

**Consolidated financial results for the 3 months
of the fiscal year ending March 31, 2020 (Japan GAAP - Unaudited)**

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Company name: CAPCOM Co., Ltd.

Stock listing: Tokyo

Code number: 9697

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Filing date for financial report : August 1, 2019

Dividend payment date: —

Quarterly earnings supplementary explanatory materials : Yes

Quarterly earnings presentation : Yes (For institutional investors)

Note: Numbers are rounded down to the nearest 1 million yen.

1. Results for 3 months ended June 30, 2019 (From April 1, 2019 to June 30, 2019)

(1) Financial results

Note: Percentage represents change from the same period of the previous fiscal year.

	Net sales		Operating income		Ordinary income		Net income attributable to owners of the parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
3 months ended June 30, 2019	17,938	4.3	7,703	50.8	7,699	40.2	5,420	38.9
3 months ended June 30, 2018	17,204	46.5	5,106	550.8	5,492	610.6	3,903	648.6

Note: Comprehensive income: 1st quarter ended June 30, 2019: 4,817 million yen (12.4%) 1st quarter ended June 30, 2018: 4,288 million yen (362.0%)

	Earnings per share of common stock	Diluted earnings per share of common stock
	Yen	Yen
3 months ended June 30, 2019	50.78	—
3 months ended June 30, 2018	35.65	—

(2) Financial position

	Total assets	Net assets	Shareholders' equity ratio
	Millions of yen	Millions of yen	%
1st quarter ended June 30, 2019	117,996	91,432	77.5
Fiscal year ended March 31, 2019	123,407	88,749	71.9

Reference: Shareholders' equity: 1st quarter ended June 30, 2019: 91,432 million yen Year ended March 31, 2019: 88,749 million yen

2. Dividends

Record date	Dividend per share				
	1st quarter- end	2nd quarter- end	3rd quarter- end	Year-end	Annual
	yen	yen	yen	yen	yen
Year ended March 31, 2019	—	15.00	—	20.00	35.00
Year ending March 31, 2020	—				
Year ending March 31, 2020 (Forecast)		15.00	—	20.00	35.00

Note: Changes in dividends forecast during the 3 months ended June 30, 2019 : No

3. Earnings forecast for the fiscal year ending March 31, 2020 (From April 1, 2019 to March 31, 2020)

Note: Percentage represents change from the same period of the previous fiscal year.

	Net sales		Operating income		Ordinary income		Net income attributable to owners of the parent		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Year ending March 31, 2020	85,000	-15.0	20,000	10.2	19,500	7.2	14,000	11.5	131.15

Note: Changes in earnings forecast during the 3 months ended June 30, 2019 : No

Notes

(1) Changes in significant consolidated subsidiaries during the period: No

(2) Application of simplified methods in accounting principle for quarterly consolidated financial statements: Yes

Note: Please refer to “2. Summary of consolidated financial statements (4) Notes to consolidated financial statements

(Application of special accounting treatment for preparation of quarterly financial statements)” on page 9 for more detail

(3) Changes in accounting principles, accounting estimates and retrospective restatement for consolidated financial statements:

① Changes resulting from amendment of the accounting standard: Yes

② Changes other than ①: No

③ Changes in accounting estimates: No

④ Retrospective restatement: No

(4) Number of shares outstanding (Common stock):

① Number of shares outstanding (including treasury stock)

1st quarter ended June 30, 2019:	135,446,488	Year ended March 31, 2019:	135,446,488
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② Number of treasury stock

1st quarter ended June 30, 2019:	28,695,280	Year ended March 31, 2019:	28,695,180
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③ Average number of shares outstanding

1st quarter ended June 30, 2019:	106,751,253	1st quarter ended June 30, 2018:	109,489,012
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(Explanation about the appropriate usage of business prospects and other special notes)

- The above-mentioned business forecasts were based on the information available as of the date of the release of this report.
- Future events may cause the actual results to be significantly different from the forecasts.
- Please refer to “1. Operating results overview (3) Qualitative information regarding the consolidated business forecasts” on page 3 for more details.

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1. Operating results overview

(1) Operating results for the period under review

During the three months ended June 30, 2019, with the tangible roll-out of the 5G era on the horizon, the industry saw a wave of structural changes coming in anticipation of new business opportunities. For example, IT giant Google unveiled its plan to enter the cloud gaming business (a market in which dedicated gaming consoles are unnecessary), while Microsoft also announced similar services.

In such an environment, the Company focused on improving our development structure, which is the source of our competitiveness, by concentrating management resources on the development of home video games in order to meet diverse customer needs both in Japan and abroad. At the same time, the Company endeavored to expand sales by focusing on marketing and promotion activities that are consistent with market trends, in addition to promoting its multi-platform strategy to provide games for a range of different hardware. The Company also advanced the selection and concentration of management resources through restructuring unprofitable businesses, such as scaling down the Arcade Games Sales sub-segment, as well as allocating funds and human resources to the eSports business, which has future growth potential. In such a situation, profit improved due to the continued popularity of major catalog titles overseas and the growth of highly profitable digital download sales.

As a result, for the three months ended June 30, 2019, consolidated net sales were 17,938 million yen (up 4.3% from the same term in the previous fiscal year). In terms of profitability, due to an increase in the percentage of highly profitable digital sales, operating income was 7,703 million yen (up 50.8% from the same term in the previous fiscal year), ordinary income was 7,699 million yen (up 40.2% from the same term in the previous fiscal year), and net income attributable to the owners of the parent was 5,420 million yen (up 38.9% from the same term in the previous fiscal year).

Status of business by operating segment

① Digital Contents business

In this business, as the first quarter corresponded with a transition period between major titles in the overall release cycle, new game launches were limited to a select number of rerelease titles. However, driven by an expanded user base, sales continued to grow for *Resident Evil 2* (for PlayStation 4, Xbox One and PC) and *Devil May Cry 5* (for Xbox One, PlayStation 4, and PC), both of which are hit titles from the previous quarter. Flagship title *Monster Hunter: World* (for PlayStation 4, Xbox One and PC) has also continued to sell well over an extended period, supported by enduring popularity. These catalog titles boosted profit significantly by driving high-margin digital download sales.

The resulting net sales were 13,977 million yen (up 1.4% from the same term in the previous fiscal year) and operating income was 7,733 million yen (up 34.8% from the same term in the previous fiscal year) primarily due to contributions from catalog titles.

② Arcade Operations business

In this business, the Company worked to secure a wide range of customers, including core users, repeat customers, and families through elaborately planned, community-based promotion activities, such as holding various events and conducting service day campaigns, under the banner of “the No. 1 arcade in the community.”

As there were no new openings or closures of stores during the period under review, the total number of stores remained unchanged from the end of the previous fiscal year at 37.

The resulting net sales were 2,710 million yen (up 13.8% from the same term in the previous fiscal year) and operating income was 299 million yen (up 108.2% from the same term in the previous fiscal year).

③ Amusement Equipments business

In an environment of slow recovery in the gaming machine market, the Company did not launch any new model from its Pachinko and Pachislo sub-segment, focusing on its out-licensing business during the current quarter.

The resulting net sales were 225 million yen (down 40.1% from the same term in the previous fiscal year), however the Company did secure a slight return to profit, with operating income of 133 million yen (an operating loss of 154 million yen for the same term in the previous fiscal year).

④ Other Businesses

The net sales from Other Businesses, mainly consisting of royalty income from the licensing and sale of character merchandise, were 1,025 million yen (up 54.4 % from the same term in the previous fiscal year) and operating income was 640 million yen (up 55.6 % from the same term in the previous fiscal year).

(2) Overview of the consolidated financial position for the period under review

Total assets as of the end of the first quarter decreased by 5,411 million yen from the end of the previous fiscal year to 117,996 million yen. The primary increase was 3,410 million yen in work in progress for game software. The primary decrease was 9,688 million yen in notes and accounts receivable - trade.

Total liabilities as of the end of the first quarter decreased by 8,093 million yen from the end of the previous fiscal year to 26,564 million yen. The primary decreases were as follows: 2,469 million yen in notes and accounts payable - trade, 2,188 in accrued income taxes and 1,207 million yen in accrued bonuses.

Net assets as of the end of the first quarter increased by 2,682 million yen from the end of the previous fiscal year to 91,432 million yen. The primary increase was 5,420 million yen in net income attributable to owners of the parent. The primary decrease was 2,135 million yen in dividends from retained earnings.

(3) Qualitative information regarding the consolidated business forecasts

The forecast for the consolidated business results for the current fiscal year ending March 31, 2020 remains the same as what was projected at the financial results announcement on May 7, 2019.

2. Summary of consolidated financial statements

(1) Consolidated balance sheets

(Millions of yen)

	Previous fiscal year (March 31, 2019)	Current fiscal year (June 30, 2019)
Assets		
Current assets		
Cash on hand and in banks	53,004	56,025
Notes and accounts receivable - trade	13,970	4,282
Merchandise and finished goods	1,182	1,030
Work in progress	734	962
Raw materials and supplies	538	472
Work in progress for game software	16,926	20,337
Other	4,518	2,748
Allowance for doubtful accounts	(58)	(59)
Total current assets	90,817	85,798
Fixed assets		
Tangible fixed assets, net of accumulated depreciation		
Buildings and structures, net	10,845	10,673
Other, net	9,513	10,066
Total tangible fixed assets	20,359	20,739
Intangible assets	432	395
Investments and other assets		
Other	11,830	11,094
Allowance for doubtful accounts	(32)	(32)
Total investments and other assets	11,798	11,061
Total fixed assets	32,590	32,197
Total assets	123,407	117,996

(Millions of yen)

	Previous fiscal year (March 31, 2019)	Current fiscal year (June 30, 2019)
Liabilities		
Current liabilities		
Notes and accounts payable - trade	3,988	1,519
Electronically recorded monetary liabilities	1,153	789
Current portion of long-term borrowings	1,579	1,579
Accrued income taxes	4,251	2,063
Accrued bonuses	3,089	1,882
Other	9,149	7,044
Total current liabilities	23,212	14,878
Long-term liabilities		
Long-term borrowings	6,735	6,585
Liabilities for retirement benefits for employees	3,004	3,058
Other	1,705	2,041
Total long-term liabilities	11,445	11,685
Total liabilities	34,658	26,564
Net assets		
Shareholders' equity		
Common stock	33,239	33,239
Capital surplus	21,328	21,328
Retained earnings	62,595	65,881
Treasury stock	(27,456)	(27,456)
Total shareholders' equity	89,708	92,993
Accumulated other comprehensive income		
Net unrealized gain or loss on securities, net of tax	26	(15)
Cumulative translation adjustments	(713)	(1,281)
Accumulated adjustments for retirement benefits	(271)	(264)
Total accumulated other comprehensive income	(958)	(1,561)
Total net assets	88,749	91,432
Total liabilities and net assets	123,407	117,996

(2) Consolidated statements of income and comprehensive income
Consolidated statements of income

	(Millions of yen)	
	Previous 3 months April 1, 2018 to June 30, 2018	Current 3 months April 1, 2019 to June 30, 2019
Net sales	17,204	17,938
Cost of sales	8,558	6,409
Gross profit	8,646	11,528
Selling, general and administrative expenses	3,539	3,825
Operating income	5,106	7,703
Non-operating income		
Interest income	25	61
Dividend income	8	8
Exchange gain, net	371	—
Other	28	73
Total non-operating income	433	143
Non-operating expenses		
Interest expense	20	18
Commission fees	17	17
Exchange loss, net	—	97
Other	8	14
Total non-operating expenses	46	147
Ordinary income	5,492	7,699
Special losses		
Loss on sales and /or disposal of fixed assets	13	0
Total special losses	13	0
Net income before income taxes	5,479	7,699
Income taxes - current	667	1,707
Income taxes - deferred	907	571
Total income taxes	1,575	2,279
Net income	3,903	5,420
Net income attributable to owners of the parent	3,903	5,420

Consolidated statements of comprehensive income

(Millions of yen)

	Previous 3 months April 1, 2018 to June 30, 2018	Current 3 months April 1, 2019 to June 30, 2019
Net income	3,903	5,420
Other comprehensive income		
Net unrealized gain or loss on securities, net of tax	(53)	(42)
Cumulative translation adjustments	431	(568)
Adjustments for retirement benefits	6	7
Total other comprehensive income	384	(602)
Comprehensive income	4,288	4,817
Comprehensive income attributable to:		
Owners of the parent	4,288	4,817
Non-controlling interests	—	—

(3) Consolidated statements of cash flows

(Millions of yen)

	Previous 3 months April 1, 2018 to June 30, 2018	Current 3 months April 1, 2019 to June 30, 2019
Cash flows from operating activities		
Net income before income taxes	5,479	7,699
Depreciation and amortization	854	602
Change in allowance for doubtful accounts	(25)	2
Change in accrued bonuses	(1,063)	(1,202)
Interest and dividend income	(33)	(70)
Interest expense	20	18
Exchange loss (gain), net	(108)	77
Loss on sales and/or disposal of fixed assets	13	0
Change in notes and accounts receivable - trade	7,303	9,602
Change in inventories	(416)	(15)
Change in work in progress for game software	(4,073)	(3,412)
Change in notes and accounts payable - trade	763	(2,805)
Other	(3,493)	(147)
Subtotal	5,221	10,349
Interest and dividends received	34	70
Interest paid	(9)	(8)
Income taxes paid	(3,569)	(3,467)
Net cash provided by operating activities	1,676	6,943
Cash flows from investing activities		
Payments for acquisitions of tangible fixed assets	(655)	(856)
Payments for acquisitions of intangible fixed assets	(4)	(12)
Other	(0)	32
Net cash used in investing activities	(661)	(835)
Cash flows from financing activities		
Repayments of long-term borrowings	(160)	(150)
Payments for repurchase of treasury stock	(0)	(0)
Dividends paid by parent company	(1,916)	(2,135)
Other	(104)	(114)
Net cash used in financing activities	(2,182)	(2,400)
Effect of exchange rate changes on cash and cash equivalents	305	(686)
Net change in cash and cash equivalents	(862)	3,020
Cash and cash equivalents at beginning of year	46,539	53,004
Cash and cash equivalents at end of quarter	45,676	56,025

(4) Notes to consolidated financial statements

(Going concern assumptions) Not applicable

(Material changes in shareholders' equity) Not applicable

(Application of special accounting treatment for preparation of quarterly financial statements)

(Calculation of income taxes)

Income taxes for subsidiaries are calculated by multiplying the net income before income taxes by the forecasted effective tax rate, which is computed by matching the forecasted yearly income taxes with the forecasted yearly income before taxes.

(Change of accounting standard)

Effective from the first month of the current fiscal year, Certain Subsidiaries of the CAPCOM Group adopting the International Financial Reporting Standards (“IFRS”) have adopted IFRS16 “Leases”.

Accordingly, a lessee in all leases recognized right-of-use assets and lease liabilities, and presents depreciation expenses of the right-of-use assets and interest expenses of the lease liabilities in principle.

In adopting IFRS 16 “Leases”, the transition method is followed. Regarding the leases that were categorized as operating leases in the past, right-of-use assets and lease liabilities have been recognized from the beginning of the current fiscal year. Due to the application, CAPCOM has recognized right-of-use assets (Other of Fixed assets) of 309 million yen and lease liabilities (Other of Current and Long-term liabilities) of 299 million yen on the Consolidated balance sheets for the first quarter ended June 30, 2019. The impact of this change on profit or loss for the three months ended June 30, 2019 is immaterial.

(Segment information)

I Previous 3 months (From April 1, 2018 to June 30, 2018)

Information on net sales and operating income (loss)

(Millions of yen)

	Reportable segment				Other (Note 1)	Total	Adjustment (Note 2)	Consolidated total (Note 3)
	Digital Content	Arcade Operations	Amusement Equipments	Total				
Net sales								
(1) Customers	13,782	2,381	376	16,539	664	17,204	—	17,204
(2) Inter-segment	—	—	—	—	—	—	—	—
Total	13,782	2,381	376	16,539	664	17,204	—	17,204
Segment income	5,735	143	(154)	5,724	411	6,135	(1,029)	5,106

(Note) 1. “Other” incorporates operations not included in reportable segments, including the character content business etc.

2. The adjustment for segment income (-1,029 million yen) include unallocated corporate operating expenses (-1,029 million yen).

The corporate operating expenses, which do not belong to any reportable segments, mainly consist of administrative expenses.

3. Segment income is adjusted on operating income of the consolidated statements of income.

II Current 3 months (From April 1, 2019 to June 30, 2019)

Information on net sales and operating income (loss)

(Millions of yen)

	Reportable segment				Other (Note 1)	Total	Adjustment (Note 2)	Consolidated total (Note 3)
	Digital Content	Arcade Operations	Amusement Equipments	Total				
Net sales								
(1) Customers	13,977	2,710	225	16,912	1,025	17,938	—	17,938
(2) Inter-segment	—	—	—	—	—	—	—	—
Total	13,977	2,710	225	16,912	1,025	17,938	—	17,938
Segment income	7,733	299	133	8,166	640	8,806	(1,103)	7,703

(Note) 1. “Other” incorporates operations not included in reportable segments, including the character content business etc.

2. The adjustment for segment income (-1,103 million yen) include unallocated corporate operating expenses (-1,103 million yen).

The corporate operating expenses, which do not belong to any reportable segments, mainly consist of administrative expenses.

3. Segment income is adjusted on operating income of the consolidated statements of income.