

(Translation)

FLASH REPORT
CONSOLIDATED FINANCIAL STATEMENTS [Japanese GAAP]
9 Months Ended December 31, 2020

Name of the Company : SEGA SAMMY HOLDINGS INC.
Code number : 6460
 (URL <https://www.segasammy.co.jp/>)
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Filing of Quarterly Report : February 15, 2021 (plan)

Start of cash dividend payments : -

(Amounts below one million yen are rounded down)

1. Consolidated Operating Results for the 9 Months Ended December 31, 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 9 months ended December 31, 2020	210,177	(25.2)	13,527	(51.8)	12,574	(51.4)	(6,239)	-
For 9 months ended December 31, 2019	280,808	12.2	28,066	135.4	25,852	186.6	22,989	-

(Note) Comprehensive income

For 9 months ended December 31, 2020 : ¥(8,432) million (-%)

For 9 months ended December 31, 2019 : ¥15,653 million (-%)

	Net income per share	Net income per share (Diluted)
	Yen	Yen
For 9 months ended December 31, 2020	(26.54)	-
For 9 months ended December 31, 2019	97.92	97.89

(2) CONSOLIDATED FINANCIAL POSITION

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
December 31, 2020	452,707	278,221	61.3
March 31, 2020	458,268	296,858	64.2

(Reference) Shareholders' equity

December 31, 2020 : ¥277,703 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)				20.00	30.00

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

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
Full-year	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
	276,000	(24.7)	9,000	(67.4)	7,000	(72.3)	(3,000)	-	(12.76)

(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)
 - December 31, 2020 : 266,229,476
 - March 31, 2020 : 266,229,476
 2. Number of treasury stock at the end of the period
 - December 31, 2020 : 31,140,062
 - March 31, 2020 : 31,138,238
 3. Average number of shares during the period (cumulative from the beginning of the fiscal year)
 - For 9 months ended December 31, 2020 : 235,091,576
 - For 9 months ended December 31, 2019 : 234,787,174

(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 February 12, 2021. The contents of the meeting, such as explanation 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, it is expected to continue to take some time for pachinko hall operators' purchasing motivation to recover with the extension of the deadline to remove the machines based on former standards. 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 launched new-generation console machines and the advance of digitalization, while rising demand for games was evident. In addition, the game market is expected to further revitalize and expand on a global scale, with 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, it is expected to take some time for the recovery of purchasing motivation of customers.

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. The recovery in domestic tourism demand was observed during "Go to Travel Campaign" launched by the national government in July, but travel demand is likely to fall due to the suspension of the campaign announced in December and other factors. 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. Furthermore, in January 2021, some local governments commenced the request for proposal (RFP), a public tender for integrated resort operators.

In this business environment, net sales for the third quarter of the fiscal year ending March 31, 2021 amounted to ¥210,177 million (a decrease of 25.2% for the same period in the previous fiscal year). The Group posted an operating income of ¥13,527 million (a decrease of 51.8% for the same period in the previous fiscal year), ordinary income of ¥12,574 million (a decrease of 51.4% for the same period in the previous fiscal year). And loss attributable to owners of parent of ¥6,239 million (profit attributable to owners of parent of ¥22,989 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, gain on sales of investment securities of ¥8,491 million was recorded as extraordinary income, while structural reform expenses of ¥29,043 million, including loss on sales of shares of subsidiaries in the amusement center operations field and extra retirement payments for the call for voluntary retirement of employees, were recorded as extraordinary losses.

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 third 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 The Seven deadly Sins", etc., leading to overall sales of 12,487 units (105,860 units for the same period in the previous fiscal year). For pachinko machines, the Group has sold "P Shin Hokuto Muso Chapter 3", etc., leading to overall sales of 59,359 units (75,094 units for the same period in the previous fiscal year).

As a result, net sales in this segment were ¥37,372 million (a decrease of 56.7% from the same period in the previous fiscal year) and ordinary loss was ¥8,771 million (ordinary profit of ¥19,480 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 "Football Manager 2021", "YAKUZA : LIKE A DRAGON", etc. with strong performance of repeat sales, leading to sales of 34,200 thousand copies (19,330 thousand copies for the same period in the previous fiscal year). For free-to-play games (F2P*), new titles such as "Re:ZERO -Starting Life in Another World- Lost in Memories" and "Project SEKAI COLORFUL STAGE feat. Hatsune Miku" which were launched in September, and existing 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, the Group booked the charges for content updates of "StarHorse4" in addition to mainstay products such as UFO CATCHER series and prizes.

In the amusement center operations field, all centers have resumed operation since mid-June and facility utilization rates are recovering, primarily at centers in suburbs and shopping centers. As a result, like-for-like sales at the existing amusement center operations were 61.4% compared with the same period of the previous fiscal year.

In the animated film and toy field, the Group recorded earnings from video production and distribution, and performed strong sales of mainstay toy products, although the release of "Detective Conan: The Scarlet Bullet" was delayed due to the impact of COVID-19.

As a result, net sales in this segment were ¥167,603 million (a decrease of 10.0% for the same period in the previous fiscal year) and ordinary income was ¥33,196 million (an increase of 106.8% 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 65.3% compared with the same period of the previous fiscal year. However, personal demand showed significant 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 CITY", operated by PARADISE SEGASAMMY Co., Ltd. (affiliate accounted for using the equity method), saw substantial decline from January to September, 2020 such as drop amounts (purchased amount of chips by customers at the table) was 38.7%, and the number of guests was 47.9% compared with the same period in the previous fiscal year, respectively.

*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 ¥4,886 million (a decrease of 41.1% for the same period in the previous fiscal year) and ordinary loss was ¥6,647 million (ordinary loss of ¥3,346 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 November 6, 2020. For details, please refer to "Notice of Revision of Full-Year Operating Results Forecast and Dividends Forecast, and Abolishment of Shareholder Benefits Program" announced on February 12, 2021.

(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 DECEMBER 31, 2020

(Unit: Millions of yen)

	Prior year (As of March 31, 2020)	Current period (As of December 31, 2020)
Assets		
Current assets		
Cash and deposits	159,013	151,417
Notes and accounts receivable - trade	40,408	51,800
Short-term investment securities	5,398	11,000
Merchandise and finished goods	8,218	9,659
Work in process	20,235	30,104
Raw materials and supplies	18,554	16,804
Other	17,449	35,065
Allowance for doubtful accounts	(302)	(325)
Total current assets	268,976	305,526
Noncurrent assets		
Property, plant and equipment		
Land	21,177	21,187
Other, net	65,472	45,911
Total property, plant and equipment	86,649	67,099
Intangible assets		
Goodwill	5,878	4,913
Other	12,090	12,713
Total intangible assets	17,969	17,626
Investments and other assets		
Investment securities	55,046	43,171
Other	30,078	19,682
Allowance for doubtful accounts	(450)	(400)
Total investments and other assets	84,673	62,454
Total noncurrent assets	189,292	147,180
Total assets	458,268	452,707

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

(Unit: Millions of yen)

	Prior year (As of March 31, 2020)	Current period (As of December 31, 2020)
Liabilities		
Current liabilities		
Notes and accounts payable - trade	17,834	18,117
Short-term loans payable	13,331	39,150
Current portion of bonds	10,000	-
Income taxes payable	3,383	1,118
Provision	8,729	4,673
Asset retirement obligations	101	511
Other	32,766	40,270
Total current liabilities	86,147	103,841
Noncurrent liabilities		
Bonds payable	10,000	10,000
Long-term loans payable	42,003	42,000
Net defined benefit liability	4,176	4,159
Asset retirement obligations	4,847	2,564
Provision for dismantling of fixed assets	420	420
Other	13,815	11,500
Total noncurrent liabilities	75,263	70,643
Total liabilities	161,410	174,485
Net assets		
Shareholders' equity		
Capital stock	29,953	29,953
Capital surplus	118,564	118,285
Retained earnings	206,334	193,036
Treasury stock	(53,555)	(53,556)
Total shareholders' equity	301,296	287,718
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	4,470	1,680
Deferred gains or losses on hedges	(596)	(877)
Revaluation reserve for land	(1,109)	(1,109)
Foreign currency translation adjustment	(8,480)	(8,438)
Remeasurements of defined benefit plans	(1,478)	(1,269)
Total accumulated other comprehensive income	(7,193)	(10,015)
Subscription rights to shares	813	-
Non-controlling interests	1,941	518
Total net assets	296,858	278,221
Total liabilities and net assets	458,268	452,707

SEGA SAMMY HOLDINGS INC.
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
FOR 9 MONTHS ENDED DECEMBER 31, 2019 AND 2020

(Unit: Millions of yen)

	Prior period From April 1, 2019 To December 31, 2019	Current period From April 1, 2020 To December 31, 2020
Net sales	280,808	210,177
Cost of sales	171,789	126,969
Gross profit	109,018	83,207
Selling, general and administrative expenses	80,952	69,679
Operating income (loss)	28,066	13,527
Non-operating income		
Interest income	174	94
Dividends income	398	348
Gain on investments in partnership	462	191
Gain on valuation of investment securities	-	4,294
Other	824	679
Total non-operating income	1,860	5,609
Non-operating expenses		
Interest expenses	354	344
Equity in losses of affiliates	1,824	4,121
Foreign exchange losses	373	1,344
Commission fee	59	78
Rent expenses	84	-
Other	1,378	674
Total non-operating expenses	4,074	6,563
Ordinary income (loss)	25,852	12,574
Extraordinary income		
Gain on sales of noncurrent assets	2,909	9
Gain on sales of investment securities	94	8,491
Other	18	1,895
Total extraordinary income	3,023	10,395
Extraordinary losses		
Loss on sales of noncurrent assets	0	0
Impairment loss	212	135
Loss on valuation of investment securities	173	0
Loss on COVID-19	-	2,665
Structural reform expenses	-	29,043
Other	118	0
Total extraordinary losses	505	31,844
Income (loss) before income taxes	28,369	(8,874)
Income taxes-current	5,194	(3,261)
Total income taxes	5,194	(3,261)
Profit (loss)	23,175	(5,613)
(Breakdown)		
Profit (loss) attributable to owners of parent	22,989	(6,239)
Profit (loss) attributable to non-controlling interests	185	626

SEGA SAMMY HOLDINGS INC.
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
FOR 9 MONTHS ENDED DECEMBER 31, 2019 AND 2020

(Unit: Millions of yen)

	Prior period From April 1, 2019 To December 31, 2019	Current period From April 1, 2020 To December 31, 2020
Other comprehensive income		
Valuation difference on available-for-sale securities	(4,267)	(2,781)
Deferred gains or losses on hedges	(0)	(8)
Foreign currency translation adjustment	(402)	896
Remeasurements of defined benefit plans, net of tax	(59)	102
Share of other comprehensive income of entities accounted for using equity method	(2,791)	(1,027)
Total other comprehensive income	(7,521)	(2,819)
Comprehensive income	15,653	(8,432)
(Breakdown)		
Comprehensive income attributable to owners of parent	15,468	(9,061)
Comprehensive income attributable to non-controlling interests	184	628

SEGMENT INFORMATION

1. Prior period (From April 1, 2019 to December 31, 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	86,381	186,135	8,290	280,806	1	280,808
(2) Inter-segment sales and transfers	799	640	58	1,498	(1,498)	-
Total	87,180	186,776	8,349	282,305	(1,497)	280,808
Segment income (loss)	19,480	16,052	(3,346)	32,186	(6,334)	25,852

(Notes) 1. Elimination of inter-segment transactions of ¥(8) million and general corporate expenses of ¥(6,325) million which are not allocated to the reporting segment are included in the adjustment to segment income (loss) of ¥(6,334) 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 December 31, 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	37,372	167,603	4,886	209,862	314	210,177
(2) Inter-segment sales and transfers	240	534	77	851	(851)	-
Total	37,612	168,138	4,963	210,714	(536)	210,177
Segment income (loss)	(8,771)	33,196	(6,647)	17,776	(5,202)	12,574

(Notes) 1. Elimination of inter-segment transactions of ¥14 million and general corporate expenses of ¥(5,216) million which are not allocated to the reporting segment are included in the adjustment to segment income (loss) of ¥(5,202) 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.