

Keynotes by Haruhiro Tsujimoto, President and COO at November 2007 Mid-Term Results Meeting

Fiscal Year 2008 Supplementary Document: Overview

- My name is Haruhiro Tsujimoto, and as the chairman explained previously, I assumed office of President and COO of Capcom on July 1, this year. Starting with this mid-term results meeting, I would like to present the details of our current business status and future strategies.

P.3-8 Home Video Games Business

- First, I'd like to give you an overview of the Home Video Games for the first half, ended September 30, 2007. Although Capcom did not have any major hit-titles in the first half, our sales volume showed steady performance, remaining strong. As you have heard earlier, the "Ace Attorney" series has achieved sales of one million copies in the domestic market.
- Going into a bit more detail, the latest version of the "Ace Attorney" series, "Ace Attorney: Apollo Justice:" has sold slightly over 500,000 copies. Sales of lower-priced versions of our existing products, including "Phoenix Wright: Ace Attorney", "Phoenix Wright: Justice for All", and "Phoenix Wright: Trials and Tribulations", have contributed to solid results. The "Ace Attorney" series in particular has grown in popularity, becoming Capcom's new major franchise title in Nintendo DS (NDS) console. Because it also appeals to casual users and women, who are specific target users of NDS, this game has been successful in cultivating new customers.
- Moving on, "Resident Evil 4: Wii edition" has achieved shipments of one million copies around the globe. This makes it the first Wii title produced by a domestic third party to sell a million copies. "Resident Evil 4" has successfully achieved this figure because it has responded to various platforms, including the well-known Game Cube, PlayStation 2, and PC. With our R&D capability to adapt to Wii features which increase the thrill and joy of playing, the allure of "Resident Evil 4" has grown.
- At the "Japan Game Awards: 2007", held at the Tokyo Game Show 2007, Capcom garnered seven titles, the largest number of any manufacturer. "Monster Hunter Portable 2nd" earned the prestigious Grand Award in the Games of the Year Division. Both "Okami" and "Lost Planet Extreme Condition" won awards for excellence, while "Dead Rising", which was highly evaluated overseas, was awarded the Global Award, Japanese Product prize. Additionally, in the Future Division, which caters to as yet unreleased games, three titles: "Devil May Cry 4", "Sengoku Basara 2 Heroes", and "Zack & Wiki: Quest for Barbaros' Treasure" were recognized.
- On the PC, "Monster Hunter Frontier", which was released on July 5, is growing in popularity, and sales for this game remains solid. This game has demonstrated an increase in value as the first online game produced by Capcom, so the company is developing new online titles to follow its success.

- Next I would like to look at the status of our major titles in the first half. “Resident Evil 4: Wii edition” has attained shipments of approximately one million copies globally. “Ace Attorney: Apollo Justice” has sold 500,000 copies domestically. “Monster Hunter Freedom 2” PSP edition was released overseas in this half and enjoys repeated sales domestically, attaining sales of about 1.5 million copies globally. For the PC, Capcom has developed “Lost Planet”, to attain sales of a little over 300,000 copies worldwide.
- Now I would like to detail changes in the consumer game software business over the first half, ending September 30, 2007. As I explained earlier, due to a solid performance in the first half, sales figures have exceeded projections, reaching 16.323 billion yen. This is up 588 million yen, with a 17.5% in operating profit, and a year- to -year growth rate of 3.1%. We now sell fifty titles worldwide. This consists of nineteen titles produced by Capcom and thirty one by other companies, with a total sales volume of approximately 6 million copies. This figure consists of sales of about one million titles produced by other companies, and sales of a little over two million of products on our existing catalogue, as well as of lower-priced versions.
- Next, let me move on to our plans for the second half. Capcom will continue to strengthen our overseas strategies, as well as our multi-platform strategy in the second half for further favorable results. Regarding the multi-platform strategy, as we have already announced, we have decided to sell Xbox 360, PS3 and PC versions of our newest version of “Devil May Cry 4”. “Lost Planet” has already been put out for Xbox 360 and PC, and a PS3 version is scheduled for release during this term. We have announced the roll-out of a PSP version of the newest title in the “Monster Hunter” series, “Monster Hunter Freedom 2 G.” In addition, Capcom has announced the launch of a version of “Monster Hunter 3 (tri-)” as a series title for the Wii game console.
- For its overseas strategies, Capcom is raising its profile at private overseas shows. As you already know, the circumstances of the E3 show have changed considerably. With this in mind, we have strengthened our “Gamers’ Day” at private shows in the United States and Europe in order to increase international awareness of our titles. These events were held in the U.S. in April, and in Europe in October. Some titles which were announced at Gamers’ Day in England in October were “Top Secret (overseas title; Bionic Commando)” for PS3, Xbox 360, and PC, “Dark Void”, which is being developed overseas with a yet undecided corresponding model, as well as “Street Fighter IV,” the latest version of “Street Fighter,” which is our most significant franchise. As we implement our multi-platform strategy, we have also announced development of a PS3 version of “Lost Planet”, and a Wii version of “Okami”.
- Next, I would like to explain the projections for some of our products in the second half. “Devil May Cry 4” is scheduled for global release, and is projected to sell 1.8 million copies in the second half. Although we haven’t shown you any footage of “Monster Hunter Freedom 2 G,” which will be released in next March, we plan to produce 500,000 copies in Japan. “Resident Evil: The Umbrella Chronicles” is projected to sell 620,000 copies globally within this fiscal period.

- Now let me move on to an explanation of the numbers for the fiscal year 2007. The Home Video Games business factored in a solid performance in the first half, and we revised the projection for the whole year upward. Our sales projection is now 45.3 billion yen, up 1.487 billion yen with an 18.3% operating profit. We have a total of 113 titles for the fiscal year, including 52 of our own, and 61 by other companies. We project global sales volume of 13.5 million copies, up 1.3 million copies from last year. The breakdown of volumes is projected to be 1.5 million copies of other companies' products and 4 million copies of catalogue and lower-priced versions. This concludes my explanation of the Home Video Games business.

P.9-10 Arcade Operations Business

- In the next section of my presentation, I would like to focus on the status of the arcade operations business in the first half ended September 30, 2007. The existing arcades are unfortunately underperforming, dipping below projections. In short, sales at existing storefronts ended weakly, at 88% compared to the previous year. The first quarter ended at 90%, and the second quarter worse still at 87%. One of the main factors behind this sluggishness is that buoyancy at consumer operations resulted in a backlash on arcade operations, which share the same customers. In addition, bad weather, a slump in the prize genre which is our major genre, as well as fierce competition among rival companies have all contributed to this sluggishness. Accordingly, we recorded first term sales of 6.375 billion yen, down about 100 million yen over the previous year, while operating profit was 10.7%, down 6.9% on a year-on-year basis. Compared to 99% sales at existing storefronts during the previous year, 88% for this fiscal year remains weak. Looking at the status of storefront openings in this term, we have opened two in the first half, and are scheduled to have a total of 38, as we will open eight new storefronts and close three throughout the year.
- Turning to the status in the second half, we have revised our projections downward for the whole year to reflect the tough results in first half. We plan to continue with our existing strategies regarding the placement of storefronts, particularly aiming to place them in large-scale commercial complexes. We aim to procure favorable locations before the upcoming revision of 3 Urbanization Law, and also to accelerate the placement of storefronts in favorable roadside locations. By implementing a thorough scrap and build policy, we will secure profits. Second-half sales at existing storefronts can't expect a prompt recovery over the previous year. However, in light of the repercussions of expanding sluggishness since the fourth quarter of the previous year, we have revised our projections to 94%. We are anticipating the effects of opening six storefronts in the second half, including three new storefronts in October. We project sales of 14.4 billion yen, with a 9% operating profit, while the existing stores expect 94% achievements of the last year.

P.11-13 Arcade Games Sales Business

- Next I would like to discuss the status of Arcade Games Sales business in the first half. Both our major businesses of coin-operated games and prize-winning games unfortunately failed to meet our projections when we closed the books for the first half. Although we considered focusing on repeat sales of existing products, overall sales weren't favorable, and incurred losses. Consequently the business itself has dipped into the red. As for repeat sales of our main product, "Donkey Kong Banana Kingdom," this sold 33 units, but after an accident, we subsequently stopped selling the machines. I will go into more detail about this later. Prize winning games sold 101 units, reflecting the sluggishness of this genre. The figures for the first half saw sales of 1.353 billion yen with the operating profit margin going into the red ink at -71.8%.
- Let me account for the accident involving a coin operated machine which occurred in the first half. Since the accident, the company has been in the process of restructuring business operations. The accident occurred when a "Donkey Kong Banana Kingdom" game caught fire. On the day of the accident, we promptly contacted all of the stores in which the 289 machines were installed, in order to ask them to turn off the power and forestall a recurrence. Nine days after the accident, we identified the cause of the accident, which proved to be defective parts supplied by an external vendor. We exchanged the faulty parts, and Capcom published an apology ad on trade publications. We are in the process of negotiating repair costs with the vendor, and have almost concluded correspondence with our customers and operators. However, we are sorry to say that we are still negotiating with some of them.
- In response to this, we have restructured our Arcade Games Sales business. Capcom has reviewed our development structure and laid out a quality improvement plan. We will set up a new quality control division, extend the inspection period for particular machines, and acquire S-Mark Certification by third-party inspection agencies. We will also institute a checking system in which we will review our products five times at fixed points until mass-production. We will thoroughly share our development information and improve the level of our technology through standardization, along with clarification of specifications and parts selection. We will do our utmost to recover our trustworthiness in the amusement machine market, not just by making enjoyable games, but by supplying high-quality and stable products to the market.
- Let's move on now to look at the second half. In the second half, Capcom will release the latest title of the "Gundam" series, "Mobile Suits Gundam : Gundam vs. Gundam" , which is the major product of our collaboration with Namco Bandai Games. We project sales of 7,000 units. Looking ahead to our whole-year projections, we have revised these for two reasons. Firstly, projections for the first half weren't accomplished, and secondly, the trend of sluggish repeat sales in the first half will possibly continue into the second half. Our sales projection is now 6.4 billion yen, down 1.621 billion yen from the previous year, with an operating margin profit of 12.5%.

P.14-15 Contents Expansion Business

- Now let me move on to the status of our Contents Expansion Business for the first half. Both the Pachinko and Pachislo business and the Mobile Contents Business are progressing as scheduled in the first half. Regarding the Pachinko and Pachislo business, we have started selling PC boards for the Pachislo machine, “Devil May Cry 3”, which is our main product in the first half, and are progressing as scheduled. Two additional products were sold in the first half, bringing our total count to three. The Mobile Contents Business continues to remain favorable in conjunction with the domestic hit of the NDS “Ace Attorney” series for home-use game consoles. On the other hand, sales remained weak because there was a delay in the title release due to telephone company’s problems. Taking all of these factors into account, the Contents Expansion Business ended the first half with sales of 5.644 billion yen, up 4.311 billion yen over the previous year, and an operating profit ratio of 33%, up 27.6%.
- Next let me brief you on the projections for the second half. At present, as there are no factors likely to change performance greatly, we will keep the projection for the year as it is. The Pachinko and Pachislo business was heavily weighted in the first half, and we anticipate products scheduled for the second half. We are scheduled to begin sales of two products in the second half. For the Mobile Contents business, “Resident Evil 4: Mobile Edition” 3D titles will be sold preinstalled in Sony Ericsson’s W54S model au phones in the second half. In the U.S., a game entitled “Are You Smarter Than a 5th Grader?” will be distributed. The figures for the whole financial year, as I have mentioned before, remain as they were; sales of 8.9 billion yen, up approximately 1.8 billion yen year-to-year basis, and 28.1% of operating profit margin, up 5.2% from the previous year.

P.16 Fiscal Year 2008 Forecast

- I would like to finish with an explanation of Capcom’s performance for the year. Based on the factors I briefed you on for each business division, we will maintain our forecast for the fiscal year. The Home Video Game business was running favorably in the first half, and operating profit is projected to increase 1.8 billion yen. However, the Arcade Operations business is assuming the risk of a weakening trend in existing storefronts. For this reason, I am sorry to report that this division is forecasting a decrease of 1.1 billion yen in operating profit. We have also assumed the risk of losses in the first half and weak repeat sales of the Arcade Game Sales business to forecast a decrease of 700 million yen. Total forecasts for the year are 78 billion yen in sales, 10 billion of operating profits, an 11 billion yen ordinary profit, and a net profit of 6.2 billion yen. We will do our utmost to attain this objective throughout the year. This concludes my explanation for the individual business divisions. Thank you for your kind attention.

This concludes my presentation on the Mid-term results for the fiscal year ended March, 2008.