



Consolidated Financial Results
for the Three-Month Period Ended June 30, 2019 (Japan GAAP)

August 6, 2019

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>
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Tel: (03) 5292-8000
Financial report submission: August 9, 2019 (planned)
Cash dividend payment commencement: —
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, 2019 through June 30, 2019)

(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
Three months ended	%	%	%	%
June 30, 2019	53,329 19.1	7,189 85.8	6,297 (13.9)	4,122 (26.3)
June 30, 2018	44,793 (21.4)	3,870 (69.9)	7,312 (45.0)	5,596 (33.1)

Note: Three months ended June 30, 2019 Comprehensive income: 3,988 million yen [(8.4%)]
Three months ended June 30, 2018 Comprehensive income: 4,353 million yen [(49.5%)]

	Earnings per share, basic	Earnings per share, diluted
Three months ended	yen	yen
June 30, 2019	34.58	34.54
June 30, 2018	46.99	46.88

(2) Consolidated Financial Position

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

	Total assets	Net assets	Equity ratio
As of			%
June 30, 2019	275,768	206,043	74.5
March 31, 2019	282,614	206,445	72.8

Note: Total equity As of June 30, 2019: 205,362 million yen
As of March 31, 2019: 205,789 million yen

2. Dividends

	Dividends per share				
	1Q	2Q	3Q	4Q	Total
Fiscal year ended March 31, 2019	— yen	10.00 yen	— yen	37.00 yen	47.00 yen
Fiscal year ending March 31, 2020	—				
Fiscal year ending March 31, 2020 (projection)		10.00	—	33.00	43.00

Note: No change in Dividend projection from previous announcement

3. Consolidated Forecasts (April 1, 2019 to March 31, 2020)

(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, 2020	270,000 (0.5)	24,000 (2.6)	24,000 (15.5)	16,800 (13.3)	140.97

Note: No change in consolidated forecasts from previous announcement.

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.: Yes
 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 June 30, 2019	122,531,596
As of March 31, 2019	122,531,596
 2. Number of treasury stock:

As of June 30, 2019	3,324,926
As of March 31, 2019	3,324,532
 3. Average number of shares during the period (cumulative):

Three-month period ended June 30, 2019	119,206,841
Three-month period ended June 30, 2018	119,086,024

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 Three-Month Period Ended June 30, 2019 (3) Qualitative information on consolidated business forecasts" section on page 4 of Supplemental Information

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1. Consolidated Results for the Three-Month Period Ended June 30, 2019

(1) Analysis of consolidated business results

The Square Enix group (the "Group") is continuing determined efforts to strengthen the competitiveness and profitability of its Digital Entertainment, Amusement, Publication and Merchandising business segments. Net sales for the three-month period ended June 30, 2019 totaled ¥53,329 million (an increase of 19.1% from the same period of the prior fiscal year), operating income amounted to ¥7,189 million (an increase of 85.8% from the same period of the prior fiscal year), ordinary income amounted to ¥6,297 million (a decrease of 13.9% from the same period of the prior fiscal year), and profit attributable to owners of parent amounted to ¥4,122 million (a decrease of 26.3% from the same period of the prior fiscal year).

A discussion of results by segment for the three-month period ended June 30, 2019 follows.

●Digital Entertainment

The Digital Entertainment segment consists of planning, development, distribution, and operation of digital entertainment content primarily in the form of games. 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.

Releases for consumer game consoles during the three-month period ended June 30, 2019 included the Nintendo Switch and Xbox One versions of "FINAL FANTASY X/X-2 HD Remaster" and "FINAL FANTASY XII THE ZODIAC AGE." The overall result was higher net sales than in the same period of the previous year and a turn slightly into the black at the operating income line.

In the smart devices and PC browser area, "Romancing SaGa Re;univerSe," which had been launched in December 2018, continued to perform well, leading to higher net sales and operating income than in the same period of the prior year.

In the area of massively multiplayer online role-playing games, subscription revenue was strong ahead of the release of the "FINAL FANTASY XIV" expansion pack, driving net sales and operating income higher than in the same period of the prior year.

Net sales and operating income in the Digital Entertainment segment totaled ¥37,160 million (an increase of 17.5% from the same period of the prior fiscal year), and ¥7,622 million (an increase of 35.8% from the same period of the prior fiscal year), respectively.

●Amusement

The Amusement segment consists of the operation of amusement facilities, as well as of the planning, development, and distribution of arcade game machines and related products for amusement facilities. No new amusement machine titles were released during the three-month period ended June 30, 2019, but strong arcade operations resulted in a rise in net sales and operating income versus the same period of the previous year.

Net sales and operating income in the Amusement segment totaled ¥10,845 million (an increase of 14.9% from the same period of the prior fiscal year), and ¥680 million (an increase of 226.7% from 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.

The three-month period ended June 30, 2019 saw sharp growth in sales in digital formats, including via the MANGA UP! comic app. Sales of printed media were also brisk, resulting in higher net sales and operating income than in the same period of the prior year.

Net sales and operating income in the Publication segment totaled ¥3,875 million (an increase of 57.1% from the same period of the prior fiscal year) and ¥1,273 million (an increase of 152.9% 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.

The release of new merchandise based on the Group's own intellectual property during the three-month period ended June 30, 2019 resulted in higher sales and operating income than in the same period of the previous year.

Net sales and operating income in the Merchandising segment totaled ¥1,917 million (an increase of 30.3% from the same period of the prior fiscal year), and ¥160 million (an increase of 14.6% from the same period of the prior fiscal year), respectively.

(2) Analysis of consolidated financial position

●Assets

As of June 30, 2019, total current assets were ¥226,085 million, a decrease of ¥8,726 million compared to March 31, 2019. This was mainly due to decreases in cash and deposits of ¥7,879 million and notes and accounts receivable of ¥8,795 million, while content production account increased by ¥7,535 million. As of June 30, 2019, total non-current assets were ¥49,682 million, an increase of ¥1,879 million compared to March 31, 2019.

As a result, total assets were ¥275,768 million, a decrease of ¥6,846 million compared to March 31, 2019.

●Liabilities

As of June 30, 2019, total current liabilities were ¥59,459 million, a decrease of ¥7,989 million compared to March 31, 2019. This was mainly due to a decrease in notes and accounts payable-trade of ¥7,188 million. As of June 30, 2019, total non-current liabilities were ¥10,264 million, an increase of ¥1,545 million compared to March 31, 2019.

As a result, total liabilities were ¥69,724 million, a decrease of ¥6,444 million compared to March 31, 2019.

●Net assets

As of June 30, 2019, net assets were ¥206,043 million, a decrease of ¥401 million compared to March 31, 2019. This was mainly due to profit attributable to owners of parent of ¥4,122 million and dividend payments of ¥4,410 million.

As a result, the consolidated equity ratio stood at 74.5% (72.8% as of March 31, 2019).

(3) Qualitative information on consolidated business forecasts

The business environment surrounding the Group is marked by increased competition and consolidation in the consumer game console software markets of the West. Meanwhile, new market growth looks likely given new game platforms, XR (an umbrella term for Virtual Reality, Mixed Reality and Augmented Reality), artificial intelligence (AI), and blockchain technology. In addition, the way distribution takes place in the consumer game console software market is changing as digital downloads of full games and additional content rapidly become more commonplace. Furthermore, streaming is now expanding into the game distribution space.

In the smart device game market, increased smartphone performance is prompting consumers to demand richer gaming experiences, and game designs and business models are becoming increasingly diverse. Growth in the West and Asia is also sustaining the continued expansion of the global market. 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.

2. Consolidated Financial Statements for the Three-Month Period Ended June 30, 2019

(1) Consolidated Balance Sheets

(Millions of yen)

	As of March 31, 2019	As of June 30, 2019
Assets		
Current assets		
Cash and deposits	129,468	121,588
Notes and accounts receivable-trade	40,396	31,600
Merchandise and finished goods	4,484	4,657
Work in progress	5	5
Raw materials and supplies	330	305
Content production account	50,620	58,156
Other	9,770	9,935
Allowance for doubtful accounts	(265)	(165)
Total current assets	234,811	226,085
Non-current assets		
Property, plant and equipment	17,889	19,276
Intangible assets	5,105	5,118
Investments and other assets	24,809	25,287
Total non-current assets	47,803	49,682
Total assets	282,614	275,768

(Millions of yen)

As of March 31, 2019 As of June 30, 2019

Liabilities		
Current liabilities		
Notes and accounts payable-trade	23,592	16,404
Short-term loans payable	8,685	8,212
Income taxes payable	1,694	2,302
Provision for bonuses	3,273	2,005
Provision for sales returns	9,178	6,982
Provision for loss on game arcade closings	49	60
Asset retirement obligations	5	25
Other	20,968	23,466
Total current liabilities	67,449	59,459
Non-current liabilities		
Provision for directors' retirement benefits	52	52
Net defined benefit liability	2,893	2,953
Asset retirement obligations	3,132	3,130
Other	2,640	4,128
Total non-current liabilities	8,719	10,264
Total liabilities	76,168	69,724
Net assets		
Shareholders' equity		
Capital stock	24,039	24,039
Capital surplus	53,281	53,281
Retained earnings	143,451	143,162
Treasury stock	(10,162)	(10,163)
Total shareholders' equity	210,610	210,320
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	116	83
Foreign currency translation adjustment	(4,651)	(4,793)
Remeasurements of defined benefit plans	(285)	(247)
Total accumulated other comprehensive income	(4,820)	(4,958)
Subscription rights to shares	517	538
Non-controlling interests	139	142
Total net assets	206,445	206,043
Total liabilities and net assets	282,614	275,768

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

(Millions of yen)

	Three months ended June 30, 2018	Three months ended June 30, 2019
Net sales	44,793	53,329
Cost of sales	21,558	26,084
Gross profit	23,234	27,245
Reversal of provision for sales returns	4,099	9,074
Provision for sales returns	3,444	7,099
Gross profit-net	23,889	29,220
Selling, general and administrative expenses	20,018	22,030
Operating income	3,870	7,189
Non-operating income		
Interest income	30	61
Dividend income	0	0
Reversal of allowance for doubtful accounts	25	51
Foreign exchange gains	3,347	—
Miscellaneous income	68	94
Total non-operating income	3,472	207
Non-operating expenses		
Interest expenses	29	44
Commission fee	1	1
Foreign exchange losses	—	957
Miscellaneous loss	0	96
Total non-operating expenses	30	1,099
Ordinary income	7,312	6,297
Extraordinary income		
Gain on reversal of subscription rights to shares	—	3
Total extraordinary income	—	3
Extraordinary losses		
Loss on retirement of non-current assets	18	18
Impairment loss	0	0
Provision for loss on store closings	—	39
Total extraordinary losses	18	59
Profit before income taxes	7,293	6,242
Income taxes-current	384	1,258
Income taxes-deferred	1,311	860
Total income taxes	1,696	2,119
Profit	5,597	4,122
Profit attributable to non-controlling interests	1	0
Profit attributable to owners of parent	5,596	4,122

Consolidated Statement of Comprehensive Income

(Millions of yen)

	Three months ended June 30, 2018	Three months ended June 30, 2019
Profit	5,597	4,122
Other comprehensive income		
Valuation difference on available-for-sale securities	(32)	(33)
Foreign currency translation adjustment	(1,230)	(139)
Remeasurements of defined benefit plans	19	38
Total other comprehensive income	(1,243)	(134)
Comprehensive income	4,353	3,988
(Breakdown)		
Comprehensive income attributable to owners of parent	4,355	3,985
Comprehensive income attributable to non-controlling interests	(1)	3

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

(Material changes in shareholders' equity)
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 three-month period ended June 30, 2019.

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 previous first quarter and fiscal year ended March 31, 2019.

The changes caused a decrease of ¥677 million in net sales for the three months ended June 30, 2018, and a decrease of ¥387 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.

(Segment information)

I. Outline of reporting segments for the three-month period ended June 30, 2018

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	31,630	9,433	2,467	1,261	44,793	—	44,793
(2) Intersegment sales	8	7	0	209	225	(225)	—
Total	31,639	9,440	2,467	1,471	45,019	(225)	44,793
Segment operating income	5,613	208	503	139	6,465	(2,594)	3,870

Notes: 1. Segment adjustments (¥2,594) million include unallocated corporate operating expenses (¥2,602) million.

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

II. Outline of reporting segments for the three-month period ended June 30, 2019

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	37,157	10,746	3,872	1,553	53,329	—	53,329
(2) Intersegment sales	3	99	3	364	470	(470)	—
Total	37,160	10,845	3,875	1,917	53,799	(470)	53,329
Segment operating income	7,622	680	1,273	160	9,736	(2,546)	7,189

Notes: 1. Segment adjustments (¥2,546) million include unallocated corporate operating expenses (¥2,577) million.

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