We would now like to begin the Financial Results Briefing session of SQUARE ENIX HOLDINGS (the “Company”) for the first quarter of the fiscal year ending March 31, 2022 (“1Q FY2022/3”).

Today’s presenters are:

Yosuke Matsuda, President and Representative Director, and Atsushi Matsuda, Chief Accounting Officer.

First, Mr. Matsuda, Chief Accounting Officer, will give an overview of the Company’s financial results for 1Q FY2022/3, and then our president Mr. Matsuda will discuss the progress made by each of the Company’s business segments.

I am Atsushi Matsuda, the Chief Accounting Officer. I would firstly applying the Accounting Standard for Revenue Recognition as of 1Q, resulting in a boost of ¥6,164 million to net sales and a boost of ¥164 million to operating income, ordinary income, and profit before income taxes. Please refer to our Earning Releases for further details.
In 1Q FY2022/3, the Company booked net sales of ¥88.6 billion (up ¥1.6 billion YoY), operating income of ¥17.3 billion (down ¥7.2 billion), ordinary income of ¥17.6 billion (down ¥6.5 billion), and net income attributable to parent company shareholders of ¥12.6 billion (down ¥1.7 billion).

I will next break down our results by segment.

The Digital Entertainment segment posted net sales of ¥69.8 billion (down ¥4.5 billion) and operating income of ¥17.1 billion (down ¥8.9 billion).

While the HD Games sub-segment released such titles as “NieR Replicant ver.1.22474487139...” and “OUTRIDERS,” its net sales were lower than in the same period of the previous fiscal year, which had seen the release of “FINAL FANTASY VII REMAKE.” Net sales rose YoY in the MMO sub-segment thanks to growth in paying subscriber numbers for “FINAL FANTASY XIV.”

The Games in the Smart Devices/PC Browser sub-segment saw YoY sales growth, not only because of contributions from “DRAGON QUEST TACT,” “NieR Re[in]carnation,” and “OCTOPATH TRAVELER: Tairiku no Hasha,” but also due to the change in how revenue is reported under the newly adopted accounting standard.

The Amusement segment booked net sales of ¥9.4 billion (up ¥4.8 billion YoY) and operating income of ¥300 million (versus an operating loss of ¥1.5 billion a year earlier). The segment had been heavily impacted in the previous year by the temporary closure of our amusement facilities in Japan, a move taken to help prevent the spread of COVID-19 in keeping with the Japanese government’s state of emergency declaration. As such, net sales rose substantially YoY, and the segment moved into the black at the operating line.
The plans, forecasts, strategies and ideas described in this material are descriptions of forecasts of future results. These descriptions rely on information available as of the date of production of this material and are based on assumptions and judgment made by the Company’s management. Readers are advised not to rely solely on these forecasts. Readers should also not assume that these forecasts are accurate or valid information, even after the date of public release. There are many factors that may cause actual results to vary considerably from the forecasts, and in some cases actual results may be inferior to forecasts.

The information on the future forecasts described in this material is current as of August 5, 2021. The company is not obliged to update or correct forecasts concerning the Company’s future results, including forecasts or outlook, if new information becomes available and/or events occur after August 5, 2021.

The Publication segment booked net sales of ¥7.2 billion (up ¥1.8 billion YoY) and operating income of ¥3.2 billion (up ¥900 million). Both sales and profits rose YoY thanks to substantial growth in sales of e-books and other digital media, as well as brisk sales of print media.

The Merchandising segment posted net sales of ¥2.7 billion (down ¥400 million YoY) and operating income of ¥900 million (down ¥300 million). Both sales and profits were down, as the previous year had seen the release of new character goods and other merchandise based on the Company’s IP.

That concludes my overview of our 1Q FY2022/3 financial results.

In 1Q, growth in net sales of the Amusement segment offset the decline in net sales of the Digital Entertainment segment. However, the same did not hold true for profits, resulting in higher total net sales but lower total operating income YoY.
This slide shows a breakdown for the Digital Entertainment segment. The HD sub-segment released titles including “NieR Replicant ver.1.22474487139...” and “OUTRIDERS” in 1Q, but these titles did not reach the scale of previous year releases as “FINAL FANTASY VII REMAKE” and “TRIALS OF MANA,” leading to a YoY decline in net sales.

The MMO sub-segment benefitted from brisk recurring revenue from “FINAL FANTASY XIV.” The Games for Smart Devices/PC Browser sub-segment’s performance was somewhat weak due to the lack of new releases and a lull in events.

This slide shows new HD game titles slated for release in FY2022/3.

We plan to launch “Life is Strange: True Colors” and “Marvel’s Guardians of the Galaxy” during the remainder of the year.

This slide shows the major titles in the Games for Smart Devices/PC Browser sub-segment. While the sub-segment released no new titles in 1Q, we have a slate of forthcoming releases that includes “FINAL FANTASY VII THE FIRST SOLIDER.”
Digital sales ratio rose YoY at the Digital Entertainment segment in 1Q.

This slide shows units sold by region.

This slide shows the Digital Entertainment segment’s net sales and content production account for the past three years on a trailing 12-month (TTM) basis.

This slide similarly shows the Digital Entertainment segment’s net sales and operating income on a trailing 12-month (TTM) basis.

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The Amusement segment struggled in 1Q FY2021/3 due to the temporary closure of our amusement facilities, but it turned into the black at the operating line in 1Q FY2022/3.

The Publication segment delivered a solid performance.

The Publication segment is achieving well-balanced growth between digital and printed media.

Net sales and operating income declined YoY in the Merchandising segment due to the considerable hurdle created in the previous year by sales of “FINAL FANTASY VII REMAKE” character goods and other products.

In our materials for the Financial Results Briefing session for FY2021/3, we referenced taking on new domains, and as we have previously announced, we plan to run a proof of concept for a business model using NFTs. In undertaking such endeavors, we are giving due consideration to various potential regulatory
Lastly, I will discuss our outlook.

While we fared better in 1Q than we had anticipated, sales trends in 2Q and beyond will be important. The keys to maintaining a strong performance will be sales trends for new titles in HD Games and Games for Smart Devices/PC Browser sub-segments, and expansion releases in the MMO sub-segment.

The outlook for the Amusement segment is uncertain, given that COVID-19 infections are on the rise in Japan.

In light of the above, we intend to continue to drive our businesses in pursuit of achieving or even surpassing the full-year targets that we have announced, while also responding flexibly to environmental changes.
SQUARE ENIX HOLDINGS CO., LTD.
1Q FY2022/3 Financial Results Briefing Session Q&A

Date/Time: August 5, 2021 (Thu); 6:30-7:30 pm (JST)
Main Speaker: Yosuke Matsuda, President and Representative Director

Q&A

Q: Why was the YoY decline in profits in the Digital Entertainment segment more pronounced than the decline in sales?
A: The primary reason is differences in the scale of sales and margins between “FINAL FANTASY VII REMAKE,” which we released in FY2021/3, and “OUTRIDERS,” which we released in FY2022/3.

Q: Why is “FINAL FANTASY XIV” doing so well, and what is your outlook for it going forward?
A: We generated greater expectations and engagement among our users by providing ongoing content updates and undertaking promotional initiatives such as announcing the release of an expansion pack and hosting the Digital Fan Festival. As a result, we attracted new users and the title continued to perform well. We look forward to building even more excitement ahead of the expansion pack’s November release date, as a string of new information is expected to be unveiled.

Q: How did the accounting standard change affect each of your businesses?
A: We will refrain from commenting on the details, but please refer to the notes in the segment information included in our Earning Releases.

Q: Do you have any major capital expenditure planned to build out your server capacity for “FINAL FANTASY XIV?”
A: We will consider our capital expenditure plan based on a careful assessment of conditions for our titles going forward.