

Financial Review

CAPCOM CO., LTD. and its consolidated subsidiaries. Years ended March 31

1. Operating Results

During the fiscal year ended March 31, 2019, our industry remained strong overall despite a deceleration of mobile gaming in Japan and a patchy home video game market due to maturation.

At the same time, esports (electronic sports), which were adopted as a demonstration event at the 2018 Asian Games held in Jakarta, have grown in popularity nationwide owing to the establishment of league competitions and professional teams to expand the fan base. In such an environment, *Monster Hunter: World*, which swept the market in 2018, continued to report strong sales, surpassing 12.4 million cumulative units shipped, marking a record high for any single title in Capcom's history. Additionally, our other flagship brands demonstrated their appeal

and boasted strong sales during the year, as *Resident Evil 2* scored a major hit, selling more than 4.2 million units, while *Devil May Cry 5*, which enjoys established popularity overseas, shipped 2.1 million units. Meanwhile, we took strategic steps in cultivating the new business domain of esports, an area which has attracted increased attention in the past year. This included holding the Capcom Pro Tour Japan Premier at the Tokyo Game Show 2018, which generated excitement among spectators, and launching the Capcom Street Fighter League powered by RAGE in February 2019, leveraging the popular *Street Fighter* fighting game series, which many consider to have started esports.

2. Revenue and Profits

(1) Net sales

In this fiscal year, net sales were 100,031 million yen (up 5.8% from the previous fiscal year). This increase was driven primarily by our core Digital Contents business. In Digital Contents, *Resident Evil 2* and *Devil May Cry 5* outperformed our expectations, while sales of catalog titles, in particular *Monster Hunter: World*, and digital downloads grew globally, contributing to increased net sales.

In the Amusement Equipments business, sales of our pachislo machines continued to be impacted by changes in model testing methods and legal amendments of recent years.

As a result, the number of units sold was down compared with the previous year at 7,800 units. Overall, however, favorable growth of the Digital Contents business offset this, resulting in a 5,516 million yen increase in consolidated net sales over the previous fiscal year.

(2) Operating income

Cost of sales increased to 62,809 million yen (up 4.9% from the previous fiscal year) and the cost of sales ratio was 62.8%, down 0.6 percentage points from the previous fiscal year. The cost of sales ratio has decreased in conjunction with the increase in sales, stemming mainly from the hit success of major titles.

Selling, general and administrative (SG&A) expenses were

19,078 million yen (up 2.7% from the previous fiscal year) and SG&A as a percentage of sales was 19.1%, down 0.6 percentage points compared with the previous fiscal year. The cause of the increase in SG&A was increased variable costs associated with increased sales, and the SG&A expenses ratio overall was under the 21.9% figure laid out in the initial plan.

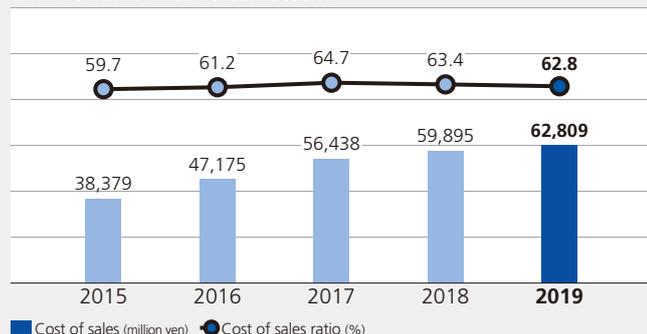
As a result, operating income was 18,144 million yen (up 13.1% from the previous fiscal year), the highest ever and the sixth consecutive year of income growth. The operating margin also increased to 18.1%, up 1.1 percentage points compared with the previous fiscal year.

(3) Net income attributable to owners of the parent

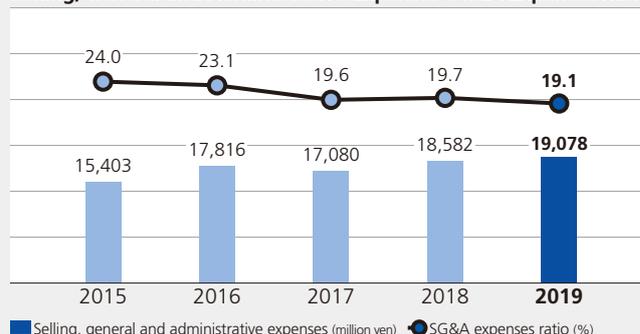
Despite recording redundancy pay of 601 million yen in conjunction with the closing of the office of an overseas subsidiary this year under non-operating expenses, ordinary income increased to 18,194 million yen (up 19.3% from the previous fiscal year), following the increase in operating income.

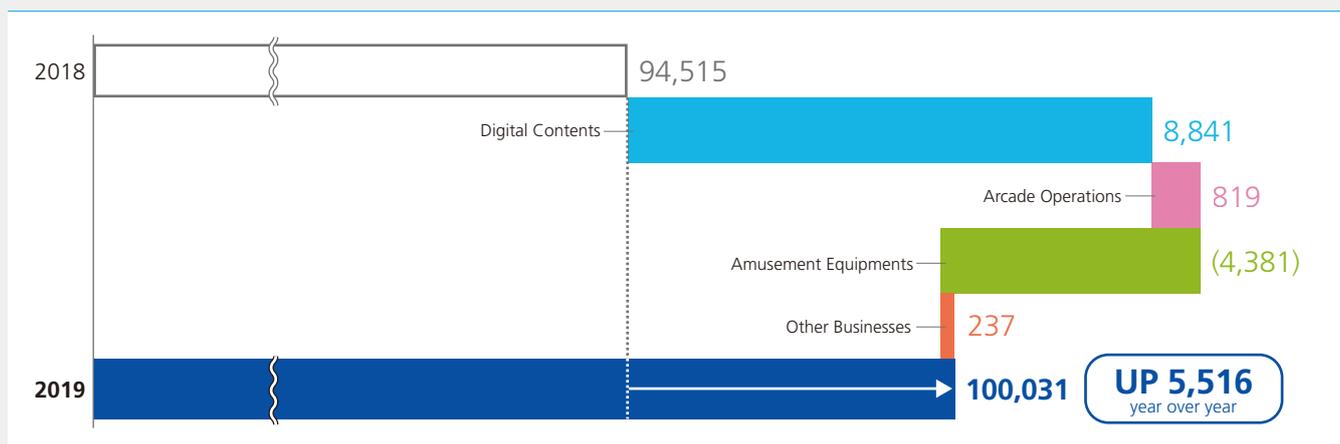
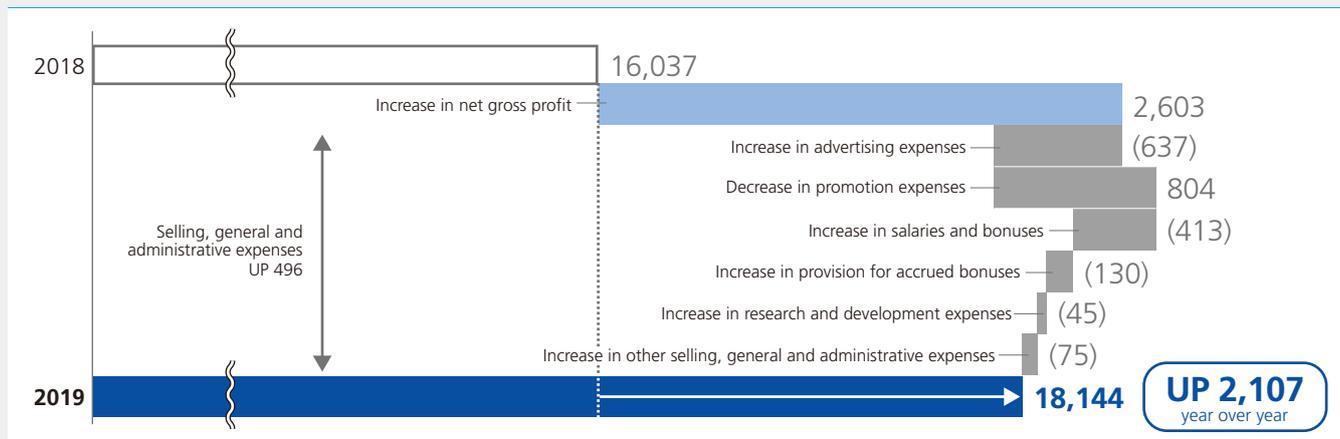
As a result of these increases in income, net income attributable to owners of the parent amounted to 12,551 million yen (up 14.8% from the previous fiscal year) and the net margin came to 12.5% (up 0.9 percentage points from the previous fiscal year), making all income items the highest in company history.

Cost of Sales/Cost of Sales Ratio



Selling, General and Administrative Expenses/SG&A Expenses Ratio



Net Sales (million yen)**Operating Income** (million yen)**3. Analysis of Assets, Liabilities and Net Assets****(1) Assets**

Total assets as of the end of the fiscal year ended March 31, 2019 decreased by 1,421 million yen from the end of the previous fiscal year to 123,407 million yen.

The primary increase was 6,464 million yen in cash on hand and in banks. The primary decrease was 8,708 million yen in work in progress for game software.

(2) Liabilities

Total liabilities as of the end of the fiscal year ended March 31, 2019 decreased by 4,750 million yen from the end of the previous fiscal year to 34,658 million yen.

The primary decrease was 1,579 million yen in long-term borrowings.

(3) Net assets

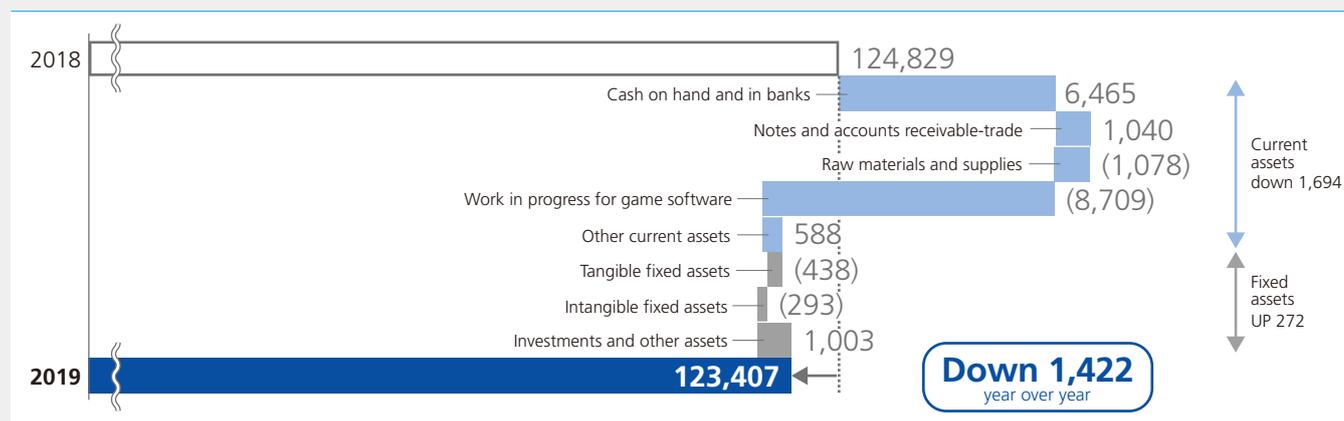
Net assets as of the end of the fiscal year ended March 31, 2019 increased by 3,328 million yen from the end of the previous fiscal year to 88,749 million yen.

The primary increase was 12,551 million yen in net income attributable to owners of the parent. The primary decreases were 3,558 million yen in dividends from retained earnings and 6,001 million yen in repurchase of treasury stock.

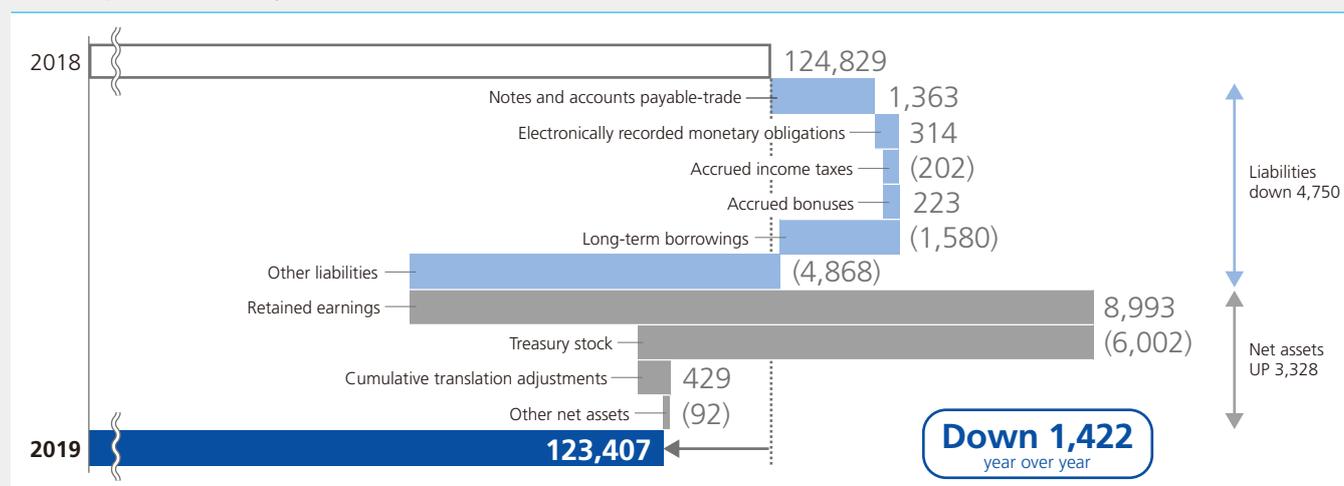
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Assets (million yen)



Liabilities, Net Assets (million yen)



4. Analysis of Cash Flow

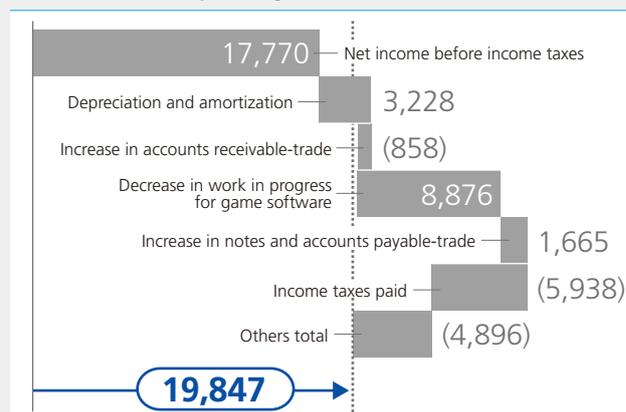
Cash and cash equivalents as of the end of the fiscal year ended March 31, 2019 increased by 6,465 million yen from the end of the previous fiscal year to 53,004 million yen. Cash flow positions of each activity and their factors are described below.

(1) Cash flows from operating activities

Net cash gained from operating activities was 19,847 million yen (34,721 million yen in the previous fiscal year).

A breakdown of cash inflows is as follows: 17,770 million yen in net income before income taxes (15,149 million yen in the previous fiscal year), 3,228 million yen in depreciation and amortization (4,706 million yen in the previous fiscal year), a 8,876 million yen decrease in work in progress for game software (4,069 million yen in the previous fiscal year) and a 1,621 million yen decrease in inventories (1,588 million yen in the previous fiscal year). The primary outflow was 5,938 million yen in income taxes paid (1,546 million yen in the previous fiscal year).

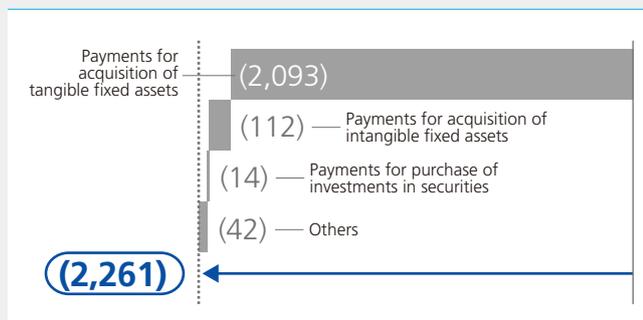
Cash Flows from Operating Activities (million yen)



(2) Cash flows from investing activities

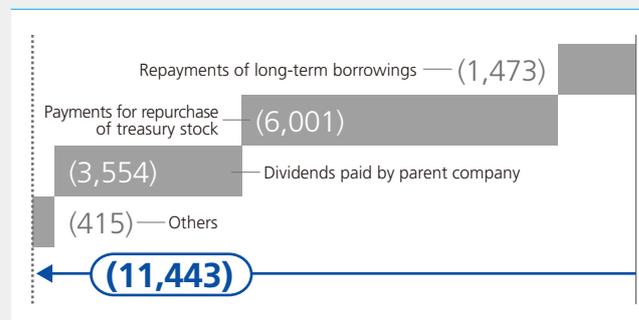
Net cash used in investing activities was 2,261 million yen (2,847 million yen in the previous fiscal year).

The primary item used was 2,093 million yen in payments for acquisitions of tangible fixed assets (2,767 million yen in the previous fiscal year).

Cash Flows from Investing Activities (million yen)**(3) Cash flows from financing activities**

Net cash used in financing activities was 11,443 million yen (9,577 million yen invested in the previous fiscal year).

A breakdown of the primary uses are as follows: 6,001 million yen in payment for repurchase of treasury stock (5 million yen in the previous fiscal year) and 3,554 million yen in dividends paid by parent company (2,738 million yen in the previous fiscal year).

Cash Flows from Financing Activities (million yen)**5. Our Financial Strengths****(1) High profitability of core business**

Our medium-term goal is stable growth of operating income. We aim to achieve both improved profitability and profit growth by increasing development cost investment efficiency, carefully reviewing the profitability of each title and employing a strategy of selection and concentration on projects that can be expected to contribute to profits. Based on this policy, in the fiscal year ended March 2019, we were second among the five main players in the domestic market* in terms of operating margin (18.1%) despite coming in last* in terms of net sales (100,031 million yen). Our Digital Contents business was also second (28.1%) in the comparison of margins in game software sales, which is the core business of each company. As for our future outlook, there will be no change to our policy of maintaining high profitability, but in preparation for changes in the market associated with rapid developments in game-related technology, we will also need to make anticipatory investments in new fields. As such,

we will make investments for the future while working to increase the operating margin.

* We have selected competing manufacturers whose core business is home video game software. We compiled the rankings based on information disclosed by each company.

(2) Financial flexibility based on high free cash flow

In the fiscal year ended March 2019, net cash gained from operating activities amounted to 19,847 million yen, primarily as a result of hit major titles in our core Consumer sub-segment. Net cash used in investing activities was 2,261 million yen, which is the standard level for us. As a result, free cash flow came to 17,586 million yen. Compared to competitors with large businesses, we were third in terms of free cash flow. Our free cash flow to net sales ratio of 17.6% is the highest among the five companies. This gives us a high level of financial flexibility compared to the industry standard. We will continue to promote measures for growth from a medium- to long-term perspective and work on further enhancing our capital policy.

Profitability Comparison

(Year ended March 2019)

	Net sales (million yen)	Operating margin (%)	Game business margin (%)
CAPCOM	100,031	18.1	28.1
SQUARE ENIX HOLDINGS	271,048	9.1	14.2
SEGA SAMMY HOLDINGS	331,648	3.9	6.6
BANDAI NAMCO HOLDINGS	732,347	11.5	13.9
KONAMI HOLDINGS	262,549	19.2	30.9

(Prepared based on disclosures by each company)

Free Cash Flow Comparison

(Year ended March 2019)

	Free cash flow (million yen)	Free cash flow to net sales ratio (%)
CAPCOM	17,586	17.6
SQUARE ENIX HOLDINGS	-740	-0.3
SEGA SAMMY HOLDINGS	-7,237	-2.2
BANDAI NAMCO HOLDINGS	54,912	7.5
KONAMI HOLDINGS	26,604	10.1

(Prepared based on disclosures by each company)