



Kenzo Tsujimoto

Chairman and
Chief Executive Officer (CEO)



Commitment

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

To everyone fighting COVID-19

I wish to send my deepest condolences to everyone who has lost a loved one to the novel coronavirus and my most heartfelt wishes for a full recovery to everyone who has suffered from it.

When I look back on my career in management, I see that I have faced many crises, such as the bankruptcy of Lehman Brothers, as well as the Great Hanshin earthquake and the Tohoku earthquake and tsunami, both of which I personally experienced.

However, unlike the disasters and catastrophes that have taken place in the past, the COVID-19 pandemic is not a localized issue. Everyone in every region of the world is being affected by this crisis. Entertainment is not essential for life. However, in times like this, I believe that entertainment can bring people some joy and hope. It is my hope that our business activities bring the people of the world the energy to fight COVID-19.

I will now explain the ways in which we are demonstrating the superiority and uniqueness of the five elements that comprise the foundation of Capcom's sustainable growth.

1 Corporate philosophy and culture
Our unwavering philosophy since the company's inception

2 Business model
Creativity and formidable IP assets

3 Key performance indicators (KPI)
Commitment to stable growth in a hit-driven industry

4 Management strategy
Development and marketing strategy geared toward achieving stable growth

5 ESG
Initiatives geared toward sustainable growth

Creating the world's most entertaining games to realize sustainable growth

1

Corporate philosophy and culture — Our unwavering philosophy since the company's inception

Aiming to be #1: delivering the best content "From Osaka to the world"

I jumped into the world of entertainment more than 50 year 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 p.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.

Thirty-seven years later under the banner of Capcom, I have amassed nearly 3,000 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 — Creativity and formidable IP assets

Maximizing utilization of high-quality content in a wide range of markets

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 2,300 people (as of June 30, 2020) 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). In addition, with the spread of PC as a game platform and the standardization of selling software digitally over the Internet, the home video game market that was once limited to only some developed nations has now expanded across the globe. [➔For details, please refer to "An Analysis of the Market and Capcom" on p.67](#)

Furthermore, in businesses and 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. Additionally, 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.

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.

Disney, which I once aspired to emulate, began as a producer of cartoons and expanded all the way into the theme park business, growing into a giant in the world of entertainment. With our original content

acclaimed throughout the world and the growth potential of our esports, mobile and licensing

businesses, I am certain Capcom will be leading the charge into the coming digital age.

3

Key performance indicators (KPI) — Commitment to stable growth in a hit-driven industry

Structural improvements and new criterion as we look to the future

1. Analysis of management performance in the fiscal year ended March 2020 (summary)

Our performance this fiscal year (ended March 31, 2020) exhibited an increase in operating income for the 7th consecutive year and all profit items, from operating profit downward, reached record highs; however, what I would like to draw attention to this fiscal year in terms of performance is decreasing net sales and increasing income. For this fiscal year, initially we had planned on a decrease in net sales due to (1) *Monster Hunter World: Iceborne* (*MHW:I*, herein) being the only new major title, and (2) it was not an entirely new title; it is a massive expansion of the previous title, *Monster Hunter: World*, and therefore the unit price was low. However, because (1) the ratio of highly profitable digital sales, many of which were for *MHW:I*, improved over the previous year, and (2) catalog sales (past titles, including rereleases, and HD versions), which were heavily digital, grew, we were able to achieve our 7th consecutive year of increased income as initially planned, despite the dip in net sales. In the past, the market forecast was unavoidably influenced by the number of major new titles being released that fiscal year, but I am proud to say that from this outcome we have demonstrated the returns of our model of building up our back catalog and shifting to digital sales, which we have been diligently promoting for some time.

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

(1) Management direction— Thinking not two, but ten steps ahead

In respect to management, I am always thinking about things in terms of the future. For example, nearly 10 years ago I gave an interview to a business magazine where I said, “if we are able to sell world-class quality products at a low price digitally, we will see even greater improvement in our performance.” At the time, packaged sales were the mainstream and there were very few customers who purchased digital versions,

so that idea may have been inconceivable to most people. Also, because packaged sales were the mainstream, pirated versions of games prevailed in most developing countries, but I also spoke about how that “will become a sort of promotion if we look at in the long term.” As a result, now that digital sales have spread throughout the world, we are selling more than 200 different games in countries and regions whose total outnumbers that of the United Nations’ membership.

Creating top-class content not only produced this fiscal year’s performance, it will be the tool that paves the way for our future. That is precisely why our management policy is to (1) create exciting, world-class content (IPs), and (2) maximize earnings by leveraging our rich library of IPs across multiple platforms and media, while (3) maintaining these policies to become a company of continuous, sustainable growth.

(2) Management goals

Since the fiscal year ended March 2018, our sustainable medium-term management goal has been to increase operating income each fiscal year. 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, in order to enable institutional investors managing pensions and individual investors on fixed incomes to maintain long-term holdings with confidence. Thus far, we have not set forth a specific profit margin growth goal, but now that we can see the distinct results of the shift to digital, we have set a goal of 10% profit growth for each fiscal year.

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

In terms of management, in addition to operating income (growth indicator), which is the basis of corporate earning power, and operating margins (efficiency indicator), which are the basis of profitability, I also place importance on current net income and cash flows, but our CFO offers a fully detailed account from a financial perspective. [➔For details, please refer to “Financial Strategy According to the CFO” on p.39](#)

Here, I will explain sales volume for game software, which I consider an important indicator for achieving 10% growth each fiscal year. With the shift to digital, Capcom’s operating margin has increased for four consecutive years since the fiscal year ended March 2017, ([➔for details, please refer to “Financial Highlights” on p.13](#)) but we are gradually approaching a ceiling to that growth. In order to continue achieving increased profits for the future, we need to increase unit sales and increase our actual net sales.

Before we began the roll out of our full-scale digital strategy in the fiscal year ended March 2017, sales volume varied greatly depending on whether or not we released a new major title. However, in recent years, units sold displayed steady growth due to (1) enhanced digital sales, (2) longer product lives of major titles, and (3) the promotion of digital marketing and other measures. If digital sales continue to grow in the market,

there will be a decrease in the circulation of used software, and the number of units sold will continue on to trend upward. I believe that by promoting these efforts, our vision of 50 million units in annual sales volume will eventually be attainable. [\[Diagram 1\]](#)

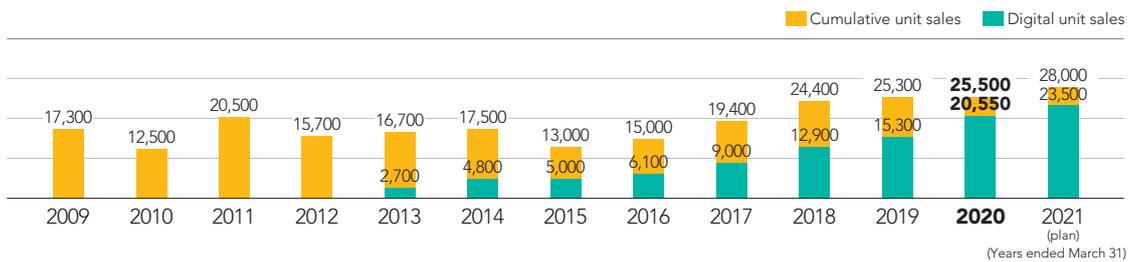
Furthermore, I believe that nurturing talent that can play an active role on the global stage, creating new markets with cutting-edge technology and creating social and economic value (creation of common value) through our business activities while at the same time building a healthy relationship with our stakeholders will lead to increasing our corporate value. Therefore, focusing on “S” (social) and “G” (corporate governance) of ESG, I recognize our critical issues as (1) developer numbers, (2) diversity, (3) support for education, and 4. the ratio of external directors. [➔For details, please refer to “ESG Highlights” on p.15](#)

The game developing business has a relatively low environmental impact compared to other businesses in the manufacturing industry, therefore we do not have a specific “E” (environmental) indicator. However, if the digital shift that we are promoting spreads further, our impact on the environment will decrease with the reduced need for shipping and packaging.

It is my intention to achieve stable growth with a two-pronged approach comprised of a business strategy to create profits and an ESG strategy that supports our businesses.

Diagram 1

Game software sales volume (thousand units)



4 Management strategy — Development and marketing strategy geared toward achieving stable growth

Reforming our development system and brand strategy to grow our strengths

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

With 50 years of management experience in this industry, I have a keen awareness of the vital importance

of technology that meets the highest standards in order to create the world’s most exciting games.

The game industry is a treasure chest of cutting-edge technology constantly providing the world with entertainment that utilizes the most advanced

techniques, such as online battles, VR, and AR. I believe we will see this trend intensify even further with GAFA entering the market. Therefore, in order to create games that become worldwide hits, we have to assemble a staff of employees who possess the most advanced skills possible. I have strengthened employment of newly graduated developers with an eye on the expanding game market and evolution of technology. Recently, our younger personnel are digital natives who grew up being familiar with games and IT. As such, even from a young age, particularly talented staff members may be assigned to development teams for major titles or to our game development engine team, which comprises the core of our R&D.

In addition, we have a world-leading development studio in-house and are vigorously investing in development equipment so that our creators can perform to their maximum potential. [➔ For details, please refer to Integrated Report 2017 on p.38](#)

2. Marketing strategy for becoming a global brand

Another important aspect is increasing recognition of hit titles and branding them.

One issue we needed to address was the fact that it takes approximately three years to develop a game, but after its release, there was a progressive decline in recognition. I thought a Hollywood film adaptation would be an effective means of ensuring the continued media exposure of a game title on a global scale, and in 1994, we decided to invest 4 billion yen into making *Street Fighter* into a 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. Before and after a game is released, it receives media exposure for two weeks at most. However, by turning

the game into a Hollywood movie, it will continue to be shown around the world for decades to come through its (1) theatrical release, (2) package sales, and (3) VOD services, maintaining and increasing awareness of the title.

It is important that the title is a world-class game for this marketing technique, and we have already achieved the same great success with *Resident Evil*. We are planning a film adaptation of *Monster Hunter* for 2021 (in Japan). The series is already a popular brand boasting sales of 63 million units worldwide, but we will use the successful experience we have had with movie adaptations to make it a truly global brand.

3. Medium term growth phases

In order to continue increasing operating profits each fiscal year, we have to do two things: (1) revamp our business model in the Consumer sub-segment from one-time purchases to continuous purchases, and (2) build a new profit pillar to flow into the Consumer sub-segment with our comprehensive Single Content Multiple Usage approach. [\[Diagram 2\]](#) Of these, the Consumer sub-segment reforms are showing significant results, which I will discuss on the following page. Our next pillar of growth is the mobile and esports businesses.

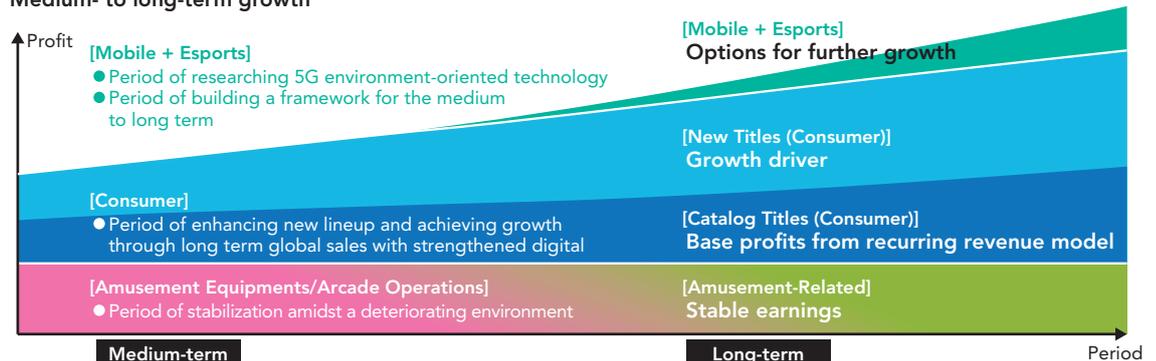
Our mobile content has struggled due to issues with translating the IPs created for home game consoles onto mobile devices. However, with technological advances in network communication speed and resolution, we believe that we will be able to fully leverage our IPs here in the future. Therefore, we are currently conducting research and development in anticipation of the 5G and 6G eras.

We are also investing in the promotion of esports as we expect the market to expand in the future.

[➔ For details, please refer to "The COO's Discussion of Growth Strategies" on p.31](#)

Diagram 2

Medium- to long-term growth



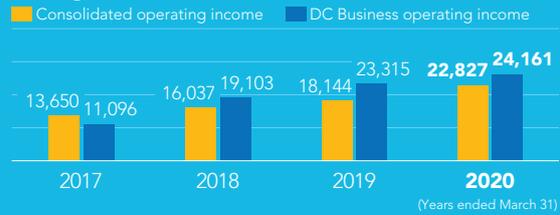


Consumer sub-segment business model reforms to reduce revenue fluctuation risk

Now, I will reflect on the Consumer sub-segment business model reforms I have been working on in order to achieve our medium-term business plan of increasing operating profit each fiscal year.

In order to shift from a one-time sale model to a recurring revenue model, we have been promoting the following five initiatives since the fiscal year ended March 2017. As of the fiscal year ended March 2020, our consolidated operating profit has continued to grow at an average of 13.7% annually.

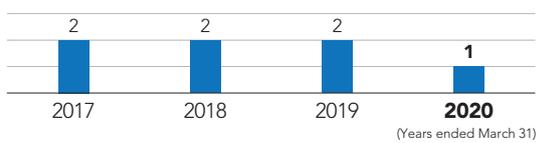
Operating income for the entire company versus the Digital Contents business (million yen)



1 Steady release of major titles

With the expansion of our development organization, including the active recruitment of new graduate developers, we are steadily launching major titles every fiscal year. We expect to release multiple major titles in the fiscal year ending March 2021.

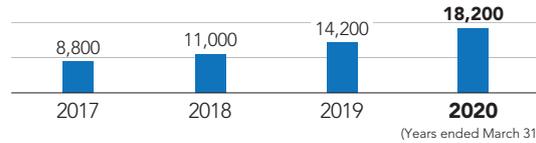
Number of major game releases (titles)



4 Using hit catalog title assets

We are actively rereleasing catalog titles that boast deep-rooted popularity as we can expect them to contribute over the long-term. As a result, we are seeing a significant increase in sales of catalog titles.

Catalog sales volume (thousand units)



2 Long-term product lives for major titles

Continuous updates to game content and pricing measures, including seasonal sales on digital platforms, have led to sales of more than 1 million units annually for most major titles released after *Resident Evil 7 biohazard*.

(ten thousand units)	2017	2018	2019	2020	(Plan) 2021
<i>Resident Evil 7 biohazard</i>	350	160	125	100	
<i>Monster Hunter: World</i>		790	450	320	
<i>Resident Evil 2</i>			420	240	
<i>Devil May Cry 5</i>			210	130	
<i>Monster Hunter World: Iceborne</i>				520	

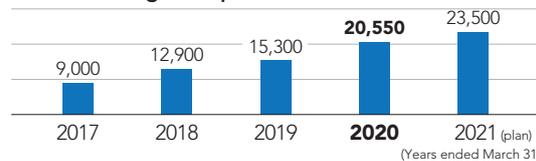
(Years ended March 31)

Titles continuing to contribute to profits as catalog titles

5 Expanding digital sales

The combination of expanding our product lineup through the efforts described in 1 and 4, as well as pricing measures has had a synergistic effect leading to significant growth of digital sales.

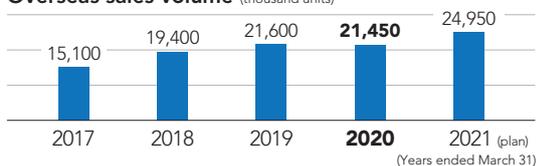
Number of digital copies sold (thousand units)



3 Strengthening global development

Our level of overseas sales is improving through comprehensive use of the PC platform, which enables sales to the entire world.

Overseas sales volume (thousand units)



Policy for the immediate future

We will continue to promote the 5 measures mentioned above in the game industry, where we are entering a new growth stage ahead of the release of next-generation hardware. In addition, we will continue to (1) further strengthen digital marketing with an understanding of the unique needs in each region, (2) lower the price of catalog titles whose development costs have already been depreciated, (3) support new platforms, such as cloud gaming, and other measures with a constant eye on future needs.

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

5

ESG — Initiatives geared toward sustainable growth

Increasing corporate value by building healthy relationships and a sturdy framework

1. Building a healthy relationship between games and society

Up to now, games have made people smile, stimulated their senses, and created a new culture. They have also contributed to running a healthy society, receiving an endorsement from the WHO as for their value as entertainment while we have been asked to stay at home during the COVID-19 pandemic.

Meanwhile, games have also presented new challenges, such as expensive in-game purchases by minors and gaming disorder. 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 p.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 p.51](#)

In addition, since 2005 Capcom has independently continued game 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 regard to games. [For details, please refer to "Promoting Healthy Relationships with Games" on p.54](#)

We also do our best to ensure a broad range of customers are able to play safely and fairly through measures such as refraining from adding "gacha" elements as a general rule when we develop mobile games.

Furthermore, for the pachislo market, we provide sponsorship and cooperation through industry organizations for the activities of pachinko addiction consultation agencies, such as Recovery Support Network (RSN).

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 p.53](#)

The abovementioned four activities bring value to Capcom by 1. increasing satisfaction among existing users through event participation, and 2. creating a more favorable impression of games among those with less interest. In particular, the demographic in 2. has no interaction with games as a user; therefore using popular Capcom IPs to contribute to regional communities stirs interest in our IP, and there is potential for this demographic to become new game users via easily approachable platforms, such as mobile.

3. Commitment to employees

As can be seen from the fact that personnel expenses account for approximately 80% of development expenses, the game industry is not a labor-intensive industry but a 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. Maintaining a fully-equipped work environment improves product quality and at the same time encourages 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.

In addition, in the fiscal year ended March 2017, we established Capcom Juku for on-site childcare,

to provide an environment for employees with children that allows them to concentrate on their work with peace of mind. [➔For details, please refer to "Relationship with Employees" on p.54](#)

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 of business opportunity creation.

4. Enhancing sustainable governance

As we accelerate our growth strategy, the risks also increase proportionally, but governance is useful in avoiding or reducing 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 with unique mechanisms for highly transparent and rational decision making built by the Board of Directors.

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 that seeks management transparency.

In addition, when I speak with developers, I use quantitative data as our common language. The bias of the person speaking can be infused into qualitative words, while numbers never lie.

I want to pass on the management know-how I have cultivated as founder of the company to the next generation in a practical manner as we work to strengthen risk control in order to create a framework for management that will ensure the performance of the company into the future.

Mechanism 2

Organizational design that leverages the supervisory function of external directors

For the past 21 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 50% of the Board of Directors.

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 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 addition, in 2016, in order to further strengthen governance and achieve a swifter decision-making process, we transitioned from a company with a board of corporate auditors to a company with an audit and supervisory committee. The audit and supervisory committee is responsible for strengthening internal control by auditing how business is carried out by executives and employees and making recommendations for modifications.

[➔For details, please refer to "Message from a Member of the Audit and Supervisory Committee" on p.66](#)

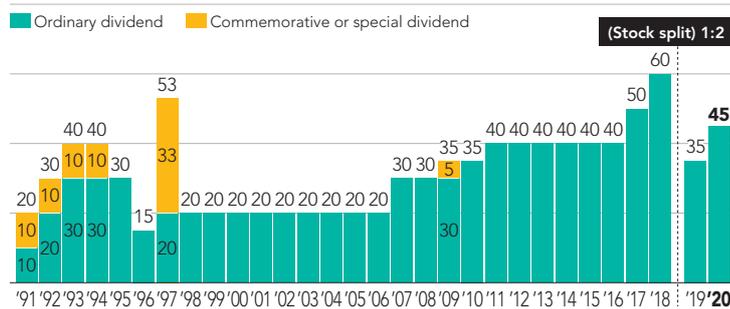
Mechanism 3

Developing management human resource capabilities and grooming successors

I have grown Capcom for the last 37 years, and as the founding executive, it is also my responsibility to ensure my successors have a proper understanding of its mechanisms and are able to execute them. I actively engage in information exchange and advise our next generation of key personnel, namely (President) Haruhiro Tsujimoto, who leads the business side of our organization, and (Executive Corporate Officer) Yoichi Egawa, who leads development. Plans for my successor are being made through discussions with the Nomination and Remuneration Committee; however, by rigorously training these two different types of people and combining that with our corporate culture, the aforementioned management visualization and framework creation, and just governance, we will have a strong managerial staff that our long term investors can trust with the management of the company.

Rewarding long-term shareholders with 30 consecutive years of returns since Capcom’s listing and record-high dividends

Diagram 3
Dividends per share since public listing (yen)



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

Diagram 4
Total shareholder return (TSR)

Fiscal year ended March 2020	
CAPCOM	296.8%
KONAMI HOLDINGS	161.6%
SQUARE ENIX HOLDINGS	197.8%
SEGA SAMMY HOLDINGS	86.4%
BANDAI NAMCO HOLDINGS	247.0%
TOPIX Return Index	101.8%

Source: Financial statements from each company

In closing I would like to share my ideas regarding our capital policy, which is an important element of the relationship I have with our shareholders.

1. Basic policy regarding dividends

During my 37 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 (market capitalization) through investment in growth, (2) continue paying dividends (30% payout ratio) while striving for stable dividends and (3) flexibly 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 30 years since we went public in 1990. The fiscal year ended March 2020 marks four consecutive years of increased dividends. [\[Diagram 3\]](#)

As a result, the total shareholder return (TSR), including the rise in stock price over the last five years, was +296.8%, exceeding TOPIX (+101.8%) and positioning Capcom ahead of any of our industry competitors. [\[Diagram 4\]](#)

2. Dividends for this fiscal year and the next

Dividends for the fiscal year ended March 2020 were 45 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 37 years in order to continue meeting the expectations of all Capcom shareholders.

Kenzo Tsujimoto
Chairman and
Chief Executive Officer (CEO)

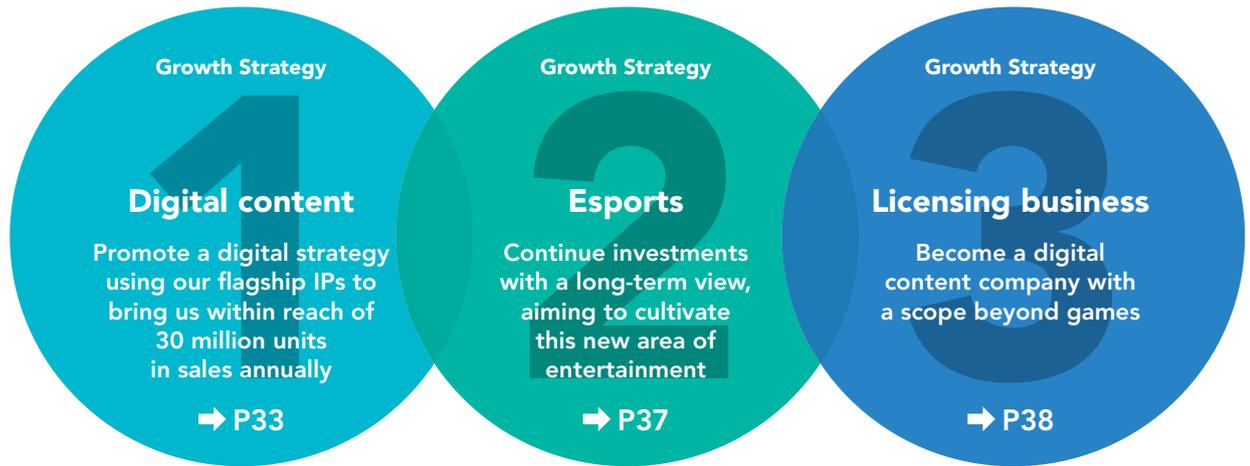


Haruhiro
Tsujimoto

President and
Chief Operating Officer (COO)

Growth

Strategy



Our digital strategy is leading us to our goal of becoming a digital content company whose scope goes beyond games.

I have been involved in the game industry for more than 35 years, and it has always been moving forward with great speed, but the global game software market has seen remarkable growth in recent years with a 141% growth rate over the last five years and an expected growth rate of 37% over the next five years. Behind this is the growth of digital sales in the Consumer home video game market and the globalization of the market, including mobile content. At Capcom, we are actively promoting a growth strategy that focuses on the Consumer home video game market, and our medium-term management goal is to achieve increased operating income each fiscal year.

We have adopted a digital strategy as we work to achieve our medium-term goal, and by maximizing use of the Internet as a sales channel, we are

strengthening global long-term sales of game software. As we do this, we cannot forget that the traditional B2B business model in the game industry is now shifting to a B2C model. Getting closer to our users through digital marketing that makes use of our websites and social media will change the efficiency of our business dramatically.

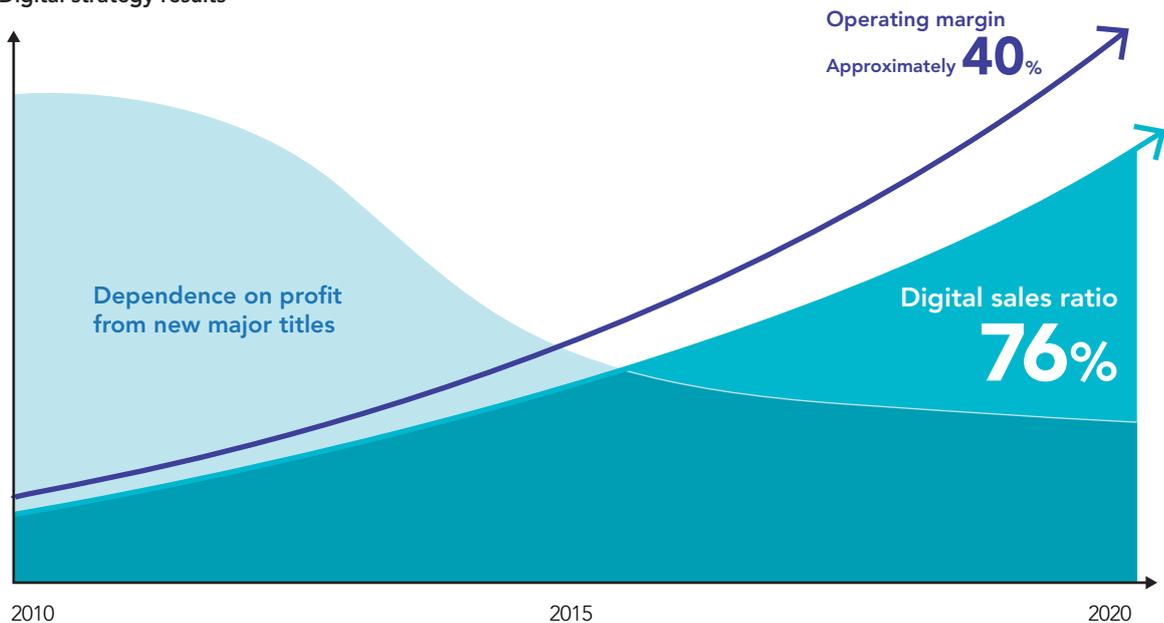
As our digital strategy comes to fruition and we expand our game sales volume globally, my vision for the future is to see Capcom becoming one of the world's leading digital content companies with our brand's content going beyond the boundaries of games, such as with our esports and licensing businesses, and receiving worldwide recognition.

I will now explain the path we have started along that will lead us to this vision of Capcom in the near future.



Diagram 5

Digital strategy results



Growth Strategy
1

Digital content

Promote a digital strategy using our flagship IPs to bring us within reach of 30 million units in sales annually

Achieve long-term sales globally by further increasing the digital ratio in our core Consumer sub-segment

It stands to reason that the Consumer sub-segment is the core of our business and the source of our content creation. As a result of our improved profitability and progress in our recurring revenue model due to our proactive measures to popularize digital sales in recent years, our operating margin, which at one time had sunk into the single digits, is gradually improving and reached the 40% level by the fiscal year ended March 2020.

The market is expected to grow by 52% to \$53.2 billion by 2024, which will likely further increase the digital sales ratio. Considering these circumstances, Capcom will continue releasing high-quality content underpinned by a world-leading development system in the next fiscal year and beyond. [\[For details, please refer to "The Head of Development Discusses Strategy" on p.43\]](#) We will also use strategic pricing measures to address a broad range of user needs over the long-term in an effort to reach 30 million units in annual sales of software in the near future and continue growing that number. [\[Diagram 5\]](#)

Measure 1

Steady annual launch of core IP in global markets

The steady release of new high-quality titles is a

prerequisite for the changes we are making to our business structure, such as digitalization and globalization. Since Capcom restructured in 2013, we have been using our "60-month map," which is our medium term title portfolio map, in tandem with our "52-week map," which manages the annual assignments of our developers, establishing a mechanism for the timely allocation of our roughly 2,300 developers (as of June 30, 2020) to the titles that require their skills. This has allowed us to continue releasing major titles each fiscal year contributing to stable growth.

In addition, one of our strengths has been the fact that our most famous brands, such as *Street Fighter* and *Resident Evil* are also very popular overseas. Foreseeing market globalization, we released *Monster Hunter: World* (referred to as *MH:W* herein) as a strategic title in the *Monster Hunter* series in 2018. The title received worldwide acclaim and has sold a record 16.1 million units (as of June 30, 2020). Moreover, most of the titles we released thereafter employ the same meticulous *MH:W* quality and digital strategy resulting in strong sales. [\[Diagram 7\]](#)

However, we have not yet amassed enough developers for our future growth. We will continue to hire more than 100 new graduates and combine that with the hiring of seasoned mid-career professionals in priority fields to utilize our dormant IPs in addition to our existing IPs. This is a necessary

Diagram 6

Shift to long-term sales and globalization via digitalization

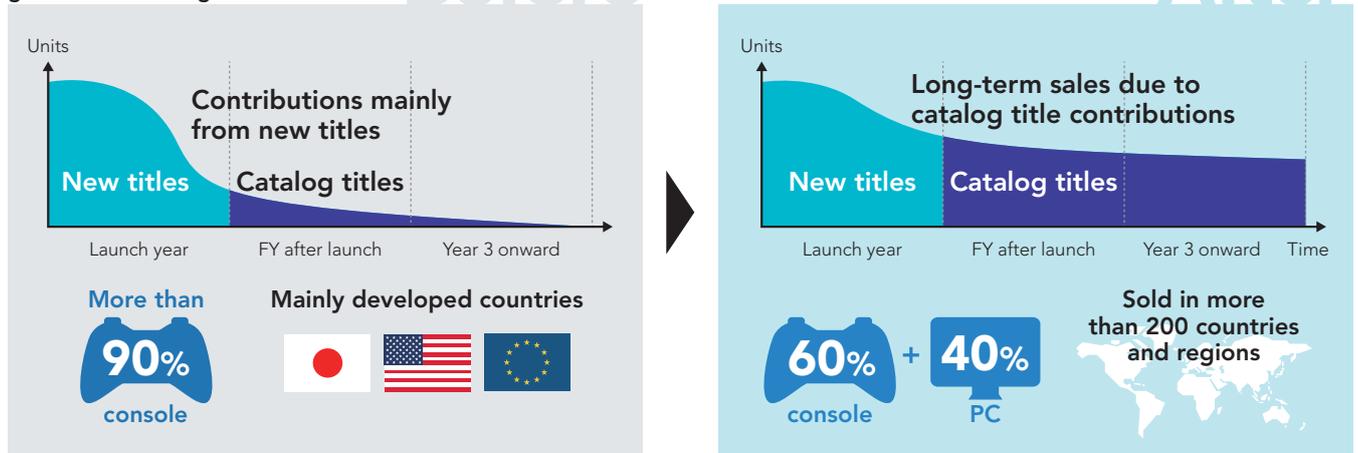


Diagram 7

Overseas sales ratio of major brands in the fiscal year ended March 2020

Resident Evil series



Overseas:
Approximately
90%

Street Fighter series



Overseas:
Approximately
90%

Devil May Cry series



Overseas:
Approximately
90%

Monster Hunter series



Overseas:
Approximately
70%

measure for our long-term growth along with the creation of entirely new IPs, such as *Pragmata*, which we announced in June 2020.

Measure 2

Increased profitability and long-term sales globally with digitalization

Here I will explain our digital strategy, a central pillar in our growth strategy. We feel the main advantages of digital sales are (1) improved profitability due to package production cost reductions and avoidance of inventory risk, (2) additional earning opportunities and long-term sales of catalog titles, which is a sales opportunity that was not available at physical retail shops, and (3) marketization of emerging regions where the distribution of game consoles was difficult. These items brought a major transformation to the game business. [Diagram 6]

The strategy originated in 2013, before current game consoles (PlayStation 4, etc.) were launched, after I learned that these game consoles would have constant internet connectivity. I knew a major change was coming to the game business and we established strengthening our digital adaptability as a priority strategy. Seven years have now past, and our digital sales, which were 5.2 billion yen in the fiscal year ended March 2013, have grown more than eight times to 42.6 billion yen in the fiscal year ended March 2020. During this time, our Consumer sub-segment improved significantly in profitability.

Digitalization increased earnings for each title, as mentioned above, but it also carries the further advantages of long-term sales and globalization. In the past, performance in the Consumer sub-segment was largely dependent on whether or not Capcom had released a new hit title that year, but now, once a high-quality new title is released, it contributes to earnings for 3-5 years. In addition to that, in package sales, second-hand distributors dominated sales of the last 35 years of Capcom's content assets, but because we are now able to offer them online at lower prices, they have become a steady source of earnings for us. Today, earnings in the Consumer sub-segment are comprised of some 200 titles each fiscal year. Meanwhile, from the users' perspective, digital has the substantial advantage of being available at the time you want it, and the digital ratio is rising each year, even for new titles. For example, new release *Resident Evil 3* has demonstrated a digital ratio of nearly 50% even at launch.

In recent years, PC platform versions have also increased their contribution to digital sales. We are now able to sell in countries and regions that far exceed the conventional console market, and we have analyzed that there is strength in expanding sales in emerging regions, such as Asia, South America, Eastern Europe, and the Middle East. I think that there is great potential for future growth in this area and have designated PCs a priority platform.

The COO's Discussion of Growth Strategies

Diagram 8
Global marketing

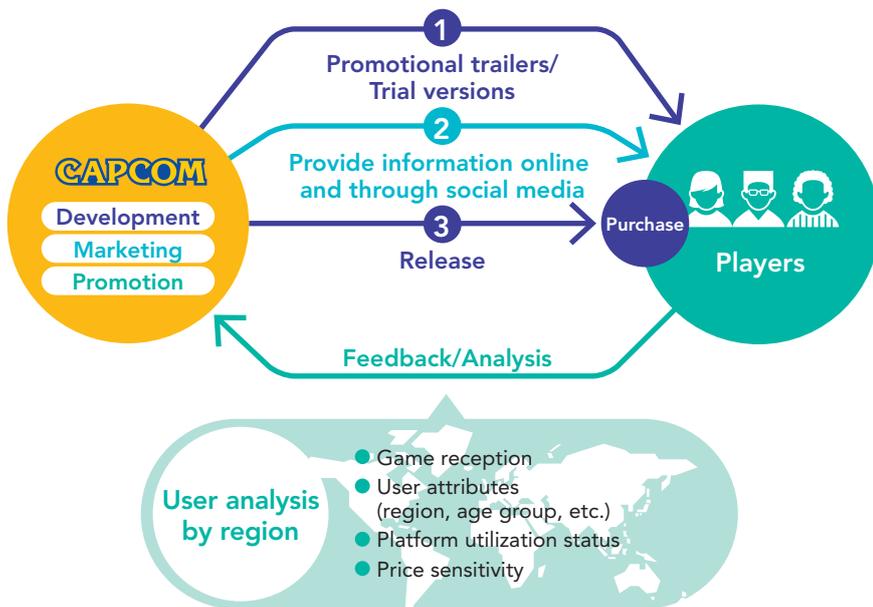
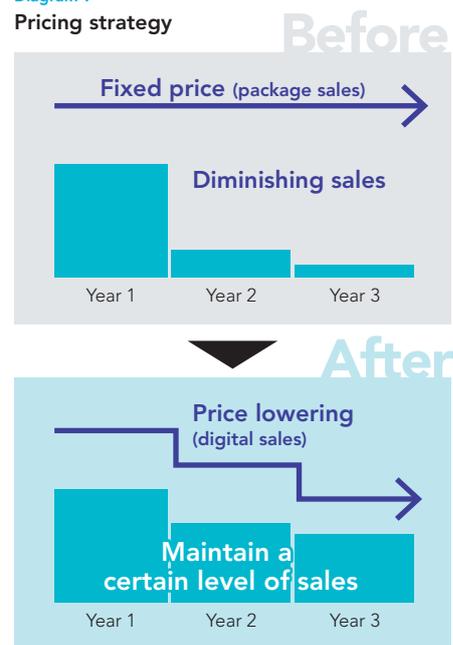


Diagram 9
Pricing strategy



We will continue promoting these digital strategies in the next fiscal year and project achieving record high net digital sales of 45 billion yen. As there is still room for growth in pipeline expansion, long-term sales, and in global markets, we expect the digital sales ratio to rise to 80-90% in the medium-term and believe that the Consumer sub-segment profitability will continue to increase while we make further progress in our recurring revenue model.

Measure 3

Generate demand with pricing measures based on digital marketing

Next I will explain how digital has made the game business more efficient. For a long time, we have been focusing on using the most advanced internet technology. This is because in the near future digital natives will be the primary consumers, so for a luxury item such as games it is extremely important that we meet users on their terms and utilize digital communication.

Therefore, in order to both digitalize marketing and strengthen communication within the company, we have established the Global Marketing Meeting, where management and global department heads meet each quarter to formulate a marketing plan. As a result, since launching *MH:W* in 2018, management, development and business have integrated, and utilized Capcom's websites and social media presence to improve the quality of our titles in line with users' needs while establishing a suitable pipeline to purchasing digital versions, enabling us to institute a system that will expand sales. [\[Diagram 8\]](#)

At present, in terms of long-term sales and globalization, we are prioritizing detailed and flexible pricing measures, such as limited-time sale offers that

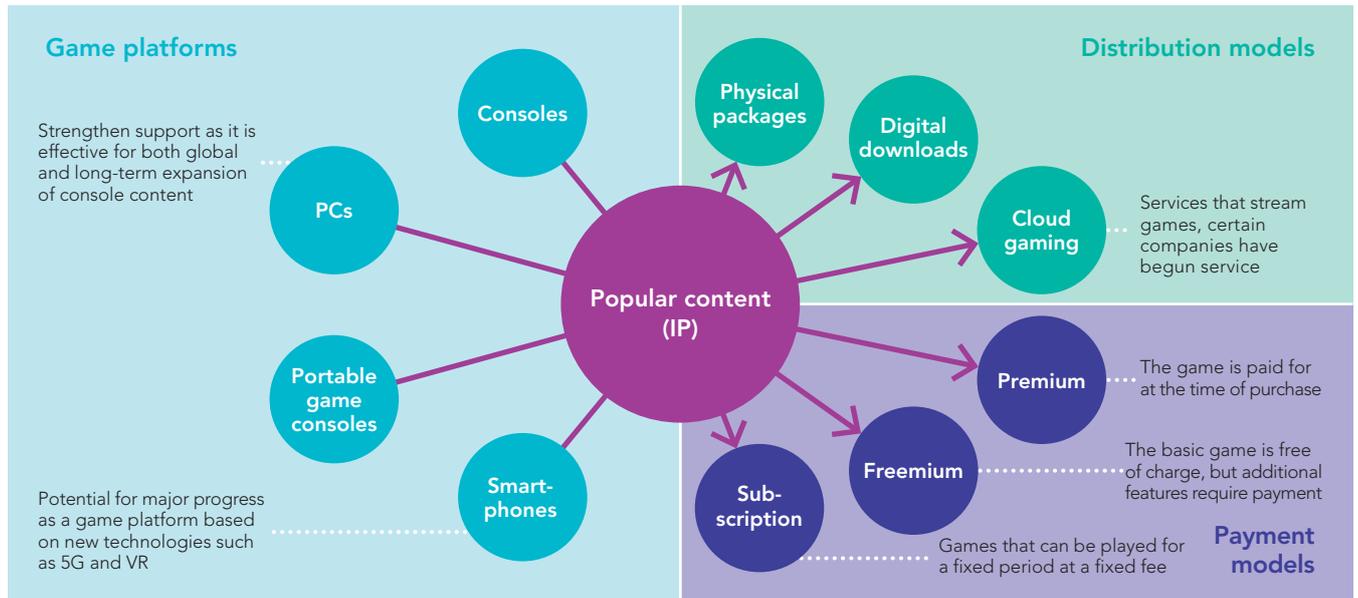
consider the needs of each individual region and user demographic. At the end of 2019, we strategically lowered the price of the major titles released in the previous fiscal year by more than 50%, which succeeded in generating more than double the sales of the same period in the previous year.

Another positive example is the long-term sales of *MH:W*. More than two years have passed since its release in January 2018, but as a result of maintaining sales while gradually lowering the price, its cumulative sales volume has exceeded 16 million units; more than half of which were sold in the second year or later. The lowest price it has sold for thus far is approximately 15 dollars, but its development costs have already been amortized, so even if it were to sell for 10 dollars or, as an extreme example, 5 dollars, it will contribute to income. We will continue to keep an eye on sales trends as we implement pricing measures that appeal to worldwide users who have not yet purchased the game in order to further expand our user base before the next title in the series is released.

I have been asked if this will create pressure to drop prices in the future, but I do not believe that is a concern. In the world of luxury items, as long as you can provide high-quality content, there will always be those with the need to play the newest content as soon as possible, even at full price. Pricing measures allow us to present users with a variety of prices so that they can make their purchase at a price where they feel satisfied, and this is an enormous advantage for both the seller and buyer. [\[Diagram 9\]](#)

Diagram 10

Game platform & service configuration



Measure 4

Support for mobile content and new services, such as cloud gaming

We expect Capcom's growth resulting from the digital strategies I have set forth thus far to continue for the foreseeable future. Meanwhile, the appearance of new services and technologies, such as cloud gaming and 5G, have the potential to bring dramatic changes to the game industry over the next 10 years. In addition to adopting a multi-platform strategy, Capcom has a track record of being quick off the mark in adapting to new technologies, such as VR. It goes without saying that we will continue to maintain a keen awareness of new fields and conduct technical testing. ^[Diagram 10]

If we look at it from a historic perspective as well, we can see that it has been new services and technologies that have made games even more interesting. I have great expectations for the further evolution of the world of games, and further am also very interested to see what kind of merits it will bring to users.

Currently, I cannot say that we have had great success with mobile content yet. We have analyzed the issue to be that we have yet to acquire the know-how to monetize through the continuous services unique to the mobile arena. At this point, we are prioritizing allocation of our resources toward growing the Consumer sub-segment, so we are not in a rush to see results. However, with the new 5G communication standard, or its 6G successor, our dynamic, action-orientated content should become equally compatible with mobile devices. For example, we may see a breakthrough when it is combined with light-weight, next-generation VR devices. I have instructed the Development section to carry out

technological research to ensure we are ready to grab the opportunity when it comes.

Finally, I want to properly convey that although our business format may change, Capcom's top priority will not. That is to consistently produce world-class, meticulously refined content as we have always done. If we can continue to do that properly, then users will always choose our products to use with any platform or service. Conversely, if we fail to do so, even if we are able to ride the transient wave of a trend, we will not see medium or long-term growth. Our experience from many long years of standing at the forefront of the industry has convinced me of this.

The COO's Discussion of Growth Strategies

Diagram 11

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

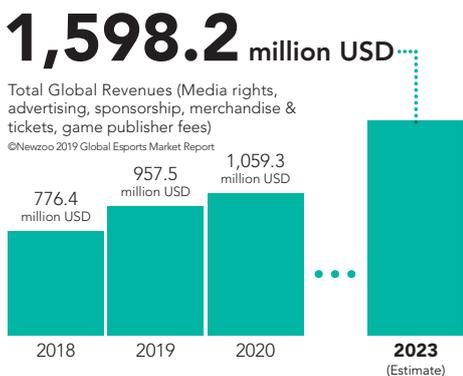
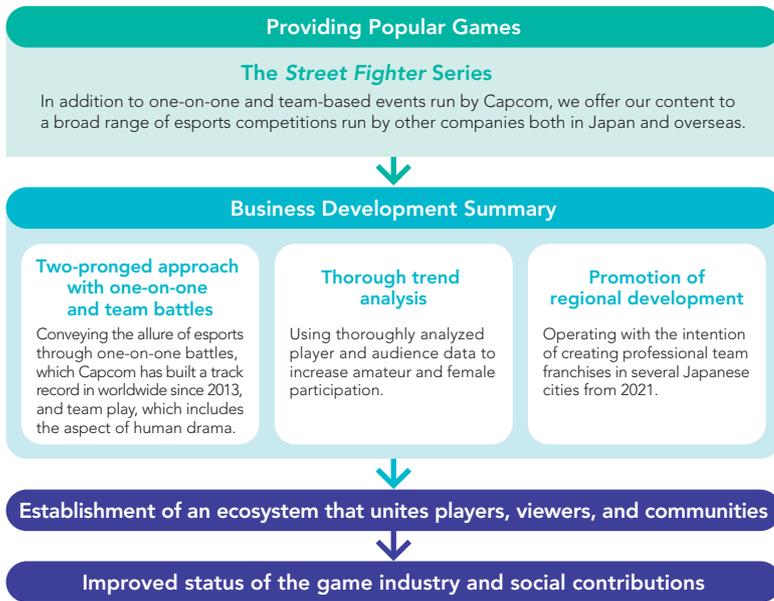


Diagram 12

Esports initiatives



Esports

Continue investments with a long-term view, aiming to cultivate this new area of entertainment

Aiming to establish a win-win ecosystem for players/viewers and communities/partner companies

First please allow me to explain why we are involved in esports. We are focusing on esports as a form of entertainment for a new-generation that has the potential to bring people fresh enjoyment. The market has grown significantly in recent years, and is expected to grow by 67% to approximately 1.6 billion dollars by 2023. [Diagram 11] With the establishment of a win-win ecosystem for players, communities, and partner companies, we believe that we have an important role to play in the development of esports with our thorough knowledge and ability to evolve the content used in competition.

As a result, this will create a cycle where increasing the income we earn from esports will flow back into our main business of software sales in the Consumer sub-segment, which will eventually increase the brand value of the content. This is what we envision taking place. However, this is an entirely new field and cannot be built overnight. In order to get it off the ground, we have to continue investing in it with a medium to long-term perspective of 5 or 10 years, and just as with soccer or baseball, slowly expand from the market base, including participation from amateurs.

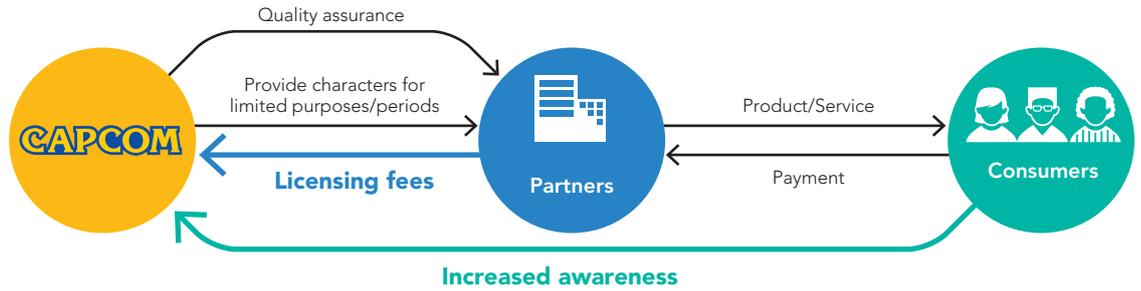
Measure

Building a framework for continuous tournaments and training

The COVID-19 pandemic has forced us to reconsider the safety of players and spectators, and therefore the format of how we had planned to hold many of the live events for the coming fiscal year has changed. On the other hand, the fact that holding tournaments online is a viable online alternative is one of esports’ major advantages. In order to maintain the momentum we have built in popularizing esports thus far, as one of our two main pillar initiatives the Capcom Pro Tour, a worldwide series of one-on-one tournaments that are held throughout the year, has been taking place online since June 2020. The second initiative, team battle, has also moved online since August 2020 with the domestic Street Fighter League: Pro-JP 2020 competition—for which we have brought on more than 10 new tournament sponsors. In addition, Street Fighter League: Pro-US 2020 is being held online in the U.S.

In addition, with a watchful eye on the COVID-19 pandemic situation, we are moving forward with initiatives for 2021 and beyond that include creating regional esports team franchises, holding tournaments specifically for female players, and establishing a training institution. When esports is widely recognized and understood by the general population, it will not only increase IP value, it will elevate the status of the game industry as well as contribute to society. [Diagram 12]

Diagram 13
Licensing business model



Hollywood film *Monster Hunter*
© CONSTANTIN FILM Production Services GmbH



Monster Hunter 15th anniversary exhibit held in Shanghai

Growth Strategy
3

Licensing business

Become a digital content company with a scope beyond games

Shifting from a stable business to a growth business

I believe that game content will eventually achieve a status on par with the world’s most famous animated characters. In the early 1990s, the booming popularity of *Street Fighter II* became the spark that led the industry to brand game content with products and Hollywood film adaptations. In the 2000s Capcom universally adopted the Single Content Multiple Usage strategy proactively leveraging our brands into multiple media formats. Today, our digital content business has grown substantially, and with the number of users playing Capcom games around the world rapidly increasing, I believe we are on the brink of major growth for our licensing business as well. [\[Diagram 13\]](#)

Measure

Strengthening global expansion

Traditionally, we have developed our licensing business as separate regions based out of Japan, the U.S., and Europe. Turning IPs into products and movies has contributed to supplementing software income, increasing awareness, and expanding the base of loyal users. However, from a growth rate perspective, compared to the 96% growth in sales volume over the past five years, the licensing business (part of Other Businesses) has only seen sales growth of 41%. I believe there is room for growth here, and we are therefore promoting further development of this

business from our offices worldwide. In addition, we are working on developing our Asian business, and in 2016 we established a Japan and Asian Business Division to strengthen our four-office system comprised of Japan, U.S. Europe, and Asia. This system is responsible for software sales expansion, including in emerging regions.

We are also increasing collaborations with other industries, such as apparel and mobile devices, in an effort to increase our licensing income from these areas as well.

Measure

Promotion of Hollywood movie adaptations

From a content branding standpoint, the effects of a Hollywood movie adaptation are immense. Both *Street Fighter* and *Resident Evil* have proven track records of growing into representative brands for Capcom and significantly increasing game unit sales and long-term content value. Currently, we are planning to have *Monster Hunter* adapted into a Hollywood film. Preparations are underway for its release and we believe it will provide the extra push needed to reach the 20 million units in sales we are aiming for from *MH:W*, which has already sold 16.1 million units.

Striving to build a stable financial foundation in order to achieve flexible growth assets geared toward an evolving market.



Kenkichi Nomura

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

Financial Strategy Overview



Q Please explain your role.

A I support business activities from a finance perspective, aiming to achieve asset optimization based on our management strategy.

In addition to my responsibilities as CFO, which involve planning financial strategy and seeing it through to execution, I am also the Executive Corporate Officer who oversees the whole of corporate management. As our business structure undergoes major changes, I have also been placed in charge of planning and strategy for the company since April 2020. I am involved with building our digital enhancement strategy along with our other various programs underpinning the growth strategy the CEO and COO were pivotal in formulating, so that we can achieve flexible and efficient investment, augment our business performance, and improve our asset efficiency.

As CFO, I strive to build a strong and flexible financial foundation based on our traditional financial strategy of securing a stable cash flow and improve asset efficiency. In my new role overseeing management, planning, and marketing strategy, we are working on more closely linking management and business.

Q Have there been any modifications to the financial strategy with the changes to the business environment brought on by the COVID-19 pandemic?

A There have been no modifications. We will continue supporting growth assets with a financial foundation prioritizing cash flow.

In an effort to bring our growth strategy to fruition, Capcom invests 30 billion yen in development annually, primarily in our Digital Contents business. In order to steadily invest 36.5% of projected sales in research and development, we need to build a strong and flexible financial foundation. We are promoting Capcom's growth strategy and working to grow our business performance with high capital efficiency by achieving proactive development investments based on improving our net cash.

In the fiscal year ended March 2020, investing in our growth led to achieving the highest sales volume on record in the Consumer sub-segment. Net cash increased by 14.2 billion yen, and the operating cash flow on sales ratio reached 27.3%, setting a new record high for profit. We were fortunate that our digitalization of game sales helped us avoid any major impact from the novel coronavirus pandemic. In addition, the balance of cash and deposits is equal to approximately

2.2 years' worth of annual development investment, so there is no concern financially. However, witnessing the impact it has had on other businesses, I am once again reminded of the weight cash carries and the importance of building a financial foundation that matches the characteristics of our business.

During this seven-year period where net income has increased consecutively each year, Capcom's earnings structure has undergone significant changes due to the digitalization of our sales channels and extension of our earnings period. However, we were able to support growth investment appropriately with the financial foundation we have built thus far. Looking at the market over the next 10 years, we can expect major changes on a scale unlike any we have seen before with the emergence of new technologies, hardware, and services. Our investment options will likely expand even further, which means we must be ready from a financial perspective.

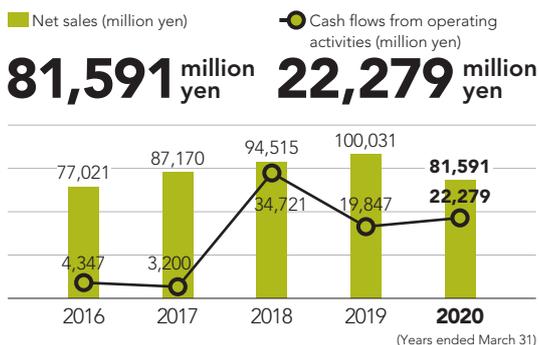
As CFO, I will continue my efforts to select and concentrate investments while continuously reviewing costs, such as SG&A expenses, in order to build an even tougher financial foundation. In addition, I aim to use our accumulated cash to bring our growth strategy to fruition and further improve asset efficiency through flexible, optimized allocation of investments in strategic projects, such as major title development, investments in strengthening digital, adapting to new technologies and services, and our endeavors in esports and the mobile business.

Q What are the priority financial KPIs and measures to improve them?

A We are prioritizing increasing operating income by 10% each fiscal year in addition to capital efficiency (ROE).

As one of our medium-term management goals geared toward investors, we are targeting an annual increase

Net sales / Cash flows from operating activities (million yen)



of 10% in operating income, which represents the profit we earn from our main business. At the same time, we aim to improve our operating margin, which is an indicator of our business efficiency, our net income, which represents our final profits for the fiscal year, and free cash flow, which is the source of returns to shareholders and further growth.

In the rapidly changing game industry, in order to manage with a well-honed foresight, we check changes such as the aforementioned indices and compare to the matrix of sales, year-over-year, and planned to actual ratios, and then take swift action in response to issues. As a result, the operating income growth rate over the last five years has been +116%, giving the operating margin an improvement of +11.5 percentage points and positioning Capcom at the top of the industry when compared to our competitors. Also, during this period, the net profit growth rate was +141% and free cash flow improved significantly.

Rate of improvement of operating income/ operating margin (compared to FY ended March 2015)

	Operating Income	Operating Margins
Capcom	+116%	+11.5 points
Konami Holdings	+114%	+5.2 points
Square Enix Holdings	+99%	+2.8 points
Sega Sammy Holdings	+57%	+2.5 points
Bandai Namco Holdings	+40%	+0.9 points

Note: Comparison of fiscal years ended March 2015 and 2020
Source: Created by Capcom based on financial reports and financial announcement materials

Additionally, ROE (return on equity), which we emphasize as an indicator of capital efficiency, was 16.9% this fiscal year. This number has been rising steadily alongside the growth of our business for seven consecutive years, creating value for shareholders.

ROE

	ROE
Capcom	16.9%
Konami Holdings	7.3%
Square Enix Holdings	10.0%
Sega Sammy Holdings	4.6%
Bandai Namco Holdings	13.1%
TSE 1st Section Average	6.6%

Note: Performance for the fiscal year ending March 2020
Source: Financial reports, Japan Exchange Group (JPX) homepage

Financial Strategy According to the CFO

The digital strategy we have been promoting since 2013 is the foundation behind this growth. By enhancing our income from not only our new major titles but also sales of our catalog title assets, we can grow our income efficiently without relying on expanding our capital. We are currently focusing on ROA (return on assets), in addition to ROE, and have improved 12.0% this fiscal year. We will continue to promote our digital strategy in the coming fiscal year as we aim for improvement in all our KPIs. We expect our operating income to increase 11.7% to 25.5 billion yen, our net income to increase 12.9% to 18.0 billion yen, and our operating margin to improve 2.0 percentage points increasing to 30.0%. ROE is projected to be 16.9%, which is on par with the previous year. In order to achieve these plans, I will conduct thorough checks of the aforementioned items as a company executive and focus on efficiency in my management of the balance sheet.

	3/2018	3/2019	3/2020	3/2021(plan)
ROE (%)	13.4	14.4	16.9	16.9
Net margin (%)	11.6	12.5	19.5	21.2
ROA (%)	8.9	10.1	12.0	—
Financial leverage (times)	1.46	1.39	1.44	—

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

A We invest 80% of management resources in the core Digital Contents business.

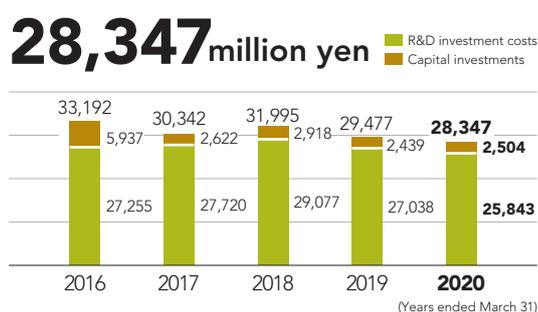
To achieve stable medium- to long-term growth, we recognize that it is critical to secure a sufficient amount of investment for the Digital Contents business, the source for our original IP. Specifically, in addition to

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, 2021 we will allocate 29.0 billion yen, or 80% of total investments (R&D investment and capital investment amounts totaling 36.4 billion yen), in the Digital Contents business. As an index for measuring our investment level adequacy, we strive to appropriately manage the amount of our annual development investment and our work in progress for game software balance. Regarding the work in progress for game software balance recorded on the balance sheet, while it takes two to three years or more to develop a game, digital distribution has extended the content sales period, therefore we are striving to maintain the soundness of our assets with appropriate checks on the development of in-progress content.

Capcom employs two methods of properly managing development investments to increase title income, and efficiently generating net cash. The first is thoroughly managing investment recovery by creating a return on investment (ROI) database for each title and managing the process of investment income. If progress is going well on titles in development, we continue with the initial projected investment, but if there is an issue, we attempt to make improvements at an early stage and then reevaluate the potential of continuing investing. The second is the thorough improvement of working capital efficiency by checking in-progress assets continuously and working to create a mechanism to further visualize the number of turnover days and turnover rate.

As a result of these efforts, the net cash at the end of the fiscal year rose by 14.2 billion yen to 58.9 billion yen. In addition, when you consider the temporarily rising and falling accounts receivable and the balance of obligations at the end of the fiscal year that accompanied the major titles released before and after the holiday season in the latter half of the fiscal year, effective net cash increased to 69.0

Capital investments / R&D investment costs (million yen)



billion yen.

We expect the amount of investment to gradually increase with the steady hiring of new graduates to expand our pipeline and to address new hardware and technologies. We will continue to carry out investment allocation and processes management in a manner appropriate for achieving growth investments.

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.

The increasing sophistication and functionality of game platforms brings rising development costs for consumer game software. In addition to the fact that it can take two to three years, or more, to develop a major title, the realization of extended sales periods with the penetration of digital sales has resulted in longer specified periods for recovering investment capital. (When package sales were mainstream, demand was concentrated in the first one to three months after a title was released, and development costs were recovered within that period.)

Under these circumstances we have set the level of cash and deposits we should hold in reserve as the amount of one to two years of annual development investment costs in consideration of the reserves for planned title development investment and risk management. However, when we consider the further development of content in this industry over the next 10 years as well as the possibility of a major transformation of our business structure, we can see the need to create a system that increases our cash position by an additional year to enable more flexible investment. At the end of the current fiscal year our cash and deposits balance was 65.6 billion yen due in part to the growth in our performance, but we

will continue to strive to strengthen our financial foundation even further.

Q In terms of shareholder returns, what is the position of treasury stock?

A From the perspective of total returns ratio, we are making flexible acquisition a pillar on par with dividends.

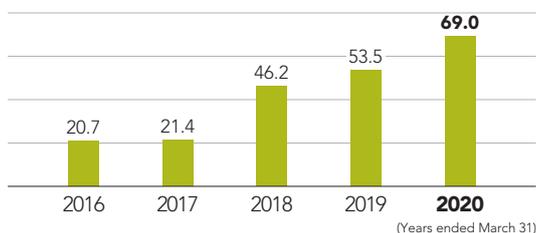
At Capcom, we consider the acquisition of treasury stock an important policy for raising share value by increasing earnings per share. Accordingly, when we determine that it will contribute to improving shareholder value based on changes in the management environment and financial content, we have been flexibly acquiring treasury stock (most recently in 2017 and 2019).

The average of the total return ratio for the last 10 years combined with dividends has been 58%, and we will continue to implement the optimal course of action as the opportunity arises.

Regarding the treasury stock we are currently holding, we are reviewing the appropriate measures for available options from the perspective of new technology, business growth, and improving capital efficiency.

Effective Net Cash on a Historical Basis (billion yen)

69.0 billion yen



Total return ratios (%)

30.1%

