

Explanation Summary of Financial Results
Briefing for 2nd Quarter of the Year ending March 31, 2014
by Haruhiro Tsujimoto,
President and Chief Operating Officer
(November 1, 2013)

In my presentation, I will talk about our first half business segment performance and our strategic goals for each segment.

P8 Point of Financial Highlights

Point of Financial Highlights

Growth Strategy Initiatives

- **Improve the Consumer business**
 - **“Monster Hunter 4” shipments are 3 million units**
*As of October 15, 2013, including download sales
 - **Now implementing reorganization measures (development activities and overseas subsidiaries) associated with structural improvements in the previous fiscal year**

- **Strengthen the Online Games business, which has much growth potential**
 - **DLC sales increased 150% from one year earlier to 5.4 billion yen**
 - **Announced 14 new online game titles in August 2013**

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I will begin with a progress report concerning the two growth strategies we have been pursuing as the most important measures for achieving our medium-term goals.

The first is “improving the Consumer business”. We anticipate slow growth to continue in the home video game market, which includes digitally distributed content (DLC). In addition, the Consumer business is where we create the content for our businesses. As a result, we will continue to place emphasis on this business.

We launched “Monster Hunter 4” on September 14. As of October 15, shipments totaled 3 million units, including full-game download sales. This figure was 3.3 million units on October 25. Overall, this title is performing very well because of the strong response it generated among users.

As you heard from the chairman, we are making progress with our reorganization. In consideration of the volatile market environment, Capcom must create successful new titles and shift from selling products to performing operations. To accomplish these goals amid the rapid pace of change in our markets, Capcom is altering its organizational structure and shifting the role of overseas subsidiaries from sales to marketing.

The second goal is “strengthening the Online Games business”. Just as in the Consumer business, we will continue to use numerous initiatives to grow in the online content sector, too.

In the first half, DLC sales were up by more than 150% from one year earlier to 5.4 billion yen. Full-game downloads of “Monster Hunter 4” were one reason for this growth. Furthermore, in August we announced 14 online game titles that we plan to introduce starting in the second half of this fiscal year.

My next subject is an overview of our business segment performance.

P11 Digital Contents – First Half Highlights (1)

Digital Contents – First Half Highlights (1)

Clear division between winners and losers for major titles, but Consumer business profitability improved due to higher downloadable content (DLC) sales ratio

■ First Half Highlights (Consumer)

- “Monster Hunter 4”, a key title in this fiscal year, has performed well due to sales mainly in Japan, where profitability is high, and an increasing ratio of download sales
- Sales of “Resident Evil Revelations Unveiled Edition” reached one million units
- Sales of “Lost Planet 3” was 300,000 units, below expectations in Europe and North America

■ First Half Sales of Major Titles (Consumer)

(Thousand units)				
Platform	Title	Region	Date	Result
3DS	Monster Hunter 4	Japan	9/14	2,800
PS3 Xbox 360 Wii U PC	Resident Evil Revelations	Japan	5/23	1,000
		North America	5/21	
		Europe	5/24	
PS3 Xbox 360	Dragon's Dogma: Dark Arisen	Japan	4/25	650
		North America	4/23	
		Europe	4/26	

* Result includes the units of download sales *Japan includes sales in other Asian countries

In the Consumer business, profitability improved because of the higher share of sales from DLC. However, there was a clear divide between successful and unsuccessful titles.

“Monster Hunter 4”, a major new title of this fiscal year, has performed well. The game has been sold mainly in Japan, which has high profit margins, and has raised the share of sales from full-game downloads. In addition, “Resident Evil Revelations” became a million seller and “Dragon's Dogma: Dark Arisen” sales have been in line with our plan. But sales of “Lost Planet 3” were only about 300,000 units because of weakness in Europe and North America.

P12 Digital Contents – First Half Highlights (2)

Digital Contents – First Half Highlights (2)

Packaged software sales declined because of strong sales of major titles in the previous fiscal year but reinforcement of the digital strategy (DLC) raised download sales

■ Unit Sales for the 6 Months (Consumer)

(Thousand units)

	2011/9	2012/9	2013/9	Difference
Titles	34	17	20	3
Package				
Japan	3,000	1,800	3,800	2,000
North America	1,100	3,100	1,600	-1,500
Europe	800	2,300	1,100	-1,200
Asia	100	200	200	0
Package Total	5,000	7,400	6,700	-700
DLC				
Full-game download	550	800	2,000	1,200
Total	5,550	8,200	8,700	500

* Titles includes the new titles available only for download



Sales volume in the Consumer business was down for packaged software due to the strong sales of a major title one year earlier. But full-game download sales volume increased because we reinforced our digital (DLC) strategy.

We launched 20 titles in the fiscal year’s first half. Package software sales volume in Japan was up 2 million to 3.8 million units mainly because of “Monster Hunter 4”. Overseas, package software sales volume was down 1.5 million to 1.6 million units in North America and down 1.2 million to 1.1 million units in Europe. Strong sales of “Resident Evil 6” one year earlier were partly responsible for these declines. In Asia, sales volume was unchanged.

For full-game download sales, volume was up 1.2 million to 2 million units mainly because of the popularity of “Monster Hunter 4”.

P13 Digital Contents – First Half Highlights (3)

Digital Contents – First Half Highlights (3)

**Sales growth in the Mobile Contents business is slowing in Japan and overseas
PC and other sales were strong primarily for major titles**

■ **First Half Highlights (Mobile Contents)**

- Capcom and Beeline brand sales were lackluster due to absence of new hit titles
- In Japan, started to sell native apps like “Oto Ranger”

■ **First Half Highlights (PC Others)**

- “Monster Hunter Frontier G” was launched as a major update of a key title
- Started distributing the “Onimusha Soul” PC browser game in Taiwan; initial sales are strong
- Started closed beta test of “Monster Hunter Online” in China with Tencent Holdings Limited



In the Mobile Contents sector, growth is slowing in Japan and overseas but the PC Others sector is performing well, chiefly for major titles.

Mobile Contents performance was lackluster throughout the first half due to the absence of new hit titles for both the Capcom and Beeline brands. However, for the Capcom brand in Japan, we are starting to introduce native apps like “Oto Ranger”.

In PC Others, the main title “Monster Hunter Frontier G” was upgraded to a G2 version in July and a G3 version in October. These steps to further energize this game led to growth in the number of users.

In Asia, Capcom’s Taiwan subsidiary started distribution in April of “Onimusha Soul”, a PC browser game that is selling briskly in Japan. Initial results are strong, including a number one popularity ranking. In China, the development of the joint title “Monster Hunter Online” with Tencent Holdings Limited is going as planned. We conducted a closed beta test in June.

P14 Digital Contents – First Half Highlights (4)

Digital Contents – First Half Highlights (4)

DLC sales are increasing but sales of Mobile Contents business struggled due to absence of hit titles

■ First Half Digital Contents Performance

(100 million yen)

	2011/9	2012/9	2013/9	Difference
Net sales	206	349	375	26
Operating income	31	57	53	-4
Operating margin	15.2%	16.5%	14.3%	—
(Composition)				
Package	134	238	253	15
Online contents				
DLC	12	21	54	33
Mobile Contents	25	60	36	-24
PC Other	35	30	32	2
Online contents total	72	111	122	11

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There was a temporary lull in first half Digital Contents sales and earnings. DLC continued to grow but there were no hit titles in the Mobile Contents sector.

As a result, first half sales increased 2.6 billion yen from one year earlier to 37.5 billion yen and operating income decreased 400 million yen to 5.3 billion yen. The operating margin was 14.3%.

Package software sales increased 1.5 billion yen to 25.3 billion yen and DLC sales increased 3.3 billion yen to 5.4 billion yen. “Monster Hunter 4” was the main reason for both of these increases. In the Mobile Contents sector, sales fell 2.4 billion yen to 3.6 billion yen because there were no hit titles. PC other sales were basically unchanged at 3.2 billion yen.

Earnings were down despite higher sales because of a decline in the profitability of Mobile Contents, which have a high profit margin.

P15 Digital Contents – Second Half Strategies (1)

Digital Contents – Second Half Strategies (1)

Concentrating on repeat sales of major titles and on increasing digital sales

- **Second Half Strategy (Consumer)**
 - Aim to increase sales of “Monster Hunter 4” by using more promotions and events for users
 - Plan to launch “Dead Rising 3” for the next-generation Xbox One in November 2013 in Europe and North America
 - Raise the DLC sales ratio by increasing Full-game download and Add-on download sales
- **Second Half Sales Plans for Major Titles (Consumer)**

(Thousand units)				
Platform	Title	Region	Date	Plan
3DS	Monster Hunter 4	Japan	9/14	3,300 (Total)
Xbox One	Dead Rising 3	North America	November 2013	1,200
		Europe	November 2013	

* Result includes the units of download sales
 * Japan includes other Asian countries

This slide outlines out second half strategy for the Digital Contents business.

In the Consumer business, we are concentrating on repeat sales of major titles and on increasing digital sales. We will continue to conduct promotional activities for “Monster Hunter 4”, which performed well in the first half. In addition, we will hold user events like the Monster Hunter Festival and collaboration with Universal Studio Japan starting in February 2014 in order to further increase sales. The objective is to maximize sales volume of the entire Monster Hunter series.

We plan to start selling “Dead Rising 3” for the next-generation Xbox One in Europe and North America in November 2013. Our sales plan for this fiscal year is 1.2 million units.

For DLC, our goal is to raise the DLC sales ratio in the Consumer business by increasing sales of full-game downloads and additional DLC.

P16 Digital Contents – Second Half Strategies(2)

Digital Contents – Second Half Strategies(2)

**Revised the fiscal year plan for packaged software and DLC
due to first half performance**

■ FY2013 Unit Sales Plan (Consumer)

(Thousand units)

	2012/3	2013/3	2014/3 Plan	Difference
Titles	68	46	40	-6
Package				
Japan	6,800	4,500	6,300	1,800
North America	5,100	5,400	3,500	-1,900
Europe	3,300	3,600	1,900	-1,700
Asia	500	500	300	-200
Package Total	15,700	14,000	12,000	-2,000
DLC				
Full-game download	1,300	2,700	4,000	1,300
Total	17,000	16,700	16,000	-700

* Titles includes the new titles available only for download



Based on first half sales, we have revised our initial plan for fiscal year sales volume in both the package software and DLC categories.

We expect to increase the number of titles to 40, which is 10 more than in the initial plan.

For regional sales volume of package software, there is no change in our outlook for 6.3 million units in Japan. Overseas, we have reduced our initial plan from 4 million to 3.5 million units in North America and from 2.4 million to 1.9 million units in Europe. These cuts reflect first half sales of “Lost Planet 3” and other factors. In Asia, there is no change to our initial plan.

Our initial plan for full-game download sales was 3.2 million units. We have raised this by 800,000 to 4 million units because strong first half sales.

P17 Digital Contents – Second Half Strategies(3)

Digital Contents – Second Half Strategies(3)

Aiming to create hit titles in the mobile and PC online categories by launching many titles

- **Second Half Strategy (Mobile Contents)**
 - **Capcom brand :**
 - ⇒ Plan to introduce many native apps that use existing brands
 - “Monster Hunter Smart” (plan to start distribution in fall 2013 for iOS)
 - **Beeline brand :**
 - ⇒ Plan to launch several new titles, including
 - “Kiwi & Me” (iOS, distribution to start in Dec. 2013),
 - a new puzzle game targeting casual female game players
- **Second Half Strategy (PC Others)**
 - For “Monster Hunter Frontier G,” the main title, will start offering services this year for the PS3 and Wii U, too
 - Start closed beta test of a new original series of PC browser game, public release is scheduled for December



“Monster Hunter Smart”



This slide shows our second half strategies for Mobile Contents and PC Others. Our goal is to create more hit titles. One way is by launching full-scale native apps that use existing brands. We also plan to offer major titles for many types of hardware and use other actions.

In the Mobile Contents sector, for the Capcom brand, we will introduce a large number of native apps that use existing intellectual property. For example, distribution of “Monster Hunter Smart” is scheduled to start in the fall of 2013 and we are planning on distributing many more titles. One of them is “Cross x Beats”, which we exhibited at the Tokyo Game Show.

For the Beeline brand, we plan to introduce a number of titles. One is an iOS version of “Kiwi & Me”, a new puzzle game targeting casual female users. The launch is to take place in December 2013.

In the PC Others, we are working on offering the core “Monster Hunter Frontier G” title for many platforms. We will begin services for PlayStation 3 and Wii U by the end of this year with the goal of increasing the number of users and earnings. In addition, we plan to officially start services in December for “Euro Historia”, which is a new original PC browser game.

P18 Digital Contents Plan

Digital Contents Plan				
Revised the fiscal year plan for DLC and Mobile Contents due to first half performance				
■ FY2013 Digital Contents Plan				
(100 million yen)				
	2012/3	2013/3	2014/3 Plan	Difference
Net sales	598	636	630	-6
Operating income	128	70	78	8
Operating margin	21.5%	11.1%	12.4%	—
(Composition)				
Package	441	407	355	-52
Online contents				
DLC	28	52	70	18
Mobile Contents	63	110	110	0
PC Other	66	67	95	28
Online contents total	157	229	275	46



My next subject is our fiscal year plan for the Digital Contents business and the categories within this business. Due to performance in the first half, we have revised the fiscal year plans for the Consumer and Mobile Contents businesses.

For the Digital Contents business, we have lowered the fiscal year sales plan from 64.5 billion yen to 63.0 billion yen and the operating income plan from 9.1 billion yen to 7.8 billion yen. In addition, we expect an operating margin of 12.4%.

Looking at category fiscal year sales plans, package software was lowered from 36.5 billion yen to 35.5 billion yen, DLC was raised from 6.0 billion yen to 7.0 billion yen, Mobile Contents was lowered from 12.5 billion yen to 11.0 billion yen, and PC other is unchanged at 9.5 billion yen.

P20 Arcade Operations – First Half Highlights

Arcade Operations – First Half Highlights

Existing arcade sales were down from one year earlier but earnings were level due to rigorous cost control measures

■ **First Half Highlights**

- Existing arcade sales down 5% from one year earlier (down 6% in Q1 and 4% in Q2)
- Opened one arcade (MARK IS Shizuoka, April 2013)

■ **First Half Arcade Operations Performance** (100 million yen)

	2011/9	2012/9	2013/9	Difference
Net sales	60	56	54	-2
Operating income	12	9	9	0
Operating margin	20.2%	17.5%	17.9%	-
Year-to-Year Ratio of Existing arcades	+2%	-6%	-5%	-

■ **Number of Arcades** (Facilities)

	2012/3	2013/3	2013/9	2014/3 Plan
New arcades	0	0	1	2
Closing arcades	0	3	0	2
Total	37	34	35	34



This slide provides an overview of the Arcade Operations business.

The operating environment remained challenging in the first half. Although existing arcade sales were down from one year earlier as a result, we held earnings steady because of rigorous cost management.

Existing arcade sales were down 5% from one year earlier. One location was added in the first half, which raised the number of arcades to 35.

As a result, first half performance was about the same as one year earlier. Sales were down 200 million yen to 5.4 billion yen, operating income was 900 million yen and the operating margin was 17.9%.

P21 Arcade Operations – Second Half Strategies

Arcade Operations – Second Half Strategies

No change in fiscal year plan
Aiming for flat sales and earnings by operating arcades efficiently

- **Second Half Strategy**
 - Continue to secure earnings by rigorously controlling costs
 - Serve a broader range of customers with measures like hands-on tours for seniors and a kids corner with fees based on time
- **Second Half Plan**
 - Plan to open one arcade and close two arcades (resulting in total of 34 arcades)
 - Fiscal year existing arcade sales plan: Down 1%
- **FY2013 Arcade Operations Plan**

	2012/3	2013/3	2014/3 Plan	Difference
Net sales	117	109	110	1
Operating income	17	17	17	0
Operating margin	15.2%	15.6%	15.5%	-
Year-to-Year Ratio of Existing Stores	+1%	-5%	-1%	-

(100 million yen)



This slide summarizes our strategy for the second half. We have not revised our fiscal year plan and are aiming to hold earnings steady by operating arcades efficiently.

In the second half, our goal is to maintain earnings by continuing to use strict cost management. We will also take steps aimed at serving more customer segments. For example, arcades are holding hands-on tours for seniors and operating kids' corners with fees based on time.

In the second half, we plan to open one arcade and close two, resulting in 34 arcades at the end of the fiscal year. In addition, there is no change in our existing-arcade fiscal year sales target of down 1% from the previous fiscal year.

Overall, there is no change in our initial fiscal year plan for Arcade Operations. We expect sales of 11.0 billion yen, operating income of 1.7 billion yen and an operating margin of 15.5%.

P23 Amusement Equipments – First Half Highlights

Amusement Equipments – First Half Highlights

**Big increases in Pachinko & Pachislo sales and earnings
because of success of Capcom pachislo machines**

- **Pachinko&Pachislo business First Half Highlights**
 - Sales of Capcom's "Devil May Cry 4" pachislo machine, launched in Sept. 2013, have topped 25,000 units and operations are strong
 - The subcontracting work also contributed consistently
- **Arcade Games Sales business First Half Highlights**
 - Started selling the new coin-operated game "Mario Party Fushigi no Korokoro Catcher 2"
- **First Half Amusement Equipments Performance**

	2011/9	2012/9	2013/9	Difference
Net sales	11	35	89	54
Operating income	-2	13	25	12
Operating margin	-19.0%	37.2%	28.2%	-

(100 million yen)

*Arcade Games Sales is about 10% of net sales, and Pachinko & Pachislo about 90%



"Devil May Cry 4"



Next is the Amusement Equipments business.

First half sales and earnings were much higher mainly because of strong sales of Capcom pachislo machines.

In the Pachinko & Pachislo (P&S) business, sales of the "Devil May Cry 4" pachislo machine, which was launched in September 2013, have reached 25,000 units. This machine is still performing very well. The subcontracting work also contributed to earnings in this business.

In the Arcade Game Sales business, we started selling a new coin-operated game called "Mario Party Fushigi no Korokoro Catcher 2". This machine as well has been performing well.

As a result, first half sales and earnings were higher than one year earlier. Sales were up 5.4 billion yen to 8.9 billion yen and operating income was up 1.2 billion yen to 2.5 billion yen. This results in an operating margin of 28.2%.

P24 Amusement Equipments – Second Half Strategies

Amusement Equipments – Second Half Strategies

Launch of the second new Capcom pachislo machine in this fiscal year
Revised fiscal year plan – Expect higher sales and earnings

- Pachinko & Pachislo business Second Half Strategies**
 - Plan to launch a new Capcom pachislo machine using a major brand in the fourth quarter
- Arcade Game Sales business Second Half Strategies**
 - Plan to launch a new coin-operated game
“Monster Hunter Medal Hunting Compact” (Spring 2014)
- FY2013 Amusement Equipments Plan**

	2012/3	2013/3	2014/3 Plan	Difference
Net sales	76	167	200	33
Operating income	8	48	55	7
Operating margin	11.6%	29.1%	27.5%	-

*Arcade Games Sales is about 10% of net sales, and Pachinko & Pachislo about 90%



This slide shows our Amusement Equipments business strategy in the second half. The fiscal year plan has been increased because of the strong first half performance.

In the P&S business, we will launch the second Capcom pachislo machine of this fiscal year. We plan to start distributing this machine, which uses our primary brand, in the fourth quarter.

In the Arcade Game Sales business, we plan to start distributing “Monster Hunter Medal Hunting Compact”, a new coin-operated game, in the spring of 2014.

As a result, we are aiming for higher sales and earnings. We have raised the fiscal year sales plan from 18.5 billion yen to 20.0 billion yen and the operating income plan from 4.3 billion yen to 5.5 billion yen. This results in an operating margin of 27.5%.

P26 Forecast for Year Ending March 31, 2014

Forecast for Year Ending March 31, 2014

No change in initial plan; concentrating on repeat sales of major titles, online contents and Capcom pachislo machines

	2013/3	2014/3 Plan	Difference
Net sales	94,075	97,000	2,925
Operating income	10,151	12,000	1,849
Ordinary income	10,944	11,700	756
Net income	2,973	6,800	3,827

(Million yen)

- No change in initial forecast for the current fiscal year
- Fiscal year EPS forecast is 120.61 yen
- Forecast first half dividend of 15 yen and year-end dividend of 25 yen, resulting in a FY3/14 dividend of 40 yen



My last topic is our consolidated forecast for the current fiscal year.

We have made no revisions to our initial plan.

In the second half, we are concentrating on repeat sales of “Monster Hunter 4”, offering “Monster Hunter Frontier G” for many platforms in the Online Games business, and selling the new Capcom pachislo machine. Additionally, in the package software business, we will introduce numerous sequels using major intellectual property like “Dead Rising 3” and “Sengoku BASARA 4”.

Our fiscal year outlook is for sales of 97.0 billion yen, operating income of 12.0 billion yen, ordinary income of 11.7 billion yen, net income of 6.8 billion yen, and net income per share of 120.61 yen. We plan to pay an interim dividend of 15 yen and a year-end dividend of 25 yen for a total of 40 yen.

Everyone at Capcom is determined to reach the numbers in these plans. Thank you again for attending today’s meeting.