

Aiming to Further Expand Earnings Potential by Pursuing Opportunities in the Changing Game Market



This fiscal year (the period ended March 31, 2011), Capcom achieved significantly higher sales and earnings, primarily in the Consumer Online Games business, by making the most of its “world-class development capabilities” and “leading contents”, the strengths of the Company’s growth strategy. This section will explain that growth strategy, as well as Capcom’s medium-term business goals, achievements up to now, and new opportunities for profit in the changing game market.

Haruhiro Tujimoto

President and Chief Operating Office (COO)

Capcom’s No. 1 Strength:

World’s Leading Development Capabilities

In the contents industry, generation of new content is the source of a company’s competitiveness. One of the reasons Capcom has continued to grow is due to our core Consumer Online Games Business’ “ability to provide superior content” through the utilization of strong development capabilities for creating a large amount of original game content.

Capcom’s superior development capabilities maintain “developer creativity” and an “organizational structure that enables developers to hone their skills”, two factors successfully realized through the first phase of structural reforms.

Capcom’s No. 2 Strength:

Extensive Collection of Leading Content

The originality of content created by Capcom using the world-class development capability is, naturally, held in high esteem by users. We attempt to secure stable earnings by creating million-seller titles once every two or three years, and introducing the sequels of these titles regularly, such as “Street Fighter” and “Resident Evil”, which have sold over one million copies worldwide. We possess the most popular contents among Japanese game software manufactures, and development capabilities continue to be one of our biggest strengths.

Furthermore, “possessing scores of content (intellectual properties) with universal market appeal” enables us to develop our Single Content Multiple Usage strategy worldwide. Based on our success in the Consumer Online Games Business, we have engaged in the multiple development of popular content for various forms of media which has led to success in other businesses, and we are now creating a business model to realize multiple profits in the contents market as well.

Strategy for Growth

Game Market Changes and Three Growth Strategies

As a result of last fiscal year’s platform expansion, the game market was worth 44.8 billion dollars in 2010 (up 4.9% from the previous year). The market is expected to grow steadily to 61.3 billion dollars in 2015 (See Diagram 14).

Growth in the online game market, which was worth 21.3 billion dollars in 2010 (up 20.3% from the previous year), was particularly robust. Reasons for this include (1) high-speed PC and mobile phone communications, (2) the spread of mobile PCs and portable game consoles, (3) mobile phones with a diverse array of high functionality, (4) the expansion of social networking services (SNS) and (5) home video game console online functionality that enables online game platform connecting PC, smartphone, iPad and a wide range of other consoles to the home video game console. As a result, the online game market is expected to grow steadily to 37.5 billion dollars in 2015 (up 76% from 2010).

The traditional home video game market was worth 23.4 billion dollars in 2010 (down 6.4% from the previous year). The market is expected to remain flat, growing slightly to 23.8 billion dollars in 2015 (up 1.7% from 2010). Despite this outlook, we nevertheless foresee maintaining these operations on some scale five years hence (See Diagram 15).

Diagram 14 Changes in the Game Market

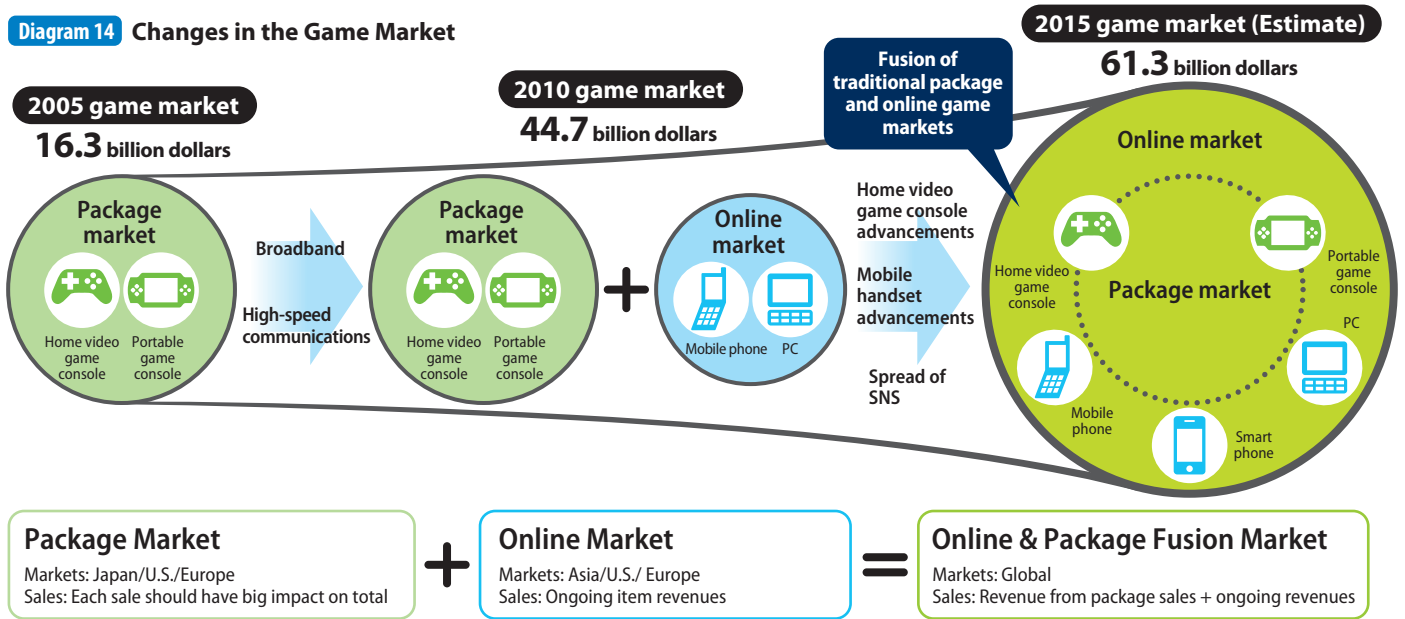


Diagram 15 Home Video Game/PC Online/Mobile Market (\$ Billion)

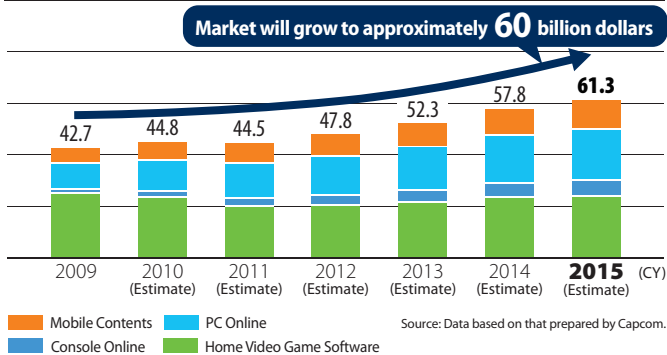


Diagram 16 New Game Markets and Capcom

Market	Market Characteristics	Capcom's Strength
Mobile games	<ul style="list-style-type: none"> Handsets are increasing rapidly around the world User base is wide and diverse 	<ul style="list-style-type: none"> Make use of popular Capcom contents Gain mobile development expertise overseas
	<ul style="list-style-type: none"> Users can share information with one another Focus is on light users 	<ul style="list-style-type: none"> Create SNS game hit making use of other company's contents Establish business model
PC online games	<ul style="list-style-type: none"> Development is focused in Asia Large number of core users 	<ul style="list-style-type: none"> Make use of popular Capcom contents Gain further operational expertise in Japan

In response to the changing market environment, and to achieve our medium-term business goals, Capcom has outlined three major strategies for growth, which are: "strengthening of our Online Games Business", "expanding our line-up of games under development" and the expansion of "Single Content Multiple Usage".

One of the factors behind our planned drop in revenue next fiscal year (the period ending March 31, 2012), is "partiality toward a particular timing in terms of our title portfolio". We will attempt to reorganize our development structure and shorten the sales cycle of major titles. To increase titles for overseas markets, we will promote business partnerships with overseas developers. We will also strengthen our Online Business while aggressively developing our download business in the mobile and PC online markets (See Diagram 16). Furthermore, we will continue to focus efforts on the development of Single Content Multiple Usage, which is at the core of our business development.

On the following pages, I will explain each of our three growth strategies in detail.

Three Strategies in Response to the Changing Game Market



Strengthening Online and Mobile Businesses Worldwide

Full Online Support for Popular Home Video Games as Well as PC Online Games

Within this rapidly changing market environment, Capcom will continue to promote the achievement of medium-term business goals including the “strengthening of our Online Games Business”, “expanding our line-up of games under development” (please see “CEO’s Discussion on the Summary of This Year’s Performance and Medium- and Long-Term Business Goals”, Q5, on P16), and allocating 90% of management resources to the Consumer Online Games and Mobile Contents businesses, all part of our growth strategy.

The outline of the online business strategy involves (1) strengthening of the Asian development of PC online games, (2) comprehensive downloadable content for home video games and (3) increase of smartphone and SNS game titles.

Moving forward with this strategy, we forecast online contents net sales of 16 billion yen in the next fiscal year (up 23.1% from the previous fiscal year), growing to net sales of 30 billion yen in the fiscal year ending March 31, 2015 (Please refer to Diagram 17).

To achieve the goals of the current medium-term business objectives, Capcom implemented a second phase of structural reforms aimed at integrating the development organizational structure, which had been organized vertically and separated into the Consumer, Mobile, Online divisions, but now have been integrated and transformed into a new multi-platform development structure compatible with any hardware.

In terms of specific measures and (1) “strengthening of the Asian development of PC online games”, we will develop PC online games in the Asian region making use of Capcom home video games popular throughout the world. At present, “Monster Hunter Frontier Online” is distributed in Japan and Taiwan, but ultimately our sights are set on China, the world’s biggest market. We are steadily working our way there, expanding market by market. Moreover, to minimize exposure to various country risks when developing operations in new countries, Capcom seeks to establish business alliances with leading local management companies to avoid risk, acquire knowledge and an understanding of the local culture. At the same time, this also facilitates domestic regular major updates, maintains user interest, and improves earnings stability.

Furthermore, in terms of (2) comprehensive downloadable content for home video games, all major titles will be put online and made available for download. By introducing a system that enables users to play one another across the globe, and by continually introducing additional downloadable items, user playing time will increase, and we can acquire new users who cross over from package users while receiving addition revenue in the form of additional item purchases. Also, we will promote sales of downloads of past popular video games through the effective use of our extensive collection of titles (See Diagram 18).

Diagram 17 Online Contents Sales (Billions of yen)

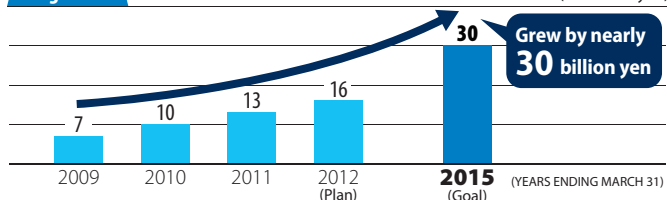
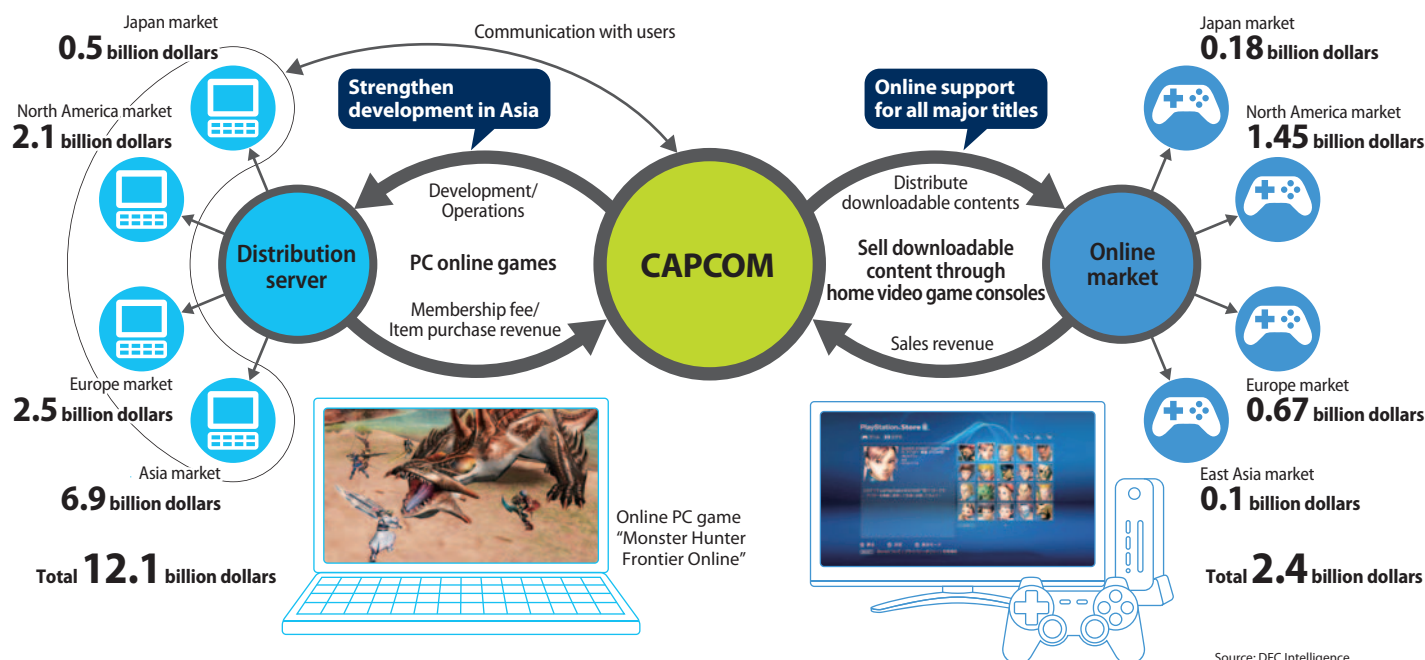


Diagram 18 Online Game Overview



Source: DFC Intelligence "Online Game Market Forecasts 2010"

Aiming for Online Contents Net Sales of 30 Billion Yen in 2015 through SNS Response and Use of New Brand

In the next fiscal year, we will focus particular attention on (3) increase smartphone and SNS game titles. There are two important components to this strategy.

The first component of the strategy involves making thorough use of the “Capcom brand” to target our core segment, while the other involves establishing a second brand to capture customers in the light user segment, while aiming to deepen our reach into both segments simultaneously (See Diagram 19 and 20).

The Capcom brand strategy involves developing popular titles in-house at development facilities in Japan that make use of our brand power and multi-platform development in an attempt to realize synergy with home video games. For example, “Sengoku BASARA” and “Resident Evil” are distributed on Japan’s largest SNS platforms, Mobage and Gree, where they not only appeal to the casual segment, but they link to a promotion of the sale of the home version of the game. In this way, mobile light users are encouraged to purchase the home game, and home users are encouraged to try the mobile version. At the same time, we are making further efforts to capture light users with “Monster Hunter Dynamic Hunting” for smartphones, which is based on the popular home video game.

Our “second brand” strategy making use of the “Beeline” brand is focused on strengthening our social games for smartphones. The reason for creating a second brand is because Capcom brand games have an image of difficulty and complexity about them, creating obstacles that would prevent most light users who normally don’t play games from purchasing a casual download. Developing a new brand circumvents these obstacles altogether. Furthermore, development facilities in North America, Europe and Japan—where a new facility was completed in April 2011—are developing social games that incorporate distinctive characteristics to

acquire users in developing regions where home video game consoles have yet to be adopted. Next fiscal year, the overseas title lineup will include eight social game titles that make use of popular characters from other companies. We will attempt to establish brands like “Smurfs’ Village” early on.

In terms of overseas social game development, we will introduce the Capcom real-time analysts for marketing (CRAM) system. CRAM analyzes the user line of flow and estimates the efficacy of advertising. In addition, it also functions as a means of announcing new titles and content renewal to existing users, and contributes to helping track user activity.

In light of these initiatives, we aim for a total of 45 million overseas social game downloads by fiscal year end, and our online contents net sales goal is 30 billion yen by fiscal 2015.

Diagram 20 Developing the Mobile and SNS Markets with Two Brands

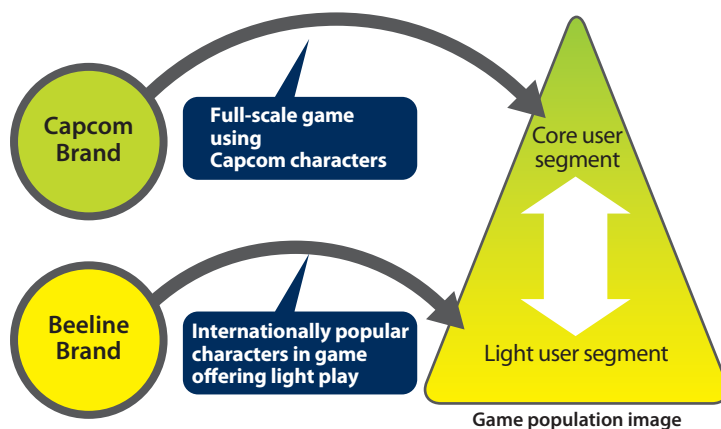
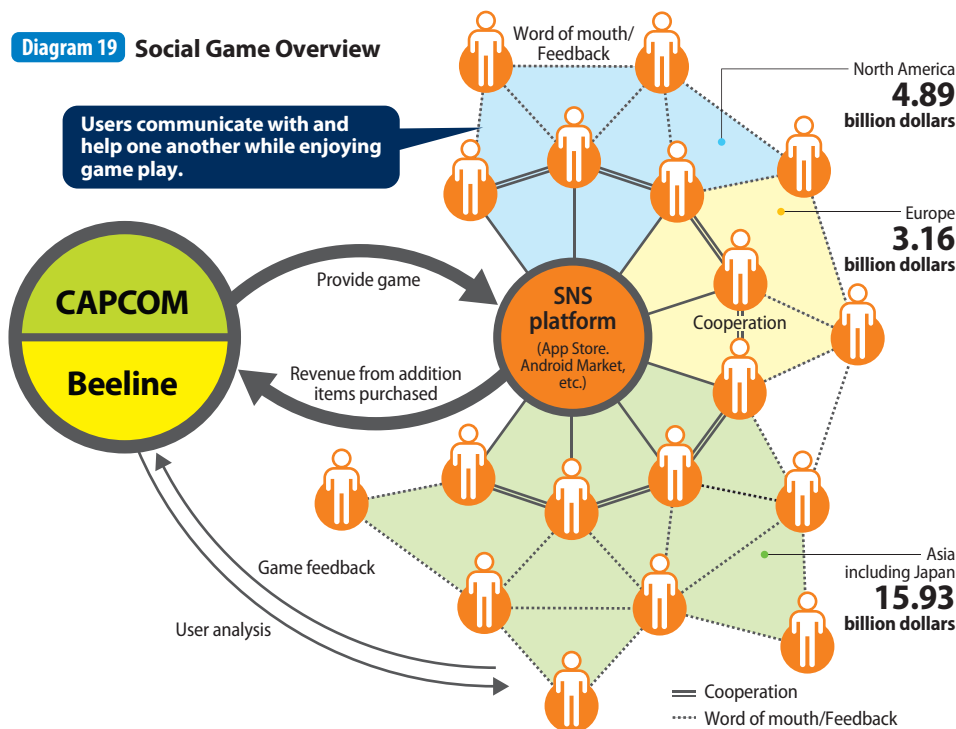


Diagram 19 Social Game Overview



“Zombie Cafe”



“Smurfs’ Village”

© Peyo – 2010 – Licensed through Lafig Belgium – www.smurf.com. All game code ©2011 Beeline Interactive, Inc.

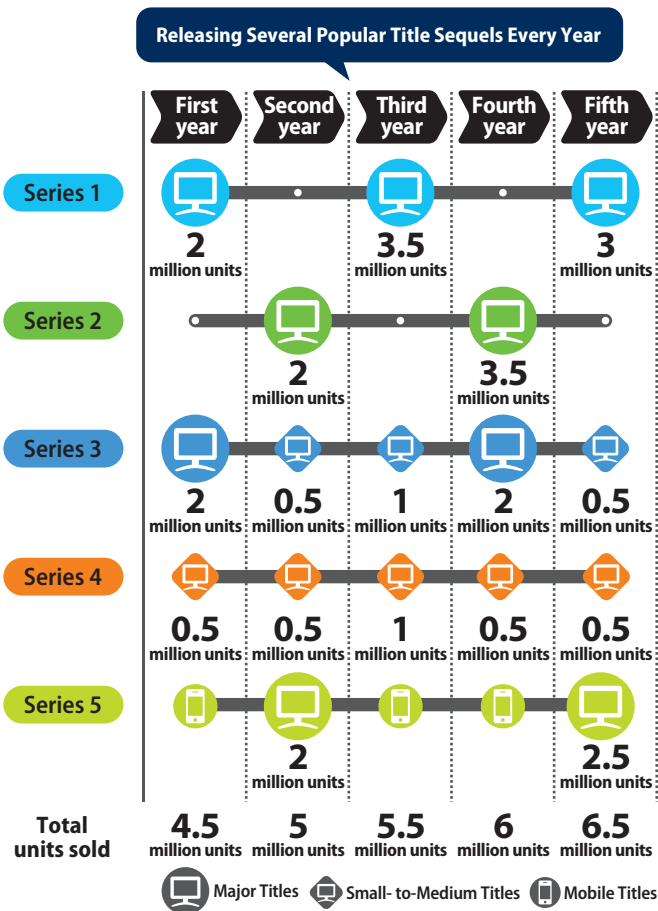
Efficient Development Structure Producing Ongoing Additions to Popular Series

Aiming for Sustainable, Stable Growth by Expanding the Lineup of Games under Development

This section explains the second component of our growth strategy, which involves “expanding our line-up of games under development”, necessary for achieving medium-term business goals.

For Capcom to achieve sustainable and stable growth in the game software industry, where the presence or absence of hit products dictates performance, we mapped out a 60-month title development plan that lays out a medium- and long-term development schedule for multiple major titles in the first phase of structural reforms. By organizing efficient development teams according to this plan, we are able to invest in sequels to multiple popular games each year, which enables stable growth in the Consumer Online Games Business. Also, we must further increase single-year sales of major software to achieve sustainable growth (See Diagram 21).

Diagram 21 Portfolio Strategy Image



* The above figures are provided to facilitate understanding of the strategy. This is not the planned objective.

To this end, we are promoting (1) the establishment of a new brand, (2) a shorter sales cycle for popular series titles and (3) proactive use of overseas development companies.

Capturing New Fans with a New Brand

(1) Having “established the new brand”, Capcom will allocate approximately 20% of development investment funds to enhance the strength of a new hit title-creating lineup. The reason is because popular games have a solid fan base, and when they become a series, there is a high probability that users and retailers will purchase and stock the sequel based on past game content and sales performance, which, in turn, increases the likelihood of a string of hits. In the next fiscal year, we plan to release new titles including “Dragon’s Dogma” and “Asura’s Wrath”.

Diagram 22 Shortening the Development Cycle with the “MT Framework”

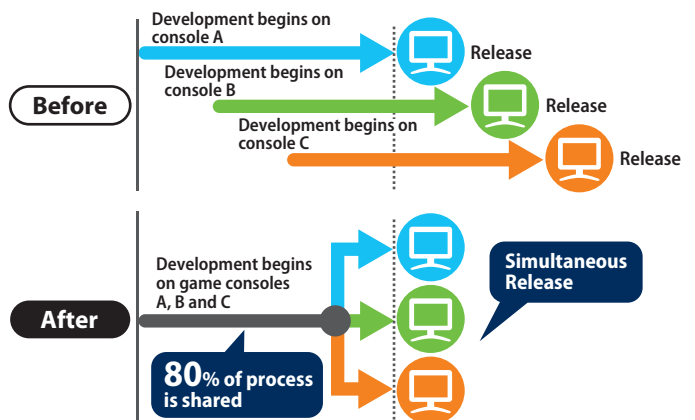
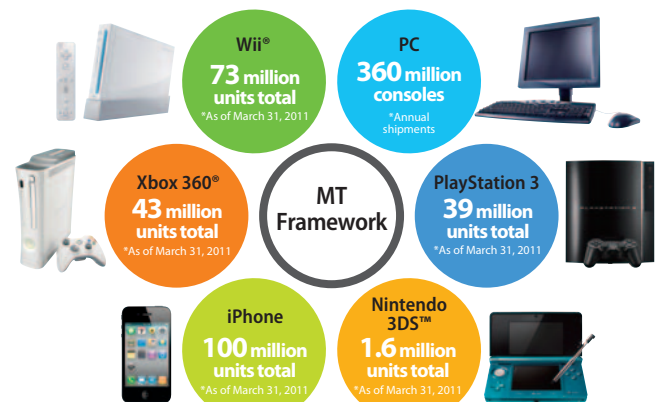


Diagram 23 Platforms Compatible with the “MT Framework”



*1 “Wii” and “Nintendo 3DS” are registered trademarks of Nintendo Co., Ltd.
 *2 “PlayStation” is a registered trademark of Sony Computer Entertainment, Inc.
 *3 “Xbox 360” is a registered trademark of Microsoft Corporation.
 *4 iPhone is a registered trademark of Apple Inc. of the United States.

Source: Data based on that prepared by Capcom.

Shortening the Development Cycle of Popular Series Sequels

(2) In terms of “shortening the sales cycle of popular series titles”, we launch sales of popular series titles held by the Company approximately every two years. This is because the development of a single major title usually requires 3-4 years; in the event that there are few hits, it will be difficult to create a series title every year and earnings will be adversely impacted. For this reason, it is important either to maintain a large number of popular titles or shorten the sales cycle to ensure stable earnings. Among the multitude of major titles held by Capcom, such as “Monster Hunter”, “Street Fighter”, “Resident Evil”, “Devil May Cry”, “Lost Planet”, “Dead Rising” and many others, we will promote shortening of the sales cycle in pursuit of further earnings stabilization and growth.

Specifically, teams developing major titles will be limited to 100 members, with multiple sequel titles developed at the same time. Also, as it will be necessary to create a large-scale development structure for shortening the development process, we will strengthen in-house development staff recruitment. In addition, we will increase the number of titles released in a single year and expand earnings using a hybrid development model whereby the core portions of the project are developed in-house by Capcom and the process-work is outsourced to outside development companies.

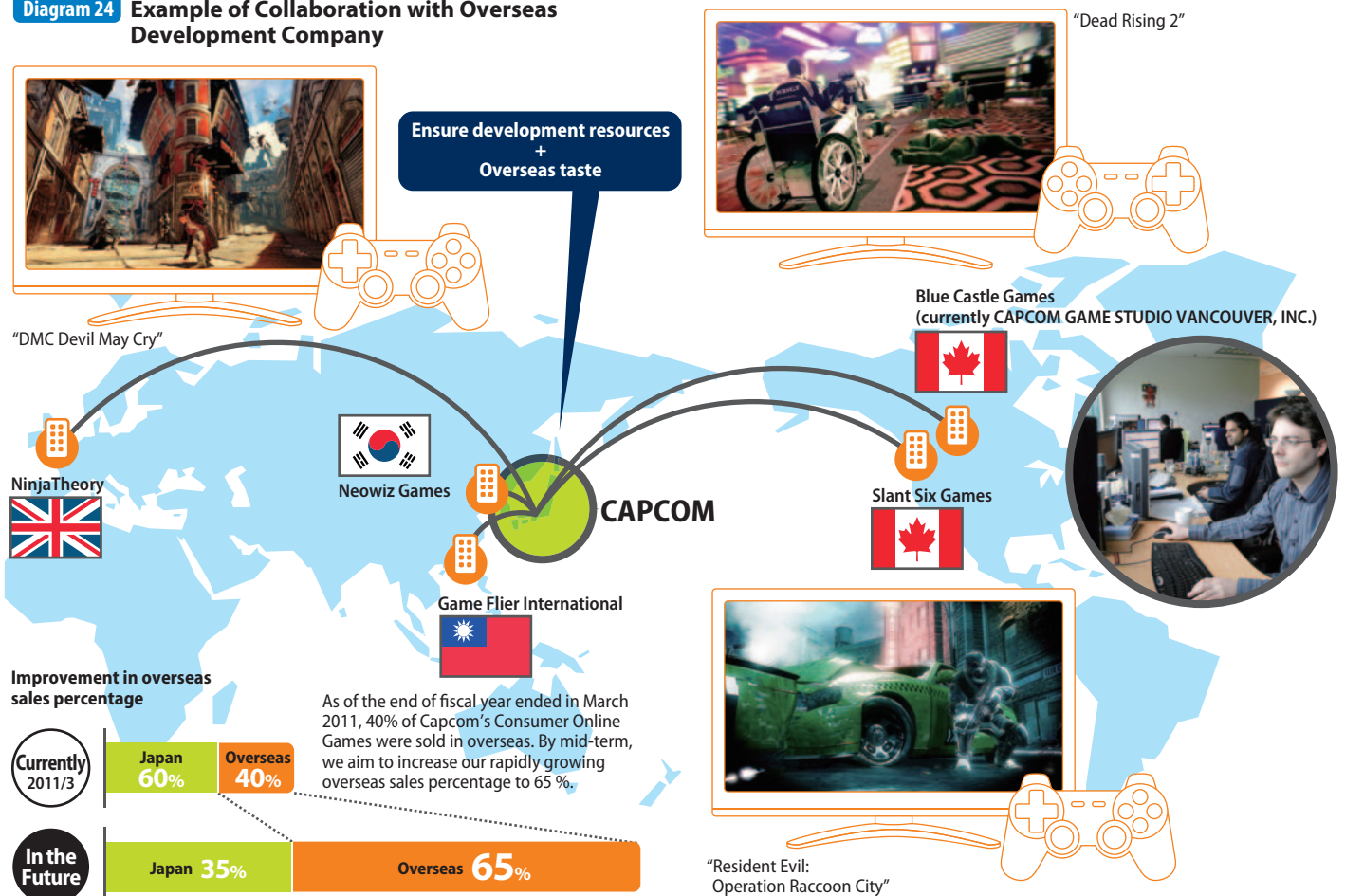
Furthermore, 80% of Capcom’s proprietary integrated development environment “MT Framework” development process is common to the Xbox 360, PS3 and PC platforms, realizing development efficiency that significantly reduces costs and shortens time to completion to one-third of the traditional time required for development (See Diagram 22). In response to market needs, we are always expanding platform compatibility, which now includes the Nintendo 3DS, Wii and the iPhone (See Diagram 23).

Leveraging Overseas Development Companies to Create New Games

(3) Regarding “proactive use of overseas development companies”, Capcom proactively engages in alliances with overseas development companies in an attempt to secure development resources and expand overseas sales (See Diagram 24). Popular products fusing overseas and Capcom tastes resulted from popular series such as “Resident Evil”, developed primarily by an overseas developer. In the next fiscal year, we will release “Resident Evil: Operation Raccoon City”, developed in collaboration with a Canadian development company.

In this way, Capcom continuously invests in each series title at the appropriate time, while maximizing the use of in-house and external development resources to shorten the sales cycle and organize a long-term portfolio to enable sustainable growth over the medium- and long-term.

Diagram 24 Example of Collaboration with Overseas Development Company



Expand Single Content Multiple Usage Domain

Multiple Revenue Streams from Single Hit Content

This section will explain the expansion of “Single Content Multiple Usage” in terms of the aforementioned three growth strategies formulated to achieve the medium-term business goals.

A “home video game” is an artistic media product that consists of highly creative, multi-faceted elements such as images, storyline, a worldview, music and interactive game play. This is exactly why each of these constituent elements can be individually developed into an attractive product through different facets of media.

Therefore, we can expect the following four effects by developing each of these elements into different business fields: (1) creating new profit

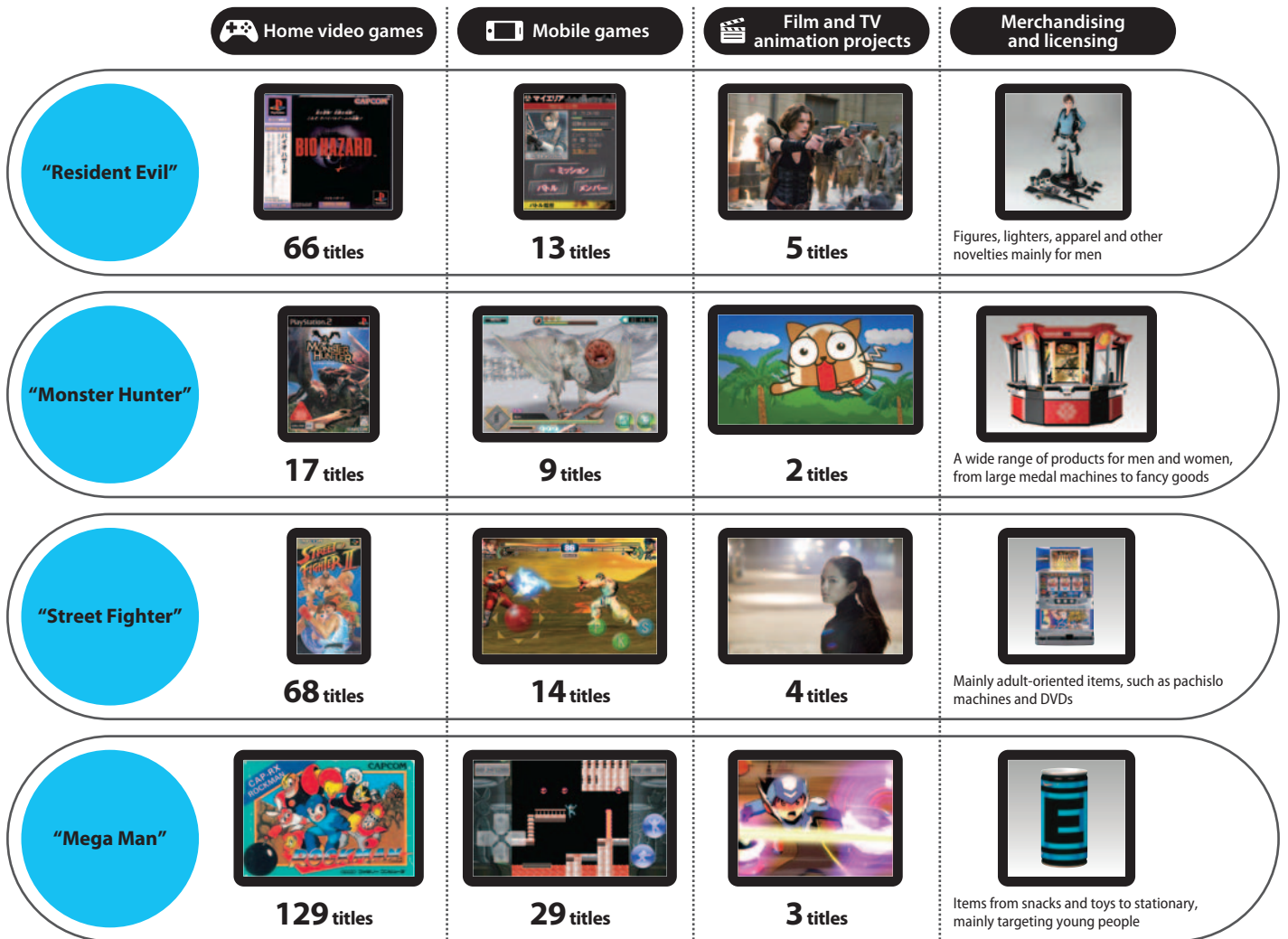
opportunities other than the Consumer Online Games Business; (2) creating heightened excitement through increased exposure by simultaneous multiple-field development (promotional effects); (3) absorbing customers obtained from other business segments as home video game users; and (4) reducing profit fluctuations through business portfolio creation (risk hedge). We own scores of intellectual properties based on popular content. By pushing the Single Content Multiple Usage strategy to utilize them in several applications, we can enjoy multiple profits.

This strategy allowed us to leverage the success of our Consumer Online Games Business to the success of other businesses (Mobile, Pachinko & Pachislo, Arcade Games, Movies, Publishing, Character Goods, etc.) (See Diagram 25 and 26).

Diagram 25 Single Contents Multiple Usage



Diagram 26 Past Success with Multi-Use of Leading Content



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©2010 CAPCOM/GENEON UNIVERSAL
©CAPCOM CO., LTD./Based on Capcom's Street Fighter Video Games
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Media Development to Expand Various Genres

This fiscal year (the period ended March 31, 2011), in the movie-related business, "Resident Evil: Afterlife 3D" was made into a Hollywood movie for global distribution, bringing in a record-breaking 300 million dollars at the box office. In Japan, animated series "Sengoku BASARA 2" and "MONHAN NIKKI GIRIGIRI AIRU MURA" were broadcast on television.

Other examples of multi-development include "Monster Hunter", the sales launch of home video game "Monster Hunter Freedom 3" as well as the release of "MONHAN NIKKI POKAPOKA AIRU MURA" for the PSP and SNS game "MONHAN NIKKI MOBILE AIRU MURA". Furthermore, in addition to sponsoring the "Monster Hunter World" event at amusement park Greenland (Kumamoto Prefecture) where fans can experience the "Monster Hunter" world, we also began airing broadcasts of animation on TV. Events were held at the hot spring resort Shibu in Nagano Prefecture, "Monster Hunter X Shinshu Hot Springs" and at event spaces at Shidax Community Corporation, "Monster Hunter X Shidax—Hunting OK! Monster Hunter Freedom 3 Contest Hall", bringing together 10,000 and 30,000 people at

each event, respectively, and creating a sense of synergy.

As the "Sengoku BASARA" series enters its fifth year, we have planned promotional activities to coincide with the release of "Sengoku BASARA: Samurai Heroes" that include stage production "Sengoku BASARA Stage Adaptation second stage", the second installment of the "Visit Lands Dear to the Warlords" package tour offered by JTB, TV animation and a "Sengoku BASARA" attraction was installed at Fuji-Q Highland.

Furthermore, we will hold an event, the "Sengoku BASARA Five Year Anniversary Budokan Feast", to commemorate this auspicious achievement, while continuing to contribute to regional activities through the use of Capcom characters in tie-ups with regional municipalities, the sales of local products, regional vitalization efforts and other assistance initiatives.

With the objective of continuous multimedia development of popular Capcom content focused mainly on "Monster Hunter" and "Sengoku BASARA", starting next fiscal year we will attempt to improve brand value and profitability by not only making as wide an appeal to as many customers as possible, but also by contributing to regional revitalization.

Conversation: An Analyst's Perspective on Capcom's Strategy for Growth

Capcom's Real Power Starting to Emerge in the Online and Mobile Markets

With the success of social game "Smurfs' Village", Capcom took a new step in the global online business. Analyst Soichiro Fukuda, an expert on the world of video games, discusses growth strategy in core home video games software and other businesses with Capcom president Haruhiro Tsujimoto.

How to Navigate Changes in the Game Market

Fukuda: In Japan, the U.S., European and other developed nations, social and freemium (paid content in-game) online businesses are growing rapidly. How does Capcom view these new markets?

Tsujimoto: Capcom views these markets as an opportunity. There was always a risk with package software that you would never know if it would sell until you put it out into the market, but with the online business, you are connected directly to the user, even after distribution, and can make improvements in real time, thereby appealing to users over the long-term.

Fukuda: In truth, social game "Smurfs' Village" for the iPhone (hereinafter "Smurfs") is a global hit. The only Japanese game company to achieve global success with a mobile social game is Capcom.

Tsujimoto: Our success was due to our ability to foresee the potential for social games in North America, and then quickly seize the opportunity that presented itself. Since the iPhone App Store platform is globally compatible, we were able to expand sales worldwide simultaneously and accelerate global development without the need to adjust specifications for nations or regions.



Independent Strategy for New Brand "Beeline"

Fukuda: It's unusual for Capcom to use "Smurfs", the characters from another company. However, they are distributed under the "Beeline" brand rather than the "Capcom" brand. How do you plan on using the two different brands?

Tsujimoto: The mobile market represents a wide-ranging and diverse market. Naturally, there are many users who aren't very well-versed in the world of gaming. The "Beeline" brand was established to approach this type of user. Rather than relying solely on Capcom characters, "Beeline" will utilize well-known and popular overseas characters such as the "Smurfs".

Fukuda: The "Smurfs" certainly were a smash hit, but one hit does not create stable earnings, nor will it impress the stock market. What are your future development plans?

Tsujimoto: Capcom conducted paid content, price point and user data analysis based on the success of the "Smurfs", all of which pointed to the cultivation of management expertise as being an extremely vital competent of this success. From now, we plan on various types of development in Japan and overseas. In addition the recent announcement of "Snoopy (TBD)", we are also developing various other contents. Thanks to the "Smurfs", we are receiving offers for collaborations from various popular contents holders from around the world.

Haruhiro Tsujimoto

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President and Chief Operating Officer (COO)
Capcom Co., Ltd.

Fukuda: I see, so you are in the process of building a structure for producing popular “Beeline” titles as well.

Tsujimoto: That’s right. In line with our basic strategy of creating high quality contents developed on a global multi-platform, I think the whole environment has manifested its true value. Regardless of whether it is the “Capcom” brand or the “Beeline” brand, our basic philosophy of continuing to create enjoyment for users will never change.

Succeeding in the Online Mobile Game Market

Fukuda: The PC online game market in Asia—and China in particular—is very robust right now. We expect a full-fledged 3G market to emerge there soon. I think grabbing hold of this market is extremely important. How does this market figure into your strategy?

Tsujimoto: We are already developing PC online game “Monster Hunter Frontier Online”, which is a paid content scheme where our expertise in control methods is really starting to pay off. We are thinking about collaborations with local management companies to distribute content in the method most convenient for local users. Of course, we will aggressively target the 3G and smartphone markets, as well.

Fukuda: Looking ahead, from a global perspective, multinational competition will increase in the game market as the emerging markets of developing nations grow and smartphones continue to spread. What road will Capcom take amid all these changes?

Tsujimoto: As long as we continue to create superior content unmatched by any other company, I am confident that we will continue to have a place in the global market. As I already mentioned, the expertise Capcom has cultivated in the online business is extremely important. Looking ahead, we plan to use this expertise to promote paid content download of home video games, and the purchase of package games online, in an attempt to fuse online and home video games.

Fukuda: Up to now, start-up IT companies had been the ones advancing the online game market, but I have a feeling that game specialty companies like Capcom have finally come into their own.

Tsujimoto: The game business is not simply about “whoever is fastest, wins”. If you have a solid foundation, and even if you lead, there will be those who think they can pass you by. The online business changes so rapidly that it is impossible to tell its future, but its potential is limitless. Capcom is determined to cultivate new profitable businesses in this area by employing all the capabilities at our disposal.



After the Conversation

Capcom is consistently the only Japanese game maker seen in the global market. And, with the worldwide hit “Smurfs”, Capcom’s attitude is very clear. Issues the company faces include whether or not they can develop another hit title to follow up “Smurfs”. With a few successive hits, shareholder outlook can change significantly. Also, I found the discussion regarding expertise cultivated in the online business used in the package game business very interesting. With a clear business model combining growth from the online and mobile businesses with the high earnings power of core business, expectations for the market should be increasingly heightened.

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