

Consolidated Financial Results
for the Three-Month Period Ended June 30, 2021 (Japan GAAP)

August 5, 2021

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>
 Representative: Yosuke Matsuda, President and Representative Director
 Contact: Atsushi Matsuda, Chief Accounting Officer
 Tel: (03) 5292-8000
 Financial report submission: August 11, 2021 (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, 2021 through June 30, 2021)

(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, 2021	88,604	1.8	17,316	(29.5)	17,661	(26.9)	12,655	(11.9)
June 30, 2020	87,054	63.2	24,549	241.4	24,169	283.8	14,372	248.6

Note: Three months ended June 30, 2021 Comprehensive income: 12,806 million yen [(10.6%)]
 Three months ended June 30, 2020 Comprehensive income: 14,326 million yen [259.2%]

	Earnings per share, basic	Earnings per share, diluted
Three months ended	yen	yen
June 30, 2021	105.98	105.74
June 30, 2020	120.47	120.24

Note: The Company has applied the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29; March 31, 2020) and other standards as of the start of the first quarter of the consolidated fiscal year ending March 31, 2022 and figures for the year ending March 31, 2022 reflect this change of accounting method.

(2) Consolidated Financial Position

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

	Total assets	Net assets	Equity ratio
As of			%
June 30, 2021	326,630	247,978	75.6
March 31, 2021	336,144	243,278	72.1

Note1. Total equity As of June 30, 2021: 247,040 million yen
 As of March 31, 2021: 242,364 million yen

2. The Company has applied the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29; March 31, 2020) and other standards as of the start of the first quarter of the consolidated fiscal year ending March 31, 2022 and figures for the year ending March 31, 2022 reflect this change of accounting method.

2. Dividends

	Dividends per share				
	1Q	2Q	3Q	4Q	Total
Fiscal year ended March 31, 2021	— yen	10.00 yen	— yen	68.00 yen	78.00 yen
Fiscal year ending March 31, 2022	—				
Fiscal year ending March 31, 2022 (projection)		10.00	—	51.00	61.00

Note: No change in Dividend projection from previous announcement.

3. Consolidated Forecasts (April 1, 2021 to March 31, 2022)

(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, 2022	340,000 2.2	40,000 (15.3)	40,000 (20.0)	24,000 (10.9)	201.10

Note1. No change in consolidated forecasts from previous announcement.

2. The Company has applied the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29; March 31, 2020) and other standards as of the start of the first quarter of the consolidated fiscal year ending March 31, 2022 and figures for the year ending March 31, 2022 reflect this change of accounting method.

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: Yes
 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, 2021	122,531,596
As of March 31, 2021	122,531,596
 2. Number of treasury stock:

As of June 30, 2021	3,096,354
As of March 31, 2021	3,122,037
 3. Average number of shares during the period (cumulative):

Three-month period ended June 30, 2021	119,413,412
Three-month period ended June 30, 2020	119,297,973

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, 2021 (3) Qualitative information on consolidated business forecasts" section on page 4 of Supplemental Information

Supplemental Information — Index

	Page
1. Consolidated Results for the Three-Month Period Ended June 30, 2021	2
(1) Analysis of consolidated business results	2
(2) Analysis of consolidated financial position	3
(3) Qualitative information on consolidated business forecasts	4
2. Consolidated Financial Statements for the Three-Month Period Ended June 30, 2021	5
(1) Consolidated Balance Sheets	5
(2) Consolidated Income Statement and Consolidated Statement of Comprehensive Income	7
Consolidated Income Statement	7
Consolidated Statement of Comprehensive Income	8
(3) Notes to Consolidated Financial Statements	9
(Note regarding going concern assumptions)	9
(Material changes in shareholders' equity)	9
(Changes in accounting policies)	9
(Additional information)	10
(Segment information)	11

1. Consolidated Results for the Three-Month Period Ended June 30, 2021

(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, 2021 totaled ¥88,604 million (an increase of 1.8% from the same period of the prior fiscal year), operating income amounted to ¥17,316 million (a decrease of 29.5% from the same period of the prior fiscal year), ordinary income amounted to ¥17,661 million (a decrease of 26.9% from the same period of the prior fiscal year), and profit attributable to owners of parent amounted to ¥12,655 million (a decrease of 11.9% from the same period of the prior fiscal year).

A discussion of results by segment for the three-month period ended June 30, 2021 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, 2021 included the release of titles such as "Outriders" and "NieR Replicant ver.1.22474487139...", but net sales declined compared to the same period of the previous fiscal year, which had seen the release of "FINAL FANTASY VII REMAKE."

In the MMO (Massively Multiplayer Online) Game sub-segment, net sales rose versus the same period of the previous fiscal year due 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 were higher than in the same period of the previous year due to earnings contributions from "DRAGON QUEST TACT," "OCTOPATH TRAVELER: Tairiku no Hasha," and "NieR Re[in]carnation," all of which were released in or after the second quarter of the previous fiscal year, as well as due to changes in the presentation of revenue resulting from the application of the revised Accounting Standard for Revenue Recognition.

Net sales and operating income in the Digital Entertainment segment totaled ¥69,876 million (a decrease of 6.0% from the same period of the prior fiscal year), and ¥17,147 million (a decrease of 34.2% 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 the three-month period ended June 30, 2021, net sales rose substantially compared to the same period of the previous year, and the segment moved into the black at the operating line after having been heavily impacted the previous year by the temporary closures of amusement facilities in Japan enacted in order to combat the spread of COVID-19 in response to the Japanese government's declaration of a state of emergency.

Net sales and operating income in the Amusement segment totaled ¥9,452 million (an increase of 105.4% from the same period of the prior fiscal year), and ¥344 million (operating loss of ¥1,512 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 of e-books and other digital media grew significantly in the three-month period ended June 30, 2021. In addition, sales of printed media were also brisk, resulting in higher net sales and operating income than in the same period of the previous year.

Net sales and operating income in the Publication segment totaled ¥7,246 million (an increase of 32.6% from the same period of the prior fiscal year) and ¥3,250 million (an increase of 38.4% 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.

Net sales and operating income declined in the three-month period ended June 30, 2021, because of the release in the previous year of new character merchandise and other products based on the Group's own content.

Net sales and operating income in the Merchandising segment totaled ¥2,797 million (a decrease of 12.1% from the same period of the prior fiscal year), and ¥924 million (a decrease of 23.9% from the same period of the prior fiscal year), respectively.

(2) Analysis of consolidated financial position

- Assets

As of June 30, 2021, total current assets were ¥274,183 million, a decrease of ¥9,439 million compared to March 31, 2021. This was mainly due to a decrease in cash and deposits of ¥14,735 million and an increase in content production account of ¥2,531 million. As of June 30, 2021, total non-current assets were ¥52,447 million, a decrease of ¥74 million compared to March 31, 2021.

As a result, total assets were ¥326,630 million, a decrease of ¥9,514 million compared to March 31, 2021.

- Liabilities

As of June 30, 2021, total current liabilities were ¥66,272 million, a decrease of ¥14,072 million compared to March 31, 2021. This was mainly due to decreases in notes and accounts payable-trade of ¥2,776 million, income taxes payable of ¥12,860 million and provision for bonuses of ¥1,212 million, respectively. As of June 30, 2021, total non-current liabilities were ¥12,379 million, a decrease of ¥141 million compared to March 31, 2021.

As a result, total liabilities were ¥78,652 million, a decrease of ¥14,214 million compared to March 31, 2021.

- Net assets

As of June 30, 2021, net assets were ¥247,978 million, an increase of ¥4,699 million compared to March 31, 2021. This was mainly owing to profit attributable to owners of parent of ¥12,655 million and dividend payments of ¥8,119 million.

As a result, the consolidated equity ratio stood at 75.6% (72.1% as of March 31, 2021).

(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.

By developing content and diversifying earnings opportunities in line with this changing environment, the Group is working to establish an earnings platform that will enable sustainable sales and profit growth. At this point in time, the Company does not revise the forecast for the consolidated results of the fiscal year ending March 31, 2022, since the Company needs to assess sales performance and other trends going forward.

2. Consolidated Financial Statements for the Three-Month Period Ended June 30, 2021

(1) Consolidated Balance Sheets

(Millions of yen)

	As of March 31, 2021	As of June 30, 2021
Assets		
Current assets		
Cash and deposits	146,229	131,494
Notes and accounts receivable - trade	43,036	—
Notes and accounts receivable - trade, and contract assets	—	41,828
Merchandise and finished goods	3,829	4,185
Work in progress	212	7
Raw materials and supplies	363	364
Content production account	78,153	80,685
Other	11,987	15,802
Allowance for doubtful accounts	(190)	(183)
Total current assets	283,622	274,183
Non-current assets		
Property, plant and equipment	19,656	19,375
Intangible assets	5,540	6,070
Investments and other assets	27,325	27,001
Total non-current assets	52,522	52,447
Total assets	336,144	326,630

(Millions of yen)

	As of March 31, 2021	As of June 30, 2021
Liabilities		
Current liabilities		
Notes and accounts payable-trade	24,559	21,783
Income taxes payable	14,593	1,732
Provision for bonuses	2,956	1,743
Provision for sales returns	5,873	—
Refund liabilities	—	5,688
Provision for loss on game arcade closings	231	201
Asset retirement obligations	6	6
Other	32,122	35,115
Total current liabilities	80,345	66,272
Non-current liabilities		
Provision for directors' retirement benefits	52	52
Net defined benefit liability	3,492	3,554
Asset retirement obligations	3,715	3,677
Other	5,260	5,094
Total non-current liabilities	12,521	12,379
Total liabilities	92,866	78,652
Net assets		
Shareholders' equity		
Capital stock	24,039	24,039
Capital surplus	53,593	53,622
Retained earnings	179,722	184,153
Treasury stock	(9,556)	(9,477)
Total shareholders' equity	247,799	252,338
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	59	48
Foreign currency translation adjustment	(5,655)	(5,487)
Remeasurements of defined benefit plans	160	140
Total accumulated other comprehensive income	(5,435)	(5,298)
Subscription rights to shares	762	772
Non-controlling interests	151	165
Total net assets	243,278	247,978
Total liabilities and net assets	336,144	326,630

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

(Millions of yen)

	Three months ended June 30, 2020	Three months ended June 30, 2021
Net sales	87,054	88,604
Cost of sales	36,688	39,456
Gross profit	50,366	49,147
Reversal of provision for sales returns	4,201	—
Provision for sales returns	3,761	—
Gross profit-net	50,806	49,147
Selling, general and administrative expenses	26,257	31,831
Operating income	24,549	17,316
Non-operating income		
Interest income	7	15
Dividend income	0	0
Reversal of allowance for doubtful accounts	21	6
Foreign exchange gains	—	127
Gain on investments in securities	—	110
Gain on sale of crypto assets	—	86
Miscellaneous income	14	23
Total non-operating income	43	369
Non-operating expenses		
Interest expenses	21	21
Commission fee	2	2
Foreign exchange losses	362	—
Miscellaneous loss	36	1
Total non-operating expenses	422	24
Ordinary income	24,169	17,661
Extraordinary income		
Gain on reversal of subscription rights to shares	2	—
Subsidies for employment adjustment	46	44
Gain on valuation of shares of subsidiaries and associates	—	260
Total extraordinary income	48	305
Extraordinary losses		
Loss on retirement of non-current assets	76	17
Impairment loss	89	1
Provision for loss on store closings	151	—
Loss on temporary closure	2,226	236
Other	5	6
Total extraordinary losses	2,549	262
Profit before income taxes	21,669	17,703
Income taxes-current	5,848	3,718
Income taxes-deferred	1,446	1,324
Total income taxes	7,294	5,043
Profit	14,374	12,660
Profit attributable to non-controlling interests	2	4
Profit attributable to owners of parent	14,372	12,655

Consolidated Statement of Comprehensive Income

(Millions of yen)

	Three months ended June 30, 2020	Three months ended June 30, 2021
Profit	14,374	12,660
Other comprehensive income		
Valuation difference on available-for-sale securities	(17)	(11)
Foreign currency translation adjustment	(77)	177
Remeasurements of defined benefit plans	46	(19)
Total other comprehensive income	(47)	146
Comprehensive income	14,326	12,806
(Breakdown)		
Comprehensive income attributable to owners of parent	14,327	12,793
Comprehensive income attributable to non-controlling interests	(0)	13

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

(Material changes in shareholders' equity)
None

(Changes in accounting policies)

(Application of accounting standards for revenue recognition)

The Company has applied the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29; March 31, 2020) and other standards as of the start of the first quarter of the consolidated fiscal year ending March 31, 2022. The Company now recognizes revenue as the amount expected to be received in exchange for promised goods or services when control of sold goods or services is transferred to the customer.

Changes resulting from the application of the Accounting Standard for Revenue Recognition and other standards are described below.

(Sales of Digital Content)

Previously, as regards some revenue from digital content derived via third-party platforms, the Company had recognized as revenue the net amount arrived at by deducting platform commissions from the amount received from the customer. The Company now recognizes as revenue the total amount of the consideration received from the customer.

(Microtransactions)

Previously, the Company had recognized the microtransaction portion of digital content revenue at the point that the customer derived an in-game item from the transaction. The Company now recognizes the revenue based upon the estimated period over which the customer will use the item.

(Provisions for Sales Returns)

Previously, in anticipation of returns of publications, game software, and other products, the Company posted estimated losses under "Provision for sales returns" and "Reversal of provision for sales returns." The Company now changed to a method that does not recognize the net sales and the amount equivalent to cost of sales for products that are expected to be returned. In addition, as regards the "Provision for sales returns" previously recognized under "Current liabilities," the Company now recognizes the provision for sales returns as "Refund liabilities" under "Current liabilities" and as "Other" under "Current assets."

In applying the Accounting Standard for Revenue Recognition and other standards, the Company has complied with the transitional treatment set forth in the Article 84 proviso of the standard. As such, the cumulative effect of retroactively applying the new accounting policy prior to the start of the first quarter of the consolidated fiscal year ending March 31, 2022, has been added to or subtracted from beginning retained earnings, and the application of the new accounting policy starts from that point.

The result is a ¥6,164 million increase to net sales; an ¥83 million increase to cost of sales; a ¥5,522 million increase to selling, general and administrative expenses; As a result of the adjustment of sales returns above, a ¥164 million increase to operating income, ordinary income and profit before income taxes for the first quarter of the consolidated fiscal year ending March 31, 2022. In addition, beginning retained earnings declined by ¥104 million.

As a result of the adoption of the Revenue Recognition Standard, "Notes and accounts receivable - trade" which was presented in "Current assets" of the consolidated balance sheet for the previous fiscal year, is included in "Notes and accounts receivable - trade, and contract assets" from the first quarter of the current fiscal year.

The Company has also complied with the transitional treatment set forth in Article 89-2 of the Accounting Standard for Revenue Recognition, meaning that it is not presenting data from the previous consolidated fiscal year modified to conform to the revised standard. The Company has additionally complied with the transitional treatment set forth in Article 28-15 of the Accounting Standard for Quarterly Financial Reporting (ASBJ Statement No. 12; March 21, 2020), meaning that it is not presenting a breakdown of revenue derived from contracts with customers as regards the first quarter of the consolidated fiscal year ended March 31, 2021.

(Application of Accounting Standard for Fair Value Measurement)

The Company has applied the Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30; July 4, 2019; hereinafter "Accounting Standard for Fair Value Measurement") and other standards as of the start of the first quarter of the consolidated fiscal year ending March 31, 2022. In accordance with the transitional treatment set forth in Article 19 of the Accounting Standard for Fair Value Measurement" and Article 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10; July 4, 2019), the Company has decided to apply the new accounting policies set for by the Accounting Standard for Fair Value Measurement into the future. This has no effect on the quarterly consolidated financial statements.

(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, 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(loss)	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(loss) is adjusted in operating income on the consolidated income statement.

II. Outline of reporting segments for the three-month period ended June 30, 2021

Information on sales and income or loss and disaggregated revenue disclosures 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							
Domestic	38,639	9,076	7,101	1,293	56,111	—	56,111
Overseas	31,233	64	36	1,157	32,493	—	32,493
Revenue from contracts with customers	69,873	9,141	7,138	2,450	88,604	—	88,604
Other revenue	—	—	—	—	—	—	—
(1) Sales to outside customers	69,873	9,141	7,138	2,450	88,604	—	88,604
(2) Intersegment sales	3	310	107	346	768	(768)	—
Total	69,876	9,452	7,246	2,797	89,372	(768)	88,604
Segment operating income	17,147	344	3,250	924	21,668	(4,351)	17,316

Notes: 1. Segment adjustments (¥4,351) million include unallocated corporate operating expenses (¥4,445) million.

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

3. As described in "Changes in accounting policies," the accounting policy regarding revenue recognition has been changed, effective from the three-month period of ended June 30, 2021.

Therefore, we have similarly changed the measuring method of segment income or loss.

As a result, the amounts for the three-month period of ended June 30, 2021 are as follows.

(Digital Entertainment segment) Net sales increased by ¥5,887 million and operating income increased by ¥156 million.

(Publication segment) Net sales increased by ¥289 million and operating income decreased by ¥0 million.

(Amusement segment) Net sales decreased by ¥12 million and operating income increased by ¥8 million.

4. Disaggregated revenue disclosures are distinguished between Domestic and Overseas.