

Market Analysis

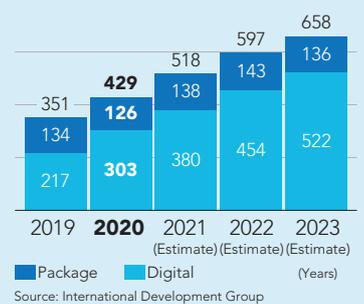
Market Trends

Consumer Market (Package + Digital)

In 2020, the consumer (package + digital) market grew to 42.9 billion dollars (up 22.2% from the previous year). This was due primarily to favorable packaged and digital sales. Digital sales have continued to expand in North America and Europe where such sales account for 81% of the market. The highly profitable digital contents market now accounts for roughly 71% of the consumer market.

The forecast for 2021 is for the market to reach 51.8 billion dollars (up 20.7% from the previous year) owing to continued growth of the digital market and revitalization of the market with the popularization of new hardware. In the medium term, we see the digital market expanding rapidly in Southeast Asia and other developing regions and new game delivery methods such as streaming and subscriptions growing. As such, we expect the market to grow to 70.6 billion dollars by 2025 (up 64.6% compared to 2020). We also expect continued growth in the mobile market.

Consumer Market (billion U.S. dollars)

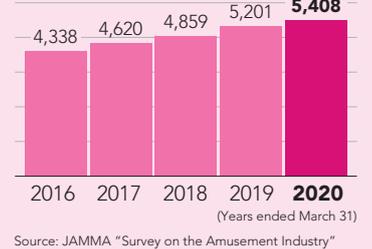


Arcade Operations Market

The domestic arcade facilities market grew during the previous fiscal year (ended March 31, 2020) for the fifth year in a row to 540.8 billion yen (up 4.0% from the previous year). The total number of facilities remained flat at 12,212 (up 0.4% from the previous year), and annual sales per store grew to 44.28 million yen (up 3.6% from the previous year.)

This fiscal year (ended March 2021), the market was severely impacted by COVID-19 as stores were forced to suspend operations or shorten operating hours during states of emergency while foot traffic decreased due to efforts to avoid crowds. The market situation next fiscal year (ending March 2022) is expected to remain harsh, although we can expect some recovery due to the operational know-how we have acquired thus far in the pandemic.

Arcade Operations Market (billion yen)



Gaming Machines Markets

In the previous fiscal year (ended March 31, 2020), the gaming machine market shrank for the seventh consecutive year to 564.7 billion yen (down 16.1% from the previous year).

This was due to diminishing investment appetite for gaming machines at halls due to the sluggish performance of machines with gambling restraints (implemented in response to model certification methods changes), and fewer new stores. This fiscal year (ended March 2021), the new machine types showed promise, however COVID-19 created a tough market environment. Next fiscal year (ending March 2022), we expect some demand for new machines replacing older types (which was initially delayed due to COVID-19), but believe the situation will remain harsh from increased investment burdens on halls and operational suspensions due to COVID-19.

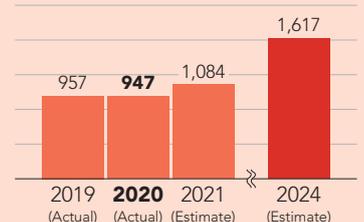
Gaming Machines Markets (billion yen)



Esports Market

The Esports Market last fiscal year (ended March 2020) was 940 million U.S. dollars, and because people were consciously avoiding crowded events, that remains almost unchanged from the previous year. In 2021, we expect the market to grow to 1.08 billion U.S. dollars (up 14.5% from the previous year) owing to increased sponsorship and media rights fees, primarily in China, which accounts for the largest share. The future remains unclear due to the prolonged COVID-19 pandemic, but the growth of live broadcasts has resulted in a steady increase of viewers, and it is expected to grow to 1.61 billion U.S. dollars by 2024.

Esports (million U.S. dollars)



Source: Newzoo "2020 Global Esports Market Report"

Major opportunities and risks (Opportunity●Risk◆)

- Creation of highly competitive products using new technology
- More channels for product distribution with the appearance of new platforms
- Expanded number of sales regions using digital distribution
- Achievement of extended product life cycles through digital sales
- Reduction of the used market due to penetration of digital sales
- ◆ Rising development costs with the appearance of new technology and improved device performance
- ◆ Dependence on popular series
- ◆ Platform adoption trends
- ◆ Changes in user purchasing trends with the next generation of platforms
- ◆ Risks due to a country's politics, culture, or religion
- ◆ In-game purchases becoming a social issue
- ◆ Information leakage

Addressing major opportunities and risks

- Focusing on improving quality and reducing development costs by building our own development engine and enhancing our development team
- New customer acquisition through a steady release of new major titles, creating new IPs, and the Single Content Multiple Usage strategy
- Diversifying profit risk through multi-platform development and strengthening PC platform development to hedge against dedicated console trends
- Lengthening product life of games with increased digital sales rates and increasing unit sales through pricing strategies
- Developing sales approaches to meet local needs and localization by an in-house team of experts
- Monetizing without incentivizing in-game purchases
- Establishing the Information Technology Security Oversight Committee, receiving instruction and advice, and implementing various security strengthening measures to prevent a recurrence

- Acquisition of new customers through multifaceted roll-out of stores including themed venues, merchandise specialty stores, VR experiences, etc.
- Increased awareness with new business formats and new technologies
- ◆ Reduced ability to attract customers due to the COVID-19 pandemic
- ◆ Changes to the market environment due to the diversification of leisure activities and declining birthrate

- Acquisition of new fan demographic and increased awareness through multifaceted business developments
- Attraction of customers using our home video game content and other assets

- Expanded sales volume by responding to regulations appropriately
- Development of machines using popular IPs created for home video games
- ◆ Non-compliance with model testing of pachislo machines

- Building a system to perceive regulatory trends that allows us to respond immediately to changes in regulations through membership in industry associations

- Expanded fan base from non-game players watching events
- Creation of new profit opportunities such as licensing rights to hold events and stream video
- Promotion of online tournaments that leverage game characteristics
- ◆ Reduced number of events due to COVID-19 pandemic
- ◆ Decreased enthusiasm for competition due to rampant cheating
- ◆ Competing with new titles from other companies

- Spread of online competitors
- Flexible adjustment of competition rules
- Continuous supply of new content with title updates

Business activity achievements

Business Overview

Operating Results for This Fiscal Year



Digital Contents

This business develops and sells digital game content for consumer home video game and PC platforms. It also develops and manages Mobile Contents. Consumer games produces creative, original content that provides recurring revenue by utilizing digital distribution. Many of these million-seller titles are used for smartphone, tablet device and PC games, and are distributed worldwide in order to maximize earnings.

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Consumer (Package + Digital)

- ◆ New titles *Resident Evil 3* and *Monster Hunter Rise* were hits
- ◆ Major catalog title hits *Monster Hunter World: Iceborne*, *Monster Hunter: World*, *Resident Evil 2*, and *Resident Evil 7 biohazard* performed well
- ◆ Highly profitable digital sales grew further

Mobile Contents

- ◆ Launched both in-house as well as alliance titles, such as *Rock Man X Dive* and *Street Fighter: Duel*



Arcade Operations

We operate amusement facilities, primarily Plaza Capcom arcades, in Japan. These arcades are predominantly in large commercial complexes. We have diligently followed a scrap-and-build policy to maximize our efficiency in arcade operations, and have been hosting various events designed to attract families and younger customers.

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- ◆ We are focusing on steadily opening and operating stores while working to minimize the impact of COVID-19
- ◆ To address the spread of COVID-19, we changed the operating hours of some stores and suspended operations of others. Same store sales were down 22%
- ◆ We opened Capcom Store Osaka, a showroom in Osaka's Shinsaibashi district that sells Capcom merchandise
- ◆ We opened one new store



Amusement Equipments

This business utilizes the content from our home video games. We focus primarily on the development, manufacture and sales of software, frames and LCD devices for gaming machines.

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- ◆ Sold a total of 27,000 units of three models
- ◆ Increased sales and profits after releasing multiple models designed to current regulations



Other Businesses

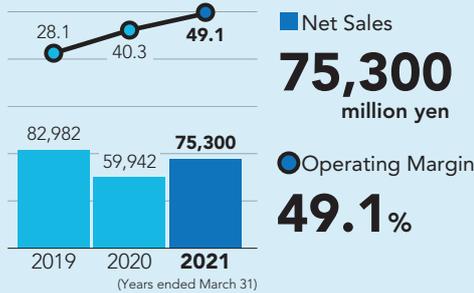
Based on our Single Content Multiple Usage strategy of leveraging game IP across different media, we pursue a variety of copyright-related business opportunities. In addition to adapting game content into movies, animated television programs, music CDs, character merchandise and other products as part of our licensing business, we are also devoting resources to our esports business.

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- ◆ We held events and sold merchandise leveraging IPs like *Monster Hunter* and *Resident Evil*, creating multifaceted opportunities for earnings
- ◆ In our licensing business, we strengthened our expansion into visual media and merchandising to coincide with the release of new home video game titles
- ◆ We made efforts in eSports to expand the player and fan demographics by holding online tournaments in light of the COVID-19 pandemic

Main Products for This Fiscal Year (Output)

Net Sales/Operating Margins



Monster Hunter Rise

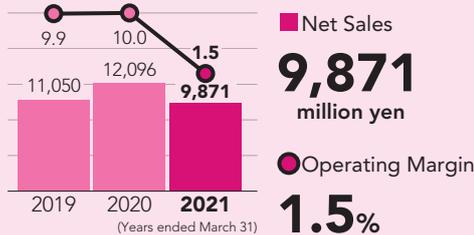
This was developed as a new addition to the *Monster Hunter* series with our proprietary development engine, RE ENGINE. Prior to release, we distributed demo versions that allowed cooperative play twice, and due to the high acclaim and amount of attention it received, 4.8 million copies were sold.



Resident Evil 3

Released in 1999, *Resident Evil 3: Nemesis*, which sold a total of 3.5 million copies, was remade for the first time in 21 years using the latest technology and concepts. Based on a digital sales strategy, we were able to increase the sales percentage of the download version, and 3.9 million copies were sold during the fiscal year.

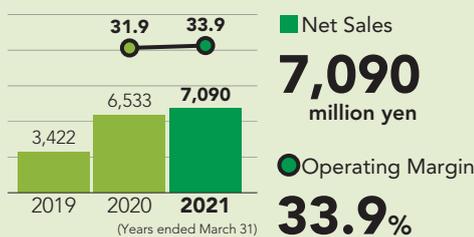
Net Sales/Operating Margins



Showroom
Capcom Store Osaka

We opened Capcom's first showroom in the Kansai area selling popular character novelty items in Shinsaibashi, Osaka in November 2020. By opening this store in the Kansai area, in addition to the showroom we opened last year in Shibuya, Tokyo we are able to more broadly communicate the appeal of our content.

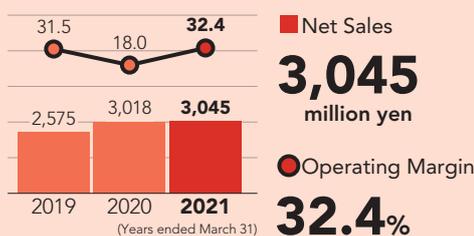
Net Sales/Operating Margins



Pachislo
Monster Hunter: World

This pachislo machine is based on *Monster Hunter: World*, our all-time best-selling home video game with more than 17 million units sold cumulatively. Released in November 2020, 17,000 units were sold.

Net Sales/Operating Margins



Hollywood movie *Monster Hunter*

One of our most popular brands, *Monster Hunter*, was adapted into a Hollywood movie for the first time. After opening in North America in December 2020, it was rolled out to theaters around the world.