

3Q Results for the Fiscal Year ending Mar 2020

Major Questions in Telephone Conference Briefing about Results for Analysts and Institutional Investors

February 25, 2020

SEGA SAMMY HOLDINGS INC.

(Translation)

- Date and Time: February 5, 2020 (Tue) 13:00- (JST)
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Pachislot and Pachinko Machines Business

Q: We'd like to hear the approval status for Pachislot and Pachinko machines.

A: After the revision of rules in February 2018, approval rate continued to be sluggish, particularly in pachislot machines, but it is gradually improving. Recently, it has improved to around the mid 20% range, and several titles of SEGA SAMMY have also been approved.

Q: It seems several titles have been approved, but is it fair to understand that the timing of the launch changed to the next fiscal year in order to maximize profits considering the demand side?

A: In light of market trends, including these aspects, as a result of assessing whether the appropriate sales timing will be in this and next fiscal years, some titles have been carried over to the next fiscal year.

Q: I think there has been a review of voluntary regulation in Pachislot and a changes to the interpretation of regulation in Pachinko, but are all Pachislot and Pachinko machines currently under development switched to machines that comply with the new regulation? Replacement did not progress much at the end of the year, but can we think that for that reason, replacement will be thriving in the next fiscal year with new regulation machines?

A: We will consider whether and how to apply new regulations to the machines that has received approval already with observing marketing trend. While those changes have some positive aspects in terms of improving gameplay, we will improve the machines while watching users' reactions, so we may not make all machines corresponding to new regulation in the future. We also would like to assess the timing of sales of products that have already received approval.

Entertainment Contents Business

Q: I would like to ask you about the breakdown of animation and toys in 3Q cumulative results of Animation/Toys area.

While the year-end sales of toys were generally sluggish, only "Fun to change mouse covers! Sumikkogurashi Personal Computer" performed well, and it seems that is continuing to run out of stock now. I would like to confirm whether this situation is positively affecting SEGA SAMMY.

A: The breakdown of results of Animation/Toys area is not disclosed. It is true that the unit sales of "Fun to change mouse covers! Sumikkogurashi Personal Computer" is in excess of its initial plan, but sales and profits of toys area does not rely on one product, it is composed of several elements.

Q: In revised full-year forecast for Animation/Toys area, sales and operating income increases YoY. Which of the following increases, animation or toys?

A: Animation is expected to grow, and toys is expected to remain the similar range with the previous fiscal year.

Q: We would like to ask for forecast of the verification of asset value of inventories incorporated in 4Q for each segment.

A: We are forecasting about 3.0 billion yen in total for Entertainment Contents Business. They are expected to be incurred mainly in Packaged Games area and Amusement Machine Sales area.

Q: In Digital Games area, profits rose in the current fiscal year from the transfer of titles and offering of titles, but it seems that profits from titles under operation have not seems to increase significantly. Can we expect the one-off revenue will again raise the bottom revenue in the next fiscal year as well? In Packaged Games area, we think that the unit sales of new titles went below the initial forecast in this fiscal year. Can we still expect that repeat sales will be greatly increase in next fiscal year based on this situation?

A: As for trends, we expect the revenue from transfer of titles etc. and from operation of existing titles which is performing steadily in Digital Games area in the next fiscal year as well. In Packaged Games area, we expect repeat sales continue to perform stable as in the current fiscal year.

Q: Amusement Machine Sales area has fallen into the red this fiscal year, but what are the reasons for this deterioration?

A: The main factors behind the deterioration in profits up to 3Q were the lower profitability of "StarHorse4" compare with CVT Kit of StarHorse series sold in the previous fiscal year as it was new machine sales, and the sluggish sales of videogames which were strong in the previous fiscal year. Meanwhile, common fixed expenses increased by about 0.6 billion yen due to the impact of relocation of headquarter implemented in the previous fiscal year. In 4Q, profits are expected to decline due to lower sales of prize products which has been performed solidly until 3Q, sluggish utilization of videogames, and the expected cost for verification of asset value of inventories at the end of fiscal year.

Other

Q: I would like to know the details about profits from transfer of noncurrent assets.

A: It was the transfer of real estate owned by Sammy announced on November 28 ("Notice of Transfer of Noncurrent Assets and Recording of Extraordinary Gain by Our Consolidated Subsidiary"). Although the sale price was not disclosed, we recorded 2.9 billion yen as extraordinary income.

Q: I would like to ask about the impact of corona virus for business results if any.

A: We do not anticipate a significant impact in this fiscal year, but there are some concerns at each business area.

Pachislot and Pachinko Machines Business:

The impact on this fiscal year is not expected, but it is necessary to assess the status of delivery of stocks in trade, suspension of operation at plants, and impact on production schedules after the Chinese New Year.

Entertainment Contents Business:

There are concerns about the risk of lost opportunities due to the temporary suspension of shipments of prize products in Amusement Machine Sales area, and risk of about 0.2 billion yen is factored in 4Q.

We do not expect a significant impact on sales of amusement machines and toys in the current fiscal year, but as with Pachislot and Pachinko machines, we need to assess the situation after the Chinese New Year.

Resort Business:

As the figures for "PARADISE CITY" is recorded with three months delay, there will be no impact on this fiscal year, but we need to assess the impact from the next fiscal year onwards.

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