

Financial Results Briefing for the Year ended March 31, 2020

Summary of President and COO Haruhiro Tsujimoto's Presentation

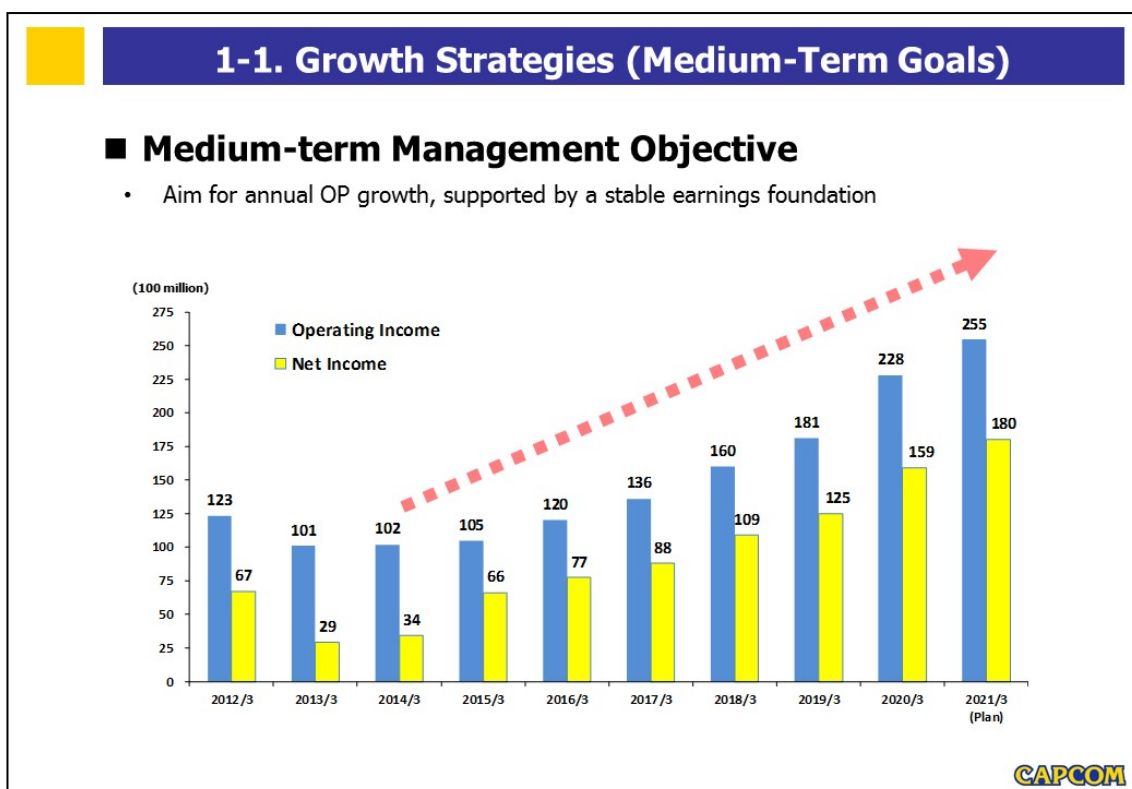
(May 12, 2020)

Good day to all of you, my name is Haruhiro Tsujimoto, president of Capcom.

Before I begin, I would like to offer up our most heart-felt sympathies to all who have been affected by COVID-19.

Today, I will discuss our medium-term management objectives, as well as our plans and strategies for the fiscal year ending March 31, 2021.

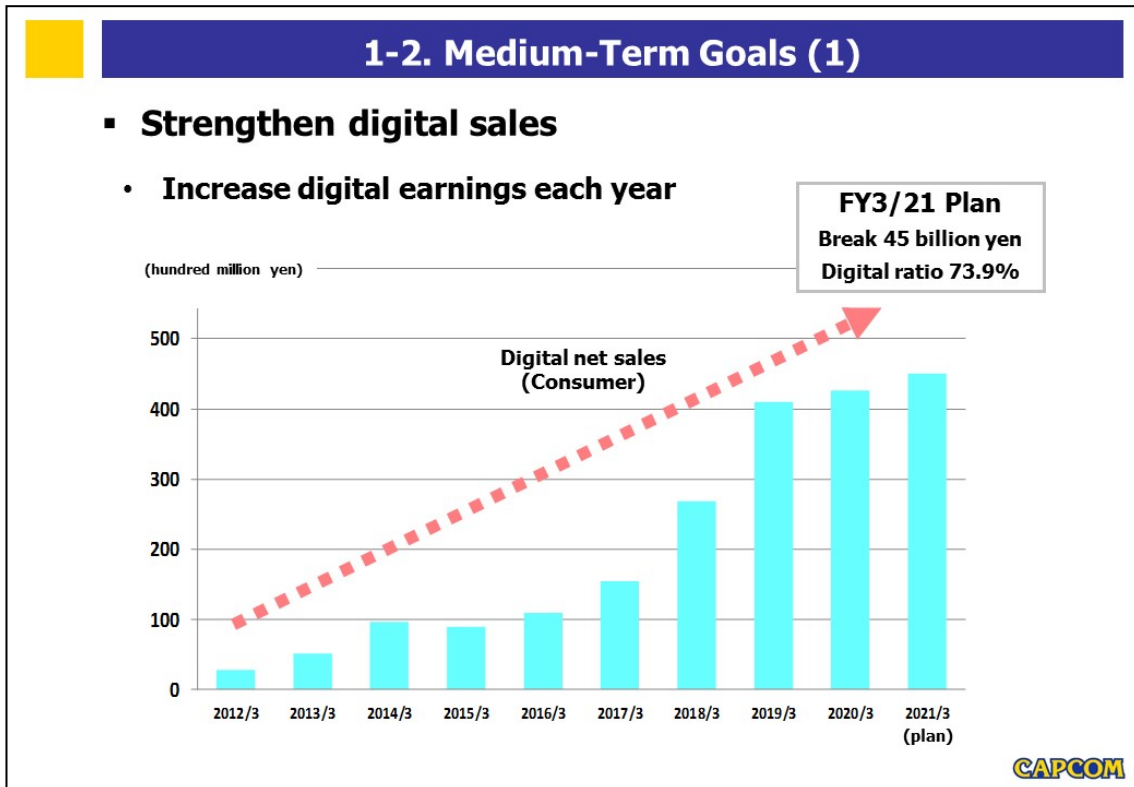
1-1. Growth Strategies (Medium-Term Goals)



Our current medium-term management objective is to deliver increased operating profit each fiscal year. For the year ended March 2020, we once again focused on bolstering digital sales and steadily building up unit sales and profit. As a result, starting from the March 2013 fiscal year we have achieved seven consecutive years of profit growth and three consecutive years of record profit levels.

In addition to operating income, net income has also increased for seven consecutive years.

1-2. Medium-Term Goals (1)



Here you can see a summary of our digital sales growth, an important KPI in delivering stable growth.

Digital sales in our Consumer sub-segment stood at ¥2.8 billion at the end of the March 2012 fiscal year; however, since then, as a result of making stronger digital sales a key focal point for management, in our guidance for this fiscal year we anticipate digital net sales to exceed ¥45 billion, with a digital sales ratio of 73.9%.

1-2. Medium-Term Goals (2)

1-2. Medium-Term Goals (2)

- **Realize stable growth through extended lifetimes for high-quality titles**
 - Titles contribute long-term, starting at launch and continuing into high-margin catalog sales
 - Sowing seeds for the future, capture new customers through pricing strategies

(ten thousand units)

	2017/3	2018/3	2019/3	2020/3	2021/3 (plan)
Resident Evil 7 biohazard	350	160	125	100	Continue to contribute to profit as catalog titles
Monster Hunter: World		790	450	320	
Resident Evil 2			420	240	
Devil May Cry 5			210	130	
Monster Hunter World: Iceborne				520	
Cumulative unit sales	1,940	2,440	2,530	2,550	2,800
New	1,060	1,340	1,110	730	1,000
Catalog	880	1,100	1,420	1,820	1,800

CAPCOM

Next, I will discuss the factors of stable growth, looking at the extended sales lives of our major titles.

Releasing high-quality titles and selling them digitally supports stable growth because even in the years following their release, these titles can be sold over the long-term as high-margin catalog titles. As you can see, this trend is especially clear following *Resident Evil 7*, released in the March 2017 fiscal year.

Further, through strategic pricing we can capture new user segments, including those in developing regions, allowing us to sow seeds for future releases in a series.

1-2. Medium-Term Goals (3)

1-2. Medium-Term Goals (3)

- **Strengthen global sales via advances in digital marketing**
 - Build user-retention based on player characteristics gathered from play data
 - Pursue a global-orientated, regional strategy from four locations: the Americas, Europe, Japan, Asia
 - Integrate operations for business planning, marketing and sales



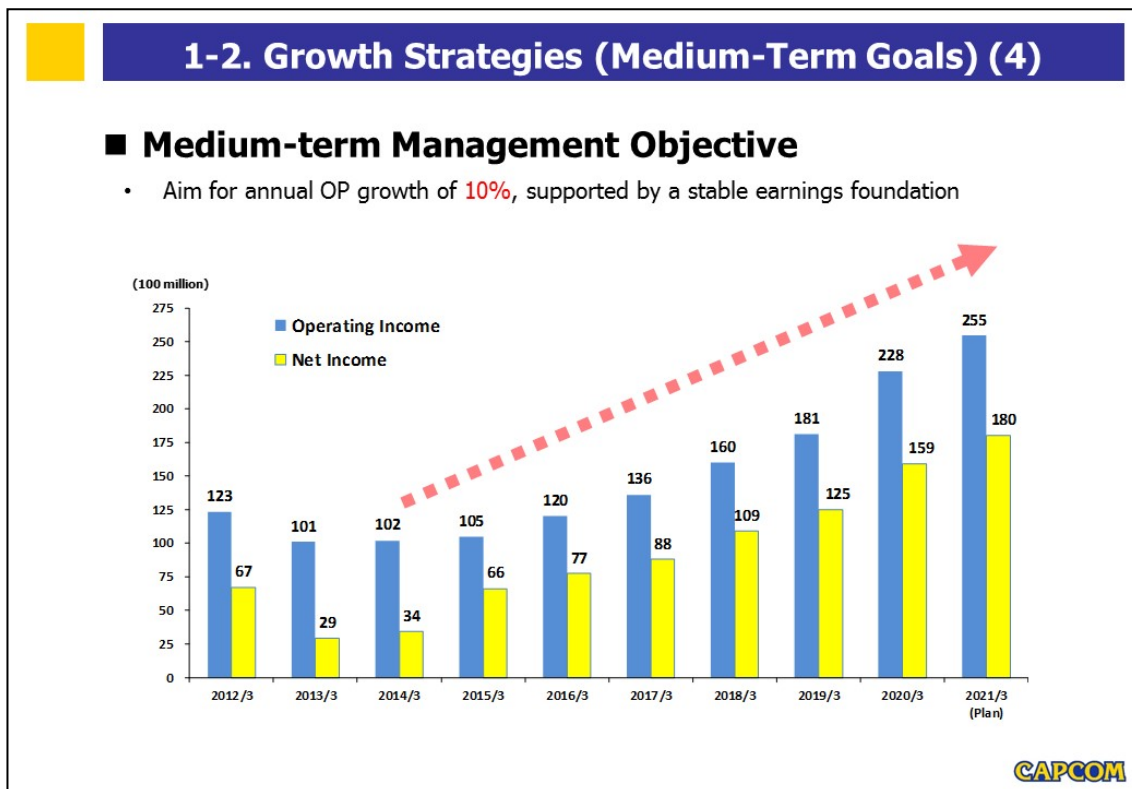


Now I would like to go over how we will strengthen global sales through digital marketing.

While further pursuing gameplay data collection and its utilization in marketing, which we began some time ago, we will promote strategies suited to each of the four major regions that roughly make up the global market: the Americas, Europe, Japan and Asia.

Further, we will strengthen management and operations by establishing our organization anew, integrating business planning, marketing and sales from this April.

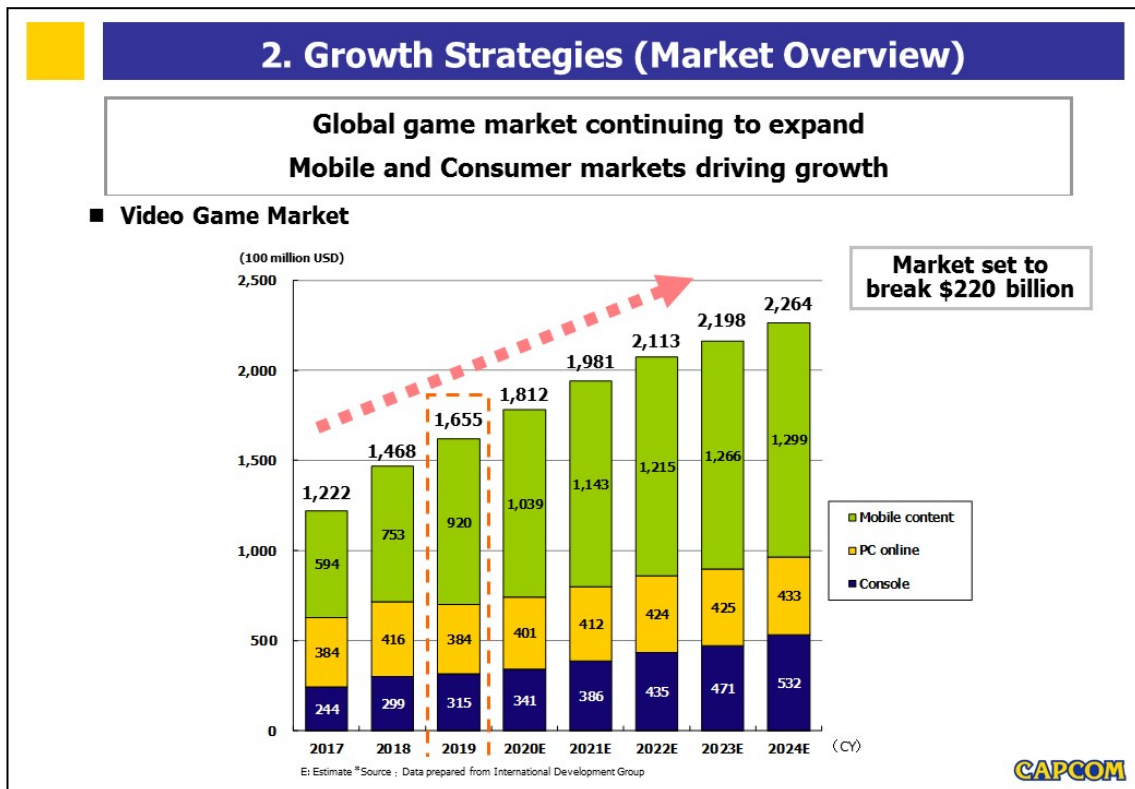
1-2. Growth Strategies (Medium-Term Goals) (4)



As I have said, given that the tangible results we have achieved with stable growth thus far have grown larger, we will now specifically set our target annual operating income growth rate at 10%.

Continuing this year as well, we will focus on growing our user base, increasing brand value and expanding globally, aiming to achieve ¥25.5 billion in operating income and 4 consecutive years of record-high profit.

2. Growth Strategies (Market Overview)



Now I'd like to look at the latest market forecast.

The overall game market is expected to grow, driven by the Consumer and Mobile markets.

The market grew to \$165.5 billion in 2019, up \$18.7 billion from the previous year, exceeding the forecast from one year ago. Further, the market is expected to reach \$226.4 billion in 2024, 1.3 times 2019's market size. The mobile market in particular is expected to show the most growth, with growth anticipated in Asia and developing regions.

Also, driven by digital sales growth, the Consumer market is expected to show substantial growth, reaching 1.5 times 2019's level.

For us at Capcom, we continue to view the ongoing growth of the Consumer and Mobile markets as a significant opportunity.


3-1. Forecasts for FY3/21

3-1. Forecasts for FY3/21

Aim for eight consecutive years operating income growth driven by stable growth of the Digital Contents business

	2020/3	2021/3 Plan	Difference
	(million yen)		
Net sales	81,591	85,000	3,409
Operating income	22,827	25,500	2,673
Operating margin	28.0%	30.0%	-
Ordinary income	22,957	25,500	2,543
Net income attributable to owners of the parent	15,949	18,000	2,051

- Expect sales and profit growth YoY due to contributions such as major new releases and catalog sales in the Consumer business
- Earnings per share forecast: ¥168.62
- Dividend forecast: interim dividend of ¥20 and year-end dividend of ¥25 resulting in a ¥45 dividend for the fiscal year



Next, I will go over our forecast for the March 31, 2021 fiscal year.

Due to COVID-19, we are facing an uncertain situation in Japan and around the world. We have prepared our business forecast in as much as possible utilizing reasonable estimates at the present time.

This fiscal year, we aim to grow our core Consumer business with multiple major new title releases and a continued focus on bolstering digital sales, targeting record profit at all levels. Further, we look to achieve our eighth consecutive year of operating income growth.


Year-over-year, our forecast calls for net sales to increase by ¥3.4 billion to ¥85 billion, and operating income to increase by ¥2.6 billion to ¥25.5 billion, with a 30.0% operating margin; ordinary income is expected to increase by ¥2.5 billion to ¥25.5 billion and net income attributable to owners of the parent is expected to increase by ¥2 billion to ¥18 billion. Our earnings per share forecast is ¥168.62, and our dividend forecast calls for an interim dividend of ¥20 and a year-end dividend of ¥25, resulting in a ¥45 dividend for the full fiscal year.

3-2. COVID-19 Impact and Response

3-2. COVID-19 Impact and Response

- **Concerning FY3/21 Consolidated Business Forecast**
 1. **Undetermined factors that may affect our outlook for this fiscal year**
 - 1) Effect on content development process
 - 2) Timing of reopening for our stores/arcades and impact on demand
 - 3) Impact on demand at pachinko/pachislo halls due to voluntary suspension of operations
 - 4) Delay/cancellation of esports tournaments and events
 2. **Actions by Capcom**
 - 1) Implementing preventative measures such as work from home, as well as hand-washing, gargling, and mask-wearing for employees
 - 2) Thoroughly streamlining content development process to minimize impact

Focus on growing sales for already-released new titles and catalog titles by further promoting digital sales, which exceeded 20 million units last fiscal year.



Now I would like to touch upon the impact of COVID-19 and our response.

We expect a number of undetermined factors may each affect our business forecast for this fiscal year. These include the effect on our content development process; any impact due to the suspension of operations in our Arcade Operations business or at pachinko and pachislo halls; and the delay or cancellation of esports tournaments and events.

In terms of our response, we are working to thoroughly streamline content development to minimize impact. We will focus on growing sales of new titles and catalog titles by further promoting digital sales.

Additionally, we are encouraging work from home for employees as well as hand-washing, gargling, and use of sanitizers and masks as means of preventing the spread of infection.

4-1. Digital Contents – Strategic Objectives and Plan (1)

4-1. Digital Contents – Strategic Objectives and Plan (1)

**Actively leverage major brands
Bolster catalog earnings through pricing strategies**

- **Consumer Strategies**
 - Expand pipeline with multiple major new releases
Resident Evil 3 unit sales break cumulative 2.5 million
 - *Monster Hunter: World* now exceeds cumulative 15.5 million units sold; along with *Monster Hunter World: Iceborne*, aim to grow ongoing sales
 - Work to maximize catalog sales through digital strategy
- **Mobile Strategies**
 - Work to grow ongoing titles from previous fiscal year as well as launch new titles
 - Pursue research into 5G technologies in preparation for wider adoption



Resident Evil 3



Moving forward, I will go over our Digital Contents business.

This year we will again leverage our major brands.

Looking at Consumer, *Resident Evil 3*, which was released on April 3, has exceeded 2.5 million units shipped as of the end of April. In addition to our major new releases, we will work to maximize sales by pursuing sales of catalog titles such as *Monster Hunter: World* and *Iceborne*. Further, on par with the previous year, we plan to deliver a digital sales ratio of 73.9%, driven by regional expansion around the globe and stronger support of the PC platform.

In Mobile, we plan to continue support for ongoing titles and release new titles while monitoring market trends. We will also pursue research into 5G technologies in preparation for its wider adoption.

4-1. Digital Contents – Strategic Objectives and Plan (2)

4-1. Digital Contents – Strategic Objectives and Plan (2)


Expect increase in unit sales from both multiple major new titles and back-catalog sales

■ FY3/21 Unit Sales Plan for the Consumer business

(units in thousands)

	2018/3	2019/3	2020/3	2021/3 Plan
New Titles (SKU)	50	61	35	13
Total unit sales	24,400	25,300	25,500	28,000
Overseas units	19,400	21,600	21,450	24,950
Digital units	12,900	15,300	20,550	23,500
Catalog units	11,000	14,200	18,200	18,000
Major titles				
New	Monster Hunter: World Marvel vs. Capcom: Infinite	Resident Evil 2 Devil May Cry 5	Monster Hunter World: Iceborne	Resident Evil 3 (more)
Catalog	Resident Evil 7 biohazard Monster Hunter Generations Ultimate	Monster Hunter: World Resident Evil 7 biohazard	Monster Hunter: World Resident Evil 2 Devil May Cry 5 Street Fighter V Resident Evil 7 biohazard	Monster Hunter World: Iceborne Resident Evil 2 Monster Hunter: World

*Includes distribution titles




Here is a breakdown of our unit sales plan.

The number of new titles we plan to release is down year-over-year, however overall unit sales are expected to be 28 million units total, once again representing an increase.

We plan to release 13 titles (by SKU) and sell 24.95 million units outside of Japan, 23.5 million units digitally, and 18 million units in back catalog sales.

4-1. Digital Contents – Strategic Objectives and Plan (3)

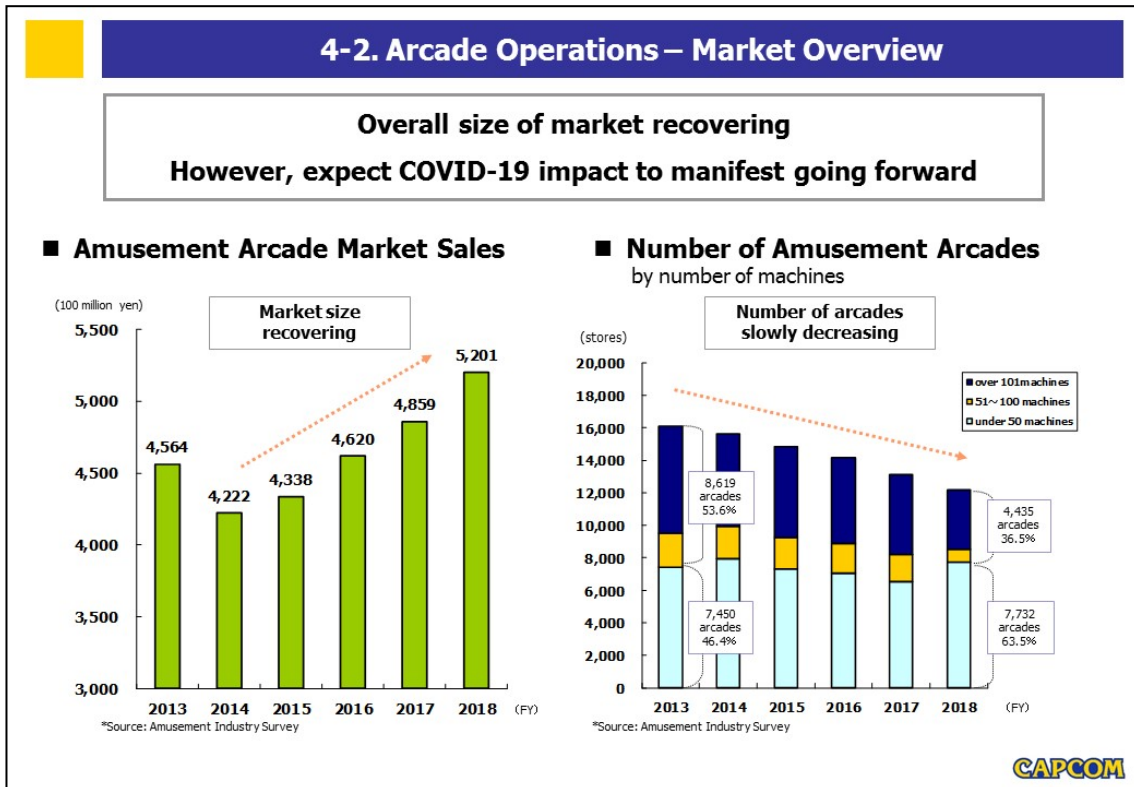
4-1. Digital Contents – Strategic Objectives and Plan (3)				
<p>Release multiple major new titles</p> <p>Anticipate increase in sales and profit driven by Consumer business</p>				
<p>■ Digital Contents Plan</p>				
(100 million yen)				
	2019/3	2020/3	2021/3 Plan	Difference
Net sales	829	599	669	70
Breakdown				
Consumer				
Package	359	129	159	30
Digital (incl. digital license)	410	426	450	24
Digital license only		26	20	
Consumer total	769	555	609	54
Mobile Contents	23	44	60	16
PC Other	37			
Operating income	233	241	283	42
Operating margin	28.1%	40.3%	42.3%	-
<p>*Digital license indicates one-time income from providing content etc. to online platforms</p> <p>*The PC Others sub-segment has been merged with Consumer as of FY3/20</p>				
				

This is the plan for our Digital Contents business.

This year we forecast net sales to increase by ¥7 billion to ¥66.9 billion, with physical package sales in Consumer increasing by ¥3 billion to ¥15.9 billion, and digital sales increasing by ¥2.4 billion to ¥45 billion (including an expected ¥2 billion in digital licensing revenue); this will drive up the Consumer total by an anticipated ¥5.4 billion to ¥60.9 billion. We also expect an increase of ¥1.6 billion to bring net sales in Mobile Contents to ¥6 billion.

Operating income is expected to increase by ¥4.2 billion to ¥28.3 billion. We anticipate an operating margin of 42.3%.

4-2. Arcade Operations – Market Overview



Next, I will go over our Arcade Operations business.

First is a look at the 2018 fiscal year market trends.

While the market had maintained a recovery trend in terms of market size for arcade operations businesses, we expect the impact of COVID-19 to manifest itself going forward.


4-2. Arcade Operations – Strategic Objectives and Plan

4-2. Arcade Operations – Strategic Objectives and Plan


Adhere to call for temporary closures due to spread of COVID-19
Monitor situation while considering operations going forward

- **Arcade Operations Strategy**
 - **Streamline existing operations while exploring new store formats**
 - Plan: same store sales: -18%; openings: 3, closings: 0, total: 43 stores
 - Expand merchandising stores to raise brand awareness and generate revenue opportunities
- **Arcade Operations Plan**

	2019/3	2020/3	2021/3 Plan	Difference
			(100 million yen)	
Net sales	110	120	105	-15
Operating income	10	12	0	-12
Operating margin	9.9%	10.0%	0.0%	-
Same store sales	+ 2%	+ 3%	-18%	-



Capcom Store Tokyo



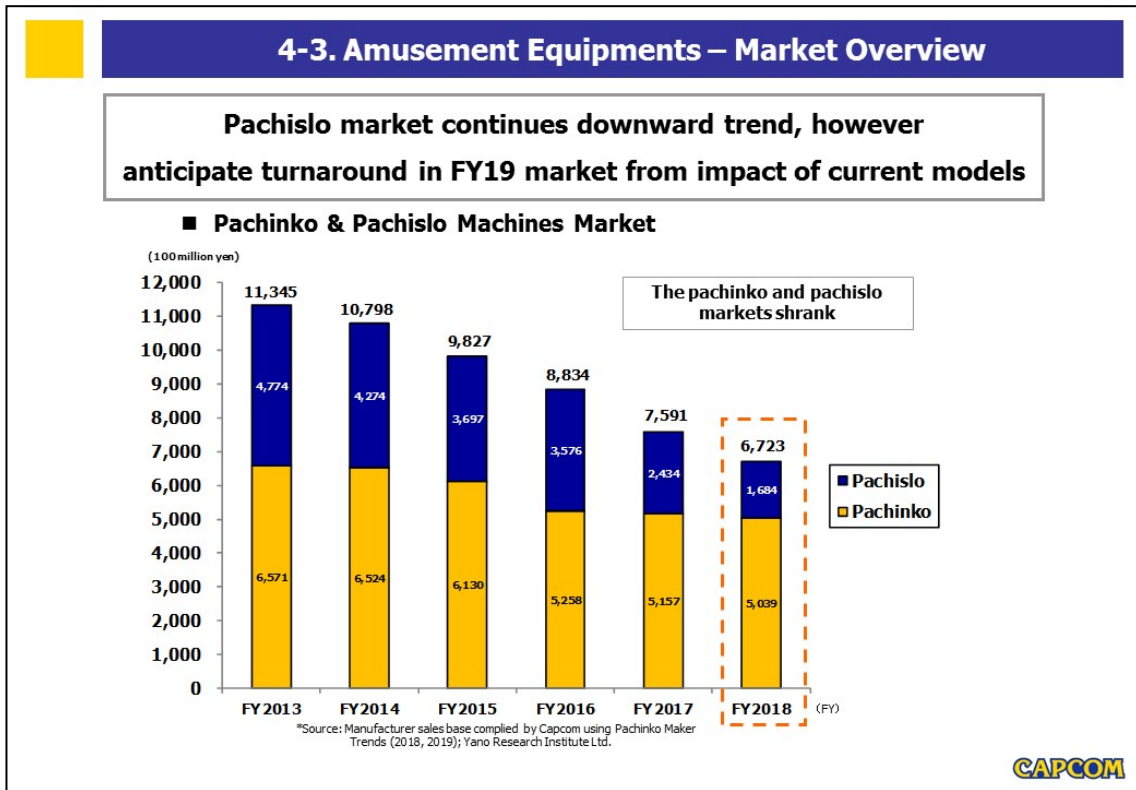
We plan to continue rolling out the new format stores from the previous year while streamlining operations at existing stores; however, in considering the impact of COVID-19, we forecast a decrease in sales and profit year-over-year in this business.

We expect same store sales to be down 18% year-over-year, and plan to open three new stores, bringing the total number of stores to 43.

Further, we will focus on developing new store formats such as cafes and merchandise shops that leverage our brands.

Year-over-year, our forecast calls for a ¥1.5 billion decrease to ¥10.5 billion in net sales, and a ¥1.2 billion decrease to ¥0 hundred million in operating income.

4-3. Amusement Equipments – Market Overview



Now I will discuss our Amusement Equipments business.

The pachislo market continues to decline following the impact of changes to verification methods since 2014.

4-3. Amusement Equipments – Strategic Objectives and Plan


4-3. Amusement Equipments – Strategic Objectives and Plan

**Aim to optimize number of new releases
based on operational status of pachislo halls**

- **Pachinko & Pachislo Strategy**
 - Release models utilizing our popular IP
 - Pachislo Machine Unit Sales Plan: one model; 15,000 units
(one model sold 20,000 units in previous year)
- **Amusement Equipments Plan**

	2019/3	2020/3	2021/3 Plan	Difference
Models	5	1	1	-
Unit sales	7.8	20	15	-5

	2019/3	2020/3	2021/3 Plan	Difference
Net sales	34	65	45	-20
Operating income	-26	20	17	-3
Operating margin	-	31.9%	37.8%	-



Here I will go over our strategy for the Amusement Equipments business.

We will closely monitor the operational status of pachislo halls, and plan to release one model, built to the current standards, which utilizes our IP.

Year-over-year, our forecast calls for a ¥2 billion decrease to ¥4.5 billion in net sales, and a ¥300 million decrease to ¥1.7 billion in operating income, with an expected operating margin of 37.8%.

4-4. Other Businesses – Strategic Objectives and Plan (1)

4-4. Other Businesses – Strategic Objectives and Plan (1)


Pursue Single Content Multiple Usage Strategy backed by sales growth of globally-established major IP

- **Character Contents Strategy**
 - **Expand earnings through merchandising and collaborations**
 - Release merchandise such as apparel and figures featuring popular IP
 - Release Biohazard RE:3 Special Soundtrack with launch of game
 - **Grow brand awareness through visual media and theme park collaborations**
 - Hollywood film adaptation *Monster Hunter* scheduled for September 2020 release








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Lastly, I will go through our Other Businesses.

For our Other Businesses, having achieved both increased sales and an established global presence for our IP, we will further advance our Single Content Multiple Usage strategy.

We plan to grow revenue in the Character Contents business, which deals with licensing and media, through leveraging popular IP in merchandise and in collaborations.

We also look to increase brand awareness globally with ongoing initiatives in theme parks and movies, such as the Hollywood adaptation of *Monster Hunter*, scheduled for a September release.

4-4. Other Businesses – Strategic Objectives and Plan (2)


4-4. Other Businesses – Strategic Objectives and Plan (2)

Continue activities to grow esports
Invest with an eye toward future monetization of business

- **eSports Strategy**
 - **Expand activities for growing stakeholder base with medium- to long-term mindset**
 - Hold domestic and overseas tournaments online because of COVID-19
 - Aim to hold tournaments for female players to further grow demographics
- **Other Businesses Plan**

	2019/3	2020/3	2021/3 Plan	Difference
Net sales	25	30	31	1
Character Contents		27	30	3
eSports		3	1	-2
Operating income	8	5	7	2
Character Contents		15	19	4
eSports		-10	-12	-2
Operating margin	31.5%	18.3%	22.6%	-

(100 million yen)



We are working to grow the base of stakeholders in our eSports business in the mid- to long-term in order to create business opportunities.

In consideration of COVID-19, we will focus on business expansion by shifting tournaments online worldwide. We also aim to hold tournaments for female players in order to further grow the user base.

Our forecast this year calls for an increase of ¥100 million to ¥3.1 billion in net sales. For operating income, while we will continue upfront investment in eSports, we expect a ¥200 million increase to ¥700 million.

Thus concludes my presentation.

We find ourselves in an uncertain situation, where we cannot know when the COVID-19 crisis will end. However, we are committed to strengthening our major brands, and will work to realize stable growth in our core Consumer business while getting results in each business segment in order to deliver another year of record profit.

Moreover, in tandem with delivering growth, we will make solid investments for the future.

We are putting the health and safety of our employees, their families and our stakeholders first, and it is especially because we are facing these difficult times that we are determined, more than ever, to come together as one and focus our efforts on achieving our business plan for this year.

Thank you.