

## Q3 Results for Fiscal Year ending March 2022

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

February 16, 2022

SEGA SAMMY HOLDINGS INC.

IR/SR Department, Corporate Planning Division

(All contents here are the translation of Japanese materials)

■ Date: Thursday, February 10, 2022, 13:00-

■ Respondents:

Koichi Fukazawa (Senior Executive Vice President and Group CFO, Director of the Board of SEGA SAMMY HOLDINGS INC.)

Makoto Takahashi (Senior Vice President, Executive Officer, Managing Director of Corporate Planning Division)

\*This document is a summary of the major questions and answers.

#### **Consolidated**

Q: Please tell us why Q4 forecast is a loss of 1.6 billion yen.

A: Pachislot and Pachinko Machines Business is expected to generate profit, but it is usually difficult for the Entertainment Contents Business to generate profit in Q4 due to its structure. The reason for this is that sales will decrease compared to Q3 because it is after holiday shopping season, in addition, we expect to book expenses at the end of the fiscal year, such as incentives and expenses associated with the evaluation of the asset quality of development costs, and earn out of previously acquired studios. In addition, Resort Business's losses have been large due to the impact of COVID-19.

#### **Entertainment Contents Business (Consumer area)**

Q: The reason you lowered the unit sales forecast of the Full Game's repeat sales is that the year-end sale wasn't that strong?

A: Not only for games, the market scale of Black Friday this year as a whole was smaller compared to the previous year. The main reason why we lowered the unit sales forecast is that the Q3 results was lower than expected because of such market environment.

Q: Is the lower-than-expected performance on Black Friday linked to the harsh sales of hardware due to the shortage of semiconductors? Or was it simply that the consumer game market was tough?

A: We do not believe that repeat sales have been significantly affected by sales status of new platforms. As mentioned earlier, not only for game, but the market as a whole wasn't strong in Black Friday this year compared to previous year. In light of this, I have the impression that the purchase timing of games is also leveling out throughout the year rather than buying them in bulk in a specific season, such as Black Friday.

Q: How do you evaluate the current status of "PHANTASY STAR ONLINE 2 NEW GENESIS" after implemented the large-scale update?

A: The DAU and MAU rose after the implementation of update, but they have not reached the level we expected. We will continue to implement measures such as updates as needed in the future.

Q: What are the factors behind the significant growth in "Other" sales in Q3 results compared to the past?

A: 3<sup>rd</sup> Party distribution sales, including those oversea, has been strong, and titles such as "Demon Slayer" are growing in particular. Sales are continuing to expand at the moment, and we think this will continue to contribute to profits.

Q: How much are the licensing and royalty revenues included in the Q3 results and full-year forecast?

A: Revenues mainly associated with licensing out are around 1.0 billion yen in both Q3 and Q4.

Q: Is there any write-down of content?

A: We didn't recorded write-down in Q3, but we expect that it will be around 1.4 billion yen in Q4.

Q: With the intensification of competition for content acquisition by platformers, game companies seem to be in an environment in which licensing and other revenues are easily generated, but will it continue from the next fiscal year onwards?

A: While it is difficult to accurately estimate the timing and scale of occurrences in advance, we assume that the trend will continue to some extent from the next fiscal year onwards.

Q: Various announcements have been made by each company regarding Metaverse, blockchain, NFT, etc. What are your thoughts on this?

A: I think there are various interpretations about Metaverse, but as a game publisher, first of all, we think that the starting point for us is to provide a game that can be appreciated by users, and to make a lot of user pools. In terms of future look and feel of the game, we are aiming to create communities that include not only game players, but also non-game participants, such as the viewers, and thereby increase the pool size. As for NFT, we feel the potential in the future, and we are proceeding the studies about it, including potential adoption to business in mind. We will continue to consider it with awareness of the business models that will be accepted by users, and social issues such as environmental impact, etc.

Q: Is there anything you can talk about as a strategic option in your exploration of alliance with Microsoft?

A: At this point, we are not yet able to talk about any specific initiatives regarding the exploration of alliance with Microsoft.

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

Q: Regarding the procurement of components, you have mentioned that you can manage them in Q4. With the market condition for Pachislot and Pachinko Machines Business is improving, how far can you respond if demand expands in the next fiscal year?

A: We anticipate that semiconductor shortages and logistics disruptions, etc. will still continue in next fiscal year onward, and there is a possibility that the price pass-through for components will proceed, so we will continue to formulate a sales plan while closely monitoring the status.

Q: Please look back on “P Hokuto No Ken 9 Tousein”, including its’ utilization.

A: “P Hokuto No Ken 9 Tousein” has sold more than 30,000 units, and it has sold to a certain extent as unit sales. We think utilization status is also maintained to some extent, but we will continue to work to improve the utilization share.

Q: Regarding pachislot, I recognize that there was a change in voluntary regulation in December. When will products compliant to this regulation be launched?

A: The regulation is moving forward to the direction of relaxation, and we are pursuing development in line with this, but at this point we will refrain from mentioning the specific timing of launch.

Q: What are your thoughts on the market condition of Pachislot and Pachinko Machines Business?

A: Pachinko halls tend to carefully select and purchase products with potential of high utilization. As a manufacturer, we think it is crucial to launch products that can increase utilization going forward.

Q: Regarding Pachislot and Pachinko Machines Business, in the full-year results presentation of FY2021/3, you have announced 520 thousand units for pachislot and 1,000 thousand units for pachinko as full-year unit sales forecast of the whole market for FY2022/3. How was it actually? Also, what are the market forecasts for FY2023/3?

A: The calculations are for January to December, but we think the actual result of unit sales for 2021 were about 600 thousand units for pachislot and 1,100 thousand units for pachinko. In 2022, if the favourable effects from relaxation of regulation are not accounted for, it is projected to decrease by about 10 to 20%, respectively.

Q: You have mentioned that the unit sales of pachislot and pachinko for the whole market will decline in FY2023/3 compared to FY2022/3, but you have set a target of expanding sales shares. Does this mean you are expecting increase in sales in the next fiscal year?

A: At this point, we will refrain from mentioning about our plan for next fiscal year. We believe it is our first priority to continue to provide products that satisfy our customers.

Q: Regarding Pachislot and Pachinko Machines Business, sales per unit are high in Q3 results. What are the factors?

A: Due to increase in costs due to shortage of components, the selling price of titles sold in Q3 has risen.

Q: Please tell us about the market’s response and your thinking about the 6.5 model pachislot machine as a result of relaxation of regulation.

A: We will refrain from commenting on the details of the relaxation of regulation, but we do not think that the popularity of recent pachislot titles is depending on which standards it was developed in. 6.2 model "Pachislot Aladdin A Classic", which was launched in January, is continuing to record a certain level of utilization, so we believe that launching products that satisfy our customers is crucial. With regard to future deregulation, etc., we will continue to develop products that satisfy our customers in accordance with the environment at that time.

Q: In Q3, there were companies whose semiconductor availability had worsened, but it has improved in your company. What is the difference? Was the plan conservative?

A: When we announced the revised full-year forecast in November, the condition of procurement was not clear because procurement of not only semiconductors, but many types of components were very hard. Subsequently, as a result of efforts by the divisions involved in procurement, the condition of component procurement has been improved. As the environment is still not optimistic, it is necessary to continue to respond cautiously.

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