



CEO Commitment

Kenzo  
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Chairman and  
Chief Executive Officer (CEO)



# Generating world-class content to help build a richer society through a solid management base and our growth strategy.

## A look at Capcom’s favorable and unique position from six perspectives

The fiscal year ended March 2019 marked the second consecutive year we achieved record high profits. From the fiscal year ended March 2015, our medium-term management goal has been to increase operating income each year, and we have accomplished this for six consecutive years. These achievements lead me to believe that we are headed in the right direction with our strategy and the business model we are working towards.

Last year, I explained the elements that serve as the source of Capcom’s sustained growth as **1** a

corporate philosophy and culture that fosters the ambitions and values set out at our founding, **2** a business model that is a competitive advantage, **3** important management indicators that function as quantitative guideposts, **4** a management strategy focusing on our strengths, mitigating risks, and enhancing sustainability, **5** a relationship with society, **6** governance, and finally a linking of these elements.

Please continue reading as I explain to our stakeholders once again how these six elements allow us to demonstrate our favorable and unique position.

## 1

## Corporate philosophy and culture — Aim to be the best in the world

## The world's best content "from Osaka to the World," arising from our unchanging philosophy

I jumped into the world of entertainment 50 years ago with the idea that "games are luxury items, not essentials. This is why the brand must be of world-class quality." I still believe this to be true even today.

Accordingly, Capcom's basic philosophy is to create an entertainment culture through the medium of games by developing highly creative content that excites and stimulates your senses and brings a smile to your face. In other words, we help make people happy and in turn build an emotionally rich society by creating the world's most entertaining games. → For details, please refer to "Corporate Philosophy" on page 04

In 1983, I founded Capcom under the motto of "originality and ingenuity," with the vision of developing games offering world-class quality.

Underpinning this was my belief that increasingly

sophisticated graphics and more immersive worlds would eventually make games as moving and impressive for the world as a Disney film.

36 years later, I have amassed more than 2,800 colleagues who share this vision. Under the slogan "From Osaka to the World," these values have become our corporate culture, with (1) a spirit that is always eager to take on new challenges and (2) a sense of pride to constantly strive to be world-class deeply ingrained in every Capcom employee.

Again and again, we have been able to produce unique series that are globally recognized, including *Street Fighter*, *Resident Evil* and *Monster Hunter*, because of the fertile soil of a corporate culture cultivated over many years.

## 2

## Business model — Competitive advantage centered on global IP

## High-quality content creation and the business development to maximize its use

Capcom's strengths are (1) the development and technological capabilities to create the world's finest, high-quality games and (2) numerous popular branded IP known the world over.

In addition, since fiscal 2011, we have hired over 100 new graduate developers every year in anticipation of focusing on in-house development, increasing our development staff to over 2,100 people and further enhancing our strengths.

From game market characteristics and competitive factor analysis, the Consumer sub-segment has high entry barriers; combining the aforementioned strengths with our capital and the relationships of trust we have with hardware manufacturers creates significant competitive advantages (profitability). Against this backdrop, in the consumer market, technological standards and development costs rise with each hardware cycle, resulting in a situation where consumer spending and time is more concentrated on branded, popular titles. → For details, please refer to "An Analysis of the

Market and Capcom" on page 69.

Furthermore, in sub-segments other than Consumer, our rollout of popular IP across multiple mediums contributes as a stable source of earnings. This is because, in addition to the fact that our IP consists of products developed 100% in-house, possessing numerous global IPs amplifies the effect of our multiple usage strategy. Moreover, expansion into other areas leads to increased brand value and subsequently an influx of new users to the game. In particular, marketing activities utilizing Hollywood adaptations of content further enhances the global competitiveness (brand power) of our IPs and maximizes synergistic effects.

→ For details, please refer to "The COO's Discussion of Growth Strategies" on page 31.

In recent years, as a result of these sustained branding measures, we are increasingly seeing multiple generations of fans at event venues as IPs enjoying long-term popularity have firmly taken hold.

**3** Key performance indicators (KPI) — Focused on stable growth for 5–10 years into the future

## Creating a framework using systematization and establishing a leaner structure by improving performance indicators

### 1. Analysis of management performance in the fiscal year ended March 2019 (summary)

In the fiscal year under review (ended March 2019), we achieved the sixth consecutive year of operating income growth, and all profit items from operating income downward reached record highs. What I want to point out here is that (1) *Resident Evil 2* and *Devil May Cry 5* were both indisputable successes, having been developed in-line with the highly stringent, world-class quality standards that drove the success of *Monster Hunter: World*, (2) following the home video game version, the PC version of *Monster Hunter: World* has also achieved success as a global brand, (3) catalog sales (past titles, including rereleases and HD versions) also grew, increasing the density of our earnings platform and (4) digital unit sales rose to 61%. All four of these items are part of our growth strategy and demonstrate our successful executions of these initiatives up to now.

➔ For details, please refer to “Financial Review” on page 75

### 2. Medium-term management goal assumptions and indicators (KPI)

#### (1) Management direction—Thinking about what to target in the next five years

I am always thinking about what our management targets should be in the next five years. In this way, I am even able to quickly notice small changes two years from now. And, at present, our management policies are to (1) create exciting, world-class content (IP), and (2) maximize both the number of users supporting our company and earnings by leveraging our rich library of IPs across multiple platforms and media to become a company of continuous, sustainable growth.

#### (2) Management goals—Stable growth every year

We have established operating income growth each fiscal year as the goal for achieving the above. Rather than struggling to coordinate major title launch periods for this, we intend to take a natural approach of establishing a model of stable growth through build-up by expanding our title lineup, among other efforts. This will enable institutional investors managing pensions and individual investors on fixed incomes to maintain long-term holdings with confidence. As we are emphasizing annual growth, we have not announced a specific rate of increase, but we are considering a profit

growth rate between 5–10%. It is true that achieving growth every year in a hit-driven business like the gaming industry is a lofty goal. However, with the digital shift of sales and marketing these past few years, our profit structure has also changed. We are in fact a leader in the change-over to digital, and the profit margin of our Digital Contents business is growing steadily.

#### (3) Key performance indicators (KPI) and shareholder value creation achievements

In terms of management, I place importance on operating income (growth indicator) as the basis of corporate earning power, operating margins (efficiency indicator), which are the basis of profitability, and cash flows.

The game industry is prone to drastic change; in terms of engaging in management that is always focused five years ahead, we use the above fundamental indicators, as well as a matrix that compares figures to net sales, year-over-year and to our forecast, to check for anomalies and quickly identify and address problems.

This has led to a 66% increase in operating income and a 7.9-point improvement in operating margins over the past five years, placing Capcom at the top compared to other companies in our industry.

#### Operating income/Operating margin rate of improvement (Compared to the fiscal year ended March 2016)

	Operating income	Operating margins
<b>CAPCOM</b>	<b>+66%</b>	<b>+7.9 points</b>
KONAMI HOLDINGS	+90%	+7.5 points
SQUARE ENIX HOLDINGS	-8%	-3.3 points
SEGA SAMMY HOLDINGS	+53%	+1.8 points
EBANDAI NAMCO HOLDINGS	+41%	+1.1 points

Note: Comparison of the fiscal year ended March 2016 and the forecast for the fiscal year ending March 2020.  
Source: Compiled by Capcom from each company's financial reports and earnings materials.

Further, if we improve these performance indicators, ROE and other related indicators also increase, creating shareholder value. Specifically, in line with improved margins, ROE has improved for six years straight. And, in the fiscal year ending March 2020, the equity spread (ROE – cost of capital) is expected to be 10.5%, adding to corporate value and exceeding the average for companies listed on the Tokyo Stock Exchange (2.5%)

as well as those in the same industry.

**ROE/Equity spread**

	ROE	Equity Spread
<b>CAPCOM</b>	<b>15.8%</b>	<b>+10.5%</b>
KONAMI HOLDINGS	10.9%	+6.1%
SQUARE ENIX HOLDINGS	8.3%	+4.1%
SEGA SAMMY HOLDINGS	5.0%	-0.8%
BANDAI NAMCO HOLDINGS	11.7%	+7.0%
TSE 1st Section Average	8.4%	+2.5%

Note: Forecast for the fiscal year ending March 2020  
Source: Financial reports, Bloomberg

In addition, I think it is important to reward shareholders who trust our Company and hold Capcom shares over the medium- to long-term, and I have strived to deliver sustainable earnings growth and returns to shareholders. As a result, over the past five years capital gains and dividends, which constitute total shareholders return

(TSR), are 22.5%, beating TOPIX (8.0%) and propelling Capcom to the top position compared to other companies in our industry.

Going forward, we will create a framework for management systematization with the aim of creating a leaner corporate structure by improving basic performance indicators. → For details, please refer to “Financial Strategy According to the CFO” on page 39

**Total shareholder return (TSR)**

	Five-year period (annual rate)
<b>CAPCOM</b>	<b>+22.5%</b>
KONAMI HOLDINGS	+16.7%
SQUARE ENIX HOLDINGS	+14.4%
SEGA SAMMY HOLDINGS	-8.4%
BANDAI NAMCO HOLDINGS	+19.4%
TOPIX	+8.0%

Note: Five-year period from fiscal years ended March 2015 to March 2019  
Source: Bloomberg

**4 Management strategy — Development and marketing strategies focused on strengths**

**Further refining IPs with development structure and brand strategy and foraying into new areas**

**1. Investing in human resources and development equipment to create world-class games**

“Without pursuing advancement, we cannot create world-class games.” As a manager in the game industry for 50 years, I have always said, “World-class games are not just entertaining, they must also be technically advanced.” The evolution of hardware and rising quality of market entrants are proof of this. Accordingly, we must amass human resources that are highly skilled in areas such as programming and the visual arts. We are already engaged in this effort.

I focused on future game market expansion and technological advances, and since 2011, Capcom has hired over 100 new graduate developers every year. Nearly all of them are “game natives” who have played games since they were very young and have witnessed the advances in games of the past 20 years. Moreover, they are overflowing with energy, and desire to use their skills to develop new markets, which is why they joined Capcom, whose DNA is rooted in a focus on global markets. If the employee is highly capable, they

may be assigned to the development of major brands, such as *Resident Evil* or *Devil May Cry* in the early years of their career. Learning and achieving results under the tutelage of a leader while taking on more responsibility over time readies that employee to eventually take on a leadership role themselves in the future.

In addition, we are actively investing in the world’s most cutting-edge on-site R&D facilities and development equipment, such as our motion capture studio featuring 7-meter-high ceilings, our 3-D scan studio with roughly 100 cameras, and a Foley studio for recording sound effects so that our elite team of world-class creators can work to the absolute best of their abilities.

**2. Marketing strategy for creating global brands**

Another critical factor is our approach to marketing, focused on branding and increasing awareness of hit titles.

As it takes about three years to develop a game, we used to have issues with a progressive decline in recognition during development. I came up with the idea that the most effective method for ongoing media

exposure of game titles was to expand globally using Hollywood movie adaptations. In 1994, we decided to invest 4 billion yen to make a *Street Fighter* Hollywood movie. At that time, some thought I had taken up movies merely as a hobby, but this investment generated a return of approximately 15 billion yen and successfully established *Street Fighter* as a global brand. Although games receive only about two weeks of media exposure before and after their release, factors that led to the success of this Hollywood movie include (1) the theatrical release, (2) Blu-Ray and DVD sales, (3) online and cable television broadcasts and (4) broadcasts at hotels and in airplanes. It has been rebroadcast numerous times over years and decades, which has led to maintaining and even increasing the recognition of this title.

A condition to taking this marketing approach is that the games are of world-class quality; Capcom has already succeeded in a similar way with the branding of *Resident Evil*. We will continue to utilize this branding approach with other Capcom IPs such as *Monster Hunter* and *Mega Man*.

### 3. Transforming the consumer business model to mitigate earnings volatility risks

As the founder of Capcom, I think it is important to create a structure for passing the business on to the next generation. As with any structure, building the foundation is the most challenging part, but efforts launched six years ago are finally starting to take shape. To establish solid growth strategies and further enhance corporate value, there are two critical risks, earnings volatility and management decisions, that must be addressed. However, first I will talk about the stable growth mechanism (control of earnings volatility risks).

➔ For details regarding management decision risks, please refer to page 28

To mitigate earnings volatility risks over the medium- to long-term, measures enabling sustainable growth must include (1) transforming the foundation

of our Consumer business model from a traditional one-time sale “transactional model” to a continuous “recurring revenue model” and (2) creating a business portfolio and diversifying earnings risks by thoroughly leveraging Capcom’s basic strategy, Single Content Multiple Usage. [\[Diagram 1\]](#)

Historically, earnings in Capcom’s core Consumer sub-segment fluctuated depending on whether or not we created hit titles. Although we achieved some success (controlled earnings volatility) through timing the releases of multiple hit titles in the past, it did not meet my objectives for stable growth.

However, since 2013, game consoles have been equipped with robust online functionality, enabling us to develop growth strategies around digital elements.

Specifically, new titles [\[Diagram 1-A\]](#) will work as medium- to long-term growth drivers as we (1) steadily release major titles each year, (2) extend the sales life of these titles to 3–4 years with additional content and flexible pricing strategies and (3) strengthen our presence overseas, which comprises approximately 85% of the total market.

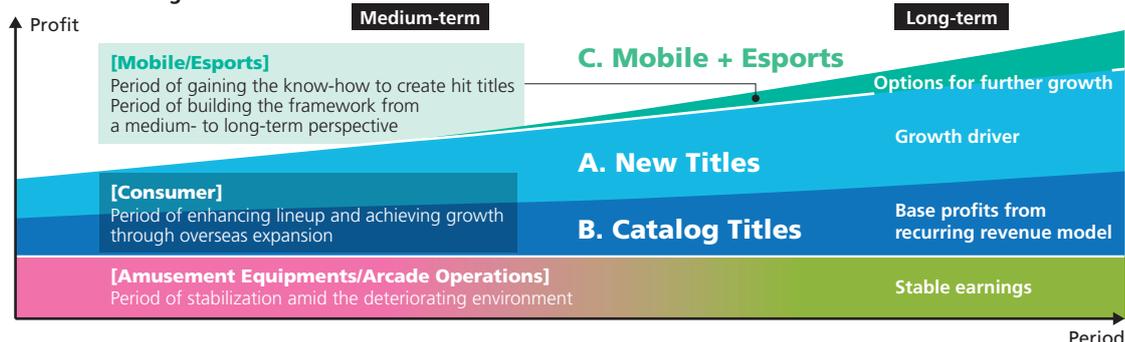
Next, in terms of catalog titles [\[Diagram 1-B\]](#), we will grow our user base and generate profits on a recurring revenue basis even during periods in-between new title releases through (1) digital sales of past titles and (2) re-releasing past hit titles for current-generation game consoles.

### 4. Building a new medium- to long-term revenue pillar

Currently, we are several paces behind our industry competitors in terms of mobile content. This stems from the compatibility between our IPs created for home video game consoles and mobile devices, but as G (communication speed) and K (resolution) technology progresses, we believe that within the next several years we will be able to fully utilize our strength in IPs in mobile content as well. In addition, we are pursuing all immediate possibilities, such as in-house production,

Diagram 1

#### Medium- to Long Term Growth



collaborations, and M&A, building up a foundation for our mobile business as a further growth option (second pillar).

In addition, with a focus on the future growth of the esports market, we will strengthen title branding and attempt to make the esports business profitable.

[Diagram 1-C]

In the game industry, which is often called the “hit-driven business,” Capcom will establish a management structure and strategy able to achieve sustainable growth other companies have yet to achieve while enhancing corporate value.

# 5

## Relationship with Society (S) — Global human resources and new market cultivation

### Building a good relationship with our stakeholders, contributing to society through business

From our position as a game publisher, we believe that we can increase our corporate value by building a healthy relationship with our stakeholders while also—through our business activities—nurturing talent that can play an active role on the global stage, as well as by creating new markets with cutting-edge technology that can in turn be combined to create social and economic value (creating common value).

#### 1. Building a healthy relationship between games and society

While games have made people smile, stimulated their senses, and created a new culture up to this point, new challenges have also appeared, such as the expensive in-game purchases by minors and game addiction that have accompanied the increase of online games in recent years. As I mentioned in my explanation of our corporate philosophy, our purpose is to make people happy through games. Making people unhappy because of games is certainly not our intention. If we do not tackle these issues head on, as an industry, company, and member of society, we will not be able to earn people’s trust and continue growing. → For details, please refer to “Corporate philosophy and culture” on page 23

We are aware that these are major issues for our industry as a whole, and each company has therefore come together as part of an industry organization to make efforts to (1) establish guidelines and educate people about them, (2) share problems and actual examples among member companies, and (3) exchange information on a regular basis with parents, educators, consumer groups, and government administrators.

→ For details, please refer to “Relationship with Customers” on page 47

In addition, since 2005 Capcom has independently continued literacy and career education support activities to raise awareness about how to properly interact with games in an effort to eliminate the social concern regarding the healthy development of youth

with regards to games. → For details, please refer to “Promoting Healthy Relationships with Games” on page 50

We do our best to ensure that a broad range of customers are able to play safely and fairly. As a general rule, in our mobile games we refrain from utilizing gacha elements, and while we do sell small-scale, inexpensive additional content in games for home consoles, any content that is required to play the main game is provided free of charge.

#### 2. Commitment to regional communities

The promotion of our Single Content Multiple Usage strategy provides society with a wide range of benefits. Specifically, these include the use of popular Capcom IP in local revitalization activities to support (1) economic development, (2) cultural development, (3) awareness for crime prevention and (4) awareness of elections. We are achieving quantitative social outcomes through solving the common problem of attracting and appealing to the youth demographic. → For details, please refer to “Relationship with Regional Communities” on page 49

At the same time, these four activities deliver value to Capcom in the form of (1) improving existing customer satisfaction through event participation and (2) enhancing the image of games among the middle-aged and seniors. With respect to (2) in particular, this segment cannot be considered current customers, thus by contributing popular content to local communities, we are able to cultivate new game players through apps and games on their personal smartphones and devices.

#### 3. Commitment to employees

As can be seen from the fact that personnel expenses (costs) account for approximately 80% of development expenses, the game industry is a labor-intensive industry and an extraordinarily knowledge-intensive industry, thus human resources are an extremely important management resource.

I recognize the importance of diversity for creating content that will resonate globally, thus Capcom promotes the retention and training of talented human resources without regard for gender or race. As I mentioned earlier, we have world-leading, cutting-edge development equipment enabling our talented workforce to fully demonstrate their abilities. As part of our efforts to improve the work environment, we have provided equipment that allows creators to give shape to their ideas, which improves product quality while also bolstering creativity. In terms of remuneration, in addition to a well-balanced salary system based on ability, we have also introduced incentives for each title and an assignment allowance system to increase motivation.

Furthermore, in fiscal 2017 we established Capcom Juku, an on-site childcare facility, to provide employees with children a fulfilling work environment where they can concentrate on their work. I would like to make Capcom Juku something beyond a simple childcare facility and see it expand into a place of learning for children all the way up through their junior high school

entrance exams. Japan is feeling pressure from countries like the United States and China in the areas of AI and IT, thus I want to provide our children with the tools to succeed when it is their turn to compete on the world stage. I believe that supporting our children up to their entrance into junior high school and nurturing Capcom employees into world-class businesspeople and game creators will contribute to the sustainable growth of our company as well as the industry. [➔ For details, please refer to "Relationship with Employees" on page 50.](#)

In my view, the most critical aspect of human resource development is providing an environment that enables employees to take on new challenges. The manager's role is to push employees to take on one new challenge after another, leaving alone what works and devoting their energy to devising measures when things are not working. This enables employees to take on challenges without fear of failure, develop the world's most entertaining games and create new businesses leading to a virtuous cycle that creates business opportunities.

**6 Governance (G) — Management visualization mechanism  
Mcreating the next generation**

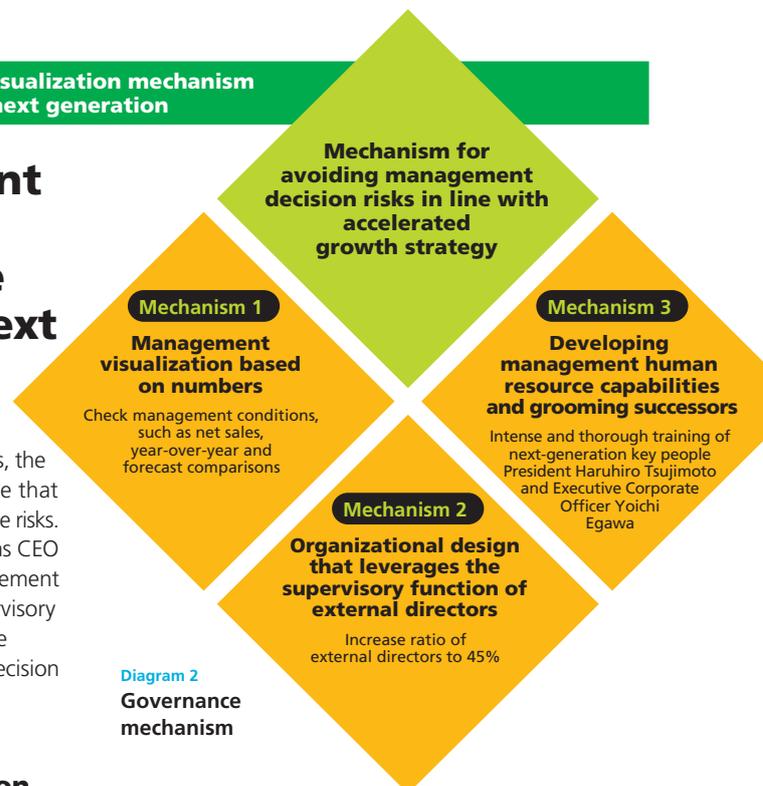
## Avoiding management decision risks with transparency and the development of the next generation of leaders

As Capcom further accelerates its growth strategies, the risks become proportionally higher, but I believe that governance is effective at reducing and avoiding these risks.

Specifically, with myself, Capcom's founder, as CEO and my oldest son as COO, we can avoid management decision risks by sufficiently leveraging the supervisory function of the external directors, and a unique mechanism for highly transparent and rational decision making built by the Board of Directors. [\[Diagram 2\]](#)

**Mechanism 1  
Management visualization based on numbers**

Despite changes in corporate scale or business environment, to conduct flexible and integrated management, I require that materials (documents) used for decision-making are, in principle,



quantitatively focused. Specifically, these materials compare and contrast net sales, year-on-year performance and earnings forecasts, which make it easier to identify problems by enabling us to confirm the details in multiple ways.

Furthermore, these materials are used by external directors for supervisory purposes and provided to investors as part of our IR activities. This is part of the mechanism I call “management visualization.” Management decisions based on visualizing operations enable us to evaluate the Company with two sets of eyes using a system attempting to achieve management transparency.

Even when I talk with developers, numbers are the common language. Using only qualitative words and sentences leaves significant room for arbitrariness on the part of the person in charge. In comparison, numbers enable comparisons from a variety of angles, facilitating decisions based on real conditions.

The risk control efforts I am focused on now involve passing on the management know-how I have accumulated as founder to the next generation of management through actual practice and ensuring the Company functions reliably in the future by systematizing management. Both of these efforts are beginning to bear fruit.

### Mechanism 2

#### **Organizational design that leverages the supervisory function of external directors**

For the past 20 years, Capcom has executed a variety of governance reforms.

Since introducing the external director system in the fiscal year ended March 31, 2002, external directors have increased to account for 45.5% of the Board of Directors. This stemmed from one particular investor’s concern that “as a founder-run company, Capcom can quickly make management decisions and respond to changes in the business environment, but isn’t there a risk of arbitrary decisions and execution?”

External director appointment criteria have not changed since the system was introduced, but in short, we appoint directors with insight who are highly proficient specialists in their respective areas outside the gaming industry, capable of objectively making decisions regarding Capcom’s management and business activities. With the avoidance of business investment risk as a priority issue, Capcom appoints individuals from Japan’s leadership class (in terms of business crisis management, law and government) who are able to provide sound opinions, especially when earnings are subpar, who are not intimidated by the company founder and are able to determine validity from the general public’s point of view. In fact, fierce debates led primarily by our external directors were held regarding agenda items such as the fiscal 2015 reintroduction of takeover defense measures (currently abolished) and fiscal 2016 transitioning to a company with an audit and supervisory committee.

➔ For details, please refer to the 2016 and 2017 Integrated Reports.

### Mechanism 3

#### **Developing management human resource capabilities and grooming successors**

Within corporate management, people’s character and spirit are important management resources that have a substantial impact on corporate value. In the 2016 integrated report, I discussed my management philosophy and capabilities as founder. At present, one of the concerns among our investors is the thinness of our management team as a founder-run company; in other words, have we prepared a management structure (successor plan) for the next generation?

Capcom’s key people for the next generation are the head of business and development, Haruhiro Tsujimoto (president) and Yoichi Egawa (executive corporate officer). Both have the qualities required for management. I chose them as keypersons because, as I have discussed in past reports, they have amassed a wealth of experience since our founding and are ready and willing to take on the responsibility. As a member of Capcom’s founding family, from the time it was a small company akin to a neighborhood business, Haruhiro Tsujimoto has assisted with a sense of responsibility and awareness of the family business. Later, he adopted the motto “diligence and earnestness” as he labored with modesty to launch the arcade operations business and develop our strategy of multiple usage for leveraging content. Yoichi Egawa joined the company soon after it was founded, and since then he has displayed a determination to stay and fight even in the most difficult situations, taking on a leadership role in the development of arcade games and the establishment of both the pachislo and mobile businesses, all the while delivering results. However, due to Capcom’s significant growth over the last 36 years, management responsibilities are also larger and carry more weight. My role as founder is to create a framework that will sustain the company and ensure that my successors have a proper understanding of that framework and can execute within it. However, if I were to simply pass the reins and walk away, management would be unsustainable in this era of rapid change. For as long as I am physically able, I feel it is my duty to remain by the side of our keypersons and guide them, both in the board room as well as in life, by spending time together on a personal level to exchange information and offer advice.

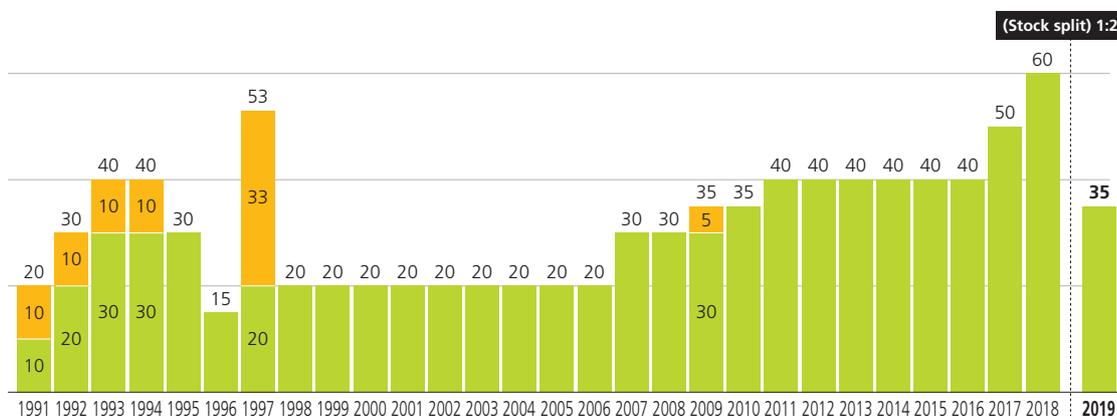
In addition to my intense and thorough training of these two different types of people, it is my intention to combine that with the corporate culture we have cultivated over many years, the aforementioned management visualization and systematization, and just governance. I believe this will result in a profound management team that our long-term investors will trust as managers implicitly.

# Rewarding long-term shareholders with 29 consecutive years of returns since Capcom’s listing and record-high dividends

Diagram 3

Dividends per share since public listing (yen)

■ Ordinary dividend ■ Commemorative or special dividend



(Note) A two-for-one stock split took place dated April 1, 2018. The dividends prior to the fiscal year ended March 2018 are listed as the dividends on the stocks prior to the split. (Years ended March 31)

## 1. Basic policy regarding dividends

During my 36 years of management since founding Capcom, my philosophy has been to pursue stable corporate growth and reward long-term shareholders with steady increases in dividend payments despite the constantly changing nature of the game industry.

I have already mentioned the factors critical for sustainably enhancing corporate value; as shareholder returns are also an important management issue, dividends are determined with consideration for future business development and changes in the management environment.

Capcom’s basic shareholder return policy aims to (1) enhance corporate value through investment in growth, (2) continue paying dividends (30% payout ratio) while striving for stable dividends and (3) acquire treasury stock to increase the value of earnings per share.

The reason I think both the payout ratio and stable dividends are important is, for example, because a sudden decrease or cessation of dividends can be the difference between life and death for pensioners who depend on dividends to cover part of their lifestyle expenses. Regular and stable revenue enables the reliable

establishment of future lifestyle plans. We also receive requests for stability from the long-term investors who manage those pensions.

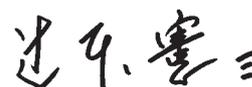
Capcom shareholders represent all types of people, and I assume some of them may be facing these kinds of issues, which is why we have never once failed to provide dividends during the 29 years since we went public in 1990. In addition, the fiscal year ended March 2019 was the third consecutive year we achieved increased dividends, and considering the stock split, our dividends have actually doubled over the past 10 years. [\[Diagram 3\]](#)

## 2. Dividends for this fiscal year and the next

Dividends for the fiscal year ended March 2019 were 35 yen for the year, which is actually the highest ever taking the stock split into consideration. In the next fiscal year, we plan to pay the same amount of dividends.

As a senior manager with 50 years of experience in this industry, my goal is to increase market capitalization and achieve corporate growth exceeding that of the past 36 years in order to continue meeting the expectations of all Capcom shareholders.

Kenzo Tsujimoto  
Chairman and  
Chief Executive Officer (CEO)





# Growth Strategy

Haruhiro  
Tsujimoto

President and  
Chief Operating Officer (COO)

## Capcom's Medium- to Long-Term Vision

- Growth driven by the Consumer sub-segment
- Mobile and esports are options for further growth

1

### Consumer

Maximize use of core IPs through our digital strategy

- Measure 1** Steady launch of core IP in global markets
- Measure 2** Bolstering digital sales
- Measure 3** Game business digital shift
- Measure 4** Supporting new services

→ P33

2

### Mobile

Develop measures for the medium and long term with a view to take advantage of 5G

- Medium-Term Measures** Promoting alliances in Japan and overseas
- Long-Term Measures** Preparation for next-generation standards

→ P37

3

### Esports

Focusing on popularizing a new culture for content

- Measure** Aim to establish an ecosystem that is a win-win for players, viewers, and local communities

→ P38

## Enhance digital strategy and pursue maximizing revenue from IPs geared toward the expanding market

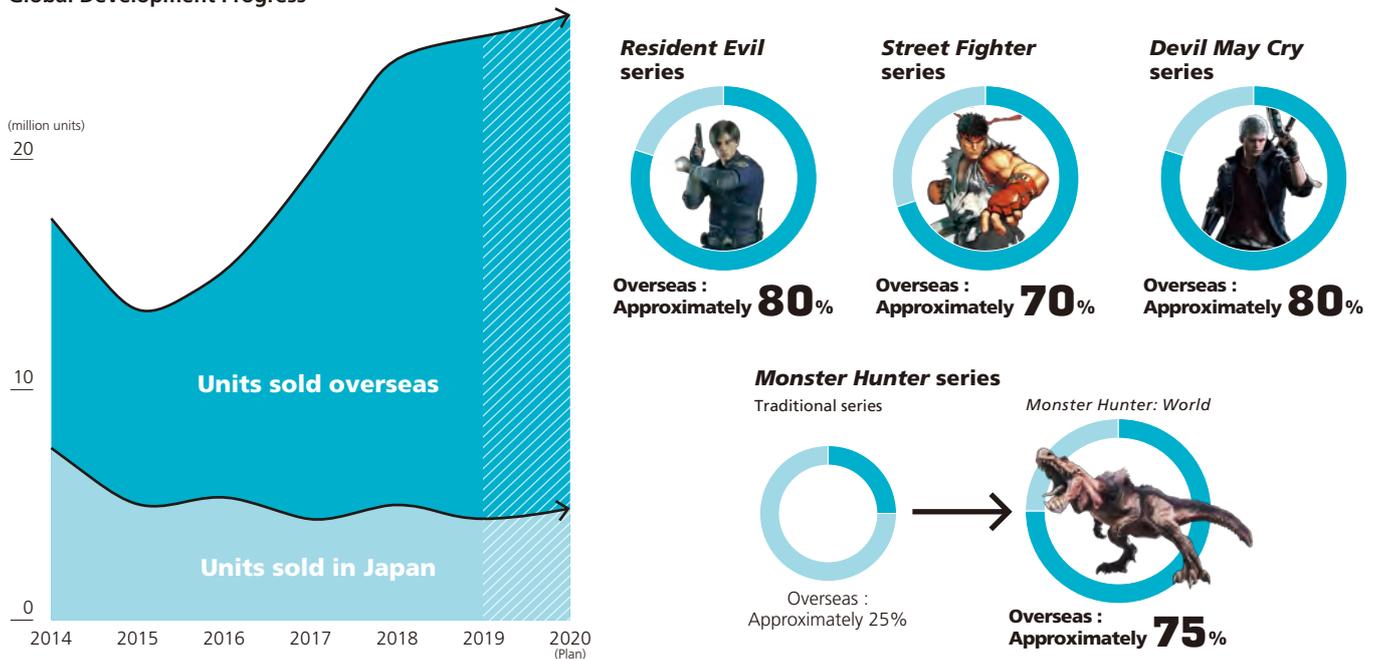
The game market continued to boom this fiscal year with the performance of each home video game platform, the popularity of new game genres in the mobile market, and the further growth of our esports business. In addition, with the next-generation mobile communication standard, 5G, being rolled out from July 2019, structural changes to the gaming business are starting to be explored, such as major IT companies announcing plans for new platforms that feature cloud gaming.

In this environment, areas of the market we are focused on are **1** the shift to digital, which has allowed us to directly address customer needs from a business standpoint, as well as achieve remarkable globalization

and platform growth in step with the spread of digital sales in our core Consumer sub-segment, **2** 5G, which if widely adopted will increase the likelihood of mobile content undergoing significant changes, and **3** esports, which has the potential to change the social value of games in addition to revenue opportunities.

The game market is evolving at breakneck speed; however, through integrating the development, sales and marketing aspects of our digital strategy with our single content multiple usage strategy, which allows us to leverage our rich library of original IP across a wide array of media, we will expand our global base of customers who support and trust Capcom's brands and continue growing our operating income annually.

Diagram 4  
Global Development Progress



## Consumer

# Maximize use of core consumer IP through our digital strategy

### Use digital sales to increase pricing and region opportunities while extending the life of both new and catalog titles globally

The consumer market is expected to grow to 47.9 billion dollars by 2023 (a 60.2% increase compared to 2018), thus Capcom continues to position our Consumer sub-segment as our driver of growth. We made progress toward establishing a recurring revenue model through achieving longer product lives, which includes sales growth for catalog titles, and improved profitability for new titles via ongoing initiatives that included expanding our new title lineup and strengthening digital sales. This is in addition to increased sales in emerging markets on PC platforms, which has grown in recent years, resulting in a profit margin of approximately 30% in the fiscal year ended March 2019.

In the next fiscal year and beyond, we will further promote our digital strategy and globalization as the foundation for a development structure that produces world-class quality, and aim for greater growth and stability in our business results. → For details see page 42

#### Measure 1

### Steady annual launch of core IP in global markets

Since structural reforms in the fiscal year ended March 2013, and the full-fledged use of our strategic map

(60-month), we have formed a title portfolio focused on delivering stable growth, and established a mechanism for placing more than 2,000 developers on the required development team at suitable times via a year-long assignment map. As a result, we shortened the launch cycle for each series, enabling the launch of multiple major titles each fiscal year.

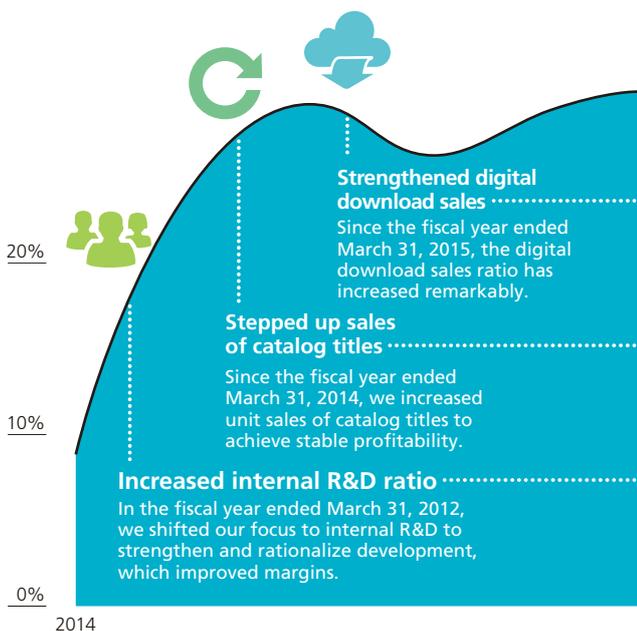
Based on this structure, we think there is substantial room for growth in the overseas markets, which comprise 85% of the consumer market, and in addition to *Resident Evil* and *Street Fighter*, which are already popular overseas, our strategic plan to make *Monster Hunter* a global brand with the release of *Monster Hunter: World (MH:W)* in January 2018 resulted in record sales of 13.1 million units (as of June 30, 2019). [Diagram 4] Additionally, we maintained the same meticulous commitment to quality on this year's *Resident Evil 2* and *Devil May Cry 5* as we had on *MH:W*, which, in conjunction with leveraging our know-how in digital marketing and promotion, resulted in these titles performing favorably to our sales plan. → For details see page 36

We will continue to strengthen our development structure and promote further systemization to grow our pipeline of new titles geared toward the global market.

For the time being, while we are placing a priority on maximizing the revenue from current core IP, we are also actively looking to utilize dormant IP.

Diagram 5

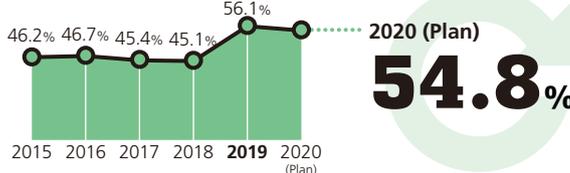
Consumer sub-segment Operating Margin (%)



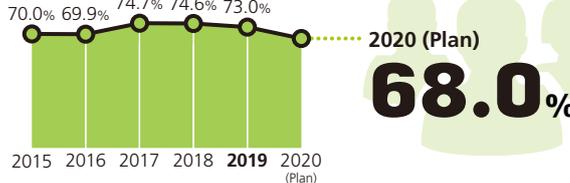
Digital Sales Ratio



Unit Sales Ratio of Catalog Titles



Internal R&D Ratio



Further, as the creation of new IP is indispensable in generating medium- to long-term growth, we are working to develop new brands as well.

Measure 2

**Bolstering digital sales**

The merits of digital sales include (1) improved profitability due to package production cost reductions and avoidance of inventory risk (full-game downloads), (2) additional earnings opportunities through digital sales of catalog titles, which are difficult to acquire shelf space for at physical retail shops (full-game downloads), and (3) anchoring players by providing content on an ongoing basis and acquiring additional revenue (additional content).

Up to this point, Capcom has worked to strengthen our digital sales of both new and catalog full-game titles, resulting in 41 billion yen in digital sales this fiscal year and a digital sales ratio in the Consumer sub-segment of 53.3%, surpassing the 50% we set as our medium-term target. During this time, consumer profitability has improved significantly, and business performance volatility has been reduced in line with our progress toward establishing a recurring revenue model that accompanies the achievement of long-term sales.

A major driver in the rapid growth of digital sales this fiscal year was increased PC game sales, as illustrated by the PC version of *MH:W*, a new release. Our analysis shows that compared to conventional platforms, PC provides an advantage in expanding sales to emerging markets such as Asia, South America, Eastern Europe, and the Middle East, where we can expect it to continue contributing to the globalization of Capcom's business and acquisition of new users. In addition, purchases of new titles among customers are gradually shifting away from physical packages and toward digital, as evidenced

by the digital sales ratio of both of our major titles this year exceeding 40%.

In the next fiscal year, we plan to further increase the digital sales ratio to 75.4%. The main contributing factor in this is that we are not releasing our new major title *Monster Hunter World: Iceborne* as a conventional standalone new title (at full-price), but rather as a massive expansion for *MH:W*. In other words, while the game content will be of a volume equivalent to that of a new title, we are selling and distributing it as additional content primarily through digital sales channels. ➔ For details see page 43 In light of global user trends, we expect overall sales units to drop and net sales to decline in our Consumer sub-segment next fiscal year as we attempt this new sales method, but at the same time, we expect the profit margin to rise further. [Diagram 5]

We expect that moving forward with these policies will bring the digital sales ratio closer to 80–90% or more in the medium to long-term, as well as improve Consumer sub-segment profitability, providing further progress in establishing our recurring revenue model.

Measure 3

**Game business digital shift**

It has long been our belief that the game business could be made more efficient by utilizing state-of-the-art internet technology.

Therefore, in addition to proposing an internal change in our way of thinking, we established the Global Marketing Group, as well as quarterly Global Marketing meetings for management and global business executives to better align our aims amongst other efforts towards improvements. As a result, *MH:W*, released in January 2018, became the first title on which management, development, and business came

# The COO's Discussion of Growth Strategies

Diagram 6  
Global Marketing

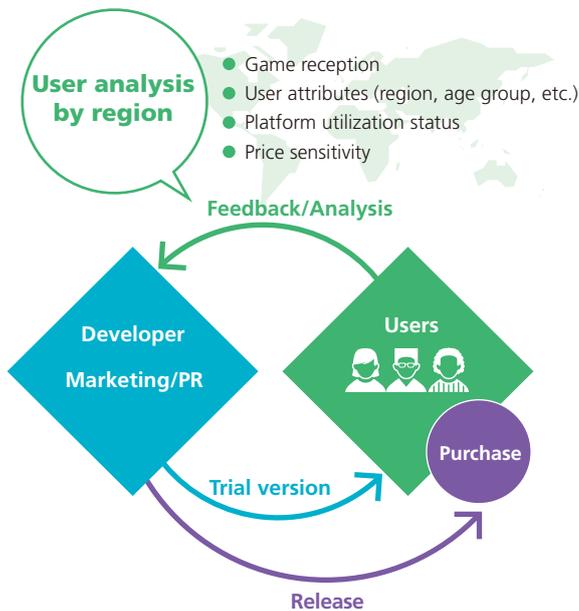
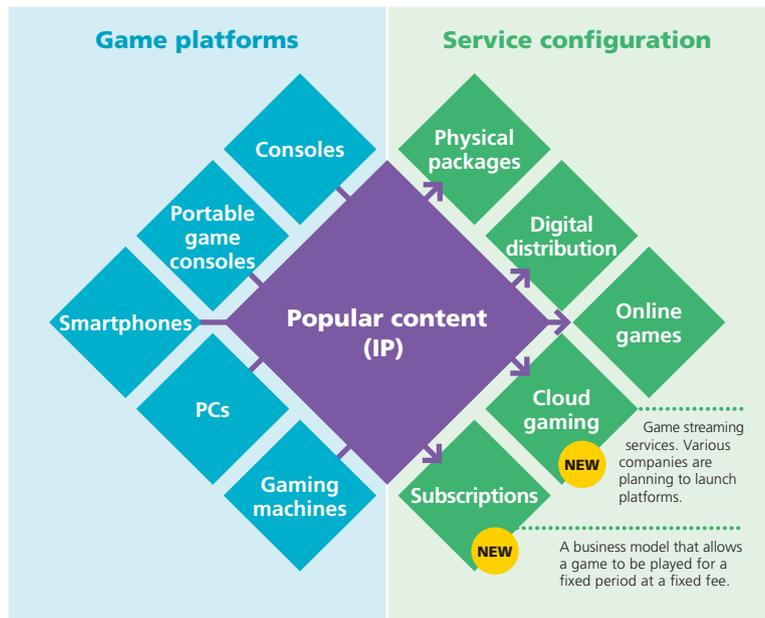


Diagram 7  
Game Platform & Service Configuration



together to make full use of internet connectivity to expand sales and realize improved quality. For example, the analysis of global user preferences, which were collected through an online demo version, contributed to this record-breaking hit, and we have applied this method to the two major titles released this fiscal year with successful results. The critical factor is to extract and analyze data from the standpoint of user satisfaction, which is extremely important for luxury items like games. This importance will continue to increase going forward as digital natives—those people who grew up with the internet and social media—grow into core-segment game users.

Amid the global expansion of markets, it is essential to develop detailed IP brand strategies. To comprehensively analyze user attributes, platform utilization status, and price sensitivity for each IP, we are shifting the function of our overseas subsidiaries from that of sales to marketing and promotion. In addition, from this fiscal year, we have integrated management of Japan and Asia to focus our business resources on the rapidly growing Asian market. We are also conducting proactive assignments of key persons, including offering positions to those from other industries, to catalyze the evolution of our organization with new knowledge and know-how. [\[Diagram 6\]](#)

#### Measure 4

### Support for new services such as cloud gaming and subscriptions

In step with the launch of 5G service, both existing platform providers and global IT firms, one after another, are announcing new cloud gaming and subscription services in the field of consumer games. Capcom pays close attention to future developments, and has adopted a multi-platform strategy under which we welcome the opportunity for new services to enhance the game environment for users, for example: the potential that wide adoption of cloud gaming will increase the overall game player population (where “cloud gaming” implies access to games through a variety of different hardware at a lower initial cost to the user).

At the same time, it will also be necessary to objectively analyze developments as we move forward, such as what actual merits users find in the new services and whether changes will arise in doing business with platform providers.

Capcom's top priority remains as the meticulous refinement of our content to maintain our unflinching, consistent world-class quality. If we can accomplish that, then customers will always choose us, regardless of platform. Our experience from many long years of standing at the forefront of the industry has convinced me of this. [\[Diagram 7\]](#)

## Case Study: Analysis of a Top Hit

Resident Evil 2

BIOHAZARD RE:2



## Captivating fans across generations to top four million units sold in one month

The *Resident Evil* series features survival horror games where players attempt to escape terrifying situations using weapons and other items. Since it was first released in 1996, the series has sold more than 91 million units total (as of March 31, 2019), becoming one of our best-known brands. Today, more than 20 years after its first appearance, it has the enthusiastic support of fans around the world.

*Resident Evil 2*, released on January 25, 2019, is a reimagining of the fourth best-selling title in the series, originally released in January 1998. It was rebuilt from the ground up for current-generation game consoles using our cutting-edge development tools. In addition to the highly immersive world and dramatic story enabled by the latest technology, effective promotion and digital strategy made the game successful not only among fans of the original but also with a whole new demographic of fans. It became a major hit, with sales exceeding four million copies approximately one month after its release.

*Resident Evil*  
Total number of units sold

# 91 million

1997 1999 2004 2009 2014 2019  
(Years ended March 31)

### Why it became a hit

**1** A remake that exceeds all expectations



The original *Resident Evil 2* is one of the series most popular titles. Recreating the game for current-generation game consoles meant there were high hurdles to overcome in terms of the fans' expectations for the game and the weight of the brand. In our effort to leave a sense of the original while remaking the game from scratch, it took 18 months of trial and error to figure out what to keep and what to change until the game's first stage at the police station was finally complete.

As a result, it was crowned "Best of Show" at E3 where it was unveiled, marking the first time the honor of most notable game was awarded to a Japanese third-party developer, and raising the expectations of stakeholders ahead of its release.

**2** Fear created audio-visually with the latest technology



Our proprietary development engine, the RE Engine, enables both the use of high-definition graphics to portray the terror of groping through the dark while gruesomely real zombies hunt for flesh, as well as the use of real-time binaural technology for the first time to reproduce sound in sync with the player's perspective.

Enhancing the sound as well as the graphics has enabled us to offer a deeply immersive game experience, earning the game a high 90 point\* Metascore, which serves as an indicator of game player purchasing.

\*PlayStation 4 version

**3** Appealing to fans new and old with social media promotions and digital strategy



In addition to creating entertaining photo ops at gaming events and releasing videos of influencers playing the game, we also distributed a "1-Shot Demo" trial version of the game. This limited, one-time only 30-minute trial roused user interest on social media, resulting in five million downloads.

Directing users of the trial version to the purchasing site after playing the game also led to a rise in the number of preorders and succeeded in acquiring a broad spectrum of players, ranging from casual to hardcore series fans.

Diagram 8  
Mobile Content Medium- to Long-Term Measures



## Mobile Develop measures for the medium and long term with a view to take advantage of 5G

### Amassing know-how geared toward next-generation mobile content

Capcom continues to lag behind other companies in our industry in the mobile domain, and this fiscal year sales declined due to postponing some titles and a general sentiment that the “gacha” business model has reached its peak. Meanwhile, full roll out of 5G, the next-generation telecommunications standard, is rapidly approaching. If vast improvements in communication speed result in reduced latency and the ability for simultaneous multi-user connections, according to our analysis, the likelihood will increase for us to achieve significant growth in the mobile segment with our numerous core action game IPs. We are undertaking measures for both current and new technology in order to achieve growth in the mobile segment, where strong global growth is expected to continue.

#### Medium-Term Measures Promoting alliances in Japan and overseas

In preparation for the full-scale roll out of 5G, Capcom must amass the operational know-how to improve game content and implement timely events within games; a prerequisite for success in the mobile business and something that we are lacking. In order to do so, for the last two years we have been focusing on alliances that utilize our IPs in conjunction with

companies specializing in the mobile segment. As a result of the projects we have undertaken with multiple collaborators who have track records of hits in their respective markets, as of July 2019 we have already released two titles, domestically and overseas. Further, we plan to release several more titles, including some titles developed in-house, during the fiscal year ending March 2020. <sup>[Figure 8]</sup>

#### Long-Term Measures Preparation for next-generation standards

Some regions overseas have already begun tentative 5G service, and in the future, with a leap forward in communication speed said to be 100 times faster than 4G, there are expected to be dramatic advancements in services using IoT as well as in the richness of content in line with device advancements. In terms of games, we believe there are possibilities for utilizing Capcom’s action-oriented games, distinctive for their high-quality graphics, on mobile devices.

At the moment, there is still room for us to choose the timing for full-scale support of 5G and the level of service we will offer. While we conduct analysis of actual 5G use, our development divisions are engaged in technological research and the acquisition of development know-how to ensure we are able to seize this coming opportunity for growth. <sup>[Diagram 8]</sup>

Diagram 9

About Esports

Esports stands for “electronic sports,” which are video games played in competitions viewed as sporting events. They became popular in Europe and North America in the late 90’s and now enjoy popularity among young people in particular, with numerous and varied game events held throughout the world, including in Japan and Asia. They are also garnering attention as a new category in the game business.

Esports Market Growth

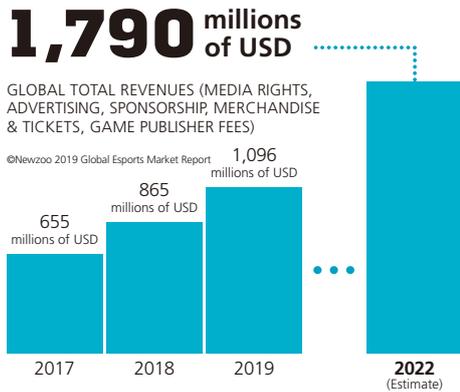
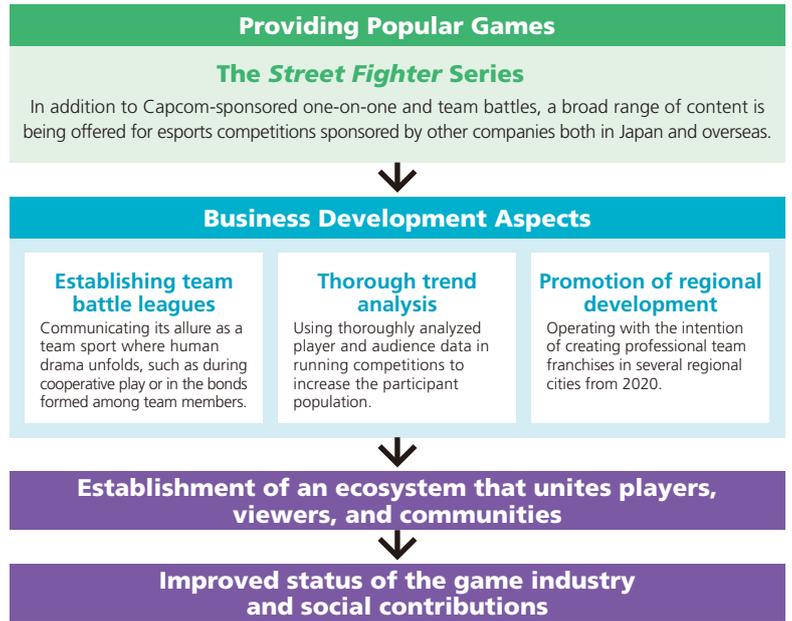


Diagram 10

Esports Initiatives



# Esports Focus on popularizing new content culture

**Fully-operational dedicated department Promoting market base expansion with a view to future profitability**

2018 is known as the first year esports experienced widespread popularity in Japan, and it was the turning point in development. The Japan Esports Union (JeSU) was established as the supervisory sports organization, and social interest is growing with daily media reports of participation from companies in other industries and organizations intrigued by its business potential. We do not see esports as a passing fad, but rather as a new area of business in the game market. In other words, we are on the verge of seeing a new culture of content rise up, and I think it is important to cultivate it from a medium- to long-term perspective of five to ten years. To bring this idea to fruition, just as with soccer and other sports, Capcom is working to expand the market base by not only providing top professionals with a place to shine, but also by encouraging participation among young people and amateurs.

[Diagram 9]

Measure

**Aiming to establish a win-win ecosystem for players, viewers, and communities**

There are three main points to the measures we will implement from this fiscal year through the next. (1) Further improved appeal with the creation of team-based

*Street Fighter* leagues. (2) Thorough trend analysis to attract new player and audience participation. (3) Promotion of regional development through cooperation with companies and local governments in each locality.

Regarding the first item, in addition to conventional one-on-one battles, we feel that the same allure found in traditional sports can be rendered through the human drama seen in bonds formed among team members and in playing as a team. For the second item, thoroughly analyzing player and audience data from each event, grasping what appeals to which demographics and then compiling the critical measures will lead to an increase in the number of participants. In terms of the third item, we aim to contribute to spreading esports outside of major cities as well as to regional revitalization by creating professional team franchises in various regions from 2020.

Currently, we are strengthening the workforce of our dedicated esports department, which we established early in the fiscal year, and are taking proactive steps to implement the aforementioned measures. We believe that the adoption of esports at international sporting events will increase awareness and understanding of esports among the general public, which will not only increase the value of our IPs, but will also lead to the improved status of the game industry and greater societal contributions. [Diagram 10]

➔ For details see page 45



## A stable financial base for flexible investment and growth in an ever-changing market

Kenkichi Nomura

Director, Executive Corporate Officer and Chief Financial Officer (CFO)

**Q** This marks the second consecutive year of achieving record profits, and the current cash balance is 53 billion yen. Has there been any change in your financial strategy?

**A** We will maintain our basic policy to improve net cash and increase capital efficiency supporting our growth strategy.

Capcom is executing a growth strategy aimed at enhancing corporate value over the medium-to-long term. We are conducting R&D investment on a scale of approximately 30 billion yen each fiscal year in our core Digital Contents business. As CFO, I am engaged in increasing capital efficiency and improving net cash to build a strong and flexible financial base to enable this investment, which accounts for approximately 30% of sales.

In the fiscal year ended March 31, 2019, investments in line with this growth strategy led to record-breaking unit sales in our Consumer sub-segment, as well as all-time high profits that increased net cash by 7.9 billion yen. Currently, our market environment is undergoing major changes, such as the spread of digital sales. Furthermore, we expect these changes to accelerate all the more over the next few years with the appearance of new technologies and services. In such an environment, our revenue structure has begun to change, increasing our investment options for strategic growth.

I will continue to concentrate on investment decisions that align with our growth strategy, while continuing to review the cost of sales, selling, general and administrative expenses and other costs to achieve an even leaner financial foundation. With our accumulated cash, we look to establish even greater profitability by increasing the value of our IPs to enable flexible investment in projects with high strategic priority, including the development of major titles and growth areas such as esports.

**Q** How have you increased capital efficiency?

**A** We are making progress with our growth strategy and steadily improving ROE.

ROE, which we prioritize as an indicator of capital efficiency, is steadily improving along with performance growth. Of the three components of ROE, we place emphasis on the net income margin, which has seen further improvement following the progress of our growth strategy. Most recently, we have been focused on improving the balance between ROE and ROA, resulting in ROA improving to 10.1%.

	3/2017	3/2018	3/2019	3/2020 (Plan)
ROE (%)	11.6	13.4	14.4	14.9
Net margin (%)	10.2	11.6	12.5	16.5
ROA (%)	7.7	8.9	10.1	–
Financial leverage (times)	1.53	1.46	1.39	–

We expect ROE to rise to 14.9% next fiscal year. This year, we will continue to improve ROE and ROA by performing multi-faceted checks on the PL that compare performance against net sales, the plan and the previous fiscal year, and by paying close attention to BS management.

**Q** How is Capcom creating net cash and managing risks?

**A** Beginning with managing ROI on a per title basis, we are working to improve productivity and visualize working capital efficiency.

Capcom employs two management methods to efficiently generate net cash. The first method is thorough management of returns on investment, where we carry out process management for investment return using a database that houses the ROI status of each title. If a title is progressing well, we continue investment as initially planned. However, if a problem is found, we



engage measures for early detection and resolution of the specific issues.

The second strategy is to maximize working capital efficiency. To this end, we are continuously monitoring our work-in-progress assets while creating a framework to manage our investment turnover period and turnover ratio in a more visible manner.

Net cash in the fiscal year under review was 44.6 billion yen, constituting a substantial increase. Further, “effective net cash,” which was adjusted for accounts receivable and the balance of obligations at the end of the fiscal year accompanying major releases in the second half of the fiscal year—a unique feature of our industry—increased to 53.5 billion yen.

**Q** What is the status of cash and fund procurement?

**A** We have secured levels enabling us to respond to the increasing scale of game development and longer sales periods.

Consumer game software development expenses have been on the rise since the current-generation of high performance, multifunctional game consoles arrived. Moreover, in addition to the fact that major titles take more than two years to develop, the penetration of digital sales has made long-term sales possible, and as a result, the payback period for investment funds is growing longer.

Given these conditions, we have positioned the

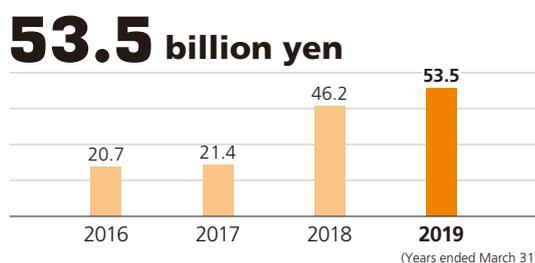
commitment line as our method for procuring funds in case of changes to working capital, and in consideration of reserves for risk management and investment for primarily title development, we have set the level of cash and cash equivalents that must be maintained to be approximately one to two years’ worth of the amount we annually invest in development.

**Q** Specifically, what kind of growth strategy investments do you make?

**A** We invest 87% of management resources in the core Digital Contents business.

To achieve stable medium- to long-term growth, we recognize that it is critical to secure a sufficient amount of investment for the Digital Contents business, the source for our original IP. Specifically, in addition to an enhanced title lineup and new technologies, we must invest in hiring more developers and improving our development environment. In the fiscal year ending March 31, 2020 we will allocate 29 billion yen, or 87% of total investments (R&D investment and capital expenditure totaling 33.5 billion yen), in the Digital Contents business. Moreover, we use the asset in-development turnover rate (net sales/work in progress for game software balance) as an indicator measuring investment level adequacy. In the fiscal year under review, the asset in-development turnover rate was 5.9 times, an increase compared to 3.7 times in the previous fiscal year.

Effective Net Cash on a Historical Basis (billion yen)



In-Development Asset Turnover Ratio\* (times)

