



Consolidated Financial Results
for the Six-Month Period Ended September 30, 2021 (Japan GAAP)

November 5, 2021

Company name: SQUARE ENIX HOLDINGS CO., LTD.
 Shares traded: Tokyo Stock Exchange, First Section
 Company code: 9684
 Company URL: <https://www.hd.square-enix.com/eng>
 Representative: Yosuke Matsuda, President and Representative Director
 Contact: Atsushi Matsuda, Chief Accounting Officer
 Tel: (03) 5292-8000
 Financial report submission: November 11, 2021 (planned)
 Cash dividend payment commencement: December 6, 2021 (planned)
 Supplementary quarterly materials prepared: Yes
 Quarterly results presentation held: Yes (for institutional investors and analysts)

(Amounts under one million yen are rounded down)

1. Consolidated Financial Results (April 1, 2021 through September 30, 2021)

(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	
Six months ended	%		%		%		%	
September 30, 2021	168,917	(2.2)	29,146	(7.9)	31,483	3.1	22,991	43.3
September 30, 2020	172,731	43.0	31,655	98.9	30,537	95.6	16,047	46.3

Note: Six months ended September 30, 2021 Comprehensive income: 22,903 million yen [43.8%]
 Six months ended September 30, 2020 Comprehensive income: 15,928 million yen [47.1%]

	Earnings per share, basic	Earnings per share, diluted
Six months ended	yen	yen
September 30, 2021	192.48	192.04
September 30, 2020	134.49	134.17

Note: The Company has applied the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29; March 31, 2020) and other standards as of the start of the first quarter of the consolidated fiscal year ending March 31, 2022 and figures for the year ending March 31, 2022 reflect this change of accounting method.

(2) Consolidated Financial Position

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

	Total assets	Net assets	Equity ratio
As of			%
September 30, 2021	341,687	258,494	75.4
March 31, 2021	336,144	243,278	72.1

Note 1. Total equity As of September 30, 2021: 257,602 million yen
 As of March 31, 2021: 242,364 million yen

2. The Company has applied the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29; March 31, 2020) and other standards as of the start of the first quarter of the consolidated fiscal year ending March 31, 2022 and figures for the year ending March 31, 2022 reflect this change of accounting method.

2. Dividends

	Dividends per share				
	1Q	2Q	3Q	4Q	Total
	yen	yen	yen	yen	yen
Fiscal year ended March 31, 2021	—	10.00	—	68.00	78.00
Fiscal year ending March 31, 2022	—	10.00			
Fiscal year ending March 31, 2022 (projection)			—	51.00	61.00

Note: No change in Dividend projection from previous announcement.

3. Consolidated Forecasts (April 1, 2021 to March 31, 2022)

(Millions of yen, year-on-year changes in percents and per share data)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Earnings per share	
	%		%		%		%		yen	
Fiscal year ending March 31, 2022	340,000	2.2	40,000	(15.3)	40,000	(20.0)	24,000	(10.9)	201.10	

Note 1. No change in consolidated forecasts from previous announcement.

2. The Company has applied the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29; March 31, 2020) and other standards as of the start of the first quarter of the consolidated fiscal year ending March 31, 2022 and figures for the year ending March 31, 2022 reflect this change of accounting method.

Notes

- (1) Significant changes among major subsidiaries during the period: No
- (2) Adoption of special accounting treatment for quarterly consolidated financial statements: No
- (3) 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. : No
 3. Changes in accounting estimates: No
 4. Retrospective restatement: No
- (4) Outstanding shares (common stock)
 1. Number of shares issued and outstanding (including treasury stock):

As of September 30, 2021	122,531,596
As of March 31, 2021	122,531,596
 2. Number of treasury stock:

As of September 30, 2021	2,978,756
As of March 31, 2021	3,122,037
 3. Average number of shares during the period (cumulative):

Six-Month period ended September 30, 2021	119,451,428
Six-Month period ended September 30, 2020	119,317,254

Disclaimer: (1) This document is a 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 any differences or discrepancies exist between this English translation and the original. (2) At the time of disclosure of this report, review procedures for quarterly financial statements pursuant to the Financial Instruments and Exchange Law had 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 "1. Consolidated Results for the Six-Month Period Ended September 30, 2021. (3) Qualitative information on consolidated business forecasts" section on page 4 of Supplemental Information.

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1. Consolidated Results for the Six-Month Period Ended September 30, 2021

(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 six-month period ended September 30, 2021 totaled ¥168,917 million (a decrease of 2.2% from the same period of the prior fiscal year), operating income amounted to ¥29,146 million (a decrease of 7.9% from the same period of the prior fiscal year), and ordinary income amounted to ¥31,483 million (an increase of 3.1% from the same period of the prior fiscal year), and profit attributable to owners of parent amounted to ¥22,991 million (an increase of 43.3% from the same period of the prior fiscal year).

A discussion of results by segment for the six-month period ended September 30, 2021 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.

At the HD (High-Definition) Game sub-segment, the six-month period ended September 30, 2021 saw the release of such titles as "Outriders," "NieR Replicant ver.1.22474487139...", "NEO: The World Ends with You," and "Life is Strange: True Colors." However, the sub-segment's net sales declined compared to the same period of the previous fiscal year, which had seen the release of "FINAL FANTASY VII REMAKE" and "Marvel's Avengers."

In the MMO (Massively Multiplayer Online) Game sub-segment, rose compared to the same period of the previous fiscal year due to sharp growth in the number of monthly paying subscribers for "FINAL FANTASY XIV."

The Games for Smart Devices/PC Browser sub-segment saw net sales decline compared to the same period of the previous fiscal year, in part due to lackluster performances by existing titles.

Net sales and operating income in the Digital Entertainment segment totaled ¥129,451 million (a decrease of 9.1% from the same period of the prior fiscal year), and ¥29,499 million (a decrease of 12.8% from the same period of 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.

Compared to the same period of the previous fiscal year, the six-month period ended September 30, 2021 saw a substantial rise in net sales and a turn to profit at the operating line because the segment had sustained significant impact in the previous year from the temporary closure of amusement facilities in Japan, a move undertaken to combat the spread of COVID-19 in response to the Japanese government's declaration of a state of emergency.

Net sales and operating income in the Amusement segment totaled ¥21,070 million (an increase of 51.3% from the same period of the prior fiscal year), and ¥653 million (operating loss of ¥1,623 million in the same period of the prior fiscal year), respectively.

●Publication

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

Sales of e-books and other digital media rose in the six-month period ended September 30, 2021. Sales of printed media were also brisk, resulting in higher net sales and operating income than in the same period of the previous fiscal year.

Net sales and operating income in the Publication segment totaled ¥14,148 million (an increase of 14.3% from the same period of the prior fiscal year) and ¥5,973 million (an increase of 11.4% from the same period of 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.

Brisk sales of new character merchandise based on the Group's own content during the six-month period ended September 30, 2021 resulted in higher net sales and operating income than in the same period of the previous fiscal year.

Net sales and operating income in the Merchandising segment totaled ¥5,804 million (an increase of 20.7% from the same period of the prior fiscal year), and ¥1,796 million (an increase of 17.5% from the same period of the prior fiscal year), respectively.

(2) Analysis of consolidated financial position

●Assets

As of September 30, 2021, total current assets were ¥287,611 million, an increase of ¥3,988 million compared to March 31, 2021. This was mainly due to an increase in content production account of ¥11,621 million, while notes and accounts receivable - trade, and contract assets and cash and deposits decreased by ¥5,442 million and ¥2,728 million respectively. As of September 30, 2021, total non-current assets were ¥54,076 million, an increase of ¥1,554 million compared to March 31, 2021.

As a result, total assets were ¥341,687 million, an increase of ¥5,543 million compared to March 31, 2021.

●Liabilities

As of September 30, 2021, total current liabilities were ¥70,815 million, a decrease of ¥9,529 million compared to March 31, 2021. This was mainly due to a decrease in income taxes payable of ¥9,747 million.

As of September 30, 2021, total non-current liabilities were ¥12,377 million, a decrease of ¥143 million compared to March 31, 2021.

As a result, total liabilities were ¥83,192 million, a decrease of ¥9,673 million compared to March 31, 2021.

●Net assets

As of September 30, 2021, net assets were ¥258,494 million, an increase of ¥15,216 million compared to March 31, 2021. This was mainly due to profit attributable to owners of parent of ¥22,991 million and dividend payments of ¥8,119 million.

As a result, the consolidated equity ratio stood at 75.4% (72.1% as of March 31, 2021).

(3) Qualitative information on consolidated business forecasts

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.

By developing content and diversifying earnings opportunities in line with this changing environment, the Group is working to establish an earnings platform that will enable sustainable sales and profit growth.

At this point in time, the Company does not revise the forecast for the consolidated results of the fiscal year ending March 31, 2022, since the Company needs to assess sales performance and other trends going forward.

2. Consolidated Financial Statements for the Six-Month Period Ended September 30, 2021

(1) Consolidated Balance Sheets

(Millions of yen)

	As of March 31, 2021	As of September 30, 2021
Assets		
Current assets		
Cash and deposits	146,229	143,501
Notes and accounts receivable-trade	43,036	—
Notes and accounts receivable-trade, and contract assets	—	37,593
Merchandise and finished goods	3,829	4,880
Work in progress	212	265
Raw materials and supplies	363	398
Content production account	78,153	89,775
Other	11,987	11,353
Allowance for doubtful accounts	(190)	(156)
Total current assets	283,622	287,611
Non-current assets		
Property, plant and equipment	19,656	19,261
Intangible assets	5,540	6,023
Investments and other assets	27,325	28,791
Total non-current assets	52,522	54,076
Total assets	336,144	341,687

(Millions of yen)

	As of March 31, 2021	As of September 30, 2021
Liabilities		
Current liabilities		
Notes and accounts payable-trade	24,559	22,955
Income taxes payable	14,593	4,845
Provision for bonuses	2,956	3,245
Provision for sales returns	5,873	—
Refund liabilities	—	5,187
Provision for loss on game arcade closings	231	49
Asset retirement obligations	6	6
Other	32,122	34,524
Total current liabilities	80,345	70,815
Non-current liabilities		
Provision for directors' retirement benefits	52	19
Net defined benefit liability	3,492	3,655
Asset retirement obligations	3,715	3,602
Other	5,260	5,098
Total non-current liabilities	12,521	12,377
Total liabilities	92,866	83,192
Net assets		
Shareholders' equity		
Capital stock	24,039	24,039
Capital surplus	53,593	53,736
Retained earnings	179,722	194,489
Treasury stock	(9,556)	(9,119)
Total shareholders' equity	247,799	263,147
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	59	(10)
Foreign currency translation adjustment	(5,655)	(5,654)
Remeasurements of defined benefit plans	160	121
Total accumulated other comprehensive income	(5,435)	(5,544)
Subscription rights to shares	762	719
Non-controlling interests	151	172
Total net assets	243,278	258,494
Total liabilities and net assets	336,144	341,687

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

(Millions of yen)

	Six months ended September 30, 2020	Six months ended September 30, 2021
Net sales	172,731	168,917
Cost of sales	84,428	75,799
Gross profit	88,303	93,118
Reversal of provision for sales returns	4,164	—
Provision for sales returns	5,359	—
Gross profit-net	87,107	93,118
Selling, general and administrative expenses	55,452	63,971
Operating income	31,655	29,146
Non-operating income		
Interest income	27	37
Dividend income	0	0
Gain on forgiveness of payable for group tax	152	—
Foreign exchange gains	—	945
Gain on investments in securities	—	790
Gain on sale of crypto assets	—	567
Miscellaneous income	36	41
Total non-operating income	216	2,383
Non-operating expenses		
Interest expenses	47	41
Commission fee	8	4
Foreign exchange losses	1,210	—
Miscellaneous loss	68	1
Total non-operating expenses	1,334	46
Ordinary income	30,537	31,483
Extraordinary income		
Gain on sales of non-current assets	1	0
Gain on reversal of subscription rights to shares	2	—
Subsidy income related to COVID-19	291	144
Gain on sale of shares of subsidiaries and associates	—	344
Other	—	47
Total extraordinary income	295	536
Extraordinary losses		
Loss on sales of non-current assets	0	—
Loss on retirement of non-current assets	94	25
Impairment loss	93	5
Provision for loss on store closings	183	—
Loss on temporary closure	2,224	296
Other	30	7
Total extraordinary losses	2,627	334
Profit before income taxes	28,205	31,685
Income taxes-current	11,120	8,394
Income taxes-deferred	1,032	290
Total income taxes	12,152	8,684
Profit	16,052	23,000
Profit attributable to non-controlling interests	5	8
Profit attributable to owners of parent	16,047	22,991

Consolidated Statement of Comprehensive Income

(Millions of yen)

	Six months ended September 30, 2020	Six months ended September 30, 2021
Profit	16,052	23,000
Other comprehensive income		
Valuation difference on available-for-sale securities	9	(70)
Foreign currency translation adjustment	(226)	12
Remeasurements of defined benefit plans	92	(38)
Total other comprehensive income	(123)	(96)
Comprehensive income	15,928	22,903
(Breakdown)		
Comprehensive income attributable to owners of parent	15,927	22,882
Comprehensive income attributable to non-controlling interests	1	20

(3) Notes to Consolidated Financial Statements
(Note regarding going concern assumptions)
None

(Material changes in shareholders' equity)
None

(Changes in accounting policies)
(Application of accounting standards for revenue recognition)

The Company has applied the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29; March 31, 2020) and other standards as of the start of the first quarter of the consolidated fiscal year ending March 31, 2022. The Company now recognizes revenue as the amount expected to be received in exchange for promised goods or services when control of sold goods or services is transferred to the customer. Changes resulting from the application of the Accounting Standard for Revenue Recognition and other standards are described below.

(Sales of Digital Content)

Previously, as regards some revenue from digital content derived via third-party platforms, the Company had recognized as revenue the net amount arrived at by deducting platform commissions from the amount received from the customer. The Company now recognizes as revenue the total amount of the consideration received from the customer.

(Microtransactions)

Previously, the Company had recognized the microtransaction portion of digital content revenue at the point that the customer derived an in-game item from the transaction. The Company now recognizes the revenue based upon the estimated period over which the customer will use the item.

(Provisions for Sales Returns)

Previously, in anticipation of returns of publications, game software, and other products, the Company posted estimated losses under "Provision for sales returns" and "Reversal of provision for sales returns." The Company now changed to a method that does not recognize the net sales and the amount equivalent to cost of sales for products that are expected to be returned. In addition, as regards the "Provision for sales returns" previously recognized under "Current liabilities," the Company now recognizes the provision for sales returns as "Refund liabilities" under "Current liabilities" and as "Other" under "Current assets."

In applying the Accounting Standard for Revenue Recognition and other standards, the Company has complied with the transitional treatment set forth in the Article 84 proviso of the standard. As such, the cumulative effect of retroactively applying the new accounting policy prior to the start of the first quarter of the consolidated fiscal year ending March 31, 2022, has been added to or subtracted from beginning retained earnings, and the application of the new accounting policy starts from that point. The result is a ¥11,405 million increase to net sales; an ¥84 million decrease to cost of sales; a ¥10,536 million increase to selling, general and administrative expenses; As a result of the adjustment of sales returns above, a ¥36 million decrease to operating income, ordinary income and profit before income taxes for the second quarter of the consolidated fiscal year ending March 31, 2022. In addition, beginning retained earnings declined by ¥104 million.

As a result of the adoption of the Revenue Recognition Standard, "Notes and accounts receivable - trade" which was presented in "Current assets" of the consolidated balance sheet for the previous fiscal year, is included in "Notes and accounts receivable - trade, and contract assets" from the first quarter of the current fiscal year.

The Company has also complied with the transitional treatment set forth in Article 89-2 of the Accounting Standard for Revenue Recognition, meaning that it is not presenting data from the previous consolidated fiscal year modified to conform to the revised standard. The Company has additionally complied with the transitional treatment set forth in Article 28-15 of the Accounting Standard for Quarterly Financial Reporting (ASBJ Statement No. 12; March 31, 2020), meaning that it is not presenting a breakdown of revenue derived from contracts with customers as regards the first quarter of the consolidated fiscal year ended March 31, 2021.

(Application of Accounting Standard for Fair Value Measurement)

The Company has applied the Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30; July 4, 2019; hereinafter "Accounting Standard for Fair Value Measurement") and other standards as of the start of the first quarter of the consolidated fiscal year ending March 31, 2022. In accordance with the transitional treatment set forth in Article 19 of the Accounting Standard for Fair Value Measurement" and Article 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10; July 4, 2019), the Company has decided to apply the new accounting policies set for by the Accounting Standard for Fair Value Measurement into the future. This has no effect on the quarterly consolidated financial statements

(Additional information)

(Application of tax effect accounting for transition from consolidated taxation system to group tax sharing system)

SQUARE ENIX HOLDINGS CO., LTD. and domestic subsidiaries have calculated the amounts of deferred tax assets and deferred tax liabilities according to the tax acts before amended based on the treatment of Paragraph 3 of "Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System" (ASBJ Practical Issues Task Force No.39, March 31, 2020) instead of applying the provision on Paragraph 44 of "Implementation Guidance on Tax Effect Accounting" (ASBJ Guidance No.28, February 16, 2018), regarding the transition to group tax sharing system established in "Act for Partial Amendment of the Income Tax Act, etc."(Act No.8 of 2020), and items for which the non-consolidated taxation system has been reviewed in the line with the transition to the group tax sharing system.

(Segment information)

I. Outline of reporting segments for the Six-Month period ended September 30, 2020

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	142,472	13,622	12,367	4,270	172,731	—	172,731
(2) Intersegment sales	3	308	8	539	859	(859)	—
Total	142,475	13,930	12,375	4,809	173,591	(859)	172,731
Segment operating income (loss)	33,831	(1,623)	5,360	1,528	39,097	(7,441)	31,655

Notes: 1. Segment adjustments (¥7,441) million include unallocated corporate operating expenses (¥7,558) million.

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

II. Outline of reporting segments for the Six-Month period ended September 30, 2021

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							
Domestic	69,875	20,052	13,612	2,810	106,350	—	106,350
Overseas	59,565	104	412	2,484	62,567	—	62,567
Revenue from contracts with customers	129,440	20,157	14,024	5,295	168,917	—	168,917
Other revenue	—	—	—	—	—	—	—
(1) Sales to outside customers	129,440	20,157	14,024	5,295	168,917	—	168,917
(2) Intersegment sales	10	913	123	508	1,556	(1,556)	—
Total	129,451	21,070	14,148	5,804	170,474	(1,556)	168,917
Segment operating income	29,499	653	5,973	1,796	37,923	(8,776)	29,146

Notes: 1. Segment adjustments (¥8,776) million include unallocated corporate operating expenses (¥8,952) million.

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

3. As described in "Changes in accounting policies," the accounting policy regarding revenue recognition has been changed, effective from the three-month period of ended June 30, 2021.

Therefore, we have similarly changed the measuring method of segment income.

As a result, the amounts for the six-month period of ended September 30, 2021 are as follows.

(Digital Entertainment segment) Net sales increased by ¥11,062 million and operating income decreased by ¥42 million.

(Publication segment) Net sales increased by ¥364 million and operating income decreased by ¥3 million.

(Amusement segment) Net sales decreased by ¥21 million and operating income increased by ¥9 million.

4. Disaggregated revenue disclosures are distinguished between Domestic and Overseas.