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 November 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 November 5, 2021.

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

In 1H FY2022/3, the Company booked net sales of ¥168.9 billion (down ¥3.8 billion YoY), operating income of ¥29.1 billion (down ¥2.5 billion), ordinary income of ¥31.4 billion (up ¥900 million), and net income attributable to parent company shareholders of ¥22.9 billion (up ¥6.9 billion).
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The Digital Entertainment segment posted net sales of ¥129.4 billion (down ¥13 billion YoY) and operating income of ¥29.4 billion (down ¥4.4 billion).

While the HD Games sub-segment released such home console titles as “OUTRIDERS,” “NieR Replicant ver.1.22474487139...”, “NEO: The World Ends with You,” and “Life is Strange: True Colors,” 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” and “Marvel’s Avengers.”

Net sales rose YoY in the MMO sub-segment thanks to sharp growth in paying subscriber numbers for “FINAL FANTASY XIV.”

The Games for Smart Devices/PC Browser sub-segment saw net sales decline YoY, in part because of lackluster performance in existing titles.

The Amusement segment booked net sales of ¥21 billion (up ¥7.1 billion) and operating income of ¥600 million (versus an operating loss of ¥1.6 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 Publication segment booked net sales of ¥14.1 billion (up ¥1.8 billion YoY) and operating income of ¥5.9 billion (up ¥600 million). Both sales and profits rose YoY thanks to 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 ¥5.8 billion (up...
¥1 billion YoY) and operating income of ¥1.7 billion (up ¥200 million). Both sales and profits rose YoY, in part because of brisk sales of new character goods based on the Company’s IP.

This concludes my overview of our 1H FY2022/3 financial results.

I am Yosuke Matsuda. I will be discussing the progress made by each of our business segments, as well as the progress that we have made with our medium-term business strategy.

In 1H, net sales and operating income fell YoY.

This is a breakdown for the Digital Entertainment segment. The HD Game sub-segment released “Life is Strange: True Colors” and “NEO: The World Ends with You” in 2Q. We have plans to release “Life is Strange: True Colors” for Nintendo Switch, as well as “Life is Strange Remastered Collection” in the near future. While “NEO: The World Ends with You” was well received by users, it has underperformed our initial expectations.

As in 1Q, the MMO sub-segment benefitted from brisk recurring revenue from “FINAL FANTASY XIV.” We expect the
release of an expansion pack in 3Q to generate additional excitement.

Net sales at the Games for Smart Devices/PC Browser sub-segment declined due to lackluster performances from existing titles and to the release of few new titles. However, we have prepared a variety of initiatives to turn sales upward in 2H.

This slide shows our HD game pipeline.

In the MMO sub-segment, we have 3Q expansion pack releases planned for “FINAL FANTASY XIV” and “DRAGON QUEST X ONLINE.”

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This slide shows the breakdown of digital and physical sales at the Digital Entertainment segment.

This slide shows units sold by region in 1H. The sharp YoY decline owes in part to the high hurdle set the previous year by the release of major titles.

Our content production account stood at ¥89.7 billion as of the end of 2Q. We have multiple major titles slated for launch, and we will ensure that each release meets certain standards of quality.
While the Amusement segment’s net sales rose YoY and it turned into the black, it was unable to avoid impact from the state of emergency declarations. The declarations have been lifted since October, so we hope to see earnings recover going forward.

The Publication segment delivered a solid performance.

The Merchandising segment’s progress tracked our plan in 1H.

Next, I will discuss our progress on our medium-term business strategy.
At the outset of this fiscal year, I laid out a business strategy for achieving our medium-term earnings targets that involved: (1) strengthening our IP ecosystem, (2) taking on new domains, and (3) optimizing our business structure for a COVID world. Today I’ll be discussing (2) taking on new domains, namely concrete initiatives involving NFTs and our full-fledged entry into blockchain games.

Firstly, a specific initiative we undertook involving NFTs was the October 14 launch of “Shi-San-Sei Million Arthur” NFT digital cards. Through this initiative, we recognized that NFTs and our content pair well together. We have therefore concluded the proof-of-concept phase and will now undertake preparations for full commercialization.

I will next discuss blockchain games.

The digital entertainment environment is currently undergoing major changes in terms of how games are played and how technology is advancing.

In the case of blockchain games, I believe that how you fuse token economies into game designs is key. The content development at which we have traditionally excelled has involved the creation of complete self-contained worlds, as illustrated by our RPG titles. We consider such content “centralized” as opposed to “decentralized.”
However, fusing token economies into game designs holds the potential of expanding games into decentralized space and reaching a broader range of users. We will be making a robust entry into blockchain games in order to grow them into a new pillar for the Company.

We currently do not possess sufficient expertise, so we will go about obtaining that expertise through aggressive hiring and via partnerships with other firms, while simultaneously pursuing game development efforts.
Q&A

Q: Why did you maintain your guidance despite the strong progress you made in 1H toward your initial earnings forecasts? Also, what are your expectations for your forthcoming title launches?
A: In the HD game market, our peers will also be rolling out a succession of new titles going forward, so we will need to keep a watchful eye on upcoming developments. Competition is also intense for smartphone games, so we want to see how our new titles perform at the outset of launch. It is for these reasons that we left our guidance unchanged.

Q: How do you view the risk associated with adopting new technologies such as NFTs and blockchain?
A: I see two risks. The first is that our expertise in blockchain games is insufficient at present. The second is that the laws surrounding blockchain are not sufficiently developed at this time.

Q: The MMO sub-segment did well again in 2Q, but given the expansion pack launches slated for 3Q, can we expect further upside? Also, what caused the QoQ drop in the operating margin at the Digital Entertainment segment?
A: We hope to maintain the trends seen in the MMO sub-segment in 2Q, while also raising the level of earnings further in 3Q, when the expansion packs are slated for release. The reason that the Digital Entertainment segment’s operating margin declined is because some of the new titles that we released in 2Q substantially underperformed our initial expectations and because the performance of existing titles in the Games for Smart Devices/PC Browser sub-segment were slow.

Q: Do you plan to spread your HD game releases evenly throughout FY2023/3 and FY2024/3?
A: We plan to release them in each fiscal year without overly concentrating them in any particular period. That said, we may be forced to change our release schedule in some instances depending on how the development efforts for our games progress.

Q: The Games for Smart Devices/PC Browser sub-segment was weak in 2Q despite anniversary events for multiple titles. Is that because of weakness in the other existing titles? Also, are you planning on improving the sub-segment’s momentum only by releasing new titles and not by taking steps to bolster the performances of existing titles?
A: The titles for which we held anniversary events delivered solid performances, but our other existing titles were weak. We intend to improve the sub-segment’s momentum going forward not only by releasing new titles but also by working to bolster the performances of our existing titles.

Q: Do you see players moving between HD, MMO, and smart device/PC browser FINAL FANTASY titles? Also, could you tell us about what forthcoming initiatives you have planned that are likely to build excitement around the FINAL FANTASY franchise as a whole, if any?
A: While we believe that the player profiles differ slightly between our sub-segments (HD Games, MMO, Games for Smart Device/PC Browser), all players share the desire to play fun games, so we do believe that there is some movement between titles from the various sub-segments. Also, we are planning to launch two “FINAL FANTASY VII REMAKE” mobile games, so we expect those launches to produce some benefits.