

# SEGA SAMMY Management Meeting 2021

2021/12/14

## Disclaimer

Market forecasts, operating results forecast and other information contained in this material are based on judgements and projections of the Company's managements based on currently available information. Therefore, please understand that the contents herein involve risks and uncertainties and that actual results could differ materially depending on various factors.

# Today's Agenda

Time	Presentation contents	Speaker
16:00 - 16:30	Session 1: Growth strategies of Consumer business	Haruki Satomi Yukio Sugino
16:30 - 17:00	Q&A	
17:00 - 17:20	Session 2: Pachislot & Pachinko Machines business Session 3: Financial strategies	Haruki Satomi Koichi Fukazawa
17:20 - 17:30	Q&A	

# SEGA SAMMY's Initiatives (FY2018/3 to FY2024/3)

Previous Medium-term plan  
RT2020  
(FY2018/3 to FY2020/3)

Structural Reform Period  
(FY2021/3)

New Medium-term Plan  
Beyond The Status Quo  
(FY2022/3 to FY2024/3)

## Target

Operating margin of 15% or more  
ROA 5% or more

Ordinary income: 45.0 billion yen or more  
ROE over 10%

## Main Measures

### < Company-wide >

- Consolidation of Group Head Office Functions
- Promotion of Work-Style Reforms

### < Entertainment Contents Business >

- Creation of global hit titles

### < Pachislot and Pachinko Machines Business >

- Promotion of reuse
- Improvement of development efficiency

### < Company-wide >

- Review of Business Structure
- Reduction of fixed costs
- Sales of non-operating assets
  - Real estate, securities, etc.

### < Entertainment Contents Business >

- Transfer of amusement facilities operation business
- Focusing resources to Consumer area

### < Company-wide >

- Shift to the management focusing on capital efficiency
- Realization of optimal capital structure

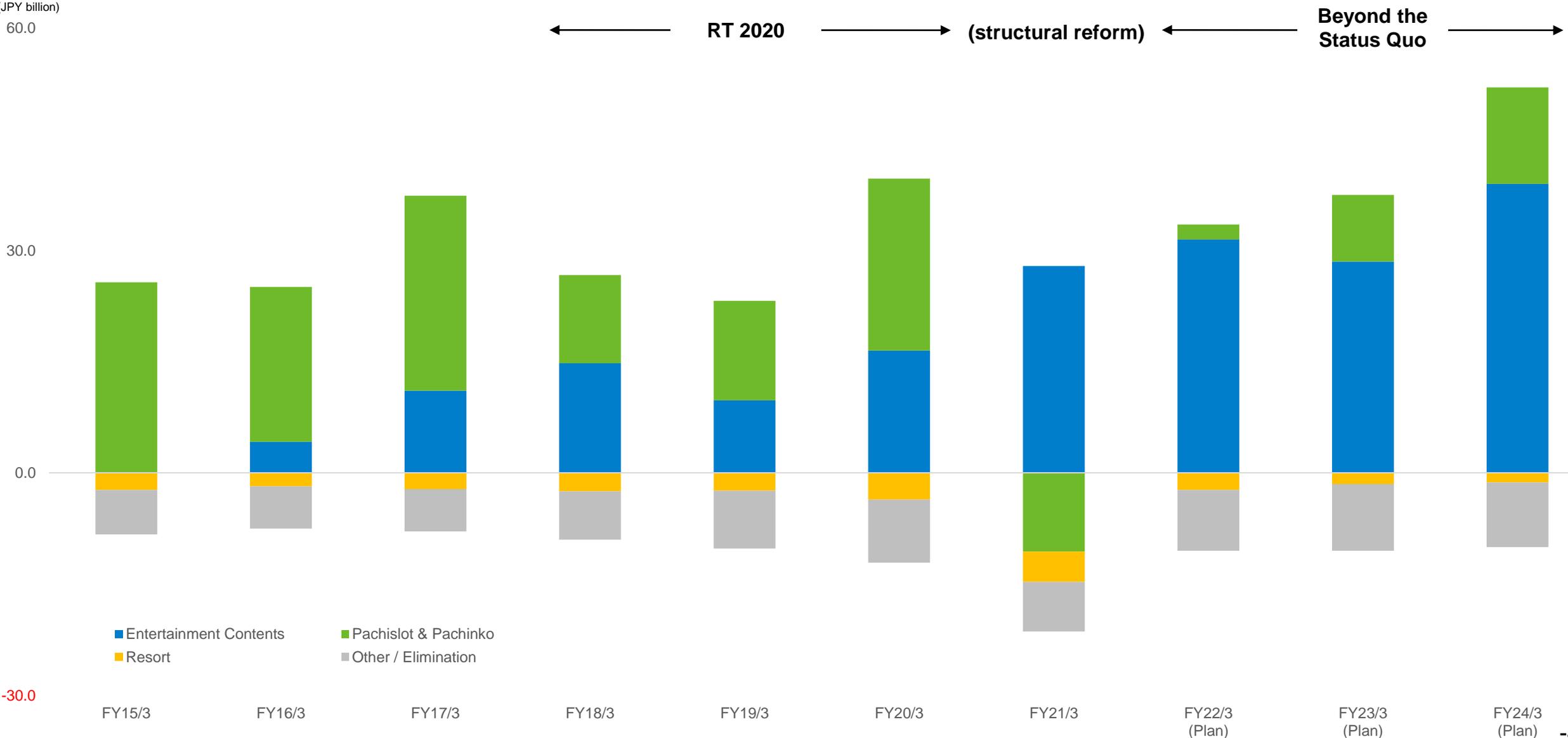
### < Entertainment Contents Business >

- Strengthen the global branding of existing IPs
  - Expanding touch points
  - Prolonging product life cycles
  - Strengthening user engagement
- Promote investment toward becoming a global player

### < Pachislot and Pachinko Machines Business >

- Creation of hits
  - Review lineup, create machines from user's perspective
- Improvement of business efficiency
  - Improve development efficiency, cost improvements, etc.

# Operating Income (FY2015/3-FY2024/3)



\*FY2022/3 plan : Forecast announced on Nov. 8, 2021  
 FY2023/3 plan, FY2024/3 plan : Mid-term plan announced on May 13, 2021

# Growth Strategies of Consumer Business

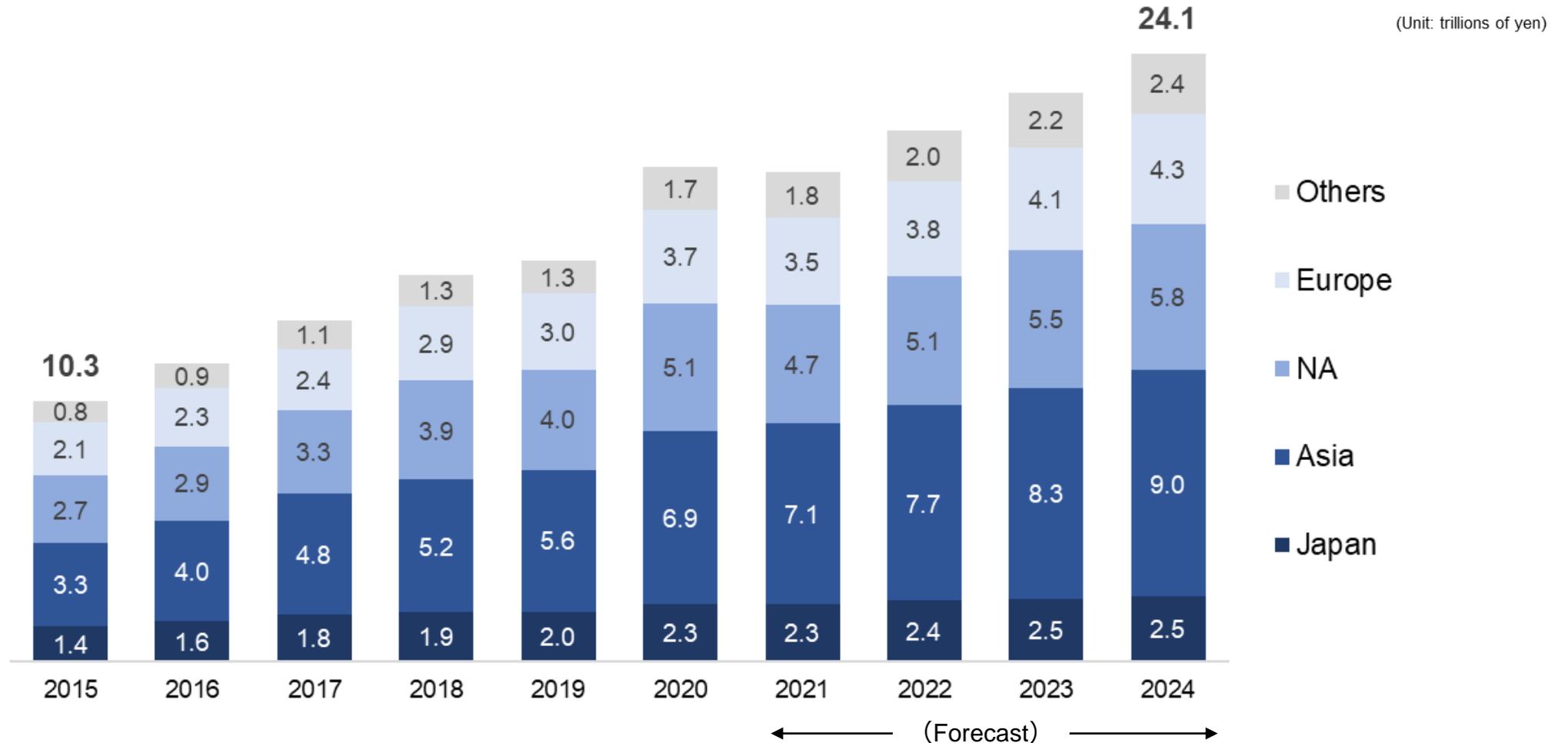
**Yukio Sugino**

President and COO (Representative Director)  
of SEGA CORPORATION

01

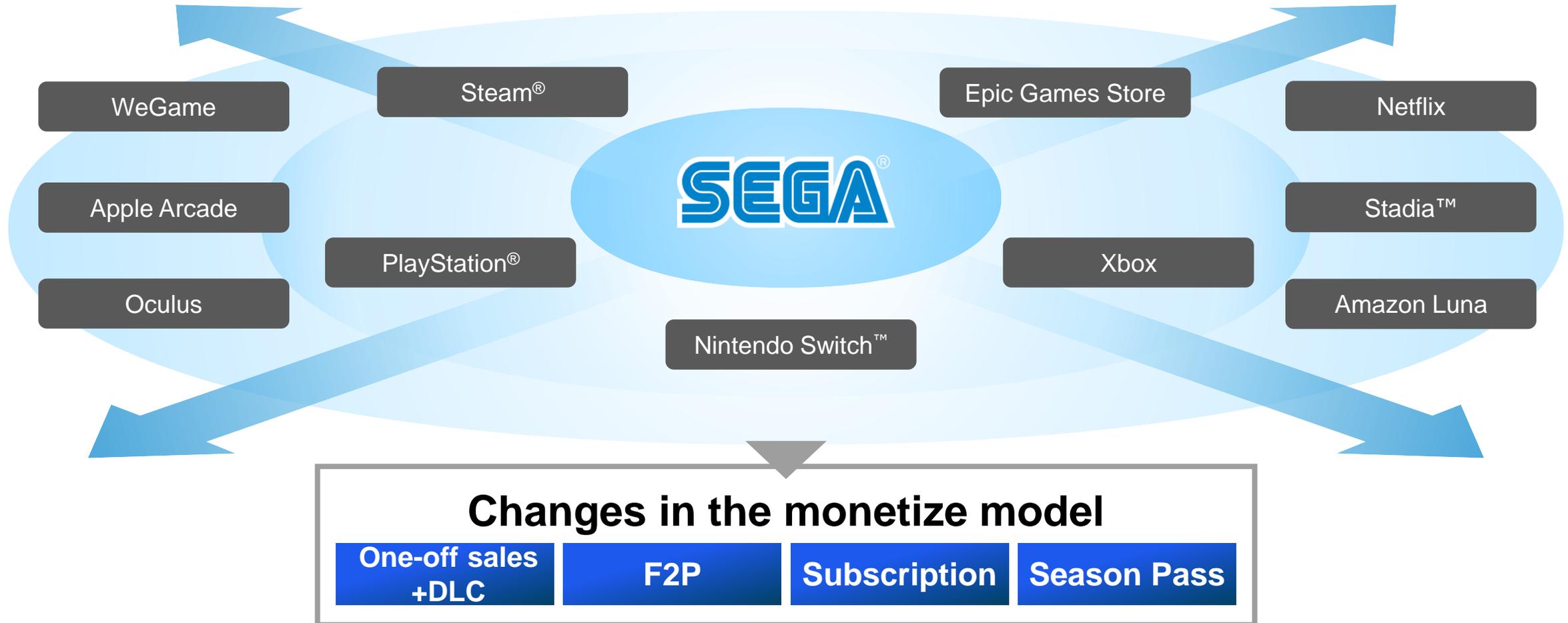
# Market Environment

## Growth of Consumer business continuing globally

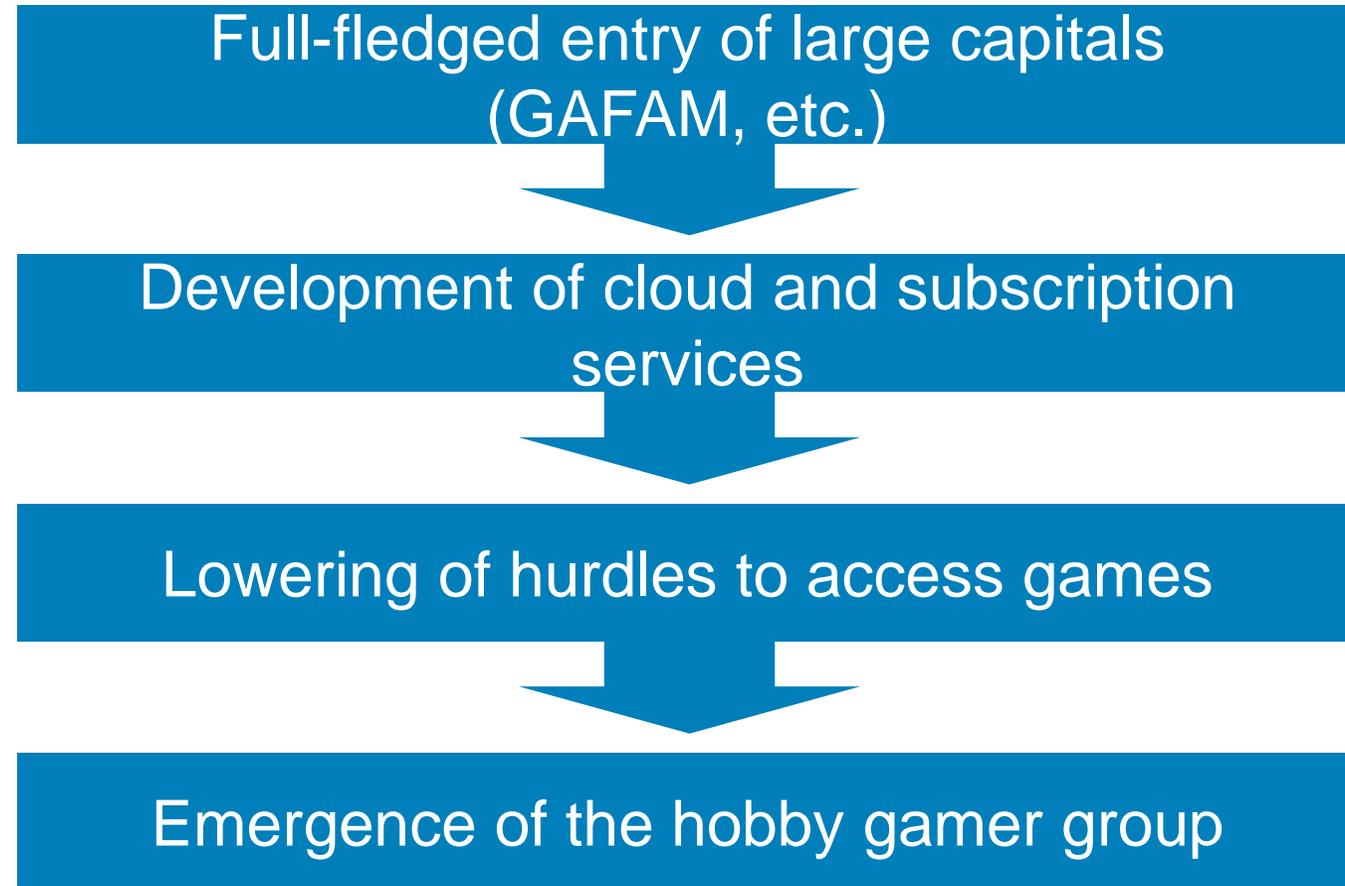


\*In-house estimation based on Newzoo Global Games Market Data June 2021 (Exchange rate: 1 USD = ¥110)

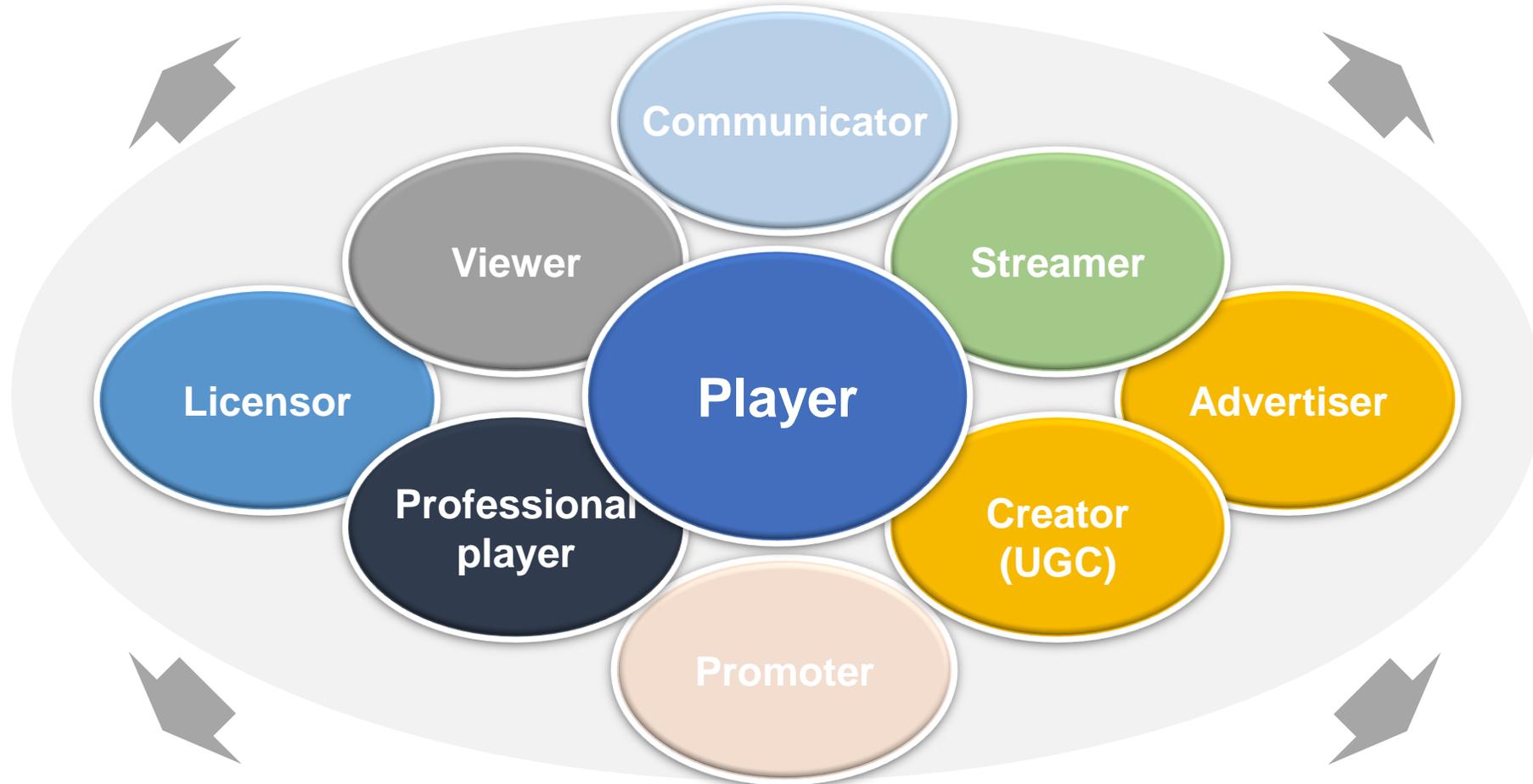
**Barriers between devices and regions disappear,  
points of contact with users increase**



**Games will become a giant industry with a global reach of 3.0 billion people**



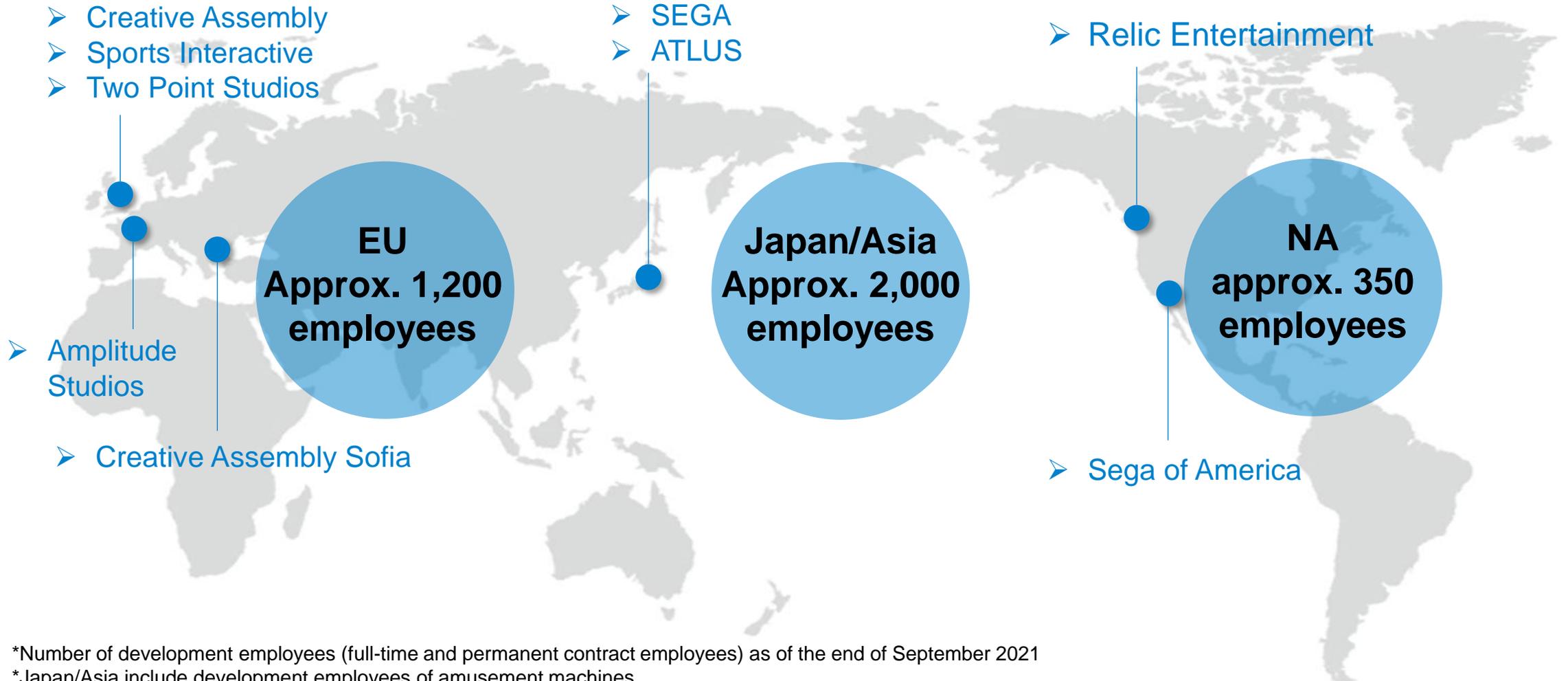
**Involvement in games becomes diverse and ecosystem is expanding**



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# Strengths of SEGA

## Holding the largest scale global studio structure among Japanese game companies



\*Number of development employees (full-time and permanent contract employees) as of the end of September 2021

\*Japan/Asia include development employees of amusement machines

# History of Overseas Studio M&A

	2005	2006	2013	2016	2019
Development studio					
Location	U.K.	U.K.	Canada	France	U.K.
Employees	Approx. 660	Approx. 180	Approx. 280	Approx. 130	Approx. 30
Main IPs				 	
Most recent new titles (plan)			"Age of Empires IV" *Published by Microsoft		

\*Number of development employees (full-time and permanent contract employees) as of the end of September 2021

# Rich Lineup of IPs (examples of major IPs)

## Studios under management of Europe



## Studios under management of Japan



## Past IPs \*Major examples



# Example of Overseas Titles (Reference)



- Developer: Amplitude Studios
- Release: August 2021
- Genre: Strategy



# Example of Overseas Titles (Reference)



- Developer: Creative Assembly
- Release: February 2022
- Genre: Real Time Strategy



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Published by SEGA.

# COMPANY OF HEROES 3

- Developer: Relic Entertainment
- Release: 2022
- Genre: Real Time Strategy



©SEGA. Developed by Relic Entertainment.

# Example of Overseas Titles (Reference)



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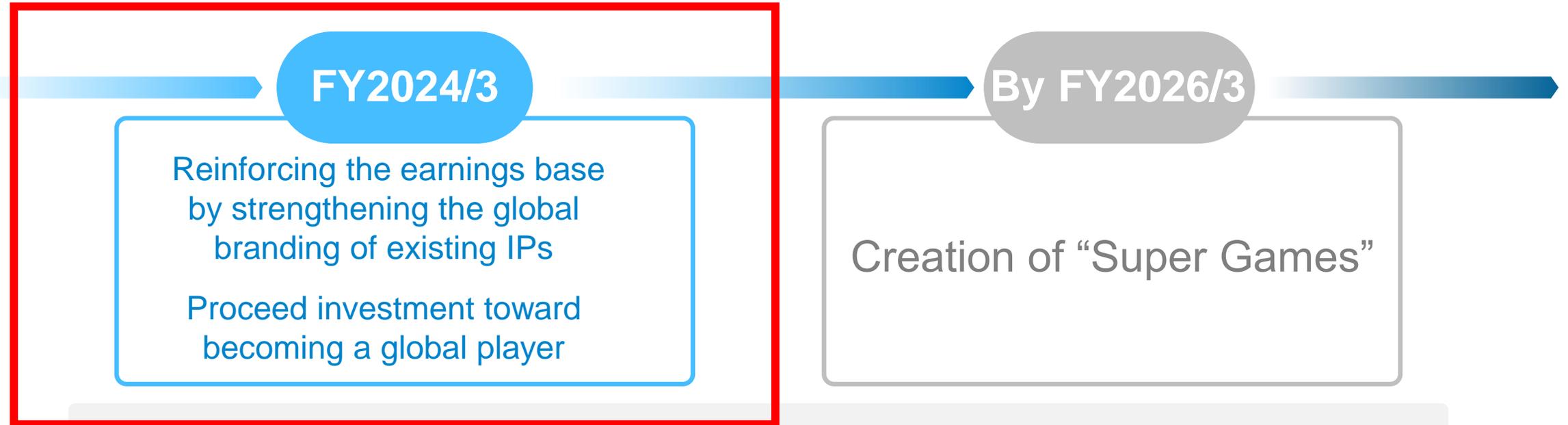
<https://www.totalwarbattles.com/warhammer/>

Please watch the video

03

# Medium-term Plan (By FY2024/3)

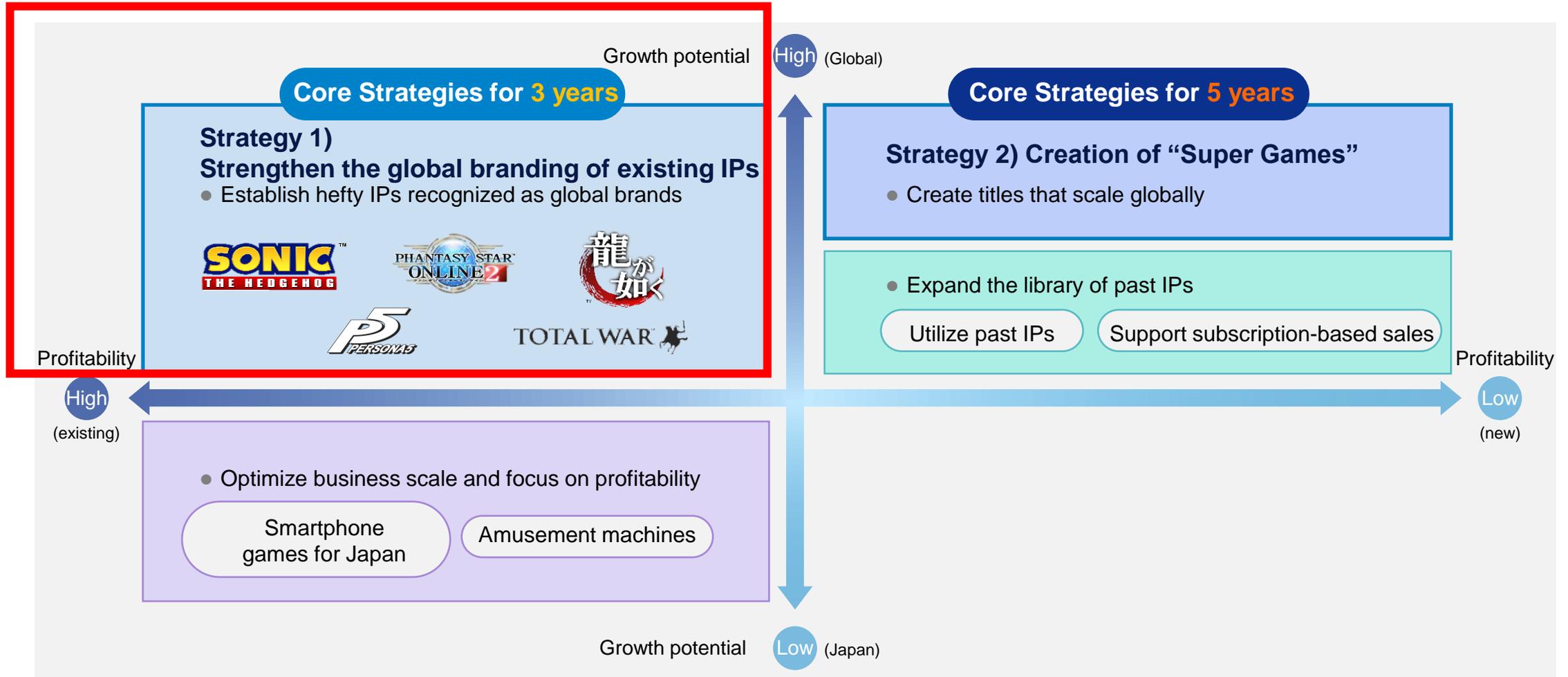
# Becoming a Global Leading Contents Provider



## Proactive growth investment

(additional investments of up to ¥100.0 billion over five years)

## 【Core Strategies】



## Growing mainstay IPs into global brands



1

### Expanding touch points with users

- Strengthening global roll-out
- Multiplatform support
- Multilingual support

2

### Prolonging product life cycles

- Utilizing IP assets
- Strengthening digital sales
- Multichannel monetization

3

### Strengthening user engagement

- Community management
- Strengthening the mix of media

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# Growth Strategy for IPs



(Yakuza series in the West)



## Expansion of touch points with users

- Strengthening global roll-out
  - Multiplatform support
  - Multilingual support

- Simultaneous Global Launch/Multiplatform Support  
⇒ “Lost Judgment” (Released in September)

## Prolonging product life cycles

- Utilizing IP assets
- Strengthening digital sales
- Multichannel monetization

- Spin-Off/Change of motif  
⇒ “Ryu ga Gotoku: Kenzan!”,  
“Ryu ga Gotoku: Ishin”,  
Judgment series, etc.
- Remake/Remaster ⇒ “Yakuza: Kiwami”
- Support of subscription service (Xbox Game Pass)

## Strengthening user engagement

- Community management
- Strengthening the mix of media

- Strengthening digital marketing



## Multiplatform support (support PC) (FY2019/3~)



**Unit sales of PC version  
2.80 million units**

## Simultaneous Global Launch (FY2022/3)



**Initial speed of sales in  
Europe and North America  
+76% compared to the  
previous title in the series\***

\*Previous title in the series = "Judgment"

# Image of Strategic Roll-out



Before FY2017/3

FY2018/3

FY2019/3

FY2020/3

FY2021/3

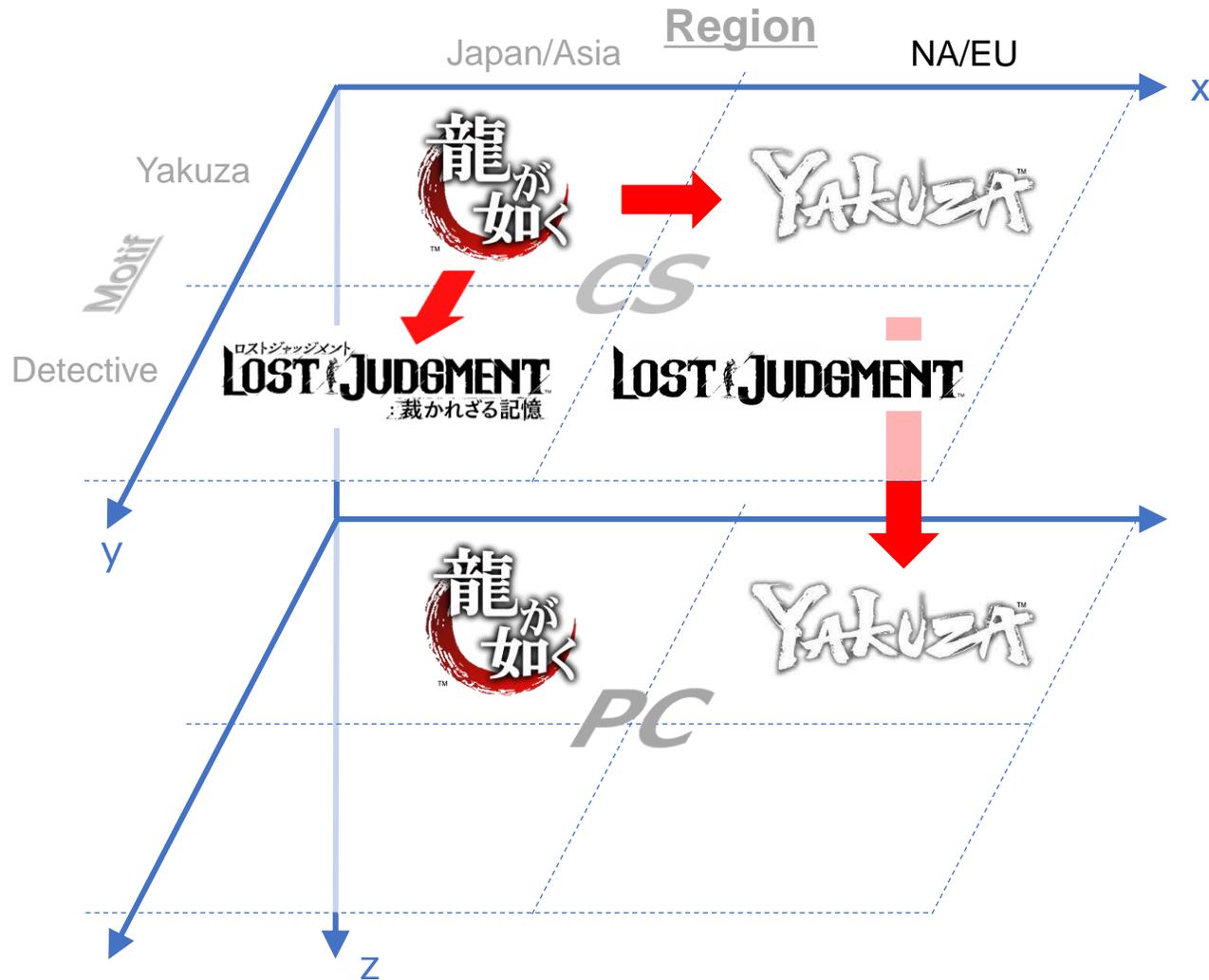
FY2022/3

		Titles	Original release date (FY)	Strategy 1) Expansion of touch points												
				Multi-platform (The information shown is an example)						Global expansion/Multi-language						
				Console			PC			Japan	Asia	NA/EU				
				PS4	PS5	Xbox One	Xbox S/X	Xbox Game Pass	Steam							
Strategy 2) Prolonging the product life cycle	Utilization of IP assets (Remaster/Remake)	Remake	Yakuza Kiwami	2006/3	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		
		Remake	Yakuza Kiwami 2	2007/3	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
		Remaster	Yakuza 3	2009/3	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
		Remaster	Yakuza 4	2010/3	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
		Remaster	Yakuza 5	2013/3	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
			Yakuza 0	2015/3	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
			Yakuza 6: The Song of Life	2017/3	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
		Remaster	Judgment	2019/3	✓	✓		✓				✓	✓	✓	✓	
			Yakuza: Like a Dragon	2020/3	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
			Lost Judgment	2022/3	✓	✓	✓	✓				✓	✓	✓	✓	✓

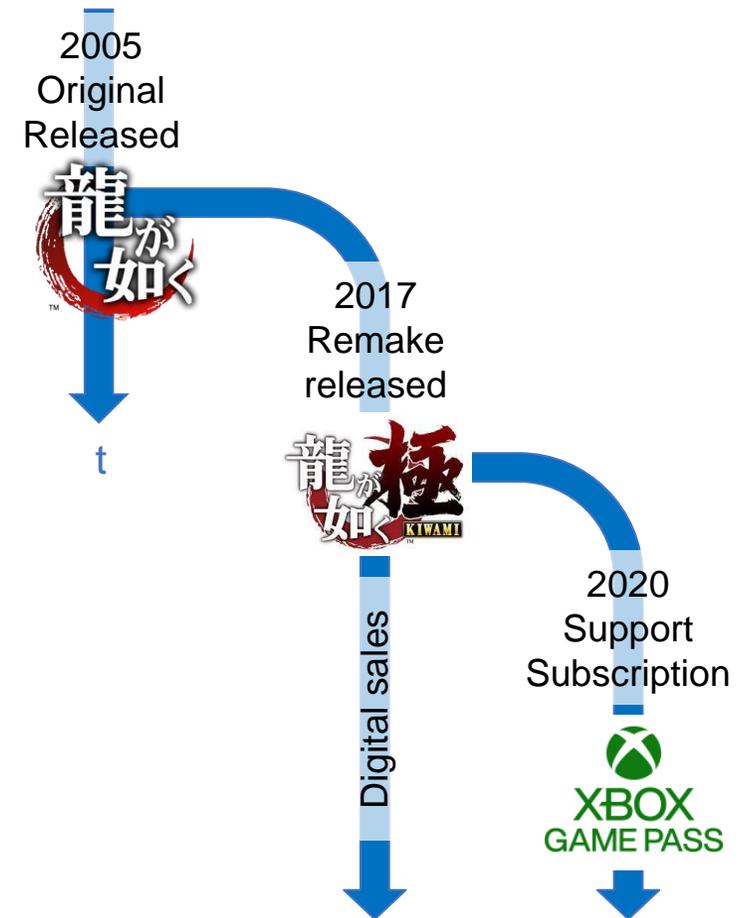
\*PS5 includes compatibility with PS4, Xbox S/X includes compatibility with Xbox Game Pass



## Expansion of touch points with users



## Prolonging product life cycles





**Sales has been growing through expansion of touchpoints, spin-offs, etc.**

(Unit: billion yen)

10.0

5.0

0.0

**CAGR17%**

FY2017/3

FY2018/3

FY2019/3

FY2020/3

FY2021/3

FY2022/3 (Plan)

\*Sales of the series in Consumer area, including "JUDGMENT" series

TOTAL WAR™



### Expansion of touch points with users

- Strengthening global roll-out
  - Multiplatform support
  - Multilingual support



- Expanded the roll-out area through change of motif  
THREE KINGDOMS ⇒ Asia
- Mobile roll-out  
⇒ Licensing out of the IP to NetEase

### Prolonging product life cycles

- Utilizing IP assets
- Strengthening digital sales
- Multichannel monetization



- Remaster
- DLC
- Support of subscription service (Xbox Game Pass)

### Strengthening user engagement

- Community management
- Strengthening the mix of media



- Enhancement of CRM

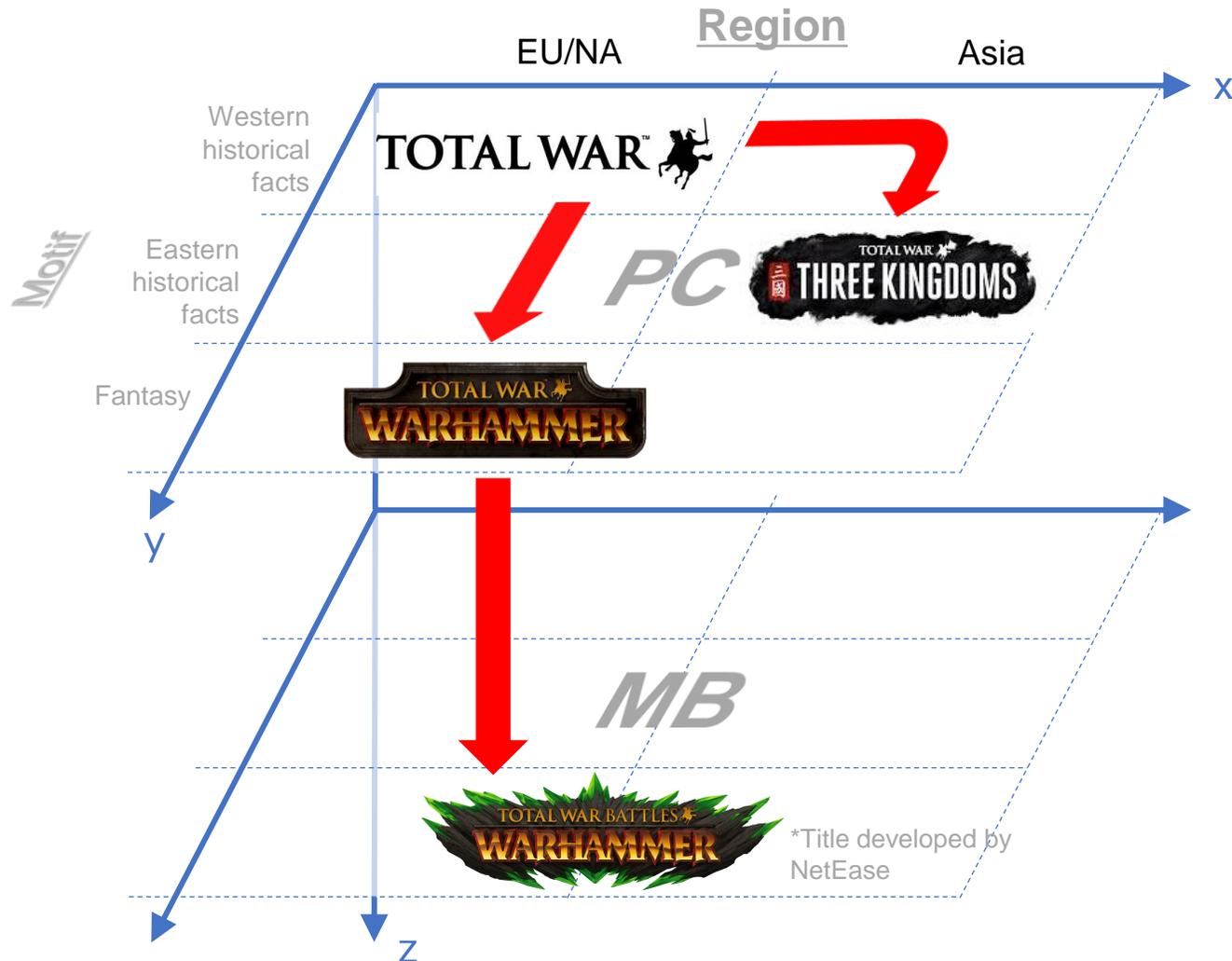
**Expanded Asian market with  
Three Kingdom motif**



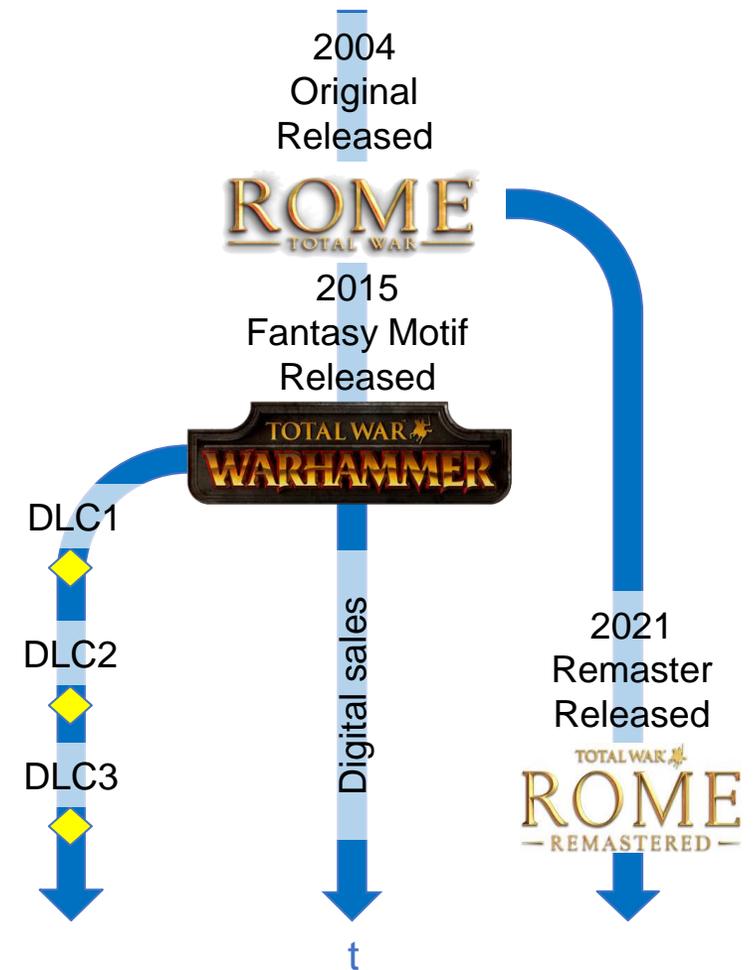
**Sales in the Asian region  
+167% compared to the  
previous title in the series\***

\*Previous title in the series= comparison with "Total War: WARHAMMER II"

## Expansion of touch points with users

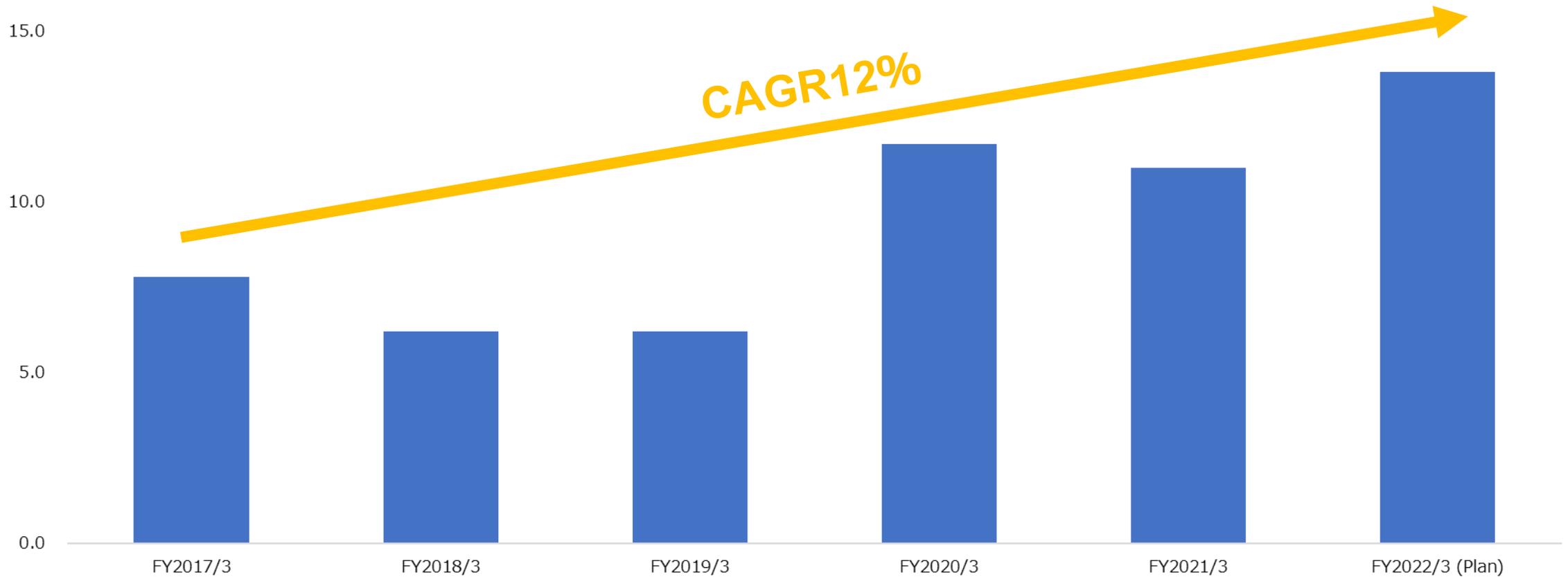


## Prolonging product life cycles



# Sales has been growing through motif change, remaster, etc.

(Unit: billion yen)



\*Sales of the series in Consumer area

**SONIC**™

**THE HEDGEHOG**

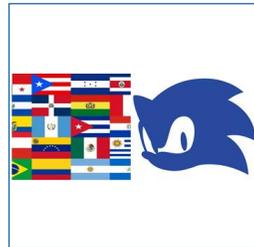
# Examples of Collaboration in Sonic 30th Anniversary (in 2021)



Netflix Sonic Prime Animation Announce



Film2 Jakks Pacific Toy Line Announce



Sonic Social LatAm Spanish Launch



Danone Mobile Partnership



30th 'Fan Anthem' Video



30th Anniversary Website



Sonic Central Video



Bricktown x Sonic Collab



Tokyo Olympics Launch w/ Sonic Costume



Sonic Symphony



Minecraft x Sonic DLC



Mobile 30th Content (Dash/Forces/TSR)



Rings Celebrity Video Series



Stray Rats Fashion Collab



Two Point Hospital X Sonic (Sonic Integration)



Sonic Colors: Rise of the Wisps Launch



Phantasy Star Online Content



"Sonic Colors Ultimate" Launch



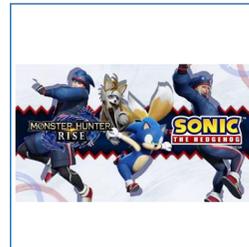
Twitter Takeover



Fall Guys x Sonic



Judgement 2 x Sonic Collab



MONSTER HUNTER RISE x SONIC Collab



Macy's Day Parade



Steve Aoki x SONIC Virtual Concert



The Game Awards x Project R



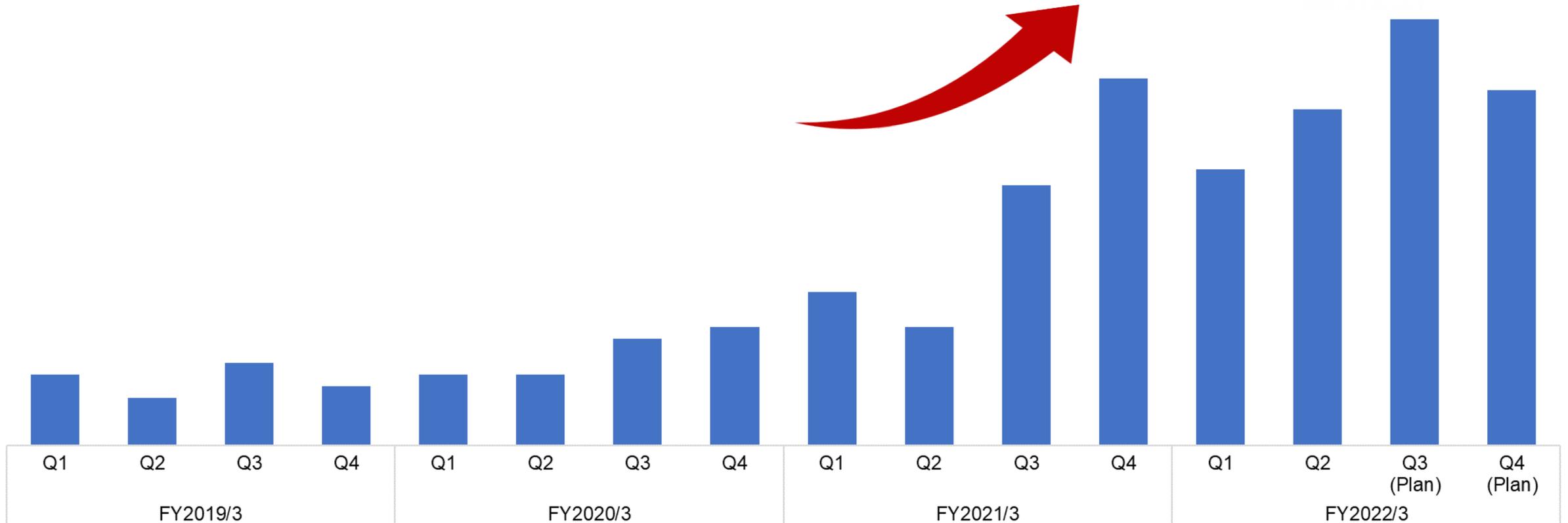
"SONIC THE HEDGEHOG 2" Trailer Launch



"SONIC FRONTIERS" Announce

<https://sonic.sega.jp/30th/>

## Sharp increase in business offers after the release of movie



2021

2022



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Scheduled to be released in U.S.  
nationwide on April 8, 2022

[https://youtu.be/eMV\\_Im9VEmY](https://youtu.be/eMV_Im9VEmY)



©SEGA

Scheduled to release new title  
"SONIC FRONTIERS"



©SEGA

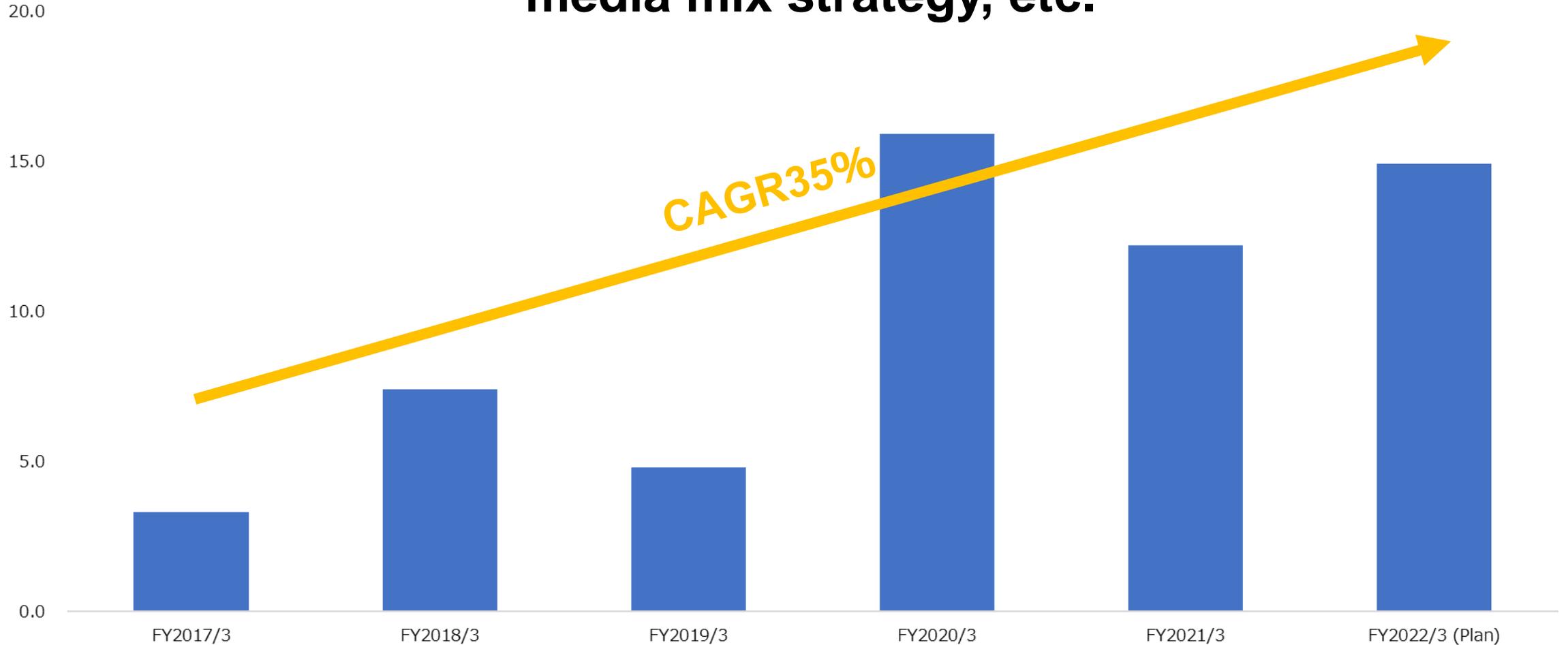
<https://youtu.be/aSZ28-qX8u4>

Please watch the video



## Sales has been growing through enhancement of media mix strategy, etc.

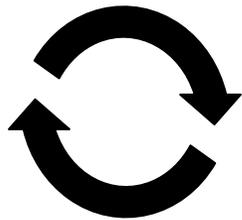
(Unit: billion yen)



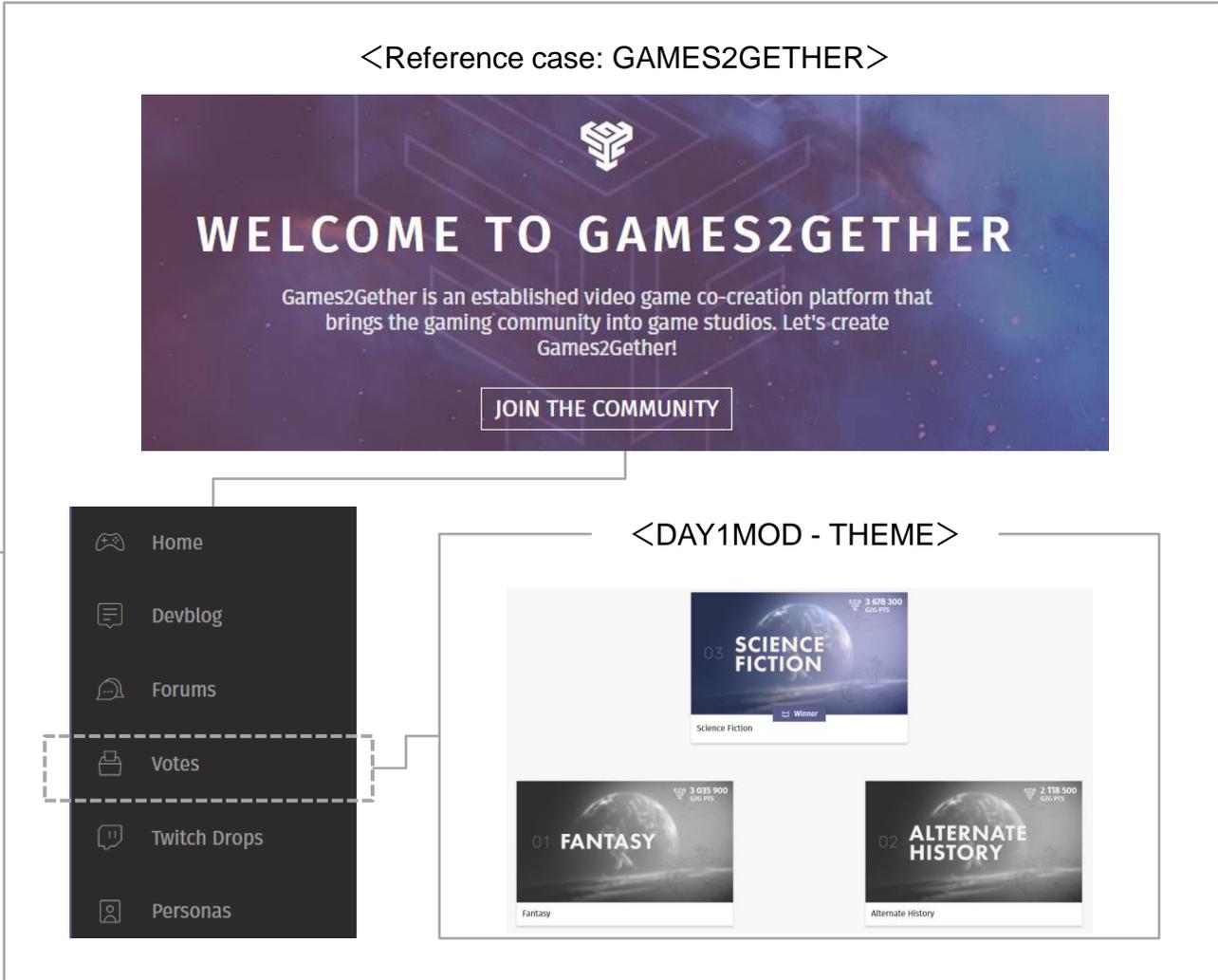
\*Sales of the series in Consumer area

## Strengthening user engagement

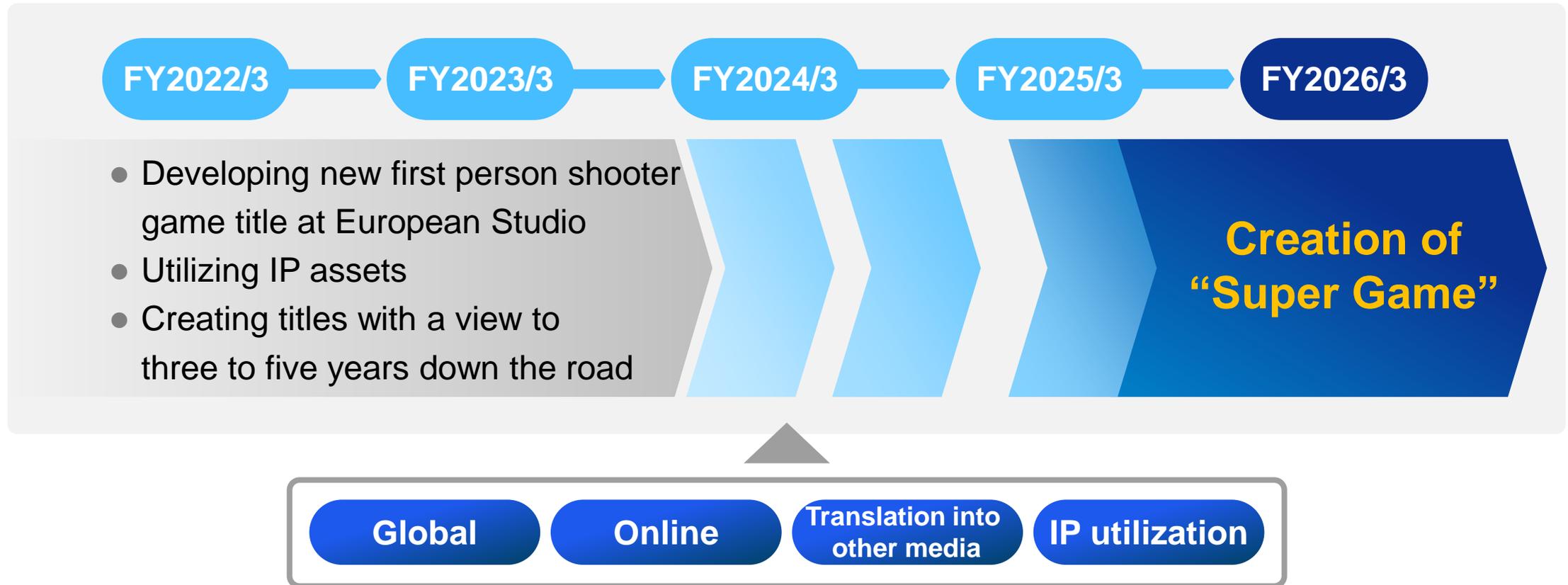
Jointly develop the games incorporating user feedbacks



Improvement of communication and services



## Taking on the challenge of creating major global titles



**Target lifetime sales of 100.0 billion yen**

## Started exploring strategic alliance with Microsoft towards creation of “Super Games”

(Major areas to consider)

**Develop games utilizing technologies of Microsoft in Microsoft’s Azure cloud platform**

**Technical collaboration to turn SEGA’s current development environment into a next generation environment built on Microsoft’s Azure cloud platform**

05

# Toward the Next Fiscal Year and After

## ■ FY2022/3 Major New Titles (Full Game)



“Sonic Colors: Ultimate”

©SEGA



“Lost Judgment”

©SEGA



“HUMANKIND™”

©2021 Amplitude Studios SAS. Published by SEGA.



“Super Monkey Ball Banana Mania”

©SEGA



“Shin Megami Tensei V”

©ATLUS.  
©SEGA. All rights reserved.



“Football Manager 2022”

© Sports Interactive Limited 2021.  
Published by SEGA Publishing Europe Limited.



“Total War: WARHAMMER III”

© Games Workshop Limited 2021.  
Published by SEGA.

## ■ FY2022/3 Major New Titles (F2P)



“PHANTASY STAR ONLINE 2 NEW GENESIS”

©SEGA



“HATSUNE MIKU: COLORFUL STAGE!”

© SEGA/© CP/© CFM



“Sin Chronicle”  
(Scheduled to be released on spring 2022)

©SEGA

# Titles already announced (to be released in or after 2022)



**“SONIC FRONTIERS”**  
(scheduled to be released in 2022)

©SEGA



**“PROJECT Re FANTASY”**

©ATLUS ©SEGA All rights reserved.



**“Company of Heroes 3”**

©SEGA. Developed by Relic Entertainment.

**The latest title of  
Yakuza series**

# Pachislot and Pachinko Machines business

## Overview of Smart Pachislot and Pachinko

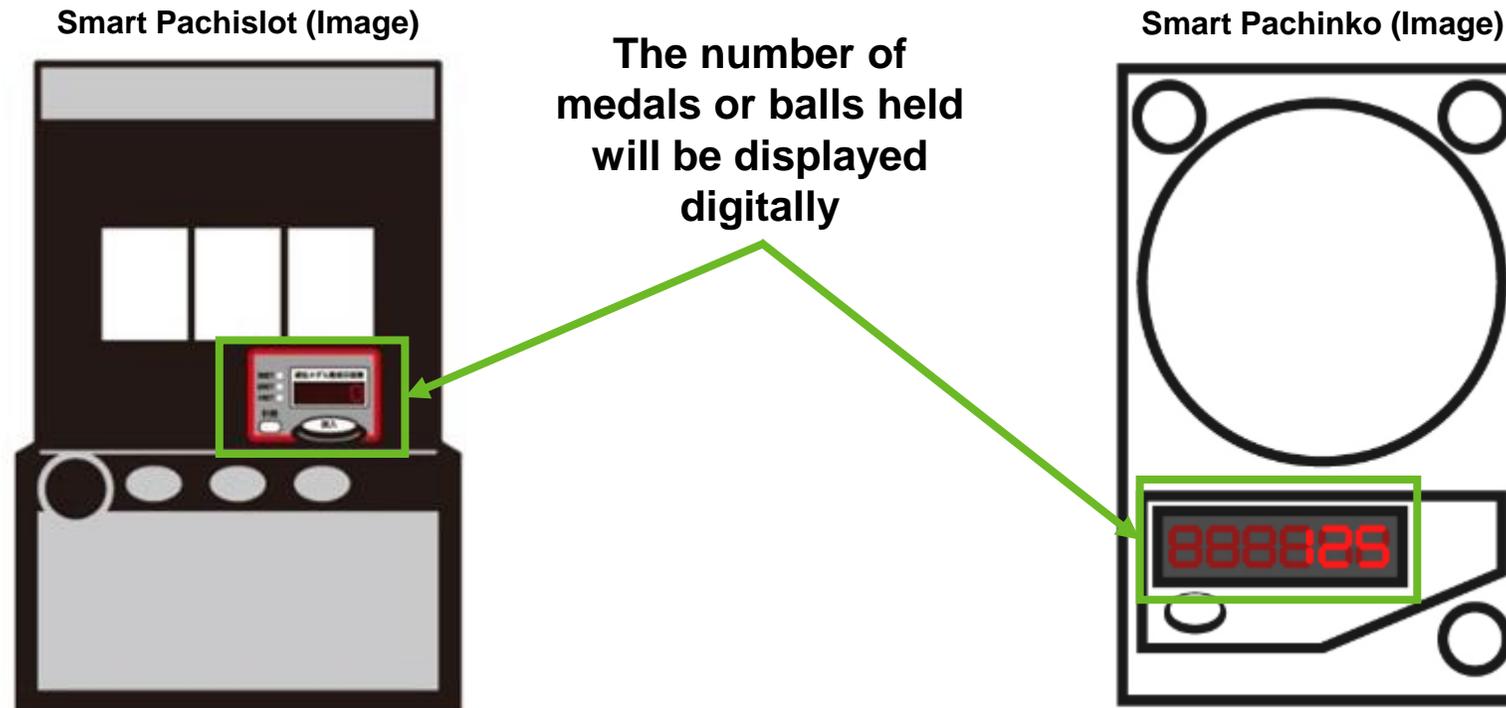
**Haruki Satomi**

President and Group CEO, Representative Director of SEGA SAMMY HOLDINGS INC.

President and CEO, Representative Director of Sammy Corporation

- Physical payout of medals and balls does not occur
- Associations will be able to collect play data, etc.

**There will be no significant change in appearance compared to the existing pachislot and pachinko machines**



# Advantages from Installation (by viewpoint)

## Manufacturer

- **Improves gameplay**  
⇒ Due to relaxing of regulation, various game design will be possible
- **Reduction of the number of components**  
⇒ Components related to payout, etc. will not be needed

## User

- **Solves dissatisfaction of users**  
⇒ Due to relaxing of regulation, disadvantages of users will be solved
- **Measure against infection**  
⇒ Improves hygiene because the users don't have to touch the medals and balls directly

## Pachinko Hall

- **Ease the burden**  
⇒ Simplifies the operation
- **Eradication of crimes**  
⇒ Prevents crimes such as bringing in medals and balls, etc.
- **Improvement of pachinko hall's environment**  
⇒ Noises from collisions of medals and balls will be reduced
- **Lowers the hurdle of new store opening**  
⇒ Reduces initial cost

## Other

- **Measure against addiction**  
⇒ Associations will be able to collect play data, etc.

**Abolishment of upper limit of number of games has been decided exclusive to smart pachislot**

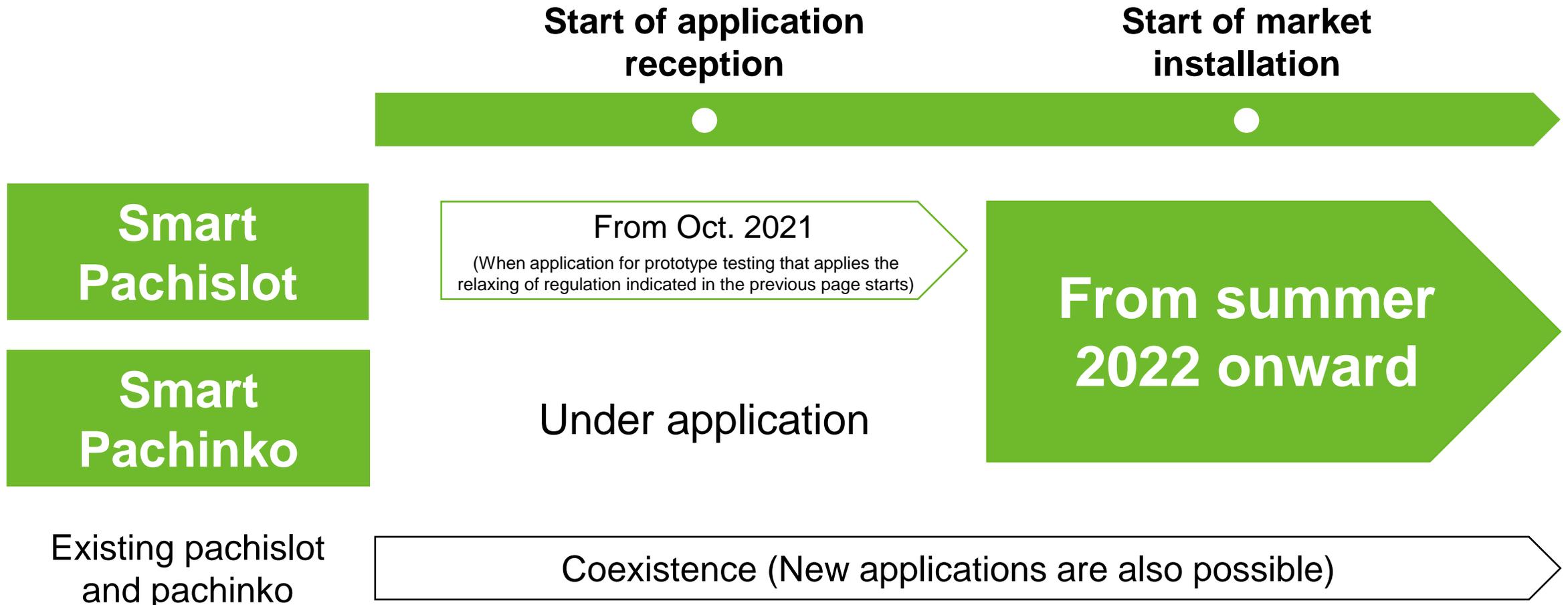
## **1) Improves gameplay**

**Various game design will be possible**

## **2) Solves dissatisfaction**

**Solves disadvantages of users accompanying with the upper limit of number of games**

## Manufacturers are already applying for prototype testing



## Consider various possibilities outside the box

### Short- to Medium-term

- Improves gameplay
- Reduction of the number of components
- Improvement of Pachinko hall's environment
- Eradication of crimes
- Ease the burden of Pachinko halls
- Measure against infection
- Measure against addiction
- Lowers the hurdle of new store opening

### Possibility of Long-term

**Diversification of pachinko hall's layout**

**Cashless**

**Software download**

**Digitalization of operations**

**Data transmission between machines**

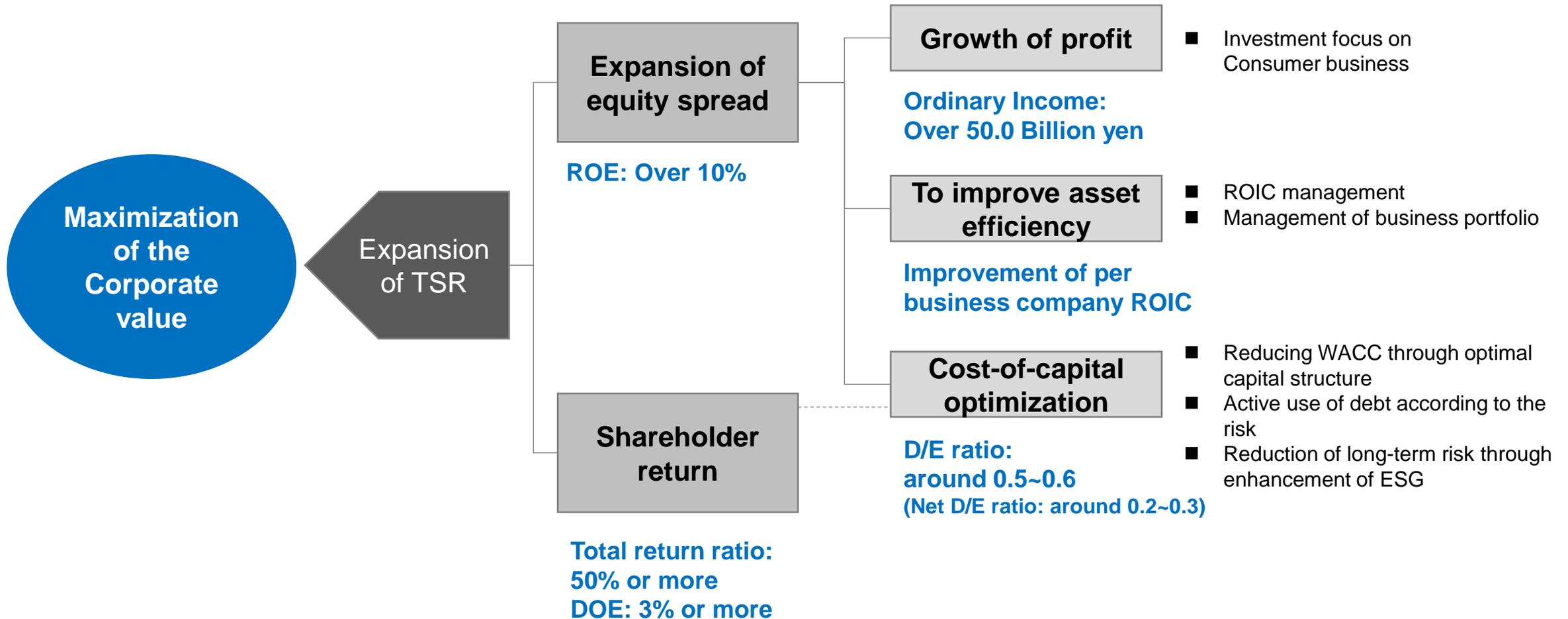
# Financial Strategies

**Koichi Fukazawa**

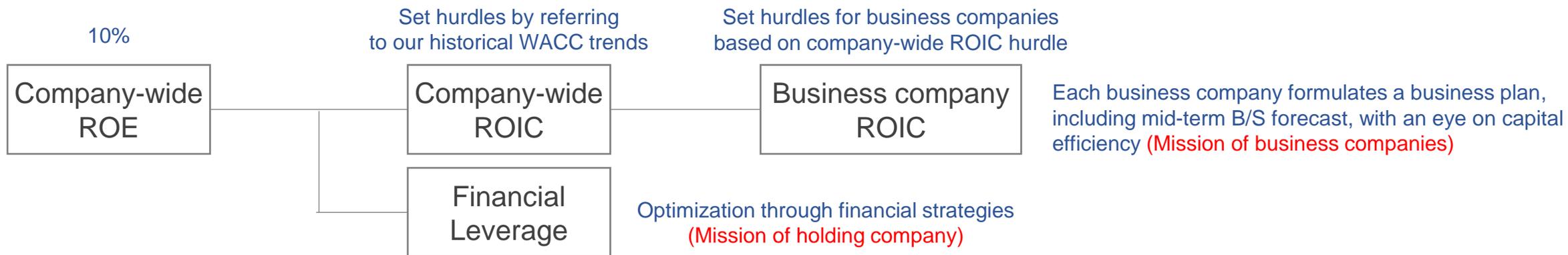
Senior Executive Vice President and Group CFO,  
Director of the Board of SEGA SAMMY HOLDINGS INC.

# To maximize the Corporate Value (~FY2026/3)

## Shift to the management focusing on capital efficiency

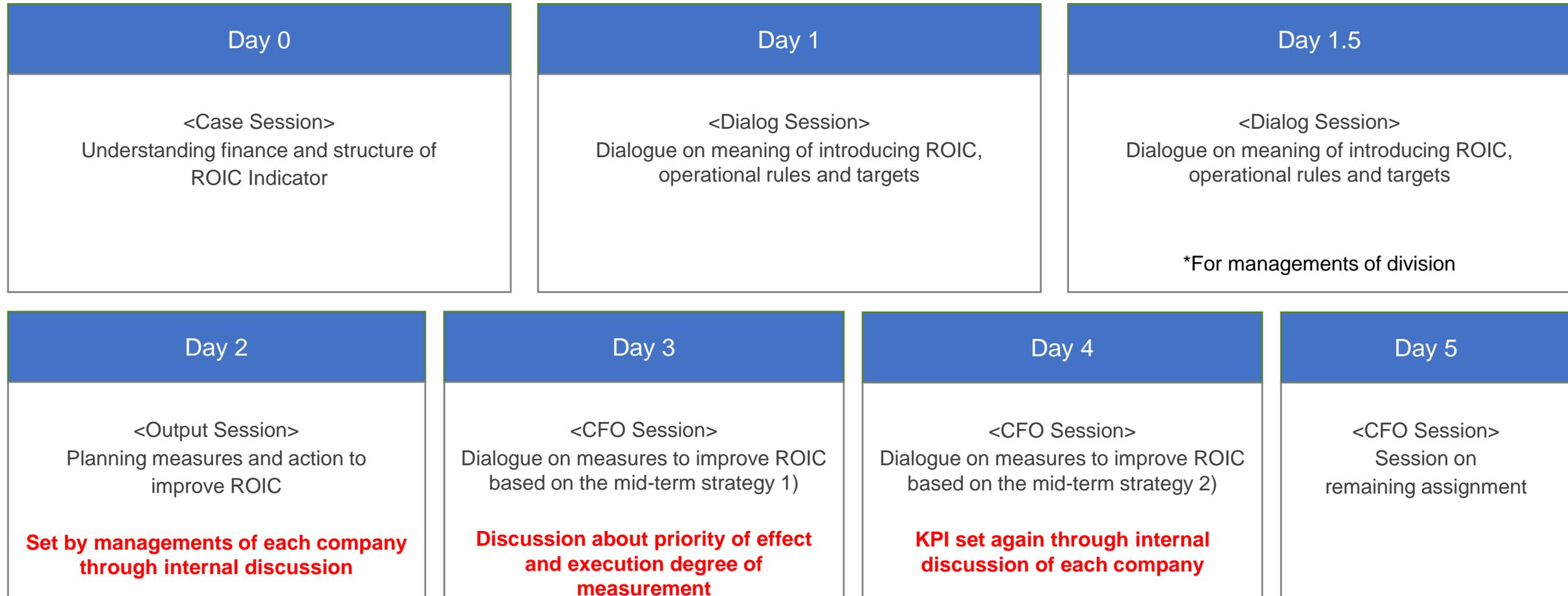


# Basic Concept about ROIC Hurdle and Operation

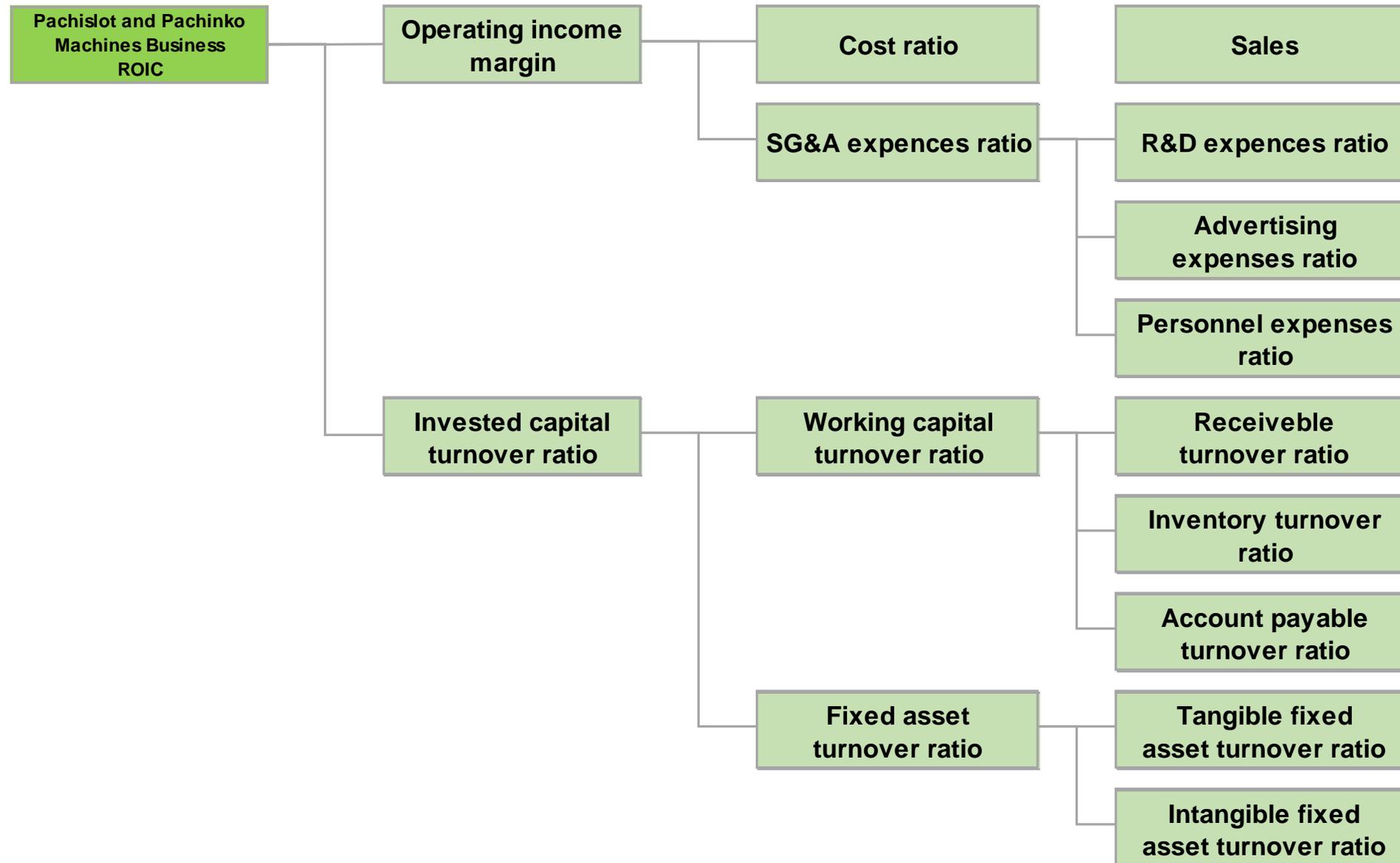


	Company-wide (SSHD consolidated) ROIC	ROIC of Business Companies										
Denominator	<p>B/S procurement side (Measure investment efficiency from the perspective of investor)</p> <table border="1"> <tr> <td>Non-business asset</td> <td rowspan="2">Interest-bearing debt</td> </tr> <tr> <td>Net working capital</td> </tr> <tr> <td>Fixed asset</td> <td>Shareholders' equity</td> </tr> </table>	Non-business asset	Interest-bearing debt	Net working capital	Fixed asset	Shareholders' equity	<p>B/S management side (Improve efficiency of business investment from the perspective of company)</p> <table border="1"> <tr> <td>Non-business asset</td> <td rowspan="2">Interest-bearing debt</td> </tr> <tr> <td>Net working capital</td> </tr> <tr> <td>Fixed asset</td> <td>Shareholders' equity</td> </tr> </table>	Non-business asset	Interest-bearing debt	Net working capital	Fixed asset	Shareholders' equity
Non-business asset	Interest-bearing debt											
Net working capital												
Fixed asset	Shareholders' equity											
Non-business asset	Interest-bearing debt											
Net working capital												
Fixed asset	Shareholders' equity											
Numerator	Net income + interest expenses	<p>After-tax adjusted ordinary income*</p> <p>*Excluding the affects from expenses that does not result from business investment, such as the expenses based on group policy including management guidance fee to parent company, etc., and lawsuit settlement expenses</p> <p>*Applied the flat rate of 30% for the tax rate to calculate business company ROIC for convenience.</p>										

## Implemented 7 sessions of ROIC management introduction from second half of FY2021/3



# ROIC Tree (Pachislot and Pachinko Machines Business)



# Examples of Measures to Improve ROIC (Pachislot and Pachinko Machines Business)



Key Drivers for improvement	KPI to set	Action plan
<u>Sales</u>	Utilization share Profit composition ratio	Pursuit of optimal title balance Create topics and promoting fans through strategic and integrated utilization of digital media Promotion of new business Continuous exploration of new seeds
<u>Cost ratio</u>	Surplus loss ratio Ratio of parts subject to reuse Direct material cost ratio to sales	Shortening lead time Improvement of components commonization Improvement of components commonization Strengthen cooperation between teams of development (design) and production (manufacturing and reuse process) Improvement of components commonization Pursuit of cost performance at the time of design
<u>R&amp;D expenses ratio</u>	R&D expenses	Reduction of development cost per title (reduction of cut number in images, increasing commonization and diversion ratio of images) Optimization of title numbers, launch of derivative and low cost titles
<u>Selling expenses ratio</u>	Selling expenses per unit	Full shift to e-commerce and efficient use of it



<https://www.segasammy.co.jp/>

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<https://www.segasammy.co.jp/english/ir/stock/regulation/>

Please visit below website for more information of products and services of SEGASAMMY.

<https://www.segasammy.co.jp/english/pr/corp/group/list.html>  
(Sega Sammy Group Website list)

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