We would now like to begin the Financial Results Briefing Session of SQUARE ENIX HOLDINGS (the “Company”) for the fiscal year ended March 31, 2016 (“FY2016/3”).

Today’s presenters are:

Yosuke Matsuda,
President and Representative Director
and
Kazuharu Watanabe,
Chief Financial Officer.

First, Mr. Watanabe will give an overview of the Company’s financial results for FY2016/3, and then Mr. Matsuda will discuss the progress made by each of the Company’s business segments.

Good afternoon. I’m Kazuharu Watanabe. I will be presenting an overview of the Company’s financial results for FY2016/3.
In FY2016/3, the Company booked net sales of ¥214.1 billion (+¥46.2 billion YoY), operating income of ¥26 billion (+¥9.6 billion), recurring income of ¥25.3 billion (+¥8.3 billion), and net income attributable to parent company shareholders of ¥19.9 billion (“net income,” ¥10.1 billion).

Both sales and income rose sharply on the whole, with net sales and net income reaching all-time highs.

I will next break our results down by segment.

The Digital Entertainment segment saw a sharp rise in both net sales and net income. Let’s take a closer look at that, breaking the segment down into its three sub-segments.

The HD Games sub-segment released *RISE OF THE TOMB RAIDER* in November and *JUST CAUSE 3* in December, with both major titles contributing to earnings. The MMO sub-segment saw a significant contribution from expansion packs released in 1Q FY2015/3 (“the previous term”). Subscription revenue from game operations was also solid, serving to underpin earnings.

The Games for Smart Devices/PC Browsers sub-segment saw earnings contributions not only from existing titles, but also from new titles launched in FY2016/3, including *MOBIUS FINAL FANTASY, HOSHI NO DRAGON QUEST, FINAL FANTASY BRAVE EXVIUS*, and *Grimms Notes*, all of which are enjoying high chart rankings.

That concludes my breakdown of the Digital Entertainment Segment.

Next, I turn to the Amusement segment, which saw a slight increase in net sales and net income. The arcades operated by Taito are showing solid performances, and new arcades such as the Omiya location are off to strong starts. Sales of *DISSIDIA FINAL FANTASY* arcade machines were also brisk.

The plans, forecasts, strategies and ideas described in this material are descriptions of forecasts of future results. These descriptions rely on information available as of the date of production of this material and are based on assumptions and judgment made by the Company’s management. Readers are advised not to rely solely on these forecasts. Readers should also not assume that these forecasts are accurate or valid information, even after the date of public release. There are many factors that may cause actual results to vary considerably from the forecasts, and in some cases actual results may be inferior to forecasts. The information on the future forecasts described in this material is current as of May 12, 2016. The company is not obliged to update or correct forecasts concerning the Company’s future results, including forecasts or outlook, if new information becomes available and/or events occur after May 12, 2016.
At the Publication segment, net sales and net income were
down, but this owed to a high hurdle set by brisk sales in the
previous term of comic titles that were adapted into animated
TV series.

The Merchandising segment saw both net sales and net
income rise, thanks in part to brisk sales of character
merchandise associated with the release of the FINAL
FANTASY XIV expansion pack.

This concludes my overview of FY2016/3 results.

I am Yosuke Matsuda.

I will be discussing our earnings and outlook at each of our
business segments.

This chart tracks our content production account balance.
We have for the most part solidified our development
pipeline for HD games and Games for Smart Devices over the
next three years, and the pipeline is a rich one. With help from
these games, we expect our net sales to reach ¥250-270
billion in FY2017/3 and believe that we will be able to shoot
for ¥300-400 billion approximately the following three years.

We intend to keep our content production account balance
to approximately 20-25% of net sales as we see that as the
appropriate proportion for achieving net sales of the
aforementioned scale.

I will next look at the progress made by each of our business
segments.
Our FY2016/3 pipeline placed more emphasis on Western titles. RISE OF THE TOMB RAIDER was initially released for Microsoft platforms. Sales have been solid, and the PC version is also off to a strong start. We look for the title to continue to contribute to earnings going forward as the PS4 version is slated for release in the 2016 holiday season.

We are currently experimenting with a new business model for HITMAN, whereby we release the game in episodic installments. We also expect earnings contributions from the disc version slated for release in FY2017/3.

In the Japanese game domain, we believe that DRAGON QUEST BUILDERS has succeeded at providing a new way to play a DRAGON QUEST game.

This slide shows our FY2017/3 lineup. It includes only those titles for which we have already announced launch dates. We expect our biggest FY2017/3 title to be FINAL FANTASY XV, which has already racked up an impressive volume of pre-orders worldwide. It will be the first single-player FINAL FANTASY title that we will release simultaneously around the globe, and we intend to be fully ready for it.

We also plan to release DRAGON QUEST HEROES II as the sequel to the first title, which proved so popular in FY2016/3.

I turn next to MMO, which generated extremely strong earnings in FY2016/3. Sales of expansion packs for FINAL FANTASY XIV and DRAGON QUEST X were particularly significant earnings contributors, and we believe they made a substantial contribution from an operations perspective as well.

In general, without the release of additional content or other incentives, subscriber numbers and other metrics for online games decline. Since we have no expansion pack releases planned for FY2017/3, how we build excitement via our operations will be key.

2016 marks the 30th anniversary of DRAGON QUEST, and...
2017 will mark the 30th anniversary for FINAL FANTASY, so we are hoping to build up excitement through a variety of commemorative events.

That said, we anticipate a YoY decline in net sales in FY2017/3 due to the lack of any expansion pack releases.

A broad range of our Games for Smart Devices/PC Browsers, including those based on powerful existing IP and those based on new IP, have become fixtures at the upper end of the hit charts.

Naturally, not all titles are hits, so we have consciously created a cycle by which we clear away underperforming earners to enable us to focus on new titles.

This slide lists our top-ranked titles. Grimms Notes is new IP, and we see the fact that we were able to place it in the upper end of the rankings as soon as it launched without engaging in significant marketing spending as a major accomplishment.
At the Amusement segment, sales of DISSIDIA FINAL FANTASY arcade machines have topped 3,000 units, and revenue generation is also quite strong. E-money and spending by foreign tourists have been the major drivers of arcade operations. Growth in e-money payments has been particularly marked since our arcades began accepting payment from public transit smart cards. Making our arcades more convenient for customers is key, so we will continue to promote the acceptance of e-money.

This slide shows our primary lineup of arcade machines for FY2017/3. DRAGON QUEST MONSTER BATTLE SCANNER, which is designed to be the centerpiece of our DRAGON QUEST 30th anniversary commemorations, is slated for a summer 2016 launch.

Net sales and net income declined in FY2016/3 at the Publication segment. Exposing our comic titles across multiple media platforms had resulted in brisk sales in the previous term, but that created a hurdle that proved insurmountable. We intend to continue with our strategy of growing sales of our comic titles by adapting them into TV animation series.

We see the Publication segment as a fertile ground for growing IP, and we believe that it will be an appealing business that extends beyond the confines of print media. I want the Company as a whole to give serious thought to how best to leverage it.
Next I turn to our earnings outlook for FY2017/3.

We forecast within ranges, looking for net sales of ¥250-270 billion, operating income of ¥27-33 billion, recurring income of ¥27-33 billion, and net income of ¥17-21 billion.

We see the possibility for upside given that we are somewhat conservative in some aspects of our sales planning, but in light of a variety of risks, we have compiled our earnings forecasts in the ranges outlined above.

I will next break down those forecasts by segment.

At the Digital Entertainment segment, we expect contributions from major titles to grow both in Japan and overseas.
This slide illustrates our sales trend. Our FY2017/3 forecast suggests a near doubling of our net sales since FY2013/3. We want to organically bring our net sales to ¥300-400 billion over approximately the next three years.

This slide tracks our operating income. Our operating income reached ¥26 billion in FY2016/3, so we hope to set a new all-time record in FY2017/3.

This slide shows a breakdown of the Digital Entertainment segment. It is the Games for Smart Devices/PC Browsers sub-segment that has demonstrated significant growth, but our FY2017/3 plan also calls for major growth from the HD Games sub-segment.

The plans, forecasts, strategies and ideas described in this material are descriptions of forecasts of future results. These descriptions rely on information available as of the date of production of this material and are based on assumptions and judgment made by the Company’s management. Readers are advised not to rely solely on these forecasts. Readers should also not assume that these forecasts are accurate or valid information, even after the date of public release. There are many factors that may cause actual results to vary considerably from the forecasts, and in some cases actual results may be inferior to forecasts. The information on the future forecasts described in this material is current as of May 12, 2016. The company is not obliged to update or correct forecasts concerning the Company’s future results, including forecasts or outlook, if new information becomes available and/or events occur after May 12, 2016.
This slide shows units sold by region, illustrating that while we are seeing marked growth in downloads, many customers continue to purchase discs. Many fans make online purchases of HITMAN, which we are releasing in episodic installments, but we also hear from a great many customers who say that they want to wait for it to come out on disc to buy it.

Over the near term, we believe it will be important to build up our download sales gradually, while giving careful consideration to the balance between downloads and disc sales.

Downloads are difficult in some ways because they represent a B2C business model in which we engage directly with our customers as opposed to the B2B model represented by disc sales. One difference is the difficulty in forecasting unit sales in the case of downloads. We intend to establish a sales system that is well aligned with downloads.

Next I would like to present our medium-term targets.
As I mentioned earlier, our medium-term targets are for organic growth to result in net sales of ¥300-400 billion and operating income of ¥50 billion.

Here I would like to discuss the initiatives that we intend to get us to our medium-term targets.

A basic initiative that we intend to continue to undertake is that of further enhancing our three pillars: HD Games, MMO, and Games for Smart Devices/PC Browsers. We will maintain our initiative to further enhance our IP portfolio via the creation and sales of major titles, which we will roll out in multiple formats in order to maximize our earnings opportunities. Recently we have noted a phenomenon whereby the release of a new title from a major IP franchise results in strong global download sales of previous titles from that same franchise. That is another reason that we see the constant release of major new and existing titles as key.

The three initiatives for the future listed here are (i) premium apps for smart devices, (ii) VR/AR, and (iii) emerging market development.
Let’s first look at premium apps for smart devices. Currently, the smart device game market is essentially dominated by F2P games. However, advancements in smartphone performance are beginning to make it possible to play content-rich games that ordinarily would have been suited for portable game consoles. Games like FINAL FANTASY IX, ADVENTURES OF MANA, and Romancing SaGa, which you see here, may not generate the sort of explosive sales that F2P games do, but they have been strong sellers over the long term, meaning that they have scalability over time.

Meanwhile, as I mentioned earlier, the release of new titles in the FINAL FANTASY franchise results in strong app sales of previous FINAL FANTASY titles. As such, we see the premium app game business as a self-sustaining business while the F2P business requires continuous operational efforts to generate revenue.

Provided that we are able to enliven the premium app game market in such a way that we can set appropriate sales prices and secure our margins, we believe that the market is one that holds significant promise. We also believe that the earnings impact could be significant once development costs have been depreciated and earnings begin to accumulate.

Given the massive installed base of smartphones, we intend to devote solid investments to this domain, including in terms of new title development.

Next I turn to the very hot topics of VR (virtual reality) and AR (augmented reality). We are also undertaking multiple projects in these fields.

In a few years, “VR mode” may come as a standard feature just as the multi-player mode has been added to single-player games up until now.

We see this as a field in which we can leverage our high-end technological prowess. Other firms are also hiring HD game developers, and we believe that this is the reason.
Lastly is the development of emerging markets. Latin America and the Middle East have grown as consumer markets, and we intend to focus on localizing into the languages of those regions and releasing numerous titles for them.

Offering solid localizations not only in English but also in languages such as Arabic and Spanish is key, and we have seen that clearly reflected in unit sales and rankings in those regions.

The protagonist of *JUST CAUSE 3* which we released in FY2016/3 is Mexican, so we have localized that title into Spanish and Portuguese. Doing so produced significant benefits.

Hit titles are recognized by gaming fans the world over, but language localizations let them take even deeper root. As such, we intend to continue to enhance our initiatives in this area.
Please allow me to summarize what I have discussed thus far. We intend to create a cycle by which we engage in ongoing investment in big franchises, from which we will generate earnings, and to create new IP simultaneously, which we will also monetize.

By doing so, we hope to achieve the medium-term target figures I discussed earlier.

Lastly, I will discuss our dividends for FY2016/3.

Our basic policy is to target a payout ratio of 30%, with a minimum annual dividend of ¥30/share. FY2016/3 saw net income of ¥19.9 billion, so we have set an annual dividend of ¥48/share based on a payout ratio of 30%. We have already paid an interim dividend of ¥10, meaning that our year-end dividend will be ¥38/share.

We have no intention of changing our basic policy in FY2017/3 or beyond. However, we will need to invest in new development for VR/AR and the development of new content, so we intend to take a comprehensive view of the balance between investment and shareholder return in determining our dividends going forward.
That concludes my presentation.