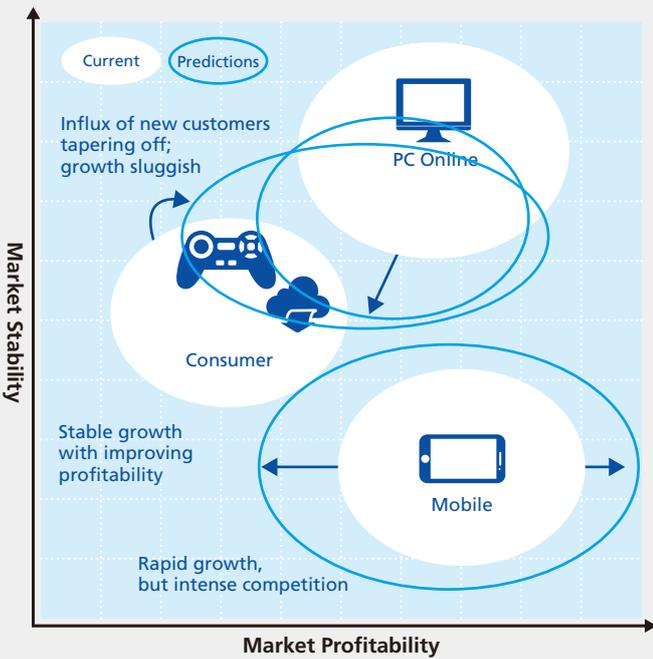


Game Industry Characteristics

Characteristics of Each Market



Source: Created by Capcom based on data from the International Development Group

Consumer Market Characteristics (Package + Digital)

Package and digital download contents are a 29.9 billion dollar market, forecast to grow 60% over the next five years to 47.9 billion dollars by 2023. The customer base is primarily composed of core users who are highly loyal to game titles. They have relatively high willingness to purchase sequels and remakes along with low sensitivity to price and economic conditions. Hereafter, we expect the market to grow at a faster pace as we capture the casual user segment, which has high sensitivity to price conditions, as well as new users. This will come about in conjunction with a higher digital sales ratio, resulting from growth in Asia and emerging countries and expansion of online gaming on consoles, primarily in North America, shrinking the gap between the margin in this market and those in the other two markets. ➔Please refer to page 71

Mobile Market Characteristics

This is a 75.3 billion dollar market, forecast to grow to 109.8 billion dollars by 2023. The customer base is primarily composed of casual users, many of whom play games in their spare time, thus they demonstrate the lowest loyalty toward game titles. In contrast to core users, they have a limited willingness to purchase games and have the highest sensitivity to price and economic conditions. Although this is the most profitable among the three markets, only a limited number of titles are able to generate stable earnings over the long term even if they become hits. This makes brand establishment a challenge. Going forward, we expect smartphones will continue to drive rapid growth as the most pervasive game device. ➔Please refer to page 71

PC Online Market Characteristics

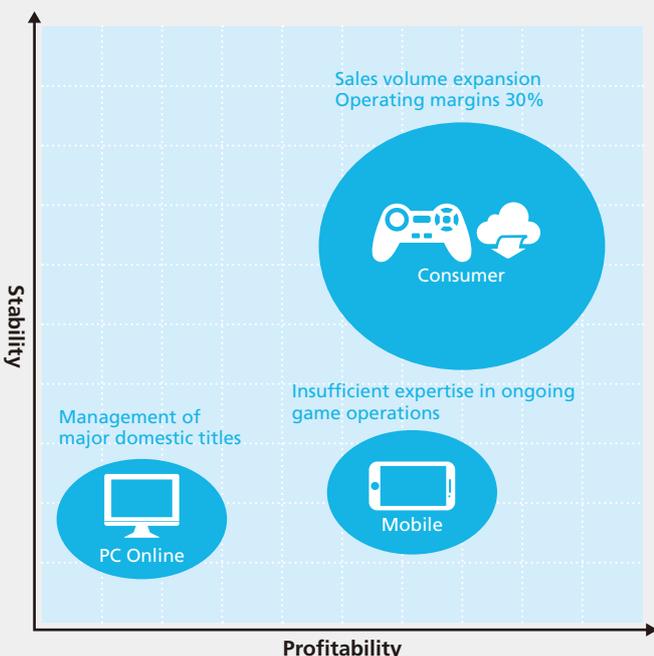
This is a 41.6 billion dollar market, forecast to grow about 6% over the next five years to 44.1 billion dollars by 2023. The customer base is primarily composed of core users who demonstrate the highest loyalty toward game titles. They have a fairly strong willingness to engage in ongoing purchases, and are unique for having the lowest sensitivity to price and economic conditions. Integration with the consumer market will likely progress as the online capabilities of consoles are enhanced, so growth of this market is expected to become sluggish in the future. ➔Please refer to page 71

Five Competitive Factors Related to the Consumer Market (Five Forces Analysis)



Capcom Business Characteristics

Digital Contents Business Portfolio



Note: Calculations based on earnings in the fiscal year ended March 31, 2019



Consumer Market Characteristics
 (Proportion of Net Sales: 77%)
 Package + Digital

Capcom’s core business is to create a multitude of original content for home video game consoles. The regular release of sequels to popular IPs and focus on digital sales have, in recent years, led to an increased digital sales ratio and a greater volume of sales as well as operating margins of up to around 30%.



Mobile Contents Market Characteristics
 (Proportion of Net Sales: 2%)

This business distributes games featuring popular Capcom content on smartphones, cultivating new markets such as the casual user segment to create new earnings opportunities. However, insufficient know-how in ongoing game operations, which differs from Consumer, has resulted in sales underperforming market growth.



PC Online Market Characteristics
 (Proportion of Net Sales: 4%)

We are working to distribute PC Online games utilizing our popular content and ensure stable management of our existing content in Japan.

Capcom Management Resource VRIO Analysis and Evaluation/Measures

V: Value R: Rarity I: Inimitability O: Organization
 ○: High △: Medium ×: Low

| Area | Management Resource | V | R | I | O | Evaluation |
|------------------------|--|---|---|---|---|--|
| Management | Top management with strong leadership dedicated to high-quality production and trusted by employees | ○ | ○ | ○ | ○ | Ongoing competitive advantage |
| Development/technology | Development capabilities to produce original titles of world-class quality | ○ | ○ | ○ | ○ | Ongoing competitive advantage |
| | RE ENGINE for streamlined development and the technological prowess to create games with full-VR support | ○ | ○ | ○ | ○ | |
| | Corporate culture of training younger employees | ○ | × | △ | ○ | Other companies possess this strength as well |
| Governance | Promotion of governance reforms (independent director ratio / company with an audit and supervisory committee) | ○ | △ | × | ○ | Some companies are even more progressive |
| | Swift decision-making system | ○ | △ | × | ○ | Strength seen at many founder-run companies |
| Brand | Many popular, global IPs | ○ | ○ | ○ | ○ | Ongoing competitive advantage |
| | Corporate brand known worldwide for action games | ○ | × | ○ | ○ | There are more widely recognized companies |
| Finances | Paid dividends for 29 consecutive years since listing | ○ | △ | × | ○ | There are about 40 companies that have provided dividends for 10 consecutive years or more |
| Sales | Consumer digital sales ratio of more than 50% | ○ | △ | △ | ○ | Major overseas companies are ahead |
| Marketing | Bolstering of lineup through revival of dormant IP and catalog titles | ○ | △ | △ | △ | Companies with popular IP can roll them out in other media |
| | Single Content Multiple Usage strategy of rolling out popular IP to multiple media | ○ | × | △ | × | |
| External partners | Trusted by hardware manufacturers | ○ | △ | ○ | ○ | High rank compared to competitors |

Note: Prepared in-house based on interviews of analysts.

Measures to address evaluation

*1 With respect to the low evaluation of the originality of our system for training younger employees, we have hired around 100 developers each year since fiscal 2011 and established a world-class R&D center and development facilities. In addition to establishing an environment that allows us to take up new challenges, we are working on developing a system that allows us to train employees through title development. (Please refer to page 41)

*2 With respect to the low evaluation globally despite being ahead of other companies in Japan, we are promoting measures such as (1) taking advantage of our many popular IPs

by re-releasing past million-sellers (89 titles) in digital format and (2) extending the sales period, with brand strategies for each IP and enhanced digital sales and pricing measures as we develop titles that will be popular not just in Japan but globally, as well as increase the fan bases of our IP series. (Please refer to page 33)

*3 With respect to the low evaluation of not successfully rolling out IPs to mobile platforms despite their relative strength, we are continuing to promote measures such as (1) assigning capable creators to internal production and (2) forming alliances with mobile game companies possessing abundant game operations know-how. (Please refer to page 37)