We would now like to begin the Financial Results Briefing session of SQUARE ENIX HOLDINGS (the “Company”) for Q1-Q3 of the fiscal year ending March 31, 2022 (“Q1-Q3 FY2022/3”).

Today’s presenters are:
Yosuke Matsuda, President and Representative Director, and Atsushi Matsuda, Chief Accounting Officer.

First, Mr. Matsuda, our Chief Accounting Officer, will give an overview of the Company’s financial results for Q1-Q3 FY2022/3, and then our president Mr. Matsuda will discuss the progress made by each of the Company’s business segments.

Good afternoon. I am Atsushi Matsuda.

In Q1-Q3 FY2022/3, the Company booked net sales of ¥273.6 billion (up ¥20 billion YoY), operating income of ¥50.1 billion (up ¥9.1 billion), ordinary income of ¥54.4 billion (up ¥15.7 billion), and net income attributable to parent company shareholders of ¥39.8 billion (up ¥21.5 billion).
I will next break down our results by segment.

The Digital Entertainment segment posted net sales of ¥211.6 billion (up ¥8.1 billion) and operating income of ¥49.4 billion (up ¥7.2 billion).

While the HD Games sub-segment released such titles as “OUTRIDERS,” “NieR Replicant ver.1.22474487139...,” and “Marvel’s Guardians of the Galaxy,” its net sales were lower than in 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.”

Net sales rose YoY in the MMO sub-segment thanks not only to sharp growth in paying subscriber numbers 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 YoY due to the application of revised revenue recognition standards.

The Amusement segment booked net sales of ¥33.1 billion (up ¥8.8 billion YoY) and operating income of ¥1.3 billion (a loss of ¥1.1bn a year earlier). Net sales rose sharply, and the operating line turned into the black, unlike the same period of the previous fiscal year, when it sustained significant impact 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.

The Publication segment booked net sales of ¥21 billion (up ¥900 million YoY) and operating income of ¥8.9 billion (up ¥100 million). Sales of e-books and other digital media grew, and sales of printed media were solid, resulting in YoY growth in net sales and operating income.

The Merchandising segment posted net sales of ¥10.4 billion (up ¥3.4 billion) and operating income of ¥3.1 billion (up ¥1.3 billion). Brisk sales of new character merchandise based on the...
Group’s own content contributed to YoY growth in net sales and operating income.

This concludes my overview of our Q1-Q3 FY2022/3 financial results.

I am Yosuke Matsuda. I will be discussing the progress made by each of our business segments.

Consolidated net sales and operating income rose YoY in Q1-Q3 FY2022/3.

This is a breakdown for the Digital Entertainment segment. The HD Games sub-segment launched “Marvel’s Guardians of the Galaxy” in Q3. Despite strong reviews, the game’s sales on launch undershot our initial expectations. However, sales initiatives that we kicked off in November 2021 and continued into the new year have resulted in sales growth, and we intend to work to continue to expand sales to make up for the title’s slow start.

Net sales rose YoY in the MMO sub-segment thanks not only to substantial growth in paying subscriber numbers for “FINAL FANTASY XIV” but also to the successful launch of an expansion pack for the title.
Net sales rose YoY in the Games for Smart Devices/PC Browser sub-segment due to the change in accounting policies, but existing titles delivered weak performances, and new titles did not perform to our initial expectations. However, existing titles saw a recovery trend in January, and we intend to strive for solid growth by releasing our upcoming titles.

This is our HD Games pipeline. We have multiple new titles planned for launch in Q4 as well.

In Q3, the MMO sub-segment launched expansion packs for “FINAL FANTASY XIV” AND “DRAGON QUEST X ONLINE.”

These are the main titles in our Games for Smart Devices/PC Browser sub-segment.

We released multiple new titles in Q3, but with some exceptions, they got off to starts that underperformed our initial expectations.
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 in the future forecasts described in this material is current as of February 4, 2022. 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 February 4, 2022.
The Amusement segment saw net sales rise YoY, and the segment turned into the black at the operating line. The number of new COVID-19 cases has been on the rise, and we are closely monitoring the impact of that trend on the segment.

Net sales and operating income grew YoY in the Publication segment, but the segment’s growth has slowed. Our challenge will be to identify how to achieve further growth going forward.

The Merchandising segment saw net sales and operating income grow YoY. We have stated our intention to achieve further growth through the digital transformation of the segment and believe that NFTs will be especially important.
I will next discuss our revised financial forecasts.

### Financial forecast revisions

We have maintained our initial FY2022/3 guidance for full-year net sales of ¥340 billion. We have revised our profit forecasts, now looking for operating income of ¥50 billion, ordinary income of ¥50 billion, and net income attributable to parent company shareholders of ¥35 billion.

To forecast our operating income, we deemed that we would need to have a better idea of Q4 trends regarding sales of new HD games, the performance of smartphone games, etc. We therefore have set our operating income forecast at a level on par with our achievement in Q3. We set our ordinary income forecast at the same ¥50 billion as our operating income forecast given the difficulty in quantitatively assessing the impact of foreign exchange rate trends. We forecast net income of ¥35 billion, premised on an effective tax rate of 30%.

We plan a year-end dividend of ¥78 per share based on a consolidated dividend payout ratio of 30%.

We described blockchain game initiatives at our November 5, 2021 Financial Results Briefing session and are working to be able to elaborate on our business plans for FY2023/3 and beyond.
SQUARE ENIX HOLDINGS CO., LTD.
Q3 FY2022/3 Financial Results Briefing Session Q&A

Date/Time: February 4, 2022 (Fri.); 6:30-7:30 pm (JST)
Main Speaker: Yosuke Matsuda, President and Representative Director

Q&A

Q: What feedback have you gotten on the Epic Games Store version of “FINAL FANTASY VII REMAKE INTERGRADE,” which you launched in December 2021? Also, why have you only offered it via the Epic Games Store?
A: We have seen a fair response. I cannot go into the specific reasons why we chose the Epic Games Store, but our decision was the outcome of our comparative analysis of a variety of different factors.

Q: It seems like the new smartphone games you launched in Q2 and Q3 are struggling. Did that impact Q3 earnings? Please also tell us about your outlook and strategy for smartphone games going forward.
A: We wrote down the value of some of our titles in Q3. To date, we have primarily used outsourcing to develop our smartphone games, but going forward we want to make changes, including stepping up our internal development efforts.

Q: Starting in mid-December 2021, you suspended sales of the Starter and Complete editions of “FINAL FANTASY XIV” because of server congestion. Given that you resumed sales in late January 2022, is it possible that the sustained booking of revenue from those products will keep MMO earnings high going forward?
A: We believe that we can expect those products to generate a certain amount of revenue in Q4 and beyond. I hope that you will watch for forthcoming information that we provide regarding our intentions for “FINAL FANTASY XIV” and base your earnings estimates on that.

Q: Is it possible that factors in the external environment such as the uptake of next-generation consoles and new titles from your peers could impact the release dates of your own new HD games?
A: We do intend to consider the release dates for our new titles based on conditions such as the semiconductor supply shortage and our peers’ schedules.

Q: Why did you generate more revenue from HD games in Q3 than in Q1?
A: That is due to factors such as the Q3 release of “Marvel’s Guardians of the Galaxy” and other new titles, as well as initiatives we undertook during the holiday season that led to additional sales of existing titles.
Q: With game developer salaries rising globally, what is your thinking on how you should invest in talent?

A: In addition to achieving sales and profit growth, we at the same time want to invest in our human capital, including by providing attractive compensation packages.