

We will utilize our ability to create original content to focus on maximizing profitability in the core Consumer and Online businesses and achieve our medium-term business goals.



Haruhiro Tsujimoto
President and
Chief Operating Officer (COO)

Business Characteristics Underpinning Our Strategy

With Single Content Multiple Usage as the basic strategy underpinning Capcom's business overall, we make the development of highly creative content the source of our corporate value creation, and via multifaceted and global expansion of this content into multiple businesses, we have built a business model that enjoys repeated earnings. At the same time, the creation of content (upstream) and subsequent deployment in each business (downstream) is not a seamless process, and at present, we have not yet maximized our earning potential. **Diagram 17**

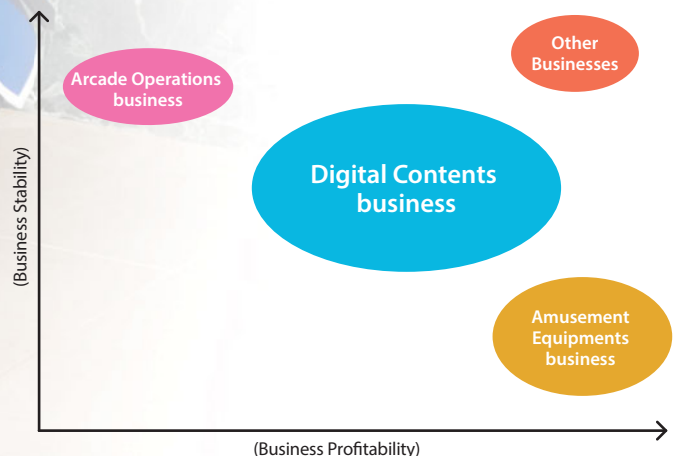
● Digital Contents business (Proportion of Net Sales: 71%)

Accounting for over 70% of Capcom's net sales, this is our core business, comprising the Consumer, Mobile Contents and PC Online Game sub-segments. The Consumer sub-segment creates a wide variety of popular, original content using world-class development capabilities, which is then leveraged across an array of platforms to maximize sales volume. At the same time, insufficient mobile management experience and strong dependence on certain PC Online titles continue to adversely affect earnings stability.

● Arcade Operations business (Proportion of Net Sales: 14%)

This business specializes in opening large commercial complexes in Japan, and maintaining margins of 10% or more by ensuring a stable stream of customers. At the same time, the sales growth rate in this business is low due to our strategy of carefully limiting the number of our facilities.

Diagram 17 Business Portfolio (Stability/Profitability)



Medium-Term Business Goals Goals for the five-year period beginning FY2014 (cumulative)

Cumulative Operating Income
(Cumulative totals for the period between March 31, 2014 and March 31, 2018)

70.0 billion yen

Operating Margin
(FY ending March 31, 2018)

20%

Plans and Achievements by Business	Projected		Results of the First Two Fiscal Years	
	FY2014–2018 (ending March 31)	FY2018 (ending March 31)	FY2014–2015 (ended March 31)	FY2015 (ended March 31)
	Cumulative Operating Income	Operating Margins	Cumulative Operating Income	Operating Margins
● Digital Contents business	57.0 billion yen	22%	14.7 billion yen	22.5%
● Arcade Operations business	8.5 billion yen	15%	2.5 billion yen	10.2%
● Amusement Equipments business	20.0 billion yen	27%	9.8 billion yen	36.3%
● Other Businesses	5.5 billion yen	45%	1.6 billion yen	30.8%
Total	70.0 billion yen	20%	20.8 billion yen	16.5%

● Amusement Equipments business (Proportion of Net Sales: 12%)

The gaming machine (Pachinko and Pachislo) and Arcade Games Sales sub-segments maintain margins around 30% due to the release of machines using popular Capcom content and the culmination of development expertise. At the same time, legal changes and other external factors impacting the gaming machine business may pose a significant risk of postponed sales, so this business experiences substantial earnings volatility.

● Other Businesses (Proportion of Net Sales: 3%)

Our character licensing business involves the use of popular Capcom characters in Japan and overseas, providing high profitability and stable margins around 30%. At the same time, licensed products bring in a low return, as the scale of sales in this business is small at this moment.

Achieving Medium-Term Business Goals

I believe Capcom's strength lies in its development capabilities that create highly creative content. Furthermore, our Single Content Multiple Usage strategy enabling the multifaceted and global use of IP across multiple businesses places us in a highly advantageous competitive position.

Capcom possesses a wealth of IPs, including a total of 60 titles that have each sold over a million units. The multifaceted use of this content enables us to expect the following three effects:

First, it creates a synergetic effect between businesses. Multifaceted development creates new profit opportunities in businesses beyond Consumer, while drawing customers acquired through other businesses to home video games as new users.

Second, it has a promotional effect. Leveraging IP across multiple mediums at once enables us to cultivate fads while gaining wide-ranging exposure.

Third, it enables us to hedge risks. The formation of a business portfolio enables us to control earnings volatility.

Specifically, in terms of the first point (creating a synergetic effect between businesses), in addition to focusing efforts on rolling out PC

Online and Mobile content, wide-ranging development involving pachislo machines and arcade games, movies, TV animation and toys, and food and beverages enables us to further improve brand value and profitability. Making use of digital content strengths, such as resilience against illegal copying, we can maintain our competitive position through expansion in growing Asian markets, enabling the cultivation of new business opportunities.

With this basic strategy, I want to focus efforts on driving our growth strategy to expand the Consumer, Mobile Contents and PC Online sub-segments. In the next fiscal year, we will realize results incrementally to ensure achievement of our medium-term business goals.

Growth Strategy
1

Consumer Business Expansion

👉 please refer to pages 29-30

Goal

Expand scope of sales while maintaining a highly profitable structure and operating margins of **20%**

Measures

- 1 Strengthen digital download contents
- 2 Expand title lineup through full-fledged operation of the 60-month title development plan

Growth Strategy
2

Online Business Expansion

👉 please refer to pages 31-32

Goal

Achieve sales of **13.5 billion yen** in next fiscal year, resume growth trajectory

Measures

- 1 Strengthen marketing and monetization (Mobile)
- 2 Enhance titles developed internally (PC Online)
- 3 Promote business alliances in Asia region (Mobile and PC Online)

Expand scope of sales while maintaining a highly profitable structure and operating margins of 20%

As stated in the CEO's message, the Consumer market at present is going through huge changes due to the expansion of the digital download market and the transition to the next generation of game consoles (current game consoles). Please refer to Q2 on page 19

Three years ago, Capcom was late responding to the rise of digital download contents and we had quality issues with titles outsourced overseas, both of which impacted our performance. However, we swiftly implemented improvement measures in stage 1 of our reform efforts, which significantly increased profitability and lifted operating margins from the single digits into the 20% range during the fiscal year ended March 31, 2015.

In terms of the Consumer market going forward, even the stock market is divided. Some investors are worried that development costs skyrocketing amid the continued adoption of current game consoles and the rise of mobile content will cause profitability to plummet. On the other hand, some investors expect that since a large number of software companies have been shaken out of the Consumer market, the survivors who are able to secure capital and ensure high quality will be able to reap their rewards.

I tend to agree with the latter of these two opinions. The reasons for this include the fact that (1) even in 2019, the Consumer market is still expected to be a major market accounting for approximately 30% of the overall game market, (2) Capcom possesses a large amount of popular IPs, (3) Capcom is ensuring a sufficient number of development personnel and capital to expand our title lineup and (4) we have quickly responded to DLC and other new business models. As a result, we expect operating margins of 20% or higher.

Going forward, the issues will be maintaining a high profit structure

with an operating margin of 20% while expanding the scale of sales and achieving the medium-term business goal for cumulative operating income.

To this end, Capcom is strengthening digital download content and expanding our title lineup through full-fledged operation of the 60-month title development plan, and will create a title portfolio enabling sustainable growth over the medium- to long-term.

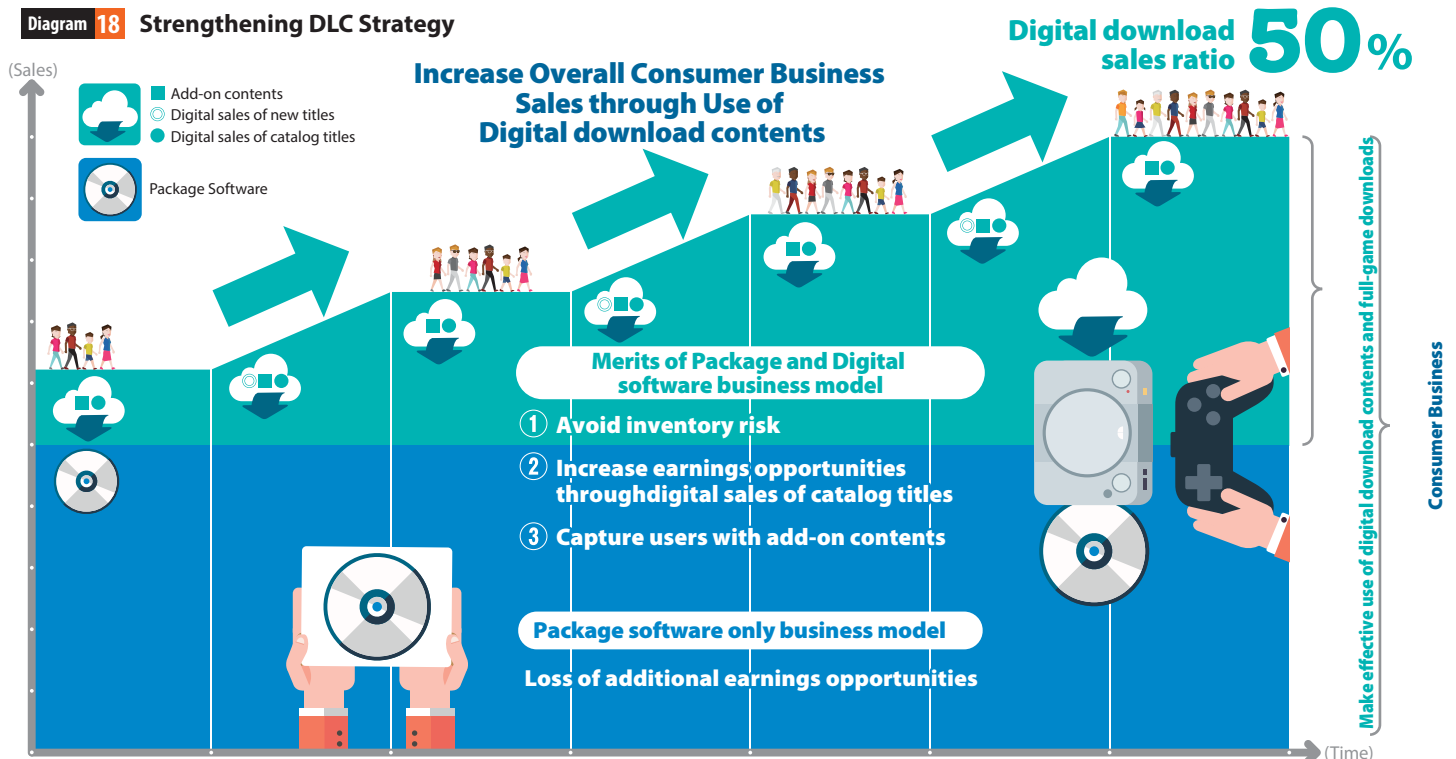
Creating a Development Structure Focused on Internal Game Creation and Expertise

In addition to the above, another factor behind achieving a 20% operating margin in the Consumer sub-segment is our intention to improve product quality and accumulate expertise through the transition to in-house game creation rather than outsourcing. This was a significant factor that had the effect of reducing the cost of sales by 4.1 billion yen compared to the previous fiscal year.

In general, compared to internal development, outsourcing is recognized as involving less risk from the perspectives of fixed expenses and technologies. However, changes to business models and technologies in the game industry are often drastic, and since time is required to change agreements with outsourcers pertaining to specifications and other conditions, and an increasing number of development companies are late to respond to technological changes, occasionally titles that do not meet market needs and do not achieve appropriate sales can be seen.

Thus, given the massive changes in market environment conditions at present, including the entrance of the current game consoles and DLC market expansion, I have determined that the transition to an internal game creation development structure is the best policy, as it will enable us to learn about the new technologies surrounding current-generation game consoles, which will lead to improved quality,

Diagram 18 Strengthening DLC Strategy



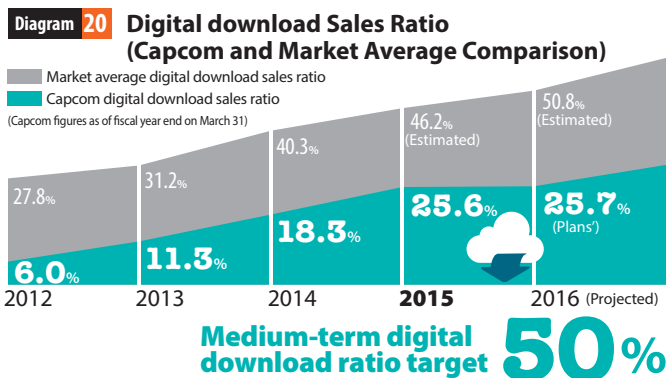
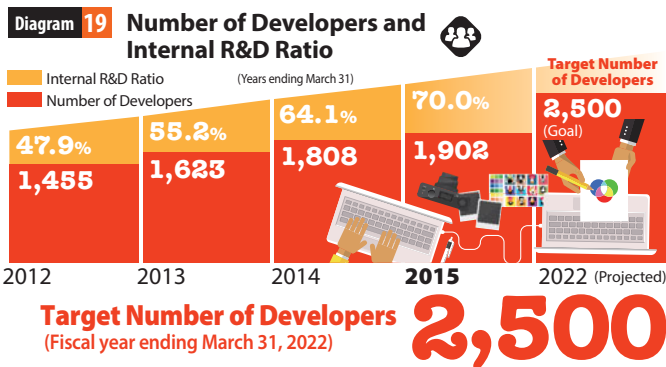
as well as allow us to accumulate management business expertise with respect to the strategic release of add-on content. In addition, we have adopted a 52-week map to strengthen the management of development staff allocation and improve our employee utilization rate. These initiatives have also contributed to achieving operating margins of 20% in the Consumer sub-segment.

Measure 1 Strengthening digital download contents

Efforts to further strengthen digital download contents resulted in a digital download sales ratio of 26% this fiscal year, which we will continue to improve. The aims behind improving the DLC ratio include (1) avoiding inventory risk and reducing package production costs through full-game downloads, (2) additional earnings opportunities through full-game downloads of catalog titles whose package sales are difficult for retailers and (3) capturing users through ongoing add-on contents and stable acquisition of additional revenue over the long term. These are one countermeasure aimed at concerns over rising development costs and increased volatility (relying on hit titles) in the consumer business, as pointed out by investors. **Diagram 18**

In terms of the results of reforms promoted over the past two years, (1)(2) have led to growth in full-game downloads, with the digital download sales ratio increasing each year, from 11% two years ago, to 18% one year ago, then to 26%. **Diagram 20** As a result, profitability increased and the cost of sales in the fiscal year under review declined to 1 billion yen.

Going forward, in addition to (1)(2) we will strengthen (3) to improve Capcom's DLC ratio to be in line with the overall Consumer market's ratio of 50%. Specifically, we will simultaneously launch download and package versions of "Monster Hunter X (Cross)" and "Street Fighter V" while selling full-title digital versions in developing

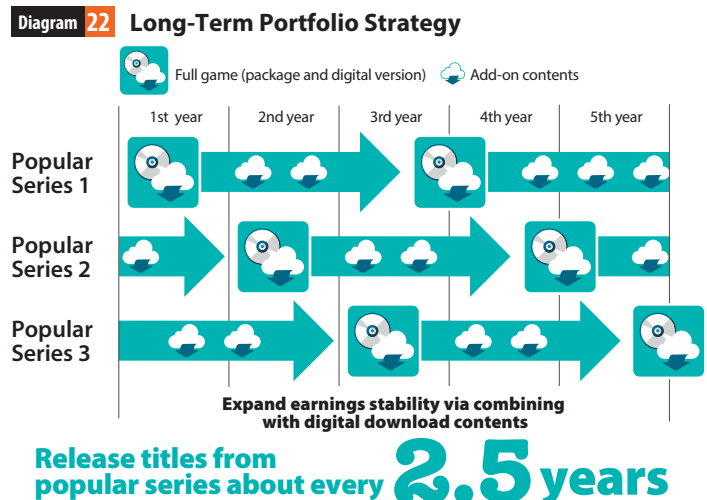
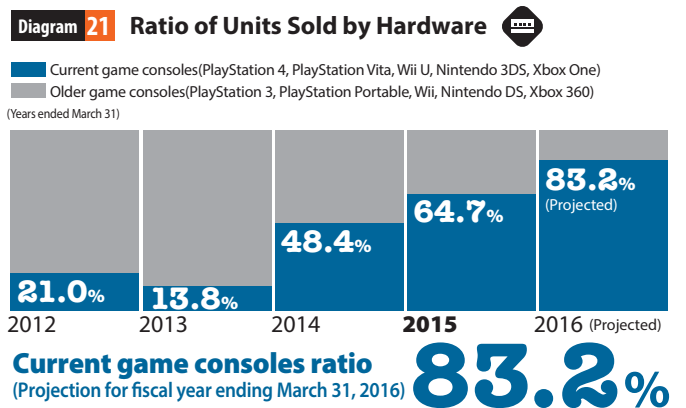


countries through Steam and other online platforms. After the sales launch of major titles, we will strategically release add-on DLC to lengthen game lifetimes.

Measure 2 Expand Title Lineup through the Full-Fledged Operation of the 60-Month Title Development Plan

We will create a title portfolio with ongoing growth potential through the full-fledged operation of our medium-term strategic 60-month title development plan. Specifically, we will (1) promote support for multiple platforms, both current and older game consoles, **Diagram 21** and (2) release new titles in popular series once every 2.5 years. **Diagram 22**

The reasons for this are, with regard to (1), while the older game consoles has a larger install-base its popularity has peaked, whereas the current game consoles is hot but not yet fully adopted, thus to maximize earnings we will release one popular title for both game consoles. In terms of (2), three to four years are required to develop a major title, and if we only have a small number of hit titles, it will be difficult to launch a series every year, which will create unstable earnings. Accordingly, it is important we stabilize earnings by either creating a large number of popular titles, or by shortening the time required to launch new titles. Capcom will proceed with both (1) and (2) to pursue stable earnings and growth, increasing the number of titles launched each year. At the same time, strengthening DLC will allow us to improve profitability and maximize earnings.



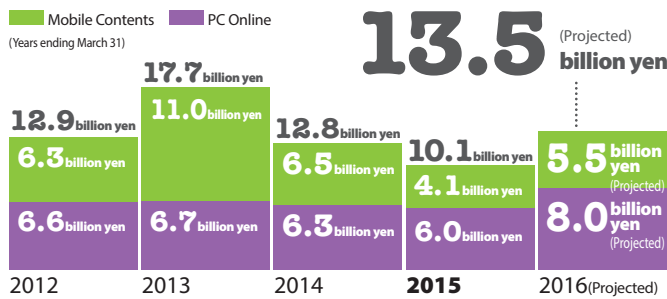
Achieve Sales of 13.5 Billion Yen in Next Fiscal Year, Resume Growth Trajectory

In the Online business (Mobile Contents + PC Online Games) we will pursue measures aimed at (1) strengthening marketing and monetization, (2) enhancing our lineup of titles created internally and (3) promoting business alliances in the Asia region.

In the high growth rate Online market, the previous fiscal year was an uphill battle as the Mobile sub-segment plunged into the red. However, thanks to stage 2 reforms involving decisive actions being taken on structural and policy revisions based on analysis of issues and factors behind missed targets, the Online sub-segment significantly recovered, with operating margins that had been in the red the previous year improving to approximately 20%.

However, I think we have yet to sufficiently allay the concerns of investors with respect to our (Online) growth strategy. The reason for this is because the elimination of unprofitable titles and cost revisions contributed greatly to this improvement in profitability, and sales for the period were 10.1 billion yen, which is lower than the 12.8 billion

Diagram 23 Capcom Online Sales



yen in sales from the previous fiscal year.

Accordingly, the issue we are facing in the next fiscal year is returning to a growth trajectory in terms of sales. We will promote the following three measures to achieve net sales of 13.5 billion yen in the next fiscal year (an increase of 33.7% compared to this fiscal year) in order to change investor concerns into hopes. **Diagram 23**

Measure 1 Strengthening Marketing and Monetization (Mobile)

To succeed in the Mobile business, it is important to maintain (1) popular content that can be differentiated from a sea of competition and has low barriers to entry and (2) operational expertise developed by analyzing user behavior post-launch, then providing feedback to development.

Despite owning a number of popular IPs such as "Resident Evil" under the Capcom brand, insufficient knowledge regarding native app management domestically last fiscal year resulted in an uphill battle in terms of earnings across the board. Consequently, as part of stage 2 reforms, parallel mobile development teams in Tokyo and Osaka were unified under the Tokyo team, which has a wealth of Online management business experience. As a result, we were able to make efficient use of management know-how and internal human resources.

At the same time, the Beeline brand also struggled in the last fiscal year. This was due to focusing too much on further growth and allocating resources to titles targeting male users and other areas traditionally not part of this brand's strength. Accordingly, in stage 2 reforms, we redirected focus to the female casual user segment, Beeline's traditional strength.

During the fiscal year under review, the immediate effect of eliminating unprofitable titles and revising costs resulted in sales of 4.1 billion yen (down 36.9% over the previous fiscal year) while the

Diagram 24 Capcom Online Strategy (Matrix)



* MHFG: "Monster Hunter Frontier G"

operating margin recovered to the 20% range. Next fiscal year, we are projecting increased sales amounting to 5.5 billion yen (up 34.1% from this fiscal year) due to an enhanced title lineup and expansion into Asia (Measure 3). We recognize next fiscal year as one in which the true value of our structure based on use of popular content and management expertise will be put to the test. The key to achieving these goals are “Monster Hunter Explore” and “Smurfs Village and the Magical Meadow”. **Diagram 24**

Measure 2 **Enhancing Titles Developed Internally (PC Online)**

In the PC Online sub-segment, profitability declined significantly to the break-even point in the previous fiscal year due to intense competition from other companies’ titles and the late execution of brand strategy. The issue was breaking dependence on “Monster Hunter Frontier G”, in other words, making our title lineup more robust and efficient. Consequently, stage 2 reforms involved a drastic revision to the flow of Online development and the formulation of a new development map to establish a structure for medium-term growth.

This year, as in the Mobile sub-segment, the immediate effect of measures including the elimination of unprofitable titles and cost revisions resulted in sales of 6 billion yen (down 4.8% from the previous fiscal year), and the operating margin recovering to the 15% level. Next fiscal year, we are projecting increased sales amounting to 8 billion yen (up 33.3% from this fiscal year) due to an enhanced title lineup and expansion into Asia (Measure 3); we must make the coming year the starting point of full-scale growth. The key to achieving this, outside of titles targeting Asia, are the titles “Dragon’s Dogma Online” and “Breath of Fire 6”. **Diagram 24**

Measure 3 **Maintaining Business Alliances in the Asia Region (Mobile and PC Online)**

I think expansion into Asia has the potential to dramatically accelerate Capcom’s growth. **Diagram 25** There are two methods of approaching this. The first method involves internal development and management through our Taiwan subsidiary, who is currently distributing “Onimusha Soul” and “Monster Hunter Frontier G” in Taiwan.

The other method involves development and management through business alliances with Asia’s leading operating companies. The graphic below **Diagram 26** indicates the companies with which we have licensing agreements in China, the largest market in the world, as well as South Korea and Thailand. In particular, our collaboration with China’s Tencent Holdings Ltd. on “Monster Hunter Online” (which began closed beta testing in April 2015), has been well-received by users. Furthermore, in terms of Mobile content, we are using existing apps to expand titles including “Monster Hunter Hunting Quest” in the Asia market, where the adoption of smartphones continues at a rapid pace. **Diagram 24**

The reasons why we are promoting business alliances in addition to internal development are to avoid country risk and gain management expertise. Thus, we have determined that at this time, alliances with leading companies in countries other than Taiwan are an effective means of maximizing earnings.

I consider the Online business to be the core of our growth strategy. The growth potential of this market also applies to management expertise and an increased digital download ratio in the Consumer sub-segment. In other words, sharing information and expertise with the Digital Contents business maximizes the synergetic effect.

As the COO and head of Capcom’s development, I will do everything in my power to achieve success with this strategy and meet investor expectations.

Diagram 25 Business Alliances in the Asia Region



Diagram 26 List of Licensed Titles in Asia

Title	Region	Alliances
Mobile Contents		
“Monster Hunter Hunting Quest” (Simplified Chinese character version)	China	Qihoo 360 Technology Co., Ltd.
“Street Fighter Battle Combination”	China, South Korea, Taiwan, Hong Kong	Teeplay Interactive Ltd.
“Street Fighter IV Arena”	South Korea	Nexon Korea Corporation
PC Online Games		
“Monster Hunter Online”	China	Tencent Holdings Ltd.
“Ghosts’n Goblins Online”	China, South Korea	Shanda Games Ltd.
PC Browser Games		
“Onimusha Soul” (Simplified Chinese version)	China	Cayenne Entertainment Technology Co., Ltd. (Taiwan) BLUE PANDA Network Technology Co., Ltd. (China)
“Onimusha Soul” (Thai version)	Thailand	Asiasoft Corporation Public Co., Ltd.
“Monster Hunter Mezeoporuta Kaitakuki” (Simplified Chinese version)	China	Tencent Holdings Ltd.

Discussion: Mobile Breakthroughs and New Business Opportunities in the Consumer Business

Amid rapid expansion in the mobile game market and structural changes in consumer game distribution, the market environment surrounding the game industry continues to undergo dramatic changes. How does Capcom view the changing environment, and what strategies will be employed to target further growth? Analyst Kenji Kido speaks with President and Chief Operating Officer Haruhiro Tsujimoto.

Response to Mobile Game Market

Kido I'd like to begin with the mobile game market, which is the most active area within the game industry at present. Capcom's position in this market up to now has recovered profitability, yet it hasn't been all that successful. What are the reasons for this?

Tsujimoto It is clear that smart devices as a game platform will further expand going forward. We recognize this is a crucial area, so Capcom will by necessity employ a multiplatform strategy. The biggest reason why we have not had obvious success up to now is because we did not have sufficient business knowledge in this area. Mobile games are basically free to play and attract many users, some of whom purchase additional content, which is how this business model generates earnings. We need to develop management capabilities that enable ongoing additional content purchases to be successful. Although we were successful with browser games, I think we need to enhance our knowledge of apps.

Kido To that end, don't you first need to increase your number of experience points? To generate a hit, you multiply "at bats" by "batting average". I get a sense you haven't had many "at bats". Can't you acquire new knowledge through the experience of creating a slew of different titles?

Tsujimoto In the fiscal year ending March 31, 2016, we will increase the number of mobile game releases compared to the previous fiscal year, but I don't think simply launching a variety of different titles is the answer. Given the extreme level of competition in the current market, users don't accept mediocre titles regardless of how many we put out there.

Kido Well, the mobile game market certainly does

seem to be coalescing around top-rate content, so I suppose it would be difficult to generate a hit with a new title released at this time. In that sense, rather than trying to monetize the market, shouldn't Capcom position mobile games as an entry platform for widening user perspectives and instead focus development investment on your forte in consumer games?

Tsujimoto Of course, we are focused on supporting current game consoles and the consumer segment as the top priority. However, once we generate a mobile hit in Japan, we can license it out for deployment in 200 countries around the world, including the massive

Asian market. In this way, even a modest hit in Japan can generate a profitable synergetic effect. There are many regions that are highly profitable and pose no harm to consumer games, so rather than looking at mobile as a side business, we are making an all-out effort to move this business forward. This fiscal year, we will heighten our presence in the market, beginning with domestic distribution of "Monster Hunter Explore".

Distribution Structure Changes in the Core User Market

Tsujimoto Regarding consumer games, there are dramatic changes taking place in this market's distribution structure. Up to now, package games sat in distribution warehouses or on retail store shelves, and profitability was limited due to allowance for sales returns and other problems. The arrival of digital download sales was a turning point. Accurately responding to these dramatic changes will lead to enormous business opportunities.

Kido So changes in the distribution structure of games for core

Haruhiro Tsujimoto

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



users will bring about an environment in which Capcom can easily make the most of its strengths?

Tsujimoto Yes, that's right. For example, last year we launched "Resident Evil" (HD Remastered), which was available overseas via download only and performed extremely well. Regarding package sales in North America and Europe, up to now, major titles took up most of the space on retail store shelves, making it difficult for small and medium-sized titles to be seen, but digital download sales enable a direct connection with users. Going forward, we can approach users by appealing to the quality of each title.

Kido I think this is an opportunity for Capcom, as you possess numerous powerful IP (content). However, in the core user market overseas there is strong competition from Activision and other companies, which makes for somewhat challenging conditions. If other companies adopt a similar focus on the download business, we can expect that competition will intensify going forward. How would you compete in such an environment and what strategies would you employ?

Tsujimoto First, we will launch titles with superior IP, our strength, on an approximate 2.5 year cycle. Second, after launching the full game, we will regularly release add-on content over the long term to ensure users do not lose interest. Third, we will make use of existing assets, as we did with "Resident Evil" (HD Remastered). Our strength lies in our IP brand power and the numerous titles we possess, so we invest the most in releases



Kenji Kido

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to enhance our core title lineup. From next fiscal year forward, I think we will be able to provide more tangible results.

The Future of the Game Market and Capcom's Strategy

Kido Focusing on changes in the market environments of mobile, consumer and PC online games, I'd like Capcom to move steadily forward to the future and do what needs to be done. However, I feel there is a bottleneck in terms of human resources. For the past two years, you have focused on in-house software development as you attempt to respond to a variety of changes, but do you have enough personnel to get the job done?

Tsujimoto At present, we are engaged in efficient, high-quality game development through title enhancement via increasingly complex game development, in-house development engine R&D and improved staff productivity. We are aware that domestic game manufacturers are taking fairly independent paths, so rather than outsourcing personnel, we are cultivating them in-house. We will proactively promote hiring based on a plan to increase the number of developers we employ to 2,500 people by 2022. We are casting a wide net to attract personnel with proven success in areas other than games.

Kido Are you confident these attempts will enable Capcom to secure talented staff?

Tsujimoto With unique stories, characters and the development of multiple worldviews, Capcom game content has garnered numerous fans over the years. Among these, there are in fact many talented people who want to create games at Capcom. In recent years, we have proactively hired new graduates, as well as conducted a wide range of employment activities, including job fairs and developer performance seminars overseas. These efforts have enabled us to make modest progress in securing personnel with strong global potential.

After the Conversation

At present, Capcom has a minor presence in the mobile game market. In terms of pursuing the Single Content Multiple Usage strategy, mobile success or failure will have a major impact on achieving medium-term business goals. At the same time, in the consumer games market, Capcom should allocate resources to areas where returns can be expected using IP accumulated up to now. From my perspective, the structural changes in game distribution are still in the initial stages, so if Capcom moves quickly, there is strong potential for first-mover profits.

In terms of in-house development, I thought cultivating personnel would take time and be very risky, but I now understand that the internal know-how already exists and I recognize the merits of being able to exert control. Rather than simply increasing the number of personnel, the issue going forward will be the degree to which Capcom is able to retain high-quality personnel. (Kido)

Analyst Dialogue Profile: Kenji Kido

March 1993 Graduates Hiroshima University of Economics
April 1993 Joins Yasuda Trust & Banking (now Mizuho Trust & Banking)
1994 Became analyst covering game and amusement sector