

Consolidated Financial Results for the Fiscal Year Ended March 31, 2020 (Japan GAAP)

May 13, 2020

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 Shares traded: Tokyo Stock Exchange, First Section
 Company code: 9684
 Company URL: <https://www.hd.square-enix.com/eng>
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 Annual general meeting of shareholders: June 24, 2020 (planned)
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 Supplementary annual materials prepared: Yes
 Annual results presentation held: Yes (for institutional investors and analysts)

(Amounts under one million yen are rounded down)

1. Consolidated Financial Results (April 1, 2019 to March 31, 2020)

(1) Consolidated Financial Results

(Millions of yen and year-on-year changes in percents)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
Fiscal year ended	%		%		%		%	
March 31, 2020	260,527	(4.0)	32,759	33.0	32,095	12.9	21,346	10.2
March 31, 2019	271,276	8.3	24,635	(35.5)	28,415	(21.3)	19,373	(25.0)

Note: FY ended March 31, 2020 Comprehensive income: 20,598 million yen (12.8%)
 FY ended March 31, 2019 Comprehensive income: 18,266 million yen (△31.2%)

	Earnings per share, basic	Earnings per share, diluted	Return on equity	Ordinary income to total assets	Operating margin
Fiscal year ended	yen	yen	%	%	%
March 31, 2020	179.02	178.73	10.0	11.0	12.6
March 31, 2019	162.57	162.30	9.7	10.5	9.1

Note: FY ended March 31, 2020 Equity in gain (loss) of affiliated companies: — million yen
 FY ended March 31, 2019 Equity in gain (loss) of affiliated companies: — million yen

(2) Consolidated Financial Position

(Millions of yen, ratios in percents and per share data)

	Total assets	Net assets	Equity ratio	Net assets per share
As of			%	yen
March 31, 2020	302,634	221,928	73.1	1,854.10
March 31, 2019	282,614	206,445	72.8	1,726.32

Note: Total equity As of March 31, 2020: 221,183 million yen
 As of March 31, 2019: 205,789 million yen

(3) Consolidated Statements of Cash Flows

(Millions of yen)

	From operating activities	From investing activities	From financing activities	Closing cash and cash equivalents
Fiscal year ended			%	yen
March 31, 2020	18,005	(10,039)	(14,048)	121,311
March 31, 2019	12,135	(12,875)	(7,656)	127,181

2. Dividends

	Dividends per share					Total annual dividend payments	Dividend payout ratio (consolidated)	Dividend on equity (consolidated)
	1Q	2Q	3Q	4Q	Total			
	yen	yen	yen	yen	yen	million yen	%	%
Fiscal year ended March 31, 2019	—	10.00	—	37.00	47.00	5,602	30.3	2.8
Fiscal year ended March 31, 2020	—	10.00	—	44.00	54.00	6,441	30.2	3.0
Fiscal year ended March 31, 2021 (projection)	—	—	—	—	—		—	

(Note) Annual dividends for the fiscal year ending March 2021 (Forecast) is yet-to-be determined

3. Consolidated Forecasts (April 1, 2020 to March 31, 2021)

The Group refrains from setting consolidated earnings forecasts for the fiscal year ending March 31, 2021 due to the difficulty in doing so reliably so long as the impact of the coronavirus pandemic on the Group's businesses remains uncertain. The Group will promptly disclose earnings forecasts when it becomes feasible.

Notes

- (1) Significant changes among major subsidiaries during the period: No
- (2) Changes in accounting policies, procedures, and methods of presentation for consolidated financial statements
 1. Changes in accounting policies due to revisions to accounting standards: Yes
 2. Changes other than 1.: Yes
 3. Changes in accounting estimates: No
 4. Retrospective restatement: No
- (3) Outstanding shares (common stock)
 1. Number of shares issued and outstanding (including treasury stock):

As of March 31, 2020	122,531,596
As of March 31, 2019	122,531,596
 2. Number of treasury stock:

As of March 31, 2020	3,237,714
As of March 31, 2019	3,324,532
 3. Average number of shares during the period (cumulative):

Fiscal year ended March 31, 2020	119,240,331
Fiscal year ended March 31, 2019	119,171,323

Disclaimer: (1) This document is an abridged translation of the Japanese language "Kessan Tanshin" prepared in accordance with the guidelines of the Tokyo Stock Exchange. The Japanese language document shall prevail in the event that any differences or discrepancies exist between this English translation and the original. (2) At the time of disclosure of this document, audit procedures for financial statements pursuant to the Financial Instruments and Exchange Law have not been completed. (3) The forward-looking statements in this document are based upon the information currently available and necessarily include elements that are not entirely predictable. The achievement is not promised. Actual results may differ from the forward-looking statements in this document. (4) For additional information about forecasts, please refer to "Consolidated Forecasts" section on page 4 of the Supplemental Information.

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1. Consolidated Results and Consolidated Financial Position for the Fiscal Year Ended March 31, 2020

(1) Analysis of consolidated business results

The Square Enix group (the “Group”) is continuing determined efforts to strengthen the competitiveness and profitability of its business segments of Digital Entertainment, Amusement, Publication and Merchandising. Net sales for the fiscal year ended March 31, 2020 totaled ¥260,527 million (a decrease of 4.0% from the prior fiscal year), operating income amounted to ¥32,759 million (an increase of 33.0% from the prior fiscal year), ordinary income amounted to ¥32,095 million (an increase of 12.9% from the prior fiscal year), and profit attributable to owners of parent amounted to ¥21,346 million (an increase of 10.2% from the prior fiscal year).

A discussion of results by segment for the fiscal year ended March 31, 2020 follows.

●Digital Entertainment

The Digital Entertainment segment consists of planning, development, distribution, and operation of digital entertainment content primarily in the form of game. Digital entertainment content is offered to meet customer lifestyles across a variety of usage environments such as consumer game consoles (including handheld game machines), personal computers and smart devices.

The fiscal year ended March 31, 2020 saw the launch of the console title “DRAGON QUEST XI S: Echoes of an Elusive Age – Definitive Edition” and the posting of sales from early shipments of “FINAL FANTASY VII REMAKE,” which was released in April 2020. Net sales nonetheless declined versus the previous fiscal year, which had seen the release of multiple major new titles. In addition, weak additional sales of titles released in the previous fiscal year and the booking of impairment losses related to the content production account resulted in an operating loss of the HD Games sub-segment.

In the smart device and PC browser area, net sales and operating income increased year on year given strong performances from “Romancing SaGa Re;univerSe” and “DRAGON QUEST WALK,” the latter of which was launched in September 2019.

In the area of massively multiplayer online role-playing games, the launch of expansion packs for “FINAL FANTASY XIV” and “DRAGON QUEST X” and the resulting growth in paying monthly subscriber numbers led to greater net sales and operating income than in the previous fiscal year.

Net sales and operating income in the Digital Entertainment segment totaled ¥188,687 million (a decrease of 7.8% from the prior fiscal year), and ¥35,357 million (an increase of 21.9% from the prior fiscal year), respectively.

- Amusement

The Amusement segment consists of the operation of amusement facilities and planning, development, and distribution of arcade game machines and related products for amusement facilities.

While arcade operations were solid, a decline in amusement machine sales resulted in a year-on-year decline in annual net sales and operating income.

Net sales and operating income in the Amusement segment totaled ¥45,673 million (a decrease of 1.2% from the prior fiscal year), and ¥1,480 million (a decrease of 24.4% from the prior fiscal year), respectively.

- Publication

The Publication segment consists of publication and licensing of comic magazines, comic books, and game-related books.

Sales in digital formats, including via the MANGA UP! comic app and of e-books, rose sharply in the fiscal year ended March 31, 2020. This, combined with brisk sales of printed media, resulted in higher net sales and operating income than in the previous fiscal year.

Net sales and operating income in the Publication segment totaled ¥19,452 million (an increase of 36.0% from the prior fiscal year) and ¥7,250 million (an increase of 75.1% from the prior fiscal year), respectively.

- Merchandising

The Merchandising segment consists of planning, production, distribution, and licensing of derivative products of IPs owned by the Group.

The release of new character goods featuring the Group's own intellectual properties made for a year-on-year increase in both annual net sales and operating income.

Net sales and operating income in the Merchandising segment totaled ¥8,737 million (an increase of 18.1% from the prior fiscal year), and ¥1,021 million (an increase of 9.5% from the prior fiscal year), respectively.

(2) Analysis of consolidated financial position

- Assets

As of March 31, 2020, total current assets were ¥250,896 million, an increase of 6.9% from the prior fiscal year. This was mainly due to increases in content production account of ¥20,858 million, while cash and deposits decreased by ¥6,018 million.

Total non-current assets were ¥51,737 million, an increase of 8.2% from the prior fiscal year. This was mainly due to increases in the property, plant and equipment of ¥2,658 million and the investments and other assets of ¥993 million.

As a result, total assets were ¥302,634 million, an increase of 7.1% from the prior fiscal year.

- Liabilities

As of March 31, 2020, total current liabilities were ¥69,344 million, an increase of 2.8% from the prior fiscal year.

Total non-current liabilities were ¥11,360 million, an increase of 30.3% from the prior fiscal year.

As a result, total liabilities were ¥80,705 million, an increase of 6.0% from the prior fiscal year.

- Net assets

As of March 31, 2020, net assets were ¥221,928 million, an increase of 7.5% from the prior fiscal year. This was mainly due to profit attributable to owners of parent of ¥21,346 million and dividend payments of ¥5,602 million.

(3) Consolidated cash flow

As of March 31, 2020, cash and cash equivalents totaled ¥121,311 million, a decrease of ¥5,870 million compared to the prior fiscal year. Cash flows during the fiscal year ended March 31, 2020 as well as the principal factors behind these cash flows are described below.

●Cash flows from operating activities

Net cash provided by operating activities during the fiscal year ended March 31, 2020 totaled ¥18,005 million (an increase of 48.4% from the prior fiscal year).

Profit before income taxes of ¥30,793 million, an increase in inventories of ¥22,632 million and depreciation and amortization of ¥7,417 million led to the overall provision of cash from operating activities.

●Cash flows from investing activities

Net cash used in investing activities totaled ¥10,039 million (a decrease of 22.0% from the prior fiscal year).

The main factor is purchase of property, plant and equipment of ¥5,827 million.

●Cash flows from financing activities

Net cash used in financing activities totaled ¥14,048 million (an increase of 83.5% from the prior fiscal year).

The main factors are repayments of short-term borrowings of ¥8,525 million and cash dividends paid of ¥5,599 million.

(4) Consolidated forecasts

As detailed in the “Section 3. Management Policy (3) Business landscape” part below, rapid changes are underway globally as customer demands for content and services grow more diverse and sophisticated and the methods and business models by which such content and services are provided also diversify in response.

By developing content in keeping with these environmental changes and diversifying its earnings opportunities, the Group is endeavoring to establish a robust earnings base.

[Impact from the outbreak of the novel coronavirus]

In response to the global outbreak of the novel coronavirus (COVID-19), the Group has placed the utmost priority on the safety of its customers, business partners, and employees, deciding to cancel or postpone its own live events and instituting telework and other measures aimed at preventing the spread of the virus. At the same time, the Group has revised its operational processes and enhanced its IT systems to ensure the continuity of its business. In this way, the Group continues to work to minimize the impact to its business operations.

However, the potential for the worldwide coronavirus pandemic to slow the global economy by disrupting production, distribution, and consumption is a concern. Risks to the Group's business domains include a pullback in content demand, impact to the manufacturing and distribution processes for packaged products, and diminished sales from amusement facility operations. Such developments could have a serious impact on the Group's consolidated earnings and financial conditions. Management has determined that the uncertainty regarding the scope and degree of any such impact impedes the formulation of full-year earnings forecasts at present. As such, the Group refrains from setting consolidated forecasts for the fiscal year ending March 31, 2021. The Group will promptly disclose consolidated earnings forecasts once there is sufficient clarity regarding the scope and degree of the aforementioned impact to calculate forecasts appropriately and reasonably.

(5) Basic policy for profit distribution and dividends

The Group recognizes the return of profits to shareholders as one of its most important management tasks. It first prioritizes investments that enhance the value of the Group, including those into the expansion of existing businesses, the development of new businesses, and reforms to the business structure. Having secured the internal reserves to fund such investments, the Group focuses on rewarding its shareholders via cash dividends, endeavoring to strike the optimal balance between a performance-based payout and a stable return. The Group determines the amount of dividends based upon comprehensive consideration of the balance between investment and the return of profits to shareholders, using a consolidated payout ratio of approximately 30% as a guide.

In keeping with the above policy and pending a resolution by the Board of Directors at a meeting scheduled for May 20, 2020, the Group intends to pay a year-end dividend of 44 yen per share for the fiscal year ended March 31, 2020, which combined with the interim dividend of 10 yen per share, would make for an annual dividend of 54 yen per share. While the Group intends to maintain its policy on shareholder return based on dividend payment at a consolidated dividend payout ratio of approximately 30% in the fiscal year ending March 31, 2020, it refrains from setting a dividend amount due to the difficulty in calculating earnings forecasts at present.

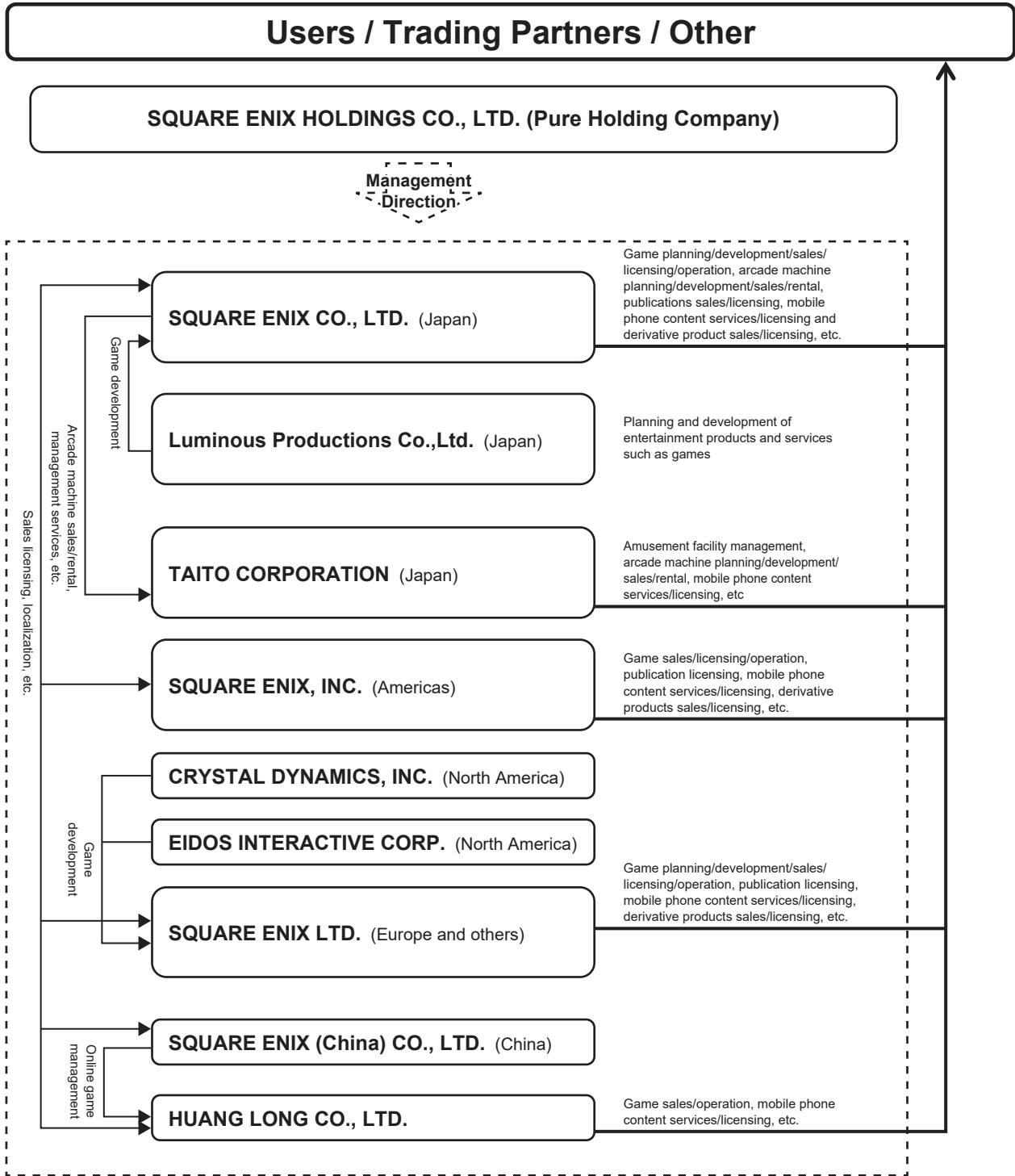
2. The Group's Outline of Operations

The following outline of operations lists the Group's primary business segments and major subsidiaries.
(Consolidated subsidiaries)

Segment	Primary Business Description	Region	Company Name
Digital Entertainment	Plans, develops, distributes, and operates games digital entertainment primarily in the form of computer games	Japan	SQUARE ENIX CO., LTD. TAITO CORPORATION Luminous Productions Co.,Ltd.
		Americas	SQUARE ENIX, INC. CRYSTAL DYNAMICS, INC. EIDOS INTERACTIVE CORP.
		Europe and others	SQUARE ENIX LTD.
		Asia	SQUARE ENIX (China) CO., LTD. HUANG LONG CO., LTD.
Amusement	Operation of amusement facilities and planning, development and distribution of arcade game machines for amusement facilities and related products	Japan	TAITO CORPORATION SQUARE ENIX CO., LTD.
Publication	Comic books, game strategy books, comic magazines, etc.	Japan	SQUARE ENIX CO., LTD.
		Americas	SQUARE ENIX, INC.
		Europe and others	SQUARE ENIX LTD.
Merchandising	Planning, production, distribution and licensing of derivative products of titles owned by the Group	Japan	SQUARE ENIX CO., LTD. TAITO CORPORATION
		Americas	SQUARE ENIX, INC.
		Europe and others	SQUARE ENIX LTD.

(Note) The above table lists major consolidated subsidiaries only.

The Group's Business Diagram:



Note: Above business diagram only includes key consolidated subsidiaries.

3. Management Policy

(1) Management philosophy

“To spread happiness across the globe by providing unforgettable experiences” is the corporate philosophy that guides the Group’s creation and distribution of advanced, high-quality content. The Group endeavors to maximize profits by engaging in efficient management that makes effective use of resources so that it may reward its shareholders and sustain the Group’s own growth and development.

(2) Management strategy

Through the creation of advanced, high-quality content, the Group strives to achieve medium- and long-term growth while maintaining profitability. As IT and telecommunications infrastructure have become more advanced and accessible, customer demand for content and services enabled by multifunctional devices and network connectivity has increased, and the methods and business models for delivering such content have diversified. These trends have ushered in an era of major structural change for the digital entertainment industry. In addition, the geographic scope of the Group’s business is expanding beyond the traditional key markets of Japan, Europe, North America, and East Asia to include Central and South America, the Middle East, and South Asia. The Group will respond to these changes in a timely and flexible manner as it strives to be a pioneer in this new era of digital entertainment.

(3) Business landscape

The market for software for consumer game consoles looks poised for further growth given the launch of multiple streaming services and the fact that next-generation consoles are slated for release in 2020. In addition, the various styles of monetization, such as free-to-play, in-game purchases, and subscriptions have also spread to the market for software for consumer game consoles, making for a greater diversity of business models. As the launch of 5G cellular networks accelerates these trends and full-fledged cloud streaming platforms come online, a new age is likely to begin.

In the market for games for smart devices, increasingly sophisticated smartphones are making customers demand even richer gaming experiences and enabling greater diversity in game design and business models. Led by the Western and Asian regions, the size of the market also continues to expand globally. Meanwhile, a familiar list of titles continues to dominate the upper end of the smart device game rankings in Japan, and the entrance of Asian players into the Japanese market has intensified competition, reducing the odds of new titles succeeding.

In the amusement market, sales at Japan’s gaming facilities are stable. Interest in arcade games has risen thanks to the popularity of the multiplayer video game competitions known as “eSports.” This widens the possibility for new business opportunities with a focus on live entertainment.

In the publication market, sales of e-books are showing good growth as sales of traditional print media decline. In addition, earnings opportunities are also expanding in the form of animated, film, and stage adaptations of manga and other content properties.

The current merchandising market enables the Group to offer a wide range of products and services via myriad channels to suit the diverse tastes of our customers. The Group will endeavor to establish stable recurring earnings by satisfying its customers’ diverse needs through a multifaceted and multilayered approach to merchandising that includes not only such derivative products as character goods and game soundtrack music, but also animated and stage adaptations of existing IP (intellectual property), as well as music publishing.

As the above illustrates, structural changes are underway on a global scale in multiple parts of the Group's operating environment, and the Group is being called on to assess those changes in a timely and accurately fashion and to respond to them with speed and flexibility.

(4) Business and financial challenge calling for priority action

The Group recognizes the need to prioritize the expansion of stable recurring income as a means of creating sustained earnings growth. As the digital entertainment industry undergoes significant structural changes, the Group is being called upon to develop and distribute new content designed to suit diverse customer needs and content distribution methods, which requires significant investment. To date, the Group has primarily worked to stabilize earnings by expanding recurring subscription income from massively multiplayer online games (MMOs), games for smart devices/PC browsers, the Amusement segment, and the Publication segment. Going forward it will further bolster these efforts while also expanding them to other businesses. Establishing a stable earnings base will enable investment in large-scale, innovative content development efforts. The recurring income generated from that content will expand the Group's overall earnings, thereby allowing the Group to achieve sustained earnings growth.

The Group will continue to prepare for the coming popularity of cloud gaming that the spread of 5G is likely to inspire. Cloud gaming has the potential to change distribution as streaming accelerates the shift away from traditional disks to more digital sales and evolves business models, including by giving rise to more subscription-based services. It could additionally spur growth in the gaming market as a whole by making it possible to provide content to emerging regions where game consoles have not been prevalent. Cloud gaming will meanwhile dictate that the industry devise gaming experiences unique to the cloud environment and develop cloud-native games. The Group will endeavor to respond flexibly to these changes so that they may fuel future growth.

(5) Objective metrics for assessing achievement of management objectives

The group recognizes the achievement of growth backed by profitability as an important management challenge and for now targets the creation of a business structure capable of consistently generating net sales of 300-400 billion yen and operating income of 40-50 billion yen.

4. Basic policy regarding choice of accounting standard

The Group's policy is to prepare its consolidated financial statements in accordance with Japanese Accounting Standards ("Japanese GAAP") in order to enable the comparison of statements between different periods and different entities

5. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Millions of yen)

	As of March 31, 2019	As of March 31, 2020
Assets		
Current assets		
Cash and deposits	129,468	123,450
Notes and accounts receivable-trade	40,396	41,474
Merchandise and finished goods	4,484	5,850
Work in progress	5	206
Raw materials and supplies	330	433
Content production account	50,620	71,479
Other	9,770	8,163
Allowance for doubtful accounts	(265)	(161)
Total current assets	234,811	250,896
Non-current assets		
Property, plant and equipment		
Buildings and structures	17,149	18,341
Accumulated depreciation	(10,634)	(11,603)
Buildings and structures (net)	6,515	6,738
Tools, furniture and fixtures	14,759	15,943
Accumulated depreciation	(10,065)	(11,112)
Tools, furniture and fixtures (net)	4,693	4,830
Amusement equipment	17,435	17,529
Accumulated depreciation	(14,790)	(15,420)
Amusement equipment (net)	2,645	2,108
Other	184	3,425
Accumulated depreciation	(115)	(484)
Other (net)	68	2,940
Land	3,782	3,782
Construction in progress	183	147
Total property, plant and equipment	17,889	20,547
Intangible assets		
Other	5,105	5,387
Total intangible assets	5,105	5,387
Investments and other assets		
Investment securities	1,226	2,308
Guarantee deposits	10,373	10,612
Net defined benefit asset	93	—
Deferred tax assets	7,757	8,731
Other	5,418	4,238
Allowance for doubtful accounts	(61)	(88)
Total investments and other assets	24,809	25,802
Total non-current assets	47,803	51,737
Total assets	282,614	302,634

As of March 31, 2019 As of March 31, 2020

Liabilities		
Current liabilities		
Notes and accounts payable-trade	23,592	25,537
Short-term loans payable	8,685	—
Income taxes payable	1,694	10,159
Provision for bonuses	3,273	4,061
Provision for sales returns	9,178	4,253
Provision for game arcade closings	49	43
Asset retirement obligations	5	3
Other	20,968	25,285
Total current liabilities	67,449	69,344
Non-current liabilities		
Provision for directors' retirement benefits	52	52
Provision for loss on game arcade closings	—	40
Net defined benefit liability	2,893	3,214
Deferred tax liabilities	1,383	1,062
Asset retirement obligations	3,132	3,291
Other	1,257	3,698
Total non-current liabilities	8,719	11,360
Total liabilities	76,168	80,705
Net assets		
Shareholders' equity		
Capital stock	24,039	24,039
Capital surplus	53,281	53,388
Retained earnings	143,451	159,222
Treasury stock	(10,162)	(9,900)
Total shareholders' equity	210,610	226,750
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	116	(162)
Foreign currency translation adjustment	(4,651)	(5,085)
Remeasurements of defined benefit plans	(285)	(318)
Total accumulated other comprehensive income	(4,820)	(5,567)
Subscription rights to shares	517	608
Non-controlling interests	139	137
Total net assets	206,445	221,928
Total liabilities and net assets	282,614	302,634

(2) Consolidated Income Statement and Consolidated Statement of Comprehensive Income Consolidated
Income Statement

(Millions of yen)

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Net sales	271,276	260,527
Cost of sales	*1 146,907	*1 139,012
Gross profit	124,368	121,515
Reversal of provision for sales returns	4,152	9,016
Provision for sales returns	9,185	4,257
Gross profit-net	119,335	126,274
Selling, general and administrative expenses		
Packing and transportation expenses	2,062	2,304
Advertising expenses	29,460	21,006
Promotion expenses	120	159
Directors' compensations	470	497
Salaries and allowances	17,396	18,901
Provision for bonuses	3,433	4,005
Retirement benefit expenses	692	1,021
Welfare expenses	2,642	2,835
Rent expenses	2,699	2,919
Commission fee	24,700	28,377
Depreciation	2,410	2,725
Other	8,610	8,762
Total selling, general and administrative expenses	*2 94,699	*2 93,515
Operating income	24,635	32,759
Non-operating income		
Interest income	167	363
Dividend income	0	0
Foreign exchange gains	3,459	—
Rent income	72	36
Gain on forgiveness of payable for group tax	37	370
Outsourcing service income	125	104
Miscellaneous income	136	94
Total non-operating income	3,999	969
Non-operating expenses		
Interest expenses	107	135
Commission fee	5	5
Loss on investments in securities	40	127
Office transfer related expenses	65	155
Foreign exchange losses	—	1,173
Miscellaneous loss	0	35
Total non-operating expenses	219	1,633
Ordinary income	28,415	32,095

Consolidated Income Statement

(Millions of yen)

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Extraordinary income		
Gain on sales of non-current assets	*3 15	*3 2
Gain on sales of investment securities	0	—
Gain on reversal of subscription rights to shares	—	7
Other	8	—
Total extraordinary income	23	9
Extraordinary losses		
Loss on retirement of non-current assets	*4 198	*4 130
Impairment loss	*5 368	*5 367
Loss on valuation of shares of subsidiaries and associates	680	—
Loss on disposal of content	*6 3,638	—
Loss on event cancellations	—	*7 544
Other	422	268
Total extraordinary losses	5,307	1,311
Profit before income taxes	23,131	30,793
Income taxes-current	2,968	10,581
Income taxes-deferred	784	(1,136)
Total income taxes	3,753	9,444
Profit	19,378	21,348
Profit attributable to non-controlling interests	4	1
Profit attributable to owners of parent	19,373	21,346

Consolidated Statement of Comprehensive Income

(Millions of yen)

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Profit	19,378	21,348
Other comprehensive income		
Valuation difference on available-for-sale securities	27	(279)
Foreign currency translation adjustment	(986)	(438)
Remeasurements of defined benefit plans	(153)	(33)
Total other comprehensive income	(1,112)	(750)
Comprehensive income	18,266	20,598
(Breakdown)		
Comprehensive income attributable to owners of parent	18,271	20,600
Comprehensive income attributable to non-controlling interests	(4)	(2)

(3) Consolidated Statements of Changes in Net Assets

Fiscal year ended March 31, 2019

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the beginning of current period	23,868	53,107	129,513	(10,159)	196,330
Cumulative effects of changes in accounting policies			2,305		2,305
Restated balance	23,868	53,107	131,818	(10,159)	198,635
Changes during the period					
Issuance of new shares	171	171			343
Dividends from retained earnings			(7,741)		(7,741)
Profit attributable to owners of parent			19,373		19,373
Purchase of treasury stock				(8)	(8)
Disposal of treasury stock		1		5	7
Change in scope of consolidation					
Net changes of items other than shareholders' equity					
Total changes during the period	171	173	11,632	(3)	11,974
Balance at the end of current period	24,039	53,281	143,451	(10,162)	210,610

	Accumulated other comprehensive income				Subscription rights to shares	Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance at the beginning of current period	89	(3,674)	(132)	(3,718)	603	144	193,359
Cumulative effects of changes in accounting policies							2,305
Restated balance	89	(3,674)	(132)	(3,718)	603	144	195,665
Changes during the period							
Issuance of new shares							343
Dividends from retained earnings							(7,741)
Profit attributable to owners of parent							19,373
Purchase of treasury stock							(8)
Disposal of treasury stock							7
Change in scope of consolidation							
Net changes of items other than shareholders' equity	27	(977)	(153)	(1,102)	(86)	(4)	(1,194)
Total changes during the period	27	(977)	(153)	(1,102)	(86)	(4)	10,780
Balance at the end of current period	116	(4,651)	(285)	(4,820)	517	139	206,445

Fiscal year ended March 31, 2020

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the beginning of current period	24,039	53,281	143,451	(10,162)	210,610
Cumulative effects of changes in accounting policies					
Restated balance	24,039	53,281	143,451	(10,162)	210,610
Changes during the period					
Issuance of new shares					
Dividends from retained earnings			(5,602)		(5,602)
Profit attributable to owners of parent			21,346		21,346
Purchase of treasury stock				(9)	(9)
Disposal of treasury stock		107		271	378
Change in scope of consolidation			27		27
Net changes of items other than shareholders' equity					
Total changes during the period	—	107	15,771	261	16,140
Balance at the end of current period	24,039	53,388	159,222	(9,900)	226,750

	Accumulated other comprehensive income				Subscription rights to shares	Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance at the beginning of current period	116	(4,651)	(285)	(4,820)	517	139	206,445
Cumulative effects of changes in accounting policies							
Changes during the period	116	(4,651)	(285)	(4,820)	517	139	206,445
Restated balance							
Issuance of new shares							
Dividends from retained earnings							(5,602)
Profit attributable to owners of parent							21,346
Purchase of treasury stock							(9)
Disposal of treasury stock							378
Change in scope of consolidation							27
Net changes of items other than shareholders' equity	(279)	(433)	(33)	(746)	90	(2)	(657)
Total changes during the period	(279)	(433)	(33)	(746)	90	(2)	15,482
Balance at the end of current period	(162)	(5,085)	(318)	(5,567)	608	137	221,928

(4) Consolidated Statements of Cash Flows

(Millions of yen)

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Cash flows from operating activities		
Profit before income taxes	23,131	30,793
Depreciation	6,801	7,417
Impairment loss	368	367
Increase (decrease) in allowance for doubtful accounts	44	(73)
Increase (decrease) in provision for bonuses	(36)	780
Increase (decrease) in provision for sales returns	5,032	(4,759)
Increase (decrease) in provision for directors' retirement benefits	(35)	—
Increase (decrease) in provision for loss on game arcade closings	(50)	36
Decrease (increase) in net defined benefit asset	(44)	96
Increase (decrease) in net defined benefit liability	96	271
Interest and dividend income	(167)	(363)
Interest expenses	107	135
Foreign exchange losses (gains)	(4,072)	665
Loss (gain) on sales of investment securities	(0)	—
Loss on retirement of non-current assets	198	130
Gain on sales of non-current assets	(15)	(2)
Loss on valuation of shares of subsidiaries and associates	680	—
Decrease (increase) in notes and accounts receivable-trade	(10,799)	(1,195)
Decrease (increase) in inventories	(7,108)	(22,632)
Increase (decrease) in notes and accounts payable-trade	7,720	1,581
Decrease (increase) in other current assets	(2,307)	(614)
Decrease (increase) in other non-current assets	(659)	1,298
Increase (decrease) in other current liabilities	2,038	3,585
Other, net	1,065	270
Subtotal	21,988	17,791
Interest and dividend income received	167	363
Interest expenses paid	(106)	(142)
Income taxes paid	(12,683)	(2,538)
Income taxes refund	2,768	2,530
Net cash provided by (used in) operating activities	12,135	18,005

(Millions of yen)

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Cash flows from investing activities		
Payments into time deposits	(3,993)	(5,141)
Proceeds from withdrawal of time deposits	3,976	5,220
Purchase of property, plant and equipment	(8,450)	(5,827)
Proceeds from sales of property, plant and equipment	15	2
Purchase of intangible assets	(1,190)	(1,587)
Purchase of investment securities	(1,074)	(1,612)
Proceeds from sales of investment securities	0	—
Purchase of shares of subsidiaries	(380)	(85)
Purchase of shares of subsidiaries and associates	(294)	—
Purchase of bonds of subsidiaries and associates	(697)	—
Payments for guarantee deposits	(760)	(433)
Proceeds from collection of guarantee deposits	208	193
Other, net	(235)	(767)
Net cash provided by (used in) investing activities	(12,875)	(10,039)
Cash flows from financing activities		
Repayments of short-term borrowings	—	(8,525)
Proceeds from issuance of common shares	106	—
Purchase of treasury shares	(8)	(9)
Repayments of lease obligations	—	(485)
Proceeds from exercise of share options	5	293
Cash dividends paid	(7,735)	(5,599)
Other, net	(23)	276
Net cash provided by (used in) financing activities	(7,656)	(14,048)
Effect of exchange rate change on cash and cash equivalents	1,221	(479)
Net increase (decrease) in cash and cash equivalents	(7,173)	(6,562)
Cash and cash equivalents at beginning of period	134,355	127,181
Increase (decrease) in cash and cash equivalents resulting from change in scope of consolidation	—	691
Cash and cash equivalents at end of period	127,181	121,311

(5) Notes to Consolidated Financial Statements

(Note regarding going concern assumptions)

None

(Changes in accounting policy)

1) (Application of IFRS 16, "Leases" and (ASU) 2016-02, "Leases")

Effective from the beginning of the fiscal year ending March 31, 2020, at foreign subsidiaries and affiliates that apply US GAAP, (ASU) 2016-02, "Leases" has been adopted, while at other foreign subsidiaries and affiliates, IFRS 16, "Leases" has been adopted. These accounting standards require lessees, in principle, to record all leases as assets and liabilities in the balance sheet.

As a result, there is minimal impact to the consolidated financial statements for the fiscal year ended March 31, 2020.

2) (Changes in accounting policy regarding sales of digital content)

Effective from the beginning of the fiscal year ending March 31, 2020, one of the Group's consolidated subsidiaries have changed the timing of revenue recognition for digital content sold via platforms operated by other companies (including but not limited to consumer game consoles and mobile applications) from the point sales data reports are received to the point that the content is provided to the customer. In keeping with this change, the timing of recognition of expenses such as royalties and platform fees calculated based on revenues has been changed as well. This change has been adopted to better reflect actual economic conditions and is the result of the development of system and organizational support that enables the timely collection of sales data.

The change in accounting policy has been applied retroactively to the Consolidated Financial Statements for the fiscal year ended March 31, 2019.

The changes caused an increase of ¥227 million in net sales for the fiscal year ended March 31, 2019, and an increase of ¥103 million in operating income, ordinary income, and net income before taxes, compared with the previous method. Additionally, on April 1, 2018, the Group recognized ¥2,305 million of increase as a cumulative-effect adjustment to beginning retained earnings.

(Notes to Consolidated Income Statement)

*1 Inventories at fiscal year-end are stated after writing down based on the decrease in profitability.

The following amount is included within cost of sales as loss on valuation of inventories.

(Millions of yen)

Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
2,908	7,940

*2 Selling, general and administrative expenses include research and development expenses

(Millions of yen)

Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
2,008	2,224

*3 Breakdown of gain on sale of property and equipment

(Millions of yen)

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Tools, furniture and fixtures	15	2

*4 Breakdown of loss on disposal of property and equipment

(Millions of yen)

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Buildings and structures	23	2
Tools, furniture and fixtures	18	13
Amusement equipment	156	100
Other	0	14
Total	198	130

*5 Impairment loss

In the fiscal year ended March 31, 2019, the Group posted an impairment loss on the following groups of assets.

(Millions of yen)

Location	Usage	Category	Impairment amount
Shinjuku-ku, Tokyo	Idle assets	Amusement equipment	55
		Other	0
Shinjuku-ku, Tokyo	Assets planned for disposal	Amusement equipment	40
		Buildings and Structures	2
Miyazaki, Miyazaki Prefecture, Osaka, Osaka Prefecture	Game arcade	Buildings and Structures	174
		Tools, furniture and fixtures	35
		Other	24
Atsugi, Kanagawa Prefecture	Amusement equipment maintenance services division	Buildings and Structures	9
		Tools, furniture and fixtures	7
		Land	13
		Other	4
Total			368

Impairment loss of 170million yen other than those above is included in loss on disposal of content

In the amusement segment, each captive outlet and each division including rented outlets, franchise outlets and amusement equipment production and sales, is classified as one asset-grouping unit. Idle assets that are not used for operational purposes and assets planned for disposal are classified individually. With regard to idle assets presented in the table above, market value had fallen substantially below book value and the future use of these assets was deemed uncertain. For these reasons, the book value of these idle assets has been written down to the applicable recoverable value. With regard to assets planned for disposal, future recovery of the investment amount has been deemed uncertain and their book value has been written down to the applicable recoverable value. Note that calculation of recoverable amounts is measured by net realizable value. Net realizable value is based on a reasonable assumption of market price.

In the fiscal year ended March 31, 2020, the Group posted an impairment loss on the following groups of assets.

(Millions of yen)

Location	Usage	Category	Impairment amount
Shinjuku-ku, Tokyo	Idle assets	Amusement equipment	129
		Other	1
Shinjuku-ku, Tokyo	Assets planned for disposal	Buildings and Structures	8
		Amusement equipment	2
Toshima-ku, Tokyo, Kawasaki, Kanagawa, Asahikawa, Hokkaido	Game arcade	Buildings and Structures	50
		Tools, furniture and fixtures	7
		Other	5
Shinjuku-ku, Tokyo	Amusement equipment maintenance services division	Buildings and Structures	10
		Tools, furniture and fixtures	17
		Other	134
Total			367

In the amusement segment, each captive outlet and each division including rented outlets, franchise outlets and amusement equipment production and sales, is classified as one asset-grouping unit. Idle assets that are not used for operational purposes and assets planned for disposal are classified individually.

With regard to idle assets presented in the table above, market value had fallen substantially below book value and the future use of these assets was deemed uncertain. For these reasons, the book value of these idle assets has been written down to the applicable recoverable value. With regard to assets planned for disposal, future recovery of the investment amount has been deemed uncertain and their book value has been written down to the applicable recoverable value. Note that calculation of recoverable amounts is measured by net realizable value. Net realizable value is based on a reasonable assumption of market price.

*6 Loss on disposal of content

In the fiscal year ended March 31, 2019, the Group posted a loss on disposal of content of an extraordinary loss due to the in-depth review of the business strategy for Luminous Productions Co., Ltd., a wholly-owned subsidiary. The loss comprises ¥3,425 million in loss on disposal of content production, ¥170 million in impairment loss on intangible assets and ¥41 million in other expenses.

In the above, the impairment of intangible assets was as follows:

Millions of yen

Location	Usage	Category	Impairment amount
Shinjuku-ku, Tokyo	Other	Other	170

For intangible assets, asset values were reassessed, taking into account changes in the market environment, and book values were subsequently written down to the applicable recoverable values. Note that calculation of recoverable amounts is measured by value in use. Value in use is estimated to be zero because the carrying value of these assets may not be recoverable.

*7 Loss on event cancellations

In the fiscal year ended March 31, 2020, the Group posted a loss on event cancellations of an extraordinary loss due to the cancellation and postponement of various events to prevent the spread of the virus.

(Segment Information)

[Segment Information]

■ Year ended March 31, 2019

1. Outline of reporting segments

"The Group's reporting segments are business units for which discrete financial data is available and periodically reviewed by the Board of Directors in the determination of resource allocation as well as the evaluation of business performance.

To this end, the Group offers entertainment content and services in a variety of forms including: (1) interactive digital content for game consoles (including handheld game machines), personal computers and smartphones in the "Digital Entertainment" segment; (2) amusement facility operation as well as the sales and rental of arcade game machines in the "Amusement" segment; (3) publication of comic books, game strategy books and comic magazines in the "Publication" segment; and (4) planning, production, distribution and licensing of derivative products in the "Merchandising" segment. These four classifications serve as the Group's reporting segments.

2. Calculating reporting segment sales, income (loss), assets and other items

Accounting treatment methods applied to financial results of reporting segments are the same as those used in the preparation of the Company's consolidated financial statements. Reporting segment income corresponds to operating income. Intersegment sales are based on prevailing prices in the market for the content and/or services provided.

3. Information on sales and income by reporting segment

(Millions of yen)

	Reporting Segments					Adjustment (Note 1)	Consolidated total (Note 2)
	Digital Entertainment	Amusement	Publication	Merchandising	Total		
Sales and operating income							
Net sales							
(1) Sales to outside customers	204,531	46,065	14,268	6,409	271,276	—	271,276
(2) Intersegment sales	17	177	30	987	1,213	(1,213)	—
Total	204,549	46,243	14,299	7,397	272,489	(1,213)	271,276
Segment operating income	28,997	1,958	4,139	932	36,028	(11,393)	24,635
Segment assets	103,036	24,931	5,361	1,777	135,107	147,507	282,614
Other items							
Depreciation and amortization	2,777	3,223	39	36	6,076	725	6,801
Increases in property, plant and equipment and intangible assets	3,342	4,387	18	51	7,800	1,781	9,581

Notes: 1. (1) Segment adjustments (¥11,393 million) include unallocated corporate general and administrative expenses (¥11,447 million).

(2) Segment assets adjustment of ¥147,507 million includes unallocated assets of ¥147,731 million. These assets mainly consist of surplus funds (including cash and deposits).

(3) Depreciation and amortization adjustment of ¥725 million relates to unallocated corporate assets.

(4) The adjustment increase of ¥1,781 million in property, plant and equipment and intangible assets relates to unallocated corporate assets.

2. Segment operating income is adjusted in operating income on the consolidated income statement.

■ Year ended March 31, 2020

1. Outline of reporting segments

"The Group's reporting segments are business units for which discrete financial data is available and periodically reviewed by the Board of Directors in the determination of resource allocation as well as the evaluation of business performance.

To this end, the Group offers entertainment content and services in a variety of forms including: (1) interactive digital content for game consoles (including handheld game machines), personal computers and smartphones in the "Digital Entertainment" segment; (2) amusement facility operation as well as the sales and rental of arcade game machines in the "Amusement" segment; (3) publication and licensing of comic magazines, comic books, and game-related books in the "Publication" segment; and (4) planning, production, distribution and licensing of derivative products in the "Merchandising" segment. These four classifications serve as the Group's reporting segments.

2. Calculating reporting segment sales, income (loss), assets and other items

Accounting treatment methods applied to financial results of reporting segments are the same as those used in the preparation of the Company's consolidated financial statements. Reporting segment income corresponds to operating income. Intersegment sales are based on prevailing prices in the market for the content and/or services provided.

3. Information on sales and income by reporting segment

(Millions of yen)

	Reporting Segments				Total	Adjustment (Note 1)	Consolidated total (Note 2)
	Digital Entertainment	Amusement	Publication	Merchandising			
Sales and operating income							
Net sales							
(1) Sales to outside customers	188,640	44,832	19,393	7,660	260,527	—	260,527
(2) Intersegment sales	47	840	58	1,076	2,023	(2,023)	—
Total	188,687	45,673	19,452	8,737	262,550	(2,023)	260,527
Segment operating income	35,357	1,480	7,250	1,021	45,110	(12,351)	32,759
Segment assets	126,471	25,765	7,271	2,057	161,566	141,067	302,634
Other items							
Depreciation and amortization	3,386	3,092	43	64	6,587	829	7,417
Increases in property, plant and equipment and intangible assets	4,397	3,818	11	38	8,266	1,391	9,657

Notes: 1. (1) Segment adjustments (¥12,351 million) include unallocated corporate general and administrative expenses (¥12,420 million).

(2) Segment assets adjustment of ¥141,067 million includes unallocated assets of ¥141,467 million. These assets mainly consist of surplus funds (including cash and deposits).

(3) Depreciation and amortization adjustment of ¥829 million relates to unallocated corporate assets.

(4) The adjustment increase of ¥1,391 million in property, plant and equipment and intangible assets relates to unallocated corporate assets.

2. Segment operating income is adjusted in operating income on the consolidated income statement.

[Related Information]

■ Year ended March 31, 2019

1.Information by product or service

This information is identical to that of segment information and has therefore been omitted.

2.Information by geographical area

(1) Sales

	Japan	North America	Europe	Asia and others	Total
Consolidated sales	167,372	57,974	32,346	13,582	271,276

(Millions of yen)

Note: The classification of geographic segments is based on location of customer.

(2) Property and equipment

	Japan	North America	Europe	Asia and others	Total
Property and equipment	14,907	2,444	460	76	17,889

(Millions of yen)

3. Information by major customer

This information has been omitted because all sales to major customers account for less than 10% of the net sales amount shown on the Consolidated Statement of Income.

■ Year ended March 31, 2020

1.Information by product or service

This information is identical to that of segment information and has therefore been omitted.

2.Information by geographical area

(1) Sales

	Japan	North America	Europe	Asia and others	Total
Consolidated sales	198,479	37,209	15,262	9,576	260,527

(Millions of yen)

Note: The classification of geographic segments is based on location of customer.

(2) Property and equipment

	Japan	North America	Europe	Asia and others	Total
Property and equipment	14,892	3,756	1,837	61	20,547

(Millions of yen)

3. Information by major customer

This information has been omitted because all sales to major customers account for less than 10% of the net sales amount shown on the Consolidated Statement of Income.

[Information related to impairment losses on property and equipment in each reporting segment]

■ Year ended March 31, 2019

(Millions of yen)

	Digital Entertainment	Amusement	Publication	Merchandising	Eliminations or unallocated (Note)	Total
Impairment losses	—	368	—	—	0	368

Note: The amount for “Eliminations or unallocated” is related mainly to impairment losses on telephone subscription rights.

■ Year ended March 31, 2020

(Millions of yen)

	Digital Entertainment	Amusement	Publication	Merchandising	Eliminations or unallocated (Note)	Total
Impairment losses	—	366	—	—	1	367

Note: The amount for “Eliminations or unallocated” is related mainly to impairment losses on telephone subscription rights.

[Information related to amortization of goodwill and the unamortized balance in each reporting segment]

■ Year ended March 31, 2019

None

■ Year ended March 31, 2020

None

[Information related to gain on negative goodwill in each reporting segment]

■ Year ended March 31, 2019

None

■ Year ended March 31, 2020

None

(Per Share Information)

(yen)

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Net assets per share	1,726.32	1,854.10
Earnings per share	162.57	179.02
Diluted earnings per share	162.30	178.73

Note: The basis for calculating earnings per share and diluted earnings per share is provided below.

(Millions of yen)

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Earnings per share:		
Profit attributable to owners of parent	19,373	21,346
Income not available to common shareholders	—	—
Profit attributable to owners of parent available to common shareholders	19,373	21,346
Average number of shares of common stock outstanding during the fiscal year (thousands of shares)	119,171	119,240
Adjustments to profit used to calculate diluted earnings per share:		
Adjustments to profit attributable to owners of parent	—	—
Increase in the number of shares of common stock (thousands of shares)	197	197
(Number of shares reserved for the purpose of new share issuances for exercise of share subscription rights)	(197)	(197)
Summary of residual securities that do not dilute the Company's earnings per share	'Issuance of August 2018 stock acquisition rights, pursuant to a resolution of the Board of Directors on August 7, 2018: 124,200 shares	'Issuance of August 2018 stock acquisition rights, pursuant to a resolution of the Board of Directors on August 7, 2018: 123,100 shares