

Consolidated Financial Results
for the Nine-Month Period Ended December 31, 2021 (Japan GAAP)

February 4, 2022

Company name: SQUARE ENIX HOLDINGS CO., LTD.
 Shares traded: Tokyo Stock Exchange, First Section
 Company code: 9684
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 Financial report submission: February 9, 2022 (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 December 31, 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	
Nine months ended		%		%		%		%
December 31, 2021	273,627	7.9	50,138	22.2	54,441	40.7	39,844	116.9
December 31, 2020	253,643	33.7	41,022	47.7	38,703	38.3	18,371	(4.3)

Note: Nine months ended December 31, 2021 Comprehensive income: 39,794 million yen [112.0%]

Nine months ended December 31, 2020 Comprehensive income: 18,770 million yen [(2.5%)]

	Earnings per share, basic	Earnings per share, diluted
Nine months ended	yen	yen
December 31, 2021	333.44	332.73
December 31, 2020	153.96	153.58

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			%
December 31, 2021	364,006	274,427	75.1
March 31, 2021	336,144	243,278	72.1

Note 1. Total equity As of December 31, 2021: 273,528 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
	yen	yen	yen	yen	yen
Fiscal year ended March 31, 2021	—	10.00	—	68.00	78.00
Fiscal year ending March 31, 2022	—	10.00	—		
Fiscal year ending March 31, 2022 (projection)				78.00	88.00

Note: Yes change in Dividends projection from the 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	50,000	5.9	50,000	0.0	35,000	29.9	292.90

Note 1. Yes change in consolidated forecasts from the 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. For details, please refer to (3) Qualitative information on consolidated business forecasts on page 4 of the Supplemental Information attached herewith.

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

As of December 31, 2021	2,934,983
As of March 31, 2021	3,122,037
 3. Average number of shares during the period (cumulative):

Nine-Month period ended December 31, 2021	119,493,845
Nine-Month period ended December 31, 2020	119,331,820

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) This earnings release is not subject to review procedures for quarterly financial statements (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 Nine-Month Period Ended December 31, 2021 (3) Qualitative information on consolidated business forecasts" section on page 4 of Supplemental Information.

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1. Consolidated Results for the Nine-Month Period Ended December 31, 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 business segments of Digital Entertainment, Amusement, Publication and Merchandising. Net sales for the Nine-Month period ended December 31, 2021 totaled ¥273,627 million (an increase of 7.9% from the same period of the prior fiscal year), operating income amounted to ¥50,138 million (an increase of 22.2% from the same period of the prior fiscal year), and ordinary income amounted to ¥54,441 million (an increase of 40.7% from the same period of the prior fiscal year), and profit attributable to owners of parent amounted to ¥39,844 million (an increase of 116.9% from the same period of the prior fiscal year).

A discussion of results by segment for the Nine-Month period ended December 31, 2021 follows.

●Digital Entertainment

The Digital Entertainment segment consists of planning, development, distribution, and operation of digital entertainment content primarily in the form of game. 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 nine-month period ended December 31, 2021 saw the release of such titles as "OUTRIDERS," "NieR Replicant ver.1.22474487139...", and "Marvel's Guardians of the Galaxy." However, the sub-segment's net sales declined compared to the same period of the previous fiscal year, which had seen the release of such titles as "FINAL FANTASY VII REMAKE" and "Marvel's Avengers."

In the MMO (Massively Multiplayer Online) Game sub-segment, sales rose compared to the same period of the previous fiscal year, due not only to a sharp rise in the number of monthly paying subscribers for "FINAL FANTASY XIV," but also to the release of an expansion pack for the title.

The Games for Smart Devices/PC Browser sub-segment saw somewhat weak performances from existing titles, but its net sales rose compared to the same period of the previous fiscal year due to the application of revised revenue recognition standards.

Net sales and operating income in the Digital Entertainment segment totaled ¥211,662 million (an increase of 4.0% from the same period of the prior fiscal year), and ¥49,425 million (an increase of 17.1% from the same period of the prior fiscal year), respectively.

●Amusement

The Amusement segment consists of the operation of amusement facilities and planning, development, and distribution of arcade game machines and related products for amusement facilities.

Compared to the same period of the previous fiscal year, the nine-month period ended December 31, 2021 saw net sales rise and a turn to profit at the operating line because the segment had sustained significant impact the previous year from the temporary closure of amusement facilities in Japan, a move undertaken 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 ¥33,155 million (an increase of 36.4% from the same period of the prior fiscal year), and ¥1,337 million (operating loss of ¥1,116 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 rose in the nine-month period ended December 31, 2021. Sales of printed media were also solid, resulting 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 ¥21,065 million (an increase of 4.6% from the same period of the prior fiscal year) and ¥8,906 million (an increase of 0.4% 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.

Brisk sales of new character merchandise based on the Group's own content during the nine-month period ended December 31, 2021 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 Merchandising segment totaled ¥10,465 million (an increase of 49.4% from the same period of the prior fiscal year), and ¥3,169 million (an increase of 69.8% from the same period of the prior fiscal year), respectively.

(2) Analysis of consolidated financial position

●Assets

As of December 31, 2021, total current assets were ¥308,590 million, an increase of ¥24,968 million compared to March 31, 2021. This was mainly due to increases in content production account of ¥14,983 million and notes and accounts receivable - trade, and contract assets of ¥8,242 million. As of December 31, 2021, total non-current assets were ¥55,415 million, an increase of ¥2,893 million compared to March 31, 2021.

As a result, total assets were ¥364,006 million, an increase of ¥27,861 million compared to March 31, 2021.

●Liabilities

As of December 31, 2021, total current liabilities were ¥78,156 million, a decrease of ¥2,188 million compared to March 31, 2021. This was mainly due to increases in the other on current liabilities of ¥5,911 million and notes and accounts payable - trade ¥1,314 million, while income taxes payable decreased by ¥9,680 million. As of December 31, 2021, total non-current liabilities were ¥11,421 million, a decrease of ¥1,099 million compared to March 31, 2021.

As a result, total liabilities were ¥89,578 million, a decrease of ¥3,287 million compared to March 31, 2021.

●Net assets

As of December 31, 2021, net assets were ¥274,427 million, an increase of ¥31,148 million compared to March 31, 2021. This was mainly due to profit attributable to owners of parent of ¥39,844 million and dividend payments of ¥9,315 million.

As a result, the consolidated equity ratio stood at 75.1% (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.

The Group has revised the consolidated financial forecasts it issued on May 13, 2021. For details, please refer to the “Notice of Revisions of Consolidated Financial Forecasts and Year-end Dividend” released today (February 4, 2022).

2. Consolidated Financial Statements for the Nine-Month Period Ended December 31, 2021

(1) Consolidated Balance Sheets

(Millions of yen)

	As of March 31, 2021	As of December 31, 2021
Assets		
Current assets		
Cash and deposits	146,229	144,265
Notes and accounts receivable-trade	43,036	—
Notes and accounts receivable - trade, and contract assets	—	51,279
Merchandise and finished goods	3,829	4,560
Work in progress	212	58
Raw materials and supplies	363	809
Content production account	78,153	93,137
Other	11,987	14,709
Allowance for doubtful accounts	(190)	(228)
Total current assets	283,622	308,590
Non-current assets		
Property, plant and equipment	19,656	19,779
Intangible assets	5,540	7,010
Investments and other assets	27,325	28,625
Total non-current assets	52,522	55,415
Total assets	336,144	364,006

(Millions of yen)

	As of March 31, 2021	As of December 31, 2021
Liabilities		
Current liabilities		
Notes and accounts payable-trade	24,559	25,874
Income taxes payable	14,593	4,913
Provision for bonuses	2,956	2,509
Provision for sales returns	5,873	—
Refund liabilities	—	6,747
Provision for loss on game arcade closings	231	47
Asset retirement obligations	6	31
Other	32,122	38,033
Total current liabilities	80,345	78,156
Non-current liabilities		
Provision for directors' retirement benefits	52	19
Net defined benefit liability	3,492	3,716
Asset retirement obligations	3,715	3,605
Other	5,260	4,080
Total non-current liabilities	12,521	11,421
Total liabilities	92,866	89,578
Net assets		
Shareholders' equity		
Capital stock	24,039	24,039
Capital surplus	53,593	53,841
Retained earnings	179,722	210,146
Treasury stock	(9,556)	(8,987)
Total shareholders' equity	247,799	279,041
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	59	(40)
Foreign currency translation adjustment	(5,655)	(5,573)
Remeasurements of defined benefit plans	160	101
Total accumulated other comprehensive income	(5,435)	(5,512)
Subscription rights to shares	762	720
Non-controlling interests	151	178
Total net assets	243,278	274,427
Total liabilities and net assets	336,144	364,006

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

(Millions of yen)

	Nine months ended December 31, 2020	Nine months ended December 31, 2021
Net sales	253,643	273,627
Cost of sales	126,699	122,877
Gross profit	126,944	150,749
Reversal of provision for sales returns	4,136	—
Provision for sales returns	6,183	—
Gross profit-net	124,896	150,749
Selling, general and administrative expenses	83,874	100,610
Operating income	41,022	50,138
Non-operating income		
Interest income	36	49
Dividend income	0	0
Gain on forgiveness of payable for group tax	152	—
Foreign exchange gains	—	3,095
Gain on investments in securities	—	665
Gain on sale of crypto assets	—	567
Miscellaneous income	66	54
Total non-operating income	256	4,433
Non-operating expenses		
Interest expenses	66	120
Commission fee	11	5
Foreign exchange losses	2,377	—
Miscellaneous loss	119	4
Total non-operating expenses	2,574	130
Ordinary income	38,703	54,441
Extraordinary income		
Gain on sales of non-current assets	1	6
Gain on reversal of subscription rights to shares	2	—
Subsidy income related to COVID-19	331	185
Gain on sale of shares of subsidiaries and associates	—	348
Other	—	47
Total extraordinary income	335	588
Extraordinary losses		
Loss on sales of non-current assets	0	0
Loss on retirement of non-current assets	110	39
Impairment loss	444	8
Loss on valuation of investment securities	457	—
Provision for loss on store closings	396	—
Loss on temporary closure	2,223	296
Other	16	7
Total extraordinary losses	3,649	351
Profit before income taxes	35,389	54,678
Income taxes-current	15,248	15,060
Income taxes-deferred	1,761	(239)
Total income taxes	17,009	14,821
Profit	18,379	39,857
Profit attributable to non-controlling interests	7	13
Profit attributable to owners of parent	18,371	39,844

Consolidated Statement of Comprehensive Income

(Millions of yen)

	Nine months ended December 31, 2020	Nine months ended December 31, 2021
Profit	18,379	39,857
Other comprehensive income		
Valuation difference on available-for-sale securities	218	(100)
Foreign currency translation adjustment	32	95
Remeasurements of defined benefit plans	139	(58)
Total other comprehensive income	390	(63)
Comprehensive income	18,770	39,794
(Breakdown)		
Comprehensive income attributable to owners of parent	18,763	39,767
Comprehensive income attributable to non-controlling interests	6	27

(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 ¥15,794 million increase to net sales; an ¥438 million decrease to cost of sales; a ¥16,667 million increase to selling, general and administrative expenses; As a result of the adjustment of sales returns above, a ¥138 million decrease to operating income, ordinary income and profit before income taxes for the third 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 31, 2020), meaning that it is not presenting a breakdown of revenue derived from contracts with customers as regards the third 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 Nine-Month period ended December 31, 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	203,529	23,675	20,116	6,320	253,643	—	253,643
(2) Intersegment sales	6	638	17	681	1,344	(1,344)	—
Total	203,536	24,314	20,134	7,002	254,987	(1,344)	253,643
Segment operating income (loss)	42,204	(1,116)	8,867	1,865	51,821	(10,798)	41,022

Notes: 1. Segment adjustments (¥10,798) million include unallocated corporate operating expenses (¥10,982) million.

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

II. Outline of reporting segments for the Nine-Month period ended December 31, 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	110,415	31,508	20,186	4,850	166,962	—	166,962
Overseas	101,225	123	723	4,592	106,664	—	106,664
Revenue from contracts with customers	211,641	31,632	20,909	9,443	273,627	—	273,627
Other revenue	—	—	—	—	—	—	—
(1) Sales to outside customers	211,641	31,632	20,909	9,443	273,627	—	273,627
(2) Intersegment sales	21	1,523	155	1,021	2,722	(2,722)	—
Total	211,662	33,155	21,065	10,465	276,349	(2,722)	273,627
Segment operating income	49,425	1,337	8,906	3,169	62,838	(12,699)	50,138

Notes: 1. Segment adjustments (¥12,699) million include unallocated corporate operating expenses (¥12,947) 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.

As a result, the amounts for the Nine-month period of ended December 31, 2021 are as follows.

(Digital Entertainment segment) Net sales increased by ¥15,431 million and operating income decreased by ¥91 million.

(Publication segment) Net sales increased by ¥387 million and operating income decreased by ¥61 million.

(Amusement segment) Net sales decreased by ¥23 million and operating income increased by ¥14 million.

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