

Risk Management

Capcom is driving its growth strategies forward in order to achieve our medium-term business goal of increased operating income every fiscal year. To make this a reality, however, entails business risks. We implement measures for each expected risk, thereby mitigating or avoiding risks, and promote risk management that allows for generating new growth opportunities.

Pursuit of growth strategies



Digital Contents Business

Risks	Capcom's response measures
Surge in development costs due to increasingly complex/diverse functionality in CG, VR, artificial intelligence (AI), and 5G technologies	Build an in-house development engine; increase and efficiently place development personnel to improve both quality and development efficiency; direct effort toward containing development spending
Rapid obsolescence of game software	Remake previous titles and/or make derivative products from them in order to continue effectively utilizing IP; secure long-term earnings
Expansion of the used software market and a flood of pirated software in Asian markets	Boost the ratio of digital sales to restrain supply to the used game market, suppress pirated copies, and expand sales of genuine products [Diagram A]
Arguments claiming a connection with/influence on violent incidents and other criminal cases due to depictions of violent scenes and similar content in games Arguments that excessive preoccupation with games impacts health and social activity	Comply with rules on the ratings system for game software Educate children, students, educators and parents/guardians by conducting on-site classes and having visits to the Company
Fluctuations in the proliferation of, or any problem with, home video game consoles	Use surveys and analysis of home game console market trends to predict future trends, while hedging earnings risks by releasing products on multiple game platforms
Sluggish sales growth in the transition stage ahead of next-generation home video game console launches	Lengthen the duration of game sales by boosting the digital sales ratio; strengthen catalog sales and increase unit sales through flexible pricing strategies [Diagram B]
Inability to keep up with new technologies	Utilize a cutting-edge development environment and talented developers to continually strive for development that leverages new technologies
Decrease in users due to diversifying entertainment options, diversifying consumer needs, etc.	Deliver games that leverage our popular IP and gain new user segments by releasing games on multiple platforms
Market fluctuations outside Japan and intensification of competition among companies	Closely share information with overseas subsidiaries and sales companies; assess market trends in each country; respond to local needs
Country risks outside Japan, including political, economic, legislative, cultural, religious, and custom risks	Use in-house specialist teams to carry out localization while keeping regional politics, economics, laws, culture, religion, and customs in mind
Retirement/transfer of development personnel	Devote effort to aggressively hiring and training personnel so that we can secure talented developers Promote systems for shortened working hours and usage of paid leave, in addition to building daycare centers near our offices

Arcade Operations Business

Risks	Capcom's response measures
Reliance on the popularity of installed machines	Multi-faceted roll out, such as of themed food shops, shops dedicated to selling character-themed products, and special corners targeting younger demographics
Changes in the market environment, such as diversification of entertainment, falling birth rates, intensified competition	Attract families and female customers by holding various events; hold senior-oriented events aimed at attracting middle-aged to senior citizens

Amusement Equipments Business

Risks	Capcom's response measures
The risk of non-compliance with the model certification test to sell pachislo machines	By joining the Japan Pachislo Machine Industry Association (Nichidenkyo), get an understanding of trends with regulatory agencies and build a framework that immediately responds to regulatory changes [Diagram C]

Creation of new opportunities

Opportunities

- Raise competitiveness in the environment of new technology and new services, such as 5G
- Grow earnings in the global market

- Develop new regions
- Attract new users
- Boost brand strength
- Stabilize earnings through a recurring/cumulative revenue model

- Boost brand strength
- Expand new sources of earnings

- Grow earnings in the global market
- Boost performance by strengthening human resource capabilities

Opportunities

- Attract new customers
- Boost brand strength at Company arcades

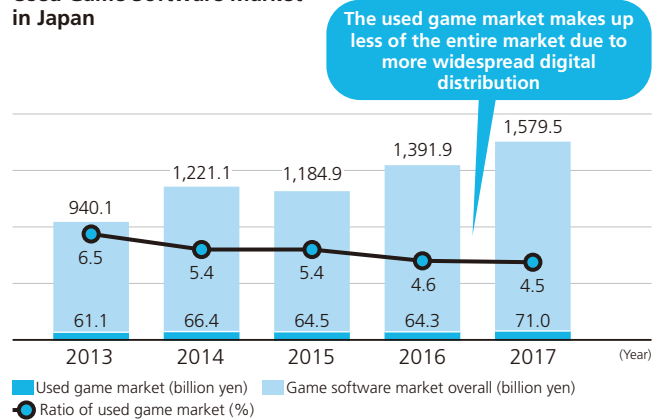
Opportunities

- Enhance lineup of titles

Business Opportunities Shown in Market Data

Diagram A

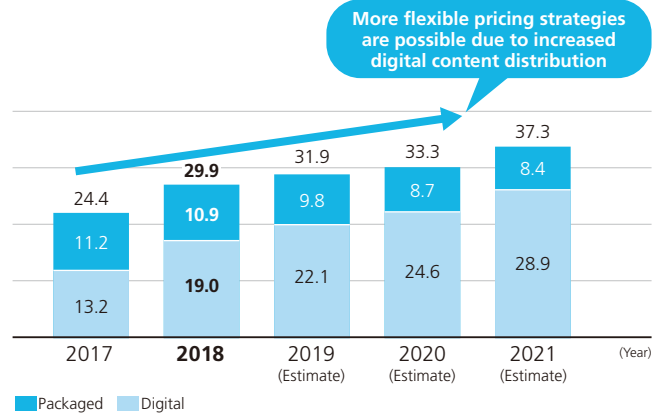
Used Game Software Market in Japan



Source: Ministry of Internal Affairs and Communications' Survey on Media Content Production and Distribution

Diagram B

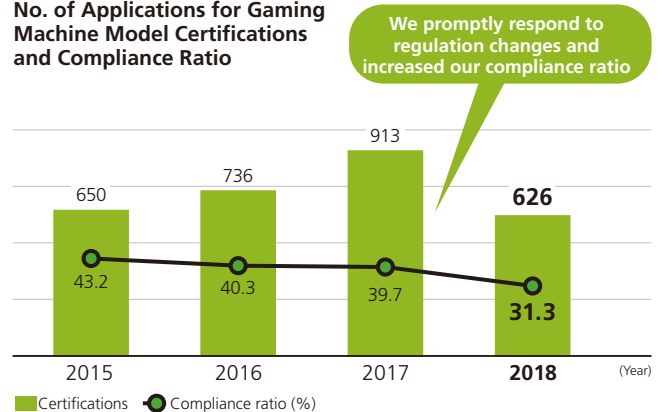
Game Content Market (billion dollars)



Source: International Development Group

Diagram C

No. of Applications for Gaming Machine Model Certifications and Compliance Ratio



Source: reference statistics from the Security Communications Association