

# Business Segment

## Business Activity Achievements

### Business Overview

### Operating Results for This Fiscal Year



## Digital Contents

This business develops and sells packaged games and digital download content for the Consumer sub-segment. It also develops and manages Mobile Contents and PC Online Games. Consumer games produces creative, original content with a focus on action and adventure. Many of these million-seller titles are used for smartphone, tablet device and PC online games distributed worldwide in order to maximize earnings.

#### Consumer (Package + Digital Download Contents)

- We launched *Resident Evil 7 biohazard* to 3.5 million unit sales worldwide
- *Monster Hunter XX (Double Cross)* sold 1.7 million units
- Rereleases of past *Resident Evil* titles on current-generation game consoles performed admirably

#### Mobile Contents

- Capcom Mobile was established to unify the Mobile business
- We released *Otomon Drop Monster Hunter Stories*



## Arcade Operations

We operate amusement facilities, primarily Plaza Capcom arcades, in Japan. These arcades are predominantly in large commercial complexes. We have diligently followed a scrap-and-build policy to maximize our efficiency in arcade operations, and have been hosting various events designed to attract families and female customers.

- We focused efforts on cultivating new customer segments, including free game experience tours for middle-aged and elderly persons and the installation of karaoke equipment
- Three arcades were opened, one unprofitable arcade was closed
- Sales at existing arcades were up 2% over those in the previous year



## Amusement Equipments

Here, we are engaged in two sub-segments that utilize the contents from our home video games. The Pachinko & Pachislo (PS) sub-segment is involved in the development, manufacture and sales of frames and LCD devices for gaming machines as well as software. The Arcade Games Sales sub-segment develops, produces and sells arcade games for amusement facilities, creating synergy between businesses.

- In the PS sub-segment, we sold 37,000 *Monster Hunter Kyoryu Sensen* pachislo machines
- We released *Mario Party Fushigi no Challenge World* arcade games in the Arcade Games Sales sub-segment



## Other Businesses

Based on our Single Content Multiple Usage strategy of developing game content for various media, we pursue a variety of copyright-related business opportunities including publishing (walkthrough and strategy guides as well as game art books) and licensing (music CDs and merchandise). Furthermore, we are concentrating on developing game content into movies and animated television programs.

- In line with our Single Content Multiple Usage strategy, we maximized earnings and strengthened brand power of proprietary content by laterally expanding into businesses related to game sales
- We contributed to maximizing unit sales of *Resident Evil 7 biohazard* and *Monster Hunter*-related titles with events tied into product launches

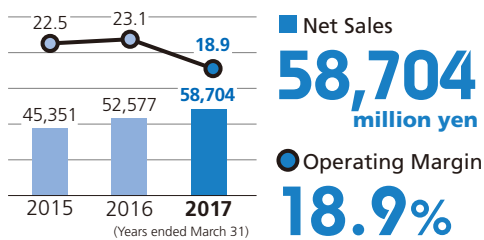
# gments

## Main Products for This Fiscal Year (Output)

### PC Online

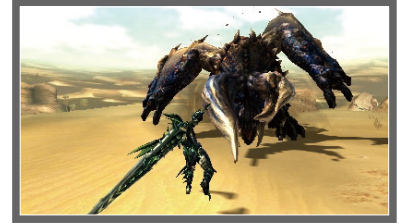
- *Monster Hunter Frontier Z* for PC Online contributed steadily to earnings
- Sales of the online game *Dragon's Dogma Online* were firm

### Net Sales/Operating Margins



### *Resident Evil 7 biohazard*

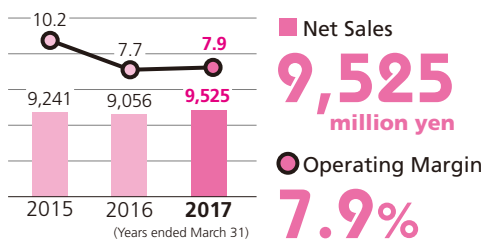
Building upon the series' roots of fear, exploration and tense atmosphere, this game garnered worldwide acclaim from both players and the press for overhauling its system and focusing on deeply immersive horror, selling 3.5 million units.



### *Monster Hunter XX (Double Cross)*

An evolution of the previous title this game featured a variety of new elements, including a new main monster and Hunter Arts. The game achieved 1.7 million units in sales by accurately reading the needs of fans; a Nintendo Switch version of the game was released in August 2017.

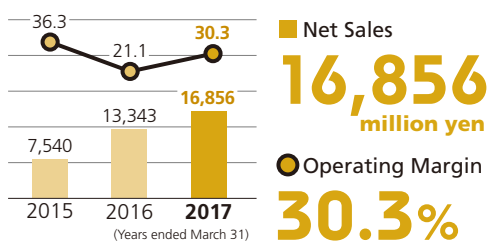
### Net Sales/Operating Margins



### GAMELAND Shin-Sapporo

In March 2017, we opened our first new location in Hokkaido in 18 years. It should appeal to a wide range of customers, with a capsule toy corner, karaoke rooms and other attractions.

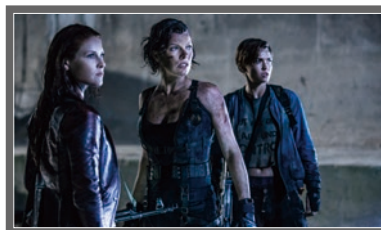
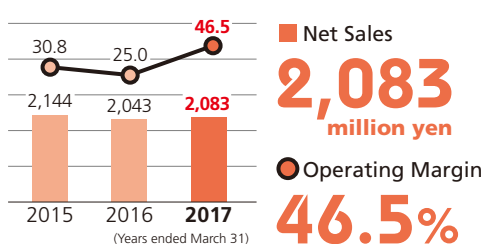
### Net Sales/Operating Margins



### *Monster Hunter Kyoryu Sensen Pachislo Machine*

This is the latest pachislo machine to utilize the *Monster Hunter* brand, which is popular in both the home video game and pachislo machine markets. The brand power of the series and the G-Slide movable liquid crystal screen garnered fan support and led to sales of 37,000 units, surpassing projections.

### Net Sales/Operating Margins



### *Resident Evil: The Final Chapter*

Screened worldwide in January 2017 in conjunction with the release of *Resident Evil 7 biohazard* (Japan got an early screening in December 2016). Box-office revenue reached 310 million dollars, the highest ever for the series.

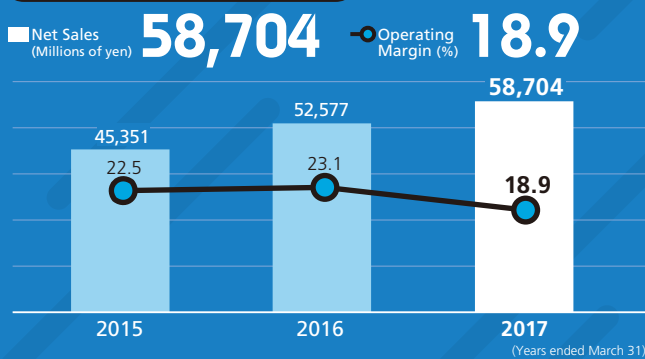
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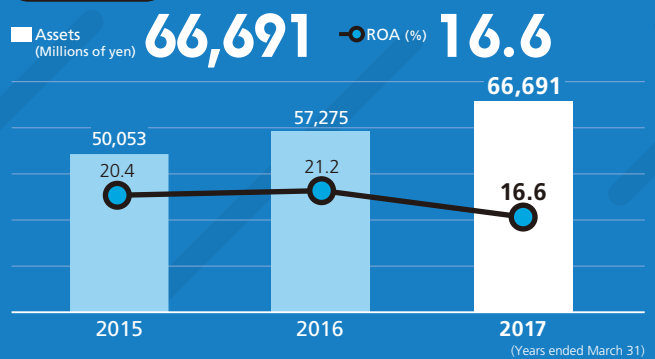
# Digital Contents

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## Net Sales/Operating Margins



## Assets/ROA



## SWOT Analysis

S: Strengths W: Weaknesses O: Opportunities T: Threats

- World-class development and technological capabilities
- Own many original popular titles (intellectual capital)

- Dependence on specific genres
- Shortage of development staff
- Insufficient hit mobile titles and management expertise



- Decreased competition in Consumer business and DLC market growth
- Expansion of peripheral businesses in Consumer sub-segment (VR and eSports, etc.)
- Mobile contents market expansion

- Consumer game presence diminished by diversity of entertainment
- Low barriers for entry into mobile contents, large number of competitor firms

## Utilization of Non-Financial Capital

### Human Capital

- About 2,000 in-house developers

### Production Capital

- Global penetration of game consoles and smartphones
- Highly efficient proprietary game development engine

### Intellectual Capital

- Own many original popular titles (intellectual capital)
- User trust in the Capcom brand

### Social Capital

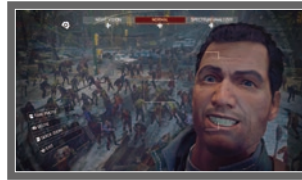
- Partnerships with development companies in Japan and other countries
- Partnerships with online game companies, primarily in Asia



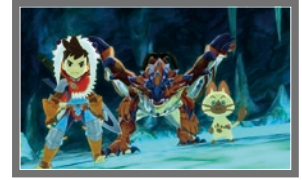
Resident Evil 7 biohazard



Monster Hunter XX (Double Cross)



Dead Rising 4



Monster Hunter Stories

Diagram 18

Consumer Market (Billions of dollars)

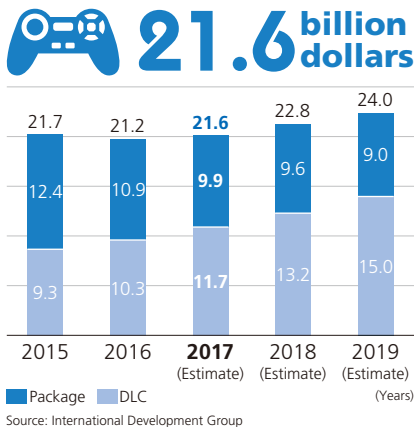
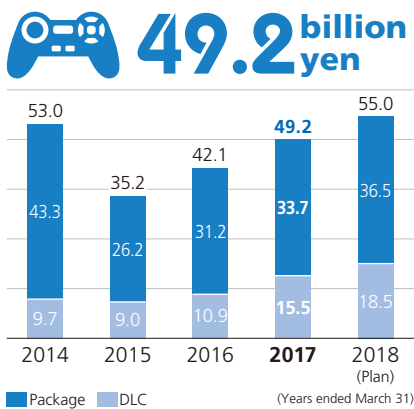


Diagram 19

Capcom Consumer Sales (Billions of yen)



## Consumer (Package + Digital Download Contents) Sub-segment

### Market Trends and Operating Results for This Fiscal Year

#### Despite market stalling at the previous year's levels, net sales increased 16.8% thanks to growth of major titles and digital download contents

In 2016, the consumer (package + digital download contents) market stayed at approximately the same level as the previous year, reaching 21.2 billion dollars (down 2.3% from the previous fiscal year). This was due to a changeover to current-generation game consoles and the enhancement of online functionality, accompanied by an increase in digital download sales and a decrease in packaged sales. The consumer market is primarily comprised of North America, Europe and Japan, and this trend was especially evident in the North American and European markets, which account for approximately 85% of this market. The highly profitable digital download contents market now accounts for roughly 48% of the consumer market. [\[Diagram 18\]](#)

The latest titles in Capcom's flagship series performed favorably overall, with *Resident Evil 7 biohazard* selling 3.5 million units and *Monster Hunter XX (Double Cross)* selling 1.7 million units. Moreover, with support from a steady user base, *Resident Evil 4*, *Resident Evil 5* and

*Resident Evil 6*, which were rereleased on current-generation consoles, gave a solid performance (selling a combined 2.8 million units); catalog title *Monster Hunter X (Cross)* sold 1 million units, pushing earnings higher. On the other hand, despite enjoying solid popularity and consistent demand, sales of *Dead Rising 4* and the youth-orientated *Monster Hunter Stories* were weak overall. In digital downloads sales of the aforementioned rereleases, as well as catalog titles with wide profit margins, accelerated in the North America and Europe, resulting in solid sales growth to 9 million units amounting to 15.5 billion yen, an increase of 42.2% compared to digital download sales in the previous year.

As a result, package and full-game download sales totaled 19.4 million units (up 29.3% from the previous year). Package sales were 33.7 billion yen, and digital download sales were 15.5 billion yen. Together, they resulted in Consumer sales of 49.2 billion yen (up 16.8% from the previous year), with operating margins in the mid 20% range. [\[Diagram 19\]](#)

### Market Forecast and Outlook for the Next Fiscal Year

#### Projecting an 11.8% Increase in Net Sales from the Global Launch of Core Titles

In 2017, the consumer market is forecast to grow to 21.6 billion dollars (up 1.9% from the previous year) due to favorable conditions for current-generation game consoles and the arrival of the Nintendo Switch, and despite a substantial drop in sales of games for previous generation game consoles. [\[Diagram 18\]](#)

For Capcom, we consider Consumer business growth as one of the major keys to achieving our medium-term business goals. Our initiatives are to (1) strengthen digital downloads, (2) bolster our title lineup through the full-scale execution of our 60-month title development plan and 52-week map and (3) awaken dormant

intellectual properties.

➔ Please refer to "Growth Strategy 1: Consumer Business Expansion" on page 31

Efforts within (1) include growing unit sales by strategically releasing major titles and additional content. Also, as one method of utilizing our existing intellectual properties, we will rerelease titles digitally on current-generation hardware in order to create sales opportunities and increase the digital download sales ratio. In terms of (2), we will promote multi-platform development and release a new title within a major franchise every 2.5 years in-line with our 60-month map title portfolio. Finally, for (3) we will work to expand

## Business Activity Achievements



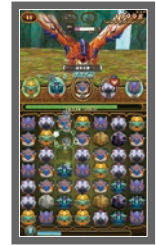
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*Monster Hunter: World*



*Monster Hunter Explore*



*Otomon Drop  
Monster Hunter Stories*

profitability by revitalizing dormant intellectual properties for which we have not recently released new titles.

Next fiscal year, in addition to new titles in core global series such as *MARVEL VS. CAPCOM: INFINITE* and *Monster Hunter: World*, we will work to increase sales with catalog sales of *Resident Evil 7 biohazard*,

which was released the previous year. We will also strengthen digital download sales to increase unit sales to 23 million units (up 18.6% compared to the previous year), forecasting net sales of 55 billion yen (up 11.8% from the previous year) and a level of operating income about the same as the fiscal year under review.

Diagram 20

**Mobile Contents Market** (Billions of dollars)

**59.8 billion dollars**

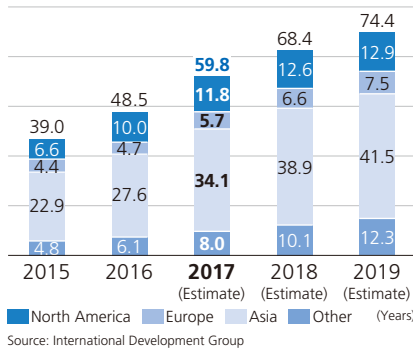
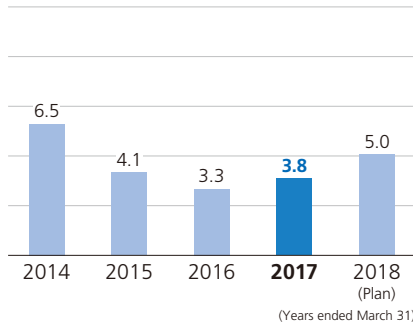


Diagram 21

**Capcom Mobile Contents Sales** (Billions of yen)

**3.8 billion yen**



## Mobile Contents Sub-segment

Market Trends and Operating Results for This Fiscal Year

### Market Grew up 24%; Profit Increased in Conjunction with 15% Increase in Sales

In 2016, the mobile contents market was worth 48.5 billion dollars (up 24.4% from the previous year), expanding to twice the size of the consumer market. The main reasons for this were (1) the ongoing adoption of smartphones throughout the world and (2) the increase of popular native app games particularly in Japan and Asia that continue to attract game users. By region, the North American market was worth 10 billion dollars (up 51.5% from the previous year), Eastern European, developing countries and other regional markets were worth 6.1 billion dollars (up 27.1% from the previous year), and the Asian market including Japan was worth 27.6 billion dollars (up 20.5% from the previous year), all showing continued growth.

The freemium (virtual item purchases/ in-game purchases) model, where users download a game for free, then purchase access to additional items and other game content as needed, has predominated the market since about 2010. With freemium games, the key success factors are IP (brand/game content) coupled with operating know-how, which includes offering the appropriate services in conjunction with monetization. Because of

this, the opportunity to improve earnings is growing for game companies with many popular titles as well as mobile development companies with operational expertise.

In April 2016, we unified our mobile development structure group-wide and launched our new Mobile Business Division. We combined the organizations of the Capcom and Beeline brands (which up to that point had promoted independent strategies) to concentrate both development and management knowhow, and to enable quick decision-making.

Under this restructured organization, we began distributing *Otomon Drop Monster Hunter Stories* in November 2016, which, along with the existing *Monster Hunter: Explore*, contributed to full-year profits. We also broke new ground with *Toraware no Paruma*, a romance game that was developed primarily by female staff, and which captured the number one paid app spot in the App Store rankings the day it was launched.

As a result, net sales increased to 3.8 billion yen (up 15.2% from the previous year). Profits were also up despite the recording of a loss on valuation of unprofitable titles. [Diagram 21]



Dragon's Dogma Online



Monster Hunter Online

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Market Forecast and Outlook for the Next Fiscal Year

Projecting a 31.6% Increase in Net Sales from Both In-house and Collaborative Titles

In 2017, the annual shipment of smartphones continued to outperform the previous year at 1.53 billion units (up 4.2% from the previous year). Moreover, for the next five years, the average annual growth rate is expected to be 3.8%, with shipments reaching 1.77 billion units by 2021. As a result by 2021, we expect the 2017 mobile market to increase to 59.8 billion dollars (up 23.3% from the previous year) and grow to 81 billion dollars (up 67.0% from 2016). [Diagram 20]

We will continue to develop new

titles using our intellectual properties and localize existing titles for Asia. At the same time, we will explore a wide range of possibilities, including alliances with companies in Japan and other countries to create the next hit title.

Next fiscal year we expect net sales of 5 billion yen (up 31.6% from the previous year) thanks primarily to license royalty revenue from an alliance, strengthening of existing titles and the distribution of the Android version of *Phoenix Wright: Ace Attorney – Dual Destinies*.

Diagram 22

PC Online Market (Billions of dollars)

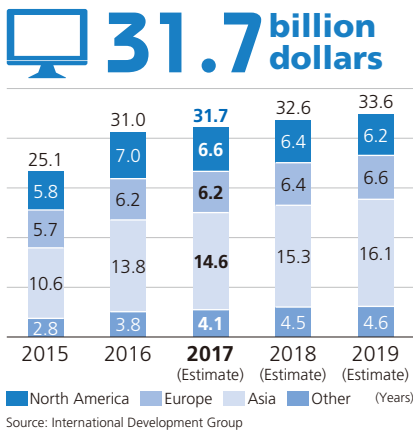
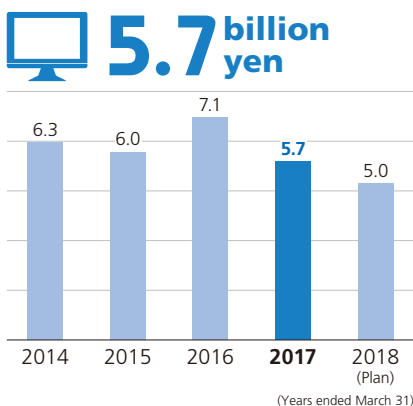


Diagram 23

Capcom PC Online Sales (Billions of yen)



PC Online Sub-segment

Market Trends and Operating Results for This Fiscal Year

The Asian Market Grew Substantially, but Decreased Revenue from Licensing Resulted in a 19.7% Decrease in Net Sales

In 2016, the PC online market grew substantially to 31 billion dollars (up 23.5% from the previous year) owing to worldwide growth, especially in China and Asia, which account for more than 40% of the market. [Diagram 22]

For Capcom, in addition to stable earnings contributions from domestic favorite *Monster Hunter Frontier Z (MHFZ)*, sales of *Dragon's Dogma Online (DDON)* were on track. However, due to a downturn

in license revenue from *Monster Hunter Online (MHO)*, which was launched last year in cooperation with China's Tencent Holdings, net sales dropped to 5.7 billion yen (down 19.7% from the previous year). Profitability was down due to amortization costs for *DDON* and other titles being up from the previous year and the recording of a loss on valuation for some titles. [Diagram 23]

Market Forecast and Outlook for the Next Fiscal Year

Aiming to Reduce Loss by Revitalizing Existing Titles and Streamlining Management

In 2017, we expect the market to increase slightly to 31.7 billion dollars (up 2.3% from the previous year), but with the shift to mobile among leading game companies, it will peak at 32.8 billion dollars by 2021 (up 5.8% from 2016), so growth will slow in the future. [Diagram 22]

Capcom will continue working to

improve our revenue base through ongoing updates to existing titles such as *MHFZ*, *DDON* and *MHO* and by reducing overhead by streamlining management.

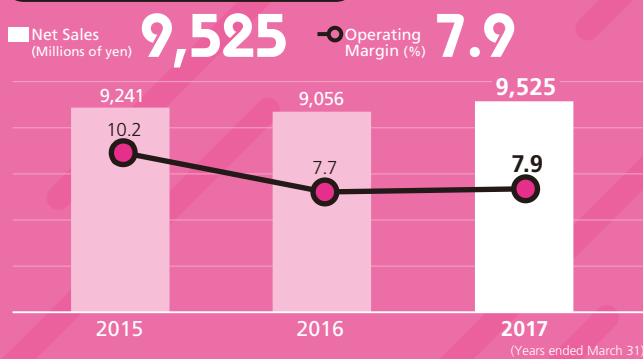
As a result of these measures, next fiscal year we expect the operating loss to shrink despite net sales falling to 5 billion yen (down 12.3% from the previous year).



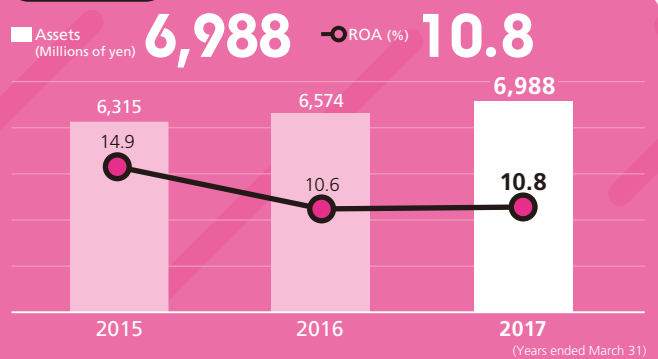
# Arcade Operations

We operate amusement facilities, primarily Plaza Capcom arcades, in Japan. These arcades are predominantly in large commercial complexes. We have diligently followed a scrap-and-build policy to maximize our efficiency in arcade operations, and have been hosting various events designed to attract families and female customers.

## Net Sales/Operating Margins



## Assets/ROA



## SWOT Analysis

**S**: Strengths    **W**: Weaknesses    **O**: Opportunities    **T**: Threats

- Specialize in opening stores in large shopping centers to secure a stable customer base
- Thorough scrap-and-build strategy focused on investment efficiency to ensure sustainable earnings



- Expand new customer segments, including senior citizens and children
- Cultivate market, including merchandise sales and restaurants utilizing our intellectual properties

- Low sales growth rate due to small number of carefully selected facilities
- Little synergy with proprietary contents

- Potential customer segment shrinking due to falling birth rate
- Entertainment diversification due to rapid growth of games for smartphones

## Utilization of Non-Financial Capital

### Human Capital

- Internal store management staff
- Part-time workers hired locally

### Intellectual Capital

- Store management know-how cultivated over 33 years
- Intellectual properties (characters and worlds) that can be rolled out to food, drinks and prizes

### Production Capital

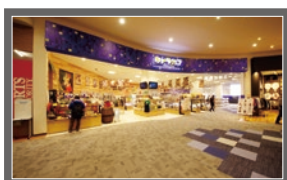
- High foot traffic of large shopping centers
- Developers that design and construct facilities

### Social Capital

- Our relationships with local residents
- Arcade game makers around the world



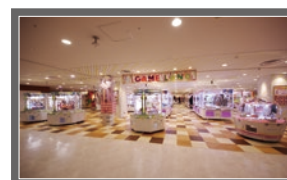
Plaza Capcom Ishinomaki



Chara Cap Morioka



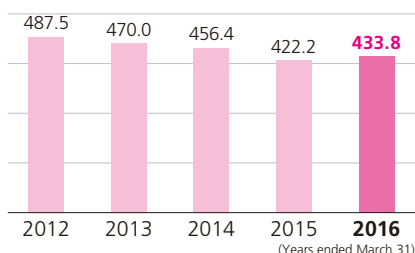
you me PARK Tokuyama



GAMELAND Shin-Sapporo

Diagram 24

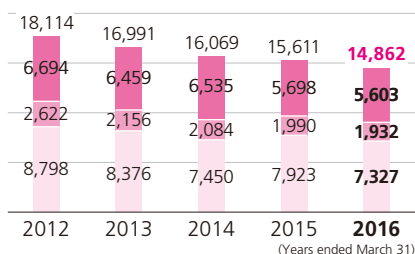
**Arcade Operations Market** (Billions of yen)



Source: JAMMA "Survey on the Amusement Industry"

Diagram 25

**Number of Amusement Arcades (by number of machines)** (Stores)



Source: JAMMA "Survey on the Amusement Industry"

Diagram 26

**Comparison of Arcade Operations Performance** (Year ended March 31, 2017)

	Net sales (Billions of yen)	Operating income (Billions of yen)	Operating margin (%)
Capcom	9.5	0.7	7.9
Adores	11.5	0.7	6.5
Aeon Fantasy	65.0	3.7	5.8
Sega Sammy	37.2	2.2	5.9
Bandai Namco	60.9	Undisclosed	-

Source: Financial reports and earnings materials of each company (Aeon Fantasy fiscal year ended February 2017)  
 Note: Segments include businesses other than arcade facilities operations and exclude corporate.

**Market Trends and Operating Results for This Fiscal Year**

**The Market Bottomed Out Followed by a 2.7% Increase; Both Sales and Profits Were Up due to Improvements at Existing Stores Accompanying Deregulation**

The domestic arcade facilities market grew during the previous fiscal year (ended March 31, 2016) for the first time in nine years to 433.8 billion yen (up 2.7% from the previous year). [Diagram 24] This was due to a slowing of the downturn in consumer spending following the consumption tax increase of April 2014. The total number of arcades decreased to 14,862 (down 4.8% from the previous year), but the number of units installed at each arcade increased to 33.6 (up 2.5 units from the previous year), and annual sales per facility increased to 29.19 million yen (up 7.9% from the previous year), demonstrating that the closing of unprofitable locations and streamlining of management by many companies has been successful. [Diagram 25] This fiscal year (ended March 31, 2017), the market showed a recovery with increased sales per customer due to restrictions on the time that minors can be in arcades while accompanied by a guardian being relaxed in the Entertainment and Amusement Trades Act (Entertainment and Amusement Trades Rationalizing Act). Capcom continued providing game

center tours and service days for middle-aged adults and senior citizens, allowing them to play games for free. Further, we created new earnings opportunities and expanded our customer base by opening themed Capcom Cafés that utilize Capcom characters and Chara Cap stores that specialize in character merchandise sales. We also launched a new VR attraction called *Tokusatsu Taikan VR Daikaijyu Capdon*.

During this fiscal year, three stores were opened, including GAMELAND Shin-Sapporo in Hokkaido, and one was closed, bringing the total number of stores to 36.

As a result, and with the relaxed restrictions of the Entertainment and Amusement Trades Act providing a boost, net sales at existing stores were up 2% from the previous year, bringing overall net sales to 9.525 billion yen (up 5.2% from the previous year) and operating income to 752 million yen (up 7.5% from the previous year), so that both sales and profits were up compared to the previous year. [Diagram 26]

**Market Forecast and Outlook for the Next Fiscal Year**

**Projecting a 5% Increase in Net Sales from Market Recovery and Opening Five New Stores**

In terms of market outlook, we expect a continued recovery due to relaxed restrictions of the Entertainment and Amusement Trades Act. In the next fiscal year (ending March 31, 2018), Capcom will promote streamlining of management through its ongoing scrap and build policy and ensure earnings at the same level as the previous fiscal year through the creation of new earnings opportunities.

We will continue to hold events for seniors with the aim of attracting middle-aged and senior customers, while strengthening our business foundation by developing new business formats, such as Capcom Café and Chara Cap. In terms of

the opening and closing of facilities, in an attempt to further strengthen efficient arcade management operations, we will open new facilities in locations with high concentrations of customers to secure new revenue streams. In the next fiscal year, we plan to open five facilities and close one, bringing the total number of stores to 40.

As a result of these measures, we expect year-over-year sales of existing stores to be up 3%, we forecast net sales of 10 billion yen (up 5.0% from the previous year) and operating income of 700 million yen (down 6.9% from the previous year).

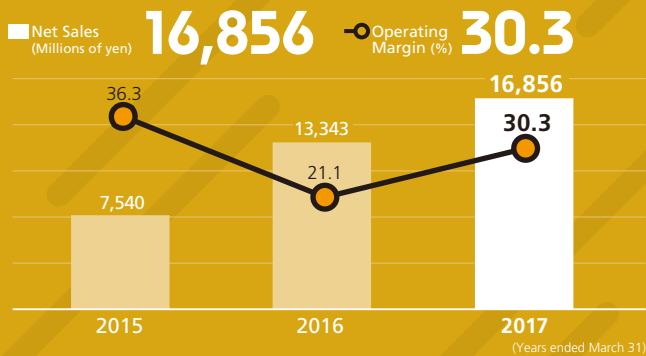




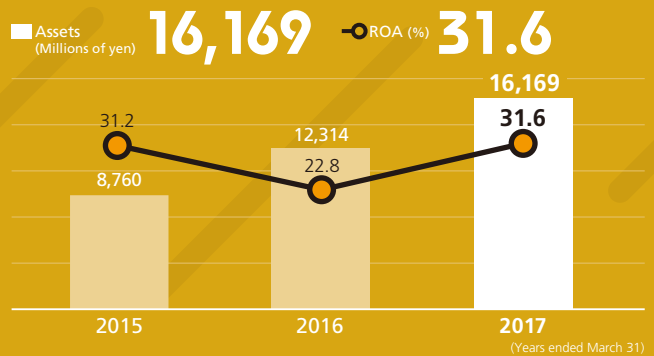
# Amusement Equipments

Here, we are engaged in two sub-segments that utilize the contents from our home video games. The Pachinko & Pachislo (PS) sub-segment is involved in the development, manufacture and sales of frames and LCD devices for gaming machines as well as software. The Arcade Games Sales sub-segment develops, produces and sells arcade games for amusement facilities, creating synergy between businesses.

## Net Sales/Operating Margins



## Assets/ROA



## SWOT Analysis

S: Strengths W: Weaknesses O: Opportunities T: Threats

- High quality development capabilities cultivated through home video games
- Cross-business leveraging of rich in-house contents
- Ability to observe real-time market trends through company-owned arcades

- Small title lineup (arcade game machines)



- Market recovery via introduction of popular machines
- Demand generated by installing new cabinets compliant with rule changes

- Declining operator and hall investment appetite
- Long-term market stagnation
- Market fluctuations resulting from changes to the Entertainment and Amusement Trades Act and certification rules

## Utilization of Non-Financial Capital

### Human Capital

- Internal developers in charge of planning and development

### Production Capital

- Manufacturing plant for arcade game machines
- Video game arcades and pachinko/pachislo parlors all over Japan

### Intellectual Capital

- Own many original popular titles (intellectual capital)
- Arcade game machine development expertise cultivated since founding
- Development technology supporting pachislo certification rules

### Social Capital

- Partnerships with major sales companies
- Administrative organ related to pachislo machine permits and licenses



Monster Hunter Kyoryu Sensen

Mario Party Fushigi no Challenge World  
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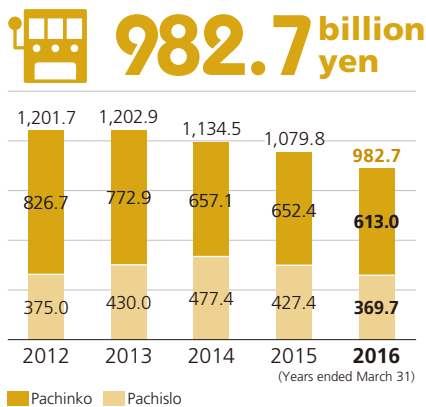
Ace Attorney



Resident Evil Revelations

Diagram 27

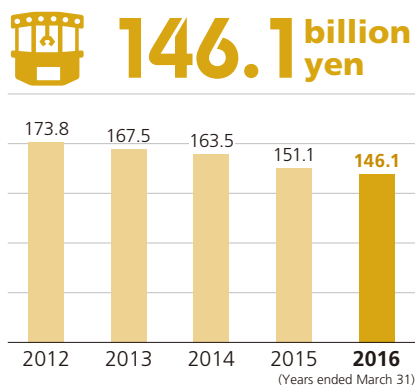
## Gaming Machines Market (Billions of yen)



Source: Manufacturer sales base compiled by Capcom using Pachinko Maker Trends (2014, 2015, 2016); Yano Research Institute Ltd.

Diagram 28

## Arcade Game Market (Billions of yen)



Source: JAMMA "Survey on the Amusement Industry"

\*1 Model certification: A public test to verify whether or not gaming machines are in accordance with regulations conducted by the Security Communications Association on behalf of public safety commissions in each of Japan's administrative divisions.

\*2 Changes to certification methods: Three self-imposed restraints implemented in stages. Up to November 2014 (1) guarantee a minimum (55%) ball dispensing ratio, (2) implement limits on penalty functions, and from December 2015 (3) implement functional limitations in sub-substrates.

## Market Trends and Operating Results for This Fiscal Year

## Operating Income Increased 81.6% on Launch of Popular Pachislo Machines in the Midst of a Weak Market

In the previous fiscal year (ended March 31, 2016), the gaming machine market shrank to 982.7 billion yen (down 9.0% from the previous year). This was due to a temporary decline in the number of new machines launched resulting from changes to rules concerning pachislo machine model certification\*1 by the Security Electronics and Communications Technology Association that went into effect in September 2014 in the pachislo market, as well as the sixth straight year of declines in the Pachinko market. [Diagram 27] In the arcade game market, medal game and game card sales declined, resulting in the fourth consecutive year of negative growth, reaching 146.1 billion yen (down 3.3% from the previous year). [Diagram 28] This year (ended March 31, 2017), the gaming machine market remained weak on

the impact of pachislo machine operation rule changes. The arcade game machine market also continued to shrink due to a decline in the number of large cabinets sold, except for some hit products.

This fiscal year (ended March 31, 2017), in the Pachinko and Pachislo sub-segment, *Monster Hunter Kyoryu Sensen* was a big hit owing to synergies created with the home video game version. The result was sales of 37,000 units, driving sales beyond initial projections. In the Arcade Games Sales sub-segment, we focused on catalog sales and also released *Mario Party Fushigi no Challenge World*.

As a result, net sales were 16.856 billion yen (up 26.3% from the previous year) and operating income was 5.106 billion yen (up 81.6% from the previous year).

## Market Forecast and Outlook for the Next Fiscal Year

## Projecting an 8.0% Decrease in Net Sales and a 25.6% Decrease in Operating Income Due to an Uncertain Market and a Downturn from the Previous Year

In terms of the PS market outlook, the pachislo machine operation rules are scheduled to change in October 2017, so further restraints on gambling are expected. Moreover, legal regulations are also being considered as a measure against gambling addiction, thus the market environment is expected to become even more difficult. Additionally, we anticipate that the market conditions will continue to be difficult for pachinko machines as well, due to restrictions on ball dispensing as a measure against gambling addiction. Capcom aims to increase unit sales by continuing to (1) supply four proprietary cabinets per year, (2) secure a strong sales network and improve development quality through an alliance with major sales company Fields Corp., and (3) release proprietary pachislo machines not dependent on gambling and that feature a variety of clever video elements

and playing styles. Next fiscal year, we are projecting sales of 50,000 units comprised of four machines, including *Ace Attorney* and *Resident Evil Revelations*.

In the Arcade Games Sales sub-segment, we expect a continued decline due to diminished motivation to invest among facility operators and a decrease in large products. Under these circumstances, we plan to release *Monster Hunter: Medal Hunting G* as a new machine utilizing our popular intellectual property.

However, taking into account the difficult PS market environment and a downturn from the previous year's hit machines, we forecast lower sales and profits, with net sales of 15.5 billion yen (down 8.0% from the previous year) and operating income of 3.8 billion yen (down 25.6% from the previous year).

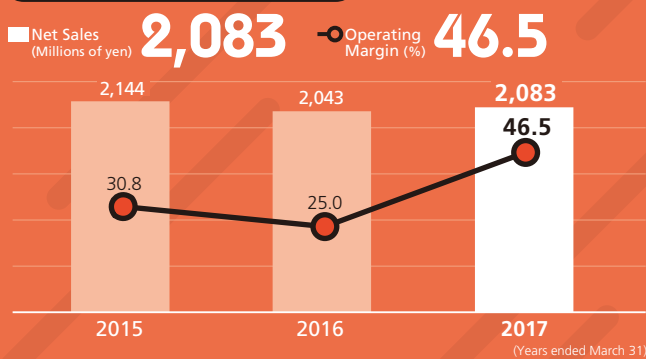


# Other Businesses

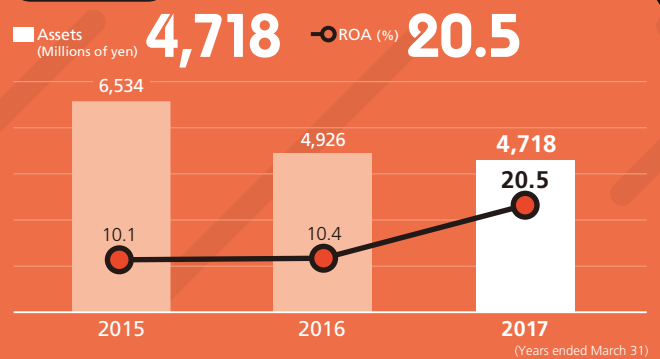
Photo by: Robert Paul

Based on our Single Content Multiple Usage strategy of developing game content for various media, we pursue a variety of copyright-related business opportunities including publishing (walkthrough and strategy guides as well as game art books) and licensing (music CDs and merchandise). Furthermore, we are concentrating on developing game content into movies and animated television programs.

## Net Sales/Operating Margins



## Assets/ROA



## SWOT Analysis

S: Strengths W: Weaknesses O: Opportunities T: Threats

- Synergetic effect from multifaceted use of rich contents
- Brand value increased through high exposure across various mediums
- High profitability

- Low return on sales from licensed products



- Expansion into film, animation, comics, stage productions, orchestral performances and other media
- Contents business demand area expansion

- Direct competition with other company's contents as a result of globalization

## Utilization of Non-Financial Capital

### Human Capital

- Planners skilled at content development
- Legal staff in charge of alliance agreements and other arrangements

### Production Capital

- Legal framework related to intellectual properties in Japan and other countries
- Merchandise manufacturing company

### Intellectual Capital

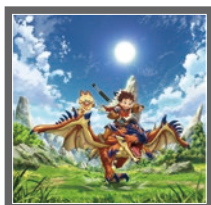
- Own many original popular titles (intellectual capital)
- Brand business (strategy for maximizing value of intellectual properties)

### Social Capital

- Event organizing companies that engages in joint planning
- Relationship with movie studios, including those in Hollywood



Resident Evil Vendetta

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Monster Hunter Stories RIDE ON

© CAPCOM/MHST Production Committee



Resident Evil: The Final Chapter

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CAPCOM LIVE!

Diagram 29

### Revenue Ranking of Japanese Game Contents that Have Been Adapted into Hollywood Movies



Title	IP holder	Box-office revenue (worldwide)
Resident Evil: The Final Chapter	Capcom	\$312,242,626
Resident Evil: Afterlife	Capcom	\$300,228,084
Resident Evil: Retribution	Capcom	\$240,004,424
Resident Evil: Extinction	Capcom	\$148,412,065
Resident Evil: Apocalypse	Capcom	\$129,342,769
Resident Evil	Capcom	\$102,984,862
Street Fighter	Capcom	\$99,423,521
Silent Hill	Konami	\$97,607,453
Final Fantasy: The Spirits Within	Square (now Square Enix)	\$85,131,830
Super Mario Bros.	Nintendo	\$20,915,465
House of the Dead	Sega	\$13,818,181

As of June 30, 2017 (Capcom figures)

Diagram 30

### List of Our Main Content that Has Been Adapted into Movies and Theatrical Productions



Movies		
Street Fighter II	Aug. 1994	Feature-length animated movie
Street Fighter	Dec. 1994	Hollywood movie
Resident Evil	Mar. 2002	Hollywood movie
Resident Evil: Apocalypse	Sep. 2004	Hollywood movie
Resident Evil: Extinction	Nov. 2007	Hollywood movie
Resident Evil: Degeneration	Oct. 2008	Feature-length CG movie
Resident Evil: Afterlife	Sep. 2010	Hollywood movie
Sengoku BASARA –The Last Party–	Jun. 2011	Feature-length animated movie
Ace Attorney	Feb. 2012	Movie
Resident Evil: Retribution	Sep. 2012	Hollywood movie
Resident Evil: Damnation	Oct. 2012	Feature-length CG movie
Resident Evil: The Final Chapter	Dec. 2016	Hollywood movie
Resident Evil: Vendetta	May 2017	Feature-length CG movie
TV animation		
Street Fighter II V	Apr. 1995	TV animation
Mega Man Battle Network	Mar. 2002	TV animation
Sengoku BASARA	Apr. 2009	TV animation
Gyakuten Saiban: Sono “Shinjitsu”, Igiari!	Apr. 2016	TV animation
Monster Hunter Stories RIDE ON	Oct. 2016	TV animation
Theatrical productions		
Phoenix Wright: Ace Attorney –The Truth Comes Back to Life	Feb. 2009	Takarazuka Revue Company
Sengoku BASARA	Jul. 2009	Theatrical production
Phoenix Wright: Ace Attorney 2	Aug. 2009	Takarazuka Revue Company
Prosecutor Miles Edgeworth: Ace Attorney 3	Jan. 2013	Takarazuka Revue Company
Sengoku BASARA	Jun. 2013	Takarazuka Revue Company
MUSICAL BIOHAZARD: Voice of Gaia	Oct. 2016	Theatrical production
TV dramas		
Sengoku BASARA –MOONLIGHT PARTY–	Jul. 2012	TV drama

## Operating Results for This Fiscal Year

### Slight Increase of 2.0% in Net Sales, but Substantial Increase of 89.8% in Operating Income

Capcom's strength is its ability to utilize its rich library of intellectual properties (content) across multiple mediums, reaping substantial synergetic benefits with the Digital Contents business. In particular, the brand value of our movie-related business has risen through extensive media exposure. This has led to greater sales of video game software and the long-term maintenance of content value, completing a virtuous sales cycle. These projects were implemented across the organization, with each division involved in the launch of arcade games, mobile contents, walkthrough and strategy guides and character merchandise, as well as movies, animated television programs, theatrical productions and other events in a variety of areas in connection with the release of our game software. [Diagram 29, 30]

➔ Please refer to “Capcom’s Business Model” on pages 3-4

This fiscal year, the Hollywood movie *Resident Evil: The Final Chapter* was released worldwide in January 2017 (Japan got an early release in December 2016) in conjunction with the release of *Resident Evil 7 biohazard*, and *Monster Hunter Stories RIDE ON* was developed as the first TV animation for the *Monster Hunter* series. These and other efforts were made to further cultivate existing users and acquire new fans. We also appealed to non-game users through experience-based events like *Monster Hunter the Real* at Universal Cool Japan 2017, which began in January 2017 at Universal Studios Japan, as well as several theatrical productions featuring our IP.

As a result, both sales and profits were up, with net sales at 2.083 billion yen (up 2.0% from the previous year) and operating income at 969 million yen (up 89.8% from the previous year).

## Outlook for the Next Fiscal Year

### Projecting Increased Sales and Profits, Further Bolstering Single Content Multiple Usage Strategy Developments

Capcom has aggressively promoted horizontal expansion of intellectual properties (contents) based on our Single Content Multiple Usage strategy.

We will continue to do so next fiscal year, with production of the popular animated TV show *Monster Hunter Stories RIDE ON*, *Monster Hunter the Real*, and with the release of the feature-length CG film *Resident Evil Vendetta* in May 2017.

We will also strengthen our merchandise sales by holding events and engaging in various cross-industry

collaborations. Moreover, we will work to improve brand value and expand licensing revenue on a global basis by utilizing fighting games such as *Street Fighter* in the eSports market, which is especially popular overseas.

As a result of these measures, the next fiscal year earnings forecast calls for net sales of 2.5 billion yen (up 22.4% from the previous year) and operating income of 1 billion yen (up 3.2% from the previous year).