

**Explanation Summary for the Briefing Regarding
Financial Results of the Year ending March 31, 2015
by Kenzo Tsujimoto, Chairman and CEO
(May 8, 2015)**

1. Greeting

(1) Thank you

First, I would like to express my appreciation to everyone here today for taking the time to attend our earnings announcement.

(2) Cooperation with interviews

Every year, we contact a number of analysts and investors in Japan and other countries to hear thoughts about our mid-term goals, business strategies, IR activities and other subjects. Thank you very much for your cooperation. This input is one of the considerations we use when making management decisions.

(3) Today's meeting

Today, I will discuss our reexamination of mid-term targets and our goals.


2. Reexamination of mid-term targets

1. Revised Mid-Term Goals

■ Targets for five-year period ending in FY3/18

(1) Cumulative operating income target
⇒ Reduced from ¥80bn. to ¥70bn.


(2) FY3/18 operating margin target
⇒ Unchanged at 20%



- This fiscal year is the halfway point for the five-year targets that we announced in May 2014. After carefully examining these targets, we have made a revision.
- We have lowered our goal for cumulative operating income from 80 billion yen to 70 billion yen. But we did not change the 20% operating margin target for the fiscal year ending in March 2018.

2. Reasons for the mid-term target revision


1. Revised Mid-Term Goals				
■ Business segment cumulative operating income and FY3/18 operating margin				
	Cumulative operating income from FY2013 to FY2017 (old forecast)	Cumulative operating income from FY2013 to FY2017 (revised forecast)	Difference	FY2017 Operating margin
Digital Contents	57.0 billion yen	57.0 billion yen	-	22%
Arcade Operations	8.5 billion yen	8.5 billion yen	-	15%
Amusement Equipments	30.0 billion yen	20.0 billion yen	-10.0 billion yen	27%
Other Businesses	5.5 billion yen	5.5 billion yen	-	45%
Total	80.0 billion yen	70.0 billion yen	-10.0 billion yen	20%



- The 10 billion yen reduction is due to our decision to lower the Amusement Equipments business goal by this amount. The goals in all other business segments are the same. Furthermore, the operating margin targets for the fiscal year ending in March 2018 are the same for all business segments.

2. Reasons for the mid-term target revision

2. Operating income target progress								
■ Business segment cumulative operating income								
(100 million yen)								
	14/3		15/3		Total			16/3
	Original forecast	Results	Original forecast	Results	Original forecast	Results	Difference	Forecast
Digital Contents	91	45	68	102	159	147	-12	110
Arcade Operations	17	16	15	9	32	25	-7	11
Amusement Equipments	43	71	50	27	93	98	5	30
Other Businesses	12	10	9	6	21	16	-3	10
Total	120	103	105	105	225	208	-17	120



- During the first two fiscal years of our five-year target period, operating income in the Amusement Equipments business was 500 million higher than our initial plan.
- Consequently, the 10 billion yen reduction in the mid-term goal for this business despite this solid two-year performance means that we have changed our outlook for the remaining three years.
- Two-year operating income in the Digital Contents business was 1.2 billion yen below the plan. Earnings shortfalls in Mobile Contents and PC Others were the main causes. But we have not revised our outlook for the entire five-year period.

2. Reasons for the mid-term target revision

Amusement Equipments – Down 10 billion yen


2. Operating income target progress

■ Amusement Equipments cumulative operating income

(100 million yen)

	14/3		15/3		Total			16/3
	Original forecast	Results	Original forecast	Results	Original forecast	Results	Difference	Forecast
Amusement Equipments	43	71	50	27	93	98	5	30

- **FY3/14 was far above the initial plan due to the success of the “Monster Hunter Gekka Raimei” pachislo machine**
- **FY3/15 forecast was lowered as the revised pachislo testing method reduced the number of models**
- **For FY3/16 to FY3/18, expect operating income of ¥3bn. to ¥4bn. each year**



- As you know, there was a change in the method used for testing new models by the Security Communications Association in September 2014. As a result, we had to make revisions to models in the pipeline and this has forced us to change our development schedule.
- In the March 2014 fiscal year, operating income in this segment was 7.1 billion yen compared with our plan of 4.3 billion yen. The success of the “Monster Hunter Gekka Raimei” pachislo machine was the main reason. But in the past fiscal year, segment earnings were 2.7 billion yen compared with our plan of 5 billion yen. We launched only one new machine instead of the originally planned three models because of the new testing method.
- For the two-year period that ended in March 2015, this segment had operating income of 9.8 billion yen, which was about in line with our plan of 9.3 billion yen.
- During the last three years of the mid-term plan, we had planned on launching four new models. But the testing rule revision will force us to lower this number. As a result, we foresee annual operating income of 3 billion to 4 billion yen in the next three years. Due to this outlook, we have lowered our five-year operating income goal for Amusement Equipments from 30 billion yen to 20 billion yen.

2. Reasons for the mid-term target revision

Digital Contents – No change

2. Operating income target progress								
■ Digital Contents cumulative operating income								
(100 million yen)								
	14/3		15/3		Total			16/3
	Original forecast	Results	Original forecast	Results	Original forecast	Results	Difference	Forecast
Digital Contents	91	45	68	102	159	147	-12	110

- FY3/14 operating income was high in the Consumer sub-segment but fell sharply in Mobile Contents and PC Others
- FY3/15 operating income benefited from higher Consumer profitability and solid earnings in each sub-segment
- Actual vs. target operating income for FY3/14-FY3/15
 - ① Consumer +¥4.9 billion
 - ② Mobile Contents -¥3.6 billion
 - ③ PC Others -¥2.5 billion

CAPCOM


- Operating income in the Digital Contents business was 1.2 billion yen below our plan during the past two fiscal years. But we have not changed the target because we believe we can offset this shortfall during the next three fiscal years.
- In the fiscal year that ended in March 2014, operating income was 4.5 billion yen compared with our plan of 9.1 billion yen. Mobile Contents and PC Others earnings were far below the plan.
 - a. In the Consumer sub-segment, there were strong sales of “Monster Hunter 4” and strong digital download sales.
 - b. In Mobile Contents, sales of new app titles were weak.
 - c. In PC Others, performance was hurt by intense competition from titles of other companies and by delays in implementing brand strategies.

- In the fiscal year that ended in March 2015, operating income was 10.2 billion yen compared with our plan of 6.8 billion yen. Earnings were higher than planned in all three categories.
 - a. In the Consumer sub-segment, there was progress with improving outsourced titles and increasing the efficiency of internally produced titles.
 - b. In Mobile Contents, a reexamination of the profit structure produced a big improvement in profitability.
 - c. In PC Others, there were strong sales of “Monster Hunter Frontier G.”
- For these two fiscal years, total operating income in this segment was 14.7 billion yen, which was 1.2 billion yen below the initial plan of 15.9 billion yen.
- The 1.2 billion yen shortfall was the result of the following differences in relation to the initial plan.
 - a. Consumer +4.9 billion yen
 - b. Mobile Contents -3.6 billion yen
 - c. PC Others -2.5 billion yen
- As you can see, the Consumer sub-segment performed well and there were challenges in the other two businesses. We have not changed our five-year goal of 57 billion yen because we believe we can overcome the two-year shortfall by expanding our lineup of titles.

3. Operating margin

3. Change of operating margin			
■ Business segment change of operating margin			
	14/3	15/3	18/3
	Results	Results	Target
Digital Contents	6.8	22.5	22.0
Arcade Operations	15.2	10.2	15.0
Amusement Equipments	30.8	36.3	27.0
Other Businesses	38.6	30.9	45.0
Total	10.1	16.5	20.0

(%)



- There is no change in our operating margin target of 20% in the fiscal year ending in March 2018. Structural reforms that we implemented during the past two years are starting to improve our profitability. Although this target is high, we believe that it can be accomplished.
- For the past two fiscal years, we reached this target in the Digital Contents business with an operating margin of 22.5% because of a big improvement in the profitability.
- There were several improvements in the Consumer sub-segment: (a) an improvement involving outsourced titles, (b) more efficient internal development of titles, and (c) a higher percentage of sales from digital downloads.
- If Digital Contents and Amusement Equipments increase as a percentage of total sales as expected during the remaining three fiscal years, we believe that an operating margin of 20% is well within our reach.

4. Goals

- As I explained, we lowered our mid-term goal for Amusement Equipments earnings by 10 billion yen based on current sales of pachislo machines. But the actual decline in earnings may be smaller.
- Of course, we do not know how well a new model will sell until after its launch. Therefore, we plan to raise the accuracy of our mid-term plan after seeing how successful the two pachislo machines we will introduce this year are.
- In the Digital Contents business, there were significant benefits in past fiscal year from our measures to build a streamlined operating framework. The operating margin in the three categories of this business improved to between 15% and 25%.

4. Upcoming Actions

■ The Major Capcom pipeline (FY3/14 to FY3/18)

	2014/3	2015/3	After 2016/3	
Consumer	<div style="border: 1px solid red; padding: 2px; display: inline-block;">Monster Hunter 4</div> <div style="border: 1px solid red; padding: 2px; display: inline-block;">Dead Rising 3</div> <div style="border: 1px solid blue; padding: 2px; display: inline-block;">Resident Evil Revelations</div>	<div style="border: 1px solid blue; padding: 2px; display: inline-block;">Monster Hunter 4 Ultimate</div> <div style="border: 1px solid blue; padding: 2px; display: inline-block;">Resident Evil Revelations 2</div> <div style="border: 1px solid blue; padding: 2px; display: inline-block;">Resident Evil (HD Remastered)</div>	<div style="border: 1px solid black; padding: 2px; display: inline-block;">The title related to Monster Hunter</div> <div style="border: 1px solid red; padding: 2px; display: inline-block;">Street Fighter V</div>	<div style="border: 1px solid black; padding: 2px; display: inline-block;">Resident Evil series</div> <div style="border: 1px solid black; padding: 2px; display: inline-block;">Monster Hunter series</div> <div style="border: 1px solid black; padding: 2px; display: inline-block;">Dead Rising series</div> <div style="border: 1px solid black; padding: 2px; display: inline-block;">Devil May Cry series</div> <div style="border: 1px solid black; padding: 2px; display: inline-block;">Street Fighter series</div> <div style="border: 1px solid black; padding: 2px; display: inline-block;">Other series</div>
Online (PC Others)	<div style="border: 1px solid green; padding: 2px; display: inline-block;">Monster Hunter Frontier G</div>		<div style="border: 1px solid green; padding: 2px; display: inline-block;">Dragon's Dogma Online</div> → <div style="border: 1px solid green; padding: 2px; display: inline-block;">Monster Hunter Online</div> → <small>*Operated by Tencent Holdings Limited</small>	

CAPCOM

Sales growth is our most important goal. We will take many actions to accomplish this.

- a. In the Consumer sub-segment, we will use Capcom's intellectual property to enlarge our lineup of titles for next-generation platforms. We also plan to continue increasing full-game and add-on digital download sales.
- b. In Mobile Contents, we will use the distribution of "Monster Hunter Explorer" as the starting point for expanding our title lineup.
- c. In PC Others, we will launch "Dragon's Dogma Online," which we expect to be our next core title after "Monster Hunter Frontier G."
- d. We will expand licensing operations in Asia and increase earnings in China and other Asian countries.

By enlarging our lineup in each business segment and region, we are determined to reach the revised mid-term target.

This concludes my presentation. We will be pleased to provide more information during the question and answer period.