

**SEGA**Sammy



# Integrated Report 2022







# BEYOND THE STATUS QUO

## Breaking out of the Current Situation and Becoming a Sustainable Company

As the worldwide spread of COVID-19 wrought dramatic changes on the business environment in which the SEGA SAMMY Group operates, we announced a new medium-term plan and a clear vision in 2021 to point the way forward for the Group. Guided by this vision, we are pressing ahead to break out of the current situation and become a truly sustainable corporate group.

We subsequently announced a Sustainability Vision in May 2022, and are working together across the Group to address the material issues facing us. As always, we will continue to create experiences that move the heart.

INTEGRATED REPORT 2022 gives an overview of our thinking and the specific actions we are taking to achieve our vision.

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### SUSTAINABILITY STATEMENT

[https://www.segasammy.co.jp/english/media/file/pr/commu/sustainability\\_statement/SUSTAINABILITY\\_STATEMENT\\_all.pdf](https://www.segasammy.co.jp/english/media/file/pr/commu/sustainability_statement/SUSTAINABILITY_STATEMENT_all.pdf)

Provides detailed information and data on activities related to the Group's five key issues (materiality). Please read alongside the INTEGRATED REPORT.



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

#### Cautionary Statement with Respect to Forward-Looking Statements

Statements in this integrated report regarding the plans, estimates, beliefs, management strategies, perceptions, and other aspects of SEGA SAMMY HOLDINGS INC. ("the Company") and SEGA SAMMY Group Companies ("the Group"), including SEGA CORPORATION and Sammy Corporation, are forward-looking statements based on the information currently available to the Company. Forward-looking statements include, but are not limited to, those statements using words such as "believe," "expect," "plans," "strategy," "prospects," "forecast," "estimate," "project," "anticipate," "aim," "may," and "might," and words of similar meaning in connection with a discussion of future operations, financial performance, events, or conditions. From time to time, oral or written forward-looking statements may also be included in other materials released to the public. These statements are based on management's assumptions and beliefs in light of the information currently available to management. The Company cautions you that a number of important risks and uncertainties could cause actual results to differ materially from those discussed in the forward-looking statements, and therefore you should not place undue reliance on them. You also should not assume that the Company has any obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise. The Company disclaims any such obligation. Actual results may vary significantly from the Company's forecasts due to various factors. Factors that could influence actual results include, but are not limited to, economic conditions, especially trends in consumer spending, as well as currency exchange rate

fluctuations, changes in laws and government systems, pressure from competitors' pricing and product strategies, declines in the marketability of the Group's existing and new products, disruptions to production, violations of the Group's intellectual property rights, rapid advances in technology, and unfavorable verdicts in major litigation. [This INTEGRATED REPORT includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended.]

#### Cautionary Statement for Investors and Shareholders with Respect to Nevada Gaming Statutes and Regulations

SEGA SAMMY HOLDINGS INC. ("the Company") is registered with the Nevada Commission as a publicly traded corporation and has been found suitable to directly or indirectly own the stock of SEGA SAMMY CREATION INC., and Sega Sammy Creation USA, Inc., both of which are subsidiaries that have been licensed as manufacturers and distributors of gaming devices in Nevada. Pursuant to Nevada law, the Company's shareholders are subject to the rules and regulations of the Nevada Gaming Authorities. A detailed explanation of Nevada gaming statutes and regulations can be found on the Company's corporate website. <https://www.segasammy.co.jp/english/ir/stock/regulation/>



# Living Out Our *Raison d'Être*

The Group Mission we formulated comprises a set of values that are shared across the entire SEGA SAMMY Group. The pandemic caused us to reflect deeply on the Group's significance to society. We came away with both a fresh awareness that entertainment enriches people's lives and the renewed conviction that the Group's Mission of *Constantly Creating, Forever Captivating* —*Making life more colorful*— is not misguided. While pursuing the long-term goals of each business, we will continue to work together across the entire Group to aim for sustainable management by focusing on the four “Es” of Environment, Empathy, Edge, and Economics.

**VALUE** (Mindset and DNA)

**“Creation is Life”**

×

**“Always Proactive, Always Pioneering”**

## SEGA SAMMY Group Mission Pyramid





# Long-Term Targets

## ENTERTAINMENT CONTENTS BUSINESS

### Becoming a Global Leading Contents Provider

In the period from the fiscal year ended March 2022 to the fiscal year ending March 2024, we will focus on expanding the scale of earnings by strengthening the global branding of existing IPs. We are also striving to create a “Super Game,” a major title that scales globally, by the fiscal year ending March 2026.

FY2024/3

By FY2026/3

Reinforcing the earnings base by strengthening the global branding of existing IPs  
Investment stage toward becoming a global player

Creation of a “Super Game”

Proactive growth investment  
(additional investments of ¥100.0 billion by FY2026/3)



## PACHISLOT AND PACHINKO MACHINES BUSINESS

### Winning a “Triple Crown” — Top Share in Utilization, Installation, and Sales — and Building a Stable Earnings Structure

By creating hit products that take advantage of revised regulations, we aim to capture the top share in utilization, installation, and sales while improving business efficiency and building a stable earnings structure.



Pachislot Persona5  
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©Sammy



Pachislot Kabaneri of the Iron Fortress  
©Kabaneri Committee ©Sammy



P Initial D  
©Shuichi Shigeno / Kodansha · 2014 New Movie “Initial D” Production Committee  
©Shuichi Shigeno / Kodansha · 2015 New Movie “Initial D” L2 Production Committee  
©Shuichi Shigeno / Kodansha · 2016 New Movie “Initial D” L3 Production Committee  
©Sammy

## RESORT BUSINESS

### Realize the Investment in Gaming Area

We will pursue possibilities in the gaming area as a whole, including opportunities for entry into the integrated resort business in Japan and overseas as well as overseas online casinos and sports betting.

# Medium-Term Plan (FY2022/3-FY2024/3) and Progress

## Overview of the medium-term plan



# Beyond the Status Quo

Breaking out of the Current Situation and Becoming a Sustainable Company

**FY2024/3: Ordinary income: ¥45.0 billion, ROE: Over 10%**



ENTERTAINMENT CONTENTS BUSINESS

### Global Branding of Existing IPs

We will expand touchpoints with users and maximize earnings opportunities by reinforcing simultaneous worldwide releases and the multiplatform deployment of content. We will also focus on remaking and remastering existing IPs and support subscription-based services to prolong product life cycles. Furthermore, we aim to strengthen user engagement and increase the value of our IPs through a mix of media and other approaches to connect these IPs with more people.

1 Expansion of touchpoints

2 Prolonging the product life cycle

3 Strengthening of user engagement



PACHISLOT AND PACHINKO MACHINES BUSINESS

### Creating Hits and Improving Business Efficiency

We aim to create hits by optimizing the product lineup, manufacturing machines from a user-centric perspective, and expanding communication with users through digital media. We will also improve business efficiency by promoting standardized imagery and components between pachislot and pachinko machines and promoting e-commerce.

#### Creation of Hits

1 Review of product lineup

2 Increase the profitability of a hit

3 Strengthening media functions

#### Improvement of Business Efficiency

1 Improvement of development efficiency

2 Cost reduction

3 Promotion of e-commerce



RESORT BUSINESS

### Exploring Investments in the Gaming Area

At each facility, we will work to boost profitability by stepping up measures to attract customers, while striving to build an earnings structure that can adapt to environmental changes. We will also draw on the knowledge we have accumulated to explore investments in the gaming area.

## Progress of Medium-Term Plan

In terms of the plan's metrics, the Entertainment Contents Business drove profit growth, outperforming expectations.

|                                 | FY2022/3            |         |            | FY2023/3            |      |            | Billions of yen<br>Final Year<br>FY2024/3 |
|---------------------------------|---------------------|---------|------------|---------------------|------|------------|---|
|                                 | Medium-term targets | Results | Difference | Medium-term targets | Plan | Difference | Medium-term targets                       |
| Ordinary income                 | 20.0                | 33.3    | +13.3      | 30.0                | 40.0 | +10.0      | 45.0                                      |
| ROE                             | 5%                  | 12.7%   | +7.7p      | 7%                  | —    | —          | 10%                                       |
| Entertainment Contents Business | 25.0                | 36.8    | +11.8      | 30.0                | 40.0 | +10.0      | 40.0                                      |
| Pachislot & Pachinko Business   | 9.0                 | 10.2    | +1.2       | 9.0                 | 12.0 | +3.0       | 13.0                                      |
| Resort Business                 | -5.0                | -6.7    | -1.7       | 0.0                 | -3.0 | -3.0       | 1.0                                       |
| Others/Eliminations             | -9.0                | -7.0    | +2.0       | -9.0                | -9.0 | —          | -9.0                                      |

### Major Outcomes in Each Business

#### Entertainment Contents Business

1 Expanding touchpoints with users: **Multiple simultaneous worldwide releases and multiplatform deployment of content**

**FY2022/3: 7 titles (about 6 million units)** → **FY2023/3 (Forecast): 13 titles (about 13 million units)**

2 Prolonging product life cycles: **Released many titles with remake/remaster, spin-off/changes of theme**

**FY2022/3: About 4 million units** → **FY2023/3 (Forecast): About 5 million units**

3 Strengthening user engagement:

#### Reinforcing the media mix, expanding Sonic brand recognition

In the three months following its release, *Sonic the Hedgehog 2* recorded worldwide box office revenues of US\$400 million (¥54.4 billion\*), and broke the previous *Sonic* movie's record for the highest grossing video game-based film ever in the U.S.

\* US\$1=¥136



Sonic the Hedgehog 2  
©2022 PARAMOUNT PICTURES CORPORATION AND SEGA OF AMERICA, INC.

#### Pachislot and Pachinko Machines Business

#### Share of total utilization of pachislot and pachinko machines

Pachislot titles released in the fiscal year ended March 2022 performed well in terms of both sales and utilization. The share utilization of pachinko machines was down, however, due to the removal of popular previous regulation machines such as *Pachinko CR Shin Hokuto Muso*.

#### Stable earnings

Due to the benefits of structural reforms implemented in the fiscal year ended March 2021, fixed costs were significantly lower compared to levels before the reforms.

**Level of fixed costs: Approx. 15% decrease**  
(compared to levels before structural reforms)

**FY2021/3**  
**3rd (13%)** → **FY2022/3**  
**3rd (11%)**

Source: In-house estimation based on DK-SIS data (Data for 4 yen Pachinko and 20 yen Pachislot) of Daikoku Denki Co., Ltd.  
Calculated by average of the fiscal year (Exclude the week striding over fiscal years)



# A Message from the CEO

## Overview of the Fiscal Year Ended March 2022

In the fiscal year ended March 2022, on top of ongoing robust performance in the Entertainment Contents Business, we achieved a strong turnaround in the Pachislot and Pachinko Machines Business, which had been flagging under the impact of the COVID-19 pandemic.

Taking a closer look at each business, we brought a series of new titles to market in the Consumer area of the Entertainment Contents Business, which we have positioned as a growth business. We also actively pursued the global branding of existing intellectual properties (IPs), including simultaneous worldwide releases and the multiplatform deployment of content, the launch of remastered titles, and supporting subscription-based services, and these strategies met with success during the year. In addition, stay-at-home demand during the pandemic expanded digital sales of games, which enabled steady growth in sales in the Consumer area. In the Amusement Machine area, which had struggled under a harsh business environment in the fiscal year ended March 2021, we recorded solid results in the prize game category, resulting in a significant improvement in earnings.

In the Pachislot and Pachinko Machines Business, sales of *P Hokuto no Ken 9 Tushin* and other mainstay pachinko titles were brisk. Earnings also recovered significantly, thanks to cost reductions stemming from the structural reforms we implemented in the previous fiscal year. Although the Resort Business showed some signs of a turnaround, this segment remains vul-

nerable to the lingering impact of the pandemic, and continued to face an adverse business environment. The above factors resulted in a significant recovery in overall performance for the year, with net sales up 15.6% year on year to ¥320.9 billion and operating income climbing 389.0% to ¥32.0 billion.

Positive developments in the market environment were indeed a factor behind our return to a growth trajectory. I feel the biggest driving force, though, was a shift in employee awareness. Some of the structural reforms we implemented in the previous fiscal year were painful. However, it was precisely because our employees were convinced that the reforms were necessary for the longer-term sustainable growth of the SEGA SAMMY Group and were on board with them that they were motivated to produce such a strong outcome. Thanks to this shift in awareness, results in all of our businesses exceeded initial forecasts for the fiscal year. This further reinforced the trust and conviction of our employees that the Group is not moving in the wrong direction. We have also revised personnel evaluations, transitioning to a system that properly recognizes people who get results. I hope this will stimulate a further shift in awareness for all of our employees going forward. We intend to drive even stronger growth by encouraging a further change in employee awareness and continue to work across the Group to put in place the measures set out in our medium-term plan.

## Entertainment Contents Business Strategy

### Creating hits that cause social phenomena

My goal is to make SEGA SAMMY Japan's number one entertainment company. I want us to turn out hits that truly represent Japan and give rise to social phenomena. In the past, we have created products like *Pachislot Hokuto No Ken* and *MUSHIKING: The King of Beetles* that reached beyond the Group's existing fan base, gaining recognition even among people who are not typical game players and garnering widespread public attention. Going forward, I want us to turn out hits that go above and beyond these crazes.

The latest *Sonic* movie is one such hit. Released worldwide in the spring of 2022, *Sonic the Hedgehog 2* broke the record for the highest grossing video game-based film ever in the U.S., and met with high acclaim worldwide. I saw a local shopping mall in the States that was overflowing with Sonic merchandise. Those

are the kind of hits we want to create, titles that represent Japan, and we want to see similar scenes all around the world demonstrating their huge popularity.

One strategy for generating such hit titles is the creation of a "Super Game"—a large-scale global title. We're currently developing such a game, targeting release by the fiscal year ending March 2026. The ultimate goal in the "Super Game" strategy is to create a game so revolutionary that it attracts far more active users than any of the Group's games to date. One key to achieving this goal is whether we can draw together a large community, involving not only players but also streamers who stream the game and viewers who watch their videos. That kind of community expands and further develops game content, adding value to the game that is unimagined by developers, and sparking a

broader movement—which can then draw in even more users and grow the game's presence dramatically. If we can set off this kind of virtuous cycle, I believe reaching target lifetime sales for the "Super Game" of ¥100.0 billion is entirely feasible.

More than anything else, the starting point for building that kind of community is creating an interesting game that gains user support. Truly interesting games attract a lot of people, and

a variety of communities naturally spring up around them. For this reason, we've started collecting user data, such as what kind of games users play, how long they play, and how often. By reflecting this data as well as our experience and knowledge in game development, while drawing on our capabilities in digital technology, we hope to create an appealing game that meets the demands of future users.



We will always pursue new forms of entertainment with an eye to the future, continuing to embrace challenges, not wedded to the past.

**Haruki Satomi**  
President and Group CEO,  
Representative Director  
SEGA SAMMY HOLDINGS INC.



## Promoting the Global Branding of Existing IPs

In the fiscal year ended March 2022, we focused strongly on carrying out our three strategies for the global branding of existing IPs. All of the strategies bore fruit, supporting continued solid growth in the Entertainment Contents Business.

### Medium-Term Strategy: Global Branding of Existing IPs



The major initiatives in our first strategy, “**expanding touchpoints with users,**” were simultaneous worldwide releases and the multiplatform deployment of content. Before formulating this strategy, there was skepticism within the Group about selling Japan-based titles to a broad worldwide market at the same time. But we had to ask ourselves: How can we survive in the global games market? When thinking about this from a wider perspective, I keenly felt the danger that, if we simply carried on with our sales strategies as usual, the massive global game companies we face off against would get out ahead of us in the market. Just as we were coming to terms with this situation, the climate within the Group changed completely in the wake of the success of hit titles *Persona* and *Ryu ga Gotoku*, which both turned in global sales growth. The conviction has now spread throughout the Group that our domestically oriented IP can connect well with global audiences, too. Then, when we formulated the strategy of expanding touchpoints with users as one pillar of the medium-term plan, this set the stage for more extensive cooperation among various departments within the Group. We were able to step up the pace of simultaneous worldwide releases and the multiplatform deployment of content as a result.

In the fiscal year ended March 2022, we released seven new game titles in line with this strategy, selling about 6 million units. In the fiscal year ending March 2023, we plan to release 13 game titles, forecasting sales of roughly 13 million units.

### Total Worldwide Sales of the *Persona 5* Series\*

**7.22 million units**  
**Proportion from overseas sales: 77%**  
(as of March 2022)

\* *Persona 5*, *PERSONA 5: DANCING IN STARLIGHT*, *PERSONA 5 Royal*, *Persona 5 Scramble: The Phantom Strikers*

Next, under the strategy of “**prolonging product life cycles,**” our efforts focus on remaking and remastering the IPs we hold as well as developing spin-offs and changing themes. In the

fiscal year ended March 2022, we released multiple new titles, yielding sales of approximately 4 million units. We are also diversifying our forms of monetization, such as supporting subscription-based services.

The final strategy is “**strengthening user engagement.**” The blockbuster movie hit drove major growth in our Sonic IP during the year. In the fiscal year ending March 2023, we will launch *Sonic Prime*, an exclusive Netflix animation series. We also plan to release *Sonic Frontiers*, the first new Sonic game in five years. The success of the Sonic IP once again made us aware of the strength of SEGA’s IP portfolio. There are many IPs other than Sonic whose value still waits to be maximized. If we use a mix of media and other approaches to connect these IPs with more people, they have enough power to grow into massive IP assets. Going forward, we will continue taking measures to expand opportunities to harness the IPs we hold, trusting in their potential.



## Pachislot and Pachinko Machines Business Strategy

### We will maintain earnings stability, building on a sturdy business structure and embracing changes in the environment as opportunities

Our long-term goal in the Pachislot and Pachinko Machines Business is to win a “triple crown”—top share in utilization, installation, and sales—and to build a stable earnings structure. To achieve this goal, it is vital that we make steady headway in our strategies and reach our medium-term goals for the fiscal year ending March 2024. One major development in the industry was the entry into the market of pachislot machines complying with new No. 6.5 model specifications. For the new models, the regulations revised the upper limit on the number of games during the advantageous section and the method of managing the upper limit on medal pay-out, which were sources of user dissatisfaction with previous models. This is expected to dramatically change player psychology by enabling machines to be designed so that players always have a chance to win.

If it can encourage the return of dormant users, these revisions could bring renewed vitality to the pachislot industry. To help bring this about, we see the greatest mission of the Pachislot and Pachinko Machines Business to be creating hit titles. Whatever it takes, by thoroughly analyzing the gameplay and production elements that users prefer and creating machines that incorporate appealing new ideas, we want to introduce a broad range of machines to the market and create hit machines. The Group holds numerous well-known IPs that have been major hits in the past, such as *Beast King* and *ALADDIN*. If we can remake such IPs to conform to No. 6.5 model standards and deliver the former thrill and excitement to users today, I believe we can build a more stable product portfolio. Furthermore, “smart” pachislot and pachinko machines are due to hit the market starting in 2022, something the whole industry is looking forward to. The revised

regulations completely removed the upper limit of games during advantageous sections for smart pachislot machines, further expanding the range of gameplay. The most distinctive feature of smart pachislot and pachinko machines is that there is no physical payout of medals or balls. This means a lower operational burden for pachinko halls in terms of replenishing and cleaning medals and balls. It also makes it possible to gather game data, bolstering measures to prevent improper play. Furthermore, compared to conventional machines, smart pachislot and pachinko machines do away with the need for a lot of peripheral equipment, which leads to lower costs for opening new halls and allows greater flexibility in hall layout. I believe we will have a robust line-up of smart pachislot and pachinko machines in the latter half of 2023 and leading into 2024. If dedicated smart pachislot and pachinko machine halls begin to emerge, as happened before with dedicated pachislot halls, I have high hopes that this could dramatically transform and revitalize the industry.

Reforms we have put into place so far have evolved the Pachislot and Pachinko Machines Business into a much leaner business structure. We are better positioned to capitalize on positive changes in the business environment looming on the horizon. Moreover, the Group has amassed a rich IP library and we boast many outstanding game developers. If we can fully leverage these strengths, we’ll be able to demonstrate our competitive superiority as we deliver products and services that enjoy broad user support, without the need for additional large-scale investment. While maintaining a lean business structure, we will continue to put out hit titles that gain a solid following and position this business as a stable earnings driver.



## Sustainability Helps Keep Life Colorful

We announced a Sustainability Vision for the Group in May 2022. More than ever before, companies are being called on to address an increasingly diverse range of issues to achieve sustainable growth, such as SDGs. The ability to continue providing experiences that move the heart through entertainment depends on management that is in touch with people, society, and the natural environment, both now and down the road. In creating the Sustainability Vision, I imbued it with my own thinking, to inculcate a sustainable management approach across the entire Group and enable every employee to incorporate this approach into their own work.

Based on the vision, we plan for each Group company to set specific milestones in relation to the Group's five material issues to be addressed — human resources, products and services, the environment, addiction, and governance—to guide their efforts.

In particular, the video games and pachislot and pachinko machines we offer have certain aspects that are viewed negatively in society. That is exactly why we have to face up squarely to issues in our Group and in the world and address them. The business activities of any company inevitably give rise to some degree of negative impact. What is crucial is how well a company can minimize the negative impact and generate a positive impact that far outweighs it. Our Mission (Raison d'être) is *Constantly Creating, Forever Captivating — Making Life More Colorful—*.



Our businesses truly have the power to make the world a brighter place. We can continue to exist as a company because our customers need us, since we provide products and services offering the kind of experiences that move the heart. The pandemic caused me to reflect even more deeply on the significance of the Group to society, and spurred me to seek to carry out management that is attuned to the need for sustainability. I'm convinced that this will lead to long-term, sustainable enhancement of the SEGA SAMMY Group's corporate value.

# Materiality

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## Sustainability Helps Keep Life Colorful



### Products and Services

#### Quality improvement

Making content and services that serve, inspire, and awaken over 3 billion gamers worldwide [Entertainment Contents](#)

Triple crown: Top share in utilization, installation, and sales [Pachislot and Pachinko Machines](#)

#### Safety and security

Creating rules that allow everyone in the world to enjoy games without discrimination [Entertainment Contents](#)

Continue creating content that users and operators can rely on [Pachislot and Pachinko Machines](#)



### Human Resources

#### Multicultural

Promoting "game change" by increasing human resources with a multicultural background

#### Active career opportunities for women

Creating a foundation where people can thrive regardless of gender

#### Development of core human resources

Strategic development of human resources who can lead the next generation

#### Maintenance of work environments

Maintaining and improving the engagement of human resources



### Environment

#### Scope 1, 2

Achieving carbon neutrality

#### Scope 3

Reducing GHG emissions by 22.5% or more

#### Disclosure of information based on TCFD recommendations

Including the response to climate change into strategies



### Addiction

#### Prevention of addictions and disorders

Initiatives by industry organizations  
SEGA SAMMY's unique initiatives



### Governance

#### Strengthening corporate governance

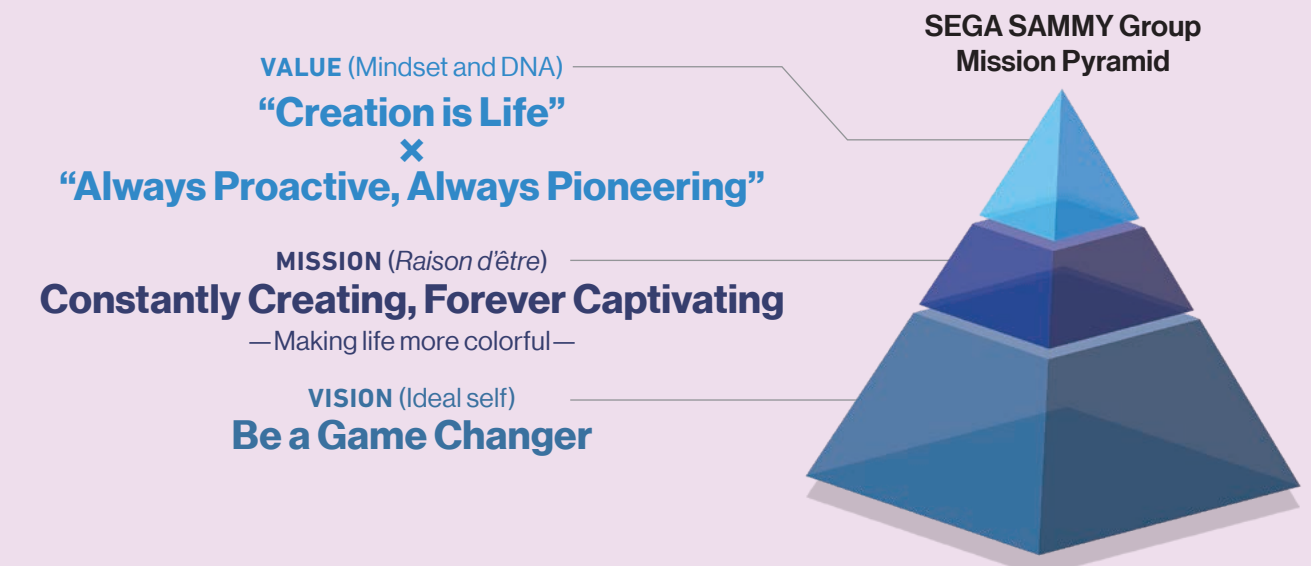
Establishing a sustainability governance framework

## Corporate Management in a VUCA Era

With the COVID-19 pandemic having wrought significant changes in the values of individuals and organizations, and with mounting geopolitical risks triggered by the crisis in Ukraine, we face even greater fluctuation and growing uncertainty in the business environment. This context, which makes it difficult to predict the future, has been described as having the characteristics of volatility, uncertainty, complexity, and ambiguity (VUCA). I feel that what is being asked of us is what kind of management we want to pursue in the VUCA era. Among the four elements, I think ambiguity is particularly critical. I understand ambiguity to be analogous to the Japanese concept of "dual interpretations" (*ryogisei*). In other words, interpretations about "what the right thing is" are often context dependent. If one interpretation is clearly wrong, that's a different story, but there are cases where two interpretations can both be right when viewed from a differ-

ent standpoint or context. This happens a lot in running a business. The ability to make decisions in the midst of such contradictions is one quality required of an organizational leader. Our Mission Pyramid, which guides the Group's businesses, is a huge aid in our decision-making process. The common understanding of the Pyramid shared by all Group employees empowers leaders to give direction without hesitation and spares our people on the front lines from having to wonder what they ought to be focusing on.

Moreover, if there are short-term risks but long-term benefits, the Mission Pyramid directs us to prioritize the long term. If there is uncertainty over taking a short- or long-term approach, by referring to the Mission Pyramid we can decide in a way that brings benefits over the long term. This is the kind of thinking I want to stress as a manager in the VUCA era.



## Generating a Chain-Reaction of Experiences That Move the Heart

I have a theory that a company that does not gain empathy can't survive in the market. In the Japanese term "empathy" (*kyokan*) I'm using here, in addition to its original meaning, I also include the idea of "being moved together." Our mission is to be *Constantly Creating, Forever Captivating*—continuing to create experiences that move the heart. By seeing our customers be moved, our employees are also moved. This feeds into greater pride and motivation in what we do. In turn, the power of proud, motivated employees enables the Group to grow further, giving rise to a chain-reaction of experiences that move the hearts of all our stakeholders, including business partners, shareholders and other investors, and people in society. To me, this is the true meaning of empathy.

So, what can we do to move people's hearts in this way? The answer lies in offering entertainment that surpasses people's expectations. People are satisfied with products and services that meet their expectations, but their hearts aren't moved—that only happens they glimpse a future that they've never felt or experienced before. This is why we should always pursue new forms of entertainment with an eye to the future, continuing to embrace challenges, not wedded to the past.

Going forward, we are committed to further evolving the SEGA SAMMY Group into an organization that all of our stakeholders can empathize with. I would like to ask for your continued support as we do so.



# A Message from the CFO

Committed to an optimal capital structure, we will pursue proactive investment and expand the equity spread

## Management That Focuses on Capital Efficiency

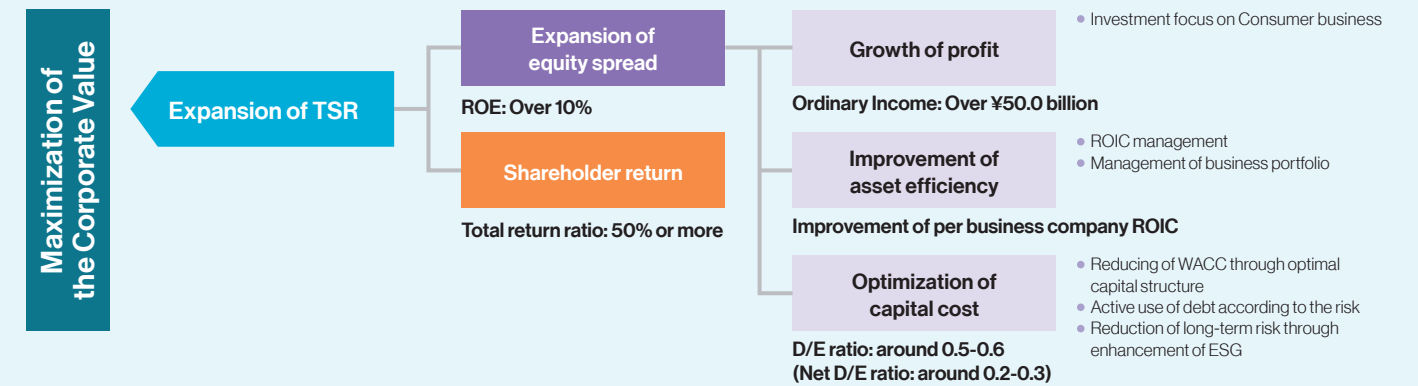
In the fiscal year ended March 2022, in line with the newly launched medium-term plan, we fully implemented a management framework focusing on capital efficiency with the objective of maximizing corporate value. Our goal was to increase total shareholder return by expanding the equity spread and proactively returning to shareholders. There are three elements involved in widening the equity spread: growth of profit, improvement of asset efficiency, and the optimization of capital cost. My role as CFO is to allocate management resources and profits and take effective steps to effect improvements in each of these elements.

The first year of the medium-term plan resulted in ROE of 12.7%. Although this was above our target of 10% for the final year of the plan, it was the result of higher profit attributable to owners of parent stemming from a significant decrease in tax expenses, among other factors. Since the results are somewhat higher than the actual underlying performance for the year, I think it is crucial to stay focused on constant growth in ordinary income and take powerful measures to increase earnings per share.



**Koichi Fukazawa**  
Senior Executive Vice President and  
Group CFO, Director of the Board

### Shift to the management focusing on capital efficiency



### Results and Targets

|                                     |                                 | Indicators        | FY2021/3 Results | FY2022/3 Results | FY2026/3 Targets           |
|-------------------------------------|---------------------------------|-------------------|------------------|------------------|----------------------------|
| Maximization of the Corporate Value | Expansion of equity spread      | ROE               | 0.4%             | 12.7%            | Over 10% (FY2024/3 Target) |
|                                     | Growth of profit                | Ordinary Income   | 1.7 billion yen  | 33.3 billion yen | Over 50.0 billion yen      |
|                                     | Improvement of asset efficiency | Consolidated ROIC | 0.5%             | 10.6%            | Over WACC                  |
|                                     | Optimization of Capital cost    | D/E ratio         | x 0.2            | x 0.2            | x 0.5 to 0.6               |
| Shareholder returns                 | Total return ratio              |                   | 384%             | 105.8%           | Basic Policy 50% or more   |
|                                     | DOE                             |                   | 2.4%             | 3.1%             | Basic Policy 3% or more    |

## Moving to Expand the Equity Spread

We expect to make steady headway in growing profits by maintaining the expansion of profit in the Group's main businesses.

In the Entertainment Contents Business, the Consumer area continues to perform well thanks to the outcome of our success in capturing market trends, and our ability to leverage IP assets through the multiplatform deployment of content as well as our support for new monetization models centered on subscription-based sales. While creating a "Super Game" is one of our key long-term business strategies, our first step is to achieve the current medium-term plan, which involves establishing a framework for stable profit growth through the global branding of existing IPs, along with continuing to expand earnings by investing aggressively to prepare for future changes in the business environment.

Meanwhile, in the Pachislot and Pachinko Machines Business, we were able to revise the management scale in this segment and pare down fixed costs significantly through structural reforms we undertook in the fiscal year ended March 2021. Going forward, we see profits increasing, driven by steady progress in bringing to market competitively superior machines that take advantage of revised regulations, such as No. 6.5 model machines and "smart" pachislot and pachinko machines. We still face risks in terms of

procuring parts. However, given the rallying market environment, I believe the Pachislot and Pachinko Machines Business can again serve as a platform for generating stable cash going forward. What's more, I think we have the chance to grow the business dramatically if we beat out the competition currently being sparked by the revision of regulations.

We are seeking to improve asset efficiency on the ground in all of our business companies, using ROIC as a management index. Specifically, each company is creating an ROIC tree incorporating action plans and indicators that tie in directly with improvements to ROIC, and monitoring progress of these actions. Every half, we have opportunities for dialogue with the management of each company based on this progress. The primary purpose of using ROIC as a management index is to engender a strong management focus on asset efficiency and cash earnings in each business division. At times in the past, we continued to hold on to inefficient assets. As a perspective that prioritizes asset efficiency sets in, I believe we will realize portfolio management at the business company level.

That said, although ROIC is one key indicator, we are seeking a management approach that not only has a short-term financial



perspective but also considers the longer-term growth potential of the business itself, deciding from that strategic point of view whether to expand or scale down the business. This is how we can establish the ideal, balanced business portfolio. I see my responsibility as CFO is to create a mechanism for allocating finite resources appropriately based on this approach.

The debt-to-equity ratio at the end of March 2022 was 0.2 times, on a par with the end of March 2021. Although this is still far removed from our target debt-to-equity ratio by the fiscal

## Clarifying Our Policy on Shareholder Return

In the fiscal year ended March 2022, we bought back and retired ¥30.0 billion in treasury stock\*. We did this judging that it would be appropriate to draw down equity at this time in consideration of the optimal capital structure the Group is targeting. Going forward, we will determine the amount of shareholder return

year ending March 2026 of between 0.5 to 0.6 times, I do not anticipate turning to debt financing solely for the purpose of asset restructuring. Our policy is to realize an optimal capital structure using debt financing only to fund investment in business growth. We expect to channel a total of ¥250.0 billion into growth investments by the fiscal year ending March 2026. I believe we will achieve the optimal debt-to-equity ratio when there is sizable demand for funding both for such investments and for acquisitions.

based on a total return ratio of 50% or more or a dividend on equity (DOE) ratio of 3% or more, whichever is higher, in line with a shareholder return policy based on our thinking about the optimal capital structure.

\* Period of buyback: November 2021-April 2022. Retirement of treasury stocks: May 2022.

## Growth Investment Plan of ¥250.0 Billion

By the fiscal year ending March 2026, we plan to invest a total of ¥250.0 billion in the Consumer area, Gaming area, and other growth areas.

First off, in the Consumer area, we will augment the development pipeline, including securing headcount, and invest aggressively to achieve organic growth. In addition, we will consider acquiring any promising projects in overseas studios or in the mobile and online games area. When it comes to overseas studio acquisitions in particular, we have gained the ability to discern studios with growth potential through our experience in acquisitions and leveraging the network of our team in Europe. We will therefore select acquisitions that are a good fit with our strategies. Beyond just the development pipeline, I also want us to invest in new ecosystems based on our business strategies, such as projects that can help expand user communities to capture increasingly diverse interactions with games. Consumer games are a growing market that promises further growth down the road, so our ¥100.0 billion goal is just a guideline—we will consider investing more than that as the situation warrants.

We also plan to invest ¥100.0 billion in the Gaming area, which we continue to position as the third driver of earnings for the Group. We will keep exploring entry into integrated resort projects in Japan and overseas as well as overseas land-based casinos. We will also explore investments that eye overseas online casinos, sports betting, and other gaming ventures.

Our thinking, in positioning the Gaming area as the third driver of earnings, goes along these lines: Because the Gaming

## Continue to consider investing in the growth areas

|  |   |  |
|--|---|--|
| Consumer area<br>Approx. 100.0 billion yen | Strengthen development resources                                  | Area of consideration for investment <ul style="list-style-type: none"> <li>Expansion of organic development pipeline</li> <li>Strengthen global mobile and online games</li> </ul>                          |
|  | Investment in new ecosystem                                       | Area of consideration for investment <ul style="list-style-type: none"> <li>Strengthen CRM functions to revitalize user communities</li> <li>Investment in newly emerging business areas</li> </ul>          |
| Gaming area<br>Approx. 100.0 billion yen   | Careful assessment of investment opportunities in the gaming area | Area of consideration for investment <ul style="list-style-type: none"> <li>Both domestic and overseas IR</li> <li>Online casino and sports betting overseas</li> <li>Land-based casinos overseas</li> </ul> |
| Other<br>Approx. 50.0 billion yen          | Expand CVC investment limit (Total limit: 15.0 billion yen)       | Strengthen open innovation activities, including investment in start-up companies  |
|  | Creation of new business, acquisition of IPs, etc.                |  |

Total 250.0 billion yen



As a culture of embracing challenges takes root, the Group as a whole is adopting a more aggressive, more risk-friendly attitude.

area has high barriers to entry and the potential for hefty profit margins, substantial growth in this area will put the Group on a solid standing for the future.

## Continuing to Take On Challenges in Our Financial Strategies

I am sensing mounting expectations for the Group among our investors. They are looking especially to growth in the Consumer area, as well as to factors affecting the Pachislot and Pachinko Machines Business, including revisions of regulations and the possible spread of "smart" pachislot and pachinko machines.

Under Haruki Satomi's firm leadership as CEO, we swiftly completed a round of structural reforms and have rapidly emerged from a very challenging business environment. This significantly boosted our confidence as a Group, and I feel there has since been a change in mentality within the organization. As a culture of embracing challenges takes root, the Group as a whole is adopting a more aggressive, more risk-friendly attitude.

This mindset of embracing challenges ties in with our Vision (Ideal self), to *Be a Game Changer*, and will ultimately give shape to our Mission (Raison d'être) of *Constantly Creating, Forever Captivating—Making life more colorful—*. As CFO, while emphasizing capital efficiency and fiscal discipline, I also want to aggressively implement an audacious, forward-thinking financial strategy to capitalize on promising changes now unfolding in the internal and external environment. The Group, which has stepped out boldly into an era of change, will meet the expectations of investors by continuing to embrace challenges.

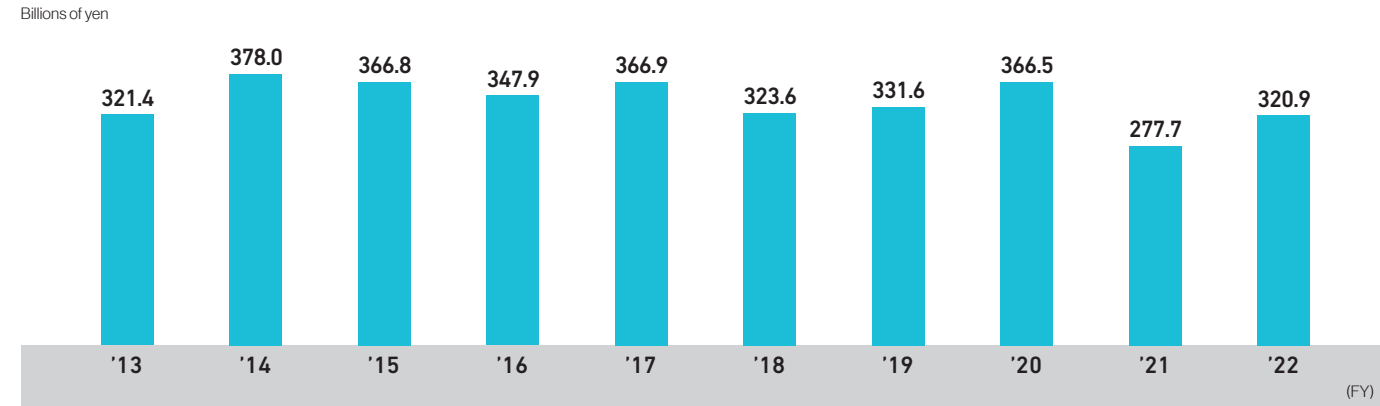


# Financial Performance

## Net Sales\*1

On top of ongoing brisk performance in the Consumer area, earnings in the Pachislot and Pachinko Machines Business and the the Amusement Machine Sales area, which were hard hit by COVID-19, saw a turnaround in the fiscal year ended March 2022. Consolidated net sales were up 15.6% year on year to ¥320.9 billion.

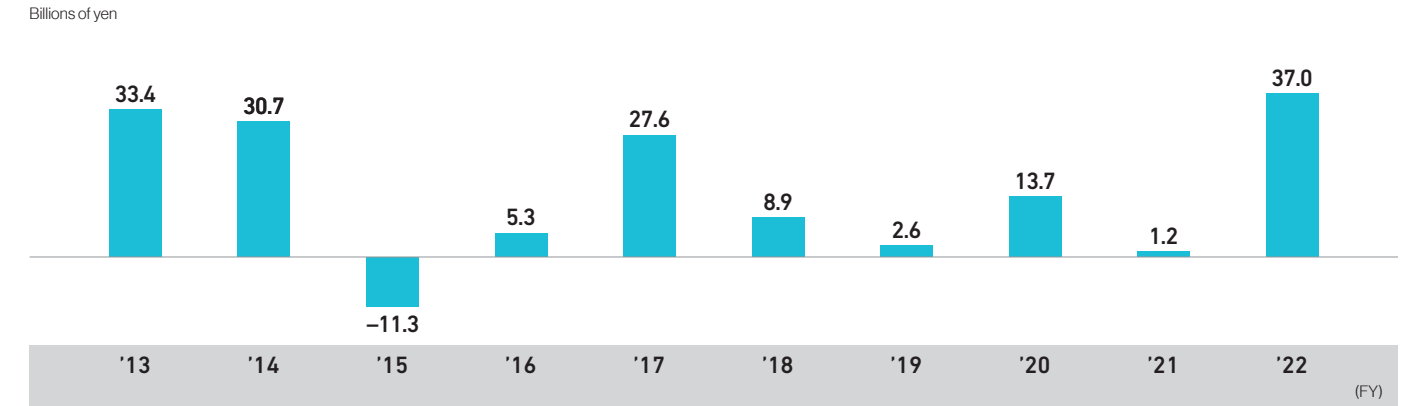
¥320.9 billion



## Profit (Loss) Attributable to Owners of Parent\*2

Profit attributable to owners of parent improved significantly year on year to ¥37.0 billion, reflecting the booking of proceeds from sales of investment securities as extraordinary gains, coupled with a decrease in taxable income due to a tax loss carried forward and lower income taxes due to an R&D tax deduction at a subsidiary in the U.K.

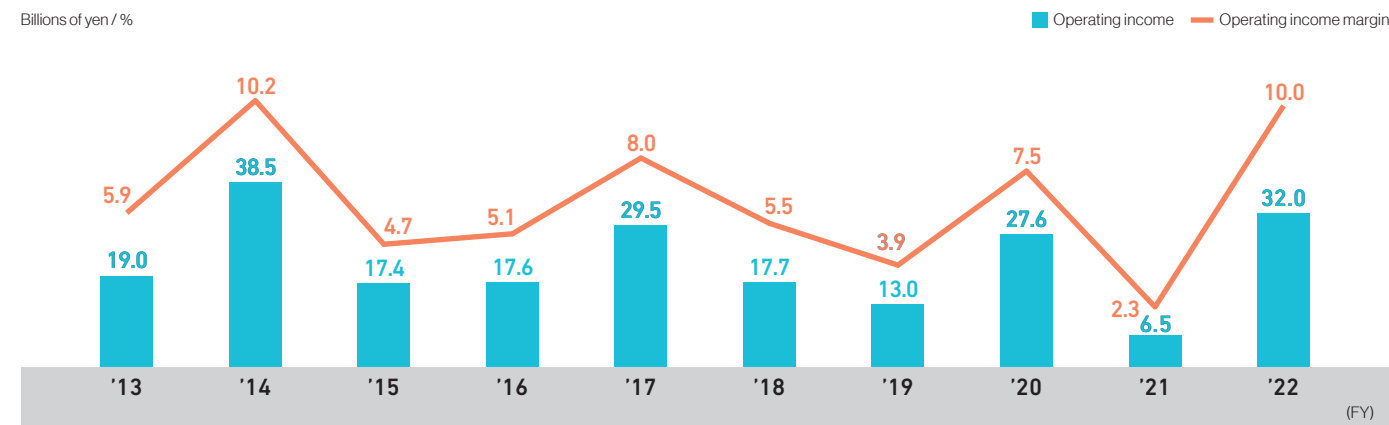
¥37.0 billion



## Operating Income / Operating Income Margin

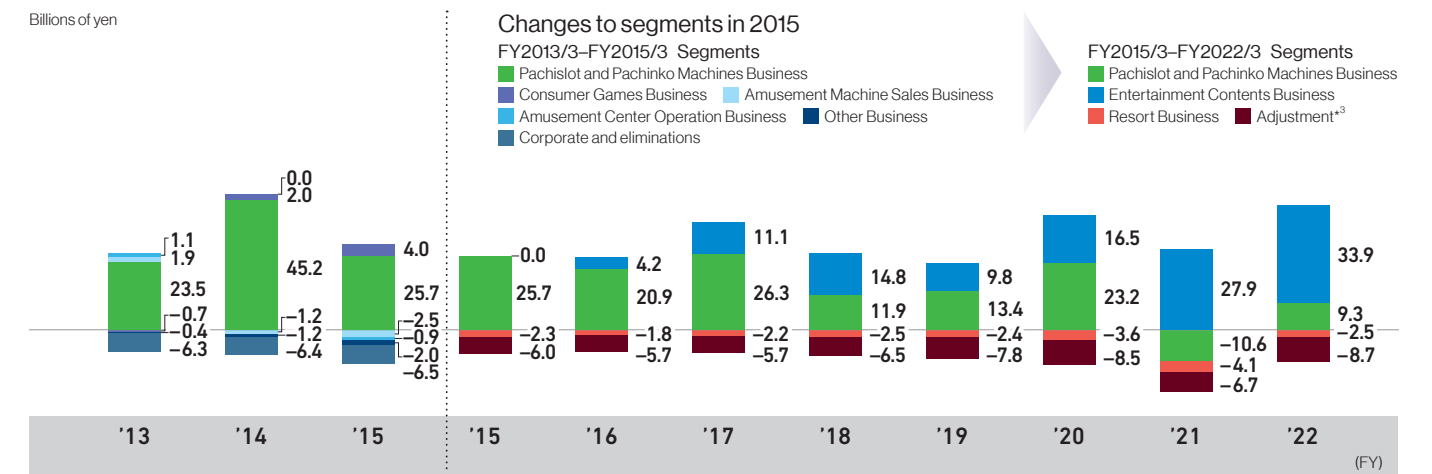
Operating income rose 389.0% year on year to ¥32.0 billion as the Pachislot and Pachinko Machines Business and the Amusement Machine Sales area returned to profitability.

¥32.0 billion / 10.0%



## Operating Income (Loss) by Segment\*3

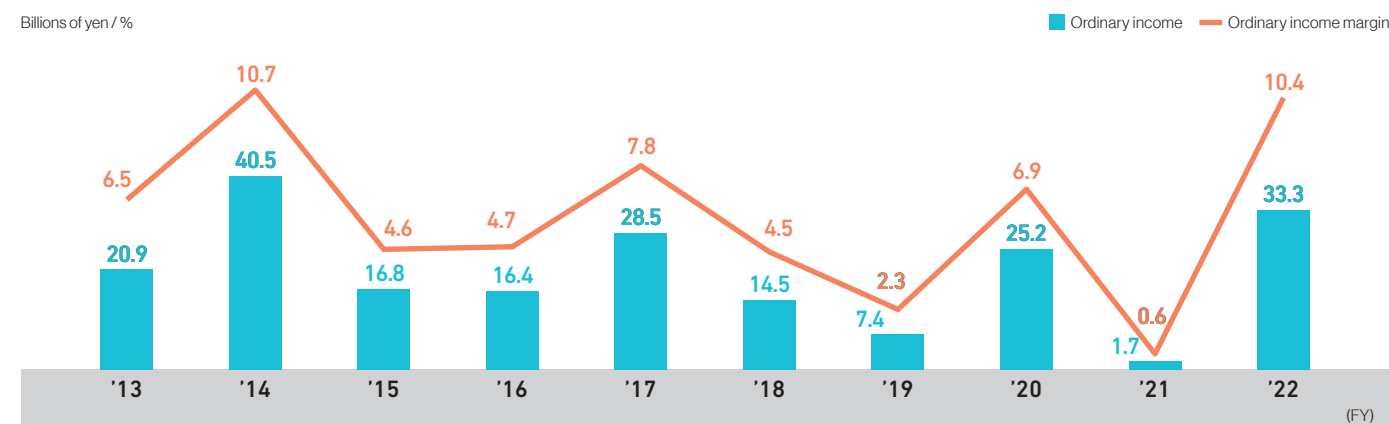
Billions of yen



## Ordinary Income / Ordinary Income Margin

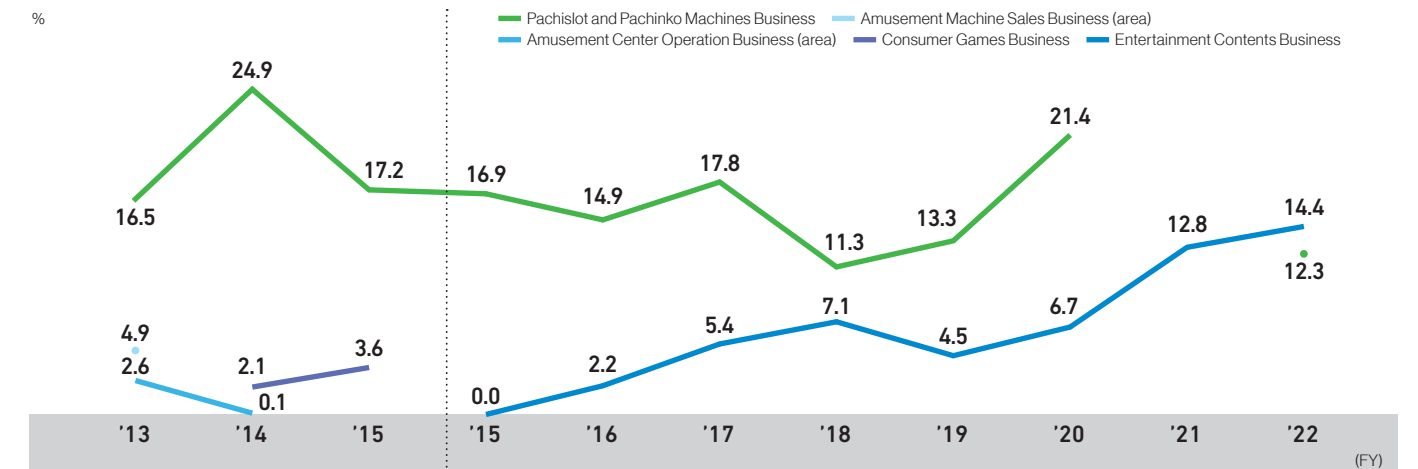
Ordinary income was up ¥31.6 billion year on year to ¥33.3 billion.

¥33.3 billion / 10.4%



## Operating Income Margin by Segment

%



\*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 FY2016/3, figures for FY2015/3 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 FY2016/3.

\*3 As of the FY2015/3 change in segments, 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).

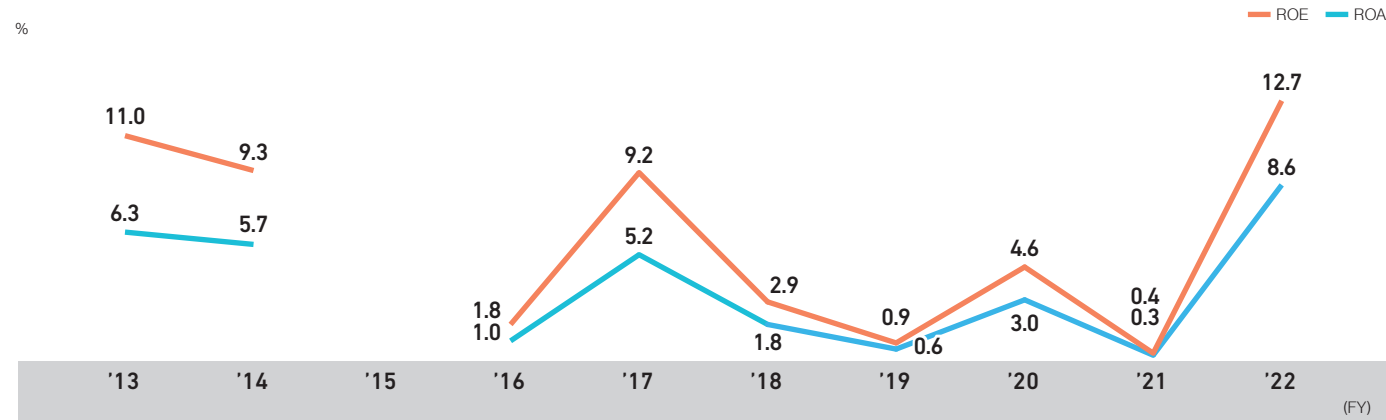


### ROE / ROA<sup>\*4</sup>

ROE was up 12.3 points year on year to 12.7%.  
ROA was up 8.3 points year on year to 8.6%.

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

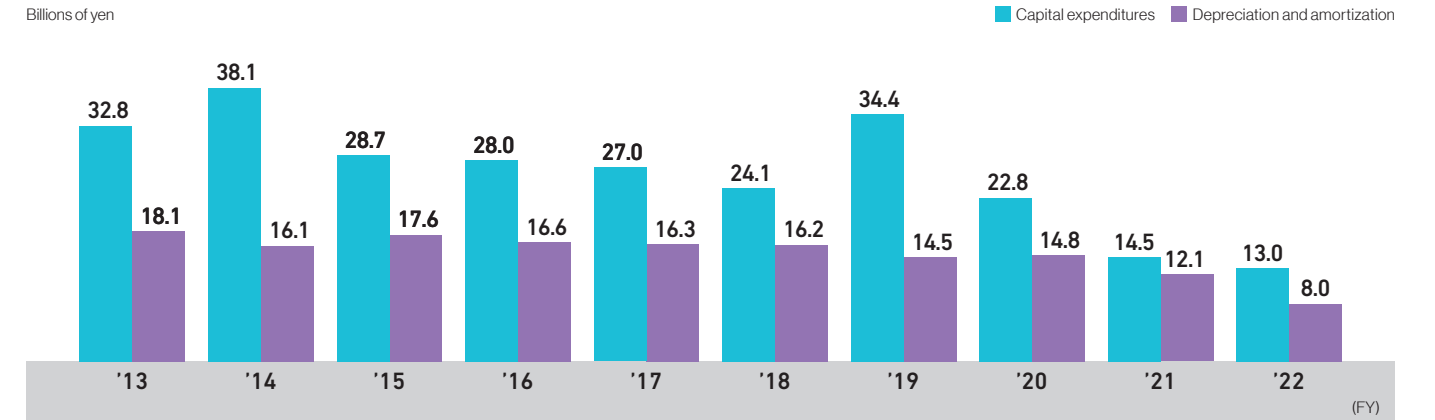
**12.7% / 8.6%**



### Capital Expenditures / Depreciation and Amortization<sup>\*5</sup>

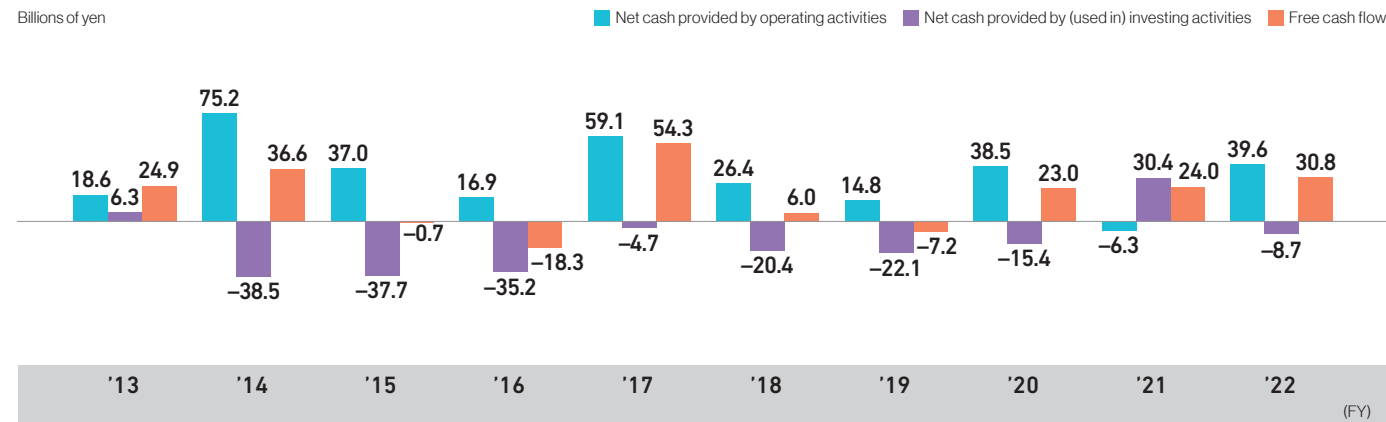
Capital expenditures were down 10.3% year on year to ¥13.0 billion.  
Depreciation and amortization decreased 33.9% year on year to ¥8.0 billion.

**¥13.0 billion / ¥8.0 billion**



### Cash Flows

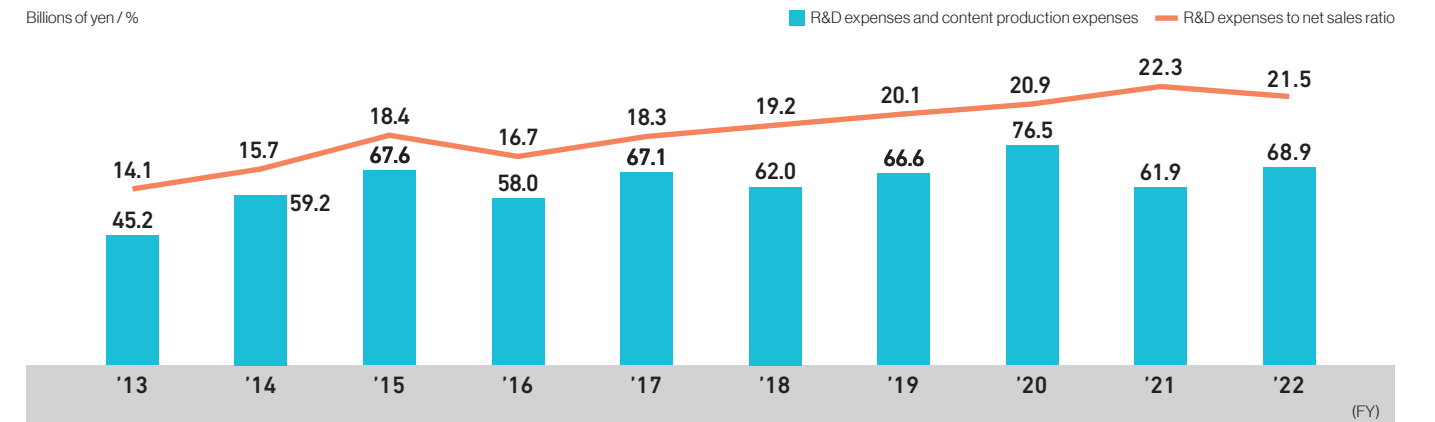
Operating activities provided net cash of ¥39.6 billion for the fiscal year ended March 2022 (compared with an outflow of ¥6.3 billion in the previous fiscal year).  
Investing activities used net cash of ¥8.7 billion (compared with an inflow of ¥30.4 billion in the previous fiscal year).



### R&D Expenses and Content Production Expenses<sup>\*5</sup> / R&D Expenses to Net Sales Ratio

R&D expenses and content production expenses increased 11.3% year on year to ¥68.9 billion.

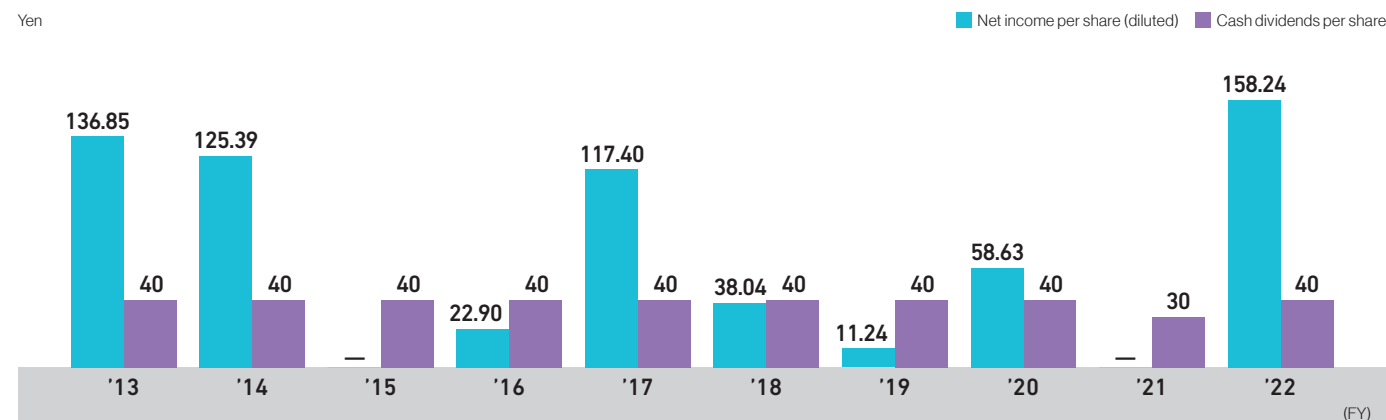
**¥68.9 billion / 21.5%**



### Net Income per Share / Cash Dividends per Share

Net income per share (diluted) was ¥158.24.  
The Company paid an annual dividend of ¥40 per share.

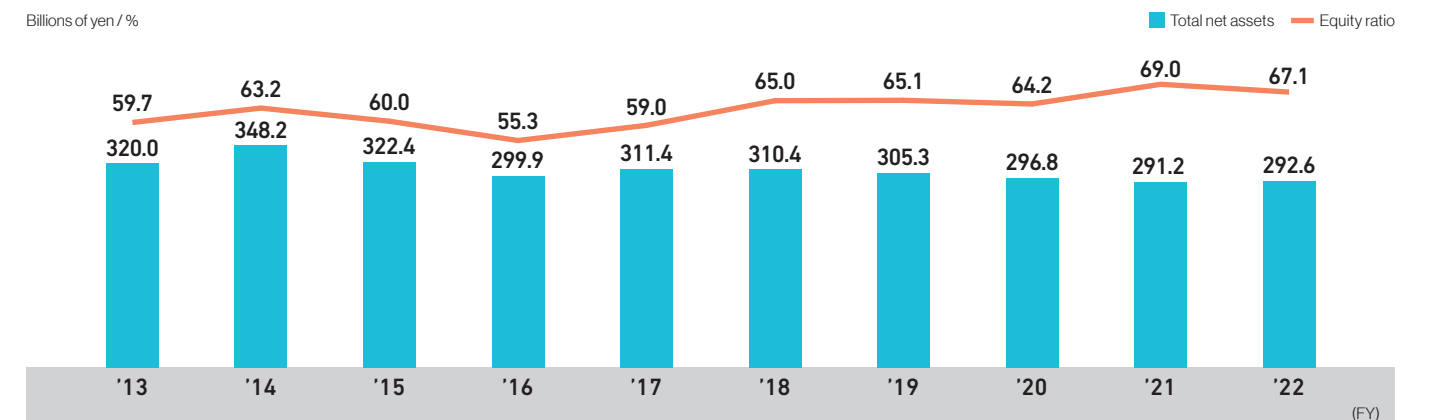
**¥158.24 / ¥40**



### Total Net Assets / Equity Ratio

Total net assets increased ¥1.4 billion from the end of previous fiscal year to ¥292.6 billion.  
The equity ratio decreased 1.9 points to 67.1%.

**¥292.6 billion / 67.1%**



\*5 The aggregate calculation method has changed as of FY2014/3. Consequently, R&D expenses and content production expenses include amortization cost of digital game titles. Until FY2013/3, depreciation and amortization included amortization cost of digital game titles.