

Consolidated Financial Results
for the Three-Month Period Ended June 30, 2020 (Japan GAAP)

August 6, 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: August 12, 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, 2020 through June 30, 2020)

(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	
Three months ended	%		%		%		%	
June 30, 2020	87,054	63.2	24,549	241.4	24,169	283.8	14,372	248.6
June 30, 2019	53,329	19.1	7,189	85.8	6,297	(13.9)	4,122	(26.3)

Note: Three months ended June 30, 2020 Comprehensive income: 14,326 million yen [259.2%]

Three months ended June 30, 2019 Comprehensive income: 3,988 million yen [(8.4%)]

	Earnings per share, basic	Earnings per share, diluted
Three months ended	yen	yen
June 30, 2020	120.47	120.24
June 30, 2019	34.58	34.54

(2) Consolidated Financial Position

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

	Total assets	Net assets	Equity ratio
As of			%
June 30, 2020	296,823	231,115	77.6
March 31, 2020	302,634	221,928	73.1

Note: Total equity As of June 30, 2020: 230,361 million yen

As of March 31, 2020: 221,183 million yen

2. Dividends

	Dividends per share				
	1Q	2Q	3Q	4Q	Total
Fiscal year ended March 31, 2020	yen —	yen 10.00	yen —	yen 44.00	yen 54.00
Fiscal year ending March 31, 2021	—				
Fiscal year ending March 31, 2021 (projection)		—	—	—	—

Note1. No change in Dividend projection from previous announcement.

2. Annual dividends for the fiscal year ending March 2021 (Forecast) is yet-to-be determined.

3. Consolidated Forecasts (April 1, 2020 to March 31, 2021)

(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, 2021	— —	— —	— —	— —	—

Note1. No change in consolidated forecasts from previous announcement.

2. The Group refrains from setting consolidated earnings forecasts for the fiscal year ending March 31, 2021 due to the difficulty in doing so reliably so long as the impact of the coronavirus pandemic on the Group's businesses remains uncertain. The Group will promptly disclose earnings forecasts when it becomes feasible.

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: No

2. Changes other than 1. : No

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 June 30, 2020 122,531,596

As of March 31, 2020 122,531,596

2. Number of treasury stock:

As of June 30, 2020 3,215,764

As of March 31, 2020 3,237,714

3. Average number of shares during the period (cumulative):

Three-month period ended June 30, 2020 119,297,973

Three-month period ended June 30, 2019 119,206,841

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) At the time of disclosure of this report, review procedures for quarterly financial statements pursuant to the Financial Instruments and Exchange Law had not been completed. (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 Three-Month Period Ended June 30, 2020 (3) Qualitative information on consolidated business forecasts" section on page 4 of Supplemental Information

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1. Consolidated Results for the Three-Month Period Ended June 30, 2020

(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 three-month period ended June 30, 2020 totaled ¥87,054 million (an increase of 63.2% from the same period of the prior fiscal year), operating income amounted to ¥24,549 million (an increase of 241.4% from the same period of the prior fiscal year), and ordinary income amounted to ¥24,169 million (an increase of 283.8% from the same period of the prior fiscal year).

The loss on temporary closure due to COVID-19 was resulted in booking of extraordinary loss of ¥2,226 million.

As a result of the above, profit attributable to owners of parent amounted to ¥14,372 million (an increase of 248.6% from the same period of the prior fiscal year).

A discussion of results by segment for the three-month period ended June 30, 2020 follows.

●Digital Entertainment

The Digital Entertainment segment consists of planning, development, distribution, and operation of digital entertainment content primarily in the form of games. 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.

At the HD (High-Definition) Game sub-segment, the three-month period ended June 30, 2020 included the April release of "FINAL FANTASY VII REMAKE." Sales of packaged copies of the game were lower than had been initially expected as the Group limited production and shipments in anticipation of slowdowns and disruptions to the distribution process due to the spread of COVID-19. By contrast, digital sales grew significantly, helping to bolster profitability. This, combined with the launch of "TRIALS OF MANA" and with licensing income, resulted in higher net sales and operating income than in the same period of the previous fiscal year.

In the MMO (Massively Multiplayer Online) Game sub-segment, net sales and operating income rose versus the same period of the previous fiscal year thanks to growth in the number of monthly paying subscribers for "FINAL FANTASY XIV."

In the Games for Smart Devices/PC Browser sub-segment, net sales and operating income were higher than in the same period of the previous year owing to earnings contributions from "DRAGON QUEST WALK" and "War of the Visions: Final Fantasy Brave Exvius," both of which were launched in or after the second quarter of the previous fiscal year.

Net sales and operating income in the Digital Entertainment segment totaled ¥74,363 million (an increase of 100.1% from the same period of the prior fiscal year), and ¥26,069 million (an increase of 242.0% 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.

In response to the Japanese government's declaration of a state of emergency, the Group's amusement facilities closed temporarily nationwide as part of the effort to combat the spread of COVID-19. With this, the result of the three-month period ended June 30, 2020 was a sharp decline in net sales versus the same period of the previous year and an operating loss.

Net sales and operating loss in the Amusement segment totaled ¥4,600 million (a decrease of 57.6% from the same period of the prior fiscal year), and ¥1,512 million (operating income of ¥680 million in 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.

Sales in digital formats, including via the “MANGA UP!” comic app and of e-books, rose sharply in the three-month period ended June 30, 2020. This, combined with brisk sales of printed media, resulted in higher net sales and operating income than in the same period of the previous fiscal year.

Net sales and operating income in the Publication segment totaled ¥5,466 million (an increase of 41.1% from the same period of the prior fiscal year) and ¥2,348 million (an increase of 84.5% from the same period of the prior fiscal year), respectively.

- Merchandising

The Merchandising segment consists of planning, production, distribution, and licensing of derivative products of IPs owned by the Group.

Brisk sales of character merchandise, soundtracks, and other products based on the Group’s own content during the three-month period ended June 30, 2020 resulted in growth in net sales and operating income versus the same period of the previous fiscal year.

Net sales and operating income in the Merchandising segment totaled ¥3,180 million (an increase of 65.9% from the same period of the prior fiscal year), and ¥1,215 million (an increase of 658.7% from the same period of the prior fiscal year), respectively.

(2) Analysis of consolidated financial position

- Assets

As of June 30, 2020, total current assets were ¥245,983 million, a decrease of ¥4,913 million compared to March 31, 2020. This was mainly due to a decrease in cash and deposits of ¥5,033 million and an increase in notes and accounts receivable of ¥1,310 million. As of June 30, 2020, total non-current assets were ¥50,840 million, a decrease of ¥897 million compared to March 31, 2020.

As a result, total assets were ¥296,823 million, a decrease of ¥5,810 million compared to March 31, 2020.

- Liabilities

As of June 30, 2020, total current liabilities were ¥54,351 million, a decrease of ¥14,992 million compared to March 31, 2020. This was mainly due to decreases in notes and accounts payable-trade of ¥5,991 million, income taxes payable of ¥5,588 million and provision for bonuses of ¥2,525 million, respectively. As of June 30, 2020, total non-current liabilities were ¥11,355 million, a decrease of ¥5 million compared to March 31, 2020.

As a result, total liabilities were ¥65,707 million, a decrease of ¥14,998 million compared to March 31, 2020.

- Net assets

As of June 30, 2020, net assets were ¥231,115 million, an increase of ¥9,187 million compared to March 31, 2020. This was mainly owing to profit attributable to owners of parent of ¥14,372 million and dividend payments of ¥5,248 million.

As a result, the consolidated equity ratio stood at 77.6% (73.1% as of March 31, 2020).

(3) Qualitative information on consolidated business forecasts

The market for software for consumer game consoles looks poised for further growth given the launch of multiple streaming services and the fact that next-generation consoles are slated for release in 2020. In addition, the various styles of monetization, such as free-to-play, in-game purchases, and subscriptions have also spread to the market for software for consumer game consoles, making for a greater diversity of business models. As the launch of 5G cellular networks accelerates these trends and full-fledged cloud streaming platforms come online, a new age is likely to begin.

In the market for games for smart devices, increasingly sophisticated smartphones are making customers demand even richer gaming experiences and enabling greater diversity in game design and business models. Led by the Western and Asian regions, the size of the market also continues to expand globally. Meanwhile, a familiar list of titles continues to dominate the upper end of the smart device game rankings in Japan, and the entrance of Asian players into the Japanese market has intensified competition, reducing the odds of new titles succeeding.

The continued spread of COVID-19 makes it difficult to predict how the Group's business domains will be impacted or what demand for its content will look like in light of changes to consumer lifestyles in the midst of the pandemic. As such, management leaves consolidated earnings forecasts for the fiscal year ending March 31, 2021 undetermined, having deemed their formulation unfeasible at present. The Group will promptly disclose consolidated earnings forecasts once there is sufficient clarity regarding the scope and degree of the aforementioned impact to calculate forecasts appropriately and reasonably.

2. Consolidated Financial Statements for the Three-Month Period Ended June 30, 2020

(1) Consolidated Balance Sheets

(Millions of yen)

	As of March 31, 2020	As of June 30, 2020
Assets		
Current assets		
Cash and deposits	123,450	118,416
Notes and accounts receivable-trade	41,474	42,785
Merchandise and finished goods	5,850	5,163
Work in progress	206	5
Raw materials and supplies	433	441
Content production account	71,479	71,640
Other	8,163	7,714
Allowance for doubtful accounts	(161)	(184)
Total current assets	250,896	245,983
Non-current assets		
Property, plant and equipment	20,547	20,294
Intangible assets	5,387	5,222
Investments and other assets	25,802	25,322
Total non-current assets	51,737	50,840
Total assets	302,634	296,823

(Millions of yen)

As of March 31, 2020 As of June 30, 2020

Liabilities		
Current liabilities		
Notes and accounts payable-trade	25,537	19,546
Income taxes payable	10,159	4,570
Provision for bonuses	4,061	1,535
Provision for sales returns	4,253	3,772
Provision for loss on game arcade closings	43	99
Asset retirement obligations	3	9
Other	25,285	24,816
Total current liabilities	69,344	54,351
Non-current liabilities		
Provision for directors' retirement benefits	52	52
Provision for loss on game arcade closings	40	40
Net defined benefit liability	3,214	3,290
Asset retirement obligations	3,291	3,434
Other	4,761	4,538
Total non-current liabilities	11,360	11,355
Total liabilities	80,705	65,707
Net assets		
Shareholders' equity		
Capital stock	24,039	24,039
Capital surplus	53,388	53,422
Retained earnings	159,222	168,345
Treasury stock	(9,900)	(9,834)
Total shareholders' equity	226,750	235,973
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(162)	(180)
Foreign currency translation adjustment	(5,085)	(5,159)
Remeasurements of defined benefit plans	(318)	(272)
Total accumulated other comprehensive income	(5,567)	(5,612)
Subscription rights to shares	608	618
Non-controlling interests	137	136
Total net assets	221,928	231,115
Total liabilities and net assets	302,634	296,823

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

(Millions of yen)

	Three months ended June 30, 2019	Three months ended June 30, 2020
Net sales	53,329	87,054
Cost of sales	26,084	36,688
Gross profit	27,245	50,366
Reversal of provision for sales returns	9,074	4,201
Provision for sales returns	7,099	3,761
Gross profit-net	29,220	50,806
Selling, general and administrative expenses	22,030	26,257
Operating income	7,189	24,549
Non-operating income		
Interest income	61	7
Dividend income	0	0
Reversal of allowance for doubtful accounts	51	21
Miscellaneous income	94	14
Total non-operating income	207	43
Non-operating expenses		
Interest expenses	44	21
Commission fee	1	2
Foreign exchange losses	957	362
Miscellaneous loss	96	36
Total non-operating expenses	1,099	422
Ordinary income	6,297	24,169
Extraordinary income		
Gain on reversal of subscription rights to shares	3	2
Subsidies for employment adjustment	—	46
Total extraordinary income	3	48
Extraordinary losses		
Loss on retirement of non-current assets	18	76
Impairment loss	0	89
Provision for loss on store closings	39	151
Loss on temporary closure	—	2,226
Other	—	5
Total extraordinary losses	59	2,549
Profit before income taxes	6,242	21,669
Income taxes-current	1,258	5,848
Income taxes-deferred	860	1,446
Total income taxes	2,119	7,294
Profit	4,122	14,374
Profit attributable to non-controlling interests	0	2
Profit attributable to owners of parent	4,122	14,372

Consolidated Statement of Comprehensive Income

(Millions of yen)

	Three months ended June 30, 2019	Three months ended June 30, 2020
Profit	4,122	14,374
Other comprehensive income		
Valuation difference on available-for-sale securities	(33)	(17)
Foreign currency translation adjustment	(139)	(77)
Remeasurements of defined benefit plans	38	46
Total other comprehensive income	(134)	(47)
Comprehensive income	3,988	14,326
(Breakdown)		
Comprehensive income attributable to owners of parent	3,985	14,327
Comprehensive income attributable to non-controlling interests	3	(0)

(3) Notes to Consolidated Financial Statements
(Note regarding going concern assumptions)
None

(Material changes in shareholders' equity)
None

(Additional information)

(Application of tax effect accounting for transition from consolidated taxation system to group tax sharing system)

SQUARE ENIX HOLDINGS CO., LTD. and domestic subsidiaries have calculated the amounts of deferred tax assets and deferred tax liabilities according to the tax acts before amended based on the treatment of Paragraph 3 of "Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System" (ASBJ Practical Issues Task Force No.39, March 31, 2020) instead of applying the provision on Paragraph 44 of "Implementation Guidance on Tax Effect Accounting" (ASBJ Guidance No.28, February 16, 2018), regarding the transition to group tax sharing system established in "Act for Partial Amendment of the Income Tax Act, etc."(Act No.8 of 2020), and items for which the non-consolidated taxation system has been reviewed in the line with the transition to the group tax sharing system.

(Segment information)

I. Outline of reporting segments for the three-month period ended June 30, 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	37,157	10,746	3,872	1,553	53,329	—	53,329
(2) Intersegment sales	3	99	3	364	470	(470)	—
Total	37,160	10,845	3,875	1,917	53,799	(470)	53,329
Segment operating income	7,622	680	1,273	160	9,736	(2,546)	7,189

Notes: 1. Segment adjustments (¥2,546) million include unallocated corporate operating expenses (¥2,577) million.

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

II. Outline of reporting segments for the three-month period ended June 30, 2020

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	74,362	4,518	5,459	2,714	87,054	—	87,054
(2) Intersegment sales	0	82	7	466	557	(557)	—
Total	74,363	4,600	5,466	3,180	87,611	(557)	87,054
Segment operating income	26,069	(1,512)	2,348	1,215	28,121	(3,572)	24,549

Notes: 1. Segment adjustments (¥3,572) million include unallocated corporate operating expenses (¥3,629) million.

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