

A Message to Our Shareholders



Thank you for your continued support of
the Square Enix Group.

Yosuke Matsuda
President and Representative Director

As the fiscal year ended March 2021 got underway, we found ourselves in circumstances such as we had never experienced before. COVID-19 was spreading, prompting lockdowns in many major cities around the world, as well as the issuance of a state of emergency declaration in Japan. With the pandemic still showing no signs of abating, Japan has to date been forced to issue four such declarations. However, vaccinations are enabling countries to begin reopening their economies, and economic activity in Japan is likely to make a robust comeback as its vaccination rates rise.

Despite, the world being mired in the COVID-19 crisis for the duration of the fiscal year ended March 2021, we nonetheless were able to achieve our highest sales and earnings, with net sales coming in at ¥332.5 billion, operating income at ¥47.2 billion, and profit attributable to owners of parent at ¥26.9 billion. This performance meant that we also achieved our medium-term

earnings targets, namely net sales of ¥300-400 billion and operating income of ¥40-50 billion.

I have been stressing for some time that nothing would be more vital to achieving our medium-term earnings targets than the generation of more substantial recurring income, and I am proud to say that rather than merely achieving some one-off numeric targets, we have succeeded in growing our pool of recurring income and thereby creating an earnings base that will enable us to invest further in growth.

Below, I will outline how we performed in each of our business segments.

Digital Entertainment

The Digital Entertainment segment posted net sales of ¥263.9 billion and operating income of ¥50.5 billion in the fiscal year



FINAL FANTASY VII REMAKE

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CHARACTER DESIGN: TETSUYA NOMURA/ROBERTO FERRARI



Marvel's Avengers

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ended March 2021. The HD (High-Definition) Games sub-segment released such major titles as “FINAL FANTASY VII REMAKE” and “Marvel’s Avengers.” “FINAL FANTASY VII REMAKE” was released just as COVID-19 was beginning its global spread, forcing us to approach distribution in ways that we never had before. At one point, even whether the release would be possible was thrown into question. Despite these challenging conditions, we were able to launch the game thanks to the efforts of both our development and sales teams, and it has proven a major success. I know how much fans around the world were looking forward to “FINAL FANTASY VII REMAKE,” and I could not be happier that we were able to deliver it to them. This was a unique success in that the pandemic made in-store sales less available to us than usual, an obstacle that we were able to overcome by significantly growing our digital sales. The transition to digital sales had been underway

for some time, and we had also been undertaking a variety of initiatives to propel the shift from sales of packaged games to digital sales. However, the pandemic has prompted our customers to do more of their buying online. We tend to sell a larger percentage of blockbuster titles like “FINAL FANTASY VII REMAKE” on physical disks in order to ensure that such titles make it to the market in substantial volumes. However, lockdown orders and state of emergency declarations were issued as governments attempted to curb the spread of COVID-19. For this reason, we had no choice but to limit production of packaged games, and our customers were also unable to go out and about as they would like. As such, our customers increasingly made their purchases online rather than in stores as the digital shift gained additional momentum due to both demand- and supply-side factors. Our profits benefitted substantially from this development. The



Trials of Mana

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BRAVELY DEFAULT II

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pandemic hastened the digital evolution of our customers' buying behavior, and we expect the resulting change to be irreversible and for this trend to continue once the pandemic is over. We intend to further promote the shift to digital going forward.

I would also note that "Marvel's Avengers" was an ambitious title for us in that we took on the GaaS (Games as a Service) model. We overcame a variety of unexpected difficulties in the final phase of the game's development, including needing to transition to work-from-home due to the pandemic. We were able to surmount these challenges and release the game, but it has unfortunately not proven as successful as we would have liked. Nonetheless, taking on the GaaS model highlighted issues that we

are likely to face in future game development efforts such as the need to select game designs that mesh with the unique attributes and tastes of our studios and development teams. While the new challenge that we tackled with this title produced a disappointing outcome, we are certain that the GaaS approach will grow in importance as gaming becomes more service oriented. How we go about creating new experiences by incorporating this trend into our game design is a key question that we will need to answer going forward.

We meanwhile also successfully delivered such excellent titles as "Trials of Mana" and "BRAVELY DEFAULT II" to our customers. Reviving existing IP (intellectual property) with modern technology

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and delivering it to new customers is also of strategic importance. Such initiatives also help us grow our pool of recurring income by attracting not only existing fans but also new customers. We will continue to leverage our rich portfolio of IP assets in order to further expand our base of recurring income.

Our MMO (Massively Multiplayer Online game) sub-segment's earnings came primarily from game operations in the fiscal year ended March 2021, as it was an off year for expansion packs. Development efforts are underway for expansion packs that we will release in the fiscal year ending March 2022 (the current fiscal year), and we are looking forward to generating a lot of

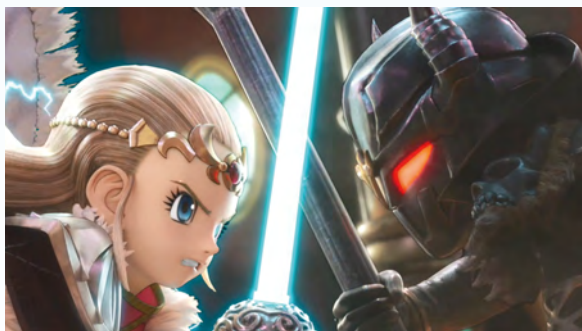
excitement in the latter half of the fiscal year. MMO games are one pillar of our recurring income, and we intend to continue to evolve and grow them with increasing momentum.

Our Games for Smart Devices/PC Browsers sub-segment released new titles including "DRAGON QUEST TACT," "OCTOPATH TRAVELER: Tairiku no Hasha," and "NieR Re[in]carnation." As a tactical role-playing game, "DRAGON QUEST TACT" has brought new appeal to the DRAGON QUEST franchise. The response to the game has been tremendous ever since its launch in July 2020, and it has quickly grown into a mainstay of our smartphone game lineup. "OCTOPATH TRAVELER: Tairiku no Hasha" and "NieR Re[in]



FINAL FANTASY XIV

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DRAGON QUEST X ONLINE

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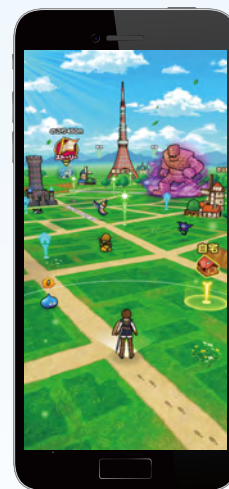
DRAGON QUEST TACT

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BIRD STUDIO/SQUARE ENIX

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Developed by Aiming Inc.



DRAGON QUEST WALK

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NieR Re[in]carnation
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OCTOPATH TRAVELER: Tairiku no Hasha
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**WAR OF THE VISIONS
 FINAL FANTASY BRAVE EXVIUS**
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 Co-Developed by gumi Inc.

carnation” are titles developed for smartphones using new IP originally created for HD games. They are part of our efforts to expand our earnings, and I see the positive response that they have garnered from our customers as a major achievement. By consciously endeavoring to leverage the same IP across multiple segments in this way and thereby to sustain an IP ecosystem, I believe that we can add depth to our recurring income pool.

in the latter half of the fiscal year despite operating hours remaining limited, and our losses shrank. Conditions in Japan remain unstable, as evidenced by the issuance of a fourth state of emergency declaration, but we expect to see substantial earnings improvement as a vaccination-driven economic reopening produces a rebound in demand and our arcades maintain the lean operations that we achieved over the course of the pandemic.

Amusement

Faced with extremely challenging conditions throughout the year, the Amusement segment posted net sales of ¥34.3 billion and an operating loss of ¥1.5 billion in the fiscal year ended March 2021. Same-store sales fell especially sharply versus the previous year in the first quarter (April-June 2020) as our large arcades located primarily in major metropolitan areas were forced to close in response to Japan’s state of emergency declaration. However, in anticipation of the pandemic dragging on, we worked quickly to reassess our fixed cost base and endeavored to improve our profitability. As a result, sales began to show signs of recovering

Publication

The Publication segment achieved sharp sales and profit growth in the fiscal year ended March 2021, with net sales reaching ¥26.8 billion and operating income reaching ¥11.6 billion thanks to brisk sales of both digital and printed media, combined with stay-at-home demand during the pandemic. We were also aggressive in creating new titles such as “The Apothecary Diaries.” In addition, as a new initiative, we launched our new light novel label “SQEX Novel” in January 2021. Nothing could be more vital to an entertainment company than the creation of new IP, and we are hoping to generate even more new manga IP through

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“SQEX Novel.” The past fiscal year was also one in which the publishing industry showed the world the true power of Japanese content, with works such as “Demon Slayer: Kimetsu no Yaiba” and “Jujutsu Kaisen” becoming major global hits. Overseas markets will play a crucial role in our efforts to further grow our Publication segment. We began developing our North American operations a few years ago, and while sales there still have a considerable way to go to reach the level of our Japan sales, they have been growing steadily. We believe that our digital strategy will be key to expanding overseas. By rolling out comics apps like “MANGA UP!” globally, we hope to be able to achieve fresh growth.



The Apothecary Diaries
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©Ittsuki Nanao/SQUARE ENIX



MANGA UP!
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Merchandising

Our Merchandising segment booked net sales of ¥9.4 billion and operating income of ¥2.2 billion in the fiscal year ended March 2021. Traditionally, selling merchandise based on our IP at gaming events had represented a major earnings opportunity for the business. However, the pandemic changed all of that as events of all sizes were cancelled both in Japan and abroad, making it apparent that the Merchandising segment would face a considerable struggle. To overcome this situation, we shifted our focus to e-commerce. Through our SQUARE ENIX e-STORE and opportunities such as the Tokyo Game Show, which switched to a streaming format, we stepped up our e-commerce efforts, thereby enabling the achievement of the aforementioned earnings. The pandemic thus served to advance the digital transformation of this segment. We look forward to the segment regaining its traditional

business opportunities as in-person events resume. However, we are also hoping that the digital transformation that we achieved during the pandemic will serve as a new growth driver for the segment going forward.

Medium-term earnings targets

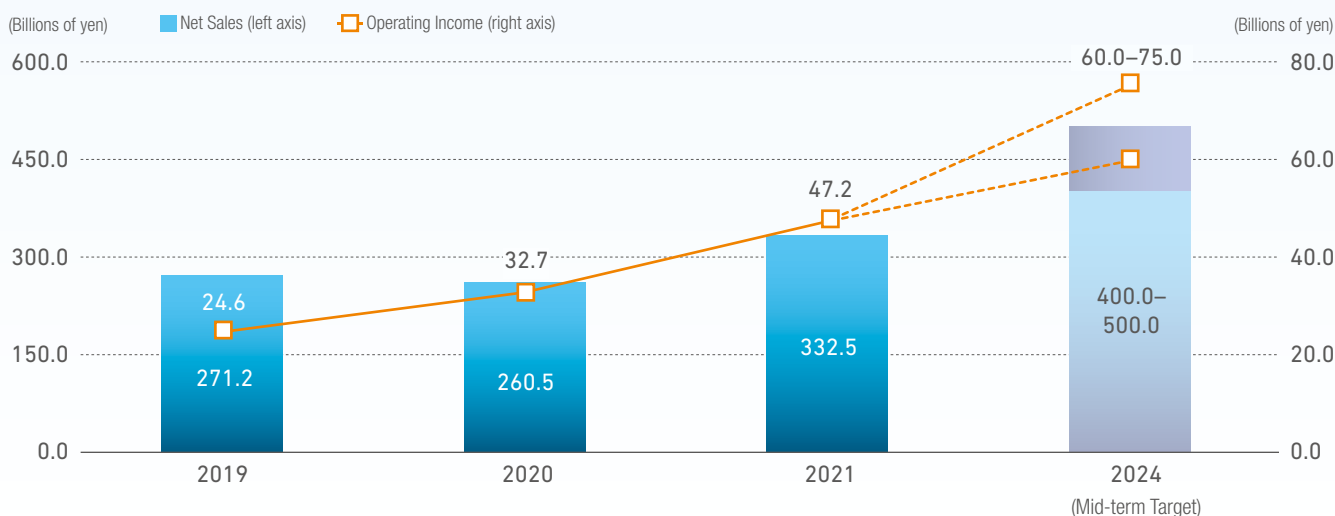
Since we achieved our medium-term earnings targets in the fiscal year ended March 2021, we set new medium-term earnings targets to reach over the course of the three years starting with the fiscal year ending in March 2022. They are net sales of ¥400–500 billion and operating income of ¥60–75 billion.

In order to reach these targets, we will step up our content development capabilities, expand our geographic reach, and establish new sales channels.

To step up our content development capabilities, we will

Mid-term Target

Targeting net sales of ¥400–500 billion and operating income of ¥60–75 billion.



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cultivate our IP ecosystem, create new IP that we will leverage in a multitude of ways, and bring renewed vitality to existing IP. By steadily implementing such initiatives, we will further bolster our recurring income and thereby achieve sustained growth.

To expand our geographic reach, we will work to put our content in the hands of more customers so that we can enhance our Group's presence in the rapidly growing regions of Southeast Asia, the Middle East, and Latin America. We will achieve this by accelerating the development of our subsidiary in India and by aligning with an influential partner in the Middle East.

Lastly, to establish new sales channels, we will ramp up the distribution of our content via the cloud in anticipation of the coming cloud era. We will do so not only by offering a substantial amount of our content on a variety of cloud platforms, but also by establishing our own channel. We will strive to achieve the aforementioned targets through these efforts in content development, geographic expansion, and new sales channel creation.

Evolving our Group's content portfolio

We are living in a world in which the way people play and interact with games is constantly changing. Gaming is becoming more diversified with many people around the world attracted to games and content that reach far beyond their universe or story. Our Group's content and game portfolios must therefore evolve, allowing us to embody the coming eras' to ensure that we embody the new possibilities for each era and continue delivering the ultimate unparalleled excitement we are striving to produce. "Excitement" is an abstract concept, but as an entertainment

company, our mission is nothing short of constantly giving shape to that abstract concept in the most up-to-date ways possible. With that in mind, we will strive to achieve our new medium-term earnings targets.

Shareholder return

In the fiscal year ended March 2021, we maintained a consolidated dividend payout ratio of 30%, and additionally provided a special dividend of ¥10 to commemorate the achievement of our medium-term earnings targets. Dividends will remain the centerpiece of our shareholder return policy, and while we will continue to use a consolidated dividend payout ratio of 30% as a guideline, we want to be more flexible about how we reward our shareholders. We see sharing profits with our shareholders as a key part of our management strategy and will implement return policies that meet the expectations of our shareholders, while also paying due consideration to striking a balance with growth investment.

I look forward to your understanding and continued support.



Yosuke Matsuda

President and Representative Director