

Financial Results Briefing for the Year ended March 31, 2019 Summary of President and COO Haruhiro Tsujimoto's Presentation (May 10, 2019)

Good day to all of you, my name is Haruhiro Tsujimoto, president of Capcom.

Today I'd like to discuss our management objectives for the medium term and organization building for long-term growth, before moving on to our business strategies and plans for the fiscal year ending March 31, 2020.

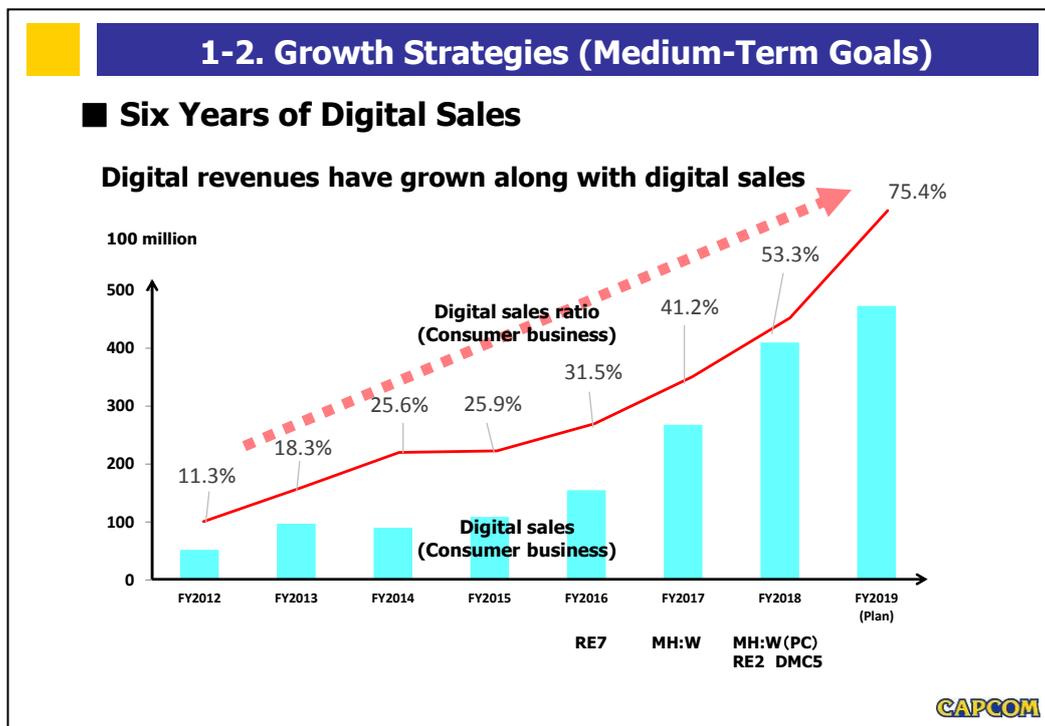
1-1. Growth Strategies (Medium-Term Goals)



Management's objective for the medium term has been annual operating income growth, and again this fiscal year, as a result of steadily building up our unit sales and profits in the Consumer business, we have achieved both six consecutive years of operating income growth—beginning with the 2012 fiscal year—as well as two consecutive years of record high profits. Moreover, net income has grown for six consecutive years as well.

The average growth rate for operating profit during this period has exceeded 10% each fiscal year. We remain committed to building up our revenue base and growing operating income.

1-2. Growth Strategies (Medium-Term Goals)



I've outlined digital revenue growth during this six-year period. Net sales were ¥5.2 billion in the 2012 fiscal year, the point at which this consecutive profit growth began, and since the start of this generation of consoles (such as the PlayStation 4), management has focused on digital sales as a one of our key themes.

In particular, since the launch of *Resident Evil 7* in the 2016 fiscal year, we have improved the digital sales ratio of major titles, with high margin digital sales driving higher results.

As a result, our forecast calls for ¥47.3 billion in net sales, nine times that of the 2012 fiscal year, while we expect to achieve a digital sales ratio of 75%.

2-1. Human Resources

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A Strong Talent Base

- **Strengthening our pool of developers**
 - ① **No. of developers: 2,150**
 - ② **Over 800 new graduates hired in 8-year period**
 - **Young devs trained, contribute to core titles**
 - **Major source of future competitiveness**
- **Divisions/Existing employees**
 - ① **Key people appointed in strategic fields**
 - ② **Work environment, employee evaluations improved**



Next, I would like to discuss building out our organization for long-term growth.

My first point is bolstering our talent base.

I believe the most important investment that Capcom can make to deliver stable, long-term growth in our business results while polishing our brand is in our development structure, in other words, doing our utmost to further strengthen our R&D talent pool and develop superior creators.

This, along with continuing to hire over 100 new graduates annually for eight years beginning in April 2012, has resulted in growing our pool of talent by a cumulative 800 people—to 2,150 total developers. These young creators have steadily become a significant part of our workforce, contributing to the development of major series, such as *Resident Evil* and *Monster Hunter*, and can be said to be a source of our competitive edge going forward.

Additionally, we've appointed key people to strategic areas such as esports, while pursuing "Capcom-style" work reforms for existing employees; these include further utilizing "Capcom Juku," our onsite daycare facility, adopting a balanced employee evaluation system, and making improvements to our offices, all with the aim of maintaining high levels of motivation so that our employees can enjoy stable, long-term careers with us.

2-2. Building Systems for Stable Growth

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Delivering The Highest Quality Content Globally

- **Optimizing for Global Growth via Digital Sales**
 - ① **Concentrated development of core brands to Japan**
 - ② **Digital shift of marketing/PR**
 - ③ **Integrated Japan & Asia businesses**

- **Adapting to new markets**
 - ① **Established the Master Planning Office, directly reporting to the CEO**
 - ② **Dedicated division promoting both esports and Hollywood-related initiatives**

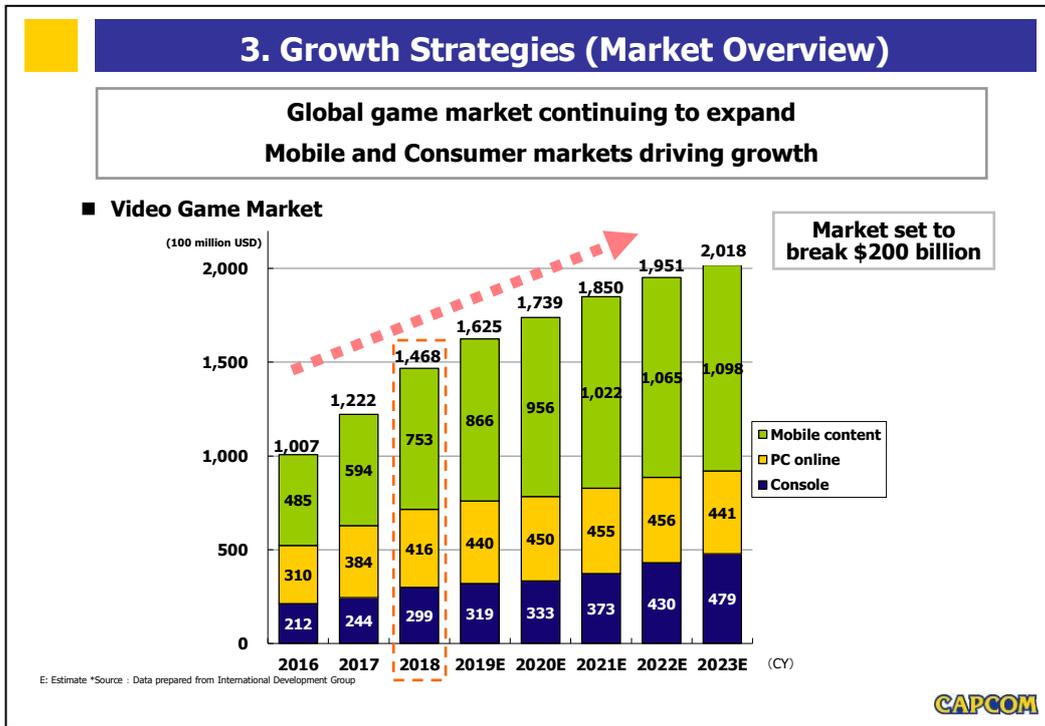


My second point is creating an organization capable of providing the highest quality content throughout the world.

We've concentrated development of our major titles domestically to Japan, and on the business side of operations, are improving the efficiency of marketing and PR through a digital shift. Further, in order to focus resources on the Asian market, which has shown exceptional growth, we integrated Japanese and Asian operations last fiscal year.

As a way of addressing new opportunities, in April we newly created a section that reports directly to the CEO, which will examine and propose strategies for a variety of new projects. Also, last fiscal year we placed specialists in a newly established subsidiary to handle the promotion of esports as well as Hollywood-related projects.

3. Growth Strategies (Market Overview)



I would like to go over the latest market forecasts.

The overall market is expected to continue growing, driven primarily by mobile and consumer games.

In 2018 the market reached a size of \$146.8 billion, representing a \$24.6 billion increase year-over-year (from \$122.2 billion), as well as strong growth above the forecast from the previous year (\$137.4 billion).

By the year 2023, the market is expected to grow to \$201.8 billion, more than 1.3 times its size in 2018. The largest growth is expected to be in the mobile market, with forecasts calling for growth in developing regions such as Asia.

Further, the consumer games market is expected to grow 1.6 times compared to its size in 2018, driven primarily by the growth of digital sales. In terms of growth rates, Asia and developing regions will be quite high.

We see the continued expansion of the consumer and mobile markets as a significant opportunity for growth.

4. Forecasts for FY3/20

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**Aim for seven consecutive years operating income growth
driven by stable performance of the Digital Contents business**

	2019/3	2020/3 Plan	Difference
			<small>(million yen)</small>
Net sales	100,031	85,000	-15,031
Operating income	18,144	20,000	1,856
Operating margin	18.1%	23.5%	-
Ordinary income	18,194	19,500	1,306
Net income attributable to owners of the parent	12,551	14,000	1,449

- Expect profit growth YoY despite decline in sales due to focus on stronger digital sales in the Consumer business and improvements to the Amusement Equipments business
- Earnings per share forecast: ¥131.15
- Dividend forecast: interim dividend of ¥15 and year-end dividend of ¥20 resulting in a ¥35 dividend for the fiscal year (payout ratio: 26.7%)



Next, I will discuss our guidance for the 2019 fiscal year.

We are aiming to achieve seven consecutive years of operating income growth, with steady contributions from our Digital Contents business as a growth driver.

Our forecast calls for net sales of ¥85 billion, down ¥15 billion year-over-year; operating income of ¥20 billion, up ¥1.8 billion year-over-year; an operating margin of 23.5%; ordinary income of ¥19.5 billion, up ¥1.3 billion year-over-year, and net income attributable to owners of the parent of ¥14 billion, up ¥1.4 billion year-over-year.

While we expect a decrease in net sales, we are forecasting an increase in profit due to a focus on digital sales in the Consumer business and improvements to our Amusement Equipments business.

Our earnings per share forecast is ¥131.15; our dividend forecast calls for an interim dividend of ¥15, and a year-end dividend of ¥20, resulting in a ¥35 dividend for the full fiscal year and a payout ratio of 26.7%.

5-1. Digital Contents – Strategic Objectives and Plan (1)

5-1. Digital Contents – Strategic Objectives and Plan (1)

**Further bolster major brands
Target catalog title sales growth**

- **Consumer Strategies**
 - **Stable performance of major brands**
 - *Monster Hunter: World*: over 12 million units shipped; continue to promote sales growth
 - Cement global brand status with Sept. 6 launch of massive expansion: *Monster Hunter World: Iceborne*
 - Promote catalog sales of major titles from previous year: *Resident Evil 2* and *Devil May Cry 5*
 - **Expand regions and improve profit on the PC by strengthening digital sales**
 - Expect large increase to digital sales forecast: 75.4% (of Consumer net sales)
- **Mobile Strategies**
 - Launch new titles using our IP while carefully watching market trends



We will focus on further strengthening our major brands while expanding sales of catalog titles in our Digital Contents business.

In Consumer, shipments of *Monster Hunter: World* have exceeded 12 million units cumulatively, and we will continue to work to grow these. Also, we plan to further cement the global status of this brand with the September 6 release of *Monster Hunter World: Iceborne*, a massive expansion for the title. We will also focus on further growing catalog sales of *Resident Evil 2* and *Devil May Cry 5* globally.

We aim to both expand our regions and improve revenues earned on the PC platform through strengthening digital sales, and are targeting a digital sales ratio of 75.4% this fiscal year, a significant year-over-year increase.

For Mobile, we will continue moving our alliance titles and internally developed titles forward toward launch.

5-1. Digital Contents – Strategic Objectives and Plan (2)

5-1. Digital Contents – Strategic Objectives and Plan (2)

Launch *Monster Hunter World: Iceborne*
Expect unit sales growth driven by digital sales

■ FY3/20 Unit Sales Plan for the Consumer business

(units in thousands)

	2017/3	2018/3	2019/3	2020/3 Plan
New Titles (SKU)	42	50	61	30
Total unit sales	19,400	24,400	25,300	26,300
Overseas units ratio	77.8%	79.5%	85.4%	83.8%
Digital units ratio	46.4%	52.9%	60.5%	82.5%
Catalog units ratio	45.4%	45.1%	56.1%	54.8%
Major titles				
New	Resident Evil 7 biohazard Monster Hunter Generations Ultimate	Monster Hunter: World Marvel vs. Capcom: Infinite	Resident Evil 2 Devil May Cry 5	Monster Hunter World: Iceborne
Catalog	Monster Hunter Generations Resident Evil 6 (rerelease)	Resident Evil 7 biohazard Monster Hunter Generations Ultimate	Monster Hunter: World Resident Evil 7 biohazard	Monster Hunter: World Resident Evil 2 Devil May Cry 5



Now I would like to discuss our unit sales plan for the Consumer business.

We plan to increase unit sales through growth in digital sales with the upcoming release of *Monster Hunter World: Iceborne*.

We plan to release 30 new titles, on an SKU-basis, totaling 26.3 million in unit sales, with an overseas unit sales ratio of 83.8%, digital unit sales ratio of 82.5% and catalog unit sales ratio of 54.8%.

The number of titles by SKU we plan to release is down year-over-year because in the previous fiscal year we released multiple titles that were rereleases for current-generation consoles, and because of a decrease in the number of distribution titles.

Our overseas unit sales ratio is down year-over-year because of the contribution we expect from *Monster Hunter World: Iceborne* in Japan.

5-1. Digital Contents – Strategic Objectives and Plan (3)

5-1. Digital Contents – Strategic Objectives and Plan (3)				
Anticipate profit growth despite decline in sales, supported by increase in Consumer business digital sales ratio				
■ Digital Contents Plan				
(100 million yen)				
	2018/3	2019/3	2020/3 Plan	Difference
Net sales	741	829	668	-161
Breakdown				
Package	383	359	154	-205
Digital	269	410	473	63
Consumer total	652	769	627	-142
Mobile Contents	41	23	41	18
PC Other	48	37		
Operating income	191	233	243	10
Operating margin	25.8%	28.1%	36.4%	-
*The PC Others sub-segment has been merged with Consumer as of FY3/20				
CAPCOM				

Moving ahead, I will go over our forecast for our Digital Contents business.

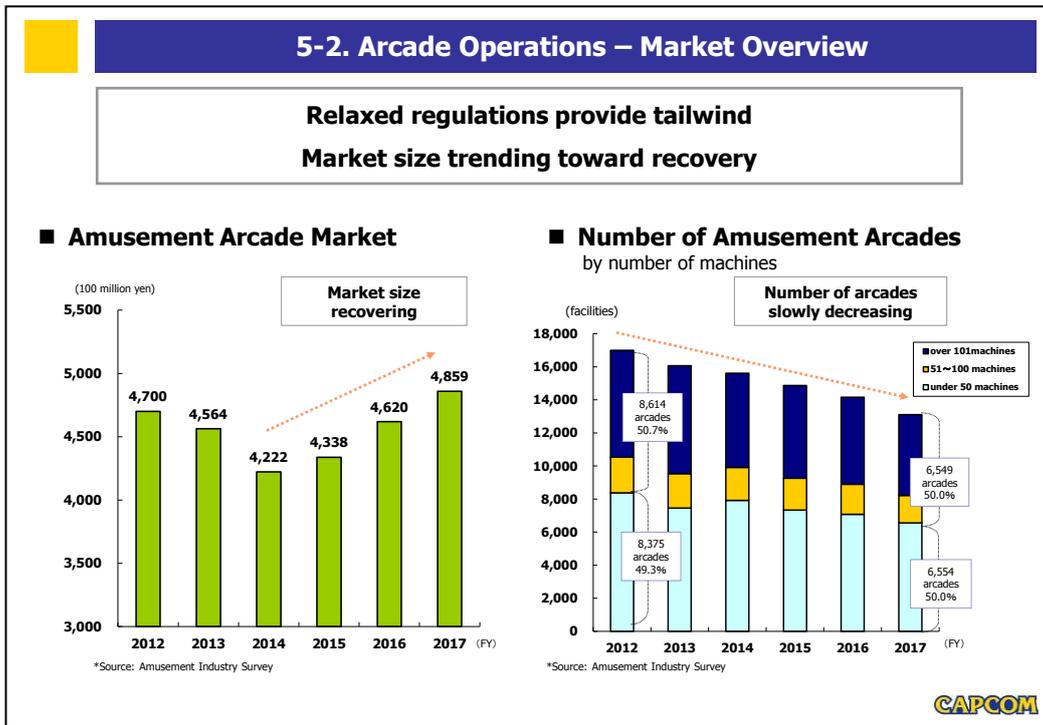
This fiscal year, despite a decrease in net sales, we forecast another consecutive year of profit growth driven by a higher digital sales ratio in the Consumer business.

Our net sales forecast calls for ¥66.8 billion in net sales, down ¥16.1 billion year-over-year; broken down by sub-segment, we expect ¥15.4 billion for packaged games, down ¥20.5 billion year-over-year, ¥47.3 billion for digital download contents, up ¥6.3 billion year-over-year, bringing the Consumer total to ¥62.7 billion, down ¥14.2 billion year-over-year. In Mobile Contents, we expect ¥4.1 billion, up ¥1.8 billion year-over-year. The PC Others segment will be integrated into Consumer digital download contents from this year forward, as the distinction between these games is no longer relevant.

We are targeting operating income of ¥24.3 billion, up ¥1 billion year-over-year. We expect the operating margin to be 36.4%.

Profit is anticipated to rise despite lower sales because, beginning with *Monster Hunter World: Iceborne*, while a greater focus on digital sales will mean less contributions to net sales, the highly profitable digital format should bring an increase in profit. Also, we expect increased sales in Mobile contents due to a certain level of contributions from new releases.

5-2. Arcade Operations – Market Overview



Now, I would like to discuss the Arcade Operations business.

First is a look at trends in the market for the 2017 fiscal year.

Softening of regulations has provided a tailwind for this business, with the market on a recovery trend since 2014.

5-2. Arcade Operations – Strategic Objectives and Plan

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Streamline operations across new and existing stores; Sales up but no profit contribution due primarily to consumption tax increase

■ **Arcade Operations Strategy**

- **Create opportunities via new store formats, multifaceted approach**
 - Plan: same store sales: -4%; openings: 5, closings: 0, total: 42 stores
 - Build out branded cafés and specialty merchandise stores
 - Grow net catcher service established in previous year into new revenue source
 - Utilize stores to promote expansion of the esports market

■ **Arcade Operations Plan**

	2018/3	2019/3	(100 million yen)	
			2020/3 Plan	Difference
Net sales	102	110	112	2
Operating income	8	10	7	-3
Operating margin	8.6%	9.9%	6.3%	-
Same store sales	+2%	+2%	-4%	-



Ikebukuro location
(Opening FY3/20)

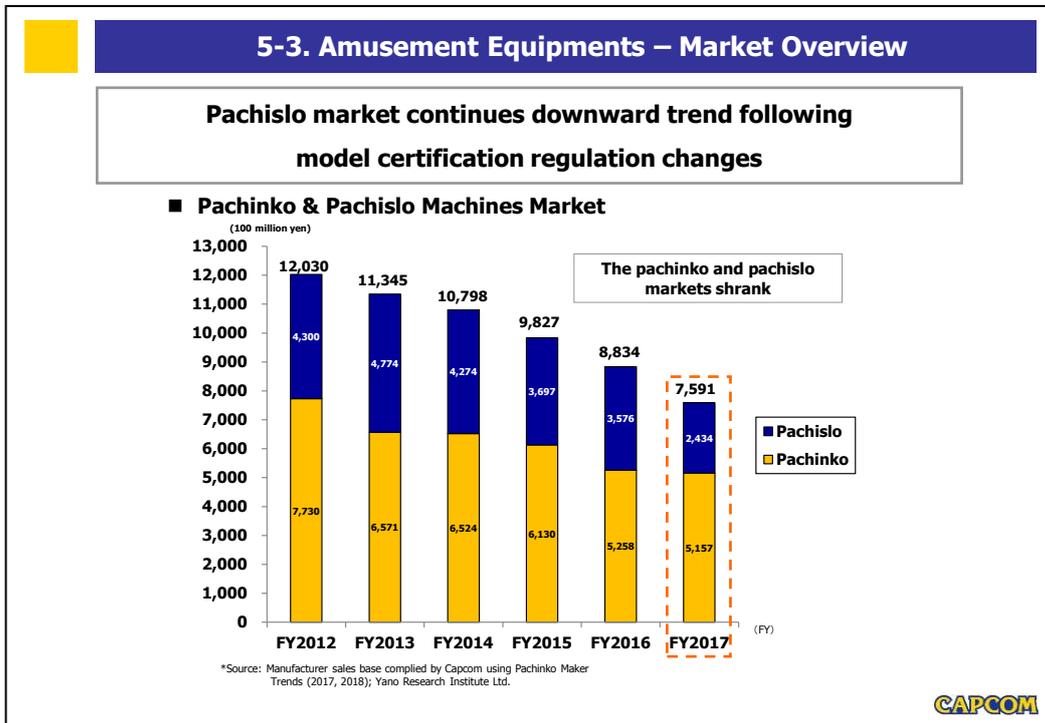


For this fiscal year, we will promote streamlined operations at existing stores while opening new locations; however, in light of market conditions, including the consumption tax increase scheduled for October 2019, we expect an increase in sales but decrease in profit.

We aim to create revenue opportunities through a multifaceted approach, including new store formats. We're forecasting a 4% decrease in same store sales, and plan to open five new locations, giving us a total of 42 stores. Leveraging our brands, we aim to continue to grow new store formats such as cafes and merchandise shops, as well develop the net catcher service begun in the previous year into a new source of revenue. We will also utilize facilities in conjunction with our eSports business toward building out the esports market.

This fiscal year we expect net sales of ¥11.2 billion, up ¥200 million year-over-year, operating income of ¥700 million, a decrease of ¥300 million year-over-year, and an operating margin of 6.3%

5-3. Amusement Equipments – Market Overview



Moving on, I will go over our Amusement Equipments business.

The pachislo machines market continued to shrink following regulatory changes for model certification.

5-3. Amusement Equipments – Strategic Objectives and Plan

5-3. Amusement Equipments – Strategic Objectives and Plan

**Aim to improve profitability
with launch of machines meeting current regulations**

- **Pachinko & Pachislo Strategy**
 - Work to restore standing in market with models utilizing our popular IP
 - Pachislo Machine Unit Sales Plan: three models; 15,000 units
 - Plan to release machines compliant with current regulations
- **Amusement Equipments Plan**

	2018/3	2019/3	(100 million yen)	
			2020/3 Plan	Difference
Net sales	78	34	40	6
Operating income	-7	-26	1	27
Operating margin	-	-	2.5%	-



Here is our strategy for the Amusement Equipments business.

We plan to release cabinets that meet current regulations and that utilize popular franchises in Pachinko & Pachislo, and aim to improve revenues through restoring our standing in the market. We plan to release three models this year, totaling 15 thousand units in sales.

This fiscal year we expect net sales of ¥4 billion, up ¥600 million year-over-year, a return to profitability with operating income of ¥100 million, and an operating margin of 2.5%.

5-4. Other Businesses – Strategic Objectives and Plan

5-4. Other Businesses – Strategic Objectives and Plan

**Aggressively pursue eSports business development
Promote our Single Content Multiple Usage Strategy**

- **Esports Strategy**
 - **Expand player demographics with eye toward medium- to long-term**
 - Global expansion: Running Street Fighter League: Pro-US in USA since April 2019
 - Domestic foundation building: besides the previously announced Street Fighter League: Pro-JP for pro athletes, Street Fighter League: Trial for amateur players, launch a variety of leagues starting early summer
- **Character Contents Strategy**
 - **Increase awareness of major brands with collaborations, TV and movies**
 - *Zangeki Sengoku BASARA Tenseihoukan* stage production scheduled to run in Tokyo and Osaka in July 2019
- **Other Businesses Plan**

	2018/3	2019/3	2020/3 Plan	Difference
	(100 million yen)			
Net sales	23	25	30	5
Operating income	11	8	-4	-12
Operating margin	48.2%	31.5%	-	-



Street Fighter League



Finally, I would like to discuss our Other Businesses.

While continuing to execute on our Single Content Multiple Usage strategy in our Other Businesses, at the same time we will pursue the expansion of our eSports business, which has been an important area of focus since the previous fiscal year.

Firstly, we will promote long-term initiatives to grow player segments in eSports. We are driving for global expansion, and rolled out the Street Fighter League: Pro-US in the US in April. Further, we will strengthen our foundation in Japan, and plan to launch a number of leagues from early summer, in addition to the already-announced pro player league, Street Fighter League: Pro-JP, and community focused league, Street Fighter League: Trial.

In Character Contents, we aim to increase awareness of our major brands by leveraging them in visual media, based on our strategy of Single Content Multiple Usage. This fiscal year, the stage production *Zangeki Sengoku BASARA Tenseihoukan* is scheduled to run in Tokyo and Osaka in July 2019.

This fiscal year we expect net sales of ¥3 billion, up ¥500 million year-over-year, and an operating loss of ¥400 million due to investing in esports development.

This ends my presentation.

All of us will continue to work together as one to achieve our business objectives this year, thus we ask for your continued support.

Thank you.