

39th Annual Shareholders' Meeting (June 21, 2019): Summary Report



The following is a summary of the Company's 39th Annual Shareholders' Meeting.

*This document has been prepared to summarize the proceedings of the Company's 39th Annual Shareholders' Meeting for presentation on the Company's website and is different from the legally mandated minutes of the meeting.

Date and Time: June 21, 2019 (Fri), 10:00 - 10:53 a.m.

Venue: Century Room, Hyatt Regency Tokyo, 2-7-2 Nishi-Shinjuku, Shinjuku-ku, Tokyo

Number of Shareholders present: 576

Meeting Agenda

<Reports>

1. Business Report, Consolidated Financial Statements, and Audit Reports on the Consolidated Financial Statements by Accounting Auditors and by the Audit & Supervisory Committee for the 39th term (April 1, 2018 through March 31, 2019)
2. Non-Consolidated Financial Statements for the 39th term (April 1, 2018 through March 31, 2019)

Operating Highlights

<FY2019/3 Financial Results>

In FY2019/3, the Company booked net sales of ¥271 billion, operating income of ¥24.5

billion, ordinary income of ¥28.3 billion, and net income attributable to parent company shareholders of ¥18.4 billion. The year recorded higher sales but lower profits YoY.

The situation segment by segment was as follows. The HD Game sub-segment saw YoY growth in net sales thanks to the release of the major titles “*KINGDOM HEARTS III*,” “*SHADOW OF THE TOMB RAIDER*,” and “*JUST CAUSE 4*.” However, a rise in costs associated with the release of the new titles resulted in a YoY decline in operating income.

Both net sales and operating income fell YoY at the MMO sub-segment due to the high hurdle set in the previous year, which saw the release of expansion packs for “*FINAL FANTASY XIV*” and “*DRAGON QUEST X*.”

In the Games for Smart Devices/PC Browsers sub-segment, many of the titles launched since the previous fiscal year have performed below our expectations and failed to add to the revenues generated by existing games. This, combined with a decrease in licensing revenue, led to a YoY decrease in net sales and operating income.

In the Amusement segment, net sales rose YoY thanks to solid arcade operations and the launch of new amusement machines, but operating income fell YoY due to an increase in depreciation charges related to the replacement of arcade machines.

In the Publication segment, sales of printed comic books were on par with those of the previous fiscal year, but sales in digital formats grew sharply. A strong performance by the “*MANGA UP!*” manga application also contributed to the YoY rise in net sales and operating income. Digital (in the form of e-books) has begun enabling sales and profit growth in the Publication segment as well.

In the Merchandising segment, net sales and operating income fell versus the prior fiscal year due to a high hurdle set by the release of new merchandise based on key IP a year earlier and to strategic investments aimed at developing new businesses. However, we will re-envision the segment as our E-commerce segment and strive to expand earnings.

<FY2020/3 Financial Forecasts>

We look for FY2020/3 earnings to be in line with those of FY2019/3, forecasting net sales of ¥270 billion and operating income of ¥24 billion.

We have high expectations for our new HD title “*FINAL FANTASY VII REMAKE*,” which is slated to launch in March 2020. However, our outlook for additional sales of existing games is conservative given how FY2019/3 titles such as “*JUST CAUSE 4*” and “*SHADOW OF THE TOMB RAIDER*” performed last year.

In the MMO sub-segment, we will launch the “*SHADOWBRINGERS*” expansion pack for “*FINAL FANTASY XIV*” on July 2. Now in excess of 700,000, our paying subscriber count has already beaten the record we had set in July 2017 following the launch of our previous expansion pack, “*STORMBLOOD*,” and continues to grow. We have high hopes for upcoming earnings contributions from the sales of the expansion pack and from sharp growth in our paying subscriber count.

In the Games for Smart Devices/PC Browsers sub-segment, “*Romancing SaGA Re;univerSe*,” which we launched last December, continues to perform well. We are hopeful about our promising upcoming titles, including “*DRAGON QUEST WALK*,” for which we have run a beta test.

<Medium-term Earnings Targets>

Our strategy for achieving our medium-term earnings targets is to expand our stable recurring earnings while also continuing to invest in new IP. Sales of new HD titles that take place after their development costs have been depreciated contribute significantly to profits. If we are able to expand our stable recurring earnings, we believe that our medium-term earnings targets will be achievable with our current pipeline.

In addition, we are undertaking a variety of initiatives to enable sustained growth after we have achieved our medium-term earnings targets. We have begun making upfront

investments in new businesses using technologies such as 3D modeling, AI, and blockchain.

<Voting Item>

Item: Election of Five (5) Directors (excluding Directors who are Audit & Supervisory Committee members)

The above voting item was approved as originally proposed.

Summary of Questions and Answers:

Q1.

You are guiding for FY2020/3 net sales and operating income on par with those of FY2019/3. However, it seems that your performance thus far has been strong, especially in the MMO sub-segment. Is there no chance you will be raising your guidance soon?

A1.

We need to carefully assess sales trends for our forthcoming titles as well as for catalog titles and therefore have no notion at present to revise our guidance.

Q2.

You say that you will achieve your medium-term earnings targets (net sales of ¥300-400 billion, operating income of ¥40-50 billion) in FY2021/3, but is that based on there being major title launches that you have yet to announce?

A2.

Our current development pipeline is strong, and if those titles are launched according to plan, we believe we will be able to achieve our medium-term earnings targets. Please look forward to forthcoming title announcements.

Q3

You posted the presentation materials from your May 13 earnings briefing to your website the same day, and then you posted a summary of the briefing and the Q&A session on June 4. In the interim, your share price rose considerably. Is there any way you disclosed information about titles at the briefing that was not reflected in the June 4 summary?

A3.

The presentation and Q&A session that took place at our May 13 briefing are as described in the June 4 summary. We did not disclose any information on unannounced titles exclusively at the briefing. Moreover, we tightly control trade secrets and do not believe that any internal information was leaked.

Q4.

Why do you disclose your medium-term earnings targets in ranges (i.e., net sales of ¥300-400 billion and operating income of ¥40-50 billion) when your guidance is usually released as specific figures? Does this mean you think you could see a variance of 10% in your net sales and 30% in your operating income?

A4.

Our medium-term targets are not part of regular guidance disclosures but rather a statement of our intent to create a business structure that enables us to consistently achieve net sales between ¥300-400 billion and operating income between ¥40-50 billion. We will separately release regular FY2021/3 guidance in accordance with disclosure regulations and our own disclosure policies.

Q5.

Your business report states that you undertook “an in-depth review of the business strategy” at Luminous Productions Co., Ltd. What does that specifically mean?

A5.

The business lines that Luminous Productions Co., Ltd. was involved in had begun to expand, so we decided that it should focus on the development of major games based on new IP, which is the objective we had had when we initially founded the studio. We brought the firm's structure in line with that objective, and they are now hard at work on developing major games.

Q6.

Why are you looking for such a sharp drop in download sales in the ex-Japan Asia region in FY2020/3 versus FY2019/3?

A6.

As of FY2020/3, we have started handling our own sales in the ex-Japan Asia region, and download sales are difficult to forecast. As such, that figure represents our conservative estimate.

Statements made in this document with respect to the plans, estimates, strategies and beliefs, including any forecasts or projections, of SQUARE ENIX HOLDINGS CO., LTD. or its consolidated subsidiaries (together, "SQUARE ENIX HOLDINGS") are forward-looking statements about the future performance of SQUARE ENIX HOLDINGS.

These statements are based on management's assumptions and beliefs in light of information available to it at the time of annual general meeting of shareholders and as such readers should not place undue reliance on them. Further, readers should not assume that statements made in this document will remain accurate or operative at a later time.

A number of factors could cause actual results to be materially different from or worse than those discussed in forward-looking statements. Such factors include, but are not limited to:

1. Changes in economic conditions affecting our operations;
2. Fluctuations in currency exchange rates, particularly with respect to the value of the Japanese yen, the U.S. dollar and the euro;
3. Our ability to continue to win acceptance of our products and services, which are offered in highly competitive markets characterized by the continuous introduction of new products and services, rapid developments in technology, and subjective and changing consumer preferences;
4. Our ability to successfully expand internationally with a focus on our digital content business, online game business and mobile phone content business; and
5. Regulatory developments and changes and our ability to respond and adapt to those changes.

The forward-looking statements regarding earnings contained in these materials were valid at the time of the annual general meeting of shareholders. SQUARE ENIX HOLDINGS assumes no obligation to update or revise any forward-looking statements, including forecasts or projections, whether as a result of new information, subsequent events or otherwise.

The financial information presented in this document is prepared according to generally accepted accounting principles in Japan.