

**Consolidated financial results for the 6 months
of the fiscal year ending March 31, 2019 (Japan GAAP - Unaudited)**

Date of issue: October 29, 2018

Company name: CAPCOM Co., Ltd.

Stock listing: Tokyo

Code number: 9697

URL : <http://www.capcom.co.jp/>

Representative: Haruhiro Tsujimoto, President and COO

Tel: +81-6-6920-3605

Contact person: Kenkichi Nomura, Director and CFO

Filing date for financial report : October 29, 2018

Dividend payment date: November 13, 2018

Quarterly earnings supplementary explanatory materials : Yes

Yes

Quarterly earnings presentation :

Yes (For institutional investors)

Note: Numbers are rounded down to the nearest 1 million yen.

1. Results for 6 months ended September 30, 2018 (From April 1, 2018 to September 30, 2018)

(1) Financial results

Note: Percentage represents change from the same period of the previous fiscal year.

	Net sales		Operating income		Ordinary income		Net income attributable to owners of the parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
6 months ended September 30, 2018	43,327	28.5	10,508	110.1	10,297	105.3	6,849	96.8
6 months ended September 30, 2017	33,729	17.6	5,001	191.5	5,016	875.5	3,481	757.5

Note: Comprehensive income 2nd quarter ended September 30, 2018: 7,962 million yen (85.9 %) 2nd quarter ended September 30, 2017: 4,284 million yen (- %)

	Earnings per share of common stock	Diluted earnings per share of common stock
	Yen	Yen
6 months ended September 30, 2018	62.56	—
6 months ended September 30, 2017	31.79	—

Note: With an effective date of April 1, 2018, Capcom performed a 2-for-1 stock split of its common stock.

Therefore, the earnings per share for the previous fiscal year were calculated based on the assumption that the stock split had been performed with an effective date of April 1, 2017.

(2) Financial position

	Total assets	Net assets	Shareholders' equity ratio
	Millions of yen	Millions of yen	%
2nd quarter ended September 30, 2018	123,515	91,465	74.1
Fiscal year ended March 31, 2018	124,829	85,421	68.4

Reference: Shareholders' equity: 2nd quarter ended September 30, 2018: 91,465 million yen Year ended March 31, 2018: 85,421 million yen

Note: Effective from the beginning of the current fiscal year, Capcom has applied "Implementation Guidance on Tax Effect Accounting" (ASBJ Guidance No. 28, February 16, 2018). The shareholders' equity for the previous fiscal year was based on the retrospective application.

2. Dividends

Record date	Dividend per share				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Annual
	yen	yen	yen	yen	yen
Year ended March 31, 2018	—	25.00	—	35.00	60.00
Year ending March 31, 2019	—	15.00			
Year ending March 31, 2019 (Forecast)			—	15.00	30.00

Note: 1. Changes in dividends forecast during the 6 months ended September 30, 2018 : No

2. With an effective date of April 1, 2018, Capcom performed a 2-for-1 stock split of its common stock.

Therefore, the dividends for the previous year were based on the actual amounts before the stock split.

3. Earnings forecast for the fiscal year ending March 31, 2019 (From April 1, 2018 to March 31, 2019)

Note: Percentage represents change from the same period of the previous fiscal year.

	Net sales		Operating income		Ordinary income		Net income attributable to owners of the parent		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Year ending March 31, 2019	96,000	1.6	17,000	6.0	16,500	8.2	12,000	9.7	109.60

Note: Changes in earnings forecast during the 6 months ended September 30, 2018 : No

Notes

- (1) Changes in significant consolidated subsidiaries during the period: No
 (2) Application of simplified methods in accounting principle for quarterly consolidated financial statements: Yes

Note: Please refer to “2. Summary of consolidated financial statements (4) Notes to consolidated financial statements (Application of special accounting treatment for preparation of quarterly financial statements)” on page 10 for more details.

- (3) Changes in accounting principles, accounting estimates and retrospective restatement for consolidated financial statements

- ① Changes resulting from amendment of the accounting standard: No
 ② Changes other than ①: No
 ③ Changes in accounting estimates: No
 ④ Retrospective restatement: No

- (4) Number of shares outstanding (Common stock):

- ① Number of shares outstanding (including treasury stock)
 2nd quarter ended September 30, 2018: 135,446,488 Year ended March 31, 2018: 135,446,488
 ② Number of treasury stock
 2nd quarter ended September 30, 2018: 25,957,900 Year ended March 31, 2018: 25,957,288
 ③ Average number of shares outstanding
 2nd quarter ended September 30, 2018: 109,488,837 2nd quarter ended September 30, 2017: 109,492,244

Note: With an effective date of April 1, 2018, Capcom performed a 2-for-1 stock split of its common stock.

Therefore, “Number of shares outstanding,” “Number of treasury stock” and “Average number of shares outstanding” were calculated based on the assumption that the stock split had been performed with an effective date of April 1, 2017.

(Explanation about the appropriate usage of business prospects and other special notes)

- The above-mentioned business forecasts were based on the information available as of the date of the release of this report and on assumptions that are believed to be reasonable. These forecasts do not represent a commitment to achieve on the part of Capcom.
- Future events may cause the actual results to be significantly different from the forecasts.
- Please refer to “1. Operating results overview (3) Qualitative information regarding the consolidated business forecasts” on page 4 for more details.

Attachment contents

1. Operating results overview	2
(1) Operating results for the period under review.....	2
(2) Overview of the consolidated financial position for the period under review.....	3
(3) Qualitative information regarding the consolidated business forecasts	4
2. Summary of consolidated financial statements	5
(1) Consolidated balance sheets	5
(2) Consolidated statements of income and comprehensive income	7
(3) Consolidated statements of cash flows	9
(4) Notes to consolidated financial statements	10
Going concern assumptions	10
Material changes in shareholders' equity	10
Application of special accounting treatment for preparation of quarterly financial statements	10
Segment information	10
Subsequent events	11

1. Operating results overview

(1) Operating results for the period under review

Capcom offers its heartfelt sympathies to those affected by the heavy rains in Western Japan, as well as the typhoons, earthquakes, and other natural disasters. We sincerely hope for a quick recovery.

During the six months ended September 30, 2018, our industry enjoyed solid performance in the domestic market while confusion and apprehension spread regarding the tightening of regulations on games in China, as this major growth market suspended the review of new games for which applications for approval were filed in or after March 2018.

In such an environment, *Monster Hunter: World* (for PlayStation 4, Xbox One and PC), which has been shaking up the market since its release in January 2018, continued to report strong sales, with total shipments breaking 10 million units and marking a record high for any single title in the Company's history. Furthermore, the Company's other flagship brands scored a hit with show-goers at the Tokyo Game Show 2018 with *Resident Evil 2* (for PlayStation 4, Xbox One and PC) and *Devil May Cry 5* (for Xbox One, PlayStation 4 and PC), generating high expectations for these upcoming releases. Meanwhile, the excitement of spectators at the Capcom Pro Tour Japan Premier esports event was palpable, giving momentum to future business expansion in this area.

As a result, for the six months ended September 30, 2018, consolidated net sales were 43,327 million yen (up 28.5% from the same term in the previous fiscal year). In terms of profitability, despite having recorded a loss from the termination of development projects at a consolidated subsidiary, thanks to the strong growth of the digital contents business, operating income was 10,508 million yen (up 110.1% from the same term in the previous fiscal year), ordinary income was 10,297 million yen (up 105.3% from the same term in the previous fiscal year) and net income attributable to the owners of the parent was 6,849 million yen (up 96.8% from the same term in the previous fiscal year).

Additionally, the Company was included in the JPX-Nikkei Index 400 component at the annual review conducted in August 2018.

Status of business by operating segment

① Digital Contents business

In this business, the *Monster Hunter* series served as the driving force in improving the Company's business performance, with feature title *Monster Hunter: World* (for PlayStation 4 and Xbox One), which contributed to growth of the Company in the previous fiscal year, not only gaining further popularity through the expansion of its user base but also boosting profits through the strong performance of the Steam version for PC that was released in August. In addition, *Monster Hunter Generations Ultimate* (for Nintendo Switch) was released in markets outside of Japan and enjoyed robust sales owing to its consistent popularity.

Furthermore, *Street Fighter 30th Anniversary Collection* (for PlayStation 4, Nintendo Switch, Xbox One and PC), a new title released in overseas markets, performed strongly, while *Mega Man X Legacy Collection*, *Mega Man X Legacy Collection 2* and *Mega Man X Legacy Collection 1+2* (for PlayStation 4, Nintendo Switch, Xbox One and PC in all three cases) performed well thanks to a dedicated fan base and strong brand capabilities. In addition, high-margin catalog titles steadily increased sales and contributed to improving profitability.

The resulting net sales were 34,195 million yen (up 69.8% from the same term in the previous fiscal year) and operating income was 11,751 million yen (up 206.8% from the same term in the previous fiscal year).

② Arcade Operations business

In this business, in spite of the effects of temporary factors such as the inclination to stay home due to the record heat wave, the Company promoted arcades as a familiar entertainment option to secure a wide range of customers, including repeat customers, the middle-aged and seniors, as well as women and families with children. These promotions included installing game machines that meet diverse customer demands, conducting service day campaigns, and holding various events.

During the period under review, the Company opened one store in Hiroshima prefecture and closed one in Ibaraki prefecture, bringing the total number of stores to 36.

The resulting net sales were 5,504 million yen (up 6.3% from the same term in the previous fiscal year) and operating income was 734 million yen (up 15.7% from the same term in the previous fiscal year).

③ Amusement Equipments business

In the Pachinko & Pachislo sub-segment, the Company launched *Street Fighter V*, *Rockman Ability* and other products in a weak market environment and sales struggled due to the downturn in consumer confidence and dampening investments by the Pachinko/Pachislo hall operators.

The Arcade Games Sales sub-segment also struggled and business was generally weak, due to a lack of new products.

The resulting net sales were 2,224 million yen (down 69.7% from the same term in the previous fiscal year) and an operating loss of 625 million yen (compared to an operating income of 1,925 million yen in the same term of the previous fiscal year).

④ Other Businesses

The net sales from Other Businesses, mainly consisting of royalty income from the licensing and sale of character merchandise, were 1,403 million yen (up 29.9 % from the same term, in the previous fiscal year) and operating income was 685 million yen (up 20.0 % from the same term in the previous fiscal year).

(2) Overview of the consolidated financial position for the period under review

Total assets as of the end of the second quarter decreased by 1,314 million yen from the end of the previous fiscal year to 123,515 million yen. The primary increase was 3,423 million yen in cash on hand and in banks. The primary decreases were 3,754 million yen in notes and accounts receivable – trade and 942 million yen in total tangible fixed assets.

Total liabilities as of the end of the second quarter decreased by 7,359 million yen from the end of the previous fiscal year to 32,049 million yen. The primary decreases were as follows: 2,394 million yen in accrued income taxes and 1,422 million yen in accrued bonuses.

Net assets as of the end of the second quarter increased by 6,044 million yen from the end of the previous fiscal year to 91,465 million yen. The primary increase was 6,849 million yen in net income attributable to owners of the parent. The

primary decrease was 1,916 million yen in dividends from retained earnings.

The Partial Amendments to Accounting Standard for Tax Effect Accounting (Accounting Standards Board of Japan Statement No. 28, February 16, 2018) have been applied from the beginning of the first quarter of the consolidated fiscal year under review, and comparisons to the previous consolidated fiscal year have been carried out with figures that have had the relevant accounting standards retroactively applied.

(3) Qualitative information regarding the consolidated business forecasts

The forecast for the consolidated business results for the current fiscal year ending March 31, 2019 remains the same as what was projected at the financial results announcement on May 8, 2018.

2. Summary of consolidated financial statements

(1) Consolidated balance sheets

(Millions of yen)

	Previous fiscal year (March 31, 2018)	Current fiscal year (September 30, 2018)
Assets		
Current assets		
Cash on hand and in banks	46,539	49,963
Notes and accounts receivable - trade	12,930	9,176
Merchandise and finished goods	1,102	1,369
Work in progress	1,349	1,292
Raw materials and supplies	1,616	1,480
Work in progress for game software	25,635	26,265
Other	3,371	4,360
Allowance for doubtful accounts	(34)	(7)
Total current assets	92,511	93,899
Fixed assets		
Tangible fixed assets, net of accumulated depreciation		
Buildings and structures, net	11,106	10,803
Other, net	9,691	9,051
Total tangible fixed assets	20,797	19,854
Intangible assets	725	639
Investments and other assets		
Other	10,819	9,151
Allowance for doubtful accounts	(24)	(30)
Total investments and other assets	10,795	9,120
Total fixed assets	32,318	29,615
Total assets	124,829	123,515

(Millions of yen)

	Previous fiscal year (March 31, 2018)	Current fiscal year (September 30, 2018)
Liabilities		
Current liabilities		
Notes and accounts payable - trade	2,625	2,348
Electronically recorded monetary liabilities	839	983
Short-term borrowings	1,473	1,601
Accrued income taxes	4,453	2,059
Accrued bonuses	2,866	1,444
Other	14,011	11,567
Total current liabilities	26,271	20,005
Long-term liabilities		
Long-term borrowings	8,315	7,450
Liabilities for retirement benefits for employees	2,819	2,941
Other	2,003	1,651
Total long-term liabilities	13,137	12,043
Total liabilities	39,408	32,049
Net assets		
Shareholders' equity		
Common stock	33,239	33,239
Capital surplus	21,328	21,328
Retained earnings	53,602	58,536
Treasury stock	(21,454)	(21,455)
Total shareholders' equity	86,716	91,648
Accumulated other comprehensive income		
Net unrealized gain or loss on securities, net of tax	139	124
Cumulative translation adjustments	(1,142)	(27)
Accumulated adjustments for retirement benefits	(292)	(279)
Total accumulated other comprehensive income	(1,295)	(182)
Total net assets	85,421	91,465
Total liabilities and net assets	124,829	123,515

(2) Consolidated statements of income and comprehensive income
Consolidated statements of income

(Unit: Millions of yen)

	Previous 6 months From April 1, 2017 to September 30, 2017	Current 6 months From April 1, 2018 to September 30, 2018
Net sales	33,729	43,327
Cost of sales	20,547	24,657
Gross profit	13,181	18,669
Selling, general and administrative expenses	8,179	8,161
Operating income	5,001	10,508
Non-operating income		
Interest income	26	51
Dividend income	7	8
Exchange gain, net	54	565
Other	36	57
Total non-operating income	125	682
Non-operating expenses		
Interest expense	53	41
Commission fee	32	34
Additionally paid retirement expenses	—	634
Office relocation expenses	—	165
Other	24	17
Total non-operating expenses	110	892
Ordinary income	5,016	10,297
Special losses		
Loss on sales and /or disposal of fixed assets	64	19
Impairment losses	—	398
Total special losses	64	418
Net income before income taxes	4,952	9,879
Income taxes-current	1,218	1,440
Income taxes-deferred	252	1,589
Total income taxes	1,471	3,030
Net income	3,481	6,849
Net income attributable to owners of the parent	3,481	6,849

Consolidated statements of comprehensive income

(Unit: Millions of yen)

	Previous fiscal year From April 1, 2017 to September 30, 2017	Current fiscal year From April 1, 2018 to September 30, 2018
Net income	3,481	6,849
Other comprehensive income		
Net unrealized gain or loss on securities, net of tax	30	(15)
Cumulative translation adjustments	756	1,115
Adjustments for retirement benefits	15	12
Total other comprehensive income	802	1,112
Comprehensive income	4,284	7,962
Comprehensive income attributable to:		
Owners of the parent	4,284	7,962
Non-controlling interests	—	—

(3) Consolidated statements of cash flows

(Unit: Millions of yen)

	Previous 6 months From April 1, 2017 to September 30, 2017	Current 6 months From April 1, 2018 to September 30, 2018
Cash flows from operating activities		
Net income before income taxes	4,952	9,879
Depreciation and amortization	2,362	1,661
Impairment losses	—	398
Change in allowance for doubtful accounts	(2)	(20)
Change in accrued bonuses	(129)	(11)
Interest and dividend income	(33)	(59)
Interest expense	53	41
Exchange (gain) loss, net	(23)	(277)
Loss on sales and/or disposal of fixed assets	64	19
Change in accounts receivable - trade	9,113	4,046
Change in inventories	999	(51)
Change in work-in-progress for game software	(7,144)	(453)
Change in accounts payable - trade	(2,613)	(187)
Other	411	(5,182)
Sub total	8,010	9,800
Interest and dividends received	34	60
Interest paid	(51)	(42)
Income taxes paid	(1,085)	(3,493)
Net cash provided by operating activities	6,908	6,325
Cash flows from investing activities		
Payments for acquisitions of tangible fixed assets	(1,761)	(1,079)
Proceeds from sales of tangible fixed assets	0	0
Payment for acquisitions of intangible fixed assets	(66)	(46)
Other	168	35
Net cash used in investing activities	(1,658)	(1,089)
Cash flows from financing activities		
Net change in short-term borrowings	(5,000)	—
Repayments of long-term borrowings	(586)	(736)
Payments for repurchase of treasury stock	(1)	(1)
Dividend paid	(1,370)	(1,917)
Other	(271)	(211)
Net cash used in financing activities	(7,229)	(2,867)
Effect of exchange rate changes on cash and cash equivalents	730	1,055
Net change in cash and cash equivalents	(1,249)	3,423
Cash and cash equivalents at beginning of year	24,337	46,539
Cash and cash equivalents at end of quarter	23,088	49,963

(4) Notes to consolidated financial statements

(Going concern assumptions) Not applicable

(Material changes in shareholders' equity) Not applicable

(Application of special accounting treatment for preparation of quarterly financial statements)

(Calculation of income taxes)

Income taxes for subsidiaries are calculated by multiplying the net income before income taxes by the forecasted effective tax rate, which is computed by matching the forecasted yearly income taxes with the forecasted yearly income before taxes.

(Segment information)

I Previous 6 months (From April 1, 2017 to September 30, 2017)

Information on net sales and operating income (loss) by reportable segment

(Unit: Millions of yen)

	Reportable segment				Other (Note 1)	Total	Adjustment (Note 2)	Consolidated total (Note 3)
	Digital Contents	Arcade Operations	Amusement Equipments	Total				
Net sales								
(1) Customers	20,138	5,179	7,330	32,648	1,080	33,729	—	33,729
(2) Inter-segment	—	—	—	—	—	—	—	—
Total	20,138	5,179	7,330	32,648	1,080	33,729	—	33,729
Segment income	3,830	634	1,925	6,390	571	6,961	(1,960)	5,001

Note: 1. "Other" incorporates operations not included in reportable segments, including Character Contents business etc.

2. The adjustment for segment income (-1,960 million yen) include unallocated corporate operating expenses (-1,960 million yen).

The corporate operating expenses, which do not belong to any reportable segments, mainly consist of administrative expenses.

3. Segment income is adjusted on operating income of the consolidated statements of income.

II Current 6 months (From April 1, 2018 to September 30, 2018)

1. Information on net sales and operating income (loss) by reportable segment

(Unit: Millions of yen)

	Reportable segment				Other (Note 1)	Total	Adjustment (Note 2)	Consolidated total (Note 3)
	Digital Contents	Arcade Operations	Amusement Equipments	Total				
Net sales								
(1) Customers	34,195	5,504	2,224	41,923	1,403	43,327	—	43,327
(2) Inter-segment	—	—	—	—	—	—	—	—
Total	34,195	5,504	2,224	41,923	1,403	43,327	—	43,327
Segment income	11,751	734	(625)	11,860	685	12,546	(2,037)	10,508

Note: 1. "Other" incorporates operations not included in reportable segments, including Character Contents business etc.

2. The adjustment for segment income (-2,037 million yen) include unallocated corporate operating expenses (-2,037 million yen).

The corporate operating expenses, which do not belong to any reportable segments, mainly consist of administrative expenses.

3. Segment income is adjusted on operating income of the consolidated statements of income.

2. Information on impairment loss on fixed assets or goodwill by reportable segment

(Significant impairment loss on fixed assets)

In the "Digital Contents" business segment the carrying value of assets to be disposed of was written down to the recoverable value, which led to an impairment loss of 398 million yen recorded as a special loss.

(Subsequent Events)

At the Board of Directors Meeting held on October 29, 2018, CAPCOM CO., Ltd. (“the Company”) resolved to repurchase treasury stocks via tender offer in accordance with the Articles of Incorporation applied under Section 1 of Article 156 and Section 3 of Article 165 of the Companies Act. (Law number 86 of 2005, including the amendments thereafter.)

(1) Purpose

Shareholder return is one of the Company’s highest priorities, as the Company strives to maintain stable dividends, which includes a dividend payout ratio of 30% on a consolidated basis as the basic target, with consideration given to future business development and changes in the business environment. Also, in accordance with Section 2 of Article 165 of the Companies Act, the Company states in its Articles of Incorporation that it is entitled to purchase its own shares through the stock market etc., based on the resolution by the Board of Directors. The purpose of this is to improve capital efficiency and allow the Company to implement a flexible capital policy in response to changes in the business environment by authorizing the Board of Directors to repurchase its treasury stocks through the stock market etc., and the Company has thus far carried out such actions to further improve return to shareholders

In late August 2018, the Company was notified that Crossroad Co., Ltd. (“Crossroad”), the Company’s main and largest shareholder (excluding treasury stocks), has the intent to sell a portion of its 12,748,800 shares, which account for 9.41% (rounded off to the 2nd decimal place) of the Company’s outstanding shares of 135,446,488 (as of October 29, 2018).

Crossroad is an asset management company owned by the Company’s founding family, with both Yoshiyuki Tsujimoto, President and Representative Director of the Company’s subsidiary, CAPCOM Maintenance Service Co., Ltd., and Ryoza Tsujimoto, Managing Corporate Officer of the Company, as its representative directors, and Haruhiro Tsujimoto, President and Chief Operating Officer (COO) of the Company, as its director. They are the sons of Kenzo Tsujimoto, Chairman and Chief Executive officer (CEO) of the Company, who is also a director of Crossroad. These three sons hold 100% of the voting rights of Crossroad.

Following the notification from Crossroad, the Company started to examine the possibility to repurchase the treasury stocks to improve capital efficiency and return to shareholders, taking into consideration the impact on liquidity and the stock price in the case where a large number of shares have been sold in the market at once, as well as the Company’s financial status comprehensively.

As a conclusion, the Company decided that the repurchase of the treasury stocks would lead to improvement of the Company’s EPS and capital efficiency, such as ROE as well as return to shareholders. The Company also decided that it would have no significant impact on the Company’s financial status or on the dividend policy.

As for concrete measures to repurchase the treasury stocks, the Company decided that the tender offer would be appropriate in terms of fairness among shareholders and transparency of the transaction.

(2) Resolution by the Board of Directors concerning repurchase of treasury stock

- ① Type of shares to be acquired: Common stock
- ② Total number of shares to be acquired: 2,737,200 shares (maximum)
- ③ Total amount: 5,999,942,400 yen (maximum)
- ④ Period of acquisition: From October 30, 2018 through December 28, 2018

(3) Tender offer

- ① Type of shares to be acquired: Common stock
- ② Period of Acquisition: From October 30, 2018 through November 27, 2018
- ③ Purchase price: 2,192 yen per share
- ④ Total number of shares to be acquired: 2,737,100 shares
- ⑤ Start date of settlement: December 19, 2018