

» A Message to Our Stakeholders



Takashi Kiryu

President and Representative Director

PROFILE

Jun. 2020 General Manager, Corporate Planning Division, SQUARE ENIX HOLDINGS CO., LTD.
Apr. 2021 Chief Strategy Officer and Executive Officer, Corporate Strategy and Corporate Communications
Jun. 2022 Director
Jul. 2022 Chief Strategy Officer
Executive Officer, Corporate Strategy, Financial Strategy and Corporate Communications (incumbent)
Jun. 2023 President and Representative Director (incumbent)

Significant positions concurrently held

President and Representative Director, SQUARE ENIX CO., LTD.

Director, TAITO CORPORATION

President and Director, SQUARE ENIX OF AMERICA HOLDINGS, INC.
(the Group's intermediate holding company in the Americas)

Director, SQUARE ENIX LTD. (the Group's operating and intermediate holding company in Europe and other regions)

Chairman of the Board, SQUARE ENIX (China) CO., LTD. (the Group's operating company in China)

Thank you for your continued support of the Square Enix Group.

On becoming president

My name is Takashi Kiryu. I recently assumed the offices of President and Representative Director. The value of the Square Enix Group lies in its ability to create and deliver high-quality content, services, and products that form lifelong memories for our customers, thereby helping them discover a happiness all their own. I know this because Square Enix content has given me memories that have enriched my own life dating back to my early childhood. However, I would know this to be true even without my own personal formative experiences because so many customers have shared the same sentiment with me since I took office. These memories would not be possible if not for the individuality and creativity of each and every one of our employees. My mission is to ensure the sustained growth of our Group by providing our employees with a space that enables them to display these attributes to their fullest measure and by creating an environment in which they can continue to produce attractive content, services, and products.

On our fiscal year ended March 2023

The fiscal year ended March 2023 was the second year of the Medium-Term Earnings Targets and Business Strategy that we unveiled in May 2021. We recorded full-year net sales of ¥343.2 billion, operating income of ¥44.3 billion, ordinary income of ¥54.7 billion, and profit attributable to owners of parent of ¥49.2 billion.

Below I will describe the performances of our individual segments.

Digital Entertainment

The Digital Entertainment segment recorded net sales of ¥245.5 billion and operating income of ¥41.2 billion in the fiscal year ended March 2023.

The High-Definition (HD) Games sub-segment released the latest installments in such existing franchises as “Octopath Traveler II,” as well as multiple titles featuring new IPs, including “FORSPOKEN.” However, the sub-segment’s net sales declined, failing to reach the scale of the previous year, which had seen the release of such titles as “OUTRIDERS” and “NieR Replicant ver.1.22474487139...”

Through the development of “FORSPOKEN,” Luminous Productions Co., Ltd. gained experience and insights that we wanted to leverage in bolstering the development skills of our entire Group. As such, we

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decided to merge Luminous Productions with SQUARE ENIX CO., LTD. in May 2023. The merger is part of our current drive to step up our internal development capabilities, and we are hopeful that it will bring renewed vitality to development projects that are underway as well to other endeavors.

In addition, “PowerWash Simulator,” which our UK-based studio discovered and our Group published, has proven incredibly popular. Many customers that we had previously been unable to reach are among those enjoying the title’s simple playability, making it a distinctive presence occupying a unique spot in our portfolio. We intend to further expand its earnings by continuing to regularly offer downloadable content and the like.

The Massively Multiplayer Online (MMO) Game sub-segment saw net sales decline in the fiscal year ended March 2023, partly because it was an off year for expansion packs for our core “FINAL FANTASY XIV” and “DRAGON QUEST X” titles. The sub-segment nonetheless delivered a solid performance as our retention efforts proved successful thanks to a variety of operational initiatives.

The Games for Smart Devices/PC Browsers sub-segment worked to create new titles capable of compensating for the decline in earnings from long-lived titles, but its net sales fell as the new titles did not achieve the level expected. The sub-segment competes primarily in Japan, where the smart device market has matured and hit titles have become more difficult to produce. However, we will strive to grow the business by maintaining solid operations for core titles like “DRAGON QUEST WALK” while also working to create new titles capable of generating stable earnings.

Amusement

Net sales rose to ¥56.3 billion, and operating income grew to ¥5.2 billion at the Amusement segment. Japan saw in-person businesses pick up in general, partly because of the government’s redesignation of COVID-19 as a Class 5 disease. Against this backdrop, sales at our existing arcades significantly exceeded those of the previous year. We believe that the segment will continue to deliver a solid performance given the likelihood that demand from overseas tourists will expand, in part because Japan has eased its entry requirements.

In addition, our Group company TAITO CORPORATION, which runs amusement facilities, has been rolling out a variety of initiatives in 2023 to celebrate its 70th anniversary.

Publication

The Publication segment reported net sales of ¥29.1 billion and operating income of ¥11.6 billion. Net sales grew, fueled partly by the creation of new works such as “Daemons of the Shadow Realm,” the latest work from “Fullmetal Alchemist” creator Hiromu Arakawa. Despite this, operating income declined year on year.



In addition to our aforementioned efforts creating new titles, we were also successful at growing sales from popular existing titles like “My Happy Marriage” and “Barakamon,” whose live-action adaptations were much talked about.

Merchandising

The Merchandising segment reported net sales of ¥15.6 billion and operating income of ¥3.7 billion. While net sales grew thanks to brisk sales of merchandise featuring characters from our popular IPs, operating income declined, partly because of product mix changes.

Medium-term business plan progress & challenges

In the fiscal year ended March 2023, we overhauled our studio portfolio in our existing businesses, and in the realm of new businesses, we stepped up our efforts in our focus investment fields.

In May 2022, we announced the sale of three of our overseas studios and some of our IPs to the Sweden-based Embracer Group AB. The move was part of our efforts to right-size the Digital Entertainment segment’s title portfolio for the medium to long term and to optimize our resource allocation based on that. The divestiture’s objective was to consolidate the portion of our development footprint that lies outside of Japan.

We view this as only the beginning of our efforts to transform the structure of the entire Digital Entertainment segment, which is home primarily to our HD games. Going forward we will revisit our title portfolio from a medium- to long-term perspective and make our development organization stronger so that it is capable of producing the portfolio we envision. Specifically, I mean that we will further strengthen our



internal development resources while also beginning to take our domestic and overseas publishing functions to greater levels of sophistication and optimization.

Incredible performance gains by all types of consoles and devices have increased the difficulty and prolonged the timelines for developing game titles. Recruiting and training the teams and resources capable of producing high-quality content that our customers will find satisfying requires an amount of time reflective of these changes. In addition, recent years have seen the competition to attract talent intensify, and the number of external partner companies capable of handling large-scale development projects has diminished. For these reasons and others, it is currently extremely difficult to build a development organization that can ensure both quality and quantity with short turnaround times. Furthermore, as I stated at the outset, I believe that the most important elements in the creation of our Group's content is the individuality and creativity of each and every one of our employees. Therefore, we need to pursue our structural transformation while giving due consideration to the various projects we currently have under way and the productivity of the employees involved in them. As such, it is my view that the development and construction of our internal development organization is a challenge that we need to roll up our sleeves and take ample time to tackle. It involves a diversity of issues including strengthening our ability to structure our development process, recruiting talent, and establishing training capabilities. We will devise an agenda based on these and work our way steadily through it step by step.

In addition, customers are increasingly accessing our Digital Entertainment offerings—especially our HD games—via the digital world rather than the physical world. I believe that this gives critical importance not only to the distribution channels that we use to deliver our products to our customers, but also to the creation of appropriate contact points and communication initiatives within the context of our marketing and sales

activities because it is these that enable our customers to learn about our content before they decide to purchase it. By increasing the sophistication of our publishing functions both in Japan and overseas, we will strive to maximize our sales of both new and catalog titles.

We will work from a medium- to long-term perspective to optimize the allocation of our resources for both development and publishing and to build the optimal organizations to utilize those resources. In so doing, we will bolster the profitability of our Digital Entertainment segment and our HD games in particular.

I will next discuss new business domains. To date, we have named three focus domains: blockchain entertainment/Web3, AI, and the cloud. Among those, we have devoted special effort to the blockchain entertainment/Web3 domain. We launched a new internal organization dedicated to this domain in February 2022 and have also been investing in start-ups globally with the help of the business development organizations at our overseas offices.

We will continue such efforts going forward. However, my intention not only in the case of the blockchain entertainment/Web3 domain but also the AI and cloud domains is to pursue our efforts by striking a good balance between our use of internal and external resources.

In the case of AI in particular, we will revisit the missions of our internal AI-dedicated R&D organization and our AI-specialized Group operating company SQUARE ENIX AI & ARTS Alchemy Co., Ltd. In addition, we will strive to establish a structure within our Group that takes a broader view of the possibilities AI presents for our businesses, including in terms of investments and tie-ups with external partners. Furthermore, we will apply a broader definition to “digital entertainment content” and be more aggressive in trying our hand at new businesses, thereby enabling the expansion and development of the AI domain.

Governance and shareholder return

Outside directors account for 70% of our board. We are working to achieve transparent corporate management by maintaining a board that combines oversight from an external perspective with execution from an internal perspective in a well-balanced manner. Moreover, regardless of their genders or nationalities, our outside directors possess a wealth of achievements and experiences in a diversity of domains, including corporate management, the law, finance, technology, and art/media. As such, they provide us assessments and advice on our management efforts from a wide range of angles.

On the question of shareholder return, we will continue to target a consolidated dividend payout ratio of 30%, while also working to respond to the expectations of our shareholders by striking the optimal balance between growth investment and shareholder return.

Conclusion

The needs of customers who enjoy digital entertainment change with each passing day. In keeping with that, tremendous changes are underway in the industry surrounding us. However, as devices become increasingly sophisticated, the excitement that customers want from their digital entertainment is not necessarily something that only greater sophistication can provide. I believe that precisely because technology is advancing so rapidly, the true essence of excitement is all the more important in today's world. Refining our strengths so that we can distill that essence into content and put it into the hands of as many customers around the world as possible. Maximizing the value of our customers' experience through these efforts. This is what in my view will enable the maximization of the value of our Group's IP and content and ultimately the maximization of our corporate value.

The year 2023 marks the milestone 20th anniversary of the merger of ENIX CORPORATION and SQUARE CO., LTD. We will strive for further growth so that we will be able to provide more customers around the world with wonderful memories over the next 10 years, the next 20 years, and beyond. I look forward to your understanding and continued support.



Takashi Kiryu

President and Representative Director