



# FY Ended March 2019 Full Year Results Presentation

Apr 26, 2019

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## 1. Full Year Results / Full Year Forecasts

## Results Highlights

(JPY Billion)

	2018/3 Results	2019/3 Results	2020/3 Forecast
Sales	323.6	331.6	390.0
Operating Income	17.7	13.0	27.0
Operating Income Margin	5.5%	3.9%	6.9%
Non-operating income	3.2	2.1	1.5
Non-operating expenses	6.4	7.7	5.5
Ordinary Income	14.5	7.4	23.0
Extraordinary income	0.9	8.2	-
Extraordinary losses	3.1	8.7	-
Income before income taxes	12.4	6.9	23.0
Profit (loss) attributable to owners of parent	8.9	2.6	15.0
ROA <sup>*</sup>	1.8%	0.6%	-

\* ROA = Profit attributable to owners of parent / Total assets



### 2019/3 Full Year Results

- ◆ Sales increased but profit decreased from last fiscal year.
- ◆ Performance of Pachislot and Pachinko business and Digital Games area went below expectation

### 2020/3 Full Year Forecasts

- ◆ Both sales and profit expected to be increased.
- ◆ Sell machines centered on new regulation (type 6) machines and expect increase of unit sales in Pachislot and Pachinko business.
- ◆ Put an effort to improve the profitability of Digital Game area.

\*For more details, please see "FY Ending March 2019 Appendix" - 3 -

(All contents here are the translation of Japanese materials)

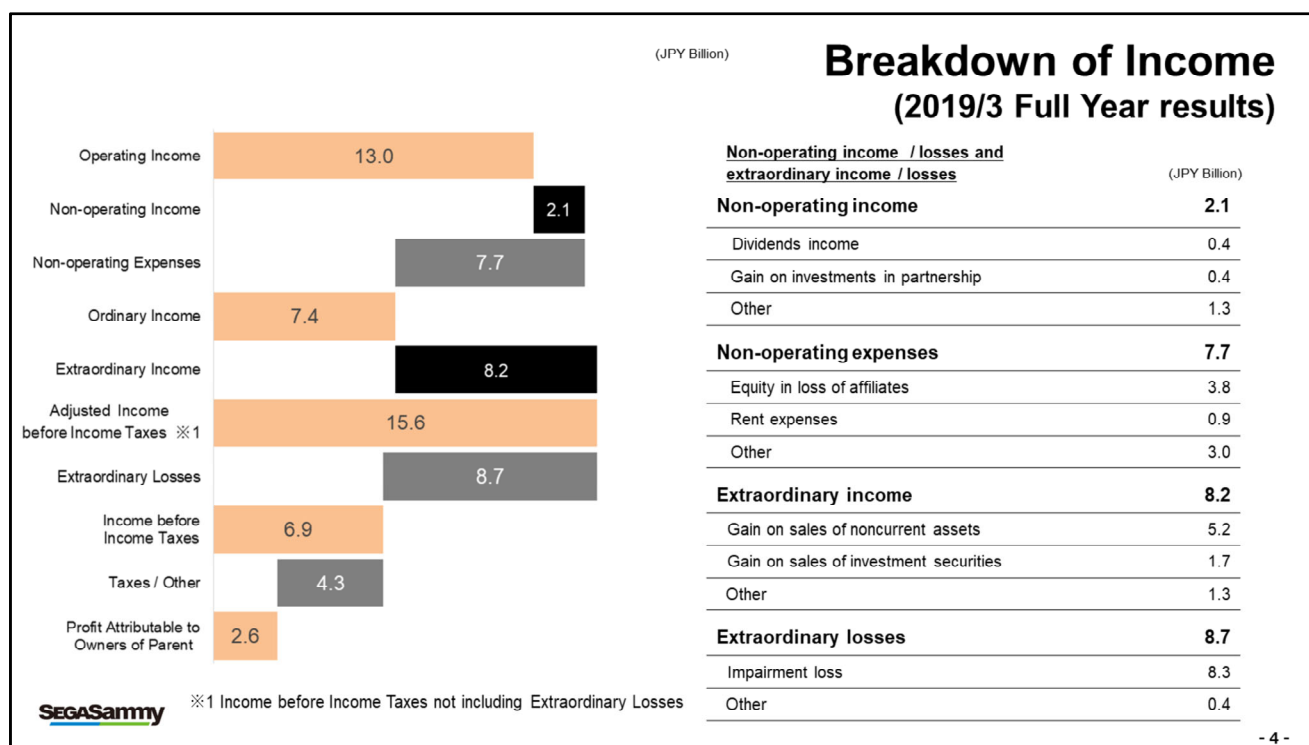
### Speaker: Koichi Fukazawa, Executive Vice-President and Group CFO

Fukazawa: Today, I would like to explain our results for the previous fiscal year ended March 2019, in addition to our full-year forecast for the current fiscal year ending March 2020.

In terms of the results for the fiscal year ended Mar 2019, sales increased but profits decreased year on year.

I will discuss the detailed results by business segment later on. Ordinary income ended up at a level that was roughly equivalent to the downward-revised value announced in February. Meanwhile, as a result of recording extraordinary income due to the sales of non-current assets in the fourth quarter and other factors, we recorded profit attributable to owners of parent of 2.6 billion yen.

For the fiscal year ending Mar 2020, we forecast an increase in sales and profits. In addition to expecting an increase in sales due to a rise in unit sales of pachislot machines and sales of big-name packaged game titles, we are working to improve costs in the Pachislot and Pachinko Machines Business by reusing components, etc. and improve profits in the digital games area.



Non-operating expenses of 7.7 billion yen was recorded, mainly attributed to equity in loss of affiliates for Paradise Sega Sammy in Incheon, as well as duplicated rents associated with the consolidation of our head office.

We recorded extraordinary income of 8.2 billion yen due to recording a gain on sale of non-current assets from the sales of our former head office in Haneda, which was owned by our subsidiary Sega Holdings, as announced on February 19.

On the other hand, we posted extraordinary losses of 8.7 billion yen due to a low performance in the digital games area that led to an impairment loss.

As a result, income before income tax was 6.9 billion yen, but with regard to the impairment loss, 4.3 billion in taxes and other costs due to taxable depreciation was recorded, resulting in profit attributable to owners of parent of 2.6 billion yen.

In the fiscal year ended Mar 2019, our corporate tax contribution ratio was extremely high.



## Consolidated Costs and Expenses

(JPY Billion)

(Main factors)

	2018/3 Results	2019/3 Results	2020/3 Forecast	2019/3 Results	2020/3 Forecasts
R&D Expense / Content Production Expense	62.0	66.6	72.5	Increased in association with the launch of new titles in Digital Games area	Increase in association with the launch of new titles in Packaged Games area
Cap-ex	24.1	34.4	24.8	Increased in association with the relocation of headquarters	Decrease in association with the completion of relocation
Depreciation	16.2	14.5	13.6	Accelerated depreciation decreased in relation to the execution of relocation.	
Advertising	15.4	16.0	21.0	—	Advertising expenses increases in association with the launch of new titles in Packaged Games area and Pachislot and Pachinko business.

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R&D and contents production expenses increased due to launching multiple new digital game titles during the fiscal year ended March 2019.

In the fiscal year ending Mar 2020, we expect these expenses to increase due to the launch of new packaged game titles and other.

In terms of cap-ex, expenses increased last fiscal year in association with the relocation of the headquarters. However, since most of the relocation expenses were settled last fiscal year, we expect cap-ex to decrease in the current fiscal year.

Depreciation expenses due to accelerated depreciation of the former head office in association with the relocation of our headquarters were incurred, but these decreased in results of fiscal year ended Mar 2019.

In the fiscal year ending Mar 2020, we anticipate a significant increase in advertising expenses in association with the launch of new pachislot and pachinko machines and packaged game titles.

## Consolidated Balance Sheet

(JPY Billion)

	As of end of March 2018	As of end of March 2019	Change
Total Current Assets	272.3	260.4	-11.9
Cash and Deposits	157.8	137.4	-20.4
Securities	24.6	14.5	-10.1
Total Noncurrent Assets	201.1	204.1	+3.0
Total liabilities and net assets	473.4	464.6	-8.8
Total Current Liabilities	84.4	87.5	+3.1
Corporate Bonds	10.0	12.5	+2.5
Total Noncurrent Liabilities	78.5	71.7	-6.8
Corporate Bonds	22.5	10.0	-12.5
Total Liabilities	163.0	159.3	-3.7
Total Net Assets	310.4	305.3	-5.1
Total Liabilities and Net Assets	473.4	464.6	-8.8
	As of end of March 2018	As of end of March 2019	Change
Cash and cash equivalents	176.5	148.0	-28.5
Interest bearing debt	87.0	76.1	-10.9
Net cash	89.5	71.8	-17.7
Equity Ratio	65.0%	65.1%	

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## Consolidated Balance Sheet Summary

Main factors	Changes
<b>Current Assets</b>	
Cash, deposits and securities decreased while trade notes and accounts receivable and inventory assets increased	-11.9
<b>Non-current Assets</b>	
Tangible fixed assets increased in association with relocation of headquarter. Investment securities and investment in capital also increased.	+3.0
<b>Liabilities</b>	
Redemption of corporate bonds and payment of loans payable decreased	-3.7

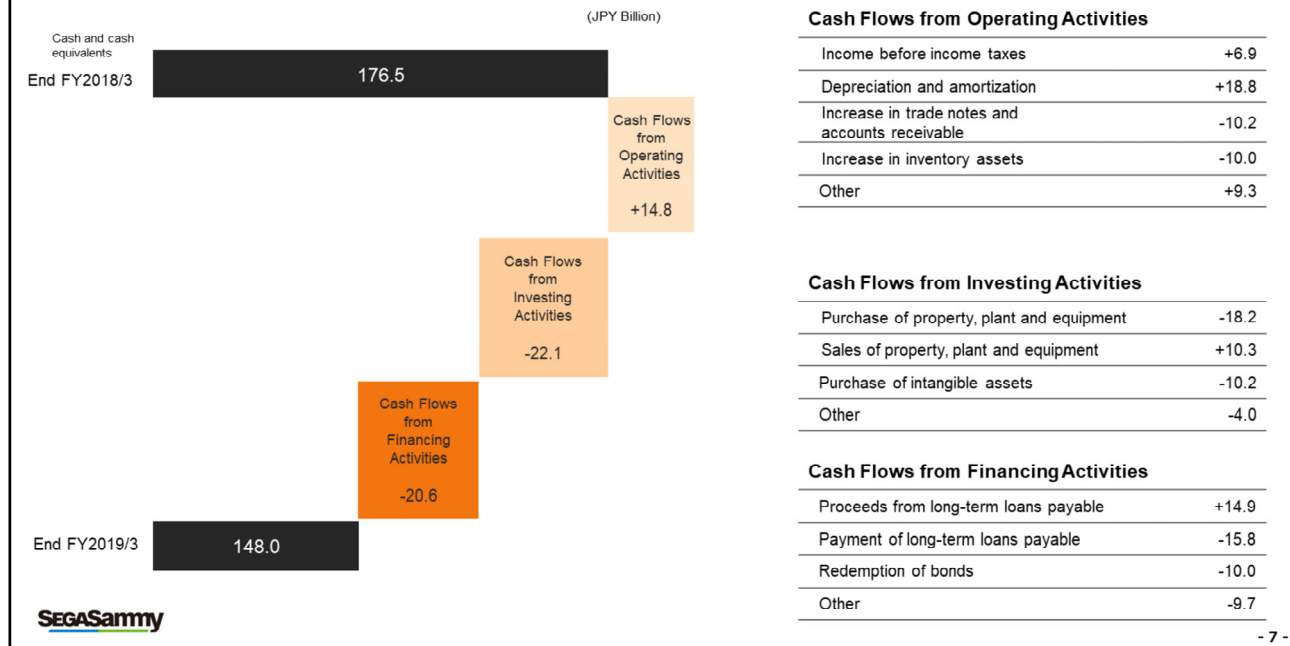
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Despite an increase in accounts receivable and inventory assets, current assets decreased by 11.9 billion yen due to cash and deposits decreasing as a result of the relocation of the headquarters.

Non-current assets increased by 3 billion yen due to an increase in tangible fixed assets in association with the relocation of the headquarters and an increase in investment securities. Total liabilities also decreased by 3.7 billion yen following the redemption of corporation bonds and others.

As reference, our net cash at the end of March 2019 stood at 71.8 billion yen.

## Consolidated Cash Flows



Cash flows from operating activities were plus 14.8 billion yen, but as a result of acquiring non-current assets in association with relocating the headquarters, cash flows from investing activities were minus 22.1 billion yen, and free cash flow was minus 7.3 billion yen.

Furthermore, cash flows from financing activities were minus 20.6 billion yen, primarily due to payment of dividends and redemption of bonds.

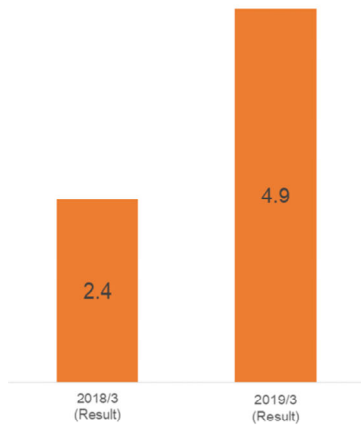
Based on the above, overall cash flow for the fiscal year ended Mar 2019 was minus 27.9 billion yen.

## Relocation Expenses (2019/3 full year results)

Incurrence of expenses for relocation of  
headquarter

- One-off relocation expenses (Reference)

(JPY Billion)



One-off expenses for  
relocation

(JPY Billion)

	2018/3 (Result)	2019/3 (Result)
<b>Consolidated</b>	<b>2.4</b>	<b>4.9</b>
Pachislot and Pachinko Machines	0.8	1.1
Entertainment Contents	1.4	3.0
Resort	0.0	0.0
Other / Elimination	0.2	0.8

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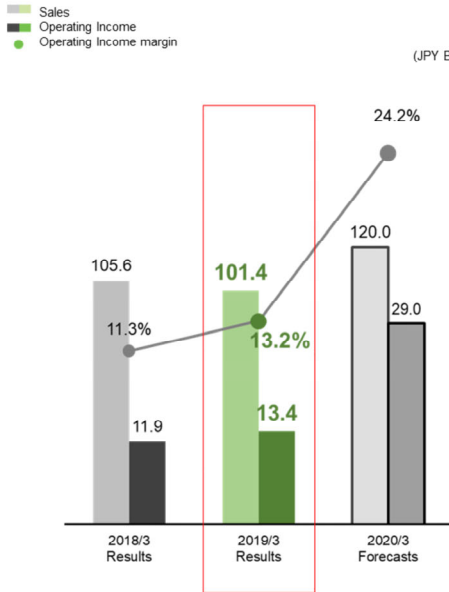
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In the results for the fiscal year ended 2019, one-off expenses of 4.9 billion yen were posted due to the relocation of the headquarters.

## 2. Full Year Results / Full Year Forecast per Segments

## Pachislot and Pachinko Machines Business

### 2019/3 Full Year Results



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- ◆ Profits increased while sales decreased from last fiscal year.
- Pachislot: No. of titles and sales units decreased due to the continuous low approval ratio of proto-type testing for new reg. (type 6) machines.
- Pachinko: Sold centered on previous reg. machines and sales unit increased.

(Sales units transition)

	2018/3 (Results)	2019/3 (Results)	2020/3 (Forecasts)
Pachislot	85,401	67,140	120,000
Pachinko	140,013	159,848	164,000
Board + Frame	97,655	91,858	78,600
Board	42,358	67,990	85,400

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This slide shows the results of pachislot and pachinko machines business for the fiscal year ended Mar 2019. Profits increased while sales decreased year on year.

As you know, the regulations for both pachislot and pachinko machines have been revised. With regard to pachislot machines, we continue to struggle with the approval ratio in prototype testing of No. 6 model machines that conform to the new regulations.

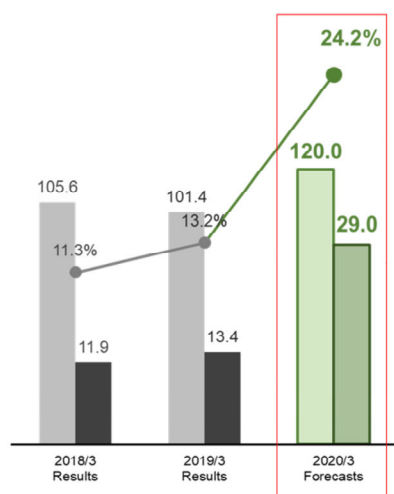
As a result, there has been decrease in the number of titles and unit sales.

On the other hand, sales of pachinko machines has progressed well, particularly for machines conforming to the previous regulations, and unit sales increased as a result.

## Pachislot and Pachinko Machines Business

■ Sales  
■ Operating Income  
● Operating Income margin

(JPY Billion)



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### 2020/3 Full Year Forecasts

#### ◆ Plan to increase sales and profit

Pachislot: Sell machines centered on new reg. as increase of demands expected from replacement of previous reg. machines.

Pachinko: Sell machines centered on new reg. and plan to sell units at same level with previous FY.

Expect significant increase of profit with measures to recover operating income margin such as reuse, etc.

(Sales units transition)	2018/3 (Results)	2019/3 (Results)	2020/3 (Forecast)
Pachislot	85,401	67,140	120,000
Pachinko	140,013	159,848	164,000
Board + Frame	97,655	91,858	78,600
Board	42,358	67,990	85,400

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During the fiscal year ending Mar 2020, it is possible that there will be voluntary replacement control, which we will need to carefully assess, even though that will be partly based on assumptions.

Bearing this situation in mind, replacement demand accompanying the withdrawal of pachislot machines conforming to the previous regulations is anticipated. We will target this demand and forecast sales of 120,000 units, representing a year on year increase of 53,000 units.

We also expect pachinko sales to center on machines conforming to the new regulations. We forecast sales of 164,000 units, up by around 4,000 units from the previous fiscal year.

During the fiscal year ending Mar 2020, we will continue to implement steady measures for improving profits centering on the reuse of components over the medium term, and therefore expect substantial growth in the profit margin.

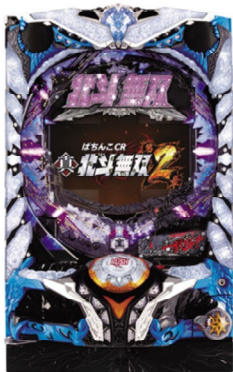
# Pachislot and Pachinko Machines Business

## Major titles in 2019/3



“Pachislot DISC UP”

©Sammy



“Pachinko CR Shin Hokuto Muso Chapter 2”

©Buronson & Tetsuo Hara/NSP 1983, Approved  
No KOK-115  
© 2010-2013 Koel Tecmo Games Co., Ltd.  
©Sammy

## Titles in and after 2020/3



“Pachislot DISC UP”  
5<sup>th</sup> version White Panel

©Sammy

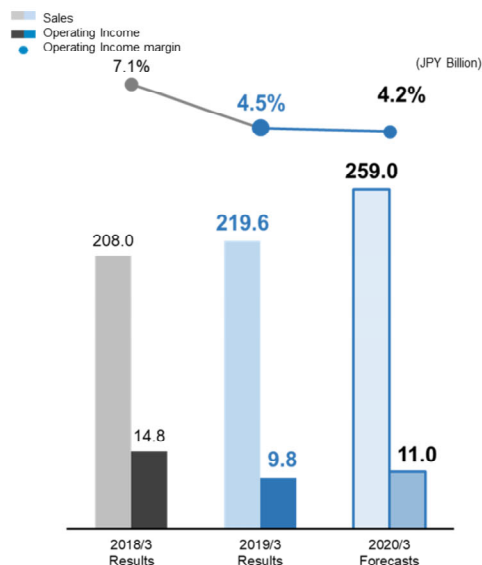


“P SHOW BY ROCK!!”

©2012,2019 SANRIO CO.,LTD. APPROVAL  
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## Entertainment Contents Business



### 2019/3 Full Year Results

- ◆ Sales increased but profits decreased from last fiscal year.
- ◆ Recorded losses in Digital Games area.
- ◆ Repeat sales at NA/EU in Packaged Games area remained steady and support the revenue of the business

### 2020/3 Full Year Forecasts

- ◆ Expect the recovery of profits with the optimization of number of games to develop/operate.
- ◆ Expect the large increase in sales in Packaged Games area but the R&D expenses, etc. from launch of new titles will also incur.

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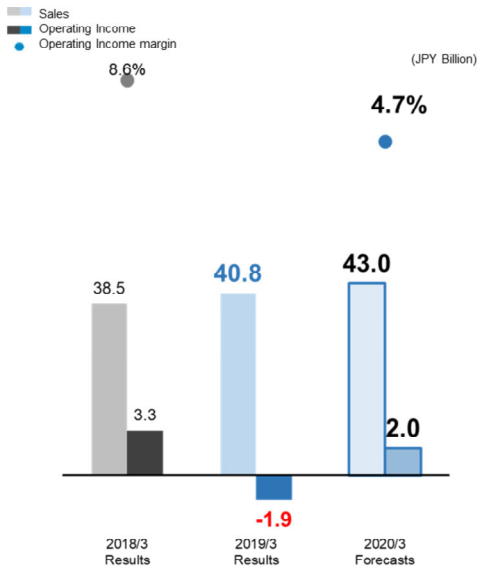
As for Entertainment Contents business, sales increased while profits decreased year on year in the fiscal year ended Mar 2019.

The main factor behind this was the digital games area performing below expectations.

In the fiscal year ending Mar 2020, we expect sales to increase from the launch of multiple big-name titles in the packaged games area.

We also anticipate the increase in profits with proceeding the improvement of profitability in the digital games area.

## Digital Games



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### 2019/3 Full Year Results

- ◆ Fell significantly below the initial plan while sales increased from the last fiscal year and loss was recorded
- ◆ Failed to compensate for the decline in existing titles with new titles
- ◆ Recorded loss along with termination of services of operating titles such as write-down and etc.
- ◆ Number of new titles launched  
Initial plan 12 titles ⇒ Actual 8 titles

### 2020/3 Full Year Forecasts

- ◆ Put an effort to improve profitability by adjustment of number of developed/operating titles, etc.
- ◆ Running costs will decrease due to recording of loss in the FY ended March 2019
- ◆ Transfer resources to profitable areas
- ◆ Number of new titles to be launched  
Plan for FY ending March 2020: 6 titles

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During the fiscal year ended Mar 2019, sales increased year on year, but the launch of new titles did not go smoothly and a loss was recorded due to factors such as the write-down of multiple titles.

In the fiscal year ending Mar 2020, recording impairment loss in the previous fiscal year decreases the depreciation burden of development expenses this fiscal year. We will also work to improve profits by reallocate resources to the packaged games area.

We are planning to launch 6 new titles this fiscal year.

## Digital Games

### Major titles in 2019/3



"SEGA Pocket Club Manager"

©SEGA  
All Rights Reserved By JFA  
The use of images and names of the football players in this game is under license from FIFPro  
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"Ryu ga Gotoku ONLINE"  
©SEGA

### Major titles in and after 2020/3



"LEAGUE OF WONDERLAND"

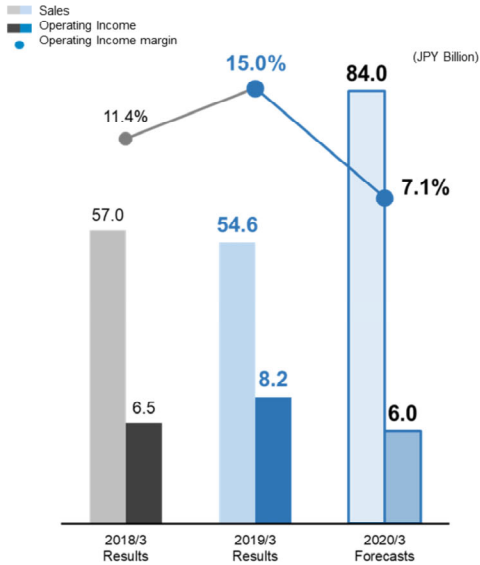
©SEGA



"Kemono Friends 3"  
©Kemono Friends Project2G ©SEGA

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## Packaged Games



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### 2019/3 Full Year Results

- ◆ Sales decreased while profits increased from last fiscal year due to solid repeat sales despite the delay in some new titles.

### 2020/3 Full Year Forecasts

- ◆ Expect significant increase of sales due to the launch of several large new titles of existing IP
- ◆ Expect decrease of profits due to large R&D cost and advertising expenses associated with the launch of new titles and expected decrease of repeat sales

Unit sales of Packaged Games		(Thousands unit)	
	2018/3 Results	2019/3 Results	2020/3 Forecast
New Titles	8,130	4,090	10,690
Repeat Titles	9,200	19,350	14,500
Total	17,330	23,440	25,190

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In the fiscal year ended Mar 2019, sales decreased due to factors such as delays of new titles, but thanks to significant growth in repeat sales, profits increased.

During the fiscal year ending Mar 2020, we plan to launch multiple big-name titles, including “Total War: THREE KINGDOMS” and “The Official Video Games of the Olympic Games Tokyo 2020”. We forecast that sales of new titles will grow substantially from the previous year’s result of 4.09 million to 10.69 million. Sales are therefore expected to increase.

On the other hand, development and advertising expenses will be incurred with the launch of these new titles, and we expect that repeat sales will decline year on year, so we forecast a decrease in profits.

## Packaged Games

### Major titles in 2019/3



"Yakuza 6: The Song of Life"

©SEGA



"Judgment"

©SEGA



"Football Manager 2019"

© Sports Interactive Limited 2019.  
Published by SEGA Publishing Europe Limited.

## Packaged Games

### Major titles in and after 2020/3



"Team Sonic Racing"  
©SEGA



"Total War: THREE KINGDOMS"  
© SEGA.  
Developed by The Creative Assembly Limited.



"Project Sakura Wars"  
©SEGA



"Mario & Sonic at the Olympic Games  
Tokyo 2020"

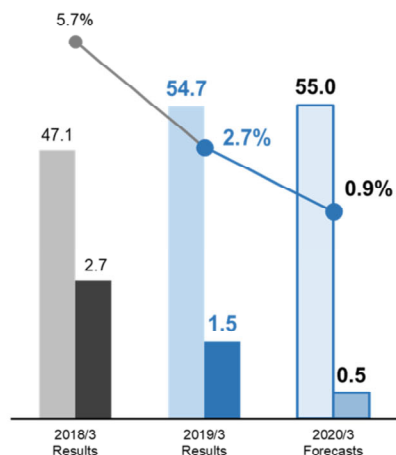
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## Amusement Machine Sales

■ Sales  
■ Operating Income  
● Operating Income margin

(JPY Billion)



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### 2019/3 Full Year Results

- ◆ Sales increased but profit decreased from last fiscal year.
- ◆ Sold several video game and prize machines.
  - ✓ Fate/Grand Order Arcade
  - ✓ UFO CATCHER TRIPLE TWIN
- ◆ Expenses increased from title of which operation was suspended and relocation of office.

### 2020/3 Full Year Forecasts

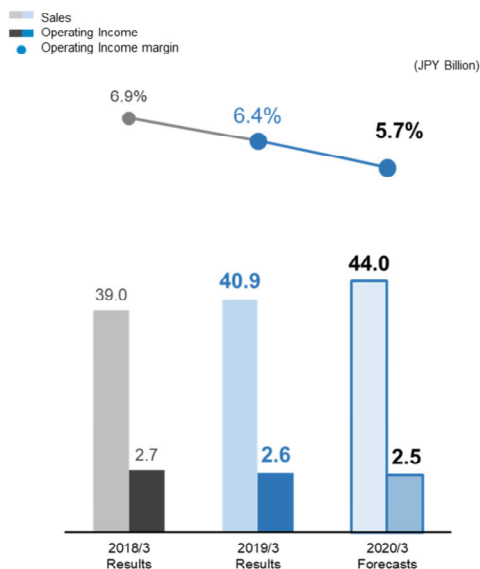
- ◆ Plan to launch new series of mainstay title “StarHorse4” in addition to prize machines which sales has been performing well.
  - ✓ StarHorse4
  - ✓ maimai DX
- ◆ Expect decrease in profit due to increase of common fixed expenses from relocation of headquarter.

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In the fiscal year ended Mar 2019, sales increased mainly due to sales of “Fate/Grand Order Arcade” and “UFO Catcher” series prize machines. Profits decreased, however, as a result of losses associated with the suspension of some titles and expenses incurred due to relocating the headquarters.

In the fiscal year ending Mar 2020, while we expect continuing sales of prize machines and the release of a new title in the “StarHorse” series, we forecast a decrease in profits based on the impact of increased common fixed expenses accompanying the relocation.

## Amusement Center Operations



### 2019/3 Full Year Results

- ◆ Sales increased but profit decreased from last fiscal year.
- ◆ Recorded solid performance centered on prize areas.
- ◆ Sales at existing stores exceeded 100% for five consecutive fiscal years.

### 2020/3 Full Year Forecasts

- ◆ Expect profit will be leveling off due to consumption tax hike while sales increase with opening of new stores

Domestic amusement centers: No. of stores / YoY sales ratio comparison

	2018/3 Results	2019/3 Results	2020/3 Forecasts
No. of stores	189	190	195
YoY Sales Ratio comparison (%)	101.9	104.0	104.4

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For amusement centers, in the fiscal year ended Mar 2019, the prize category continued to perform well and as a result, sales at existing stores therefore exceeded 100% in comparison to the previous year for the fifth consecutive year.

As a result, sales increased year on year.

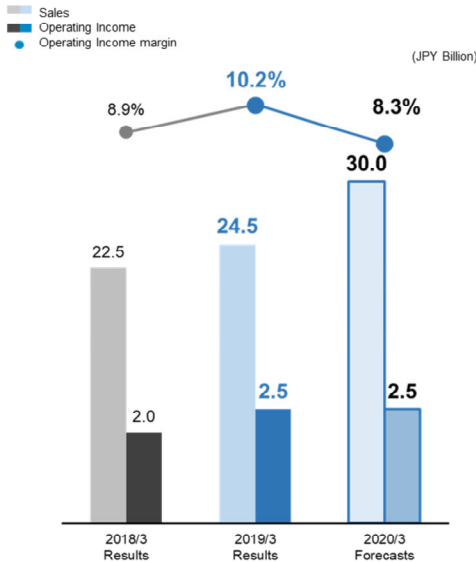
However, operating income remained flat year on year due to increased depreciation and amortization caused by factors such as the introduction of electronic money.

In the fiscal year ending Mar 2020, we forecast that sales at existing stores will continue to perform well, and we also plan to open new stores.

Based on this, we expect sales to increase, but operating income is forecast to remain more or less flat due to the impact of the consumption tax hike in October.



## Animation / Toys



### 2019/3 Full Year Results

- ◆ Animation: Recorded the earnings from video distribution and etc.
  - ✓ Movie version of "Detective Conan" series etc.
- ◆ Toys: Sold new products and regular products.
  - ✓ WHOareYOU? etc.

### 2020/3 Full Year Forecasts

Expect profit will be leveling off due to increase in ratio of revenue from video creation while sales increase from launch of new video in animation area and new products in toy area.

- ✓ Movie version of "Detective Conan"

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In terms of the result in fiscal year ended Mar 2019, both sales and profits increased due to the movie version of the "Detective Conan" series, a major hit that continued to perform well in the animation area, along with the strong performance of new products in the toy area.

For the fiscal year ending Mar 2020, we forecast that earnings from distribution of the "Detective Conan" movie version will continue to be recorded, and new releases in both the film and toy area are planned, so we expect sales to increase.

However, in this fiscal year, with the video production revenue ratio increasing and the margin for video production being slightly low, we forecast that operating income will be flat.

## Resort Business

■ Sales  
■ Operating Income

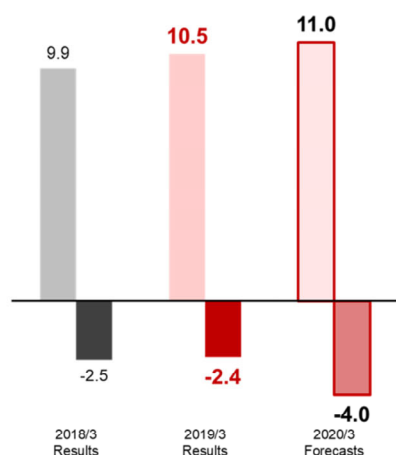
(JPY Billion)

### 2019/3 Full Year Results

- ◆ Sales increased and volume of losses decreased from last fiscal year.
- ◆ Cost incurred for domestic Integrated Resort increased.
- ◆ Profit of PHOENIX RESORT improved.

### 2020/3 Full Year Forecasts

- ◆ Continue efforts to improve profitability of existing facilities.
- ◆ Expect the increase of prior investment as the actions required for participating domestic Integrated Resort will be activated.



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In the fiscal year ended Mar 2019, while expenses towards the entry into the domestic Integrated Resort business increased, Phoenix Resort's income improved and as a result sales increased and the extent of losses decreased year on year.

Meanwhile, for the fiscal year ending Mar 2020, as the actions towards entering the domestic Integrated Resort business become active, expenses related to this will increase, so we forecast that losses will increase in some extent year on year.

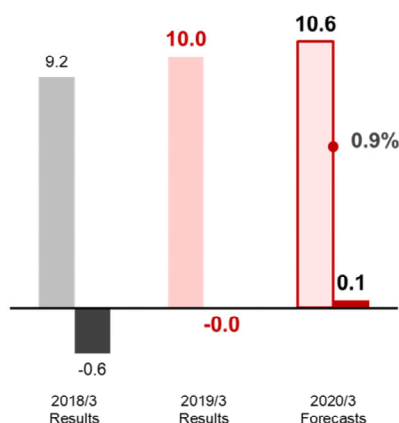
## PHOENIX RESORT

■ Sales  
 ■ Operating Income  
 ● Operating Income margin

(JPY Billion)

### 2019/3 Full Year Results

- ◆ Sales and number of facility users increased as effects of renovation of facilities and other various promotions.



### 2020/3 Full Year Forecasts

- ◆ Continuously implement various promotion activities to improve profitability.
- ◆ Implement measures to boost the use of golf and MICE.

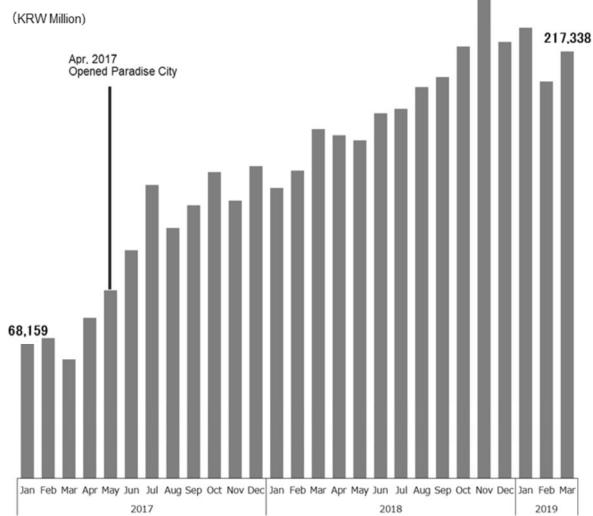
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In fiscal year ended Mar 2019, as a result of major renovations completed in the summer of 2017 and various promotional activities, the number of facility users increased, and we were able to improve our sales.

In fiscal year ending Mar 2020, we expect more active use of the golf course and MICE facilities along with the hotel, so we forecast that operation margin will be positive.

### Transition of Drop\* amount at Paradise SegaSammy



### PARADISE SEGASAMMY (Equity method affiliate)

(KRW Billion)

	FY 2018/3	FY 2019/3
Sales	200.5	301.6
Casino	174.9	248.6
Hotel	25.6	50.3
Other	-	2.8
Cost of sales	176.0	285.0
Casino	117.9	161.6
Hotel	58.1	99.2
Other	-	24.2
Gross profit	24.4	16.6
SG&A	57.2	37.4
Operating profit	-32.7	-20.8
EBITDA	-6.2	20.0
Net profit	-46.8	-53.0

Source: Paradise IR

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Equity method acquisition amount (Billion yen)	-2.8      -3.1



\* PARADISE SEGASAMMY Co., Ltd. is an equity method affiliate of SEGA SAMMY HOLDINGS INC.  
\* Figures for PARADISE SEGASAMMY Co., Ltd. are recorded with three months delay

\*Drop : The amount of cash exchanged for chips by customers at the table

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Since opening in April 2017, the drop amount at gaming tables at Paradise City has continued to increase.

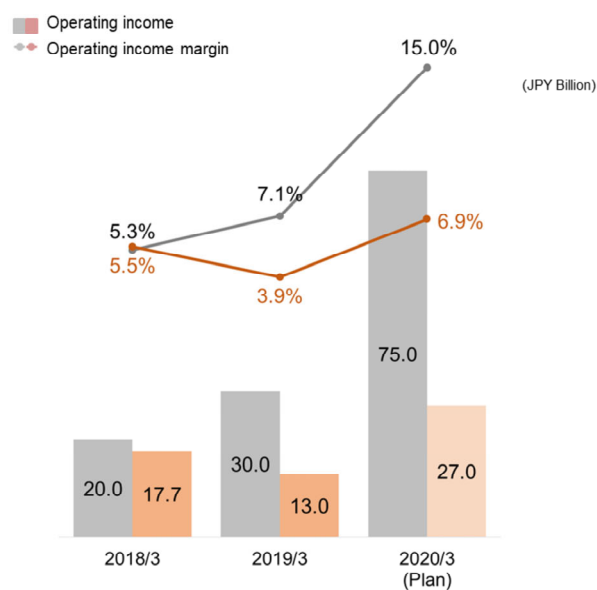
However, with the opening of a non-gaming area, Fun City, in September 2018, the depreciation burden has recently increased.

Due to the impact of the amount incorporated into our accounts, we recorded an investment loss on equity method of approximately 3.1 billion yen as a non-operating expense in the fiscal year ended Mar 2019.



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## Progress of “Road to 2020”



## Operating income fell short of initial plan for two consecutive fiscal years

### (Main factors)

#### Pachislot and Pachinko Machines Business

Impact of regulation change

#### Entertainment Contents

Lack of hit titles mainly in Digital Games area

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### Speaker: President & Group COO Haruki Satomi

Satomi: I would like to update you on the progress of “Road to 2020,” the medium-term targets that we announced during the fiscal year ended March 2017.

In the fiscal year ended Mar 2018, we made a fairly positive start, but unfortunately, in the year ended Mar 2019, we fell considerably short of our targets, and in the fiscal year ending Mar 2020, which is the final year of the plan, we do not see us reaching the initial forecast.

The main factor behind this are the major revisions of regulation for pachislot and pachinko machines, which we did not originally anticipate.

While we expected some revisions of regulation, we did not expect the extent of such revisions, nor did we foresee the impact of our current low approval ratio due to the revisions.

We also did not originally foresee the lack of hits in the digital games area and the decline of our current mainstay title, “Phantasy Star Online 2,” which has been greater than expected.

# Pachislot and Pachinko Machines Business

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## Review of “Road to 2020”

(Pachislot and Pachinko Machine Business)

**While not expected to reach initial target due to the change in business environment, operating income margin improved significantly**

- ✓ Changes in environment due to regulation change
  - Approval ratio declined
  - Sales Market stagnated
- ✓ Execution of measures to improve operating income margin has been proceeding steadily.

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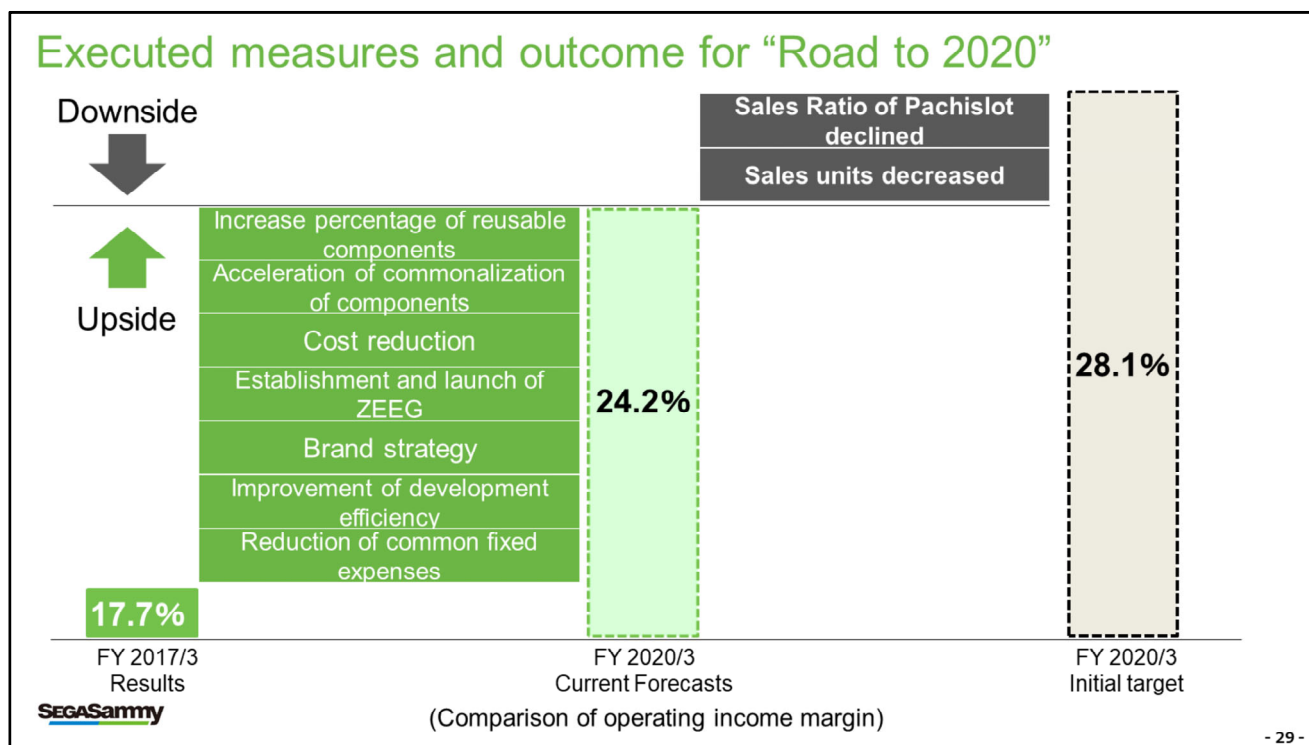
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First, I will review the Pachislot and Pachinko Machine Business.

Due to changes in the business environment, our approval ratio is extremely low, and the sales market has stagnated in conjunction with this. However, we are steadily implementing measures to improve our profits.

Even when we first announced our medium-term targets, it would have been quite difficult to achieve an operating income margin of 30% with sales of around 100 billion yen. However, we said that if we increased sales to around 150 billion yen, we would be in a good position to achieve an operating income margin of 30%.





In terms of our actual forecasts for the fiscal year ending Mar 2020, we have made progress mainly with regard to

- The effects of reusing components and the commonalization of components
- Cost reduction
- ZEEG initiatives
- Integration of the Sammy brand
- Improvement of development efficiency

As a result, our operating income margin has therefore improved to the point where we now forecast sales of 120 billion yen and an operating income margin of 24.2%.

## Executed measures and outcome for “Road to 2020”

### Improvement of operating income margin is progressing steadily

Key measures	Outcome
Increase percentage of reusable components	Products design with reuse in mind Number of reusable components expanded (30 to 50)
Acceleration of commonalization of components	Common components ratio increased (Pachislot: more than 88%, Pachinko: more than 52%) Commonalization of components between Pachislot and Pachinko proceeded
Cost reduction	Cost management enhanced using cost indicators Cost reduced from transferring outsourced work to insource in debug operation and careful selection of exclusive items such as devices
Establishment and launch of ZEEG	Started the use of ZEEG machines from last fiscal year
Brand strategy	Integration into Sammy brand
Improvement of development efficiency	Shortened development period (not able to achieve initial plan due to the impact of regulation change) Review process enhanced, numbers of developed titles narrowed down
Reduction of common fixed expenses	Realized reduction of fixed expenses which exceeds initial forecast significantly.



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In terms of specific improvements to our profit, we have expanded the number of reusable components by a considerable extent, and we have also made remarkable progress with the commonalization of components.

With regard to cost reduction, we have reduced costs at the procurement stage and made progress with insourcing activities such as debug operations, while also moving forward with measures such as insourcing production of previously outsourced items, including devices and boards.

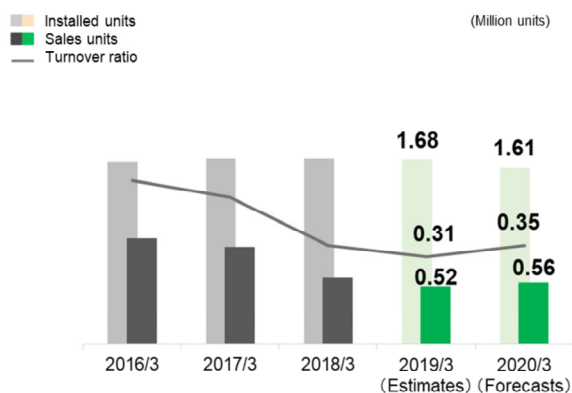
We have begun introducing ZEEG machines as well.

We are also moving forward with integrating our sales brand with the Sammy brand, improving our development efficiency, and reducing common costs.

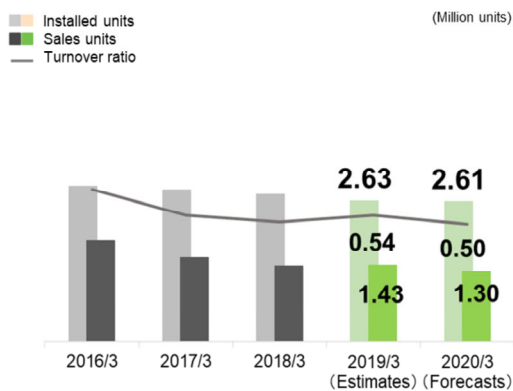
## Market trends (transition of installed units/sales units)

Expect increase in sales units of Pachislot along with the removal of previous regulation machines by expiration of certification

Estimates of Pachislot market



Estimates of Pachinko Market



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(Estimates of SEGA SAMMY HOLDINGS)

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In the fiscal year ending Mar 2020, due to the deadline for removing pachislot machines conforming to the previous regulations approaching, we expect that unit sales of machines conforming to the new regulations will increase going forward.

With the increase in unit sales, we also expect the turnover ratio to rise.

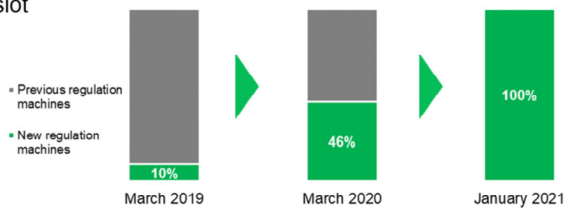
We forecast that the pachinko machine business will decline somewhat, but this is aligned with the forecast trend for the market as a whole.

## Future demand for replacement

(Market share for new regulation machines: Estimates)

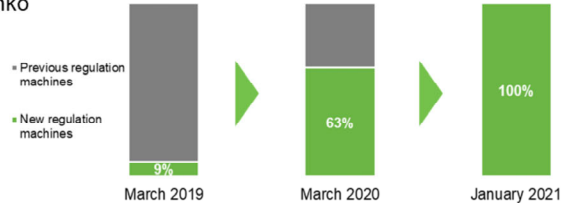
### Expiration timing of previous regulations is concentrated on Q3 FY2020/3

#### Pachislot



Removal Timing	Thousand of units (Estimates)
1Q (Apr-Jun)	Approx. 3
2Q (Jul-Sep)	Approx. 1
3Q (Oct-Dec)	Approx. 182
4Q (Jan-Mar)	Approx. 9
Mar, 2020	
Mar, 2021	Approx. 1,188

#### Pachinko



Removal Timing	Thousand of units (Estimates)
Mar, 2020	Approx. 58
Mar, 2021	Approx. 2,130

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(Estimates of SEGA SAMMY HOLDINGS)

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This slide looks at future demand for replacement and our estimated share of the market for machines conforming with the new regulations.

It is based on the ratio of machines conforming to the previous regulations currently on the market and the removal schedule for titles presumed to be approaching the removal deadline. At the end of the previous fiscal year, the penetration rate for machines conforming to the new regulations was approximately 10%. By the end of the current fiscal year, it is expected to be 46% for pachislot machines and 63% for pachinko machines, and by the end of January 2021, 100% of both pachislot and pachinko machines are scheduled to be replaced with machines conforming to the new regulations.

In terms of future demand for replacement, we project that there will be a spike in the third quarter this fiscal year for pachislot machines in particular. We are therefore considering launching titles to coincide with this period.

## Future direction of development and launch of titles

### Future Objectives

- ✓ Recovery of approval ratio
  - Apply multiple specs for both Pachislot and Pachinko
- ✓ Develop Pachislot and Pachinko machines that matches the market trends
  - Machines set no. of obtained medals per game at higher range
  - Machines with the technique of player can be reflected for pay-out
  - Effective use of existing major IPs



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In terms of future issues, our first objective is to improve the approval ratio. We are making applications for tests while constantly pursuing improvement through trial and error. However, we have absolutely no intention of compromising the quality of our machines. If we were to compromise at this point and sell mediocre products, we believe they would not be accepted by our fans or pachinko parlors.

We are determined to continue relentlessly pursuing high quality.

With regard to pursuing development aligned with market trends, due to the revisions of regulation, it has become possible to develop pachinko machines with specifications suited to Sammy's fundamental strengths, such as a high probability change continuous rate. In the pachislot business, we are proceeding with developing machines set no. of obtained medals per game at higher range, machines with which the player's technique can be reflected in the payout, and machines that make use of existing IPs. As has been mentioned before, we believe it will be easier to enhance gameplay performance and scope of play with No. 6 model machines compared to No. 5 model machines, and while the payout ratio is approaching two-thirds, we believe there is space for machines that will be accepted by fans, such as pachinko and pachislot machines designed for short-term play.

Unfortunately, the machines that we have sold do not yet include a major hit. However, for our competitors in the field, the machines with the highest utilization and most initial success in the past 10 to 15 years have appeared in No. 6 model machines.

In that sense, other companies are demonstrating what we originally anticipated, which is that fans will accept No. 6 model machines, so we will continue to actively develop these machines going forward.

## Events schedule: Full year (Estimate)

FY 2020/3



※The timing for voluntary replacement control are guesses of SEGA SAMMY HOLDINGS and not yet determined

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This slide is the anticipated schedule relating to voluntary replacement control of machines and the pachislot and pachinko industry for the fiscal year ending Mar 2020.

The G20 summit is imminent, but industry organizations have not yet announced that they will implement full voluntary control.

However, at the prefectural level, some prefectures have announced a voluntary replacement control period, and we estimate that it will be implemented according to the rough schedule shown here.

The Rugby World Cup is held over an extended period of time, and at present, we forecast that implementation of voluntary replacement control during that period is a possibility.

Since the tournament will be held in regions across Japan, we are currently determining the launch timing of products based on various assumptions, such as whether host prefectures will set a voluntary control period of 1 week and whether there will be voluntary control both before and after matches.

With regard to the first quarter of this fiscal year, due to sales of “Pachislot Beast King” carrying over from the previous year and repeat orders for “Pachislot Disc Up” continuing, we are focusing our efforts on maintaining sales of these titles.

# Entertainment Contents Business

SEGA Sammy

## Review of “Road to 2020” (Digital Games area)

Fell significantly below the initial plan due to deterioration of business environment and lack of hit titles

### External Factors

High ranked major titles become unchanging  
Increase of existing IP based titles  
Intensified competition in domestic market

### Internal Factors

Slowdown of existing mainstay titles  
Lack of hit titles  
Delay and suspension of new titles

When reviewing the Entertainment Content Business, our performance may be summed up first and foremost by the lack of a hit in the digital games area.

The factors behind this relating to the market environment include:

- The lack of change in the top-ranked titles
- The increase of IP based titles
- Intensified competition in the domestic market

Internal factors include:

- The decline of existing titles
- The lack of hit titles
- Development delays for new titles and development of several titles being suspended



## Review of “Road to 2020” (Packaged Games area)

Exceeded the initial plan with extension of overseas sales and repeat sales

### External Factors

Expansion of EU, NA, Asia market  
Growth of new platformers such as Steam, etc.

### Internal Factors

Increase in overseas sales ratio for the IPs of Japan studios  
Stable profit base with the IPs of overseas studios  
Improvement of product quality  
(2<sup>nd</sup> in 2018 Major Publisher rank of Metacritic)



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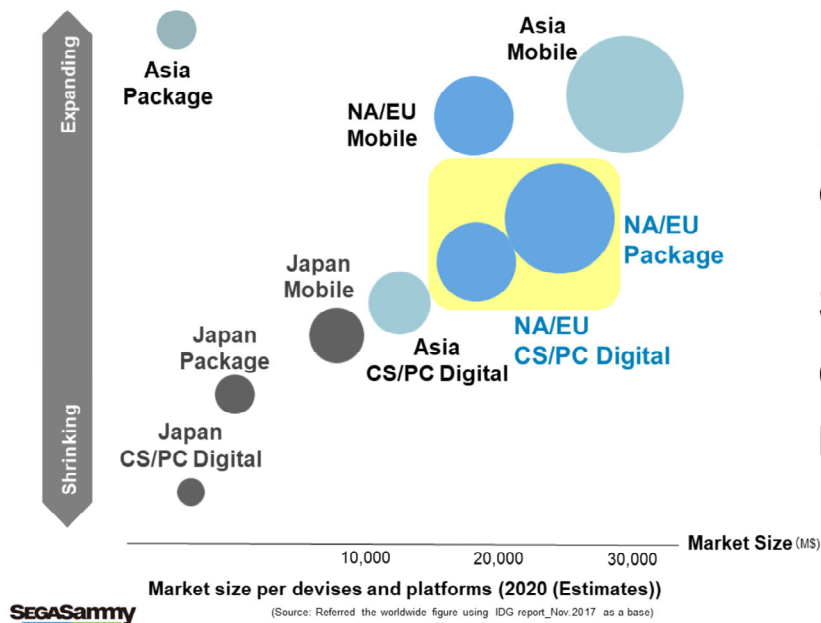
This slide reviews the packaged games area. Overseas sales of console and PC games and global sales of repeat titles have surpassed our expectations, leading to a significant improvement in our income margin in this area.

The European, American, and Asian markets are all expanding, and with the growth of PC platforms such as Steam and the overseas sales ratio increasing for Japanese studios, games made in Japan are being carefully localized, leading to overseas sales performing well.

In addition, games developed by the overseas studios we have acquired to date have become a stable base for profit.

As it was announced earlier that we would like to improve product quality, we have been working hard to achieve this goal, with the result that we ranked second in Metacritic's ranking of game publishers last year, and have maintained a spot in the top 3 for the past 5 years.

## Market Trends (Estimation of market in 2020)



**Expansion of overseas market**

**Stagnation of domestic market**

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In terms of market trends, while there has been talk of Nintendo expanding into China, the packaged games market in Asia is still small, but it is growing extremely fast and there is potential for it to grow significantly in the future.

Packaged games, including PC downloads, remain strong in Europe and America, while free-to-play online games for consoles and online games for PCs are also growing stronger in Europe and America, as well as Asia.

The mobile market in Asia is still expanding.

In countries such as India, while the penetration rate of smartphones themselves is still low, software installations on smartphones are growing by the hundreds of millions.

## Reconsider focusing area

**Focus our resources to the areas where we can make best use of strength of the Company within favorable overseas market**

When announced  
Road to 2020

		Japan	Asia	NA/EU /Others
Japan Studios	Packaged Games			
	CS/PC Digital Games			
	Mobile Games Digital Games	●	●	●
Overseas Studios	Packaged Games			
	CS/PC Digital Games			
	Mobile Games Digital Games			

From 2020/3

		Japan	Asia	NA/EU /Others
Japan Studios	Packaged Games		●	●
	CS/PC Digital Games			
	Mobile Games Digital Games	●	●	●
Overseas Studios	Packaged Games		●	●
	CS/PC Digital Games			●
	Mobile Games Digital Games			

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When we announced the “Road to 2020” two years ago, we forecast that we would achieve significant growth if we could produce a hit in the mobile games area, which was the fastest-growing area of the market. We therefore focused our investment in this area, but at present, we have not managed to produce a hit, and we have consequently proceeded to reallocate our resources.

As I just discussed, in Asia, Europe, and North America, the console game and PC download game areas, including the likes of Steam, are still performing extremely well. We will therefore invest further in exporting Japanese games to these markets and ensuring steady sales of games made in Europe and North America in other regions.

When it comes to mobile games, we intend to establish a framework for global expansion by building up our existing titles and continuing to work steadfastly on titles that are currently in development until they are ready.

In addition, we have now begun making preparations to develop online games such as PC console games for Europe and North America, which is an area that we have not yet tackled.

## Measures to recover Digital Games area

### Adjust the number of titles to develop and operate

- ✓ Narrow down the number of new titles to develop
- ✓ Adjust the number of titles under direct operation
- ✓ Line-up centered on existing IP titles

### Reallocation of resources

- ✓ Invest the resources to focusing area such as overseas package and etc.
- ✓ Proceed the transferring of outsourced work of existing title to insource



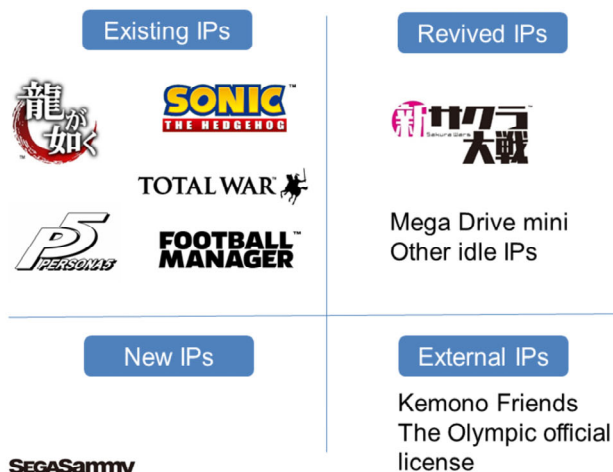
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In terms of measures to improve the digital games area, we will carefully narrow down the number of new titles to be developed, optimize the number of titles under our direct operation, outsource those parts of our operations that may be entrusted to others so that we can open up our development lines, and reallocate resources with the aim of pursuing insourcing the work we are outsourcing with existing titles.

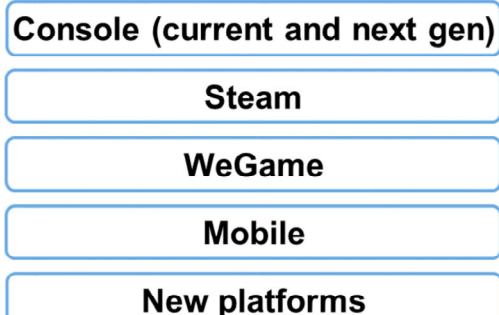
## Maximizing IP values

Multi region, device and platform roll-out making best use of characteristics of IPs

### Plentiful IPs



### Platforms



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We have spoken in the past about our 4 IP strategies, and we continue to steadily invest in each of these.

That includes investing in “Sonic the Hedgehog”, the “Total War” series, “Football Manager,” “Ryu ga Gotoku,” and other IPs while revival IPs such as “Shin Sakura Wars” and “Mega Drive Mini” continue to delight past fans and attract new ones.

That does not mean that we have abandoned new IPs, however. We are steadily pushing ahead with producing new IPs for release across all platforms.

What’s more, the development of titles using external IPs, which was previously Sega’s biggest weakness, has recently become a profit source.

The arcade version of “Fate/Grand Order Arcade” is performing strongly, and we have announced the launch of “Kemono Friends 3 Planet Tours.” We will also release “the Official Video Games of the Olympic Games Tokyo 2020” on the market this fiscal year.

Releasing those contents on a wide range of platforms around the world is a key strategy for us.

With 5G approaching and more and more new platforms being launched, we are shifting to an approach that will enable us to supply our products across a wide range of platforms.

# Resort Business

SEGA Sammy

## Past initiatives for Resort Business up to the present

### Preparation for domestic IP participation



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In the resort business, we are continuing our preparations for domestic Integrated Resort participation.

This slide reviews the progress of this business to date. In March 2012, we acquired Phoenix Resort. In May that year, we established Paradise Segasammy, with a 45% stake in the existing Paradise casino, then began dispatching our staff there. In April 2017, we opened Paradise City, which celebrated its 2nd anniversary last week.

Besides this, we also acquired a license to sell gaming machines in Nevada and made steady progress on preparations to enter the domestic IR market.

In terms of the future schedule for domestic IR entry, we are supposing whether it will be possible to make public announcements regarding a consortium and other details this year. We are pursuing our preparations based on the assumption that RFP presentation will begin in various regions, and the certification for each regions will be given in 2020 if things go smoothly.

We expect that costs to create RFP will be incurred this fiscal year. We are currently moving forward based on the assumption that once an operator has been selected, matters will be settled between late 2020, if government authorization is obtained rapidly, to the beginning of 2022.

I touched on the numbers for Phoenix Seagaia earlier. For the first time in a number of years, the resort reached sales of 10 billion yen, and the extent of its losses has also decreased. The only area that still requires major investment is the casino machine business. Other than this, all areas are now performing well.

As I explained at the start, if we can successfully obtain approvals and launch new titles in the pachinko and pachislot business, and if we can generate stable income in the digital games area by establishing a framework for generating income even without a major hit now that our restructuring is complete, we believe that we will achieve successful results this fiscal year.





<https://www.segasammy.co.jp/english/>

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<https://www.segasammy.co.jp/english/ir/stock/regulation/>

Please visit below websites for products and service information.

<https://www.segasammy.co.jp/english/pr/corp/group/list.html>  
(SegaSammy Group Website list)

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