We would now like to begin the Financial Results Briefing session of SQUARE ENIX HOLDINGS (the “Company”) for the fiscal year ended March 31, 2022 (“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 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. I will be providing an overview of our financial results.

In FY2022/3, the Company booked net sales of ¥365.2 billion (up ¥32.7 billion YoY), operating income of ¥59.2 billion (up ¥12 billion), ordinary income of ¥70.7 billion (up ¥20.8 billion), and net income attributable to parent company shareholders of ¥51 billion (up ¥24.1 billion).
I will next break down our results by segment. The Digital Entertainment segment posted net sales of ¥279.6 billion (up ¥15.7 billion) and operating income of ¥58.9 billion (up ¥8.4 billion).

While the HD Games sub-segment released titles such as “OUTRIDERS,” “Marvel’s Guardians of the Galaxy,” and “NieR Replicant ver.1.22474487139...,” its net sales were lower than in 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 that 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 ¥45.8 billion (up ¥11.5 billion) and operating income of ¥2 billion (an operating loss of ¥1.5 billion in the previous fiscal year). Net income rose YoY, and the operating income line turned into the black, unlike the previous fiscal year, when the segment sustained a 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 ¥29 billion (up ¥2.2 billion) and operating income of ¥12.2 billion (up ¥600 million). The YoY rise in net sales and operating income owed not only to brisk sales of digital media, but also to solid sales of print media driven in part by the major success of “My Dress-Up Darling.”

The Merchandising segment booked net sales of ¥14 billion (up ¥4.6 billion) and operating income of ¥3.9 billion (up ¥1.7 billion). Brisk sales of new character merchandise based on the Group’s
owned content contributed to the YoY growth in net sales and operating income.

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

I am Yosuke Matsuda. I will be providing an overview of conditions in FY2022/3.

In FY2022/3, we set new all-time highs for net sales and all our profit lines.

This is a breakdown for the Digital Entertainment segment.
In the HD Game sub-segment, the performances of some of our new titles fell short of our expectations, but we were able to build up our operating income in Q4 thanks to a solid performance by “FINAL FANTASY XIV” in the MMO sub-segment.
These are the HG Games we launched in FY2022/3.

In the MMO sub-segment, we released expansion packs in FY2022/3 for “FINAL FANTASY XIV” and “DRAGON QUEST X ONLINE.” In particular, we are extremely pleased with the performance of “FINAL FANTASY XIV.”

We are expecting a considerable earnings contribution again in FY2023/3.

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

Among our new titles, “ECHOES OF MANA,” which launched in April, got off to a solid start. In the summer of 2022, we are slated to release “FULLMETAL ALCHEMIST MOBILE,” which has turned out very well and received great results on the closed beta test we recently ran. We expect to achieve further growth in FY2023/3 thanks to earnings contributions from new titles.

This slide shows the breakdown of digital versus physical sales in the Digital Entertainment segment.
This slide shows units sold by region in FY2022/3. Units sold were down YoY as the previous fiscal year had seen the release of multiple major titles, as well as substantial back catalog sales due to the pandemic.

The content production account stood at ¥96.7 billion at the end of FY2022/3. This figure includes multiple major titles, and we are working to ensure the quality of each release.

The Amusement segment saw net sales rise YoY, and the segment turned into the black at the operating line. We are hoping to see a further recovery in FY2023/3.

Net sales and operating income grew YoY in the Publication segment, thanks not only to brisk sales of digital media, but also to solid sales of print media driven in part by the major success of “My Dress-Up Darling.” We expect further growth in FY2023/3.
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 May 13, 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 May 13, 2022.

This slide shows the split between digital and print sales in the Publication segment, illustrating that we are achieving balanced growth in both.

The Merchandising segment saw net sales and operating income grow YoY. We are expecting considerable earnings contributions in FY2023/3 as well.

We continue to use a consolidated dividend payout ratio of 30% as our guideline for shareholder return and plan an annual dividend of ¥129 per share for FY2022/3.

I will next provide an update on our medium-term business strategy.
I will first discuss our divestiture of select overseas studios and IP (the “Transaction”).

Our materials provide an overview and details of the Transaction, but I note that its primary purpose was a reorientation of our portfolio. We especially revisited our studio and title portfolios from the perspective of stepping up our offering of online titles that we develop for the North American and the European market. We want to focus on creating new titles that align with our strategy, including ones that leverage new IP. The *JUST CAUSE* franchise will remain our IP, and we are at work developing a new title in the franchise.

In addition to reorienting our portfolio, we will also enhance our publishing function. We have created new Chief Publishing Officer (CPO) roles and will be working to optimize the processes in our publishing function and pursuing integrated group management.

I will provide a few additional comments on the Transaction. Firstly, we have included the financial statements for the main companies to be divested in a May 2, 2022 release entitled “Execution of Share Transfer Agreement with Change to Subsidiaries,” but please recognize that these are stand-alone figures for the individual entities within the consolidated group. Please also note that the assets to be divested include past franchise titles, small- and medium-sized titles, and DLC.
Rather than using the proceeds from the divestiture in new investment domains such as NFT and blockchain, we intend to use them primarily to fund our efforts to foster solid IP and to enhance our development capabilities in our core Digital Entertainment segment.

Our intention is to undertake fund raising efforts for our new investment domains separate from those for our core business, and we are considering various possibilities, including potentially establishing a CVC.
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Our materials describe the status of our investment in key areas, but we are also exploring the possibility of undertaking multiple other investments.

I will lastly discuss our financial forecasts for FY2023/3.

As we mentioned in our May 2, 2022 release entitled “Execution of Share Transfer Agreement with Change to Subsidiaries,” we are in the process of carefully assessing the earnings impact of the aforementioned Transaction. This makes formulating reasonable forecasts difficult at present, so we are refraining from providing financial forecasts for FY2023/3 at this time. We will release forecasts as soon as we are able to formulate them.

In FY2023/3, we intend to undertake a variety of initiatives to pave the way for our achievement of the medium-term earnings targets we have set for FY2024/3, the final year of our medium-term plan.
Q: Several of the new HD game titles you have released in the past few years have struggled in terms of profitability. Could you reflect on that? Could you also describe your thinking on your forthcoming pipeline, as represented by your growing content production account?

A: We have to admit that multiple HD game titles released in the past two years have struggled in terms of their performance. Meanwhile, our content production account includes multiple new titles leveraging major existing IPs, and we are developing them to a very high level of quality. We plan to release information on each of those titles going forward as developments warrant.

Q: In the past, you had said that you wanted to focus on development efforts that leveraged the strengths of your individual studios. Does the sale of the multiple overseas studios that you announced on May 2 mean that you will be focusing exclusively on developing online titles for overseas markets?

A: We will not necessarily be focusing exclusively on online titles, but they do represent a key area of interest for us going forward, and we intend to develop titles that offer greater scalability and flexibility.