



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

November 7, 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>
 Representative: Yosuke Matsuda, President and Representative Director
 Contact: Kazuharu Watanabe, Chief Financial Officer
 Tel: (03) 5292-8000
 Financial report submission: November 13, 2019 (planned)
 Cash dividend payment commencement: December 4, 2019 (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, 2019 through September 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	
Six months ended	%		%		%		%	
September 30, 2019	120,762	8.2	15,918	62.9	15,609	6.1	10,969	32.0
September 30, 2018	111,617	(15.5)	9,771	(62.2)	14,709	(44.7)	8,308	(52.6)

Note: Six months ended September 30, 2019 Comprehensive income: 10,828 million yen [48.3%]

Six months ended September 30, 2018 Comprehensive income: 7,303 million yen [(59.4%)]

	Earnings per share, basic	Earnings per share, diluted
Six months ended	yen	yen
September 30, 2019	92.02	91.90
September 30, 2018	69.74	69.59

(2) Consolidated Financial Position

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

	Total assets	Net assets	Equity ratio
As of			%
September 30, 2019	285,024	213,027	74.5
March 31, 2019	282,614	206,445	72.8

Note: Total equity As of September 30, 2019: 212,280 million yen

As of March 31, 2019: 205,789 million yen

2. Dividends

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

Note: No change in Dividend projection from the 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 the 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 September 30, 2019	122,531,596
As of March 31, 2019	122,531,596
 2. Number of treasury stock:

As of September 30, 2019	3,307,726
As of March 31, 2019	3,324,532
 3. Average number of shares during the period (cumulative):

Six-Month period ended September 30, 2019	119,210,568
Six-Month period ended September 30, 2018	119,136,026

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) This earnings release is not subject to review procedures for quarterly financial statements (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, 2019 (3) Qualitative information on consolidated business forecasts" section on page 4 of Supplemental Information.

Supplemental Information — Index

	Page
1. Consolidated Results for the Six-Month Period Ended September 30, 2019	2
(1) Analysis of consolidated business results	2
(2) Analysis of consolidated financial position	3
(3) Qualitative information on consolidated business forecasts	4
2. Consolidated Financial Statements for the Six-Month Period Ended September 30, 2019	5
(1) Consolidated Balance Sheets	5
(2) Consolidated Income Statement and Consolidated Statement of Comprehensive Income	7
Consolidated Income Statement	7
Consolidated Statement of Comprehensive Income	8
(3) Notes to Consolidated Financial Statements	9
(Note regarding going concern assumptions)	9
(Material changes in shareholders' equity)	9
(Changes in accounting policy)	9
(Segment information)	10

1. Consolidated Results for the Six-Month Period Ended September 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 business segments of Digital Entertainment, Amusement, Publication and Merchandising. Net sales for the six-month period ended September 30, 2019 totaled ¥120,762 million (an increase of 8.2% from the same period of the prior fiscal year), operating income amounted to ¥15,918 million (an increase of 62.9% from the same period of the prior fiscal year), and ordinary income amounted to ¥15,609 million (an increase of 6.1% from the same period of the prior fiscal year), and profit attributable to owners of parent amounted to ¥10,969 million (an increase of 32.0% from the same period of the prior fiscal year).

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

Major releases of console games in the six-month period ended September 30, 2019 included “DRAGON QUEST XI S: Echoes of an Elusive Age - Definitive Edition” and Nintendo Switch and Xbox One versions of “FINAL FANTASY X/X-2 HD Remaster.” Net sales declined versus the same period for the previous year, when a high hurdle was set by the release of a major new title. Moreover, weak additional sales of titles released in the previous year led to the HD sub-segment’s operating loss.

In the smart devices and PC browser area, net sales and operating income increased year on year since “Romancing SaGa Re;univerSe” continued to perform well and “DRAGON QUEST WALK” launched in September 2019 made a good start.

In the area of massively multiplayer online role-playing games, revenues from sales of the latest expansion pack of “FINAL FANTASY XIV” and increase of number of paying subscribers boosted by the expansion generated increased net sales and operating income, compared to the prior fiscal year.

Net sales and operating income in the Digital Entertainment segment totaled ¥85,406 million (an increase of 4.2% from the same period of the prior fiscal year), and ¥16,686 million (an increase of 33.0% 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.

The six-month period ended September 30, 2019 saw no release of new amusement machine, 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 ¥22,822 million (an increase of 11.2% from the same period of the prior fiscal year), and ¥1,330 million (an increase of 83.3% 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.

Sales in digital formats, including via the MANGA UP! comic app, in the six-month period ended September 30, 2019 increased sharply. 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 ¥9,064 million (an increase of 42.3% from the same period of the prior fiscal year) and ¥3,211 million (an increase of 87.2% 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 character goods featuring the Group's own intellectual properties during the six-month period ended September 30, 2019 resulted in higher sales and operating income as compared to the same period of the previous year.

Net sales and operating income in the Merchandising segment totaled ¥4,511 million (an increase of 35.3% from the same period of the prior fiscal year), and ¥631 million (an increase of 112.9% from the same period of the prior fiscal year), respectively.

(2) Analysis of consolidated financial position

- Assets

As of September 30, 2019, total current assets were ¥234,551 million, a decrease of ¥259 million compared to March 31, 2019. This was mainly due to decreases in cash and deposits of ¥5,666 million and notes and accounts receivable of ¥4,617 million, while content production account increased by ¥10,120 million. As of September 30, 2019, total non-current assets were ¥50,472 million, an increase of ¥2,669 million compared to March 31, 2019.

As a result, total assets were ¥285,024 million, an increase of ¥2,410 million compared to March 31, 2019.

- Liabilities

As of September 30, 2019, total current liabilities were ¥61,596 million, a decrease of ¥5,852 million compared to March 31, 2019. This was mainly due to decreases in notes and accounts payable-trade of ¥3,897 million and provision for sales returns of ¥3,444 million, while income taxes payable increased by ¥2,938 million. As of September 30, 2019, total non-current liabilities were ¥10,400 million, an increase of ¥1,681 million compared to March 31, 2019.

As a result, total liabilities were ¥71,997 million, a decrease of ¥4,171 million compared to March 31, 2019.

- Net assets

As of September 30, 2019, net assets were ¥213,027 million, an increase of ¥6,581 million compared to March 31, 2019. This was mainly due to profit attributable to owners of parent of ¥10,969 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 Company is working to establish an earnings platform that will enable sustainable sales and profit growth.

At this point of time, the Company does not revise the forecast for the consolidated results of the fiscal year ending March 31, 2020, which was disclosed on May 13, 2019, since the Company needs to assess sales performance during the second half of this fiscal year.

2. Consolidated Financial Statements for the Six-Month Period Ended September 30, 2019

(1) Consolidated Balance Sheets

(Millions of yen)

	As of March 31, 2019	As of September 30, 2019
Assets		
Current assets		
Cash and deposits	129,468	123,801
Notes and accounts receivable-trade	40,396	35,779
Merchandise and finished goods	4,484	4,806
Work in progress	5	12
Raw materials and supplies	330	300
Content production account	50,620	60,740
Other	9,770	9,245
Allowance for doubtful accounts	(265)	(135)
Total current assets	234,811	234,551
Non-current assets		
Property, plant and equipment	17,889	19,410
Intangible assets	5,105	5,269
Investments and other assets	24,809	25,793
Total non-current assets	47,803	50,472
Total assets	282,614	285,024

As of March 31, 2019 As of September 30, 2019

Liabilities		
Current liabilities		
Notes and accounts payable-trade	23,592	19,694
Short-term loans payable	8,685	7,959
Income taxes payable	1,694	4,633
Provision for bonuses	3,273	2,645
Provision for sales returns	9,178	5,734
Provision for loss on game arcade closings	49	25
Asset retirement obligations	5	38
Other	20,968	20,864
Total current liabilities	67,449	61,596
Non-current liabilities		
Provision for directors' retirement benefits	52	52
Net defined benefit liability	2,893	3,012
Asset retirement obligations	3,132	3,187
Other	2,640	4,147
Total non-current liabilities	8,719	10,400
Total liabilities	76,168	71,997
Net assets		
Shareholders' equity		
Capital stock	24,039	24,039
Capital surplus	53,281	53,301
Retained earnings	143,451	150,010
Treasury stock	(10,162)	(10,111)
Total shareholders' equity	210,610	217,240
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	116	173
Foreign currency translation adjustment	(4,651)	(4,923)
Remeasurements of defined benefit plans	(285)	(209)
Total accumulated other comprehensive income	(4,820)	(4,959)
Subscription rights to shares	517	609
Non-controlling interests	139	136
Total net assets	206,445	213,027
Total liabilities and net assets	282,614	285,024

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

(Millions of yen)

	Six months ended September 30, 2018	Six months ended September 30, 2019
Net sales	111,617	120,762
Cost of sales	56,913	63,300
Gross profit	54,703	57,461
Reversal of provision for sales returns	4,139	8,994
Provision for sales returns	5,220	5,772
Gross profit-net	53,623	60,684
Selling, general and administrative expenses	43,852	44,766
Operating income	9,771	15,918
Non-operating income		
Interest income	79	232
Dividend income	0	0
Gain on forgiveness of payable for group tax	37	370
Foreign exchange gains	4,734	—
Miscellaneous income	153	248
Total non-operating income	5,006	852
Non-operating expenses		
Interest expenses	53	72
Commission fee	2	2
Foreign exchange losses	—	897
Miscellaneous loss	11	187
Total non-operating expenses	67	1,161
Ordinary income	14,709	15,609
Extraordinary income		
Gain on sales of non-current assets	—	1
Gain on reversal of subscription rights to shares	—	7
Gain on liquidation of subsidiaries	8	—
Total extraordinary income	8	8
Extraordinary losses		
Loss on retirement of non-current assets	61	55
Impairment loss	1	10
Loss on disposal of content	3,733	—
loss on store closings	—	48
Total extraordinary losses	3,795	115
Profit before income taxes	10,922	15,502
Income taxes-current	1,951	4,483
Income taxes-deferred	660	47
Total income taxes	2,611	4,531
Profit	8,310	10,971
Profit attributable to non-controlling interests	2	1
Profit attributable to owners of parent	8,308	10,969

Consolidated Statement of Comprehensive Income

(Millions of yen)

	Six months ended September 30, 2018	Six months ended September 30, 2019
Profit	8,310	10,971
Other comprehensive income		
Valuation difference on available-for-sale securities	(30)	57
Foreign currency translation adjustment	(1,015)	(275)
Remeasurements of defined benefit plans	38	76
Total other comprehensive income	(1,006)	(142)
Comprehensive income	7,303	10,828
(Breakdown)		
Comprehensive income attributable to owners of parent	7,307	10,831
Comprehensive income attributable to non-controlling interests	(3)	(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 six-month period ended September 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 second quarter and fiscal year ended March 31, 2019.

The changes caused a decrease of ¥616 million in net sales for the six months ended September 30, 2018, and a decrease of ¥306 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 Six-Month period ended September 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	81,915	20,496	6,346	2,858	111,617	—	111,617
(2) Intersegment sales	13	22	24	474	535	(535)	—
Total	81,929	20,519	6,370	3,333	112,153	(535)	111,617
Segment operating income	12,545	725	1,715	296	15,282	(5,511)	9,771

Notes: 1. Segment adjustments (¥5,511) million include unallocated corporate operating expenses (¥5,556) million.

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

II. Outline of reporting segments for the Six-Month period ended September 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	85,399	22,591	9,031	3,740	120,762	—	120,762
(2) Intersegment sales	7	231	32	770	1,042	(1,042)	—
Total	85,406	22,822	9,064	4,511	121,805	(1,042)	120,762
Segment operating income	16,686	1,330	3,211	631	21,859	(5,941)	15,918

Notes: 1. Segment adjustments (¥5,941) million include unallocated corporate operating expenses (¥5,988) million.

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