



Kenzo
Tsujimoto

Chairman and
Chief Executive Officer (CEO)

CEO Commitment

To Create the World's Most Entertaining Games Targeting Stable Growth through Management Systematization and Content Branding

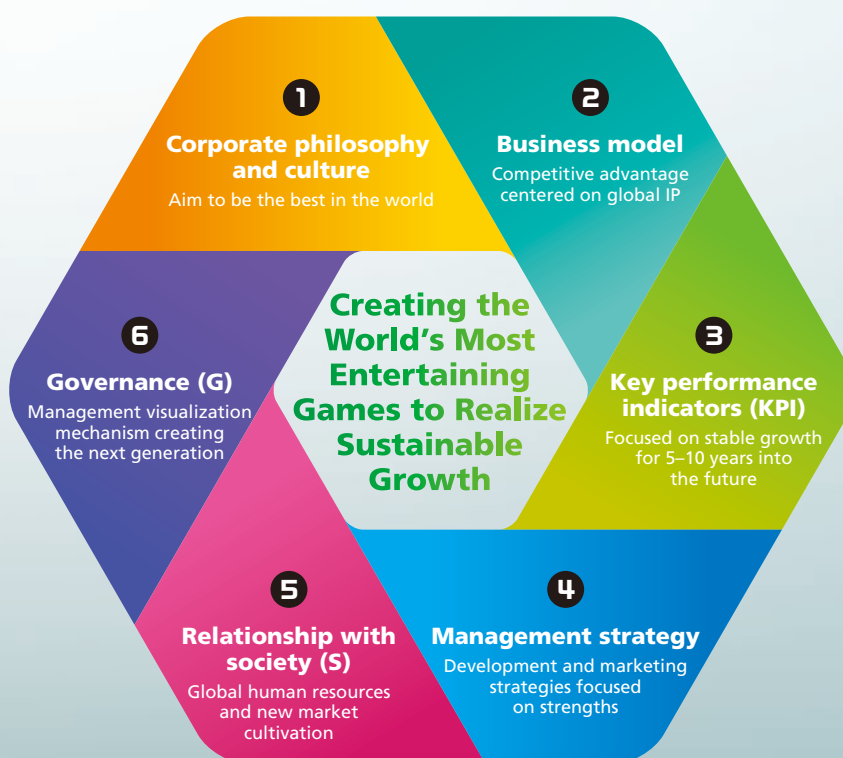
Six Elements Required for the Sustainable Enhancement of Corporate Value

It has been 35 years since I founded Capcom. However, I have no interest in past successes. Even now that we have once again achieved record earnings, we are always focused on the world in 5, 10 or 50 years from now, wondering what we should be aiming for and what kind of mechanism can we create that will lead to sustainable growth.

I believe this will require the linking of six elements: ❶ a corporate philosophy and culture that fosters the ambitions and values set out at our founding,

❷ a business model that is a competitive advantage, ❸ important management indicators that function as quantitative guideposts, ❹ a management strategy focusing our strengths, ❺ a relationship with society and ❻ governance that reduces risks and enhances sustainability.

On the following pages, I will explain to our shareholders how we are favorably and uniquely positioned with respect to each of these six elements that facilitate the sustainable enhancement of corporate value.



1 Corporate Philosophy and Culture —Aim to be the Best in the World

“From Osaka to the World”: Our Motto, and The DNA to Continue Taking on Global Challenges

I jumped into the world of entertainment 50 years 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 the senses. In other words, we help build an emotionally rich society by creating entertainment culture with the world’s most entertaining games. ➔ [For details, please refer to “Corporate Philosophy” on page 02](#)

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.

35 years later, I have amassed more than 2,900 colleagues who share this vision. Under the slogan “From Osaka to the World,” these values have become our corporate culture and DNA, 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, including *Street Fighter*, *Resident Evil* and *Monster Hunter* because of the fertile soil of a corporate culture cultivated over many years.

2 Business Model —Competitive Advantage Centered on Global IP

Business Development Leveraging Development and Technological Capabilities and Brand Advantages

Capcom’s strengths are (1) the development and technological capabilities to create world-class, high-quality games and (2) numerous popular branded IP known the world over.

In addition, for the past six years, we have hired over 100 new employees every year, increasing our development staff to over 2,100 people 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). Against this backdrop, in the consumer market, technological standards and development costs rise with each hardware cycle,

resulting in a situation where only branded popular titles continue to sell over the long term, creating a situation where consumer spend and time is more concentrated. ➔ [For details, please refer to “An Analysis of the Market and Capcom” on page 73](#)

Furthermore, in 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 IP amplifies the effect of our multiple usage strategy. Also, marketing activities utilizing Hollywood movies further enhances the global competitiveness (brand power) of our IP, and maximizes synergistic effects. ➔ [For details, please refer to “The COO’s Discussion of Growth Strategies” on page 29](#)

3 Key Performance Indicators (KPI) —Focused on Stable Growth for 5–10 Years into the Future

Creating a Framework Using Systematization and Establishing a Leaner Structure by Improving Performance Indicators

1. Analysis of Management Performance in the Fiscal Year Ended March 2018 (Summary)

In the fiscal year under review (ended March 2018), we achieved the fifth consecutive year of operating income growth, and all profit items from operating income downward reached record highs. What I want to point out here is that (1) we successfully positioned *Monster Hunter: World* as a global brand, (2) catalog sales (past titles, including rereleases and HD versions) also grew, increasing the density of our earnings platform and (3) digital unit sales rose to 53%. All three of these items are part of our growth strategy and demonstrate our successful executions of these initiatives up to now.

➔ For details, please refer to "Financial Review" on page 79

2. Medium-Term Management Goal Assumptions and Indicators (KPI)

(1) Management Direction—Thinking About What to Target in the Next Five Years

I am always thinking about what our management targets should be in the next five years. In this way, I am even able to quickly notice small changes two years from now. And, at present, our management policies are to (1) create exciting, world-class content (IP), (2) maximize earnings by leveraging our rich library of IP across multiple platforms and media and (3) maintain these activities to become a company of continuous, sustainable growth.

(2) Management Goals—Stable Growth Every Year

We have established operating income growth each fiscal year as the goal for achieving the above. 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. This will enable institutional investors managing pensions and individual investors on fixed incomes to maintain long-term holdings with confidence. As we are emphasizing annual growth, we have not announced a specific rate of increase, but we are considering a profit growth rate between 5%–10%.

(3) Key Performance Indicators (KPI) and Shareholder Value Creation Achievements

In terms of management, I place importance on operating

income (growth indicator) as the basis of corporate earning power, operating margins (efficiency indicator), which are the basis of profitability, and cash flows.

The game industry is prone to drastic change; in terms of engaging in management that is always focused five years ahead, we use the above fundamental indicators, as well as a matrix that compares figures to net sales, year-over-year and to our forecast, to check for anomalies and quickly identify and address problems.

This has led to a 204% increase in operating income and a 9.3-points improvement in operating margins over the past 10 years, placing Capcom at the top compared to other companies in our industry.

Operating Income / Operating Margin Rate of Improvement (Compared to the Fiscal Year Ended March 2010)

	Operating income	Operating margins
CAPCOM	+204%	+9.3 points
KONAMI HOLDINGS	+167%	+12.9 points
SQUARE ENIX HOLDINGS	+6%	-3.6 points
SEGA SAMMY HOLDINGS	-43%	-4.2 points
BANDAI NAMCO HOLDINGS	+3,085%	+8.7 points

Note: Comparison of the fiscal year ended March 2010 and the forecast for the fiscal year ending March 2019.

Source: Financial reports and earnings materials.

Further, if we improve these performance indicators, ROE and other related indicators also increase, creating shareholder value. Specifically, in line with improved margins, ROE has improved for five years straight. And, in the fiscal year ending March 2019, the equity spread (ROE – cost of capital) is expected to be 8.46%, adding to corporate value and exceeding the average for companies listed on the Tokyo Stock Exchange (3.28%) as well as those in the same industry.

ROE / Equity Spread

	ROE	Equity Spread
CAPCOM	14.05%	+8.46%
KONAMI HOLDINGS	12.61%	+6.35%
SQUARE ENIX HOLDINGS	10.90%	+5.97%
SEGA SAMMY HOLDINGS	3.90%	-2.34%
BANDAI NAMCO HOLDINGS	11.12%	+5.91%
TSE Average	9.39%	+3.28%

Note: Forecast for the fiscal year ending March 2019

Source: Financial reports, Bloomberg

In addition, I think it is important to reward shareholders who trust our Company and hold Capcom shares over the medium-to-long term, and I have strived to deliver sustainable earnings growth and returns to shareholders. **As a result, over the past five years capital gains and dividends, which constitute total shareholders return (TSR), are 27.85%, beating TOPIX (12.91%) and propelling Capcom to the top position compared to other companies in our industry.**

Going forward, we will create a framework for management systematization with the aim of creating a leaner corporate structure by improving basic performance indicators. ➔ [For details, please refer to “Financial Strategy According to the CFO” on page 39](#)

Total Shareholder Return (TSR)

Five-year period (annual rate)

CAPCOM	+27.85%
KONAMI HOLDINGS	+25.56%
SQUARE ENIX HOLDINGS	+39.17%
SEGA SAMMY HOLDINGS	-0.08%
BANDAI NAMCO HOLDINGS	+18.82%
TOPIX	+12.91%

Note: Five-year period from fiscal years ended March 2014 to March 2018
Source: Bloomberg

4 Management Strategy —Development and Marketing Strategies Focused on Strengths

Enhancing Brands and Expanding Customer Segments with Proprietary Development and Marketing Strategies

1. Investing in Human Resources and Development Equipment to Create World-Class Games

“Without pursuing advancement, we cannot create world-class games.” As a manager in the game industry for 50 years, I have always said, “World-class games are not just entertaining, they must also be technically advanced.” The evolution of hardware and rising quality of market entrants are proof of this. Accordingly, we must amass human resources that are highly skilled in areas such as programming and the visual arts. We are already engaged in this effort.

I focused on future game market expansion and technological advances, and for the past six years Capcom has hired over 100 new employees every year. Nearly all of them are “game natives” who have played games since they were very young and have witnessed the advances in games of the past 20 years. Moreover, they are overflowing with energy, and desire to use their skills to develop new markets, which is why they joined Capcom, whose DNA is rooted in a focus on global markets.

To make the most of the talents possessed by our gang of game natives, we are creating mechanisms for human resource development and aggressively investing in the world’s most advanced R&D centers and development equipment. ➔ [For details, please refer to “Investment in Human Capital” on page 51](#)

2. Marketing Strategy for Creating Global Brands

Another critical factor is our approach to marketing, focused on branding and increasing awareness of hit titles.

As it takes about three years to develop a game, we used to have issues with a progressive decline in recognition during development. I came up with the idea that the most effective method for ongoing media exposure of game titles was to expand globally using Hollywood movie adaptations. In 1994, we decided to invest 4 billion yen to make a *Street Fighter* Hollywood movie. At that time, some thought I had taken up movies merely as a hobby, but this investment generated a 15 billion yen return and successfully established *Street Fighter* as a global brand. Although games receive only about two weeks of media exposure before and after their release, factors that led to the success of this Hollywood movie include (1) the theatrical release, (2) Blu-Ray and DVD sales, (3) cable television broadcasts and (4) broadcasts at hotels and in airplanes. It has been rebroadcast numerous times over years and decades, which has led to maintaining and even increasing the recognition of this title.

A condition to taking this marketing approach is that the games are of world-class quality; Capcom has already succeeded in a similar way with the branding of *Resident Evil*. We will continue to utilize this branding approach with other Capcom IP.

3. Growth Strategy Aimed at Increasing the User Base of Each IP

As the founder of Capcom, I think it is important to create a structure for passing the business on to the next-generation. As with any structure, building the foundation is the most challenging part, but efforts launched five years ago are finally starting to take shape. To establish solid growth strategies and further enhance corporate value, there are two risks that are critical to address; first, I will talk about the stable growth mechanism (control of earnings volatility risks).

To mitigate earnings volatility risks over the medium-to-long term, measures enabling sustainable growth must include (1) transforming the foundation of our Consumer business model from a traditional one-time sale "transactional model" to a continuous "recurring revenue model" and (2) creating a business portfolio and diversifying earnings risks by thoroughly leveraging Capcom's basic strategy, Single Content Multiple Usage. [\[Diagram 1\]](#)

Historically, earnings in Capcom's core Consumer business fluctuated depending on whether or not we created hit titles. Although we achieved some success (controlled earnings volatility) through timing the releases of multiple hit titles in the past, it did not meet my objectives for stable growth.

However, since 2013, game consoles have been equipped with robust online functionality, enabling us to develop growth strategies around digital elements.

Specifically, new titles [\[Diagram 1-A\]](#) will work as growth

drivers as we (1) release approximately three major titles each year, (2) extend the sales life of these titles to 3–4 years with additional content and pricing strategies and (3) strengthen our presence overseas, which comprises approximately 85% of the total market.

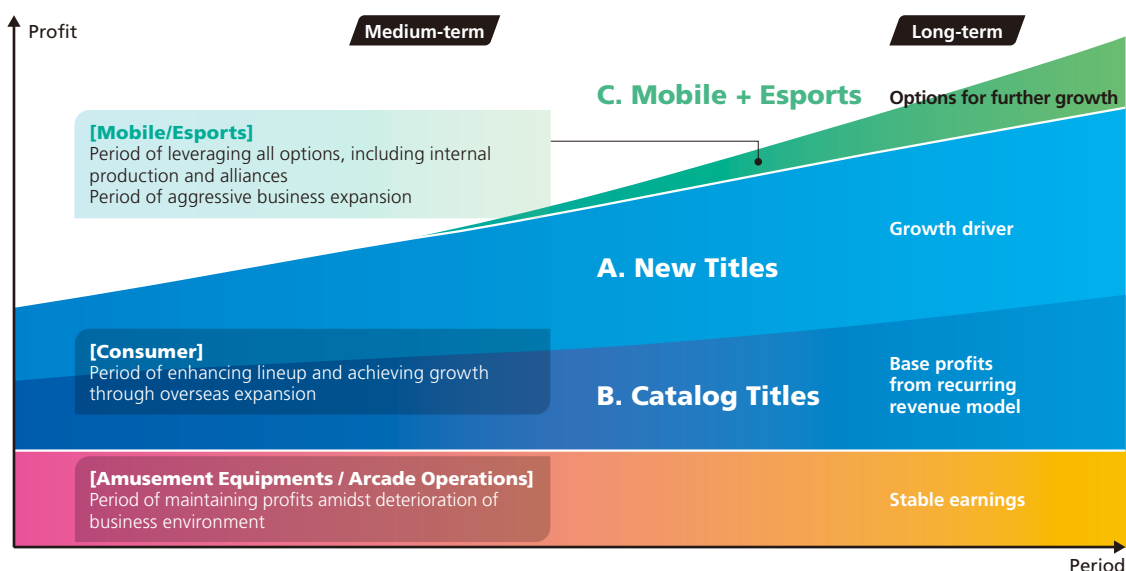
Next, in terms of catalog titles [\[Diagram 1-B\]](#), we will grow our user base and generate profits on a recurring revenue basis through (1) download sales of past titles and (2) rereleasing past hit titles for current-generation game consoles.

Furthermore, our Single Content Multiple Usage strategy has not yet been of a scale sufficient to offset volatility in Consumer games. In Mobile contents however, through the advance of G (generations of communication speed) and K (display resolution) technologies, we will build a business foundation as a second pillar for future growth by thoroughly leveraging our core strength of IP while pursuing in-house development, alliances, M&A and a variety of other possibilities.

In addition, with a focus on growth of the esports market five years from now, we will strengthen title branding and attempt to commercialize the esports business. [\[Diagram 1-C\]](#)

In the game industry, which is often called the "hit business," Capcom will establish a management structure and strategy able to achieve sustainable growth other companies have yet to achieve while enhancing corporate value.

Diagram 1
Medium- to Long-Term Growth



5 Relationship with Society (S) —Global Human Resources and New Market Cultivation

Developing Global Human Resources and Contributing to Society through Game Development

I believe that corporate value is enhanced by resolving social issues through business activities. This includes the development of human resources able to play an active role on the world stage, the creation of new markets using cutting-edge technologies and the building of healthy relationships with stakeholders from the unique perspective of a game maker while generating social and economic benefits.

1. Building a Healthy Relationship Between Games and Society

Traditionally, games have provided joy and stress relief; in recent years however, following an increase in mobile games, new issues such as minors spending large amounts of money on in-game purchases, real money trading (RMT) and game addiction are beginning to appear. In recognition that this is a substantial problem for the industry overall, companies are working together primarily through industrial organizations to (1) establish guidelines and educate, (2) share information on issues and examples among member companies and (3) regularly exchange information with guardians, educators, consumer organizations and governments.

➔ For details, please refer to “Relationship with Customers” on page 55

In addition, Capcom conducts game literacy and career education to spread awareness of the proper way to interact with games as part of its educational support activities. These efforts are aimed at supporting the healthy development of young people and easing the concerns society has about the influence of video games.

➔ For details, please refer to “On-Site Classes” on page 56

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 improved public safety 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 “Regional Revitalization Activities” on page 57

At the same time, these four activities deliver value to Capcom in the form of (1) improving existing customer satisfaction through event participation and (2) enhancing the image of games among the middle-

aged and seniors. With respect to (2) in particular, this segment cannot be considered current customers, thus by contributing popular content to local communities, we are able to cultivate new game players through apps and games on their personal smartphones and devices.

3. Commitment to Employees

As can be seen from the fact that personnel expenses (costs) account for approximately 80% of development expenses, the game industry is a labor-intensive industry and an extraordinarily knowledge-intensive industry, thus human resources are an especially 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. One example of our results from this is the creation of a hit title in a new genre thanks to a development team led primarily by women. We also conduct various development programs, because human resource development is directly linked to strengthening our R&D capabilities. In addition, we not only bring together the world’s most advanced development facilities and technologies, but also ensure a robust working environment that includes facilities such as Capcom Juku, an on-site daycare center, all of which allows developers to concentrate on their work. Regarding remuneration, in addition to regular bonuses, Capcom has introduced a system offering incentives and assignment bonuses for each title in an attempt to further increase motivation.

Furthermore, rather than a mere daycare center, I want to make Capcom Juku a facility for learning that looks after children until they enter middle school. The children who buy games are the ones investing the most in Capcom. Thus, we must give something back to these children. Japan is trailing the United States and other nations in the fields of AI and IT, but we will rise to the challenge with human resources capable of competing globally. To this end, we will support children until they enter middle school and those who join Capcom will be developed into business people and game creators that can succeed on the world stage. I think this is the best we can give back to Capcom supporters. ➔ For details, please refer to “Relationship with Employees” on page 53

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 that creates business opportunities.

6 Governance (G) —Management Visualization Mechanism Creating the Next Generation

Designing Systems and Developing the Next Generation of Management to Reduce Management Decision Risks

As Capcom further accelerates its growth strategies, the risks become proportionally higher, but I believe that governance is effective at reducing and avoiding 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 Board of Directors, which includes external directors, and building an unique mechanism for highly transparent and rational decision making. [\[Diagram 2\]](#)

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

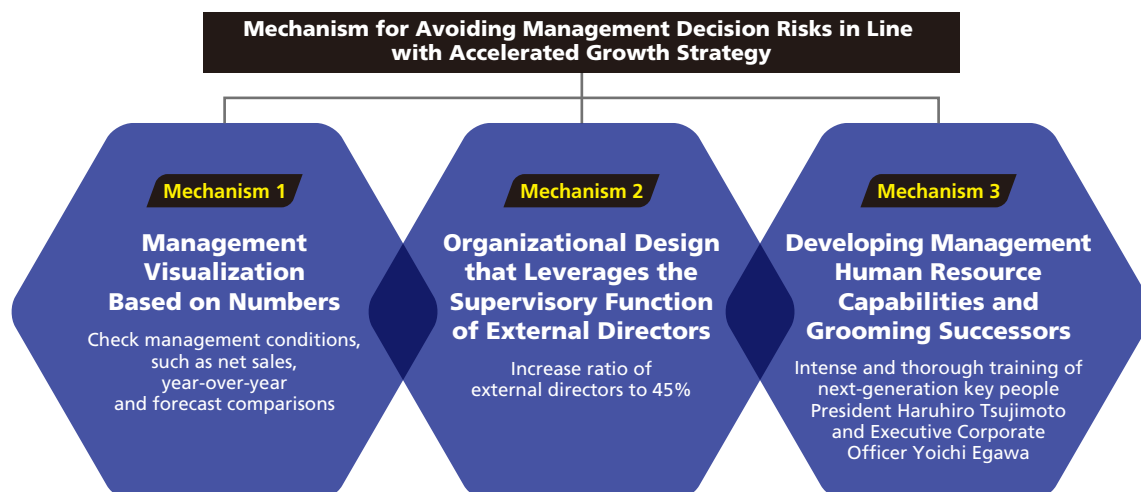
focused. Specifically, these materials compare and contrast net sales, year-on-year performance and earnings forecasts, which make it easier to identify problems by enabling us to confirm complex combinations of data.

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 attempting to achieve management transparency.

Even when I talk with developers, numbers are the common language. Using only qualitative words and sentences leaves significant room for arbitrariness on the part of the person in charge. In comparison,

Diagram 2

Governance Mechanism



numbers enable comparisons from a variety of angles, facilitating decisions based on real conditions.

The risk control efforts I am focused on now involve passing on the management know-how I have accumulated as founder to the next-generation of management through actual practice and ensuring the Company functions reliably in the future by systematizing management. Both of these efforts are beginning to bear fruit.

Mechanism 2 Organizational Design that Leverages the Supervisory Function of External Directors

For the past 19 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 45.5% of the Board of Directors. This stemmed from one particular investor's concern that "as a founder-run company, Capcom can quickly make management decisions and respond to changes in the business environment, but isn't there a risk of arbitrary decisions and execution?"

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, 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 crisis 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.

I have determined that we must further enhance our management foundation to execute thorough risk management and ensure the stability of Capcom operations.

In addition, we proactively demonstrate the results of these supervisory mechanisms and monitoring in dialogues with investors. This arose due to a question from an investor back in 2013, who asked "Capcom's Governance Report states that the Board of Directors engages in lively discussions, but is this really true?" We considered the fact that this effective mechanism was unrecognized to be a problem, so in the following year we began publishing Board of Director discussions in our Annual Report and holding small meetings between external directors and institutional investors, which led to deeper mutual understanding. ➡ For details, please refer to "Making Use of Shareholder and Investor Opinions" on page 68

Mechanism 3 Developing Management Human Resource Capabilities and Grooming Successors

Within corporate management, people's character and spirit are important management resources that have a substantial impact on corporate value. In the 2016 integrated report, I discussed my management philosophy and capabilities as founder. At present, one of the concerns among our investors is the thinness of our management team as a founder-run company; in other words, have we prepared a management structure (successor plan) for the next generation?

Key people for the next-generation are President Haruhiro Tsujimoto and Executive Corporate Officer Yoichi Egawa. Both have the qualities necessary for management.

For example, I have chosen my oldest son, President Tsujimoto, as my successor for two major reasons. The first is because he knows more about games than anyone else. He has assisted me since he was in middle school and Capcom was still a small company akin to a neighborhood business. As a result, he has accumulated over 40 years of experience in the industry with knowledge spanning the construction of game machines to software development.

The second reason is that he is prepared to stand his ground as a member of the founding family. Since he was a student, Haruhiro Tsujimoto has been willing and intended to take over the family business as the oldest son. He has looked after employees who joined Capcom as new graduates and their families for 50 years, and even when earnings were lackluster, he continued to create entertaining games for children, who invest the most in Capcom. Only a person who is willing to stand and fight can accomplish these things. I cannot allow Capcom to be run by someone with the tendency to give up as soon as his position becomes difficult.

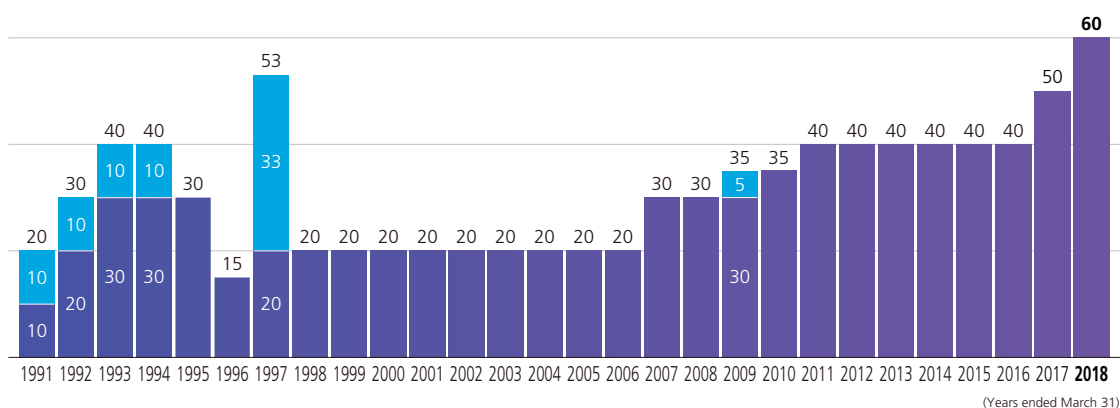
Of course, as a Company, governance is important. Assuming the organization functions properly, the creation of this mechanism is as explained above.

In last year's report, I discussed Yoichi Egawa's qualifications. In addition to my intense and thorough training of these two very different types of people, when combined with the corporate culture we have cultivated over many years and the aforementioned management visualization and systematization, I believe I have prepared a deep management team that our long-term investors will think are the type of people they can rely on as managers.

Diagram 3

Dividends per Share since Public Listing (yen)

■ Ordinary dividend ■ Commemorative or special dividend



Rewarding Long-Term Shareholders with 28 Consecutive Years of Returns Since Capcom's Listing and Record-High Dividends

1. Basic Policy Regarding Dividends

During my 35 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 through investment in growth, (2) continue paying dividends (30% payout ratio) while striving for stable dividends and (3) 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 28 years since we went public in 1990, and have doubled our dividend amount over the past ten years. [\[Diagram 3\]](#)

2. Dividends for This Fiscal Year and the Next

In the fiscal year ended March 31, 2018, the annual dividend reached an all-time high of 60 yen. In the next fiscal year (ending March 31, 2019), we plan to pay an annual dividend of 30 yen, which after our stock split, will substantively amount to another all-time high dividend similar to that in the year under review.

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 35 years to continue meeting the expectations of all Capcom shareholders.

Kenzo Tsujimoto
Chairman and
Chief Executive Officer (CEO)

Growth Strategy

Haruhiro
Tsujimoto

President and
Chief Operating Officer (COO)



Capcom's Medium- to Long-Term Vision

- Growth driven by the Consumer business
- Mobile and esports are options for further growth

→ Please refer to page 17

Changes in the Game Market

- Evolution of sales methods utilizing social media and other approaches in the consumer market
- Signs of revenue model diversification in the mobile market
- Increasing potential for full-scale growth in the esports market

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2 Mobile

Develop Measures for Medium and Long-Term Phases Aimed at Full-Scale Growth

- Medium-Term Measures** Promoting Alliances in Japan and Overseas
- Long-Term Measures** Preparation for Next-Generation Standards

→ P33

1 Consumer

Enhance Thorough Utilization of Core Consumer IP

- Measure 1** Steady Annual Launch of Core IP in Global Markets
- Measure 2** Bolster Digital Downloads (Full-Game and Additional Content)
- Measure 3** Game Business Digital Shift

→ P31

3 Esports

Establishing a Foundation and Promoting the Spread of Esports to Prepare for Future Monetization

- Measure** Initiatives Focused on Top Professionals and Expanding the Field of Amateurs

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Promoting Digital Strategies to Meet Diversifying User Needs

The game market this fiscal year was invigorated by favorable sales of game consoles from each hardware manufacturer, becoming a year in which we saw innovations including the rise of esports and new online game genres.

Currently, the aspects of the market I am focused on are (1) the further expansion of digital download sales in the consumer market, our core business, and the changing relationship between publishers and customers via the Internet; (2), ongoing changes in the mobile market toward the next stage, from a business model that is, as I pointed out last year, over-reliant on "gacha" lottery-style mechanics; and (3) increasing expectations for growth in the esports market as an opportunity for revenue as well as potential changes in the social value of games.

In the rapidly advancing game market, Capcom

will continue accelerating our Single Content Multiple Usage strategy, globally developing our rich library of IP, one of our strengths, for a variety of media while controlling performance volatility and realizing operating income growth every year by expanding our customer base.

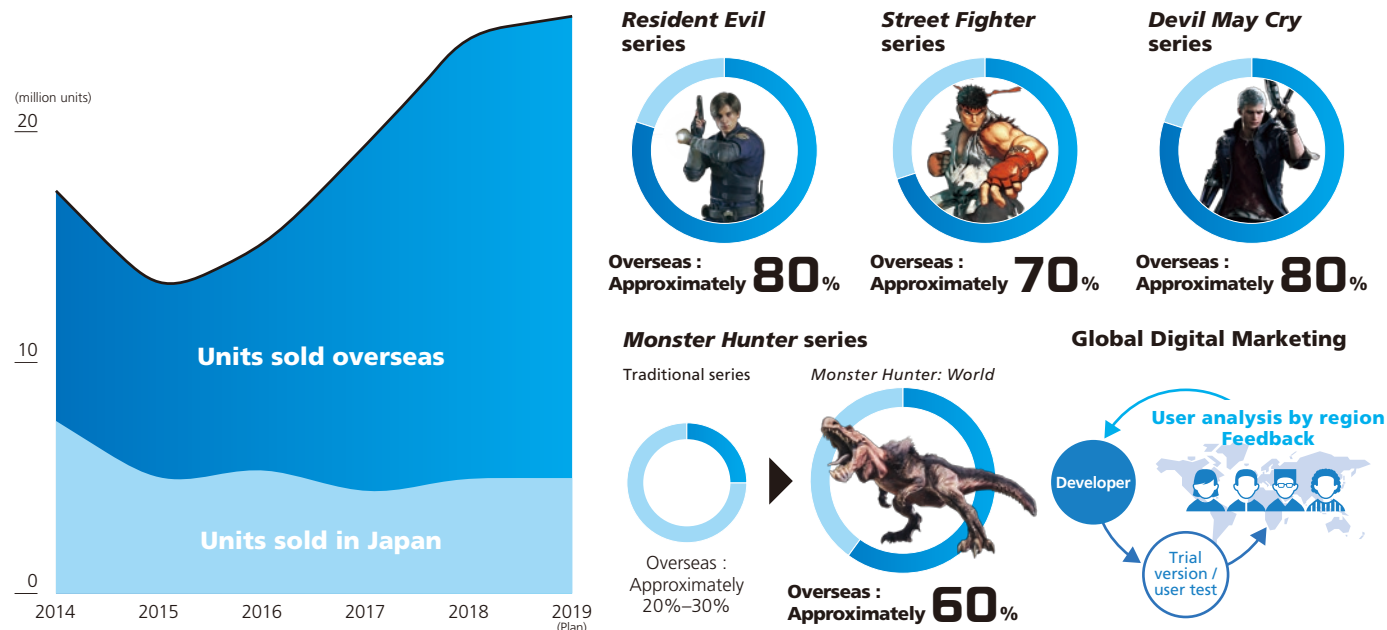
To this end, in the consumer market, we will expand our new title lineup and continue promoting sales of catalog titles while strengthening trend analysis and promoting targeted approaches to meet diversifying user needs. Further, as an option for growth over the medium-to-long term, we will implement initiatives aimed at creating hit titles in the mobile segment and expanding the adoption of esports.

On the next page, I will explain the specifics of Capcom's growth strategy.

The COO's Discussion of Growth Strategies

Diagram 4

Global Development Progress and Digital Marketing



Growth Strategy

1

Consumer

Enhance Thorough Utilization of Core Consumer IP

In Addition to Strengthening the Global Development of New and Past Titles, We Will Pursue Revenue and Profit Growth Using a Digital Approach to Sales

The consumer market is expected to grow to 35.6 billion dollars by 2022 (a 45.9% increase compared to the 2017), thus Capcom continues to position our Consumer business as our driver of growth. We have improved profitability and steadily advanced toward a recurring revenue model through ongoing initiatives that include the expansion of our new title lineup and sales promotions of catalog titles through strengthened digital downloads, achieving margins that were generally in the 30% range in the fiscal year ended March 2018. Maintaining this basic strategy, we will better respond to the needs of existing customers and increase satisfaction by utilizing networks to strengthen marketing activities, while pursuing increased brand value, including the acquisition of new customers, and promoting further profit growth and a higher level of earnings stability.

Measure 1 Steady Annual Launch of Core IP in Global Markets

Since structural reforms in the fiscal year ended March 2013, and the full-fledged use of our strategic map (60-month), we have formed a title portfolio focused on stable growth and established a mechanism for placing more than 2,000 developers on a 52-week

map at the required time on the required development team. As a result, we shortened the launch cycle for each series, enabling the launch of multiple major titles each fiscal year. ➔ Please see page 45

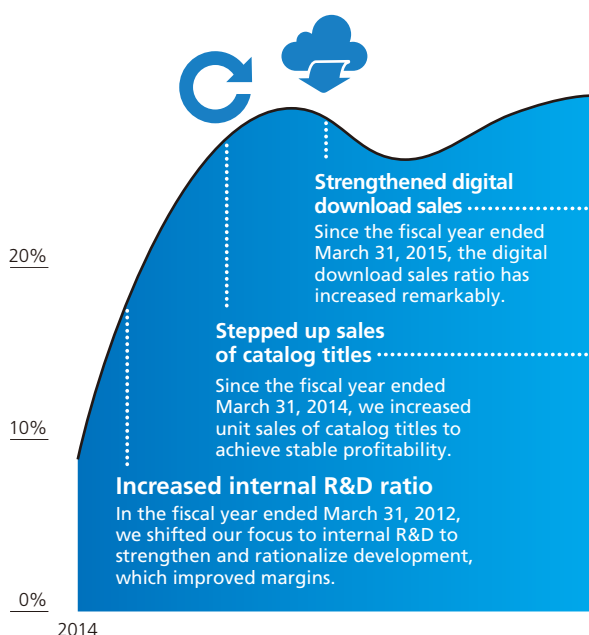
Based on this structure, I think there is substantial room for growth in the European and North American markets, which comprise 85% of the consumer market, and in addition to *Resident Evil* and *Street Fighter*, which are already popular in these markets, our strategic plan to make *Monster Hunter* a global brand with the release of *Monster Hunter: World* resulted in the sales of a record 7.9 million units in the fiscal year ended March 2018.

We will analyze the factors behind this success, developing and deploying this information as established know-how within the Company. At the same time, we will proactively recruit new graduates to increase our number of developers to 2,500 people by 2021, in order to increase the number of new major titles we release to global markets. [Diagram 4]

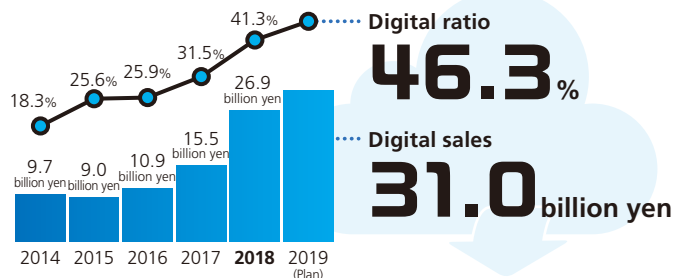
For the time being, we will place a priority on maximizing the revenue from current core IP, while also actively utilizing dormant IP. ➔ Please see page 47
As the creation of new IP is also indispensable for medium- to long-term growth, we will concurrently create new brands as well.

Diagram 5

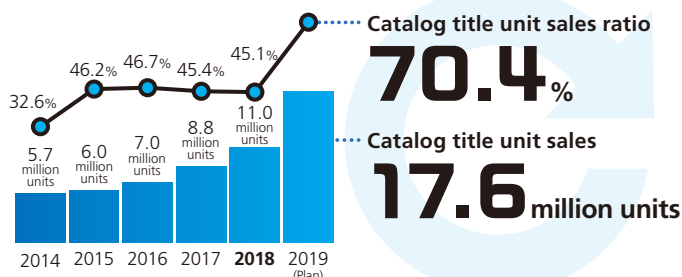
Consumer Business Operating Margin (%)



Digital Sales and Digital Ratio



Unit Sales and Ratio of Catalog Titles

**Measure 2 Bolster Digital Downloads
(Full-Game and Additional Content)**

The merits of digital downloads include (1) improved profitability due to package production cost reductions and avoidance of inventory risk (full-game downloads), (2) additional earnings opportunities through full-game downloads of catalog titles, which can be difficult to sell in packaged form at physical retail shops, and (3) anchoring players by providing content on an ongoing basis and acquiring additional revenue (additional content).

In addition to new and catalog core IP titles, Capcom has strengthened full-game downloads for rereleases on current generation game consoles, and digital sales are growing steadily. In particular, catalog titles and rereleases/remakes → Please see page 43 for current-generation game consoles have contributed to revenue over the long-term as we have promoted the transition to a recurring revenue model. We are close to achieving our medium-term objective of a 50% digital download sales ratio.

There is still a lot of room to expand our lineup, including with dormant IP, thus we will endeavor to expand earnings going forward. [Diagram 5]

Moreover, with regard to additional digital content, Capcom is focused on improving user satisfaction with free additional digital downloads to increase fans of the brand and achieve growth from the next title onward. We are developing paid additional digital downloads, such as costumes, weapons and other items, with the main objective of satisfying players in a way that is not directly related to game progress.

Measure 3 Game Business Digital Shift

For some time, I have thought the game business could be made more efficient by utilizing state-of-the-art internet technology. My sense is that our industry has not yet sufficiently introduced the digital marketing and online promotion measures commonplace in other industries.

In the past few years, we established the Global Marketing Group and engaged in improvements resulting in *Monster Hunter: World* becoming the first title on which management, development and business came together to make full use of the internet to expand sales and realize improved quality. For example, the analysis of global user preferences gained through the distribution of an online demo version contributed to this record-breaking hit, and we are beginning to apply this method to titles that will be released from next fiscal year onward.

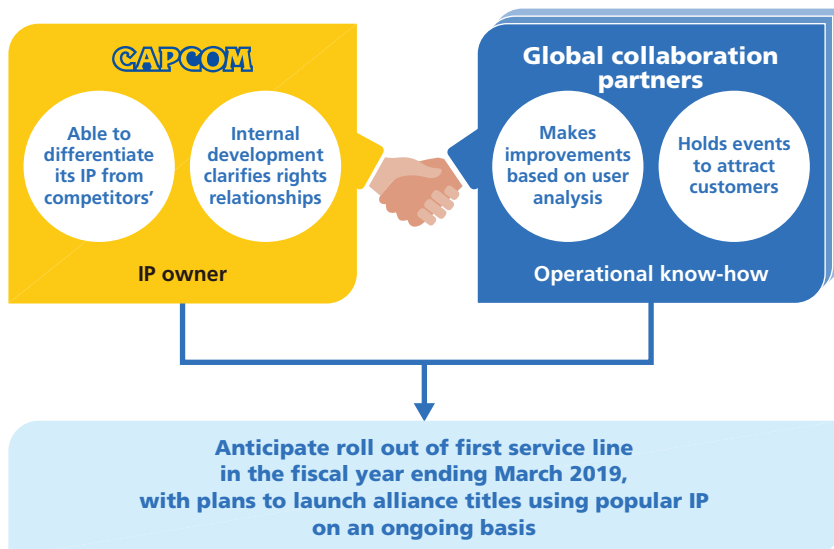
The critical factor is to extract and analyze data from the standpoint of user satisfaction being extremely important for luxury items like games. This importance will continue to increase going forward as digital natives familiar with the internet and social media since birth grow into core segment game users.

Amid the global expansion of markets, it is essential to develop detailed IP brand strategies. To comprehensively analyze user attributes, platform ownership status and price sensitivity for each IP, Capcom established a specialized department utilizing new analysis tools in April of the year. We will aim for global coordination by integrating the development, marketing and sales departments to further promote earnings and brand maximization.

Medium-Term Measures

Diagram 6

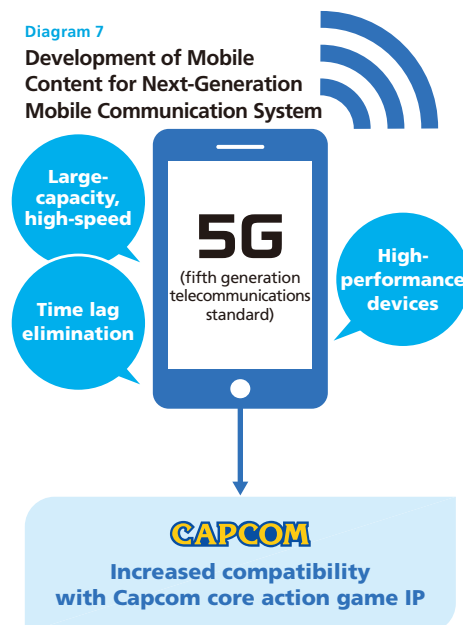
Mobile Content Collaboration Projects in Japan and Overseas



Long-Term Measures

Diagram 7

Development of Mobile Content for Next-Generation Mobile Communication System



Growth Strategy 2

Mobile

Develop Measures for Medium and Long-Term Phases Aimed at Full-Scale Growth

Promoting Collaborations and Support for the Next Generation Aimed at Transforming Non-Growth Areas

Despite achieving consolidated earnings with record high profit, in the mobile domain we continue to lag behind other companies in our industry. At the same time, there is a sense that the "gacha" business model that swept the market has reached its peak, and because the appetite for leading IP continues to increase, our analysis is that there is still significant room for potential growth due to Capcom possessing a large number of core action game IP. We will promote measures focused on both the medium and long term in an attempt to achieve growth in the mobile segment where the strong global growth rate is expected to continue.

Medium-Term Measures

Promoting Alliances in Japan and Overseas

To pursue every possibility for mobile growth, since last fiscal year Capcom has been making a full-fledged effort toward alliances utilizing our IP in conjunction with companies specializing in the mobile segment. We aim to enhance our operational know-how in the mobile business, an area in which we have lacked the requisites for success, to improve game content and better implement timely events within games. Up to this point,

we have been undertaking projects with multiple collaborators with track records of hits in Japan or overseas. Of these, at least two titles are planned for release in the fiscal year ending March 2019. [Diagram 6]

Creating hits in this way should provide the impetus for earnings growth from the fiscal year ending March 2020 onward.

Long-Term Measures

Preparation for Next-Generation Standards

In the mobile segment, the next-generation telecommunications standard, known as "5G," will become commercially available in 2020. With a leap forward in communications speeds said to be 100 times faster than 4G, there are expected to be dramatic advancements in services using IoT as well as in the richness of content in line with device advancements. In terms of games, this will lead to the elimination of communications time lags and the creation of high-performance devices that we think will expand possibilities for utilizing Capcom's action-orientated IP, distinctive for their high-quality graphics, on mobile devices. [Diagram 7]

At present, our development divisions are engaged in technological research and the acquisition of development know-how to ensure we are able to seize this coming opportunity for growth.

Diagram 8

About Esports

Esports stands for "electronic sports," which are video games played in competitions viewed as sporting events. Since the late 1990s, esports have been gaining popularity in the United States and Europe, and at present, various companies sponsor these competitions and there are numerous professional leagues and teams driving the worldwide popularity of esports mainly among younger segments.

Esports Market Growth

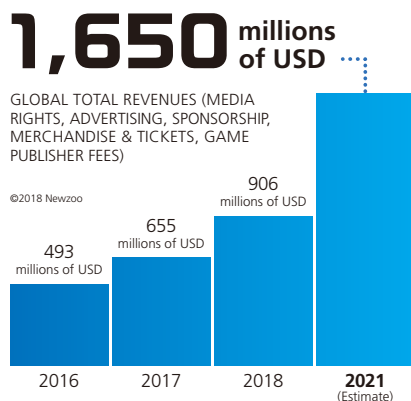


Diagram 9

Capcom Initiatives

For Professionals

Capcom Cup

Since 2013, our U.S. subsidiary, CAPCOM U.S.A., has held the Capcom Cup, an official global competition for the *Street Fighter* series.

Capcom Pro Tour Japan Premier

In September 2018, at the Tokyo Game Show 2018, we held the Capcom Pro Tour Japan Premier. Prize money totaling 10 million yen drew major attention to this event.

For Amateurs

Expanding the Focus on Esports

In February 2018, we established the Capcom Esports Club, an esports community space, in Tokyo to expand our focus on the amateur segment and support the creation of a player community.

Provision of Popular Games

Provision of the *Street Fighter* Series

This title was provided for use at EVO, the world's largest competitive fighting game tournament, and at RAGE, Japan's first full-year esports event, among other competitions.

Growth
Strategy
3

Esports

Establishing a Foundation and Promoting the Spread of Esports to Prepare for Future Monetization

Accelerating Initiatives in New Areas with the Establishment of Dedicated Departments and Increased Investment

At present, esports is the area of gaming attracting the most interest in society. By 2021, the esports market is expected to grow to \$1.65 billion, 1.8 times larger than its scale in 2018. Competitions with substantial prize money amounts and the success of pro gamers are drawing interest. [Diagram 8]

Amid these developments, in addition to being held as a demonstration event at the 2018 Asian Games, esports are also being considered for inclusion at the 2024 Paris Olympics, while in Japan the Japan Esports Union was created as a unified sports organization. I have made esports our new focus area, and by continuing to lay down a foundation for the future, we will work at the industry level to spread esports and establish it as a new form of entertainment that people can enjoy.

Measure Initiatives Focused on Top Professionals and Expanding the Field of Amateurs

In terms of esports initiatives, Capcom already has an established track record that includes the Capcom Pro Tour, an international competition utilizing *Street Fighter*. In the fiscal year ending March 2019, under

the leadership of a new dedicated department, we aim to strengthen investment and expand the scope of our activities, including hosting our first major competition in Japan to promote an environment conducive to the spread of esports domestically. Specifically, we will bolster activities targeting top players, such as increasing the number of competitions and size of prize money, and issuing professional licenses to top-ranked athletes and other professionals. We will also hold qualifying competitions for amateurs and provide an environment that includes spaces for playing esports. This is because we think the participation of a wide range of people, from children to adults, is important for the full-scale adoption of esports and its elevation to a level of popularity similar to that of baseball or soccer. Although we will incur expenses in the short term, the building of a foundation for this market over the next five to ten years will enable esports to blossom as a major business over the medium-to-long term. Further, we think that increasing awareness and understanding of esports throughout wider society through its inclusion as an Olympic event and growing the player population will lead to improving the status of the game industry and contribute to society. [Diagram 9]

Monster Hunter: World

After Capturing Fans in Both the Domestic and Overseas Markets, Shipment of 7.9 Million Units is Highest in Capcom History

Popular Series Grows into a Global Brand

The first *Monster Hunter* game, released in 2004, created a social phenomenon referred to as the “*Monster Hunter* craze,” firmly establishing it as a national pastime in Japan. However, the growth of its popularity overseas was an issue: in contrast to its domestic popularity, overseas sales were only one quarter those in Japan.

To address this, with the launch of *Monster Hunter: World* in January 2018, Capcom rolled out a variety of measures aimed at propelling *Monster Hunter* into a global brand.

Of these numerous measures, one involved the series’ first global simultaneous launch date. This facilitated the simultaneous dissemination of information throughout the world, attracting the attention of a greater number of consumers.

Additionally, *Monster Hunter: World* was developed for high-end consoles with globally large installation bases. As a result, we were able to satisfy game players who expressed their desire to play a more technologically advanced *Monster Hunter*, an

opinion we had received more than ever before, while at the same time build a foundation for the next generation of the brand.

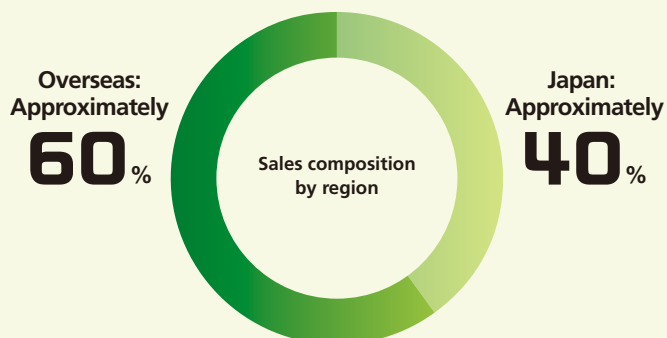
These efforts were successful, and without any loss of core series fans, we were able to overcome linguistic and cultural barriers to earn high praise from users around the world and achieve shipments of 7.9 million units, a Capcom company record. Further, we succeeded in capturing overseas users, with an overseas sales ratio of approximately 60%.

Furthermore, the PC version of *Monster Hunter: World* was released worldwide in August 2018, and in order to further cement its position as a global IP alongside *Resident Evil* and *Street Fighter*, we will continue working to further grow sales.

Main Factors Driving Success

1 Series’ First Global Simultaneous Launch Date

Monster Hunter: World was the first title in this series to have a global simultaneous launch date. It was also available in 12 different languages in an effort to cultivate users in new regions. Members of the development team also traveled the globe to aggressively promote the title, providing the latest information to the world and successfully maximizing awareness ahead of the launch date. As a result, five million units were sold in just the first three days, becoming the best launch of the series so far.



The overseas sales ratio increased compared to other *Monster Hunter* titles

2 Leveraging the Power of Home Consoles to Depict a Living, Breathing Ecosystem

Monster Hunter: World, the first title in the series developed for home consoles in nine years, maximized the capabilities of the hardware to bring an incredibly dense ecosystem of monsters to life. The successful creation of a deep world depicting turf wars between monsters in a realistic food chain and stunning, 4K- and HDR-compatible visuals led to an impressive Metascore of 90 points—the Metascore working as an indicator of consumer purchasing.



An incredibly dense and expansive world full of monster turf wars and other excitement



Title Introduction

Monster Hunter Series

Hunting Action Game in Which Players Face Off against Giant Monsters in Magnificent Natural Settings

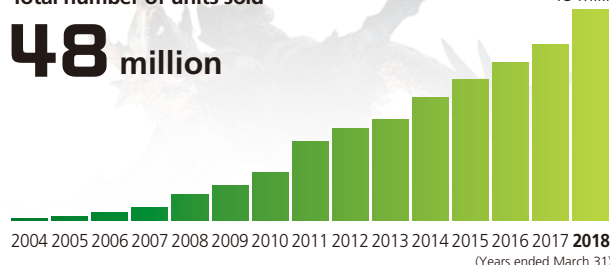
The *Monster Hunter* series is a hunting action game in which players face off against giant monsters in magnificent natural settings. Establishing a new communication style of online collaborative play in which friends cooperate to battle giant monsters, this title created a social phenomenon in Japan known as the "*Monster Hunter* craze." Since the first title in this series was launched in 2004, the number of fans has continued to increase over the past 14 years, growing into an extremely popular series with a cumulative 48 million units sold (as of March 31, 2018).



Total number of units sold

48 million

48 million



3 Optimized Game Content Based on User Feedback

Capcom uses social media and other sources to ascertain user preferences and trends in an attempt to improve game content. *Monster Hunter: World* game content was also improved by incorporating user feedback. For example, many users in the United States and Europe said that it was difficult to understand whether or not their attacks were having any effect during the game. After numerous careful discussions, we implemented a system for displaying damage to monsters not used in previous titles, among other advances that have proved popular with existing and new users.



In consideration of traditional fans, display can be turned off

4 Beta Testing before Launch

We conducted three beta tests before the launch of *Monster Hunter: World*. Typically, beta testing is conducted to test server loads, but in this case, it also had a promotional effect as users who played and enjoyed the game disseminated information about it independently to the gaming community. Additionally, being able to respond in earnest to defects discovered during beta testing enabled us to successfully engage with existing *Monster Hunter* fans while introducing newcomers to the brand.



Beta testing conducted three times starting in December 2017 and continuing on into January 2018

Street Fighter V

Rebounding from Adversity: Combination of Ongoing Updates and Esports Significantly Grows User Base

Creating Gameplay that Enables Everyone from Core Players to New Comers Alike to Play Together

Released in 1991, *Street Fighter II*'s innovative battle system made a splash, driving it to become a record hit title that established the fighting game genre. With the support of fans throughout the world, cumulative shipments in this series have surpassed 40 million units, cementing the brand's popularity.

However, despite *Street Fighter V* (released in February 2016) aggressively taking on several challenging initiatives to pursue new advances in the series, the game suffered server issues beginning on the launch date, preventing us from providing a smooth play environment.

Naturally, Capcom is prepared to address such problems, and in order to resolve these, as well as other aspects that users were dissatisfied with, we implemented various measures using the PDCA cycle. For example, we rebuilt the server environment from the ground up, and carried out continuous updates to augment the game's content. Further, while building on this concept, we

released a number of highly demanded new characters and costumes.

Additionally, *Street Fighter* commands a presence among fighting games in the esports arena, and is utilized in the Capcom Cup, the official global tournament held since 2013, as well as at EVO, the world's largest fighting game competition—events that work to draw in audiences who enjoy watching fighting games and convert them into new players. These multifaceted efforts led to restoring fan trust and recovery of the brand.

Going forward, we will continue to provide updates and implement flexible pricing to further expand the *Street Fighter* user base.

Also, while maintaining an eye toward the adoption of league competitions within esports, we will conduct initiatives unique to *Street Fighter* that entertain fans throughout the world.

The Path to Success

Issue

Server Troubles on Day One

Based on a development concept of "reboot," *Street Fighter V* was released in February 2016 following a rethought approach to game creation aimed at enabling a wide range of users to play the game. Although we took on new challenges with respect to both the software and the network environment, server issues affected areas such as fight matchups and loading times, which resulted in an inability to provide a smooth game play experience. Our first mission was to resolve these issues as quickly as possible.



77

Metascore

3.6

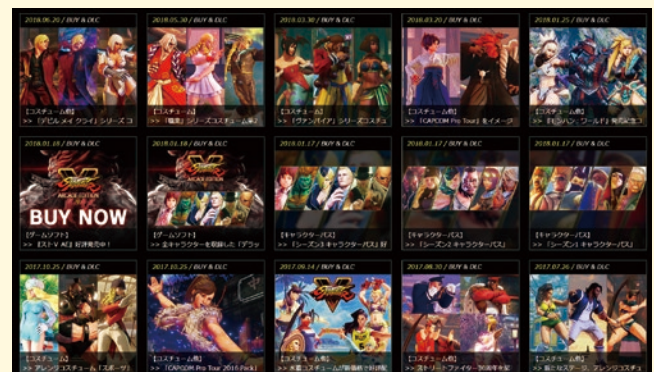
User Score

The Metascore was lower than the previous title due to troubles surrounding the launch

Measures

Continuous Improvements Incorporating Community Feedback

With *Street Fighter V*, to resolve server issues as well as other elements users were dissatisfied with, we repeatedly implemented a number of measures using the PDCA cycle. For example, we bolstered the game's content with the addition of highly demanded, new characters and costumes. We also rebuilt the server environment from the ground up, and although this required time to accomplish, through repeated and continuous updates we were able to provide a more complete product.



Various updates conducted over two and a half years improved the completeness of the title

Title Introduction

Street Fighter Series

The Gold Standard of Fighting Games that Continues to Be Loved Throughout the World

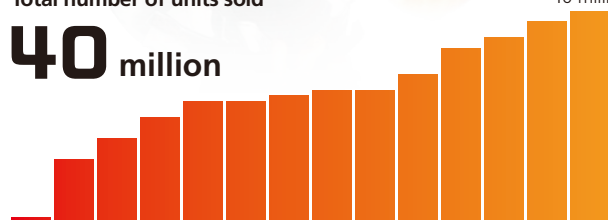
The *Street Fighter* series was launched in 1987 as an arcade game title, after which *Street Fighter II*, released in 1991, became a massive hit. The game's innovative fighting system became all the rage, establishing the fighting game genre, with the series going on to a cumulative 40 million units of software shipped worldwide (as of March 31, 2018). *Street Fighter* has gained popularity over the 30 years since its launch and continues to grow as a driving force in the esports fighting game segment.



Total number of units sold

40 million

40 million



1992 1994 1996 1998 2000 2002 2004 2006 2008 2010 2012 2014 2016 2018
(Years ended March 31)

Success

Popularity in Esports, Recovery of Trust and Brand

In addition to the aforementioned efforts, from 2013 support has blossomed for *Street Fighter* in overseas esports events, primarily in North America. Drawing in both players and fans who enjoy watching fighting games has created a synergistic effect with regard to game software sales. As a result, the Metascore of *Street Fighter V: Arcade Edition*, launched in January 2018, has risen significantly, restoring trust among fans and enabling brand recovery.



87

Metascore

7.1

User Score

Regaining fan trust and recovering the brand resulted in a substantially higher Metascore

Progress

Growing the User Base with Pricing Strategies and League Formation

Going forward, we will engage in ongoing updates and are considering a strategic lowering of software and add-on content pricing to further grow the user base. As price sensitivity is particularly high overseas, this will be an incentive for those who have been hesitant to make a purchase. Also, given the success of team league competitions in esports, we will promote the full-fledged formation of leagues outside the North America region to acquire more new players. We will leverage initiatives unique to *Street Fighter* to continue captivating fans throughout the world.



Launch of league competition RAGE STREET FIGHTER V All-Star League powered by CAPCOM

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Realizing Flexible Investment Responsive to Market Changes with a Stable Financial Base

Kenkichi Nomura

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



Having achieved record profits, are there any changes to the financial strategy?



We will maintain efforts to increase capital efficiency and improve net cash.

Capcom is executing a growth strategy aimed at enhancing corporate value over the medium-to-long term. We are conducting R&D investment amounting to approximately 30 billion yen each fiscal year, to enhance our development environment and strengthen the title lineup in our core Digital Contents business. We have been engaged in increasing capital efficiency and improving net cash to build a strong and flexible financial base to make this investment possible.

In the fiscal year ended March 31, 2018, investments based on this growth strategy led to record-breaking major title hits, resulting in all-time high profits that increased cash on hand. In our industry, which continues to rapidly advance, the rise of numerous new technologies and services is also increasing our investment options.

That being said, I will maintain the standards we have established for investment decisions and strive for selection and concentration while engaging in a thorough review of the cost of sales, selling, general and administrative expenses and other costs to achieve an even leaner financial foundation. Moreover, we will stably secure a financial base at a level commensurate with the scale of investment to enable flexible investment in projects with high strategic priority, such as the development of major titles contributing to enhanced IP value, and growth areas including esports.



How have you increased capital efficiency?



We are making progress with our growth strategy and steadily improving ROE.

We focus on ROE as an indicator of capital efficiency, which is steadily increasing with performance growth. Of the three components of ROE, we place emphasis

on (1) the net income margin, which has seen further improvement following the progress of our growth strategy. In addition, total assets and shareholders' equity have remained at an appropriate level, with (2) Total Asset Turnover (TAT) and (3) financial leverage generally maintaining their upward trends.

ROE components	3/2016	3/2017	3/2018	3/2019 (Plan)
(1) Net margin (%)	10.1	10.2	11.6	12.5
(2) TAT (%)	68.1	73.3	75.3	—
(3) Financial leverage (times)	1.50	1.53	1.47	—
ROE (%)	10.6	11.6	13.4	13.4

We forecast ROE of 13.4% in the next fiscal year. We will perform composite checks comparing ROE to net sales, to the forecast, as well as year-over-year in order to continue improving these three factors.



How will Capcom secure net cash and manage risks?



We will carefully manage ROI for each title and visualize working capital efficiency.

For Capcom to efficiently generate net cash, we formulated two financial strategies focused on generating cash flows through process management. The first is to thoroughly manage return on investment. Accordingly, we manage a database housing the ROI status of each title while ascertaining and analyzing investment profitability. The second strategy is to maximize working capital efficiency. To this end, we are creating a framework to manage our investment turnover period and turnover ratio in a more visible manner.

Moreover, net cash in the fiscal year under review was 36.7 billion yen, constituting a substantial increase. Further, "effective net cash," which was adjusted for accounts receivable and the balance of obligations at the end of the fiscal year accompanying the release of a major title in the second half of the fiscal year—

Investing for Our Growth Strategy

Financial Strategy Overview

Strategy ①

Improving Net Cash

Thoroughly track the Return on Investment (ROI) status for each title and streamline working capital

Strategy ②

Increasing Capital Efficiency

Stably Increase Return on Equity (ROE)

a unique feature of our industry—increased to 46.2 billion yen. Although the balance of work in progress for game software declined due to the release of major titles at the end of the fiscal year and revisions to the valuation of some balances, overall assets that contribute to future growth continued to steadily increase.



What is the status of internal reserves and fund procurement?



We have secured levels enabling us to respond to the increasing scale of game development and longer investment recovery periods.

Consumer game software development expenses have been on the rise since the current-generation of high performance, multifunctional game consoles arrived. In addition to requiring a development period of two or more years for a major title, greater penetration of digital download sales has enabled a longer lifecycle for games, resulting in a longer investment payback period. Furthermore, even online games require ongoing investments for regular post-release updates and network infrastructure maintenance, thus we are required to keep a certain amount of cash on hand.

Given these conditions, to simplify our ability to procure funds, and in consideration of reserves for the investment plan and risk management, we have set the level of cash and cash equivalents that must be

maintained to be approximately one to two years' worth of the amount we annually invest in development. This amount is supplemented with cash on hand (46,539 million yen) as well as an unused 26.7 billion yen commitment line of credit (total contract value: 26.7 billion yen) to maintain an appropriate range.



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

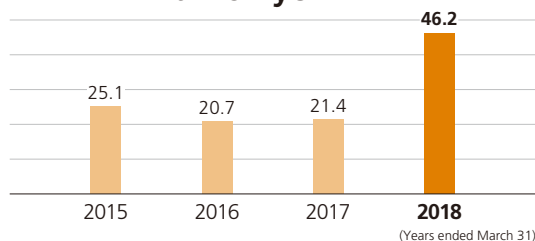


We invest 84% of management resources in the core Digital Contents business.

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. Accordingly, we will allocate 84% of management resources (R&D investment and capital expenditure totaling 34.5 billion yen in the fiscal year ending March 31, 2019), amounting to an investment of 29.0 billion yen, in the Digital Contents business. Moreover, we use the asset in-development turnover rate as an indicator measuring investment level adequacy. In the fiscal year under review, the asset in-development turnover rate was 3.7 times, an increase compared to 2.9 times in the previous fiscal year.

Effective Net Cash on a Historical Basis (Billions of yen)

46.2 billion yen



In-Development Asset Turnover Ratio* (times)

*Net sales / Work-in-progress for game software

3.7 times

