

Q3 Result for the Fiscal Year ending March, 2023

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

February 21, 2023

SEGA SAMMY HOLDINGS INC.

IR/SR Department, Corporate Planning Division

■ Date and time: Thursday, February 9, 2023, 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: While the Metascore for "Sonic Frontiers" was not as high as expected, I recognize that user evaluations are high. How do you evaluate the quality of this title?

A: Although it is true that the Metascore was slightly lower than expected, we believe that we were able to release titles that have been accepted by many people around the world, as the evaluation of users are extremely high. As we are also planning to release additional DLC that we announced recently in stages, we expect that it will continue to build up repeat sales. In addition to "Sonic Prime" in Netflix, which started streaming in December, we plan to further expand Sonic IP in the future, including the development of the third movie and merchandising.

Q: While you put "Sonic Frontiers" on the temporary sale (discount), I recognize that the average unit price has not declined as much. Please tell us about the sale results and future sales strategies.

A: This title is being sold based on a strategic sales plan and we implemented intensive promotions around the launch timing of November 8. As a result, we believe that we are able to achieve good results so far, as we announced recently. From the standpoint of selling prices, as initially planned, we temporarily put

the title on sale on Black Friday, but subsequently returned the selling prices and have been able to achieve this level of performance while maintaining certain price level. Unit sales has greatly exceeded its initial full-year plan, and we recognize that this is a title that will continue to be sold over the long term based on its sales strategy, which includes pricing, promotions, and the development of free DLC.

Q: Following the strong performance of "Sonic Frontiers" and other global titles, I think you will focus more on Consumer area in the future. I would like to know your thoughts on the level of R&D expenses.

A: R&D expenses of Consumer area is expected to increase even larger in the future. With regard to the development of mainstay titles using existing IP, we will work to ensure solid quality with the existing R&D expenses plus α . However, due to the impact of the global external environment, development personnel costs are trending upward, and we believe this trend will continue for the time being. In addition, for major titles centered on Super Game, it is necessary to take on a firm challenge, so development is being carried out at certain cost, even from the basic research stage. Therefore, we assume that R&D expenses of such new titles will increase correspondingly in the future.

Q: While domestic download numbers of "Project SEKAI COLORFUL STAGE! feat. Hatsune Miku" is quite big, its contribution to earnings seems insufficient for that. What do you think about this? I would also like to ask about the overseas status of this title.

A: The sales of the "Project SEKAI COLORFUL STAGE! feat. Hatsune Miku" are described in "Titles released in FY2021/3 " on page 16 of the presentation material, and as you can see here, the level of sales have been increasing from Q3 in the previous fiscal year. Regarding your point, since this title continues to be ranked first in sales among our F2P titles, we do not believe that monetization itself is an issue. Although overseas expansion has grown steadily to this point, but we feel some unsatisfactory and recognize there is room for growth in the future. In Japan, the customer base for "Project SEKAI COLORFUL STAGE! feat. Hatsune Miku" is centered on junior high school students, and from this perspective, we think monetization could be limited partially. However, given that it is reaching out to the younger generation and is being played by a large number of people, we believe that it is a title that can be expected to make further progress in the future.

Q: Regarding the domestic F2P of Consumer area, I think the market environment has been getting tougher recently, and I would like to know the policies you envision for the next fiscal year and beyond.

A: For F2P business, investments in smartphone games for the domestic market in particular, will be lower than before. We intend to narrow down the launch of new titles and focus on maintaining and improving the level of profitability of existing mainstay titles.

Q: For "Others" category of Consumer area, sales of Q3 increased significantly compared to the first half of the fiscal year, and the full year plan has also been revised. I recognize that the licensing revenue is included here, but what is the amount of impact in Q3?

A: The most significant factor for the change in the "Others" category is the impact of foreign exchange rates. Licensing revenues, mainly from Sonic, also increased significantly compared to the previous year.

Q: Compared to Q3, Q4 profit is expected to fall by about the same amount as sales. Please tell us why profits are expected to decline so much.

A: In Q3, "Sonic Frontiers" and "Persona 5 Royal (Remaster)" in Full Game performed strongly and profit margin was very high. In contrast, in terms of profit margin, it is significant that the up-front costs associated with titles scheduled for release at the end of the fiscal year will be recorded. We also expect to record expenses related to the review of titles under development at the end of the fiscal year. Although the actual amount of expenses to be recorded needs to be closely examined, a certain amount has been incorporated in the revised plan.

Q: Considering the content of the forecast for the current fiscal year and the current market environment, we assume that there may be a great deal of uncertainty regarding the next fiscal year. How are you going to extend the repeat sales in the next fiscal year, and what is the status of new titles?

A: Since there were many new titles in the previous fiscal year, we forecasted the repeat sales figures strongly in this fiscal year's plan, and the situation that it didn't reach the plan has been continued. On the other hand, even though the market environment is not very favorable, the level of repeat sales has been maintained at the same level as the previous fiscal year, and given that the titles performed well in this fiscal year, such as "Sonic Frontiers", will be counted as repeat sales in the next fiscal year, we believe that to some extent the outlook is good. Naturally, sales strategies, including pricing strategies, are also under consideration. For new titles, in addition to "Like a Dragon" series and "HYENAS", we have some titles slipped from this fiscal year, so please look forward for them, including the line-ups to be announced in the future.

Pachislot and Pachinko Machines Business

Q: I think smart pachislot is accepted by users. Is this because the range of gameplay is wider than No. 6.5 models, etc.?

A: We recognize that No. 6.5 models are also attractive because our "Pachislot Kabaneri of the Iron Fortress" maintains a high-level utilization. We think that "Smart Pachislot Hokuto No Ken", which is scheduled to be introduced in April, is receiving a strong interest not only because it is a smart pachislot, but also because it follows "Pachislot Hokuto No Ken".

Q: Although there is an initial cost for the introduction of smart machine, is it fine to recognize that the lower operating cost by introducing them leads to higher business efficiency of pachinko halls? Will changes occur in operators and form of pachinko hall?

A: As per your understanding, when machines installed in the pachinko halls become centered on smart machines, we recognize that it will lead to reduction of costs such as capital investment and personnel expense. We recognize that the opening of small-scale pachinko hall that has installed only smart machines has already begun, and we believe that the opening of these pachinko halls will accelerate in the future. While it is assumed that such efforts will be made mainly by major pachinko hall operators in the early stage, if successful examples of such efforts appear, they may lead to new entry of operators into

the industry.

Q: If the number of pachinko halls decline due to the introduction of smart machines, won't it lead to a decline in sales in the future?

A: Although it cannot be said that the introduction of smart machines will lead to a decrease in the number of pachinko halls, it is true that additional investment will be needed when installing smart machines, such as the installation of dedicated units. On the other hand, there are significant advantages in opening new pachinko hall with smart machines only, such as lower initial costs compared to existing halls, etc.

Q: Regarding smart pachislot, will unit sales price and profit amount per unit increase?

A: We think that the basic pricing and cost levels of smart pachislot are not much different from those of No. 6.5 models. On the other hand, the discount will be reduced in the event that the title is sold additionally with a high reputation in the marketplace, such as our No. 6.5 model "Pachislot Kabaneri of the Iron Fortress," so the unit price may become higher as a result.

Q: Are dormant pachislot players returning due to launch of No. 6.5 model and smart pachislot? Or are the players who have shifted to pachinko coming back?

A: Although the number of users as a whole is continuing to decline, the emergence of No. 6.5 model has given the sense that the former pachislot fans are returning. We hope that the launch of "Smart Pachislot Hokuto No Ken", which follows "Pachislot Hokuto No Ken", which has recorded sales of 620,000 units in the past, will bring past fans back. We are also planning a sales strategy with this in mind, and is intending to attract more pachislot fans once again. Although there may be some inflows of pachinko players, utilization of pachinko is also very good, so we are trying to bring back old fans or increase new fans as a whole industry.

Q: Regarding the sales of "Smart Pachislot Hokuto No Ken", I think there are issues in terms of the procurement of parts and a shortage of dedicated units for smart machine. How much units are you able to prepare?

A: We recognize that the procurement of parts is the main issue. We refrain from answering the specific number of units, but recognize that this title is attracting considerable interest, and we are making efforts to procure parts so that we can meet demand.

Q: Given the recent strong market trend, I would like to ask you about your perspective on unit sales from the next fiscal year onward. You plan to sell 90,000 units in pachislot and 100,000 units in pachinko this fiscal year, but how far do you think it will grow?

A: The market environment for the next fiscal year is expected to be better than this fiscal year. The recent unit sales are on an uptrend, so we think the market as a whole seems to have bottomed out. For pachislot machines, No. 6.5 model and smart pachislot installations account for about 25% of number of installed pachislot units in the market, so there is still considerable room for market penetration. Also,

smart pachinko will come out soon, so we think this good trend will continue.

Average unit sales of pachinko machines we have sold in this fiscal year is over 10,000 units per title, and for pachislot machines, “Pachislot Kabaneri of the Iron Fortress” has received orders of more than 30,000 units, so we think expectations for our title are becoming higher. Although issue of parts procurement remains, “Smart Pachislot Hokuto No Ken” and other titles will come out in the next fiscal year, so we are thinking positively about our unit sales forecast for the next fiscal year.

Q: I think the initial number of pachislot machines shipped is considerably less than in the past, and the form of additional sales when they become popular is becoming the norm. Will there be any change in this trend in the future?

A: The flow from initial shipment to additional sales varies considerably from title to title. With regard to titles that are highly popular and could become the mainstay of pachinko halls, we are able to receive orders firmly even at the initial shipment stage. On the other hand, titles such as “Pachislot Kabaneri of the Iron Fortress” have become popular after installation in the pachinko halls, and become a mainstay title. In order to respond to both large initial shipments and additional sales, it is important to have the ability to procure parts, so we would like to increase our ability of procurement.

Q: Will fixed expenses of Pachislot and Pachinko Machines business remain at a low level in the future?

A: Regarding fixed expenses, we are maintaining a reduction of about 15% per year compared to the level prior to structural reform. In this fiscal year, additional sales of “Pachislot Kabaneri of the Iron Fortress” and other titles are strong, leading to a reduction in sales promotion expenses and other costs. In Q4 of this fiscal year, we expect a portion of advertising expenses for “Smart Pachislot Hokuto No Ken”, which is scheduled to be released in April, to be incurred.

Q: What do you think will about the regulations in the pachislot and pachinko machine industry in the future?

A: At present, we have not heard about future regulatory revisions, but since regulatory revisions have taken place once every few years, we will respond to them and launch good titles.

Resort Business

Q: How long do you think the recovery trend in PARADISE SEGASAMMY will continue?

A: Since June, travel restriction between South Korea and Japan has been relaxed, and casino sales have been strong centered on Japanese VIP customers. As a result, profit recovered significantly in the recent quarter (October to December). This is due not only to recovery of sales, but also to the fact that the business structure became more robust compared to before COVID-19, due to the review of cost structure during COVID-19. PARADISE CITY has established a position as one of the top-class casinos and hotels in South Korea. We believe that we can expect continuous growth, considering the recovery of the Chinese market and synergies associated with constructing IR facilities in the vicinity in the future.

Consolidation / Others

Q: Regarding the investments in human resources, what are your thoughts on the impact on personnel expenses and R&D expenses from the next fiscal year onward?

A: We believe personnel expenses are expected to increase as we need to consider the rise of labor cost overseas and retention measures in addition to the continuous enhancement of new graduates and mid-career recruitment in order to reinforce our development resource, etc, and enrichment of education and training. We are also considering ways to improve the treatment of human resources in order to respond to inflation and strengthen competitiveness.

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