



Consolidated Financial Results
for the Six-Month Period Ended September 30, 2022 (Japan GAAP)

November 7, 2022

Company name: SQUARE ENIX HOLDINGS CO., LTD.
 Shares traded: Tokyo Stock Exchange, Prime Market
 Company code: 9684
 Company URL: <https://www.hd.square-enix.com/eng>
 Representative: Yosuke Matsuda, President and Representative Director
 Contact: Atsushi Matsuda, Chief Accounting Officer
 Tel: (03) 5292-8000
 Financial report submission: November 11, 2022 (planned)
 Cash dividend payment commencement: December 6, 2022 (planned)
 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, 2022 through September 30, 2022)

(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	
Six months ended		%		%		%		%
September 30, 2022	163,392	(3.3)	26,044	(10.6)	45,133	43.4	39,473	71.7
September 30, 2021	168,917	(2.2)	29,146	(7.9)	31,483	3.1	22,991	43.3

Note: Six months ended September 30, 2022 Comprehensive income: 38,471 million yen [68.0%]
 Six months ended September 30, 2021 Comprehensive income: 22,903 million yen [43.8%]

	Earnings per share, basic	Earnings per share, diluted
Six months ended	yen	yen
September 30, 2022	329.91	329.35
September 30, 2021	192.48	192.04

(2) Consolidated Financial Position

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

	Total assets	Net assets	Equity ratio
As of			%
September 30, 2022	400,149	309,140	77.0
March 31, 2022	380,902	284,429	74.4

Note. Total equity As of September 30, 2022: 308,194 million yen
 As of March 31, 2022: 283,519 million yen

2. Dividends

	Dividends per share				
	1Q	2Q	3Q	4Q	Total
	yen	yen	yen	yen	yen
Fiscal year ended March 31, 2022	—	10.00	—	119.00	129.00
Fiscal year ending March 31, 2023	—	10.00			
Fiscal year ending March 31, 2023 (projection)			—	—	—

Note: No change in Dividend projection from previous announcement.

3. Consolidated Forecasts (April 1, 2022 to March 31, 2023)

The Company refrains at this time from disclosing consolidated financial forecasts for the fiscal year through March 31, 2023. For details, please refer to page 4 “1. Consolidated Results for the Six-Month Period Ended September 30, 2022 (3) Qualitative information on consolidated business forecasts.”

Notes

- (1) Significant changes among major subsidiaries during the period: Yes
Eliminated: CRYSTAL DYNAMICS, INC.
- (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 September 30, 2022	122,531,596
As of March 31, 2022	122,531,596
 2. Number of treasury stock:

As of September 30, 2022	2,820,128
As of March 31, 2022	2,927,230
 3. Average number of shares during the period (cumulative):

Six-Month period ended September 30, 2022	119,649,725
Six-Month period ended September 30, 2021	119,451,428

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) At the time of disclosure of this report, review procedures for quarterly financial statements pursuant to the Financial Instruments and Exchange Law had not been completed. (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 Six-Month Period Ended September 30, 2022. (3) Qualitative information on consolidated business forecasts” section on page 4 of Supplemental Information.

Supplemental Information — Index

	Page
1. Consolidated Results for the Six-Month Period Ended September 30, 2022	2
(1) Analysis of consolidated business results	2
(2) Analysis of consolidated financial position	3
(3) Qualitative information on consolidated business forecasts	4
2. Consolidated Financial Statements for the Six-Month Period Ended September 30, 2022	5
(1) Consolidated Balance Sheets	5
(2) Consolidated Income Statement and Consolidated Statement of Comprehensive Income	7
Consolidated Income Statement	7
Consolidated Statement of Comprehensive Income	8
(3) Notes to Consolidated Financial Statements	9
(Note regarding going concern assumptions)	9
(Material changes in shareholders' equity)	9
(Changes in accounting policies)	9
(Additional information)	9
(Segment information)	10

1. Consolidated Results for the Six-Month Period Ended September 30, 2022

(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 six-month period ended September 30, 2022 totaled ¥163,392 million (a decrease of 3.3% from the same period of the prior fiscal year), and operating income amounted to ¥26,044 million (a decrease of 10.6% from the same period of the prior fiscal year). In foreign exchange rates, the weakness of Japanese yen compared to rates as of the end of the prior fiscal year resulted in the booking of a foreign exchange gain amounting to ¥20,143 million, which contributed to ordinary income of ¥45,133 million (an increase of 43.4% from the same period of the prior fiscal year). In addition, the Group concluded a contract to divest select overseas studios and intellectual property through the transfer of shares, producing a gain of ¥9,455 million on the gain on sale of shares of subsidiaries and associates. This contributed to a profit attributable to owners of parent of ¥39,473 million (an increase of 71.7% from the same period of the previous year).

A discussion of results by segment for the six-month period ended September 30, 2022 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 sixth-month period ended September 30, 2022 saw the release of such titles as "LIVE A LIVE" and "Dragon Quest X." However, because of lower earnings from the new titles, the sub-segment's net sales declined compared to the same period of the previous fiscal year, which had seen the release of "OUTRIDERS" and "NieR Replicant ver.1.22474487139..."

In the MMO (Massively Multiplayer Online) Game sub-segment, net sales rose compared to the same period of the previous year due to growth in the number of monthly paying subscribers for "FINAL FANTASY XIV."

In the Games for Smart Devices/PC Browser sub-segment, "FULLMETAL ALCHEMIST MOBILE," which was launched in August, got off to a brisk start, but partly because that was not enough to compensate for weak performances from existing titles, the sub-segment's net sales declined compared to the same period of the previous fiscal year.

Net sales and operating income in the Digital Entertainment segment totaled ¥117,156 million (a decrease of 9.5% from the same period of the prior fiscal year), and ¥24,596 million (a decrease of 16.6% 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.

The sixth-month period ended September 30, 2022 saw net sales and operating income rise compared to the same period of the previous fiscal year due to a substantial year-on-year increase in sales at existing arcades.

Net sales and operating income in the Amusement segment totaled ¥25,859 million (an increase of 22.7% from the same period of the prior fiscal year), and ¥2,547 million (an increase of 289.9% from 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.

The sixth-month period ended September 30, 2022 saw net sales and operating income rise compared to the same period of the previous fiscal year as the major success of “My Dress-Up Darling” helped drive brisk comic book sales, and sales of both digital and printed media grew.

Net sales and operating income in the Publication segment totaled ¥14,686 million (an increase of 3.8% from the same period of the prior fiscal year) and ¥6,052 million (an increase of 1.3% 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.

The sixth-month period ended September 30, 2022 saw brisk sales of such products as new character merchandise based on the Group’s own key content, resulting in higher net sales for the segment than in the same period of the previous year. However, the segment’s operating income declined, partly due to changes in the sales mix by product.

Net sales and operating income in the Merchandising segment totaled ¥7,429 million (an increase of 28.0% from the same period of the prior fiscal year), and ¥1,775 million (a decrease of 1.2% from the same period of the prior fiscal year), respectively.

(2) Analysis of consolidated financial position

●Assets

As of September 30, 2022, total current assets were ¥346,942 million, an increase of ¥24,486 million compared to March 31, 2022. This was mainly due to increases in cash and deposits of ¥26,528 million and content production account of ¥2,275 million, while notes and accounts receivable and the other on current assets decreased by ¥3,255 million and ¥1,509 million respectively. As of September 30, 2022, total non-current assets were ¥53,207 million, a decrease of ¥5,240 million compared to March 31, 2022.

As a result, total assets were ¥400,149 million, an increase of ¥19,246 million compared to March 31, 2022.

●Liabilities

As of September 30, 2022, total current liabilities were ¥80,613 million, a decrease of ¥3,186 million compared to March 31, 2022. This was mainly due to an increase in income taxes payable of ¥1,826 million, while notes and accounts payable and provision for bonuses decreased by ¥3,033 million and ¥2,657 million respectively. As of September 30, 2022, total non-current liabilities were ¥10,395 million, a decrease of ¥2,277 million compared to March 31, 2022.

As a result, total liabilities were ¥91,009 million, a decrease of ¥5,463 million compared to March 31, 2022.

●Net assets

As of September 30, 2022, net assets were ¥309,140 million, an increase of ¥24,710 million compared to March 31, 2022. This was mainly due to profit attributable to owners of parent of ¥39,473 million and dividend payments of ¥14,232 million.

As a result, the consolidated equity ratio stood at 77.0% (74.4% as of March 31, 2022).

(3) Qualitative information on consolidated business forecasts

As a result of digitization and other technological advances, consumer game content is increasingly sold via downloads rather than physical packages. Monetization methods such as free-to-play, microtransactions, and subscriptions have also given rise to a greater diversity of business models outside the confines of traditional one-off sales. As such, the consumer game market continues to grow.

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 increased presence of Asian players in the Japanese market has intensified competition, reducing the odds of new titles succeeding.

By developing content and diversifying earnings opportunities in line with this changing environment, the Group is working to establish an earnings platform with the goal of enabling sustained growth in sales and profits.

As noted in the Company's August 26, 2022 press release entitled "Completion of Share Transfer with Change to Subsidiaries," the Company completed its divestiture of overseas studios, which resulted in the posting of an extraordinary gain on sale of shares of subsidiaries and associates during the second quarter of the consolidated fiscal year ending March 31, 2023.

However, due to the nature of that transaction, its impact on the Company's financial results for the fiscal year ending March 31, 2023 is not limited to those arising at the point of the divestiture. A careful assessment of the costs associated with the transfer of IT systems and other items is required.

In addition, the company plans to release major new titles in the second half of the fiscal year, but continued disruptions in global supply chains and other factors make the formulation of reasonable sales forecasts difficult.

Furthermore, sharp fluctuations in foreign exchange rates may impact the Company at the ordinary income and net income lines. Moreover, inflation and the sharp rise in interest rates globally could result in economic conditions that have a substantial impact on the Group's financial results.

For the reasons outlined above, the Company has determined that formulating reasonable consolidated financial forecasts for the fiscal year through March 31, 2023 would be difficult and therefore refrains from disclosing such forecasts at this time.

2. Consolidated Financial Statements for the Six-Month Period Ended September 30, 2022

(1) Consolidated Balance Sheets

(Millions of yen)

	As of March 31, 2022	As of September 30, 2022
Assets		
Current assets		
Cash and deposits	163,088	189,616
Notes and accounts receivable-trade	44,968	41,712
Merchandise and finished goods	4,687	4,979
Work in progress	18	—
Raw materials and supplies	485	575
Content production account	96,765	99,040
Other	12,711	11,201
Allowance for doubtful accounts	(268)	(184)
Total current assets	322,455	346,942
Non-current assets		
Property, plant and equipment	19,814	16,903
Intangible assets	7,375	5,850
Investments and other assets	31,257	30,453
Total non-current assets	58,447	53,207
Total assets	380,902	400,149

(Millions of yen)

	As of March 31, 2022	As of September 30, 2022
Liabilities		
Current liabilities		
Notes and accounts payable-trade	27,598	24,565
Income taxes payable	8,442	10,268
Provision for bonuses	6,539	3,882
Refund liabilities	5,616	5,263
Other	35,602	36,633
Total current liabilities	83,800	80,613
Non-current liabilities		
Provision for directors' retirement benefits	17	17
Net defined benefit liability	3,842	3,966
Asset retirement obligations	3,842	3,819
Other	4,969	2,591
Total non-current liabilities	12,672	10,395
Total liabilities	96,472	91,009
Net assets		
Shareholders' equity		
Capital stock	24,039	24,039
Capital surplus	53,880	54,030
Retained earnings	221,316	246,556
Treasury stock	(8,964)	(8,637)
Total shareholders' equity	290,272	315,989
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(24)	52
Foreign currency translation adjustment	(6,844)	(7,970)
Remeasurements of defined benefit plans	116	123
Total accumulated other comprehensive income	(6,752)	(7,794)
Subscription rights to shares	718	714
Non-controlling interests	191	230
Total net assets	284,429	309,140
Total liabilities and net assets	380,902	400,149

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

(Millions of yen)

	Six months ended September 30, 2021	Six months ended September 30, 2022
Net sales	168,917	163,392
Cost of sales	75,799	72,545
Gross profit	93,118	90,847
Selling, general and administrative expenses	63,971	64,802
Operating income	29,146	26,044
Non-operating income		
Interest income	37	188
Dividend income	0	0
Foreign exchange gains	945	20,143
Gain on investments in securities	790	383
Gain on sale of crypto assets	567	838
Revenue from business held for sale	—	3,648
Miscellaneous income	41	56
Total non-operating income	2,383	25,258
Non-operating expenses		
Interest expenses	41	55
Commission fee	4	1,029
Expenses from business held for sale	—	5,083
Miscellaneous loss	1	0
Total non-operating expenses	46	6,169
Ordinary income	31,483	45,133
Extraordinary income		
Gain on sales of non-current assets	0	—
Subsidy income related to COVID-19	144	9
Gain on sale of shares of subsidiaries and associates	344	9,455
Other	47	4
Total extraordinary income	536	9,469
Extraordinary losses		
Loss on retirement of non-current assets	25	22
Impairment loss	5	1
Loss on temporary closure	296	—
Loss on disposal of content	—	2,116
Other	7	144
Total extraordinary losses	334	2,285
Profit before income taxes	31,685	52,317
Income taxes-current	8,394	12,187
Income taxes-deferred	290	643
Total income taxes	8,684	12,830
Profit	23,000	39,487
Profit attributable to non-controlling interests	8	14
Profit attributable to owners of parent	22,991	39,473

Consolidated Statement of Comprehensive Income

(Millions of yen)

	Six months ended September 30, 2021	Six months ended September 30, 2022
Profit	23,000	39,487
Other comprehensive income		
Valuation difference on available-for-sale securities	(70)	76
Foreign currency translation adjustment	12	(1,100)
Remeasurements of defined benefit plans	(38)	6
Total other comprehensive income	(96)	(1,016)
Comprehensive income	22,903	38,471
(Breakdown)		
Comprehensive income attributable to owners of parent	22,882	38,431
Comprehensive income attributable to non-controlling interests	20	39

(3) Notes to Consolidated Financial Statements
(Note regarding going concern assumptions)
None

(Material changes in shareholders' equity)
None

(Changes in accounting policies)
(Application of Application Guidelines for Accounting Standards related to the Calculation of Market Value)

The Company has applied the Application Guidelines for Accounting Standards related to the Calculation of Market Value (Corporate Accounting Standard Application Guideline No. 31 of June 17, 2021; "Application Guidelines for Market Value Standards") since the start of the three-month period ended June 30, 2022. In keeping with the transitional treatment described in Paragraph 27-2 of the Application Guidelines for Market Value Standards, the Company will continue to apply new accounting practices set forth under the Application Guidelines for Market Value Standards. As a result, there is no impact to the consolidated financial statements for the six month period ended September 30, 2022.

(Additional information)
(Application of the Practical Solution on Accounting and Disclosure under the Group Tax Sharing System)

The Company and its domestic consolidated subsidiaries have transitioned from the consolidated tax payment system to the group tax sharing system from the three-month period ended June 30, 2022. As a result, the Company's accounting for and disclosure of corporate tax, local corporation tax, and tax effects is in compliance with the Practical Solution on Accounting and Disclosure under the Group Tax Sharing System (Practical Solution No. 42 of August 12, 2021). Also, based on Paragraph 32-1 of Practical Solution No. 42, the Company deems that changes in accounting practices associated with the application of Practical Solution No. 42 have had no impact on its consolidated financial results.

(Segment information)

I. Outline of reporting segments for the Six-Month period ended September 30, 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	69,875	20,052	13,612	2,810	106,350	—	106,350
Overseas	59,565	104	412	2,484	62,567	—	62,567
Revenue from contracts with customers	129,440	20,157	14,024	5,295	168,917	—	168,917
Other revenue	—	—	—	—	—	—	—
(1) Sales to outside customers	129,440	20,157	14,024	5,295	168,917	—	168,917
(2) Intersegment sales	10	913	123	508	1,556	(1,556)	—
Total	129,451	21,070	14,148	5,804	170,474	(1,556)	168,917
Segment operating income	29,499	653	5,973	1,796	37,923	(8,776)	29,146

Notes: 1. Segment adjustments (¥8,776) million include unallocated corporate operating expenses (¥8,952) million.

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

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

II. Outline of reporting segments for the Six-Month period ended September 30, 2022

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	69,627	24,281	13,667	3,226	110,802	—	110,802
Overseas	47,509	434	1,004	3,641	52,589	—	52,589
Revenue from contracts with customers	117,137	24,716	14,671	6,867	163,392	—	163,392
Other revenue	—	—	—	—	—	—	—
(1) Sales to outside customers	117,137	24,716	14,671	6,867	163,392	—	163,392
(2) Intersegment sales	19	1,143	14	562	1,739	(1,739)	—
Total	117,156	25,859	14,686	7,429	165,132	(1,739)	163,392
Segment operating income	24,596	2,547	6,052	1,775	34,972	(8,928)	26,044

Notes: 1. Segment adjustments (¥8,928) million include unallocated corporate operating expenses (¥9,021) million.

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

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