

A Message to Our Stakeholders



Takashi Kiryu

President and Representative Director

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

In May 2024, we unveiled our new corporate philosophy structure and our new medium-term business plan (FY2025/3-FY2027/3). We formulated both by taking a fresh look at the environment in which we operate from a high-level perspective rather than a myopic one, our goal being to achieve sustained growth over the longer term. As part of this process, we looked back at our previous medium-term business plan (FY2022/3-FY2024/3), so I will begin with a review of that plan, starting with a summary of our financial performance in FY2024/3, the final year of the medium-term business plan.

Earnings in the fiscal year ended March 2024

In the fiscal year ended March 2024, sales increased but profit declined versus the previous fiscal year. We recorded sales of ¥356.3 billion, operating income of ¥32.5 billion, ordinary income of ¥41.5 billion, and profit attributable to owners of parent of ¥14.9 billion. The decline in profit attributable to owners of parent was mainly due to the termination of development efforts on certain content in the Digital Entertainment segment in line with our revised approach to high-definition (HD) game development. This resulted in a loss on disposal of content of ¥22 billion, which we recognized as extraordinary loss in the fiscal year ended March 2024. I will next outline our performances in each of our segments.

The Digital Entertainment (DE) segment

The Digital Entertainment segment recorded net sales of ¥248.1 billion and operating income of ¥25.4 billion in the fiscal year ended March 2024.

In the High-Definition (HD) Games sub-segment, sales increased versus the previous fiscal year due to the release of multiple major titles including “FINAL FANTASY XVI,” “FINAL FANTASY PIXEL REMASTER,” “Dragon Quest Monsters: The Dark Prince,” and “FINAL FANTASY VII REBIRTH.” Profit declined, however, owing to development cost amortization and advertising expenses associated with these new major releases.

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The Massively Multiplayer Online (MMO) Game sub-segment implemented various operational initiatives globally in the lead-up to the July 2024 release of a “FINAL FANTASY XIV” expansion package. We also worked actively on customer retention strategies for “Dragon Quest X,” including launching our latest expansion package in March 2024.

The Games for Smart Devices/PC Browsers (SD) sub-segment derives the majority of its earnings from Japan’s mature smartphone game market, in which hit titles have become more difficult to produce. Against this challenging backdrop, we launched “FINAL FANTASY VII EVER CRISIS” in September 2023 and received many positive customer reviews. Core titles including “DRAGON QUEST WALK” also generated solid results.

The Amusement segment

The Amusement segment recorded net sales of ¥61.5 billion and operating income of ¥7.5 billion, reflecting continued solid performance at suburban locations, as in the previous fiscal year, as well as strong sales at existing urban facilities.

The Publication segment

The Publication segment posted net sales of ¥31.0 billion and operating income of ¥11.9 billion, reflecting an increase in both print and digital sales versus the previous fiscal year, helped by the massive popularity of anime TV series “The Apothecary Diaries.”

The Merchandising segment

The Merchandising segment recorded net sales of ¥18.9 billion and operating income of ¥5.6 billion, partly due to strong sales of new character merchandise connected with titles launched during the fiscal year such as “FINAL FANTASY VII REBIRTH” and “FINAL FANTASY XVI.”



Review of our previous medium-term business plan

In May 2021, we started implementing a variety of initiatives as part of our previous medium-term plan, which covered the three years through to fiscal year ended March 2024 and targeted sales of ¥400-500 billion and operating income of ¥60-75 billion. In 2022, we initiated a rebuild of our HD and SD portfolios within the Digital Entertainment segment by selling three overseas studios and certain IP assets. In addition, we bolstered our earnings base by expanding our MMO business, generated stable growth in the Publication segment, ensured Amusement segment earnings recovered following the COVID-19 pandemic, and achieved sustained growth in the Merchandising segment.

Challenges nonetheless lingered. These include improving the profitability of our Digital Entertainment segment, where HD games are our primary offering, as well as ensuring that we manage our title portfolio in a way that spans the entire Company and maintains a medium- to long-term perspective. As a result of these outstanding issues, we fell short of our targets, recording net sales of ¥356.3 billion and operating income of ¥32.5 billion in the fiscal year ended March 2024, the final year of the medium-term business plan.

This concludes my summary of our financial performance for FY2024/3, as well as of our previous medium-term business plan as a whole.

Our long-term vision and new corporate philosophy structure

In the two decades since ENIX CORPORATION and SQUARE CO., LTD. came together to create SQUARE ENIX CO., LTD. in 2003, the entertainment domain in which we operate has undergone dramatic change as the rapid evolution of technologies has reshaped customer values and lifestyles. With the pace of such change likely to accelerate further, we recognized a need to update the values and code of conduct we expect from our employees by distilling the passion behind our previous corporate philosophy into a set of broader, more versatile values and concepts. We did this with the aim of achieving our Group vision and ensuring that we continue to deliver our diverse content to customers across the world throughout the next decade, as well as into the following decade and beyond. Based on this shared understanding of the challenges that we face, we engaged in iterative discussions across our entire group that prompted us to overhaul our corporate philosophy structure and define our Purpose and Values.

Purpose

Creating New Worlds with Boundless Imagination to Enhance People's Lives

Values

Deliver Unforgettable Experiences

Embrace Challenges

Act Swiftly

Stronger Together

Continuously Evolve

Cultivate Integrity

With our new Purpose and Values to guide us, our entire Group is united in our drive to become a company that continues to grow.

Our new medium-term business plan

Having reviewed our previous medium-term business plan, we turned our attention to the future and formulated our new medium-term business plan, “Square Enix Reboots and Awakens,” with the goal of evolving into a provider of a rich variety of content offering undeniable fun. We have positioned the three years of our new medium-term as a reboot to ready us for further growth. To that end, we will execute the following four strategies.

1 Enhance productivity by optimizing the development footprint in the Digital Entertainment (DE) segment

We will rebuild our portfolio of titles, revisiting each of our projects by asking ourselves whether a given project will help us make the shift from quantity to quality that will enable us to deliver undeniable fun. To this end, we will first ensure that our development process strikes a good balance between a “product-out” approach driven by content reflecting the creativity that springs from our employees’ imaginations, and a “market-in” approach driven by customers’ voices and market trends. Secondly, we will prioritize titles with strong potential to be loved for years when allocating human talent and development investments, while also enhancing the skill sets of the core teams responsible for developing our titles. Thirdly, we will strive to establish a layered title lineup that enables a schedule based on the optimal cadence and timing of launches. By pursuing these three approaches, we will achieve our transition from quantity to quality.

Furthermore, when developing titles, we will place greater priority on providing our customers with fun that only Square Enix can deliver. With our major and mid-class HD titles, we will strive to maintain and grow our fan base by focusing on consistent fun. With our SD titles, we will strive to increase our hit rate by focusing on fun that ensures customers can play for a long time with confidence. With new IPs, we will prioritize fun that is novel and creative to enable the development of new fan bases. In parallel, we will strengthen our lineup of catalog titles by leveraging our rich IP library.

We will also begin revamping our development footprint to build the capabilities that allow us to produce fun that only Square Enix can deliver. To enable us to utilize our development resources more flexibly and efficiently across the Company, we will retire our organizational design based around business units and reorganize our development footprint with the goal of achieving operational integration. In order to transition to a development footprint that harmonizes individual creativity and organizational management, we will redefine the missions of producers and associated job types and enhance our

development investment efficiency by establishing better internal support capabilities and revising the entire progress management process for title development.

2 Diversify earnings opportunities by strengthening customer contact points

We will pursue a multiplatform strategy for HD titles and create an environment where more customers across the world can enjoy major franchises and AAA titles, including from our back catalog. For SD titles, we will explore PC launches and other options in addition to releases for iOS and Android, while looking to maximize new user acquisitions on launch and over the course of the game's life.

By expanding the platforms on which we launch our titles, we not only expect to increase opportunities for customers to enjoy our games, but we also intend to work actively to establish ongoing contact points for our titles by stepping up digital sales. While we plan to deploy promotional initiatives when launching new titles that better direct customers toward digital purchases, we also aim to strengthen our base of stable earnings by expanding sales from our rich library of catalog titles.

In the pursuit of more interaction with our customers, we aim to add greater sophistication to our



publishing function. To achieve this, we will consolidate the marketing functions that were previously spread across our business units, expand shared knowledge and eliminate duplicate functions to drive greater efficiency, and enhance collaboration between the sales and marketing functions. We will also work on greater sophistication in our marketing by leveraging first-party data in launch campaigns for HD and SD titles.

Alongside these initiatives, we will be striving to create further earnings opportunities by offering IP across a range of entertainment experiences. First, we will establish a new IP business development department focused on global markets and expand geographic coverage of our licensing business. In doing so, we aim to further pursue a cross-media strategy and reach new markets. In addition, we want to generate internal synergies by integrating organizations affiliated with the Merchandising segment and establishing an organization that promotes the use of our IP across a range of entertainment experiences.

3 Roll out initiatives to create additional foundational stability

In our overseas business division, we plan to revisit European and American functions and organizational structures, thereby optimizing costs. Specifically, we aim to redesign their organizational structures in line with the new development organization in Japan. Another aim of ours from a development perspective is to promote collaboration across our Group. We will work to foster closer ties and encourage greater use of human resources across intra-Group boundaries, in part by strengthening the functions of our London development location.

In Japan, we are introducing organizational and HR-related initiatives aimed at balancing creativity and productivity. We started the process of building a flat structure in April 2024 aimed at increasing opportunities to discover untapped talent from within the existing employee pool and simplifying decision-making mechanisms. In our development functions, we are developing and rolling out a recruitment, promotion, and management appointment system based on the operationally integrated structure referenced above.

In parallel with building organizational structures, we want to focus more on talent development. We plan to both rebuild the training and development system largely for our new hires as well as introduce internal programs to enhance the capabilities of our junior and mid-level employees, and through such efforts, we hope to develop our internal human resources over the medium to long term.

We will also be investing in infrastructure including creating office environments that maximize employee productivity and refining our management accounting system to enable greater visibility into our business activities.

4 Allocate capital giving consideration to the balance between growth investment and shareholder returns

In terms of our capital policy, our approach is to give consideration to the balance between growth investment and shareholder returns when allocating capital. We have earmarked up to ¥100 billion for strategic investments (growth investments/shareholder returns) for the three years of the plan. When investing in growth, we will exercise strict selectivity in identifying investment opportunities. We will leverage insights from our current businesses and explore inorganic investments that will enable us to expand into additional domains and create greater stability. With regard to shareholder returns, we will pay regular dividends in line with a basic payout ratio of 30%, and following revisions to our approach to capital allocation, we have earmarked ¥20 billion to allow for the flexible repurchase of shares between May 14, 2024 and May 13, 2025, subject to considerations including strategic investment opportunities, financial conditions, and the share price. We have also revised the split between our interim and year-end dividend per share.

We are working across the Group to further enhance corporate value and have set the following three financial targets as yardsticks to gauge our progress toward achieving the management objectives above.

- Achieve stable profit generation from the DE segment overall, and target a consolidated operating margin of 15% in the fiscal year ending March 31, 2027
- Allocate ¥80-¥100 billion in total over the three-year period for strategic investments (growth investments/shareholder returns)
- Target ROE of at least 10%, shifting to a management approach mindful of capital efficiency

Our governance structure

In the fiscal year ending March 2025, we increased the number of outside directors on our board of directors to six from four with the addition of two new members, raising the percentage of outside directors on the board to 75%. Our goal was to further enhance transparency, objectivity, and diversity. By maintaining a balance within the board of directors with respect to external oversight and internal execution, we are working to ensure that the Company is managed with transparency. Furthermore, regardless of gender and nationality, our outside directors bring with them a great deal of experience from operating in diverse fields, including corporate management, legal affairs, finance, technology, art, and media, as well as insights into the field of security-related risk management and global perspectives on our entertainment business.

In conclusion

With the rise of new technologies and their rapid evolution, the environment surrounding the entertainment business is changing on a global scale with each passing moment, and the impact of those technologies grows ever broader. By taking the lead in leveraging such technological innovations to fuel our growth and combining them with the limitless imaginations of our employees, our Group has created universally appealing content. Through a diversity of products and services that includes games, comics, amusement facilities, and merchandise, we have provided our customers with memories unlike any other.

To ensure that our Group continues to grow in a business environment that is evolving ever more rapidly, we will make maximum use of new technologies to create high-quality content that delivers the undeniable fun that is at the heart of who we are. Through both content and experiences, we will help more customers all over the world lead richer lives, and in the process, drive our corporate value higher.

I look forward to your continued support.

A handwritten signature in black ink, appearing to read 'Takashi Kiryu', with a stylized flourish extending to the right.

Takashi Kiryu

President and Representative Director