

## Q1 Results for Fiscal Year Ending March 2023

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

August 12, 2022

SEGA SAMMY HOLDINGS INC.

IR/SR Department, Corporate Planning Division

■ Date: Thursday, August 4, 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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### **Consolidated**

Q: I would like to ask why the number of deficit in Other / Eliminations is increasing in YoY.

A: In Q1 of this fiscal year, in addition to expenses returning as economic activity is normalizing, there has been an increase in the part where the Group is making group-wide efforts to reform, such as investment in education of human resources.

### **Entertainment Contents Business**

Q: Please explain the reason behind the operating margin of Q1 results are lower than recent trend.

A: The reason behind is that while F2P titles, which operating margin is relatively low, performed strongly and boosted sales, the proportion of repeat sales of full games, which have higher profit margins, was lower.

Q: What was the background to the fact that repeat sales were weaker than expected?

A: We believe that as the overall trend in the global game market, the impact of COVID-19, which stimulated stay-at-home demand, has stabilized, resulting in change of consuming behavior. In addition, repeat sales

of semi-new titles released in the previous fiscal year, which we had higher expectation in the current fiscal year's plan, trended weakly. We intend to rebuild these semi-new titles through version upgrades and expand the user base to increase additional DLCs and repeat sales.

\*DLC = Downloaded content

Q: Regarding repeat sales, what do you think of the current trend when comparing only with the old titles, which excluding semi new titles?

A: Although there was a slight decline when compared to the same quarter in previous fiscal year, where the impact of stay-at-home demand remained, the decline was not that great on a base level.

Q: I would like to hear your thoughts on the pricing strategy in order to increase repeat sales.

A: Essentially, our policy is to firmly develop high-quality titles and to sell them while maintaining fair prices. We do not consider lowering prices just in order to sell the number.

Q: Regarding repeat sales, compared to recent trend, the market is in a downtrend, and I think this situation will continue for some time. Is there any plan to revise the full-year forecast in response to this?

A: We do not plan to change the current forecast at this point as we plan to rebuild semi-new titles, which repeat sales have been falling short of expectation. Q1 results is below the forecast, and it is true that the market environment is also becoming more severe than we expected at the time we estimated the forecast. However, we recognize that the global video game market remains unchanged from its basic growth trend, and we think it is necessary to closely monitor the situation not only for repeat sales but also for new titles that will be launched at an accelerated pace from the second quarter onward.

Q: What are your thoughts on the relation between movies and the number of game sales while global box office revenues for "Sonic the Hedgehog 2" movie has been strong?

A: We have high expectation for "SONIC FRONTIERS", the mainstay title that is scheduled to be launched this winter. In the previous film, repeat sales of Sonic titles grew and Sonic's licensing business was also positively affected after the film was released. The same effect is expected in the film this time, which has become a bigger hit than the previous one, and while aiming to expand the reach of Sonic IP, we also want to aim for the upside for the new title.

Q: When looking at user reviews, there seem to be various opinions regarding "SONIC FRONTIERS". Is there a possibility that you will consider postponing the launch, etc. in order to improve it in response to such feedbacks?

A: We do not consider postponing the launch at this point. Within the communication with users, we intend to reflect the parts that can be reflected within the development timeline and to build empathy with users. Sonic IP is a mainstay title we will sell over the long term in the future, and we will continue to strengthen it in the next fiscal year onwards as well.

Q: What are the reasons why “HATSUNE MIKU: COLORFUL STAGE!” has remained strong?

A: It is particularly popular among people in their 10's to 20's, and it has become widely popular among the network of friends. Following the first anniversary event held last year, we have been able to further expand its user base.

Q: Can we understand that there are no temporary impairments or royalty income in Q1 results?

A: There is nothing to note in Q1 results.

Q: You explained that the impact of foreign exchange pushed up operating income by 0.8 billion yen compared to the forecast. If this had not been the occurred, I guess earnings level would have fallen short of the forecast.

A: We consider Q1 results is within the scope of our expectations. Although there was a positive impact on earnings from foreign exchange, we have been able to controll our expenses at certain extent and some titles slipped back their sales schedules.

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

Q: While the reputation of halls regarding No. 6.5 models is considerably high, I recognize that parts procurement is not catching up. How do you think about this?

A: Regarding parts procurement, if unit sales is as planned, we have an outlook until the end of the year. With regard to No. 6.5 models, we recognize that both pachinko halls and users are pleased because its utilization is high. There is a possibility that we will not be able to procure parts in time, if the possibility of resale emerges in titles such as “Pachislot Kabaneri of the Iron Fortress”, which is currently performing well.

Q: In the results presentation in May, you announced an annual unit sales forecast of 420 thousand units in pachislot and 820 thousand units in pachinko for the entire marketplace in fiscal year ending March 2023. The forecast was more conservative than that of other companies, but is the forecast revised due to the recent strong performance of No. 6.5 model's utilization? If not revised, is the parts procurement risk a factor?

A: In response to the current high evaluation, we would also like to boost the market centered on No. 6.5 models and smart pachislot. However, as you have pointed out, there remains uncertainty about the procurement of components, etc..

Q: I recognize that the introduction of smart machine was originally scheduled to begin in the spring of 2022. In the future, is there any possibility or further delay in the timing of introduction?

A: The impact of COVID-19 was significant, and deadline for removal of previous regulation machines was also postponed by about one year. However, as for Smart Pachislot, it is scheduled to be introduced from November 2022, and the gameplay will be wider than No. 6.5 models, which is performing strongly, so we believe that the penetration to pachinko halls will proceed quickly to some extent.

Q: For smart pachinko, the jackpot probability is relaxed from less than 1/320 to less than 1/350, but does this mean the aspect of gambling will increase?

A: Regarding the relaxation of the jackpot probability, it is a relaxation which brings variation to the wave of payout. The same applies to the new specification Time Reduction C, which is under consideration in the Smart Pachinko, and both are reviews that will contribute to expanding the range of gameplay.

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