

Business

Social Issues

Generational and interregional communication gaps

New industries created from new technologies

Overconcentration in large cities
Declining regional populations

Senior citizens social isolation

Improvement of Japan's appeal as a travel destination

Shortage of human resources involved with intellectual property

Amount invested in development **29.0** billion yen
→ Financial Strategy According to the CFO / P39

Number of developers **2,141** people
→ The Heart of Value Creation / P41

Intellectual Properties (IP) **19** Million-seller series
→ Major Intellectual Properties (IP) / P09

INPUT

Business Activities



Home Video Games

Create Popular Content



Digital Download Contents

Foundation for Sustainable Growth

Education and Utilization of Developers
→ The Head of Development Discusses Human Resources Strategy / P49

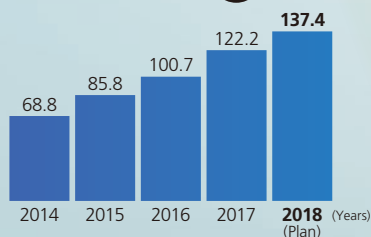
Relationship with Society
Employees, Regional Communities, Customers, Business Partners, Shareholders
→ P53

Corporate Governance
→ P59

KPI Changes in Fiscal Year Ended March 2018

Game Market (Billions of dollars)

137.4 billions dollars
UP **12.4%**

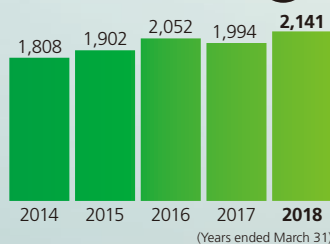


Source: International Development Group

→ Market Analysis / P75

Human Capital
Content Developers (People)

2,141 people
UP **147** people

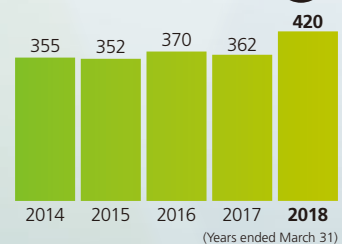


(Years ended March 31)

→ ESG Highlights / P13

Governance
Meetings with Shareholders and Investors (meetings)

420 meetings
UP **58** meetings



(Years ended March 31)

→ Corporate Governance / P59


Note: Number of media stories on investor relations meetings + number of visits with foreign and domestic investors

Single Content Multiple Usage

Net sales for the year ended March 31, 2018

94.5 billion yen

Capcom



Publishing
Strategy books,
illustrated compilations, comics



Arcade Game Machines
Token games,
Pachinko and pachislo



PC Online



Movies
Hollywood movies, animated movies,
CG movies

Develop games for multiple platforms
Net sales for the year ended
March 31, 2018

74.1 billion yen

Multimedia development of content
Net sales for the year ended
March 31, 2018

20.4 billion yen




Mobile Contents



Arcade Operations
Facilities at shopping centers,
big-box store locations



Esports



Events
Concerts,
theatrical productions



Character Merchandising
Figures, T-shirts,
food, etc.

OUTPUT (Non-financial results)

2 titles achieved million-seller status

Built new sound studios

40 educational support activities

210 senior tour participants

Hired 145 new graduates

Established onsite daycare center

Social Contributions

Stimulated communication between generations

Innovation through gaming technology

Contributed to local revitalization

Provided space for senior citizens to interact

Boosted inbound tourism by raising consciousness around gaming culture

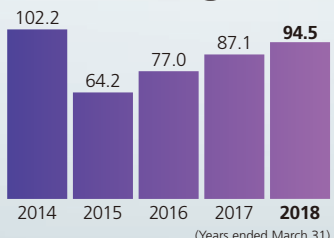
Trained human resources in the IP industry



Net Sales (Billions of yen)

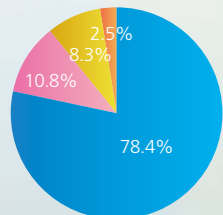
94.5 billion yen

UP 8.4%



Business Segment Sales Ratio (%)

- Digital Contents **78.4%**
- Arcade Operations **10.8%**
- Amusement Equipments **8.3%**
- Other Businesses **2.5%**

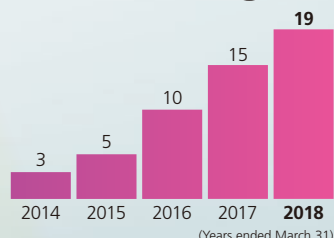


Social Capital

Cumulative number of regional vitalization projects (projects)

19 projects

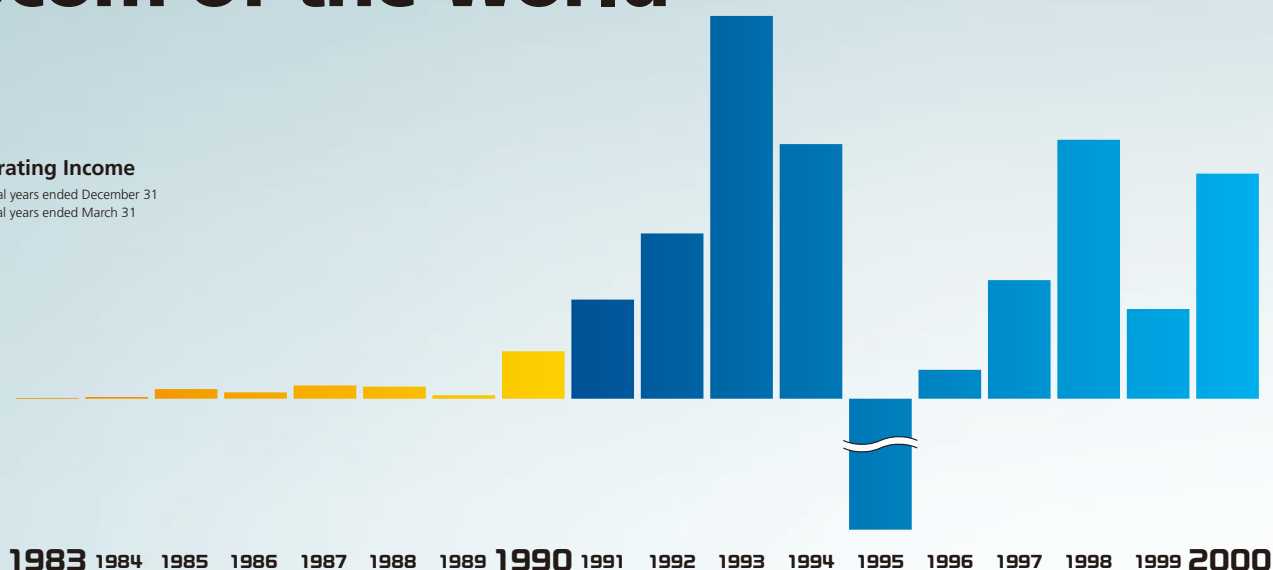
UP 4 projects



From Capcom of Japan to Capcom of the World

Trend in Operating Income

Note: 1983–1988: Fiscal years ended December 31
1989–2017: Fiscal years ended March 31



Genesis

1983, Capcom Co., Ltd. was established in Osaka. The Nintendo Entertainment System (NES) came out that same year, but it was difficult to develop high-quality arcade-level content for, so Capcom focused business development on the creation and sales of arcade games using the proprietary high-spec circuit board “CP System.”

- 1979** Established the I.R.M. Corporation in Matsubara, Osaka (capital of 10 million yen) with objectives of developing and selling arcade game machines.
- 1983** Established the previous CAPCOM CO., LTD. (capital of 10 million yen) in Hirano, Osaka, with the objective of selling software.
- 1983** Established the Tokyo Branch in Shinjuku, Tokyo.
- 1985** Established CAPCOM U.S.A., INC. in California to distribute Capcom’s products in the U.S.A.
- 1989** Merged the previous CAPCOM CO., LTD. Changed corporate name to CAPCOM CO., LTD. and moved the head office to Higashi-ku, Osaka.
- 1989** Established a resident office in the U.K.

Big Hits Drive Business Expansion

In the 1990s, the arrival of Super NES prompted Capcom to formally enter home video game development. Numerous hit titles were created that drew on Capcom’s arcade game development expertise. The Single Content Multiple Usage strategy was launched in earnest in 1994 with the release of a Hollywood movie and animated movie based on *Street Fighter*.

- 1990** Stocks registered as OTC securities with the Japan Securities Dealers Association.
- 1993** Established CAPCOM ASIA CO., LTD. in Hong Kong to distribute Capcom’s products in Southeast Asia.
- 1993** Stock listed on the second section of the Osaka Securities Exchange.
- 1993** Held Street Fighter II Turbo Championship 93 in Kokugikan, a forerunner of today’s use of fighting games in esports.
- 1994** Constructed head office, which was relocated to Uchihirano-machi, Chuo-ku, Osaka.
- 1995** Completed construction of the R&D Building.
- 1999** Stock changed listing to the First Section of the Osaka Securities Exchange.
- 1999** Adopted executive officer system.

Title History

1983

Released our first originally developed coin-op *Little League*.



1984

Released our first arcade video game *Vulgus*.

1985

Released our first home video game *1942* for the Nintendo Entertainment System (NES).



1987

Released *Mega Man* for the NES.

1992

Released *Street Fighter II* for the Super NES.



1993

Released *Breath of Fire* for the Super NES.

1996

Released *Resident Evil* for PlayStation, a long-time seller which had record breaking sales, and established the genre of survival horror.





Going Global

In 2000, Capcom listed its shares on the First Section of the Tokyo Stock Exchange. In the 2000s, Capcom created one hit title after another that gained popularity overseas. The Hollywood movie version of *Resident Evil* earned 102 million U.S. dollars globally, part of a six title hit series that continues to spread the Capcom brand throughout the world.

- 2000** Stock was listed on the First Section of the Tokyo Stock Exchange.
- 2001** Appointed two external directors for the first time.
- 2002** Established CE EUROPE LTD. in the U.K.
- 2002** Increased the number of external directors by one, bringing the total to three.
- 2002** Established the Compensation Committee.
- 2003** Established CEG INTERACTIVE ENTERTAINMENT GmbH in Germany.
- 2003** Established the Compliance Committee.
- 2005** Launched educational support activities for elementary and junior high school students as part of our corporate social responsibility (CSR) as a game manufacturer.
- 2007** Established CAPCOM ENTERTAINMENT KOREA CO., LTD. in South Korea.
- 2008** Made ENTERRISE CO., LTD. a subsidiary.
- 2008** Made K2 CO., LTD. a wholly-owned subsidiary.
- 2008** Established Capcom Entertainment France SAS in France.

Media Diversification

The smartphone and tablet game app market is growing rapidly. Capcom has released titles featuring our intellectual properties in this market. We are also staying ahead of technological advances by developing games for dedicated consoles that make use of virtual reality.

- 2010** Established CAPCOM GAME STUDIO VANCOUVER, INC. in Canada.
- 2011** Established the Audit Committee.
- 2012** Established CAPCOM TAIWAN CO., LTD. in Taiwan.
- 2015** Signed a Comprehensive Partnership Agreement with the city of Kofu to promote vitalization of the local economy by using Capcom characters.
- 2016** Completed construction of the R&D Building #2 in Osaka City.
- 2016** Transitioned into a company with an audit and supervisory committee, with a 50% ratio of external directors.
- 2016** Established the Nominating Committee.
- 2018** Established the eSports Group. Began full-scale expansion into the growing esports market.

2001

Released *Onimusha* for PlayStation 2. The first game for PlayStation 2 to become a million-seller in Japan.

Released *Devil May Cry* for PlayStation 2.



2005

Released *Sengoku BASARA* for PlayStation 2.

2006

Released *Dead Rising* for Xbox 360. Became a million-seller, unprecedented for a new title created for a new game console.



2012

Released the home video game *Dragon's Dogma*. It sold over one million units, uncommon in recent years for a new brand.



2017

Released *Resident Evil 7 biohazard*. Full support for VR became a hot topic.

2018

Monster Hunter: World was released worldwide. It sold a record 7.5 million units within about one month of its release.



Steady Output of Million-Seller Titles Born from a Foundation of Popular Brands

We have continued to create a wealth of popular content (intellectual properties) since our founding, 35 years ago. Today, our IP are loved the world over, and we are working to maximize profitability by expanding from games into movies, animation, stage productions and other works.



RESIDENT EVIL 2

Resident Evil series

Total number of units sold

83 million

(As of March 31, 2018)

Cumulative million-seller titles

26 titles



Street Fighter series

Total number of units sold

40 million

(As of March 31, 2018)

Cumulative million-seller titles

12 titles



Mega Man series

Total number of units sold
32 million
(As of March 31, 2018)

Cumulative million-seller titles
4 titles

Monster Hunter series

Total number of units sold
48 million
(As of March 31, 2018)

Cumulative million-seller titles
11 titles

KPI (Fiscal year ended March 31, 2018)

Cumulative million-seller titles	Number of developers	Number of units sold
86 titles	2,141 people	24.4 million units


Business Development Leveraging Popular Brands

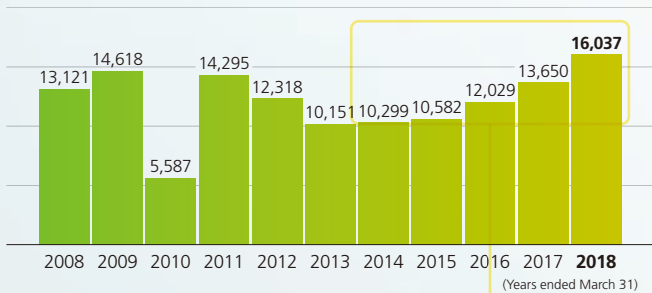
Our biggest strength is our advanced development capabilities that allow us to continuously create fun, original content. We have many brands that enjoy global popularity, and we regularly develop and release games that take advantage of these brands. We also roll them out into other media, making them long-term sources of revenue.

Financial Highlights

Operating Income / Operating Margins

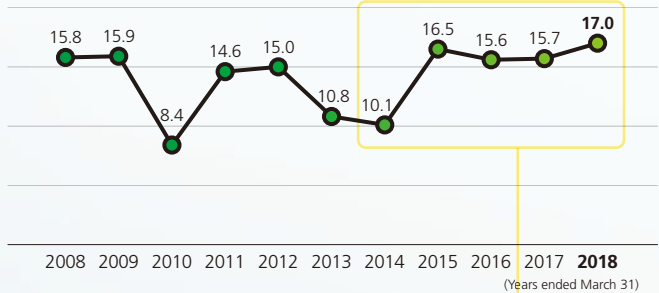
Operating Income (Millions of yen)

16,037 million yen
UP 17.5% 



Operating Margins (%)

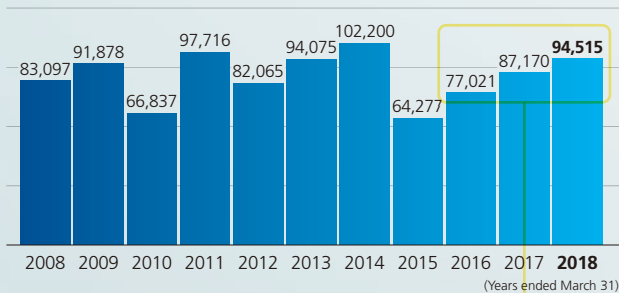
17.0%
UP 1.3 points 



In line with structural reforms conducted in the fiscal year ended March 2004, operating income increased steadily until the fiscal year ended March 2009. In the fiscal year ended March 2010, the postponed release of major titles and the failure of some titles to meet sales targets overseas resulted in a temporary decline in income. In the fiscal year ended March 2011, we promoted profit structure reforms aimed at more efficient development investment. We promoted business restructuring by transitioning to in-house production and strengthened our digital download strategy in response to rapid changes in the market beginning in the fiscal year ended March 2013. As a result, operating income and operating margins underperformed until the fiscal year ended March 2014 while these reforms were implemented. However, since the fiscal year ended March 2014, operating income has increased for five consecutive fiscal years thanks to growth of the Consumer and Amusement Equipments businesses. Notably, in the fiscal year ended March 2018, the hit performance of *Monster Hunter: World* resulted in record income, and the operating margin also improved.

Net Sales (Millions of yen)


94,515 million yen
UP 8.4% 

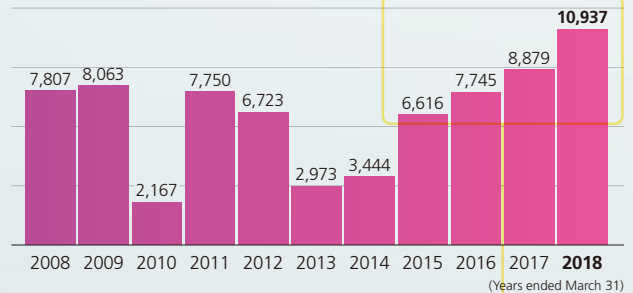


In the fiscal years ended March 2010 and March 2012, net sales declined due to the postponed release of titles. However, the promotion of structural reforms in the Consumer business resulted in Capcom achieving net sales of 100 billion yen in the fiscal year ended March 2014 for the first time. Although net sales decreased significantly in the fiscal year ended March 2015 due to a delay in pachislo machine releases, the steady release of major titles from the Consumer business since the fiscal year ended March 2016 has resulted in an increase in net sales for three consecutive fiscal years.

Net Income Attributable to Owners of the Parent

(Millions of yen)

10,937 million yen
UP 23.2% 

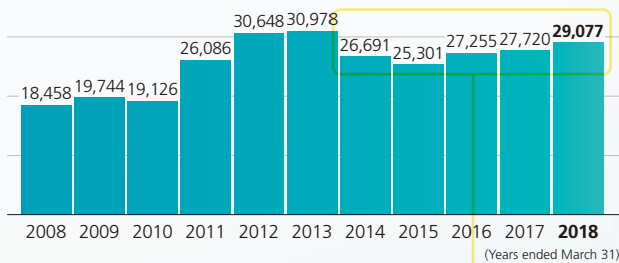


Performance was sluggish in the fiscal years ended in March 2010, 2013 and 2014, as (1) a complete overhaul to the Amusement Equipments' underperforming profit structure, (2) development structure revisions in line with enhanced digital downloads in the Consumer business and (3) strengthened Mobile Contents business management capabilities in line with development organization integration resulted in the recognition of special losses on restructuring and business restructuring expenses. From the fiscal year ended March 2015, income increased five years in a row due to the benefits from development organization reforms beginning to manifest.

→ Please refer to "11-Year Summary of Consolidated Financial Indicators" on pages 77-78

R&D Investment Costs (Millions of yen)

29,077 million yen
UP 4.9% ↗

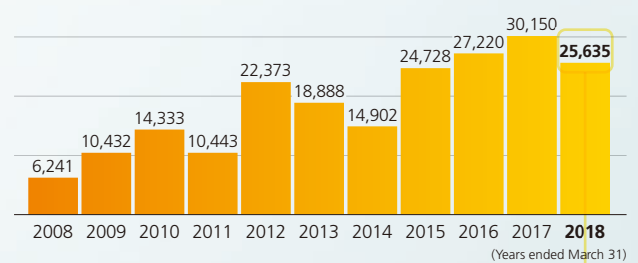


At Capcom, we believe the generation of creative and original content is the source of corporate growth, thus 90% or more of our annual development investments are allocated to the Digital Contents business. Recently in the Consumer segment, development costs have been trending higher in line with increasingly high-performance hardware, but we have been able to streamline development through increased employee utilization rates. Due to expanding our lineup, costs have been on the rise since the fiscal year ended March 2008; however, we expect them to remain around 30 billion yen going forward.

Balance of Works in Progress for Game Software

(Millions of yen)

25,635 million yen
DOWN 15.0% ↘

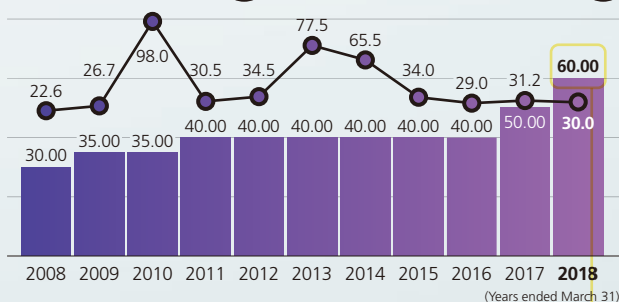


The balance of work in progress for game software has been on the rise in line with increasingly high-performance hardware. In the fiscal years ended March 2011 and 2014, it decreased with the release of major titles. Since the fiscal year ended March 2015, it has been increasing again with expansion of the lineup and release of new-generation hardware, but in the fiscal year ended March 2018 it decreased owing to the release of *Monster Hunter: World* and the reevaluation of some unprofitable titles.

Dividend per Share / Dividend Payout Ratio

■ Dividend per Share (Yen) ● Dividend Payout Ratio (%)

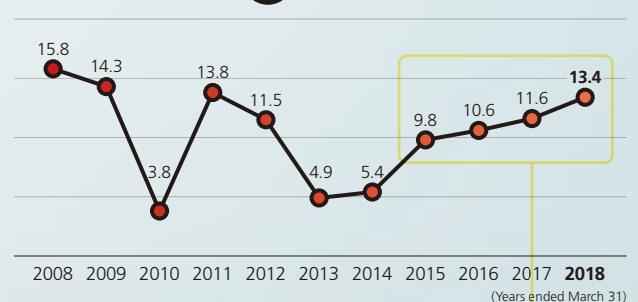
60.0 yen **30.0%**
UP 20.0% ↗ **DOWN 1.2 points** ↘



Up to the fiscal year ended March 2016, Capcom had a basic policy of maintaining stable dividends, and in the fiscal years ended March 2009 and 2011, the annual dividend was raised 5 yen in conjunction with improved business results. Since the fiscal year ended March 2017, the basic policy has been to maintain a consolidated payout ratio of 30% and to strive for stable dividends. As a result, the annual dividend per share in the fiscal year ended March 2018 was 60 yen, the highest ever in the 28 years of continuous dividends since our listing.

Return on Equity (ROE) (%)

13.4%
UP 1.8 points ↗



Although net assets increased between the fiscal years ended March 2007 and March 2009, stable net income resulted in ROE of around 14%. In the fiscal years ended in March 2010, 2013 and 2014, this figure declined due to decreases in net income from the recognition of special losses on restructuring and business restructuring expenses. From the fiscal year ended March 2015, ROE has once again been on the rise on the elimination of special losses and improved profitability.

ESG Highlights

At Capcom, we believe that sustainable growth is achieved by delivering social and economic value, while at the same time building healthy relationships with stakeholders from the unique perspective of a game publisher. This entails tackling social issues through our business activities, such as training human resources capable of succeeding on the global stage, and the creation of new markets through cutting-edge technology. To address the above, we have selected four material issues for ESG.

We believe that the principle of Sustainable Development Goals (SDGs), namely that “all cultures and civilizations can contribute to sustainable development,” and our own corporate philosophy, which is that we are “creators of entertainment culture that stimulates your senses,” are closely related.

As such, we will contribute to the development of a sustainable society by promoting our growth strategy and clearly addressing these material issues.

ESG Initiatives and Future Challenges

	Initiatives	Contribution to Business	Future Challenges
E Environmental	<ul style="list-style-type: none"> ● Reduced CO₂ emissions by switching to LED lighting ● Constructed new environmentally-friendly buildings ● Reduced exhaust gas and resources used via distribution network sharing with other companies in the industry ● Reduced paper resources used through the digitization of instruction manuals 	<ul style="list-style-type: none"> ● Reduced costs (used less electricity, cut distribution costs) 	<ul style="list-style-type: none"> ● Increasing energy conservation at existing buildings through renovation ● Further conserving energy in amusement facility operations
	S Social	<p>Relationship with Employees</p> <ul style="list-style-type: none"> ● Actively employed non-Japanese citizens ● Increased number of women in management positions ● Held Health and Safety Committee meetings ● Implemented staff training ● Implemented discretionary work system <p>Relationship with Customers</p> <ul style="list-style-type: none"> ● Compliance with the CERO ratings system ● Formulated guidelines with industry groups <p>Relationship with the Regional Community</p> <ul style="list-style-type: none"> ● Welcoming children participating in Company Visits to our offices / holding Guest Lectures at schools ● Regional revitalization making use of Capcom content ● Supported senior citizen community formation with video game arcade tours 	<ul style="list-style-type: none"> ● Expanded global reach through game development based on a diverse set of values ● Acquired competent creators ● Improved creator productivity ● Fostered a commitment to legal compliance <ul style="list-style-type: none"> ● Improved customer satisfaction by creating stress-free environments for play ● Reduced social risks posed by games <ul style="list-style-type: none"> ● Expanded profit opportunities by improving company and IP name recognition
G Governance	<ul style="list-style-type: none"> ● Increased dialogue with shareholders ● Transitioned to a company with an audit and supervisory committee ● Raised the ratio of external directors ● Established a nominating committee (voluntary) 	<ul style="list-style-type: none"> ● Evaluated proper corporate value on both financial and non-financial bases ● Avoided managerial decision-making risk through better management monitoring ● Ensured the appropriateness of growth strategies by having the Board of Directors consider a range of views ● Perpetuated the founder’s business know-how 	<ul style="list-style-type: none"> ● Increasing the number of opportunities for persons in charge of development to converse with the market ● The effective operation of the audit and supervisory committee system ● Board of Directors effectiveness assessments and their utilization ● Setting developer compensation in consideration of medium- to long-term sustainable growth

Sustainable Development Goals (SDGs)

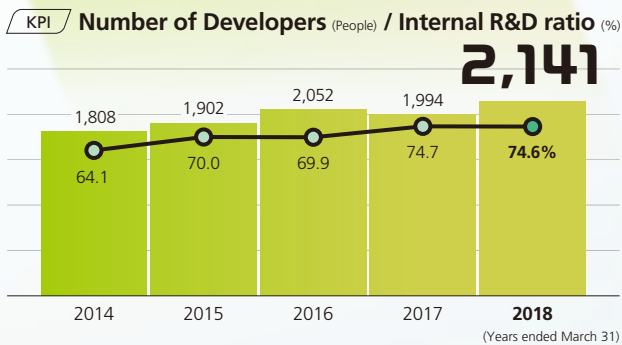
Set by the United Nation’s more than 150 member states at the UN Sustainable Development Summit 2015, held in September of the same year, the SDGs lay out 17 goals for the world to focus on with the aim of eliminating poverty and achieving global sustainability.

➔ For more information, please refer to the United Nations Sustainable Development Goals webpage below:
<https://www.un.org/sustainabledevelopment/sustainable-development-goals/>



Material Issue ①

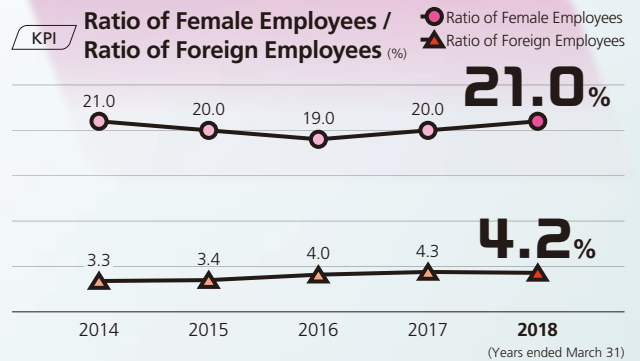
Securing and Training of Human Resources



We are working to secure and train outstanding developers based on our desire to make the most entertaining games in the world, which has resulted in a nearly three-fold increase in developers over the past 10 years. We are working to improve the technical skills and motivation of our employees by such means as developing a system to train up new graduates to be fully capable team members within three years, promoting younger and mid-career employees to work on major titles, and putting together an environment that empowers developers to create the games they want to create.

Material Issue ②

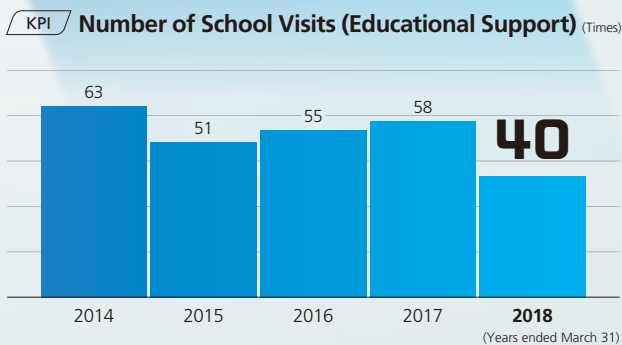
Promoting Diversity



Securing a pool of human resources with diverse thinking is an important element for developing world-class games. For that reason, we are promoting diversity, working on building a workplace where women can excel, and actively hiring foreign nationals. We are tying this into the creation of all-new intellectual properties and successful, unconventional collaborations.

Material Issue ③

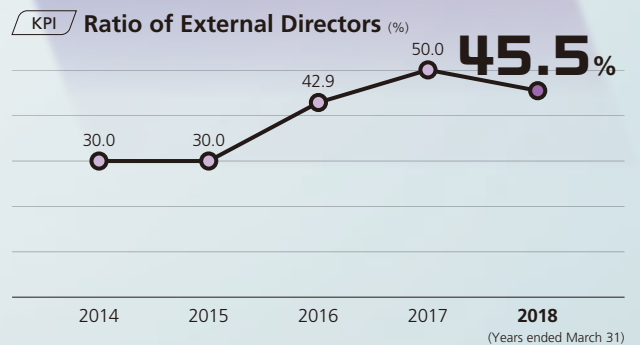
Development of Solid Relationship with Society



Based on the desire to promote understanding in society of video games, Capcom holds Company Visits, where we welcome children to our offices, and Guest Lectures at schools, both tailored to elementary and junior high school students. In addition to providing information on what it's like to work at a game company, and delivering career education on the variety, joy, difficulty, and importance of these jobs, we offer advice on game literacy, or how to maintain a healthy relationship with games.

Material Issue ④

Enhancement of Corporate Governance



Generally, an owner-run company excels at being flexible and fast decision-making, though concerns may exist over the issue of succession. At Capcom, we strive to make management more transparent and visible, and have implemented various governance reforms to this end, such as the Nomination and Remuneration Committee. We proactively appoint external directors, with 45.5% of our directors now being external directors.

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 released *Monster Hunter: World*, which became our biggest hit ever
- Rereleases for the Nintendo Switch performed well
- Sales of *Marvel vs. Capcom: Infinite*, which targeted the North American and European markets, were weak

Mobile Contents

- We released *Snoopy Life*



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 establishment of the Capcom Esports Club
- Two arcades were opened, and two were closed
- Same store sales were up 2% year over 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 18,000 *Resident Evil: Revelations* pachislo machines
- We delayed the release of two models in light of changes in the market environment of the PS sub-segment stemming from changes to certification methods
- In the Arcade Games Sales sub-segment, we released the *Monster Hunter Medal Hunting G* medal game



Other Businesses

Based on our Single Content Multiple Usage strategy of leveraging game IP across different media, we pursue a variety of copyright-related business opportunities. In addition to adapting game content into movies, animated television programs, music CDs, character merchandise and other products as part of our licensing business, we are also devoting resources to our esports business.

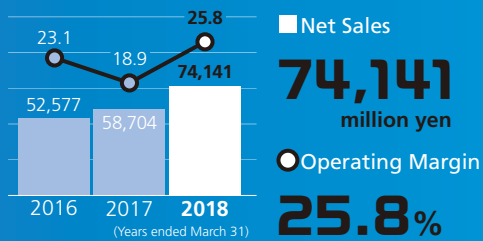
- We maximized unit sales of *Monster Hunter: World* and *Resident Evil*-related titles with events tied into product launches
- We are actively rolling out esports events, including the Capcom Pro Tour and Capcom Cup

Main Products for This Fiscal Year (Output)

PC Online

- The performance of PC Online titles *Monster Hunter Frontier Z* and *Dragon's Dogma Online* declined

Net Sales / Operating Margins



Monster Hunter: World

Efforts to globalize the *Monster Hunter* brand, including the first global simultaneous release for the series and aggressive overseas promotions, paid off with it becoming the biggest hit in Capcom history, selling 7.9 million units worldwide.

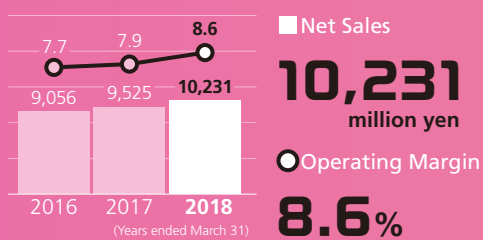


Resident Evil 7 biohazard

We released *Resident Evil 7 biohazard Gold Edition*, which combined the full game and paid download content into a single package. Despite it being a catalog title released the previous year, it sold 1.6 million units.



Net Sales / Operating Margins

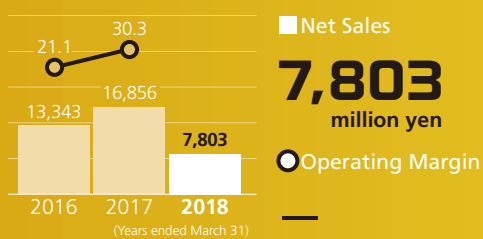


Game Land Tsudanuma

We opened this new location in August 2018. In addition to the latest game machines, we have also set up a VR corner and Chara Cap merchandise shop to attract more customers.

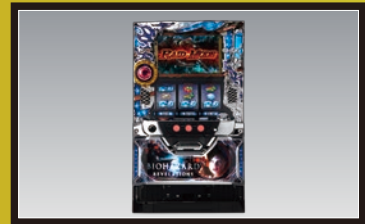


Net Sales / Operating Margins

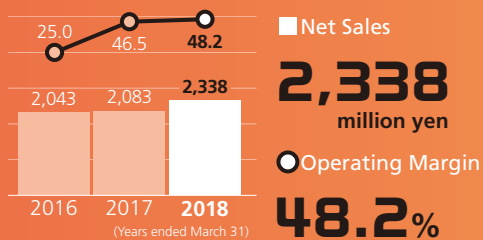


Resident Evil: Revelations Pachislo Machine

This is the latest pachislo machine to utilize the *Resident Evil* brand, which is popular in both the home video game and pachislo machine markets. The popularity of the series and the special cabinet called "The Abyss" appealed to players and led to sales of 18,000 units.



Net Sales / Operating Margins



Capcom Cup 2017

The world championship and conclusion of the *Capcom Pro Tour 2017*, this annual esports tournament is organized by Capcom and was held in Anaheim, California in December 2017. It was very favorably received, with 2,500 spectators in attendance and more than 2.57 million viewers watching online.



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Our Vision to Increase Operating Income Annually by Balancing Stability and Growth

We will realize annual increases in operating income via a portfolio comprised of growth in the Consumer business, stability in the Amusement-related business and a mix of future options to drive further growth. For the next several years, we will focus on establishing both a foundation for stable growth and a system for additional growth while also expanding our user base by strengthening overseas expansion of the Consumer business.

Medium- to long-term growth



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Growth Strategy

[Mobile]

- Promote alliances in Japan and other countries
- Explore new developments

[Esports]

- Having established a dedicated esports division, expand aggressively by holding events in Japan

[New Titles (Consumer Business)]

- Regularly release titles for major IP
- Promote utilization of dormant IP and remakes

[Overall (Consumer Business)]

- Strengthen digital downloads for both new and catalog titles

[Catalog Titles (Consumer Business)]

- Expand *Monster Hunter* series globally
- Extend sales life of catalog titles with rereleases for current-generation hardware



[PS Business]

- Build development structure to handle new regulations



Long-term

→
Period