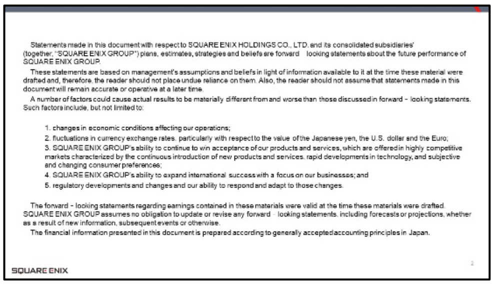
We would now like to begin the Financial Results Briefing session of SQUARE ENIX HOLDINGS (the "Company") for the fiscal year ended March 31, 2024 ("FY2024/3").

Today's presenter is:

Takashi Kiryu, President and Representative Director.



Statements made in this document with respect to SQUARE ENIX HOLDINGS CO., LTD. and its consolidated subsidiaries' (together, "SQUARE ENIX GROUP") plans, estimates, strategies and beliefs are forward looking statements about the future performance of SQUARE ENIX GROUP.

These statements are based on management's assumptions and beliefs in light of information available to it at the time these material were drafted and, therefore, the reader should not place undue reliance on them. Also, the reader should not assume that statements made in this document will remain accurate or operative at a later time.

A number of factors could cause actual results to be materially different from and worse than those discussed in forward - looking statements. Such factors include, but not limited to:

1. changes in economic conditions affecting our operations;
2. fluctuations in currency exchange rates, particularly with respect to the value of the Japanese yen, the U.S. dollar and the Euro;
3. SQUARE ENIX GROUP's ability to continue to win acceptance of our products and services, which are offered in highly competitive markets characterized by the continuous introduction of new products and services, rapid developments in technology, and subjective and changing consumer preferences;
4. SQUARE ENIX GROUP's ability to expand international success with a focus on our businesses; and
5. regulatory developments and changes and our ability to respond and adapt to those changes.

The forward - looking statements regarding earnings contained in these materials were valid at the time these materials were drafted. SQUARE ENIX GROUP assumes no obligation to update or revise any forward - looking statements, including forecasts or projections, whether as a result of new information, subsequent events or otherwise.

The financial information presented in this document is prepared according to generally accepted accounting principles in Japan.

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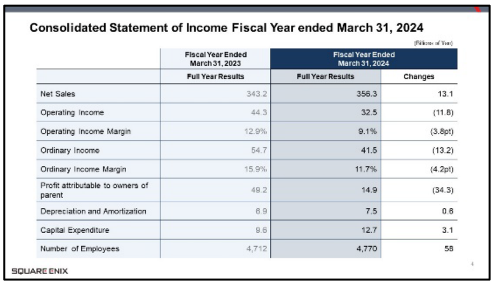
President Kiryu will provide an overview of the Company's financial results for FY2024/3, as well as performance in each business segment. Finally, he will present our New Medium-term Business Plan.

I am Takashi Kiryu. Let me start with an overview of our FY2024/3 results.



Consolidated Statement of Income Fiscal Year ended March 31, 2024

(Billions of Yen)

	Fiscal Year Ended March 31, 2023	Fiscal Year Ended March 31, 2024	
	Full Year Results	Full Year Results	Changes
Net Sales	343.2	356.3	13.1
Operating Income	44.3	32.5	(11.8)
Operating Income Margin	12.9%	9.1%	(3.8pt)
Ordinary Income	54.7	41.5	(13.2)
Ordinary Income Margin	15.9%	11.7%	(4.2pt)
Profit attributable to owners of parent	49.2	14.9	(34.3)
Depreciation and Amortization	6.9	7.5	0.6
Capital Expenditure	9.6	12.7	3.1
Number of Employees	4,712	4,770	58

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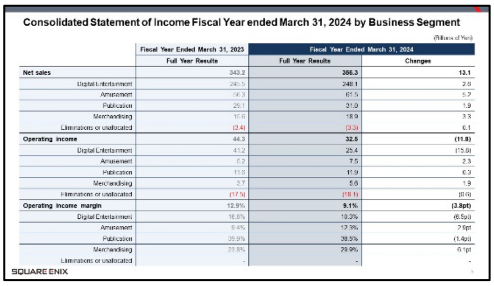
In FY2024/3, the Company booked net consolidated sales of ¥356.3 billion (up ¥13.1 billion YoY), operating income of ¥32.5 billion (down ¥11.8 billion), and ordinary income of ¥41.5 billion (down ¥13.2 billion).

Profit attributable to owners of parent was ¥14.9 billion (down ¥34.3 billion) as we recognized ¥22.0 billion in loss on disposal of content as extraordinary losses.



Consolidated Statement of Income Fiscal Year ended March 31, 2024 by Business Segment

(Billions of Yen)

	Fiscal Year Ended March 31, 2023	Fiscal Year Ended March 31, 2024	
	Full Year Results	Full Year Results	Changes
Net sales	343.2	356.3	13.1
Digital Entertainment	245.5	248.1	2.6
Amusement	56.3	61.5	5.2
Publication	29.1	31.0	1.9
Merchandising	15.6	18.9	3.3
Eliminations or unallocated	(3.4)	(3.3)	0.1
Operating income	44.3	32.5	(11.8)
Digital Entertainment	41.2	25.4	(15.8)
Amusement	5.2	7.5	2.3
Publication	11.6	11.9	0.3
Merchandising	3.7	5.6	1.9
Eliminations or unallocated	(17.5)	(18.1)	(0.6)
Operating income margin	12.9%	9.1%	(3.8pt)
Digital Entertainment	16.8%	10.3%	(6.5pt)
Amusement	9.4%	12.3%	2.9pt
Publication	39.9%	38.5%	(1.4pt)
Merchandising	23.8%	29.9%	6.1pt
Eliminations or unallocated	-	-	-

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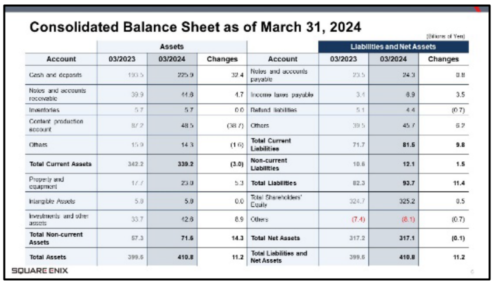
Operating income declined in spite of net sales growth YoY due to lower-than-expected profit in the Digital Entertainment segment.

Segments other than Digital Entertainment generated solid earnings, and we believe it will be key to maintain this momentum going forward.


Consolidated Balance Sheet as of March 31, 2024

[Billions of Yen]

	Assets				Liabilities and Net Assets		
Account	03/2023	03/2024	Changes	Account	03/2023	03/2024	Changes
Cash and deposits	193.5	225.9	32.4	Notes and accounts payable	23.5	24.3	0.8
Notes and accounts receivable	39.9	44.6	4.7	Income taxes payable	3.4	6.9	3.5
Inventories	5.7	5.7	0.0	Refund liabilities	5.1	4.4	(0.7)
Content production account	87.2	48.5	(38.7)	Others	39.5	45.7	6.2
Others	15.9	14.3	(1.6)	**Total Current Liabilities**	71.7	**81.5**	**9.8**
Total Current Assets	342.2	**339.2**	**(3.0)**	**Non-current Liabilities**	10.6	**12.1**	**1.5**
Property and equipment	17.7	23.0	5.3	**Total Liabilities**	82.3	**93.7**	**11.4**
Intangible Assets	5.0	5.0	0.0	Total Shareholders' Equity	324.7	325.2	0.5
Investments and other assets	33.7	42.6	8.9	Others	(7.4)	(8.1)	(0.7)
Total Non-current Assets	57.3	**71.6**	**14.3**	**Total Net Assets**	317.2	**317.1**	**(0.1)**
Total Assets	399.6	**410.8**	**11.2**	**Total Liabilities and Net Assets**	399.6	**410.8**	**11.2**

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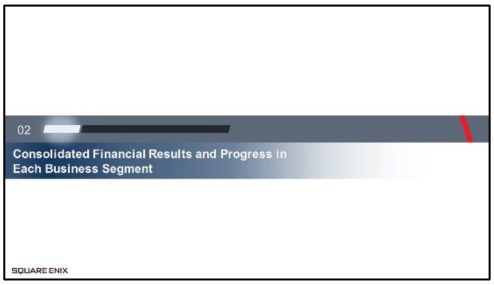
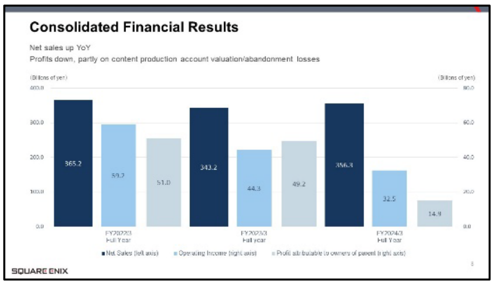
This is our consolidated balance sheet.

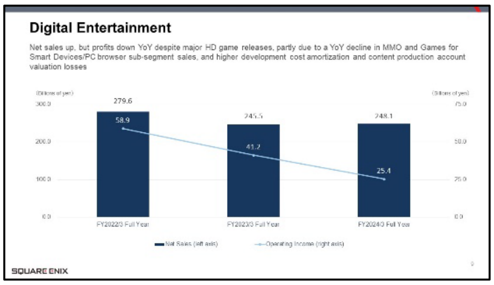
The content production account declined ¥38.7 billion compared with March 31, 2023 to ¥48.5 billion due to the recognition of loss on disposal of content and valuation losses ("impairment losses").



Next, I will discuss our consolidated financial results and progress in each segment.



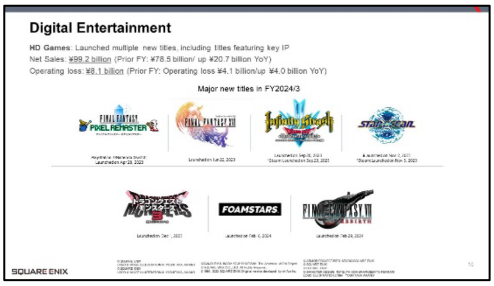
Comparing the past three years of consolidated results, we note that FY2024/3 net sales came in second to those of FY2022/3. Operating income and net income were at their lowest in the three years, however, mainly due to our booking of content production account impairment losses.



Here are our Digital Entertainment segment results.

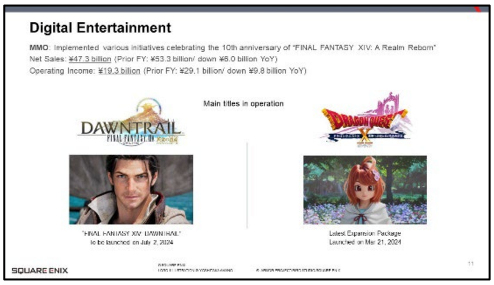
In the HD Games sub-segment, we released multiple new titles, including major titles such as *"FINAL FANTASY XVI"* and *"FINAL FANTASY VII REBIRTH,"* but profits unfortunately did not meet our expectations.

Net sales in the MMO and Games for Smart Devices/PC Browser sub-segments were lower than in the previous fiscal year. I will elaborate during my overview of progress by segment.

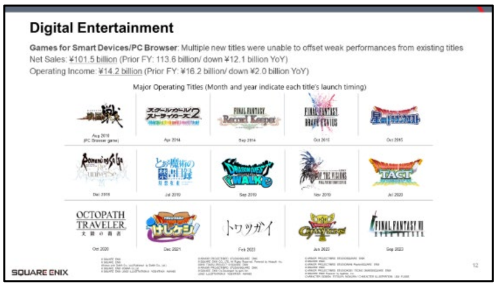


We resumed disclosure of operating income figures by sub-segment from FY2024/3.

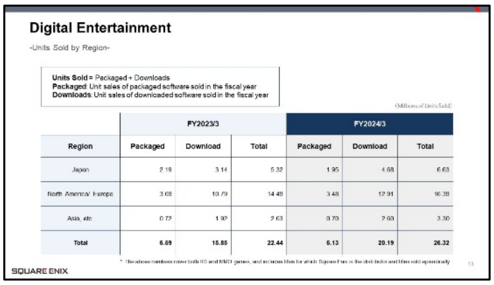
The HD Games sub-segment booked net sales of ¥99.2 billion (up ¥20.7 billion YoY) and an operating loss of ¥8.1 billion (loss widened ¥4 billion YoY). Despite the release of *"FOAMSTARS"* and *"FINAL FANTASY VII REBIRTH"* in Q4, initial sales were not as strong as expected, in addition to which an impairment was made to the content production account, resulting in the operating loss.



The MMO sub-segment booked net sales of ¥47.3 billion (down ¥6.0 billion YoY) and operating income of ¥19.3 billion (down ¥9.8 billion) amid a lull in releases ahead of the launch of the *"FINAL FANTASY XIV: Dawntrail"* expansion pack.

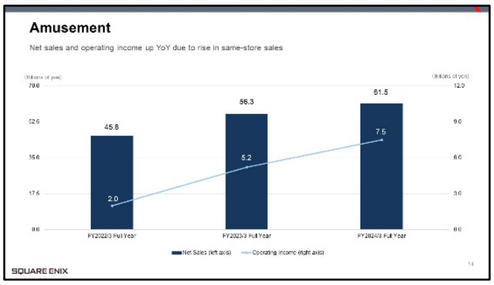


The Games for Smart Devices/PC Browser sub-segment posted net sales of ¥101.5 billion (down ¥12.1 billion YoY) and operating income of ¥14.2 billion (down ¥2.0 billion). Although multiple new titles were released in FY2024/3, they were unable to offset the decline in earnings from existing titles that have aged.

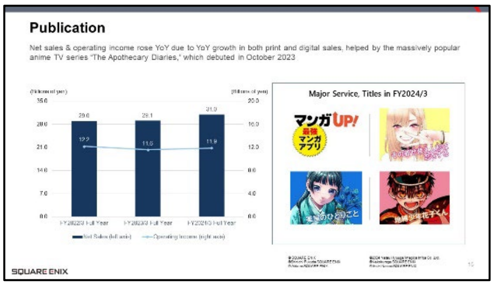


	FY2023/3			FY2024/3		
Region	Packaged	Download	Total	Packaged	Download	Total
Japan	2.18	3.14	5.32	1.95	4.68	6.63
North America/ Europe	3.69	10.79	14.49	3.48	12.91	16.39
Asia, etc	0.72	1.92	2.63	0.70	2.60	3.30
Total	6.69	15.85	22.44	6.13	20.19	26.32

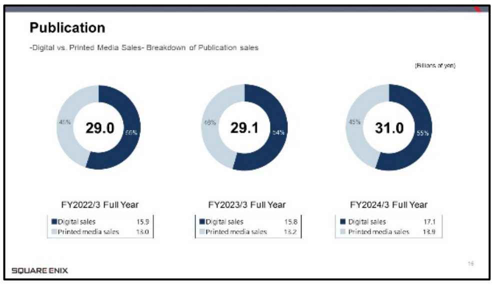
The Digital Entertainment segment sold 26.32 million units (up 3.88 million YoY). The increase in downloads across all regions was especially good news, and we will continue our efforts to strengthen digital sales of both new and catalog titles.



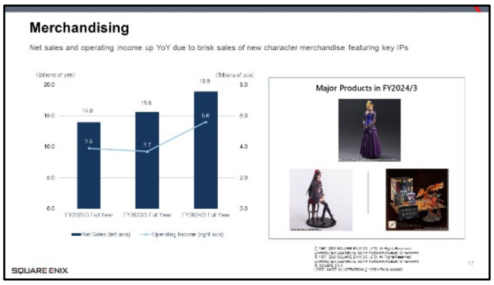
The Amusement segment generated net sales of ¥61.5 billion (up ¥5.2 billion YoY) and operating income of ¥7.5 billion (up ¥2.3 billion), reflecting recovery in demand after the pandemic. Growth was recorded across amusement facility operations as urban locations attracted large numbers of visitors, and suburban locations continued to perform well.



The Publication segment posted brisk earnings, including net sales of ¥31.0 billion (up ¥1.9 billion YoY) and operating income of ¥11.9 billion (up ¥0.3 billion). Sales of comics increased substantially, particularly as a result of the hit anime series *"The Apothecary Diaries,"* broadcast October 2023 to March 2024.

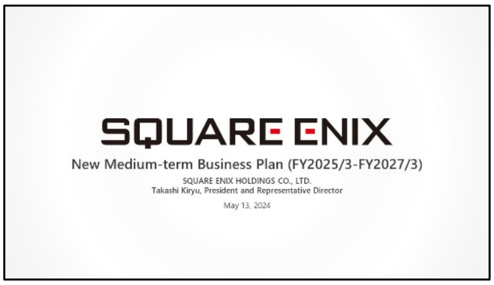


This slide shows the sales split in the Publication segment. The split between digital and printed media sales is largely unchanged, but the business continues to grow in size.



The Merchandising segment posted net sales of ¥18.9 billion (up ¥3.3 billion YoY) and operating income of ¥5.6 billion (up ¥1.9 billion). Sales were strong of merchandise based on key IP including *"FINAL FANTASY XVI," "FINAL FANTASY VII REBIRTH,"* and other new titles launched by the HD Games sub-segment in FY2024/3.

Now, I would like to present to you our New Medium-term Business Plan for FY2025/3 through FY2027/3.

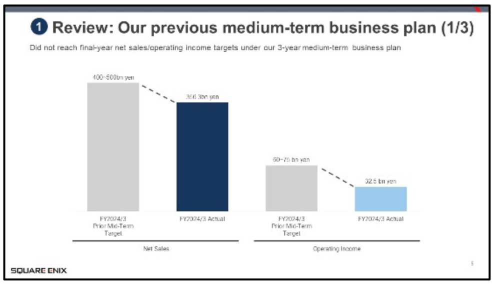


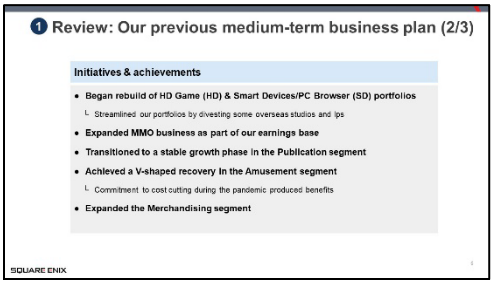
I will start with a look back over our previous medium-term business plan covering FY2022/3 through FY2024/3.

Then, I will describe our long-term vision and new corporate philosophy structure, which we created and adopted based on our reflections on the previous medium-term period.

Finally, I will introduce our new medium-term business plan.

Let me start with our previous medium-term plan.



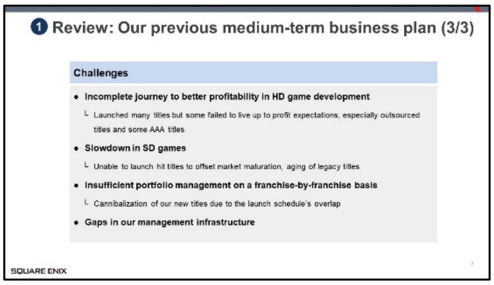


FY2024/3 sales of ¥356.3 billion and operating income of ¥32.5 billion both fell short of the numerical targets (¥400-¥500 billion in sales and ¥60-¥75 billion in operating income) that we had set under our previous medium-term plan.

However, in qualitative terms, I believe that our achievements on various fronts have set us up well for our future endeavors.

In the Digital Entertainment segment, we began to rebuild our portfolios in the HD Game and Smart Devices/PC Browser ("SD Game") sub-segments. Specifically, the sale of three overseas studios and certain IP assets has enabled us to slim our IP portfolio, allowing us to concentrate our development efforts on those IP that will ultimately contribute to greater profitability and customer loyalty.

We have only just begun to transform the Digital Entertainment segment, but I believe that we have established positions for our other segments as earnings generators within our business portfolio and have successfully transitioned them into a phase of stable growth.

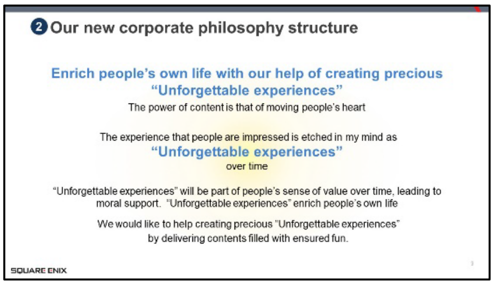


We recognize that issues remain in the Digital Entertainment segment. The HD Games sub-segment failed to better its profitability, posting operating losses in every year of our previous medium-term plan. In addition to this, we did not manage our title portfolio across the company as well as we could have, which I believe resulted in opportunity losses due to cannibalization between our own titles.

In SD games, too, business growth slowed due to maturation in the Japanese market and the arrival of overseas entrants.

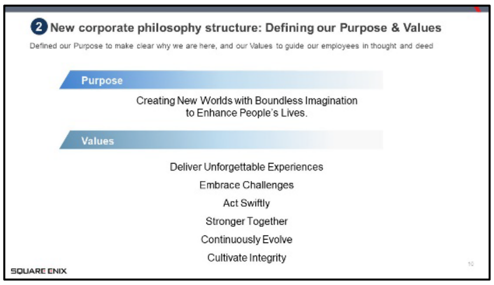
To tackle these issues, I feel that we need better visibility on quantitative data and intend to work on putting the right management infrastructure into place.

Having reviewed our previous medium-term plan, I would now like to talk about our new corporate philosophy structure.

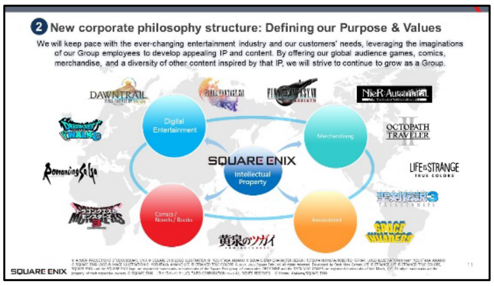


We recently took a fresh look at what we as a Group are striving to be and set out our long-term vision accordingly.

Engaging with content can move us. This is a sensation that, with the passage of time, forms unforgettable memories that help shape the values that ground us. It is our belief that this chain of events enriches our lives. We arrived at the conclusion that continuing to deliver content that can provide our customers with unforgettable memories that enrich their lives is our Group's mission and reason for being.

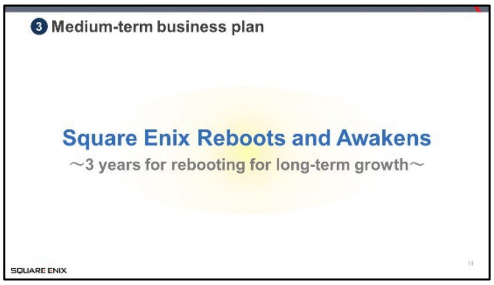


It is based on this conclusion that we have developed our new corporate philosophy structure, consisting of our Group Purpose and Values. My hope is that this corporate philosophy structure will serve as a guidepost for our Group's entire employee body as they endeavor to create content that forms the basis of unforgettable memories. I have personally explained to all our Group employees the passion that is behind the words that you see here, and I will continue to lead the transformation of our corporate culture.

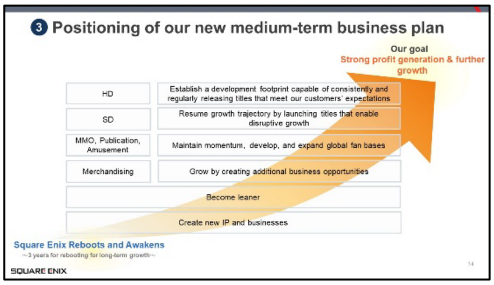


We worked backwards from the future depicted by our long-term vision and new corporate philosophy structure to discuss what we would need to achieve during the course of our new medium-term business plan. The outcome of those discussions was a reminder that our core competence is IP. We decided that to ensure our sustained growth, it is essential that we maximize our value by delivering our IPs in the form of a rich variety of content offering undeniable fun.

How we intend to achieve that is outlined in the framework of our new medium-term business plan covering FY2025/3 through FY2027/3.



We have positioned the three years of our new medium-term business plan as a reboot to ready us for further growth and have thus assigned it the slogan "Square Enix Reboots and Awakens."



In order to more clearly establish the positioning of our new medium-term business plan, we identified what we want to look like three years from now.

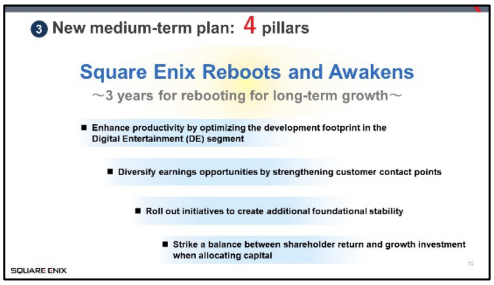
In the HD Game sub-segment, we will establish a development footprint capable of consistently and regularly releasing titles that beat our customers' expectations.

In the SD Game sub-segment, we will endeavor to resume a growth trajectory by creating an environment that enables us to continue to reach our customers and by exploring new business models.

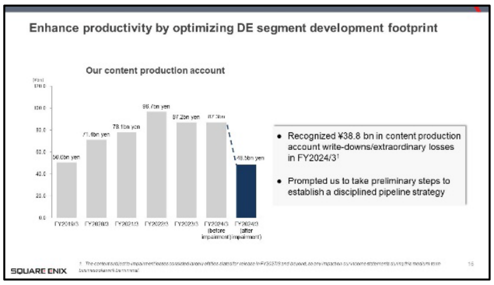
In the MMO sub-segment and Publication and Amusement segments, we will achieve further growth by maintaining and developing our momentum and expanding our global fan base.

In the Merchandising segment, we will expand the breadth of our business and work to establish an environment that emboldens us to offer new services and expand globally.

In addition to these initiatives in our individual businesses, we will also work to establish the management infrastructure and create the new IP and new businesses that will underpin this growth. By creating such a multilayered business portfolio, we want in three years to have evolved into a provider of a rich variety of content offering undeniable fun.

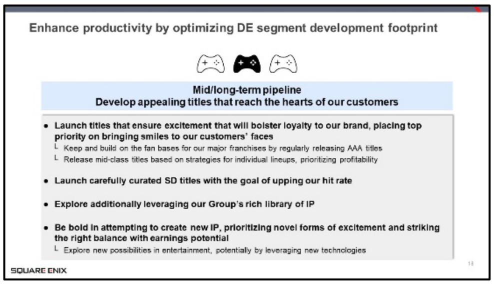


With that three-year goal in mind, we devised four strategy frameworks to indicate the efforts we will undertake as part of our new medium-term business plan. They are to: (1) enhance productivity by optimizing the development footprint in the Digital Entertainment (DE) segment; (2) diversify earnings opportunities by strengthening customer contact points; (3) roll out initiatives to create additional foundational stability; and (4) allocate capital giving consideration to the balance between growth investment and shareholder returns.



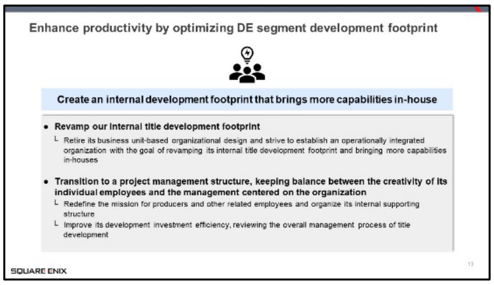
As part of our effort to enhance the productivity of the DE segment, we undertook a careful vetting of our content production account based on our mid/long-term philosophy on our title portfolio. Having determined that we needed to take preliminary steps toward establishing a disciplined pipeline strategy that will enable us to create an attractive, layered lineup of titles, we decided to recognize ¥38.8 billion in impairment losses this fiscal year.

Our mid/long-term portfolio philosophy is to shift from quantity to quality, delivering undeniable fun. We will not only ensure that our development process strikes a good balance between the "product-out" and "market-in" approaches, but also prioritize titles with strong potential when allocating resources, thereby working to enhance our development skill sets. In addition, we will pursue the optimization of our development resource allocation and launch schedule with the goal of establishing overall optimization. While these efforts will take a considerable amount of time to produce results, we want to definitely achieve them.

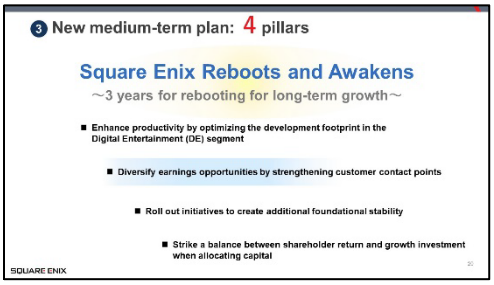


In the HD Game sub-segment, we will focus on releasing titles capable of delivering consistent fun. In the SD Game sub-segment, we want to carefully curate our selection of titles and increase our hit rate so that we can transition to a lineup of games that customers will play for a long time.

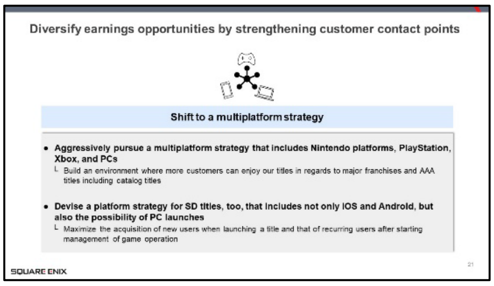
In terms of new IP, we intend to confine our development investment to a certain scale and to try to achieve fun that is novel and creative. We will also work to strengthen our lineup of catalog titles by leveraging our rich IP library.



To optimize our development footprint, we have abolished the previous business unit structure that had begun to show drawbacks attributable to siloization and will adopt an operationally integrated organizational design, thereby stepping up our internal development capabilities. We will also establish internal support capabilities and revisit our process for managing our progress on titles. This will give us a development function in which the entire organization supports the creativity of its producers and enable gains in development investment efficiency.

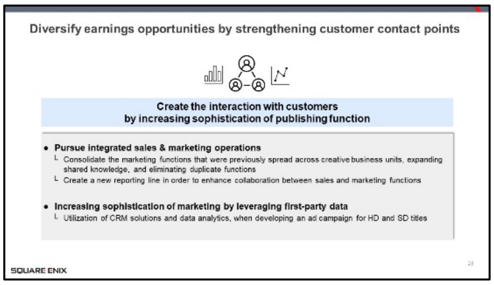


I will next elaborate on how we plan to diversify our earnings opportunities by strengthening customer contact points.



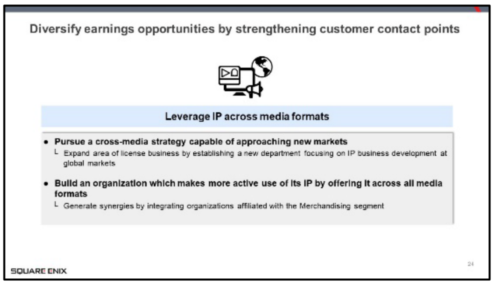
First, we will shift to a multiplatform strategy. In the case of HD games, we will create a global environment that allows more customers to enjoy our major franchises and AAA titles, including from our back catalog. We will also step up customer acquisition and retention for our SD games, exploring the possibility of offering them for PCs and other platforms in addition to iOS and Android.

In our drive to step up digital sales, we will concentrate our efforts on bolstering our digital sales of both new and catalog titles, as well as on initiatives focused on acquiring PC users. In particular, our efforts to expand catalog title sales should produce synergies with our multiplatform strategy by helping us to better leverage our IP and expand our customer base.



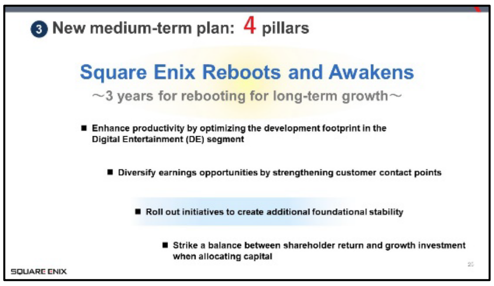
In pursuit of greater sophistication in our publishing functions, we plan to consolidate the marketing functions that were previously spread across our business units, expand shared knowledge, and eliminate duplicate functions. In addition, we plan to achieve greater integration between our marketing and sales functions.

We also plan to pursue greater sophistication in our marketing by leveraging first-party data.



We will also establish a new department dedicated to developing business using our IPs. By pursuing a cross-media strategy whereby we offer our IPs across a range of entertainment experiences, we will strive to create new earnings opportunities.

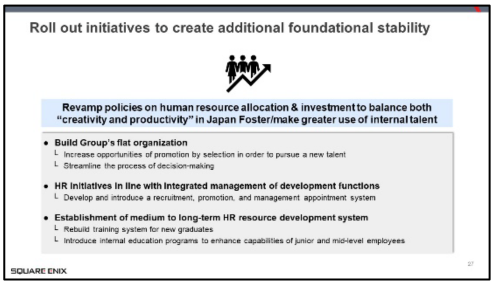
Furthermore, we will integrate the merchandizing-related organizations that had been spread across the company so that we can generate synergies and work to further grow our Merchandizing segment.



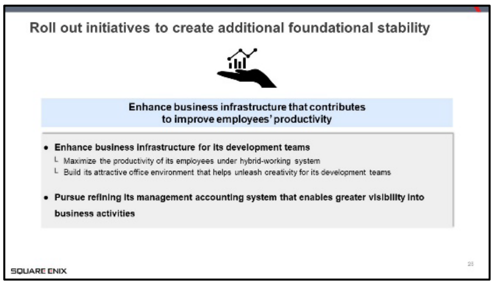
Next, I would like to talk through the initiatives we intend to roll out that will add to our foundational stability.

Having sold three overseas studios and IP in our overseas operations and reorganized our Japanese operations, we will now begin to revisit functions and organizational structures and set about optimizing costs by doing so.

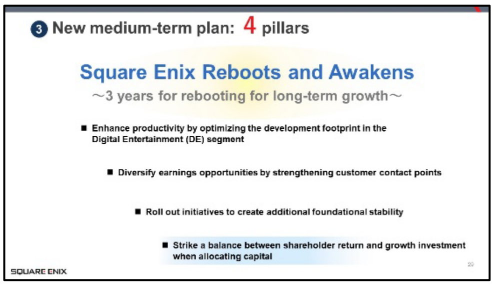
In parallel with this, we will work on strengthening the functions of our London development site by encouraging greater collaboration between this site and all our Japanese divisions.



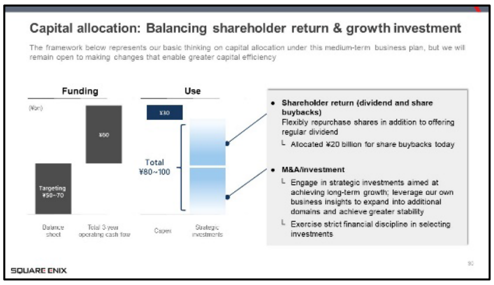
In Japan, our aim is to foster both creativity and productivity and to that end, we intend to create a flat organizational structure, introduce HR initiatives that work in tandem with the integrated organizational structure of our development function, and put in place a mid/long-term talent development program. A reorganization came into effect on April 1, 2024 that creates a flat structure aimed at increasing opportunities to discover untapped talent from within the existing employee pool and at promoting greater dialogue within development and publishing functions by speeding up decision-making.



Gauging the effect of initiatives is key when making business infrastructure enhancements. We will be investing in management infrastructure, refining our management accounting systems to give us greater visibility on productivity and other metrics. We will also invest capital into improving our development environment as we look to maximize employee productivity in development and other functions.

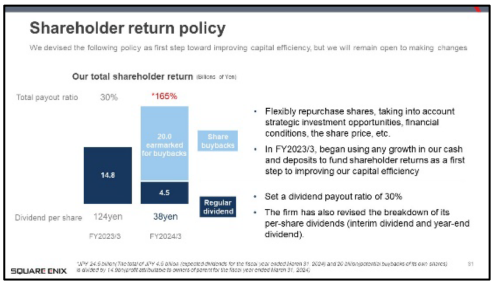


The first three strategies I have described, namely to (1) enhance productivity by optimizing the development footprint in our DE segment, (2) diversify earnings opportunities by strengthening customer contact points, and (3) roll out initiatives to create additional foundational stability, are measures for establishing a firmer base on which to achieve organic growth. I would now like to turn to our approach to capital allocation, which looks to balance growth investment and shareholder returns.



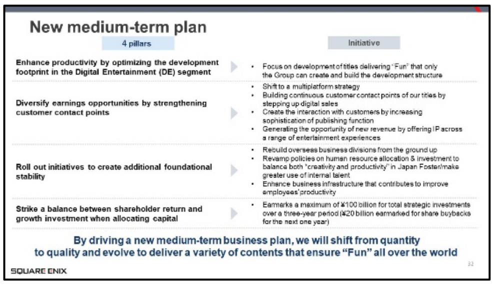
As part of our capital allocation plans, we are earmarking ¥80-¥100 billion for strategic investments. From a total of ¥110-¥130 billion in funds, made up of ¥50-¥70 billion from cash and deposits at hand and a further ¥60 billion from aggregate operating cash flows over the three years of the new medium-term plan, we plan to allocate ¥80-¥100 billion to M&A/investments and shareholder returns, allowing for ¥30 billion in capex. We have earmarked a maximum of ¥20 billion to repurchase shares.

In terms of M&A and investments, we will leverage our business insights and exercise strict selectivity in identifying investment opportunities that help us expand our business domains and bring greater stability to our earnings base.

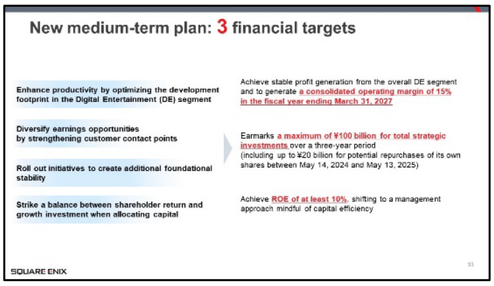


In regards to shareholder returns, we allocated funds for the flexible repurchase of shares, subject to considerations regarding strategic investment opportunities, financial conditions, and the share price, etc..

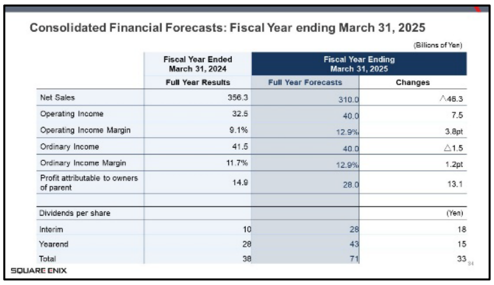
We have also applied a new split to our interim and year-end dividend starting with our FY2025/3 forecast.



On this slide, we summarize the four strategies and initiatives that make up our new medium-term business plan. By executing these strategies and initiatives to firm up our foundations over the next three years, we aim to shift from quantity to quality and evolve into a provider of a rich variety of content offering undeniable fun to customers all around the world.



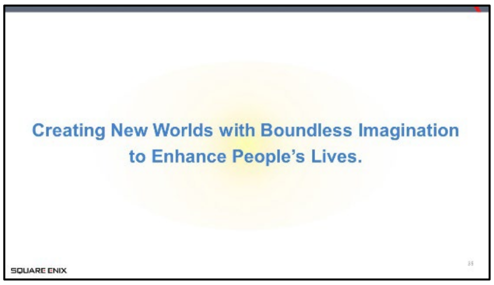
In terms of financial targets, we aim to achieve an FY2027/3 consolidated operating margin of 15% by generating stable profits in the Digital Entertainment segment. We also target an ROE of at least 10%, including earmarking up to ¥100 billion for strategic investments over three years, as we place greater emphasis on capital efficiency in managing the company.



Consolidated Financial Forecasts: Fiscal Year ending March 31, 2025

(Billions of Yen)

	Fiscal Year Ended March 31, 2024	Fiscal Year Ending March 31, 2025	
	Full Year Results	Full Year Forecasts	Changes
Net Sales	356.3	310.0	△46.3
Operating Income	32.5	40.0	7.5
Operating Income Margin	9.1%	12.9%	3.8pt
Ordinary Income	41.5	40.0	△1.5
Ordinary Income Margin	11.7%	12.9%	1.2pt
Profit attributable to owners of parent	14.9	28.0	13.1
Dividends per share			(Yen)
Interim	10	28	18
Yearend	28	43	15
Total	38	71	33



For FY2025/3, we forecast sales of ¥310 billion (down ¥46.3 billion YoY), operating income of ¥40 billion (up ¥7.5 billion), ordinary income of ¥40 billion (down ¥1.5 billion), and profit attributable to owners of parent of ¥28 billion (up ¥13.1 billion). We forecast an interim dividend of ¥28 and a year-end dividend of ¥43, reflecting our new split between the two.

Finally, I leave you with our new Purpose: "Creating New Worlds with Boundless Imagination to Enhance People's Lives." My hope is that employees across the Group unite behind our reboot, working together to solidify our foundations over the next three years so that we emerge well placed to deliver attractive content offering undeniable fun. Thank you in advance for all your support in our endeavors.

With that, I conclude my presentation of our FY2024/3 financial results and new medium-term business plan.

SQUARE ENIX HOLDINGS CO., LTD.

FY2024/3 Financial Results Briefing Session Q&A

Date/Time: May 13, 2024 (Fri); 6:30-8:19 pm (JST)

Main Speaker: Takashi Kiryu, President and Representative Director

Q&A

Q: Could you elaborate on the "optimization of the development footprint?"

A: We have multiple creative studios developing HD and SD games. Unlike the business units that preceded them, these studios do not pursue their development efforts completely independently of one another. Instead, we have established a regular forum for the heads of the individual studios and myself as president to discuss the titles that we plan to produce, the status of ongoing projects, human resource allocation, and other topics. On the question of allocating our human resources, we have a department dedicated to collecting and collating information on the situation at each studio at the working level. Then, we have established a committee that uses that information to ensure the optimal allocation of our resources and better mobility for them. Hiring was also previously handled at the level of the individual business unit but will now be handled by the creative studios working in unison.

Q: You are calling your new medium-term business plan "a 3-year reboot." As such, should we assume that your profits will remain at the level that you are anticipating for FY2025/3 [operating income of ¥40 billion] over the course of the three years? If there were to be any upside to your earnings, what sort of scenario could you envision producing it?

A: I will refrain from commenting on the level of our operating income in FY2026/3 and beyond. What I want everyone to keep in mind is that our intention is to use the three years of our new medium-term business plan to reassess our positioning as a company and to ensure that we have the right internal capabilities in place. With that as our premise, I could envision several potential sources of upside, the prime ones being: (1) earnings contributions from new titles whose sales beat our expectations; (2) the development of new businesses in our Merchandising segment, provided that we limit any downside risk from leveraging our IPs; and (3) new earnings opportunities enabled by inorganic investments that are good fits with our existing businesses.

Q: Could you share your thinking on development investment going forward, including what impact the optimization of your development footprint is likely to have?

A: How we use our internal resources versus external development capacity will be the key informant of our upcoming development investment. Our internal resources for developing HD games are extremely valuable to us, so we envision undertaking optimization initiatives as regards them, including ones involving resource mobility and training. We meanwhile think there is room for consideration about our use of external development capacity. However, please understand that our guiding principle will be to invest solidly in developing titles that are appealing and that ensure profitability.

Q: On what sort of scenario is the 15% consolidated operating margin you target for FY2027/3 premised? How do you expect the profitability of each of your segments to change over the next three years?

A: I will start with our MMO sub-segment. Given that the July 2024 release of *"FINAL FANTASY XIV: Dawntrail"* marked the start of a new scenario for the sub-segment and that that is our first post-pandemic expansion pack release, we will need to monitor trends there closely, but we expect to see a stable trend in the sub-segment's profits.

We meanwhile expect the SD Game sub-segment to continue to face challenging conditions over the near term given the maturity of the Japanese market and the decline of our existing titles. However, we believe that we are successfully controlling the pitch of that decline for all our titles, and provided that we make progress on putting the right pipeline in place as we get more into the latter half of the period covered by our new medium-term business plan, we should be able to expect some degree of earnings improvement.

In the case of the HD Game sub-segment, sales of individual games will remain the key variable, but we believe that we will be able to exercise some degree of control over that volatility by carefully curating our pipeline over the next three years. By also working steadily to improve our profitability, we intend to offset the weakness in SD games to achieve overall profitability.

Q: The balance of your content production account declined to ¥48.5 billion, but could you tell us what you have in mind for profit growth from the three perspectives of your content production account, your growth potential, and margins?

A: The impairment charges that led to the decline in our content production account relate partly to our portfolio rebuilding effort. We rebuilt our portfolio to ensure that we are developing titles that deliver "undeniable fun."

We will not fixate on the pursuit of sales based on the notion that they equate to growth potential, only to sacrifice other things in the process. Instead, it will be key that we apply a level of discipline that acknowledges that our development spending translates to our content production account and that we create content our customers will enjoy while also ensuring profitability. We do want to work to resume profit growth once our new organizational layout is up and running smoothly, but we will first focus on solidifying that groundwork.

Q: In terms of your capital allocation, roughly what should we expect your total payout ratio to look like?

A: We have earmarked up to ¥100 billion for strategic investments and will be mindful of striking a balance between growth investments and shareholder returns as we allocate from that pool. Should any inorganic investment opportunities that would contribute to our growth present themselves, we intend to take advantage of them while applying due discipline. Should no such opportunities present themselves, our intention would be to allocate funds to returning our shareholders out of a mindfulness for the need for capital efficiency.

Q: What sort of pipeline serves as the basis for your FY2025/3 guidance [¥40 billion in operating income]?

A: We have extended the timelines for a portion of our pipeline, in part because of the massive amount of time required to develop HD games, and in part because we determined that we should rethink how best to deliver some of the titles we had under development to our customers.

With SD games, we could until a few years ago expect to generate some level of earnings provided we incorporated our major IPs into them and promoted them correctly. However, the environment has changed as the Japanese market has become increasingly mature.

Q: What sort of discipline or hurdle rate do you plan to apply to any M&A investments you make from your strategic investment pool [up to ¥100 billion]?

A: Given increasingly shifting allegiances among external development firms, we are aware that we need to bring in the human resources that we will require to strengthen our development capabilities and our value chain. I will refrain from speaking to a hurdle rate given that that hinges in some respects on external factors.