

Attempting to maximize profitability through three strategies for growth by making use of the “world-class development capabilities” and “leading contents”

Haruhiro Tujimoto

President and Chief Operating Office (COO)



For the past few years, Capcom has achieved success and stable growth through our growth strategy centered on our core Home Video Games Business. This year, profits declined for the first time in four years, but this in no way reflects problems with the direction of our “multi-platform” and “Single Content Multiple Usage” basic strategies. We are confident that by strengthening our tactical efforts will be able to once again get back on a growth track.

As COO, I would like to explain our business strategies to achieve medium-term business goals.

Maintaining our competitive advantage for global success

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 Home Video Games Business’ “ability to provide superior content” through the utilization of strong development capabilities for creating original game content.

The strength of our development capabilities requires “developer creativity” and an “organizational structure that enables developers to hone their skills”, two factors we have successfully realized through structural reforms.

To promote the development of our multi-platform development, we are focusing efforts on basic research in game development. 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.

As a result, Capcom is building its competitive advantage for global success based on content that is (1) of high quality, (2) overflowing with originality and (3) developed at a reasonable cost.

Numerous game awards won



Japan Game Awards 2009 announcement and ceremony



Extensive collection of leading content (intellectual properties)

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 long-lasting intellectual properties with universal market appeal" enables us to develop our "Single Content Multiple Usage" strategy. Based on our success in the Home Video 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.

Capcom's collection of leading content



"Street Fighter" series

First appearing as an arcade game in 1991, "Street Fighter" has grown to become the world's premier fighting game. The Super Famicom (SNES) version of the game, which made its debut in 1992, became a megahit that sold 6.3 million units worldwide. In April 2010, "Super Street Fighter IV", the latest version, was released.



"Resident Evil" series

The first "Resident Evil" title appeared in 1996 for PlayStation. This game requires players to manipulate the main character with the goal of using various weapons and other items to escape from zombies. By skillfully creating a sense of "horror", "Resident Evil" quickly became a hit around the world. "Resident Evil 5 Gold Edition", the latest version, was released on February 2010.



"Monster Hunter" series

This action game allows players to enjoy the "experience of hunting monsters". Since the first version appeared in 2004, this game has attracted an increasing number of fans. The version for the PlayStation Portable (PSP) was highly successful. The sequel, called "Monster Hunter Freedom Unite", recorded shipments of more than 4 million units (includes Best Place), proving the solid popularity of the series.



"Sengoku BASARA" series

The "Sengoku BASARA" series features the Warring States period of Japanese history. Historical warlords of the time are portrayed with an anime twist in this fast-paced action game. This helps to make the material accessible to younger players. Since the first game's release in 2005, the series has expanded into other media, including various related events, character goods, and an animated TV series, maximizing the property's cross-media appeal.

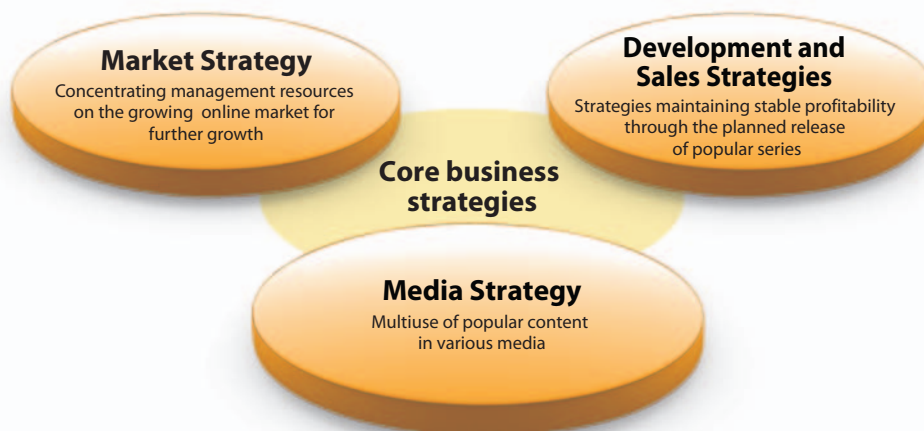
Further strengthening of our unshakeable strategy

Upon analyzing the change in performance in this fiscal year, and to ensure further growth, Capcom has formulated three strategies for growth: "expanding our title line-up through development efficiency and the reorganization of Capcom's development structure", "strengthening our Online Business", and the expansion of "Single Content Multiple Usage".

To correct our "partiality toward a particular timing in terms of our title portfolio", the main factor behind our decision to postpone the sales launch

of major titles in this fiscal year, 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 PC online and mobile markets. Furthermore, we will continue to focus efforts on the development of "Single Content Multiple Usage", which is at the core of our business development.

Next, I will explain each of our three growth strategies in detail.



Market Strategy

Concentrating management resources on the growing online market for further growth

Changes in the Game Market

Package software dominated the game market until the mid-90s, but the development of information and communication technology has spawned a new online market.

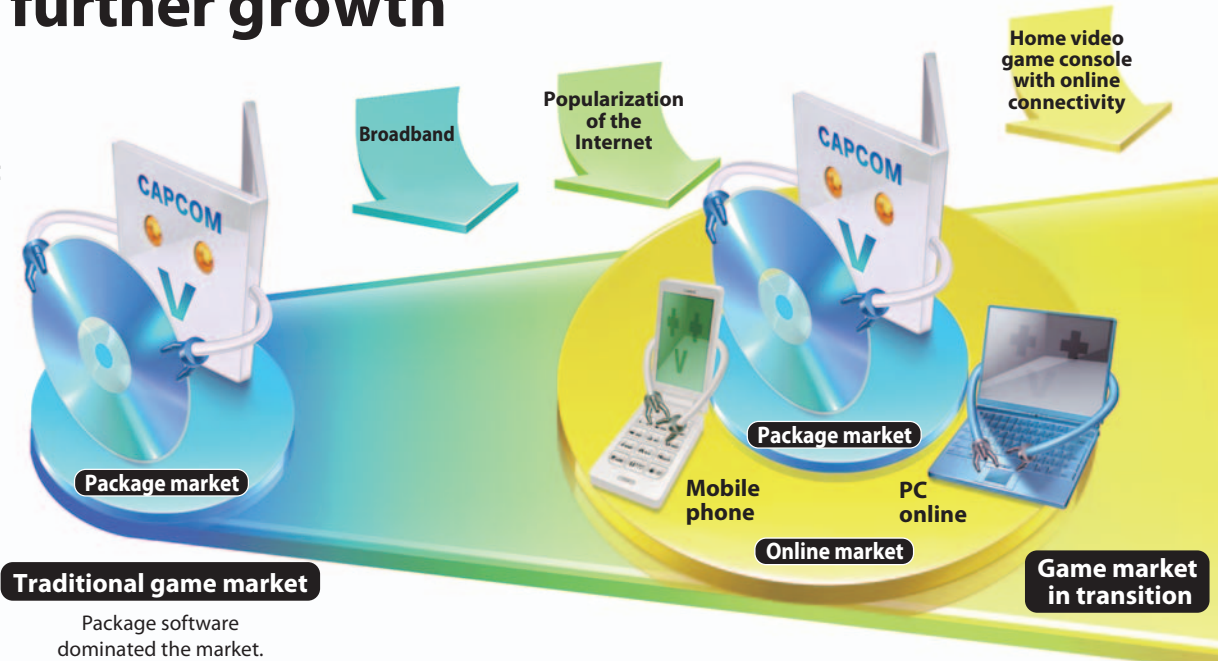


Diagram 4

PC Online Game Market

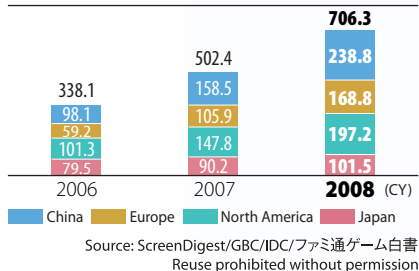


Diagram 5

Online Game Market in Asian Countries (2009) (¥ Billion)

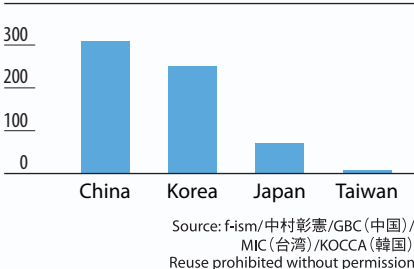
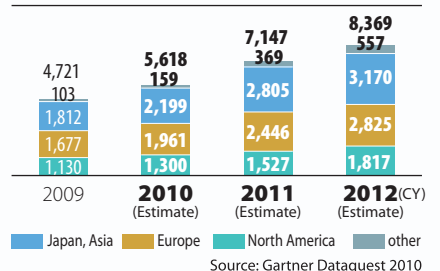


Diagram 6

Mobile Content Market



Continued rapid expansion in the online market

Since the Nintendo Entertainment System (NES) first went on sale in 1983, the home video game market has continued to expand, and game software manufacturers have focused development efforts on home video games, namely, package software.

However, in recent years, the development of broadband networks has led to (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 and (4) the expansion of social networking services (SNS). As a result, PCs, smartphones, iPads and other devices equipped with multi-functional online communications have transformed the game platform and begun to cause rapid expansion in the online game market.

In the Asian region, where problems related to piracy and package sales have been mitigated due to online ID authentication requirements, the PC online game market has expanded to 706.3 billion yen (See Diagram 4 and Diagram 5).

Additionally, in the mobile content market, the spread of mobile phone

usage due to the growing global population and the rise of multi-functional devices such as the iPhone have been the drivers of significant growth in the number of mobile game players, which totaled 546 million people (up 85.8% from the previous year). As a result, the mobile contents market was worth 4.72 billion yen in 2009 (up 15.5% from the previous year) (See Diagram 6). In particular, three companies are providing social game services in Japan. Each boasts approximately 20 million registered members and employs a business model based on providing basic game play for free and charging for additional items used in the game, which has resulted in the acquisition of women in their thirties, a heretofore unreachable user segment, which has contributed to the expansion of the game population.

At the same time, the home video game market, which is the focus of Capcom's core business, was worth 25 billion dollars this year (down 7.1% from the previous year), experiencing negative growth for the first time in four years. However, the addition of an online function to home video games that facilitates content download led to an increase in online sales.

The rapidly expanding online game market is quickly becoming an important growth area on par with the package market.



Current/future game market

Diversification and device proliferation contribute to continuous growth of the online market.

Strengthening the online download business as our strategy for growth

Amid these dramatic changes in the market environment, we have established the “strengthening of our Online Business” as our growth strategy to achieve our medium-term business goals. Accordingly, we will allocate 85% of management resources to the Consumer Online Game Business.

The essential elements of the strategy include (1) expanding downloadable content for traditional home video games, (2) strengthening the Asian development of PC online games and (3) increasing the number of smartphone and SNS game titles.

First, with respect to home video games, we will provide online connectivity for all major titles. We will attempt to increase the amount of time users play online games, attract new (package game) users and acquire revenue from the sales of additional items through the introduction of a global online combat-based system and the ongoing addition of new items.

We will also promote the sale of downloadable game software that makes use of existing titles.

Second, in terms of online games, we will promote developments the Asian region by making use of popular home video games with a global

appeal. Currently, we are distributing “Monster Hunter Frontier Online” in Japan, Korea and Taiwan, and in the future, we plan to widen our focus to include China, the world’s biggest market, as we expand distribution sequentially in each region. Moreover, to avoid country risks and acquire management experience in these regions, we will develop business partnerships with leading local companies.

Third, regarding games for smartphones, we will improve “sales prices” and the “number of downloads” by introducing popular Capcom titles for the core user segment where average purchase prices are high, as well as by making use of TV program content and copyrighted content from other companies in the large casual user segment.

As for SNS games, we will engage in wide variety of initiatives aimed at the diverse home video game and mobile game segment, including the a distribution of our “Monster Hunter” series through a business partnership with DeNA Co., Ltd., to provide service fusing contents and communication.

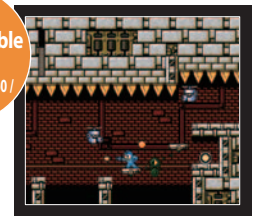
As of March 31, 2010, online game content net sales have surged to 10 billion yen (up 42.9% from the previous year). Our growth strategy seeks to achieve growth in excess of the rate at which the market is growing.

For iPad



“Resident Evil 4 iPad Edition”

Sales of downloadable content for PS3 / Xbox360 / Wii



“Mega Man 10”

For iPhone (smartphone)



“Resident Evil 4 for BEGINNERS”

For PC



“Monster Hunter Frontier Online”

Our Strategy for Growth



Development and Sales Strategies

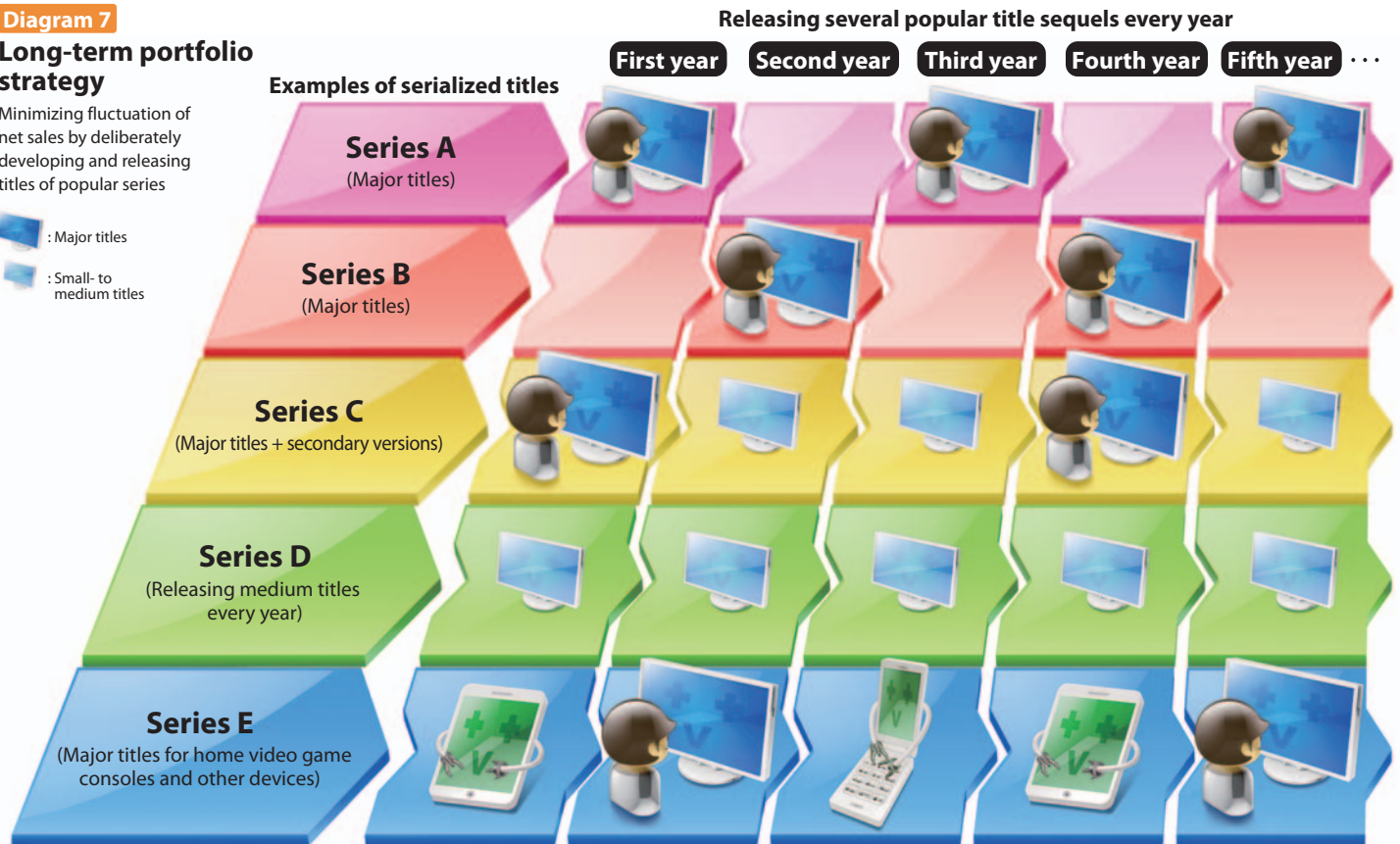
Maintaining stable profitability through the planned releases of popular series

Diagram 7

Long-term portfolio strategy

Minimizing fluctuation of net sales by deliberately developing and releasing titles of popular series

 : Major titles
 : Small- to medium titles



Maintaining stable profitability through the planned release of popular series

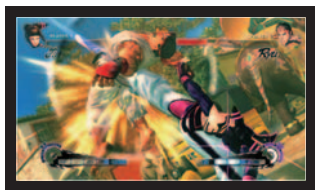
For Capcom to achieve sustainable and stable growth in the game software industry, where the presence or absence of hit products dictates performance, we mapped out a 60-month title development plan that lays out a medium- and long-term development schedule for multiple major titles. By organizing development teams according to this map, we are able to invest in sequels to multiple popular games each year, which contributes to stable growth in the Home Video Games Business. Also, we must steadily increase single-year sales of major software to achieve sustainable growth. To this end, we have formulated a growth strategy focused on “expanding our title line-up through development efficiency and the reorganization of Capcom’s development structure”, which promotes (1) maintaining and increasing the number of popular titles and (2) creating a development structure with a shorter sales cycle for sequels of popular titles.

The first reason for this is, because popular titles—including series—tend to accumulate diehard fans, there is a high potential for stable orders and purchases of sequels based on the user interest and retailer sales performance of previous titles, resulting in the high likelihood of a hit sequel. However, 3-4 years are typically required for the development of a major title, and many companies with a few hit titles find it difficult to invest each year in a series, which creates uneven performance.

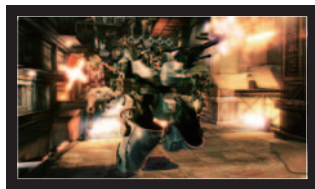
Accordingly, it is important to maintain several popular titles to ensure stable performance. In addition to a number of major titles owned by Capcom, including “Monster Hunter”, “Street Fighter” and “Resident Evil”, we are expanding small- to medium titles, including “Sengoku BASARA” and “Ace Attorney”. Furthermore, we are increasing our line up by allocating 20-30% of investments in development to new titles as well as reusing existing titles.

The second reason is that because the development of major titles requires the involvement of more than 100 developers, the simultaneous

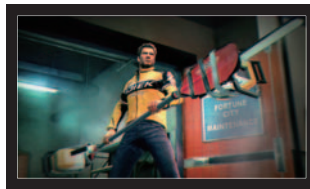
Major titles scheduled for releases in the fiscal year ending March 31, 2011



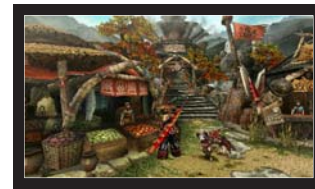
"Super Street Fighter IV"



"Lost Planet 2"



"Dead Rising 2"



"Monster Hunter Freedom 3"

development of multiple title sequels and shortening of the development process requires the creation of a large-scale development structure. To this end, Capcom promotes (1) the strengthening of developer recruitment, (2) aggressive use of outsourcing and (3) business partnerships with overseas developers to maintain development resources. Above all, with respect to (2), Capcom is responsible for the core aspects of title development, leaving all secondary development to outside developers (i.e. hybrid development), reducing the time required for development. Also, regarding (3), in an attempt to maintain development resources and expand sales overseas, the development of popular series titles, such as "Dead Rising 2", is outsourced to promote product development that blends "overseas tastes" with the "Capcom taste".

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 (See Diagram 7).

Avoiding risks by investing in major titles each quarter

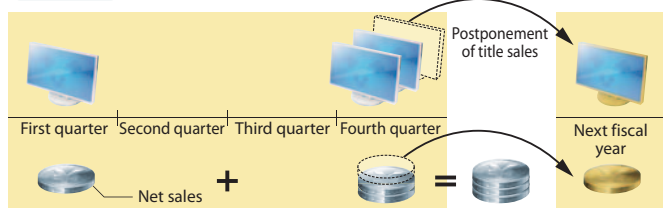
At Capcom, it is our intention to stabilize performance in the short-term, not over the long-term. Our decision to postpone sales of major titles in consideration of market conditions and competitor titles contributed to our lower performance in this fiscal year, but the most significant factor was our "partiality toward a particular timing in terms of our title portfolio".

Traditionally, the demand for other companies' major software peaked during the Christmas season, which corresponds to the third quarter of the Japanese fiscal year. For this reason, Capcom followed a strategy whereby we launched multiple major titles in the comparatively slow fourth quarter. However, in recent years, other companies began following the same strategy, making the release of multiple titles in the fourth quarter a risky proposition.

Accordingly, we will further refine our long-term portfolio by deploying major titles in each quarter of the fiscal year, diffusing the adverse effects of head-to-head competition with competitor titles and other risks (See Diagram 8 and Diagram 9).

Diagram 8 Short-term portfolio improvement

Before Major software launches peaked in the fourth quarter, and postponement of title releases caused net sales to fluctuate.



After Spreading out the releases of major software in each quarter stabilizes net sales.

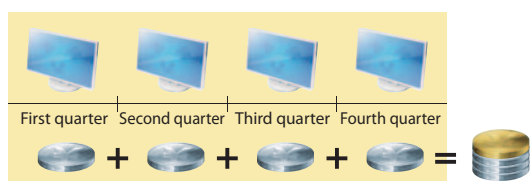
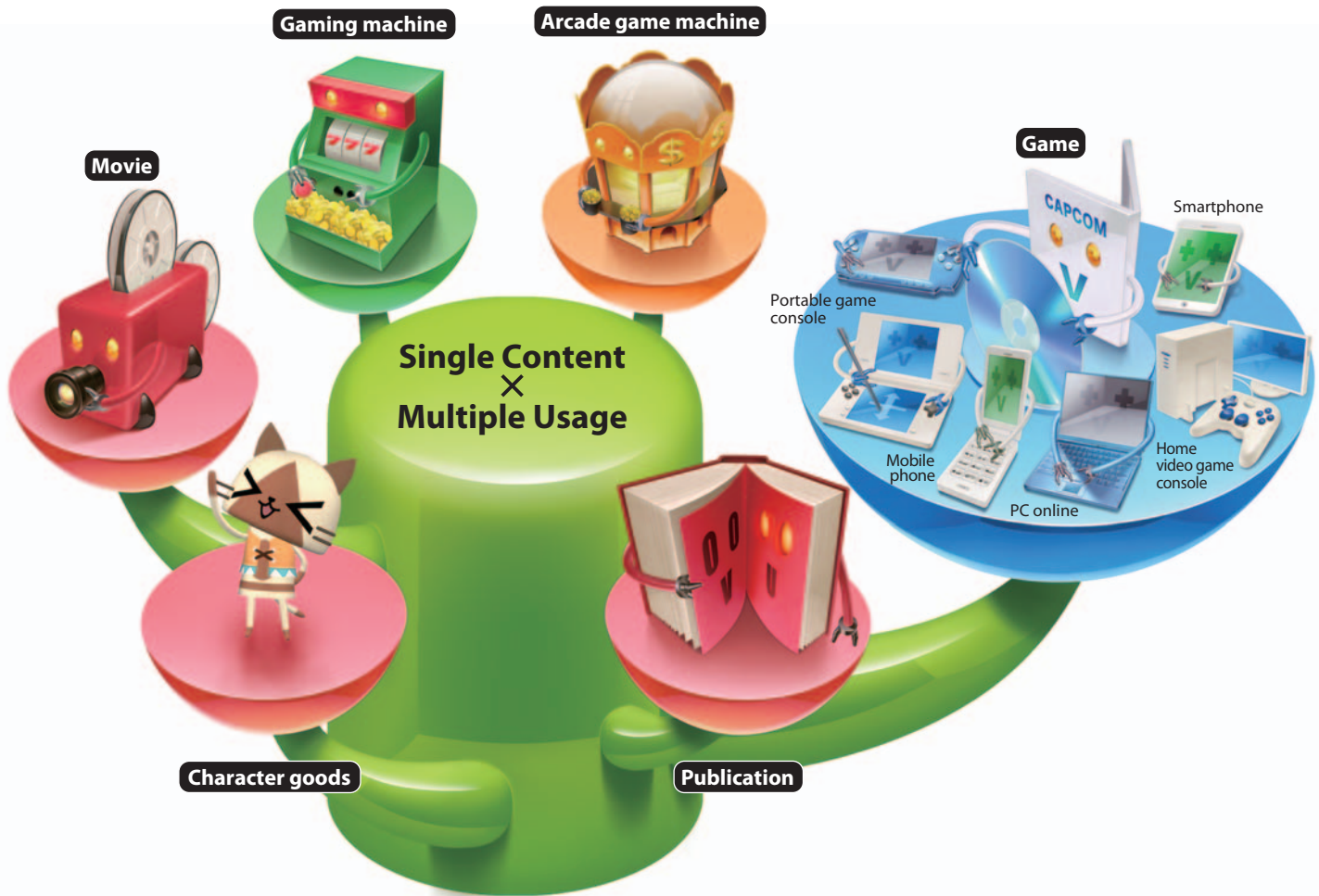


Diagram 9 Game Software Sales Forecast for the Fiscal Year Ending March 31, 2011

Title	Area	Release period
PS3 Xbox 360 Super Street Fighter IV	Japan North America Europe	First quarter
PS3 Xbox 360 Lost Planet 2	Japan North America Europe	First quarter
PS3 Xbox 360 Dead Rising 2	Japan North America Europe	Second quarter
PSP Monster Hunter Freedom 3	Japan	Third quarter
PS3 Xbox 360 MARVEL VS. CAPCOM 3 Fate of Two Worlds	Japan North America Europe	Fourth quarter

Media Strategy

Multiuse of popular content in various media



Putting income from individual contents to multiple uses

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 gameplay. 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 Home Video 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.

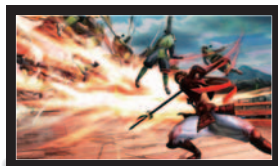
By pushing the “Single Content Multiple Usage” strategy to utilize them in several applications, we can enjoy multiple profits.

This strategy allowed us to leverage the success of our Home Video Games Business to the success of other businesses.

Strengthening the development of multiple forms of media including theme park attractions

During this fiscal year, we focused efforts on primarily theatrical tie-up events in Japan, implementing a “Sengoku BASARA” stage performance and JTB travel tour “Sengoku BASARA Date Bus Tour”. In addition to sales of local products using Capcom characters through a tie-up with regional municipalities, we contributed to regional activities through the use of a Capcom character for PR activities in support of the Miyagi Prefecture gubernatorial elections. Also, the Takarazuka Revue Company performed a

“Sengoku BASARA” Series



Home Video game



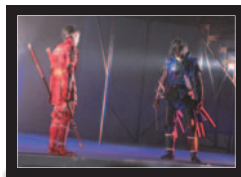
Book
©CAPCOM/TEAM BASARA



Tour



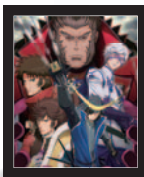
Election promotion poster



Theatrical production



User event

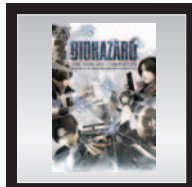


TV animation
©CAPCOM/TEAM BASARA

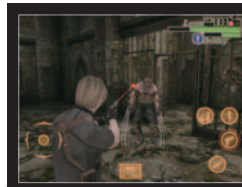


Arcade video game

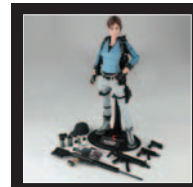
“Resident Evil” Series



Strategy guidebook



Mobile game



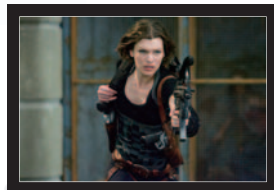
Character goods



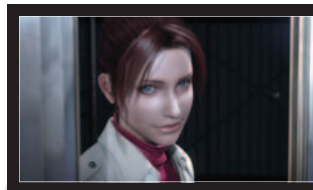
Pachislo machine
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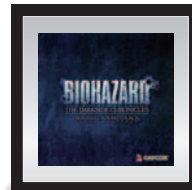
Home video game



Hollywood movie
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CG movie
©CAPCOM CO., LTD. / Resident Evil CG Film Partners



Soundtrack

play “Phoenix Wright: Ace Attorney 2” and the “Monster Hunter 5-Year Anniversary Orchestra Concert: Hunting Music Festival” was held in collaboration with the Tokyo Philharmonic Orchestra. Both events attracted series fans and appealed to non-traditional users such as women and seniors, contributing to improved title recognition. As a result, sales of home video games “Sengoku BASARA Battle Heroes” and “Ace Attorney Investigations : Miles Edgeworth” were bigger hits than expected, with sales of character-related products performing favorably.

In the next fiscal year, we will attempt to develop multiple forms of media around the sales of new editions to the “Sengoku BASARA” and “Monster Hunter” series. We will introduce a “Sengoku BASARA” themed attraction at Fuji-Q Highland in addition to the stage production, TV animation and second JTB tour planned in commemoration of the fifth anniversary of this popular title. Furthermore, accelerating our connection with regional municipalities, we are attempting to make use of Capcom’s

appeal as a driving force behind regional revitalization. Also, we will attempt to develop various kinds of content timed with the year-end release of home video game titles, including “Monster Hunter” TV animation, an attraction at the Greenland theme park in Kumamoto Prefecture and related products for social games and arcade facilities.

By appealing to a wide array of customers through the ongoing development of multiple forms of media, we will create another boom among “Sengoku” and “Monster Hunter” fans while improving brand value and profitability.

Capcom's Strengths and Issues Regarding Growth Centered Around an Online Strategy

Strengthening the "online games business" and "development structure", Capcom is setting out on a new growth trajectory. Where are they focusing, and how will they hold in the drastically changing game market? Analyst Yuta Sakurai, an expert on the world of video games, discusses "Capcom's growth strategy" with President and COO Haruhiro Tsujimoto.

Fighting Global Competition with three capabilities of "Development", "Marketing" and "Sales"

Sakurai: Looking at the overall movement of the global video game market, up until a few years ago, Japanese game software manufacturers were the clear competitive leaders, but recently Europe and North America have become much stronger. I think that "development", "marketing" and "sales capabilities" are important for survival amid intensifying global competition. As the president, where does Capcom stand in terms of these three capabilities?

Tsujimoto: First, regarding our "development capabilities", they are at a high level even by global standards. This is due to our "MT framework", which enables the simultaneous development of multi-platforms, and the promotion of other efficiencies in the development environment, as well as a result of our cultivation of excellent development personnel who are at the top of their field and are aware of risks. The fruits of their labor are evident in "Resident Evil 5", which has gained quite a following overseas.

Sakurai: I certainly think you are right. However, on the other hand, titles like "Bionic Commando" and "Dark Void" have fallen short of expectations. Why do you think that is?

Tsujimoto: These projects were brought to us by an overseas development company, who was solely responsible for their development. We were not able to thoroughly manage the work done by the outside development company, and we were unable to ensure the same level of quality as our

in-house projects. This is why I believe Capcom must determine the direction of projects and maintain leadership in terms of developing the core aspects of new titles and progress control.

Sakurai: Clearly, outsourcing, and the management of overseas development companies in particular, are priority issues for Capcom. Moving on, how do you rate your "marketing" and "sales capabilities"?

Tsujimoto: Frankly speaking, I think we have several issues to address concerning these areas. Regardless of the fact that the game market continues to grow more overseas than in Japan, our sales organization is located in Japan, and we have yet to achieve a balance between the size of the market and the scale of our sales organization. Of course, enhancing our overseas sales organization is urgent business, and as a matter of fact we are in the process of allocating sales personnel to better address the scale of the market. The reason we have been unable to do this until now is that we have always thought that "well made products would sell themselves". On reflection, I think that we relied too much on our "development capabilities" and did not focus enough effort on "marketing", which caused problems in terms of our ability to sell.

Online Games Are a Totally New "Member-Only Business"

Sakurai: Speaking of your overseas "marketing capabilities", you are developing your online game business for the East Asian market.

Yuta Sakurai

Senior Analyst,
Nomura Securities, Co., Ltd.



Haruhiro Tsujimoto

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



However, Japanese corporations are engaged in heated competition in all areas of that market, with many companies unable to maintain their positions. How does Capcom plan on winning in this market?

Tsujimoto: The East Asian market is behind the rest of the world in terms of the diffusion of game consoles, and as piracy countermeasure, our market entry has been focused on PC online games. Our first successful foray in this market was with PC online game “Monster Hunter Frontier Online”, which as you know, was also very successful in Japan. Our operations are supported by partner companies in Korea and Taiwan, where we have established structures that reflect the special characteristics of each market. We also have our eyes on future developments in China.

Sakurai: In the Japanese game market, social networking services (SNS) have become a hot topic in recent years, with companies like Gree and DeNA raking in the profits from games developed for the mobile phone. Don't you feel threatened by these developments?

Tsujimoto: Certainly, we do feel threatened by the SNS business model, but at the same time, it is attractive too. Up to now, video game company business models were based on the package games in what was essentially a “B2B” business. The SNS business model provides a “service to group of members who gather together to play”, and is a “B2C” members-only business. This scheme enables a company to identify user needs and trends on an ongoing basis while securing stable profits. Contents are delivered in beta format during the development process, incorporating user feedback into the final product and enabling a high degree of development freedom. There are many things to be learned from this kind of business.

Sakurai: Although you feel threatened, doesn't Capcom's development of a multi-platform strategy provide you with an inroad to distribute SNS games?

Tsujimoto: Yes, that is one strategy for providing content to an SNS platform. As a matter of fact, from August 2010 we will begin distributing the “Monster Hunter” game series through DeNA's “Mobage-Town”. However, members-only business requires leadership to attract more users to the service, and we think an independent Capcom mechanism will enable us to attract more members.



Sakurai: The growth of SNS is due in large part to the close proximity to the sales company felt by users—which is so close they can practically feel the each other's body heat. Don't you think their emerging power is rather vexing to major video game companies?

Tsujimoto: Of course, in terms of game creation expertise and quality, we are proud of our superiority. Capcom has many titles with loyal fans, and our online game “Monster Hunter Frontier Online” has over 1.5 million registered users. Our ability to satisfy users without making them bored, as well as our ability to turn a profit from this, is linked to the culmination of our expertise. This is also applied to sales of additional downloads of package games.

Capcom's New Growth Engine for the Future

Sakurai: It seems your involvement in the online game market is proceeding on track. On the other hand, taking the long view, as user preferences and platforms continue to diversification in the rapidly changing game world, what do you think about realizing further growth as business manager? What will the future direction of your management be?

Tsujimoto: Up to now, Capcom's growth has been supported by a corporate culture that “exerts its wits to realize interesting games”. The development section is at the core of these efforts, and for the past several years we have made a solid contribution to the continuation of this corporate culture through the cultivation of our human resources. Moreover, to realize further growth, it will be necessary to cultivate a second and third growth engine in

addition to our package game business, and my duty is to provide an environment in which these new businesses can be created.

Sakurai: When you talk about creating new businesses using Capcom corporate culture, is one of those the members-only B2C business you mentioned earlier?

Tsujimoto: Yes, I think the online business has the extremely high potential to transform Capcom's business model. By shifting to a business involving close interaction with the users, I am confident we will proceed to a new stage of growth.

After the Conversation

My impression upon meeting Capcom President Haruhiro Tsujimoto was that he is an extremely strong and spirited individual who is doing his best to anticipate and respond to the changes taking place in the video game world. His spiritedness is linked to management decisions regarding the concentration and allocation of management resources in the fiercely competitive and expanding online game market. However, success in this B2C member business will not come easy for a large organization like Capcom, which has followed a different business plan up to now. Furthermore, in terms of outsourcing management and marketing structure, it will take some time before Capcom achieves the position as a top manufacture overseas. I have high expectations for Capcom in terms of the Company's sheer will as well as its ability to get things done. It will be interesting to watch as Capcom establishes itself in this new market, making use of its “development capabilities” and other strengths.



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