

Consolidated Financial Results
for the Six-Month Period Ended September 30, 2020 (Japan GAAP)

November 6, 2020

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>
 Representative: Yosuke Matsuda, President and Representative Director
 Contact: Atsushi Matsuda, General Manager, Accounting and Finance
 Tel: (03) 5292-8000
 Financial report submission: November 12, 2020 (planned)
 Cash dividend payment commencement: December 4, 2020 (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, 2020 through September 30, 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	
Six months ended		%		%		%		%
September 30, 2020	172,731	43.0	31,655	98.9	30,537	95.6	16,047	46.3
September 30, 2019	120,762	8.2	15,918	62.9	15,609	6.1	10,969	32.0

Note: Six months ended September 30, 2020 Comprehensive income: 15,928 million yen [47.1%]

Six months ended September 30, 2019 Comprehensive income: 10,828 million yen [48.3%]

	Earnings per share, basic	Earnings per share, diluted
Six months ended	yen	yen
September 30, 2020	134.49	134.17
September 30, 2019	92.02	91.90

(2) Consolidated Financial Position

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

	Total assets	Net assets	Equity ratio
As of			%
September 30, 2020	318,707	233,057	72.9
March 31, 2020	302,634	221,928	73.1

Note: Total equity As of September 30, 2020: 232,181 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: Yes change in Dividend 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: Yes 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 September 30, 2020	122,531,596
As of March 31, 2020	122,531,596
 2. Number of treasury stock:

As of September 30, 2020	3,172,021
As of March 31, 2020	3,237,714
 3. Average number of shares during the period (cumulative):

Six-Month period ended September 30, 2020	119,317,254
Six-Month period ended September 30, 2019	119,210,568

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, 2020 (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, 2020	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, 2020	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
(Additional information)	9
(Segment information)	10

1. Consolidated Results for the Six-Month Period Ended September 30, 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 six-month period ended September 30, 2020 totaled ¥172,731 million (an increase of 43.0% from the same period of the prior fiscal year), operating income amounted to ¥31,655 million (an increase of 98.9% from the same period of the prior fiscal year), and ordinary income amounted to ¥30,537 million (an increase of 95.6% from the same period of the prior fiscal year), and profit attributable to owners of parent amounted to ¥16,047 million (an increase of 46.3% from the same period of the prior fiscal year).

A discussion of results by segment for the six-month period ended September 30, 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 six-month period ended September 30, 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 the previous fiscal year of the "FINAL FANTASY XIV" expansion pack, but the number of monthly paying subscribers for that title grew compared to the previous fiscal year, resulting in greater operating income.

The Games for Smart Devices/PC Browser sub-segment saw earnings contributions from "DRAGON QUEST WALK" and "WAR OF THE VISIONS: FINAL FANTASY BRAVE EXVIUS," both of which were launched in the previous fiscal year, as well as from a strong start by "DRAGON QUEST TACT," which was launched in July 2020. The result was higher net sales and operating income than in the same period of the previous fiscal year.

Net sales and operating income in the Digital Entertainment segment totaled ¥142,475 million (an increase of 66.8% from the same period of the prior fiscal year), and ¥33,831 million (an increase of 102.7% 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 sixth-month period ended September 30, 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 ¥13,930 million (a decrease of 39.0% from the same period of the prior fiscal year), and ¥1,623 million (operating income of ¥1,330 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 six-month period ended September 30, 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 ¥12,375 million (an increase of 36.5% from the same period of the prior fiscal year) and ¥5,360 million (an increase of 66.9% 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 six-month period ended September 30, 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 ¥4,809 million (an increase of 6.6% from the same period of the prior fiscal year), and ¥1,528 million (an increase of 142.1% from the same period of the prior fiscal year), respectively.

(2) Analysis of consolidated financial position

- Assets

As of September 30, 2020, total current assets were ¥266,666 million, an increase of ¥15,770 million compared to March 31, 2020. This was mainly due to an increase in cash and deposits of ¥10,582 million and notes and accounts receivable of ¥7,567 million, while merchandise and finished goods account decreased by ¥1,150 million. As of September 30, 2020, total non-current assets were ¥52,040 million, an increase of ¥303 million compared to March 31, 2020.

As a result, total assets were ¥318,707 million, an increase of ¥16,073 million compared to March 31, 2020.

- Liabilities

As of September 30, 2020, total current liabilities were ¥73,762 million, an increase of ¥4,417 million compared to March 31, 2020. This was mainly due to an increase in the other on current liabilities of ¥6,392 million, while notes and accounts payable - trade decreased by ¥2,291 million. As of September 30, 2020, total non-current liabilities were ¥11,887 million, an increase of ¥526 million compared to March 31, 2020.

As a result, total liabilities were ¥85,649 million, an increase of ¥4,944 million compared to March 31, 2020.

- Net assets

As of September 30, 2020, net assets were ¥233,057 million, an increase of ¥11,128 million compared to March 31, 2020. This was mainly due to profit attributable to owners of parent of ¥16,047 million and dividend payments of ¥5,248 million.

As a result, the consolidated equity ratio stood at 72.9% (73.1% as of March 31, 2020).

(3) Qualitative information on consolidated business forecasts

The market for software for consumer game consoles looks poised for further growth given the launch of multiple streaming services and the fact that next-generation consoles are slated for release in 2020. 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.

The Group refrained from including consolidated financial forecasts for the fiscal year through March 31, 2021 in its “Consolidated Financial Results for the Three-Month Period Ended June 30, 2020 (Japan GAAP),” which it released on August 6, 2020, but it has now announced. For details, please see the “Notice of Consolidated Financial Forecasts, Dividend of Surplus (interim) and Year-end Dividend Projection,” released on November 6, 2020.

2. Consolidated Financial Statements for the Six-Month Period Ended September 30, 2020

(1) Consolidated Balance Sheets

(Millions of yen)

	As of March 31, 2020	As of September 30, 2020
Assets		
Current assets		
Cash and deposits	123,450	134,032
Notes and accounts receivable-trade	41,474	49,041
Merchandise and finished goods	5,850	4,699
Work in progress	206	7
Raw materials and supplies	433	371
Content production account	71,479	70,965
Other	8,163	7,708
Allowance for doubtful accounts	(161)	(160)
Total current assets	250,896	266,666
Non-current assets		
Property, plant and equipment	20,547	20,469
Intangible assets	5,387	5,311
Investments and other assets	25,802	26,259
Total non-current assets	51,737	52,040
Total assets	302,634	318,707

As of March 31, 2020 As of September 30, 2020

Liabilities		
Current liabilities		
Notes and accounts payable-trade	25,537	23,246
Income taxes payable	10,159	10,381
Provision for bonuses	4,061	3,027
Provision for sales returns	4,253	5,334
Provision for loss on game arcade closings	43	79
Asset retirement obligations	3	14
Other	25,285	31,678
Total current liabilities	69,344	73,762
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	3,365
Asset retirement obligations	3,291	3,442
Other	4,761	4,986
Total non-current liabilities	11,360	11,887
Total liabilities	80,705	85,649
Net assets		
Shareholders' equity		
Capital stock	24,039	24,039
Capital surplus	53,388	53,512
Retained earnings	159,222	170,021
Treasury stock	(9,900)	(9,705)
Total shareholders' equity	226,750	237,868
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(162)	(153)
Foreign currency translation adjustment	(5,085)	(5,307)
Remeasurements of defined benefit plans	(318)	(226)
Total accumulated other comprehensive income	(5,567)	(5,687)
Subscription rights to shares	608	737
Non-controlling interests	137	138
Total net assets	221,928	233,057
Total liabilities and net assets	302,634	318,707

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

(Millions of yen)

	Six months ended September 30, 2019	Six months ended September 30, 2020
Net sales	120,762	172,731
Cost of sales	63,300	84,428
Gross profit	57,461	88,303
Reversal of provision for sales returns	8,994	4,164
Provision for sales returns	5,772	5,359
Gross profit-net	60,684	87,107
Selling, general and administrative expenses	44,766	55,452
Operating income	15,918	31,655
Non-operating income		
Interest income	232	27
Dividend income	0	0
Gain on forgiveness of payable for group tax	370	152
Miscellaneous income	248	36
Total non-operating income	852	216
Non-operating expenses		
Interest expenses	72	47
Commission fee	2	8
Foreign exchange losses	897	1,210
Miscellaneous loss	187	68
Total non-operating expenses	1,161	1,334
Ordinary income	15,609	30,537
Extraordinary income		
Gain on sales of non-current assets	1	1
Gain on reversal of subscription rights to shares	7	2
Subsidies for employment adjustment	—	291
Total extraordinary income	8	295
Extraordinary losses		
Loss on sales of non-current assets	—	0
Loss on retirement of non-current assets	55	94
Impairment loss	10	93
Provision for loss on store closings	48	183
Loss on temporary closure	—	2,224
Other	—	30
Total extraordinary losses	115	2,627
Profit before income taxes	15,502	28,205
Income taxes-current	4,483	11,120
Income taxes-deferred	47	1,032
Total income taxes	4,531	12,152
Profit	10,971	16,052
Profit attributable to non-controlling interests	1	5
Profit attributable to owners of parent	10,969	16,047

Consolidated Statement of Comprehensive Income

(Millions of yen)

	Six months ended September 30, 2019	Six months ended September 30, 2020
Profit	10,971	16,052
Other comprehensive income		
Valuation difference on available-for-sale securities	57	9
Foreign currency translation adjustment	(275)	(226)
Remeasurements of defined benefit plans	76	92
Total other comprehensive income	(142)	(123)
Comprehensive income	10,828	15,928
(Breakdown)		
Comprehensive income attributable to owners of parent	10,831	15,927
Comprehensive income attributable to non-controlling interests	(3)	1

(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 Six-Month period ended September 30, 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	85,399	22,591	9,031	3,740	120,762	—	120,762
(2) Intersegment sales	7	231	32	770	1,042	(1,042)	—
Total	85,406	22,822	9,064	4,511	121,805	(1,042)	120,762
Segment operating income	16,686	1,330	3,211	631	21,859	(5,941)	15,918

Notes: 1. Segment adjustments (¥5,941) million include unallocated corporate operating expenses (¥5,988) million.

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

II. Outline of reporting segments for the Six-Month period ended September 30, 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	142,472	13,622	12,367	4,270	172,731	—	172,731
(2) Intersegment sales	3	308	8	539	859	(859)	—
Total	142,475	13,930	12,375	4,809	173,591	(859)	172,731
Segment operating income	33,831	(1,623)	5,360	1,528	39,097	(7,441)	31,655

Notes: 1. Segment adjustments (¥7,441) million include unallocated corporate operating expenses (¥7,558) million.

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