



Consolidated Financial Results
for the Nine-Month Period Ended December 31, 2020 (Japan GAAP)

February 3, 2021

Company name: SQUARE ENIX HOLDINGS CO., LTD.
Shares traded: Tokyo Stock Exchange, First Section
Company code: 9684
Company URL: <https://www.hd.square-enix.com/eng>
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Financial report submission: February 8, 2021 (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, 2020 through December 31, 2020)

(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, 2020	253,643	33.7	41,022	47.7	38,703	38.3	18,371	(4.3)
December 31, 2019	189,715	4.4	27,770	124.3	27,995	68.4	19,190	106.6

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

Nine months ended December 31, 2019 Comprehensive income: 19,253 million yen [148.2%]

	Earnings per share, basic	Earnings per share, diluted
Nine months ended	yen	yen
December 31, 2020	153.96	153.58
December 31, 2019	160.96	160.71

(2) Consolidated Financial Position

(Millions of yen, ratios in percents and per share data)

	Total assets	Net assets	Equity ratio
As of			%
December 31, 2020	318,870	234,773	73.3
March 31, 2020	302,634	221,928	73.1

Note: Total equity As of December 31, 2020: 233,867 million yen

As of March 31, 2020: 221,183 million yen

2. Dividends

	Dividends per share				
	1Q	2Q	3Q	4Q	Total
	yen	yen	yen	yen	yen
Fiscal year ended March 31, 2020	—	10.00	—	44.00	54.00
Fiscal year ending March 31, 2021	—	10.00	—		
Fiscal year ending March 31, 2021 (projection)				51.00	61.00

Note: No change in Dividends projection from the previous announcement.

3. Consolidated Forecasts (April 1, 2020 to March 31, 2021)

(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, 2021	290,000 11.3	40,000 22.1	40,000 24.6	24,000 12.4	201.14

Note: No change in Consolidated forecasts from the previous announcement.

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: No
 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, 2020	122,531,596
As of March 31, 2020	122,531,596
 2. Number of treasury stock:

As of December 31, 2020	3,162,255
As of March 31, 2020	3,237,714
 3. Average number of shares during the period (cumulative):

Nine-Month period ended December 31, 2020	119,331,820
Nine-Month period ended December 31, 2019	119,223,365

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, 2020 (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, 2020

(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, 2020 totaled ¥253,643 million (an increase of 33.7% from the same period of the prior fiscal year), operating income amounted to ¥41,022 million (an increase of 47.7% from the same period of the prior fiscal year), and ordinary income amounted to ¥38,703 million (an increase of 38.3% from the same period of the prior fiscal year), and profit attributable to owners of parent amounted to ¥18,371 million (a decrease of 4.3% from the same period of the prior fiscal year).

A discussion of results by segment for the Nine-Month period ended December 31, 2020 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, 2020 saw the release of major titles including "FINAL FANTASY VII REMAKE" and "Marvel's Avengers," growth in digital sales of catalog titles, and licensing income that resulted in higher net sales than in the same period of the previous fiscal year, as well as a turn to profit at the operating line.

Net sales declined at the MMO (Massively Multiplayer Online) Game sub-segment due to the release of the "FINAL FANTASY XIV" and "DRAGON QUEST X" expansion packs in the previous fiscal year, but operating income rose in part due to the growth of recurring revenue from the same titles compared with the previous fiscal year.

Both net sales and operating income rose in comparison to the previous fiscal year at the Games for Smart Devices/PC Browser sub-segment not only because of solid performances from existing titles such as "DRAGON QUEST WALK" and "WAR OF THE VISIONS: FINAL FANTASY BRAVE EXVIUS," but also earnings from "DRAGON QUEST TACT" and "OCTOPATH TRAVELER: Tairiku no Hasha," both of which were launched in the current fiscal year.

Net sales and operating income in the Digital Entertainment segment totaled ¥203,536 million (an increase of 48.6% from the same period of the prior fiscal year), and ¥42,204 million (an increase of 43.0% 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.

In the ninth-month period ended December 31, 2020, the Amusement segment saw a sharp decline in net sales compared to the previous fiscal year and booked an operating loss due to the temporary closure of amusement facilities in Japan during the first quarter of this fiscal year. The closures were designed to combat the spread of COVID-19 in response to the Japanese government's declaration of a state of emergency.

Net sales and operating loss in the Amusement segment totaled ¥24,314 million (a decrease of 27.8% from the same period of the prior fiscal year), and ¥1,116 million (operating income of ¥1,496 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 in digital formats, including via the “MANGA UP!” comic app and of e-books, rose sharply in the nine-month period ended December 31, 2020. This, combined with brisk sales of printed media, 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 Publication segment totaled ¥20,134 million (an increase of 45.0% from the same period of the prior fiscal year) and ¥8,867 million (an increase of 77.8% 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 character merchandise, soundtracks, and other products based on the Group’s own content during the nine-month period ended December 31, 2020 resulted in growth in net sales and operating income versus the same period of the previous fiscal year.

Net sales and operating income in the Merchandising segment totaled ¥7,002 million (an increase of 6.7% from the same period of the prior fiscal year), and ¥1,865 million (an increase of 154.2% from the same period of the prior fiscal year), respectively.

(2) Analysis of consolidated financial position

●Assets

As of December 31, 2020, total current assets were ¥268,054 million, an increase of ¥17,158 million compared to March 31, 2020. This was mainly due to an increase in cash and deposits of ¥20,389 million and content production account of ¥3,050 million, while notes and accounts receivable decreased by ¥3,221 million. As of December 31, 2020, total non-current assets were ¥50,815 million, a decrease of ¥922 million compared to March 31, 2020.

As a result, total assets were ¥318,870 million, an increase of ¥16,236 million compared to March 31, 2020.

●Liabilities

As of December 31, 2020, total current liabilities were ¥72,025 million, an increase of ¥2,681 million compared to March 31, 2020. This was mainly due to an increase in the other on current liabilities of ¥5,860 million and provision for sales returns of ¥1,819 million, while provision for bonuses, notes and accounts payable and income taxes payable decreased by ¥1,923 million, ¥1,863 million and ¥1,341 million respectively. As of December 31, 2020, total non-current liabilities were ¥12,070 million, an increase of ¥709 million compared to March 31, 2020.

As a result, total liabilities were ¥84,096 million, an increase of ¥3,390 million compared to March 31, 2020.

●Net assets

As of December 31, 2020, net assets were ¥234,773 million, an increase of ¥12,845 million compared to March 31, 2020. This was mainly due to profit attributable to owners of parent of ¥18,371 million and dividend payments of ¥6,442 million.

As a result, the consolidated equity ratio stood at 73.3% (73.1% as of March 31, 2020).

(3) Qualitative information on consolidated business forecasts

The market of software for consumer game consoles is expected to make further growth given the launch of multiple streaming services and next-generation consoles. 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.

While the consolidated operating income for the nine-month period ended December 31, 2020 exceeded the forecasts for the fiscal year ending March 31, 2021 released on November 6, 2020, the Group maintains those forecasts at present given the impact of the COVID-19 pandemic and other factors on the Group's financial performance.

2. Consolidated Financial Statements for the Nine-Month Period Ended December 31, 2020

(1) Consolidated Balance Sheets

(Millions of yen)

	As of March 31, 2020	As of December 31, 2020
Assets		
Current assets		
Cash and deposits	123,450	143,839
Notes and accounts receivable-trade	41,474	38,253
Merchandise and finished goods	5,850	4,310
Work in progress	206	46
Raw materials and supplies	433	395
Content production account	71,479	74,529
Other	8,163	6,881
Allowance for doubtful accounts	(161)	(201)
Total current assets	250,896	268,054
Non-current assets		
Property, plant and equipment	20,547	19,416
Intangible assets	5,387	5,429
Investments and other assets	25,802	25,969
Total non-current assets	51,737	50,815
Total assets	302,634	318,870

(Millions of yen)

As of March 31, 2020 As of December 31, 2020

Liabilities		
Current liabilities		
Notes and accounts payable-trade	25,537	23,674
Income taxes payable	10,159	8,818
Provision for bonuses	4,061	2,137
Provision for sales returns	4,253	6,072
Provision for loss on game arcade closings	43	169
Asset retirement obligations	3	7
Other	25,285	31,145
Total current liabilities	69,344	72,025
Non-current liabilities		
Provision for directors' retirement benefits	52	52
Provision for loss on game arcade closings	40	40
Net defined benefit liability	3,214	3,458
Asset retirement obligations	3,291	3,444
Other	4,761	5,074
Total non-current liabilities	11,360	12,070
Total liabilities	80,705	84,096
Net assets		
Shareholders' equity		
Capital stock	24,039	24,039
Capital surplus	53,388	53,528
Retained earnings	159,222	171,152
Treasury stock	(9,900)	(9,676)
Total shareholders' equity	226,750	239,043
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(162)	55
Foreign currency translation adjustment	(5,085)	(5,052)
Remeasurements of defined benefit plans	(318)	(179)
Total accumulated other comprehensive income	(5,567)	(5,176)
Subscription rights to shares	608	762
Non-controlling interests	137	144
Total net assets	221,928	234,773
Total liabilities and net assets	302,634	318,870

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

(Millions of yen)

	Nine months ended December 31, 2019	Nine months ended December 31, 2020
Net sales	189,715	253,643
Cost of sales	96,271	126,699
Gross profit	93,443	126,944
Reversal of provision for sales returns	9,012	4,136
Provision for sales returns	4,941	6,183
Gross profit-net	97,514	124,896
Selling, general and administrative expenses	69,743	83,874
Operating income	27,770	41,022
Non-operating income		
Interest income	287	36
Dividend income	0	0
Gain on forgiveness of payable for group tax	370	152
Miscellaneous income	400	66
Total non-operating income	1,059	256
Non-operating expenses		
Interest expenses	109	66
Commission fee	3	11
Foreign exchange losses	531	2,377
Miscellaneous loss	188	119
Total non-operating expenses	834	2,574
Ordinary income	27,995	38,703
Extraordinary income		
Gain on sales of non-current assets	2	1
Gain on reversal of subscription rights to shares	7	2
Subsidies for employment adjustment	—	331
Total extraordinary income	9	335
Extraordinary losses		
Loss on sales of non-current assets	—	0
Loss on retirement of non-current assets	78	110
Impairment loss	11	444
Loss on valuation of investment securities	—	457
Provision for loss on store closings	48	396
Loss on temporary closure	—	2,223
Other	0	16
Total extraordinary losses	138	3,649
Profit before income taxes	27,866	35,389
Income taxes-current	7,893	15,248
Income taxes-deferred	780	1,761
Total income taxes	8,674	17,009
Profit	19,191	18,379
Profit attributable to non-controlling interests	1	7
Profit attributable to owners of parent	19,190	18,371

Consolidated Statement of Comprehensive Income

(Millions of yen)

	Nine months ended December 31, 2019	Nine months ended December 31, 2020
Profit	19,191	18,379
Other comprehensive income		
Valuation difference on available-for-sale securities	80	218
Foreign currency translation adjustment	(133)	32
Remeasurements of defined benefit plans	114	139
Total other comprehensive income	61	390
Comprehensive income	19,253	18,770
(Breakdown)		
Comprehensive income attributable to owners of parent	19,260	18,763
Comprehensive income attributable to non-controlling interests	(7)	6

(3) Notes to Consolidated Financial Statements

(Note regarding going concern assumptions)

None

(Material changes in shareholders' equity)

None

(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, 2019

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	136,956	33,285	13,830	5,642	189,715	—	189,715
(2) Intersegment sales	11	388	57	921	1,379	(1,379)	—
Total	136,968	33,674	13,888	6,564	191,095	(1,379)	189,715
Segment operating income	29,515	1,496	4,986	733	36,732	(8,961)	27,770

Notes: 1. Segment adjustments (¥8,961) million include unallocated corporate operating expenses (¥9,036) million.

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

II. 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.