

(Translation)

FLASH REPORT
CONSOLIDATED FINANCIAL STATEMENTS [Japanese GAAP]
3 Months Ended June 30, 2020

Name of the Company : SEGA SAMMY HOLDINGS INC.
Code number : 6460
 (URL <https://www.segasammy.co.jp/>)
Representative : Haruki Satomi
 President and Group COO, Representative Director
Any inquiry to : Yoichi Owaki
 Senior Vice President, Executive Officer
 Managing Director of Finance & Accounting Division
 Sumitomo Fudosan Osaki Garden Tower,
 1-1-1 Nishi-Shinagawa, Shinagawa-ward, Tokyo
 Tel (03) 6864-2400

Filing of Quarterly Report : August 14, 2020 (plan)

Start of cash dividend payments : -

(Amounts below one million yen are rounded down)

1. Consolidated Operating Results for the 3 Months Ended June 30, 2020
(1) RESULTS OF CONSOLIDATED OPERATIONS

(Percentage represents changes from the prior period)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
For 3 months ended June 30, 2020	48,382	(33.5)	(3,851)	-	(4,099)	-	(3,301)	-
For 3 months ended June 30, 2019	72,734	5.7	3,409	264.6	2,372	244.6	1,718	408.7

(Notes) Comprehensive income

For 3 months ended June 30, 2020 : ¥(2,551) million (-%)

For 3 months ended June 30, 2019 : ¥(2,837) million (-%)

	Net income per share	Net income per share (Diluted)
	Yen	Yen
For 3 months ended June 30, 2020	(14.04)	-
For 3 months ended June 30, 2019	7.32	-

(2) CONSOLIDATED FINANCIAL POSITION

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
June 30, 2020	454,190	289,583	63.1
March 31, 2020	458,268	296,858	64.2

(Reference) Shareholders' equity

June 30, 2020 : ¥286,690 million

March 31, 2020 : ¥294,102 million

2. Cash Dividends

	Cash dividends per share				
	First quarter	Second quarter	Third quarter	Year-end	For the year
	Yen	Yen	Yen	Yen	Yen
Year ended March 31, 2020	-	20.00	-	20.00	40.00
Year ending March 31, 2021	-				
Year ending March 31, 2021 (plan)		-	-	-	-

(Note) Dividends for the fiscal year ending March 31, 2021 are not yet decided.

3. Forecast of Consolidated Operating Results for the Year ending March 31, 2021

(Percentage represents changes from the prior year)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	Yen
Full-year	277,000	(24.4)	(15,000)	-	(20,000)	-	(17,000)	(72.31)

(Note) Revision of the forecast from latest announcement: Yes

4. Other

- (1) Significant changes in subsidiaries (scope of consolidation) during period: No
- (2) Adoption of the simplified method of accounting as well as specific accounting for preparing the quarterly consolidated financial statements: Yes
- (3) Changes in accounting principles, procedures, disclosure methods, etc., for preparing the quarterly consolidated financial statements:
 1. Changes associated with revision in accounting standards: No
 2. Other changes: No
- (4) Number of shares outstanding (common stock)
 1. Number of shares outstanding at the end of the period (including treasury stock)

June 30, 2020	: 266,229,476
March 31, 2020	: 266,229,476
 2. Number of treasury stock at the end of the period

June 30, 2020	: 31,138,854
March 31, 2020	: 31,138,238
 3. Average number of shares during the period (cumulative from the beginning of the fiscal year)

For 3 months ended June 30, 2020	: 235,090,984
For 3 months ended June 30, 2019	: 234,734,952

(Note)

- This report is not required the auditing procedures by certified public accountants or accounting auditors.
- The forward-looking statements, such as results forecasts, included in this document are based on information available to the SEGA SAMMY HOLDINGS INC. (the “Company”) at the time of the announcement and assumptions considered reasonable. Actual results could differ materially, depending on a range of factors. For the assumptions prerequisite to the results forecasts and the points to be noted in the use of the forecasts, please see “Forecast of Consolidated Operating Results” on page 4.
- The Company plans to hold a briefing on financial results for analysts on August 5, 2020. The contents of the meeting, such as explanations about financial results (video and audio), will be posted on the Company’s website.

Operating Results and Financial Position

(1) Overview

With regard to the pachislot and pachinko industry, the government declared a state of emergency on April 7 due to the spread of the novel coronavirus disease (COVID-19), and pachinko halls across the country suspended their operations in response to requests from local governments. After the state of emergency was lifted, although pachinko halls have gradually resumed operations, the Group decided to postpone the sales of new titles considering the impact for the pachinko halls.

Furthermore, on May 20, the National Public Safety Commission decided on a one-year extension of the transition period for the amendment of the enforcement regulations of the Entertainment Business Act. The 21st Century Pachinko and Pachislot Industry Association, made up of 14 industry groups, agreed to gradually remove the machines based on former standards whose approval and certification periods were due to expire.

Regarding the environment of the Entertainment Contents Business, in the consumer field (used in the previous fiscal year, the digital game software field and the packaged game software field), enjoying entertainment at home and other types of cocooning consumption grew as a result of people refraining from going out due to the impact of COVID-19, boosting demand for games. In addition, the game market is expected to further revitalize and expand on a global scale, with an increase in download sales, the upcoming launch of new platforms, revenue opportunities from new business models and services, and the development of technologies and infrastructure such as 5G and the Cloud.

As for the market for amusement centers and amusement machines, following the emergency declaration, the number of visitors was significantly decreased because amusement stores temporarily suspended operations in response to requests from local governments. Although they have gradually resumed operating after the emergency declaration was lifted, to recover the number of visitors is expected to take substantial time.

In the resort industry, demand for both domestic and overseas travel has dropped, resulting in a drastically reduced number of tourists due to the impact of COVID-19 and travel restrictions imposed by each country.

Although the enforcement order, etc. pertaining to the "Act on the Establishment of Specified Integrated Resort Areas" have been sequentially enforced from April 2019, including the establishment of the Japan Casino Regulatory Commission in January 2020, the date of publication for the formulation of the national government's basic policy is not yet decided due to requiring for including measures for COVID-19.

In this business environment, net sales for the first quarter of the fiscal year ending March 31, 2021 amounted to ¥48,382 million (a decrease of 33.5% for the same period in the previous fiscal year). The Group posted an operating loss of ¥3,851 million (operating income of ¥3,409 for the same period in the previous fiscal year), ordinary loss of ¥4,099 million (ordinary income of ¥2,372 million for the same period in the previous fiscal year), and loss attributable to owners of parent of ¥3,301 million (income attributable to owners of parent of ¥1,718 million for the same period in the previous fiscal year). In addition, responding the government declared a state of emergency due to the spread of COVID-19, the Group posted extraordinary losses ¥2,563 million including fixed costs during the temporarily suspended operations etc.

Result of each segment is as follows.

Net sales in each segment here do not include Inter-segment sales between segments.

In addition, as a reportable segment of the Group, The business operated by SEGA SAMMY CREATION INC., which was previously included in "Entertainment Contents", have been changed to "Pachislot and Pachinko Machines", and the segment income has been changed from "operating income" to "ordinary income" from the first quarter of the fiscal year ending March 31, 2021. The comparison and analysis of the first quarter of the fiscal year are prepared based on the modified segment classification. For details of segment information, refer to "3. Changes to business segments etc." of "SEGMENT INFORMATION" on page 10.

« Pachislot and Pachinko Machines »

In the pachislot and pachinko machine business, while sales of Sammy Networks Co., Ltd., which provides pachislot and pachinko contents for PCs & smartphones, were recorded, without the release of new titles for either the pachislot or pachinko machines, overall sales of pachislot machines were 485 units (17,930 units for the same period in the previous fiscal year), and overall sales of pachinko machines were 177 units (16,212 units for the same period in the previous fiscal year).

As a result, net sales in this segment were ¥2,706 million (a decrease of 84.3% for the same period in the previous fiscal year) and ordinary loss was ¥8,532 million (ordinary income of ¥994 million for the same period in the previous fiscal year).

« Entertainment Contents »

In the consumer field, the effect of consumption from staying at home due to the prevention for the spread of COVID-19 was observed, with strong performance of Full Game*, especially in repeat sales of existing titles, sales amounted to 12,980 thousand copies (6,490 thousand copies for the same period in the previous fiscal year). In the free-to-play games (F2P*), the sales have been recorded steady performance such as "PHANTASY STAR ONLINE 2 (North American version)" was strongly launched in April 2020.

*Consumer field is classified by following 3 business models.

Full Game	Physical sales and download sales of full game for home video game consoles and PCs. (Download content sales are not included.)
F2P	Sales of contents with offering free basic play and microtransaction for smartphones and PCs.
Others	Sales of additional downloadable contents, consignment sales of 3rd party titles, revenue from consignment development, transfer of titles, offering of titles in batches to 1st parties, sales of non-game software products, etc.

In the amusement machine field, sales were sluggish due to decreasing charge income and order, reflecting the suspend and reduced operation of amusement centers, which are the purchasers.

In the amusement center operations field, amusement stores temporarily closed or reduced opening hours following requests from local governments. They gradually resumed operation once the requests were lifted, but like-for-like sales at the existing game center operations were 27.4% compared with the same period of the previous fiscal year.

In the animated film and toy field, the Group recorded earnings from video production and distribution, and implemented the sale of mainstay toy products.

As a result, net sales in this segment were ¥45,134 million (a decrease of 15.0% for the same period in the previous fiscal year) and ordinary income was ¥8,277 million (an increase of 68.3% for the same period in the previous fiscal year).

« Resort »

In the resort business, at "Phoenix Seagaia Resort", voluntarily closed its facilities with the object of prevention for the spread of COVID-19. While operating activities for the Kyushu region centered on Miyazaki prefecture have recently resumed, the number of guests continued to fall sharply, and the number of guests was 23.3% compared with the same period of the previous fiscal year. In addition, expenses for participating in the domestic integrated resort were incurred.

Overseas, PARADISE SEGASAMMY Co., Ltd. (affiliate accounted for using the equity method) is operating "PARADISE CITY" saw substantial decline from January to March, 2020 such as drop amounts (purchased amount of chips by customers at the table) was 89.2%, and the number of guests was 80.5% compared to the same period in the previous fiscal year, respectively.

*PARADISE SEGASAMMY Co., Ltd. is posted 3 months delay due to the fiscal year ended in December.

As a result, net sales in this segment were ¥464 million (a decrease of 81.1% for the same period in the previous fiscal year) and ordinary loss was ¥2,135 million (ordinary loss of ¥1,661 million for the same period in the previous fiscal year).

(2) Forecast of Consolidated Operating Results

The Company announced the forecast of consolidated operating results for the fiscal year ending March 31, 2021 which was pended in "FLASH REPORT CONSOLIDATED FINANCIAL STATEMENTS [Japanese GAAP] Year Ended March 31, 2020" on May 13, 2020. With regard to the details, refer to "Notice Regarding Full-Year Consolidated Operating Results Forecast" announced on August 5, 2020.

(3) Other

(Additional information)

Accounting estimates associated with the spread of COVID-19

The Group implemented amusement center operations etc. to suspend temporarily or to reduce opening hours following the declaration of a state of emergency from the government and business suspension requests from the local governments due to the impact from the spread of COVID-19. In addition, accounting estimates are reflected in accounting treatment based on certain assumptions, which have no significant changes from announced additional information on the flash report in the previous fiscal year ended March 31, 2020, including those used to determine the recoverability of deferred tax assets and those used to determine impairment losses, etc.

However, there are many uncertainties over the impact from the spread of COVID-19, which could affect the Group's financial position and operating results for the fiscal year ending March 31, 2021.

CONSOLIDATED FINANCIAL STATEMENTS

SEGA SAMMY HOLDINGS INC. CONSOLIDATED BALANCE SHEETS AS OF MARCH 31, 2020 AND JUNE 30, 2020

(Unit: Millions of yen)

	Prior year (As of March 31, 2020)	Current period (As of June 30, 2020)
Assets		
Current assets		
Cash and deposits	159,013	157,063
Notes and accounts receivable - trade	40,408	24,564
Short-term investment securities	5,398	299
Merchandise and finished goods	8,218	9,761
Work in process	20,235	24,157
Raw materials and supplies	18,554	22,094
Other	17,449	27,554
Allowance for doubtful accounts	(302)	(257)
Total current assets	268,976	265,238
Noncurrent assets		
Property, plant and equipment		
Land	21,177	21,176
Other, net	65,472	64,040
Total property, plant and equipment	86,649	85,217
Intangible assets		
Goodwill	5,878	5,653
Other	12,090	12,917
Total intangible assets	17,969	18,570
Investments and other assets		
Investment securities	55,046	56,313
Other	30,078	29,293
Allowance for doubtful accounts	(450)	(441)
Total investments and other assets	84,673	85,164
Total noncurrent assets	189,292	188,952
Total assets	458,268	454,190

SEGA SAMMY HOLDINGS INC.
CONSOLIDATED BALANCE SHEETS
AS OF MARCH 31, 2020 AND JUNE 30, 2020

(Unit: Millions of yen)

	Prior year (As of March 31, 2020)	Current period (As of June 30, 2020)
Liabilities		
Current liabilities		
Notes and accounts payable - trade	17,834	15,751
Short-term loans payable	13,331	43,328
Current portion of bonds	10,000	-
Income taxes payable	3,383	639
Provision	8,729	2,633
Asset retirement obligations	101	101
Other	32,766	26,312
Total current liabilities	86,147	88,768
Noncurrent liabilities		
Bonds payable	10,000	10,000
Long-term loans payable	42,003	42,000
Net defined benefit liability	4,176	4,270
Asset retirement obligations	4,847	4,868
Provision for dismantling of fixed assets	420	420
Other	13,815	14,278
Total noncurrent liabilities	75,263	75,838
Total liabilities	161,410	164,606
Net assets		
Shareholders' equity		
Capital stock	29,953	29,953
Capital surplus	118,564	118,564
Retained earnings	206,334	198,326
Treasury stock	(53,555)	(53,556)
Total shareholders' equity	301,296	293,287
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	4,470	6,502
Deferred gains or losses on hedges	(596)	(818)
Revaluation reserve for land	(1,109)	(1,109)
Foreign currency translation adjustment	(8,480)	(9,700)
Remeasurements of defined benefit plans	(1,478)	(1,471)
Total accumulated other comprehensive income	(7,193)	(6,597)
Subscription rights to shares	813	798
Non-controlling interests	1,941	2,095
Total net assets	296,858	289,583
Total liabilities and net assets	458,268	454,190

SEGA SAMMY HOLDINGS INC.
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
FOR 3 MONTHS ENDED JUNE 30, 2019 AND 2020

(Unit: Millions of yen)

	Prior period From April 1, 2019 To June 30, 2019	Current period From April 1, 2020 To June 30, 2020
Net sales	72,734	48,382
Cost of sales	44,321	29,600
Gross profit	28,413	18,782
Selling, general and administrative expenses	25,003	22,633
Operating income (loss)	3,409	(3,851)
Non-operating income		
Interest income	47	26
Dividends income	213	291
Foreign exchange gains	166	-
Gain on investments in partnership	128	84
Other	338	243
Total non-operating income	894	645
Non-operating expenses		
Interest expenses	129	108
Equity in losses of affiliates	1,223	595
Loss on valuation of compound financial instruments	-	13
Other	578	176
Total non-operating expenses	1,931	894
Ordinary income (loss)	2,372	(4,099)
Extraordinary income		
Gain on sales of noncurrent assets	0	8
Gain on sales of investment securities	0	-
Gain on reversal of subscription rights to shares	7	15
Gain on sales of shares of subsidiaries and affiliates	-	112
Subsidy income	-	74
Other	0	-
Total extraordinary income	8	210
Extraordinary losses		
Loss on sales of noncurrent assets	0	0
Impairment loss	17	0
Loss on sales of investment in securities	97	-
Loss on coronavirus disease	-	2,563
Other	0	0
Total extraordinary losses	116	2,564
Income (loss) before income taxes	2,264	(6,453)
Income taxes-current	465	(3,304)
Total income taxes	465	(3,304)
Profit (loss)	1,799	(3,148)
(Breakdown)		
Profit (loss) attributable to owners of parent	1,718	(3,301)
Profit (loss) attributable to non-controlling interests	81	152

SEGA SAMMY HOLDINGS INC.
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
FOR 3 MONTHS ENDED JUNE 30, 2019 AND 2020

(Unit: Millions of yen)

	Prior period From April 1, 2019 To June 30, 2019	Current period From April 1, 2020 To June 30, 2020
Other comprehensive income		
Valuation difference on available-for-sale securities	(2,480)	2,031
Deferred gains or losses on hedges	(3)	(2)
Foreign currency translation adjustment	(1,501)	123
Remeasurements of defined benefit plans, net of tax	(19)	4
Share of other comprehensive income of entities accounted for using equity method	(631)	(1,560)
Total other comprehensive income	(4,636)	597
Comprehensive income	(2,837)	(2,551)
(Breakdown)		
Comprehensive income attributable to owners of parent	(2,916)	(2,705)
Comprehensive income attributable to non-controlling interests	79	153

SEGMENT INFORMATION

1. Prior period (From April 1, 2019 to June 30, 2019)

Information on the amounts of net sales, income (loss) by each reporting segment

(Unit: Millions of yen)

	Reporting segment			Subtotal	Adjustment (Note)	Amount in consolidated financial statements
	Pachislot Pachinko	Entertainment Contents	Resort			
Net sales						
(1) Sales to third parties	17,191	53,082	2,460	72,734	0	72,734
(2) Inter-segment sales and transfers	235	158	15	409	(409)	-
Total	17,427	53,240	2,475	73,143	(409)	72,734
Segment income (loss)	994	4,918	(1,661)	4,251	(1,878)	2,372

(Notes) 1. Elimination of inter-segment transactions of ¥(0) million and general corporate expenses of ¥(1,878) million which are not allocated to the reporting segment are included in the adjustment to segment income (loss) of ¥(1,878) million. General corporate expenses are mainly consisted of the expenses of the Group management incurred by the Company.

2. Adjustment has been made to segment income (loss) and ordinary income in the consolidated financial statements.

2. Current period (From April 1, 2020 to June 30, 2020)

Information on the amounts of net sales, income (loss) by each reporting segment

(Unit: Millions of yen)

	Reporting segment			Subtotal	Adjustment (Note)	Amount in consolidated financial statements
	Pachislot Pachinko	Entertainment Contents	Resort			
Net sales						
(1) Sales to third parties	2,706	45,134	464	48,305	77	48,382
(2) Inter-segment sales and transfers	12	275	8	296	(296)	-
Total	2,719	45,409	473	48,602	(219)	48,382
Segment income (loss)	(8,532)	8,277	(2,135)	(2,390)	(1,708)	(4,099)

(Notes) 1. Elimination of inter-segment transactions of ¥5 million and general corporate expenses of ¥(1,714) million which are not allocated to the reporting segment are included in the adjustment to segment income (loss) of ¥(1,708) million. General corporate expenses are mainly consisted of the expenses of the Group management incurred by the Company.

2. Adjustment has been made to segment income (loss) and ordinary income in the consolidated financial statements.

3. Changes to business segments etc.

(Changes to the classification method for business segments)

The business operated by SEGA SAMMY CREATION INC., which was included in the Entertainment Contents Business, has been changed to the Pachislot and Pachinko Machines Business from the first quarter of the fiscal year ending March 31, 2021 in order to further promote the synergic effects of the Pachislot and Pachinko Machines Business in the development of gaming machines. In addition, as an evaluation index for the performance-based remuneration component of bonuses paid to the Company's officers, the method of measuring segment income has been changed from "operating income" to "ordinary income" from the first quarter of the fiscal year ending March 31, 2021 from the perspective of a management approach that the company positions "ordinary income", which is the income obtained by the Group on a recurring basis from the overall business, including equity in earnings and losses of affiliates etc., as an important target figure.

Segment information for the prior period has been prepared based on the new classification method.