We would now like to begin the Financial Results Briefing Session of SQUARE ENIX HOLDINGS (the “Company”) for 1-3Q of the fiscal year ending March 31, 2020 (“1-3Q FY2020/3”).

Today’s presenters are:
Yosuke Matsuda, President and Representative Director and
Kazuharu Watanabe, Chief Financial Officer.

First, Mr. Watanabe will give an overview of the Company’s financial results for 1-3Q FY2020/3, and then Mr. Matsuda will discuss our outlook for the fiscal year ending March 31, 2020 (“FY2020/3”).

Good evening. I’m Kazuharu Watanabe. I will be presenting an overview of the Company’s financial results for 1-3Q FY2020/3.

In 1-3Q FY2020/3, the Company booked net sales of ¥189.7 billion (+¥8.1 billion YoY), operating income of ¥27.7 billion (+¥15.4 billion), ordinary income of ¥27.9 billion (+¥11.3 billion), and net income attributable to parent company shareholders of ¥19.1 billion (+¥9.9 billion).
I will next break our results down by segment. The Digital Entertainment segment booked net sales of ¥136.9 billion (+¥4.2 billion) and operating income of ¥29.5 billion (+¥14.3 billion).

In the HD Games sub-segment, we released titles including “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,” but net sales fell YoY due to the high hurdle set by major releases a year earlier. In addition, the sub-segment generated an operating loss because of weak sales of new titles released in FY2019/3.

Thanks to the release of “FINAL FANTASY XIV: Shadowbringers” and “DRAGON QUEST X” expansion packs and the resulting growth in subscriber numbers, net sales and operating income rose YoY in the MMO sub-segment.

Net sales and operating income also rose in the Games for Smart Devices/PC Browsers sub-segment, which saw strong performances from “Romancing SaGa Re;univerSe” and the September 2019 release “DRAGON QUEST WALK.”

The Amusement segment posted net sales of ¥33.6 billion (-¥600 million YoY) and operating income of ¥1.4 billion (+¥10 million). While we launched no major amusement machine titles, operating income rose YoY due to solid arcade operations.

The Publication segment booked net sales of ¥13.8 billion (+¥3.6 billion) and operating income of ¥4.9 billion (+¥1.9 billion). Sales in digital formats, including via the “MANGA UP!” comic app and of e-books, rose sharply. Sales of printed media were also brisk, leading to the YoY rise in net sales and operating income.

The Merchandising segment posted net sales of ¥6.5 billion (+¥1.4 billion YoY) and operating income of ¥700 million (+¥200 million). The release of new character goods featuring the
Group’s own intellectual properties led to the YoY rise in net sales and operating income.

This concludes my overview of our financial results.

I am Yosuke Matsuda. I will be discussing our FY2020/3 earnings outlook.

We are making no changes to our consolidated earnings guidance for FY2020/3. While 1-3Q operating income exceeded the initial plan we had released on May 13, 2019, we find it difficult at present to assess the market trends that could impact our financial performance in 4Q and beyond. Allow me to elaborate. Next-generation game consoles are slated to be released in the 2020 holiday season and our competitors have been changing the launch dates of the AAA titles they will be rolling out prior to the console launches. This makes it difficult at present to predict how our major new FY2021/3 releases will be affected, so we need to be careful about determining how much risk to factor into our guidance. As such, we plan to revalue the assets in our content production account at yearend closing for FY2020/3 and maintain our consolidated earnings guidance, as we are unable to quantify the impact of that revaluation at present.
SQUARE ENIX HOLDINGS CO., LTD.
1-3Q FY2020/3 Financial Results Briefing Session (Teleconference) Q&A

Date/Time: February 5, 2020 (Wed); 6:00-7:00 pm (JST)
Main Speaker: Yosuke Matsuda, President and Representative Director

Q&A

Q: How did “DRAGON QUEST WALK” perform in Q3 and what is your outlook like?
A: We do not disclose each app’s sales figures. We hope to maintain a strong performance via the various initiatives we will be implementing going forward.

Q: Could you share your current thinking on the risk of launch delays and impairment losses for the major titles that you have planned for FY2021/3?
A: There is no risk based on launch delays. However, we cannot rule out the risk of impairment losses if we should revise our initial sales forecasts based on the launch schedule of our competitor’s AAA titles.

Q: Do you anticipate more advertising spending for “FINAL FANTASY VII REMAKE” in FY2020/3 or in FY2021/3? Also, what sort of promotional initiatives do you plan to focus on going forward?
A: We anticipate spending more in FY2020/3 because our promotional initiatives will get underway in the Western markets earlier than in other regions. We will work to grow digital sales via a variety of promotional efforts involving social media.

Q: Could you share your thinking on the development of new titles for current- and next-generation game consoles going forward?
A: The next-generation consoles will have backward compatibility, so we plan for the time being to make our new titles available for both current and next-generation consoles. It will therefore be somewhat farther down the road that we release titles exclusively for the next-generation consoles.

Q: Regarding your “DRAGON QUEST WALK” operations, it seems like your operation efforts are not keeping up with player expectations. Any thoughts on that?
A: I appreciate the valuable comment and will share that with our operations team. We have a variety of initiatives lined up and hope that you will keep an eye on the progress we make with them.
Q: How do you plan to use the money you have made thanks to the success of “DRAGON QUEST WALK?” Will you increase the number of your new mobile game titles, or will you develop new HD game titles?
A: We are maintaining our selective approach to deciding what new mobile game titles to release. We look to recoup on more investments starting in FY2021/3, which should add to our cash and deposits. We will consider how to use those funds while paying due consideration to the balance between our investment needs and shareholder return.

Q: Have you seen changes in “DRAGON QUEST X” user numbers as a result of the success of “DRAGON QUEST WALK?”
A: While we have seen some user migration, the impact on “DRAGON QUEST X” has been limited. MMO games tend to lose active users as time goes by, but we have successfully maintained our existing user base for “DRAGON QUEST X” through the release of expansion packs.

Q: Why were your SG&A costs roughly the same as a year earlier despite the lack of any major HD game releases?
A: Our spending went up on some items and down on others, resulting on the whole in the same level of spending as a year earlier.

Q: Will the change in you release date for “FINAL FANTASY VII REMAKE” impact your development or launch timelines for the next installment?
A: No, it will not.