

Major Questions Regarding the 2Q Financial Results for the Fiscal Year Ending March 2019

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SEGA SAMMY HOLDINGS INC.

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■ Pachislot and Pachinko Machines

Q: Two titles for Pachislot New-Type (No. 6) have passed the test and we believe that titles will be launched in the near future, but it appears issues remain for the second half of this fiscal year against the full-year forecast. Will you be able to achieve the full-year unit sales target with the existing pipeline? Will it be difficult without any further approval of No. 6 machines?

A: We plan for full-year unit sales of 103,000, but just achieved less than 13,000 units in the first half of this fiscal year. We assume around 10,000 to 20,000 units from “Pachislot CHAIN CHRONICLE,” and other existing titles (repeat title of “Pachislot DISC UP”), etc. will be sold in 3Q, and in reality, we hope to receive approval of one or so titles for No. 6 machines to make up for the remaining 70,000 units. However, as “Pachislot DISC UP” with a high margin of income continues to be sold, we expect profit can still be realized even if the full-year unit sales are not achieved. We would also like to look into trends including that of “Pachislot SOUTEN-NO-KEN PONYOU”.

Q: I believe the status of Pachislot is improving through progress in the approval of No. 6 machines, etc. However, as for Pachinko, we’ve heard that unit sales of “Pachinko CR Shin Hokuto Musou Chapter 2” launched in the first half of this fiscal year are below the initial assumption. What are your thoughts on Pachinko in the second half of this fiscal year and the next fiscal year?

A: Pachinko with settings approved under new regulations has received certain evaluation. We expect that a hit title may emerge if titles compatible with the revised voluntary regulations, in addition to settings, are approved. There is a possibility that titles compatible with the voluntary regulations are launched during this fiscal year, but we basically would like to sell titles centering on those conforming to previous regulations while preparing to launch titles conforming to the new regulations.

Q: I've heard utilization of No. 6 machine of other company is favorable, but is this not attributable to the limited number of titles on the market? Do you believe utilization will remain favorable even if the number of installed No. 6 machines increases across the market? Will the market environment for pachinko and pachislot halls improve in the future?

A: The degree of expectation from the market was extremely low when No. 5 machines initially appeared and there were no successful titles for a year since the launch. On the other hand, we feel that expectations from the current market differ significantly from those in the past. We believe the emergence of a hit title from the first machines complying with the new regulations can be considered as the acceptance of improved gameplay due to revision of regulations from market as assumed. Therefore, we expect there will be an improvement in the market environment from the time when No. 5 machines were used once all machines become No. 6 machines.

Q: What are your plans in setting the sales price of No. 6 machines?

A: We don't intend to change the sales price significantly for No. 6 machines, but we are putting effort into the machine cabinet for "Pachislot SOUTEN-NO-KEN PONYOU", which will use the first ZEEG-made machine cabinet. On the other hand, as we also sell machines without liquid crystal such as "Pachislot DISC UP," we intend to conduct well-modulated price setting.

■Entertainment Contents Business

Q: The digital game titles launched in the first half of this fiscal year failed to produce results. How do you analyze this outcome?

A: While "BORDER BREAK" (PS4) and "SEGA Pocket Club Manager" were favorable among the titles launched in the first half of this fiscal year, some titles fell below the assumption. As "SHIN MEGAMI TENSEI Liberation Dx2" also fell below the assumption, declination of existing titles was also seen. Sales of "kotodaman" fell below the assumption as we don't urge for in-game charge due to a large number of child users, but we would like to improve the earnings from the service as it has many users and is very popular. In addition, the results of the digital game area were impacted by the write-down in titles which have already been launched and cancellation of some titles. Although there are fluctuations of the trend in the market, we do not believe the current market will change abruptly as titles recently released by other companies that operating under the existing charge system are performing favorably. We would like to make up for the loss with steady sales of "Readyyy!" targeting women, titles using existing IPs, and new titles such as "Revolve8" and "WONDER GRAVITY" announced the other day.

Q: The goal of achieving operating income of 9 billion yen in the digital game area in the current fiscal year suited the strengths of the business three years ago, but such a goal now seems slightly difficult to achieve as sales since then have maintained a downward trend. In what interval do you plan to review the business plan?

A: We have yet to review the plan as there is a possibility revenue may fluctuate significantly depending on the presence of successful titles and favorable pre-registration for titles in the second half of this fiscal year. As for our plans for the entertainment contents business in the next fiscal year and the fiscal year after that, we are looking at a further shift in organization from focus on devices to focus on IPs. By managing our lineups based on IP, we aim to create an organization that can conduct business by considering further optimization of when to launch and on what device in order to gain revenue.

Q: I believe business results are supported by repeat titles of packaged games, and while it is difficult to forecast the future of digital games, the degree of coverage by repeat titles will have a large impact. Do you have any strategy for increasing repeat sales? Is it possible to continue increasing sales of repeat titles?

A: As for repeat titles, they are in an unexpectedly favorable condition. We believe that such trend will continue as repeat titles are doing favorably around the world as digital distribution of titles for game consoles has become easier and installment of game consoles itself is increasing. In addition, while we believe the increase in repeat sales beyond the forecast is partly due to the conservative forecast made in the planning phase, efforts such as conducting discounts for repeat orders, increasing media exposure at events, and establishment of a favorable partner relationship with Steam also helps strong performance for repeat sales. Furthermore, it will become easier to determine the increase in investments for quality improvement if sales of repeat titles with a high margin of income become strong, and as new titles are released, our lineups for repeat sales grow more abundant.

Q: We heard that "BORDER BREAK" (PS4), a new title launched in the first half of this fiscal year, is selling favorably. However, what is the current status of MAU and monetization from customers? Are you planning to implement overseas expansion in the future?

A: Although it is a title exclusively for digital games, sales of packaged version with bonus contents also performed strongly. We don't announce the detailed figures such as MAU, but MAU is approaching the original arcade games. A gathering of core fans is seen rather than a large number of MAU, so stable income is expected. As for overseas expansion, we would like to carefully consider it if the conditions for overseas sales including server development are satisfied as the genre of the title is popular there as well.

■Resort Business

Q: When will you be able to talk about your concrete plans for domestic IR business?

A: We assume that the public offering of operators from local government will commence in 2019 at the earliest and in 2020 at the latest, we would like to prepare for formulating plans in line with such timing so we can announce our plans including partners.

Q: I believe that the successful marketing in Japan is supporting business of PARADISE CITY. What do you think about the future of this business including the relationship with Paradise Group, the partner?

A: Basically, we don't intend to change the framework. If it becomes a big success, we believe that expansion of PARADISE CITY into different regions is a possibility. As for domestic IR (integrated resort), we would like to find the most appropriate partner including other collaborative operators as the partnership with PARADISE Group has not been decided.

■Other

Q: As for the relocation expenses of the headquarters, we heard before that there will be no incurrence of one-off relocation expenses in the next fiscal year. However, as recognition of relocation expenses as assets is progressing far more than the assumption as explained, I guess the incurrence of expenses in this this fiscal year and the next fiscal year may have changed from the original plan. Can you explain how it affects to the next fiscal year?

A: Approximately 11 billion yen will be recognized as assets in total. As the average service life is about 13 years, depreciation for the next fiscal year onwards will be around 0.8 to 0.9 billion yen. In the plan for this fiscal year, 7.5 billion yen was scheduled to be recorded as expenses, but approximately 1.3 billion yen of this amount was recognized as assets. Such change is expected to cause an increase in depreciation by about 0.1 billion yen per year from the next fiscal year onward.