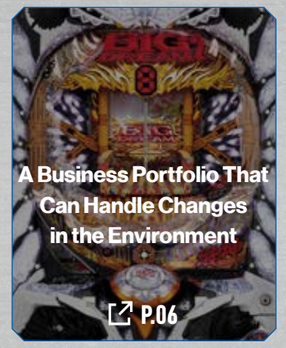
SEGA SAMMY Group Value Creation Process

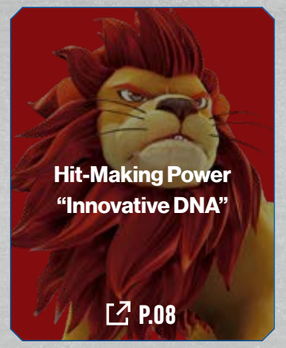
The Group will continue to provide value to all of its stakeholders by implementing effective strategies that take advantage of the broadly applicable strengths it has cultivated over the years.

Strengths That Realize Growth



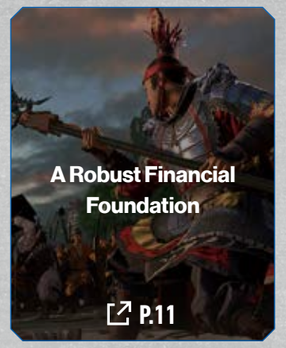
A Business Portfolio That Can Handle Changes in the Environment

P.06



Hit-Making Power "Innovative DNA"

P.08



A Robust Financial Foundation

P.11

Constantly Creating, Forever Captivating

—Making Life More Colorful—

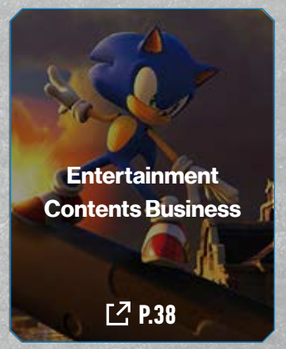
"Creation is Life"
×
"Always Proactive, Always Pioneering"

Value Shared Across the Group



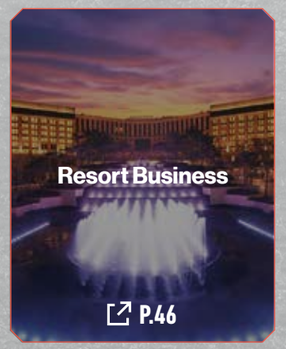
Pachislot and Pachinko Machines Business

P.32



Entertainment Contents Business

P.38



Resort Business

P.46

Effective Strategies

Corporate governance as a foundation for business

P.62

OUTPUTS

OUTCOME

Creation of Social Value

Environment

Environmental Protection and Lower Power Consumption

- Lessening of environmental impact in the manufacturing process
- Recycling
- Reuse



P.52



P.53

Addiction

Countermeasures to Addiction

- Working together with the industry to raise awareness
- SEGA SAMMY initiatives to prevent addiction

People

Reforming Working Styles and Creating Pleasant Working Environments

- Enhancing job satisfaction
- Increasing diversity
- Eliminating inequality

P.54



Products and Services

Innovative Product Development, Higher Product and Service Quality, Safe and Secure Products

- Pachislot machine sales: 123,000 units
- Pachinko machine sales: 104,000 units
- Full game sales: 28.57 million units
- *Phoenix Resort* visitors: 839,000 guests

(FY2020 results)



P.55

Creation of Economic Value



Shareholders and Investors

Generating profit and shareholder returns

- Net sales: ¥366.5 billion
- Operating income: ¥27.6 billion
- Total cash dividends paid: ¥9.3 billion
- Cash dividends per share: ¥40

(FY2020 results)

Value creation cycle

VALUE GENERATION

Addressing Social Needs to Realize a Sustainable Society and Enhance Corporate Value

A Message from the COO

Looking back on Road to 2020 and the Impact of COVID-19

The SEGA SAMMY Group announced Road to 2020, a medium-term management plan with the aim of realizing our long-term vision based on the Group's mission of *Constantly Creating, Forever Captivating —Making Life More Colorful—*. In the final year of the plan, the operating income margin was 7.5% and ROA was 3.0%, which fell short of our targets of an operating income margin of at least 15% and ROA of 5%.

For the Pachislot and Pachinko Machines Business, Road to 2020 set out a road map to substantially increase profit and achieve an operating income margin of 30% or higher in fiscal year 2020 by means of cost reduction efforts centered on reuse. While we did not meet these goals, we were able to significantly improve the profit margin. Meanwhile, in the current fiscal year, the business environment for the industry as a whole has struggled under the impact of COVID-19 and the slowdown in demand due to the extension of the deadline for removing machines conforming to previous regulations.

In the Entertainment Contents Business, under Road to 2020 we took measures to reinforce profitability in our core business and create global hit titles in growth areas. Unfortunately, we were unable to put out the global hit we were aiming for, but we did see a notable contribution to earnings in the packaged games area, primarily repeat sales in Asia, Europe, and North America. Expectations for global growth in the games business are rising, backed by the ongoing worldwide expansion of game distribution platforms in recent years and the boost in stay-at-home consumption brought about by the pandemic.

In the Resort Business, over the past three years we have successfully acquired extensive expertise in preparation for our entry into the domestic integrated resort field, and have announced various business partners and steadily made other preparations. However, the impact of COVID-19 has made it necessary to make adjustments to the schedule, business plan, and other aspects of the project, and the situation remains highly unpredictable.

While building on the results we achieved under Road to 2020 to target further growth, we recognize the need to continue making every effort to straightforwardly identify and address issues facing the Group.

We will begin undertaking structural reforms to overcome current adversities.

We were planning to enter a new phase targeting further growth in the fiscal year ending March 2021, but with the onset of COVID-19, the Group is facing a crisis across its business areas.

Under these conditions, we are undertaking structural reforms in response to rapidly changing conditions and building a robust business foundation with a view toward future growth.

In November 2020, we announced several structural reform initiatives. In order to build a business structure that can adapt to current market conditions, transform to a fixed expenses level commensurate with the business structure, and secure cash flows for growth investments, we are proceeding with a review of the business portfolio, streamlining of fixed expenses, and a review of non-business assets.

As a result of these initiatives, we are forecasting a net loss of ¥24.5 billion for fiscal year ending March 2021, and announced that we will pay an interim dividend of ¥10 while leaving the year-end dividend undecided.

We will revisit the year-end dividend after assessing how structural reforms are progressing and the extent to which the business has recovered in the months ahead. Although there is no change to our basic policy of paying stable dividends, at present we intend to carry through with structural reforms and aim for a swift turnaround in performance.

We also have to reexamine our new medium-term management plan, which was due to be announced in the fiscal year ending March 2021, and would like to release it after the completion of key structural reforms.

We would like to ask our shareholders, who have entrusted us with their confidence, for their continued support as we work to overcome current adversities.

See page 28 for details on structural reforms.

Results and Issues from Road to 2020 and Changes in the Environment due to COVID-19

	Road to 2020 (medium-term management plan) (FY2018/3 – FY2020/3)		Changes in the Environment due to COVID-19	Fiscal year ending March 2021
	Results	**Issues**	**Changes in the Business Environment**	**Change in business structure**
Pachislot and Pachinko Machines Business	**Improved profit margin**	Lower prototype approval rate	▼ Extension of deadline for removing previous-regulation machines ▼ Slowdown in pachinko hall operators' purchasing motivation	**Start of structural reforms**
Entertainment Contents Business	**Growth in full games** **Stable profit generation**	Creation of global hits	▲ **Expanding stay-at-home consumption in Consumer Games area** ▼ Struggling performance in Amusement Center Operations and Amusement Machine Sales	
Resort Business	**Acquired expertise**	—	▼ Decline in user numbers due to facility suspensions ▼ Review of scale of investment	

For details, see page 28



We are working to resolve issues facing the Group as quickly as possible.

Haruki Satomi
President and Group COO (Representative Director)
SEGA SAMMY HOLDINGS INC.

Longer-Term Direction of the Group

Our long-term vision—as I noted at the beginning, the Mission (Raison d'être) of *Constantly Creating, Forever Captivating —Making Life More Colorful—* remains unchanged. It is my sense that, ever since this Mission was formulated, there has been a significant transformation in the awareness of the SEGA SAMMY Group as a whole.

The next step is to match our words with our actions (*genko itchi*), translating awareness into concrete measures. The distinctive corporate cultures of SAMMY and SEGA have been a wellspring of the experiences that move the heart we bring people through innovative products and services, and I believe maintaining these cultures is important. But for us to survive in the entertainment industry, which is constantly changing based on trends and tastes, each employee of the Group has to work to develop and grow, never becoming complacent with the status quo.

To this end, our immediate task is to carry through with structural reforms and build a robust business foundation that can adapt to changing conditions. Having done this, each Group company, with a shared focus on our Mission, needs to draw on its own distinctive strengths in formulating a strategy for the next stage of growth.

Redefining ESG and SDGs materiality for the sustainable enhancement of corporate value

For the SEGA SAMMY Group, the key concept when we talk about ESG and SDGs is *Constantly Creating, Forever Captivating*. I remain committed to the belief that entertainment has the power to give people vitality in their day-to-day lives.

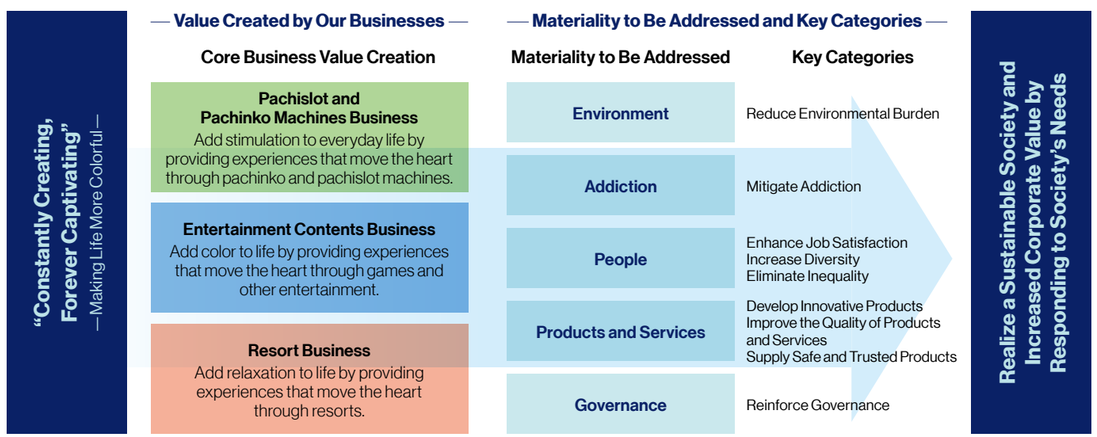
Faced with a crisis of unprecedented proportions, in which the true value of entertainment companies has been called into question, we need to reconsider what we have to do in order to continue to be seen as an "essential" company.

We have redefined the materiality of the SEGA SAMMY Group to reaffirm the value of the experiences that move the heart the Group provides through each of its business areas, and to guide our efforts to realize sustainable solutions to social issues and enhance corporate value. The newly defined materiality includes five categories: the environment, addiction, people, products and services, and governance.

Whenever business is conducted, it has both positive and negative impacts on society. Minimizing the negative impact, and then making an ongoing positive impact that far outweighs the negative by providing experiences that move the heart through our products and services is the underlying idea behind the Group's ESG and SDG initiatives. SEGA SAMMY's ultimate raison d'être as an entertainment company is to bring about a more peaceful world by acting through our core entertainment businesses to move people's hearts and bring excitement to everyday life, and continuing to offer a sense of accomplishment, well-being, joy, peace of mind, and a variety of other emotions.

See page 50 for details on ESG and SDG Materiality

The SEGA SAMMY Group's Value Creation and Materiality





The role of entertainment is to move people's hearts and offer hope for living.

[*Genko Itchi* (Matching Words with Actions)]
A Japanese idiom meaning that content of one's statements and concrete actions are consistent and not contradictory. Following through with what one says one will do.

Human resource development and training and the promotion of diversity will be the foundation for dramatic growth going forward

"People" is one of SEGA SAMMY's newly defined categories of materiality. Priorities in this area are to boost job satisfaction and diversity and eliminate inequality, because we believe that human resources are the wellspring out of which we continue to provide people with experiences that move the heart.

Unfortunately, current business conditions require us to call for voluntary early retirement in order to transform the business structure. Going forward, though, cultivating a culture in which diverse human resources can actively participate and anyone with drive and determination has the chance to show their potential will continue to be a crucial issue, the key to which is human resource development.

My greatest conviction is that we ought to give every employee equal opportunities for growth. Our in-house training program, SEGA SAMMY College, offers training and seminars based on different employee levels, as well as individual training programs across multiple genres. About 4,300 employees (total participants) underwent training programs in fiscal year 2020. Employees who take full advantage of these opportunities to continuously hone their skills will keep developing. On the other hand, employees who are passive and do not try to break out of their own shells cannot expect to grow in their careers. Down the road, there will always be a huge difference between what the former and the latter can achieve. Employees who grow and develop enter a kind of virtuous cycle in which their motivation increases, which in turn urges them on to even greater improvements.

In addition, we have set up a forum for mid-level and senior managers whom we hope will take over the future management of the Group, in which we can relate our vision of the Group's founding principles and management philosophy and hold discussions. Aside from myself, the founder, CEO Hajime Satomi, and outside directors also participate in these sessions. Direct dialogue with top management enables up-and-coming mid-level managers to grasp the thinking of the current management team and, as managers, cultivate a broader perspective on our business operations.

Although investing in human resources seldom bears noticeable fruit in the short term, we will continue to aggressively make such investments, confident that, five or ten years down the road, this will lay down a solid foundation to carry the Group forward.

Also, because the Group is engaged in diverse business areas, ranging from pachislot and pachinko machines to entertainment contents and resorts, the human resources needed in each area are different, as are the customers each area serves. For the entire Group to strive to grow the business, the inflow of fresh new ideas is essential. I believe that by drawing on the perspectives, experiences, and opinions of diverse people, we can generate new ideas and create innovative products and services.

No one should ever have to miss out on an opportunity to succeed due to gender, sexuality, nationality, or any other difference. This conviction is connected with the principle of "equal opportunity" I explained earlier. Even if we do not set diversity as a formal KPI for the Group, we should be able to build up an organization that is naturally diverse if we foster a climate in which every employee is equally able to take on challenges and produce results. My ideal image of a company is that diversity becomes so commonplace that it is no longer even talked about.

Sound and transparent governance

Top management constantly have to make speedy judgments under fast-changing business conditions. Sometimes managers can be so rushed to make a decision that they unintentionally, as it were, step down hard on the accelerator going in the wrong direction. At such times, outside directors and other officers are expected to play a critical role, that is, to act as a brake. The Group's outside directors are made up of members with diverse experience in finance, IT, and international business, who offer critical advice and counsel from a range of perspectives and areas of specialized knowledge. I believe this is essential for the healthy functioning of the Board of Directors.

In addition, in terms of improving the effectiveness of the Board of Directors, I feel it is essential to fully understand the circumstances and context of matters brought to the Board for resolution before a decision is made. To this end, in addition to creating a venue for internal and external directors to exchange opinions in advance of Board meetings, we also encourage internal and external directors to actively participate in various deliberative bodies such as the Group Management Strategy Committee. At such meetings, there are often lively debates between the management side and the executive side. I believe it is precisely because there are such differences of opinion that management can maintain a sense of urgency and be led on to better solutions.

In fiscal year 2019, we undertook a comprehensive review of the system of compensation for directors, with the aim of ensuring the transparency of governance and heightening incentives for directors to enhance corporate value. In particular, the standard for performance-linked remuneration was significantly revised, and is now based strictly on valuations of ordinary income and the degree to which the management plan is achieved. We will fulfill our accountability to shareholders by ensuring that our directors are committed to performance and by making their resulting compensation clearly visible.

A wellspring for delivering excitement to customers

COVID-19 has wreaked havoc around the world. We need to recognize that this kind of cataclysmic event, so extensive that it even alters the shape of society, is not just a one-off phenomenon but that something like it is sure to reoccur at some point. To that end, looking ahead with the assumption that a pandemic or large-scale natural disaster will occur, we must build a management foundation that can ensure the sustainability of our businesses. In this regard, engagement with employees and other stakeholders is one of the things I find particularly crucial.

The Group defines stakeholders as employees, customers, business partners, shareholders and investors, and society (both in terms of social contribution and the environment)—putting top priority on employees. Naturally, in terms of putting into practice our stated Mission of *Constantly Creating, Forever Captivating*, and in terms of evaluating whether we are having a positive impact on society, the key factor is the customers who buy Group products and services and undergo the experiences. I believe the positive impact the Group has on society is precisely in the way we satisfy more customers and add color to their daily lives. And the wellspring for all of this is our employees. Our relationships with other stakeholders begin only when our employees first feel the desire to offer new products and services to the world, create them, and deliver them to customers. All the economic and social value created by the SEGA SAMMY Group springs out of the desire of employees to deliver experiences that move the heart to customers.

Continuing to be seen by society as an "essential" company.



To be "essential," we will continue to implement sound, far-sighted measures.

In the midst of COVID-19, pachinko halls, amusement centers, resort facilities, and other public facilities had to refrain from operating for much of this year, causing the Group to face extremely difficult business conditions.

Assuming that a return to pre-COVID-19 conditions is impossible, for the Group to continue to create experiences that move the heart we have to take prompt action, implementing structural reforms to build a framework suited to post-COVID-19 conditions. Unfortunately, the structural reforms that are needed are painful ones. However, embracing the current adversity as an opportunity, I would like to build a robust corporate framework that can adapt to changes in the environment and seek to create a sustainable organization.

In recent years, as the notion of sustainable investment has taken root and spread, more importance is placed, not simply on corporate profitability, but on whether or not such investments contribute to the continual enhancement of corporate value in light of the need for social and environmental sustainability.

For SEGA SAMMY to continue to be seen by society as an "essential" company, we will carry out management in a way that is sincere and beyond reproach, continuing to implement sound, far-sighted measures.

November 2020

Haruki Satomi
President and Group COO (Representative Director)
SEGA SAMMY HOLDINGS INC.

A Message from the CFO



Building a robust financial foundation that can overcome adversity and realize sustainable growth for the Group

Koichi Fukazawa
Senior Executive Vice President and Group CFO
(Director of the Board)
SEGA SAMMY HOLDINGS INC.

Securing adequate financing to respond to adversity

In terms of the business environment in the fiscal year ending March 2021, apart from the Consumer Games area of the Entertainment Contents Business, the Group has been facing a serious crisis due to the impact of COVID-19.

We decided to raise the borrowing limit with the idea of creating an adequate safety net for the Group. At present, working capital needed for existing businesses is around ¥70.0 billion, but, given the current environment, we estimated an additional ¥30.0 billion is required for our crisis response, resulting in around ¥100.0 billion in necessary financing.

In response to this, as of the end of September 2020, in addition to ¥143.7 billion in cash, deposits and cash equivalents, we have commitment lines from financial institutions, overdraft lines, and unused lines of credit totaling ¥168.0 billion. Taken altogether, we have secured a sufficient amount of liquidity, totaling ¥311.7 billion.

In addition, net cash for the same period was ¥53.5 billion, and the equity ratio remained at a high level of 62.2% despite the impact of a sharp downturn in the stock market.

Unfortunately, we were unable to achieve the financial targets set out in the Road to 2020 medium-term management plan. However, having adequate financial resources will provide us with a solid foundation from which to overcome current adversities and substantially grow the business.

Introducing ROIC management in each business area, pursuing ROE-focused management

The Road to 2020 set the operating margin and ROA as financial key performance indicators (KPIs). As the Group's businesses expand, introducing these indicators was a step toward shifting our thinking from management focused on sheer "amounts" to management focused on "ratios," where those in charge of each business area can be more keenly aware of the importance, not just of pursuing levels of earnings, but of using capital more efficiently.

For the next step, we plan to establish ROE and ordinary income as the KPIs in the next medium-term management plan currently being drawn up. We will further build shareholder value by improving ROE and ordinary income, and increasing earnings per share.

To engender a strong management focus on ROE, we will incorporate return on invested capital (ROIC) as an internal management indicator for each business area. ROIC is a KPI used to properly assess earning power. The advantage of ROIC is that it allows various businesses with differing characteristics to be evaluated objectively. The rate of return in terms of profit/loss depends on the particular business characteristics, but if we can evaluate each business using an equitable measure like ROIC, this enables us to make fair decisions about which business areas to concentrate resources on. Going forward, we will evaluate the degree to which each of our business activities has generated a return on invested capital.

For example, in a fast-growing area like Consumer Games*, after ascertaining the size and growth potential of the market, and having formulated a viable sales strategy, we need to move forward with growth investments that are likely to generate sizable returns commensurate with the amount of capital invested.

In this way, we will carry out appropriate business management making use of ROIC to help monitor the balance sheets and cash flows of each Group business activity, and manage the business portfolio in a way that maximizes earning power.

ROIC is simply an internal management tool for each business area, but if it takes root and leads to improved performance, we are confident that it will naturally also lead to increased ROE for the Group as a whole. Improvement of ROE can be realized by raising financial leverage, but the appropriate leverage ratio is determined by the risk characteristics of a given business activity. Since the Group's core businesses are affected by the creation of hit products, we face high business volatility, and so consider it essential to have an adequate buffer against risks. For this reason, it remains our policy to maintain a high capital adequacy ratio going forward.

* In the fiscal year ending March 2021, the Digital Games and Packaged Game areas within the Entertainment Contents Business were integrated into a new Consumer Games area.

Allocating funds toward growth and shareholder returns

In the recent Road to 2020 medium-term management plan, the impact of changing regulations in the Pachislot and Pachinko Machine Business and other factors prevented us from reaching our sales goals, and we fell short of our target of increasing the operating income margin to at least 30%. However, through reuse initiatives and other measures, we believe we were able to fortify the earnings structure of the business.

The Entertainment Contents Business has seen some successful cases in consumer games. Compared with some of our competitors in Japan and overseas, the Group must strive to win business opportunities at a higher level, but there is no doubt that we are well-positioned to be a leading contender in the industry. I believe this is one of the business areas where we should focus the bulk of our management resources in order to realize strong growth going forward.

The Group has defined Value (Mindset/DNA), Mission (Raison d'être), and Vision (Ideal Self) according to a Mission Pyramid. With regard to investments, we always screen potential projects not only in terms of numerical aspects such as profitability but also in terms of whether or not, as a Group business, the project is compatible with our Mission (Raison d'être).

Regarding shareholder returns, we set the interim dividend for the fiscal year ending March 2021 at ¥10, and announced that the year-end dividend remains undecided. As for the year-end dividend, we intend to let our stakeholders know at an appropriate time while carefully assessing the progress of structural reforms and developments in business results in the second half.

There is no change to our basic policy of paying stable dividends, but at present, while net cash is under downward pressure from COVID-19, we feel the prudent course is to steadily implement structural reforms and aim for a swift recovery in performance.

We will be investing more aggressively in growth going forward, including entry into the domestic integrated resort business, which I will touch on later. Consequently, our priority now is to enhance engagement with shareholders and investors to gain their understanding of our business strategy. We will strive to achieve greater returns, even as we take steps to manage a different set of risks than before. We would like to ask our shareholders' support for the Group's strategy as we pursue such returns together.

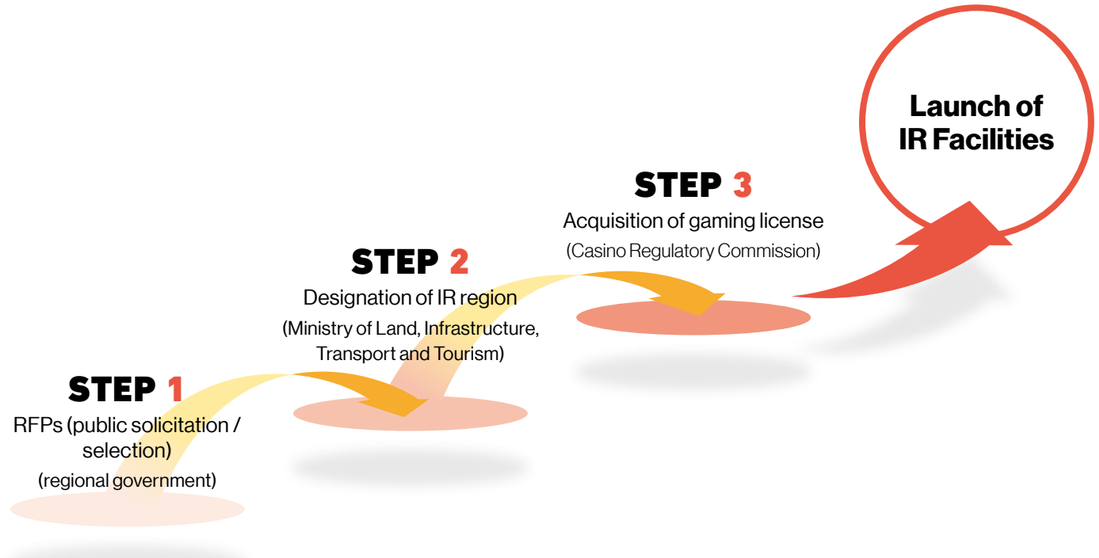
Moving forward with entry into Integrated Resort (IR) business

The integrated resort field in Japan is poised to finally make concrete progress in and after 2021. Although it is an attempt to carry out an unprecedented national project, the Group is positioning IR as a strategic business that is critical to supporting our long-term growth.

The Group has made all the preparations needed to enter the domestic IR field: We have gained practical experience through our management of the South Korean IR facility *PARADISE CITY*, acquired a casino equipment sales license in Nevada, and made strides in researching the issue of gambling addiction. Moreover, SEGA SAMMY took part in the *1st JAPAN IR EXPO in Yokohama* held at PACIFICO Yokohama in January 2020 (see page 49).

Going forward, we will enter the selection process by submitting a request for proposal (RFP) to the regional government. The government announced its draft IR basic policy in October 2020, at the same time revising the submission period of RFPs for IR development.

Process Leading up to IR Launch



The Group will continue to carefully monitor the conditions of entry and other feasibility factors with the aim of entering the IR business going forward.

Executing financial strategies to realize the Group's long-term vision

COVID-19 has introduced uncertainty into all areas of corporate management. So far, however, the Group has secured sufficient financing and is well positioned to withstand adversities and overcome the current business crisis. After the pandemic is behind us, we will swiftly create and maintain a sturdy financial foundation, a platform from which we can support robust business growth going forward.

November 2020

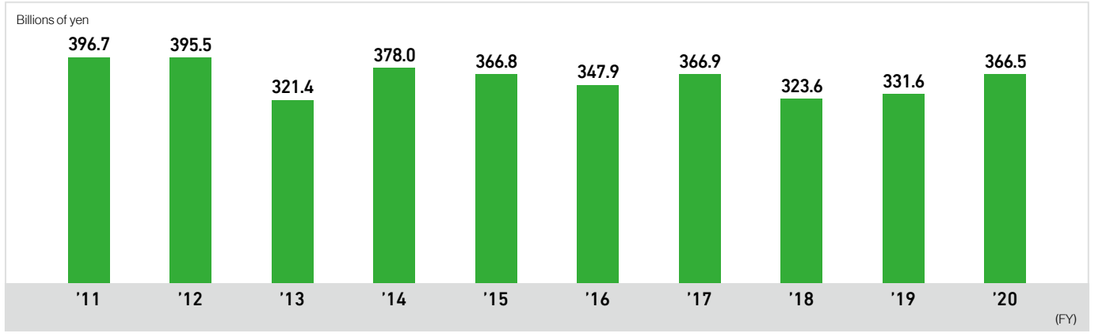
Koichi Fukazawa
Senior Executive Vice President and Group CFO
(Director of the Board)
SEGA SAMMY HOLDINGS INC.

Financial Performance

Net Sales*1

Due to an increase in pachislot unit sales and solid performance in the packaged games area, sales increased 10.5% year on year to ¥366.5 billion.

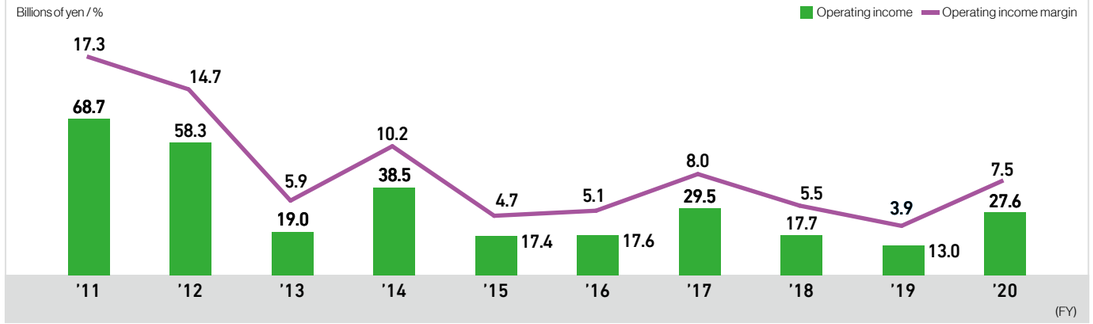
¥366.5 billion



Operating Income / Operating Income Margin

In the Pachislot and Pachinko Machines Business, the operating income margin improved and operating income rose 111.3% year on year to ¥27.6 billion.

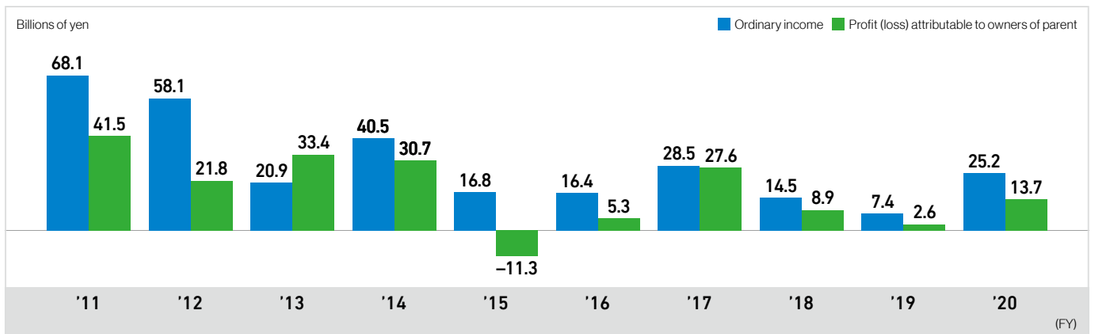
¥27.6 billion / **7.5**%



Ordinary Income / Profit (Loss) Attributable to Owners of Parent*2

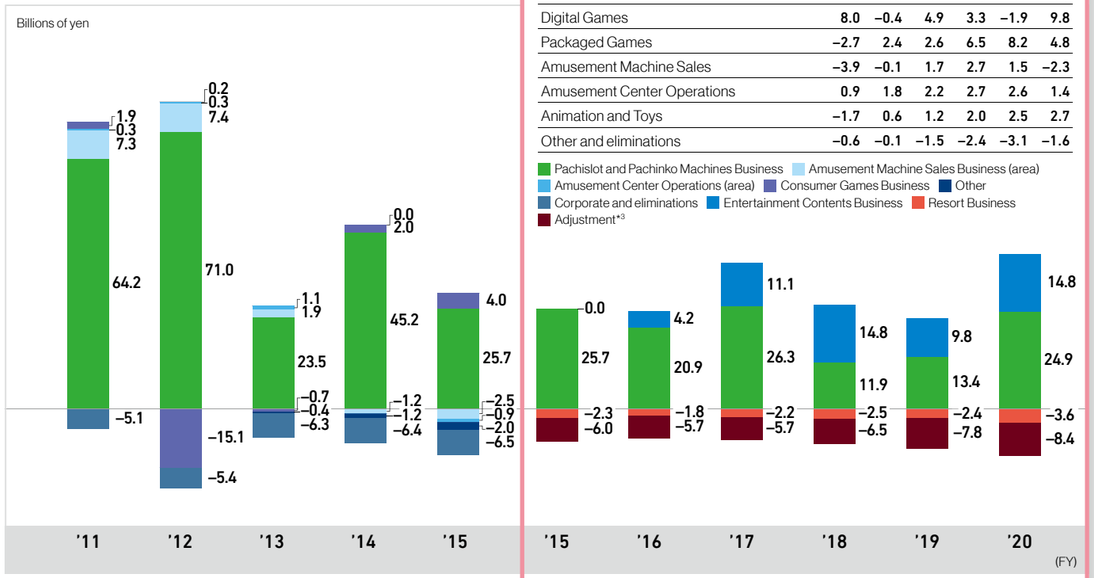
Profit attributable to owners of parent increased 421.3% year on year to ¥13.7 billion.

¥25.2 billion / **¥13.7** billion



*1 As the recognition of net sales was changed (1) from a net basis to a gross basis and (2) from a shipment basis to a delivery basis in fiscal year 2016, figures for fiscal year 2015 reflect these changes retrospectively.
*2 The Company has adopted the "Revised Accounting Standard for Business Combinations" (Accounting Standards Board of Japan (ASBJ) Statement No. 21, issued on September 13, 2013) and has presented "net income (loss)" as "profit (loss) attributable to owners of parent" from fiscal year 2016.

Operating Income (Loss) by Segment



New Segmentation

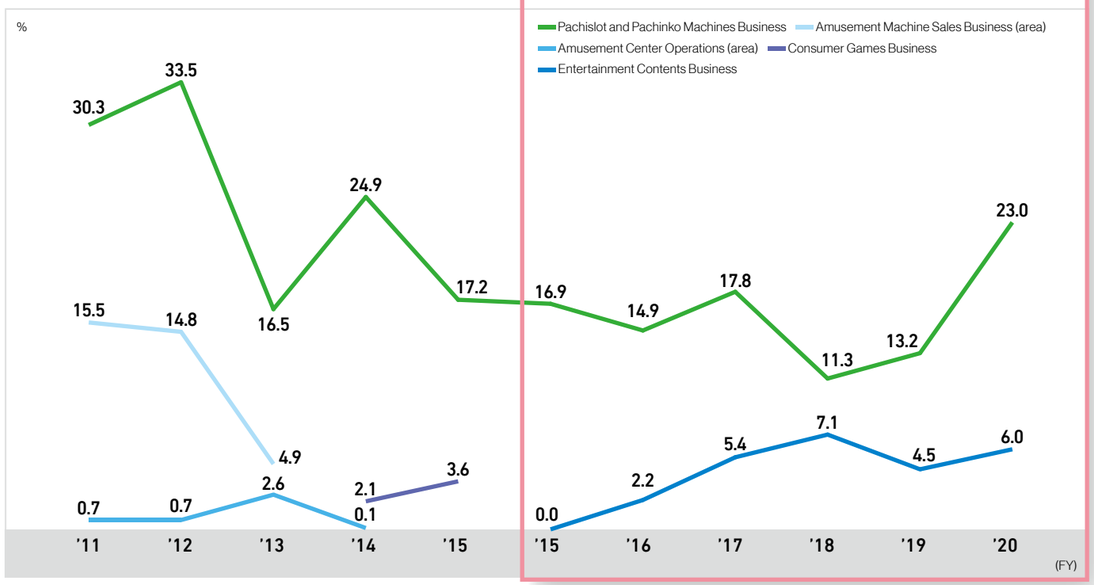
Breakdown of Operating Income (Loss) of the Entertainment Contents Business

Billions of yen

	'15	'16	'17	'18	'19	'20
Digital Games	8.0	–0.4	4.9	3.3	–1.9	9.8
Packaged Games	–2.7	2.4	2.6	6.5	8.2	4.8
Amusement Machine Sales	–3.9	–0.1	1.7	2.7	1.5	–2.3
Amusement Center Operations	0.9	1.8	2.2	2.7	2.6	1.4
Animation and Toys	–1.7	0.6	1.2	2.0	2.5	2.7
Other and eliminations	–0.6	–0.1	–1.5	–2.4	–3.1	–1.6

Pachislot and Pachinko Machines Business / Amusement Machine Sales Business (area) / Amusement Center Operations (area) / Consumer Games Business / Other / Corporate and eliminations / Entertainment Contents Business / Resort Business / Adjustment*3

Operating Income Margin by Segment



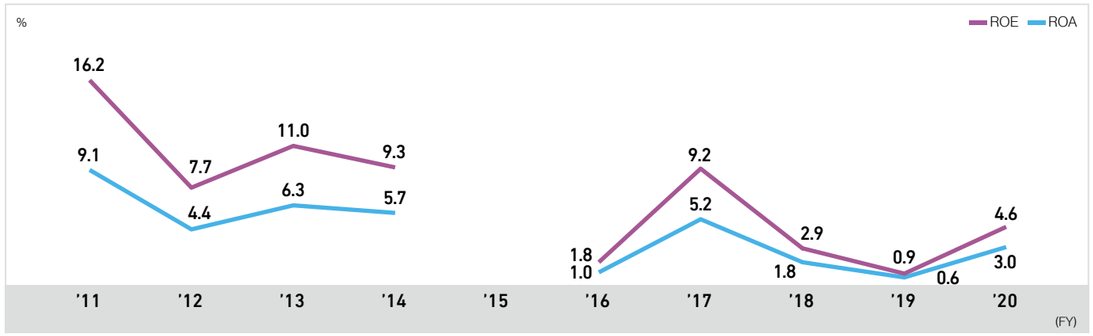
*3 As of the fiscal year 2016 change in segmentation, elimination of inter-segment transactions and general corporate expenses that are not allocated to the reporting segment are included in the adjustment to segment income (loss).

ROE / ROA[*4]

ROE increased 3.7 points from the previous fiscal year to 4.6%.
ROA increased by 2.4 points to 3.0%.

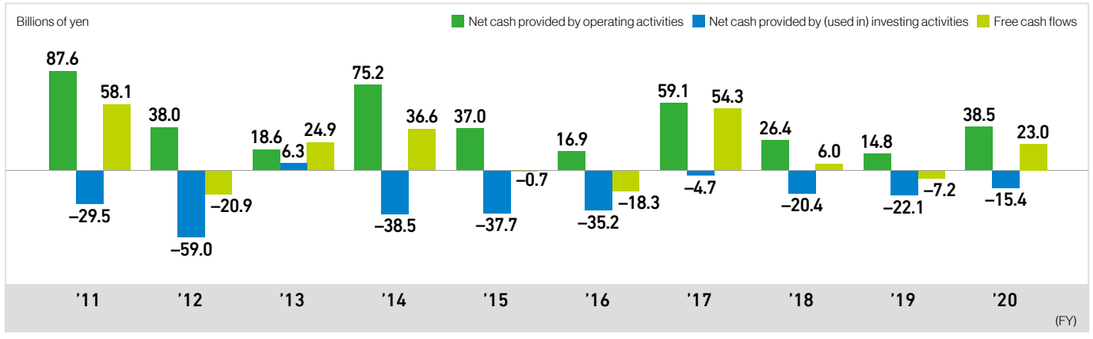
4.6% / 3.0%

*4 ROA = Profit attributable to owners of parent ÷ Total assets



Cash Flows

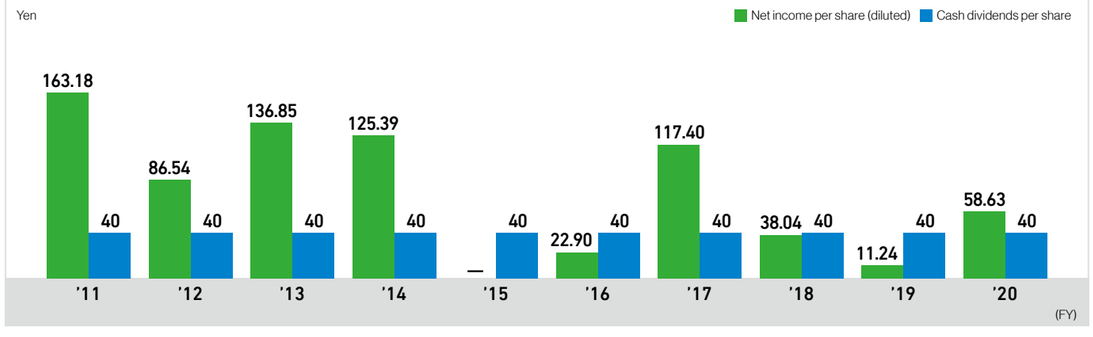
Cash flow from operating activities in fiscal year 2020 was ¥38.5 billion, compared with ¥14.8 billion in the previous fiscal year.
Cash flow from investing activities was ¥15.4 billion, down from ¥22.1 billion a year earlier.



Net Income per Share / Cash Dividends per Share

Net income per share (diluted) increased by ¥47.39 from the previous fiscal year to ¥58.63.
The Company continues to pay a stable (annual) dividend of ¥40 yen per share.

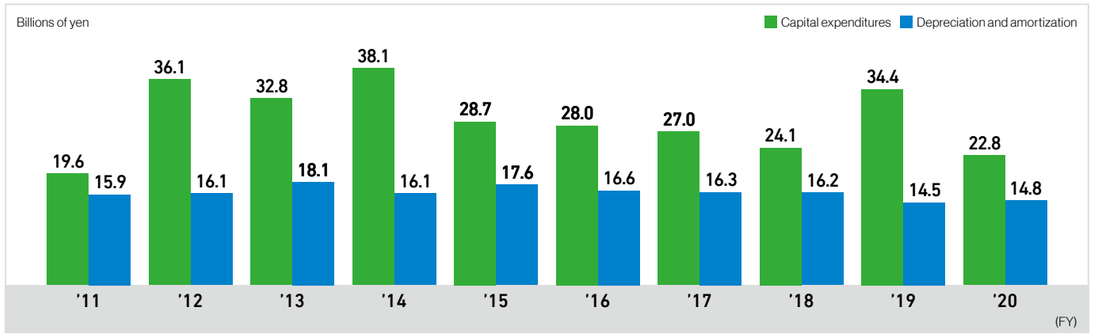
¥58.63 / ¥40



Capital Expenditures / Depreciation and Amortization[*5]

Capital expenditures decreased 33.7% year on year to ¥22.8 billion.
Depreciation and amortization increased 2.1% to ¥14.8 billion.

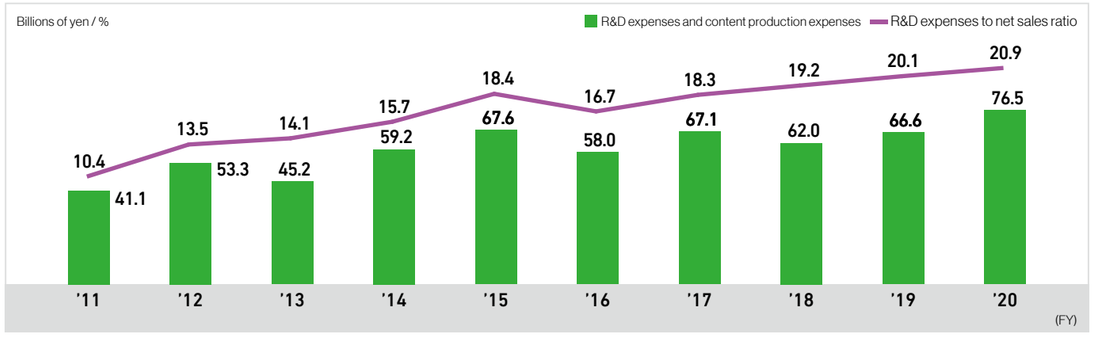
¥22.8 billion / ¥14.8 billion



R&D Expenses and Content Production Expenses[*5] / R&D Expenses to Net Sales Ratio

R&D expenses and content production expenses increased 14.9% to ¥76.5 billion, due to the launch of multiple new packaged game titles and other factors.

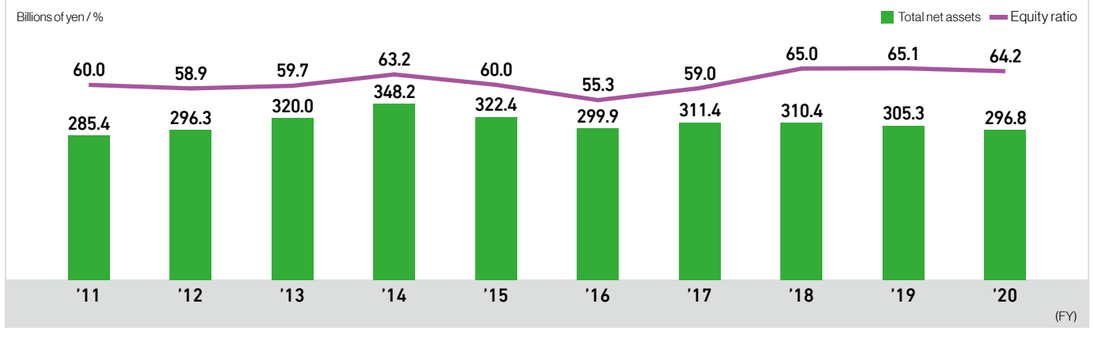
¥76.5 billion / 20.9%



Total Net Assets / Equity Ratio

Total net assets were down by ¥8.4 billion from the previous fiscal year to ¥296.8 billion.
The equity ratio was down 0.9 points to 64.2%.

¥296.8 billion / 64.2%



*5 The aggregate calculation method has changed as of fiscal year 2014. Consequently, R&D expenses and content production expenses include amortization cost of digital game titles. Until fiscal year 2013, depreciation and amortization included amortization cost of digital game titles.

PERFORMANCE & STRATEGIES

Implementing structural reforms to achieve a rapid turnaround in profitability

Structural reforms to adapt to changing business conditions

The SEGA SAMMY Group carried out the Road to 2020 medium-term management strategy from fiscal year 2018 to fiscal year 2020 with the aim of realizing its long-term vision. During the three-year period, reuse and other cost reduction measures in the Pachislot and Pachinko Business area resulted in improvement in the operating income margin, while sales in the Entertainment Contents Business, primarily sales of repeat titles in Asia, Europe, and the North America, grew. In the Resort Business, which is positioned to be a future driver of earnings, the Group steadily acquired the expertise needed to enter the integrated resort field in Japan.

The Group was planning to enter a new phase targeting further growth in fiscal year 2021, but the onset of COVID-19 caused a major crisis across its business areas. The Group is undertaking structural reform with a view to transforming the business structure in a way that can adapt to such changes in the environment and achieving a swift turnaround in profitability.

Changes in Business Environment in Each Segment Due to COVID-19

Pachislot and Pachinko Machines Business

▼ Sales declined as extension of deadline for removing previous-regulation machines decreased purchasing motivation of pachinko hall operators

Entertainment Contents Business

▲ Demand in Consumer Games area expanded due to stay-at-home consumption

▼ Amusement Center Operations and Amusement Machine Sales struggled as amusement center operations were suspended

Resort Business

▼ User numbers declined due to facility suspension, travel restrictions, etc.

Implementation of Structural Reform

Reviewing balance sheet with a focus on non-business assets

Building an organizational framework that can adapt to changes in the market environment

Cost reduction centered on fixed costs across the Group

Reforming the Business Structure

Achieving a swift turnaround in profitability and realizing sustainable growth going forward

Overview of Structural Reforms as of the second quarter of fiscal year 2021		Impact on Operating Results: Profit/loss impact in current fiscal year (forecast)	Impact on Operating Results: Profit/loss impact in next fiscal year (forecast)
1. Review of business structure	• Transfer of shares of a subsidiary in the Amusement Center Operations area • Closing of Orbi Yokohama nature museum	– ¥20.5 billion (extraordinary loss)	+ ¥5.0 billion (ordinary income)
2. Fixed cost reductions	• Calling for about 650 volunteers for early retirement Group-wide	– ¥10.0 billion (extraordinary loss)	+ ¥10.0 billion (ordinary income)
3. Review of balance sheet	• Gain on sale of investment securities • Ongoing review of non-business assets	+ ¥5.9 billion (extraordinary income)	—

Net loss attributable to owner of parent of ¥24.5 billion is expected for fiscal year 2021 due to greater losses associated with the recording of structural reform expenses.

Building an organizational framework that can adapt to changes in the environment, achieve a swift turnaround in profitability and realize sustainable growth going forward.

- ▶ Interim dividend revised to ¥10, year-end dividend undecided
- ▶ 30% reduction in executive compensation (Representative Directors of the Company), etc.
- ▶ Recovery in Pachislot and Pachinko Machines Business performance
- ▶ Focus on global business opportunities in the Consumer Games area
- ▶ Entry into Japan integrated resort business

Outlook for Fiscal Year 2021

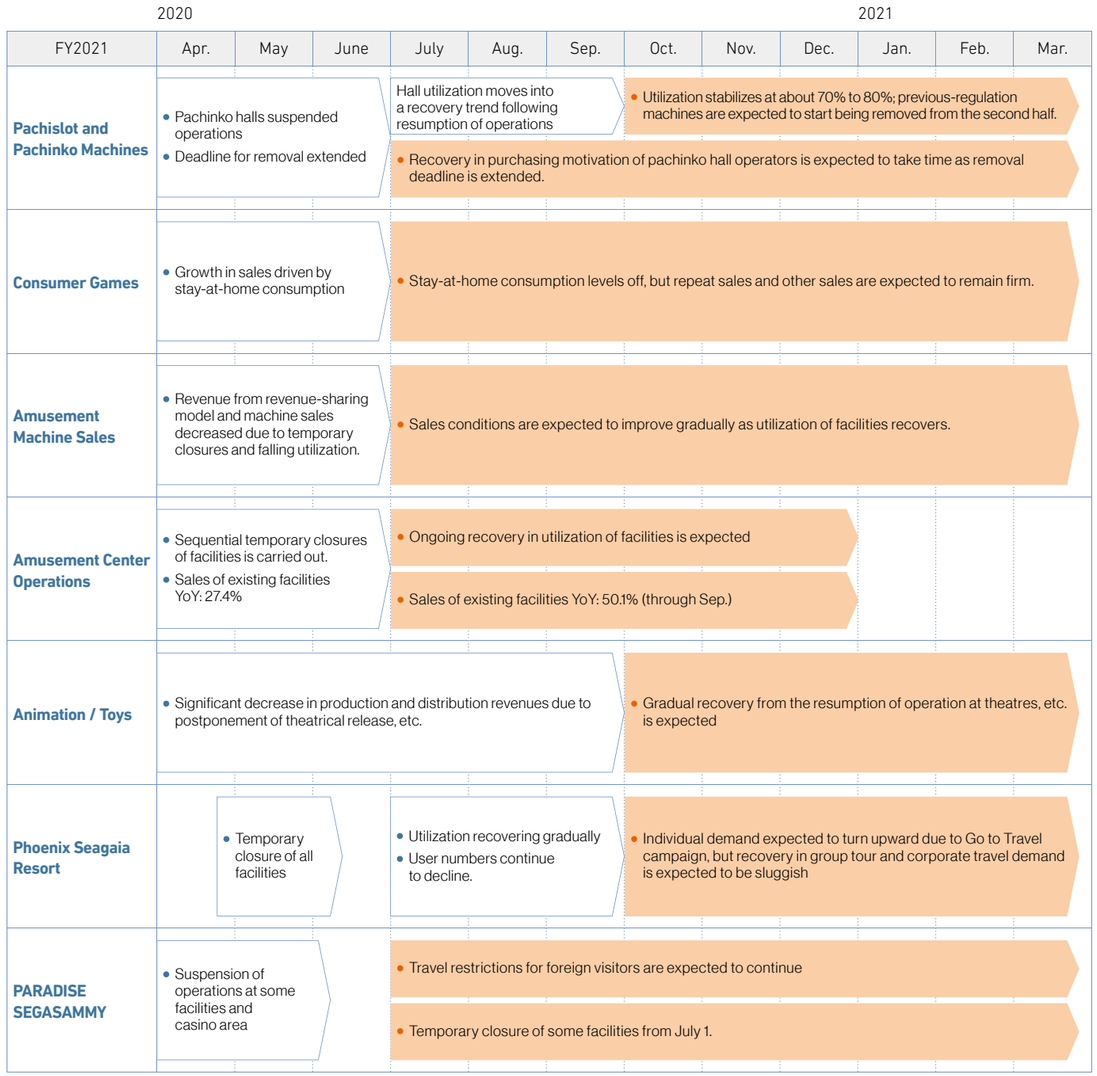
The Consumer Games areas is expected to continue to perform well. In addition, the exemption of Amusement Center Operations from consolidation from the fourth quarter of fiscal year 2021 is expected to yield a much larger-than-forecast improvement in the ordinary loss, although we also expect to incur extraordinary income and extraordinary losses associated with the implementation of structural reforms. Net loss attributable to owners of parent is expected to be ¥24.5 billion.

(Billions of yen)

	FY2020	FY2021 (revised forecast)
Net sales	**366.5**	**283.0**
Pachislot and Pachinko Machines Business	108.5	60.0
Entertainment Contents Business	247.6	216.0
Resort Business	10.4	6.5
Other and elimination	0	0.5
Operating income (loss)	**27.6**	**–1.5**
Pachislot and Pachinko Machines Business	23.2	–10.0
Entertainment Contents Business	16.5	21.5
Resort Business	–3.6	–5.5
Other and elimination	–8.5	–7.5
Non-operating income	3.2	5.0
Non-operating expenses	5.5	8.5
Ordinary income (loss)	**25.2**	**–5.0**
Pachislot and Pachinko Machines Business	22.7	–10.5
Entertainment Contents Business	16.2	24.0
Resort Business	–5.3	–11.0
Other and elimination	–8.4	–7.5
Extraordinary income	3.1	7.5
Extraordinary losses	1.2	34.0
Income (loss) before income taxes	**27.1**	**–31.5**
Profit (loss) attributable to owners of parent	**13.7**	**–24.5**

Market environment, business conditions, etc., for fiscal year 2021

Gradual recovery is expected in both the market environment and in business conditions, although downward pressure will remain in business areas other than Consumer Games.



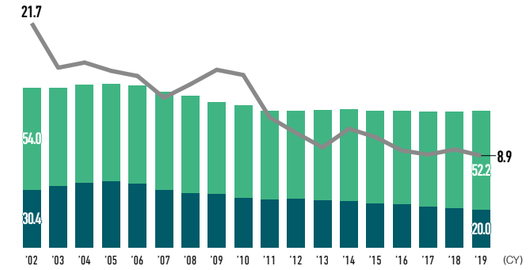
Pachislot and Pachinko Machines Business

As an "innovator in the industry," SEGA SAMMY will launch new initiatives and strive to generate stable profits by enhancing profitability.

External Environment

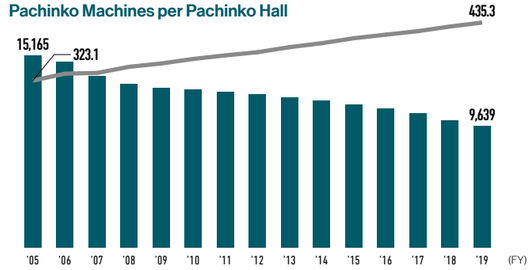
Along with the slow decline of the player population since 1995, there has been a long-term downtrend in the overall number of pachinko halls, as well as in the number of machines installed and in annual machine turnover. On the other hand, the opening of more large-scale halls and an increase in locations of major hall operators has caused a rise in the number of machines installed per store.

Market Size and Number of Pachislot and Pachinko Players



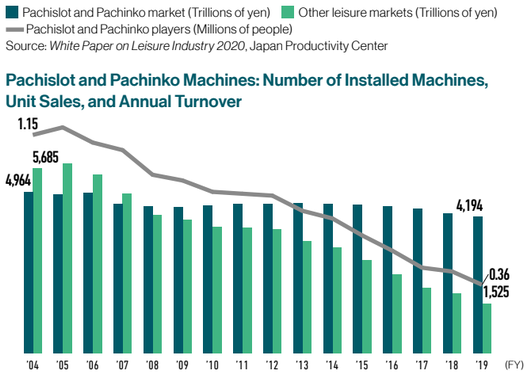
Pachislot and Pachinko market (Trillions of yen)
Other leisure markets (Trillions of yen)
Pachislot and Pachinko players (Millions of people)
Source: *White Paper on Leisure Industry 2020*, Japan Productivity Center

Numbers of Pachinko Halls and Installed Pachislot and Pachinko Machines per Pachinko Hall



Number of pachinko halls (Halls)
Number of installed Pachislot and Pachinko machines per pachinko hall (Units)
Source: National Police Agency

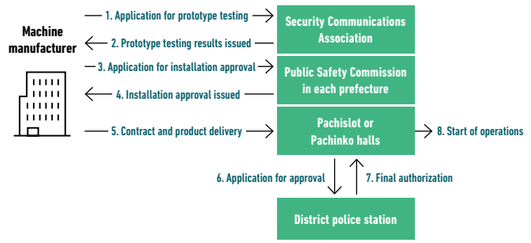
Pachislot and Pachinko Machines: Number of Installed Machines, Unit Sales, and Annual Turnover



Number of installed pachislot and pachinko machines (Thousands of machines)
Pachislot and pachinko machine unit sales (Thousands of machines)
Annual turnover (Times)
Source: National Police Agency and Yano Research Institute Ltd.

Pachislot and Pachinko Machine Approval Process

When marketing a new Pachislot or Pachinko machine, manufacturers are required to go through a multiple step licensing processes in accordance with the Entertainment Establishments Control Law.



For more information on market data, see pages 81-82

Anticipated Opportunities and Risks

Opportunities

Possibility of expanding user base
As the scope of development has expanded due to changes in regulations, machines conforming to the new regulation may expand the user base.

Phasing out of machines conforming to the previous regulation
Along with transition to machines conforming to the new regulation, the phasing out of machines conforming to the previous regulation is planned based on the removal deadline.

Risks

Decline in the player population
The decline in the player population may undermine the purchasing power of hall operators and affect unit sales volume.

Risk of approval status
The approval rate*, which has remained at a low level due to the recent revision of regulations, may have a significant impact on sales.

* The rate of obtaining successful prototype testing results in the Pachislot or Pachinko machines licensing process

Responses

Cost reduction

- Promotion of reuse
- Building an industry platform

Gaining approval

- Application for multiple specifications
- Application via multiple brands

Expanding the user base

- Development of pachislot and pachinko machines that reflect market trends
- BtoC strategy

Maximizing Our Strengths

Business Overview

A powerful IP lineup and strong development capabilities
SAMMY has an IP lineup that boasts strong brand awareness, led by titles in the popular *Hokuto No Ken* series.

Sammy's Strengths
IP

Owns multiple well-performing series

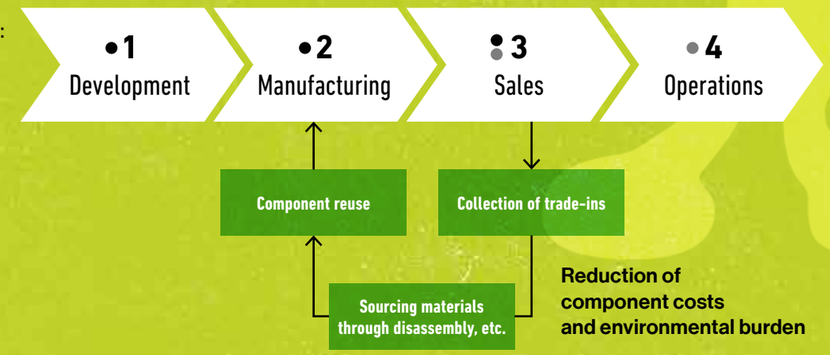
Series	Number of titles in series	Cumulative unit sales
Hokuto no Ken	34	Approx. 2.97 million units
ALADDIN	14	Approx. 560,000 units
Beast King	15	Approx. 510,000 units
SOUTEN-NO-KEN	13	Approx. 480,000 units
Shin Hokuto Muso	5	Approx. 160,000 units
Eureka Seven	4	Approx. 150,000 units
Bakemonogatari / Nisemonogatari	10	Approx. 140,000 units
Code Geass	3	Approx. 60,000 units

Note: As of March 31, 2020

Lowering costs and raising profitability
Pachislot and pachinko businesses are characterized by a reliance on electronic components that carry a high cost ratio. The Group is working to boost development efficiency and lower costs, such as through the reuse of materials.

Value Chain of the Pachislot and Pachinko Machines Business

- 1. Average development lead time: 1 year-2.5 years
- 3. Average sales lead time: 1 month-
- In-house
- Outsourcing



Operating Profit Margin Improved

Outcomes and Achievements

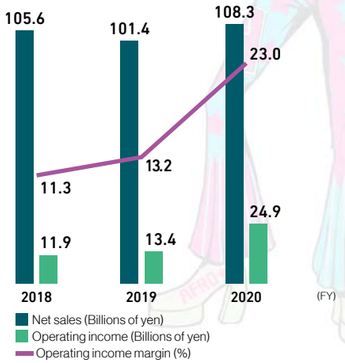
Achievements in Fiscal Year 2020

The Group sold 123,000 pachislot units, compared with 67,000 units in the previous fiscal year, driven by sales of major titles such as *Pachislot Hokuto No Ken Tenshou*. The Group also sold 104,000 pachinko units, such as *P Hokuto No Ken 8 Haou*, compared with 159,000 units in the previous fiscal year.

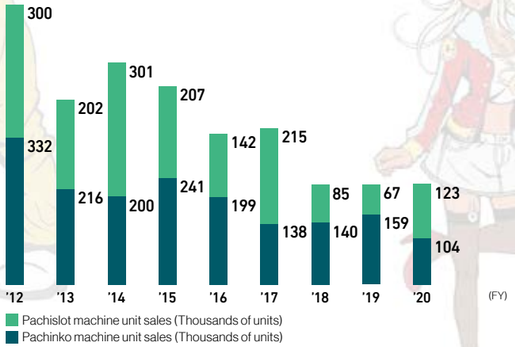
As a result of the above factors, sales were up 7% from the previous fiscal year. The success of measures to enhance profitability under Road to 2020 yielded a significant improvement in the operating income margin over the previous fiscal year, while operating income rose by 85%.



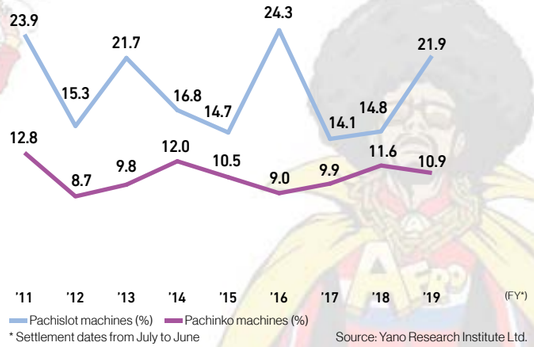
Pachislot Hokuto No Ken Tenshou
©Buronson & Tetsuo Hara/NSP 1983, ©NSP 2007 Approved No.YAF-420
©Sammy



Pachislot and Pachinko Machine Unit Sales



Market Share of Pachislot and Pachinko Machines



* Settlement dates from July to June

Source: Yano Research Institute Ltd.

Review of Road to 2020

Reuse and other cost reduction measures led to an improvement in profitability, lifting the operating income margin to 23% for fiscal year 2020. On the other hand, unit sales were lower than expected, reflecting a market-wide downturn in machine sales owing to the 2018 regulatory revisions, well as a significant drop in prototype approvals, which impacted sales schedules. Although the Group was able to enhance profitability in several areas, low prototype approval rates remain an issue to be resolved.

Targets and Results

FY2020 Plan (announced May 2017)	FY2020 Results	
Operating income margin 30%	23%	Achieved: Improved profitability by reducing procurement costs mainly through reuse
		Not achieved: Increase in unit sales



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Outlook Going Forward

Fiscal Year 2021 Revised Forecast

COVID-19 caused the temporary closure of pachinko halls throughout Japan. Although the hall operations have been on a recovery trend since the lifting of the country's state of emergency, with the extension of the deadline for removing previous regulation machines, recovery of hall operators' purchasing motivation is likely to take time. As a result, it is likely to be a rough year for manufacturers, with unit sales declining. Based on these assumptions, we anticipate a significant decrease in overall sales paired with an ordinary loss in fiscal year 2021.

FY2020 (Results)

Net sales: ¥108.5 billion (After retroactive adjustments)

Ordinary income: ¥22.7 billion

FY2021 (Revised forecast)

Net sales: ¥60.0 billion

Ordinary loss: -¥10.5 billion

Note 1: From fiscal year ended 2021, the Group's gaming equipment segment, which develops and sells casino gaming equipment, was spun off from the Amusement Machine Sales segment of the Entertainment Contents Business to become the Gaming Machine Business area.

Note 2: Operating results for fiscal year 2020 have been retroactively adjusted to reflect the segment reclassification.

Planned unit sales

- **Year-on-year declines in sales of both pachislot and pachinko machines**
- **Marketing of mainstay titles to meet 2020 year-end replacement demand.**

	FY2020	FY2021 (Revised forecast)
Pachislot		
Number of titles	**5 titles**	**6 titles**
Machine unit sales	**123,336**	**38,300**
Pachinko		
Number of titles	**7 titles**	**5 titles**
Machine unit sales	**104,581**	**89,200**
Sales of boards + frames	**33,056**	**63,500**
Sales of frames	**71,525**	**25,700**

Pachislot Shin Hokuto Muso
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©2010-2013 Koei Tecmo Games Co., Ltd.
©Sammy

Pachislot Kaidoumokushiroku kaiji numa
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Soon-to-be released titles

Pachislot

- *Pachislot Shin Hokuto Muso* (July 2020)
- *Pachislot Kaidoumokushiroku kaiji numa* (October 2020)
- *Pachislot Seven deadly Sins* (November 2020)
- *Pachislot Initial D* (January 2021)

and others

Pachinko

- *P Psalms of Planets Eureka Seven HI-EVOLUTION ZERO* (August 2020)
- *P ROAD TO EDEN* (September 2020)
- *P BIG DREAM2 GEKISHIN* (November 2020)
- *P Shin Hokuto Muso Chapter 3* (December 2020)

and others



P Psalms of Planets Eureka Seven HI-EVOLUTION ZERO
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©Sammy



P Shin Hokuto Muso Chapter 3
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Regulatory revisions and schedule for removal of machines conforming to the previous regulation

Overview of machines conforming to the new regulation

Although the February 2018 regulatory revision restricts the gambling aspects of Pachislot and Pachinko machines, it also enables the development of more casual, easy-to-play machines.

Since the changes, the gradual relaxation of voluntary regulations has enabled improvements in gameplay and encouraged the development of machines that can be enjoyed for a shorter time span. The Group will continue striving to create machines that incorporate innovative concepts to build up the population of future users.

Regulatory revision (February 2018) and relaxation of voluntary regulations

Pachislot

- Changes in pay-out regulation

Pachinko

- Changes in pay-out regulation
- Introducing "Setting" to pachinko machines

Feb. 2018

Apr. 2018

New regulation machines (1) (Regulation for 6.0 model machine)

Improvement in gameplay within a shorter time span

- Removal of upper limit of the number of medals obtained per game
- Revival of assist time machines

Nov. 2018

Development of machines with high jackpot continuous rate

- Elimination of the 65% upper limit in continuous rate of probability change

New Regulation Machine (1)

May 2019

Gameplay widens

- Elimination of the lower limit on the number of win balls
- Elimination of the lower limit in game numbers can be played at normal status

New Regulation Machine (2)

Dec. 2019

Review of voluntary regulation

New regulation machines (2) (Regulation for 6.1 model machine)

Mainly improved gameplay related to visual effects

- Addition of visual effects using the lever and buttons
- Addition of visual effects using mini-reel machine (video reel machine)
- Assist time gameplay improved

Jan. 2020

Changes in Interpretation

Primarily new gameplay added

- Ability to enter into time reduction*1 after consumed the predetermined number of games
- Elimination of 100 times upper limit of count in time reduction
- Enable to enter into time reduction with specific symbols
- Can use count of limiters*2 up to two types

New Regulation Machine (3)

May 2020

Extension of deadline for removal of previous regulation machines

Dec. 2021

Complete transition to new regulation machines



P Psalms of Planets Eureka Seven HI-EVOLUTION ZERO becomes SAMMY's first pachinko machine to be equipped with "Yu Time" feature.

Introduction of "Yu Time" innovative gameplay

"Yu Time" is the name of the time reduction*1 mode a machine enters when a player does not hit the jackpot up to the specified number of times during normal (low probability) play.

"Yu Time" activates under certain conditions, and only once, when the number of spins reaches between 2.5x and 3.0x the jackpot probability denominator in normal (low probability) play.

The addition of innovative gameplay features not found in previous pachinko machines has made it possible to provide users with a wide range of playing options.

*1 Time reduction: Function enabling games to be played efficiently without greatly reducing the number of balls.
*2 Limiter: One of the functions in probability change, where the probability change is ended when the predetermined number of jackpot times is used up.

Change in removal schedule of previous regulation machines due to revision in the Entertainment Establishments Control Law and other regulations

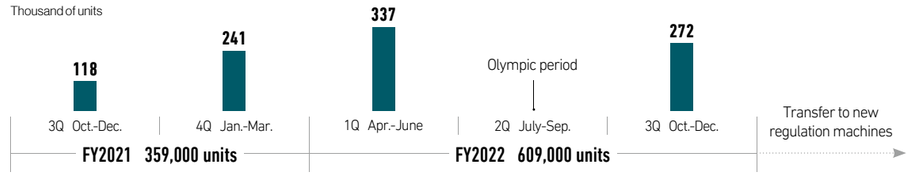
On May 20, 2020, the National Public Safety Commission announced the transition period would be extended by a year due to revisions of enforcement regulations in the Law on Control and Improvement of Amusement and Entertainment Businesses.

In addition, following a resolution by the 21st Century Pachinko and Pachislot Industry Association, previous regulation machines will be phased out, and it is expected that the transition to the new regulations machines will be completed by December 2021.

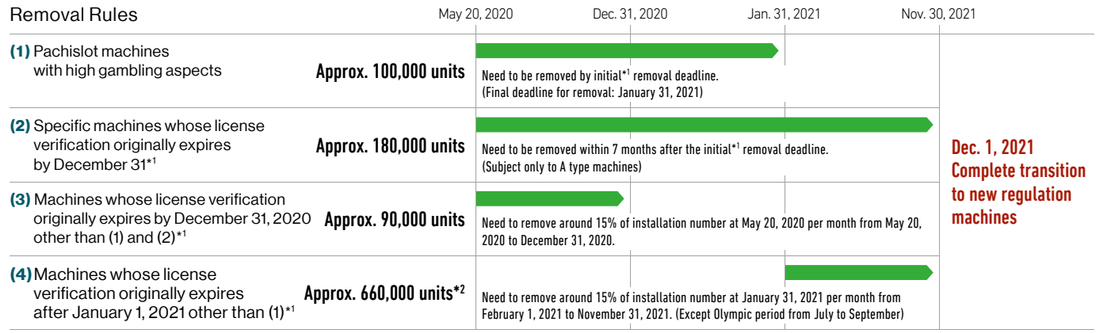
Schedule and rules for removal of previous regulation machines

Pachislot

Schedule for removal of previous regulation machines



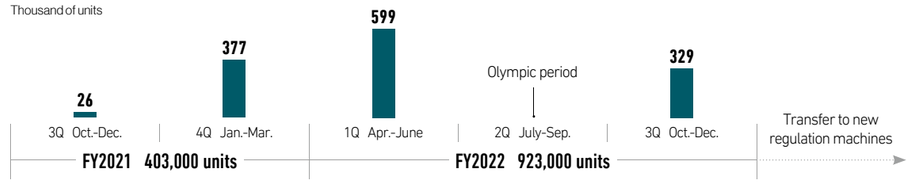
Removal Rules



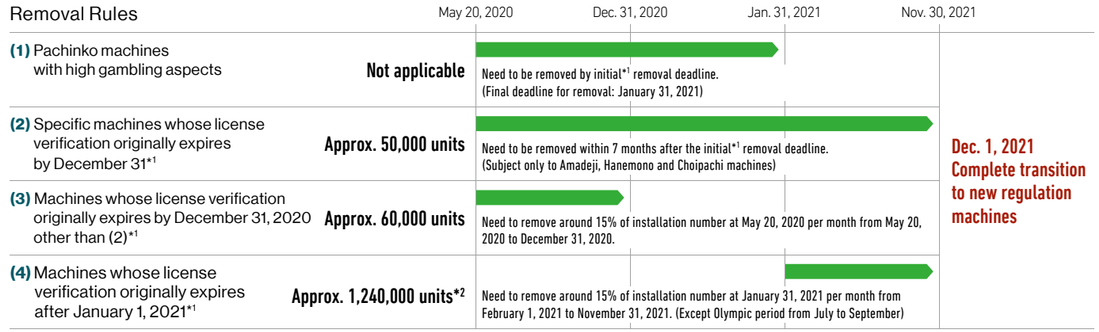
*1 Expiration timing of license verification before the revision of rule on May 20, 2020
*2 Number of units to be removed are in-house estimations as of end of October 2020

Pachinko

Schedule for removal of previous regulation machines



Removal Rules



*1 Expiration timing of license verification before the revision of rule on May 20, 2020
*2 Number of units to be removed are in-house estimations as of end of October 2020

Entertainment Contents Business

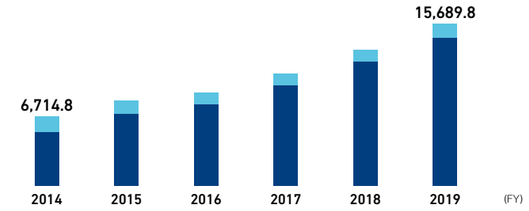
The Group will pursue the expansion of business value by rolling out content globally, leveraging its broad business portfolio and abundant IP assets.

External Environment

The market for digital distribution games is trending toward expansion owing to the broader dissemination of online distribution and game distribution platforms. Further, Japan's mobile games market is seeing fiercer competition and increased domination by certain titles. The Amusement Machine Sales and Amusement Center Operations areas are facing harsh business conditions under COVID-19.

Market Size of Packaged Games and Digital Distribution Games

Billions of yen



Market size of digital distribution games market*1 Market size of packaged games market*2

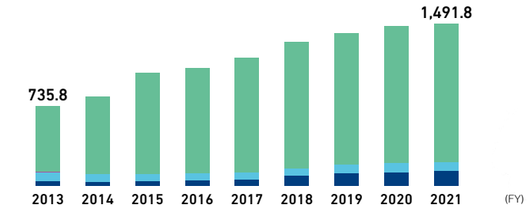
*1 Total of income from digital distribution of mobile games, PC online games, and home video games

*2 Including income from packaged home video games and packaged PC games

Source: *Famitsu Game White Paper* (2015-2020)

Domestic Market for Online Game Content

Billions of yen



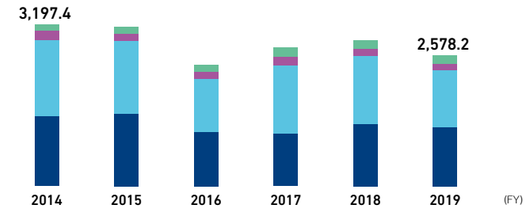
Home video game consoles PCs

Feature phones Game apps (Smart devices + SNS)

Source: f-ism

Total Shipments of Home Video Games

Billions of yen



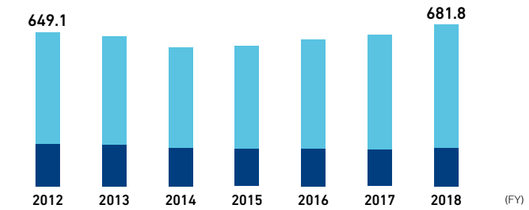
Software (overseas) Hardware (overseas)

Software (domestic) Hardware (domestic)

Source: *CESA Game White Paper 2020*

Domestic Amusement Machine Sales and Revenues from Amusement Center Operations

Billions of yen



Amusement machine sales Revenues from amusement center operations

Source: Japan Amusement Industry Association

For more information on market data, please see page 81.

Anticipated Opportunities and Risks

Opportunities

Expansion of the packaged games market

The packaged game market is expanding, supported by growth in the European, North American, and Asian markets.

Growth potential of the overseas online games market

The online games market has great potential, particular in overseas, due to the expansion of diverse distribution platforms.

Risks

Intensifying competition in the domestic digital games market

The risk of not being able to realize the expected return on investment is increasing as a result of intensified competition due to a slowdown in market growth and the entrenched market position of top titles. (Digital Games area)

Responses

Full games*1

- Expansion of development studios
- Expansion of overseas publishing business
- Development of titles compatible with multiple platforms, etc.
- Maximize IP asset value

F2P*2

- Sustained earnings through long-term operation of existing titles
- Optimization of the number of titles under development and operation
- Reconsidering focus areas

*1 Mainly disc-based and download sales of full games for home video game consoles and PCs. (Sales of add-on download content are not included.)

*2 F2P indicates free-to-play basic game contents along with item-based sales, etc. mostly for smartphones and PCs

Wide-ranging Business Portfolio

Business Overview

Ensuring steady earnings through expansion across a range of areas

SEGA SAMMY's Entertainment Contents Business has expanded into various entertainment domains, each of which presents different market growth potential and levels of competition. Leveraging its well-balanced portfolio, the Group is generating stable income without relying excessively on any given IP, title, or business activity.

Consumer Games

In the full games area, we will promote the global expansion of Group-owned IPs, including existing IPs for PCs in the fast-growing European and North American markets, and increase development efficiency through the effective use of development engines.

In the F2P area, the Group will strive to boost profitability by ensuring stable income through the long-term operation of existing titles and launching new titles based on its IP strategy.



Yakuza: Like a Dragon
©SEGA





PHANTASY STAR ONLINE 2
©SEGA



Amusement Machine Sales

In addition to shifting development resources to the growing Consumer Games area, the Group is taking steps to improve its return on investment by reducing costs.



StarHorse4
©SEGA

Animation and Toys

In the Animation area, the Group is working to enhance the profitability of its major IPs—*Detective Conan*, *Anpanman*, and *Lupin III*—while growing the Toys business in terms of mainstay products such as *Anpanman*.



Detective Conan The Fist of Blue Sapphire
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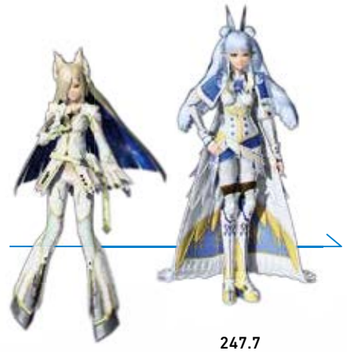
Amusement Center Operations

Following a review of its business portfolio, the Group announced the transfer of shares of a subsidiary in the Amusement Center Operations area. (October 2020)



SEGA Ikebukuro GiGO
©SEGA ENTERTAINMENT Co., Ltd.

Maximizing Our IP Value



©SEGA

Outcomes and Achievements

Achievements in Fiscal Year 2020

Packaged Games and Digital Games Area (now Consumer Games Area)

In the Packaged Games* area, the release of several large-scale new titles such as *Total War: THREE KINGDOMS* and *MARIO & SONIC AT THE OLYMPIC GAMES*™ led to a significant increase in sales, although costs were also up, reflecting in part the amortization of R&D expenses. Meanwhile, repeat sales of existing titles remained firm.

In the Digital Games* area, following the recording of impairment losses in the previous fiscal year, costs were down significantly, while profitability saw substantial improvement with the recording of one-time gains associated with the transfer of titles and offering of titles, as well as solid performance of titles in operation.



Total War: THREE KINGDOMS
©SEGA.



Amusement Machine Sales Area / Amusement Center Operations Area

In the Amusement Machine Sales area, sales efforts centered on prize game machines and other products, but the effect of poor performance of video games and others led to overall sluggishness. Amusement Center Operations saw a downtrend in customer traffic due to Japan's consumption tax hike and a series of typhoons as well as the impact of COVID-19.

Animation and Toys Area

Animation and Toys recorded revenues from movie distribution and video distribution, as well as from sales of new and mainstay toy products.

Review of Road to 2020

In the Packaged Games* area, higher sales were driven by the serialization of mainstay IPs and the establishment of sales frameworks in Asia, Europe, and the United States. On the other hand, the lack of hit titles in the Digital Games* area was an issue. In response, the Group is reconsidering its focus areas, reallocating resources from investments in the mobile games area to games for home video game consoles in growing Asian, European, and North American markets and the PC download area, and focused needed resources on global expansion. We will continue to reassess production quality and expand our multi-platform development to generate global hit titles.

Targets and Results

FY2020 Targets (announced May 2017)	FY2020 Results	
Operating income margin	10% → 6%	Achieved: Serialize mainstay intellectual property; Expand sales in Asia, Europe, and North America
Operating income	¥30.0 billion → ¥14.8 billion	Not achieved: Creation of hit titles in Digital Games area*

* From the fiscal year ending March 2021, the Packaged Games and Digital Games areas were newly integrated into the Consumer Games area.

About the Segment Realignment

From the fiscal year ending March 2021, the Packaged Games and Digital Games areas were newly integrated into the Consumer Games area.

Outlook Going Forward

Fiscal Year 2021 Revised Forecast

Following a review of the business portfolio, the Group forecasts a reduction in the loss margin due to structural reforms in the Amusement Center Operations area, as well as a significant boost in income in the Consumer Games area attributable to expanding stay-at-home consumption.

FY2020 (Results)
Net sales: ¥247.6 billion (After retroactive adjustments)
Ordinary income: ¥16.2 billion

FY2021 (Revised forecast)
Net sales: ¥216.0 billion
Ordinary income: ¥24.0 billion

*1 From the fiscal ending March 2021, the Consumer Games sub-segment was formed through the integration of the Digital Games and Packaged Games areas.
*2 From the fiscal year ending March 2021, the Group's gaming equipment segment, which develops and sells casino gaming equipment, was spun off from the Amusement Machine Sales segment of the Entertainment Contents Business area to become the Gaming Machine Business area.
*3 Operating results for the fiscal year 2020 have been retroactively adjusted to reflect the segment reclassification.

Consumer Games

The Group forecasts a significant increase in earnings due to growth in repeat sales, mainly overseas, driven largely by expansion in stay-at-home consumption. Further growth is expected in multiplatform and global gaming markets. In the full games area, the title *Total War Saga: TROY* went on sale in Epic Games stores in August, while in the F2P area, the North American version of *PHANTASY STAR ONLINE 2* continues to perform well.

FY2020 (Results)
Net sales: ¥125.5 billion
Ordinary income: ¥14.7 billion

FY2021 (Revised forecast)
Net sales: ¥132.5 billion
Ordinary income: ¥30.0 billion

Major Titles Scheduled for Release in fiscal year 2021



Total War Saga: TROY
©SEGA. Developed by The Creative Assembly Limited.



Persona 4 Golden (PC version)
©ATLUS. ©SEGA. All rights reserved.



PHANTASY STAR ONLINE 2 (North American version)
©SEGA



Re:ZERO –Starting Life in Another World– Lost in Memories
©Tappei Nagatsuki,KADOKAWA/Re:ZERO2 PARTNERS
©SEGA

Amusement Machine Sales / Amusement Center Operations

In the Amusement Machine Sales area, although sales of prize machines and other mainstay products will continue, the Group forecasts a decrease in sales and a greater loss over the previous year.

In line with structural reforms in the Amusement Center Operations area, the Group is planning to record results up to the third quarter.

Amusement Machine Sales

FY2020 (Results)
Net sales: ¥51.0 billion
Ordinary income: –¥0.6 billion

FY2021 (Revised forecast)
Net sales: ¥37.5 billion
Ordinary income: –¥2.5 billion

Amusement Center Operations

FY2020 (Results)
Net sales: ¥41.9 billion
Ordinary income: ¥1.4 billion

FY2021 (Revised forecast)
Net sales: ¥20.0 billion
Ordinary income: –¥4.5 billion

Animation and Toys

In the Animation area, the Group forecasts a fall in distribution income due to the postponement of the theatrical release of *Detective Conan*. Meanwhile, in the Toys area, although sales of mainstay products are planned, decreases in both sales and profit are expected.

FY2020 (Results)
Net sales: ¥26.2 billion
Ordinary income: ¥2.7 billion

FY2021 (Revised forecast)
Net sales: ¥24.0 billion
Ordinary income: ¥0.9 billion

Top management talks about the new Consumer Games area today and in the future



With a new framework, SEGA will pursue opportunities in growing global markets and deliver *experiences that move the heart* to people.

Yukio Sugino
President and COO
(Representative Director)
SEGA CORPORATION

A new framework for creating global titles

In April 2020, SEGA Games Co., Ltd. and SEGA Interactive Co., Ltd. were merged and renamed SEGA CORPORATION, giving us a new framework. First of all, I would like to explain the background to this development.

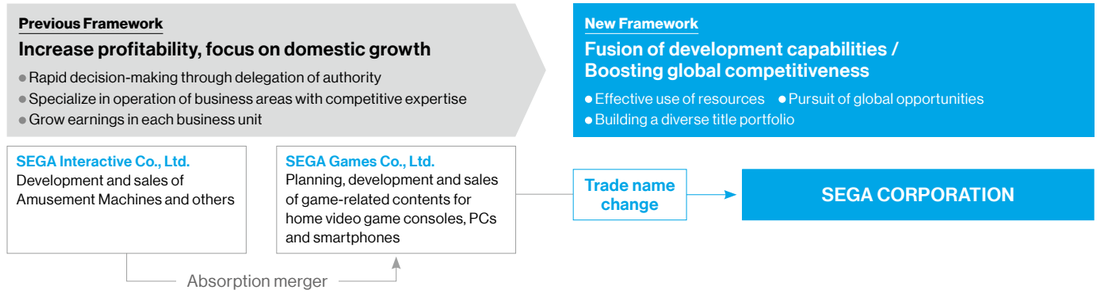
Under the former framework, in the games area, the two companies mainly specialized in business operations in their respective business areas—SEGA Games in games for home video game consoles, PCs, and smartphones, and SEGA Interactive in gaming machines for amusement facilities. I think one advantage of such specialization is that we could strengthen the earnings structure of the Entertainment Contents Business as a whole by allowing rapid decision-making through the decisive delegation of authority, as well as reinforce our commitment to profitability.

But one downside to seeking maximum specialization was a tendency to pursue short-term results, and after a while it became difficult to take on bold new challenges. Although we were able to consistently generate a certain level of profits, I think our domestic organizations in particular became too focused on the Japanese market, as it offered fairly predictable earnings.

From a longer-term market perspective, the business environment of the games industry is undergoing dynamic change around the world. In particular, currently, in light of expectations of rapid growth in the market on the back of advances in 5G, cloud, and other technologies, global tech companies with deep pockets are successively getting into the market. Both the business model and the very scale of the games industry is poised to undergo a radical transformation. This year, with several new home-use hardware platforms being introduced for the first time in years, the market going forward is expected to grow significantly. Over the longer term, I think the evolution of technology can't help but reinforce this trend.

In the midst of such drastic changes in the environment, we cannot hope to flourish in this industry if our strategy continues to focuses only on the Japanese market, which sooner or later will become increasingly tough—we'll get left behind by the global competition. So, looking ahead to how we can grow the business over the next five, ten, twenty years, we decided to pursue opportunities in the global market by once again combining our dispersed strengths in SEGA CORPORATION. This is what led to the change in framework.

Bolstering our global framework



Dramatic growth and structural change in the global games market

Let me say a bit more about the environment for the games industry.

Over the years, the games industry has followed a path laid out by the mainstream hardware of each era, starting from game arcades and moving to home video game consoles, to PCs, and then smartphones, and the market has continued to expand. (Please refer to page 38)

In recent years, as I mentioned earlier, a series of global tech companies with deep pockets have entered the market, and it is expected that the battle for market dominance will intensify down the road. Barriers to gameplay experiences are going to come down even further as cloud-based gaming and subscription-based businesses, which are possible precisely because the tech companies operate large data centers around the world, take root. In the long run, as it becomes possible to target customers in emerging countries who have previously had difficulty accessing games, there will be an explosion in new users, and the gaming population is expected to keep growing.

I also sense that the trends and structure of the global games market are changing in several significant ways.

One trend is that Made in Japan content has come to be broadly accepted and is expanding globally. For example, worldwide sales of titles in the *Persona* and *Ryu ga Gotoku* (*Yakuza* in Western countries) series have grown to reach 1 to 3 million units over the past few years, and are highly acclaimed among overseas users. Of course, in terms of mainstream global genres, the target audience for Japanese games is still somewhat of a niche market—but even a niche market, when extended across a global scale, translates into millions of users. I feel we have a competitive advantage in reaching diverse markets. Also, unlike in the past, with the release of titles across multiple platforms, the platforms themselves grow and the titles can be rolled out to various regions worldwide. In addition, as digital distribution becomes increasingly common, it is possible to build a long tail type of business model.

Another trend is the change in the ecosystem. Up till now, the major players in the games industry have been the platform providers, content publishers, and end users who play the games. However, the market is experiencing new vitality with the emergence of viewers who enjoy watching other people's gameplay, and communicators who mainly enjoy connecting with others through gaming world venues. The other day, a well-known singer-songwriter in Japan held a virtual concert within an online game, and it was a huge hit. It was an event where you could truly sense the potential for games to become communication tools. E-sports have also become a hot topic in recent years. I see e-sports as a form of promotion that builds excitement for both users and viewers for games. I believe maximizing excitement for all members of the gaming ecosystem in this way will become a key requirement for future hits.

Global Market Expansion

Changes in the business environment
1 Entry of global tech companies
Market growth in emerging countries

Diversification of game genres
2 Increasing popularity of Made in Japan content

Diversification of games industry players
3 Changes in the ecosystem
Development of e-sports, new promotion methods

Three strategies for future growth: IP growth, user communication, global expansion

From a strategic point of view, we believe there are three key factors that will enable us to pursue even more opportunities in global markets.

The first is to increase the value of our intellectual properties (IP).

To effectively pursue opportunities in global markets, we have to develop robust IPs that appeal to global audiences. We are currently reassessing the way titles are managed, and in April 2020, established a Project Management Office to head up these efforts.

The Project Management Office is in charge of the planning and management of potential analysis and market analysis for all our IP holdings, as well as planning of title lineups across the business, resource allocation, and business design.

Until now, each of our studios has focused on delivering the best possible results with the resources at its disposal. As a result, the value of existing flagship IPs such as *Sonic*, *Persona*, *Yakuza*, and *Total War*, which already enjoy worldwide recognition, is increasing daily. Going forward, however, to make even greater inroads into increasingly competitive global markets, we need to enhance our IP value further. The Project Management Office will take on the role of reevaluating the potential of our IP holdings and coming up with business designs that match each IP, with a view to developing and growing the most robust IP possible.

In expanding our IP, we will pursue the development of major titles in new IP areas, as well as explore ways of increasing the value of our IP through more open collaboration with outside partners, not necessarily drawing only on our own resources.

For example, we expanded the *Sonic* IP in making *Sonic the Hedgehog*, which was co-produced and released with Hollywood's long-standing cinema giant Paramount Studios—it became a huge international hit. This was a prime example of innovation brought about through the fusion of SEGA's *Sonic* IP with Paramount's production and promotion expertise. Moreover, the movie's huge success generated renewed appreciation for SEGA's legacy IP both within the company and without. As global markets expand, and as the entry of overseas tech companies expand the business model, numerous profit opportunities have been born out of a single IP, a single source.

The second important factor for future growth is user communication.

As I mentioned earlier, in order to grow robust, popular IPs, it will be even more important in the future to build long-term relationships through continuous, close communication with the users who are the biggest fans of SEGA's IP.

On the flip side, if we disappoint user expectations, we risk harming the value of the IP itself. We will work to improve user satisfaction by allowing developers to engage more fully with users, and by incorporating feedback gained from interactions with users in development of titles and operation of services.

SEGA has spent years cultivating experience and expertise in sharing excitement with such users, not only through our home video games, PC games, and games for smartphones, but also in the Amusement businesses. We want to incorporate this expertise and leveraging of human resources into the development of new game titles and operation of services.

We believe that accurately grasping user expectations, continuing to surpass them, and continuing to provide high-quality content will lead to success in a global context.

The third factor for growth is global expansion.

Our bases in the United States, Canada, the United Kingdom, France, Bulgaria, China, South Korea, Taiwan, and other parts of the world are indispensable for expanding SEGA's IP globally.

Deploying the right IP on the right platforms



Leveraging diverse human resources to pursue more global opportunities

The games market is expanding worldwide, and people of various nationalities, generations, and genders are encountering games. As creators, we cannot meet the needs of such diverse users unless we ourselves are also a diverse organization.

SEGA has traditionally had a deep-seated culture of being open and accepting of different ideas and new values without discriminating. One of the advantages SEGA has in reaching into global markets is that our various studios in different parts of the world can each contribute to building a diverse title portfolio by drawing on their unique strengths in developing titles.

In addition, Sega's localization capabilities are one of the reasons why the *Persona* and *Yakuza* series, which I mentioned earlier, have been so well received internationally. SEGA's base in North America has the strongest connection to English-speaking users, is familiar with the market, and has a large number of staff with a solid understanding of Japanese culture. While respecting the unique worldview of Japanese games, they have improved the quality of the games by localizing the titles to best fit user preferences in the various regions. I am personally proud that they are the best team capable of expanding titles created in Japan to global markets.

Last but not least, we have cultivated a corporate culture of boldly taking on the challenge of innovation without fear of failure. We are now entering the stage of establishing SEGA's strong presence in hotly contested global markets.

Working styles are changing on a global level due to social shifts and the recent pandemic, and we are establishing new styles of communication with overseas bases and business partners. We believe it will be possible to carry forward business design, build partnerships, and expand business development online at speeds that were unheard of in the past, without having to be physically on site.

In the process of taking on new challenges, there may be times when we run into walls or experience setbacks that we didn't have to face in the past. Even so, we will continue to have confidence in our well-honed sense of what is interesting and engaging, and then strive to make what we create provide a sense of affinity to people.

The SEGA Group celebrated its 60th anniversary in June 2020. From the beginning of the company, we have overcome many challenges to get to where we are now. Our path going forward is sure not to be easy, but at the same time, the possibilities are endless. And ten years down the road, on our 70th anniversary, I hope to show all of our stakeholders a world where SEGA games and services are loved even more widely than they are now.

Resort Business

To make the Resort Business a pillar of the Group over the medium to long term, we are building up our know-how in the integrated resort business in parallel with strengthening the profitability of existing resort facilities.

External Environment

Concrete moves toward the opening of an integrated resort in Japan.

The Integrated Resort Development Bill, which includes casinos, was enacted in July 2018, and moves toward the establishment of an integrated resort, which the government regards as essential for Japan to become "a tourism-oriented country," are gaining momentum.

Candidate locations and operators will be selected in the future.

Process Leading up to Opening of an Integrated Resort (IR) Facility

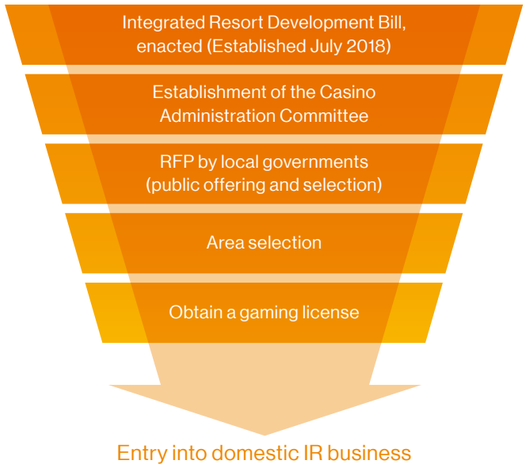


Image of the Yokohama Integrated Resort SEGA SAMMY exhibited at the *1st JAPAN IR EXPO in Yokohama* held January 29-30, 2020 at PACIFICO Yokohama



Anticipated Opportunities and Risks		Responses
Opportunities	**Risks**	**Acquisition of know-how for the success of IR business**
Commercialization of a domestic IR business If integrated resorts are realized in Japan in the future and our group's entry into the market is realized, there is a strong possibility that this business will become a major revenue source.	**Risks of entering into domestic IR business** Delays in legislation related to integrated resorts will have a major impact on our group's long-term scenario. There is also a risk that investment may not be recovered unless the Company is selected as a business entity. **Risks associated with response to addiction issues** Neglecting to respond adequately to addiction issues and other social issues could expose the Group to social criticism or render sustained development of the industry impossible.	• Deployment of personnel to *PARADISE CITY* • Development and operation of resort facilities • Addiction countermeasures For details see page 53. • Acquired gaming machine manufacturer and distribution licenses in Nevada. • Formed strategic business alliances with three companies

Making the Resort Business a Pillar of the Group

Business Overview

Through the operation of resort facilities, the Group is working to acquire development and operation expertise for entering the integrated resort field in Japan.

Japan's leading resort complex, *Phoenix Seagaia Resort*

Phoenix Seagaia Resort offers Japan's finest resort stays, taking advantage of an ideal environment—three facilities including the *Sheraton Grande Ocean Resort*, a world-class convention center that can hold up to 5,000 people, as well as *Phoenix Country Club*, one of Japan's preeminent golf courses, and a tennis club—all surrounded by a vast, nearly 700-hectare grove of Japanese black pines spreading roughly 11 kilometers north-south along the coast of the Pacific Ocean in Miyazaki Prefecture. By continuously improving the value of the facilities, the Group is working to strengthen its ability to attract customers while accumulating know-how in the operation of resort facilities.



©Phoenix Resort



***The North Country Golf Club* (Chitose, Hokkaido)**

As part of its activities to promote sports and contribute to the community of Chitose City, the Company runs *Sega Sammy Cup Golf Tournament* and operates it as a facility for snow activities, *North Snowland in Chitose*, in winter.



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South Korea's first IR facility, *PARADISE CITY*

PARADISE CITY, operated by PARADISE SEGASAMMY Co., Ltd., a joint venture with the PARADISE GROUP of South Korea, is the first Integrated Resort (IR) facility in South Korea with hotels, casinos, commercial facilities, convention halls, and clubs. We aim to be the top IR facility in Northeast Asia by providing high-quality space and services, and are accumulating development and management know-how with a view to entering the IR business in Japan.

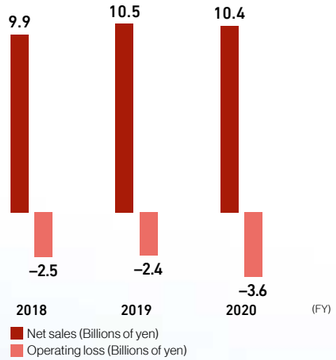
Building up Our Expertise

Outcomes and Achievements

Achievements for Fiscal Year 2020

Phoenix Seagaia Resort took various measures, such as offering special accommodation packages and hosting other 25th anniversary events, to attract customers, mainly from the Kyushu region. Nevertheless, the number of customers dropped off sharply in March due largely to the COVID-19 outbreak, resulting in a full-year visitor increase of only 3.3%. Meanwhile, investments towards the Group's entry into the domestic integrated resort business increased.

Overseas, promotional campaigns primarily targeting Japanese VIP customers yielded higher visitor traffic to *PARADISE CITY*, South Korea's first IR. Through this facility SEGA SAMMY is also gaining valuable developmental and operational know-how towards its entry into the integrated resort business in Japan.



Review of Road to 2020

Through the operation of resort facilities in Japan and overseas, the Group has been working to accumulate development and operation expertise in preparation for entering the Integrated Resort(IR) business in Japan. The accumulation of expertise is proceeding further with the recent steps include the acquisition of a gaming equipment sales license in Nevada, collaborative research with Kyoto University on gambling addiction, and announcement of several business alliances at the *JAPAN IR EXPO* held in Yokohama.

Targets and Results

FY2020 Targets (announced May 2017)	FY2020 Results		
Acquire expertise for entry into the domestic integrated resort business	Built up expertise in integrated resort development and operation	Achieved	Acquired gaming machine manufacturer and distribution licenses in Nevada *PARADISE CITY* achieved full-year operating profitability (2019) Formed strategic business alliances with three companies to enter the IR business.



Outlook Going Forward

Revised Forecast for Fiscal Year 2021

Aside from the impact of COVID-19 on the performance of each resort facility, a reduction in sales and a greater loss are expected, attributable to expenses incurred in preparing to enter the domestic IR business.

FY2020 (Results)
Net sales: ¥10.4 billion
Ordinary loss: –¥5.3 billion

FY2021 (Revised forecast)
Net sales: ¥6.5 billion
Ordinary loss: –¥11.0 billion

Concerning Entry into the Domestic IR business

COVID-19 has caused delays in the process of selecting an operator to enter the Integrated Resort (IR) business in Japan. The Japanese government published its draft IR basic policy in October 2020, at the same time revising the submission period of requests for proposal (RFPs) for IR development.

The Group will continue to carefully monitor the conditions of entry and other factors with the aim of entering the IR business going forward.

Touchstones for Growth

Participating in the *1st JAPAN IR EXPO in Yokohama*

SEGA SAMMY participated in the *1st JAPAN IR EXPO in Yokohama* held January 29-30, 2020 at PACIFICO Yokohama.

Roughly 45 companies, including major overseas gaming operators, hoping to win operating rights at the Yamashita Wharf integrated resort, engaged in the trade exhibition. The goal of the exhibition was to advance Japan's burgeoning Integrated Resort (IR) industry. As a prospective IR operator, SEGA SAMMY's active involvement in the exhibition included producing a dynamic booth, as well as Group COO Haruki Satomi giving an operator keynote address. In the address, he conveyed SEGA SAMMY as the viable candidate, guided by the concept of "an IR that can sustainably succeed." SEGA SAMMY's success will prosper alongside local communities, citizens, and businesses, while generating interest in the entire region and launching Yokohama as a "stay destination" for international tourists. From facility development to operations, drawing on the know-how gained from *PARADISE CITY* and its various business units, SEGA SAMMY, as a Japanese firm, is positioned to actualize a uniquely Japanese IR that can offer groundbreaking, experiences that move the heart to visitors from around the world.



Alliances to ensure Yokohama IR success

Comprehensive Design

Foster + Partners

Foster + Partners

Partnering for urban development master planning, architectural design, and supervision

- Realizing an environmentally aware, sustainable city
- Developing an urban brand drawing on the essence of a port city

Marketing

KATANA marketing × entertainment

Katana Inc.

Partnering for business plan design and construction & business strategy and marketing

- Actualizing a sustainably successful integrated resort
- Customizing a business plan with a systematic "assure-to-win" strategy, consumer-chosen "concept", and conclusive "demand forecast" to ensure feasibility —A "Business plan" that transforms demand forecast into a winning reality

Japanese Culture

京都 吉兆 KYOTO KITCHO

KYOTO KITCHO

Partnering for planning and development of authentic traditional Japanese inn-style dining

- Creating an integrated Japanese cultural experience facility centered on Japanese cuisine
- "Carrying on", "creating" and "disseminating" Japanese culture