



Consolidated Financial Results
for the Nine-Month Period Ended December 31, 2019 (Japan GAAP)

February 5, 2020

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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 Financial report submission: February 10, 2020 (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 December 31, 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	
Nine months ended		%		%		%		%
December 31, 2019	189,715	4.4	27,770	124.3	27,995	68.4	19,190	106.6
December 31, 2018	181,699	(3.4)	12,378	(63.3)	16,628	(52.2)	9,287	(58.4)

Note: Nine months ended December 31, 2019 Comprehensive income: 19,253 million yen [148.2%]

Nine months ended December 31, 2018 Comprehensive income: 7,756 million yen [(66.1%)]

	Earnings per share, basic	Earnings per share, diluted
Nine months ended	yen	yen
December 31, 2019	160.96	160.71
December 31, 2018	77.94	77.80

(2) Consolidated Financial Position

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

	Total assets	Net assets	Equity ratio
As of			%
December 31, 2019	293,655	220,505	74.8
March 31, 2019	282,614	206,445	72.8

Note: Total equity As of December 31, 2019: 219,789 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 Dividends 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 December 31, 2019	122,531,596
As of March 31, 2019	122,531,596
 2. Number of treasury stock:

As of December 31, 2019	3,243,417
As of March 31, 2019	3,324,532
 3. Average number of shares during the period (cumulative):

Nine-Month period ended December 31, 2019	119,223,365
Nine-Month period ended December 31, 2018	119,159,606

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 Nine-Month Period Ended December 31, 2019 (3) Qualitative information on consolidated business forecasts" section on page 4 of Supplemental Information.

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1. Consolidated Results for the Nine-Month Period Ended December 31, 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 Nine-Month period ended December 31, 2019 totaled ¥189,715 million (an increase of 4.4% from the same period of the prior fiscal year), operating income amounted to ¥27,770 million (an increase of 124.3% from the same period of the prior fiscal year), and ordinary income amounted to ¥27,995 million (an increase of 68.4% from the same period of the prior fiscal year), and profit attributable to owners of parent amounted to ¥19,190 million (an increase of 106.6% from the same period of the prior fiscal year).

A discussion of results by segment for the Nine-Month period ended December 31, 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 nine-month period ended December 31, 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” and “DRAGON QUEST WALK,” the latter of which was launched in September 2019 performed well.

In the area of massively multiplayer online role-playing games, revenues from sales of the latest expansion packs of “FINAL FANTASY XIV” and “DRAGON QUEST X,” 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 ¥136,968 million (an increase of 3.1% from the same period of the prior fiscal year), and ¥29,515 million (an increase of 93.6% 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. The nine-month period ended December 31, 2019 saw no major releases of new amusement machines, resulting in a year-on-year decline in net sales, but operating income rose slightly due to strong arcade operations.

Net sales and operating income in the Amusement segment totaled ¥33,674 million (a decrease of 1.8% from the same period of the prior fiscal year), and ¥1,496 million (an increase of 0.7% 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 nine-month period ended December 31, 2019 saw a sharp increase in sales in digital formats, including via the MANGA UP! comic app and of e-books. Sales of printed media were also brisk, resulting in higher net sales and operating income than in the same period the prior year.

Net sales and operating income in the Publication segment totaled ¥13,888 million (an increase of 35.0% from the same period of the prior fiscal year) and ¥4,986 million (an increase of 65.1% from the same period of the prior fiscal year), respectively.

●Merchandising

The Merchandising segment consists of planning, production, distribution, and licensing of products primarily based on Group-owned IP.

The release of new character goods featuring the Group's own intellectual properties during the nine-month period ended December 31, 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 ¥6,564 million (an increase of 28.0% from the same period of the prior fiscal year), and ¥733 million (an increase of 33.5% from the same period of the prior fiscal year), respectively.

(2) Analysis of consolidated financial position

●Assets

As of December 31, 2019, total current assets were ¥240,873 million, an increase of ¥6,062 million compared to March 31, 2019. This was mainly due to an increase in content production account of ¥19,741 million, while notes and accounts receivable and cash and deposits decreased by ¥7,611 million and ¥5,613 million respectively. As of December 31, 2019, total non-current assets were ¥52,781 million, an increase of ¥4,978 million compared to March 31, 2019. This was mainly due to increases in the property, plant and equipment of ¥3,044 million and the investments and other assets of ¥1,717 million.

As a result, total assets were ¥293,655 million, an increase of ¥11,040 million compared to March 31, 2019.

●Liabilities

As of December 31, 2019, total current liabilities were ¥61,239 million, a decrease of ¥6,210 million compared to March 31, 2019. This was mainly due to decrease in short-term loans payable of ¥8,685 million and provision for sales returns of ¥4,209 million, while income tax payable increased by ¥5,014 million. As of December 31, 2019, total non-current liabilities were ¥11,910 million, an increase of ¥3,191 million compared to March 31, 2019.

As a result, total liabilities were ¥73,149 million, a decrease of ¥3,019 million compared to March 31, 2019.

●Net assets

As of December 31, 2019, net assets were ¥220,505 million, an increase of ¥14,059 million compared to March 31, 2019. This was mainly due to profit attributable to owners of parent of ¥19,190 million and dividend payments of ¥5,602 million.

As a result, the consolidated equity ratio stood at 74.8% (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 in the consumer game console software markets of the West ahead of the new generation game console launches.

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 in time, the Company maintains the forecast for the consolidated results of the fiscal year ending March 31, 2020 announced on May 13, 2019, despite the operating income for the nine-month period ended December 31, 2019 having exceeded the forecast. This is because the Company needs to carefully assess the impact of the aforementioned changes in the business environment on earnings for the fourth quarter and thereafter when reviewing its financial results for the fiscal year ending March 31, 2020.

2. Consolidated Financial Statements for the Nine-Month Period Ended December 31, 2019

(1) Consolidated Balance Sheets

(Millions of yen)

	As of March 31, 2019	As of December 31, 2019
Assets		
Current assets		
Cash and deposits	129,468	123,854
Notes and accounts receivable-trade	40,396	32,784
Merchandise and finished goods	4,484	5,158
Work in progress	5	19
Raw materials and supplies	330	291
Content production account	50,620	70,361
Other	9,770	8,552
Allowance for doubtful accounts	(265)	(150)
Total current assets	234,811	240,873
Non-current assets		
Property, plant and equipment	17,889	20,933
Intangible assets	5,105	5,321
Investments and other assets	24,809	26,526
Total non-current assets	47,803	52,781
Total assets	282,614	293,655

As of March 31, 2019 As of December 31, 2019

Liabilities		
Current liabilities		
Notes and accounts payable-trade	23,592	23,848
Short-term loans payable	8,685	—
Income taxes payable	1,694	6,709
Provision for bonuses	3,273	2,116
Provision for sales returns	9,178	4,969
Provision for loss on game arcade closings	49	15
Asset retirement obligations	5	38
Other	20,968	23,541
Total current liabilities	67,449	61,239
Non-current liabilities		
Provision for directors' retirement benefits	52	52
Net defined benefit liability	2,893	3,063
Asset retirement obligations	3,132	3,189
Other	2,640	5,604
Total non-current liabilities	8,719	11,910
Total liabilities	76,168	73,149
Net assets		
Shareholders' equity		
Capital stock	24,039	24,039
Capital surplus	53,281	53,379
Retained earnings	143,451	157,038
Treasury stock	(10,162)	(9,917)
Total shareholders' equity	210,610	224,540
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	116	197
Foreign currency translation adjustment	(4,651)	(4,776)
Remeasurements of defined benefit plans	(285)	(171)
Total accumulated other comprehensive income	(4,820)	(4,750)
Subscription rights to shares	517	583
Non-controlling interests	139	132
Total net assets	206,445	220,505
Total liabilities and net assets	282,614	293,655

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

(Millions of yen)

	Nine months ended December 31, 2018	Nine months ended December 31, 2019
Net sales	181,699	189,715
Cost of sales	97,018	96,271
Gross profit	84,680	93,443
Reversal of provision for sales returns	4,161	9,012
Provision for sales returns	7,252	4,941
Gross profit-net	81,589	97,514
Selling, general and administrative expenses	69,210	69,743
Operating income	12,378	27,770
Non-operating income		
Interest income	116	287
Dividend income	0	0
Gain on forgiveness of payable for group tax	37	370
Foreign exchange gains	3,999	—
Miscellaneous income	214	400
Total non-operating income	4,368	1,059
Non-operating expenses		
Interest expenses	80	109
Commission fee	3	3
Foreign exchange losses	—	531
Miscellaneous loss	34	188
Total non-operating expenses	119	834
Ordinary income	16,628	27,995
Extraordinary income		
Gain on sales of non-current assets	15	2
Gain on sales of investment securities	0	—
Gain on reversal of subscription rights to shares	—	7
Gain on liquidation of subsidiaries	8	—
Total extraordinary income	23	9
Extraordinary losses		
Loss on retirement of non-current assets	120	78
Impairment loss	5	11
Loss on disposal of content	3,733	—
Loss on store closings	—	48
Other	0	0
Total extraordinary losses	3,858	138
Profit before income taxes	12,793	27,866
Income taxes-current	1,380	7,893
Income taxes-deferred	2,122	780
Total income taxes	3,503	8,674
Profit	9,290	19,191
Profit attributable to non-controlling interests	2	1
Profit attributable to owners of parent	9,287	19,190

Consolidated Statement of Comprehensive Income

(Millions of yen)

	Nine months ended December 31, 2018	Nine months ended December 31, 2019
Profit	9,290	19,191
Other comprehensive income		
Valuation difference on available-for-sale securities	(40)	80
Foreign currency translation adjustment	(1,550)	(133)
Remeasurements of defined benefit plans	57	114
Total other comprehensive income	(1,533)	61
Comprehensive income	7,756	19,253
(Breakdown)		
Comprehensive income attributable to owners of parent	7,760	19,260
Comprehensive income attributable to non-controlling interests	(4)	(7)

(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 nine-month period ended December 31, 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 third quarter and fiscal year ended March 31, 2019.

The changes caused an increase of ¥2,629 million in net sales for the nine months ended December 31, 2019, and an increase of ¥658 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 Nine-Month period ended December 31, 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	132,776	34,264	10,259	4,398	181,699	—	181,699
(2) Intersegment sales	17	33	27	730	809	(809)	—
Total	132,794	34,298	10,287	5,128	182,508	(809)	181,699
Segment operating income	15,244	1,486	3,020	549	20,301	(7,922)	12,378

Notes: 1. Segment adjustments (¥7,922) million include unallocated corporate operating expenses (¥7,999) million.

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

II. Outline of reporting segments for the Nine-Month period ended December 31, 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	136,956	33,285	13,830	5,642	189,715	—	189,715
(2) Intersegment sales	11	388	57	921	1,379	(1,379)	—
Total	136,968	33,674	13,888	6,564	191,095	(1,379)	189,715
Segment operating income	29,515	1,496	4,986	733	36,732	(8,961)	27,770

Notes: 1. Segment adjustments (¥8,961) million include unallocated corporate operating expenses (¥9,036) million.

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