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, 2024 (“Q1 FY2024/3”).

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

First, Mr. Matsuda will give an overview of the Company’s financial results for Q1 FY2024/3, after which Mr. Kiryu will describe the progress made by each of the Company’s business segments.

I am Atsushi Matsuda. I will be providing an overview of our Q1 FY2024/3 financial results.

In Q1 FY2024/3, the Company booked net sales of ¥85.6 billion (up ¥10.8 billion YoY), operating income of ¥3.0 billion (down ¥11.4 billion), ordinary income of ¥9.1 billion (down ¥17.1 billion), and profit attributable to owners of parent of ¥6.3 billion (down ¥12.0 billion).
I will next break down our results by segment.

The Digital Entertainment segment posted net sales of ¥62.3 billion (up ¥8.8 billion YoY) and operating income of ¥2.7 billion (down ¥11.4 billion). Net sales in the HD Games sub-segment rose YoY due to the release of such titles as “FINAL FANTASY XVI” and “FINAL FANTASY PIXEL REMASTER.” Net sales in the MMO sub-segment fell YoY.

Despite the launch of “DRAGON QUEST CHAMPIONS” in June, the Games for Smart Devices/PC Browser sub-segment saw a YoY decline in net sales due to the weak performances from existing titles.

The Amusement segment booked net sales of ¥13.3 billion (up ¥1.4 billion YoY) and operating income of ¥1.4 billion (up ¥300 million). The YoY growth in net sales and operating income owed to same-store sales exceeding those of the previous year.

The Publication segment posted net sales of ¥5.9 billion (down ¥300 million) and operating income of ¥2.1 billion (down ¥300 million). The YoY declines in net sales and operating income were attributable to both digital and print sales falling short of the previous year’s levels.

The Merchandising segment booked net sales of ¥4.7 billion (up ¥1.1 billion YoY) and operating income of ¥1.2 billion (up ¥400 million). Sales of new merchandise based on key IP were brisk, resulting in the YoY rises in net sales and operating income.

That concludes my overview of our Q1 FY2024/3 financial results.

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 Aug 4, 2023. 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 Aug 4, 2023.
I am Takashi Kiryu. I will be discussing our Q1 FY2024/3 financial results and progress in each of our business segments.

In Q1 FY2024/3, net sales rose YoY, but operating income and profit attributable to owners of parent declined.

In the Digital Entertainment segment, net sales rose but operating income declined.

The HD Game sub-segment saw net sales rise due to the June 22 release of "FINAL FANTASY XVI." However, we booked upfront expenses such as the amortization of development cost and advertising costs in Q1, resulting in a YoY decline in operating income. We intend to steadily add to our profits by expanding sales of the aforementioned title in Q2 and beyond.

I will provide further color on our HD Game sub-segment.

I have already discussed "FINAL FANTASY XVI," "FINAL FANTASY PIXEL REMASTER," which we released for the PlayStation 4 and the Nintendo Switch in Q1 FY2024/3, saw brisk sales.

We are expecting further growth in Q2 and beyond, not only because we intend to expand sales of "FINAL FANTASY XIV," but also because we plan to launch more new titles.
Net sales declined YoY in the MMO sub-segment, but we announced at our Las Vegas FINAL FANTASY XIV FAN FESTIVAL in late July that we would release our latest expansion pack “FINAL FANTASY XIV: DAWNTAIL” in summer 2024 and the Xbox Series X|S versions in spring 2024.

We expect new initiatives like these to build up excitement around the title.

This slide provides an overview of the Games for Smart Devices/PC Browser sub-segment.

Despite solid performances from mainstay titles such as “Dragon Quest Walk,” net sales declined YoY because of weak performances from mid-sized titles.

The decline in net sales also owed to multiple titles released in FY2023/3 underperforming our expectations.

However, we hope that our forthcoming release “FINAL FANTASY VII EVER CRISIS” will enable us to catch up.

This shows the split between digital and packaged game sales in the Digital Entertainment segment.

This slide shows units sold by region.
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 Aug 4, 2023. 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 Aug 4, 2023.

The Amusement segment delivered a solid performance, with same-store sales rising in both roadside and urban locations. If the return of inbound tourism helps bolster sales at urban locations, we should be able to anticipate further upside.

Net sales and operating income declined YoY in the Publication segment, but we see ample opportunity for us to catch up given that we plan to release multiple major titles in Q2 and beyond.
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 judgement 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 Aug 4, 2023. 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 Aug 4, 2023.

This shows the split between digital and printed media sales in the Publication segment.

Net sales and operating income grew in the Merchandising segment. Sales of new merchandise based on characters from key IPs such as “FINAL FANTASY XVI” were brisk. We hope to be able to continue to release a variety of products on an ongoing basis.
Q&A

Q: Initial sales of “FINAL FANTASY XVI” were three million units. How did that compare to your expectations, and how do you plan to expand sales going forward?
A: This achievement was in line with our expectations. To expand sales, we have planned a variety of PR activities and other initiatives to encourage more of the growing PlayStation5 installed base to play the title.

Q: What sort of events should we be watching for in Q2 and beyond?
A: We are especially looking forward to “FINAL FANTASY VII EVER CRISIS.” Given the title’s nature as a free-to-play (F2P) game, we believe it fair to expect substantial upside for our earnings should the title outperform our assumptions.

Q: When can we expect to see improved profitability and other benefits from the selection and concentration you have pursued by divesting multiple overseas studios and consolidating your title portfolio?
A: We are currently examining our HD Game pipeline, but we believe that it will take a fair amount of time to produce results. However, our development lead times are shorter in the Games for Smart Devices/PC Browser sub-segment than in the HD Game sub-segment, so we expect benefits from our selection and concentration efforts to materialize more quickly in the former sub-segment.

Q: What do you hope to accomplish now that you have assumed the role of president?
A: I want to improve our profitability. I see ample room for improvement in our operating profit margin and would like to start by working primarily on our HD games.

In addition, rather than solely attempting to create brand-new IPs, we intend take a nuanced approach to investment whereby we also identify existing IPs with the potential to be upgraded to AAA status, taking ROI into account as well. In so doing, we hope to establish greater depth to the layers of our portfolio.

Lastly, I would also like to continue to consistently grow our Publication, Amusement, and Merchandising segments as sources of recurring earnings, thereby enabling our Group to mitigate the volatility of the HD Game sub-segment and improve its profitability.

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 judgement 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 Aug 4, 2023. 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 Aug 4, 2023.