

あの熱狂を。  
もういちど。

SQUARE ENIX NEXT

That Excitement Once Again

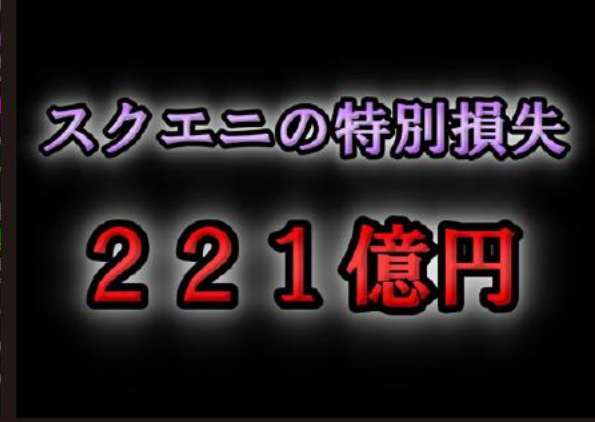


**It was never just “entertainment.”**

**What Square Enix once brought to life was a “culture” that shaped an era, and an “industry” that fascinated the world.**







But today,  
is Square Enix really giving birth to something genuinely new?  
Or has Square Enix turned away from the challenges before it, and let  
its steps falter?







We know this:

For Square Enix, every “challenge” has always been a “chance.”

The power to overcome countless obstacles and bring forth works that felt like miracles into the world.







Once again—surprise us, move us, and ignite that passion we once felt.

For gamers across the globe have been waiting, endlessly, for that irreplaceable experience.



The slides up to slide 93 of the Presentation are the same as the material stating management issues provided to SQEX HD titled "Management Issues of Your Company as Seen from Outside." on 29th September 2025. The slides from slide 94 onward are partial extracts of the material stating how to enhance corporate value presented to SQEX HD titled "For Creation of Dramatic corporate value of Your Company" together with the former material on the same day.

# External Perspective on Your Company's Management Challenges

To:

**SQUARE ENIX Holdings Co., Ltd.**

**Mr. Takashi Kiryu, President and Representative Director**

**Board of Directors**

**September 29th, 2025**







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# Executive Summary

- SQEX possesses globally renowned game titles such as “Final Fantasy” and “Dragon Quest,” and, as a preeminent Japanese game developer, it stands as a truly national enterprise distinguished by its illustrious history and unparalleled intellectual property.
- However, under the newly established management structure, the past three years have been marked by a pronounced stagnation in both revenue growth and profitability, **with a significant deterioration in earning power, as evidenced by declines in operating income, return on equity (ROE), and other key performance metrics.**
- In particular, the decline in operating income has been primarily driven by revenue contraction and persistently weak margins in both the HD Games segment<sup>1</sup> and the SD Games segment<sup>2</sup>. We submit that **the fundamental revitalization of these businesses—encompassing both revenue growth and profitability enhancement—constitutes the most critical management challenge presently facing SQEX.**
- To overcome the stagnation of the gaming business, it is imperative to devise and rigorously implement concrete countermeasures addressing critical management issues—namely, the excessive fragmentation of the development portfolio, product design and promotional strategies that have led to declining tie ratios, and inflated expenditures such as development costs.
- However, the current medium-term management plan appears to lack sufficient specificity in its measures to address these challenges, as well as in its KPIs, target-setting, and execution roadmap. Consequently, **we remain unconvinced that it can fundamentally resolve the underlying issues or deliver the maximization of corporate value.**
- Accordingly, **we respectfully urge a fundamental reassessment of the medium-term management plan**, with the objective of fully unlocking the potential of SQEX’s distinguished intellectual property and thereby maximizing corporate value.

# SQEX is truly a “national” enterprise, distinguished by its ownership of some of the world’s most renowned titles.

## FF and DQ as World-Class titles

Global Cumulative Sales Ranking of RPG Franchises (as of Year-End 2024)		
1	Pokémon	480m units
2	Final Fantasy	190m units
3	Monster Hunter	100m units
4	Dragon Quest	90m units



March 2025, SQEX Official Website

## FF and DQ as Japan’s Premier titles

Domestic Popularity Ranking of RPG Franchises in Japan	
1	Dragon Quest Series
2	Final Fantasy Series
3	Persona Series
4	Tales of Series



“RPG Series” Popularity Ranking TOP 32!

No. 1 goes to the “Dragon Quest” series! [Latest 2022 Voting Results]

## FF, DQ, and SQEX’s titles as “National” IP

### Entrance Themes of the Tokyo 2021 Olympic Games

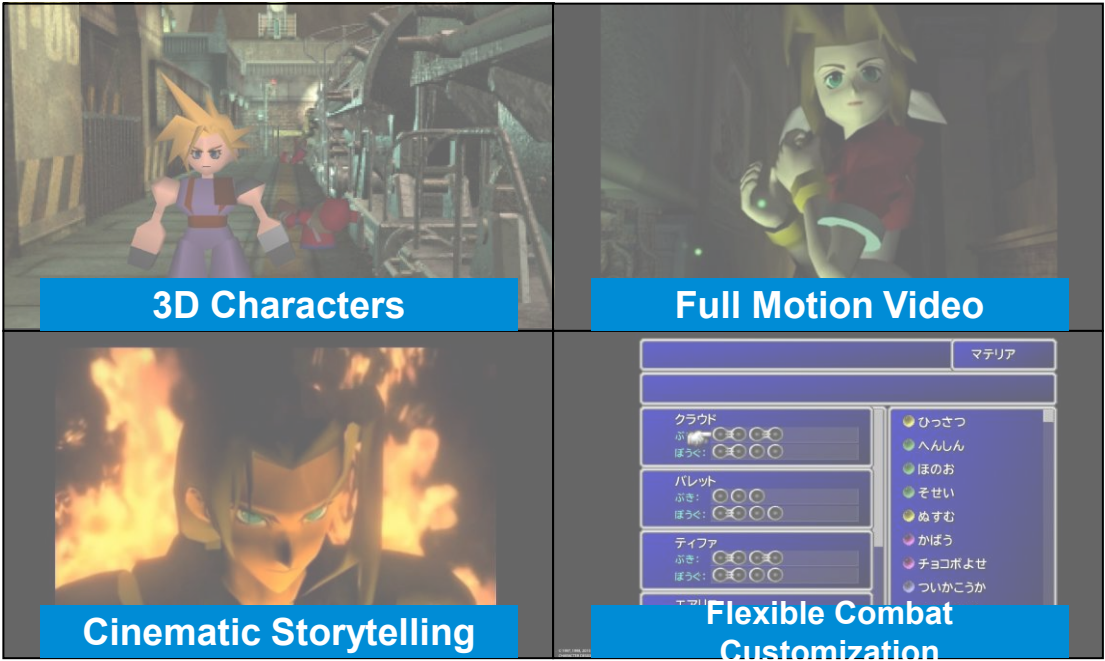
- Track 1: Dragon Quest “Overture: Roto’s Theme”
- Track 2: Final Fantasy “Victory Fanfare”
- + 7 additional tracks<sup>1</sup>



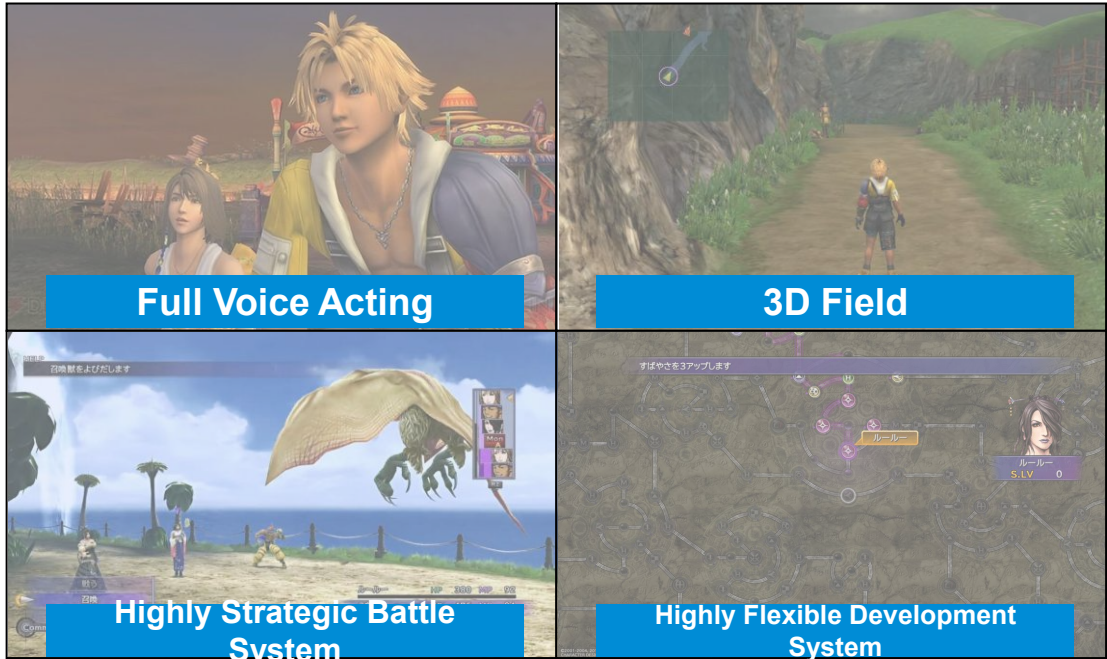


As one of the industry’s leading game developers, SQEX has long been at the forefront of game development.

Final Fantasy VII (Released January 1997)



Final Fantasy X (Released July 2001)

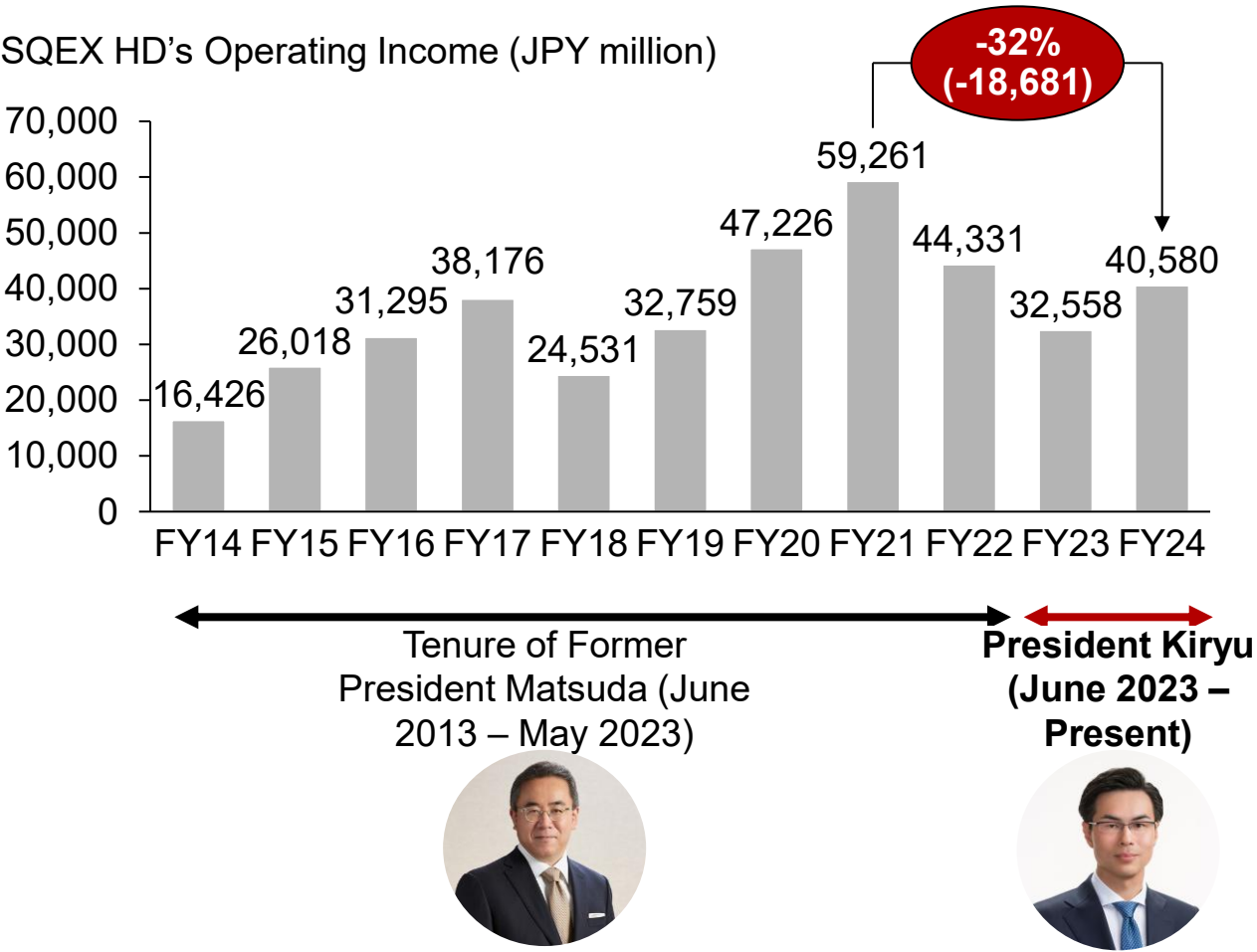


 : Innovative Elements

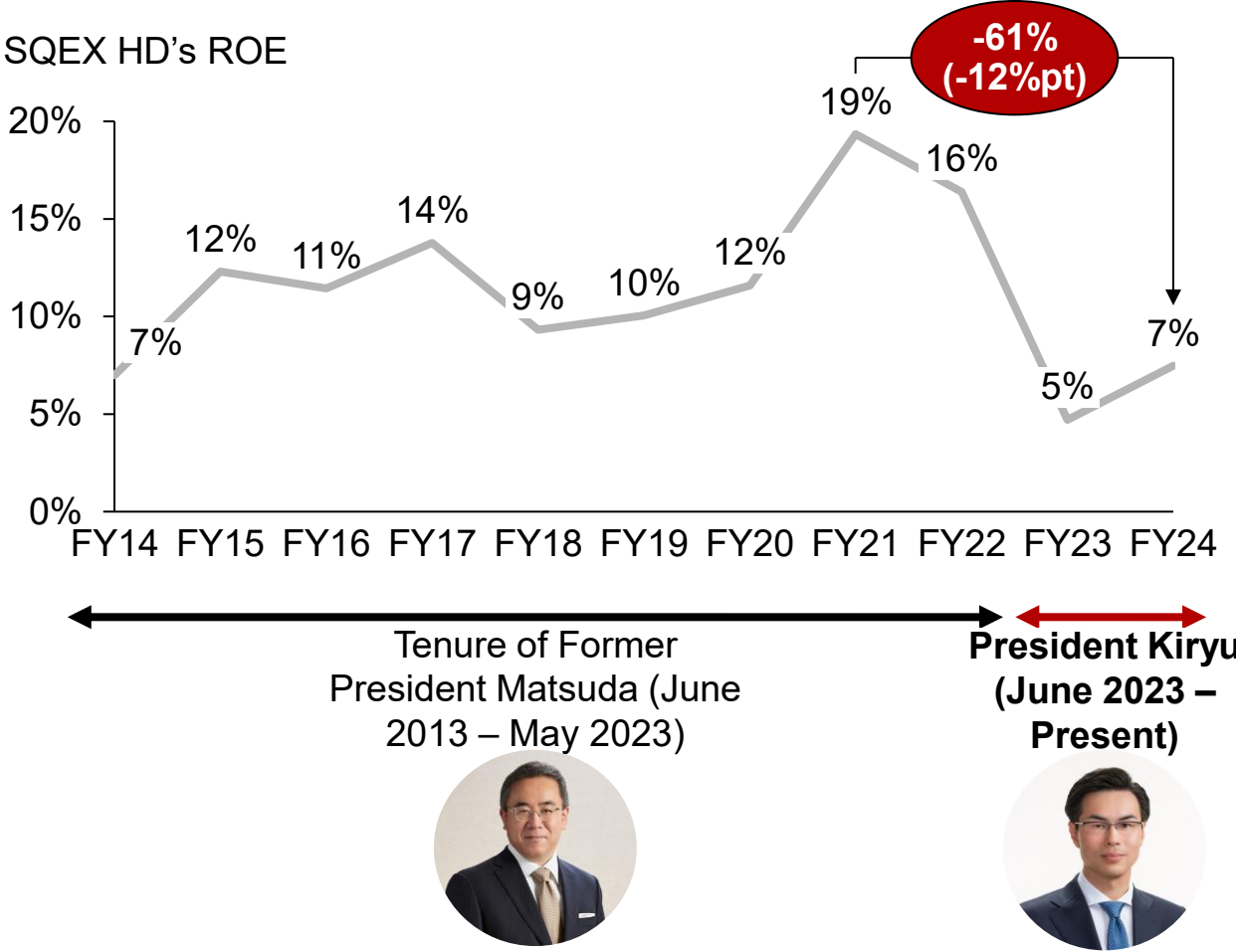
SQEX is an exceptional enterprise,  
endowed with a distinguished history and world-renowned intellectual property.

However, since the inauguration of the new management structure, the Company's earning power has markedly deteriorated.

### Trends in Operating Income



### Trends in ROE

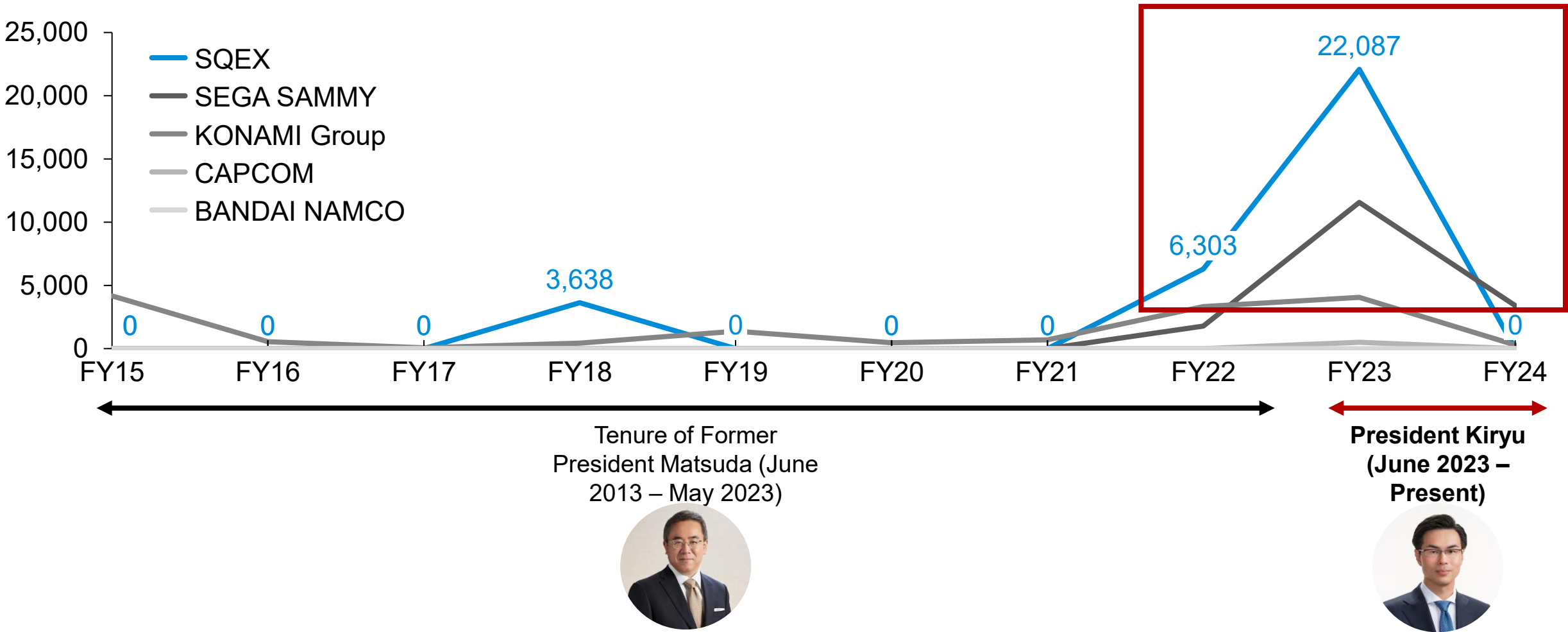


Source: SQEX Holdings IR Materials



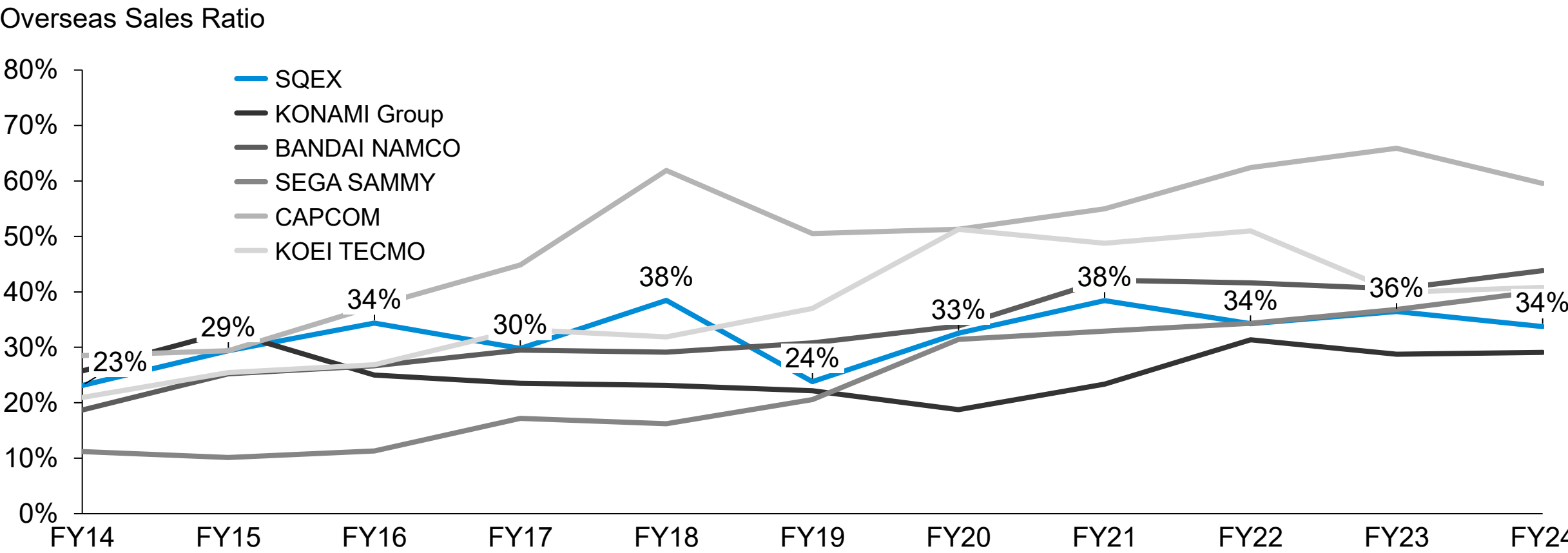
(For Reference) Since the inauguration of the new management structure, there have been successive write-offs on development costs.

Write-Offs of Game Development Assets<sup>1</sup> (JPY million)



(For Reference) SQEX’s overseas sales ratio remains low compared to competitors, with growth likewise stagnating.

Although the overseas sales ratio was among the highest in the industry in FY15–16, it has since lagged behind competitors and, by FY24, declined to fifth place.

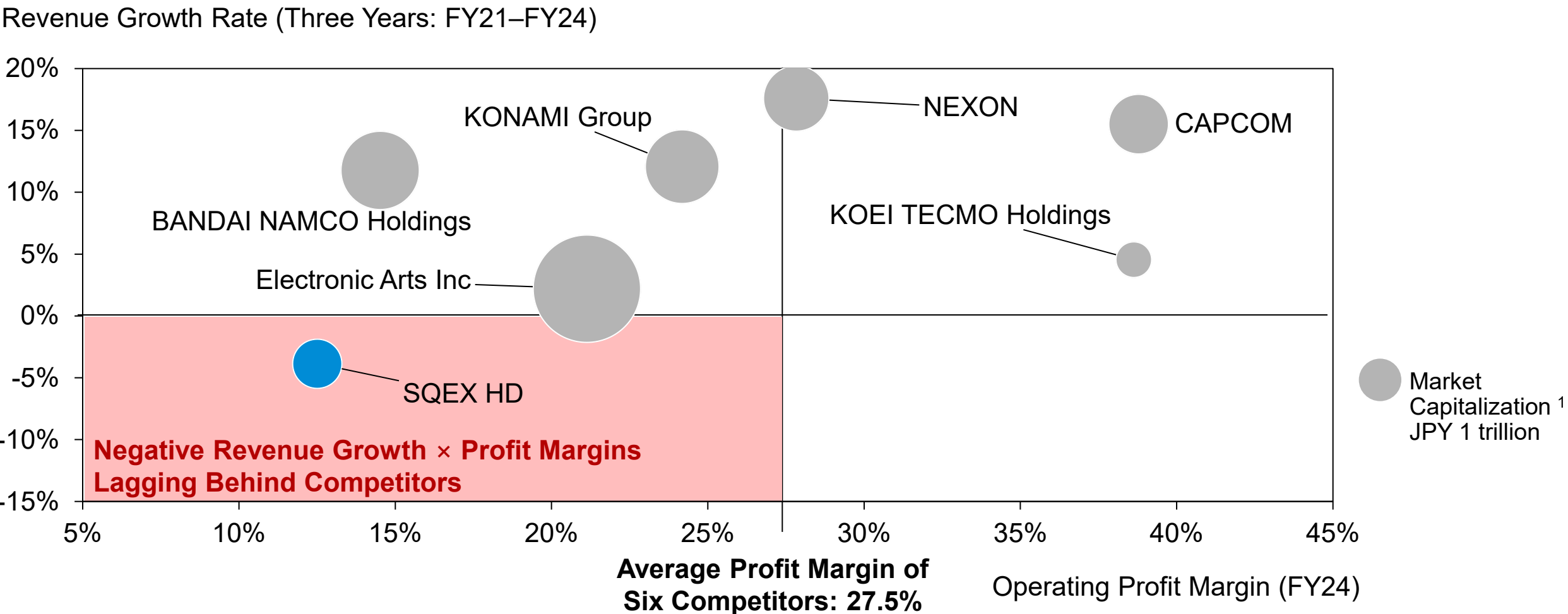


Source: Company IR Materials



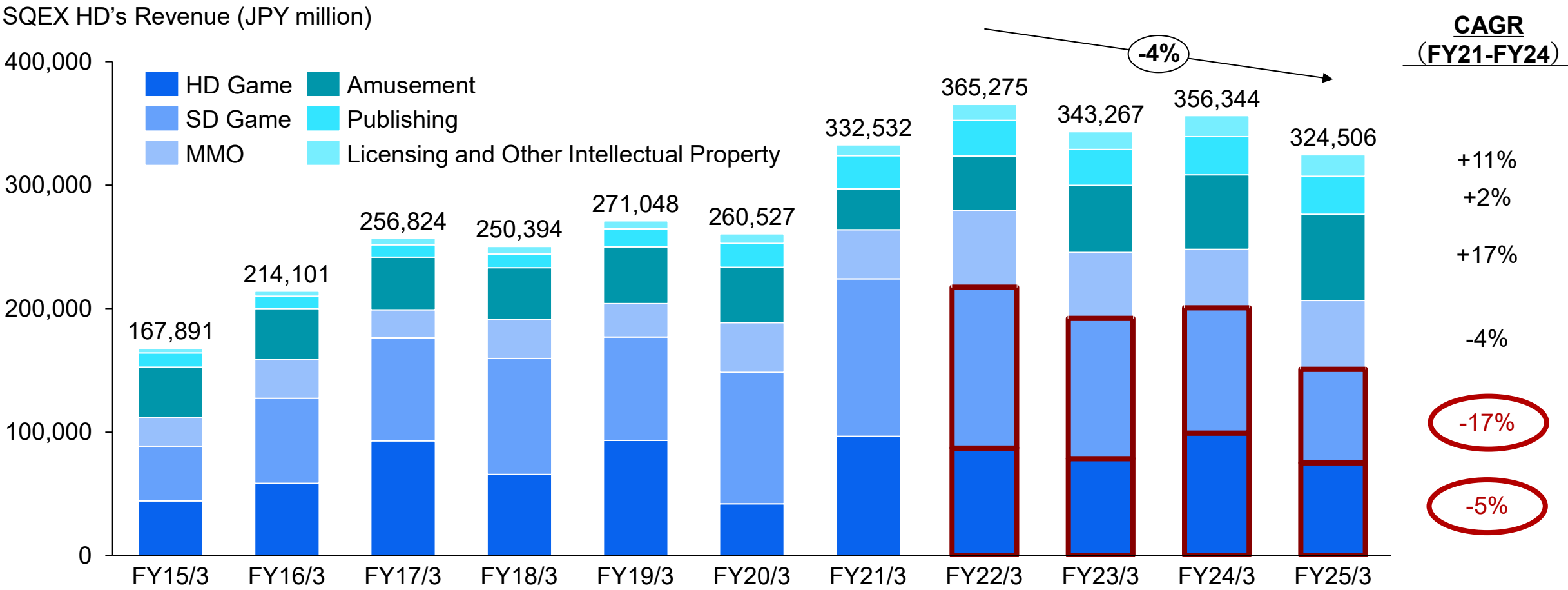
# The decline in profit has stemmed from both a decrease in revenue and stagnating profit margins...

**SQEX is the only player in the industry experiencing negative revenue growth, with an operating profit margin that remains at roughly half the level of its competitors.**



Source: Company IR Materials  
Note: [1] The market capitalization of Electronic Arts Inc. is calculated using an exchange rate of USD 1 = JPY 150.

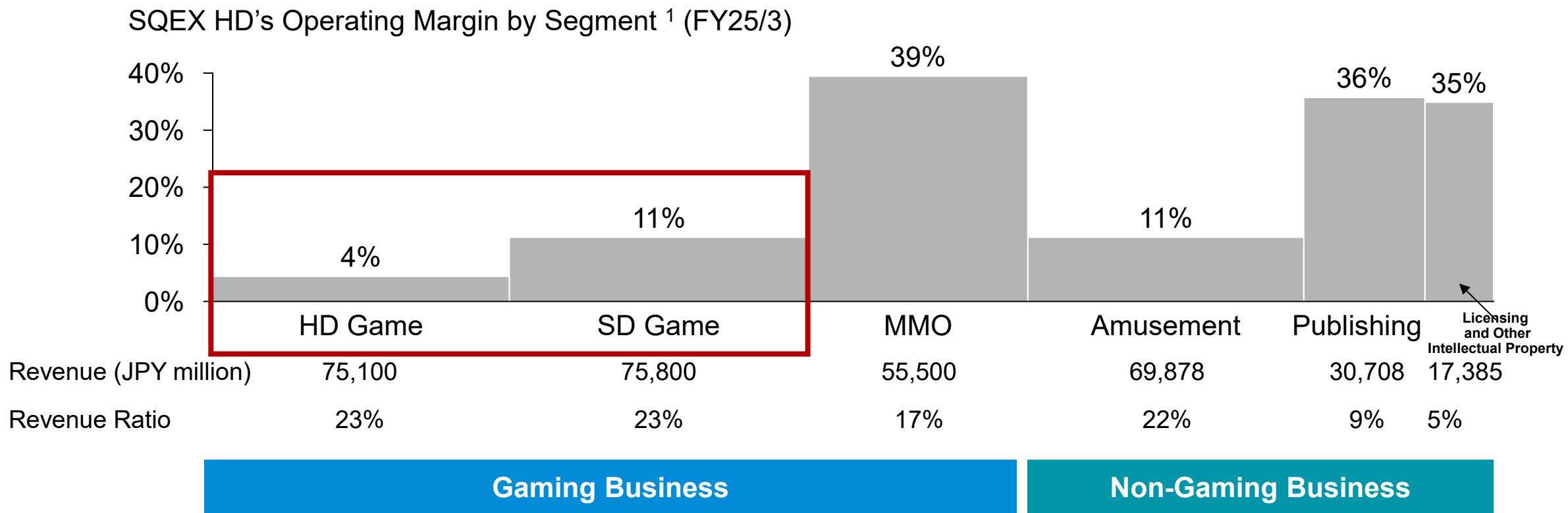
...The decline in revenue has been driven by reduced sales in both the HD Games and SD Games segments.



Source: SQEX Holdings IR Materials



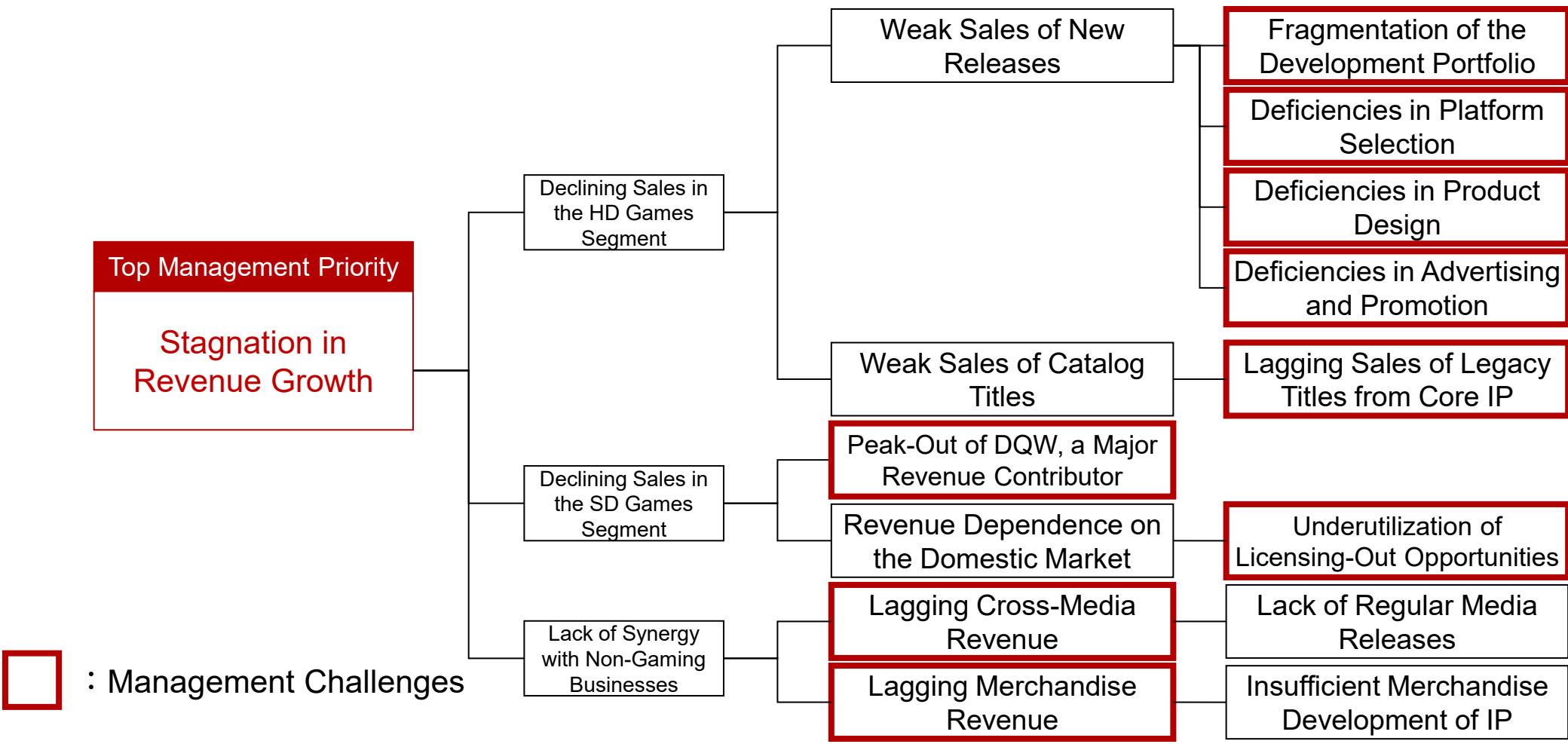
...The stagnation in profit margins has resulted from declining margins in both the HD Games and SD Games segments.



The most critical management challenge SQEX must address is the revenue decline and stagnating profit margins in the HD and SD Games segments.

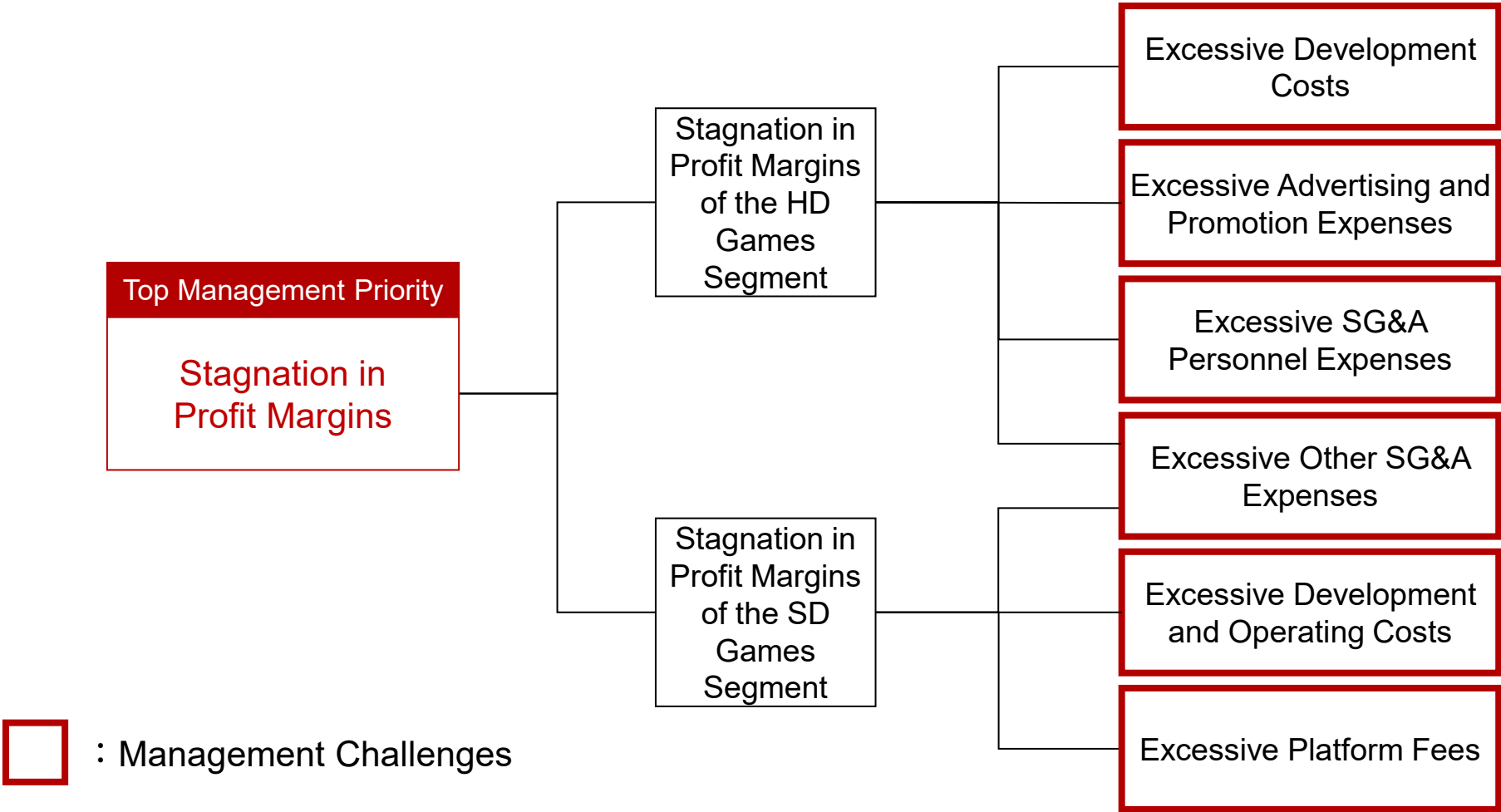
Source: SQEX Holdings IR Materials  
Note: [1] Segment operating margins are based on the Company's disclosed IR materials and do not reflect any allocation of corporate shared costs or other adjustment items.

Critical Management Challenge ① The revenue decline in the HD/SD Games segments can be broken down into the following management issues.





Critical Management Challenge ② The stagnation in profit margins of the HD/SD Games segments can be broken down into the following management issues.



**However, SQEX's current medium-term management plan raises concerns as to whether it can effectively resolve these management challenges.**

### **1 An Expression That Appears to Justify the Neglect of Critical Management Challenges**

- **SQEX's current medium-term management plan appears to justify its lackluster performance under the slogan "Reboots," while failing to articulate a forward-looking vision.**
  - The current medium-term management plan period is defined as "Reboots — a three-year period of restarting".
  - It discloses a revenue decline plan and profit margin improvement targets that significantly lag behind competitors.
  - It makes no commitment to quantitative targets that look beyond the present stagnation.

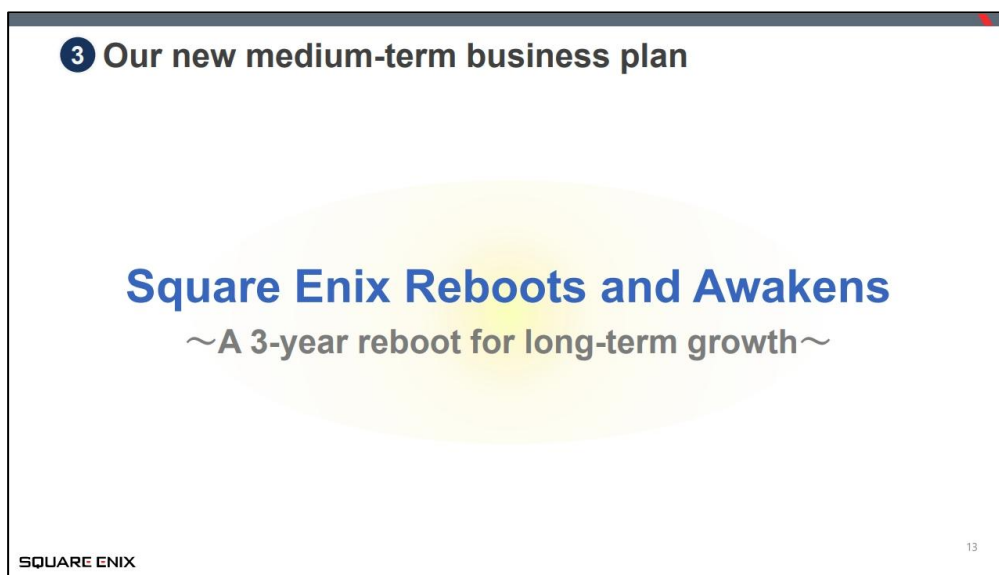
### **2 Failure to Present Concrete Measures for Individual Management Challenges**

- **SQEX's current medium-term management plan falls short of presenting solutions to individual management challenges.**
  - Effective solutions to management challenges require "KPIs and quantitative targets," "concrete measures," and "milestones with specific execution plans."
  - SQEX's current medium-term management plan merely outlines vague directions and lacks any disclosure of KPIs, quantitative targets, or execution plans, rendering it insufficient as a solution.

1

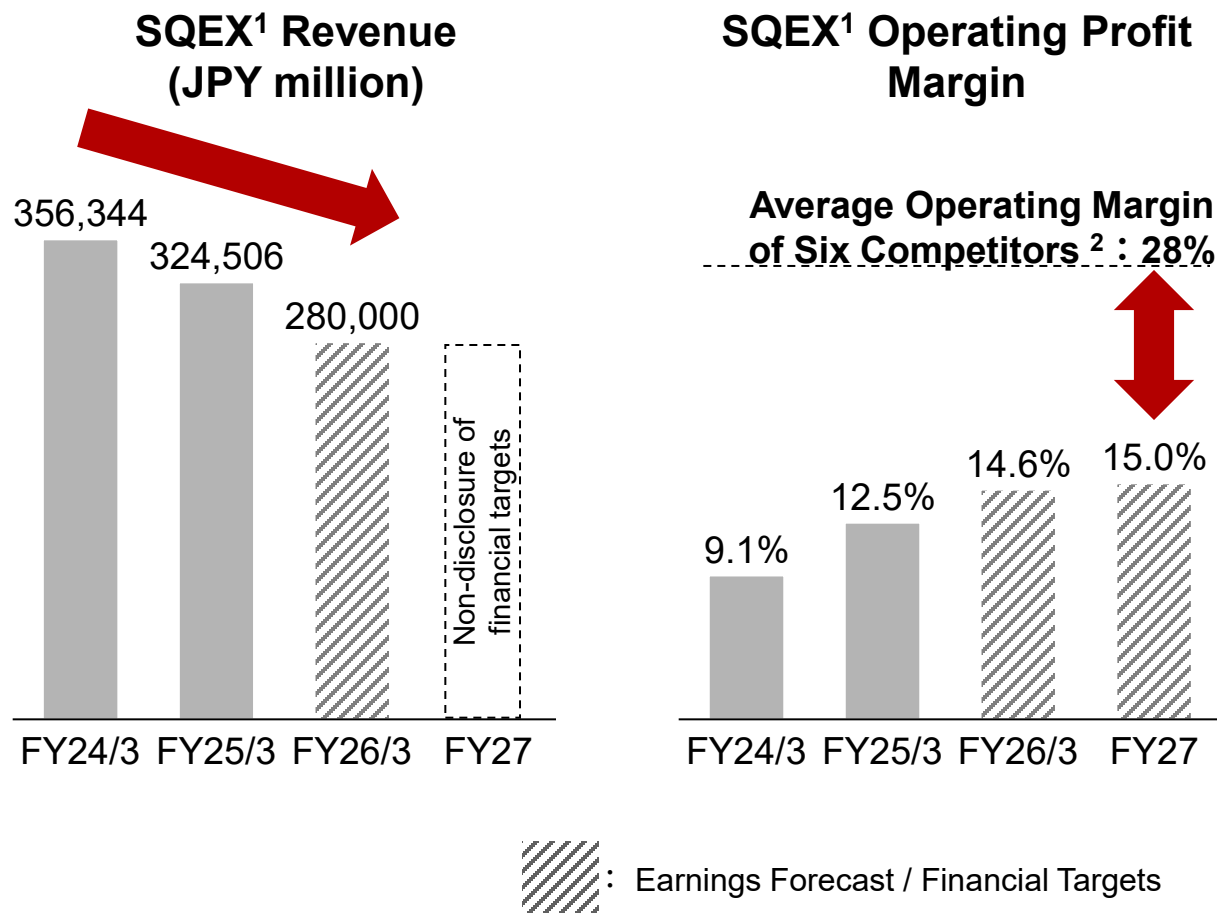
SQEX's current medium-term management plan, under the slogan “Reboots,” appears to justify the neglect of its most critical management challenges—namely, the revenue decline and stagnating profit margins in the gaming business.

## Concept of the Current Medium-Term Management Plan



- - Defines the three years from FY24 to FY26 as “Reboots” — a period of restarting.
- - While presenting a “long-term vision and new corporate philosophy system,” it **discloses no long-term financial targets beyond FY27.**

SQEX has disclosed a revenue decline plan and profit margin improvement targets that significantly lag behind those of its competitors.





2

Amid a deteriorating trend in financial indicators, SQEX’s current medium-term management plan offers only vague directions for addressing individual management challenges, leaving us unconvinced of the sufficiency of its measures. (1/3)

Management Challenges		Completeness of the Medium-Term Management Plan			Contents of the Medium-Term Management Plan (Announced in May 2024)	
		KPIs and Quantitative Targets	Concrete Measures	Execution Plan <sup>1</sup>		
Stagnation in Revenue Growth	Weak Sales in the HD Games Segment	Fragmentation of the Development Portfolio	Not Disclosed	Insufficient Content	Not Disclosed	“When allocating human talent and development investments, prioritize titles with strong potential to be loved for years, while also enhancing the skill sets of the core teams responsible for developing titles that sustain each IP”
		Deficiencies in Platform Selection	Not Disclosed	Insufficient Content	Not Disclosed	“Aggressively pursue a multiplatform strategy for HD titles that includes Nintendo platforms, PlayStation, Xbox, and PCs“
		Deficiencies in Product Design	Not Disclosed	Insufficient Content	Not Disclosed	“Ensure that our development process strikes a good balance between a “product-out” approach driven by content reflecting the creativity that springs from our employees’ imaginations, and a “market-in” approach driven by customers’ voices and market rends“
		Deficiencies in Advertising and Promotion	Not Disclosed	Insufficient Content	Not Disclosed	“Deploy promotional initiatives on launch that better direct customers toward digital purchases“ “Increase sophistication of marketing by leveraging first-party data“
		Lagging Sales of Legacy Titles from Core IP	Not Disclosed	Insufficient Content	Not Disclosed	“Strengthen earnings base by expanding sales of catalog titles“ “Create opportunities to generate earnings from our rich library of back titles“

Source: New Medium-Term Management Plan (May 13, 2024)  
Note: [1] Abbreviation for “Milestones and Specific Execution Plan.”

2

Amid a deteriorating trend in financial indicators, SQEX's current medium-term management plan offers only vague directions for addressing individual management challenges, leaving us unconvinced of the sufficiency of its measures. (2/3)

Management Challenges			Completeness of the Medium-Term Management Plan			Contents of the Medium-Term Management Plan (Announced in May 2024)
			KPIs and Quantitative Targets	Concrete Measures	Execution Plan	
Stagnation in Revenue Growth	Weak Sales in the SD Games Segment	Peak-Out of DQW	Not Disclosed	Not Disclosed	Not Disclosed	—
		Underutilization of Licensing-Out Opportunities	Not Disclosed	Not Disclosed	Not Disclosed	—
	Lack of Synergy with Non-Gaming Businesses	Weak Cross-Media Revenue	Not Disclosed	Insufficient Content	Not Disclosed	“Reach new markets by furthering our pursuit of a cross-media strategy“ “Expand geographic coverage of our licensing business by establishing a new IP business development department focused on global markets“
		Lagging Merchandise Revenue	Not Disclosed	Insufficient Content	Not Disclosed	“Establish an organization that promotes the use of our IP across a range of entertainment experiences“ “Generate synergies by integrating organizations affiliated with the Merchandising segment“

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Amid a deteriorating trend in financial indicators, SQEX's current medium-term management plan offers only vague directions for addressing individual management challenges, leaving us unconvinced of the sufficiency of its measures. (3/3)

Management Challenges		Completeness of the Medium-Term Management Plan			Contents of the Medium-Term Management Plan (Announced in May 2024)	
		KPIs and Quantitative Targets	Concrete Measures	Execution Plan		
Stagnation in Profit Margins	Stagnation in Profit Margins of the HD Games Segment	Excessive Development Costs	Not Disclosed	Insufficient Content	Not Disclosed	“Strengthen in-house development capabilities by revamping our internal development footprint“
		Excessive Advertising and Promotion Expenses	Not Disclosed	Insufficient Content	Not Disclosed	“Enhance development investment efficiency by revisiting the entire progress management process for title development“
		Excessive SG&A Personnel Expenses	Not Disclosed	Insufficient Content	Not Disclosed	“Consolidate the marketing functions that were previously spread across creative business units, expanding shared knowledge and eliminating duplicate functions to pursue greater efficiency“
		Excessive Other SG&A Expenses	Not Disclosed	Not Disclosed	Not Disclosed	“Revisit European and American functions/organizational structures, thereby optimizing costs“
	Stagnation in Profit Margins of the SD Games Segment	Excessive Development and Operating Costs	Not Disclosed	Not Disclosed	Not Disclosed	—
		Excessive Platform Fees <sup>1</sup>	Not Disclosed	Not Disclosed	Not Disclosed	—

Source: New Medium-Term Management Plan (May 13, 2024)

Note: [1] Abbreviation for “Excessive Platform Fees.”



Furthermore, from the standpoint of maximizing corporate value, SQEX’s current medium-term management plan appears to face numerous additional challenges.



**Absence of a Company-Wide Strategy**

**Absence of a Business Portfolio Strategy**

**Absence of a Management Strategy for Non-Gaming Businesses**

**Absence of a Capital Allocation Policy Based on ROIC**



**Lack of Commitment and Transparency Toward Shareholders**

**Absence of a Commitment to Maximizing Corporate Value**

**Justification of Low-Level Management Targets (Reboots)**

**Non-Disclosure and Lack of Commitment to Key KPIs, Including Unit Sales**

**Insufficient Explanation for Unreasonable Corporate Actions (Non-Implementation of Share Buybacks)**

**Absence of a Concrete Review of the Previous Medium-Term Management Plan That Fell Short**

As SQEX’s current medium-term management plan appears inadequate in addressing management challenges and maximizing corporate value, we respectfully call for a fundamental reassessment.

# Section 1: Challenges of the Medium-Term Management Plan

**However, SQEX's current medium-term management plan raises concerns as to whether it can effectively resolve these management challenges.**

Re-post

## **1 An Expression That Appears to Justify the Neglect of Critical Management Challenges**

- **SQEX's current medium-term management plan appears to justify its lackluster performance under the slogan "Reboots," while failing to articulate a forward-looking vision.**
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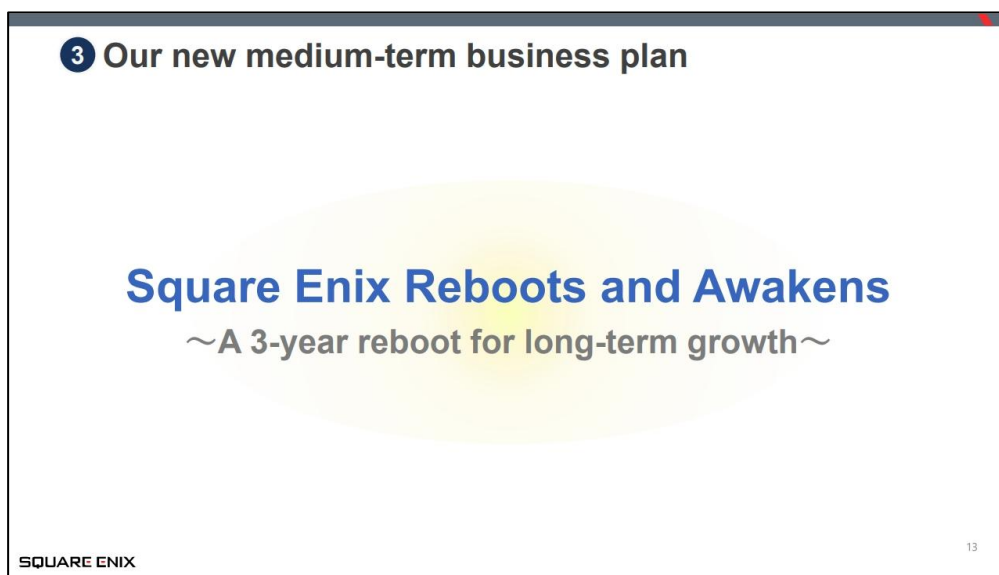


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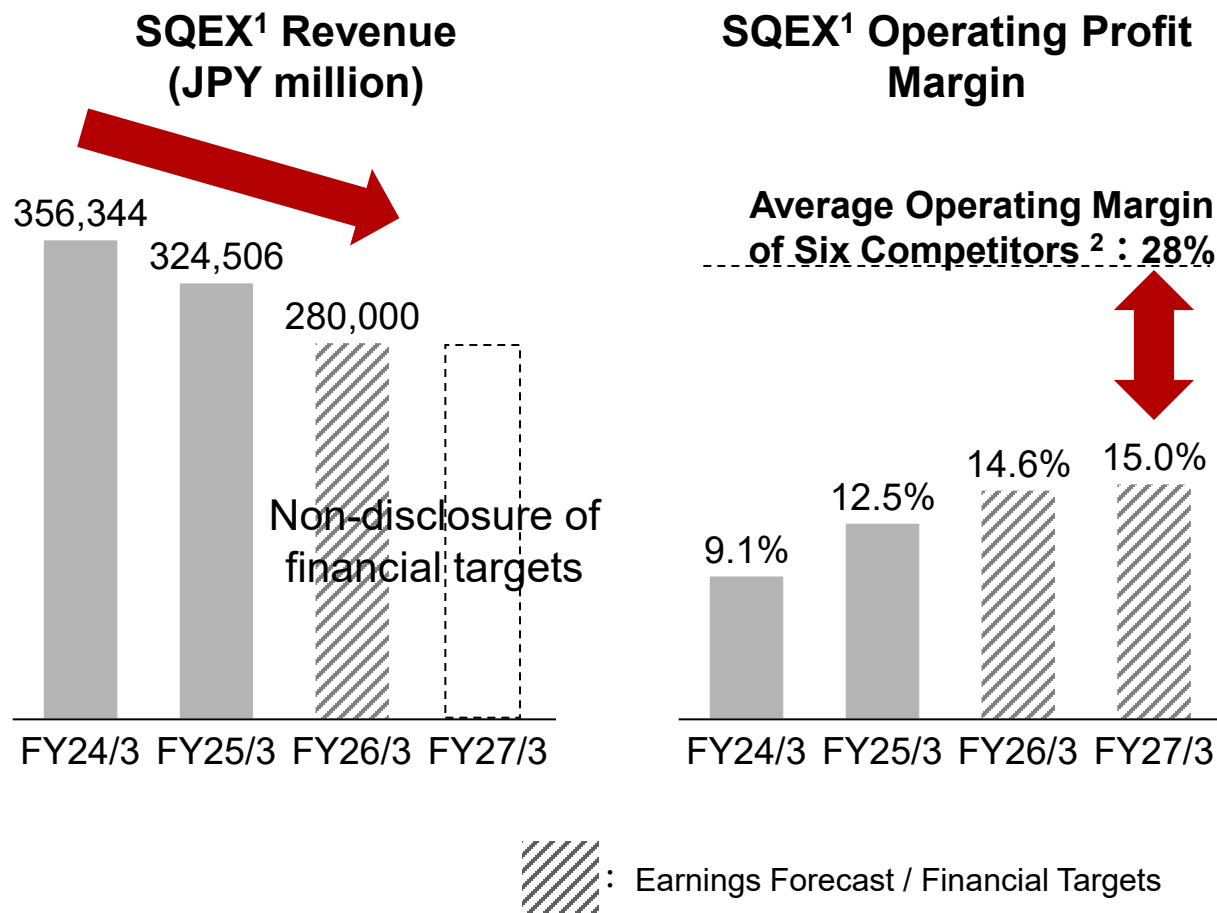
Re-post

## Concept of the Current Medium-Term Management Plan



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SQEX has disclosed a revenue decline plan and profit margin improvement targets that significantly lag behind those of its competitors.



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Re-post

Re-post

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Amid a deteriorating trend in financial indicators, SQEX’s current medium-term management plan offers only vague directions for addressing individual management challenges, leaving us unconvinced of the sufficiency of its measures. (2/3)

Management Challenges		Completeness of the Medium-Term Management Plan			Contents of the Medium-Term Management Plan (Announced in May 2024)		Re-post
		KPIs and Quantitative Targets	Concrete Measures	Execution Plan			
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		Underutilization of Licensing-Out Opportunities	Not Disclosed	Not Disclosed	Not Disclosed	—	
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Re-post

Re post

Management Challenges		Completeness of the Medium-Term Management Plan			Contents of the Medium-Term Management Plan (Announced in May 2024)	
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						—

Source: New Medium-Term Management Plan (May 13, 2024)

Note: [1] Abbreviation for “Excessive Platform Fees.”

Furthermore, SQEX's current Medium-Term Management Plan appears to present numerous additional issues when assessed from the perspective of maximizing corporate value.

### **3** Absence of a Company-Wide Strategy

**3-1** Absence of a Business Portfolio Strategy

**3-2** Absence of a Management Strategy for Non-Gaming Businesses

**3-3** Absence of a Capital Allocation Policy Based on ROIC

### **4** Lack of Commitment and Transparency toward Shareholders

**4-1** Absence of a Commitment to Maximizing Corporate Value

**4-2** Justification of Undemanding Managerial Targets (Reboots)

**4-3** Non-Disclosure and Non-Commitment to Key Performance Indicators, Including Unit Sales

**4-4** Insufficient Rationale for Unreasonable Corporate Actions, Including the Failure to Conduct Share Buybacks

**4-5** Absence of a Concrete Review of the Unmet Prior Medium-Term Management Plan



The following sections set forth a detailed discussion of each item.

### 3-1 Absence of a Business Portfolio Strategy (1/2): In formulating and executing a business portfolio strategy, the following three perspectives are indispensable.

#### Strategic Requirements

##### Evaluation Criteria

- **Evaluation Criteria** for Formulating the Business Portfolio Strategy
  - Profitability sufficiently exceeding the cost of capital; the company being the best owner of the business

##### Business Portfolio Strategy

- Positioning of Each Business within the Portfolio
  - Growth Businesses; Cash-Cow Businesses; Businesses Requiring Strategic Assessment
- **Assessment of the Strategic Rationale for Holding Multiple Businesses**

##### Monitoring Mechanisms and Frameworks

- **Mechanisms and Frameworks for the Periodic Review of the Portfolio Strategy**
- **Mechanisms and Frameworks for Monitoring the Execution of Strategy**

#### Guidelines for Listed Companies Underpinning the Foregoing

(Excerpted from METI's "Practical Guidelines for Business Restructuring," among others)

"In diversified corporations, the management of the business portfolio (including its review) **must be undertaken with due regard to the cost of capital, with deliberations at the board of directors and other forums, and with concrete implementation.**"

METI, Practical Guidelines for Corporate Governance Systems

"In reviewing and optimizing the business portfolio, (...) **the most critical perspective is whether the company is the 'best owner' of the business.**"

METI, Practical Guidelines for Business Restructuring (Business Restructuring Guidelines)

"Regarding the rationale for managing multiple businesses under one corporate umbrella, (...) companies are required to fulfill their accountability to investors and other stakeholders by explaining, from a comparative-assessment perspective, **whether the benefits—such as the creation of business synergies—outweigh the costs arising from holding multiple businesses.**"

METI, Practical Guidelines for Business Restructuring (Business Restructuring Guidelines)

"In a rapidly changing business environment, the optimization of the business portfolio **requires an ongoing, autonomous, and proactive review of the portfolio with due regard to the cost of capital, as well as the establishment of the requisite frameworks and mechanisms to support such efforts.**"

METI, Practical Guidelines for Business Restructuring (Business Restructuring Guidelines)

# Absence of a Business Portfolio Strategy (2/2): The current Medium-Term Management Plan does not articulate a business portfolio strategy that systematically reflects these perspectives.

## Completeness of Disclosures in the Medium-Term Management Plan

### Evaluation Criteria

**Not Disclosed**

- Non-Disclosure of the “Evaluation Criteria” for the Business Portfolio Strategy

### Business Portfolio Strategy

**Not Disclosed**

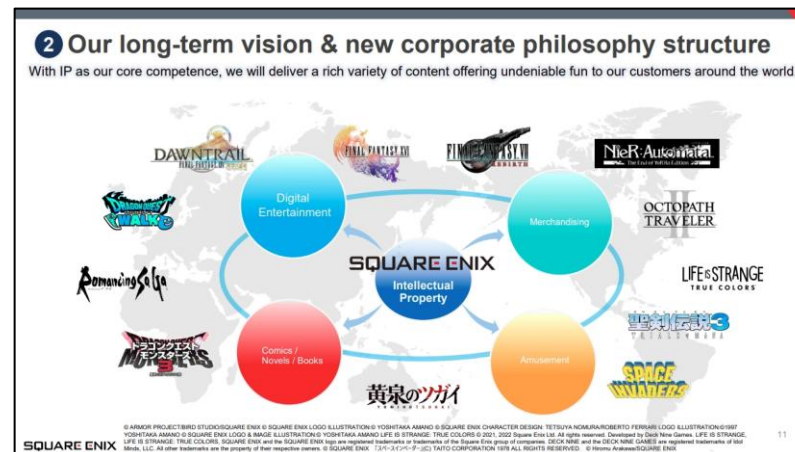
- Non-Disclosure of the “Positioning of Each Business” and the “Rationale for Holding Multiple Businesses”

### Monitoring Mechanisms and Frameworks

**Not Disclosed**

- Non-Disclosure of the “Mechanisms and Frameworks for Monitoring”

## Contents of the Medium-Term Management Plan (Published in May 2024)





## 3-2 Absence of a Management Strategy for Non-Gaming Businesses (1/3): SQEX defines the Digital Entertainment business as its core business.

In past disclosure materials, the Digital Entertainment business has been defined as a core business.



“Our core business, Digital Entertainment, is by nature a business format that imposes a relatively small burden on the environment.”

Annual Report for the Fiscal Year Ended March 2023

In the New Medium-Term Management Plan published in May 2024, the policies for the Amusement business and the Publishing business are scarcely addressed.



- Within the 35-page New Medium-Term Management Plan, only two pages are devoted to the policies of the Amusement and Publishing businesses.
- The vast majority of the remaining pages are allocated to explaining the policies of the Digital Entertainment business.

### 3-2 Absence of a Management Strategy for Non-Gaming Businesses (2/3): For non-core non-gaming businesses, a management strategy encompassing the following three perspectives is indispensable.

#### Strategic Requirements

##### The Rationale for Retaining Non-Core Businesses

- Economic Rationale
- Strategic Rationale

##### Management Strategy for Non-Core Businesses

- Management Issues
- Approaches to Addressing Management Issues

##### Execution Plan

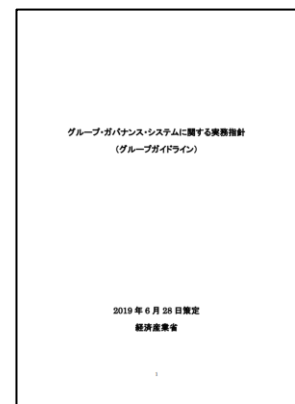
- KPIs and Quantitative Targets
- Specific Measures
- Milestones and Action Plans
- Execution Framework, etc.

#### Guidelines for Listed Companies Underpinning the Foregoing (Excerpted from METI, Practical Guidelines for Group Governance Systems)

“Non-core businesses’ do not necessarily denote fields with inherently low profitability or growth potential. Rather, they are business areas in which the corporate group lacks competitive advantage and, consequently, does not allocate sufficient resources, thereby **resulting in relatively limited growth potential or inadequate returns above the cost of capital**. For such businesses, **optimal growth strategies may include independence (such as through a spin-off) or divestiture to a ‘best owner’ that positions the business as a core activity.**”

“Continuing to retain such business areas within the corporate group imposes maintenance costs without contributing to growth, and if the timing is missed and the business falls into deficit, divestiture becomes difficult. **To unlock the potential of such businesses, it is important to make timely decisions, open avenues for securing growth capital, and concentrate resources in divisions where the company can leverage its competitive strengths.**”

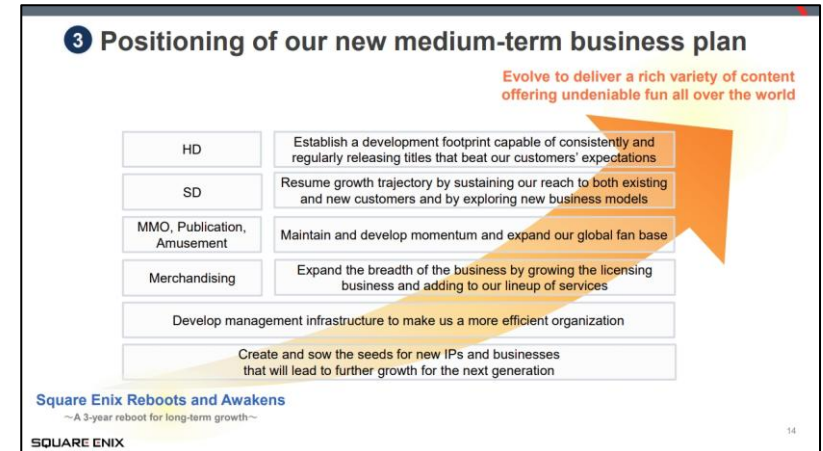
METI, Practical Guidelines for Group Governance Systems



## 3-2 Absence of a Management Strategy for Non-Gaming Businesses (3/3): The current Medium-Term Management Plan does not articulate a management strategy that encompasses these perspectives.

Completeness of Disclosures in the Medium-Term Management Plan		
The Rationale for Retaining Non-Core Businesses	Not Disclosed	<ul style="list-style-type: none"> <li>Non-Disclosure of the Strategic and Economic Rationale for Retaining Non-Gaming Businesses</li> </ul>
Management Strategy for Non-Core Businesses	Not Disclosed	<ul style="list-style-type: none"> <li>Non-Disclosure of the Management Issues of Non-Core Businesses and the Approaches to Their Resolution</li> </ul>
Execution Plan	Not Disclosed	<ul style="list-style-type: none"> <li>Non-Disclosure of the Execution Plan</li> </ul>

### Contents of the Medium-Term Management Plan (Published in May 2024)



### 3-3 Absence of a Capital Allocation Policy Based on ROIC (1/2): In formulating and disclosing a capital allocation policy, it is indispensable to clarify the following three perspectives.

#### Strategic Requirements

##### Capital Policy

- Identification of the Company's Cost of Capital
- Establishment of Targets for Capital Efficiency

##### Allocation Destinations and Amounts of Capital

- Forecasts of Future Cash Flows
- Capital Allocation by Use and by Business Segment
  - By Use: Capital Expenditures, M&A, and Shareholder Returns (Share Buybacks and Dividends)

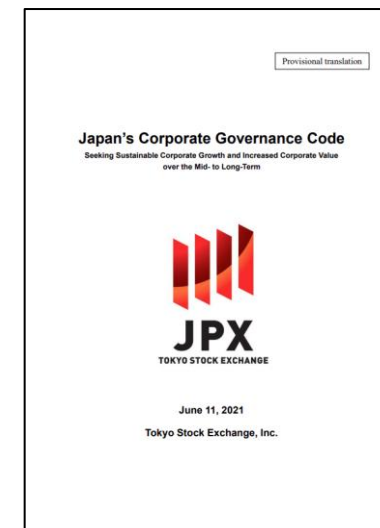
##### Appropriateness of Capital Allocation

- Expected Returns on Individual Investments
- Hurdle Rates Serving as Investment Decision Criteria

#### Guidelines for Listed Companies Underpinning the Foregoing (Excerpted from TSE, Corporate Governance Code, among others)

"In formulating and disclosing management strategies and management plans, companies should first **accurately identify their cost of capital**, then present the fundamental policies on earnings plans and capital policies, **set forth targets relating to profitability and capital efficiency**, and **clearly explain—in plain and logical terms readily understandable to shareholders—what specific actions will be taken, including the review of the business portfolio and the allocation of management resources such as capital** expenditures, R&D investment, and investment in human capital, in order to achieve those targets."

TSE, Corporate Governance Code



"Corporate value increases when companies grow through value-creating investments (ROIC > WACC), but **it decreases when companies grow through value-destroying investments (ROIC < WACC).**"

Toshio Tamura, Opinion Statement by Committee Member Tamura, Third Business Restructuring Study Group (METI)

"To conduct business portfolio management, **it is necessary to establish evaluation metrics, such as hurdle rates (investment return thresholds) for each business segment.**"

METI, Practical Guidelines for Group Governance Systems



## Absence of a Capital Allocation Policy Based on ROIC (2/2): The current Medium-Term Management Plan does not articulate a capital allocation policy that encompasses these perspectives.

### Completeness of Disclosures in the Medium-Term Management Plan

#### Capital Policy

#### Insufficient Content

- Disclosure of the Target of “ROE of 10% or Higher,” but Non-Disclosure of its Underlying Rationale
- Non-Disclosure of “the Company’s Cost of Capital”

#### Capital Allocation Destinations and Allocation Amount

#### Insufficient Content

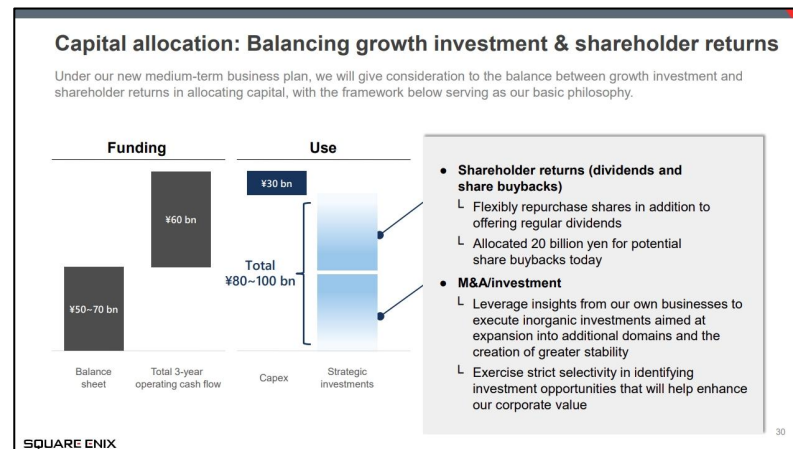
- Disclosure of “Forecasts of Future Cash Flows”
- Non-Disclosure of “Capital Allocation by Use and by Business Segment”

#### Appropriateness of Capital Allocation

#### Not Disclosed

- Non-Disclosure of “Expected Returns on Individual Investments”
- Non-Disclosure of “Hurdle Rates Serving as Investment Decision Criteria”

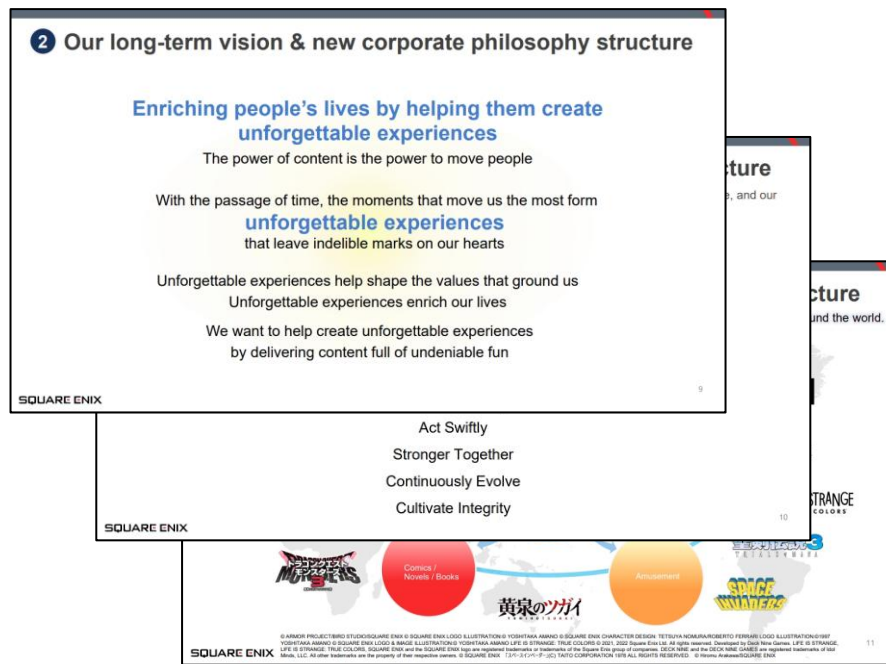
### Contents of the Medium-Term Management Plan (Published in May 2024)



**4-1 Absence of a Commitment to Maximizing Corporate Value: SQEX's current Medium-Term Management Plan lacks a perspective focused on the maximization of corporate value.**

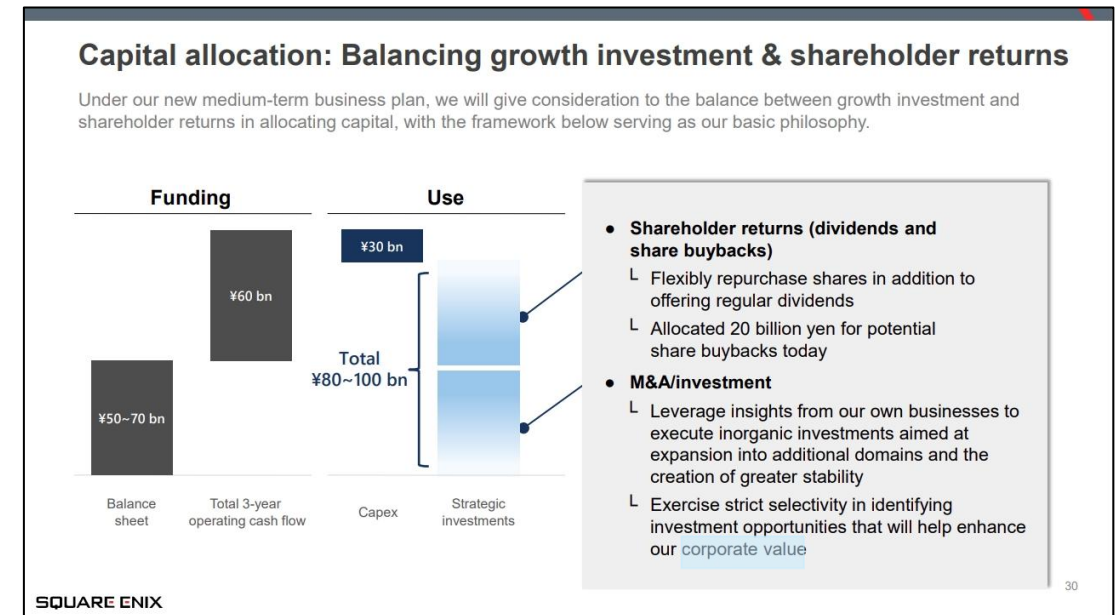
**“Long-Term Vision and New Corporate Philosophy System”: Complete Absence of Any Reference to the Maximization of Corporate Value**

- Occurrences of the Term “Corporate Value”: Zero



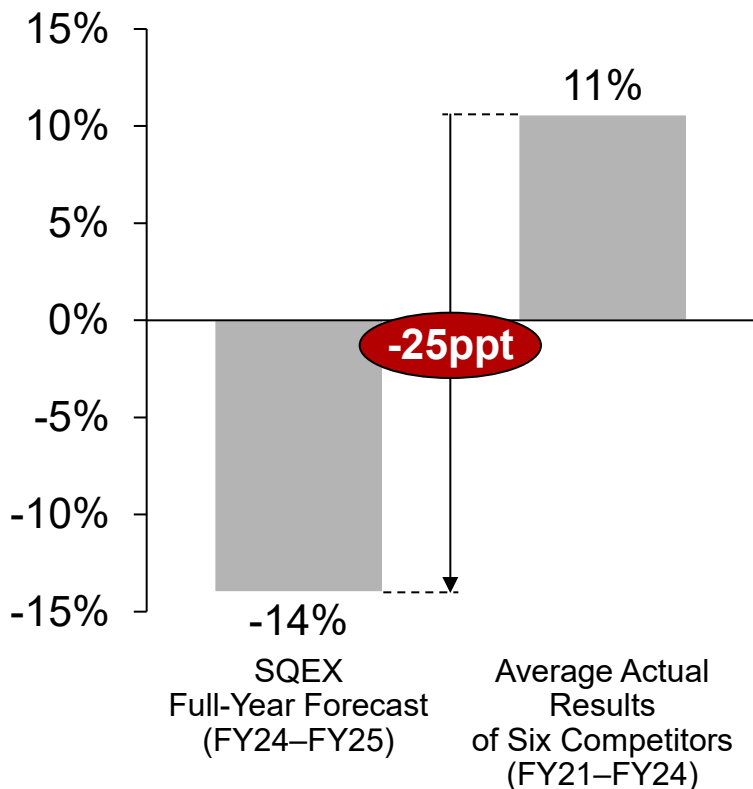
### **“New Medium-Term Management Plan”: Lack of Reference to the Maximization of Corporate Value**

- Occurrences of the Term “Corporate Value”: Only Once
  - “Exercise strict selectivity in identifying investment opportunities that will help enhance our corporate value.”



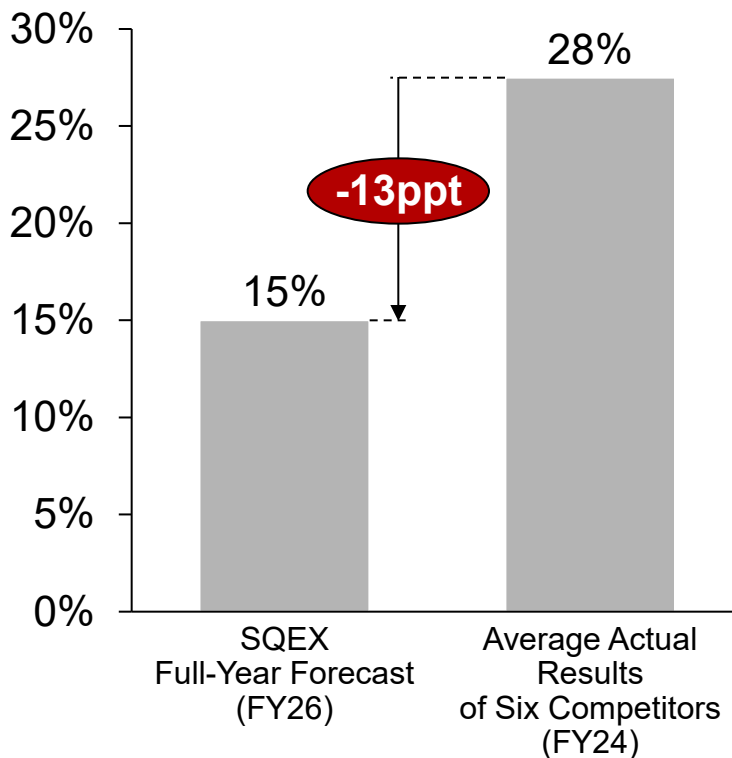
## 4-2 Justification of Undemanding Managerial Targets: SQEX's current Medium-Term Management Plan is limited to financial targets set at a low level, falling below the averages of peer companies<sup>1</sup>.

### Revenue Growth Rate



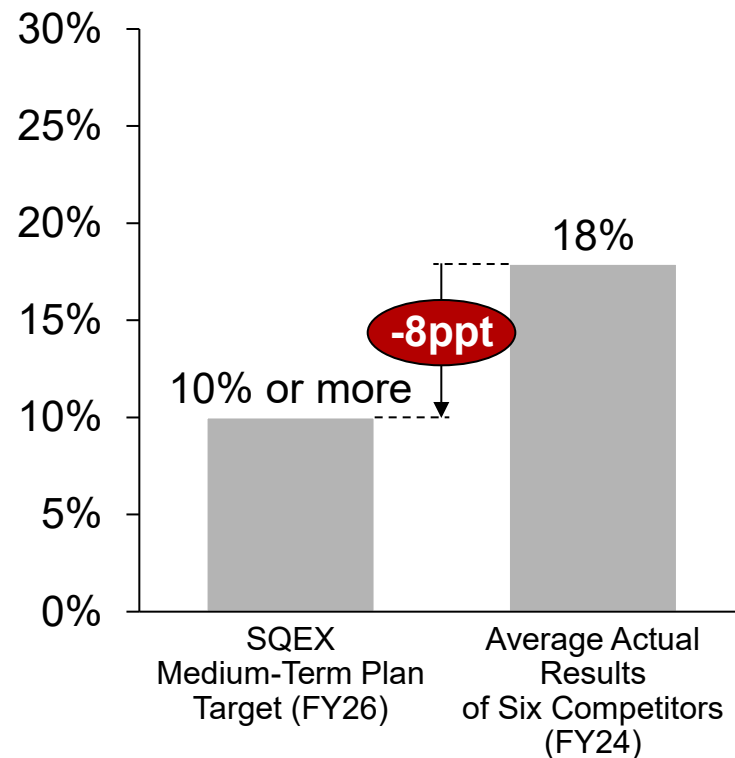
SQUARE ENIX

### Operating Profit Margin



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### ROE



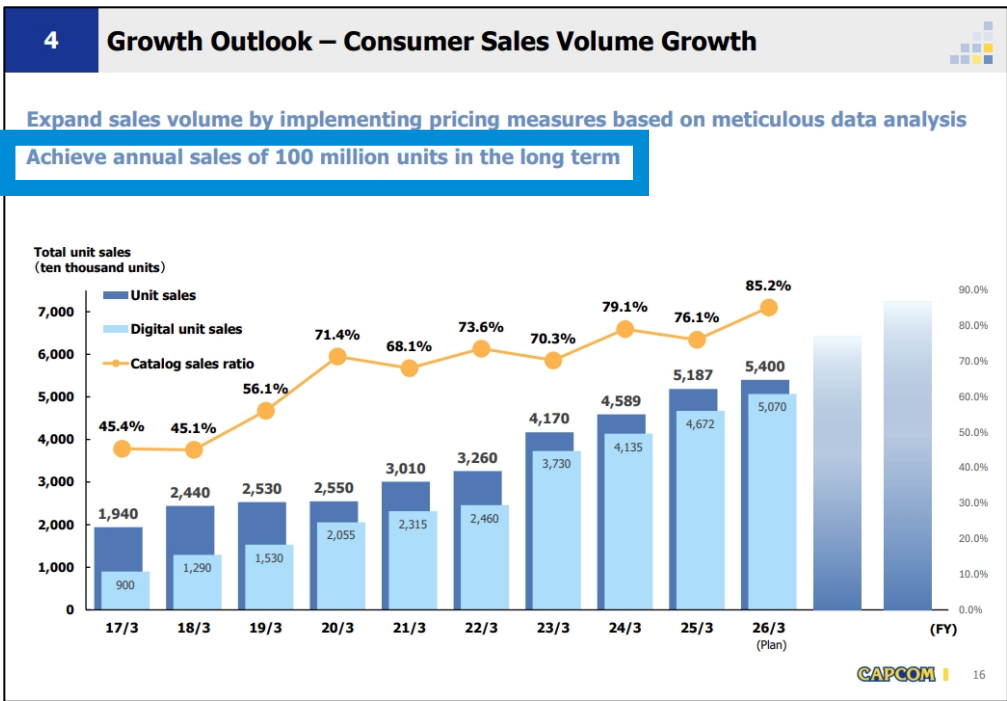
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# 4-3 Non-Disclosure and Non-Commitment to Key Performance Indicators, Including Unit Sales (1/2): SQEX's current Medium-Term Management Plan does not disclose targets for key performance indicators such as unit sales.

## CAPCOM Medium-Term Management Plan (Published in May 2025)



- **Disclosure of “Annual Sales Volume of 100 Million Units”** as a KPI Necessary to Achieve the Financial Target of 10% Annual Operating Profit Growth



## SQEX's Medium-Term Management Plan (Published in May 2024)



- **Non-Disclosure of KPIs Necessary** to Achieve the Financial Target

Diversify earnings opportunities by strengthening customer contact points

Continuously establish contact points for our titles by stepping up digital sales

- **Step up digital sales of new titles**
  - ↳ Deploy promotional initiatives on launch that better direct customers toward digital purchases
- **Strengthen earnings base by expanding sales of catalog titles**
  - ↳ Create opportunities to generate earnings from our rich library of back titles
- **Pursue initiatives focused on attracting PC users**

SQUARE ENIX 22



# 4-3 Non-Disclosure and Non-Commitment to Key Performance Indicators, Including Unit Sales (2/2): Even in the Financial Results Presentation Materials, SQEX does not disclose unit sales data at a level comparable to that disclosed by peer companies.

## Disclosure Status of Unit Sales

Definition of Unit Sales		CAPCOM	SQEX
Total Company-Wide Unit Sales	By New Titles / Catalog Titles	○	×
	By Package / Digital Download	○	○
	By Region	○	○
Unit Sales by Game Title	By Fiscal Year	○	×
	Cumulative	○	×

○


: Disclosed in Financial Results Presentation Materials

×

: Not Disclosed in Financial Results Presentation Materials

## CAPCOM Financial Results Presentation Materials (FY25/3)





Resident Evil 4

...ed 10 million units

...es unit sales

1

FY25/3 Unit Sales ranking

(thousand units)

Title	25/3	Lifetime
Monster Hunter Wilds	10,108	10,108
Monster Hunter: World <sup>*1</sup>	3,186	28,510
Resident Evil 4	2,734	9,915
Monster Hunter World: Iceborne	2,608	15,209
Monster Hunter Rise	2,440	17,175
Monster Hunter Rise: Sunbreak	2,129	9,876
Resident Evil Village	1,502	11,305
Resident Evil 2	1,436	15,409
Resident Evil 7 biohazard	1,394	14,789
Street Fighter 6	1,368	4,674
Devil May Cry 5 <sup>*2</sup>	1,231	9,133
Resident Evil 3	1,133	9,905
Dragon's Dogma 2	1,078	3,701

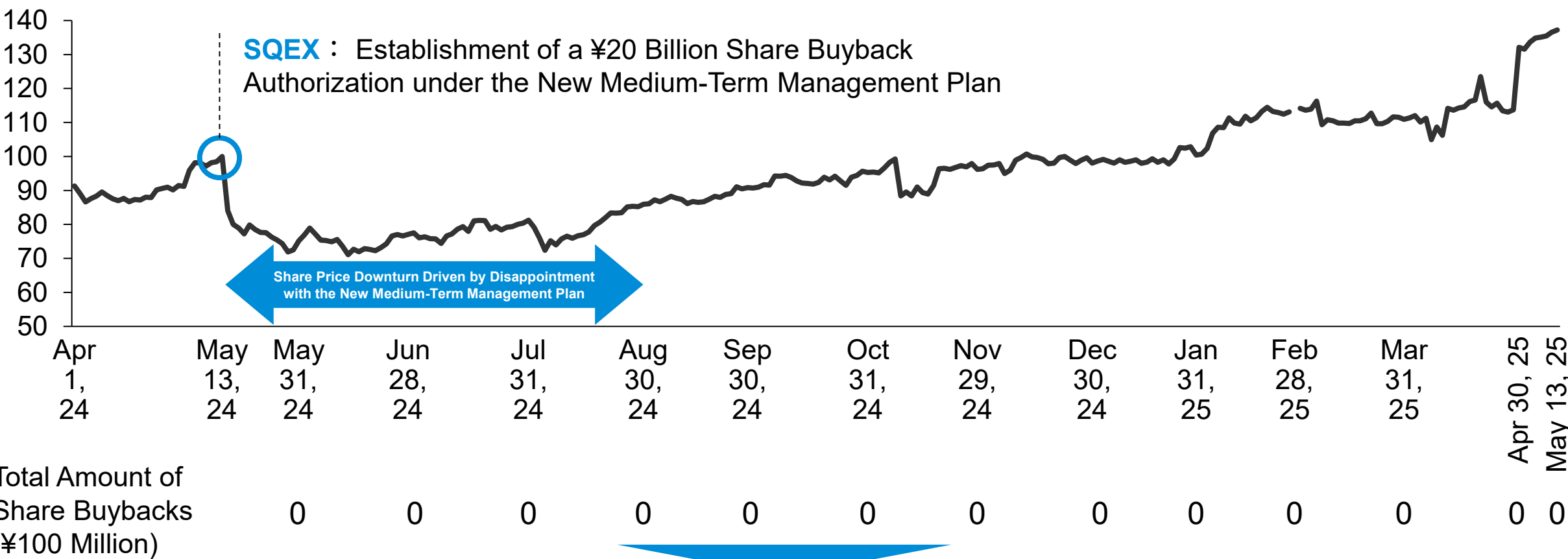
\*Figures in the above list reflect totals that include ports to additional platforms following initial title release.

\*1 Includes sales of *Monster Hunter World: Iceborne Master Edition*

Under such inadequate disclosure practices, it becomes exceedingly difficult to accurately assess SQEX’s business performance.

**4-4 Insufficient Rationale for Unreasonable Corporate Actions (1/2): Although SQEX established a ¥20 billion share buyback authorization under the new Medium-Term Management Plan, no execution has taken place.**

SQEX Share Price Index (Value Indexed to 100 as of May 13, 2024)



**The fact that SQEX refrained from executing share buybacks and thereby missed opportunities for high-ROIC investments amid a sharp share price decline triggered by a disappointing Medium-Term Management Plan, demonstrates a weakening of SQEX capital discipline.**

Source: SQEX Holdings IR Materials; Bloomberg

## 4-4 Insufficient Rationale for Unreasonable Corporate Actions (2/2): Notwithstanding the foregoing, SQEX has abdicated its accountability for the non-execution of share buybacks.

### FY24 Q1 Financial Results Presentation (Aug 2024)

- With respect to the failure to repurchase shares, the explanation has been confined to generalities and, in substance, provides no meaningful justification.
  - “We will explore the most suitable timing for repurchasing shares, taking into account factors such as the broader equity market and risks related to our businesses, while also working within the confines of the general timing restrictions imposed on share buyback orders.”
  - “Our emphasis is on striking a balance between growth investment and shareholder returns when allocating our strategic investment budget of ¥80- ¥100 billion as earmarked within our medium-term business plan, so that will serve as the basis for our deliberations.”

Q: In May 2024, you announced the setting of share repurchase parameters, but you have yet to repurchase any shares. Why is that?

A: We will explore the most suitable timing for repurchasing shares, taking into account factors such as the broader equity market and risks related to our businesses, while also working within the confines of the general timing restrictions imposed on share buyback orders. Our emphasis is on striking a balance between growth investment and shareholder returns when allocating our strategic investment budget of ¥80-¥100 billion as earmarked within our medium-term business plan, so that will serve as the basis for our deliberations.

### Notice Regarding the Status and Completion of Share Buybacks (May 2025)

- The rationale of “avoiding violation of insider trading regulations” provides no explanation whatsoever for the failure to act expeditiously with share buybacks in the **immediate aftermath** of the post-announcement share price collapse.
  - “In order to avoid infringing upon insider trading restrictions, the Company was ultimately unable to repurchase any shares during the window of the approved repurchase program.”

SQUARE ENIX HOLDINGS CO., LTD. (the “Company”) announces below the status of the share repurchases that its Board of Directors approved on May 13, 2024 under the provision of the Company's Articles of Incorporation pursuant to Article 459, Paragraph 1 of the Companies Act of Japan.

May 13, 2025 marked the conclusion of the period of share repurchases that the Company's Board of Directors had approved on May 13, 2024.

In order to avoid infringing upon insider trading restrictions, the Company was ultimately unable to repurchase any shares during the window of the approved repurchase program.

**SQEX should, with transparency, explain to shareholders why it missed the optimal opportunity to enhance corporate value by “conducting high-ROIC share buybacks during the period of precipitous share price decline”.**

**4-5 Absence of a Concrete Review of the Unmet Previous Medium-Term Management Plan**  
**(1/3): SQEX's previous Medium-Term Management Plan resulted in a significant shortfall.**

**Revenue (FY24/3)**

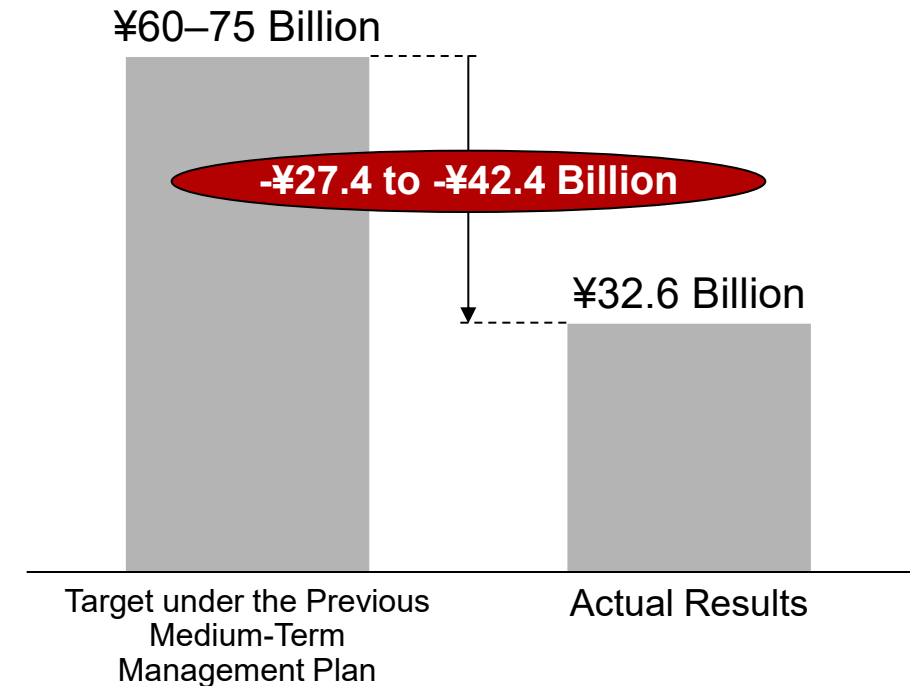
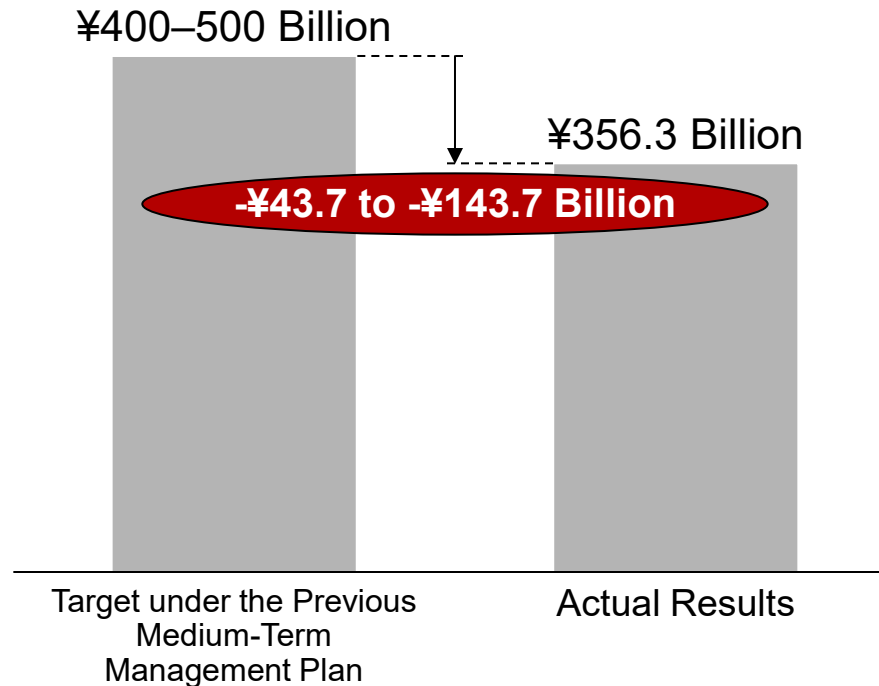
**Operating Profit (FY24/3)**

**Achievement  
Rate**

**71~89%**

**43~54%**

**Figures**





## 4-5 Absence of a Concrete Review of the Unmet Previous Medium-Term Management Plan (2/3): Nevertheless, there is a lack of specific explanation regarding the causes of this significant shortfall.

### SQEX's Medium-Term Management Plan (Published in May 2024)

① Our previous medium-term business plan: A review (3/3)

**a**

**b**

**Challenges**

- **HD game development profitability**
  - ↳ Launched many titles but some failed to live up to profit expectations, especially outsourced titles and some AAA titles
- **Slowdown in SD games**
  - ↳ Unable to create hit titles to offset maturation of Japanese market, aging of existing titles
- **Insufficient Group-wide portfolio management**
  - ↳ Cannibalization between our own titles due to overlapping launch schedules
- **Gaps in our management infrastructure**

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### Lack of Specificity Regarding Underlying Causes (Examples)

#### **a** HD game development profitability

- The expression “failed to live up to profit expectations” is overly abstract, as **no reference is made to planned figures or to the variance from the plan.**
- While the statement “Launched many titles” is included, **there is no disclosure of the number of titles launched during the period, the proportion of titles that fell short of sales plans, or the number and amount of loss-making titles.**

- **There is no distinction as to whether the losses were attributable to underperformance against sales plans or to cost overruns.** Moreover, there is a lack of analysis regarding the underlying causes, such as errors in demand forecasting, cost overruns, or insufficient marketing.

- **It remains unclear how these factors were linked to organizational issues such as decision-making structures, resource allocation, or project management frameworks.**

#### **b** Slowdown in SD Games

- While it is stated that the Company “Unable to create hit titles,” **there is a lack of information regarding the definition of a hit title, the number of actual hits, and the target number of hits.**
- **It remains unclear which KPI shortfalls led to the failure to generate hit titles (e.g., active users, ARPU, etc.).**

- It is not identified **whether the KPI shortfalls stemmed from issues in the planning and development stage, or in the sales and operations stage.**

- **It remains unclear how these factors were linked to organizational issues such as decision-making structures, resource allocation, or project management frameworks.**

□ : Insufficiency of Quantitative Analysis

□ : Insufficiency of Operational Issue Analysis

□ : Insufficiency of Organizational Issue Analysis

## Absence of a Concrete Review of the Unmet Previous Medium-Term Management Plan (3/3): Nevertheless, there is a lack of specific explanation regarding the causes of this significant shortfall.

### SQEX's Medium-Term Management Plan (Published in May 2024)

① Our previous medium-term business plan: A review (3/3)

**Challenges**

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- **Insufficient Group-wide portfolio management**
  - ↳ Cannibalization between our own titles due to overlapping launch schedules
- **Gaps in our management infrastructure**

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### Lack of Specificity Regarding Underlying Causes (Examples)

**c** Insufficient Group-wide portfolio management

- While it is stated that “Cannibalization between our own titles due to overlapping launch schedules,” **there is no disclosure of specific examples of the titles and release periods involved.**
- **The sales reduction and impact on profit margins resulting from cannibalization are not specified,** making it impossible to assess the severity of the issue.

- **The causes of cannibalization are not articulated—whether attributable to deficiencies in the planning stage or delays in the development stage.**

- **There is a lack of analysis regarding the organizational factors underlying insufficient portfolio management, such as decision-making structures or project management frameworks.**

**d** Gaps in our management infrastructure

- While there is reference to “Gaps,” **the specific scope of the KPIs concerned and the regions or business units in which such underdevelopment exists remain unclear.**

- There is a lack of quantitative analysis regarding **the impact of such underdevelopment on profitability and plan achievement rates.**

- There is no analysis of **the factors that led to the underdevelopment,** such as delays in implementation schedules or the absence of planning altogether.

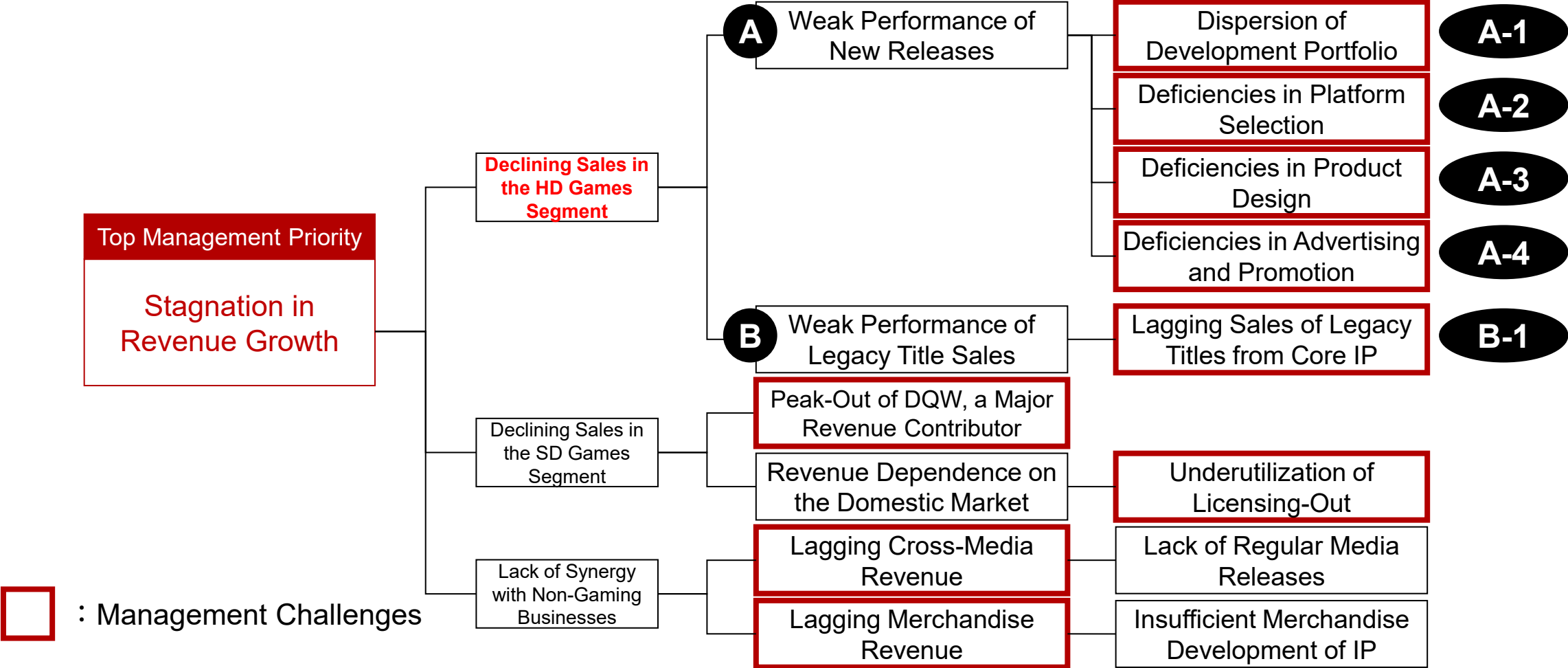
- No examination has been conducted of the organizational causes that gave rise to the foregoing circumstances.

- : Insufficiency of Quantitative Analysis
- : Insufficiency of Operational Issue Analysis
- : Insufficiency of Organizational Issue Analysis

## Section 2: Stagnation of Revenue Growth

## **Stagnation of Revenue Growth (Weak Sales in the HD Business)**

Regarding the decline sales in SQEX's HD business, it is considered the following management issues exist.

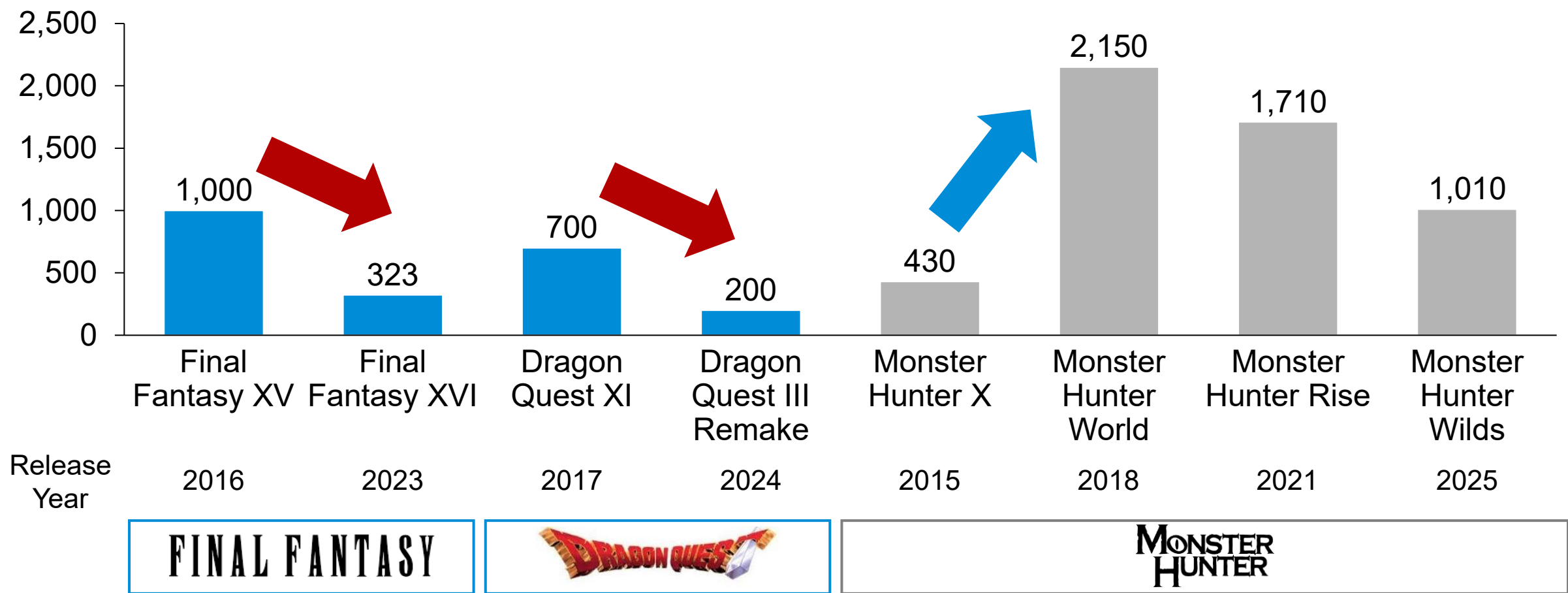


The following sections set forth a detailed discussion of each item.



# A The Weak Performance of New Releases Is Evident from the Sharp Declining Trend in Series Unit Sales

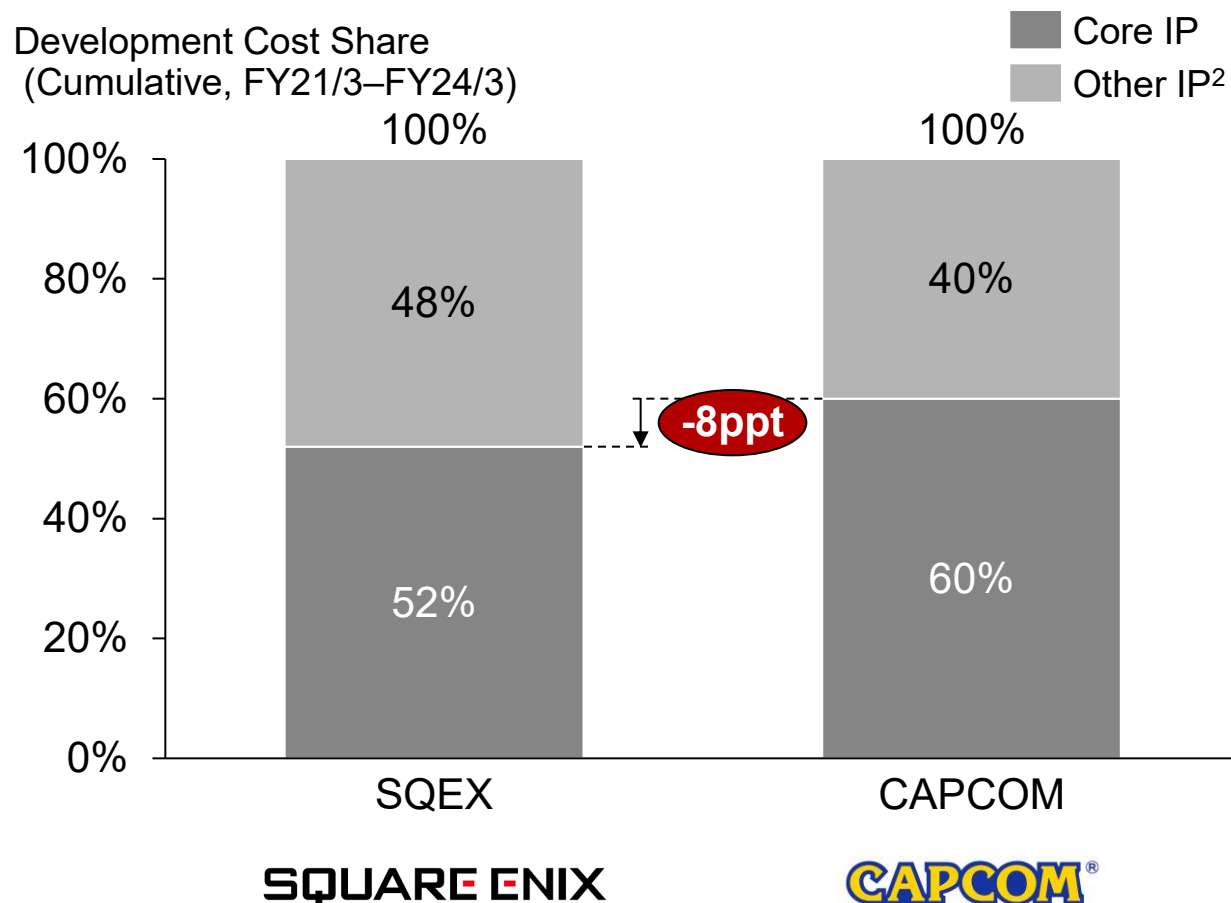
Cumulative Unit Sales (10,000 units, as of May 2025)<sup>1</sup>



Source: Literature Review; Third-Party Research Organization; CAPCOM Official Website  
Note: [1] Final Fantasy XV as of May 2022; Final Fantasy XVI as of March 2025; Dragon Quest XI as of November 2024; Dragon Quest III Remake as of May 2025; Monster Hunter series as of March 2025.

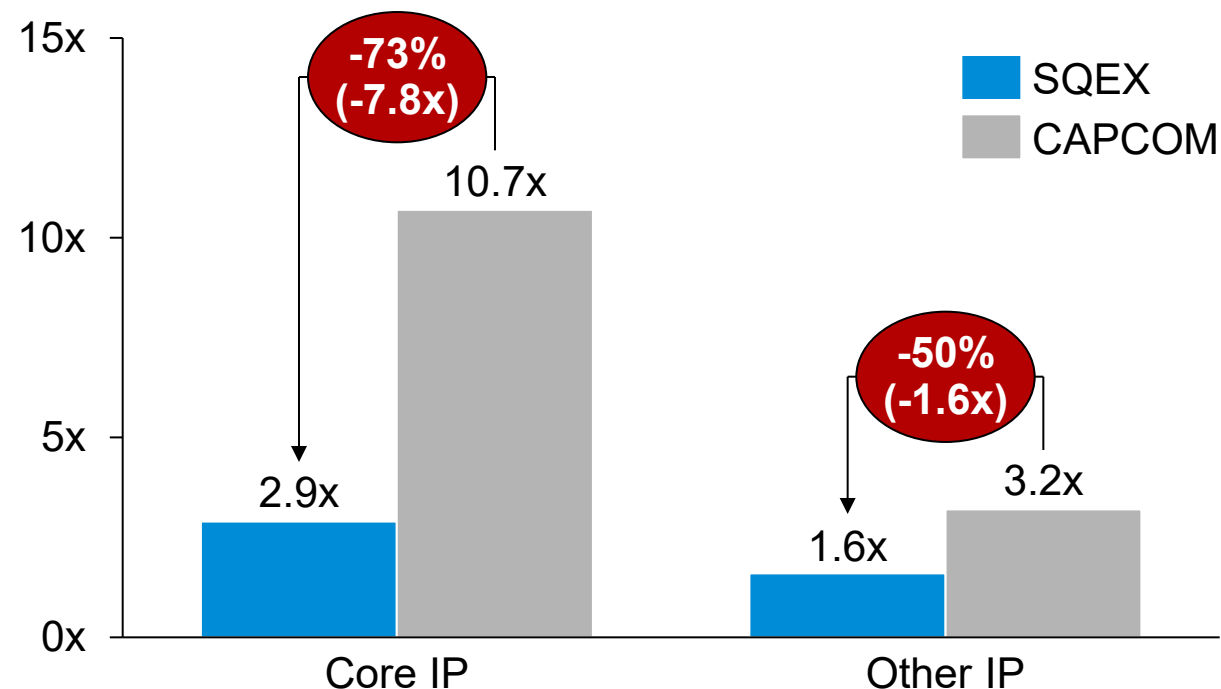
## A-1 Dispersion of Development Portfolio: SQEX's allocation of development expenditures to core IP<sup>1</sup> is limited, and the revenue returns on development costs are inefficient.

### Allocation of Development Expenditures to Core IP Lags Behind Competitors



### Revenue Returns on SQEX's Core IP Development Significantly Lag Behind Competitors

Revenue-to-Initial Development Cost Multiple  
(Average, FY21/3–FY24/3)

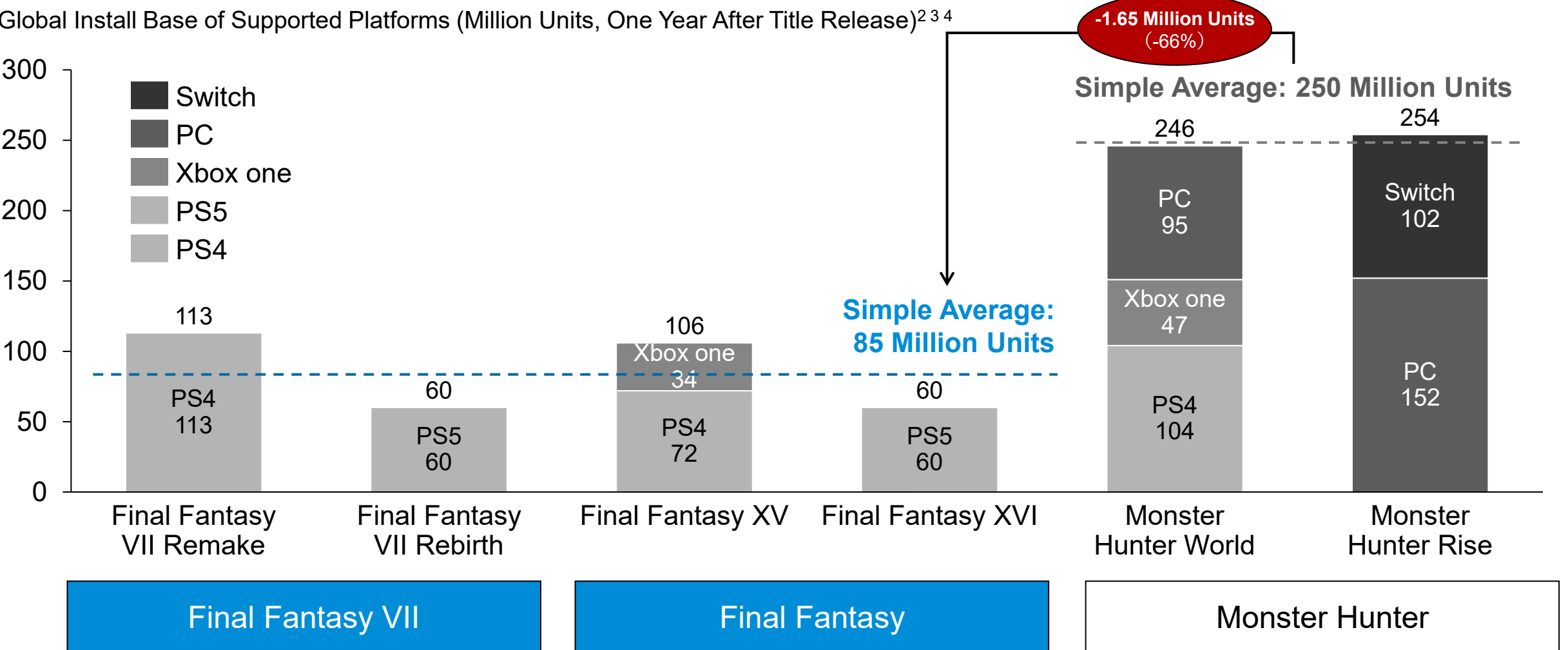


Source: Third-Party Research Organization; Literature Review; Expert Interviews

Note: [1] SQEX core IP is defined as FF and DQ; CAPCOM core IP is defined as Monster Hunter, Resident Evil, and Street Fighter. The same definitions apply throughout. "Other IP" refers to all other titles released between FY21/3 and FY24/3;

[2] Cumulative sales and development costs for all titles were estimated and calculated based on third-party research and expert interviews.

**A-2 Deficiencies in Platform Selection: SQEX's AAA titles<sup>1</sup> are unreasonably limited in terms of supported platforms.**



## A-3 Deficiencies in Product Design (1/2): SQEX's recently released core titles have received poor user evaluations, highlighting shortcomings in product design.

### Recently Released Core Titles Have Been Harshly Criticized



Dragon Quest III Remake

#### Outdated and Frustrating Gameplay

“HORRIBLE! **One of the absolute worst remakes ever**”

“**I just can't believe that this godawful mess** would be released in 2024”

“Random encounters every three or four steps, the “ultra-fast” speed is sluggish, really long loading times...”

“**It's a very boring, irritating game.**”



Final Fantasy XVI

#### Low Quality That Betrays Fan Expectations

“The Turn based and Active Time battle systems that fans love have been replaced...”

“The music which FF is famous for is replaced by generic orchestral cinematic fantasy strings the whole time...”

“**Why Square Enix don't listen to fans remains the eternal question**”

“**All in all, FFXVI is heartbreaking for Final Fantasy fans**”



## A-3 Deficiencies in Product Design (2/2): Newly created IPs have likewise received poor user evaluations, underscoring shortcomings in product design.

### New IPs Have Also Been Harshly Criticized



**FORSPOKEN**  
(Magical Action RPG)

**A Story Devoid of Charm or Immersion**

**“Only worth 20-25 dollar or skip it”**

“Bad cringe dialogs, bad protagonist, unlikable characters, bad acting”

“Bad pacing and meh generic story”



**Babylon's Fall**  
(Action RPG)

**Monotonous and Unrewarding Gameplay**

**“What a dull and boring game”**

“The missions are repetitive and cumbersome. Combat feels clunky and unpolished”



**Marvel's Avengers**  
(Action-Adventure Game)

**Blatant Inducement Toward Continuous Microtransactions**

**“This game is so dull, it lacks charm and personality”**

“The fact that it's a live service game really hurts the overall story”

“The missions are extremely repetitive and they end very abruptly, and there is a lot of grinding as if it's”

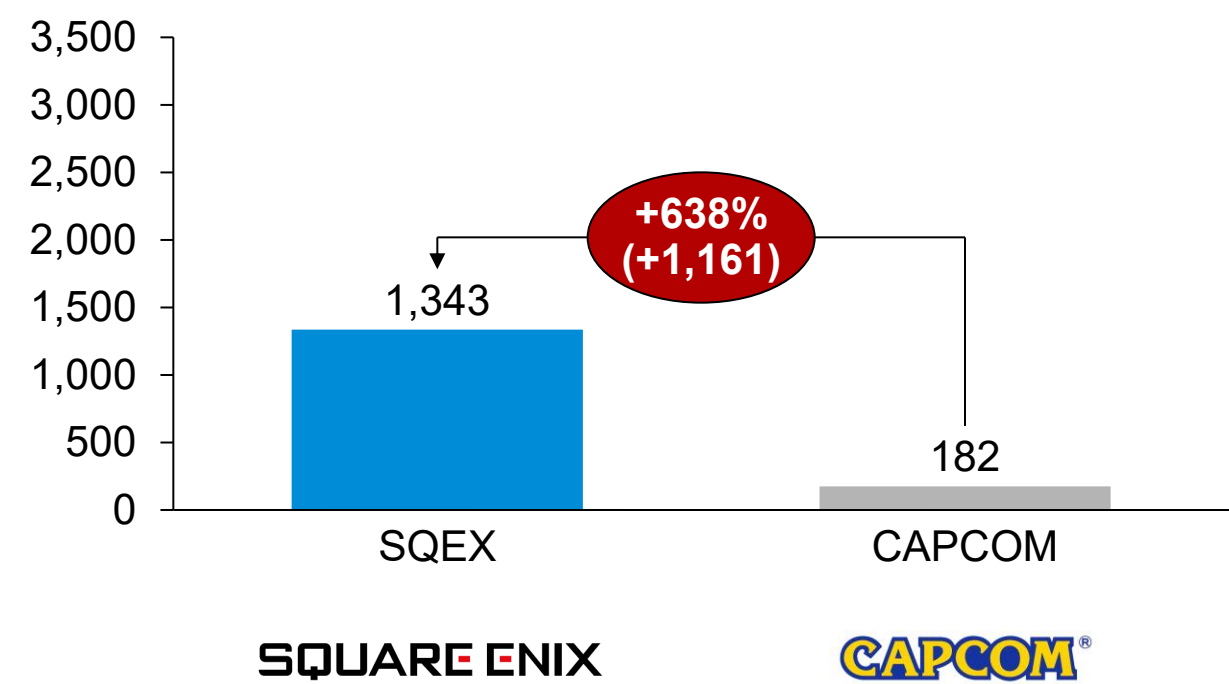




# A-4 Deficiencies in Advertising and Promotion: The revenue returns on SQEX's advertising expenditures for new title launches significantly lag behind competitors.

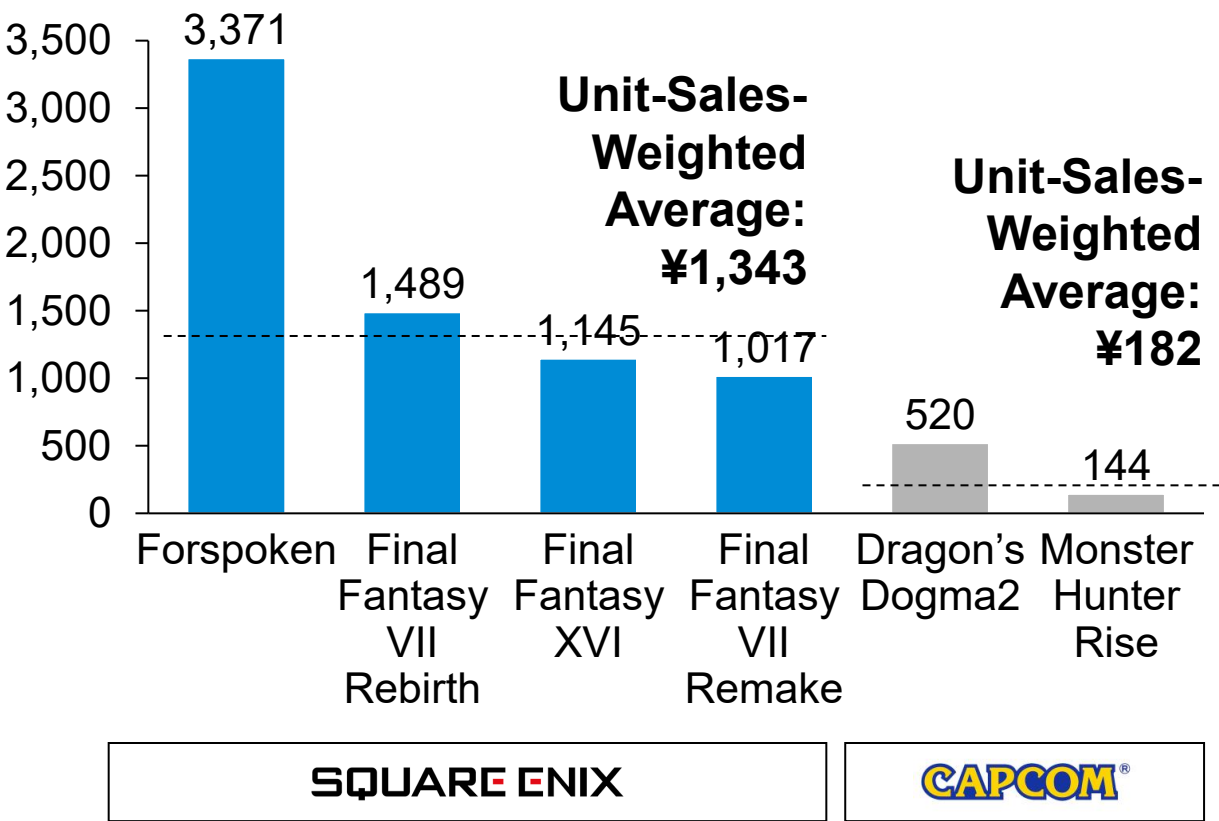
CPI (Advertising and Promotion Expense per Unit Sold) Is Approximately Seven Times Higher Than Competitors

CPI<sup>1</sup> (JPY, Average for FY21/3–FY24/3)



CPI by Title

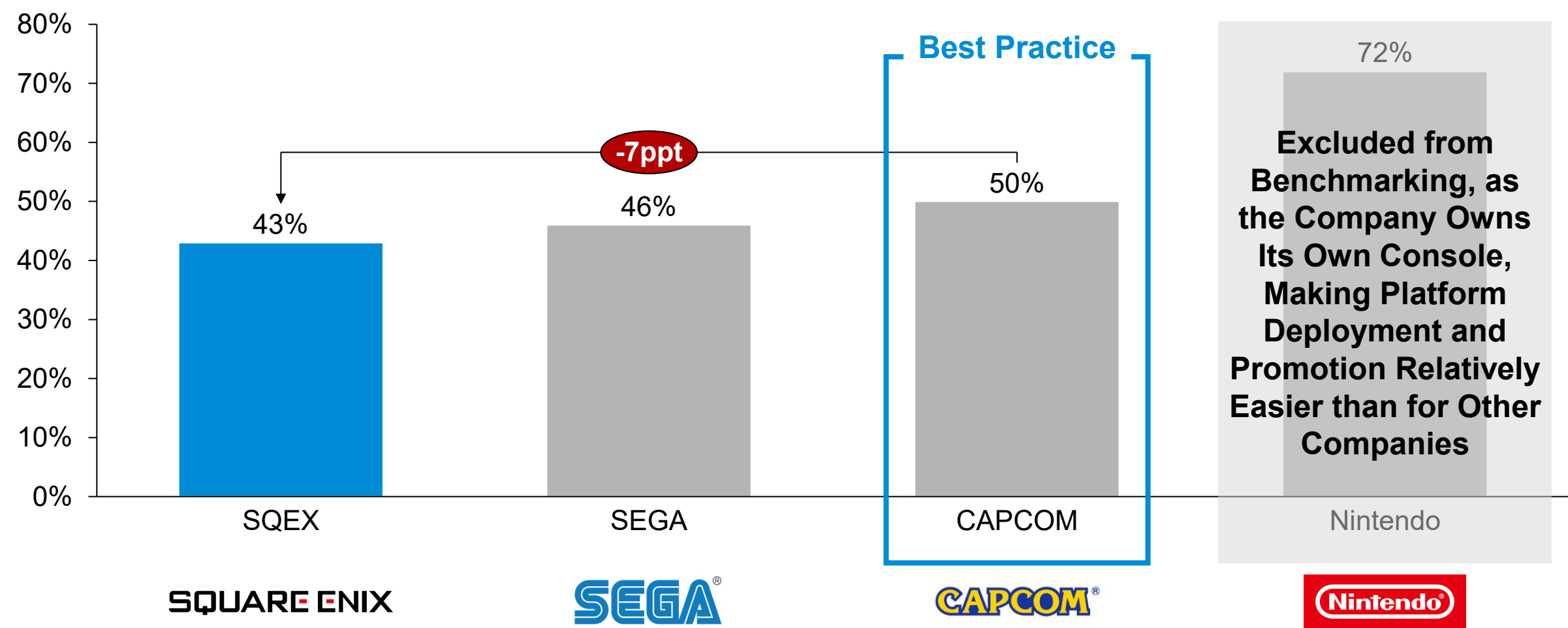
CPI<sup>1</sup> (JPY)



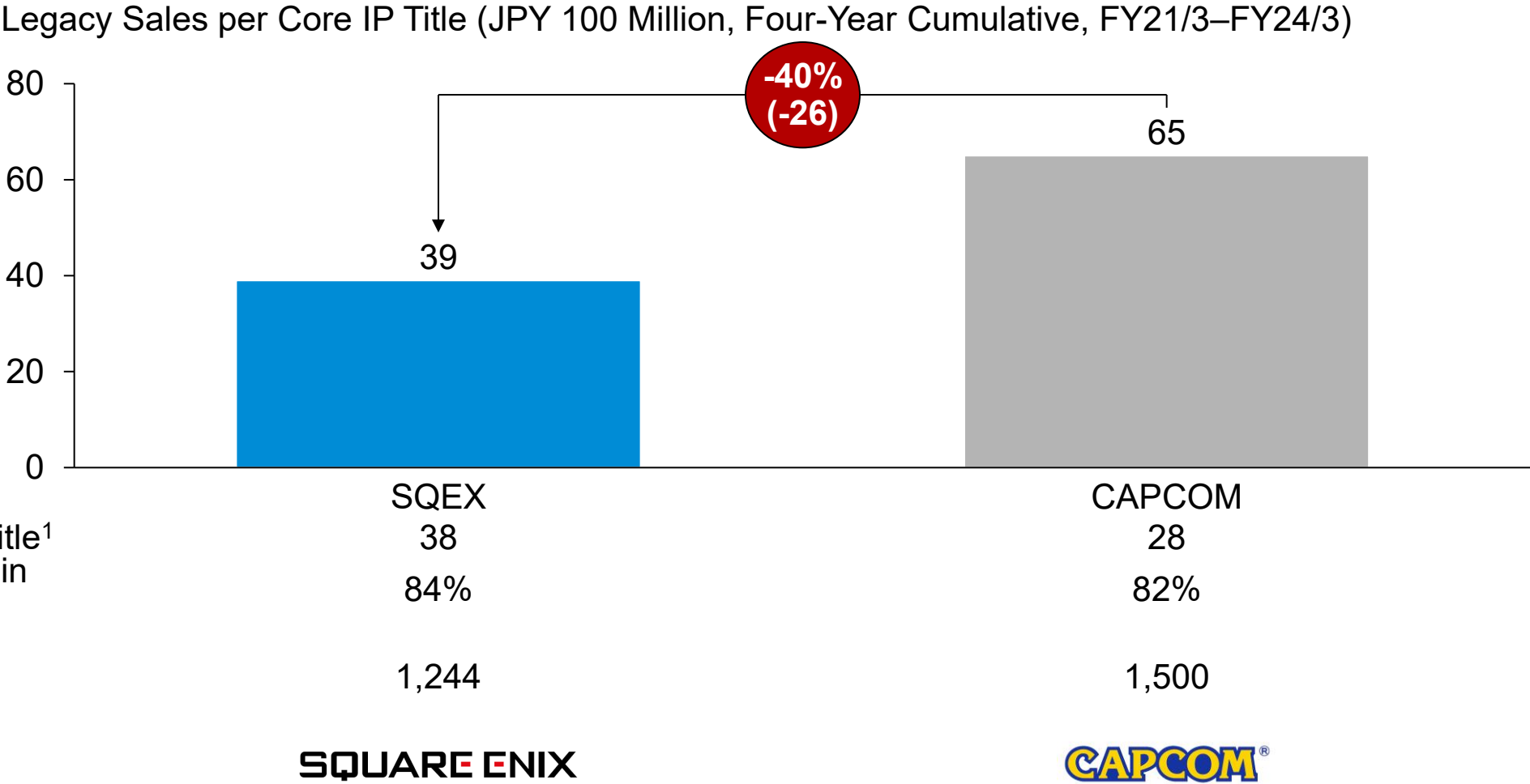
Source: Newzoo; Third-Party Research Organization; Company IR Materials; Literature Review  
Note: [1] The figure represents the estimated total advertising and promotion expenses for each AAA title released during the period, divided by the total unit sales (Newzoo) of each AAA title.

# B The Weak Performance Of Legacy Title Sales Is Evident From The Low Legacy Sales Ratio Compared With Competitors

Legacy Sales Ratio within HD Game Business<sup>1</sup> (FY24/3)<sup>2</sup>



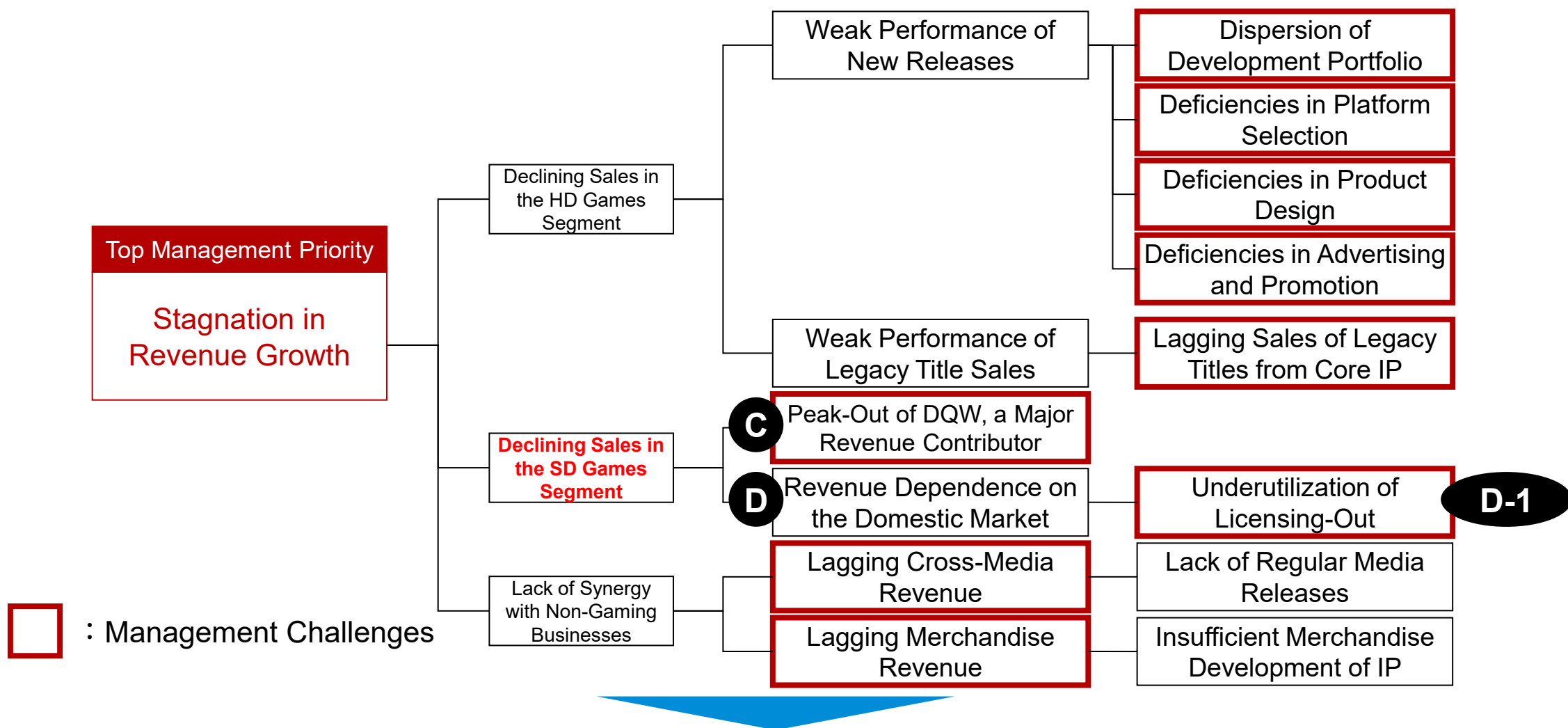
**B-1 Lagging Legacy Sales of Core IP: The Weak Performance of Legacy Sales Is Attributable to the Decline in Legacy Sales per Core IP Title**



Number of Legacy Core IP Title<sup>1</sup>  
Ratio of Active Legacy Titles in  
Core IP<sup>2</sup>  
Legacy Sales of Core IP  
(JPY 100 Million, Cumulative  
FY21/3–FY24/3)<sup>3</sup>

## **Stagnation of Revenue Growth (Weak Sales in the SD Business)**

Regarding the decline sales in SQEX's SD business, it is considered the following management issues exist.

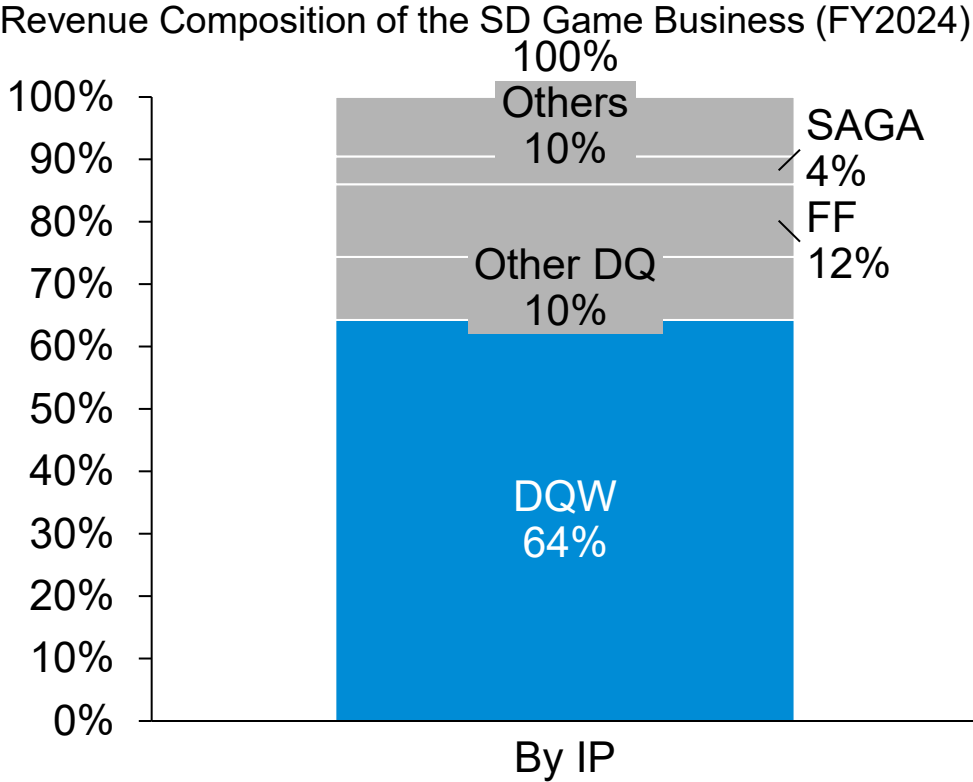


The following sections set forth a detailed discussion of each item.

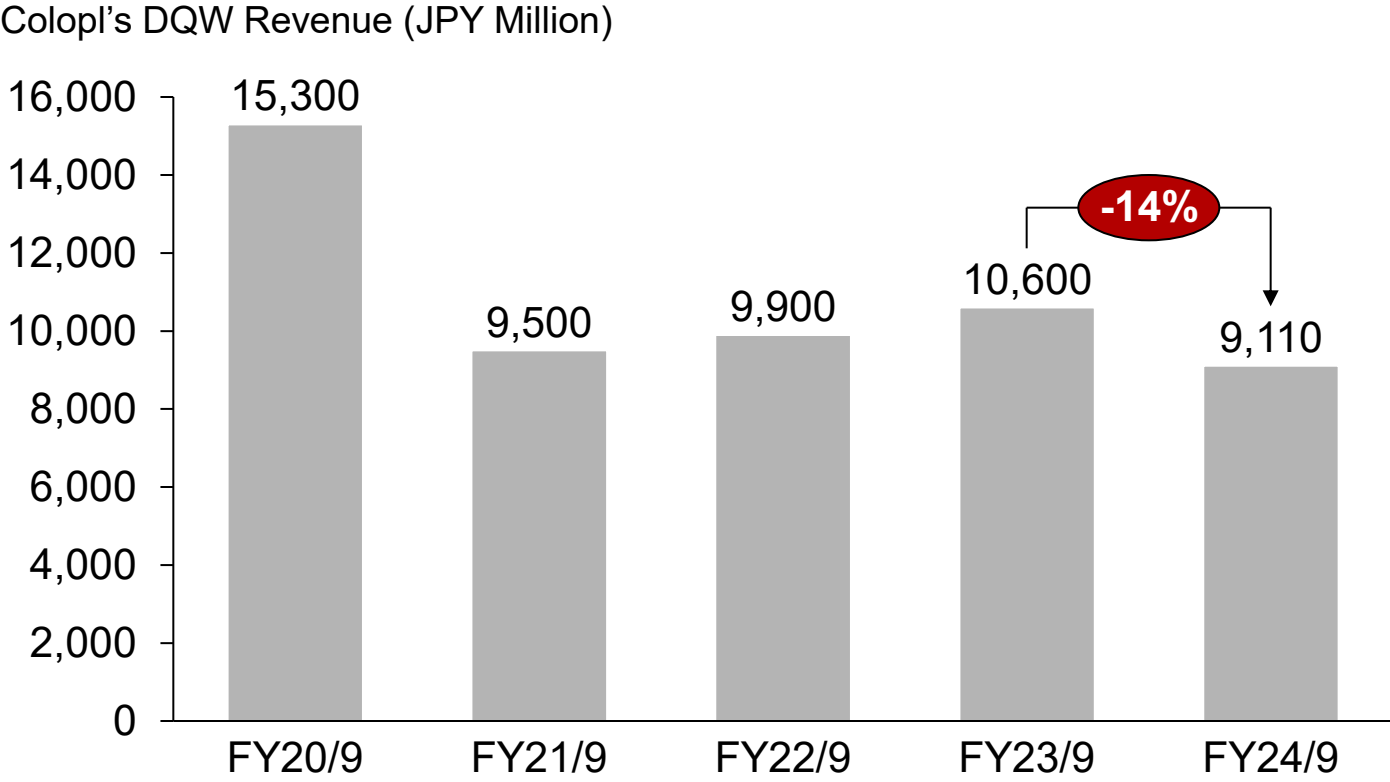


# c It Is Evident that DQW<sup>1</sup>, which Constitutes the Majority of Earnings in the SD Game Business, Has Already Peaked Out

## DQW Accounts for Over 60% of Revenue in the SD Game Business



## Colopl's Most Recent DQW Revenue Declined by 14% Year-on-Year

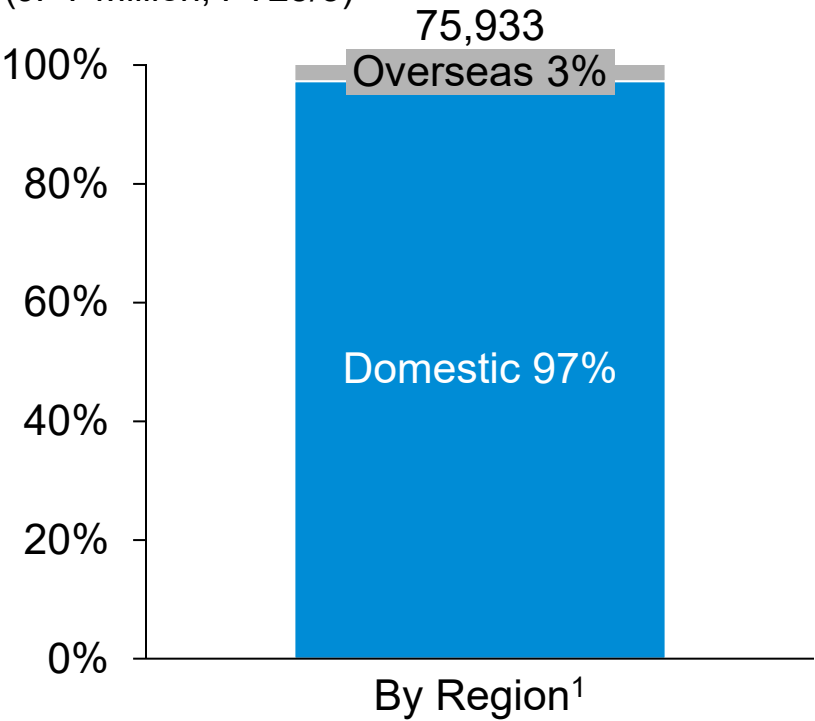


Source: Third-Party Research Organization; Colopl IR Materials  
Note: [1] DQW refers to "Dragon Quest Walk."

**D It Is Evident That the SD Game Business Relies Exclusively on the Saturated Domestic Market**

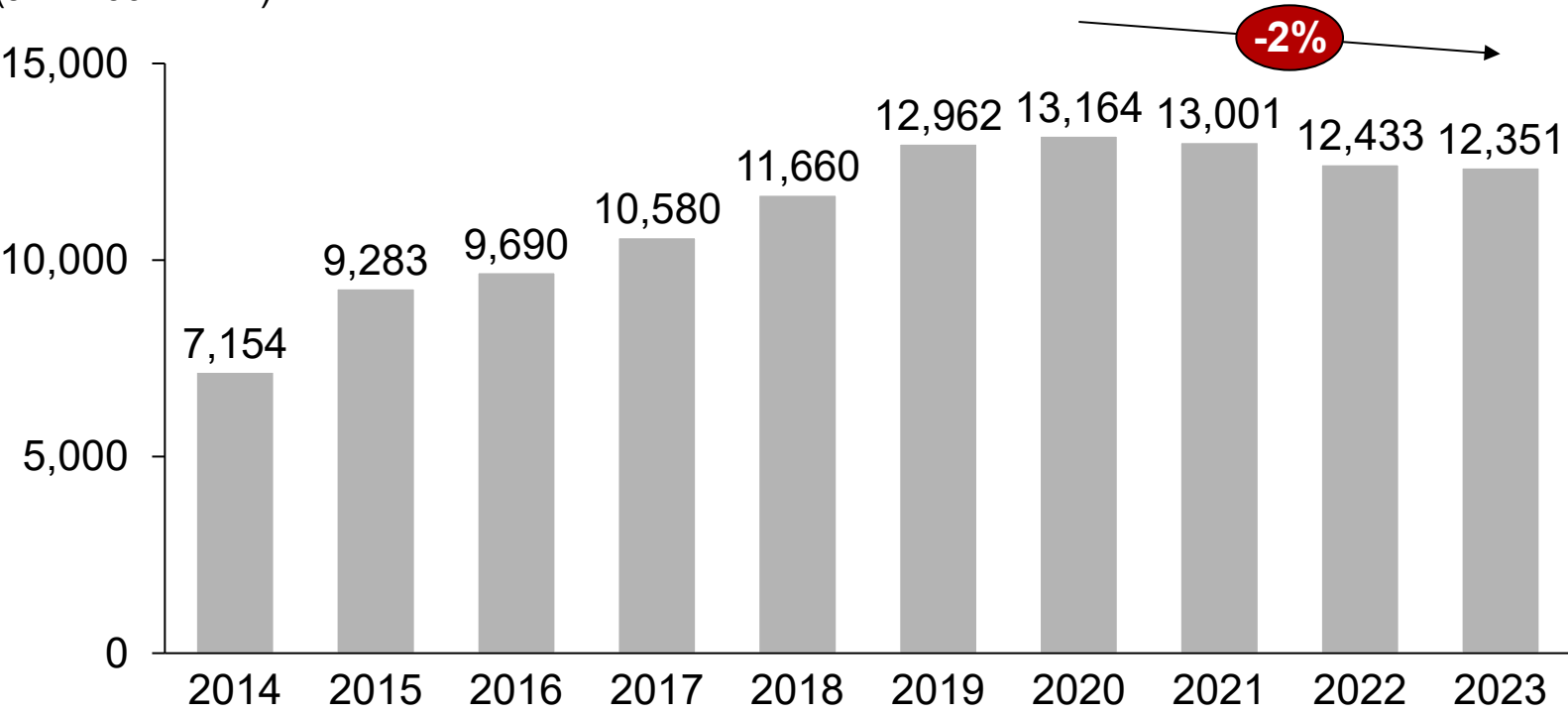
**Nearly 100% of SD Game Business Revenue Is Derived from the Domestic Market**

Revenue of the SD Game Business  
(JPY Million, FY25/3)



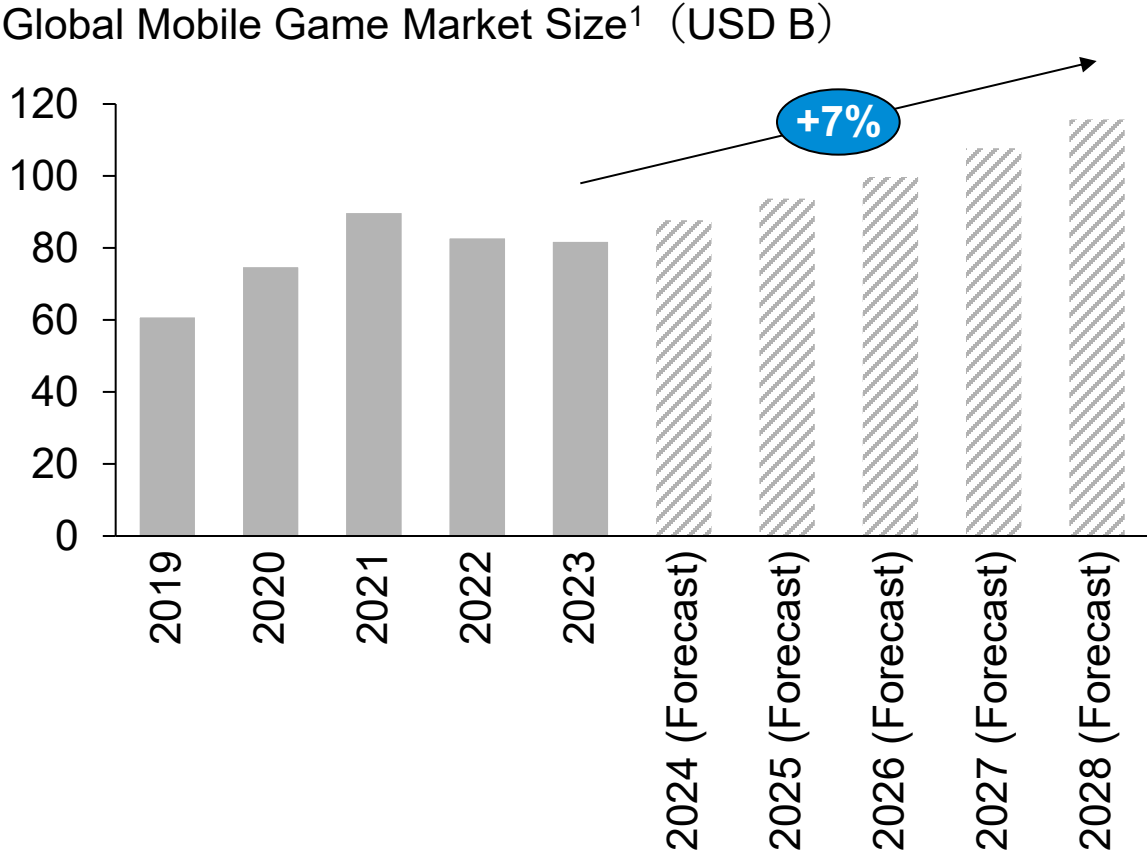
**Since 2020, the Domestic Market Has Contracted at an Annual Rate of 2%**

Domestic Mobile Game Market Size  
(JPY 100 Million)



## D-1 Underutilization of Licensing-Out: While the Mobile Market Is Growing Overseas, SQEX Has Taken Virtually No Action

The Global SD Game Market Is Projected to Grow at an Annual Rate of 7%



SQEX May Have Failed to Adequately Achieve Rapid Expansion Overseas

FFXIV Mobile:  
Licensed Out  
to Tencent

FFVII Ever  
Crisis: Global  
Release

- The mobile version of FFXIV was released in China in 2025.
- SQEX provides licensing and supervision, while development is undertaken by Lightspeed Studios, a Tencent subsidiary.
- **Approximately seven years will have elapsed between the announcement of the strategic alliance with Tencent in 2018 and the release.**
- FFVII Ever Crisis was released worldwide simultaneously in September 2023.
- Within two months, global downloads reached 70 million, with estimated cumulative sales of USD 269 million.
- However, **more than 70% of sales were derived from the Japanese market, indicating weak revenue generation from overseas.**

Source: Sensor Tower; Literature Review  
Note: [1] Market size represents the total annual in-app purchase (IAP) revenue from mobile games on the Apple App Store and Google Play.

D-1

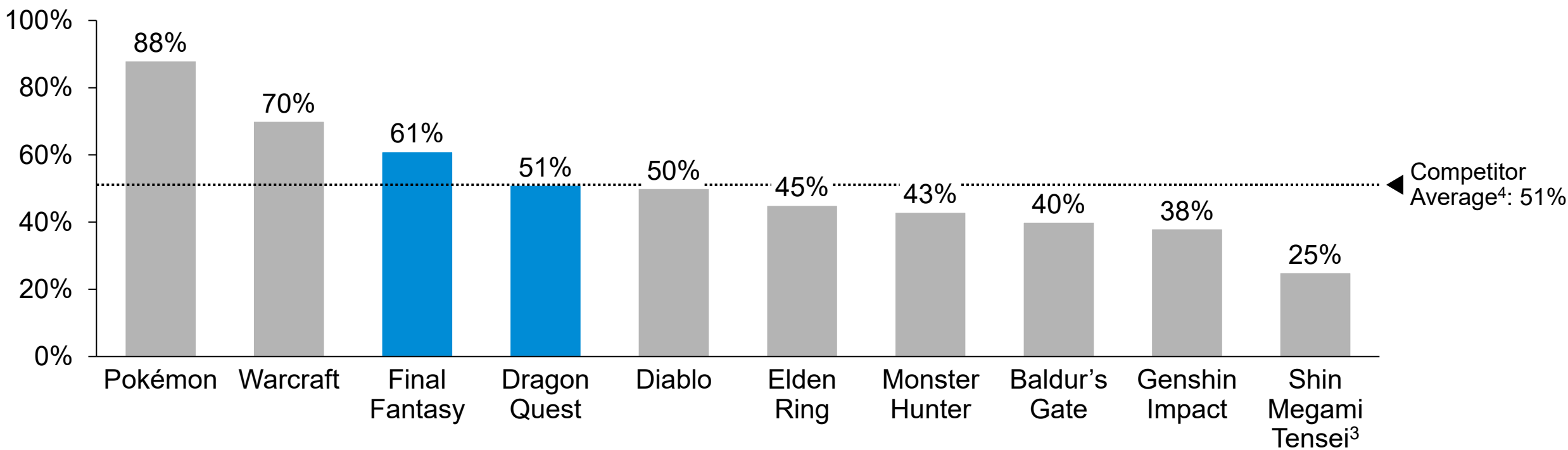
Underutilization of Licensing-Out: Despite the High Overseas Awareness<sup>1</sup> of SQEX's IP, the Failure to Leverage It Is Problematic



## Awareness of FF and DQ in North America Generally Exceeds That of Competing RPGs

For each game series<sup>2</sup>, please select the option that best reflects your awareness and purchase experience for personal use – percentage of respondents excluding those who answered “unaware.”

Awareness of Each IP in North America



Source: Consumer Survey in Japan and the U.S. (conducted by 3D in November 2024; total responses: 25,318; analyzed responses: 1,592); Sensor Tower

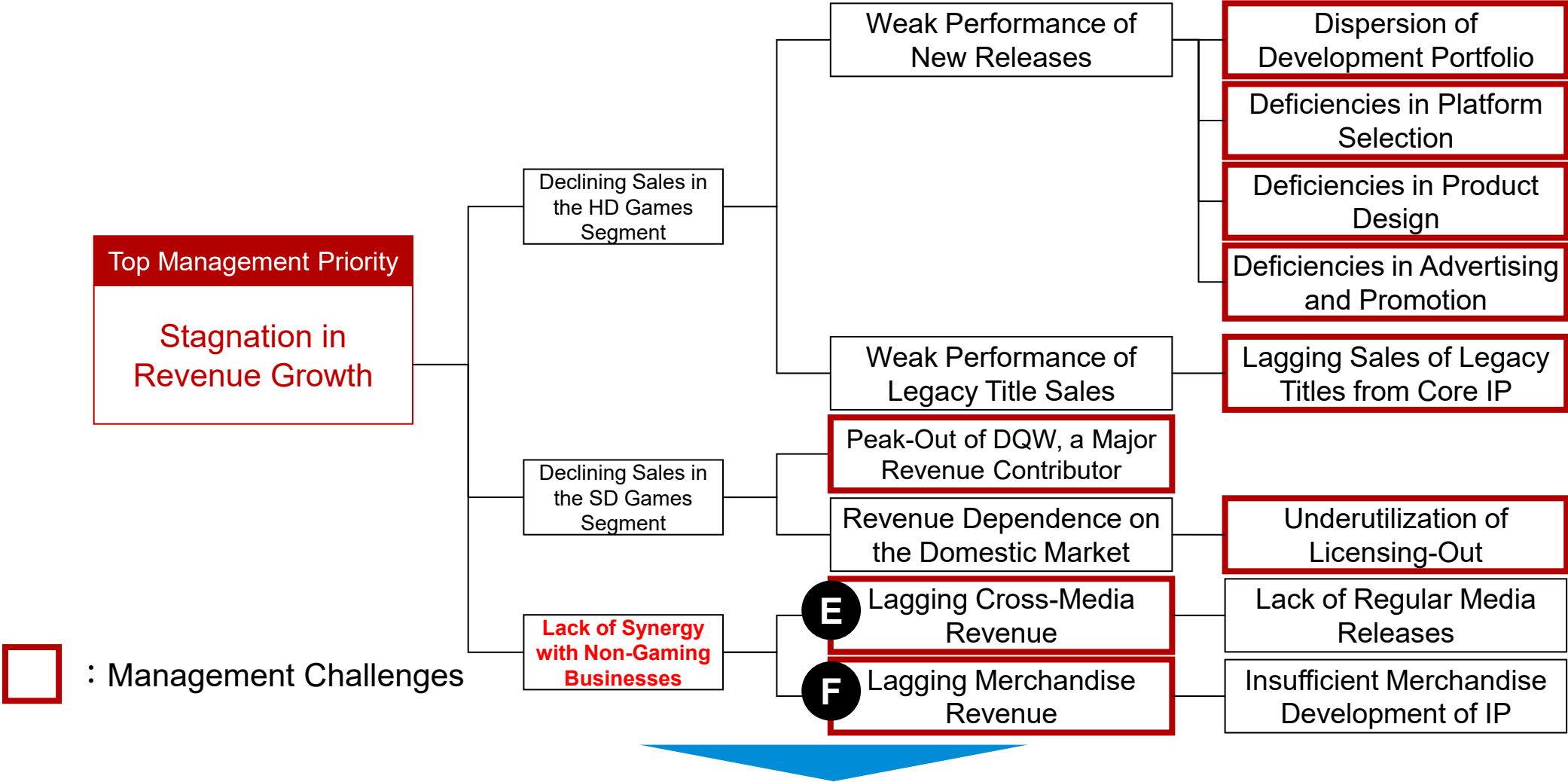
Note: [1] Awareness is defined as the percentage of respondents selecting any option other than “unaware” (based on North American consumers). [2] The analysis covers (i) the top five domestic RPG franchises by cumulative unit sales over the past five years, and (ii) the top three overseas RPG franchises by cumulative unit sales over the past five years (excluding FF, DQ, and non-game-origin IPs). [3] Shin Megami Tensei includes the Persona series. [4] Competitor average is calculated across Pokémon, Genshin Impact, Monster Hunter, Shin Megami Tensei, Elden Ring, Warcraft, Diablo, and Baldur's Gate.

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## **Stagnation of Revenue Growth (Lack of Synergies with Non-Gaming Businesses)**

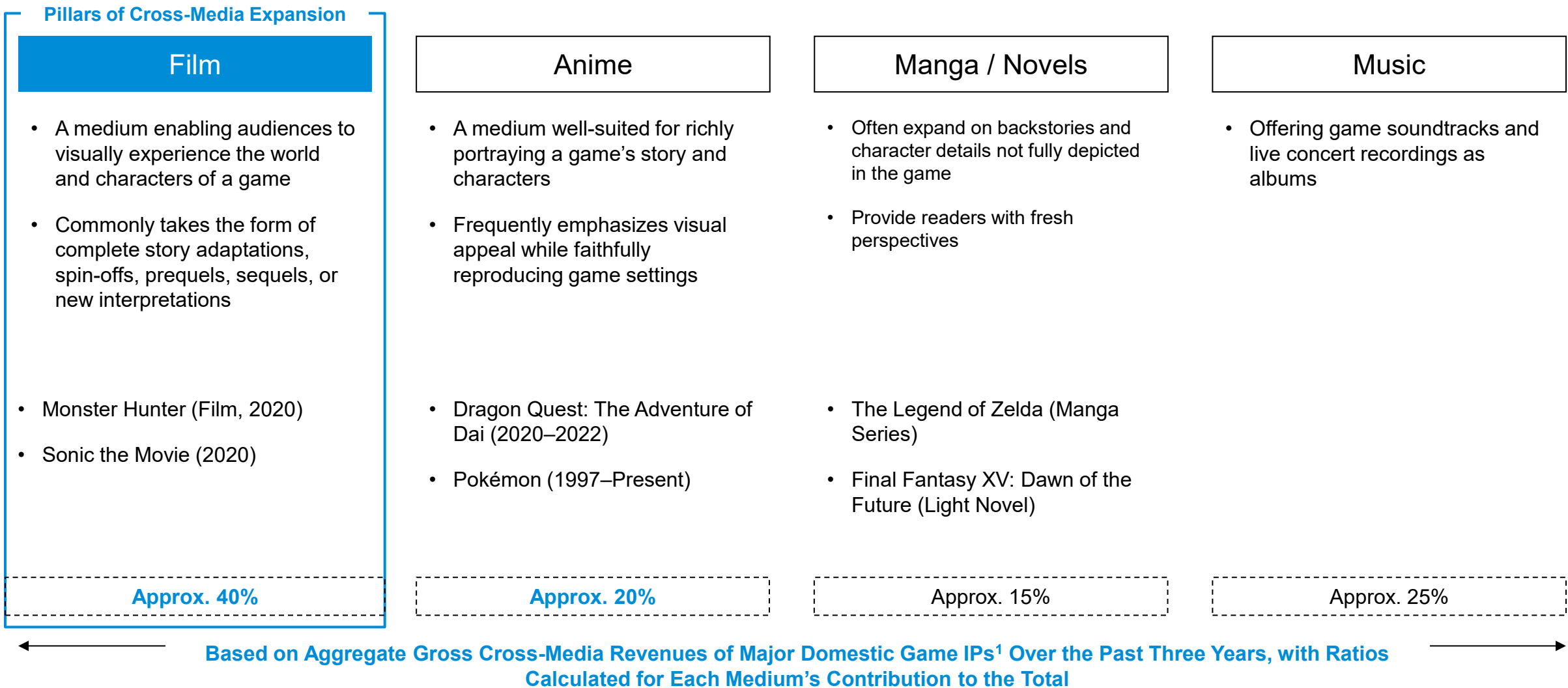


Regarding SQEX's lack of synergy with non-gaming, it is considered the following management issues exist.



The following sections set forth a detailed discussion of each item.

# E The Core of Cross-Media Strategies for Game IP Lies in Timely Film Adaptations in Conjunction with Title Releases



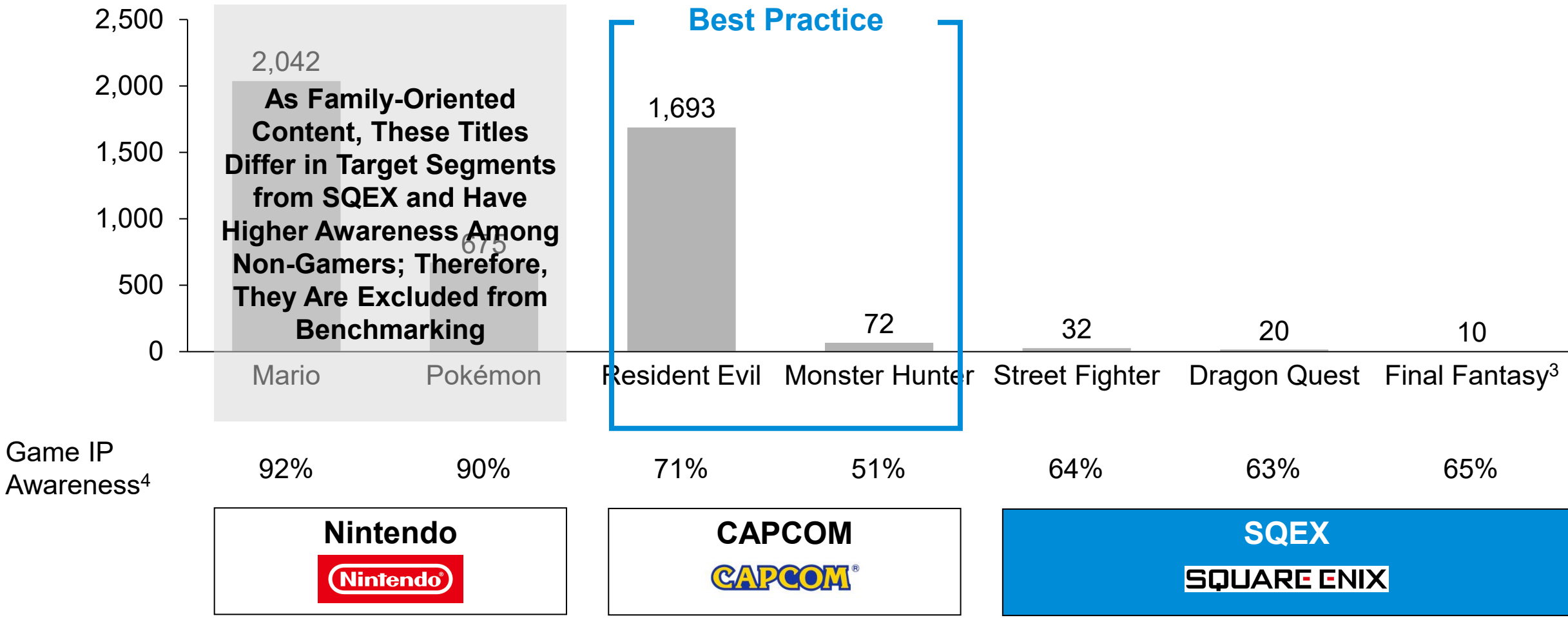
Source: Literature Review; Third-Party Research Organization

Note: [1] Major IPs covered include FF, DQ, The Legend of Zelda, Super Mario, Pikmin, Animal Crossing, Monster Hunter, Street Fighter, Resident Evil, Castlevania, Yu-Gi-Oh!, Silent Hill, Elden Ring, and Persona. Calculations are based on an assumed 5% licensing fee.

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# The Film Adaptations of SQEX’s Core IPs Are Lagging, and the Cross-Media Strategy Remains Inadequate

Cumulative Box Office Revenue of New Game IP Films<sup>1</sup> (JPY 100 Million<sup>2</sup>, 2005–2024)

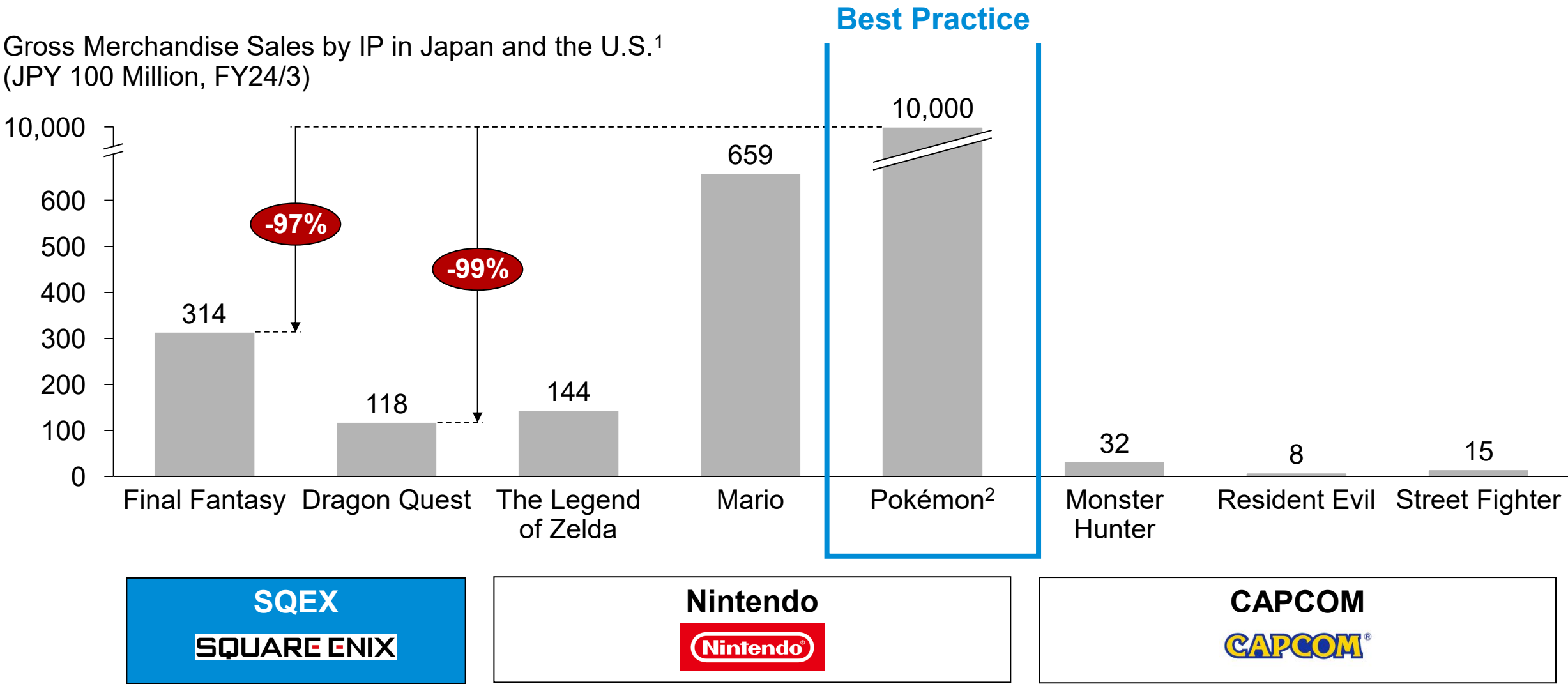


Source: Consumer Survey in Japan and the U.S. (conducted by 3D in November 2024; total responses: 25,318; analyzed responses: 1,592); Literature Review  
Note: [1] Cumulative box office revenue calculated for films released in theaters over the past 20 years; [2] An exchange rate of USD 1 = JPY 150 was applied; [3] The new Final Fantasy VII: Advent Children film was not released in theaters; [4] Awareness rate is based on the weighted average of Japan and the U.S.

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# F Merchandise Sales of SQEX's Core IPs Significantly Lag Behind Best Practices, Indicating Considerable Room for Improvement

Gross Merchandise Sales by IP in Japan and the U.S.<sup>1</sup>  
(JPY 100 Million, FY24/3)



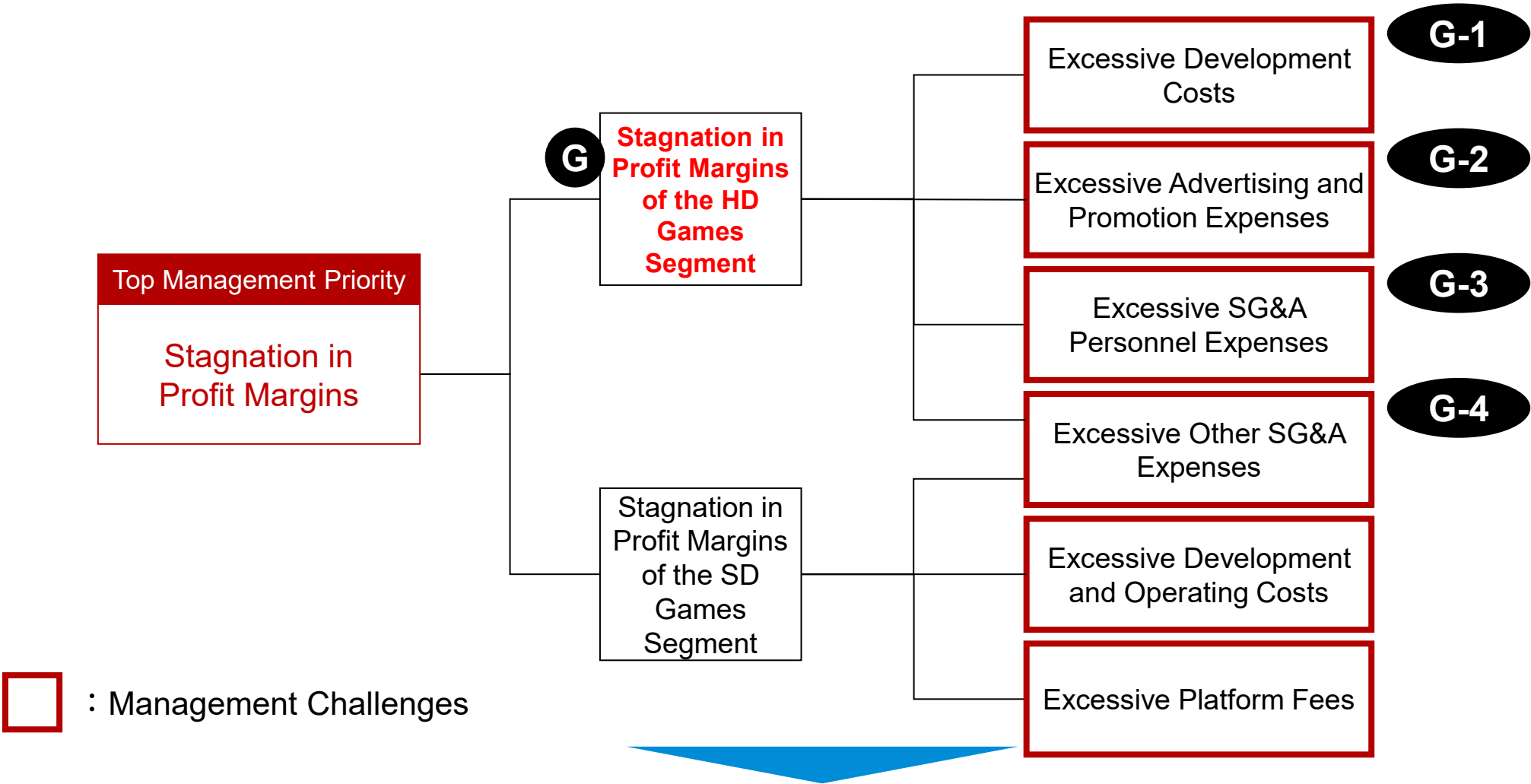
Source: Third-Party Research Organization; TitleMax, "The 25 Highest-Grossing Media Franchises of All Time"; Expert Interviews  
Note: [1] Gross merchandise sales for IPs excluding Pokémon are based on estimates from a third-party research organization; [2] Merchandise sales for Pokémon are estimated by multiplying Mario's merchandise sales (per third-party research) by approximately 15, as TitleMax indicates that Pokémon's cumulative merchandise sales are about 15 times those of Mario.

## Section 3: Stagnation of Operating Profit Margin

## **Stagnation of Operating Profit Margin (Weak Profitability in the HD Business)**



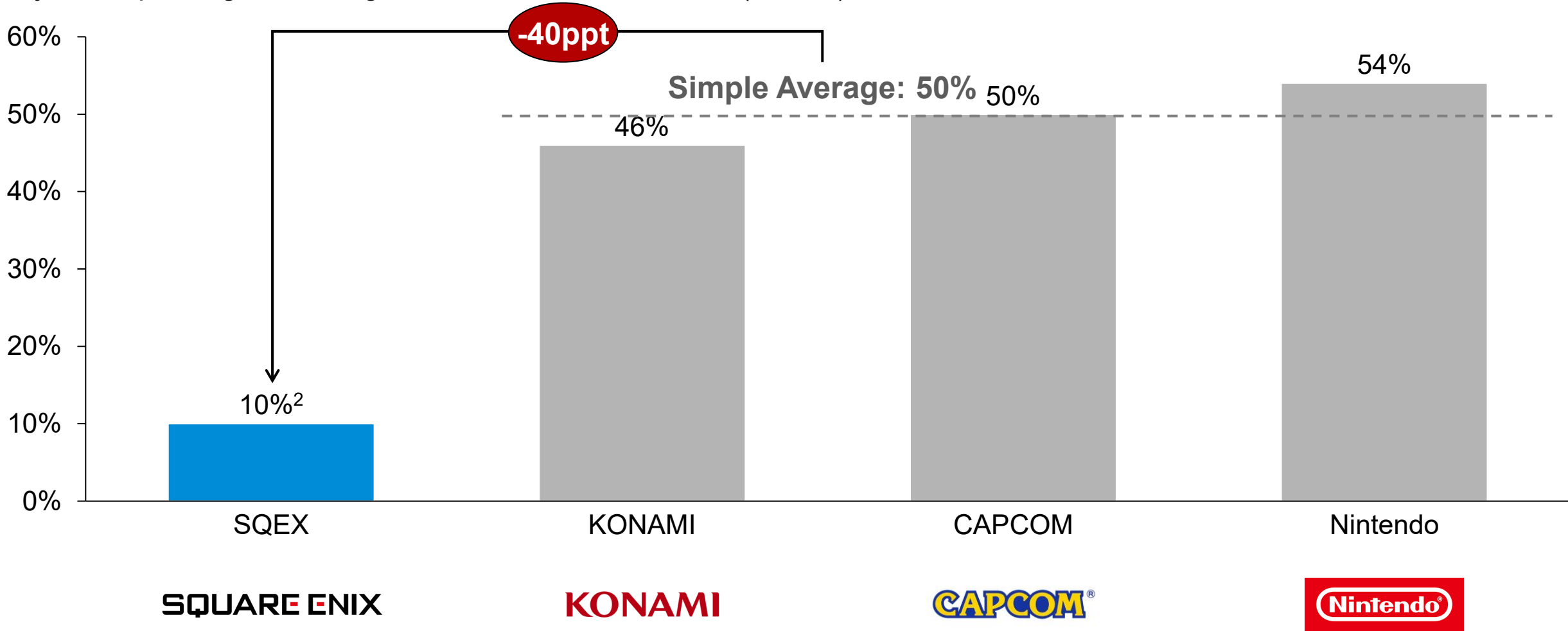
Critical Management Challenge ② The stagnation in profit margins of the HD/SD Games segments can be broken down into the following management issues.



The following sections set forth a detailed discussion of each item.

# G The Low Profitability of SQEX's HD Game Business Is Evident in Comparison with Competitors

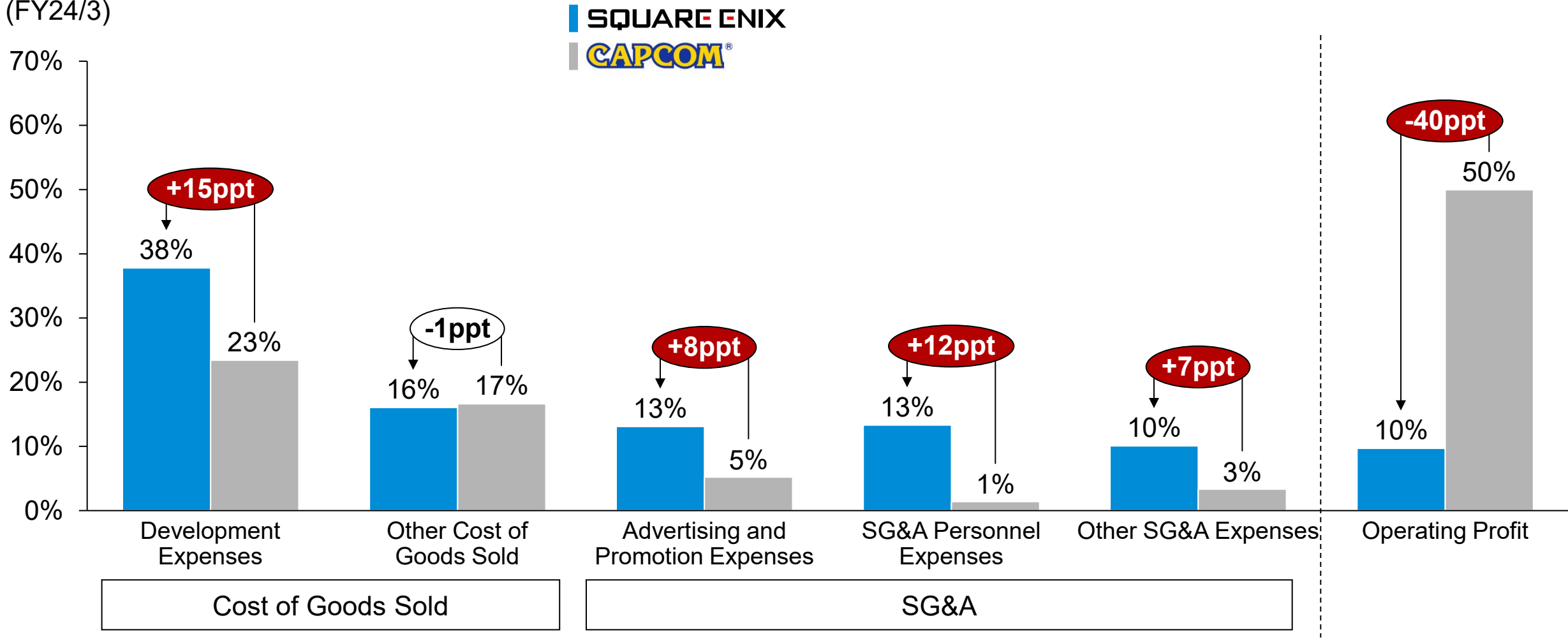
Adjusted Operating Profit Margin of the HD Game Business<sup>1</sup> (FY24/3)



Source: Third-Party Research Organization; Teikoku Databank; Expert Interviews. Note: [1] The ratio to revenue is calculated using “adjusted revenue” as the denominator, defined as revenue excluding platform fees. [2] The adjusted operating profit margin of SQEX is estimated as Operating Profit (¥8.6 billion) ÷ Adjusted Revenue (¥88.7 billion). Operating profit is adjusted to ¥8.6 billion by adding back an estimated ¥16.7 billion write-down of content production accounts (a third-party research institution’s estimate) to the company’s reported figure of ▲¥8.1 billion. Adjusted revenue is estimated at ¥88.7 billion, calculated by deducting an estimated ¥10.5 billion in platform fees (a third-party research institution’s estimate) from the company’s reported revenue of ¥99.2 billion.

# G The Low Profitability of the HD Game Business Is Attributable to Persistently Elevated Costs Across Nearly All Expense Categories

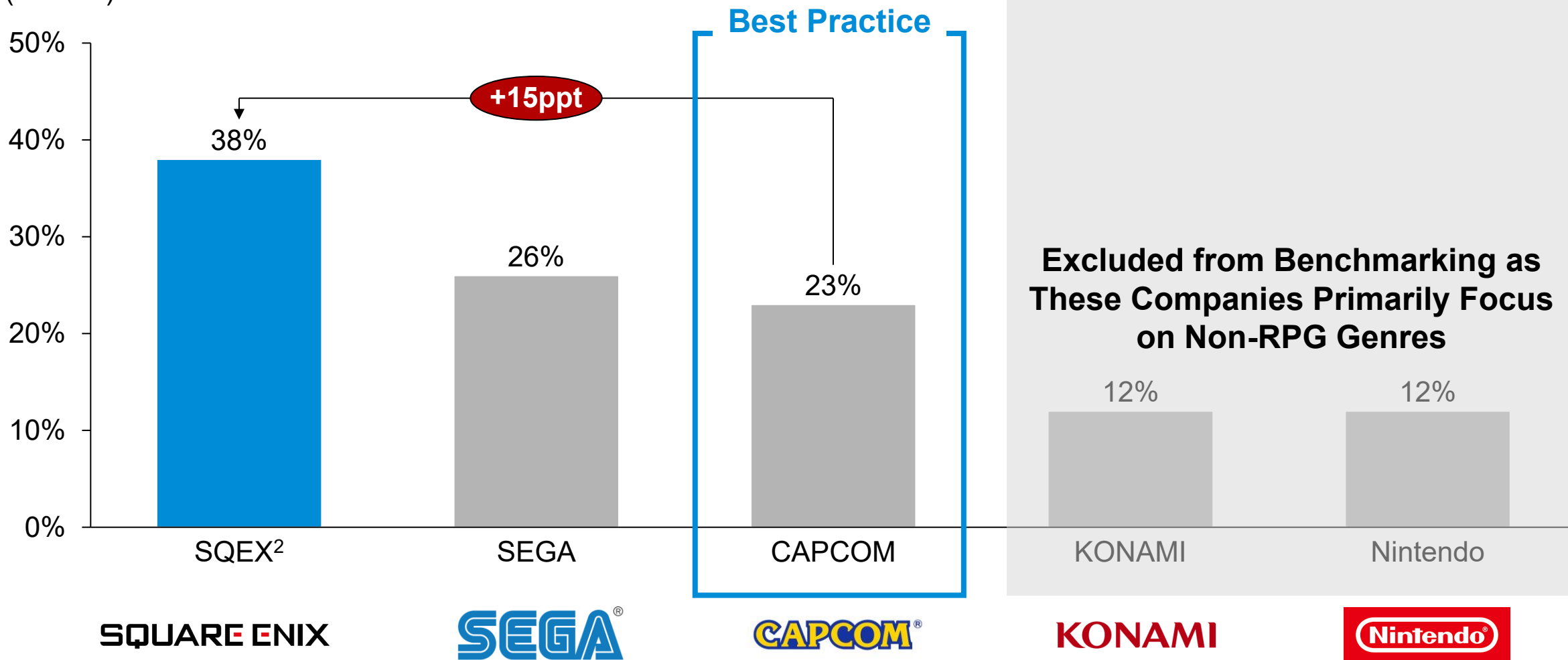
Ratio to Revenue of the HD Game Business<sup>1</sup>  
(FY24/3)



Source: Third-Party Research Organization; Teikoku Databank; Expert Interviews  
Note: [1] The ratio to revenue is calculated using “adjusted revenue” as the denominator, defined as revenue excluding platform fees.

## G-1 Excessive Development Costs (1/3): SQEX's Development Cost Ratio in the HD Game Business Is Approximately 15ppt Higher than Best-Practice Peers

Ratio to Revenue of Development Costs in the HD Game Business<sup>1</sup>  
(FY24/3)



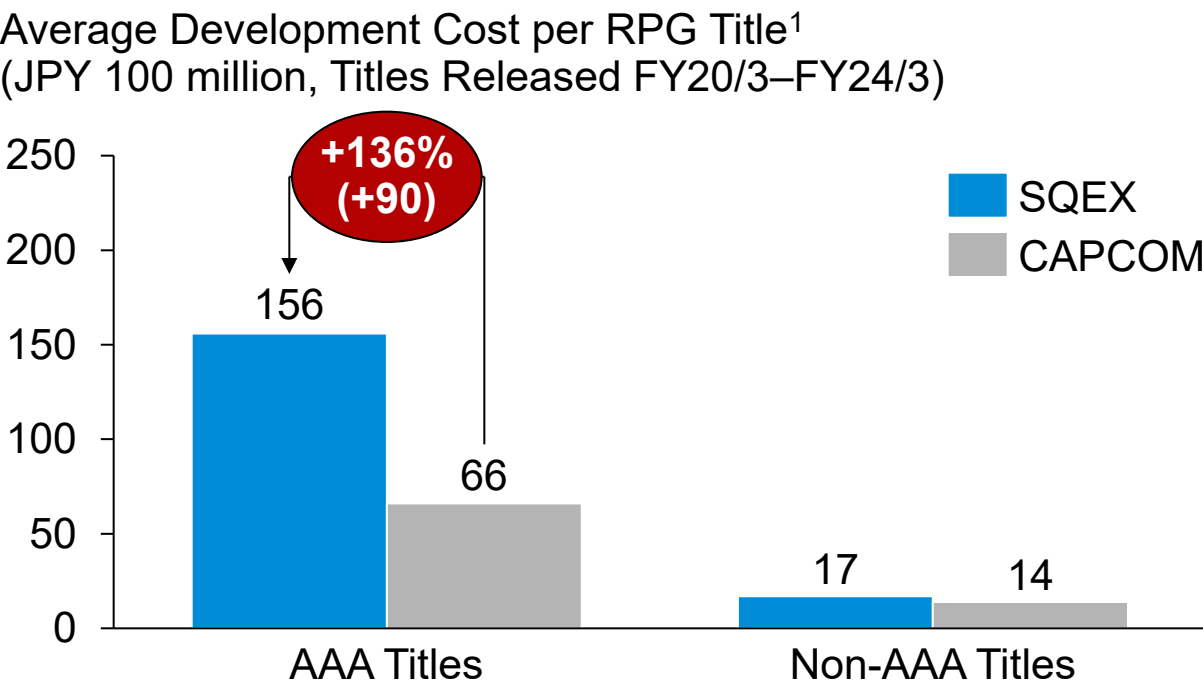
Source: Third-Party Research Organization; Teikoku Databank; Expert Interviews

Note: [1] Excludes operating costs such as updates and profit sharing. The ratio to revenue is calculated using "adjusted revenue" as the denominator, defined as revenue excluding platform fees.

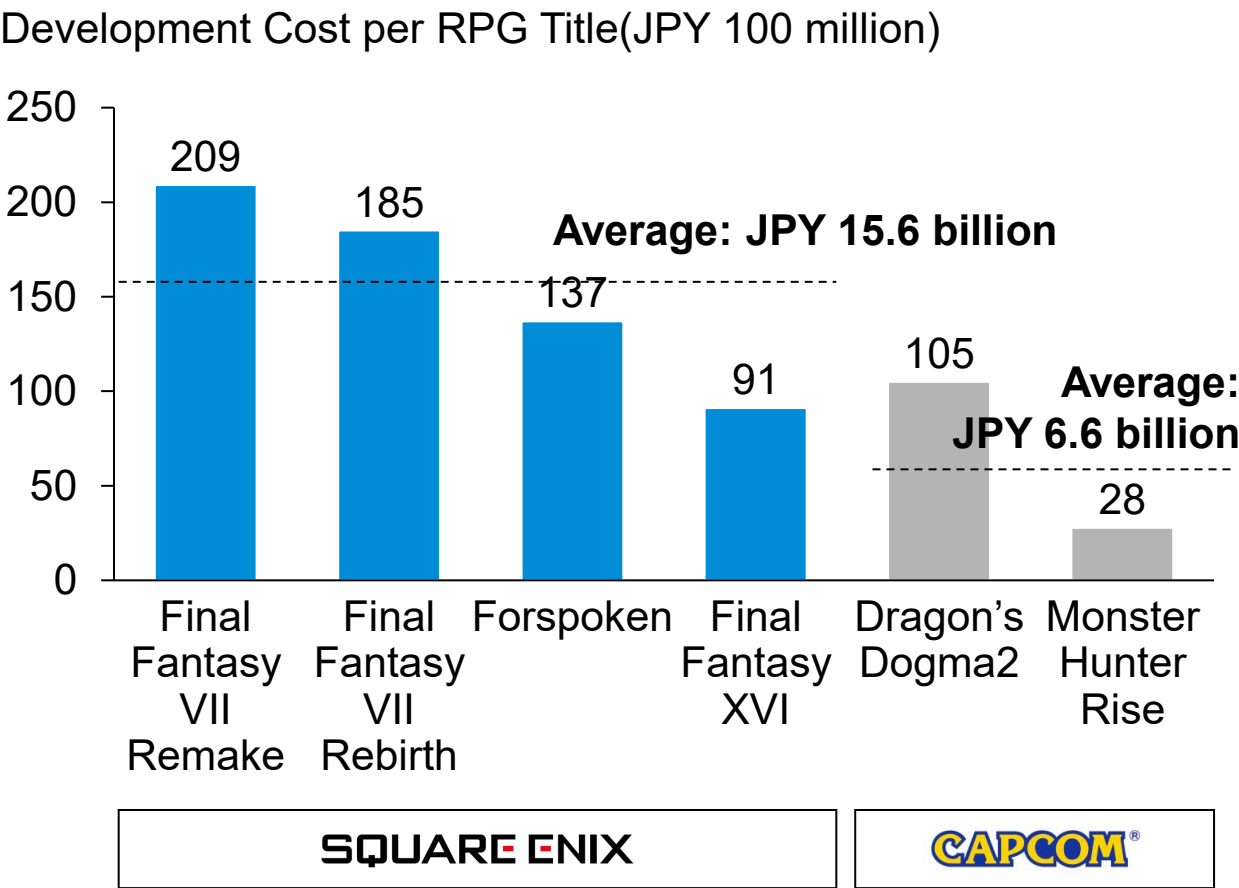
[2] Excludes JPY 22.1 billion in content disposal losses.

# G-1 Excessive Development Costs (2/3): The Elevated Development Cost Ratio Is Primarily Attributable to SQEX's HD Titles, Particularly AAA Titles, Whose Development Costs Are Significantly Higher than Those of Competitors

## Development Cost per HD Title



## Breakdown of Development Costs for AAA Titles

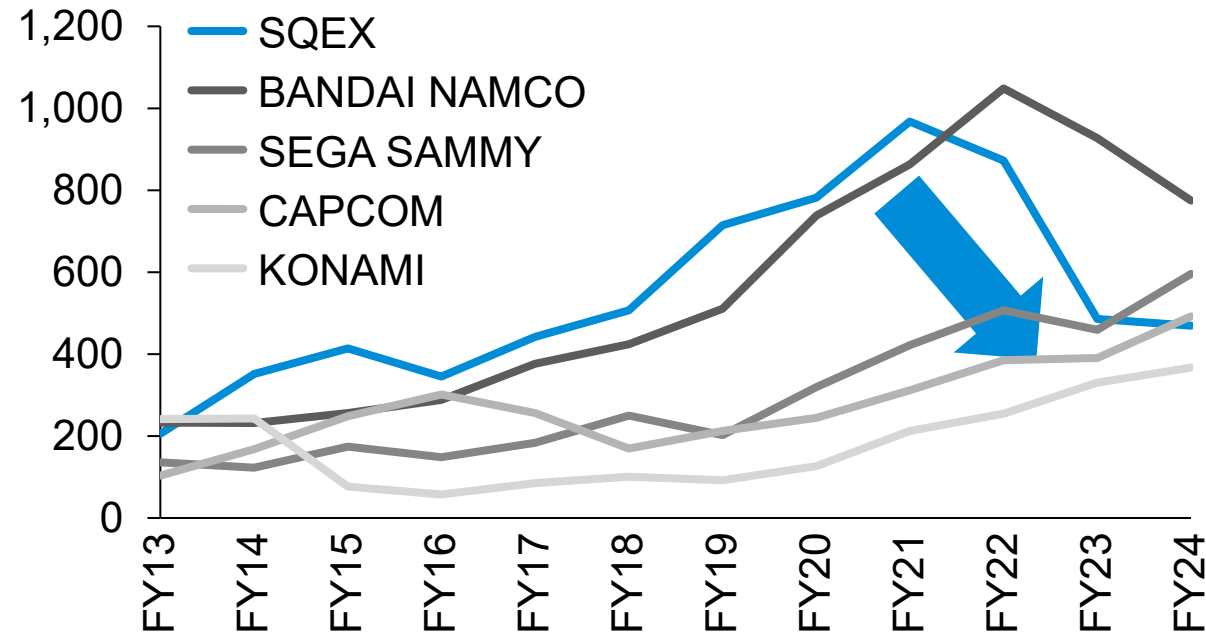


Source: Newzoo; Company IR Materials; Literature Review; Third-Party Research Organization  
Note: [1] Average development costs of RPG core IPs (for SQEX: Final Fantasy and Dragon Quest; for CAPCOM: Monster Hunter and Dragon's Dogma).

## G-1 Excessive Development Costs (3/3): It Is Also Evident that Development Expenditures Have Not Been Utilized Efficiently, as Substantial Write-Offs Have Been Recognized

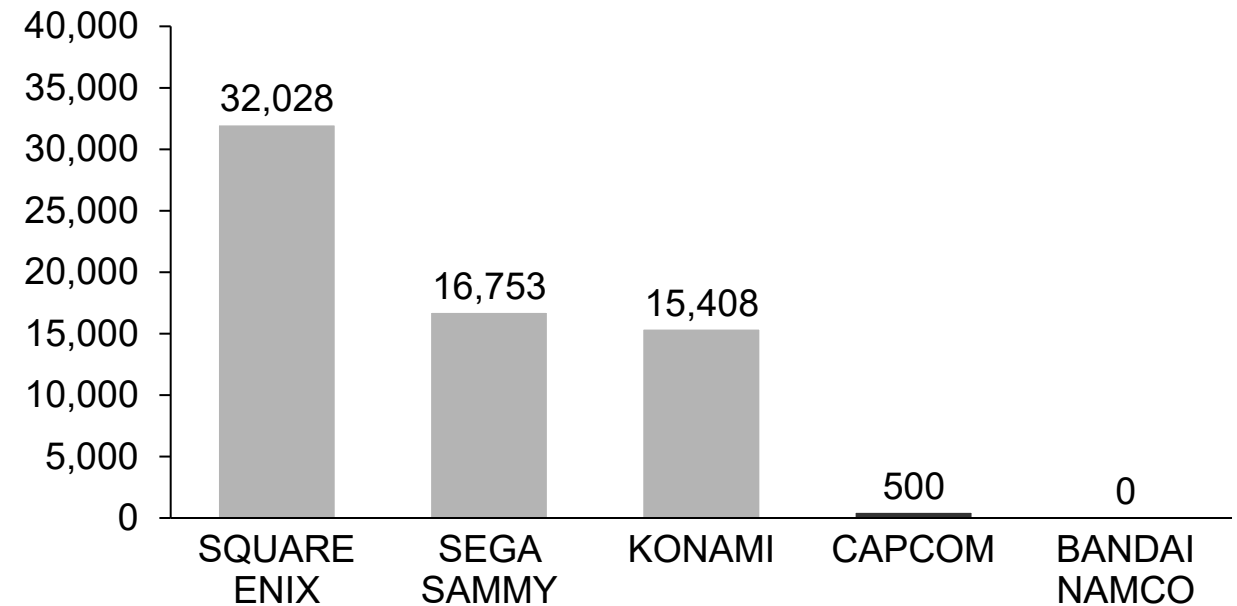
**While Competitors Have Expanded Their Game Content Development Assets, SQEX Alone Has Significantly Reduced Such Assets**

Game Development Assets <sup>1</sup>(JPY 100 million)



**SQEX Has Recorded The Largest Write-Offs Among Industry Peers**

Write-Offs of Game Development Assets<sup>2</sup>  
(JPY million, Cumulative over 10 Years to FY25/3)



SQUARE ENIX

KONAMI

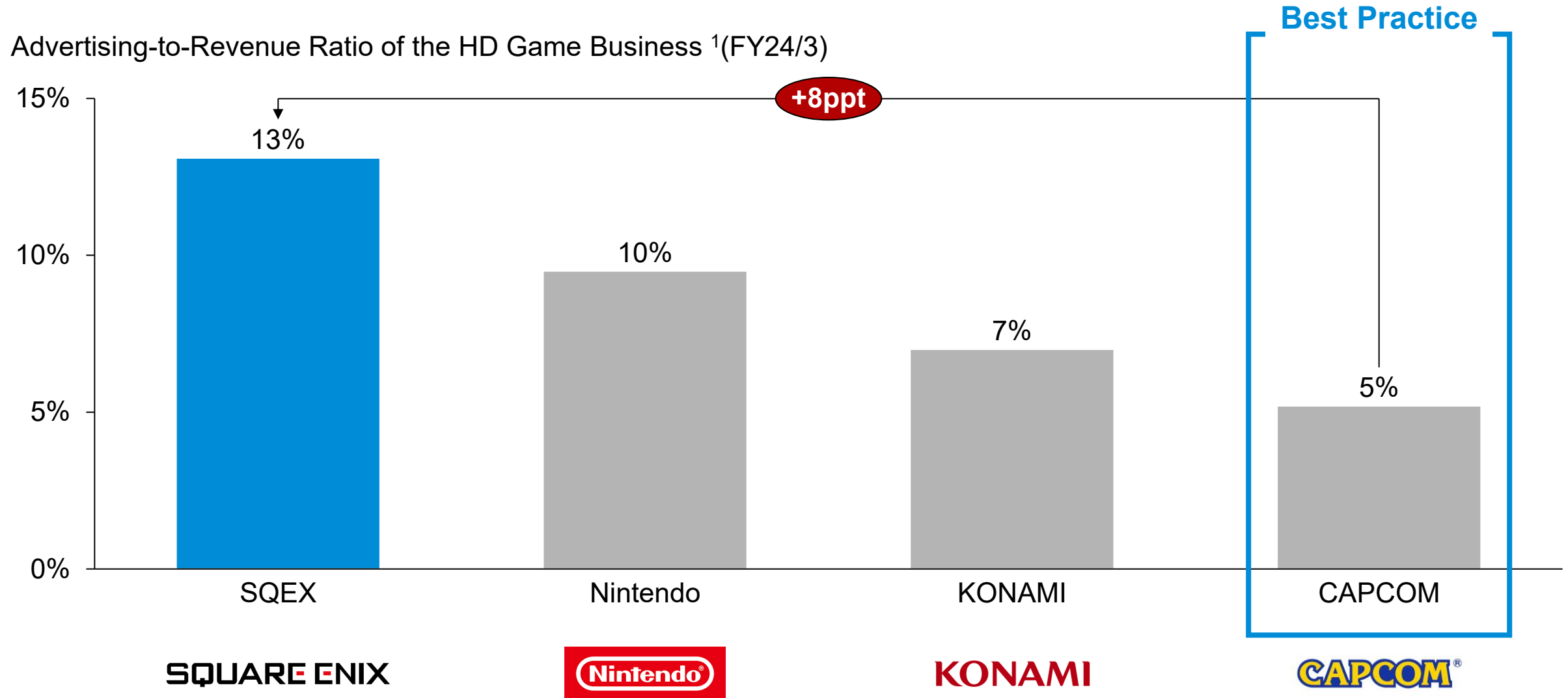
BANDAI NAMCO

SEGA Sammy

CAPCOM



## G-2 Inefficient Advertising and Promotion Expenses (1/2): SQEX's Advertising Expense Ratio Is Higher than Competitors and Approximately 8ppt Above Best-Practice Peers



Source: Third-Party Research Organization

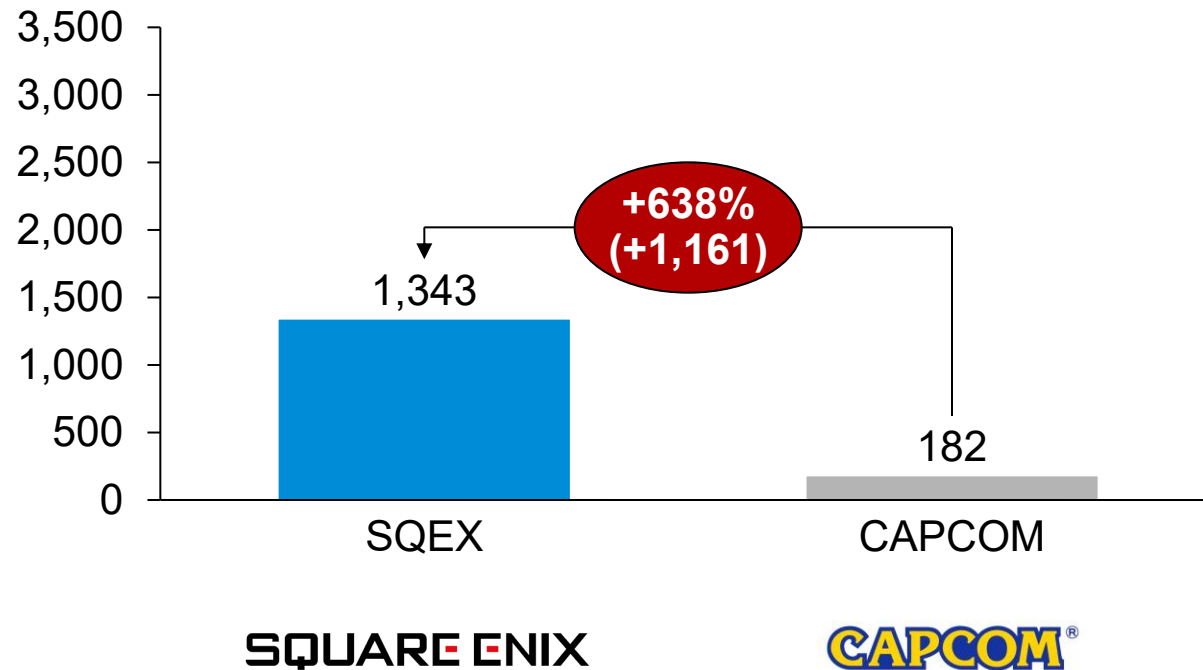
Note: [1] The ratio to revenue is calculated using "adjusted revenue" as the denominator, defined as revenue excluding platform fees.

## G-2 Inefficient Advertising and Promotion: The revenue returns on SQEX's advertising expenditures for new title launches significantly lag behind competitors.

Re-post

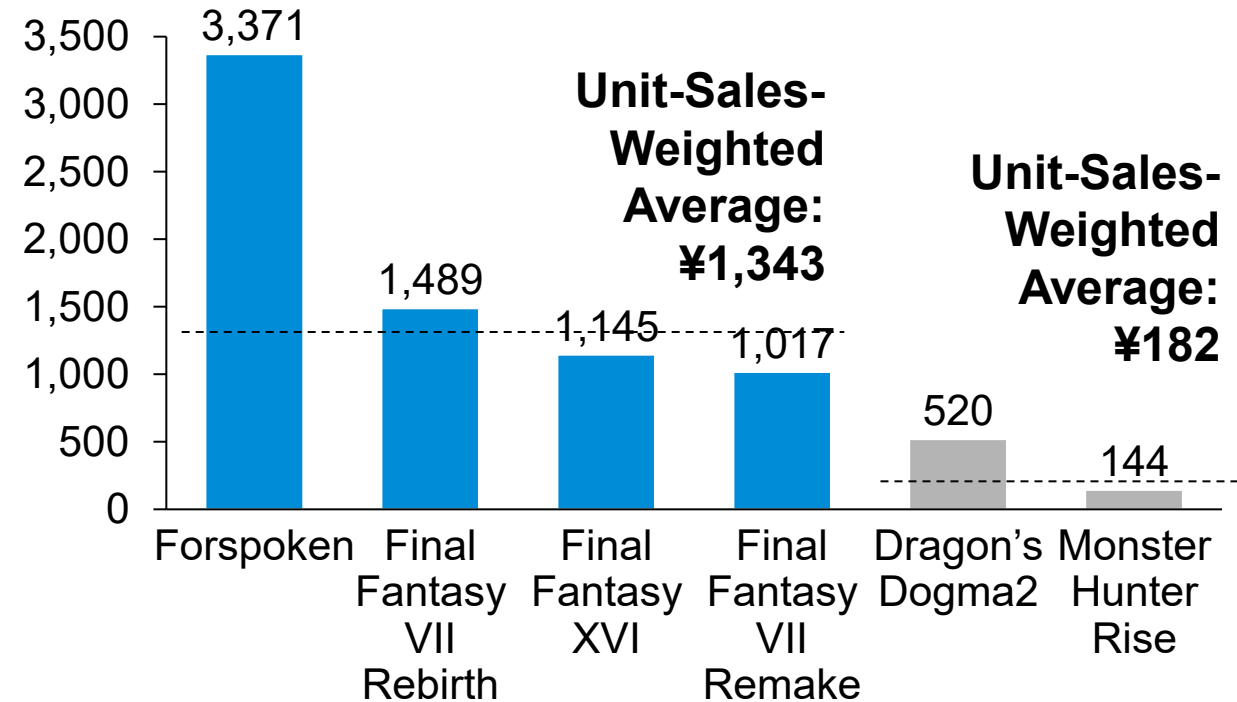
**CPI (Advertising and Promotion Expense per Unit Sold) Is Approximately Seven Times Higher Than Competitors**

CPI<sup>1</sup> ( JPY, Average for FY21/3–FY24/3 )



**CPI by Title**

CPI<sup>1</sup> (JPY)



SQEX

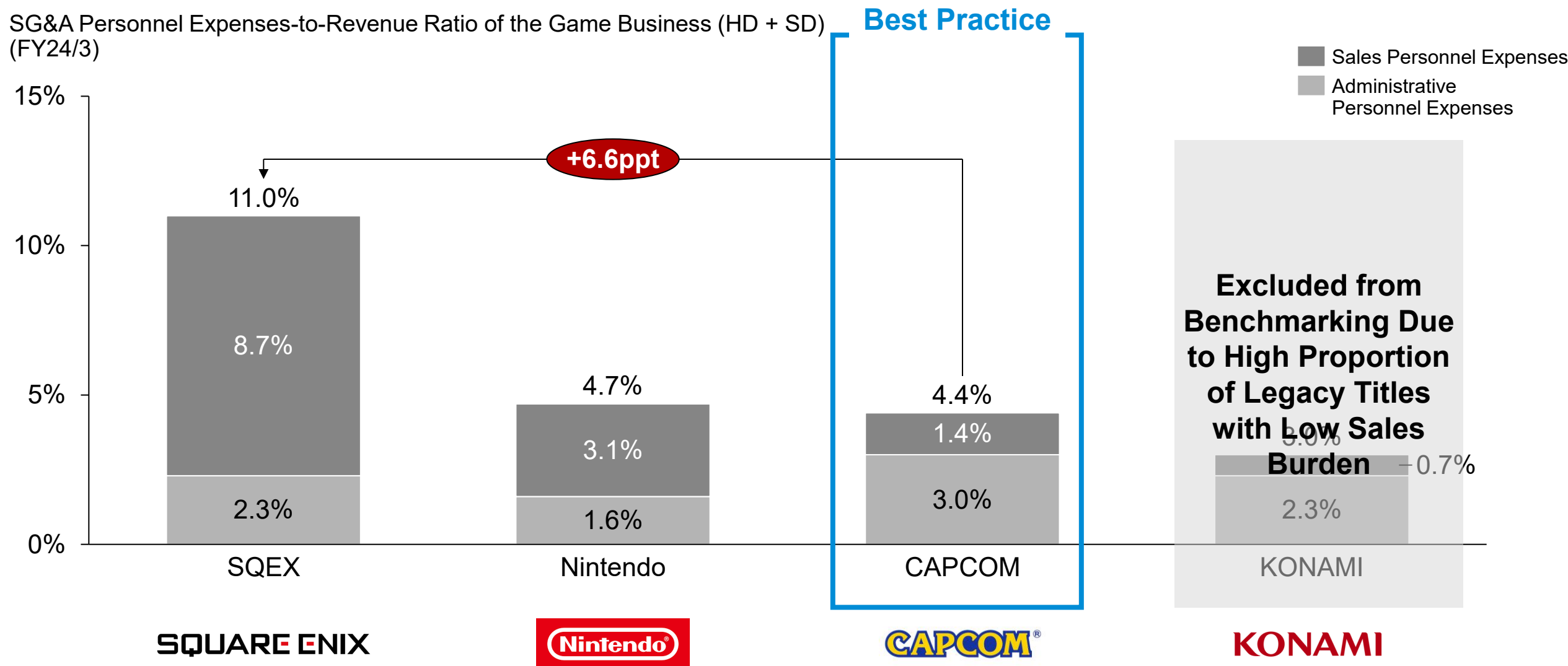
CAPCOM

Source: Newzoo; Third-Party Research Organization; Company IR Materials; Literature Review

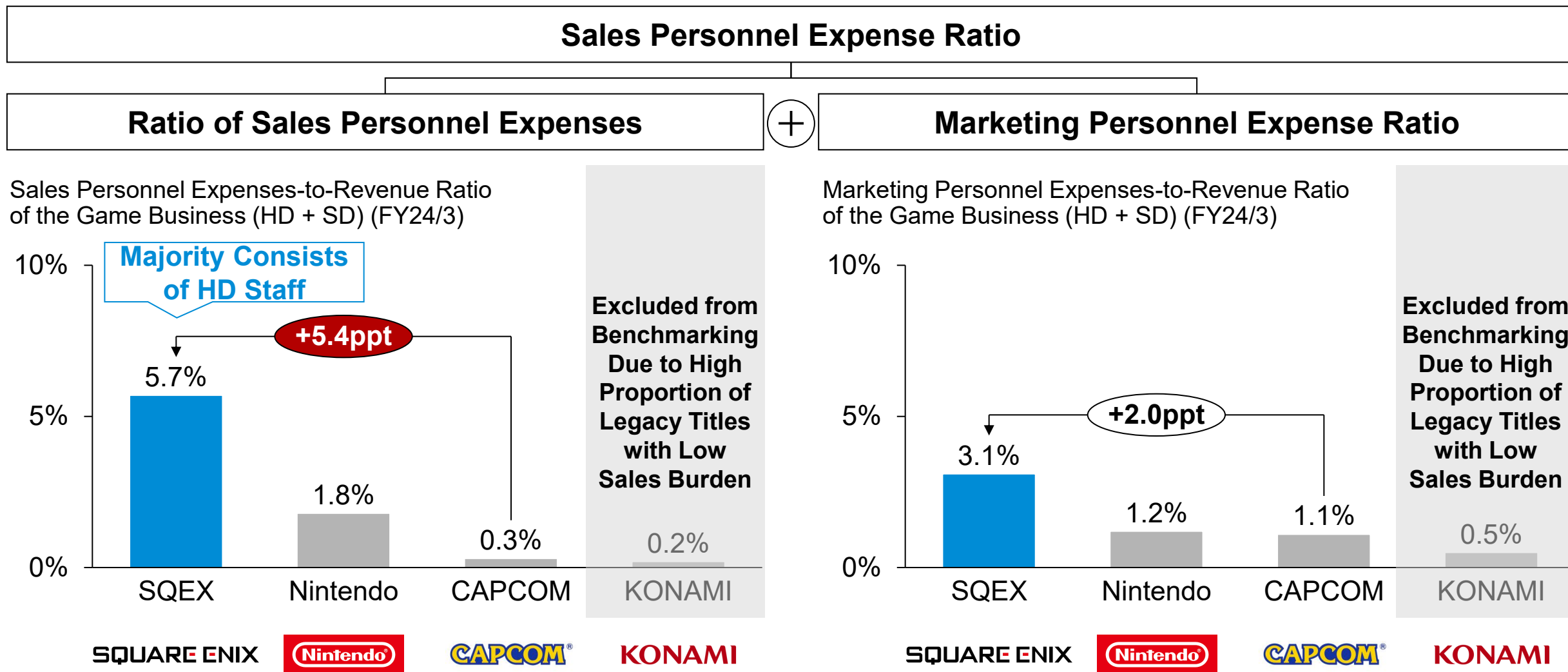
Note: [1] The figure represents the total estimated advertising and promotion expenses for each AAA title released during the period, divided by the total unit sales of each AAA title (Newzoo).

## G-3 Excessive SG&A Personnel Expenses (1/3): SQEX's SG&A Personnel Expense Ratio Is Higher than Competitors and Approximately 7ppt Above Best-Practice Peers

SG&A Personnel Expenses-to-Revenue Ratio of the Game Business (HD + SD) (FY24/3)



## G-3 Excessive SG&A Personnel Expenses (2/3): The Elevated SG&A Personnel Expense Ratio of SQEX Is Primarily Attributable to High Sales Personnel Expenses (Mainly HD Staff)<sup>1</sup>



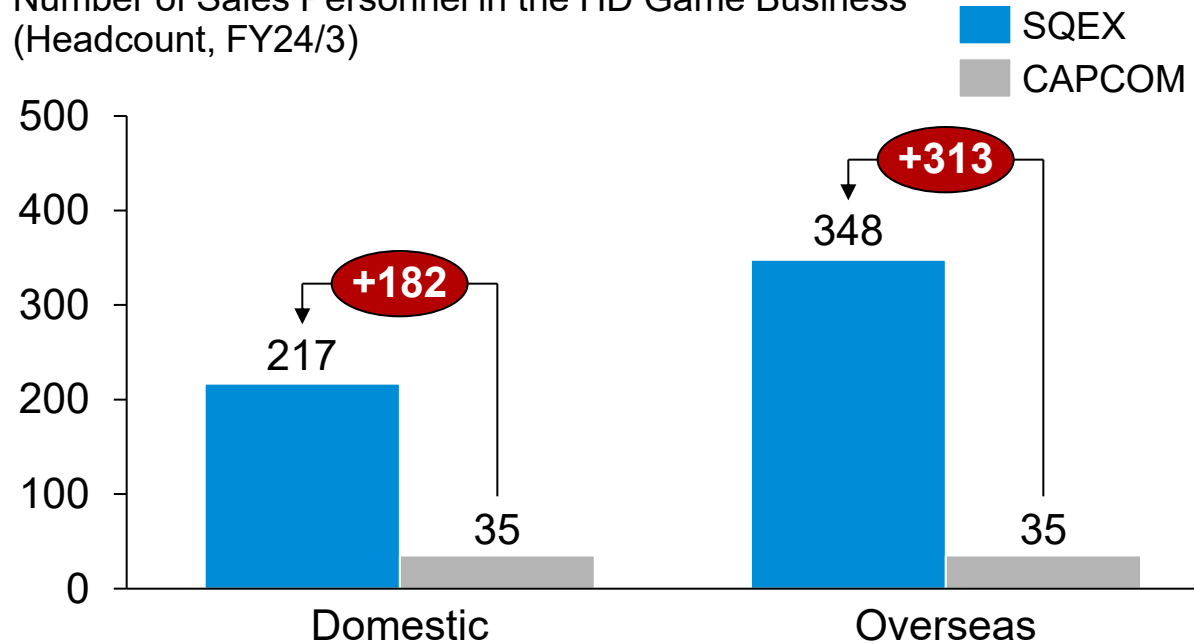
Source: Third-Party Research Organization; Company IR Materials; Literature Review

Note: [1] Sales personnel include retail sales staff and e-commerce sales staff (excluding marketing staff). Sales personnel also include outsourced sales staff.

# G-3 Excessive SG&A Personnel Expenses (3/3): The High Sales Personnel Expenses in the HD Business Are Driven by the Large Number of Sales Staff Both Domestically and Abroad, as well as the High Per-Capita Sales Personnel Cost Overseas

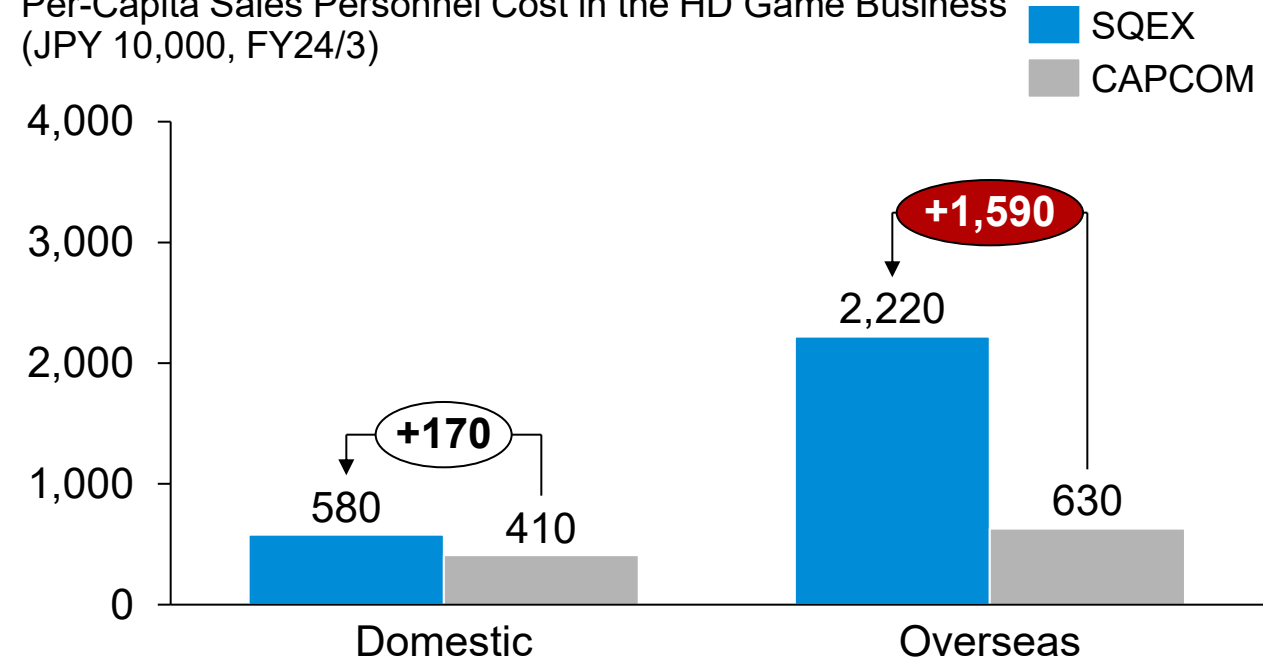
## Number of Sales Personnel (HD Game Business)

Number of Sales Personnel in the HD Game Business (Headcount, FY24/3)

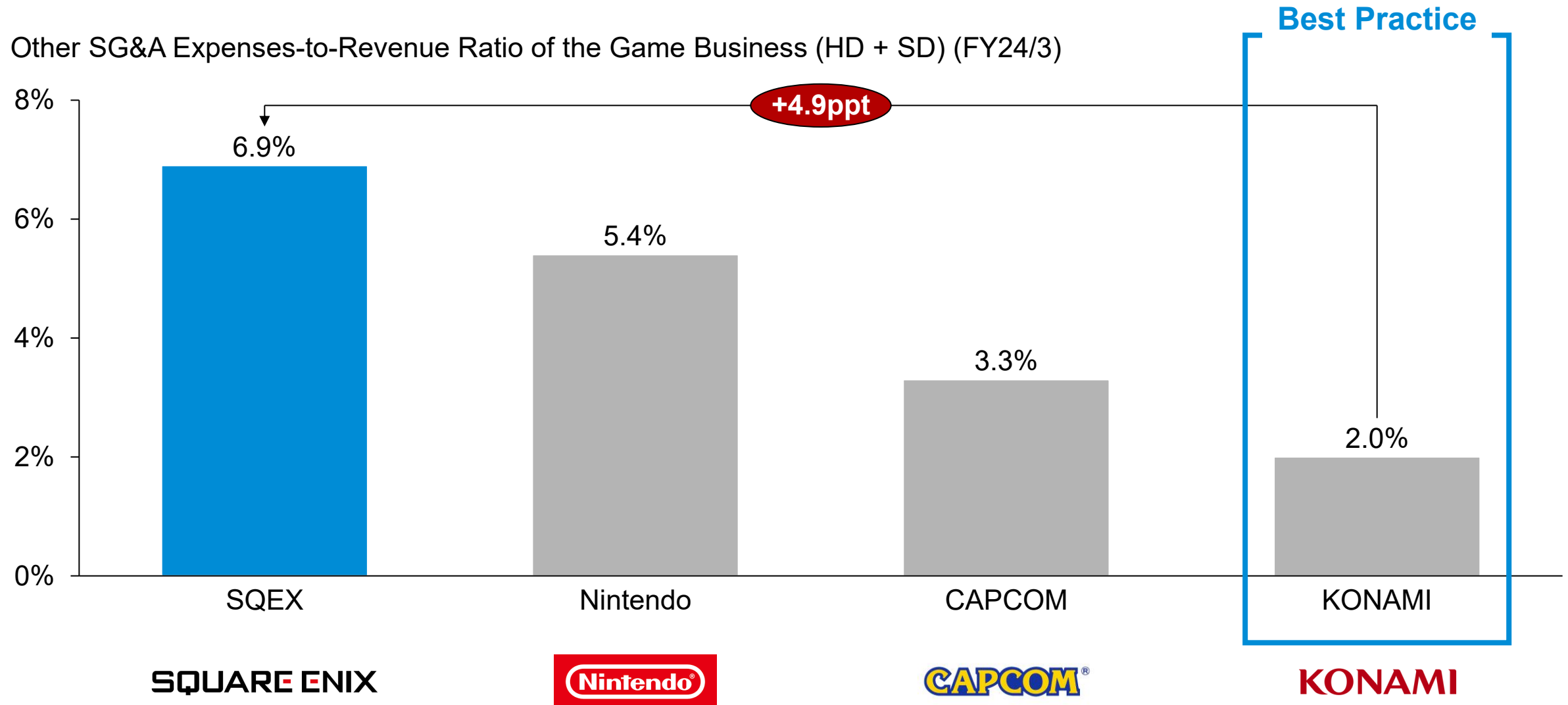


## Per-Capita Sales Personnel Cost (HD Game Business)

Per-Capita Sales Personnel Cost in the HD Game Business (JPY 10,000, FY24/3)



## G-4 Excessive Other SG&A Expenses (1/2): SQEX's Other SG&A Expenses Are Higher than Competitors and Approximately 5ppt Above Best-Practice Peers

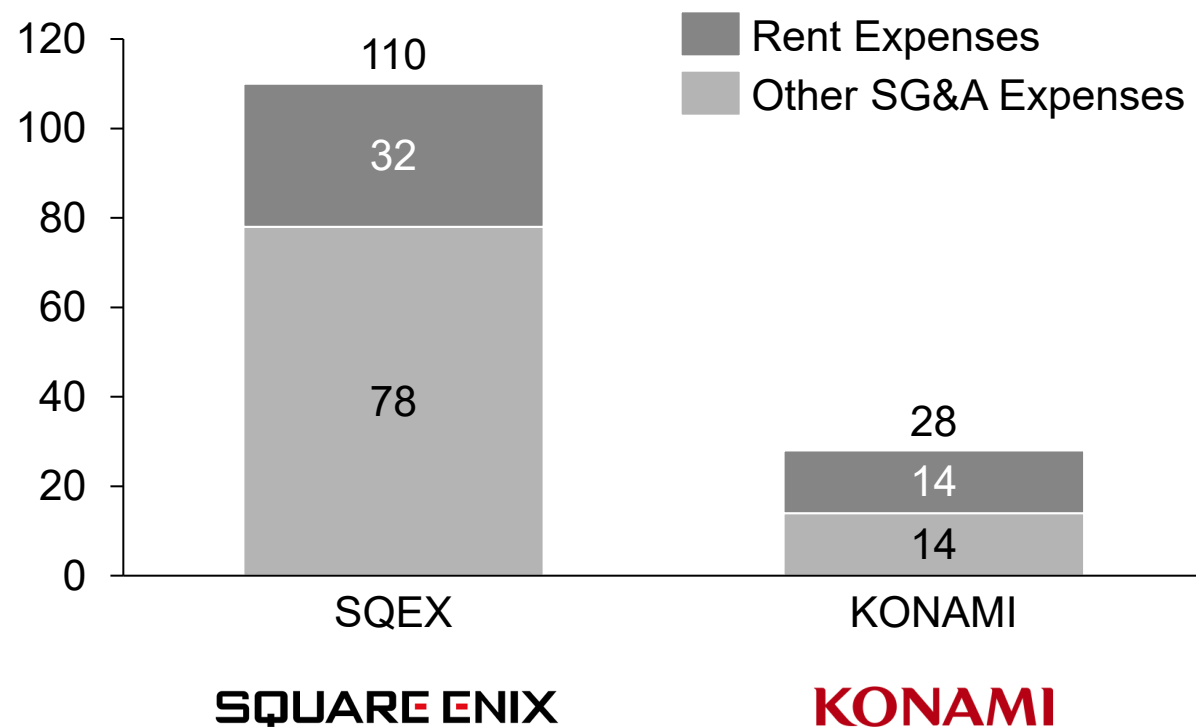




## G-4 Excessive Other SG&A Expenses (2/2): SQEX's Excessive Other SG&A Expenses Are Attributable to Both Per-Capita Rent Expenses and Per-Capita Other SG&A Expenses (Excluding Rent)

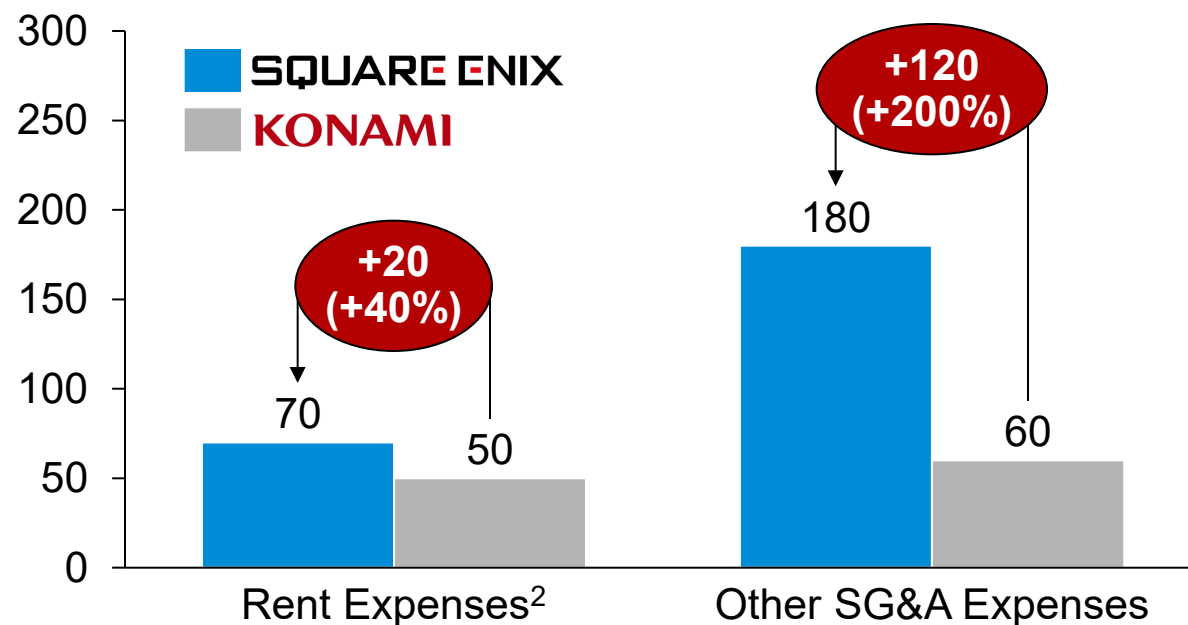
### Breakdown of Other SG&A Expenses

Other SG&A Expenses of the Game Business (HD + SD)  
(JPY 100 million, FY24/3)



### Per-Capita Other SG&A Expenses

Per-Capita Other SG&A Expenses of the Game Business <sup>1</sup>(HD + SD) (JPY 10,000, FY24/3)



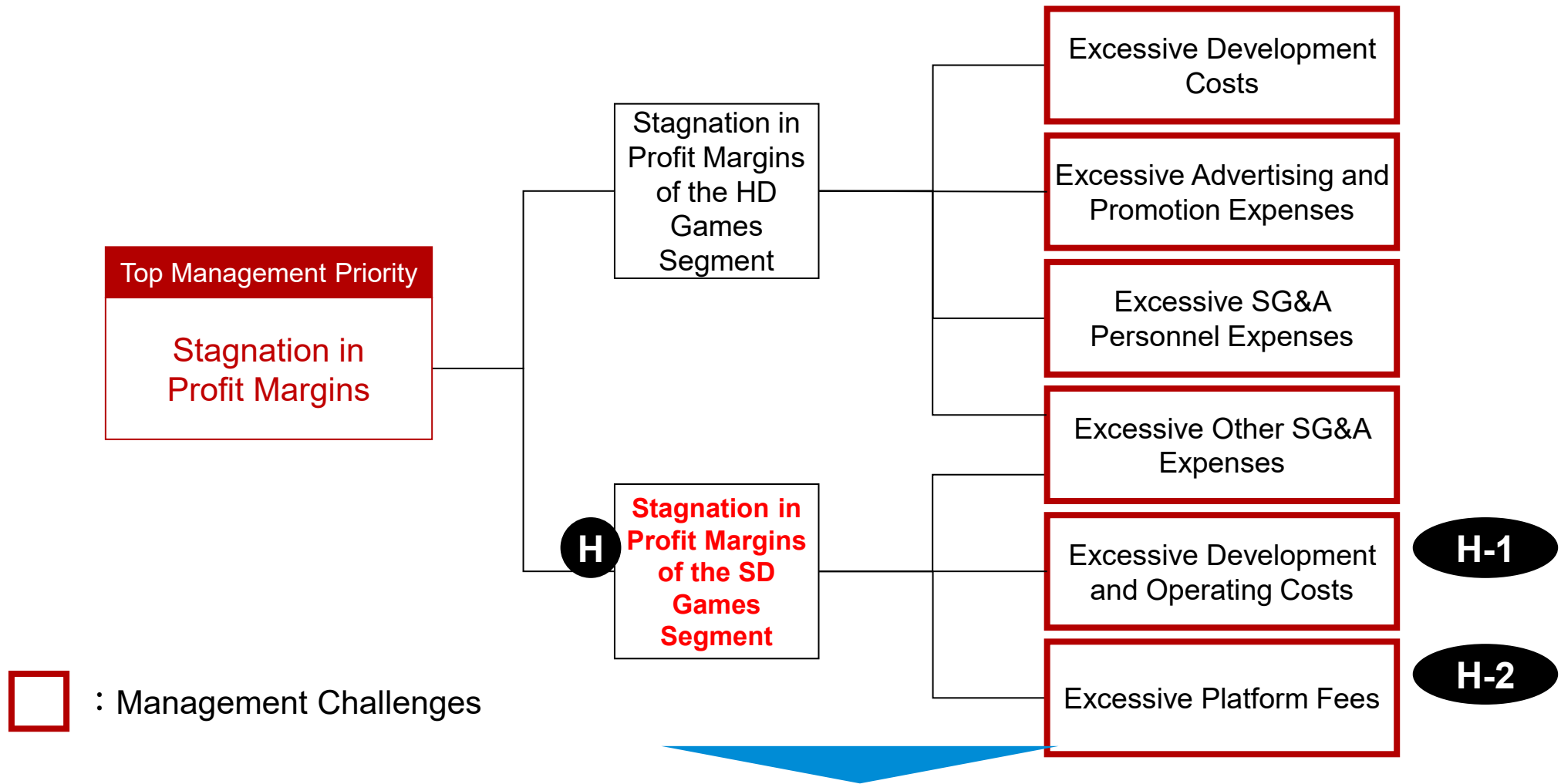
Source: Third-Party Research Organization; Company IR

Note: [1] Other SG&A expenses ÷ number of employees (including non-regular employees). For SQEX, headcount excludes Taito and Publishing businesses from the consolidated total.

[2] Includes depreciation of company-owned properties.

## **Stagnation of Operating Profit Margin (Weak Profitability of the SD Business)**

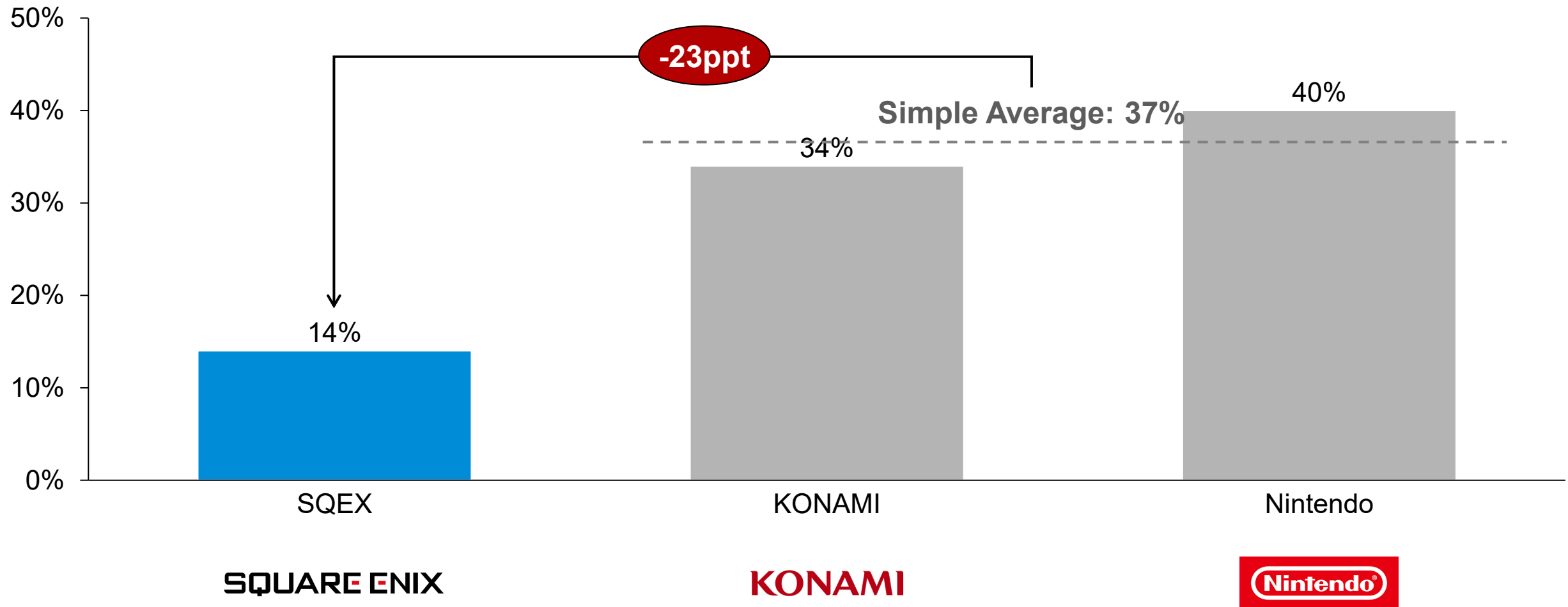
# With Respect to the Stagnation of Profitability in SQEX's SD Business, We Consider the Following to Constitute Material Managerial Issues



The following sections set forth a detailed discussion of each item.

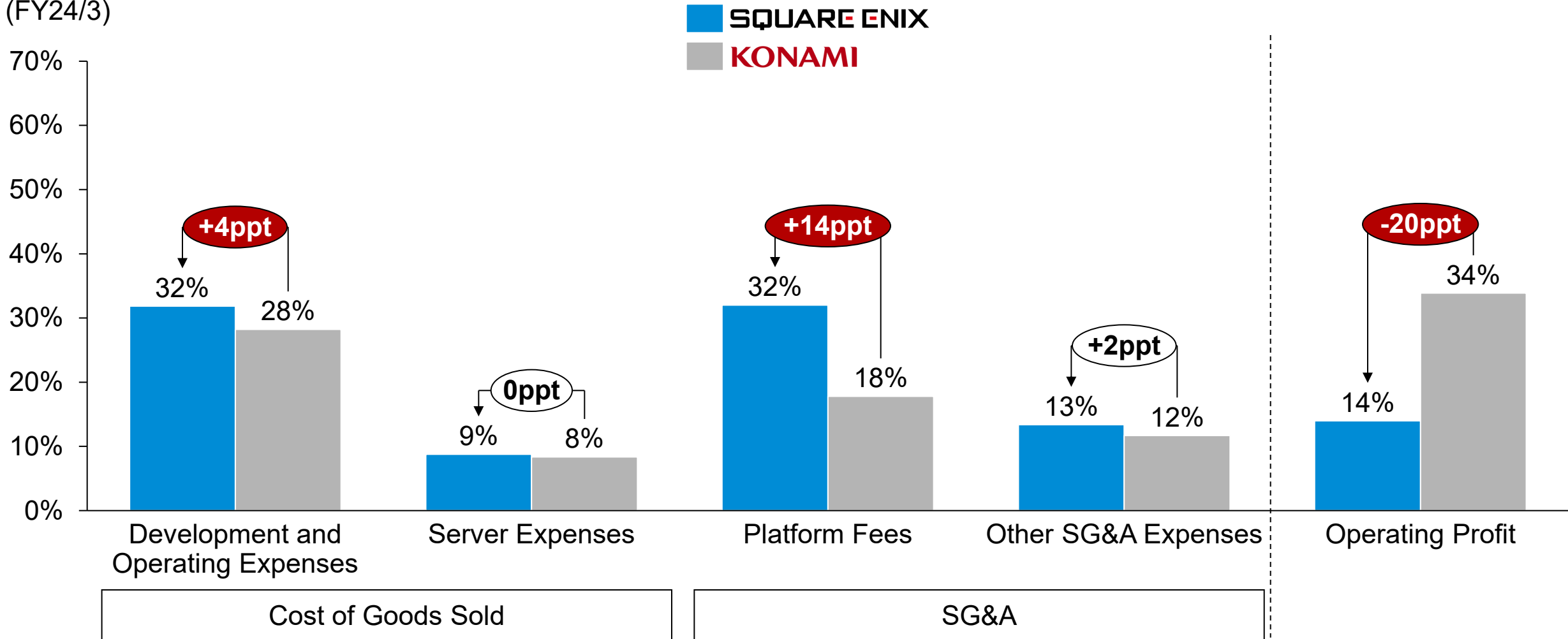
# H The Stagnation of Profitability in SQEX's SD Game Business Is Evident in Comparison with Competitors

Operating Profit Margin of the SD Game Business (FY24/3)



# H The Cost Items in SQEX's SD Game Business That Are Higher Relative to Competitors Consist of Development and Operating Expenses as well as Platform Fees

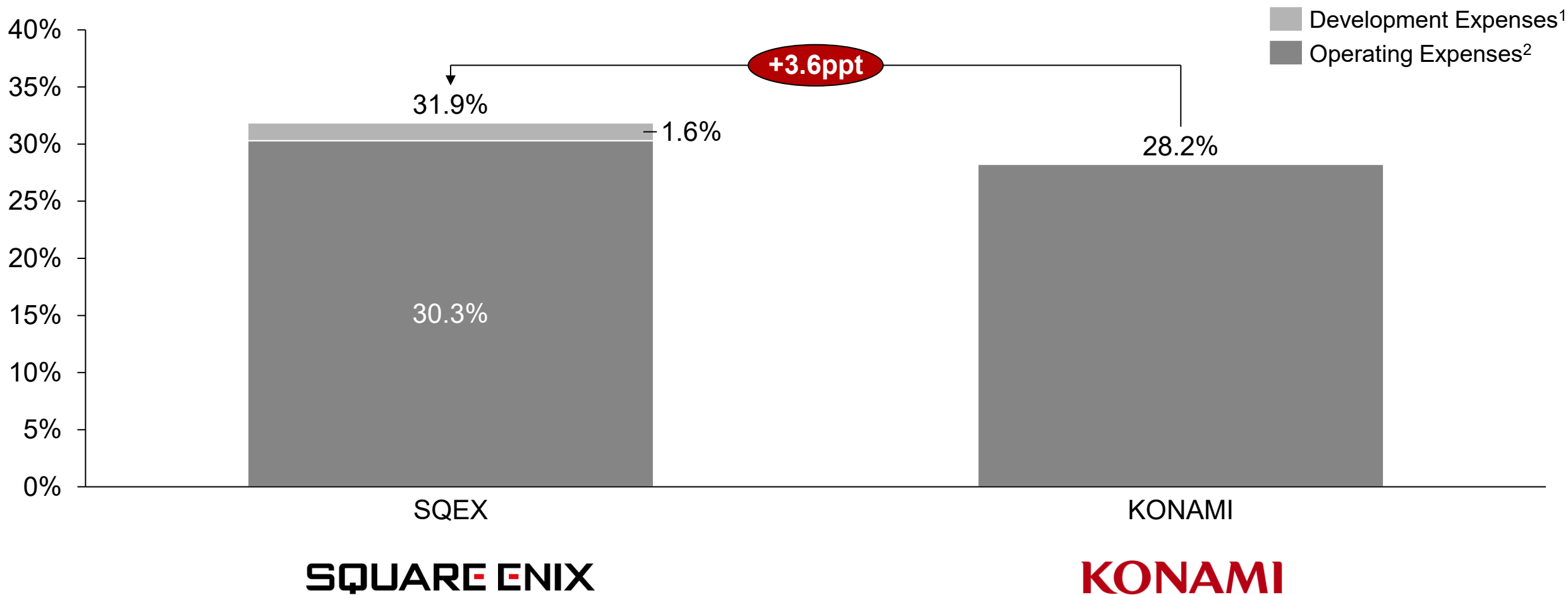
Cost-to-Revenue Ratio of the SD Game Business (FY24/3)



Source: Third-Party Research Organization; Company IR Materials

## H-1 Excessive Development and Operating Expenses (1/2): The Development and Operating Expense Ratio of SQEX's SD Game Business Is Approximately 4ppt Higher than That of Best-Practice Peers

Development and Operating Expenses-to-Revenue Ratio of the SD Game Business (FY24/3)



Source: Third-Party Research Organization

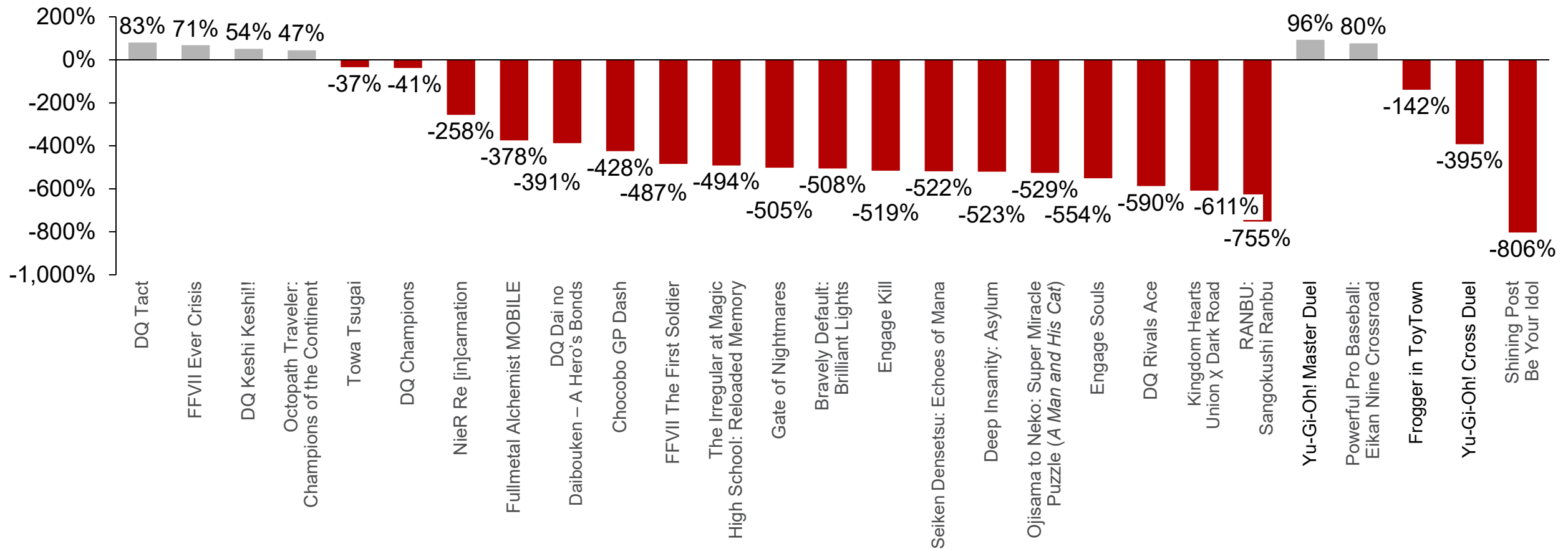
Note: [1] Development costs include development amortization (initial development only).

[2] Operating costs include development amortization (updates), game maintenance costs, and profit-sharing costs.

# H-1 Excessive Development and Operating Expenses (2/2):

The Elevated Development and Operating Expense Ratio Is Attributable to the Large Number of Titles Failing to Recover Their Initial Development Costs and Cumulative Operating Costs

Gross Profit Margin of SD Titles<sup>1</sup> (Titles Released FY21/3–FY24/3)



**SQUARE ENIX (Proportion of Loss-Making Titles: 82%)**

**KONAMI (60%)**

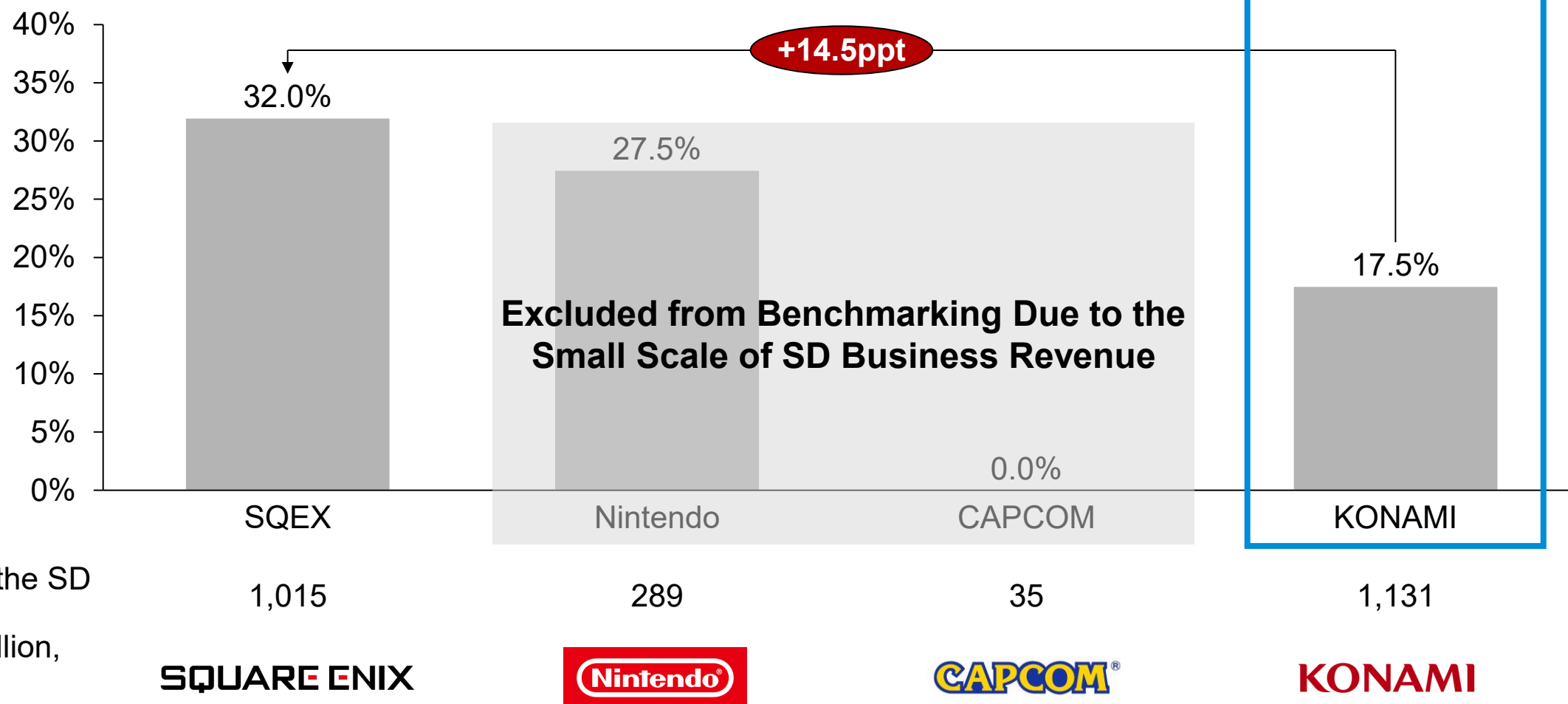
Source: Third-Party Research Organization; Expert Interviews; Sensor Tower

Note: [1] Gross margin is calculated as (Revenue – Initial Development Costs – Cumulative Operating Costs) / Revenue.



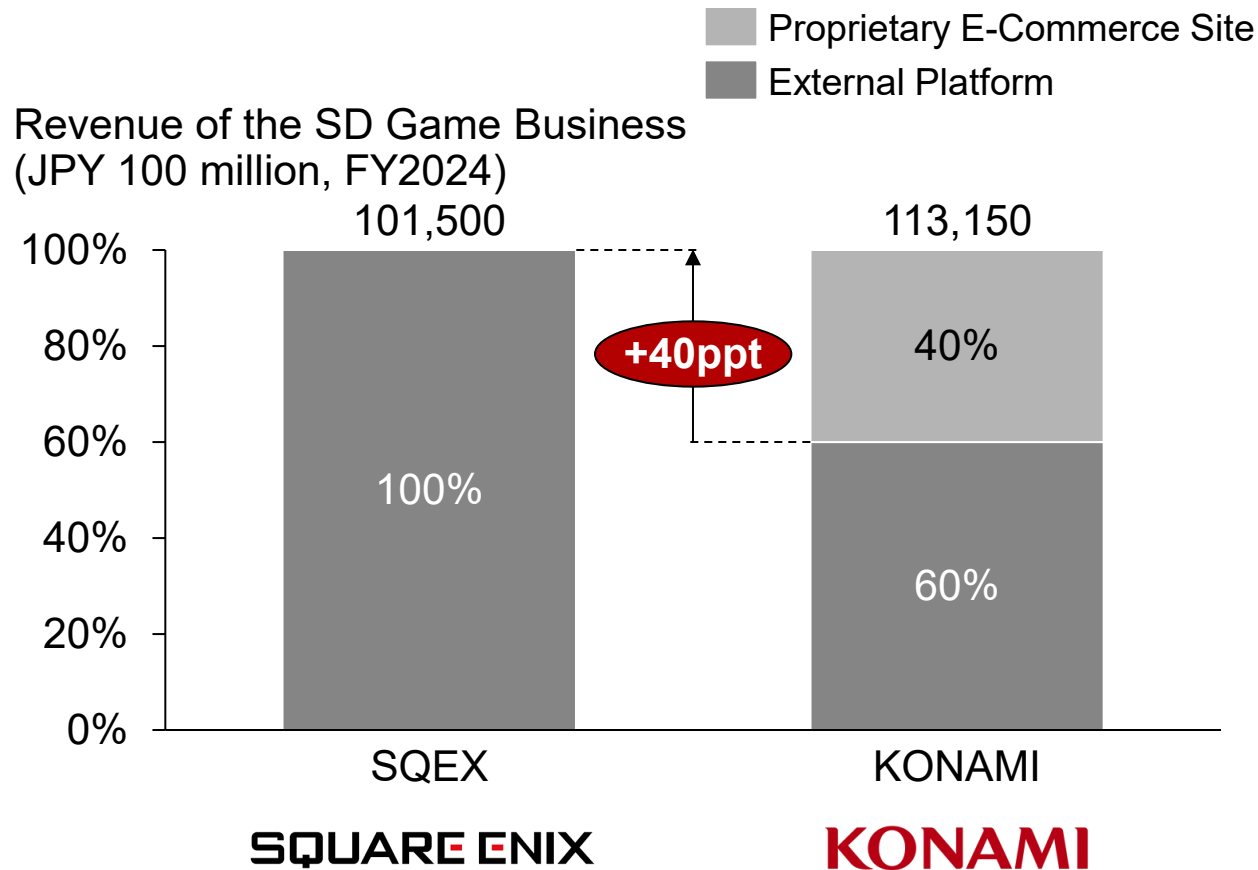
## H-2 Excessive Platform Fees (1/2): The Platform Fee Ratio of SQEX's SD Game Business Is 14.5ppt Higher than That of Best-Practice Peers

Platform Fees-to-Revenue Ratio of the SD Game Business (FY24/3)



## H-2 Excessive Platform Fees (2/2): The Elevated Platform Fees Are Attributable to the High Proportion of Revenue Generated via External Platforms

### Revenue Ratio from External Platforms

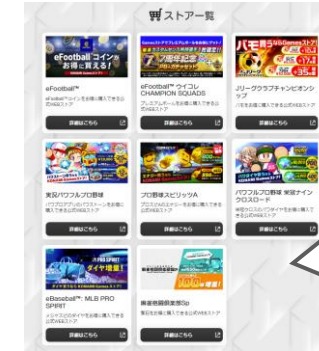


### Details of KONAMI's Proprietary E-Commerce Site "KONAMI Games Store"

Dedicated Stores Are Provided by Title

Monetized Items Are Sold within Each Store

Payment Services Are Offered in Collaboration with Payment Agents



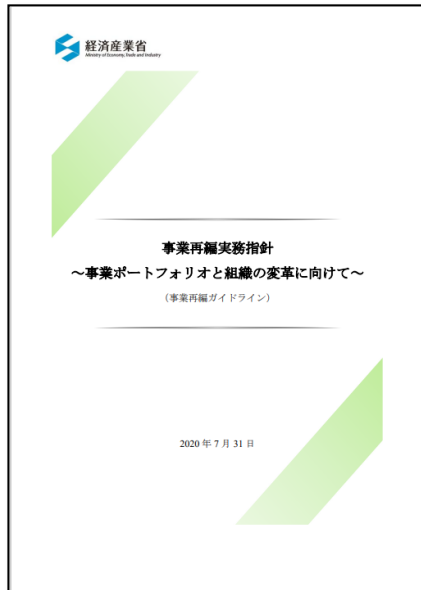
Major Titles with Dedicated Stores: eFootball, eFootball Winning Eleven Collection CHAMPION SQUADS, J.League Club Championship, Jikkyou Powerful Pro Baseball, Professional Baseball Spirits A, Powerful Pro Baseball: Eikan Nine Crossroad, eBaseball: MLB Pro Spirit, Mahjong Fight Club Sp



- Examples of Payment Agents: SB Payments Service, etc.
- Fees Are Paid to Payment Agents (e.g., Approx. 5% of Transaction Volume)

## Section 4: Severe conglomerate discount

It is considered necessary for the Board of Directors to take the lead in regularly reviewing the business portfolio, assessing both the adequacy of inter-business synergies and whether the company is the best owner of each business.



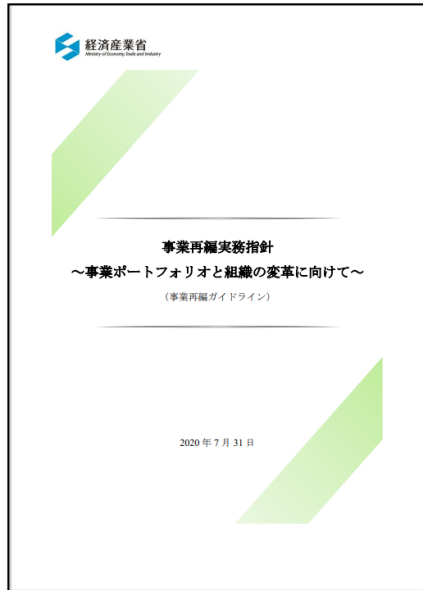
*“To fully unlock the potential of each business, it is important to take a flexible and forward-looking approach—**free from any sacred cows, including legacy or former core businesses**—and to continuously assess whether the company remains the best owner”*

*“**Even if a business generates stable profits and achieves returns exceeding the cost of capital**, if it no longer aligns with the company’s future strategy or underperforms peers, **it is desirable to monetize the asset through an early sale and redirect capital toward areas where the company holds a competitive advantage**”*

*“**Even where returns exceed the cost of capital, it is necessary to evaluate whether holding each business aligns with the company’s medium- to long-term strategy**”*

Practical Guidelines on Business Reorganization

At that time, attention should be paid to the issue of the conglomerate discount.



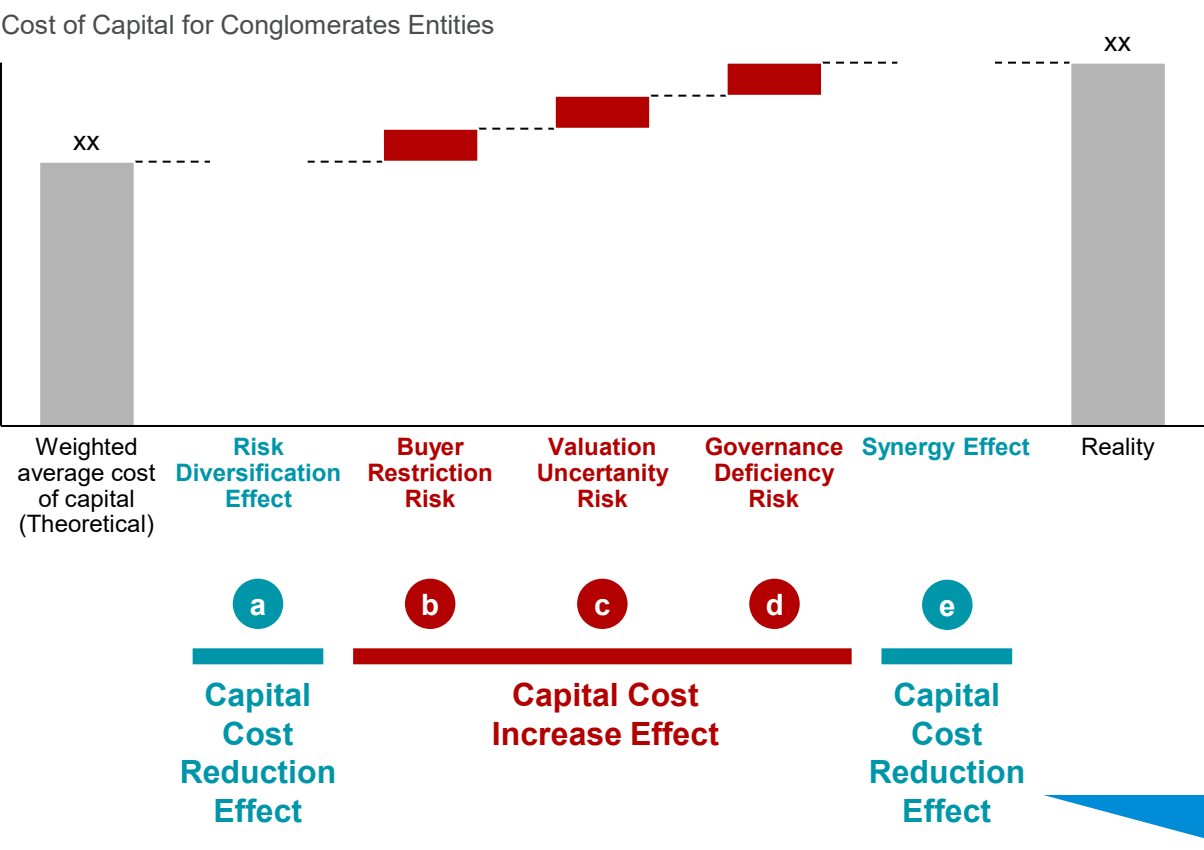
*“In particular, when operating multiple businesses, it is necessary to **be mindful of the issue of the “conglomerate discount”** and to clarify the rationales for maintaining multiple businesses—grounded in **mechanisms for generating business synergies and the overall value creation story**—and to ensure that such rationales are consistent with the business model and management strategy, so that they can also be clearly explained to investors and other stakeholders.”*

Practical Guidelines on Business Reorganization

In theory, when a company operates disparate businesses that lack synergy, the overall value tends to be consistently discounted relative to the sum of the individual business values, due to the increase in the cost of capital.

Reposted

## Mechanism of the Increase in Cost of Capital



## Detailed Explanation of Each Effect and Risk

- a Based on the Efficient Market Hypothesis, **the risk diversification effect of holding multiple businesses does not work**; therefore, the cost of capital is not reduced.
  - **Separation Theorem**: Since investors can adjust their desired level of risk through a combination of the market portfolio and risk-free assets, a company cannot lower its cost of capital merely by combining multiple businesses.
  - **CAPM**: When a company builds a business portfolio, its  $\beta$  is nothing more than the weighted average of each business segment.
- b Operating across multiple sectors **narrows the pool of potential buyers, reducing competitive tension among acquirers and thereby raising the cost of capital.**
- c **Coexistence of multiple businesses lowers the predictability of earnings from an investor's perspective**, prompting investors to apply an uncertainty risk premium to the cost of capital.
- d Due to **the following governance deficiency risks**, investors add a governance risk premium.
  - Reallocation of capital from profit-generating businesses to non-profitable ones
  - Misapplication of a single hurdle rate that ignores the business-specific cost of capital
- e Unless synergies are sufficient to offset the incremental cost of capital arising from **b**, **c**, and **d**, **corporate value will, without exception, be impaired—that is, a clear indication of insufficient synergies.**

For companies with multiple businesses, the review of business portfolio optimization is an indispensable process.

In your company, the Digital Entertainment business is positioned as the core business, while the Amusement and Publishing businesses are positioned as non-core businesses.

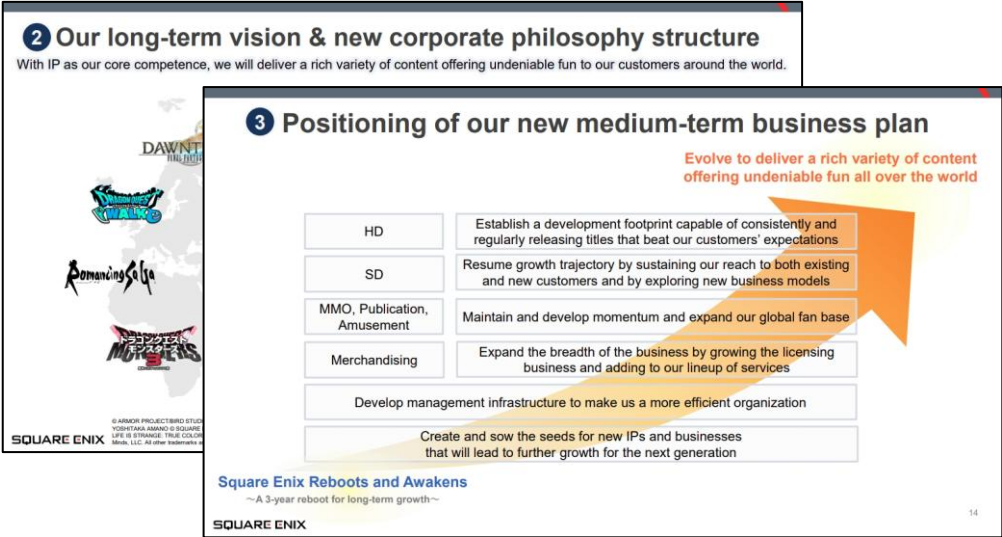
In past disclosure materials, the Digital Entertainment business has been defined as a core business.



“Our core business, Digital Entertainment, is by nature a business format that imposes a relatively small burden on the environment.”

Annual Report for the Fiscal Year Ended March 2023

In the New Medium-Term Management Plan published in May 2024, the policies for the Amusement business and the Publishing business are scarcely addressed.



- Within the 35-page New Medium-Term Management Plan, only two pages are devoted to the policies of the Amusement and Publishing businesses.
- The vast majority of the remaining pages are allocated to explaining the policies of the Digital Entertainment business.

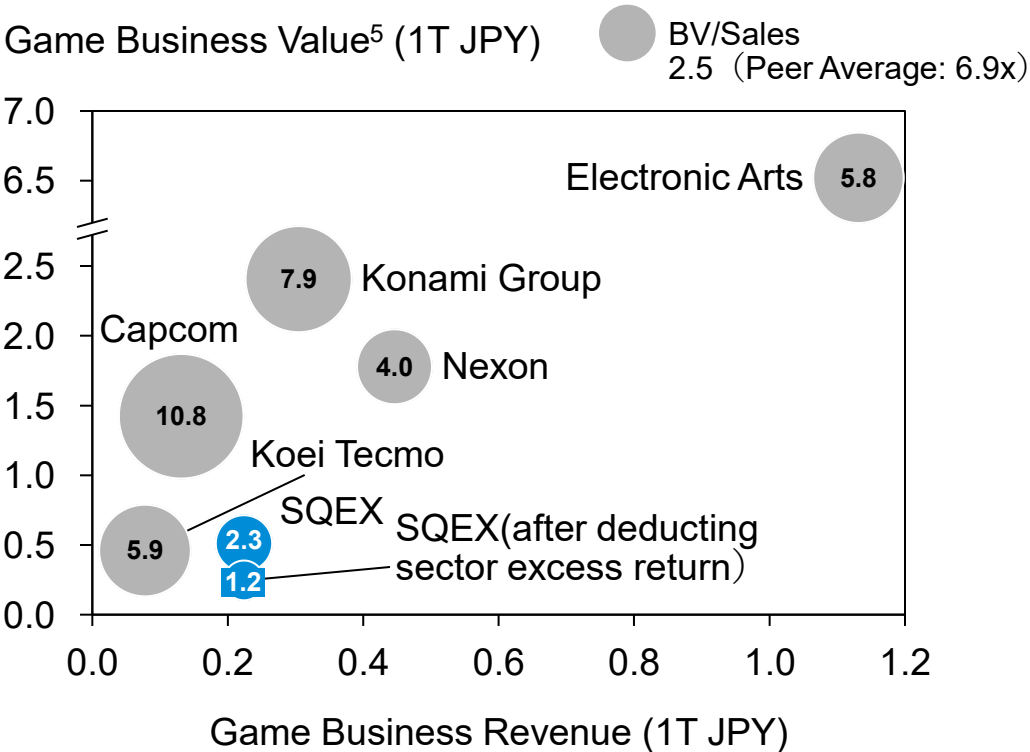
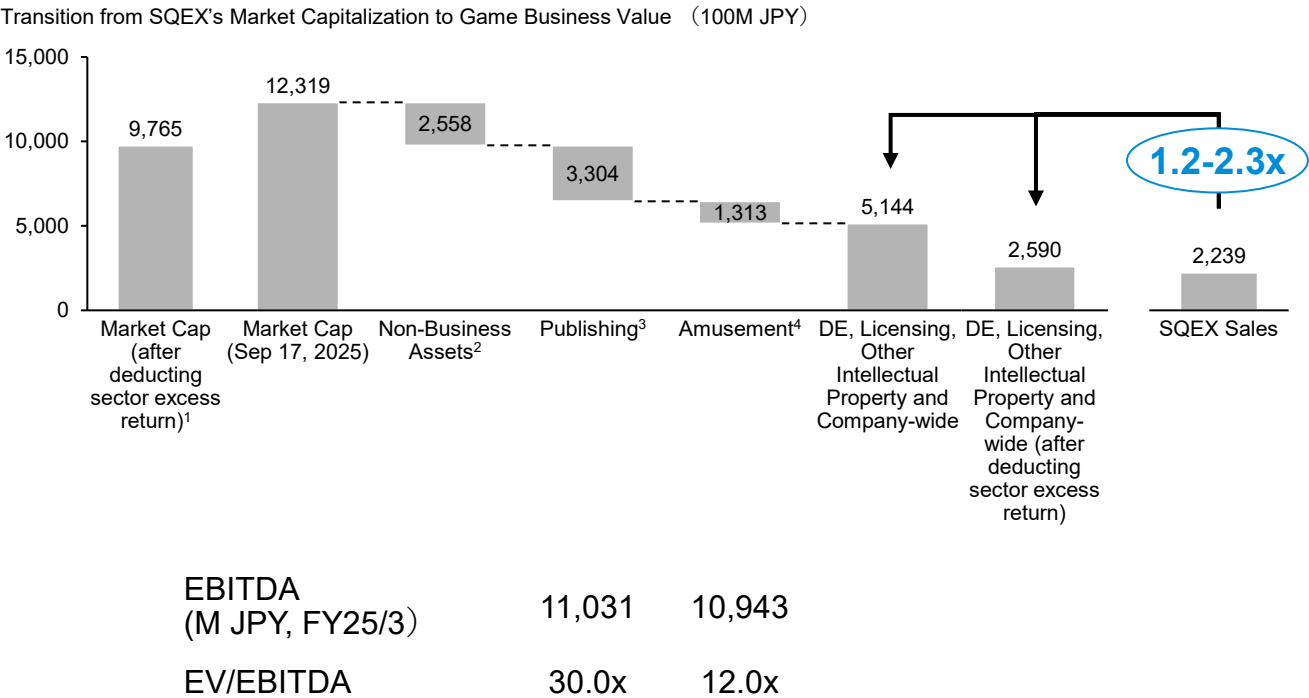


# SQEX's game business is valued significantly lower in the market.

Reposted

SQEX's game business is currently valued at a BV/Sales ratio of 1.2–2.3x in the market

Whereas competitors are valued far higher at a BV/Sales ratio of 4–11x (average 7x)





The significant undervaluation of the gaming business ≡ the existence of a severe conglomerate discount is clear, making it imperative for SQEX to take action to resolve this issue.

Source: Bloomberg; Company IR materials

Notes:[1] Estimated by applying the share price growth rate of the five peers (+14.7% between April 25, 2025 and September 17, 2025) to SQEX's share price on April 25, 2025, the date when we filed our large shareholding report.; [2] Net cash minus non-controlling interests.; [3] EV/EBITDA multiple for the publishing business is back-calculated by assuming a 13x multiple for the non-manga businesses in the Infocom acquisition case.; [4] EV/EBITDA multiple references GENDA's current multiple.[5] Business value (BV) of the game business is calculated as "consolidated enterprise value – non-business assets – total business value of non-game businesses." For BV/EBITDA multiples, the following estimates are applied: Publishing 30.0x, Amusement 12.0x, Pachinko 6.0x, Toys 7.5x, Fitness 8.5x, and Other businesses 5.0x.

99

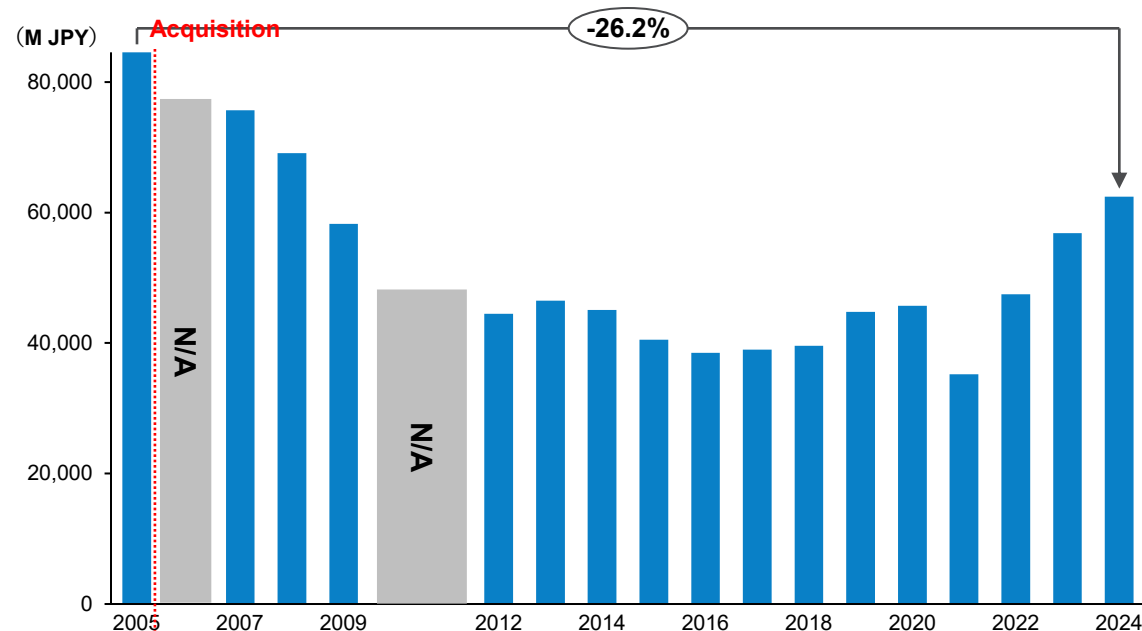
Based on objective analysis, it is evident that substantial synergies have not arisen between SQEX's core and non-core businesses, which corroborates the presence of a conglomerate discount.

		<div>Reposted</div> <div></div>		
		<div>Digital Entertainment×Amusement</div> <div></div>	<div>Digital Entertainment×Publishing</div>	
Sales Synergies	<div>Expected Synergies</div>	<div>Current Status</div>	<div>Expected Synergies</div>	<div>Current Status</div>
	<div>1</div> <div><ul style="list-style-type: none"><li>Arcade machines serve as testing grounds for game technology development</li></ul></div>	<div><ul style="list-style-type: none"><li>With the advancement of home console specifications, this role has been lost</li></ul></div>	<div>2</div> <div><ul style="list-style-type: none"><li>Utilization of game IP in the publishing business</li></ul></div>	<div><ul style="list-style-type: none"><li>Joint business mainly limited to strategy guide</li><li>The publication of game IP generates little synergistic effect</li></ul></div>
	<div><ul style="list-style-type: none"><li>—</li></ul></div>	<div><ul style="list-style-type: none"><li>—</li></ul></div>	<div><ul style="list-style-type: none"><li>Utilization of publishing IP in the gaming business</li></ul></div>	<div><ul style="list-style-type: none"><li>Publishing IP in gaming generates little synergistic effect<ul style="list-style-type: none"><li>Since production constraints often reduce game appeal</li></ul></li></ul></div>
Cost Synergies	<div><ul style="list-style-type: none"><li>Sales efficiency gains from shared customers and channels</li></ul></div>	<div><ul style="list-style-type: none"><li>Since the distribution channels differ, the synergy effect is limited</li></ul></div>	<div><ul style="list-style-type: none"><li>Sales efficiency gains from shared customers and channels</li></ul></div>	<div><ul style="list-style-type: none"><li>Since the distribution channels differ, the synergy effect is limited</li></ul></div>
	<div><ul style="list-style-type: none"><li>Development/operating efficiency gains from shared costs and assets</li></ul></div>	<div><ul style="list-style-type: none"><li>Since the supply chains differ, the synergy effect is limited</li></ul></div>	<div><ul style="list-style-type: none"><li>Development/operating efficiency gains from shared costs and assets</li></ul></div>	<div><ul style="list-style-type: none"><li>Since the supply chains differ, the synergy effect is limited</li></ul></div>

# 1 Amusement Business: Since the acquisition, Sales from the amusement business has barely grown and has significantly underperformed arcade-focused competitors

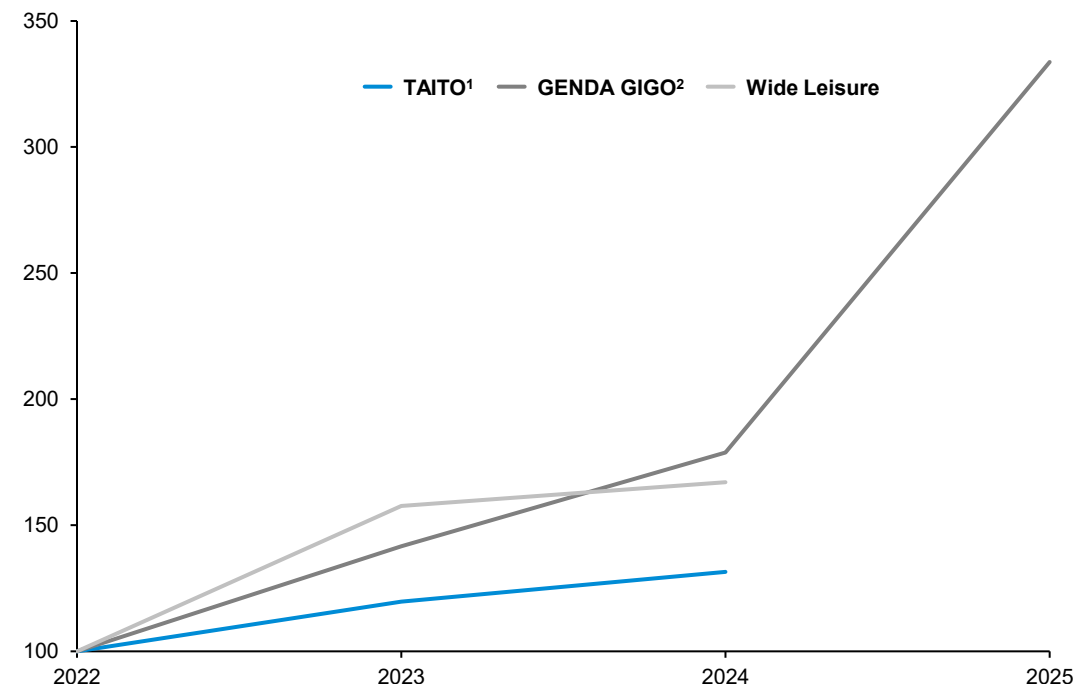
Taito's Sales has declined significantly following the acquisition by SQEX

Taito Sales<sup>1</sup> Trend (FY2005–FY2024)



Post-COVID Sales growth has also substantially underperformed peers focused on arcade operations

Sales Trend of Each Company Indexed to FY2022 (FY2022–FY2025)



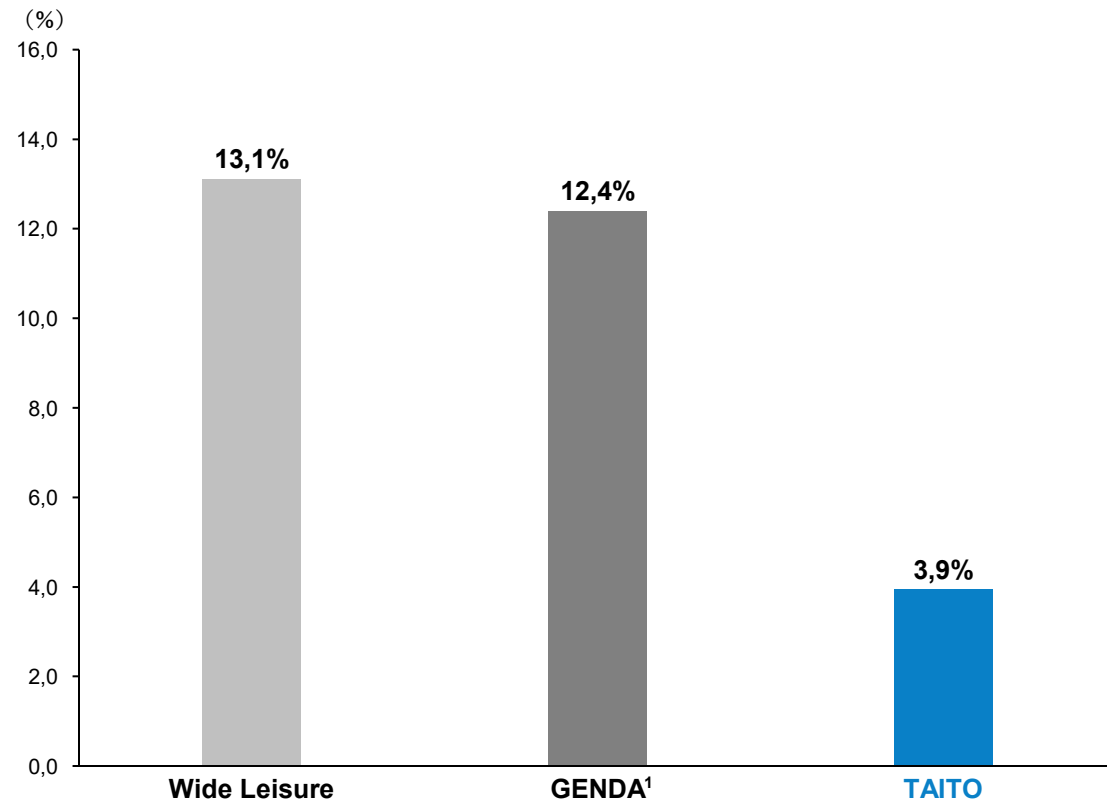
Source: Company IR materials, GENDA IR materials, Electronic Public Notices, Teikoku Databank – Wide Leisure Performance Data

Notes:[1] FY2006 is left blank due to only semi-annual revenue disclosure. FY2010 and FY2011 are also left blank due to lack of available disclosures. For FY2006–2009, performance data for Square Enix's AM and related segments are used; [2] From FY2023 onward, performance data for GENDA's Entertainment Platform segment is used

# ① Amusement Business: Operating margin also lags behind competitors focused on arcade operations

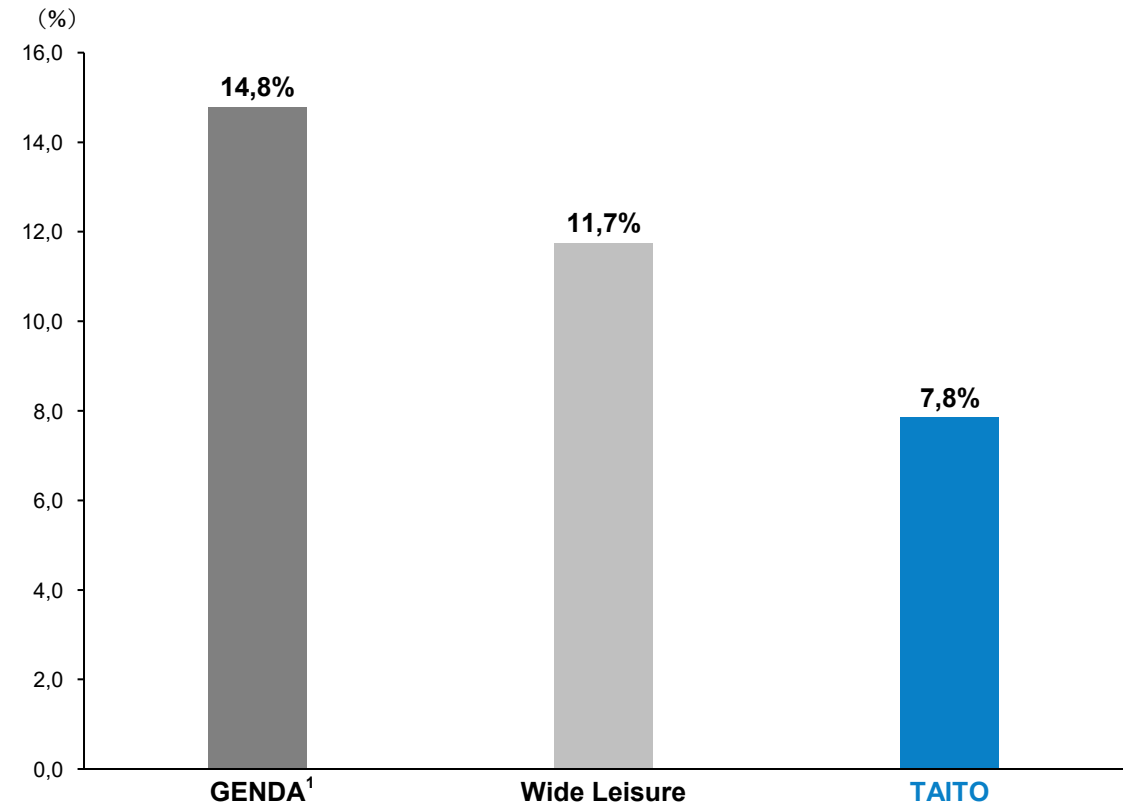
## Comparison of Average Operating Margins Over the Past Three Years

### Latest<sup>2</sup> Three-Year Average Operating Margin by Company



## Comparison of Most Recent Operating Margins

### Latest<sup>2</sup> Operating Margin by Company



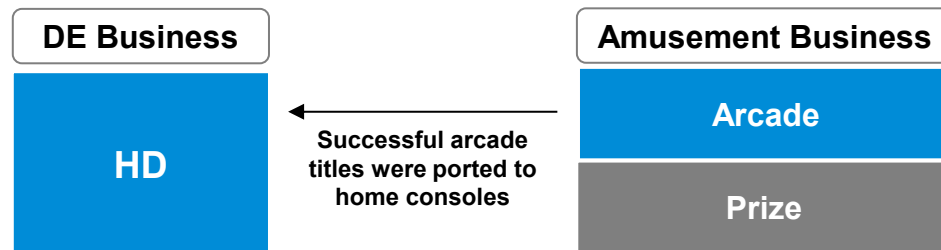
Source: Company IR materials, GENDA IR materials, Electronic Public Notices, Teikoku Databank – Wide Leisure Performance Data

Notes:[1] From 2023 onward, performance data for GENDA's Entertainment Platform segment is used; [2] The latest fiscal year for each company is FY2024 for Taito and Wide Leisure, and FY2025 (ending January) for GENDA

# 1 Amusement Business: There are no longer any synergies with the core DE business, making it difficult to consider SQEX the best owner

## In the past, synergy existed between arcade and home console

- When home consoles had lower specs, **new technologies were first introduced in arcade machines, which served as a testing ground before home release**
- **Porting successful arcade titles to home consoles was a proven formula for maximizing profits, and the Amusement business contributed meaningfully to the DE business**

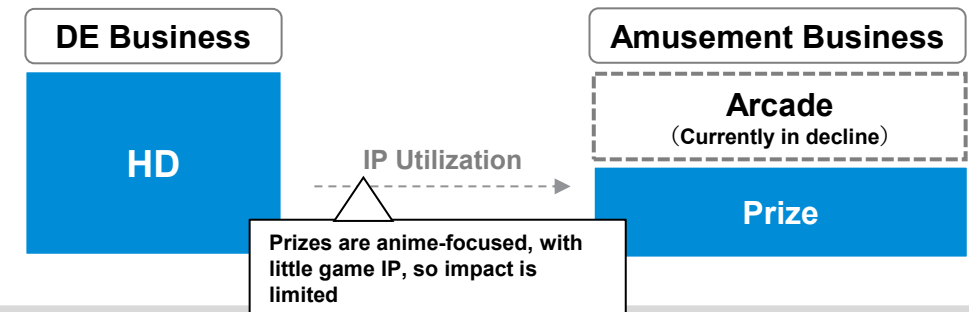


*"When console specs were still low, the latest technologies were introduced into arcade machines first, serving as a testing ground before home release. Porting successful arcade titles to consoles was the golden route for maximizing returns"*

— Former [redacted] employee

## However, this synergy has now disappeared

- Today, with the advancement of home console performance and mobile gaming, **arcade machines no longer serve as a testing ground**
- In game centers, prize machines now dominate, but **the share of game IP in prizes is minimal, limiting any potential synergy**



*"However, with improved console specs and the rise of mobile games, arcades have declined and prize machines now dominate, leaving little synergy. While game IP could be used, most prizes are anime-based, with minimal game-related content"*

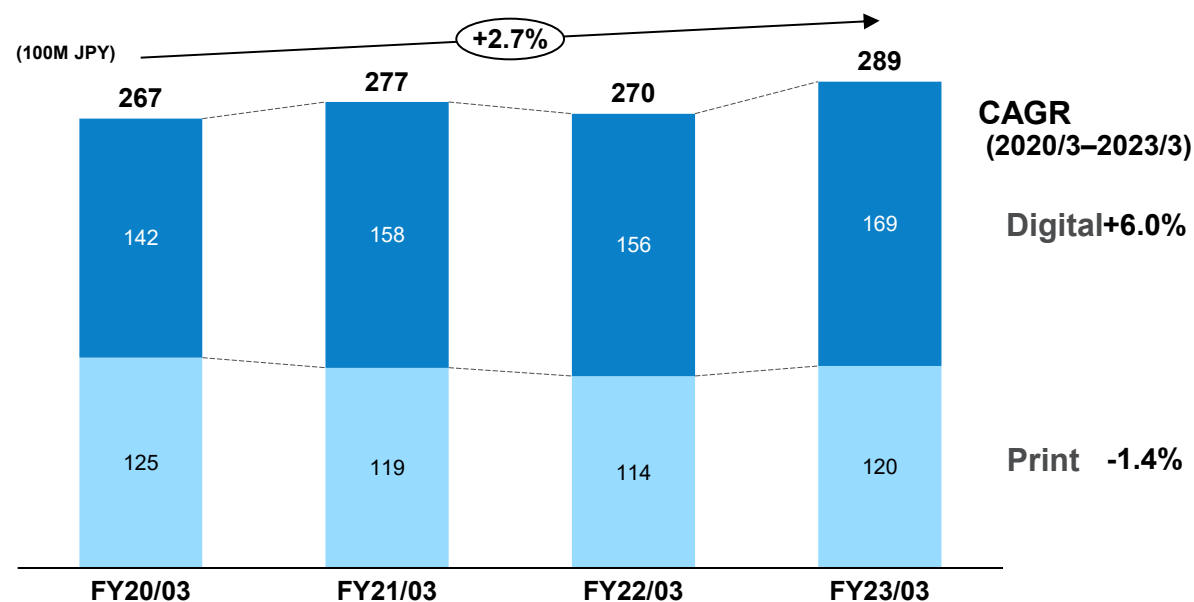
— Former [redacted] employee

**SQEX should divest the Amusement business to a more suitable owner**

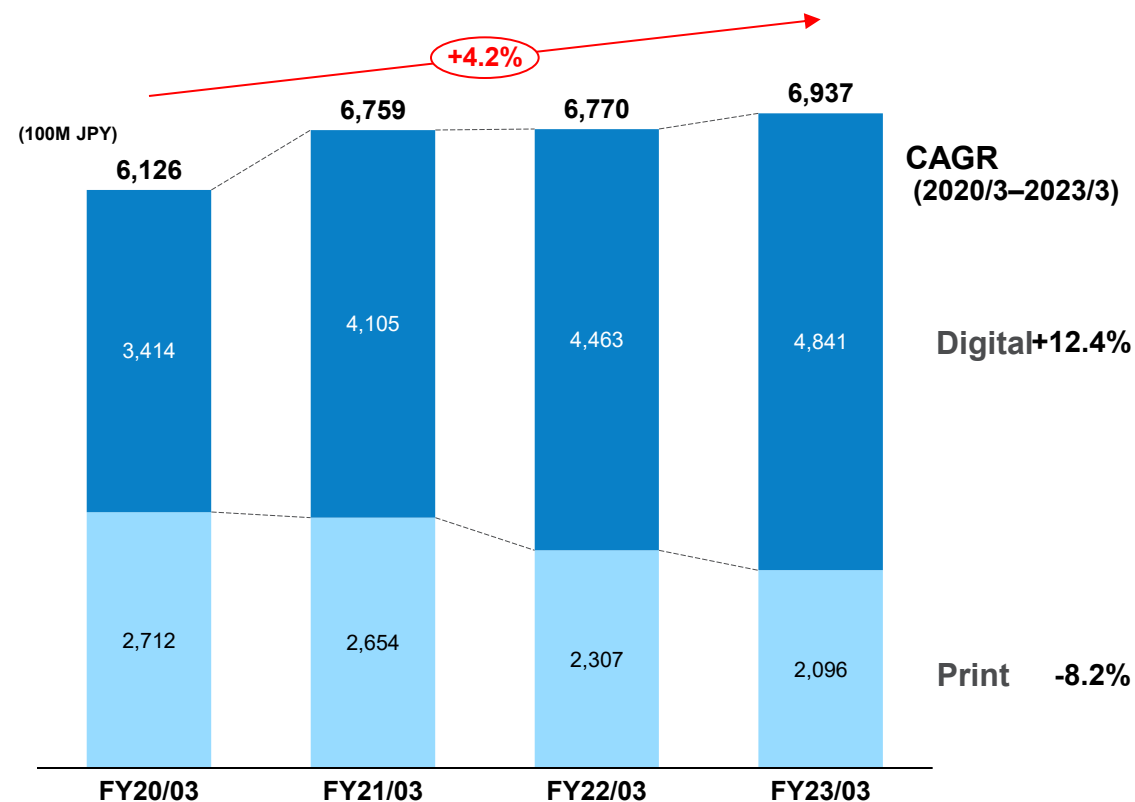
## 2 Publishing Business: Recent growth in the publishing business has been driven by overall market expansion, not by being under SQEX's ownership

Since COVID-19, the growth rate of SQEX's publishing business has lagged behind the overall market

SQEX's Publishing Sales Trend (FY2020–FY2023)



Domestic Manga Market Size Trend<sup>1</sup> (FY2020–FY2023)



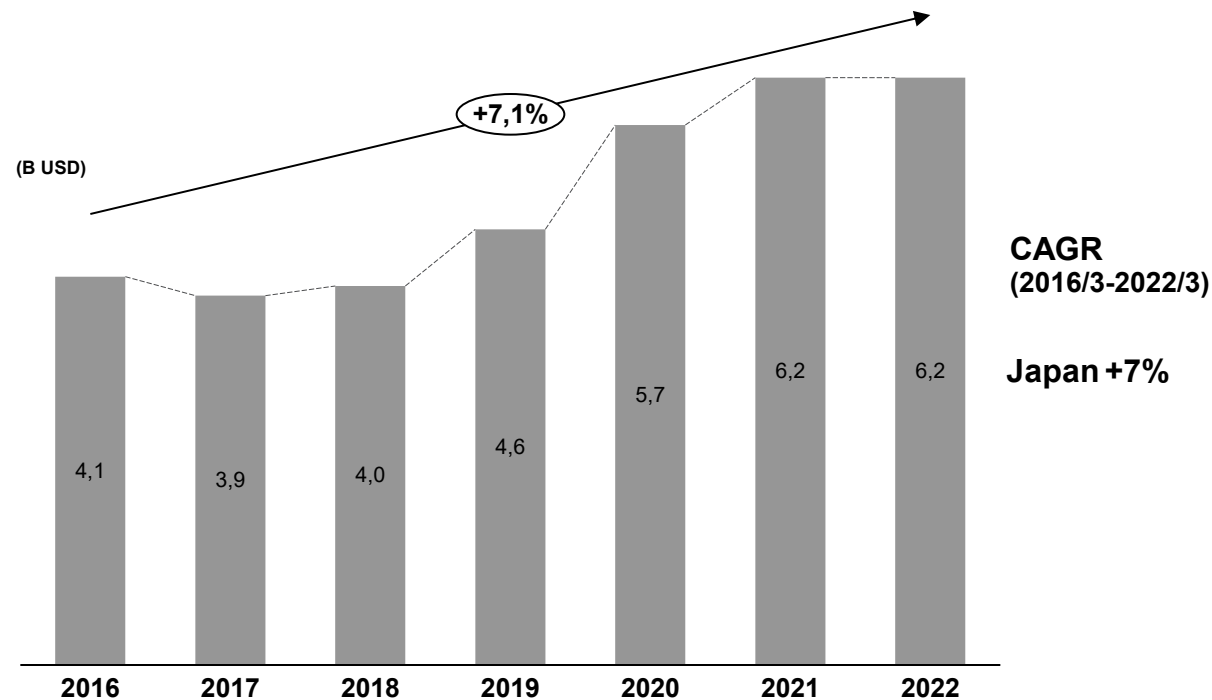
Source: Company IR materials, Research Institute for Publications

Note: [1] It is assumed that about 90% of overseas publishing revenue comes from print media, in line with overall market trends. This assumption was used to estimate the composition of domestic publishing revenue between print and digital formats

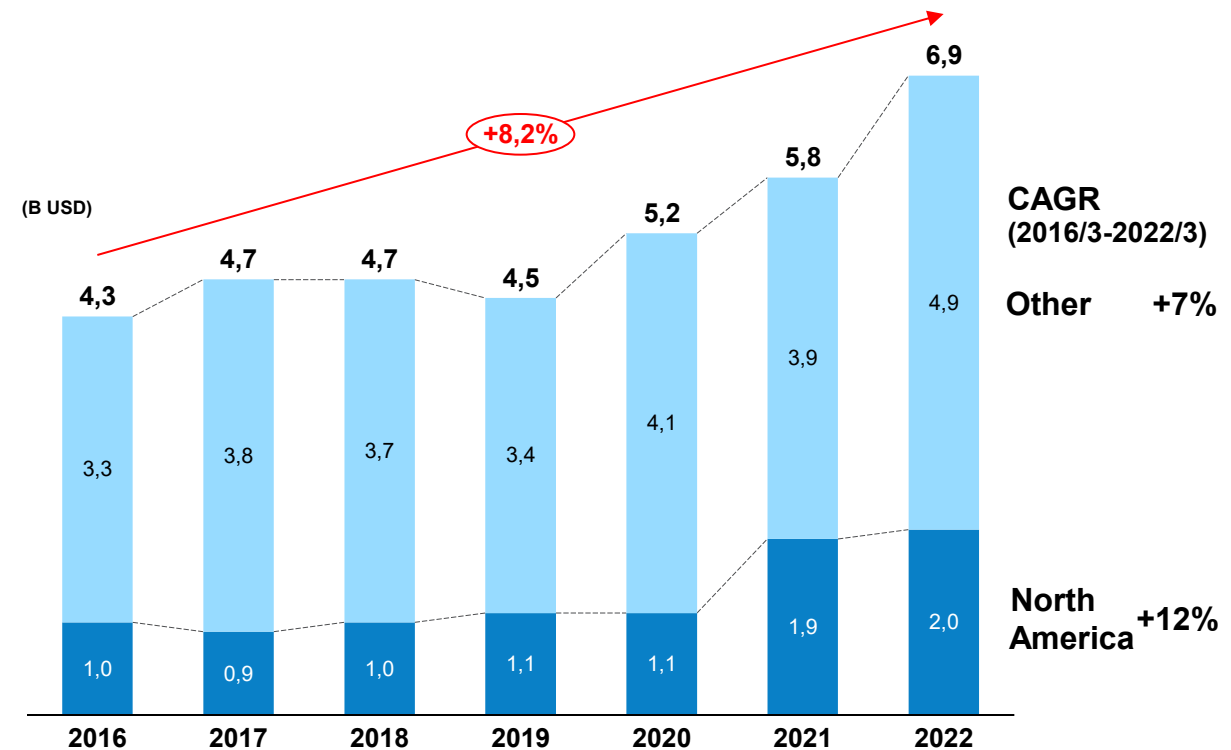
## 2 Publishing Business: This segment lacks the capabilities needed for overseas expansion, which is a clear growth driver (1/4)

The overseas comic market has not only surpassed the domestic market in size, but has also achieved a higher growth rate —making global expansion a key driver of future growth

Domestic Comic Market Size Trend (FY2016–FY2022)



Overseas Comic Market Size Trend<sup>1</sup> (FY2016–FY2022)



Source: JETRO, Survey on Industrial Promotion Measures and Case Studies of Korean Content in the Platform Era (March 31, 2022); Publishing Indicators Yearbook; ICv2; Expert Interviews

Note: [1] Market size figures are estimates calculated from multiple sources. The global total was taken from the JETRO report; figures for Japan and the U.S. were obtained from the Publishing Indicators Yearbook and ICv2, respectively. The remainder was calculated as "Other"



2 Publishing Business: This segment lacks the capabilities needed for overseas expansion, which is a clear growth driver (2/4)

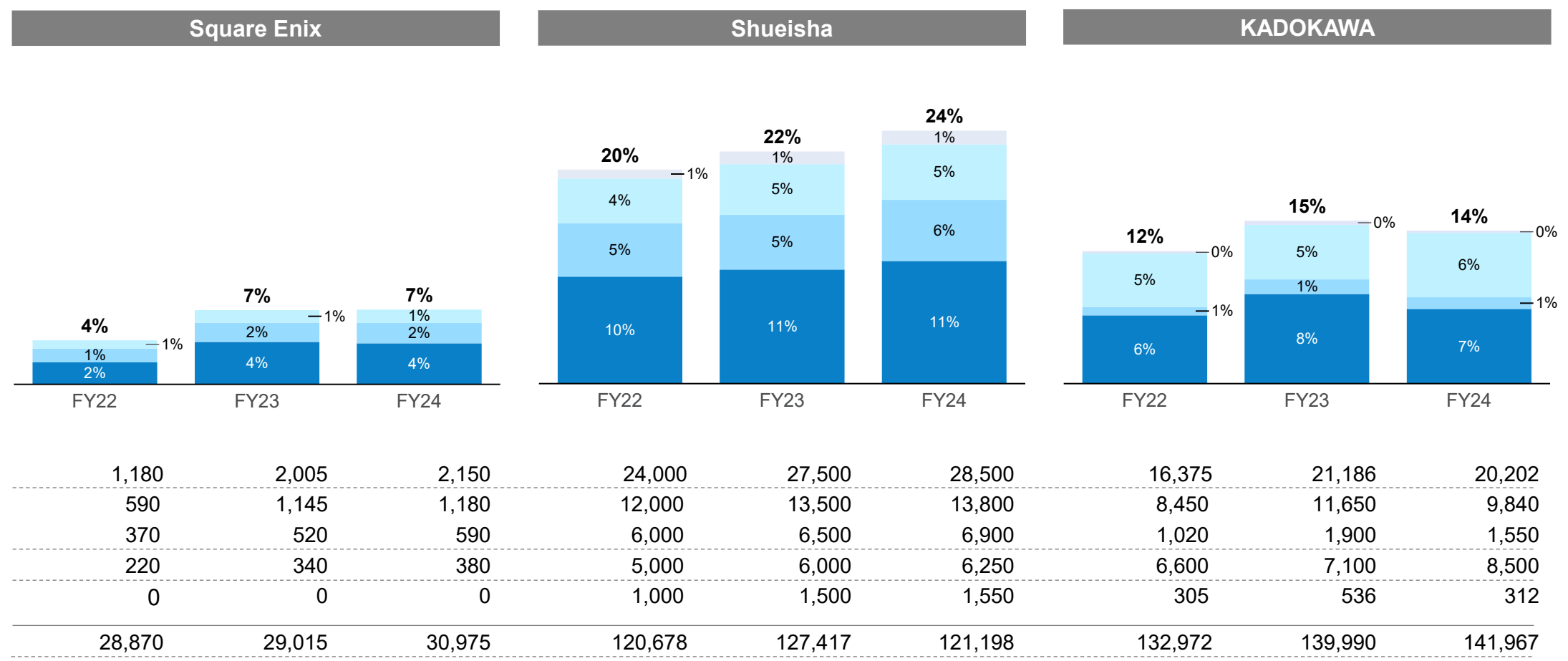
SQEX's overseas sales ratio in the publishing business is low compared to competitors, indicating significant untapped potential in global markets

Overseas Sales Ratio (%)  
– Publishing Business

- Others
- Asia
- Europe
- North America

Publishing Sales (M JPY)

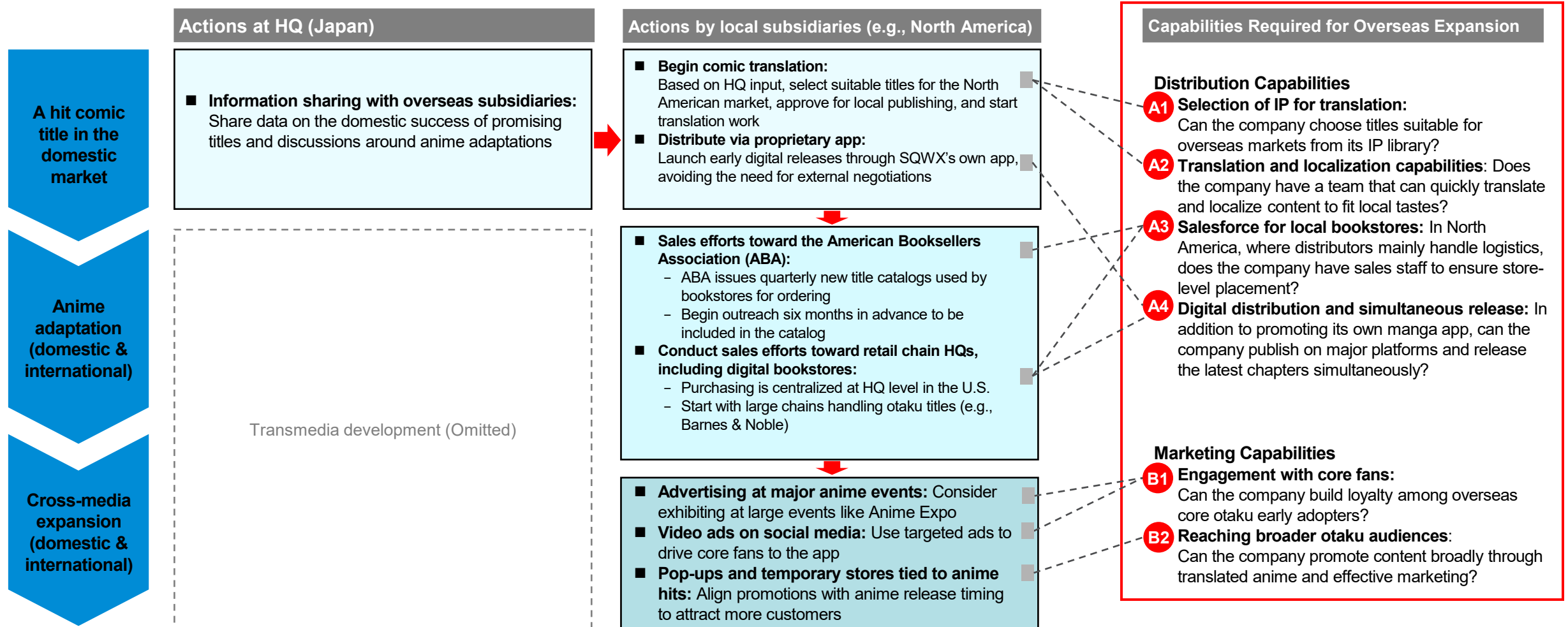
Overseas Total									
North America									
Europe									
Asia									
Other									
Total Sales									



Source: External research organizations

## 2 Publishing Business: This segment lacks the capabilities needed for overseas expansion, which is a clear growth driver (3/4)

The key actions required for overseas expansion, along with the necessary capabilities, are as follows...



Source: Expert interviews

Note: [1] Digital channels include platforms such as Kindle and Rakuten Kobo. In North America, supermarkets are also key offline retail channels beyond bookstores

## 2 Publishing Business: This segment lacks the capabilities needed for overseas expansion, which is a clear growth driver (4/4)

However, SQEX lacks the necessary capabilities for overseas expansion, making future global development unlikely under its ownership

	Capabilities Required for Overseas Expansion	Industry Best Practices		Square Enix
Distribution	<b>A1 Selection of IP suitable for translation</b>	<ul style="list-style-type: none"> <li>■ Selecting IP and producing content tailored for global markets through local subsidiaries</li> </ul>	↔	<ul style="list-style-type: none"> <li>■ In North American IP development, decisions are driven by the local publishing partner rather than SQEX</li> </ul>
	<b>A2 Translation and localization capabilities</b>	<ul style="list-style-type: none"> <li>■ Adjusting translation quality based on title popularity</li> <li>■ Using AI translation for lower-priority titles</li> </ul>	↔	<ul style="list-style-type: none"> <li>■ There have been past controversies due to poor translation and localization quality</li> </ul>
	<b>A3 Salesforce for local bookstores</b>	<ul style="list-style-type: none"> <li>■ Ensuring distribution through major bookstores and grocery chains</li> </ul>	↔	<ul style="list-style-type: none"> <li>■ Resources are allocated to titles prioritized by the partner company, which are not necessarily its own</li> </ul>
	<b>A4 Securing digital channels and enabling simultaneous release</b>	<ul style="list-style-type: none"> <li>■ Covering all major digital platforms</li> <li>■ Simultaneous release of the latest Japanese and translated chapters</li> </ul>	↔	<ul style="list-style-type: none"> <li>■ Translated versions of the latest volumes or chapters are not yet published on e-book platforms or SQEX's proprietary app</li> </ul>
Marketing	<b>B1 Building loyalty among core fans</b>	<ul style="list-style-type: none"> <li>■ Organizing promotional events</li> <li>■ Using video ads on social media to drive traffic to proprietary apps</li> </ul>	↔	<ul style="list-style-type: none"> <li>■ There is no proactive promotion of new titles; participation is limited to invitations from local events</li> </ul>
	<b>B2 Reaching broader otaku audiences</b>	<ul style="list-style-type: none"> <li>■ Promoting anime adaptations and distribution through partnerships (e.g., Crunchyroll)</li> </ul>	↔	<ul style="list-style-type: none"> <li>■ Some popular IP titles have not been adapted into anime at all</li> <li>■ No active efforts are being made to promote anime adaptations</li> </ul>

## 2 Publishing Business: The business model synergies with the core Digital Entertainment (DE) business have already disappeared.

### The only possible synergy is through mutual use of IP assets...

- There is potential synergy between the DE and publishing businesses through the sharing of IP assets

*"Both businesses rely on IP, and sharing IP between games and publishing may create more revenue opportunities"*

—Former [REDACTED] employee

- However, other sales or cost synergies are unlikely

*"While the end users may overlap, it's hard to generate revenue synergy such as cross-selling, as neither business sells directly to consumers"*

—Former [REDACTED] employee

*"There is little similarity in the supply chains of publishing and gaming, so cost synergies are unlikely"*

—Former [REDACTED] employee

### Game and publishing IP do not complement each other well, and major synergies cannot be expected

- Opportunities to use game IP in publishing are limited

*"Square Enix's game and publishing businesses appear to be independent. **The only possible synergy may be the publication of strategy guides**"*

—Former [REDACTED] employee

*"When adapting a game IP into a publication, only the characters and setting are usable. **Whether it sells depends on the writer's skill—not the popularity of the game**"*

—Former [REDACTED] employee

- Opportunities to use publishing IP in games are also limited

*"It's difficult to turn publishing IP into successful games—they're mostly treated as fan content. The problem lies in author constraints. Since publishing IP has fixed stories, creative freedom is limited, **making it harder to create engaging games. Detaching the original author is essential, but contractually very difficult**"*

—Former [REDACTED] employee

*"When trying to adapt publishing IP into games, only the characters and worldviews can be reused—key gameplay elements are missing. **Games sell because of their gameplay, not just because they feature popular characters**"*

—Former [REDACTED] employee

**Synergies are clearly limited and are unlikely to offset the value erosion caused by the increase in the cost of capital.**

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