

Market Analysis

Market Trends

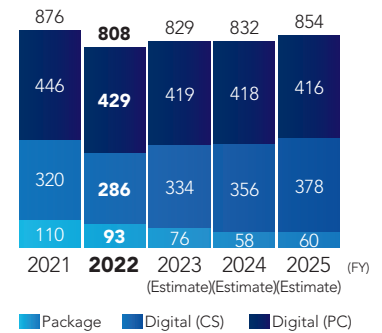


Consumer Market (Package + Digital)

The consumer market (package + digital *including PC) in 2022 declined year on year to 80.8 billion dollars following the end of stay-at-home policies during the COVID-19 pandemic.

In 2023, buoyed by the worldwide digital shift, the consumer market is expected to increase to 82.9 billion dollars amid growth of digital sales, including the PC platform, offsetting weaker package sales. In the medium term, we see the game market expanding in the developing regions of Southeast Asia, South America, and Eastern Europe and new game delivery methods such as streaming and subscriptions growing. As such, we expect the market to grow to 86.7 billion dollars by 2027. We also expect continued growth in the mobile market.

Consumer Market (billion U.S. dollars)



Source: International Development Group

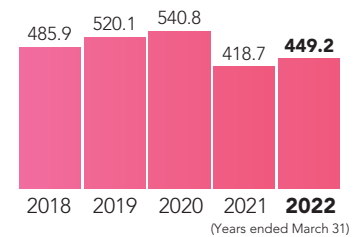


Arcade Operations Market

The domestic arcade facilities market showed signs of a recovery from the downturn caused by the COVID-19 pandemic during the previous fiscal year (ended March 31, 2022) rising to 449.2 billion yen (up 7.3% from the previous year). The total number of facilities were 10,061 (up 0.6% from the previous year), and annual sales per store were 44.65 million yen (up 6.6% from the previous year.)

In the fiscal year under review (ended March 31, 2023) the market recovered from depths of the COVID-19 pandemic as vaccination rates increased and restrictions were eased. The outlook for the next fiscal year (ending March 31, 2024) foresees the market recovery to advance amid Japan downgrading COVID-19 to a Class 5 infectious disease under the Act on the Prevention of Infectious Diseases and changes taking place in consumer behavior and mindsets.

Arcade Operations Market (billion yen)



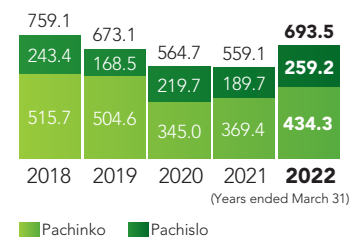
Source: JAMMA "Survey on the Amusement Industry"



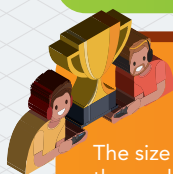
Gaming Machines Markets

In the previous fiscal year (ended March 31, 2022), the gaming machine market experienced a turnaround, increasing to 69.35 billion yen. This was attributed to replacement demand for new regulation-compliant machines, whose certification had been extended during the COVID-19 pandemic to January 31, 2022. Despite this replacement demand running its course, the market showed signs of a positive turnaround the fiscal year under review (ended March 2023) due to the introduction of Smart Pachislo, a new pachislo machine that digitizes medals so that they are no longer required during game play. As for the outlook for the next fiscal year (ending March 2024), Smart Pachislo is expected to stimulate new demand.

Gaming Machines Markets (billion yen)



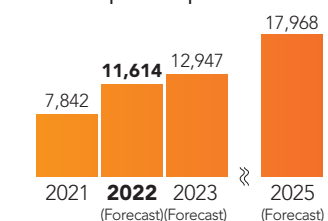
* Source: Manufacturer sales base compiled by Capcom using Pachinko Maker Trends (2021, 2022); Yano Research Institute Ltd.



Esports Market

The size of Japan's esports market in 2021 was 7,842 million yen (up 15.5% year on year), as the market continued to grow steadily despite a slower rate of growth due to the impacts of the COVID-19 pandemic. The market grew to 11,614 million yen (up 48.1%) in 2022, thanks to the resumption of major competitions in Japan and overseas, and it is expected to reach 17,968 million yen by 2025.

Size of Japan's esports market (millions of yen)



* Source: Japan esports Union (JeSU) "Japan esports White Paper 2022"

Major opportunities and risks (● Opportunity ◆ Risk)

- Creation of highly competitive products using new technology
- More channels for product distribution with the appearance of new platforms
- Expanded number of sales regions using digital distribution
- Achievement of extended product life cycles through digital sales
- Reduction of the used market due to penetration of digital sales
- ◆ Development delays
- ◆ Dependence on popular series and scarcity of hit titles
- ◆ Platform adoption trends
- ◆ Changes in user purchasing trends with the next generation of platforms
- ◆ Risks due to a country's politics, culture, or religion
- ◆ In-game purchases becoming a social issue
- ◆ Information leakage

Addressing major opportunities and risks

- Focusing on improving quality and efficiency while reducing development costs by building our own development engine and enhancing our development team
- New customer acquisition through a steady release of new major titles, creating new IPs, and the Single Content Multiple Usage strategy
- Diversifying profit risk through multi-platform development and strengthening PC platform development to hedge against dedicated console trends
- Lengthening product life of games with increased digital sales rates and increasing unit sales through pricing strategies
- Developing sales approaches to meet local needs and localization by an in-house team of experts
- Monetizing without incentivizing in-game purchases
- Establishing the Information Technology Security Oversight Committee, receiving instruction and advice, and implementing various preventative security measures

- Acquisition of new customers through multifaceted roll-out of stores including themed venues, merchandise specialty stores, VR experiences, etc.
- Increased awareness with new business formats and new technologies
- ◆ Popularity of machines
- ◆ Changes to the market environment due to the diversification of leisure activities and declining birthrate

- Acquisition of new fan demographic and increased awareness through multifaceted business developments, such as themed amusement venues, cafes, merchandise, and virtual reality (VR).
- Attracting customers using our home video game content and other assets

- Expanded sales volume by responding to regulations appropriately
- Development of machines using popular IPs created for home video games
- ◆ Non-compliance with model testing of pachislo machines

- Building a system to perceive regulatory trends that allows us to quickly respond to changes in regulations through membership in industry associations

- Expanded fan base from non-game players watching events
- Creation of new profit opportunities such as licensing rights to hold events and stream video
- Promotion of online tournaments that leverage game characteristics
- ◆ Reduced number of events due to COVID-19 pandemic
- ◆ Decreased enthusiasm for competition due to rampant cheating
- ◆ Competing with new titles from other companies

- Spread of online competitions
- Flexible adjustment of competition rules
- Continuous supply of new content with title updates

Business activity achievements

Business Overview

Operating Results for This Fiscal Year

Digital Contents



This business develops and sells digital game content for consumer home video game and PC platforms. It also develops and manages Mobile Contents. It has generated consistent revenue from our original content created in consumer games by selling this content in over 200 countries and regions through digital distribution.
 ➔ For details see p.79

Consumer (Package + Digital)

- ◆ New titles *Monster Hunter Rise: Sunbreak* and *Resident Evil 4* were hits
- ◆ Major catalog title hits *Monster Hunter Rise*, *Resident Evil 2*, *Resident Evil 3*, and *Devil May Cry 5* performed well

Mobile Contents

- ◆ Focused on existing titles

Arcade Operations



We operate amusement facilities, primarily Plaza Capcom arcades, in Japan. These arcades are predominantly in large commercial complexes. We have diligently followed a scrap-and-build policy to maximize our efficiency in arcade operations, and have been hosting various events designed to attract families and younger customers.
 ➔ For details see p.81

- ◆ We are focusing on steadily opening and operating stores while working to minimize the impact of COVID-19.
- ◆ Sales and profits were higher mainly thanks to the recovery in customer traffic at stores as the impacts of the COVID-19 pandemic eased. Same-store sales were up 120% year on year.
- ◆ We opened Capcom Store & Cafe Umeda, combining a retail shop and themed café, in Osaka.
- ◆ We opened five new stores and closed two stores.

Amusement Equipments



This business utilizes the content from our home video games. We focus primarily on the development, manufacture and sales of software, frames and LCD devices for gaming machines.
 ➔ For details see p.82

- ◆ Sold a total of 44,000 units of four models
- ◆ Posted higher sales and profits mainly thanks to increased unit sales

Other Businesses

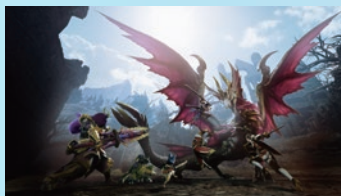
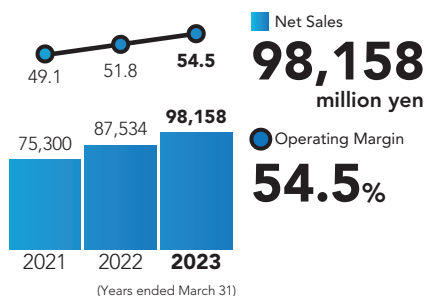


Based on our Single Content Multiple Usage strategy of leveraging game IP across different media, we pursue a variety of copyright-related business opportunities. In addition to adapting game content into movies, animated television programs, music CDs, character merchandise and other products as part of our licensing business, we are also devoting resources to our esports business. ➔ For details see p.83

- ◆ We diversified earnings by using IPs like *Monster Hunter* and *Resident Evil* in events and merchandise.
- ◆ In licensing, we strengthened the link between visual media and merchandising with new game releases.
- ◆ We worked to make movies based on our IP via our production subsidiary, Capcom Pictures Inc.
- ◆ In eSports, in light of COVID-19, we endeavored to grow the fan and player base via online tournaments.

Main Products for This Fiscal Year

Net Sales/Operating Margins



Monster Hunter Rise: Sunbreak

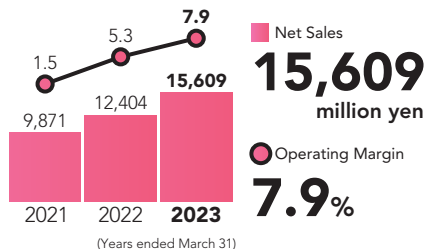
Monster Hunter Rise: Sunbreak is a massive premium expansion for the March 2021 release, Monster Hunter Rise. In addition to strong praise for its new locales, monsters, and never-before-experienced hunting actions, along with ongoing free updates, our strategic approach to pricing resulted in a steady increase in sales, with 5.45 million units sold worldwide.



Resident Evil 4

Resident Evil 4 is a remake of the original 2005 title. In addition to reworking the story and creating a fresh gameplay experience, the game's highly immersive visuals powered by the cutting-edge graphics technology of Capcom's proprietary RE ENGINE have been a hit, with worldwide sales reaching 3.75 million copies.

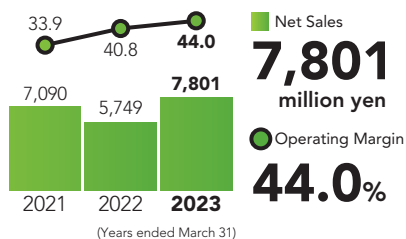
Net Sales/Operating Margins



Capcom Store & Cafe Umeda

We opened the Capcom Store & Cafe Umeda in Osaka's Umeda area featuring a retail store along with a café serving up limited edition menu items and selling themed merchandise, allowing customers to immerse themselves in the worlds of their favorite games.

Net Sales/Operating Margins

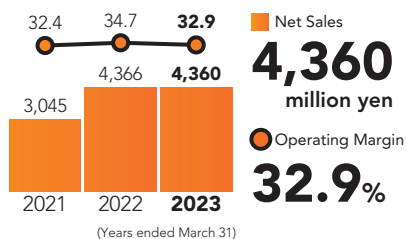


Pachislo

Resident Evil 2

We introduced pachislo machines based on Resident Evil 2 in October 2022, a home video game that has sold 11.9 million copies to date, and subsequently sold 15,000 of the machines.

Net Sales/Operating Margins



Courtesy of Netflix

Resident Evil television series

Resident Evil, one of our most iconic brands, was made into a television series, streaming on Netflix since July 2022.