

# Kenzo Tsujimoto, President and CEO Statement at November 2006 Mid-term Results Meeting

## 1. Greetings

- (1) My name is Kenzo Tsujimoto, President and CEO of Capcom Co., Ltd. I appreciate your participation in this presentation of our mid-term results during this busy financial season.
- (2) As you may already be aware, our consumer game sales, with titles such as Dead Rising, have greatly exceeded our sales expectations. Thusly, our forecast was readjusted on October 12<sup>th</sup> taking into account such factors. As such, our results this mid-term more accurately reflect the forecast presented on October 12<sup>th</sup>.
- (3) Specific details on the mid-term results will be presented later by our managing corporate officer, Mr. Kazuhiko Abe.
- (4) For my part of the presentation, I will cover some of the questions that have been raised by investors in the course of our investor relations activities.

## 2. Market Conditions

- (1) I would like to begin by describing the outlook for the different game hardware platforms and their respective markets.
- (2) Several new announcements were made by hardware vendors regarding their next generation hardware platforms at the August Leipzig Games Conference in Germany and the September Tokyo Game Show in Japan.
- (3) The highly anticipated Xbox 360 has sold 6 million units worldwide in less than a year since its release, making it a prevalent console in the marketplace. In addition to a strong library of titles, including Capcom's Dead Rising, the Xbox 360 boasts features such as Xbox Live that have made it a popular system among consumers. The Xbox 360 will also have many features allowing it to integrate with the upcoming Windows Vista operating system.
- (4) Including their lowering of the price before launch, Sony is actively formulating plans to ensure 6 million PS3 units are moved before the end of the fiscal year. The PS3's high-end specifications will enable it to handle many contents besides gaming software, integrating it with other home electronic devices. At present, there are still some concerns such as the launch delay in Europe, but considering the direction the hardware will be taking, we still feel it is an ideal platform for Capcom game titles. We have acquired the development tools and have set up the development environment to enable us to get the most out of the PS3 for our development of the upcoming titles Devil May Cry 4, Monster Hunter 3 and Resident Evil 5.
- (5) The Nintendo Wii has a strong selection of first and third party launch titles along with a lower price tag of 25,000 yen compared with other next-generation systems, so it is well-positioned to possess market share in all of the territories. Capcom is currently developing titles such as Resident Evil: Umbrella Chronicles and a Devil Kings title for the platform. By taking full advantage of the unique controller and considering tie-ins with other business divisions, we are attempting to secure part of the wide user base that the Nintendo DS system has managed to secure.
- (6) The portable gaming market has continued to expand, with hardware sales of 30 million units for the Nintendo DS and 26 million units for the Sony PSP. Combined with Xbox 360 hardware sales, these systems are helping to cover the usual drop in sales that is experienced with a hardware transition period.

- (7) The current generation Sony PS2 hardware user base, with 110 million units worldwide, remains a strong platform market for games.
- (8) With each hardware maker pursuing unique market strategies and the resulting hardware diffusion, it is likely that the North American, European and Japanese markets will all experience growth in the medium term. Capcom is pursuing a multi-platform strategy towards software development that takes into account each hardware unit's strengths and user base to maximize profits.

### **3. Organizational Reform Progress and Future Business Plans**

- (1) Next, I will cover the progress of our internal company organizational reforms and our future business plans.
- (2) I believe that our success this mid-term has not been solely due to the surprise success of one title, but rather, has been made possible in large part by our continued organizational reforms.
- (3) In order to achieve our desired global growth in the next-generation console cycle, we have recognized the need for a solid financial foundation and stronger R&D, sales and marketing functions. To prepare for these needs, we have been implementing several organizational reforms both in Japan and overseas since 2002.
- (4) To improve our balance sheet, we have recognized the loss from revaluation of land and building real estate holdings. We have also consolidated several of Capcom's subsidiary companies to concentrate management resources.
- (5) In order to improve the development process, Capcom has made a clear division between the idea & design intensive prototype phase and the final product production phase with strict quality and budget evaluation at each step in the process to improve efficiency.
- (6) Many of the reforms that took place last year in our North American subsidiary focusing around the three major points of; hiring highly-qualified management, employing the internet for marketing efforts, and direct sales to major retailers, have proven effective given the results this mid-term.
- (7) Reforms such as these which have helped concentrate the efforts of management, development, sales, and marketing have led to the development of original next-generation titles, the prevention of projects going into the red, the meeting of sales forecasts for mid and small sized projects, an integrated development environment, and more resources to solve many of the concerns presented in the past, leading to improved results.
- (8) At the core of our future business strategy, we will be focusing on investing business resources into consumer game software to create popular content that can then be applied outside of the consumer game business to other businesses in order to pursue a "one content, multi-use" strategy.
- (9) Bringing Mega Man, Resident Evil, Onimusha, Devil May Cry, and other Capcom franchises to movies, cartoons, books, toys, pachinko devices, commercial equipment, mobile devices, online, and other businesses will go a long way to helping build a solid foundation for generating stable revenue.
- (10) We pride ourselves on being one of only a few software companies that has developed content popular enough around the world to be licensed for many different businesses and we plan to continue to explore other business licensing opportunities.

#### **4. Future Financing and Convertible Bond Redemption**

- (1) Now I will go into Capcom's future plans with regard to financing.
- (2) Within the consumer game business, which is Capcom's core business, gaming software usually requires around two years to develop. Taking into account the required investment in next-generation game development and the growth of other businesses, a steady supply of funds will be a necessary resource going forward.
- (3) In order to raise asset efficiency, we believe it is necessary to trim down and avoid holding unnecessary surplus assets.
- (4) To accomplish this, we would like to apply funds with no immediate need to the repayment of interest-bearing debt. To secure the required financing as it is needed, rather than equity finance, we are planning to employ a commitment line and explore options for increasing the liquidity of available funds for our business.
- (5) At present, we are planning to cover the redemption of the fourth unsecured convertible bond issue of 10 billion yen on March 30, 2007 with cash reserves.

#### **5. Shareholder Returns**

- (1) Lastly I would like to discuss the current view on shareholder returns.
- (2) The management of shareholder returns is of the utmost importance to us at Capcom. Our fundamental policy is to take our financial situation and future business plans into consideration while continuing to maintain stable dividend payouts.
- (3) We readjusted our forecasted annual dividend payout on October 12<sup>th</sup> to increase it from 20 yen per share to 30 yen per share. As I explained earlier, Capcom has built a solid financial foundation for generating future profit that gives the company strong prospects for maintaining stable growth going forward.
- (4) Capcom has reacquired 2.5 million shares of stock this period, putting our treasury stock at 6 million shares as of the end of September. By adjusting the supply and demand of our stock, Capcom is making it a point to raise the Earnings per Share (EPS) and Return on Equity (ROE) for each share of Capcom stock. As of the end of September, Capcom's treasury stock holdings amount to more than 10% of all shares issued.

#### **6. Concluding Remarks**

That concludes my presentation. Now, Mr. Abe will present a more detailed explanation of our mid-term results and the strategic breakdown by business division.