strategy in the future.

A: The development period for each title is lengthening, and 1 title in FY2023/3 is due to the development cycle. In FY2022/3, the quarterly sales of F2P grew steadily, partly because the new titles have compensated the decline in existing titles with the contribution of the strong performance of "HATSUNE MIKU: COLORFUL STAGE!". Other titles are also under development, but FY2023/3 is in-between timing of development so there is fewer new title. Regarding cross-platform strategy, for example, "PHANTASY STAR ONLINE 2 NEW GENESIS", etc. has been gradually expanding the supporting platforms, and we are also considering how to expand the platforms for each title individually for other F2P titles.

Q: I think you are also planning to release Super Game. Please tell us how this is factored in your plan.

A: Our policy for Super Game is to spend a solid amount of time for development, so it is not factored into the forecast for FY2023/3.

Q: If Super Game encompasses a Metaverse, can I imagine that it will be a game that we can freely run around in a large world like an open world or the like?

A: For Super Game, first, we are thinking to develop as a game which allows various ways of playing that could lead to the emergence of communities in the game, and we aim to create a game with a high degree of freedom which can stimulate the derivation of non-game play, such as live streaming, for example, and others from the communication among users gathered in that communities. We hope results of those will bring the game closer to Metaverse.

Q: There is upward trend in compensation amounts at other companies in the same industry, such as revision of the base salary and the establishment of incentive systems. Please tell us if you have an image of the increase in development personnel costs in the medium-term plan.

A: We are offering various measures such as an increase in starting salaries, reward bonus for strong operating results, stock options for managers, and stock compensation for directors. Overseas studios also actively utilize incentive plans to secure human resources and retain high-quality staffs. Labor costs are extremely high across the industry as a whole, especially in Europe and North America. So, we are also working to reduce the total labor costs by opening a studio in Sapporo in December 2021, as one of its domestic regional bases and increasing the number of personnel at our Bulgarian studio. Personnel costs included in R&D expenses, which recorded in work-in-progress contents, have been increasing

each fiscal year, and the number of development personnel continues to trend upward. Inflation rates have also been rising in addition to labor cost increases which is specific to the gaming sector.

### **Pachislot and Pachinko Machines Business**

Q: Regarding FY2023/3 plan, do you have a clear picture of component procurement? Should we think that procurement risk remains in the plan?

A: While generally we have a clear picture regarding titles to be sold in the first half of the fiscal year, we are aware that there is risk when looking at full fiscal year. However, the component procurement status is changing on a daily basis, as seen in the case of FY2022/3, the actual results at the end of fiscal year exceeding the initial forecast, after we revised the initial forecast downward in the middle of FY2022/3. We are considering developing products that do not use tight components, utilizing alternative materials, and handling with trade-in and reuse. Depending on the circumstances, we may have to pass it on to the selling prices.

Q: The total utilization share in FY2022/3 was slightly lower compared to FY2021/3, so I am concerned about a decline in the company's sales and development capabilities. Given that relaxation of regulation has been decided in pachislot, which is one of the company's strengths, please tell us about the review of FY2022/3 and your future confidence.

A: Regarding sales capabilities, Sammy continues to be highly evaluated by operators of pachinko hall in terms of reliability according to external survey. Following pachislot, from FY2022/3, pachinko has also changed to e-commerce sales, and we have received comments from other companies in the same industry that they would like to introduce it. In terms of development capabilities, regarding pachislot, we have undertaken a revival of past IP as "Sammy Classic Series", and all machines of the series have been popular, with utilization significantly exceeding the average. We believe that the recent relaxation of regulation will further help create an atmosphere of No.4 models age. Also, regarding pachinko, utilization of "P Shin Hokuto Muso Chapter 3 Jagi no Gyakushuu" is high, so we do not believe that our development capability has declined. We would like to create a hit once again in FY2023/3.

Q: In pachislot and pachinko machine, I recognize that old components are mainly used, not cutting edge. In the long term, it is hard to forecast that the supply of those components will increase. What kind of measures are you taking?

A: The company does not use outdated components for pachislot and pachinko machines but uses general-purpose components that are also used in the automobile industry and other industries. As a result, we are also affected by the worldwide tightening of components. As our measure, the person who was the managing director of president office is concurrently serving the managing director of production division, and from this, the system has changed to where active feedback to the development division about superior components in perspective of both procurement and cost will be possible.