



**CAPCOM**

**Captivating a Connected World**

CAPCOM INTEGRATED REPORT

**2019**



# Advancing Our Global Brand Further

## ***Monster Hunter World: Iceborne***

Released in January 2018, *Monster Hunter: World (MH:W, below)*, succeeded on two key elements of our growth strategy, namely globalization and shifting to digital. This propelled it to over 12.4 million units shipped worldwide, making it Capcom's biggest hit ever. We aim to grow the fanbase even further by continuing to advance these two elements on *Monster Hunter World: Iceborne (MHW:I, below)*, which is scheduled for release during the fiscal year ending March 2020.

For details, see p. 35 of the Integrated Report 2018.

The two key elements to our success

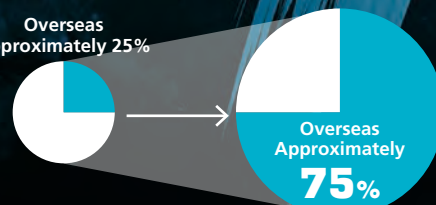
### **1 Globalization**

Increasing global users by supporting 12 languages and launching titles simultaneously worldwide

*MH : W* raised the Monster Hunter series to global brand status by increasing the overseas sales ratio to roughly 60%, compared to its historical 25%.

We plan to solidify our global user base with *MHW:I* by releasing it simultaneously around the globe and offering the game in 12 languages.

Overseas  
Approximately 25%







## 2 Digital Shift

Taking our main sales and marketing channels online

We expect the bulk of *MHW:I* sales to be digital. While we maximize revenue using the digital marketing data we have accumulated up to this point, we will analyze user purchasing trends to utilize in digital sales going forward.





## Value Creation Story

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## Corporate Philosophy

# Capcom: Creator of entertainment culture that stimulates your senses

Our principle is to be a creator of entertainment culture. Through development of highly creative software contents that excite people, stimulate their senses, and bring smiles to their faces we aim to offer an entirely new level of game entertainment. Since Capcom's establishment in 1983, we have leveraged our strength in world-class development capabilities to create a plethora product. Game content is an artistic product that fascinates people, consisting of highly creative, multi-faceted elements such as characters, stories, worlds and music. This content can be deployed in a variety of media while being used to support the creation of a richer society. Going forward, Capcom aims to become a company that brings happiness to people and society by offering the most entertaining content in the world.

### Editorial policy

Capcom's Integrated Report conveys initiatives aimed at improving corporate value over the medium- to long-term to shareholders, investors and all other stakeholders. This report is issued with the intent of creating opportunities for further dialogue. Furthermore, we aim to express ideas in a simple and easily understood manner and visually represent important items to aid understanding. Details are available online.

### Period and scope

This report reviews the fiscal year ended March 31, 2019 (April 1, 2018–March 31, 2019). When necessary, it also includes references to fiscal periods before and after this timeframe. Unless otherwise indicated, the scope of data presented in this report is on a consolidated basis.

### Subject index for reference

**External environment** P69,PP71–72

**Senior management perspectives** PP21–30,PP31–38,PP39–40,PP41–42

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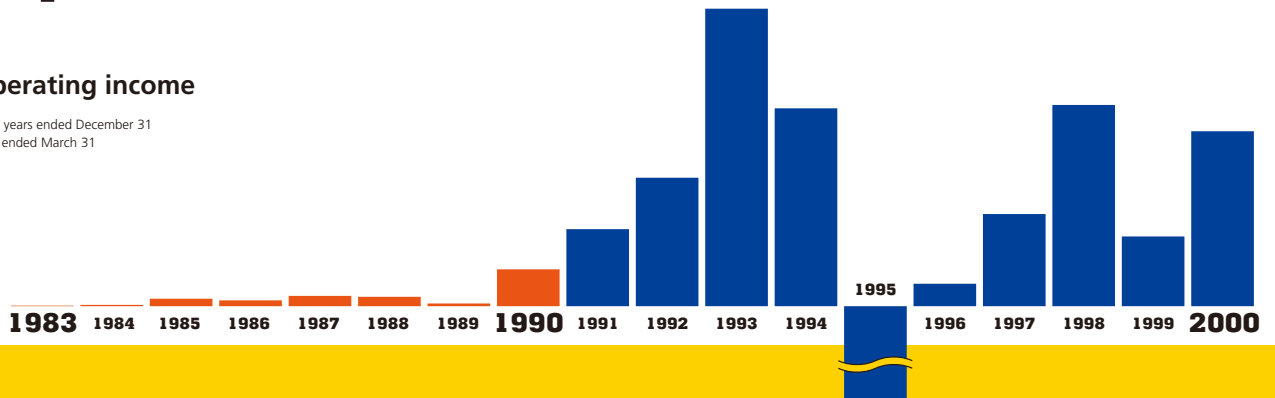
**World-class development capabilities** PP41–42,PP43–46



# Creator of entertainment culture in Japan and around the world

## Trend in operating income

Note: 1983–1988: Fiscal years ended December 31  
1989–2019: Fiscal years ended March 31



## Genesis

Capcom Co., Ltd. was established in Osaka in 1983. The Nintendo Entertainment System (NES) came out that same year, but it was difficult to develop high-quality arcade-level content for, so Capcom focused business development on the creation and sales of arcade games using the proprietary high-spec circuit board “CP System.”

## Big hits drive business expansion

In the 1990s, the arrival of Super NES prompted Capcom to formally enter home video game development. Numerous hit titles were created that drew on Capcom’s arcade game development expertise. The Single Content Multiple Usage strategy was launched in earnest in 1994 with the release of a Hollywood movie and animated movie based on *Street Fighter*.

## Title history

### 1983

Released our first originally developed coin-op *Little League*.



### 1984

Released our first arcade video game *Vulgus*.

### 1985

Released our first home video game *1942* for the Nintendo Entertainment System (NES).



### 1987

Released *Mega Man* for the NES.

### 1992

Released *Street Fighter II* for the Super NES.



### 1993

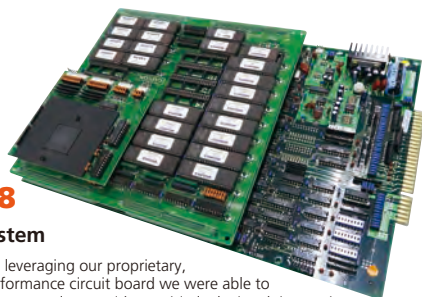
Released *Breath of Fire* for the Super NES.

### 1996

Released *Resident Evil* for PlayStation, establishing the genre of survival horror with this record-breaking, long-time best-seller.



## Capcom and Entertainment Culture



### 1988 CP System

Through leveraging our proprietary, high-performance circuit board we were able to captivate game players with exquisitely depicted, immersive game worlds of the highest quality, allowing us to produce one hit after another in both the arcade and home video game markets.

### 1991

#### *Street Fighter II* becomes a major hit

The game became a sensation in arcades across the country, establishing the fighting game genre. In 1992, a national tournament was held at the Ryogoku Kokugikan in what might be called the first ever esports tournament.

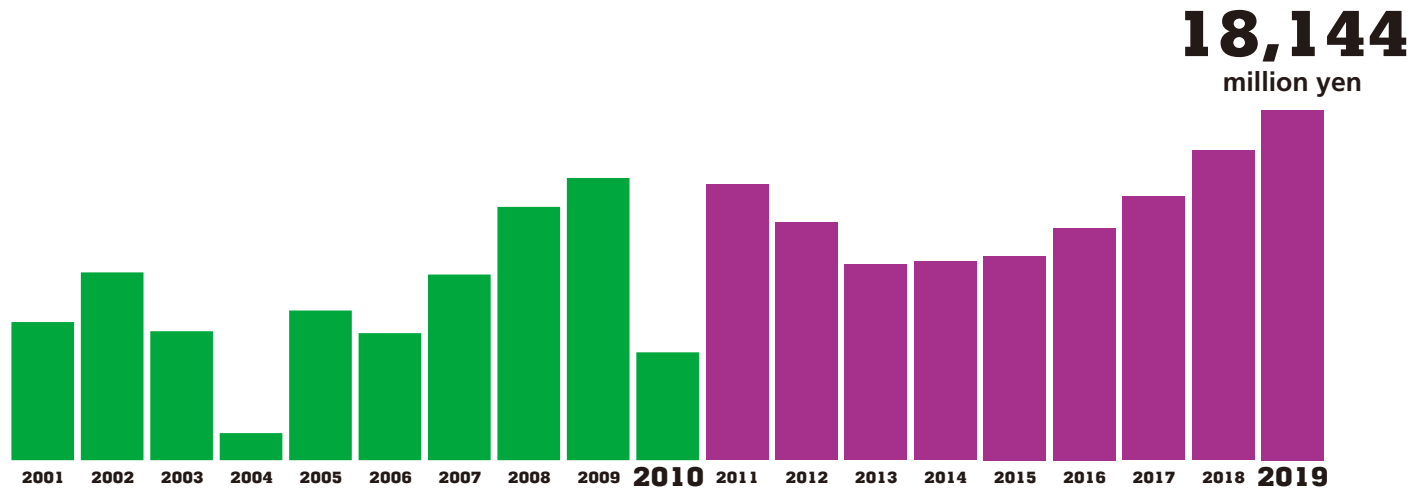


### 2002

#### Multi-media roll out of Capcom IP starts in earnest

The Hollywood film adaptation of *Resident Evil*, along with the animated TV show and movie adaptations of the youth-oriented *Mega Man Battle Network*, marked the beginning of our foray into branding game-based content.





## Increasing shares in Europe and North America

In 2000, Capcom listed its shares on the First Section of the Tokyo Stock Exchange. In the 2000s, Capcom created one hit title after another that gained popularity overseas. The Hollywood movie version of *Resident Evil* earned 102 million U.S. dollars globally, part of a six title hit series that continues to spread the Capcom brand throughout the world.

## Globalization and the digital shift

With game consoles now offering full internet functionality and the popularization of gaming on PCs, the video game market has expanded beyond one segment of developed countries and now permeates the globe. As a result of Capcom's early initiatives to support digital sales, including releasing past titles onto current game consoles and ongoing sales of catalog titles, operating profit margins and the overseas unit sales ratio have been on the rise.

### 2001

Released *Onimusha* for PlayStation 2, the first game for PlayStation 2 to become a million-seller in Japan.

Released *Devil May Cry* for PlayStation 2.



### 2005

Released *Sengoku BASARA* for PlayStation 2.

### 2006

Released *Dead Rising* for Xbox 360; it became a million-seller, unprecedented for a new title created for a new game console.



### 2012

Released *Dragon's Dogma*.

### 2017

Released *Resident Evil 7 biohazard*.

### 2018

Released *Monster Hunter: World*. It sold 7.5 million units within approximately one month of its release, becoming Capcom's best-selling title.

### 2019

Released *Resident Evil 2* and *Devil May Cry 5*, both of which demonstrated a strong global presence.



### 2007

#### Cooperative gameplay becomes standard

*Monster Hunter Freedom* became the first game in the series to top a million units sold.

People getting together with their game consoles to play cooperatively sparked the "Monster Hunter Craze."



### 2013

#### User-initiated social media phenomenon

Imitating the "Hadouken" special attack from the *Street Fighter* series and posting a photo gave rise to "Hadoukening" becoming a social media phenomenon.



### 2018

#### Capcom officially entered esports, a new form of entertainment

In 2018 Capcom established a dedicated department to promote the spread of esports with measures such as launching new competitions for pros and amateurs.

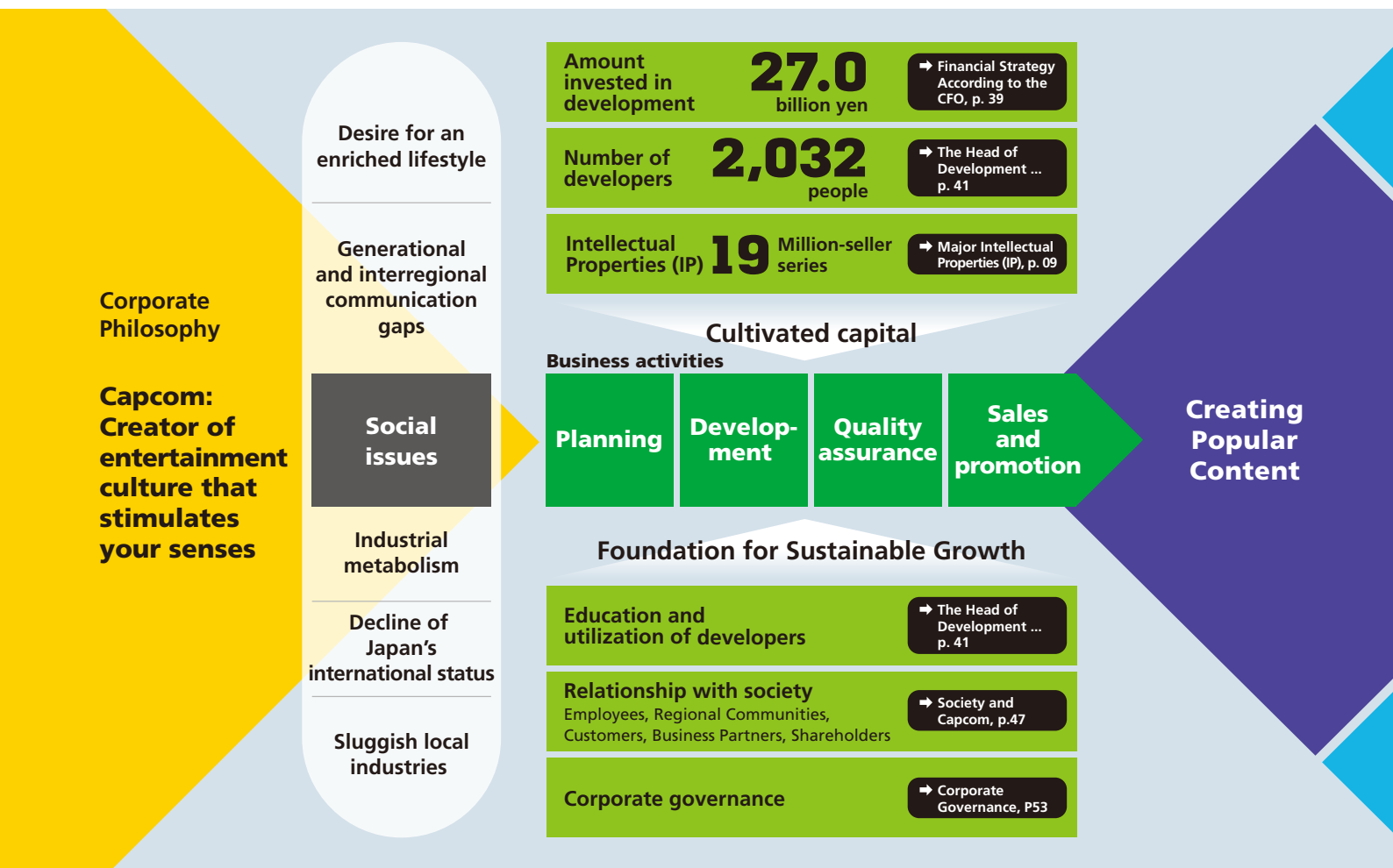


# Making smiles, moving hearts and building a better society with our original content

Utilizing the capital we have cultivated over the years and our foundation for sustainable growth, we create popular original IP through business activities while guided by our corporate philosophy.

We are expanding our business by further extending that original content into a variety of areas.

These activities provide financial and non-financial value, in other words, happiness brought about by games that contributes to the resolution of societal issues.



## Capcom's strength

### Development capabilities

We have more than 2,000 developers using globally cutting-edge development equipment and technology, working on a daily basis to create the highest quality games available anywhere.

→ The Head of Development ... p. 41

### Intellectual property (IP)

From the time the Company was founded, we have been creating popular content that has found its way into the hearts of people the world over.

This content has achieved a strong fanbase domestically as well as overseas.

→ Major Intellectual Properties (IP), p. 09

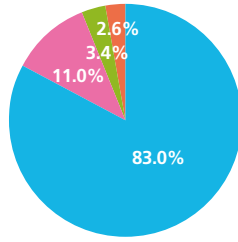
### Single content multiple usage

Expanding our IPs into a variety of media, such as movies or theater productions, helps diversify our business portfolio, increase profitability, and aids in risk diversification.

→ Effectively Leveraging IP, p. 11



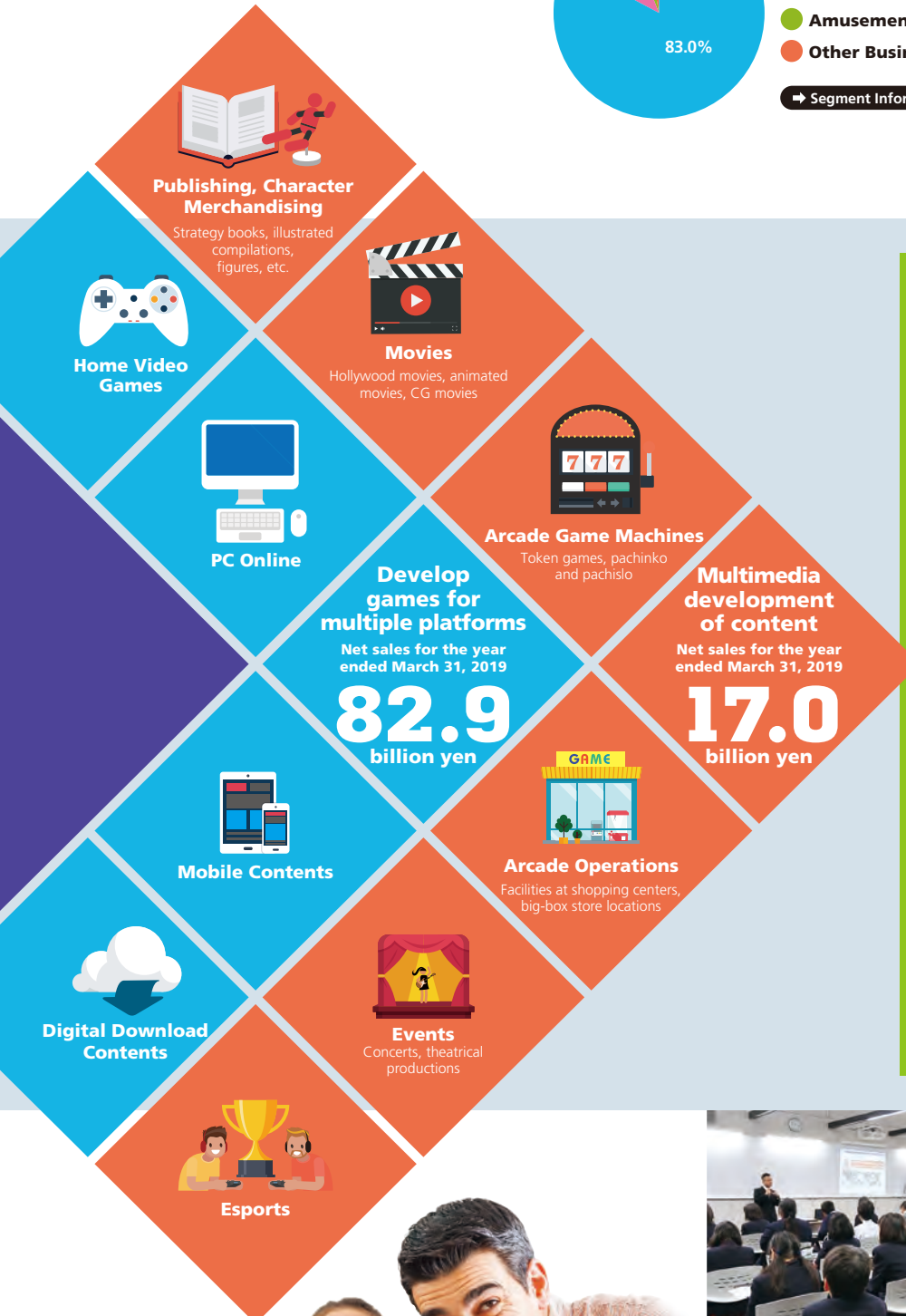
Business segment sales ratio (%)



● Digital Contents	83.0%
● Arcade Operations	11.0%
● Amusement Equipments	3.4%
● Other Businesses	2.6%

Fiscal year ended March 31, 2019

→ Segment Information, P79



**25.3 million** games sold annually  
→P09

**29** educational support activities  
→P50

**2,463** senior tour participants (cumulative)  
→P48

**OUTPUT (Non-financial results)**

Hired **134** new graduates  
→P42

**3** cooperative projects with local governments  
→P49

Announced **2** titles will be adapted into Hollywood films

- Providing a healthy game culture
- Stimulating communication
- Social contributions
- Game market-based innovation
- Contributing to local revitalization
- Earning trust and building a positive image for Japan



Supporting education with school visits  
→P50



Using our trademark brand to increase crime prevention awareness  
→P49



# Steady output of million-seller titles born from a foundation of popular brands

In the 36 years since our founding, our eagerness to take on new endeavors has given birth to countless popular brands. These brands have garnered massive followings both domestically and overseas.



**Street Fighter series**

Total number of units sold

**42 million**

(As of March 31, 2019)

Cumulative million-seller titles

**12 titles**



**BIOHAZARD RE:2**

**Resident Evil series**

Total number of units sold

**91 million**

(As of March 31, 2019)

**KPI**

(Fiscal year ended March 31, 2019)

Cumulative million-seller titles

**89 titles**

Number of units sold

**25.3 million**



Cumulative million-seller titles  
**11** titles

### Monster Hunter series

Total number of units sold

**54** million

(As of March 31, 2019)

MONSTER HUNTER  
WORLD  
ICEBORNE

Cumulative million-seller titles  
**5** titles

This fiscal year's hit titles

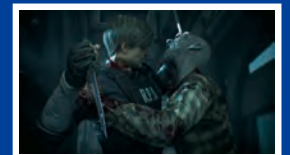
Devil May Cry 5

**2.1** million units



Resident Evil 2

**4.2** million units



### Mega Man series

Total number of units sold

**35** million

(As of March 31, 2019)

ROCKMAN 11  
運命の歯車!!

Cumulative million-seller titles  
**27** titles

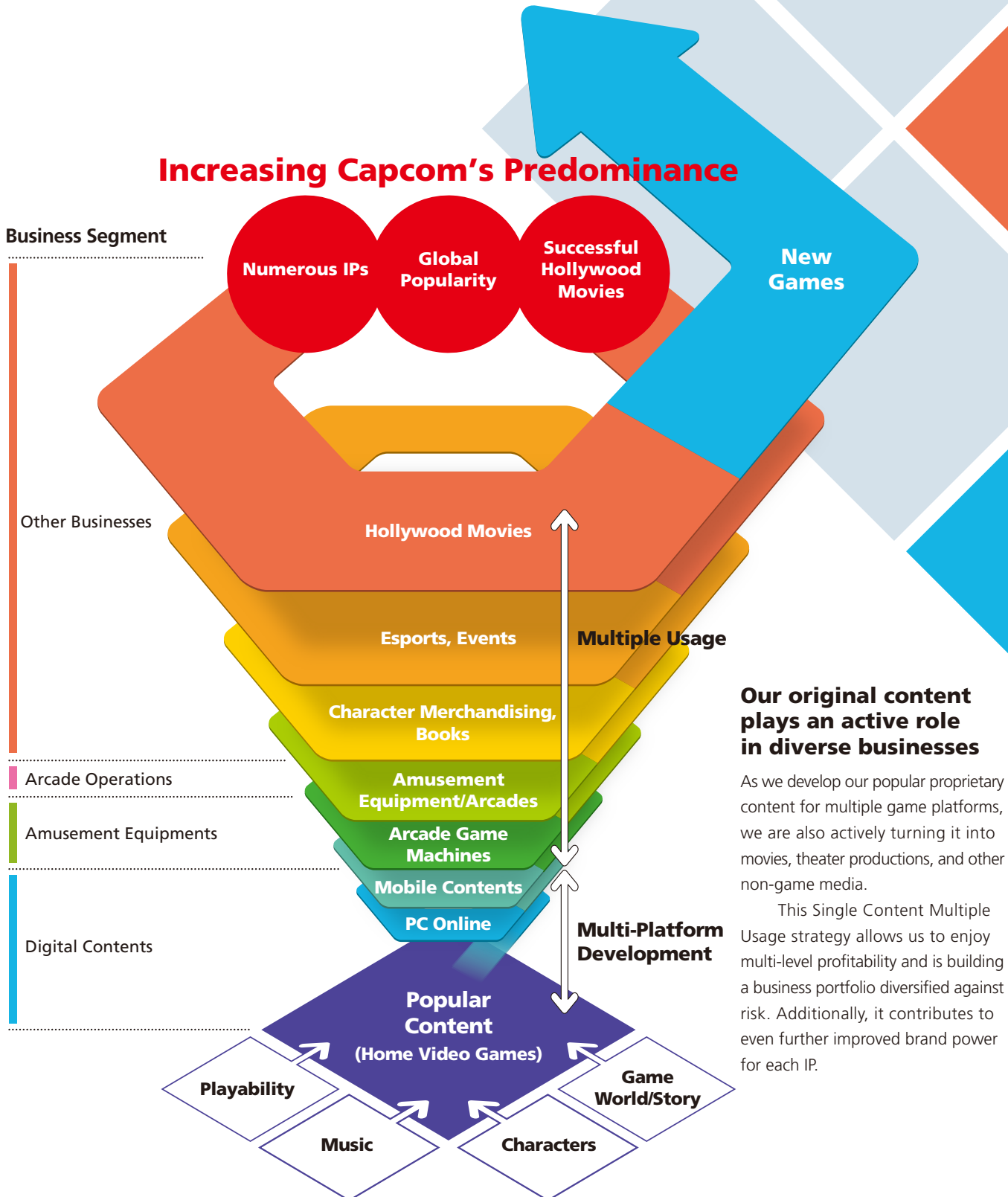
Monster Hunter: World (catalog title)

**4.5** million units



# Increasing profits and brand value through our Single Content Multiple Usage strategy

Our Single Content Multiple Usage strategy maximizes the use of our most popular content. This allows us to build a business portfolio that achieves both greater profitability and risk diversification.





# Further Improved Brand Power



Weddings



Books



Orchestral Concerts



Hollywood Movies

© CONSTANTIN FILM Production Services GmbH photo by: Coco Van Oppens

Appealing to a broader demographic

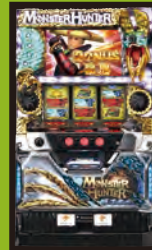
Attracting casual users



Mobile Games



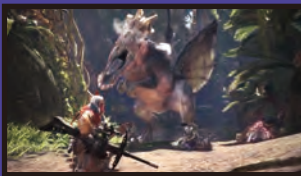
Attractions



Pachislo



Cafes



Home Video Games

Expanding into related businesses



Amusement Machines

Monster Hunter series



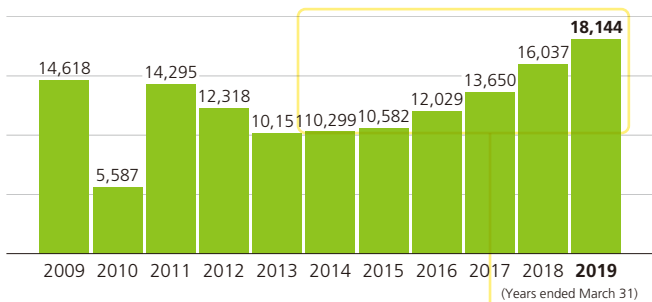
# Single Content Multiple Usage

# Financial Highlights

## Operating Income/Operating Margins

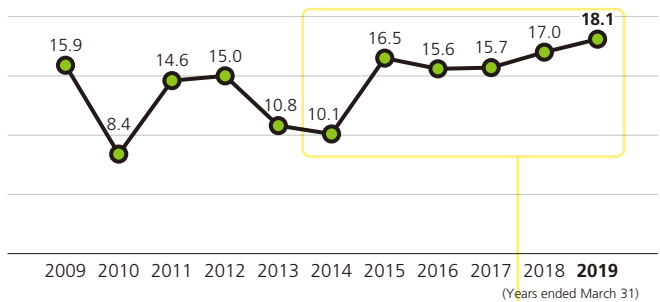
Operating Income (million yen)

**18,144** million yen  
**13.1% UP** ↗



Operating Margins (%)

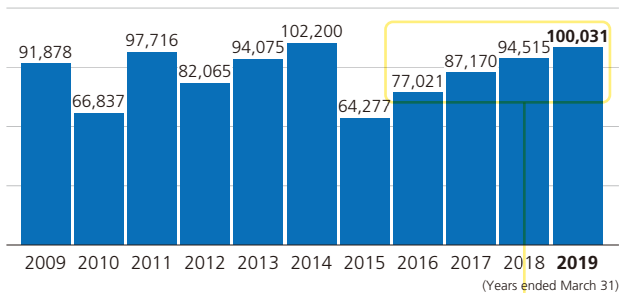
**18.1%**  
**1.1point UP** ↗



In the fiscal year ended March 2010, the postponed release of major titles and the failure of some titles to meet sales targets overseas resulted in a temporary decline in income. In the fiscal year ended March 2011, we promoted profit structure reforms aimed at more efficient development investment. We promoted business restructuring by transitioning to in-house production and strengthened our digital sales strategy in response to rapid changes in the market beginning in the fiscal year ended March 2013. Financials were therefore sluggish until the fiscal year ended March 2014 while these reforms were implemented. Since that time, we have achieved six consecutive years of increased operating income with measures such as improving the highly profitable digital sales ratio in our Consumer sub-segment. The fiscal year ended March 2019 was the second year in a row we succeeded in breaking our top operating profit record due to new major hits and the accumulation of catalog sales.

Net Sales (million yen)

**100,031** million yen  
**5.8% UP** ↗



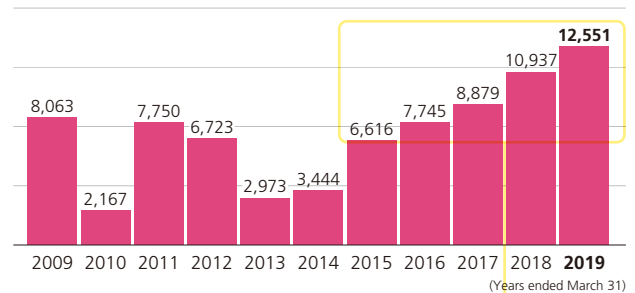
In the fiscal years ended March 2010 and March 2012, net sales declined due to the postponed release of titles. However, the promotion of structural reforms in the Consumer sub-segment resulted in Capcom achieving net sales of 100 billion yen in the fiscal year ended March 2014 for the first time.

Although net sales decreased significantly in the fiscal year ended March 2015 due to a delay in pachislo machine installation, the steady release of major titles from the Consumer sub-segment since the fiscal year ended March 2016 has resulted in an increase in net sales for four consecutive fiscal years.

Net Income Attributable to Owners of the Parent

(million yen)

**12,551** million yen  
**14.8% UP** ↗



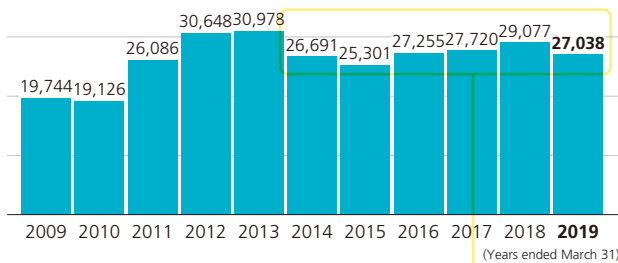
Performance was sluggish in the fiscal years ended in March 2010, 2013 and 2014, as (1) structural reforms to the Amusement Equipments business, (2) development structure revisions in line with enhanced digital sales in the Consumer sub-segment and (3) strengthened Mobile sub-segment management capabilities in line with organization integration resulted in the recognition of special losses on restructuring and business restructuring expenses. From the fiscal year ended March 2015, income increased six years in a row due to the benefits from structural reforms beginning to manifest.



→Please refer to “Financial Strategy According to the CFO” on pages 39–40, and “11-Year Summary of Consolidated Financial Indicators” on pages 73–74

R&D Investment Costs (million yen)

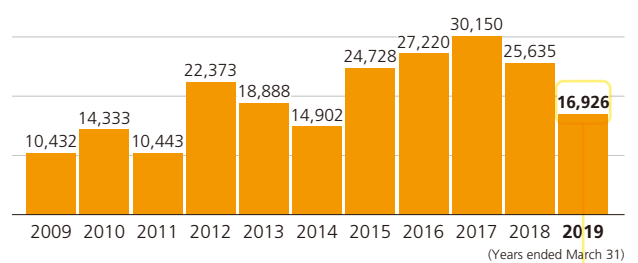
**27,038 million yen**  
**7.0% DOWN** ⬇️



We believe the generation of creative and original content is our source of growth, thus approximately 90% of our annual development investments are allocated to the Digital Contents business. Recently in the Home Video Game market, development costs have been trending higher in line with increasingly high-performance devices, but we have been able to streamline development through increased employee utilization rates. Due to expanding our pipeline in recent years, costs have been on the rise; however, we expect them to remain around 30 billion yen going forward.

Balance of Work in Progress for Game Software (million yen)

**16,926 million yen**  
**34.0% DOWN** ⬇️

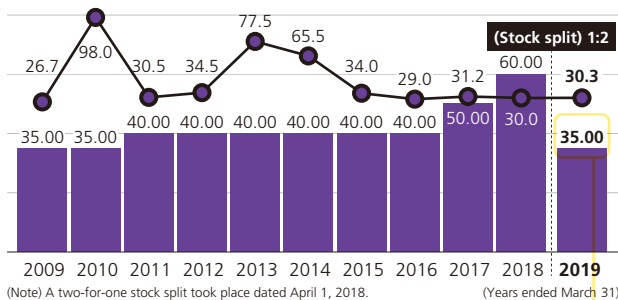


There was a decrease in the fiscal years ended March 2011 and 2014 due to the release of major titles, but since the fiscal year ended March 2015 it has been on the rise as a result of pipeline expansion and the release of new generation high-performance devices. In addition to the release of major titles *Resident Evil 2* and *Devil May Cry 5*, reassessment and closing of overseas studios resulted in a significant decrease.

Dividend per Share/Dividend Payout Ratio

■ Dividend per Share (yen)      ● Dividend Payout Ratio (%)

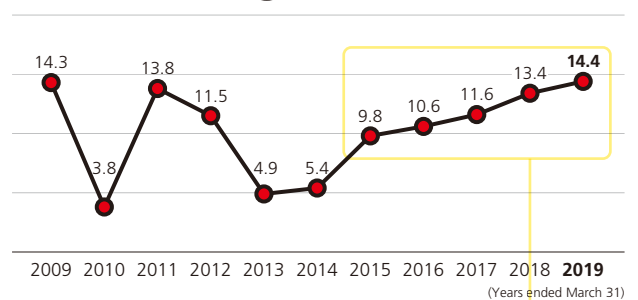
**35.0 yen**      **30.3%**  
**16.7% UP** ⬆️      **0.3point UP** ⬆️



Capcom had a basic policy of maintaining stable dividends, and in the fiscal years ended March 2009 and 2011, the annual dividend was raised 5 yen in conjunction with improved business results. Since the fiscal year ended March 2017, the dividend policy has been to maintain a consolidated payout ratio of 30% and to strive for stable dividends. As a result, the payout in the fiscal year ended March 2019 was reduced due to the stock split, but effectively dividends increased, and we achieved our 29th consecutive year of paying dividends since listing publicly.

Return on Equity (ROE) (%)

**14.4%**  
**1.0point UP** ⬆️



Although net assets increased between the fiscal years ended March 2007 and March 2009, stable net income resulted in ROE of around 14%. In the fiscal years ended in March 2010, 2013 and 2014, this figure declined due to decreases in net income from the recognition of special losses on restructuring and business restructuring expenses. From the fiscal year ended March 2015, ROE has been on the rise on the elimination of special losses and improved profitability.

# ESG Highlights

## Seeking a healthier relationship between games and society

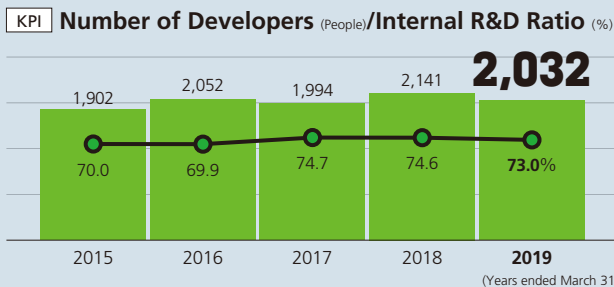
With the global rise of esports and the WHO's international recognition of gaming disorder, in recent years gaming has transcended the framework of simple entertainment and is now recognized as content with a profound social impact, both positive and negative. At Capcom, we believe that sustainable growth is achieved by delivering social and economic value, while at the same time building healthy relationships with stakeholders from the unique perspective of a game publisher. This entails tackling social issues through our business activities, such as training a workforce capable of succeeding on the global stage, and the creation of new markets through cutting-edge technology. We believe that the principle of Sustainable Development Goals (SDGs)\*, namely that "all cultures and civilizations can contribute to sustainable development," and our own corporate philosophy, which is that we are "creators of entertainment culture that brings you smiles and stimulates your senses," are closely related. As such, we have selected four material issues within the ESG framework to work towards balancing our own sustainable economic growth and a sustainable society. It is our intention to contribute to the development of a sustainable society by promoting our growth strategy and clearly addressing these material issues.

\*Set by the United Nation's more than 150 member states, the SDGs lay out 17 goals for the world to focus on with the aim of eliminating poverty and achieving global sustainability. For more information, please refer to the United Nations Sustainable Development Goals webpage below: <https://www.un.org/sustainabledevelopment/sustainable-development-goals/>



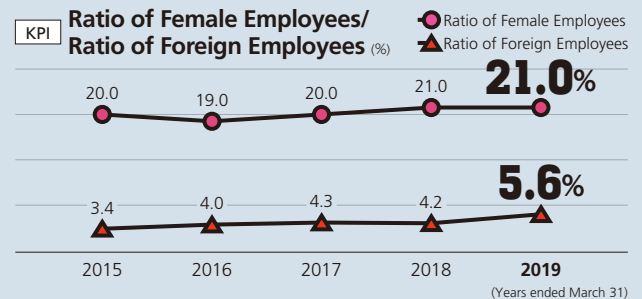
### Material Issues

#### Material Issue 1 Securing and Training of Human Resources



We are working to secure and train outstanding developers based on our desire to make the most entertaining games in the world. Though the closure of our development studio in Canada in the fiscal year ended March 2019 resulted in a temporary decline, the number of developers has nearly tripled over the past 10 years. We are working to improve the technical skills and motivation of our employees by such means as developing a system to train up new graduates to be fully capable team members within three years, promoting younger and mid-career employees to work on major titles, and putting together an environment that empowers developers to create the games they want to create.

#### Material Issue 2 Promoting Diversity



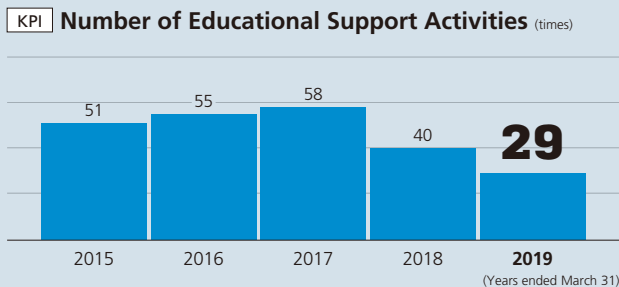
One of the most important elements in developing world-class games that can keep pace with the globalization of the game player population is securing a workforce with diverse perspectives. For that reason, we are promoting diversity and working on building a workplace where women and foreign nationals can excel. We are tying this into the creation of all-new intellectual properties and successful, unconventional collaborations.



ESG Initiatives and Future Challenges

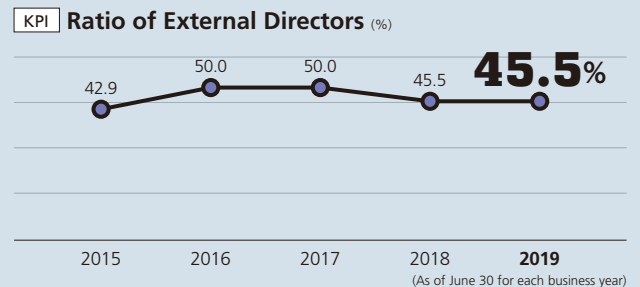
	Initiatives	Contribution to Business	Future Challenges
<b>E</b> Environmental	<ul style="list-style-type: none"> <li>Reduced CO<sub>2</sub> emissions by switching to LED lighting</li> <li>Constructed new environmentally-friendly buildings</li> <li>Reduced exhaust gas and resources used via distribution network sharing with other companies in the industry</li> <li>Reduced paper resources used through the digitization of instruction manuals</li> <li>Reduced resources consumed through the promotion of digital sales</li> </ul>	<ul style="list-style-type: none"> <li>Reduced costs (used less electricity, cut distribution costs)</li> </ul>	<ul style="list-style-type: none"> <li>Increasing energy conservation at existing buildings through renovation</li> <li>Further conserving energy in amusement facility operations</li> </ul>
	<p><b>Relationship with Employees</b></p> <ul style="list-style-type: none"> <li>Actively employed non-Japanese citizens</li> <li>Increased number of women in management positions</li> <li>Held Health and Safety Committee meetings</li> <li>Implemented staff training</li> <li>Implemented discretionary work system</li> </ul>	<ul style="list-style-type: none"> <li>Expanded global reach through game development based on a diverse set of values</li> <li>Acquired competent creators</li> <li>Improved creator productivity</li> <li>Fostered a commitment to legal compliance</li> </ul>	<ul style="list-style-type: none"> <li>Increasing the percentage of women in management positions</li> <li>Enhancing employment of a global workforce</li> </ul>
<b>S</b> Social	<p><b>Relationship with Customers</b></p> <ul style="list-style-type: none"> <li>Compliance with the CERO ratings system</li> <li>Formulated guidelines with industry groups</li> <li>Supported community building by promoting the spread of esports</li> <li>Monetized without high-pressure microtransactions</li> </ul> <p><b>Relationship with the Regional Community</b></p> <ul style="list-style-type: none"> <li>Welcoming children participating in Company Visits to our offices / holding Guest Lectures at schools</li> <li>Regional revitalization making use of Capcom content</li> <li>Supported senior citizen community formation with video game arcade tours</li> </ul>	<ul style="list-style-type: none"> <li>Improved customer satisfaction by creating stress-free environments for play</li> <li>Reduced social risks posed by games</li> </ul>	<ul style="list-style-type: none"> <li>Education of manufacturers, users, consumer groups, government entities, etc.</li> </ul>
<b>G</b> Governance	<ul style="list-style-type: none"> <li>Increased dialogue with shareholders</li> <li>Transitioned to a company with an audit and supervisory committee</li> <li>Raised the ratio of external directors</li> <li>Established the Nomination and Remuneration Committee (voluntary)</li> </ul>	<ul style="list-style-type: none"> <li>Evaluated proper corporate value on both financial and non-financial bases</li> <li>Avoided managerial decision-making risk through better management monitoring</li> <li>Ensured the appropriateness of growth strategies by having the Board of Directors consider a range of views</li> <li>Perpetuated the founder's business know-how</li> </ul>	<ul style="list-style-type: none"> <li>Increasing the number of opportunities for persons in charge of development to converse with the market</li> <li>The effective operation of the audit and supervisory committee system</li> <li>Board of Directors effectiveness assessments and their utilization</li> <li>Setting developer compensation in consideration of medium- to long-term sustainable growth</li> </ul>

Material Issue 3 Development of Solid Relationship with Society



Video games have a short history of academic research, and as evidenced by what was once called “game brain,” theories regarding their negative influence are more entrenched among the public than their educational aspects. In recent years, the WHO’s recognition of gaming disorder as an illness has also become a widely discussed subject. While it is true that spending all of your time gaming will create problems in your life, games are simulations and have the ability to provide experiences that cannot be obtained in real life. Based on our desire to promote understanding of video games in society, Capcom holds Company Visits, where we welcome children to our offices, and Guest Lectures at schools, both tailored to elementary and junior high school students.

Material Issue 4 Enhancement of Corporate Governance



Generally, an owner-run company excels at being flexible and fast decision-making, though concerns may exist over the issue of succession. At Capcom, we strive to make management more transparent and visible, and have implemented various governance reforms to this end, such as the Nomination and Remuneration Committee. We proactively appoint external directors, with 45.5% of our directors now being external directors.

# Business activity achievements

## Business Overview

## Operating Results for This Fiscal Year



### Digital Contents

This business develops and sells packaged games and digital download content for home video game consoles. It also develops and manages Mobile Contents and PC Online Games. Consumer games produces creative, original content with a focus on action and adventure. Many of these million-seller titles are used for smartphone, tablet device and PC online games distributed worldwide in order to maximize earnings.

#### Consumer (Package + Digital Download Contents)

- ◆ Both major new titles *Resident Evil 2* and *Devil May Cry 5* gave a strong performance
- ◆ Catalog sales and the PC version of *Monster Hunter: World* performed steadily
- ◆ Minor and mid-sized titles, such as rereleases, displayed solid progress

#### Mobile Contents

- ◆ Launched *BLACK COMMAND* and *Toraware no Paruma Refrain*



### 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 female customers.

- ◆ We focused efforts on cultivating new customer segments, including the start of an online crane game service and free game experience tours for middle-aged and elderly persons.
- ◆ A large-scale Plaza Capcom was opened in Hiroshima
- ◆ Two arcades were opened, and one was closed
- ◆ Same store sales were up 2% year over year



### Amusement Equipments

Here, we are engaged in sub-segments that utilize the content from our home video games. The Pachinko & Pachislo (PS) sub-segment is involved in the development, manufacture and sales of frames and LCD devices for gaming machines as well as software. The Arcade Games Sales sub-segment develops, produces and sells arcade games for amusement facilities.

- ◆ Sold a total of 7,800 units across five PS models
- ◆ Changes to model testing methods resulted in market softening and a weakened sales trend
- ◆ In Arcade Games Sales, sales of equipment released the previous fiscal year continued



### 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.

- ◆ We held events using IPs like *Monster Hunter* and *Resident Evil*. This contributed to maximizing sales.
- ◆ Active efforts were made to develop new esports events such as the Capcom Pro Tour Japan Premier and the Capcom Street Fighter League powered by RAGE.

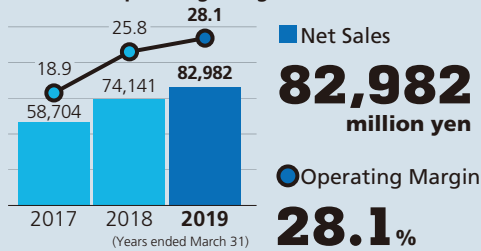


Main Products for This Fiscal Year (Output)

PC Online

◆ The performance of PC Online titles *Monster Hunter Frontier Z* and *Dragon's Dogma Online* declined

Net Sales/Operating Margins



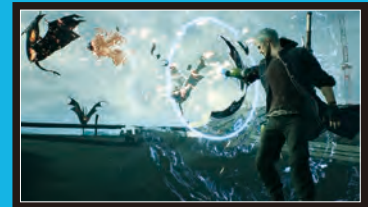
*Resident Evil 2*

With the original title ranked 4th in the series for total cumulative sales at 4.96 million, *Resident Evil 2* was completely rebuilt from the ground up for current-generation game consoles. Cutting-edge technology was used to create the visual and audio effects, garnering high praise and resulting in 4.2 million units in global sales.

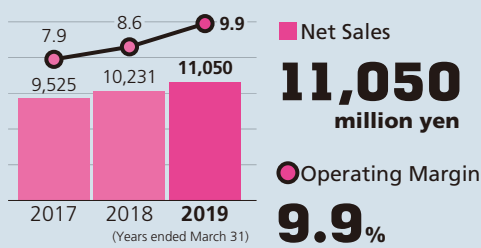


*Devil May Cry 5*

The first new numbered sequel in the series in 11 years. The high-resolution photorealistic graphics and polished action, made possible by our proprietary development tool, the RE Engine, received high acclaim from both domestic and overseas media, resulting in 2.1 million units in sales.



Net Sales/Operating Margins



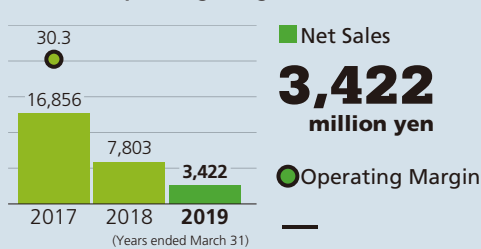
Online Crane Game

*Capcom Net Catcher Cap Tore*

Starting in November 2018, this new service enables crane game play around the clock using the internet browser on your smartphone or computer.

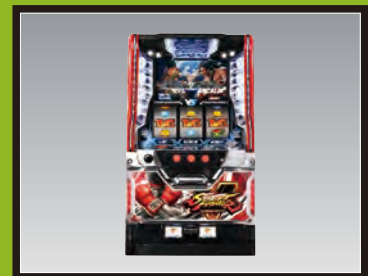


Net Sales/Operating Margins

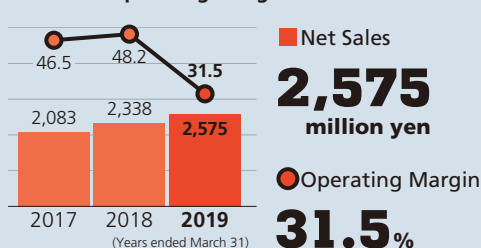


*Street Fighter V* for Pachislo

This pachislo machine uses the fighting game masterpiece, *Street Fighter*. Released in July 2018, 3,300 units have been sold.



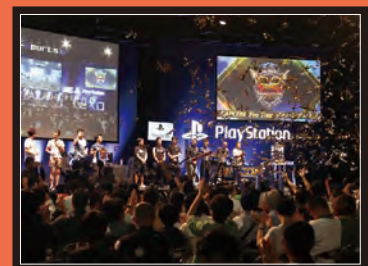
Net Sales/Operating Margins



Capcom Pro Tour Japan Premier

Capcom held its first domestic tournament in September 2018 at the Makuuari Messe, contributing a substantial total of 10 million yen in prize money.

The event was well received, attracting 3,700 visitors; the largest number of visitors at any of the esports competitions held on the same day at the same venue.

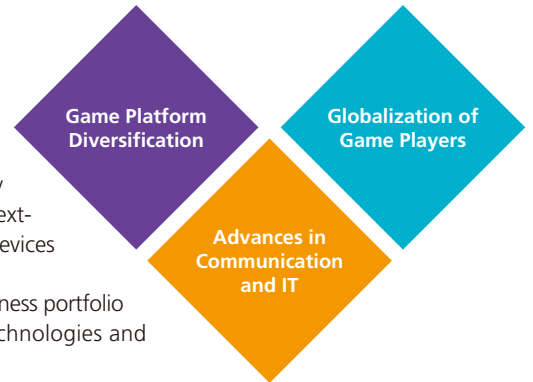


# Building a business portfolio that achieves stable, sustainable growth

## Responding to mega trends in the game industry

Innovation wrought by information technology keeps the game industry in a state of constant evolution. With the spread of the internet in recent years, it has become possible to sell games even in regions where the distribution of packaged games has traditionally proven difficult, expanding the number of global game players. In the near future, the 5G next-generation communication standard is expected to enable multi-screen play, with multiple devices used to play the same game, as well as the creation of even higher quality games.

At Capcom, we always have our finger on the pulse of these changes, as we build a business portfolio that achieves sustainable growth through measures such as research on fundamental technologies and collaborations with knowledgeable companies.



## Medium- to long-term growth

Profit

### Mobile + Esports

Options for further growth

#### [Mobile]

Period of acquiring the know-how to create hit titles

#### [Esports]

Period of building a framework for the medium to long term

### New Titles (Consumer)

Growth driver

#### [Consumer]

Period of enhancing lineup and achieving growth through global expansion

### Catalog Titles (Consumer)

Base profits from recurring revenue model

### Amusement-Related

Stable earnings

#### [Amusement Equipments/ Arcade Operations]

Period of stabilization amidst a deteriorating environment

Medium-term





## Growth Strategy

### [Mobile]

- Promote alliances in Japan and other countries
- Explore new developments

### [Esports]

- Having established a dedicated esports division, we are expanding our base by holding events in Japan

### [New Titles (Consumer)]

- Regularly release titles for major IP
- Promote utilization of dormant IP and remakes

### [Overall (Consumer)]

- Strengthen digital sales for both new and catalog titles

### [Catalog Titles (Consumer)]

- Expand *Monster Hunter* series globally
- Extend sales life of catalog titles with rereleases for current-generation hardware



### [PS Business]

- Build development structure to handle current regulations



Long-term

→ Period





CEO Commitment

Kenzo  
Tsujimoto

Chairman and  
Chief Executive Officer (CEO)





# Generating world-class content to help build a richer society through a solid management base and our growth strategy.

## A look at Capcom’s favorable and unique position from six perspectives

The fiscal year ended March 2019 marked the second consecutive year we achieved record high profits. From the fiscal year ended March 2015, our medium-term management goal has been to increase operating income each year, and we have accomplished this for six consecutive years. These achievements lead me to believe that we are headed in the right direction with our strategy and the business model we are working towards.

Last year, I explained the elements that serve as the source of Capcom’s sustained growth as **1** a

corporate philosophy and culture that fosters the ambitions and values set out at our founding, **2** a business model that is a competitive advantage, **3** important management indicators that function as quantitative guideposts, **4** a management strategy focusing on our strengths, mitigating risks, and enhancing sustainability, **5** a relationship with society, **6** governance, and finally a linking of these elements.

Please continue reading as I explain to our stakeholders once again how these six elements allow us to demonstrate our favorable and unique position.

## 1

## Corporate philosophy and culture — Aim to be the best in the world

## The world's best content "from Osaka to the World," arising from our unchanging philosophy

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 your senses and brings a smile to your face. In other words, we help make people happy and in turn build an emotionally rich society by creating the world's most entertaining games. → For details, please refer to "Corporate Philosophy" on page 04

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.

36 years later, I have amassed more than 2,800 colleagues who share this vision. Under the slogan "From Osaka to the World," these values have become our corporate culture, 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 that are globally recognized, 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

## High-quality content creation and the business development to maximize its use

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

In addition, since fiscal 2011, we have hired over 100 new graduate developers every year in anticipation of focusing on in-house development, 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 consumer spending and time is more concentrated on branded, popular titles. → For details, please refer to "An Analysis of the

Market and Capcom" on page 69.

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 IPs amplifies the effect of our multiple usage strategy. Moreover, expansion into other areas leads to increased brand value and subsequently an influx of new users to the game. In particular, marketing activities utilizing Hollywood adaptations of content further enhances the global competitiveness (brand power) of our IPs and maximizes synergistic effects.

→ For details, please refer to "The COO's Discussion of Growth Strategies" on page 31.

In recent years, as a result of these sustained branding measures, we are increasingly seeing multiple generations of fans at event venues as IPs enjoying long-term popularity have firmly taken hold.



**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 2019 (summary)

In the fiscal year under review (ended March 2019), we achieved the sixth 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) *Resident Evil 2* and *Devil May Cry 5* were both indisputable successes, having been developed in-line with the highly stringent, world-class quality standards that drove the success of *Monster Hunter: World*, (2) following the home video game version, the PC version of *Monster Hunter: World* has also achieved success as a global brand, (3) catalog sales (past titles, including rereleases and HD versions) also grew, increasing the density of our earnings platform and (4) digital unit sales rose to 61%. All four 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 75

### 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), and (2) maximize both the number of users supporting our company and earnings by leveraging our rich library of IPs across multiple platforms and media 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%. It is true that achieving growth every year in a hit-driven business like the gaming industry is a lofty goal. However, with the digital shift of sales and marketing these past few years, our profit structure has also changed. We are in fact a leader in the change-over to digital, and the profit margin of our Digital Contents business is growing steadily.

#### (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 66% increase in operating income and a 7.9-point improvement in operating margins over the past five 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 2016)

	Operating income	Operating margins
<b>CAPCOM</b>	<b>+66%</b>	<b>+7.9 points</b>
KONAMI HOLDINGS	+90%	+7.5 points
SQUARE ENIX HOLDINGS	-8%	-3.3 points
SEGA SAMMY HOLDINGS	+53%	+1.8 points
EBANDAI NAMCO HOLDINGS	+41%	+1.1 points

Note: Comparison of the fiscal year ended March 2016 and the forecast for the fiscal year ending March 2020.  
Source: Compiled by Capcom from each company's 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 six years straight. And, in the fiscal year ending March 2020, the equity spread (ROE – cost of capital) is expected to be 10.5%, adding to corporate value and exceeding the average for companies listed on the Tokyo Stock Exchange (2.5%)

as well as those in the same industry.

**ROE/Equity spread**

	ROE	Equity Spread
<b>CAPCOM</b>	<b>15.8%</b>	<b>+10.5%</b>
KONAMI HOLDINGS	10.9%	+6.1%
SQUARE ENIX HOLDINGS	8.3%	+4.1%
SEGA SAMMY HOLDINGS	5.0%	-0.8%
BANDAI NAMCO HOLDINGS	11.7%	+7.0%
TSE 1st Section Average	8.4%	+2.5%

Note: Forecast for the fiscal year ending March 2020  
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 22.5%, beating TOPIX (8.0%) 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)
<b>CAPCOM</b>	<b>+22.5%</b>
KONAMI HOLDINGS	+16.7%
SQUARE ENIX HOLDINGS	+14.4%
SEGA SAMMY HOLDINGS	-8.4%
BANDAI NAMCO HOLDINGS	+19.4%
TOPIX	+8.0%

Note: Five-year period from fiscal years ended March 2015 to March 2019  
Source: Bloomberg

**4 Management strategy — Development and marketing strategies focused on strengths**

**Further refining IPs with development structure and brand strategy and foraying into new areas**

**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 since 2011, Capcom has hired over 100 new graduate developers 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. If the employee is highly capable, they

may be assigned to the development of major brands, such as *Resident Evil* or *Devil May Cry* in the early years of their career. Learning and achieving results under the tutelage of a leader while taking on more responsibility over time readies that employee to eventually take on a leadership role themselves in the future.

In addition, we are actively investing in the world’s most cutting-edge on-site R&D facilities and development equipment, such as our motion capture studio featuring 7-meter-high ceilings, our 3-D scan studio with roughly 100 cameras, and a Foley studio for recording sound effects so that our elite team of world-class creators can work to the absolute best of their abilities.

**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 return of approximately 15 billion yen 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) online and 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 IPs such as *Monster Hunter* and *Mega Man*.

### 3. Transforming the consumer business model to mitigate earnings volatility risks

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 six years ago are finally starting to take shape. To establish solid growth strategies and further enhance corporate value, there are two critical risks, earnings volatility and management decisions, that must be addressed. However, first I will talk about the stable growth mechanism (control of earnings volatility risks).

➔ For details regarding management decision risks, please refer to page 28

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

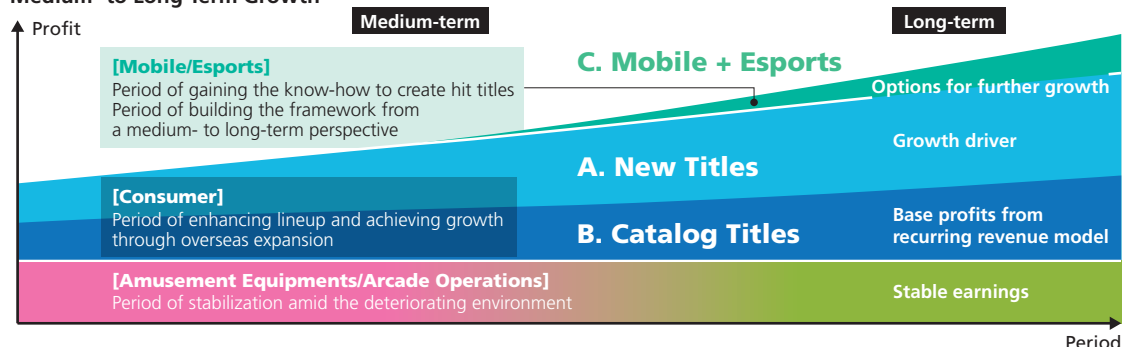
Next, in terms of catalog titles [\[Diagram 1-B\]](#), we will grow our user base and generate profits on a recurring revenue basis even during periods in-between new title releases through (1) digital sales of past titles and (2) re-releasing past hit titles for current-generation game consoles.

### 4. Building a new medium- to long-term revenue pillar

Currently, we are several paces behind our industry competitors in terms of mobile content. This stems from the compatibility between our IPs created for home video game consoles and mobile devices, but as G (communication speed) and K (resolution) technology progresses, we believe that within the next several years we will be able to fully utilize our strength in IPs in mobile content as well. In addition, we are pursuing all immediate possibilities, such as in-house production,

Diagram 1

#### Medium- to Long Term Growth





collaborations, and M&A, building up a foundation for our mobile business as a further growth option (second pillar).

In addition, with a focus on the future growth of the esports market, we will strengthen title branding and attempt to make the esports business profitable.

[Diagram 1-C]

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

# 5

## Relationship with Society (S) — Global human resources and new market cultivation

### Building a good relationship with our stakeholders, contributing to society through business

From our position as a game publisher, we believe that we can increase our corporate value by building a healthy relationship with our stakeholders while also—through our business activities—nurturing talent that can play an active role on the global stage, as well as by creating new markets with cutting-edge technology that can in turn be combined to create social and economic value (creating common value).

#### 1. Building a healthy relationship between games and society

While games have made people smile, stimulated their senses, and created a new culture up to this point, new challenges have also appeared, such as the expensive in-game purchases by minors and game addiction that have accompanied the increase of online games in recent years. As I mentioned in my explanation of our corporate philosophy, our purpose is to make people happy through games. Making people unhappy because of games is certainly not our intention. If we do not tackle these issues head on, as an industry, company, and member of society, we will not be able to earn people’s trust and continue growing. → For details, please refer to “Corporate philosophy and culture” on page 23

We are aware that these are major issues for our industry as a whole, and each company has therefore come together as part of an industry organization to make efforts to (1) establish guidelines and educate people about them, (2) share problems and actual examples among member companies, and (3) exchange information on a regular basis with parents, educators, consumer groups, and government administrators.

→ For details, please refer to “Relationship with Customers” on page 47

In addition, since 2005 Capcom has independently continued literacy and career education support activities to raise awareness about how to properly interact with games in an effort to eliminate the social concern regarding the healthy development of youth

with regards to games. → For details, please refer to “Promoting Healthy Relationships with Games” on page 50

We do our best to ensure that a broad range of customers are able to play safely and fairly. As a general rule, in our mobile games we refrain from utilizing gacha elements, and while we do sell small-scale, inexpensive additional content in games for home consoles, any content that is required to play the main game is provided free of charge.

#### 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 crime prevention 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 “Relationship with Regional Communities” on page 49

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 extremely 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. As I mentioned earlier, we have world-leading, cutting-edge development equipment enabling our talented workforce to fully demonstrate their abilities. As part of our efforts to improve the work environment, we have provided equipment that allows creators to give shape to their ideas, which improves product quality while also bolstering creativity. In terms of remuneration, in addition to a well-balanced salary system based on ability, we have also introduced incentives for each title and an assignment allowance system to increase motivation.

Furthermore, in fiscal 2017 we established Capcom Juku, an on-site childcare facility, to provide employees with children a fulfilling work environment where they can concentrate on their work. I would like to make Capcom Juku something beyond a simple childcare facility and see it expand into a place of learning for children all the way up through their junior high school

entrance exams. Japan is feeling pressure from countries like the United States and China in the areas of AI and IT, thus I want to provide our children with the tools to succeed when it is their turn to compete on the world stage. I believe that supporting our children up to their entrance into junior high school and nurturing Capcom employees into world-class businesspeople and game creators will contribute to the sustainable growth of our company as well as the industry. [➔ For details, please refer to "Relationship with Employees" on page 50.](#)

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  
Mcreating the next generation**

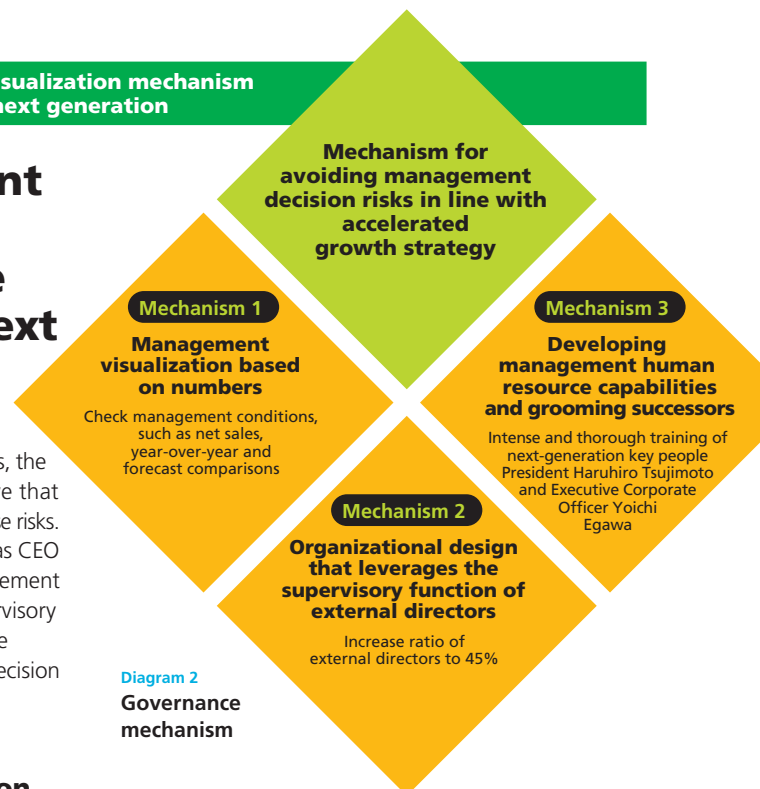
**Avoiding management decision risks with transparency and the development of the next generation of leaders**

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 external directors, and a unique mechanism for highly transparent and rational decision making built by the Board of Directors. [\[Diagram 2\]](#)

**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,



**Diagram 2  
Governance mechanism**

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 the details in multiple ways.

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, 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 20 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 outside the gaming industry, 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. In fact, fierce debates led primarily by our external directors were held regarding agenda items such as the fiscal 2015 reintroduction of takeover defense measures (currently abolished) and fiscal 2016 transitioning to a company with an audit and supervisory committee.

➔ For details, please refer to the 2016 and 2017 Integrated Reports.

### 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?

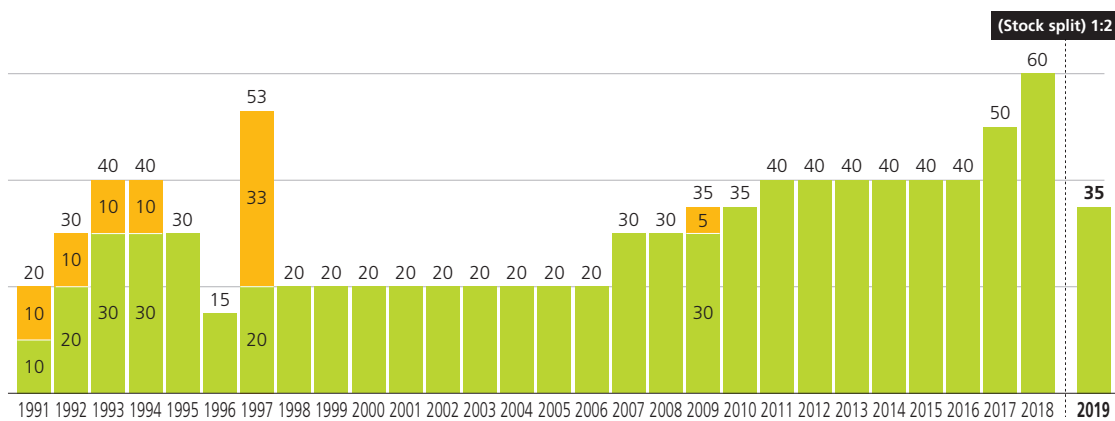
Capcom’s key people for the next generation are the head of business and development, Haruhiro Tsujimoto (president) and Yoichi Egawa (executive corporate officer). Both have the qualities required for management. I chose them as keypersons because, as I have discussed in past reports, they have amassed a wealth of experience since our founding and are ready and willing to take on the responsibility. As a member of Capcom’s founding family, from the time it was a small company akin to a neighborhood business, Haruhiro Tsujimoto has assisted with a sense of responsibility and awareness of the family business. Later, he adopted the motto “diligence and earnestness” as he labored with modesty to launch the arcade operations business and develop our strategy of multiple usage for leveraging content. Yoichi Egawa joined the company soon after it was founded, and since then he has displayed a determination to stay and fight even in the most difficult situations, taking on a leadership role in the development of arcade games and the establishment of both the pachislo and mobile businesses, all the while delivering results. However, due to Capcom’s significant growth over the last 36 years, management responsibilities are also larger and carry more weight. My role as founder is to create a framework that will sustain the company and ensure that my successors have a proper understanding of that framework and can execute within it. However, if I were to simply pass the reins and walk away, management would be unsustainable in this era of rapid change. For as long as I am physically able, I feel it is my duty to remain by the side of our keypersons and guide them, both in the board room as well as in life, by spending time together on a personal level to exchange information and offer advice.

In addition to my intense and thorough training of these two different types of people, it is my intention to combine that with the corporate culture we have cultivated over many years, the aforementioned management visualization and systematization, and just governance. I believe this will result in a profound management team that our long-term investors will trust as managers implicitly.



# Rewarding long-term shareholders with 29 consecutive years of returns since Capcom’s listing and record-high dividends

**Diagram 3**  
Dividends per share since public listing (yen)



(Note) A two-for-one stock split took place dated April 1, 2018. The dividends prior to the fiscal year ended March 2018 are listed as the dividends on the stocks prior to the split. (Years ended March 31)

## 1. Basic policy regarding dividends

During my 36 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.

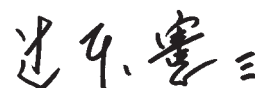
Capcom shareholders represent all types of people, and I assume some of them may be facing these kinds of issues, which is why we have never once failed to provide dividends during the 29 years since we went public in 1990. In addition, the fiscal year ended March 2019 was the third consecutive year we achieved increased dividends, and considering the stock split, our dividends have actually doubled over the past 10 years. [\[Diagram 3\]](#)

## 2. Dividends for this fiscal year and the next

Dividends for the fiscal year ended March 2019 were 35 yen for the year, which is actually the highest ever taking the stock split into consideration. In the next fiscal year, we plan to pay the same amount of dividends.

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 36 years in order 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 sub-segment
- Mobile and esports are options for further growth

1

### Consumer

Maximize use of core IPs through our digital strategy

- Measure 1** Steady launch of core IP in global markets
- Measure 2** Bolstering digital sales
- Measure 3** Game business digital shift
- Measure 4** Supporting new services

→ P33

2

### Mobile

Develop measures for the medium and long term with a view to take advantage of 5G

- Medium-Term Measures** Promoting alliances in Japan and overseas
- Long-Term Measures** Preparation for next-generation standards

→ P37

3

### Esports

Focusing on popularizing a new culture for content

- Measure** Aim to establish an ecosystem that is a win-win for players, viewers, and local communities

→ P38



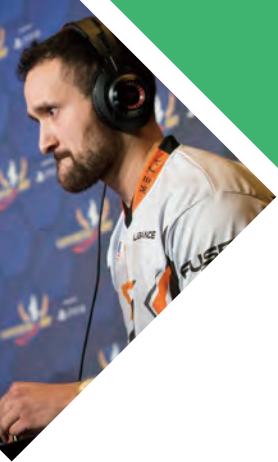
# Enhance digital strategy and pursue maximizing revenue from IPs geared toward the expanding market

The game market continued to boom this fiscal year with the performance of each home video game platform, the popularity of new game genres in the mobile market, and the further growth of our esports business. In addition, with the next-generation mobile communication standard, 5G, being rolled out from July 2019, structural changes to the gaming business are starting to be explored, such as major IT companies announcing plans for new platforms that feature cloud gaming.

In this environment, areas of the market we are focused on are **1** the shift to digital, which has allowed us to directly address customer needs from a business standpoint, as well as achieve remarkable globalization

and platform growth in step with the spread of digital sales in our core Consumer sub-segment, **2** 5G, which if widely adopted will increase the likelihood of mobile content undergoing significant changes, and **3** esports, which has the potential to change the social value of games in addition to revenue opportunities.

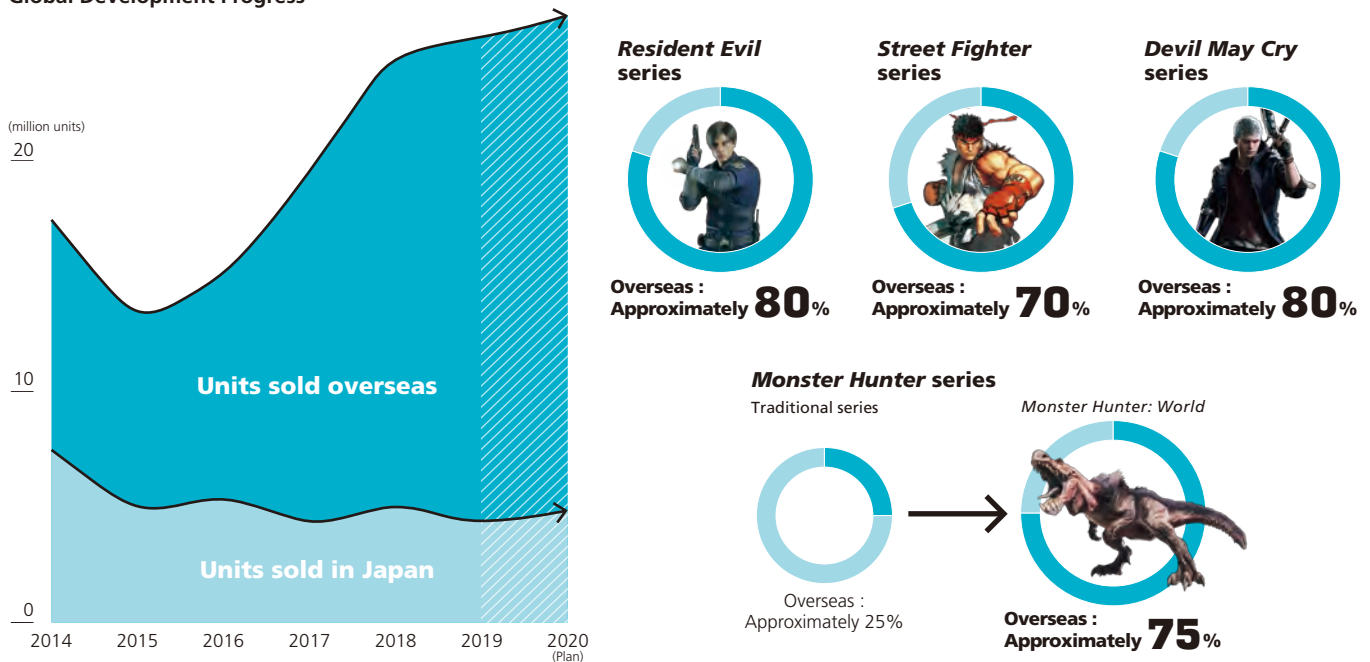
The game market is evolving at breakneck speed; however, through integrating the development, sales and marketing aspects of our digital strategy with our single content multiple usage strategy, which allows us to leverage our rich library of original IP across a wide array of media, we will expand our global base of customers who support and trust Capcom's brands and continue growing our operating income annually.





# The COO's Discussion of Growth Strategies

Diagram 4  
Global Development Progress



## Consumer

# Maximize use of core consumer IP through our digital strategy

### Use digital sales to increase pricing and region opportunities while extending the life of both new and catalog titles globally

The consumer market is expected to grow to 47.9 billion dollars by 2023 (a 60.2% increase compared to 2018), thus Capcom continues to position our Consumer subsegment as our driver of growth. We made progress toward establishing a recurring revenue model through achieving longer product lives, which includes sales growth for catalog titles, and improved profitability for new titles via ongoing initiatives that included expanding our new title lineup and strengthening digital sales. This is in addition to increased sales in emerging markets on PC platforms, which has grown in recent years, resulting in a profit margin of approximately 30% in the fiscal year ended March 2019.

In the next fiscal year and beyond, we will further promote our digital strategy and globalization as the foundation for a development structure that produces world-class quality, and aim for greater growth and stability in our business results. → For details see page 42

#### 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 delivering stable growth, and established a mechanism for placing more than 2,000 developers on the required development team at suitable times via a year-long assignment map. As a result, we shortened the launch cycle for each series, enabling the launch of multiple major titles each fiscal year.

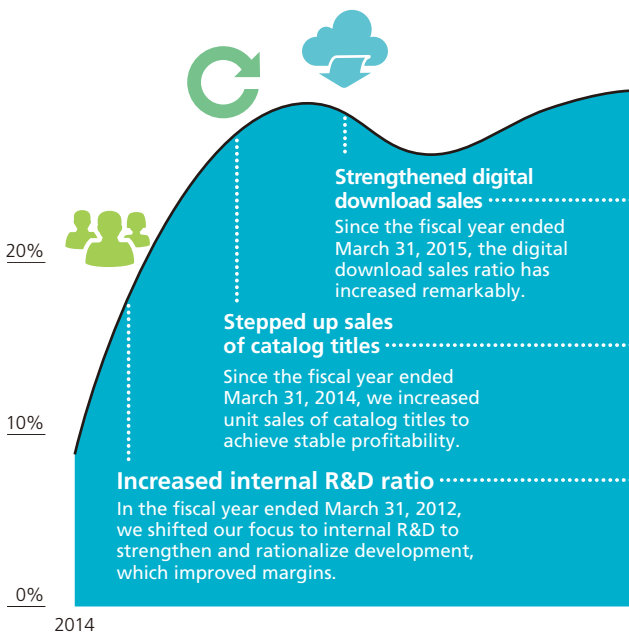
Based on this structure, we think there is substantial room for growth in the overseas markets, which comprise 85% of the consumer market, and in addition to *Resident Evil* and *Street Fighter*, which are already popular overseas, our strategic plan to make *Monster Hunter* a global brand with the release of *Monster Hunter: World (MH:W)* in January 2018 resulted in record sales of 13.1 million units (as of June 30, 2019). [Diagram 4] Additionally, we maintained the same meticulous commitment to quality on this year's *Resident Evil 2* and *Devil May Cry 5* as we had on *MH:W*, which, in conjunction with leveraging our know-how in digital marketing and promotion, resulted in these titles performing favorably to our sales plan. → For details see page 36

We will continue to strengthen our development structure and promote further systemization to grow our pipeline of new titles geared toward the global market.

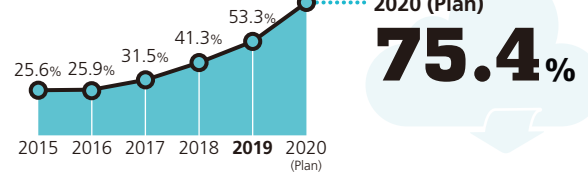
For the time being, while we are placing a priority on maximizing the revenue from current core IP, we are also actively looking to utilize dormant IP.

Diagram 5

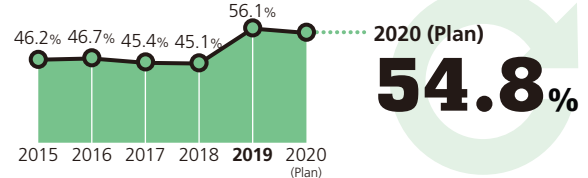
## Consumer sub-segment Operating Margin (%)



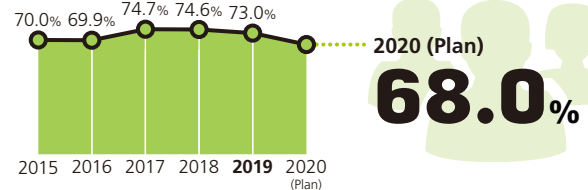
## Digital Sales Ratio



## Unit Sales Ratio of Catalog Titles



## Internal R&amp;D Ratio



Further, as the creation of new IP is indispensable in generating medium- to long-term growth, we are working to develop new brands as well.

## Measure 2

**Bolstering digital sales**

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

Up to this point, Capcom has worked to strengthen our digital sales of both new and catalog full-game titles, resulting in 41 billion yen in digital sales this fiscal year and a digital sales ratio in the Consumer sub-segment of 53.3%, surpassing the 50% we set as our medium-term target. During this time, consumer profitability has improved significantly, and business performance volatility has been reduced in line with our progress toward establishing a recurring revenue model that accompanies the achievement of long-term sales.

A major driver in the rapid growth of digital sales this fiscal year was increased PC game sales, as illustrated by the PC version of *MH:W*, a new release. Our analysis shows that compared to conventional platforms, PC provides an advantage in expanding sales to emerging markets such as Asia, South America, Eastern Europe, and the Middle East, where we can expect it to continue contributing to the globalization of Capcom's business and acquisition of new users. In addition, purchases of new titles among customers are gradually shifting away from physical packages and toward digital, as evidenced

by the digital sales ratio of both of our major titles this year exceeding 40%.

In the next fiscal year, we plan to further increase the digital sales ratio to 75.4%. The main contributing factor in this is that we are not releasing our new major title *Monster Hunter World: Iceborne* as a conventional standalone new title (at full-price), but rather as a massive expansion for *MH:W*. In other words, while the game content will be of a volume equivalent to that of a new title, we are selling and distributing it as additional content primarily through digital sales channels. ➔ For details see page 43 In light of global user trends, we expect overall sales units to drop and net sales to decline in our Consumer sub-segment next fiscal year as we attempt this new sales method, but at the same time, we expect the profit margin to rise further. [Diagram 5]

We expect that moving forward with these policies will bring the digital sales ratio closer to 80–90% or more in the medium to long-term, as well as improve Consumer sub-segment profitability, providing further progress in establishing our recurring revenue model.

## Measure 3

**Game business digital shift**

It has long been our belief that the game business could be made more efficient by utilizing state-of-the-art internet technology.

Therefore, in addition to proposing an internal change in our way of thinking, we established the Global Marketing Group, as well as quarterly Global Marketing meetings for management and global business executives to better align our aims amongst other efforts towards improvements. As a result, *MH:W*, released in January 2018, became the first title on which management, development, and business came

# The COO's Discussion of Growth Strategies

Diagram 6  
Global Marketing

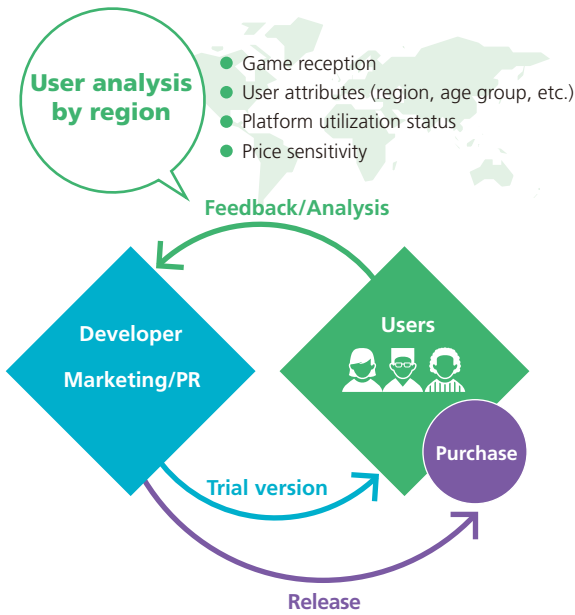
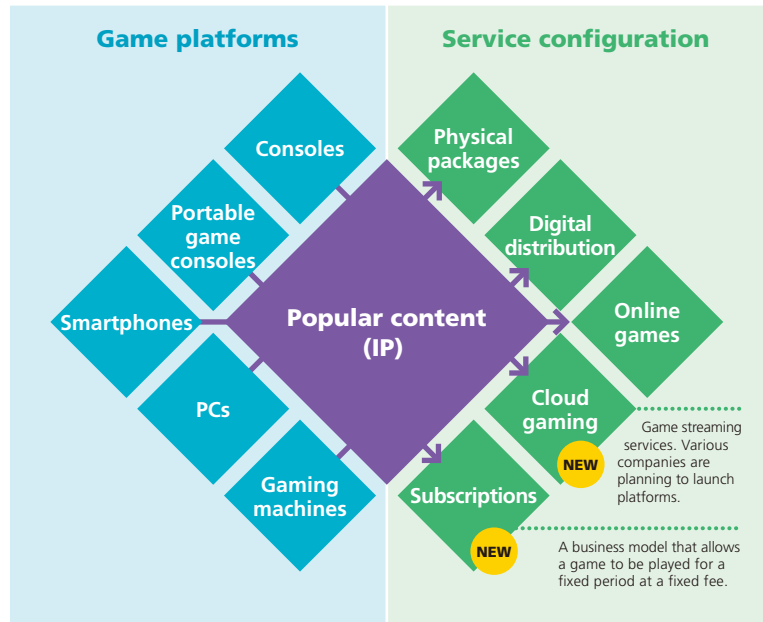


Diagram 7  
Game Platform & Service Configuration



together to make full use of internet connectivity to expand sales and realize improved quality. For example, the analysis of global user preferences, which were collected through an online demo version, contributed to this record-breaking hit, and we have applied this method to the two major titles released this fiscal year with successful results. The critical factor is to extract and analyze data from the standpoint of user satisfaction, which is extremely important for luxury items like games. This importance will continue to increase going forward as digital natives—those people who grew up with the internet and social media—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 utilization status, and price sensitivity for each IP, we are shifting the function of our overseas subsidiaries from that of sales to marketing and promotion. In addition, from this fiscal year, we have integrated management of Japan and Asia to focus our business resources on the rapidly growing Asian market. We are also conducting proactive assignments of key persons, including offering positions to those from other industries, to catalyze the evolution of our organization with new knowledge and know-how. [\[Diagram 6\]](#)

## Measure 4

### Support for new services such as cloud gaming and subscriptions

In step with the launch of 5G service, both existing platform providers and global IT firms, one after another, are announcing new cloud gaming and subscription services in the field of consumer games. Capcom pays close attention to future developments, and has adopted a multi-platform strategy under which we welcome the opportunity for new services to enhance the game environment for users, for example: the potential that wide adoption of cloud gaming will increase the overall game player population (where “cloud gaming” implies access to games through a variety of different hardware at a lower initial cost to the user).

At the same time, it will also be necessary to objectively analyze developments as we move forward, such as what actual merits users find in the new services and whether changes will arise in doing business with platform providers.

Capcom's top priority remains as the meticulous refinement of our content to maintain our unflinching, consistent world-class quality. If we can accomplish that, then customers will always choose us, regardless of platform. Our experience from many long years of standing at the forefront of the industry has convinced me of this. [\[Diagram 7\]](#)



## Case Study: Analysis of a Top Hit

Resident Evil 2

BIOHAZARD RE:2

# Captivating fans across generations to top four million units sold in one month

The *Resident Evil* series features survival horror games where players attempt to escape terrifying situations using weapons and other items. Since it was first released in 1996, the series has sold more than 91 million units total (as of March 31, 2019), becoming one of our best-known brands. Today, more than 20 years after its first appearance, it has the enthusiastic support of fans around the world.

*Resident Evil 2*, released on January 25, 2019, is a reimagining of the fourth best-selling title in the series, originally released in January 1998. It was rebuilt from the ground up for current-generation game consoles using our cutting-edge development tools. In addition to the highly immersive world and dramatic story enabled by the latest technology, effective promotion and digital strategy made the game successful not only among fans of the original but also with a whole new demographic of fans. It became a major hit, with sales exceeding four million copies approximately one month after its release.

*Resident Evil*  
Total number of units sold

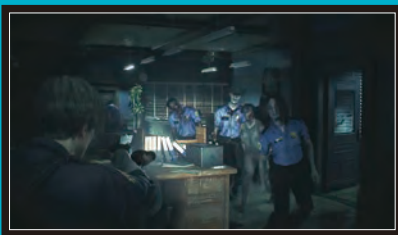
## 91 million

1997 1999 2004 2009 2014 2019  
(Years ended March 31)



## Why it became a hit

**1** A remake that exceeds all expectations



The original *Resident Evil 2* is one of the series most popular titles. Recreating the game for current-generation game consoles meant there were high hurdles to overcome in terms of the fans' expectations for the game and the weight of the brand. In our effort to leave a sense of the original while remaking the game from scratch, it took 18 months of trial and error to figure out what to keep and what to change until the game's first stage at the police station was finally complete.

As a result, it was crowned "Best of Show" at E3 where it was unveiled, marking the first time the honor of most notable game was awarded to a Japanese third-party developer, and raising the expectations of stakeholders ahead of its release.

**2** Fear created audio-visually with the latest technology



Our proprietary development engine, the RE Engine, enables both the use of high-definition graphics to portray the terror of groping through the dark while gruesomely real zombies hunt for flesh, as well as the use of real-time binaural technology for the first time to reproduce sound in sync with the player's perspective.

Enhancing the sound as well as the graphics has enabled us to offer a deeply immersive game experience, earning the game a high 90 point\* Metascore, which serves as an indicator of game player purchasing.

\*PlayStation 4 version

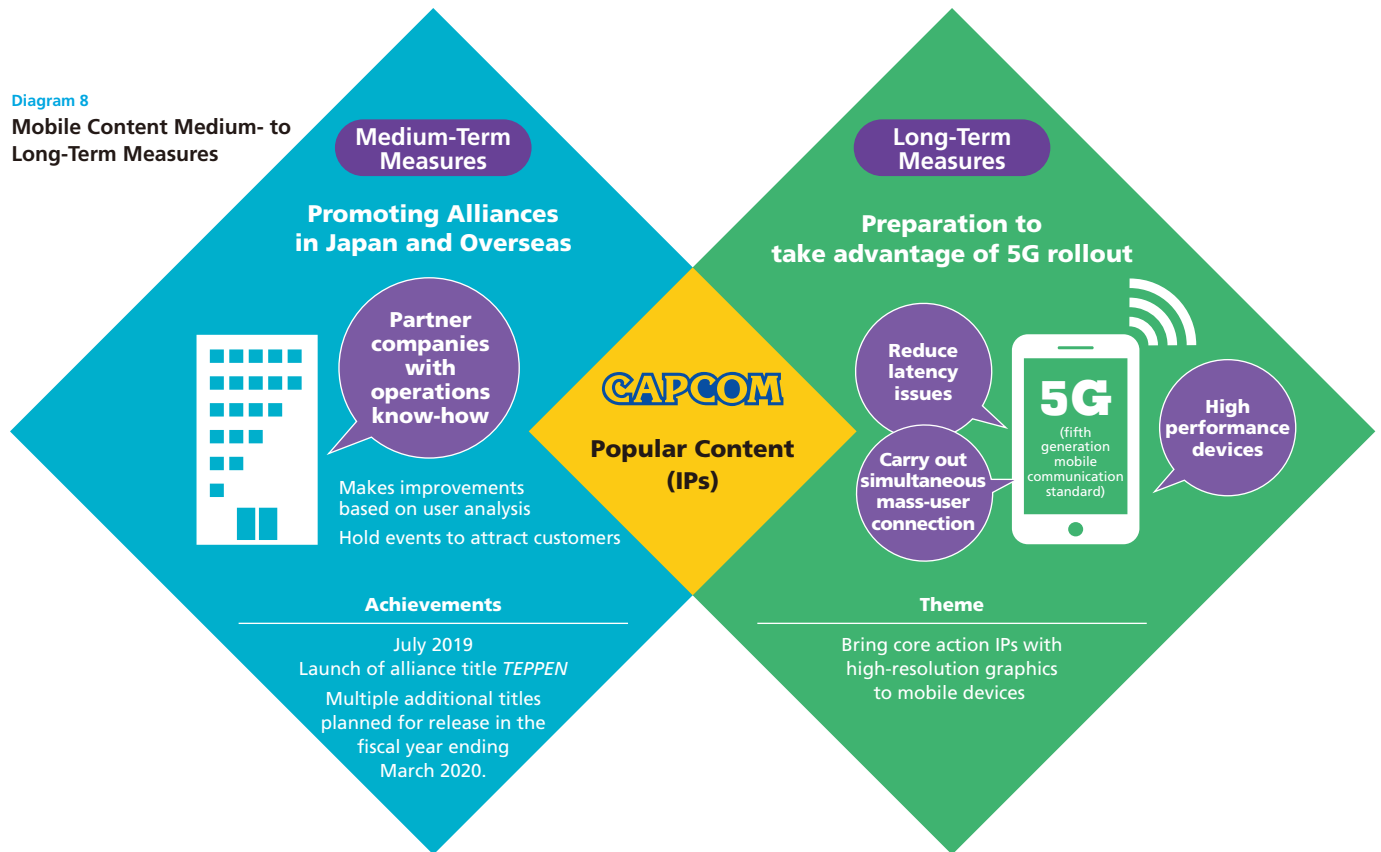
**3** Appealing to fans new and old with social media promotions and digital strategy



In addition to creating entertaining photo ops at gaming events and releasing videos of influencers playing the game, we also distributed a "1-Shot Demo" trial version of the game. This limited, one-time only 30-minute trial roused user interest on social media, resulting in five million downloads.

Directing users of the trial version to the purchasing site after playing the game also led to a rise in the number of preorders and succeeded in acquiring a broad spectrum of players, ranging from casual to hardcore series fans.

Diagram 8  
Mobile Content Medium- to Long-Term Measures



## Mobile Develop measures for the medium and long term with a view to take advantage of 5G

### Amassing know-how geared toward next-generation mobile content

Capcom continues to lag behind other companies in our industry in the mobile domain, and this fiscal year sales declined due to postponing some titles and a general sentiment that the “gacha” business model has reached its peak. Meanwhile, full roll out of 5G, the next-generation telecommunications standard, is rapidly approaching. If vast improvements in communication speed result in reduced latency and the ability for simultaneous multi-user connections, according to our analysis, the likelihood will increase for us to achieve significant growth in the mobile segment with our numerous core action game IPs. We are undertaking measures for both current and new technology in order to achieve growth in the mobile segment, where strong global growth is expected to continue.

#### Medium-Term Measures Promoting alliances in Japan and overseas

In preparation for the full-scale roll out of 5G, Capcom must amass the operational know-how to improve game content and implement timely events within games; a prerequisite for success in the mobile business and something that we are lacking. In order to do so, for the last two years we have been focusing on alliances that utilize our IPs in conjunction with

companies specializing in the mobile segment. As a result of the projects we have undertaken with multiple collaborators who have track records of hits in their respective markets, as of July 2019 we have already released two titles, domestically and overseas. Further, we plan to release several more titles, including some titles developed in-house, during the fiscal year ending March 2020. <sup>[Figure 8]</sup>

#### Long-Term Measures Preparation for next-generation standards

Some regions overseas have already begun tentative 5G service, and in the future, with a leap forward in communication speed 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, we believe there are possibilities for utilizing Capcom’s action-oriented games, distinctive for their high-quality graphics, on mobile devices.

At the moment, there is still room for us to choose the timing for full-scale support of 5G and the level of service we will offer. While we conduct analysis of actual 5G use, 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. <sup>[Diagram 8]</sup>

Diagram 9

About Esports

Esports stands for “electronic sports,” which are video games played in competitions viewed as sporting events. They became popular in Europe and North America in the late 90’s and now enjoy popularity among young people in particular, with numerous and varied game events held throughout the world, including in Japan and Asia. They are also garnering attention as a new category in the game business.

Esports Market Growth

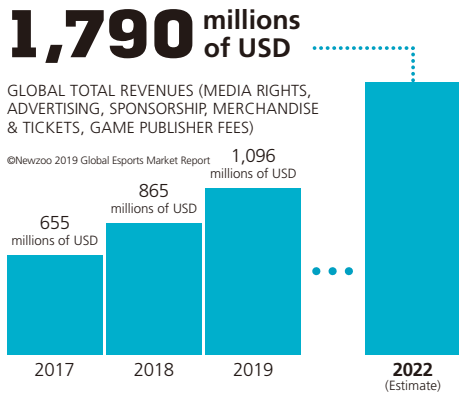
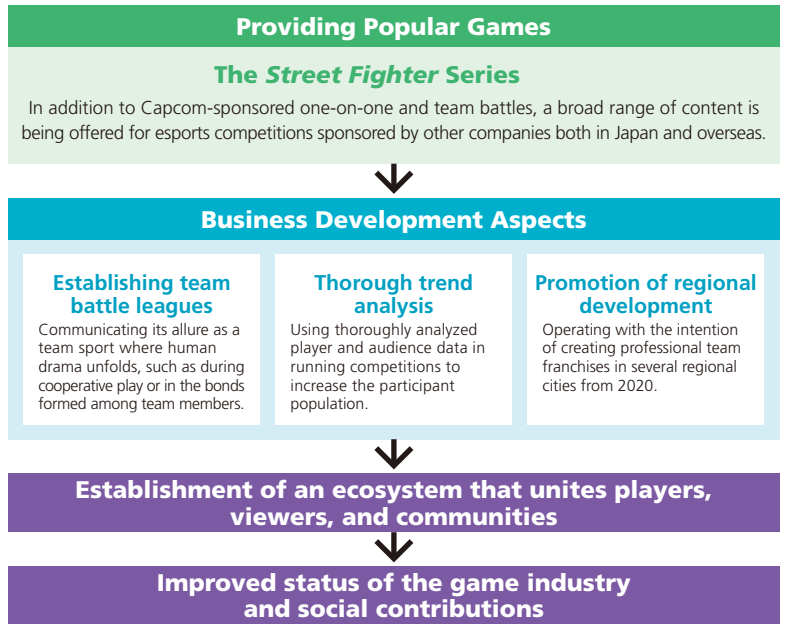


Diagram 10

Esports Initiatives



# Esports Focus on popularizing new content culture

## Fully-operational dedicated department Promoting market base expansion with a view to future profitability

2018 is known as the first year esports experienced widespread popularity in Japan, and it was the turning point in development. The Japan Esports Union (JeSU) was established as the supervisory sports organization, and social interest is growing with daily media reports of participation from companies in other industries and organizations intrigued by its business potential. We do not see esports as a passing fad, but rather as a new area of business in the game market. In other words, we are on the verge of seeing a new culture of content rise up, and I think it is important to cultivate it from a medium- to long-term perspective of five to ten years. To bring this idea to fruition, just as with soccer and other sports, Capcom is working to expand the market base by not only providing top professionals with a place to shine, but also by encouraging participation among young people and amateurs.

[Diagram 9]

Measure

### Aiming to establish a win-win ecosystem for players, viewers, and communities

There are three main points to the measures we will implement from this fiscal year through the next. (1) Further improved appeal with the creation of team-based

Street Fighter leagues. (2) Thorough trend analysis to attract new player and audience participation. (3) Promotion of regional development through cooperation with companies and local governments in each locality.

Regarding the first item, in addition to conventional one-on-one battles, we feel that the same allure found in traditional sports can be rendered through the human drama seen in bonds formed among team members and in playing as a team. For the second item, thoroughly analyzing player and audience data from each event, grasping what appeals to which demographics and then compiling the critical measures will lead to an increase in the number of participants. In terms of the third item, we aim to contribute to spreading esports outside of major cities as well as to regional revitalization by creating professional team franchises in various regions from 2020.

Currently, we are strengthening the workforce of our dedicated esports department, which we established early in the fiscal year, and are taking proactive steps to implement the aforementioned measures. We believe that the adoption of esports at international sporting events will increase awareness and understanding of esports among the general public, which will not only increase the value of our IPs, but will also lead to the improved status of the game industry and greater societal contributions. [Diagram 10]

➔ For details see page 45





# A stable financial base for flexible investment and growth in an ever-changing market

Kenkichi Nomura

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

**Q** This marks the second consecutive year of achieving record profits, and the current cash balance is 53 billion yen. Has there been any change in your financial strategy?

**A** We will maintain our basic policy to improve net cash and increase capital efficiency supporting our growth strategy.

Capcom is executing a growth strategy aimed at enhancing corporate value over the medium-to-long term. We are conducting R&D investment on a scale of approximately 30 billion yen each fiscal year in our core Digital Contents business. As CFO, I am engaged in increasing capital efficiency and improving net cash to build a strong and flexible financial base to enable this investment, which accounts for approximately 30% of sales.

In the fiscal year ended March 31, 2019, investments in line with this growth strategy led to record-breaking unit sales in our Consumer sub-segment, as well as all-time high profits that increased net cash by 7.9 billion yen. Currently, our market environment is undergoing major changes, such as the spread of digital sales. Furthermore, we expect these changes to accelerate all the more over the next few years with the appearance of new technologies and services. In such an environment, our revenue structure has begun to change, increasing our investment options for strategic growth.

I will continue to concentrate on investment decisions that align with our growth strategy, while continuing to review the cost of sales, selling, general and administrative expenses and other costs to achieve an even leaner financial foundation. With our accumulated cash, we look to establish even greater profitability by increasing the value of our IPs to enable flexible investment in projects with high strategic priority, including the development of major titles and growth areas such as esports.

**Q** How have you increased capital efficiency?

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

ROE, which we prioritize as an indicator of capital efficiency, is steadily improving along with performance growth. Of the three components of ROE, we place emphasis on the net income margin, which has seen further improvement following the progress of our growth strategy. Most recently, we have been focused on improving the balance between ROE and ROA, resulting in ROA improving to 10.1%.

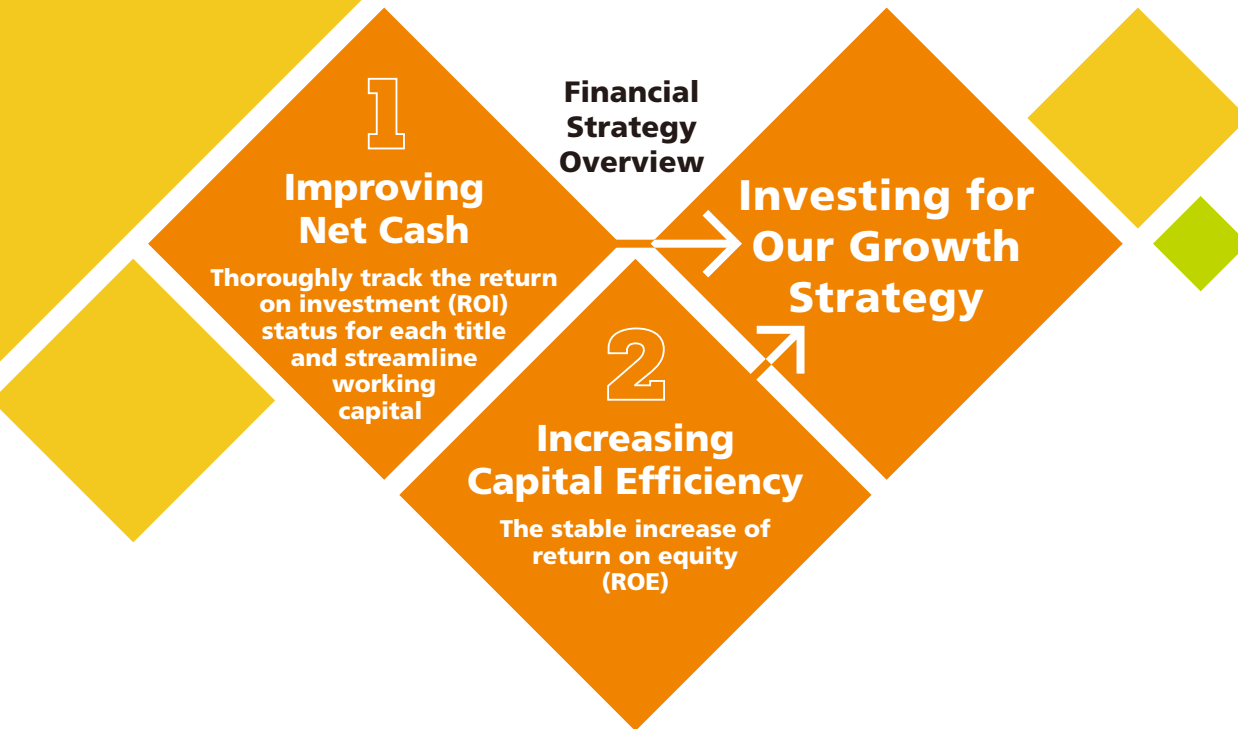
	3/2017	3/2018	3/2019	3/2020 (Plan)
ROE (%)	11.6	13.4	14.4	14.9
Net margin (%)	10.2	11.6	12.5	16.5
ROA (%)	7.7	8.9	10.1	–
Financial leverage (times)	1.53	1.46	1.39	–

We expect ROE to rise to 14.9% next fiscal year. This year, we will continue to improve ROE and ROA by performing multi-faceted checks on the PL that compare performance against net sales, the plan and the previous fiscal year, and by paying close attention to BS management.

**Q** How is Capcom creating net cash and managing risks?

**A** Beginning with managing ROI on a per title basis, we are working to improve productivity and visualize working capital efficiency.

Capcom employs two management methods to efficiently generate net cash. The first method is thorough management of returns on investment, where we carry out process management for investment return using a database that houses the ROI status of each title. If a title is progressing well, we continue investment as initially planned. However, if a problem is found, we



engage measures for early detection and resolution of the specific issues.

The second strategy is to maximize working capital efficiency. To this end, we are continuously monitoring our work-in-progress assets while creating a framework to manage our investment turnover period and turnover ratio in a more visible manner.

Net cash in the fiscal year under review was 44.6 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 major releases in the second half of the fiscal year—a unique feature of our industry—increased to 53.5 billion yen.

**Q** What is the status of cash and fund procurement?

**A** We have secured levels enabling us to respond to the increasing scale of game development and longer sales periods.

Consumer game software development expenses have been on the rise since the current-generation of high performance, multifunctional game consoles arrived. Moreover, in addition to the fact that major titles take more than two years to develop, the penetration of digital sales has made long-term sales possible, and as a result, the payback period for investment funds is growing longer.

Given these conditions, we have positioned the

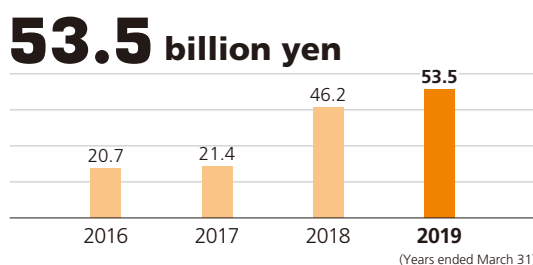
commitment line as our method for procuring funds in case of changes to working capital, and in consideration of reserves for risk management and investment for primarily title development, we have set the level of cash and cash equivalents that must be maintained to be approximately one to two years’ worth of the amount we annually invest in development.

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

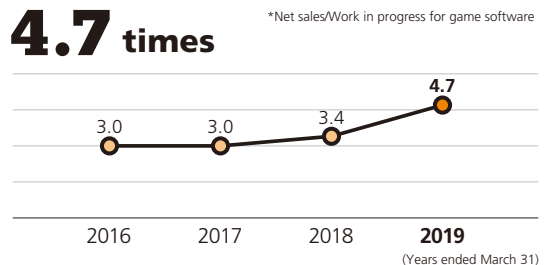
**A** We invest 87% of management resources in the core Digital Contents business.

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. In the fiscal year ending March 31, 2020 we will allocate 29 billion yen, or 87% of total investments (R&D investment and capital expenditure totaling 33.5 billion yen), in the Digital Contents business. Moreover, we use the asset in-development turnover rate (net sales/work in progress for game software balance) as an indicator measuring investment level adequacy. In the fiscal year under review, the asset in-development turnover rate was 5.9 times, an increase compared to 3.7 times in the previous fiscal year.

Effective Net Cash on a Historical Basis (billion yen)



In-Development Asset Turnover Ratio\* (times)







# Taking on the global market as a Japanese hit maker armed with world-class quality.

Yoichi Egawa

Director and Executive Corporate Officer  
In charge of Consumer Games Development and Pachinko & Pachislo Business Divisions of the Company

## Bolstering Development Personnel

### Top core members

Repeated achievements

### Core members

Selected to direct rereleases or other titles

### Mid-career and younger employees (core training framework)

Training programs Support from more senior members

### New graduates



## Outfitting Our Development Environment

### Enhancing our development studios

Concentrate development divisions, increase mobility and leadership

### Proprietary development tools

RE Engine enhances quality and development efficiency

### Adoption of latest technologies

World-class, cutting-edge 3D scanning, motion capture and VR



The world's most entertaining games



Bolstered title lineup





### Development Policy

## Aiming for sustainable growth by creating and developing popular IPs

In the past three years of overseeing development, my goal has been to ensure the world's highest quality, working under the philosophy of standing up and facing whatever may come. The missions we focused on achieving this fiscal year were (1) producing both world-class quality and profitability, (2) creating hit mobile titles, (3) supporting development in pursuing esports and a long-term sales model, and (4) strengthening network technology for multi-player competition and the like.

Regarding item (1), following *Monster Hunter: World (MH:W)*, *Resident Evil 2* and *Devil May Cry 5* were also highly acclaimed. Our Mobile Department, which integrated in 2017, has taken the lead on (2), promoting development both within Capcom and with partner companies, and creating a foothold ahead of upcoming title releases. For (3), the *Street Fighter League* has begun and various esports activities are underway with *Street Fighter V* as the primary point of focus. In terms of long-term sales, we are building a track record of sustained sales with the growth of digital sales for *MH:W*, which achieved 12.4 million units cumulatively. Regarding (4), we are strengthening our technology, including boosting our pool of talent. The results of our efforts have contributed to two consecutive years of record high profits.

Going forward, in addition to traditional models, it will be important to work with diversified platforms, given the rise in cloud gaming service providers and the expansion of PC store channels. To that end, we are striving to establish a foundation and enhance and improve our network environment for these new services and next-generation game consoles.

IP creation and development are also consistently subjects of discussion, and we will continue to evolve to meet the players' expectations.

In development, it is crucial that we not cut corners in our craftsmanship while maintaining strict control over expenses. We are constantly scrutinizing our work to safeguard against ineffectual investment, while at the same time analyzing the market as we look for new global opportunities.

### Development Organization Characteristics

## Game development engines evolve in-step with games; maintaining an environment that enables the pinnacle of craftsmanship

One of Capcom's greatest game development strengths is that we have a proprietary game development engine, the RE Engine. Because we can update specifications according to our titles' evolving requirements, this toolset allows us to operate a flexible and effective work environment optimized for our games, while creating photorealistic graphics. In addition, we maintain world class, cutting-edge facilities and have been actively investing in our development equipment and R&D buildings. When creators and engineers team up in an environment such as this, they can achieve the highest quality in the world. → For details, see p. 38 of the 2017 Integrated Report.

### Training Developers

## Assigning younger employees to work on popular IPs; carrying on Capcom's tradition of craftsmanship

Since 2011, Capcom has hired more than 100 new graduates as developers each year with the aim of building an organization of 2,500 developers by 2021. In order for us to both pass down the DNA we have cultivated on 20- and even 30-year-old IPs to the next generation of creators, while at the same time providing a catalyst for the evolution of our technology and world-class development prowess through these same young developers, we deemed it necessary to focus on in-house development.

In training young employees, we sometimes assign them to development teams working on major IP, where they can grow while gaining experience and know-how right at the cutting edge of the industry. We have also established a system to train highly capable young employees under the supervision of a supportive team, with the aim of training them up to core member status, where they would then take the overall lead on their next assignment.

This is how the development mechanism we have cultivated and the intellect of the creators we have trained crystallize to generate games that delight players the world over. It is the very essence of Capcom's craftsmanship.

### Main Pipeline (Plan for Fiscal Years 2016–2019)

Excludes unannounced titles as of August 31, 2019

Brand	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2019	Fiscal year ending March 31, 2020 (plan)
<b>Resident Evil</b>	<ul style="list-style-type: none"> <li>● Resident Evil 7 biohazard</li> <li>● Resident Evil 4*</li> <li>● Resident Evil 5*</li> <li>● Umbrella Corps</li> </ul>	<ul style="list-style-type: none"> <li>● Resident Evil Revelations*</li> <li>● Resident Evil Revelations (NSW)</li> <li>● Resident Evil Revelations 2 (NSW)</li> <li>● Resident Evil 7: biohazard Gold Edition</li> </ul>	<ul style="list-style-type: none"> <li>● Resident Evil 7: biohazard Cloud Version (NSW)</li> <li>● Resident Evil 2</li> </ul>	<ul style="list-style-type: none"> <li>● Resident Evil (NSW)</li> <li>● Resident Evil 0 (NSW)</li> <li>● Resident Evil 4 (NSW)</li> <li>● Resident Evil 5 (NSW)</li> <li>● Resident Evil 6 (NSW)</li> </ul>
<b>Monster Hunter</b>	<ul style="list-style-type: none"> <li>● Monster Hunter XX (Double Cross)</li> <li>● Monster Hunter Stories</li> </ul>	<ul style="list-style-type: none"> <li>● Monster Hunter: World</li> <li>● Monster Hunter Generations Ultimate (NSW)</li> <li>● Monster Hunter Stories (ver. 1.2)</li> </ul>	<ul style="list-style-type: none"> <li>● Monster Hunter: World (PC)</li> </ul>	<ul style="list-style-type: none"> <li>● Monster Hunter World: Iceborne</li> </ul>
<b>Street Fighter</b>		<ul style="list-style-type: none"> <li>● Ultra Street Fighter II: The Final Challengers</li> <li>● Street Fighter V: Arcade Edition</li> </ul>	<ul style="list-style-type: none"> <li>● Street Fighter 30th Anniversary Collection</li> </ul>	
<b>Devil May Cry</b>		<ul style="list-style-type: none"> <li>● Devil May Cry HD Collection*</li> </ul>	<ul style="list-style-type: none"> <li>● Devil May Cry 5</li> </ul>	<ul style="list-style-type: none"> <li>● Devil May Cry (NSW)</li> </ul>
<b>Mega Man</b>		<ul style="list-style-type: none"> <li>● Mega Man Legacy Collection 2</li> </ul>	<ul style="list-style-type: none"> <li>● Mega Man 11</li> <li>● Mega Man X Legacy Collection</li> <li>● Mega Man X Legacy Collection 2</li> <li>● Mega Man Legacy Collection (NSW)</li> <li>● Mega Man Legacy Collection 2 (NSW)</li> </ul>	<ul style="list-style-type: none"> <li>● Mega Man Zero/ZX Legacy Collection</li> </ul>
<b>Total</b>	<b>6 titles</b>	<b>11 titles</b>	<b>10 titles</b>	<b>Over 8 titles</b>

Notes: 1. \*Indicates rereleases for current generation game consoles 2. NSW: Nintendo Switch





## Monster Hunter World: Iceborne, a massive expansion for *MH:W*, is set to shake up the global market once again

Ryoza Tsujimoto

Managing Corporate Officer, Head of Consumer Games Development Division 2 and Mobile Online Development Division

He has served as producer of the *Monster Hunter* series since the 2007 launch of *Monster Hunter Freedom 2*. As producer of *Monster Hunter World: Iceborne*, he oversees all aspects of the title.

### The “Monster Hunter Craze” spreads globally

“We are going to knock the world off its feet with the new *Monster Hunter*, developed with cutting-edge technology.” This was the spirit with which *Monster Hunter: World (MH:W)* was released in 2018. Just as before when *Monster Hunter* became a national phenomenon in Japan, it was players getting together, inviting friends and having a blast while hunting that resulted in more than 12.4 million games shipped globally, as of March 31, 2019. This is a record-high for a single title in Capcom history. Further, fans posting their gameplay videos on social media has inspired newcomers to join in the fun, resulting in continued sales growth (predominantly of the digital version) even today.

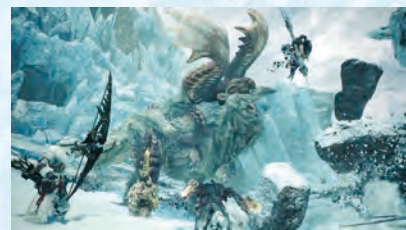
At E3 and similar events throughout the world, I got a strong sense that *Monster Hunter* had been accepted by the gamers of the world, and that we’d generated high



expectations for a new experience in many of our fans. In answer to this, we launched *Monster Hunter World: Iceborne (MHW:I)* in September.

### New names and new features: the *MH:W* sequel is ready for the world

With *MH:W*, in order to grow *Monster Hunter* into a global brand, the game underwent a variety of changes and adjustments, including a transition to home consoles. As a result, it succeeded in becoming Capcom’s best-selling game in history—however, that is not where this story ends. *MHW:I*, which is the equivalent of the conventional expanded “G” versions of past titles in the series, will further drive growth for the brand. After listening to various opinions from players in Japan and overseas, we not only changed the name of the “G-rank” to “Master Rank”

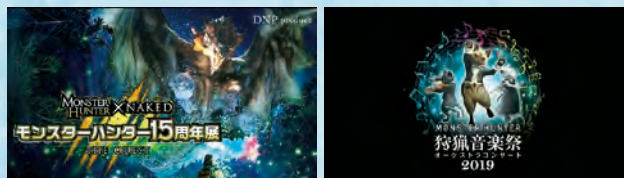






From domestic favorite to global hit; celebrating 15 years of the *Monster Hunter* series

The *Monster Hunter* series consists of hunting action games that pit players against giant monsters in a beautiful natural environment. In 2007, the release of handheld title *Monster Hunter Freedom 2* ignited a phenomenon known as the “Monster Hunter Craze” in Japan. While the concept of an action game “played together” remains the same, the method of play has evolved over time, along with game consoles and internet connectivity. Released in 2018, *MH:W* has recorded the highest number of game shipments in Capcom history.



Highest in Capcom history  
**13.1 million** shipments worldwide!  
(as of June 30, 2019)  
*Monster Hunter: World (MH:W)*



Main game | Upgraded versions (G-rank)

In addition to numbered titles, the series has also featured “G” versions, which offered a variety of additional elements and more challenging “G-rank” monsters. Beginning with the *MHW:I* expansion, G-rank will be known as “Master Rank.”

to make it more easily understandable worldwide, but also added a new in-game action, the “Clutch Claw,” and a new area, the “Hoarfrost Reach.” We also implemented a number of new elements, such as making the new headquarters more compact and adding a difficulty level specifically for two-player hunts so that players can enjoy the excitement of the game while also enjoying the *Monster Hunter* experience best suited to them.

### Expanding purchasing options with download content

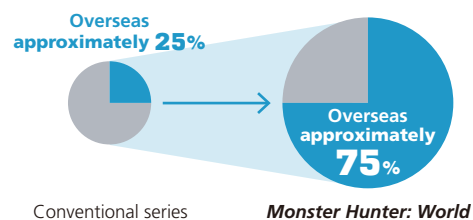
With *MH:W*, the percentage of *Monster Hunter* users who purchased the digital version increased significantly across the globe. To meet these expanded needs, for *MHW:I* we are offering the game as a massive expansion that players can purchase and download. Of course, for players who are new to the hunt, we have a range of offerings, including a Master Edition set consisting of *MH:W* and *MHW:I*.

The series celebrates its 15th anniversary this year. While we build upon the game going forward, we will continue providing enjoyment to players, spreading the love for *Monster Hunter*

around the world and working to exceed the expectations of our fans.

### Evolving into a global brand

We made a full-scale advance into the overseas market in 2015 with the release of *Monster Hunter 4 Ultimate*, achieving a combined 1 million units in sales in Europe and North America for the first time. Since then, fans around the world have increased in number, with overseas accounting for more than 70% of sales on *MH:W*.







A rapidly growing new kind of entertainment culture

# From fun and games to fierce competition: Taking hold of the wildly popular esports business through *Street Fighter*

**Nobuhiko Shimizu**

Corporate Officer, Head of eSports Business Division

Joined Capcom after producing social games and holding management positions. Now aims to integrate esports business strategy and event operations to promote the development of an ecosystem in esports.

## Following overseas, we look to establish an ecosystem for esports in Japan with *Street Fighter*

As a leader in esports, it is the current mission of our eSports Business Division to build out an ecosystem leveraging our versus fighting game title *Street Fighter*.

An ecosystem is a framework in which all stakeholders can broadly coexist and prosper in terms of management and services. For example, we envision a system like professional baseball and soccer, in which esports grows as a business and where professional players, teams, leagues, management and operations organizations, sponsors, distribution and broadcasting media, fans, and spectators can all enjoy and benefit from esports. In North America, such a system has begun to take hold, and in 2018 the global market grew to 90 billion yen, but the esports market in Japan is still in an early growth phase. Capcom is taking the lead in establishing this system, hoping to give esports in Japan a boost and expand even further globally.

## Realizing early on games had potential as a sport, Capcom made it fun for spectators from the start

Capcom has been holding tournaments for the enjoyment of watching as well as playing games since before “esports” was a word or even a concept. The players who won the national qualifying rounds of the *Street Fighter II* tournament in 1992 battled for the title of Japan’s No. 1 player at Ryogoku Kokugikan.

It was really the enthusiasm of the many overseas fans that ignited the flame beneath *Street Fighter* as an esports. In 2013,

the Capcom Cup was first held in North America, and each year thereafter it grew in popularity, boosted by brilliant stage production, live coverage, and video distribution of the intense player battles.







A new form of entertainment, the market for esports is rapidly growing, with the domestic market reaching 4.83 billion yen

2018 was known as “year one” for esports in Japan. The Japan eSports Union (JeSU) was established creating a framework to promote esports systematically as an industry. The market has entered a new phase with the introduction of professional players and corporate teams, as well as esports clubs being recognized as high school club activities.



Capcom's esports timeline

**1991**  
Held *Street Fighter II* tournament

**2009**  
Held *Street Fighter IV* events

**2013**  
Started the Capcom Cup

**2014**  
Started the Capcom Pro Tour

**2018**  
JeSU-certified pro licensing introduced

**2019**  
Started the Street Fighter League

**First a national pastime that unites players across the country, then a sport that captivates the world**

Currently, we hold events both domestically and overseas for professional and amateur players. As part of this, Street Fighter League: College-JP 2019, at the university level, and Rookie's Caravan 2019, held in six cities around the country, are gateways to our premier league in Japan, Street Fighter League: Pro-JP. We believe that these tournaments serve to discover talented players and will lead to the launch of local professional teams, driving the popularity of esports from a regional level.

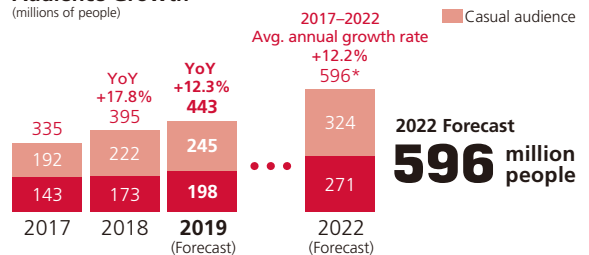
Another advantage of esports is that factors such as age or physical disabilities can be overcome. At a tournament held in the U.S. during spring 2019, the winning team had a member who was unable to use his arms and legs, and instead used a special controller operated with his tongue.

There is still much to be done, but the management team is passionate about their support of this business. As we explore the potential of esports in North America, Europe, Japan and the Asian region, the day we hold an esports event on a global scale is not far off.

**Fun to watch: the growth of esports spectators**

With the spread of the internet, global viewership is expected to grow from approximately 300 million people in 2017 to roughly 600 million people in 2022, with a double-digit annual growth rate over the five years. Casual viewers account for more than half of all viewers, and it is expected that watching esports as entertainment will become a common phenomenon.

**Audience Growth**



\* Source: ©Newzoo 2019 Global Esports Market Report, June 2019

## Relationship with Customers

### Considerations in Game Development

#### In-game purchases

In the Japanese game market, discussions have been taking place for several years on the problem of gacha, or lottery-style game mechanics, primarily in mobile games. Overseas, gacha-like “loot boxes” have been banned in some countries.

As a creator of entertainment culture, Capcom believes that games should be enjoyed for the entertainment value they provide with gameplay, not for thrills associated with winning a lottery. We do not want to see games that are supposed to make people happy having the opposite effect as a result of excessive charges. For that reason, we are working to ensure that all users can enjoy our games fairly and safely. In principle, we minimize gacha elements in the mobile games we develop; in our home video games, we provide any content required to enjoy the full game free of charge, while offering some additional content at low cost.

#### Localization and culturalization

Capcom games are enjoyed worldwide. In the fiscal year ended March 2019, the percentage of home video games sold overseas was 85.4%.

Naturally, translation (localization) of video games developed in Japanese is required so that users around the world can enjoy them. Depending on the country, however, simply translating games developed under Japanese norms can end up hurting users unexpectedly due to historical, religious, or cultural differences.

#### Comments from a developer

##### Miguel Corti

Joined Capcom in 2007  
Senior Manager  
Global Production, Consumer Games  
Production Division



I have been involved in localization at Capcom since 2007, and both the volume of our work and its importance has been increasing year after year due to the increasing demand for language support that has followed the introduction of more powerful game consoles, online connectivity, and the globalization of our markets. Capcom localization staff are part of the development team from the first stages of a project, and they actively provide insight on everything from the visuals to the game specifications. Carrying out game development and localization simultaneously makes it possible to release titles on the same day worldwide. Of course, it's not just a matter of translating the content; culturalization also plays an important role. For example, when you complete a quest in *Monster Hunter*, a red logo is displayed. However, in some countries red symbolizes failure. In those countries, we made the logo gold. This is just one of the touches we add to ensure that the user's sense of achievement is not diminished in any way.

As such, we employ staff from around the world to culturize the games so that they can be enjoyed by all, regardless of locale.

### For the Healthy Development of Young People

#### Compliance with the CERO rating system and endorsement of guidelines

The Computer Entertainment Rating Organization (CERO), a Specified Nonprofit Corporation, was created to provide age-appropriate ratings for video games. Capcom complies with the CERO rating system and rules.

The rating system is an initiative for the healthy development of young people that calls for voluntary restrictions on home video game content and sales methods to limit access by young people to sexual or violent content. In addition, recent home video game consoles include a parental control function that enables parents to limit the online purchase and use of certain games according to their ratings.

#### Guidelines issued by the Computer Entertainment Suppliers' Association (CESA)

Name of guideline	Implementation date
Guidelines for Real Money Trade Measures	April 26, 2017
Guidelines for the Protection of Minors	December 21, 2016 Revised March 27, 2019
Operating Guidelines for Random Item Distribution in Network Games	April 27, 2016
Guidelines for Advertisements, Etc. in Home Video Game Software Targeting Only Those 18 and Over	April 1, 2008 Revised June 20, 2012
Code of Ethics Concerning Computer Entertainment Software, 2nd Revision	October 1, 2002

Please refer to CESA's website for the content of each set of guidelines.  
[https://www.cesa.or.jp/index\\_e.html](https://www.cesa.or.jp/index_e.html)

#### Addressing the WHO's recognition of gaming disorder

In May 2019, the World Health Organization (WHO) included gaming disorder as a new mental health condition characterized by excessive use of games to the point where it has a negative impact on health and social life. Cooperating with industry organizations such as the Computer Entertainment Supplier's Association, we are taking the appropriate steps to raise awareness of the issue in response to social demand. As an independent effort, we will continue to educate elementary and junior high school students on how to interact with games in a healthy manner through our educational support program.

➔For details see page 50



## Support for Community-building Among Senior Citizens

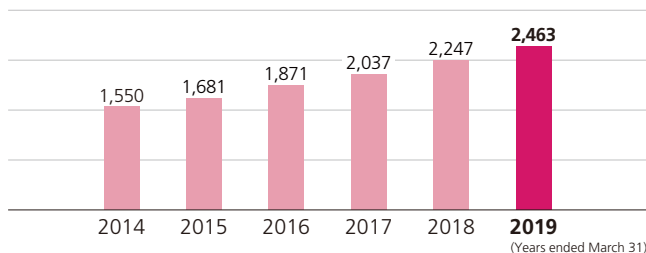
### Holding regular amusement arcade tours

Today, amusement facilities are becoming increasingly popular among senior citizens as spaces for communication with friends and facility staff. Since 2012, Capcom has held amusement arcade tours free of charge on long public holidays and Respect-for-the-Aged Day for senior citizens where they can try out coin-operated games and crane games, enabling more people to make use of such facilities.

In addition, as part of efforts to create arcades where senior citizens can comfortably enjoy themselves, since 2012 Capcom has encouraged arcade staff to get the Service Assistant certification. Currently, 26 staff members have received this certification.

#### Cumulative number of participants in senior tours

# 2,463



## Enhancing Customer Support

### User support and utilizing feedback

At Capcom, we have dedicated support teams for each product to ensure that customers can fully enjoy the services they purchase. We also strive to quickly respond to customer questions by providing online FAQ pages, while each person in charge regularly engages in information exchanges with other teams, working to improve customer satisfaction.

The questions and feedback our game support teams receive are condensed and analyzed to be incorporated in development of new products.

→Inquiries

[http://www.capcom.co.jp/support/index\\_game.html](http://www.capcom.co.jp/support/index_game.html)

### Protecting the personal information of our customers

Capcom has more than 10 million records containing personal information on customers, accumulated from our member site, prize deliveries, product purchases, and other sources. In 2015, the Japanese Act on the Protection of Personal Information was revised, and the revisions went into full effect on May 30, 2017. Meanwhile, overseas, the EU General Data Protection Regulation (GDPR) went into effect in May 2018. The data of game players falls under the category of personal information in these laws, and the scope is expanding each year.

Under these circumstances, we established our new Information Management Department in April 2019 to enhance our information

management structure and address the requirements of the Japanese Act on the Protection of Personal Information and the GDPR.

This department is leading our efforts to address the risk of personal information leaks by developing a system of conduct guidelines, operational controls, and audits in accordance with the law.

### Expanding opportunities for customers to play our games (esports)

In recent years, we have been focusing on promoting esports as part of our efforts as a creator of entertainment culture.

We have the role of planning and organizing events as a software developer—a role that had been largely shouldered by the player community in the past—in order to provide an environment that better allows competitors and fans to enjoy the excitement of competitions.

In 2018, we established the Capcom eSports Club as a communication space at one of our amusement facilities, offering a place to try out games for free. Further, in February 2019, we launched a new team-based league to give professional players a place to show off their skills on a regular basis.

We are also working to provide amateur players with opportunities to shine, such as by with the Street Fighter League: College-JP 2019 for students, beginning in June 2019. Through these activities, we aim to increase points of contact with our customers and improve customer satisfaction.

# Relationship with Regional Communities

## Contributions to Regional Revitalization

### Utilizing the appeal and brand recognition of popular games to contribute to society

The attraction of video game content for the worldwide audience was in evidence when Japan's Prime Minister promoted the 2020 Tokyo Olympic and Paralympic Games by dressing as a video game character at the Closing Ceremony of the 2016 Rio de Janeiro Games. In the same vein, Capcom is following a Single Content Multiple Usage strategy for our content, which we deploy in a wide range of fields beyond video games. As such, we are proud to have a high level of recognition and popularity among men and women, young and old alike.

Based on our corporate philosophy of making people happy through games, Capcom has been engaged in the following four regional revitalization activities not only in Osaka, where we have our head office, but across Japan, since the mid-2000s: 1) economic promotion that supports the local tourism industries; 2) cultural promotion that supports education concerning local history and culture; 3) crime prevention education through coordination with the police; and 4) raising awareness about voting in elections in coordination with the Committee for Election Administration.

Further, going forward we will provide support for esports activities regionally throughout Japan while looking into activities to promote regional revitalization through playing games.

## Comments from a city official



### Masaki Akita

Team Leader, Facility Development Team, Tourism Promotion Division, Tourism and Cultural Bureau, Sakai City

Sakai is the birthplace of Sen no Rikyu, the famed tea master, and has deep connections to important historical figures like Oda Nobunaga, Toyotomi Hideyoshi, and Tokugawa Ieyasu. Many of those historic and cultural artifacts can still be found within the city. However, it is difficult to get young people to take an interest in resources such as these.

As such, the city has made a point of collaborating with animated television programs and games that are highly appealing to young people. By working with Capcom to have Toyotomi Hideyoshi, a character from *Sengoku BASARA*, promote a special exhibit of the Golden Teahouse, which is associated with the historical figure of Toyotomi Hideyoshi, we were able to draw the attention of a wide range of people to the appeal of the city's historic and cultural properties.

We hope to continue working on projects that link the rich contents of Capcom with the historical and traditional industries of Sakai.

## Regional Revitalization Activities

### Supporting regional revitalization using the appeal of Capcom video game content

#### Initiatives Across Japan

- 経 Economic Development
- 文 Cultural Promotion
- 防 Crime Prevention Education
- 選 Participation in Elections

- Kyoto Prefecture: Mascot for vehicle-related theft prevention awareness
- Hyogo Prefecture: Mascot for vehicle-related theft prevention awareness



**2019: Kochi Prefecture Mascot for House of Councilors election**  
Newspaper advertisements, train wrappings, television and radio commercials, etc.

- Kochi Prefecture: Mascot for gubernatorial election
- Okayama Prefecture: Co-sponsorship of special museum exhibit
- Wakayama Prefecture: Support for campaign to attract visitors

- Miyagi Prefecture: Mascot for gubernatorial election
- Ibaraki Prefecture: Co-sponsorship of special museum exhibit
- Saitama Prefecture: Co-sponsorship of special museum exhibit
- Kofu, Yamanashi Prefecture: Conclusion of comprehensive partnership agreement
- Ueda, Nagano Prefecture: Support for tourism event

- Hamamatsu, Shizuoka: Support for tourism promotion
- Okazaki, Aichi Prefecture: Support for tourism promotion

- Osaka: Mascot for vehicle-related damage and theft prevention awareness
- Mascot for cybercrime prevention awareness



**2019: Support for special historic exhibit in Sakai, Osaka Prefecture**  
Distribution of postcards and display of collaborative posters as well as a mascot panel



**2018: Kofu, Yamanashi Prefecture Stamp rally**

# Relationship with Employees

## Promoting Healthy Relationships with Games

### More than a decade of on-site classes for children in school

Video games are a comparatively new cultural phenomenon about which there is little academic research. Rather than examining the educational aspects, discussions tend to focus on the detrimental effects, such as what used to be called “game brain.” In recent years, official recognition by WHO of a game-related disorder has made headlines. However, the idea of a future career as a video game creator is very popular among children and the decision has been made to make programming lessons compulsory in Japanese elementary schools in 2020. A host of private sector efforts are also being carried out, including opening programming academies for youth. Considering these recent developments, it is reasonable to expect that the number of children hoping to become video game creators will increase further in the future. Additionally, the ratio of smartphone use among young people—45.9% of elementary school students and 70.6% of junior high school students—is rising each year. Game apps for smartphones are also increasingly gaining in popularity and the distance between video games and children is shrinking.

Given this context, based around a desire to promote understanding in society of video games, we accept student visits to our offices, with a focus on elementary and junior high school students, and also actively conduct on-site classes at schools to help promote sustainable economic growth and a sustainable society. At these events, Capcom conducts a program with two sessions: one is a career education support session, which introduces the work done in a game software company and the difficulty and rewards of that work, and the other is a game literacy education support session, which helps students use their own judgement to establish a healthy relationship with games. These programs have in turn been well-received in educational environments. Capcom has also incorporated opinions from educators to improve its educational efforts.

In fiscal 2011, Capcom launched a program focused on the educational theme of career education support in response to classroom requests. In fiscal 2013, Capcom started a new program on work and mathematics targeted towards elementary and junior high school students to help prevent children from losing interest in math.

As a result of these efforts, Capcom has welcomed 3,095 children as part of 380 different field trips to its offices (as of the end of March 2019). Capcom has also held 151 on-site classes for 14,107 students (as of the end of March 2019) at schools such as the one held at Kitanodai Elementary School in Sapporo in November 2018.

### Impressions of the on-site classes (An excerpt of this fiscal year's comments)

- I learned that communication is important in work, so in my future club and group activities, I will try to communicate well and cooperate with others. (Junior high school student)
- There was a great deal of enthusiasm. It was also good to see children who like video games getting into it. (Elementary school teacher)
- I saw a lot of students listening intently. The content conveyed the importance not only of mathematics but of various other fields. (Junior high school teacher)

## Promotion of Diversity

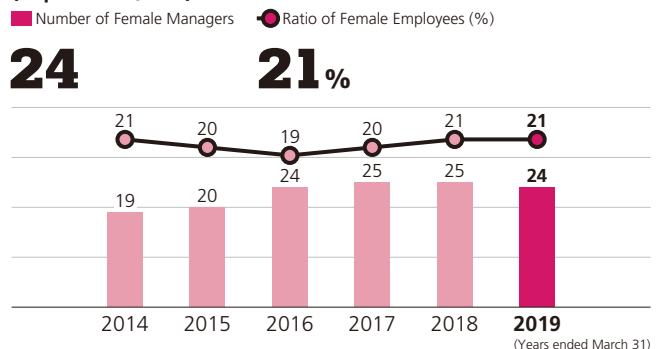
### Initiatives aimed at promoting the improvement of the work environment for women and proactively hiring non-Japanese

Capcom is currently engaged in initiatives aimed at improving the work environment for women and proactively hiring Non-Japanese.

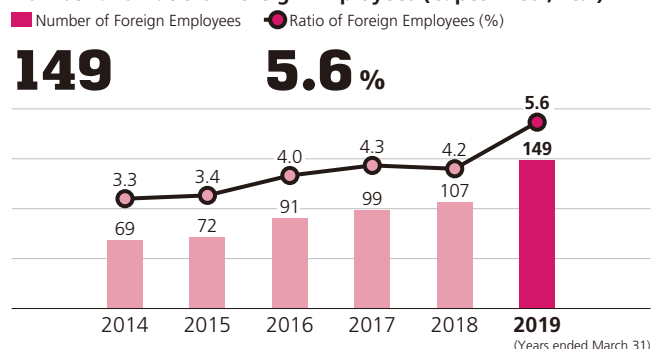
In terms of providing an environment that facilitates women, we introduced systems enabling women to take a leave of absence before and after giving birth, childcare leave and shortened working hours, and promote their use throughout the Company.

In fiscal 2018, 33 employees took childcare leave, 12 of whom were men, and 100% of eligible women took childcare leave (fiscal 2017: 6 men and 100% of 19 women took leave). A high percentage of women returned to work afterwards: 32 returned in fiscal 2018—96.0% if those still on leave are excluded. This is the same as the previous year (96%, or 25 women, returned to work in fiscal 2017). As a result, despite it being said that Japan’s gaming industry is generally dominated by men, women account for roughly 21% of Capcom’s workforce, and 24 (9.4%) of Capcom’s managers are women. In accordance with the execution of the Act on Promotion of Women’s Participation and Advancement in the Workplace, in 2016 we formulated the General Employer Action Plan, which seeks to achieve two things: (1) having women comprise at least 20% of all of new graduates hired, and (2) having women comprise at least 15% of managers. In recognition of Capcom’s efforts toward improving the workplace environment for women, since 2014 we have earned the “Kurumin” mark, the symbol of a “company supporting childcare,” from the Ministry of Health, Labour and Welfare.

### Number of Female Managers and Ratio of Female Employees (Capcom Co., Ltd.)



### Number and Ratio of Foreign Employees (Capcom Co., Ltd.)





In terms of the proactive employment of non-Japanese individuals, Capcom is making efforts to strengthen overseas expansion capabilities including creating an English hiring website.

We currently employ 149 non-Japanese workers (representing 5.6% of our employees). Going forward, we will create a system for improving motivation in an attempt to increase the ratio of foreign employees, including support for career advancement and the promotion of non-Japanese individuals to management positions.

## Providing a Pleasant Workplace

### Promoting work-life balance

Creating entertainment culture requires that creators themselves make time for play.

At Capcom, we have established Paid Leave Promotion Days and encourage employees to take extended leave to refresh and look for new sources of inspiration during the year-end/New Year's holidays as well as during the series of holidays in May. Additionally, we have built a four-story bicycle parking facility near our development studio and encourage our employees to live within a five-kilometer radius to shorten commuting times. This saves time and living costs while ensuring that creators have the free time necessary to cultivate their creative powers and imaginations, which is essential for creative work. Moreover, we opened "Capcom Juku" as an on-site daycare facility in April 2017 to provide a stable workplace environment for creators. As

it is located close to work, it provides peace of mind for employees who are married or have children, and has been well-received by those who have utilized it.

➔Please refer to the information below or page 54 of the 2018 Integrated Report.

### Supporting employees' health management

The employee cafeteria was renovated in 2016 when the new development studio was completed. Healthy meals are served for breakfast, lunch, and supper.

There is also a massage room staffed by nationally-certified massage therapists at both the Tokyo and Osaka locations to support our employees in maintaining their health.



Employee cafeteria

### Fulfilling employee potential in a cutting-edge environment

The biggest motivation for developers working in a creative field such as games is access to an environment that allows them to make their visions a reality. Capcom maintains a cutting-edge development environment that includes 3D scanners, a motion capture studio, a dynamic sound mixing stage, and a Foley stage. In this way, we support our creators in fulfilling their potential.

## Capcom Juku

### Providing an environment for vibrant childcare combining day care and education

Given the desire to quickly improve the issue of long day care waiting lists accompanying a lack of preschools, Capcom's top management set its sights on the future and wanted to provide an environment in which employees can raise their children with peace of mind while remaining employed over the long term. We opened Capcom Juku in April 2017, aiming to add individual education and growth to standard day care for children. Capcom Juku goes beyond caring for infants and preschool children and accepts a wide range of youth, including after-school kindergarten and elementary school students. This helps employees avoid the stress of not being able to find open facilities for their children.

Furthermore, by offering educational support in the form of a place for learning English, eurhythmics, math, science, and other subjects, Capcom Juku joins its efforts with employees and fosters the growth of children. Currently, as of March 31, 2019, the school takes care of 25 preschool children a month and accepts as many as 25 temporary pupils a month.

Going forward, plans are in place to accept after-school students from nearby elementary schools, to add further convenience for working employees. Capcom Juku also offers Spring School and Summer School with classes taught by employee instructors when standard schools are closed for seasonal breaks.

At the Spring School held in March 2019, there were hands-on classes taught by employee instructors on programming, as well as motion capture, for creating game animations that incorporate human movement. Outside instructors were also invited for painting, English, and other classes.

Additionally, students were able to eat lunch with their parents in the employee cafeteria, which was an opportunity for encouraging parent-child communication.

In the future, we will create a learning atmosphere at Capcom Juku that stimulates and broadens children's curiosity, while also striving for an environment where parents can work with peace of mind so that both they and their families can lead fulfilling lives.



English classroom

# Capcom and the Environment

## Environmental

### Environmental Action as an Entertainment Company

Capcom's Digital Contents business accounts for over 75% of the Group's consolidated net sales and entails the development and sale of software. This gives Capcom an environmental impact that is lower than general manufacturers. Because our environmental impact comes largely from the power used for office work and at amusement facilities, as well as from distributing our products, we are focused on saving energy.

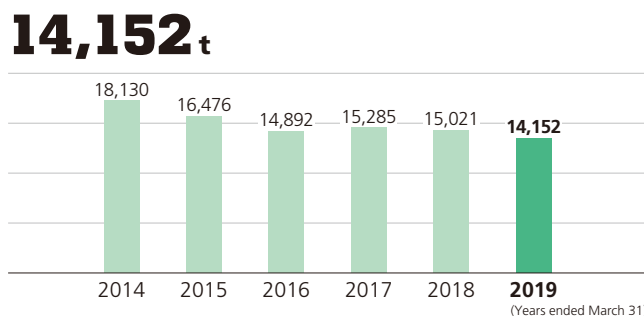
### Reducing Power Usage

#### Reducing CO<sub>2</sub> emissions by promoting energy saving measures companywide

Capcom has worked to cut power usage through efforts that include ongoing power saving at all of its places of business, saving energy at its amusement facilities, and implementing peak shifting for the power used by PCs and other electrical equipment. In the fiscal years ended March 2012 to March 2014, energy usage trended upward at our amusement facilities in particular due to attempts to restore normal operations following shortened business hours necessitated by the Great East Japan Earthquake. However, since the fiscal year ended March 2014, we have cut CO<sub>2</sub> emissions by installing energy-saving gaming machines and switching to LED lighting. The fiscal year ended March 2017 saw our CO<sub>2</sub> emissions increase compared to the previous fiscal year due to the construction of the R&D Building #2 and Capcom Technical Center. However, energy-saving equipment has been installed at these facilities, and the CO<sub>2</sub> emissions from these buildings have been reduced by approximately 10%\* compared to the original plan.

\* Assumes energy consumption of 100% without introduction of this equipment.

#### Capcom's CO<sub>2</sub> Emissions (Non-consolidated) (t)



#### Rated "S Class" four years in a row by the Business Operator Class-Based Assessment System

Revisions made in 2014 to the Act on Rationalizing Energy Use, also known as the Revised Energy Conservation Act, place an obligation on companies to improve energy efficiency\* by at least 1% every year, and every year Capcom has achieved year-on-year reductions to its energy intensity. For these efforts, Capcom has been awarded S Class (out of classes S, A, B, and C) status for four years running under the Business Operator Class-Based Assessment System that has been administered since 2016 by the Agency for

Natural Resources and Energy in accordance with the Act on Rationalizing Energy Use (Measures Pertaining to Factories).

\* Either standard energy intensity or assessed energy intensity from levelled out electric power demand.

FY	Energy Intensity*	Vs. Previous FY
2014	0.06663	94.0%
2015	0.06193	92.9%
2016	0.06018	97.2%
2017	0.05994	99.6%
2018	0.05869	97.9%

\* Calculated using the method defined by the Agency of Natural Resources and Energy. The Agency for Natural Resources and Energy website: <https://www.enecho.meti.go.jp/en/>

### Innovations in Product Distribution

#### Conserving resources through digital sales of game software

In previous console generations, games included a printed instruction manual inside the package, but with games for current-generation consoles, these manuals are now included as data within the software as a way to save paper. This enables us to eliminate approximately 10 million game units' worth of paper manuals annually.

Moreover, the increasing popularity of digital sales, where games are downloaded after purchase, has made it possible to conserve resources used to produce discs, semiconductors, software packaging, and other components in addition to paper resources.

In the fiscal year ended March 2019, the resources used in the equivalent of around 15.3 million units of game software were conserved as a result of digital sales. We will continue promoting digital sales of game software with the aim of achieving effectively zero resource consumption in the future by selling solely via digital download.

#### Sharing distribution networks with other companies in the industry

Sharing distribution networks with other companies in the same industry when shipping products enables the efficient supply of products. As a result, we are able to realize reductions in packing materials, fuel and emissions.

### Development and Manufacturing Initiatives

#### Reducing the environmental impact of pachislo machines

In solidarity with the efforts of the Japan Pachislo Machine Industry Association (Nichidenkyo), Capcom manufactures and sells pachislo machines partially made from recycled parts and equipped with standardized "green devices" aimed at controlling power usage.

#### Reducing the environmental impact of business machines

In addition to ensuring that we make products that are easy to recycle while using durable materials and components beginning at the design stage, we actively provide version upgrade kits to allow customers to use the same machines for the long term, simply adding or upgrading game data as they go.

## Directors

(As of June 17, 2019)



Kazushi Hirao  
Director  
Full-time member of  
the Audit and  
Supervisory Committee

Yoichi Egawa  
Director and  
Executive Corporate  
Officer

Kunio Neo  
Director and  
Executive Corporate  
Officer

Yutaka Mizukoshi  
Director

Makoto Matsuo  
Director  
Member of the Audit  
and Supervisory  
Committee

Kenzo Tsujimoto  
Chairman and  
Chief Executive  
Officer (CEO)





Haruhiro Tsujimoto  
President and  
Chief Operating  
Officer (COO)

Masao Sato  
Director

Toru Muranaka  
Director

Yoshihiko Iwasaki  
Director  
Full-time member of  
the Audit and  
Supervisory Committee

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

## Directors

(As of June 17, 2019)

### Kenzo Tsujimoto

#### Chairman and Chief Executive Officer (CEO)

Jul. 1985	President and Representative Director of the Company
Apr. 1997	Head of The Association of Copyright for Computer Software (Currently The General Incorporated Association of Copyright for Computer Software) (to present)
Apr. 2001	Chief Executive Officer (CEO) of the Company (to present)
Jul. 2007	Chairman and Representative Director of the Company (to present)
Feb. 2010	Representative Director of Kenzo Estate Winery Japan Co., Ltd. (to present)

### Haruhiro Tsujimoto

#### President and Chief Operating Officer (COO)

Apr. 1987	Entered into the Company
Jun. 1997	Director of the Company
Feb. 1999	Managing Director of the Company
Apr. 2001	Senior Managing Director of the Company
Jul. 2004	Director and Executive Corporate Officer of the Company
Apr. 2006	Director and Executive Vice President of the Company
Jul. 2007	President and Representative Director, Chief Operating Officer (COO) of the Company (to present)
Aug. 2016	President and Representative Director, and Director in charge of Global Marketing Business and Arcade Operations Business of the Company
Jun. 2018	President and Representative Director, and Director in charge of Arcade Operations Business of the Company (to present)

### Yoichi Egawa

#### Director and Executive Corporate Officer

Apr. 1985	Entered into the Company
Apr. 1999	General Manager of Creative Division 5 of the Company
Aug. 1999	Corporate Officer, General Manager of Creative Division 5 of the Company
Apr. 2011	Managing Corporate Officer of the Company
Apr. 2013	Executive Corporate Officer of the Company (to present)
Jun. 2013	Director, in charge of Arcade Business and Pachinko & Pachislo Business of the Company
Jul. 2016	Director, in charge of Amusement Equipments Business, Arcade Operations Business and Consumer Games Development of the Company
Apr. 2019	Director, in charge of Consumer Games Development and Pachinko & Pachislo Business Division of the Company (to present)

### Kenkichi Nomura

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

Apr. 2009	Corporate Officer in charge of Internal Control of the Company
Jul. 2010	Managing Corporate Officer in charge of Financial and Accounting Division of the Company
Jun. 2015	Managing Corporate Officer in charge of Financial and Accounting Division and Secretarial Affairs, PR and IR Division of the Company
Apr. 2016	Executive Corporate Officer (to present) Head of Finance, Accounting and Public Relations Divisions
Jun. 2016	Director, Chief Financial Officer (CFO) and in charge of Corporate Management of the Company (to present)

### Kunio Neo

#### Director and Executive Corporate Officer

Oct. 2012	Entered into the Company
Feb. 2013	Chief Executive Officer (CEO) of CE Europe Ltd.
Dec. 2014	Left from CEO of CE Europe Ltd.
Apr. 2015	Advisor of the Company
Apr. 2016	Managing Corporate Officer, Head of Global Marketing Division of the Company
May 2018	Executive Corporate Officer, Head of Global Marketing Division of the Company (to present)
Jun. 2018	Director, in charge of Global Marketing Business of the Company (to present)

### Masao Sato

#### Director External Independent Director

Apr. 1975	Entered into the National Police Agency
Nov. 1995	Chief of Ehime Prefectural Police Headquarters
Jan. 2001	Chief of Miyagi Prefectural Police Headquarters
Aug. 2005	Chief of Chiba Prefectural Police Headquarters
Jan. 2007	Director General of Kanto Regional Police Bureau
Mar. 2008	Resigned from the National Police Agency
Jun. 2008	External Corporate Auditor of the Chugoku Electric Power Co., Inc.
Jun. 2016	External Director of the Company (to present)
Jun. 2017	Director, Public Interest Corporation, Furuoka Scholarship Foundation (to present)

### Toru Muranaka

#### Director External Independent Director

Apr. 1995	Registered Lawyer (Osaka Bar Association) Entered into Daiichi Law Office (Currently Daiichi Law Office, P.C.)
Dec. 2007	Partner of Daiichi Law Office, P.C. (to present)
May 2014	External Corporate Auditor of Furuno Electric Co., Ltd. (to present)
Jun. 2015	External Corporate Auditor of Suzuken Co., Ltd. (to present)
Jun. 2016	External Director of the Company (to present)

### Yutaka Mizukoshi

#### Director External Independent Director

Apr. 1980	Entered into Nippon Steel Corporation
May 2004	Senior Vice President of The Boston Consulting Group
Jan. 2005	Japan Co-chair of The Boston Consulting Group
Jan. 2016	Senior Partner and Managing Director of The Boston Consulting Group
Jun. 2016	External Director of Lifenet Insurance Company (to present)
	External Director of Asagami Corporation (to present)
Jan. 2018	Senior Advisor of The Boston Consulting Group, Tokyo (to present)
Jun. 2018	External Director of the Company (to present)

### Kazushi Hirao

#### Director

##### <Full-time member of the Audit and Supervisory Committee>

Jun. 1988	Entered into the Company
Apr. 1997	General Manager of Overseas Business Dept. of the Company
Jul. 1999	Corporate Officer, General Manager of Overseas Business Dept. of the Company
Oct. 2002	General Manager of General Affairs Dept. of the Company
Apr. 2004	Senior Manager of Investor Relations Section of the Company
Jun. 2004	Corporate Auditor of the Company (full-time)
Jun. 2016	Director (Full-time member of the Audit and Supervisory Committee) of the Company (to present)

### Yoshihiko Iwasaki

#### Director External Independent Director

##### <Full-time member of the Audit and Supervisory Committee>

Apr. 1979	Entered into National Tax Agency
Jul. 1986	District Director of Ijuin Tax Office
Jul. 1997	Deputy Commissioner (Revenue Management and Collection) of Hiroshima Regional Taxation Bureau
Jul. 1999	Deputy Commissioner (Large Enterprise Examination and Criminal Investigation) of Hiroshima Regional Taxation Bureau
Jul. 2003	Director of Commissioner's Secretariat, the National Tax Agency
Jul. 2007	Assistant Regional Commissioner (Management and Co-ordination) of Nagoya Regional Taxation Bureau
Jul. 2008	Executive Director of National Tax College
Jul. 2009	Director-General of Kanazawa Regional Tax Tribunal
Jul. 2010	Director-General of Sapporo Regional Tax Tribunal
Jul. 2011	Vice President of National Tax College
Jun. 2012	External Corporate Auditor of the Company (full-time)
Jun. 2016	External Director (Full-time member of the Audit and Supervisory Committee) of the Company (to present)

### Makoto Matsuo

#### Director External Independent Director

##### <Member of the Audit and Supervisory Committee>

Apr. 1975	Admitted to Japanese Bar (The Dai-ichi Tokyo Bar Association) Ozaki & Momo-o
Aug. 1978	Weil, Gotshal & Manges in New York
Mar. 1979	Admitted to New York Bar
Apr. 1989	Partner of Momo-o, Matsuo & Namba (to present)
Apr. 1997	Lecturer of Nihon University, Faculty of Law: International Transaction Law
Jun. 1999	External Corporate Auditor of Victor Company of Japan, Limited
Jun. 2000	External Corporate Auditor of Billing System Corporation
Jun. 2003	External Corporate Auditor of Yamanouchi Pharmaceutical, Co., Ltd.
Jun. 2004	External Director of the said Company
Apr. 2005	External Director of Astellas Pharma Inc. Lecturer of Hitotsubashi University Faculty and Graduate School of Law: World Business Law
Jun. 2007	External Director of the Company
Oct. 2008	External Director of JVC KENWOOD Holdings, Inc.
Jun. 2009	External Corporate Auditor of Toray Industries, Inc.
Mar. 2014	External Corporate Auditor of Solasia Pharma K.K. (to present)
Mar. 2015	External Director of TonenGeneral Sekiyu K.K.
Jun. 2016	External Director (Member of the Audit and Supervisory Committee) of the Company (to present)
Jun. 2018	External Corporate Auditor of Sumitomo Forestry Co., Ltd. (to present)

# Features of Capcom Corporate Governance

## Three Features of Capcom Corporate Governance

### 1 We are a company with an audit and supervisory committee

Since June 2016, we have been a company with an audit and supervisory committee. The Audit and Supervisory Committee works so that internal controls function effectively, monitoring the business affairs of directors and employees based on our auditing policies. Additionally, to ensure that the committee can perform duties smoothly and appropriately, we have established an Internal Audit Division under its direct control.

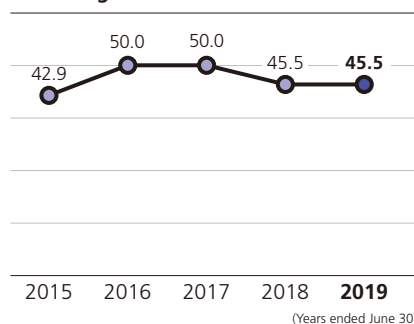
#### Composition of the Board of Directors

Directors	8 (of which 3 are external)
Directors (Audit and Supervisory Committee members)	3 (of which 2 are external)
Total	11 (of which 5 are external)

### 2 We proactively appoint external directors

Capcom's current ratio of external directors is 45.5% due to proactively appointing external directors since June 2001. The advice, opinions, and scrutiny provided by external directors increases the transparency and credibility of Board of Directors' meetings and vitalizes the same, while also strengthening the function of the meetings to supervise management.

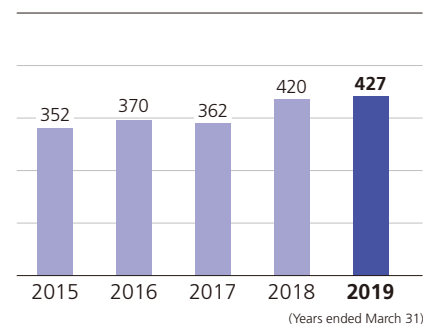
#### Percentage of External Directors (%)



### 3 We incorporate market opinions in management

Capcom's IR Department engages in discussions with analysts and investors over 400 times per year. In addition to promoting understanding of management policies and business strategies, the IR Department applies these activities to corporate management, summarizing market opinions and providing feedback to management personnel. Capcom is also further enhancing events and tools for investors, strengthening shareholder and investor relations activities.

#### Number of annual discussions



## Directors' Skill Matrix

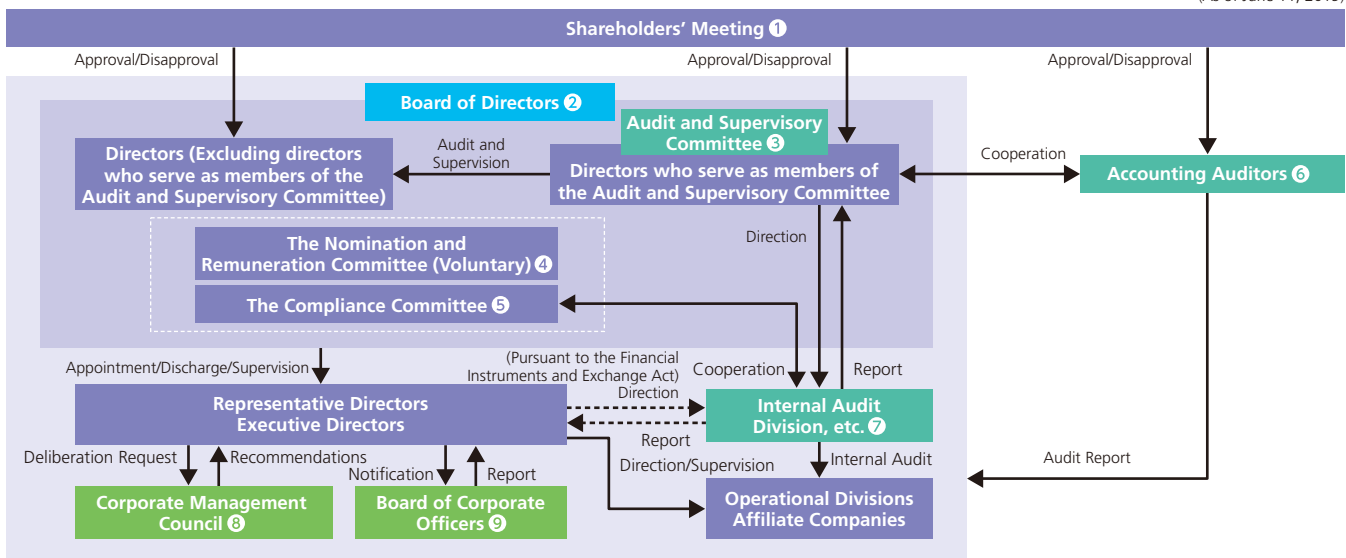
	Management	International business	Development & technology	Sales & marketing	Financial accounting	Independence	Legal	Environment & society
Kenzo Tsujimoto	✓	✓	✓	✓	✓			
Haruhiro Tsujimoto	✓	✓	✓	✓	✓			
Yoichi Egawa			✓					
Kenkichi Nomura	✓				✓			
Kunio Neo		✓		✓				
Masao Sato						✓	✓	✓
Toru Muranaka						✓	✓	✓
Yutaka Mizukoshi	✓	✓			✓	✓		
Kazushi Hirao		✓			✓			
Yoshihiko Iwasaki					✓	✓	✓	✓
Makoto Matsuo						✓	✓	✓



# Corporate Governance Structure and Initiatives

Shareholders and investors have made the effective functioning of internal control into a key issue amidst an epidemic of corporate misconduct in Japan and overseas. In this section, Capcom will explain the corporate governance structure and systems that it has initiated so far based on the key concepts of “effectiveness and visibility” in terms of the results of third party assessment. (Assessment areas are highlighted in yellow.)

(As of June 11, 2019)



## Corporate Governance Structure

### Enhancing management soundness and transparency while responding to changes in the environment

Capcom is aware that comprehensive corporate governance ranks among management’s most important priorities. Because of this, in addition to enhancing management soundness and transparency, we are increasing corporate value by building a trusting relationship with our stakeholders. These stakeholders include shareholders, business partners, employees and regional societies.

### 1 Shareholders’ Meeting

(Convened on June 17, 2019)

#### Determines important matters as the highest decision-making body

The general shareholders’ meeting serves as Capcom’s highest decision-making body and determines important matters prescribed by laws, regulations, and the Company’s Articles of Incorporation, as well as serves as a place for communicating the audit results of divisional reports and consolidated financial statements.

Invitations to the general shareholders’ meeting are issued approximately three weeks before convening the session, and efforts are made to allow for greater attendance by having the session about 10 days before the date on which most other companies hold their meetings. We have also made it possible for shareholders to exercise their voting rights over the internet using a computer or smartphone. In addition, we participate in an electronic voting rights exercise platform for institutional investors.

### 2 Board of Directors

Supervision

(Convened 10 times in the year ended March 31, 2019)

#### Management decisions that incorporate external directors’ opinions

The Board of Directors is composed of 11 directors (chaired by the Representative Director and Chairman of the Board), with five (45.5%) of the directors being external directors.

The Board deliberates on important matters stipulated by laws, regulations, and the Rules of the Board of Directors, and strives to strengthen supervisory functions through the guidance, suggestions, and active comments of external directors.

In order to enrich deliberations, a portion of decision-making authority for the execution of important business is entrusted to the representative directors, while matters brought before the Board are narrowed to those of high importance, and the number of times the Board of Directors is convened is reduced. As a result, the efficiency of business execution has increased due to quick decision making and dynamic management practices.

### 3 Audit and Supervisory Committee

Audit

(Convened 10 times in the year ended March 31, 2019)

#### Cooperating with accounting auditors and the internal audit department to audit and supervise

The Audit and Supervisory Committee (chaired by an external director) is composed of three directors (two of whom are full-time members), with two of the three directors being external directors.

In principle, the committee meets before a Board of Directors’ meeting is convened. The committee deliberates on important

matters stipulated by the Rules for the Audit and Supervisory Committee and strives to strengthen audits and supervision.

Audit and Supervisory Committee members selected by the same committee carry out on-site audits themselves and, in order to increase the efficacy of audits, carry out dynamic organizational audits, including issuing instructions and other actions as necessary to, among others, the Internal Audit Division (directly under the control of the Audit and Supervisory Committee). The Internal Audit Division strives to ensure that audits function effectively by reporting the status of audits and improvements, and other issues to Audit and Supervisory Committee members.

#### 4 The Nomination and Remuneration Committee

(Convened three times in the year ended March 31, 2019)

##### Selection of candidates for director and deliberating and recommending details of director compensation

The voluntary Nomination and Remuneration Committee (chaired by an external director) is composed of five directors (two of whom are internal directors and three of whom are external directors), with a majority of members being external directors.

Each committee member is selected based on the Board of Directors' appraisal of his or her knowledge, insight, experience, and other qualities.

In determining candidates to be nominated for director (excluding directors who are members of the Audit and Supervisory Committee) and candidates to be nominated for director who are members of the Audit and Supervisory Committee, and for setting the compensation of directors (excluding directors who are members of the Audit and Supervisory Committee), the Board of Directors finalizes decisions from an objective, transparent and fair perspective after consulting with the voluntary Nomination and Remuneration Committee and receiving their recommendations.

#### 5 The Compliance Committee

(Convened four times in the year ended March 31, 2019)

##### Focusing on Compliance as an Important Management Issue

The Compliance Committee is composed of 10 directors (half of whom are external directors and the committee chairman is an attorney and external director). In principle, the committee convenes once per quarter.

Its primary activities are to analyze and assess risks to Capcom Group compliance and consider what action to take. In addition, the committee strives for early detection and prevention of legal violations or inappropriate conduct by finding internal risks and reporting their probability of materializing to the Board of Directors.

#### 6 Accounting Auditors

Audit

##### Ensuring and Verifying Accounting Transparency

Capcom has concluded an auditing contract with KPMG AZSA LLC for financial audits as prescribed by the Companies Act and financial audits as prescribed by the Financial Instruments and Exchange Law. There is no special relationship involving financial or other interests between Capcom and this audit corporation or the engagement partners at this firm who perform audits at Capcom.

#### Auditor Remuneration (Year ended March 31, 2019)

	Compensation for Audit Operations	Compensation for Non-Audit Operations
Delivery company	44 million yen	–
Consolidated subsidiary	–	–
<b>Total</b>	<b>44 million yen</b>	<b>–</b>

Auditing Company	Names of Certified Public Accountants	
KPMG AZSA LLC, a limited liability audit corporation	Designated Limited Liability Partners	Yasuhiro Kondo
		Hiroshi Miura
		Takuya Obata

Note: The financial audit team was composed of: certified public accountants (eight members), and candidates for CPA who passed the new CPA exam, plus associates in charge of system audits (eight members).

#### 7 Internal Audit Division

Audit

##### Ensuring and verifying legal compliance and operating efficiencies

In order for effective audits to be carried out, Capcom has established an Internal Audit Division and determines auditing policies, schedules, methods, and the allocation of duties after the end of the general shareholders' meeting.

The Internal Audit Division verifies and evaluates the status of employees' execution of duties and the efficacy (and status of operation) of internal control systems, and reports to the Audit and Supervisory Committee. When needed, division members also accompany selected Audit and Supervisory Committee members and carry out on-site audits of offices and subsidiaries inside and outside Japan.

#### 8 Corporate Management Council

Implementation

(Convened 18 times in the year ended March 31, 2019)

##### Supporting the Board of Directors' decisions

The Corporate Management Council (chaired by the Representative Director and Chairman of the Board) is composed of six internal directors and, in principle, is convened several days before a meeting of the Board of Directors, or whenever necessary.

In addition to meeting to carry out preliminary deliberations of Board of Directors agenda items, it also deliberates other important items.

#### 9 Board of Corporate Officers

Implementation

(Convened 13 times in the year ended March 31, 2019)

##### Executing operations based on clear management policy

Capcom utilizes a Corporate Officer System. In addition to clarifying the roles and responsibilities of directors focused on management and corporate officers focused on business execution, the system boosts management efficiency by allowing officers to swiftly execute business following instructions from executive directors regarding important matters determined at the Board of Directors.

The Board of Corporate Officers is composed of 21 corporate officers (four of whom serve concurrently as directors), and in principle, convenes around the end of each month.

Each corporate officer reports on the status of business execution and works to ensure that information is shared, while also discussing business items and issues that require resolution.

## External Directors

### Using external perspectives to ensure effective governance

External directors ensure the effectiveness of the corporate governance function by playing key roles in the Compliance Committee and the Nomination and Remuneration Committee. They also focus efforts on compliance and the prevention of corrupt or illegal activities, and openly exchange opinions and provide counsel at Board of Directors meetings in an effort to

strengthen the management audit function. The Secretariat staff helps with the work of the external directors who are not members of the Audit and Supervisory Committee. For external directors who are members of the Audit and Supervisory Committee, the full-time staff of the Internal Audit Division helps with their work.

Since all five of the external directors meet the criteria for independent directors, these five individuals have been registered with Tokyo Stock Exchange, Inc. as independent directors.

### Reasons for Selection of External Directors and Their Rate of Attendance (Year ended March 2019)

	Name	Independent director	Reasons for selection	Board of Directors/Audit and Supervisory Committee Rate of Attendance (Year ended March 2019)
External Directors	Masao Sato	✓	Due to expectations for his ability to contribute to the auditing and supervision of the Board of Directors through his rich experience and knowledge from many years serving in police administration	Board of Directors: Attended 10 of 10 meetings (100%)
	Toru Muranaka	✓	Due to expectations for his ability to contribute to the auditing and supervision of the Board of Directors through precise counsel and advice as a legal expert	Board of Directors: Attended 10 of 10 meetings (100%)
	Yutaka Mizukoshi	✓	Due to expectations for his ability to contribute to the auditing and supervision of the Board of Directors through his experience and knowledge as a business consultant	Board of Directors: Attended 8 of 8 meetings (100%)
External Directors (Audit and Supervisory Committee)	Yoshihiko Iwasaki	✓	Due to his experience with tax administration, he is expected to be beneficial to the Company	Board of Directors: Attended 10 of 10 meetings (100%) Audit and Supervisory Committee: Attended 10 of 10 meetings (100%)
	Makoto Matsuo	✓	Due to his ability to enable effective corporate governance through precise counsel and advice as a legal expert	Board of Directors: Attended 10 of 10 meetings (100%) Audit and Supervisory Committee: Attended 10 of 10 meetings (100%)

## Officer Remuneration

### The Nomination and Remuneration Committee is consulted to ensure fairness and transparency

To ensure fairness and transparency, the Board of Directors consults the voluntary Nomination and Remuneration Committee, which has an external director as chairman, on the compensation of Directors (excluding directors who are members of the Audit and Supervisory Committee) and then sets remuneration based on this committee's recommendations.

### Policy for setting the calculation method and amount of directors' remuneration

#### 1 Regarding remuneration of directors (excluding directors who are members of the Audit and Supervisory Committee)

To ensure the fairness and transparency of remuneration for directors (excluding directors who are members of the Audit and Supervisory Committee), the Board of Directors consults the Nomination and Remuneration Committee, which has an external director as chairman. The Nomination and Remuneration Committee considers each board member's position, duties, tenure, and status as either an executive director or non-executive director, evaluates individual job performance and recommends an appropriate amount. The Board of Directors then makes a decision based on this amount.

- Monthly remuneration is fixed.
- The bonuses are set within a reasonable range based on monthly remuneration and the Company's performance.

The Company has adopted a single fiscal year bonus as short-term performance-linked remuneration. Upon consultation with the Board of Directors, the Nomination and Remuneration Committee deliberates on the following items, then makes a preliminary recommendation. The Board of Directors discusses this recommendation before making a final decision.

- Monthly remuneration (fixed)
- Consolidated operating income performance
- Evaluation of individual performance

#### 2 The remuneration of the directors who serve as members of the Audit and Supervisory Committee

In order to secure their independence, the remuneration of the directors who serve as members of the Audit and Supervisory Committee is not linked to performance; it is a fixed amount determined through discussions, taking the difference of full-time or part-time service and other factors into account, by the directors who serve as members of the Audit and Supervisory Committee.

### Officer Remuneration (Year ended March 31, 2019)

Total remuneration, total amount by type of remuneration, and number of directors the remuneration was paid to, by type of director

Type of director	Total Remuneration (million yen)	Total of remuneration by type (million yen)				Number of directors paid
		Basic remuneration	Stock options	Performance-linked Remuneration	Severance	
Director (excluding Audit and Supervisory Committee and external directors)	357	272	–	85	–	5
Member of Audit and Supervisory Committee (excluding external directors)	21	21	–	–	–	1
External director	29	29	–	–	–	4
Member of Audit and Supervisory Committee (external directors)	35	35	–	–	–	3

Note: The above includes one external director and one external director who was an Audit and Supervisory Committee member who left at the end of the 39th General Shareholders' Meeting on June 11, 2018 due to the expiration of their terms.

### Total amount of consolidated remuneration by director of delivery company

Name	Total of consolidated remuneration (million yen)	Type of director	Type of company	Total of consolidated remuneration by type (million yen)			
				Basic remuneration	Stock options	Performance-linked Remuneration	Severance
Kenzo Tsujimoto	130	Director	Delivery company	100	–	30	–
Haruhiro Tsujimoto	104	Director	Delivery company	80	–	24	–

Note: Total consolidated remuneration, etc. is listed only for those with remuneration of 100 million yen or more.



**Third-Party Assessment**

**Promoting more “visible” governance**

An analysis of an assessment performed by a third-party organization into the validity and effectiveness of Capcom’s corporate governance shows that the company ranked 31st among 3,592 listed companies in Japan in the “NEEDS-Cges” assessment developed by Nikkei Digital Media, Inc.

NEEDS-Cges has an established reputation as a system that quantitatively assesses corporate governance using scores on a scale of 1 to 10 for eight categories, including capital efficiency, information disclosure, and external regulations, among others, based on some 150 indicators calculated from data of publicly released company documents, such as financial reports.

As of the end of June 2019, Capcom’s total score was 8.00 points, placing us in the top 0.9% of Japan’s listed companies, exceeding the 4.94-point average for all listed companies and the 7.02-point average for the industry. We also received the maximum score of 10 for “information disclosure.”

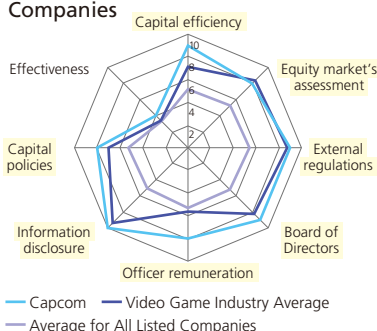
The main evaluation factors are given in the table below, but areas highlighted in yellow indicate measures that received particular notice. Going forward, we will continue making improvements based on consideration of external data to earn an even stronger assessment, and further promote the external visibility of our governance by posting this and other data on our IR web page.

**Third-Party Assessment Results of Capcom’s Corporate Governance**

**Details of Capcom’s Corporate Governance**

Total Score	8.00
Rank	31
Categories	Score
Capital efficiency	9
Equity market’s assessment	8
External regulations	9
Board of Directors	9
Officer remuneration	8
Information disclosure	10
Capital policies	8
Effectiveness	4

**Comparison of the Industry Average and the Average for All Listed Companies**



**Details of Highest Rated Categories**

Highest Rated Categories	Score	Areas that Received Particular Notice
Capital efficiency	9	Statistics related to free cash flow
External regulations	9	Presence (or absence) of takeover defense measures
Board of Directors	9	Percentage of independent external directors, tenure of directors
Information disclosure	10	Timing of Shareholders’ Meetings (avoiding congested periods), degree of website detail, early timing of Shareholders’ Meeting invitations, utilization of electronic voting, presence or absence of English disclosure materials

Source: NEEDS-Cges from Nikkei Inc.

**Basic Policies Regarding IR Activities**

**1. Disclosure policies**

Capcom is aware that comprehensive corporate governance ranks among management’s most important priorities. As such, in addition to increasing corporate value by enhancing management soundness and transparency, we are building a relationship of trust with our stakeholders, such as shareholders, business partners, employees and regional societies.

**2. Disclosure criteria**

Capcom provides timely disclosure in accordance with the Securities and Exchange Law and other regulations including the “Rules on Timely Disclosure of Corporate Information by Issuer of Listed Security” (hereinafter Timely Disclosure Rules) stipulated by the Financial Instruments and Exchange Act and the Tokyo Stock Exchange.

It is our policy to disclose as much information as possible, including the disclosure of information not required by the Timely

Disclosure Rules and other regulations, to accommodate our investors’ needs. We also disclose information through our corporate website in an attempt to provide quick and fair disclosure. Shareholders are informed of operating results and business conditions through shareholder letters and the convocation notice for the general shareholders’ meeting.

**3. Quiet period**

To prevent the unauthorized disclosure of quarterly earnings information prior to official announcements, Capcom has established a quiet period starting the day following the end of a fiscal period and ending on the day that financial information for that period is announced. During this period, we refuse all inquiries relating to our business performance. However, if significant changes to our earnings outlook are anticipated during the quiet period, we will disclose information pursuant to the Timely Disclosure Rules and other regulations.

## Initiatives for the General Shareholders' Meeting

### Making shareholders' meetings lively and facilitating the exercise of voting rights

To ensure our General Shareholders' Meetings are lively, we hold our meeting about 10 days before the period when most Japanese companies typically hold their meetings in an attempt to encourage the attendance of as many shareholders as possible.

Also, voting rights can be exercised online via smartphone,

PC or other such devices. In addition, we have participated from an early stage in a platform for the online exercise of voting rights, so institutional investors are ensured a sufficient amount of time to consider proposals starting on the day the convocation notices are distributed. We also post convocation notices in English on our corporate website to promote the exercise of voting rights by shareholders worldwide.

## Shareholders' Meeting Resolutions

The following presents the results of voting at the fiscal 2018 General Shareholders' Meeting.

Resolutions	Approval Votes	Opposed Votes	Abstained Votes	Approval Rate (%)	Voting Results
First proposal: Proposed Appropriation of Retained Earnings	895,445	313	184	99.34	Approved
Second proposal: Proposed Partial Amendments to the Articles of Incorporation	895,522	236	184	99.35	Approved
Third proposal: Election of Eight Directors (excluding Directors who are members of the Audit and Supervisory Committee)					
Kenzo Tsujimoto	845,846	40,938	9,157	93.84	Approved
Haruhiro Tsujimoto	876,376	19,382	184	97.22	Approved
Yoichi Egawa	886,297	9,461	184	98.32	Approved
Kenkichi Nomura	870,816	24,942	184	96.61	Approved
Kunio Neo	886,234	9,524	184	98.32	Approved
Masao Sato	891,191	4,567	184	98.87	Approved
Toru Muranaka	890,414	5,344	184	98.78	Approved
Yutaka Mizukoshi	889,976	5,782	184	98.73	Approved

➔Please refer to the "Resolutions of the 40th Ordinary General Meeting of Shareholders" section of our IR web page for information about the conditions for each proposal to be passed <http://www.capcom.co.jp/ir/english/stock/meeting.html>

## Third-Party Assessment of IR Activities

### High praise for proactive IR initiatives

In recognition of our ongoing pursuit of timely and appropriate information disclosure, our IR activities and various IR tools have received a number of awards from third-party organizations. With an awareness of the importance of accountability, we will continue our efforts to earn the trust of investors and provide timely disclosure.

### Fiscal 2018 Third Party Evaluations

Corporate	US-based financial publication Institutional Investor's 2018 All-Japan Executive Team rankings, Software sector "Honored Companies" Third Place
	US-based financial publication Institutional Investor's 2018 All-Japan Executive Team rankings, Software sector "Best Corporate Governance" First Place
	US-based financial publication Institutional Investor's 2018 All-Japan Executive Team rankings, Software sector "Best ESG/SRI Metrics" Third Place
Integrated Reports	Capcom's integrated report chosen for excellence by asset management companies contracted with GPIF (Government Pension Investment Fund)
	Nikkei Inc.'s 21st Nikkei Annual Report Awards, Excellence Prize
IR Website	Daiwa Investor Relations Co., Ltd. (Daiwa IR), "Internet IR Award 2018," Grand Prize
	Morningstar Japan K.K., Gomez Consulting Dept.'s "Investor Relations Site Ranking 2018," Second Place
	Nikko Investor Relations Co., Ltd., "Fiscal 2018 Listed Company Website Quality Ranking," First Place

## Making Use of Shareholder and Investor Opinions

### Reflecting results of dialogues with investors and analysts in management

Through meetings with investors and analysts, Capcom's IR Department attempts to promote an understanding of management policies, strategies and future outlook. Furthermore, their opinions are gathered and provided to management, and are utilized for corporate management going forward. While we are headquartered in Osaka, these proactive IR meetings enable us to minimize asymmetric information as we strive to achieve appropriate corporate value.

In fiscal 2018, we set up top management meetings between the chairman and CEO, the president and COO, and investors where medium- to long-term strategies and the direction of marketing strategies were explained. This also included candid discussions concerning management and development. Furthermore, we hold an online individual investor briefing to allow individual investors from anywhere in the world to take part, as one of a variety of new pursuits informed by stock market views and demands. In addition, Capcom conducts a perception gap study every year targeting institutional investors and analysts in Japan and overseas. Being aware of investor perception gaps gives us feedback on corporate management and IR activities.

Questionnaires are also given to attendees at our Presentation of Financial Results and individual investor briefing sessions, allowing us to make proactive use of market opinions as one criterion in management decisions. Specific initiatives and examples of considerations include: (1) holding efficient discussions combining IR and SR, (2) holding on-going management meetings featuring top management, and (3) reviewing the need for meetings that include personnel responsible for development and cover explanations of development policies and strategies.

#### Fiscal 2018 IR Measures

By category	Frequency
Interviews accepted	225
Visited domestic investors	115
Visited overseas investors	87
<b>Total</b>	<b>427</b>

#### IR Events

Event	Details
Top Management Meeting	Speakers: Chairman and CEO, Kenzo Tsujimoto President and COO, Haruhiro Tsujimoto Executive Director and CFO, Kenkichi Nomura
Supplementary earnings call	Earnings call after results announcement / before results presentation to explain earnings
Online individual investor briefing	Held information sessions online for individual investors
Conducted perception gap study	Conducted assessment survey targeting domestic and international institutional investors and analysts regarding Capcom's management targets, strategies and IR activities, provided feedback to management

### Outcomes from our perception gap study with investors (excerpts)

**Q. Currently, Capcom is using Street Fighter to actively target esports. How much is this contributing to performance figures? Expectations are for the industry to grow, but is it still premature to expand in this area?**

**A.** We have addressed this.

1. Explanation of the medium- to long-term business strategy
2. Disclosure of our expectations of profit from esports  
Esports are rising in popularity recently and Capcom sees our response to this as an important management issue. To date, we have encouraged sales through promotions and esports events in the U.S., and further established a dedicated department in April, as we proceed to analyze this market.

In the coming three to five years, we will explore whether we can grow business opportunities and draw in casual as well as professional players as the market develops.

## IR Activities on Our Website

### Providing a website easily accessible to everyone

Since 2001, Capcom has made proactive use of its corporate website as a tool for disseminating information pertaining to IR activities. The main reasons for this are to ensure fairness for a wide range of stakeholders, and because it ensures information is easily available for inspection immediately in approximately 200 countries worldwide. Capcom's corporate website is also positioned as our most cost-effective tool and we strive to use it in various ways, including video content for communicating information and social networking sites for timely information updates.

## IR Team

### Full-time staff engaged in a wide variety of activities

Capcom IR activities are conducted by three full-time staff members in addition to the chairman, the president, and the director overseeing IR for shareholders and investors in Japan and overseas. For earnings information and other IR-related inquiries, please use the contact information below.

#### Public Relations & Investor Relations Section

Phone: +81-6-6920-3623 E-mail: ir@capcom.co.jp  
Business Hours: 9:00–12:00, 13:00–17:30 (JST)  
(excluding weekends and public holidays)



## Message from an External Director

### The management philosophy and corporate governance of Capcom's leaders

as seen by External Director Toru Muranaka

In the approximately three years since being appointed external director at the June 2016 Shareholders' Meeting, I have seen steady activity directed toward growth in Capcom's operational divisions, in addition to an unwavering approach to governance by top management. All of this has been against the backdrop of great change in the video game market as Capcom pushes to promote digital sales and global growth. I feel that my role is to present constructive questions to management personnel, drawing on my experience as an external director at other companies and my legal knowledge as an attorney.



Toru Muranaka  
External Director  
Independent Director

**Q** Since being appointed external director, what have you noticed about Capcom's Board of Directors?

**A** The adoption of external directors is compulsory for a company with an audit and supervisory committee, and at Capcom independent external directors account for more than one third of all its directors.

We receive explanations of agenda items before Board of Directors meetings are convened and, on each occasion, have opportunities to exchange opinions on wide-ranging management issues not limited to those agenda items. The advice and input given during these discussions are then reflected in the deliberations of the Board of Directors. I feel that being able to grasp Capcom's management risks, initiatives, and issues during these talks prior to Board of Directors meetings is effective in supporting discussions at the board meetings.

Additionally, although the schedule is irregular, independent external directors also set up opportunities to exchange opinions with the CFO and Company directors who are full-time Audit and Supervisory Committee members, which allows us to discuss company-wide management issues that are difficult to fully delve into at Board of Directors meetings. Each independent external director focuses on Capcom's management issues using his or her particular acumen, which I think represents a diverse range of talented human capital.

**Q** As an external director, what do you emphasize within Capcom's Board of Directors?

**A** Under its system of being a company with an audit and supervisory committee, Capcom's Board of Directors entrusts deliberation on what is called "execution of critical business" to the Corporate Management Council, which is primarily comprised of internal corporate officers, and said business is largely excluded from items brought up to the Board of Directors. Consequently, all basic matters related to business execution, except for business plans, budgets, and the like, are positioned as items reported on at Capcom's Board of Directors meetings. As an external director, I draw on my experience in similar roles at other companies and my legal knowledge as an attorney, and make sure to present questions and opinions to the Board of Directors addressing the consistency of decision making and the logic of judgment rationale pertinent to management.

Since I am an external director who is not an Audit and Supervisory Committee member, I am not directly involved in audits by that committee. However, as the chair of the Compliance Committee, I am involved in reports and deliberations on the status of Capcom's internal hotline and cases of compliance violations. Through these activities, I am committed to building ties with the Internal Control Division and other divisions, while also monitoring initiatives to prevent and, when necessary, quickly detect legal violations and inappropriate conduct.



**What is necessary to further strengthen the functions of Capcom's Board of Directors, and what are your goals going forward as an external director?**



Under the strong leadership of the CEO, who is Capcom's founder, the Company has not only handled risks, but has also channeled management resources in a courageous direction. In recent years, the Company has been devoting energy to new fields, such as global business expansion and the area of esports. With regard to promoting existing business, the Company has established and deployed the systems necessary for internal

control, while also progressively building and rolling out organizational and control structures for corporate governance that contributes to achieving even more intricate and flexible business expansion.

A challenge going forward—which I, as an external director, would like to have a hand in tackling—will be developing a governance structure able to propose and promote new, effective growth strategies even if the current CEO retires.



## Message from an External Director

### The fitness of Capcom's growth strategies

as seen by External Director Yutaka Mizukoshi

Since being appointed external director at the June 2018 Shareholders' Meeting, I have closely observed the structure of Capcom's marketing strategies from my perspective as a management consultant. Going forward, I will offer my advice and input on formulating and rolling out future strategies as Capcom pursues the business of creating markets around the globe.



Yutaka Mizukoshi  
External Director  
Independent Director



**Q One year has passed since your appointment as external director. How do you feel looking back at the year?**



I get the impression that the environment surrounding Capcom is changing drastically. Even compared to a year ago, the digital strategies on which Capcom focused and promoted have yielded clear results. Furthermore, I have a visceral sense of the possibilities for new business development as the rapid global momentum of esports also spreads into Japan.

In this environment, I think that my role is to help Capcom continue its growth into the future by using my experience and knowledge as a management consultant while—from an independent, outside perspective as an external director—actively providing suggestions and advice to help structure and organize the Company's management. In particular, I would like to strengthen supervision of the Board of Directors by lending my efforts to building management-based marketing strategies.



**Q How do you feel about the current video game industry compared to the 1990s, when Capcom made its full-fledged entry into developing software for home video games?**



It feels like just yesterday that a game could be built by a small team of developers over the course of a few months, and that physical cartridges were the only way games were sold. Through the advance of game consoles and PCs, plus the emergence of smartphones and the dramatic evolution of the communications environment, the platforms and sales regions of the video game market have rapidly expanded. Likewise, there has been a major transition in the industry's business environment, as the method of providing the product is changing from physical packages to digital distribution. Responding to this evolution, and given the longer duration and increasing complexity of developing blockbuster games, I think the industry has become a highly developed area, second to that of the automobile industry.

In this type of business environment, our approach to core marketing practices is of the highest importance for management. We must work out plans for the story of our long-term corporate growth and profit maximization. In my opinion, we must strive for one approach unifying marketing, development, and sales.





**From your experience as a management consultant, what elements do you think are necessary for improving corporate value?**



Management consultant professionals must offer concrete suggestions for transforming the companies we advise. At the same time, we have to provide proposals that the company can execute with its own resources.

In growth strategies, I think that, ultimately, the key elements for video game companies are how human resources are leveraged and how their development structures and environments are organized.

In that sense, I think that Capcom's key assets are being equipped with world-class development facilities, an environment with an array of high-tech equipment, and a successful track record of making quality games that have won the support of customers. I have seen a continuous stream of young developers who joined Capcom because they sought this sort of environment. Additionally, in terms of management, I would like us to maintain our commitment to creating new value alongside young talent while further creating a comfortable working environment for developers through initiatives such as the on-site childcare facility we have built.



**What are the necessary elements for Capcom to grow its global business and what are your goals going forward as an external director?**



Although video games are now widely recognized as a major industry, this is a somewhat new development.

As 5G, for example, emerges in the future, one of the features grabbing my attention is the elimination of latency in data transmission. This is expected to spur its adoption in various areas, including remote surgery in the medical field. In video games, too, I think there will likely be a revolution in content, through such activities such as multiplayer matches over the Internet.

Also, Capcom is carrying out other new initiatives, like esports, which could bring dramatic market transformations. My goal is to see Capcom, who owns globally competitive content, become a leading company in the video game industry.

To that end, as an external director, I would like to provide advice and input from various perspectives addressing Capcom's framework for advancing its strategies. At the same time, I feel called upon to fulfill the role of managing risk while avoiding opportunity cost, as we strive to improve corporate value.

Going forward, it is my goal to create a framework that yields new business chances for Capcom, while, as an external director, providing encouragement for management strategies aimed at further global growth.

# Risk Management

Capcom is driving its growth strategies forward in order to achieve our medium-term business goal of increased operating income every fiscal year. To make this a reality, however, entails business risks. We implement measures for each expected risk, thereby mitigating or avoiding risks, and promote risk management that allows for generating new growth opportunities.



## Pursuit of growth strategies

### Digital Contents Business

Risks	Capcom's response measures
Surge in development costs due to increasingly complex/diverse functionality in CG, VR, artificial intelligence (AI), and 5G technologies	Build an in-house development engine; increase and efficiently place development personnel to improve both quality and development efficiency; direct effort toward containing development spending
Rapid obsolescence of game software	Remake previous titles and/or make derivative products from them in order to continue effectively utilizing IP; secure long-term earnings
Expansion of the used software market and a flood of pirated software in Asian markets	Boost the ratio of digital sales to restrain supply to the used game market, suppress pirated copies, and expand sales of genuine products <a href="#">[Diagram A]</a>
Arguments claiming a connection with/influence on violent incidents and other criminal cases due to depictions of violent scenes and similar content in games Arguments that excessive preoccupation with games impacts health and social activity	Comply with rules on the ratings system for game software Educate children, students, educators and parents/guardians by conducting on-site classes and having visits to the Company
Fluctuations in the proliferation of, or any problem with, home video game consoles	Use surveys and analysis of home game console market trends to predict future trends, while hedging earnings risks by releasing products on multiple game platforms
Sluggish sales growth in the transition stage ahead of next-generation home video game console launches	Lengthen the duration of game sales by boosting the digital sales ratio; strengthen catalog sales and increase unit sales through flexible pricing strategies <a href="#">[Diagram B]</a>
Inability to keep up with new technologies	Utilize a cutting-edge development environment and talented developers to continually strive for development that leverages new technologies
Decrease in users due to diversifying entertainment options, diversifying consumer needs, etc.	Deliver games that leverage our popular IP and gain new user segments by releasing games on multiple platforms
Market fluctuations outside Japan and intensification of competition among companies	Closely share information with overseas subsidiaries and sales companies; assess market trends in each country; respond to local needs
Country risks outside Japan, including political, economic, legislative, cultural, religious, and custom risks	Use in-house specialist teams to carry out localization while keeping regional politics, economics, laws, culture, religion, and customs in mind
Retirement/transfer of development personnel	Devote effort to aggressively hiring and training personnel so that we can secure talented developers Promote systems for shortened working hours and usage of paid leave, in addition to building daycare centers near our offices

### Arcade Operations Business

Risks	Capcom's response measures
Reliance on the popularity of installed machines	Multi-faceted roll out, such as of themed food shops, shops dedicated to selling character-themed products, and special corners targeting younger demographics
Changes in the market environment, such as diversification of entertainment, falling birth rates, intensified competition	Attract families and female customers by holding various events; hold senior-oriented events aimed at attracting middle-aged to senior citizens

### Amusement Equipments Business

Risks	Capcom's response measures
The risk of non-compliance with the model certification test to sell pachislo machines	By joining the Japan Pachislo Machine Industry Association (Nichidenkyo), get an understanding of trends with regulatory agencies and build a framework that immediately responds to regulatory changes <a href="#">[Diagram C]</a>

### Creation of new opportunities

#### Opportunities

- Raise competitiveness in the environment of new technology and new services, such as 5G
- Grow earnings in the global market

- Develop new regions
- Attract new users
- Boost brand strength
- Stabilize earnings through a recurring/cumulative revenue model

- Boost brand strength
- Expand new sources of earnings

- Grow earnings in the global market
- Boost performance by strengthening human resource capabilities

#### Opportunities

- Attract new customers
- Boost brand strength at Company arcades

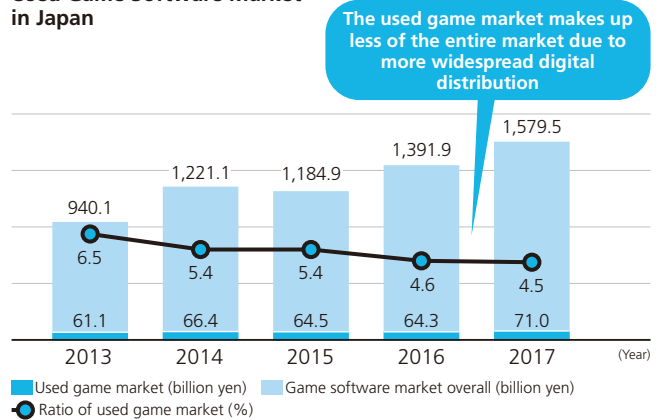
#### Opportunities

- Enhance lineup of titles

### Business Opportunities Shown in Market Data

Diagram A

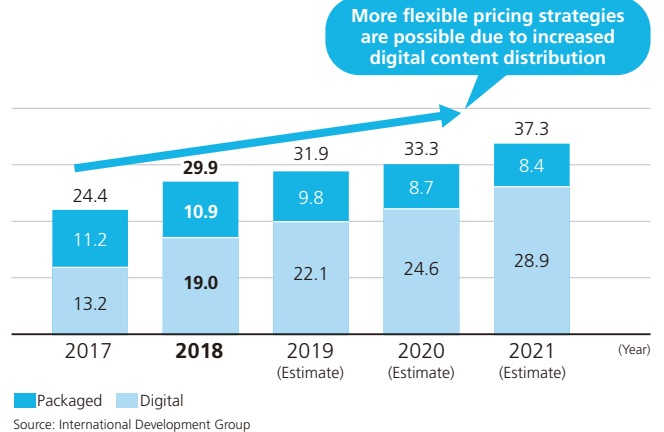
#### Used Game Software Market in Japan



Source: Ministry of Internal Affairs and Communications' Survey on Media Content Production and Distribution

Diagram B

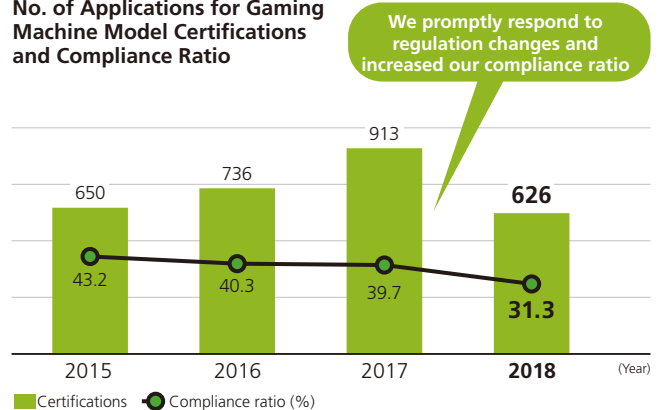
#### Game Content Market (billion dollars)



Source: International Development Group

Diagram C

#### No. of Applications for Gaming Machine Model Certifications and Compliance Ratio

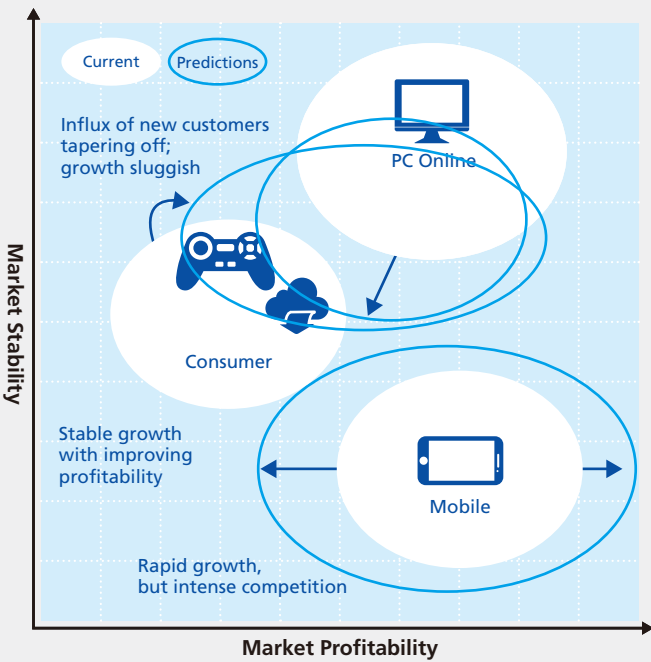


Source: reference statistics from the Security Communications Association



## Game Industry Characteristics

### Characteristics of Each Market



Source: Created by Capcom based on data from the International Development Group

### Consumer Market Characteristics (Package + Digital)

Package and digital download contents are a 29.9 billion dollar market, forecast to grow 60% over the next five years to 47.9 billion dollars by 2023. The customer base is primarily composed of core users who are highly loyal to game titles. They have relatively high willingness to purchase sequels and remakes along with low sensitivity to price and economic conditions. Hereafter, we expect the market to grow at a faster pace as we capture the casual user segment, which has high sensitivity to price conditions, as well as new users. This will come about in conjunction with a higher digital sales ratio, resulting from growth in Asia and emerging countries and expansion of online gaming on consoles, primarily in North America, shrinking the gap between the margin in this market and those in the other two markets. ➔Please refer to page 71

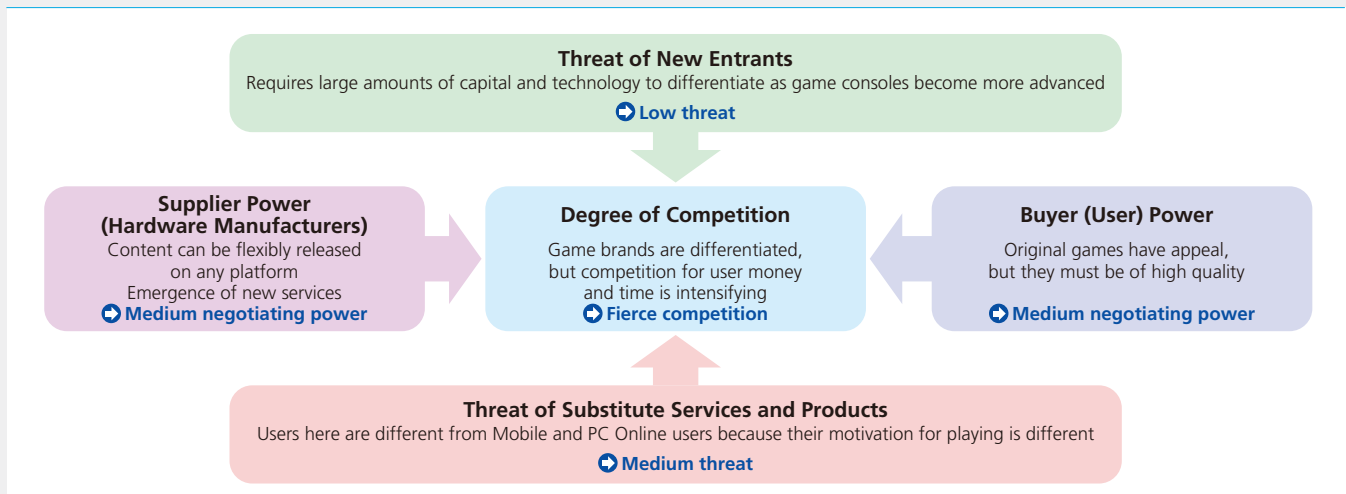
### Mobile Market Characteristics

This is a 75.3 billion dollar market, forecast to grow to 109.8 billion dollars by 2023. The customer base is primarily composed of casual users, many of whom play games in their spare time, thus they demonstrate the lowest loyalty toward game titles. In contrast to core users, they have a limited willingness to purchase games and have the highest sensitivity to price and economic conditions. Although this is the most profitable among the three markets, only a limited number of titles are able to generate stable earnings over the long term even if they become hits. This makes brand establishment a challenge. Going forward, we expect smartphones will continue to drive rapid growth as the most pervasive game device. ➔Please refer to page 71

### PC Online Market Characteristics

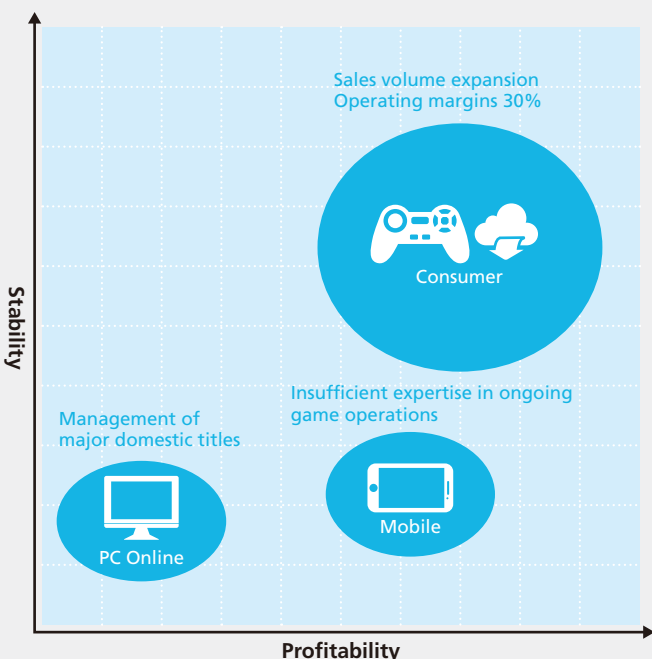
This is a 41.6 billion dollar market, forecast to grow about 6% over the next five years to 44.1 billion dollars by 2023. The customer base is primarily composed of core users who demonstrate the highest loyalty toward game titles. They have a fairly strong willingness to engage in ongoing purchases, and are unique for having the lowest sensitivity to price and economic conditions. Integration with the consumer market will likely progress as the online capabilities of consoles are enhanced, so growth of this market is expected to become sluggish in the future. ➔Please refer to page 71

### Five Competitive Factors Related to the Consumer Market (Five Forces Analysis)



**Capcom Business Characteristics**

**Digital Contents Business Portfolio**



Note: Calculations based on earnings in the fiscal year ended March 31, 2019



**Consumer Market Characteristics**  
 (Proportion of Net Sales: 77%)  
 Package + Digital

Capcom’s core business is to create a multitude of original content for home video game consoles. The regular release of sequels to popular IPs and focus on digital sales have, in recent years, led to an increased digital sales ratio and a greater volume of sales as well as operating margins of up to around 30%.



**Mobile Contents Market Characteristics**  
 (Proportion of Net Sales: 2%)

This business distributes games featuring popular Capcom content on smartphones, cultivating new markets such as the casual user segment to create new earnings opportunities. However, insufficient know-how in ongoing game operations, which differs from Consumer, has resulted in sales underperforming market growth.



**PC Online Market Characteristics**  
 (Proportion of Net Sales: 4%)

We are working to distribute PC Online games utilizing our popular content and ensure stable management of our existing content in Japan.

**Capcom Management Resource VRIO Analysis and Evaluation/Measures**

V: Value R: Rarity I: Inimitability O: Organization  
 ○: High △: Medium ×: Low

Area	Management Resource	V	R	I	O	Evaluation
Management	Top management with strong leadership dedicated to high-quality production and trusted by employees	○	○	○	○	Ongoing competitive advantage
Development/technology	Development capabilities to produce original titles of world-class quality	○	○	○	○	Ongoing competitive advantage
	RE ENGINE for streamlined development and the technological prowess to create games with full-VR support	○	○	○	○	
	Corporate culture of training younger employees	○	×	△	○	Other companies possess this strength as well
Governance	Promotion of governance reforms (independent director ratio / company with an audit and supervisory committee)	○	△	×	○	Some companies are even more progressive
	Swift decision-making system	○	△	×	○	Strength seen at many founder-run companies
Brand	Many popular, global IPs	○	○	○	○	Ongoing competitive advantage
	Corporate brand known worldwide for action games	○	×	○	○	There are more widely recognized companies
Finances	Paid dividends for 29 consecutive years since listing	○	△	×	○	There are about 40 companies that have provided dividends for 10 consecutive years or more
Sales	Consumer digital sales ratio of more than 50%	○	△	△	○	Major overseas companies are ahead
Marketing	Bolstering of lineup through revival of dormant IP and catalog titles	○	△	△	△	Companies with popular IP can roll them out in other media
	Single Content Multiple Usage strategy of rolling out popular IP to multiple media	○	×	△	×	
External partners	Trusted by hardware manufacturers	○	△	○	○	High rank compared to competitors

Note: Prepared in-house based on interviews of analysts.

**Measures to address evaluation**

\*1 With respect to the low evaluation of the originality of our system for training younger employees, we have hired around 100 developers each year since fiscal 2011 and established a world-class R&D center and development facilities. In addition to establishing an environment that allows us to take up new challenges, we are working on developing a system that allows us to train employees through title development. (Please refer to page 41)

\*2 With respect to the low evaluation globally despite being ahead of other companies in Japan, we are promoting measures such as (1) taking advantage of our many popular IPs

by re-releasing past million-sellers (89 titles) in digital format and (2) extending the sales period, with brand strategies for each IP and enhanced digital sales and pricing measures as we develop titles that will be popular not just in Japan but globally, as well as increase the fan bases of our IP series. (Please refer to page 33)

\*3 With respect to the low evaluation of not successfully rolling out IPs to mobile platforms despite their relative strength, we are continuing to promote measures such as (1) assigning capable creators to internal production and (2) forming alliances with mobile game companies possessing abundant game operations know-how. (Please refer to page 37)

## Explanation of Market Trends and Forecasts



### Consumer Market (Package + Digital)

In 2018, the consumer (package + digital) market picked up, increasing significantly to 29.9 billion dollars (up 22.5% from the previous fiscal year). This was due primarily to a large increase in digital sales, despite packaged sales remaining flat.

Digital sales have expanded rapidly in North America and Europe where such sales account for 88% of the market. The highly profitable digital contents market now accounts for roughly 63% of the consumer market.

The forecast for 2019 is for the market

to reach 31.9 billion dollars (up 6.7% from the previous fiscal year) owing to continued growth of the digital market, despite continued shrinking of the package market as a result of current generation game consoles running their course.

In the medium term, we see digital sales expanding rapidly in Asia and new game delivery methods such as streaming and subscriptions performing favorably. As such, we expect the market to grow to 47.9 billion dollars by 2023 (up 60.2% compared to 2018).



### Mobile Contents Market

In 2018, the mobile contents market was worth 75.3 billion dollars (up 26.8% from the previous year), expanding to more than half the size of the overall game software market. The main reason for this was the continued momentum of battle royale games that have been popular since 2017, driving growth of the market despite annual smartphone shipments declining for the second year in a row to 1.45 billion units (down 4.1% from the previous year) in 2018. By region, the Asian market including Japan was worth 42.1 billion dollars (up 18.8% from the previous year), the North American market was worth 17.5 billion dollars (up 54.7% from the previous year), the European market was worth 8.7 billion dollars (up

44.9% from the previous year), and developing countries and other regional markets were worth 6.9 billion dollars (up 4.5% from the previous year), all showing continued growth.

In the medium term, the domestic market is maturing, but we expect continued growth in Asia and emerging countries. Moreover, once 5G next-generation mobile networks are up and running, it will be possible to deliver large volumes of content at high speeds, so we believe there is potential for market expansion. We expect the 2019 mobile market to increase to 86.6 billion dollars (up 15.1% from the previous year) and grow significantly to 109.8 billion dollars by 2023 (up 45.8% from 2018).



### PC Online Market

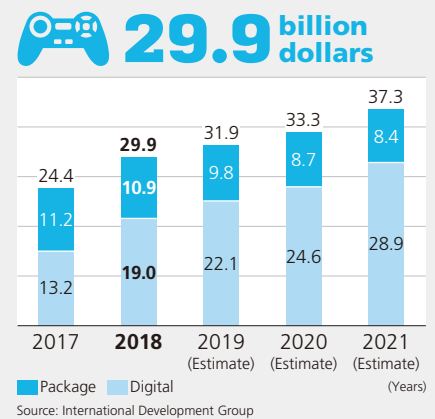
In 2018, the PC online market grew to 41.6 billion dollars (up 8.3% from the previous year) owing to growth in North America, Europe, and Asia.

However, with the growth of online consoles, there is ongoing integration with the consumer market, so market expansion

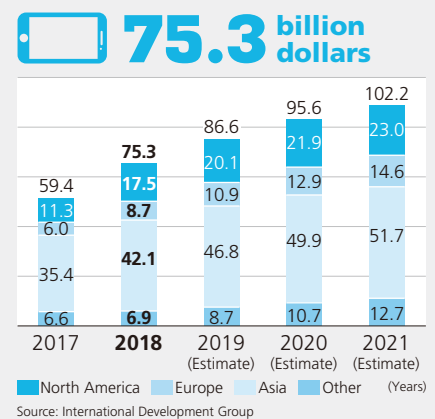
is expected to slow.

In 2019, we expect the market to increase to 44.0 billion dollars (up 5.9% from the previous year), and further, although it will grow to 45.6 billion dollars by 2022 (up 9.6% from 2018), it will shrink to 44.1 billion dollars in 2023.

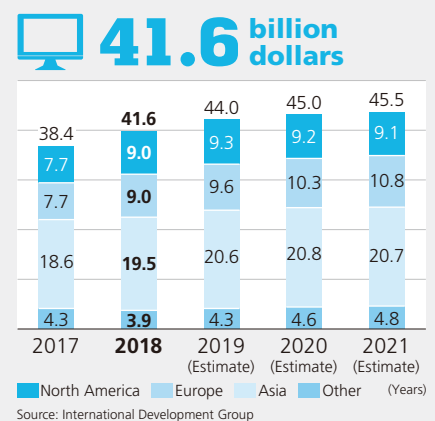
Consumer Market (billion dollars)



Mobile Contents Market (billion dollars)



PC Online Market (billion dollars)





## Arcade Operations Market

The domestic arcade facilities market grew during the previous fiscal year (ended March 31, 2018) for the third year in a row to 485.9 billion yen (up 5.2% from the previous year). This was due to improvements in the number of visitors and sales per customer due to the continued effect of the restrictions on the time that minors can be in arcades while accompanied by a guardian being relaxed in the Entertainment and Amusement Trades Act (Entertainment and Amusement Trades Rationalizing Act) in June 2016.

The total number of stores decreased to 13,103 (down 7.4% from the previous year), but the number of units installed at each store increased to 33.2 (up 1.8 units from the previous year) owing to the continued increase in the number of large stores.

Annual sales per stores increased to 37.08 million yen (up 13.6% from the

previous year), demonstrating that the management streamlining many companies have engaged in, closing small unprofitable locations with fewer machines and focusing on profitable stores in good locations, has been successful.

This year (ended March 31, 2019), the market was strong overall, and growth continued owing to hit products appearing one after another in the prizes found in prize game machines, including large plush toys of popular characters and figurines for core users, as well as the expansion of simulation games on VR equipment.

In the next fiscal year (ending March 31, 2020), although we expect prize games to drive the market overall, there will be difficulties in conjunction with the consumption tax hike scheduled for October.

## Gaming Machines Market

In the previous fiscal year (ended March 31, 2018), the gaming machine market shrank for the fifth consecutive year to 759.1 billion yen (down 14.1% from the previous year). This was due to pachislo machines being hit hard by diminishing investment appetite for gaming machines among halls due to sluggish operations of gaming machines with gambling restraints in response to changes to model certification methods and a decrease in the number of new stores opened.

The market continued to worsen this year (ended March 31, 2019) as the market failed to recover despite the introduction of new machines compliant with the new gaming machine regulations revised in April 2018.

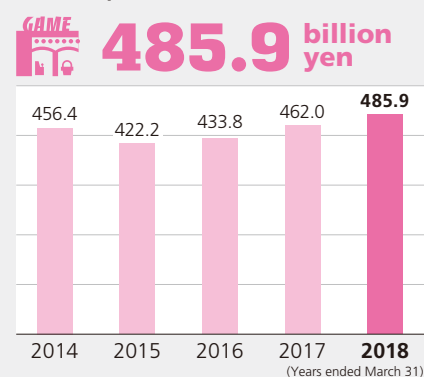
In the next fiscal year (ending March 31, 2020), we expect the shrinking of the market to come to an end as models with improved product value are gradually introduced ahead of a market recovery and replacement demand comes into play.

## Arcade Game Market

In the previous fiscal year (ended March 31, 2018), the arcade game market shrank to 143.7 billion yen (down 3.6% from the previous year) due to a significant decrease in sales as diversification of sales methods

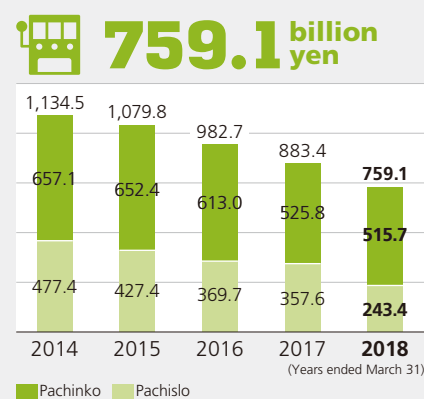
progressed for video games, music games, medal games, and other amusement equipments despite growth in prize games with the introduction of new crane games and prize machines.

### Arcade Operations Market (billion yen)



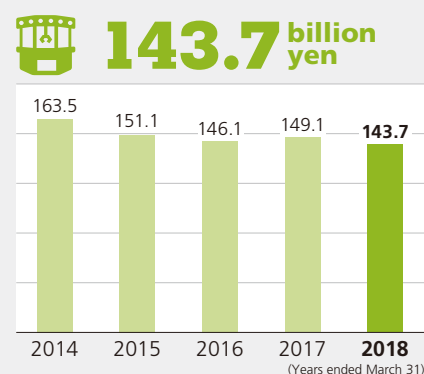
Source: JAMMA "Survey on the Amusement Industry"

### Gaming Machines Market (billion yen)



Source: Manufacturer sales base compiled by Capcom using Pachinko Maker Trends (2017, 2018); Yano Research Institute Ltd.

### Arcade Game Market (billion yen)



Source: JAMMA "Survey on the Amusement Industry"

# 11-Year Summary of Consolidated Financial Indicators

## Financial Index

	2009	2010	2011	2012	2013
<b>For the Year:</b>					
	Million yen				
Net sales	¥ 91,878	¥ 66,837	¥ 97,716	¥ 82,065	¥ 94,075
Operating income	14,618	5,587	14,295	12,318	10,151
Net income (loss) before income taxes	12,448	1,124	10,807	11,425	3,719
Net income attributable to owners of the parent	8,063	2,167	7,750	6,723	2,973
Depreciation & amortization	4,143	3,368	3,315	3,123	3,406
Capital expenditures	2,906	2,205	2,758	4,153	8,724
R&D expenses	2,329	2,125	2,924	2,236	1,982
<b>At Year-End:</b>					
	Million yen				
Total assets*1	¥ 106,210	¥ 86,621	¥ 90,408	¥ 98,247	¥ 104,365
Net assets	59,349	53,956	58,007	59,352	62,828
Net cash	7,378	12,299	27,655	11,348	14,327
Developer numbers	1,047	1,132	1,339	1,455	1,623
<b>Cash Flows:</b>					
	Million yen				
Cash flows from operating activities	¥ (551)	¥ 14,320	¥ 22,392	¥ (7,672)	¥ 6,647
Cash flows from investing activities	(2,715)	(1,618)	(2,046)	(4,794)	(1,375)
Cash flows from financing activities	(342)	(10,747)	(12,919)	587	1,162
Net increase (decrease) in cash and cash equivalents	(4,454)	1,203	5,196	(12,724)	9,235
Cash and cash equivalents at end of year	28,611	29,815	35,011	22,287	31,522
<b>Per Share Data:</b>					
	yen				
Net income (loss) per share	¥ 65.49	¥ 17.86	¥ 65.59	¥ 58.05	¥ 25.82
Dividend per share	35.00	35.00	40.00	40.00	40.00
Net assets per share	480.69	456.59	490.88	515.35	545.54
<b>Financial Index:</b>					
	%				
Operating margin	15.9	8.4	14.6	15.0	10.8
ROE	14.3	3.8	13.8	11.5	4.9
ROA	8.1	2.3	8.8	7.1	2.9
Net worth ratio	55.9	62.3	64.2	60.4	60.2
Interest coverage ratio (times)	—	86.9	155.8	—	62.4
Debt-equity ratio	79.0	60.5	55.9	65.5	66.1
<b>Stock Information:</b>					
Price earnings ratio (times)	13.3	49.5	12.1	16.3	28.6
Number of outstanding shares (thousands shares)	67,394	67,723	67,723	67,723	67,723
Foreign investors (%)	33.73	24.22	22.17	27.05	32.37
<b>Digital Contents Business:</b>					
	Billion yen				
Consumer sub-segment net sales	¥ 60.0	¥ 38.7	¥ 63.6	¥ 46.9	¥ 45.9
Online sub-segment net sales	6.6	8.5	10.5	12.9	17.7
<b>Consumer Game Sales (Package Software and Full-game Digital Content)</b>					
	Thousands				
Total number of units	18,100	13,900	21,700	17,000	16,700
Sales of major titles	Resident Evil 5 4,400	Monster Hunter Freedom Unite (Best Price included) 1,350	Monster Hunter Freedom 3 4,600	Resident Evil: Operation Raccoon City 1,700	Resident Evil 6 5,000
	Street Fighter IV 2,500	Monster Hunter Tri 1,150	Dead Rising 2 2,300	Monster Hunter 3 (Tri) G 1,600	Dragon's Dogma 1,300
	Monster Hunter Freedom Unite (Best Price included) 2,200	Resident Evil 5 950	MARVEL VS. CAPCOM 3 Fate of Two Worlds 2,000	Street Fighter X Tekken 1,400	DmC Devil May Cry 1,200

\*1. Effective from the beginning of the current fiscal year, Capcom has applied "Implementation Guidance on Tax Effect Accounting" (ASBJ Guidance No. 28, February 16, 2018). Certain financial information for the FY2018 has undergone retrospective application.

\*2. On April 1, 2018, the stock was split on a basis of two shares for every share of common stock held. Accordingly, net income per share has been calculated assuming that the stock split took place at the beginning of the fiscal year ended March 31, 2009.

CAPCOM CO., LTD. and its consolidated subsidiaries. Years ended March 31

	2014	2015	2016	2017	2018	2019	2019	
	Million yen						Thousand dollars	
	¥ 102,200	¥ 64,277	¥ 77,021	¥ 87,170	¥ 94,515	¥ 100,031	\$ 909,378	
	10,299	10,582	12,029	13,650	16,037	18,144	164,947	
	5,315	10,701	11,150	12,489	15,149	17,770	161,547	
	3,444	6,616	7,745	8,879	10,937	12,551	114,106	
	4,638	3,535	5,712	5,980	4,706	3,228	29,348	
	8,064	10,177	8,274	3,767	3,041	2,568	23,346	
	2,002	823	1,073	695	1,102	1,147	10,436	
	Million yen						Thousand dollars	
	¥ 96,611	¥ 100,773	¥ 113,057	¥ 118,897	¥ 124,829	¥ 123,407	\$ 1,121,888	
	63,875	71,331	75,168	77,774	85,421	88,749	806,814	
	22,670	21,212	15,821	8,426	36,750	44,689	406,265	
	1,808	1,902	2,052	1,994	2,141	2,032		
	Million yen						Thousand dollars	
	¥ 13,201	¥ 4,286	¥ 4,347	¥ 3,200	¥ 34,721	¥ 19,847	\$ 180,427	
	(6,155)	(5,496)	(1,639)	(3,628)	(2,847)	(2,261)	(20,559)	
	(15,099)	1,278	(1,115)	(3,130)	(9,577)	(11,443)	(104,035)	
	(5,404)	1,879	431	(4,091)	22,201	6,464	58,772	
	26,118	27,998	28,429	24,337	46,539	53,004	481,856	
	yen						Dollars	
	¥ 30.56	¥ 58.84	¥ 68.87	¥ 80.18	¥ 99.89*2	¥ 115.45	\$ 1.05	
	40.00	40.00	40.00	50.00	60.00	35.0	0.32	
	567.96	634.28	688.43	710.32	780.18*3	831.37	7.56	
	%							
	10.1	16.5	15.6	15.7	17.0	18.1		
	5.4	9.8	10.6	11.6	13.4	14.4		
	3.4	6.7	7.2	7.7	8.9	10.1		
	66.1	70.8	66.5	65.4	68.4	71.9		
	136.8	50.2	36.5	22.8	337.2	249.3		
	51.2	41.3	50.4	52.9	47.0	39.1		
	32.0	20.3	19.9	13.5	23.0	21.5		
	67,723	67,723	67,723	67,723	67,723*4	135,446		
	37.29	36.87	39.35	31.19	35.01	36.83		
	Billion yen							
	¥ 53.0	¥ 35.2	¥ 42.1	¥ 49.2	¥ 65.2	¥ 76.9		
	12.8	10.1	10.4	9.5	8.9	6.0		
	Thousands							
	17,500	13,000	15,000	19,400	24,400	25,300		
Monster Hunter 4	4,100	Monster Hunter 4 Ultimate 3,400	Monster Hunter X (Cross) 3,300	Resident Evil 7 biohazard 3,500	Monster Hunter: World 7,900	Monster Hunter: World (catalog) 4,500		
Dead Rising 3	1,200	Resident Evil Revelations 2 1,100	Street Fighter V 1,400	Monster Hunter XX (Double Cross) 1,700	Resident Evil 7 biohazard (catalog) 1,600	Resident Evil 2 4,200		
Resident Evil Revelations	1,200	Resident Evil (HD Remastered) 900	Resident Evil Revelations 2 850	Monster Hunter X (Cross) 1,000	Marvel VS. Capcom: Infinite 1,000	Devil May Cry 5 2,100		

\*3. On April 1, 2018, the stock was split on a basis of two shares for every share of common stock held. Accordingly, net assets per share has been calculated assuming that the stock split took place at the beginning of the fiscal year ended March 31, 2009.

\*4. On April 1, 2018, the stock was split on a basis of two shares for every share of common stock held by resolution of the Board of Directors at the meeting held on March 6, 2018. This increased the number of shares issued by 67,723,244 to 135,446,488 shares.



# Financial Review

CAPCOM CO., LTD. and its consolidated subsidiaries. Years ended March 31

## 1. Operating Results

During the fiscal year ended March 31, 2019, our industry remained strong overall despite a deceleration of mobile gaming in Japan and a patchy home video game market due to maturation.

At the same time, esports (electronic sports), which were adopted as a demonstration event at the 2018 Asian Games held in Jakarta, have grown in popularity nationwide owing to the establishment of league competitions and professional teams to expand the fan base. In such an environment, *Monster Hunter: World*, which swept the market in 2018, continued to report strong sales, surpassing 12.4 million cumulative units shipped, marking a record high for any single title in Capcom's history. Additionally, our other flagship brands demonstrated their appeal

and boasted strong sales during the year, as *Resident Evil 2* scored a major hit, selling more than 4.2 million units, while *Devil May Cry 5*, which enjoys established popularity overseas, shipped 2.1 million units. Meanwhile, we took strategic steps in cultivating the new business domain of esports, an area which has attracted increased attention in the past year. This included holding the Capcom Pro Tour Japan Premier at the Tokyo Game Show 2018, which generated excitement among spectators, and launching the Capcom Street Fighter League powered by RAGE in February 2019, leveraging the popular *Street Fighter* fighting game series, which many consider to have started esports.

## 2. Revenue and Profits

### (1) Net sales

In this fiscal year, net sales were 100,031 million yen (up 5.8% from the previous fiscal year). This increase was driven primarily by our core Digital Contents business. In Digital Contents, *Resident Evil 2* and *Devil May Cry 5* outperformed our expectations, while sales of catalog titles, in particular *Monster Hunter: World*, and digital downloads grew globally, contributing to increased net sales.

In the Amusement Equipments business, sales of our pachislo machines continued to be impacted by changes in model testing methods and legal amendments of recent years.

As a result, the number of units sold was down compared with the previous year at 7,800 units. Overall, however, favorable growth of the Digital Contents business offset this, resulting in a 5,516 million yen increase in consolidated net sales over the previous fiscal year.

### (2) Operating income

Cost of sales increased to 62,809 million yen (up 4.9% from the previous fiscal year) and the cost of sales ratio was 62.8%, down 0.6 percentage points from the previous fiscal year. The cost of sales ratio has decreased in conjunction with the increase in sales, stemming mainly from the hit success of major titles.

Selling, general and administrative (SG&A) expenses were

19,078 million yen (up 2.7% from the previous fiscal year) and SG&A as a percentage of sales was 19.1%, down 0.6 percentage points compared with the previous fiscal year. The cause of the increase in SG&A was increased variable costs associated with increased sales, and the SG&A expenses ratio overall was under the 21.9% figure laid out in the initial plan.

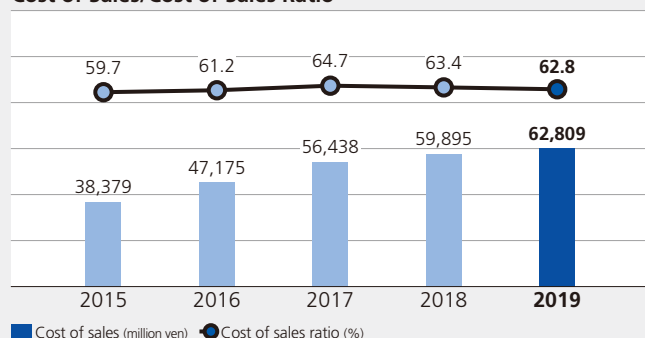
As a result, operating income was 18,144 million yen (up 13.1% from the previous fiscal year), the highest ever and the sixth consecutive year of income growth. The operating margin also increased to 18.1%, up 1.1 percentage points compared with the previous fiscal year.

### (3) Net income attributable to owners of the parent

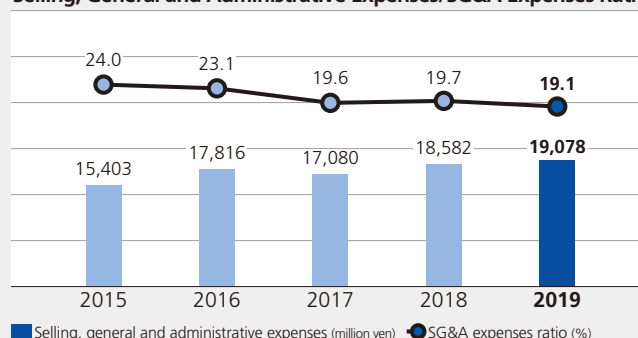
Despite recording redundancy pay of 601 million yen in conjunction with the closing of the office of an overseas subsidiary this year under non-operating expenses, ordinary income increased to 18,194 million yen (up 19.3% from the previous fiscal year), following the increase in operating income.

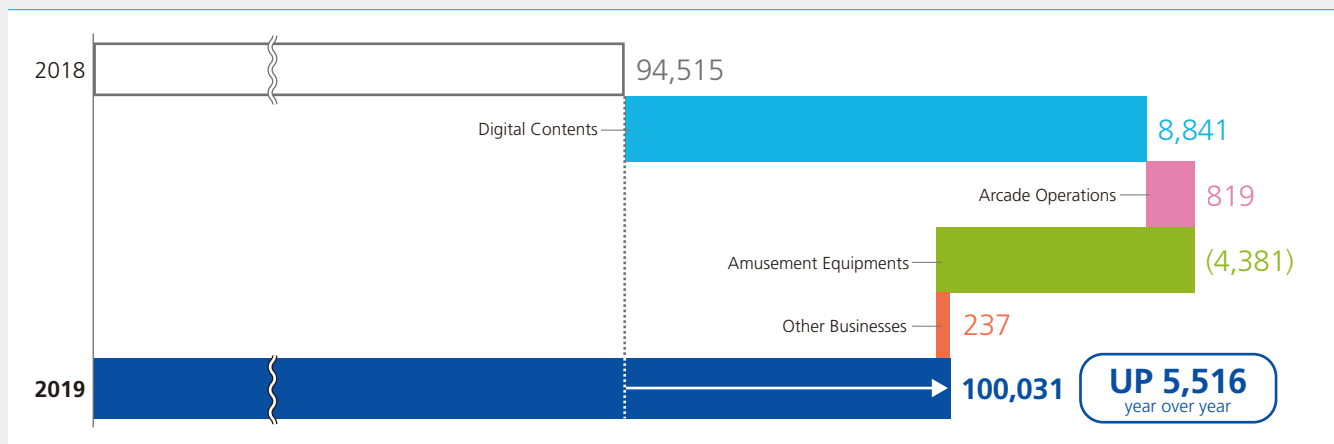
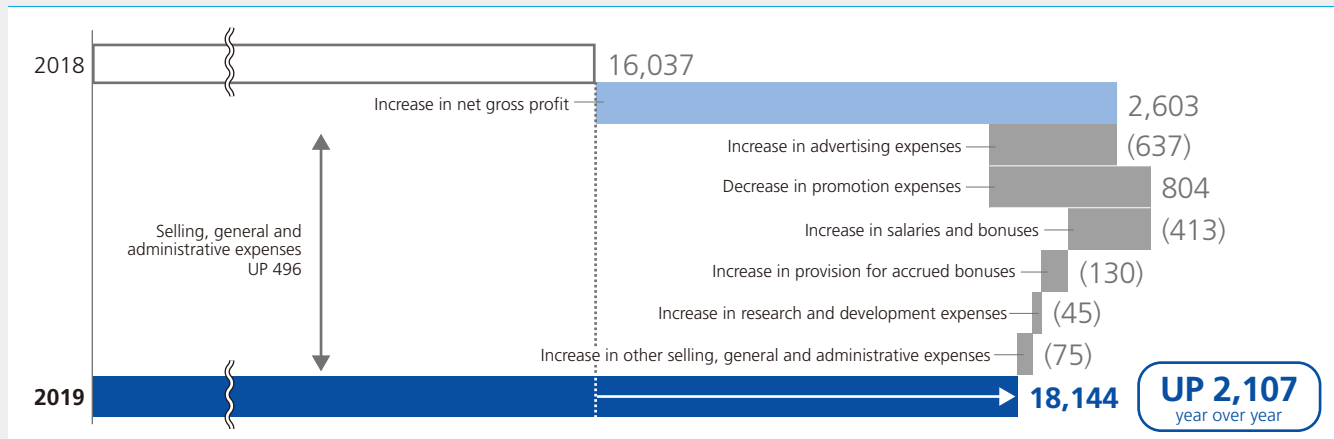
As a result of these increases in income, net income attributable to owners of the parent amounted to 12,551 million yen (up 14.8% from the previous fiscal year) and the net margin came to 12.5% (up 0.9 percentage points from the previous fiscal year), making all income items the highest in company history.

Cost of Sales/Cost of Sales Ratio



Selling, General and Administrative Expenses/SG&A Expenses Ratio



**Net Sales** (million yen)**Operating Income** (million yen)**3. Analysis of Assets, Liabilities and Net Assets****(1) Assets**

Total assets as of the end of the fiscal year ended March 31, 2019 decreased by 1,421 million yen from the end of the previous fiscal year to 123,407 million yen.

The primary increase was 6,464 million yen in cash on hand and in banks. The primary decrease was 8,708 million yen in work in progress for game software.

**(2) Liabilities**

Total liabilities as of the end of the fiscal year ended March 31, 2019 decreased by 4,750 million yen from the end of the previous fiscal year to 34,658 million yen.

The primary decrease was 1,579 million yen in long-term borrowings.

**(3) Net assets**

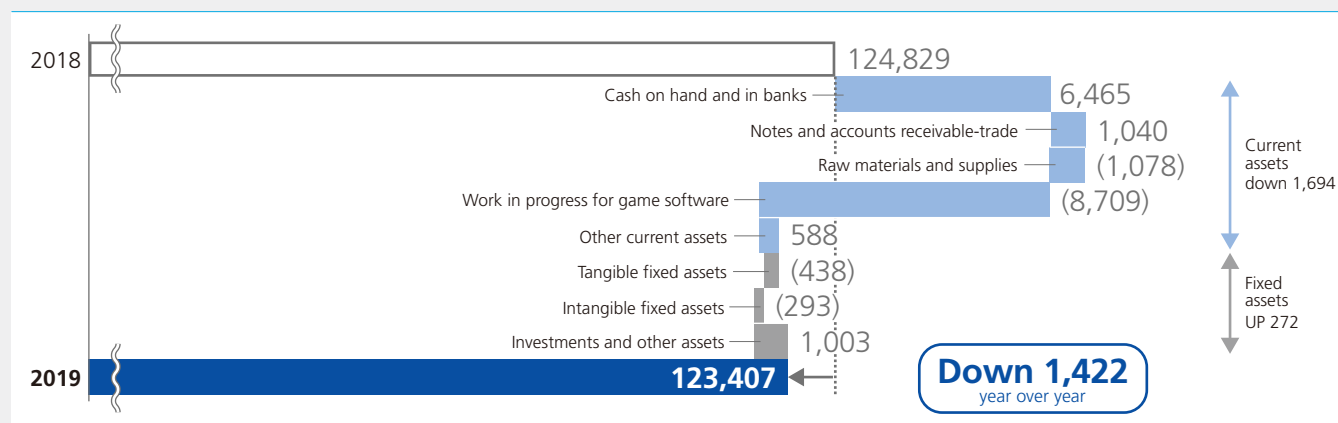
Net assets as of the end of the fiscal year ended March 31, 2019 increased by 3,328 million yen from the end of the previous fiscal year to 88,749 million yen.

The primary increase was 12,551 million yen in net income attributable to owners of the parent. The primary decreases were 3,558 million yen in dividends from retained earnings and 6,001 million yen in repurchase of treasury stock.

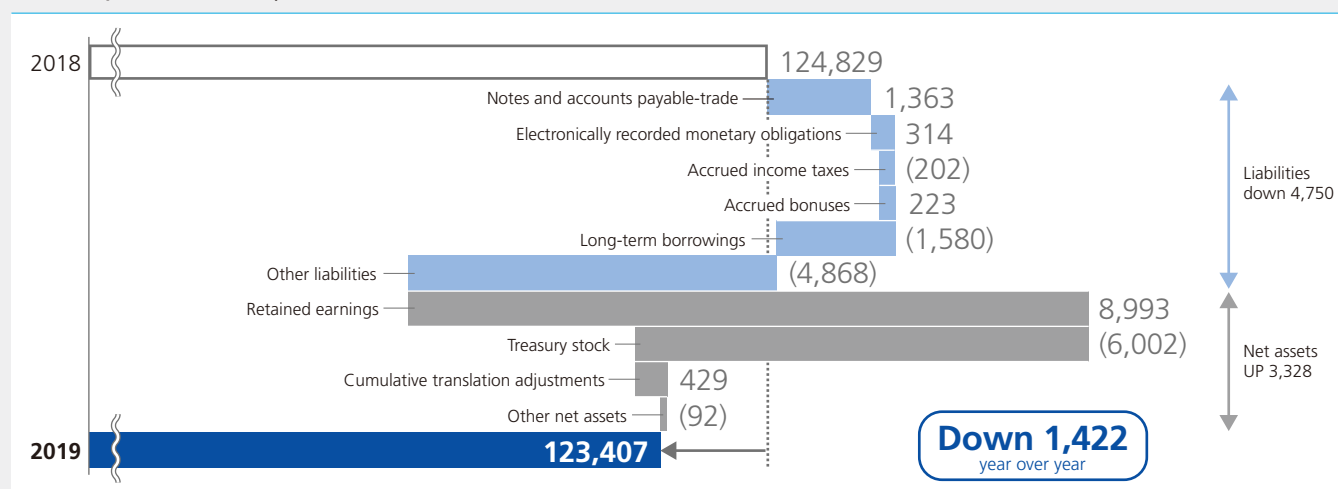
# Financial Review

CAPCOM CO., LTD. and its consolidated subsidiaries. Years ended March 31

## Assets (million yen)



## Liabilities, Net Assets (million yen)



## 4. Analysis of Cash Flow

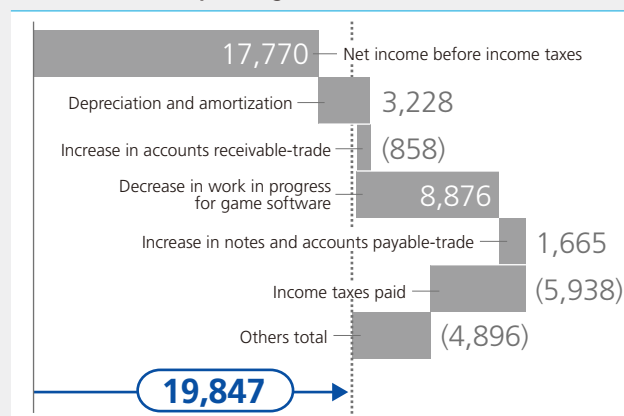
Cash and cash equivalents as of the end of the fiscal year ended March 31, 2019 increased by 6,465 million yen from the end of the previous fiscal year to 53,004 million yen. Cash flow positions of each activity and their factors are described below.

### (1) Cash flows from operating activities

Net cash gained from operating activities was 19,847 million yen (34,721 million yen in the previous fiscal year).

A breakdown of cash inflows is as follows: 17,770 million yen in net income before income taxes (15,149 million yen in the previous fiscal year), 3,228 million yen in depreciation and amortization (4,706 million yen in the previous fiscal year), a 8,876 million yen decrease in work in progress for game software (4,069 million yen in the previous fiscal year) and a 1,621 million yen decrease in inventories (1,588 million yen in the previous fiscal year). The primary outflow was 5,938 million yen in income taxes paid (1,546 million yen in the previous fiscal year).

### Cash Flows from Operating Activities (million yen)

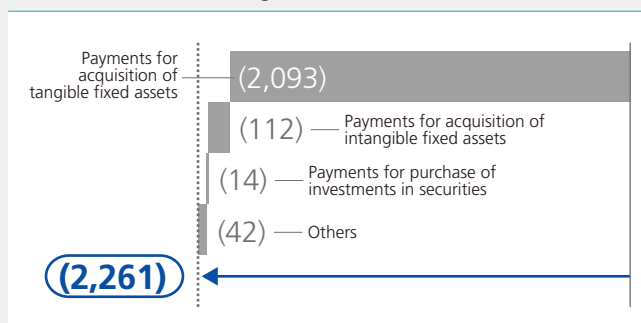




**(2) Cash flows from investing activities**

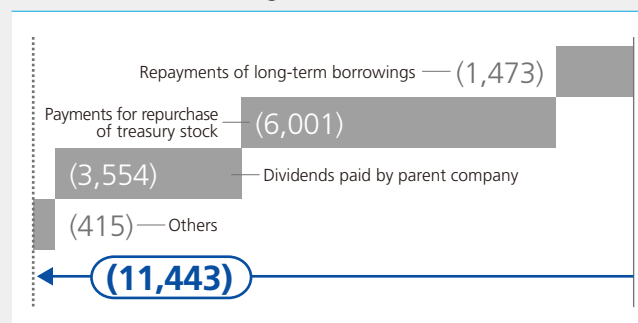
Net cash used in investing activities was 2,261 million yen (2,847 million yen in the previous fiscal year).

The primary item used was 2,093 million yen in payments for acquisitions of tangible fixed assets (2,767 million yen in the previous fiscal year).

**Cash Flows from Investing Activities** (million yen)**(3) Cash flows from financing activities**

Net cash used in financing activities was 11,443 million yen (9,577 million yen invested in the previous fiscal year).

A breakdown of the primary uses are as follows: 6,001 million yen in payment for repurchase of treasury stock (5 million yen in the previous fiscal year) and 3,554 million yen in dividends paid by parent company (2,738 million yen in the previous fiscal year).

**Cash Flows from Financing Activities** (million yen)**5. Our Financial Strengths****(1) High profitability of core business**

Our medium-term goal is stable growth of operating income. We aim to achieve both improved profitability and profit growth by increasing development cost investment efficiency, carefully reviewing the profitability of each title and employing a strategy of selection and concentration on projects that can be expected to contribute to profits. Based on this policy, in the fiscal year ended March 2019, we were second among the five main players in the domestic market\* in terms of operating margin (18.1%) despite coming in last\* in terms of net sales (100,031 million yen). Our Digital Contents business was also second (28.1%) in the comparison of margins in game software sales, which is the core business of each company. As for our future outlook, there will be no change to our policy of maintaining high profitability, but in preparation for changes in the market associated with rapid developments in game-related technology, we will also need to make anticipatory investments in new fields. As such,

we will make investments for the future while working to increase the operating margin.

\* We have selected competing manufacturers whose core business is home video game software. We compiled the rankings based on information disclosed by each company.

**(2) Financial flexibility based on high free cash flow**

In the fiscal year ended March 2019, net cash gained from operating activities amounted to 19,847 million yen, primarily as a result of hit major titles in our core Consumer sub-segment. Net cash used in investing activities was 2,261 million yen, which is the standard level for us. As a result, free cash flow came to 17,586 million yen. Compared to competitors with large businesses, we were third in terms of free cash flow. Our free cash flow to net sales ratio of 17.6% is the highest among the five companies. This gives us a high level of financial flexibility compared to the industry standard. We will continue to promote measures for growth from a medium- to long-term perspective and work on further enhancing our capital policy.

**Profitability Comparison**

(Year ended March 2019)

	Net sales (million yen)	Operating margin (%)	Game business margin (%)
CAPCOM	100,031	18.1	28.1
SQUARE ENIX HOLDINGS	271,048	9.1	14.2
SEGA SAMMY HOLDINGS	331,648	3.9	6.6
BANDAI NAMCO HOLDINGS	732,347	11.5	13.9
KONAMI HOLDINGS	262,549	19.2	30.9

(Prepared based on disclosures by each company)

**Free Cash Flow Comparison**

(Year ended March 2019)

	Free cash flow (million yen)	Free cash flow to net sales ratio (%)
CAPCOM	17,586	17.6
SQUARE ENIX HOLDINGS	-740	-0.3
SEGA SAMMY HOLDINGS	-7,237	-2.2
BANDAI NAMCO HOLDINGS	54,912	7.5
KONAMI HOLDINGS	26,604	10.1

(Prepared based on disclosures by each company)

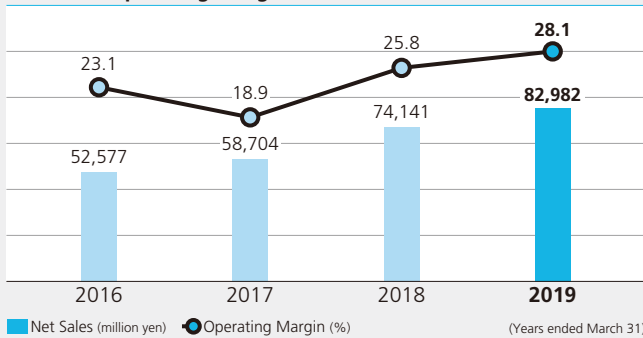
# Segment Information

CAPCOM CO., LTD. and its consolidated subsidiaries. Years ended March 31

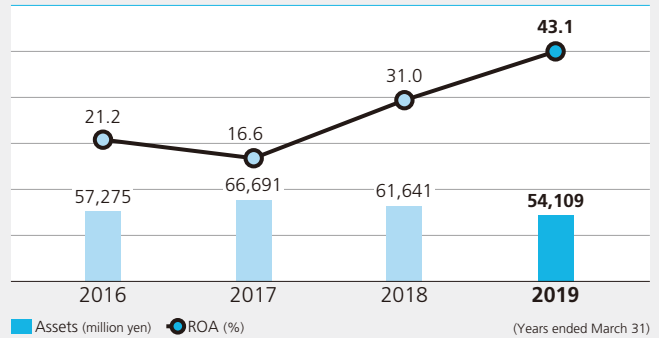
## Digital Contents

This business develops and sells packaged and digital game content for consumer home video game platforms. It also develops and manages games for Mobile Contents and PC Online Games. Consumer games produces creative, original content with a focus on action and adventure. Many of these million-seller titles are used for smartphone, tablet device and PC online games distributed worldwide in order to maximize earnings.

### Net Sales/Operating Margins



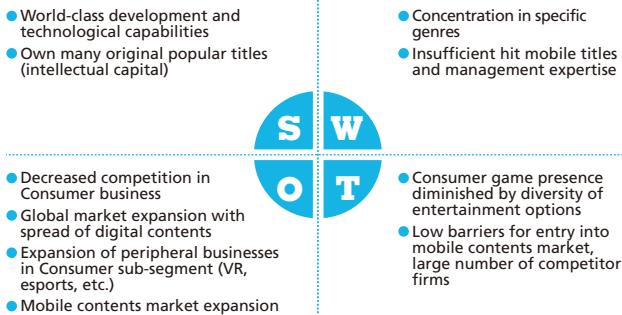
### Assets/ROA



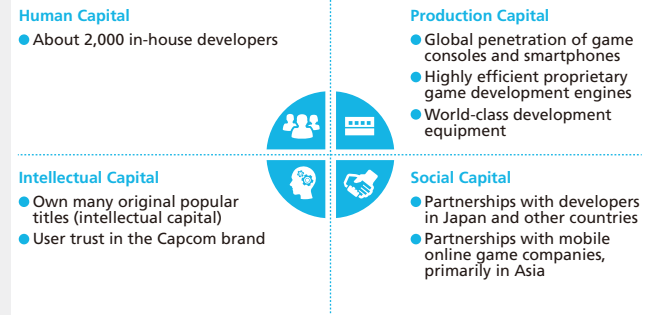
Note: Effective from the beginning of the current fiscal year, Capcom has applied "Implementation Guidance on Tax Effect Accounting" (ASBJ Guidance No. 28, February 16, 2018). Figures for the previous fiscal year have undergone retrospective application.

### SWOT Analysis

S: Strengths W: Weaknesses O: Opportunities T: Threats



### Utilization of Non-Financial Capital

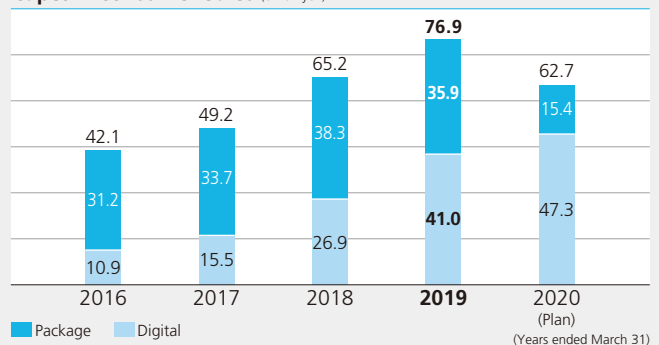


## Operating Results for This Fiscal Year and Outlook for the Next Fiscal Year

### Consumer (Package + Digital) sub-segment

This fiscal year (ended March 31, 2019), our major new titles were well-received globally, contributing to increased revenue. *Resident Evil 2*, the latest title in the flagship series, sold 4.2 million units, driving improvements to business results. Meanwhile, *Devil May Cry 5* sold 2.1 million units, successfully reestablishing the series. Additionally, the launch of the PC version of *Monster Hunter: World* resulted in an additional 4.5 million units sold, bringing the cumulative total for the title to 12.4 million units. Other titles, including *Resident Evil 7 biohazard* and *Mega Man 11*, also performed well and gave a boost to revenue. In digital sales, the PC version of *Monster Hunter: World* made a significant contribution, while an increase in the digital sales ratio of new titles *Resident Evil 2* and *Devil May Cry 5*, along with digital sales of high margin catalog titles also contributed. This resulted in a substantial increase in the number of units sold, bringing it to 15.3 million. Digital sales were up 52.4% from the previous year to 41 billion yen.

### Capcom Consumer Sales (billion yen)



As a result, package and full-game download sales totaled 25.3 million units (up 3.7% from the previous year). Package sales were 35.9 billion yen, and digital sales were 41 billion yen. Together, they again resulted in higher Consumer sales of 76.9 billion yen (up 17.9% from the previous year). Digital sales, which have a high profit margin, were also strong, bringing operating margins to approximately 30%.

For Capcom, we continue to consider Consumer business growth as one of the keys to achieving our medium-term business goals.

Our initiatives are to (1) strengthen digital sales, (2) bolster our title lineup through the full-scale execution of our 60-month and 52-week maps and (3) awaken dormant intellectual properties.

Under (1), the prevalence of digital selling has made it possible to implement measures such as limited-time sales, increasing flexibility in pricing and expanding the impact of marketing. We utilize our existing intellectual properties (IP) in addition to major titles and additional content and rerelease past titles on current-generation hardware in order to create sales opportunities and increase the digital sales ratio. In terms of (2), we have been working to establish an efficient development system for core titles by preparing 60-month and 52-week maps since March 2015. We will establish a system that allows us to release core titles on a regular basis. Finally, for (3) we will revive dormant intellectual properties for which we have not recently released new titles by increasing the number of our developers.

Next fiscal year, we will release *Monster Hunter World: Iceborne*, a massive expansion for *Monster Hunter: World*, to solidify the brand globally. The focus on digital sales has made it possible to reach regions that were once difficult to access, so we aim to further expand global sales by focusing on catalog sales of *Monster Hunter: World*, *Resident Evil 2*, and *Devil May Cry 5*. As a result of these efforts, we expect to increase unit sales to 26.3 million units (up 4.0% compared to the previous year) and for the digital sales ratio to come to 75.4%, a substantial increase from the previous year. Accordingly, we forecast increased profit

despite an 18.5% drop in net sales from the previous year to 62.7 billion yen.

### Mobile Contents Sub-segment

This fiscal year (ended March 31, 2019), performance of existing titles such as *Monster Hunter Explore* and *Snoopy's Sugar Drop* declined due to maturation of the market. Additionally, the launch of alliance titles in Japan and Asia that was planned for this year was postponed until next year.

As a result, net sales decreased to 2.3 billion yen (down 43.9% from the previous year). Profits were also down this year following licensing revenue recorded in the previous year received in conjunction with alliances in Asia.

In the future, we will continue to explore a wide range of possibilities, including developing new titles using our intellectual properties and forming alliances with companies in Japan and other countries. We will work on development in the mobile field and accumulating operational know-how. We will also promote technical research on development of apps utilizing the 5G next-generation wireless standard.

Next fiscal year we expect net sales of 4.1 billion yen (up 78.3% from the previous year) due primarily to distribution of new titles like *Sengoku BASARA: Battle Party* and *TEPPEN* an alliance title released together with GungHo Online Entertainment, Inc.

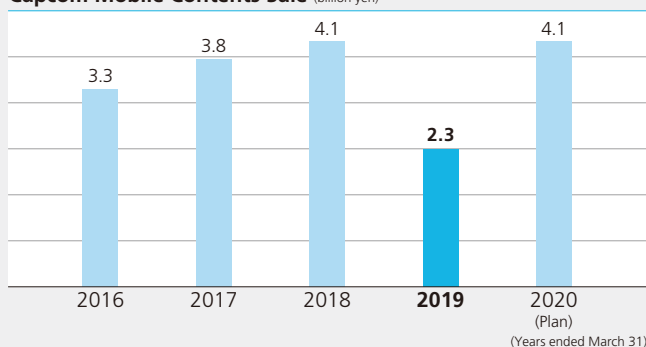
### PC Online Sub-segment

This fiscal year (ended March 31, 2019), net sales fell to 3.7 billion yen (down 22.9% from the previous year) due to the declining contribution of existing titles *Monster Hunter Frontier Z (MHFZ)* and *Dragon's Dogma Online (DDON)*. Profitability was restored with elimination of the amortization burden of *DDON*.

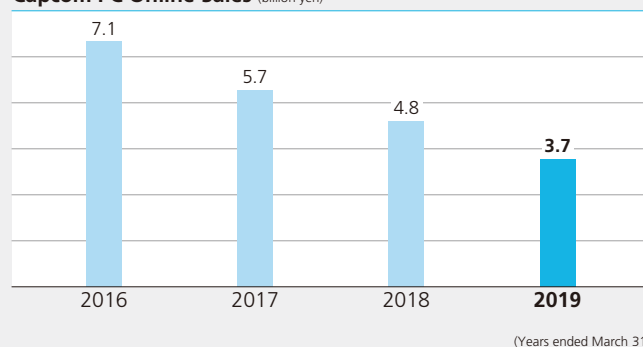
Capcom will continue to work on improving our revenue base by reducing SG&A.

In light of the blurring of the lines between PC online and consumer games, this disclosure segment will be consolidated under the Consumer business starting next fiscal year.

Capcom Mobile Contents Sale (billion yen)



Capcom PC Online Sales (billion yen)





## Segment Information

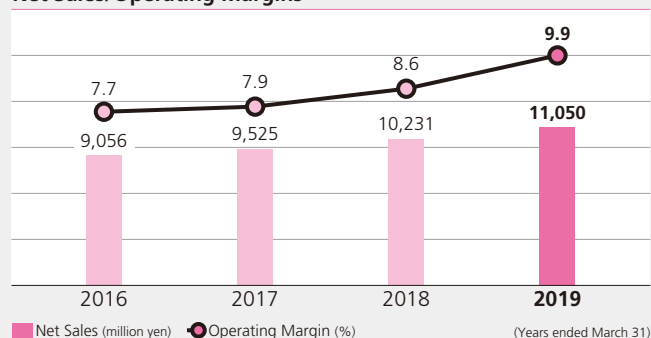
CAPCOM CO., LTD. and its consolidated subsidiaries. Years ended March 31

# Arcade Operations

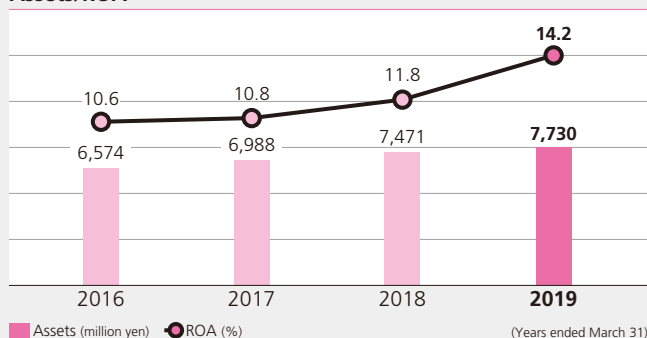
We operate amusement facilities, primarily Plaza Capcom arcades, in Japan.

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 female customers.

### Net Sales/Operating Margins

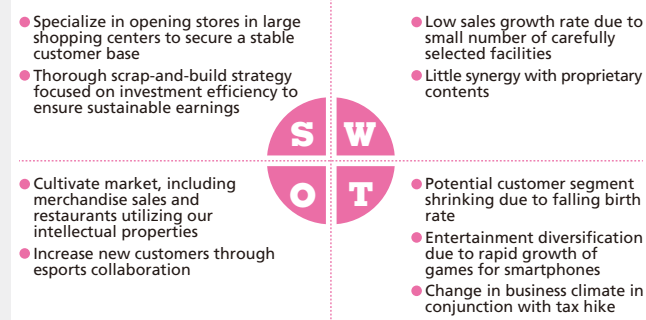


### Assets/ROA



### SWOT Analysis

**S**: Strengths **W**: Weaknesses **O**: Opportunities **T**: Threats



### Utilization of Non-Financial Capital



### Operating Results for This Fiscal Year and Outlook for the Next Fiscal Year

This fiscal year (ended March 31, 2019), relaxation of restrictions in the Entertainment and Amusement Trades Act that took effect in June 2016 continued to provide favorable conditions for a sustained recovery in market size. In addition to increased sales per customer resulting from more time spent in arcades, the draw of prizes featuring specific characters and popular products, higher operating rates of newly released cabinets, and other factors contributed to results.

We also launched an online crane game service that allows players to operate the game remotely using a computer or smartphone to win original prizes.

Additionally, as an esports undertaking, events were held at the Capcom Esports Club at Plaza Capcom Kichijoji, and tournaments were held at stores in six cities around Japan to expand the field of users.

As for stores, Plaza Capcom Hiroshima was opened in Hiroshima, and we launched *Capcom Net Catcher Cap Tore*, an online crane game, while Plaza Capcom Tsuchiura was closed in Ibaraki Prefecture. This brought the total number of stores to 37.

As a result, same store sales were up 2% from the previous

year, bringing segment net sales to 11.050 billion yen (up 8.0% from the previous year) and operating income to 1.096 billion yen (up 24.6% from the previous year), so that both sales and profit were up compared with the previous year.

In the next fiscal year, Capcom will promote streamlining of management through its ongoing scrap-and-build policy and continue opening stores in places with strong customer drawing power. We will also work to expand the user base by providing playable demonstrations of consumer titles and operating original stores utilizing our intellectual properties.

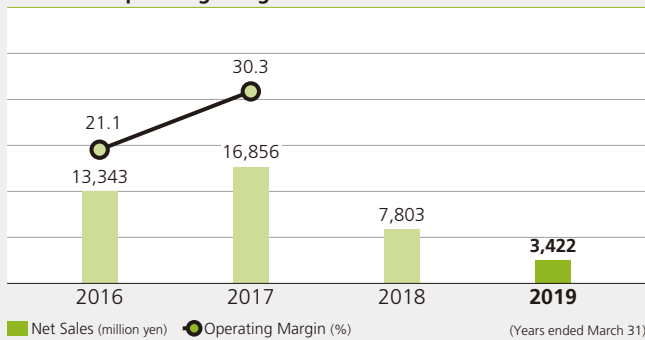
We plan to open five facilities, including Plaza Capcom Ikebukuro, bringing the total number of stores to 42.

As a result of these measures, we expect same store sales to be down 4.0%, and we forecast net sales of 11.2 billion yen (up 1.4% from the previous year). We expect lower operating income of 700 million yen (down 36.1% from the previous year) due to factors such as the consumption tax hike and the burden of initial investments in new stores.

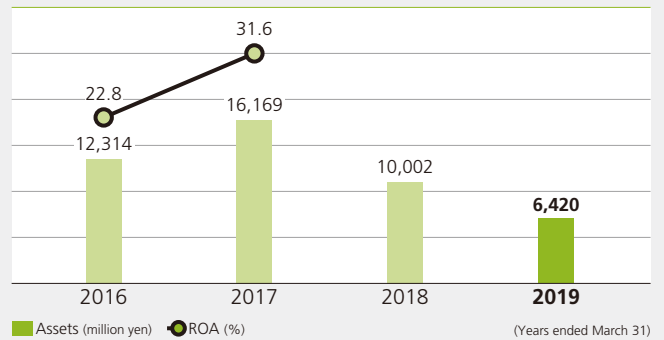
# Amusement Equipments

Here, we are engaged in sub-segments that utilize the contents from our home video games. The Pachinko & Pachislo (PS) sub-segment is involved in the development, manufacture and sales of frames and LCD devices for gaming machines as well as software, creating synergy between businesses. The Arcade Games Sales sub-segment develops, produces and sells arcade games for amusement facilities.

Net Sales/Operating Margins

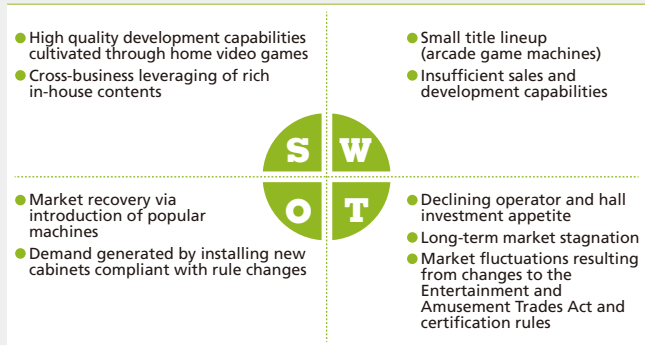


Assets/ROA

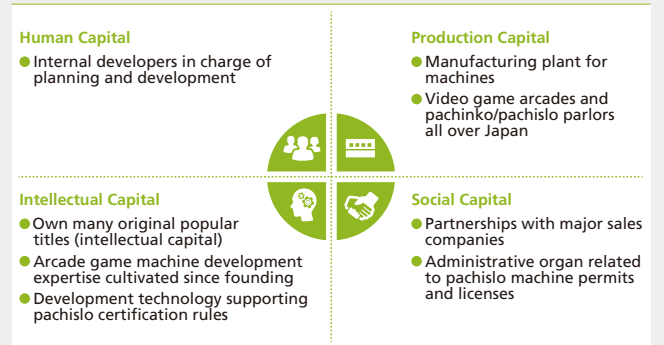


SWOT Analysis

S: Strengths W: Weaknesses O: Opportunities T: Threats



Utilization of Non-Financial Capital



Operating Results for This Fiscal Year and Outlook for the Next Fiscal Year

This fiscal year (ended March 31, 2019), five pachislo machines (*Okami-Kaidouhen-*, *Street Fighter V*, *Mega Man Ability*, *BIOHAZARD into the Panic*, and *Sengoku BASARA: Heroes Party*) were launched by the Pachinko & Pachislo (PS) sub-segment, and 7,800 units were sold. Additionally, in the Arcade Games Sales sub-segment, we focused on catalog sales.

Changes in the market environment resulting from such things as changes to methods of pachislo machine model certification continued to have an impact, causing a substantial decrease in the number of units sold. As a result, net sales fell to 3.422 billion yen (down 56.1% from the previous year). The loss on valuation and loss on suspension recorded in the Arcade Games Sales sub-segment in the previous fiscal year were eliminated, but a loss on valuation and loss on suspension were recorded for some titles on top of the decline in income associated with decreased revenue in the PS sub-segment. As a result, we recorded an operating loss of 2.668 billion yen (compared to an operating loss of 764 million yen the previous year).

In the next fiscal year, Capcom will keep an eye on trends as the situation remains uncertain in the midst of a difficult market

environment in the PS sub-segment, despite some replacement demand. Under these circumstances, we will review our development system with an eye toward releasing machines built to current standards in order to impress hall operators and end-users. We will continue to (1) develop machines not dependent on speculation and that feature a variety of entertaining video elements and playing styles and (2) secure a strong sales network and improve machine quality through an alliance with a major sales company. In this way, we will supply proprietary cabinets for current standard machines and work on improving profitability through restoring the market's evaluation of us.

In the next fiscal year, we plan to release three models and sell 15,000 units (7,200 units more than the year under review). As a result, we expect net sales to increase to 4 billion yen (up 16.9% from the year under review) and to record 100 million in operating income owing to the elimination of the loss on valuation and loss on suspension recorded in the year under review.

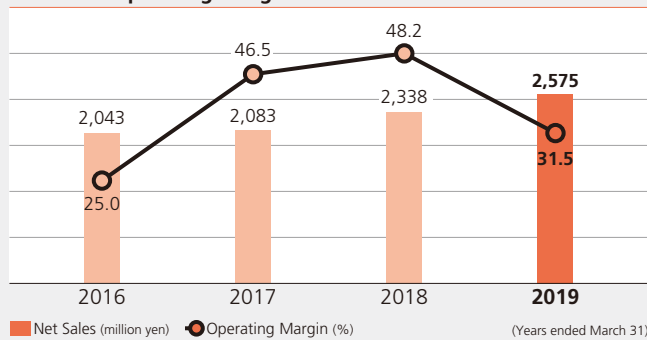
# Segment Information

CAPCOM CO., LTD. and its consolidated subsidiaries. Years ended March 31

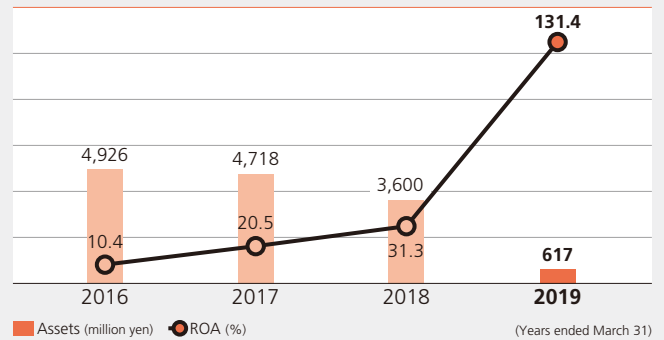
## Other Businesses

Based on our Single Content Multiple Usage strategy of developing game content for various media, we pursue a variety of copyright-related business opportunities including publishing (walkthrough and strategy guides as well as game art books) and licensing (movies, animated television programs, music CDs, and merchandise). Furthermore, we are concentrating on the esports business as well.

### Net Sales/Operating Margins

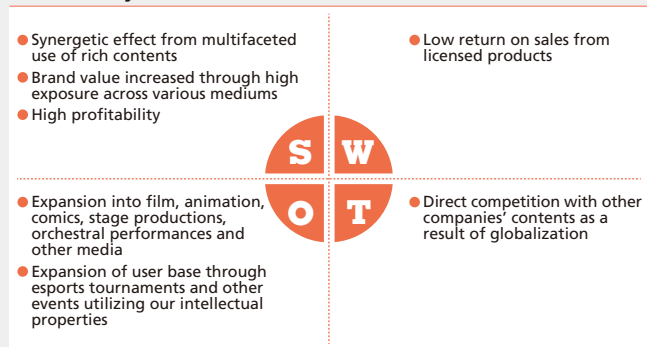


### Assets/ROA

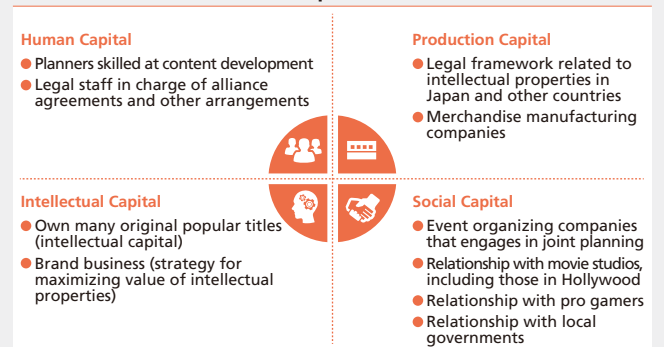


### SWOT Analysis

S: Strengths W: Weaknesses O: Opportunities T: Threats



### Utilization of Non-Financial Capital



### Operating Results for This Fiscal Year and Outlook for the Next Fiscal Year

This fiscal year (ended March 31, 2019), we worked to improve our brand value through such efforts as broadcasting the animated television shows *Gyakuten Saiban: Sono "Shinjitsu", Ijiri! Season 2* and *Gakuen BASARA*. We also established a dedicated department for creating business opportunities in the esports market, which is expanding rapidly worldwide, and held our first league competition utilizing Street Fighter, one of our leading IP which has a high affinity with esports.

As a result, net sales increased to 2.575 billion yen (up 10.2% from the previous year), but operating income decreased to 811 million yen (down 28.0% from the previous year) due to upfront investments, including increased prize money for esports events and holding events to expand the field of users.

We will continue to leverage our strength of being able to reap substantial synergetic benefits with the Consumer Games businesses by diversifying the use of our rich library of intellectual properties (content) and rolling them out across various mediums, including movies, animated television programs, theatrical productions, and events. Additionally, in our esports initiatives we are focused on expanding the player base from a medium- to

long-term perspective, and as part of this will create the STREET FIGHTER LEAGUE: Pro-US in the United States and the STREET FIGHTER LEAGUE Pro-JP professional league in Japan, as well as new university and arcade leagues that will serve as gateways to our professional league in Japan.

We will also continue to actively leverage our intellectual properties (content), based on our Single Content Multiple Usage strategy with a stage play called *Zangeki Sengoku BASARA Tenseihoukan* and the Monster Hunter 15th Anniversary Orchestral Concert—Hunting Music Festival 2019—, as we work to increase the value of our core brands through adaptations and collaborations.

As a result of these measures, we expect net sales to increase to 3.0 billion yen (up 16.5% from the previous year), but due to continued upfront investments in esports, we expect to record an operating loss of 400 million yen.



### Stock Data

Number of Shares Authorized .....300,000,000 shares  
 Number of Shares Issued .....135,466,488 shares  
 Number of Shareholders .....14,864

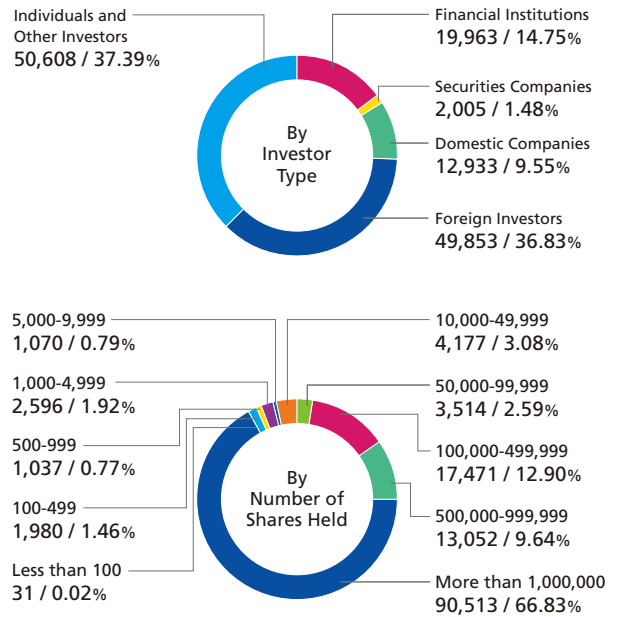
### Major Shareholders (Top 10)

Major Shareholders	Number of Shares Held (in thousands)	Percentage of Shareholding (%)
Crossroad Co., Ltd.	10,682	10.01
The Master Trust Bank of Japan, Ltd. (Trust Account)	4,301	4.03
Japan Trustee Services Bank, Ltd. (Trust Account)	4,089	3.83
Yoshiyuki Tsujimoto	4,038	3.78
Kenzo Tsujimoto	4,019	3.77
JPMC Oppenheimer Jasdec Lending Account	3,488	3.27
Haruhiro Tsujimoto	3,099	2.90
Ryozo Tsujimoto	3,091	2.90
BNYM as AGT/Clients 10 percent	2,248	2.11
State Street Bank and Trust Company 505001	2,138	2.00

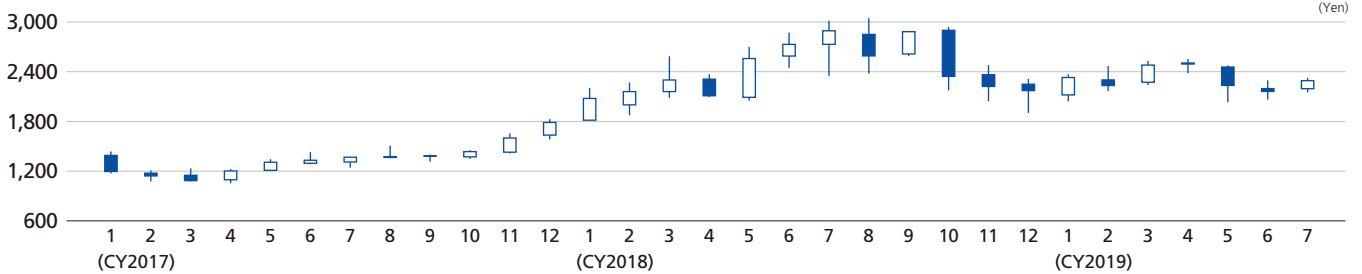
Note: Capcom owns 28,695 thousand shares as treasury stocks.  
 The stocks owned by the company are excluded from the above list.

### Shareholders' Breakdown

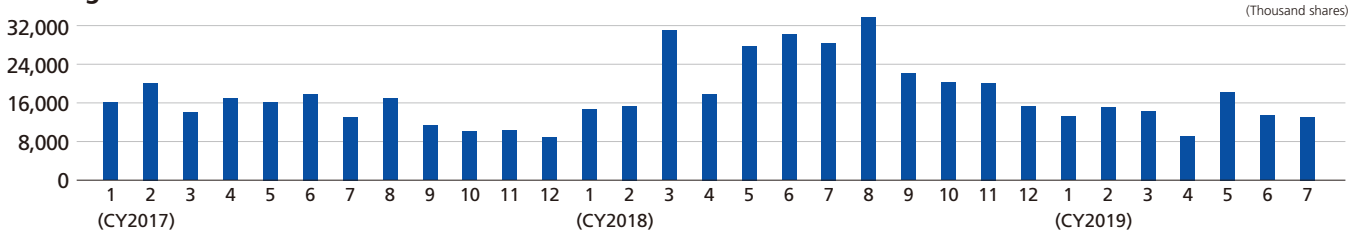
Number of shares held (in thousands) / (%)



### Stock Price Range\*



### Trading Volume\*



### 11-Year Trend of Stock Price and Trading Volume

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Stock Price	873.0	883.0	795.0	945.5	738.0	979.0	1,194.5	1,372.5	1,085.5	2,299.0	<b>2,480.0</b>
High	1,820.0	1,005.0	953.5	1,155.5	979.5	1,165.0	1,206.5	1,537.5	1,438.5	2,585.0	<b>3,045.0</b>
Low	737.5	648.5	572.5	736.5	625.0	698.0	770.5	972.0	963.5	1,053.0	<b>1,903.0</b>
Trading Volume	179,636,900	181,065,800	149,613,900	227,386,800	178,008,200	150,408,300	143,234,700	162,642,100	183,455,500	182,341,200	<b>258,438,800</b>

\* Effective April 1, 2018, Capcom implemented a stock split of two shares for every share. Stock prices prior to this date have been calculated assuming the stock split.

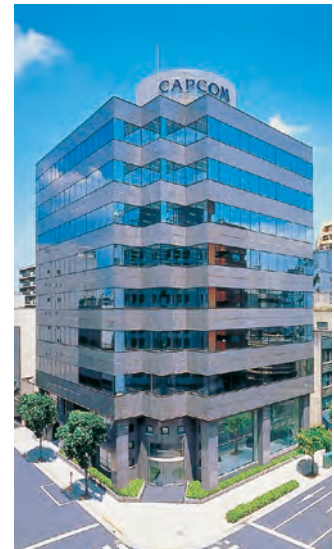
(Years Ended March 31)

**Corporate Profile**

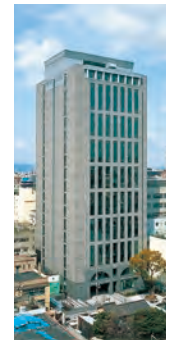
Name of Company ..... CAPCOM CO., LTD.  
 Date of Establishment ... May 30, 1979  
 Date of Initiation ..... June 11, 1983  
 Business Segments ..... Planning, development, manufacture, sale and distribution of home video games, online games, mobile games and arcade games as well as management of amusement arcades.  
 Paid-in Capital ..... ¥ 33,239 million  
 End of Term ..... March 31  
 Number of Employees ... 2,832 (Including consolidated subsidiaries)  
 2,530 (Capcom CO., LTD.)

**Major Offices**

Head Office ..... 3-1-3 Uchihirano-machi, Chuo-ku, Osaka, 540-0037, Japan  
 PHONE: 81-6-6920-3600  
 R&D Building ... 3-2-8 Uchihirano-machi, Chuo-ku, Osaka, 540-0037, Japan  
 PHONE: 81-6-6920-7600  
 R&D Building ... 3-1-10 Uchihirano-machi, Chuo-ku, #2  
 Osaka, 540-0037, Japan  
 PHONE: 81-6-6920-7750  
 Tokyo Branch ... Shinjuku Mitsui Building 2-1-1 Nishi Shinjuku, Shinjuku-ku, Tokyo, 163-0448, Japan  
 PHONE: 81-3-3340-0710  
 Ueno Facility ... 3902 Hatta, Iga, Mie, 518-1155, Japan  
 PHONE: 81-595-20-2030



Head Office



R&D Building

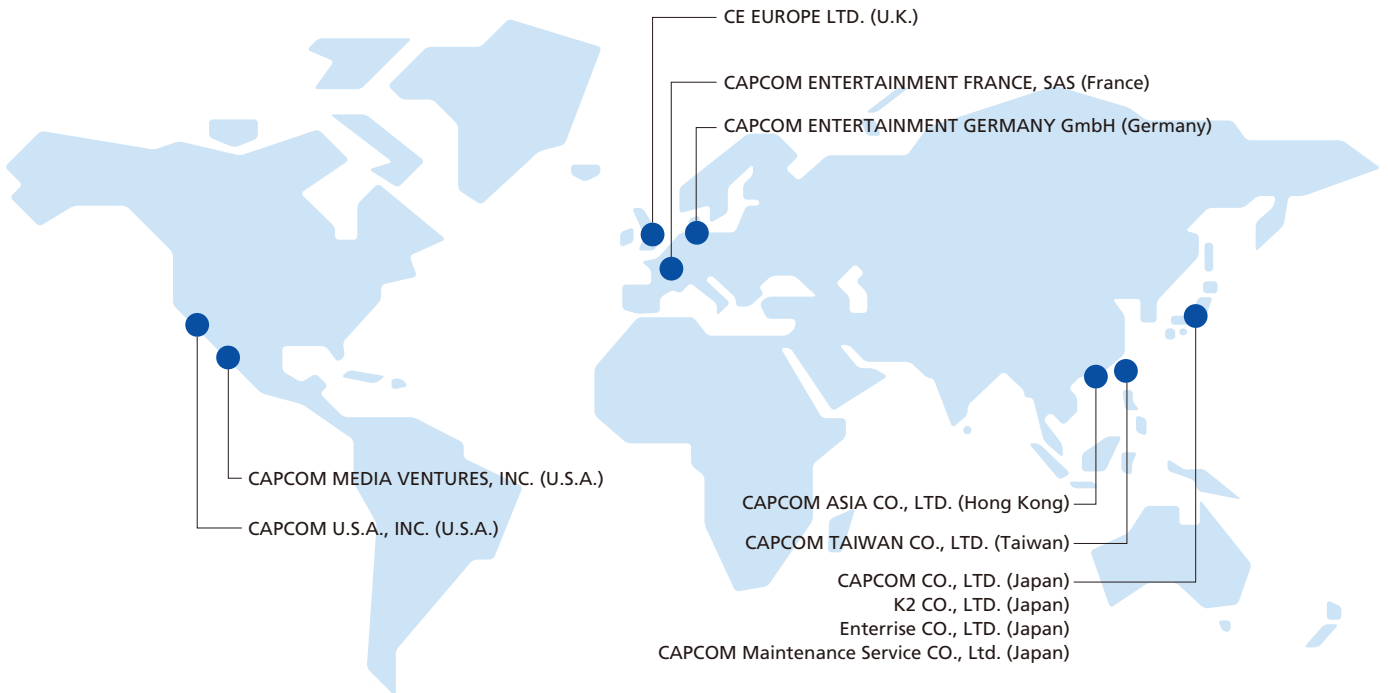


R&D Building #2

**Capcom's Subsidiaries** (As of Sep. 1, 2019)

K2 CO., LTD. / Enterrise CO., LTD. / CAPCOM Maintenance Service CO., Ltd./ CAPCOM U.S.A., INC. / CAPCOM ASIA CO., LTD. / CE EUROPE LTD. / CAPCOM ENTERTAINMENT GERMANY GmbH / CAPCOM ENTERTAINMENT FRANCE, SAS / CAPCOM TAIWAN CO., LTD. / CAPCOM MEDIA VENTURES, INC.

\* Business operations for BEELINE INTERACTIVE, INC. and BEELINE INTERACTIVE CANADA, INC. were suspended during January 2019, and for CAPCOM GAME STUDIO VANCOUVER, INC. during September 2018. These businesses are currently nonoperating.



**FACT  
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2019**

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# Financial Index

CAPCOM CO., LTD. and its consolidated subsidiaries. Years ended March 31

	2012	2013	2014	2015	2016	2017	2018	2019
<b>For the Year</b> (million yen)								
Net sales	82,065	94,075	102,200	64,277	77,021	87,170	94,515	<b>100,031</b>
Operating income	12,318	10,151	10,299	10,582	12,029	13,650	16,037	<b>18,144</b>
Net income before income taxes	11,425	3,719	5,315	10,701	11,150	12,489	15,149	<b>17,770</b>
Net income attributable to owners of the parent	6,723	2,973	3,444	6,616	7,745	8,879	10,937	<b>12,551</b>
Capital expenditures	2,240	3,077	2,252	5,564	5,937	2,622	2,918	<b>2,439</b>
Depreciation and amortization	3,123	3,406	4,638	3,535	5,712	5,980	4,706	<b>3,228</b>
Interest-bearing debt	13,405	17,195	7,050	10,992	12,608	16,111	9,788	<b>8,315</b>
Capital expenditures	4,153	8,724	8,064	10,177	8,274	3,767	3,041	<b>2,568</b>
R&D investment costs	30,648	30,978	26,691	25,301	27,255	27,720	29,077	<b>27,038</b>
Promotional expenses	5,639	6,875	4,269	2,798	3,832	4,764	5,579	<b>5,490</b>
<b>At Year-End</b> (million yen)								
Total assets*1	98,247	104,365	96,611	100,773	113,057	118,897	124,829	<b>123,407</b>
Net assets	59,352	62,828	63,875	71,331	75,168	77,774	85,421	<b>88,749</b>
Work in progress for game software, Online contents in progress	22,373	18,888	14,902	24,728	27,220	30,150	25,635	<b>16,926</b>
Net increase (decrease) in cash and cash equivalents	(12,724)	9,235	(5,404)	1,879	431	(4,091)	22,201	<b>6,464</b>
Cash and cash equivalents at end of year	22,287	31,522	26,118	27,998	28,429	24,337	46,539	<b>53,004</b>
Net cash (100 million yen)	113	143	226	212	158	84	367	<b>446</b>
<b>Profitability indicators</b> (%)								
Cost-of-sales ratio	60.5	65.8	70.7	59.7	61.2	64.7	63.4	<b>62.8</b>
Operating margin	15.0	10.8	10.1	16.5	15.6	15.7	17.0	<b>18.1</b>
Ordinary margin	14.4	11.6	10.7	16.9	14.7	14.4	16.1	<b>18.2</b>
Return on sales	8.2	3.2	3.4	10.3	10.1	10.2	11.6	<b>12.5</b>
SG&A expenses ratio	24.6	23.3	19.3	24.0	23.1	19.6	19.7	<b>19.1</b>
Return on equity (ROE)	11.5	4.9	5.4	9.8	10.6	11.6	13.4	<b>14.4</b>
Return on total assets (ROA)	7.1	2.9	3.4	6.7	7.2	7.7	8.9	<b>10.1</b>

\*1. Effective from the beginning of the current fiscal year, Capcom has applied "Implementation Guidance on Tax Effect Accounting" (ASBJ Guidance No. 28, February 16, 2018). Certain financial information for the FY2018 has undergone retrospective application.



	2012	2013	2014	2015	2016	2017	2018	2019
<b>Efficiency indicators</b> (times)								
Total assets turnover	0.8	0.9	1.1	0.7	0.7	0.7	0.8	<b>0.8</b>
Sales-equity ratio	1.4	1.5	1.6	0.9	1.0	1.1	1.1	<b>1.1</b>
Receivables turnover	4.7	8.0	5.6	8.0	7.8	4.3	7.3	<b>7.2</b>
Accounts payable turnover	6.8	8.9	6.1	9.4	9.5	7.9	17.3	<b>12.2</b>
Inventory turnover	3.2	4.1	7.6	3.1	2.5	2.4	3.2	<b>5.2</b>
Fixed asset turnover ratio	3.5	3.4	3.4	1.8	2.1	2.6	3.2	<b>3.1</b>
<b>Safety indicators</b> (%)								
Net worth ratio	60.4	60.2	66.1	70.8	66.5	65.4	68.4	<b>71.9</b>
Current ratio	255.9	240.8	260.3	380.7	339.6	285.0	354.0	<b>391.2</b>
Quick ratio (Acid-test ratio)	143.3	135.4	187.3	233.1	171.4	149.1	220.0	<b>288.5</b>
Cash equivalent ratio	84.4	98.8	116.3	186.7	127.2	81.8	172.1	<b>228.3</b>
Fixed ratio	39.1	43.8	47.1	49.2	49.4	43.0	35.0	<b>36.7</b>
Debt-equity ratio	65.5	66.1	51.2	41.3	50.4	52.9	47.0	<b>39.1</b>
Interest coverage ratio (times)	—	62.4	136.8	50.2	36.5	22.8	337.2	<b>249.3</b>
<b>Per Share Data</b> (yen)								
Net income (loss) per share*2	58.05	25.82	30.56	58.84	68.87	80.18	99.89	<b>115.45</b>
Net assets per share*3	515.35	545.54	567.96	634.28	688.43	710.32	780.18	<b>831.37</b>
<b>Dividend Data</b>								
Dividend per share (yen)*4	40.0	40.0	40.0	40.0	40.0	50.0	60.0	<b>35.0</b>
Dividend payout ratio (%)	34.5	77.5	65.5	34.0	29.0	31.2	30.0	<b>30.3</b>
Dividend yield (%)	2.1	2.7	2.0	1.7	1.5	2.3	2.6	<b>1.4</b>
<b>Stock Information</b>								
Number of outstanding shares (shares)*4	67,723,244	67,723,244	67,723,244	67,723,244	67,723,244	67,723,244	67,723,244	<b>135,446,488</b>
Price-earnings ratio (times)	16.3	28.6	32.0	20.3	19.9	13.5	23.0	<b>21.5</b>
Shareholdings held by foreign investors (%)	27.05	32.37	37.29	36.87	39.35	31.19	35.01	<b>36.83</b>

\*2. On April 1, 2018, the stock was split on a basis of two shares for every share of common stock held. Accordingly, net income per share has been calculated assuming that the stock split took place at the beginning of the fiscal year ended March 31, 2012.

\*3. On April 1, 2018, the stock was split on a basis of two shares for every share of common stock held. Accordingly, net assets per share has been calculated assuming that the stock split took place at the beginning of the fiscal year ended March 31, 2012.

\*4. On April 1, 2018, the stock was split on a basis of two shares for every share of common stock held by resolution of the Board of Directors at the meeting held on March 6, 2018.

# Segment Information

CAPCOM CO., LTD. and its consolidated subsidiaries. Years ended March 31

	2012	2013	2014	2015	2016	2017	2018	2019
<b>Digital Contents</b>								
Net sales (million yen)	59,809	63,636	65,824	45,351	52,577	58,704	74,141	<b>82,982</b>
Consumer (100 million yen)	469	459	530	352	421	492	652	<b>769</b>
Package (100 million yen)	441	407	433	262	312	337	383	<b>359</b>
Digital Download Contents (DLC) (100 million yen)	28	52	97	90	109	155	269	<b>410</b>
Mobile Contents (100 million yen)	63	110	65	41	33	38	41	<b>23</b>
PC Other (100 million yen)	66	67	63	60	71	57	48	<b>37</b>
Operating income (million yen)	12,887	7,062	4,489	10,208	12,167	11,096	19,103	<b>23,315</b>
Operating margins (%)	21.5	11.1	6.8	22.5	23.1	18.9	25.8	<b>28.1</b>
Assets (million yen)	51,542	44,950	35,708	50,053	57,275	66,691	61,641	<b>54,109</b>
Return on total assets (ROA) (%)	25.0	15.7	12.6	20.4	21.2	16.6	31.0	<b>43.1</b>
<b>Arcade Operations</b>								
Net sales (million yen)	11,729	10,944	10,620	9,241	9,056	9,525	10,231	<b>11,050</b>
Operating income (million yen)	1,787	1,709	1,617	940	699	752	879	<b>1,096</b>
Operating margins (%)	15.2	15.6	15.2	10.2	7.7	7.9	8.6	<b>9.9</b>
Assets (million yen)	8,006	7,046	6,657	6,315	6,574	6,988	7,471	<b>7,730</b>
Return on total assets (ROA) (%)	22.3	24.3	24.3	14.9	10.6	10.8	11.8	<b>14.2</b>
<b>Amusement Equipments</b>								
Net sales (million yen)	7,663	16,783	23,160	7,540	13,343	16,856	7,803	<b>3,422</b>
Operating income (million yen)	890	4,892	7,131	2,736	2,812	5,106	(764)	<b>(2,668)</b>
Operating margins (%)	11.6	29.1	30.8	36.3	21.1	30.3	—	<b>—</b>
Assets (million yen)	8,294	13,054	20,083	8,760	12,314	16,169	10,002	<b>6,420</b>
Return on total assets (ROA) (%)	10.7	37.5	35.5	31.2	22.8	31.6	—	<b>—</b>
<b>Other Businesses</b>								
Net sales (million yen)	2,862	2,711	2,594	2,144	2,043	2,083	2,338	<b>2,575</b>
Operating income (million yen)	877	740	1,001	661	511	969	1,126	<b>811</b>
Operating margins (%)	30.6	27.3	38.6	30.8	25.0	46.5	48.2	<b>31.5</b>
Assets (million yen)	2,931	4,236	4,331	6,534	4,926	4,718	3,600	<b>617</b>
Return on total assets (ROA) (%)	29.9	17.5	23.1	10.1	10.4	20.5	31.3	<b>131.4</b>

# Market information

	2012	2013	2014	2015	2016	2017	2018	(Year) 2019 (Estimate)
<b>Consumer Market</b> (100 million USD)* <sup>1</sup>								
Package	184	163	129	124	109	112	109	<b>98</b>
Digital Download Contents (DLC)	71	74	87	93	103	132	190	<b>221</b>
Total	255	237	216	217	212	244	299	<b>319</b>
<b>Mobile Contents Market</b> (100 million USD)* <sup>1</sup>								
North America	28	39	54	66	100	113	175	<b>201</b>
Europe	20	23	35	44	47	60	87	<b>109</b>
Asia	62	70	116	229	276	354	421	<b>468</b>
Other	13	13	19	48	61	66	69	<b>87</b>
Total	123	147	225	390	485	594	753	<b>866</b>
<b>PC Online Market</b> (100 million USD)* <sup>1</sup>								
North America	56	68	61	58	70	77	90	<b>93</b>
Europe	57	66	66	57	62	77	90	<b>96</b>
Asia	96	123	91	106	138	186	195	<b>206</b>
Other	25	31	28	28	38	43	39	<b>43</b>
Total	236	288	247	251	310	384	416	<b>440</b>

	2012	2013	2014	2015	2016	2017	2018	(Years ended March 31) 2019
<b>Arcade Operations Market</b> (100 million yen)* <sup>2</sup>								
Market size	4,875	4,700	4,564	4,222	4,338	4,620	4,859	—
Number of Amusement Arcades (by number of machines) (stores)	18,114	16,991	16,069	15,611	14,862	14,154	13,103	—
Over 101 machines	6,694	6,459	6,535	5,698	5,603	5,263	4,879	—
51–100 machines	2,622	2,156	2,084	1,990	1,932	1,817	1,670	—
Below 50 machines	8,798	8,376	7,450	7,923	7,327	7,074	6,554	—
<b>Gaming Machines Market</b> (100 million yen)* <sup>3</sup>								
Pachinko	8,267	7,729	6,571	6,524	6,130	5,258	5,157	—
Pachislo	3,750	4,300	4,774	4,274	3,697	3,576	2,434	—
Total	12,017	12,029	11,345	10,798	9,827	8,834	7,591	—
<b>Arcade Game Market</b> (100 million yen)* <sup>2</sup>								
Market size	1,738	1,675	1,635	1,511	1,461	1,491	1,437	—

\*1. Source: International Development Group

\*2. Source: JAMMA "Survey on the Amusement Industry"

\*3. Source: Manufacturer sales base compiled by Capcom using Pachinko Maker Trends (2017, 2018); Yano Research Institute Ltd.

# Software Shipments







CAPCOM CO., LTD. and its consolidated subsidiaries. Years ended March 31

		2012	2013	2014	2015	2016	2017	2018	2019
<b>Units Shipped by platform</b> (thousand Units)									
Playstation 2	SKU	—	—	—	—	—	—	—	—
	Sub total	200	100	—	—	—	—	—	—
Playstation 3 Playstation 4	SKU	25	21	17	13	19	16	14	21
	Sub total	6,200	7,100	4,200	2,450	3,500	4,700	8,250	6,500
PSP PS Vita	SKU	9	4	0	5	8	5	1	3
	Sub total	1,900	600	200	250	300	150	0	50
Wii, Wii U Nintendo Switch	SKU	4	2	2	—	—	—	7	17
	Sub total	650	700	350	150	100	0	1,100	1,950
Nintendo DS Nintendo 3DS	SKU	12	7	4	5	7	5	8	—
	Sub total	3,300	1,300	4,700	3,750	4,100	3,200	450	—
Xbox 360 Xbox One	SKU	16	8	11	7	6	9	9	9
	Sub total	3,200	3,700	2,950	1,200	650	2,100	1,350	1,200
PC Other	SKU	2	4	5	3	4	6	2	3
	Sub total	250	500	300	200	250	250	350	300
Package total	SKU	68	46	39	33	44	41	41	53
	Sub total	15,700	14,000	12,700	8,000	8,900	10,400	11,500	10,000
Full-game download	SKU	—	—	3	—	1	1	9	8
	Sub total	1,300	2,700	4,800	5,000	6,100	9,000	12,900	15,300
Total	SKU	68	46	42	33	45	42	50	61
	Sub total	17,000	16,700	17,500	13,000	15,000	19,400	24,400	25,300



# Game Series Sales

With a focus on delivering quality products to a wider audience base, Capcom has strived diligently to create innovative and exciting sequels to existing popular franchises to increase its user base and to strengthen its revenues. As always, we at Capcom will continue to strive to provide our customers with the best possible forms of innovative entertainment to increase customer satisfaction.

<p><b>Dragon's Dogma</b></p> <hr/> <p>Number of Titles: <b>12</b> Unit Sales: <b>4.4</b> (Million units)</p> 	<p><b>Lost Planet</b></p> <hr/> <p>Number of Titles: <b>17</b> Unit Sales: <b>6.1</b> (Million units)</p> 	<p><b>Dead Rising</b></p> <hr/> <p>Number of Titles: <b>22</b> Unit Sales: <b>13.0</b> (Million units)</p> 	<p><b>Okami</b></p> <hr/> <p>Number of Titles: <b>11</b> Unit Sales: <b>2.6</b> (Million units)</p> 	<p><b>Sengoku BASARA</b></p> <hr/> <p>Number of Titles: <b>30</b> Unit Sales: <b>4.0</b> (Million units)</p> 
<p><b>Monster Hunter</b></p> <hr/> <p>Number of Titles: <b>43</b> Unit Sales: <b>54.0</b> (Million units)</p> 	<p><b>Ace Attorney</b></p> <hr/> <p>Number of Titles: <b>29</b> Unit Sales: <b>6.9</b> (Million units)</p> 	<p><b>Devil May Cry</b></p> <hr/> <p>Number of Titles: <b>29</b> Unit Sales: <b>20.0</b> (Million units)</p> 	<p><b>Onimusha</b></p> <hr/> <p>Number of Titles: <b>16</b> Unit Sales: <b>8.2</b> (Million units)</p> 	<p><b>Dino Crisis</b></p> <hr/> <p>Number of Titles: <b>13</b> Unit Sales: <b>4.4</b> (Million units)</p> 
<p><b>Marvel vs. Capcom</b></p> <hr/> <p>Number of Titles: <b>16</b> Unit Sales: <b>9.1</b> (Million units)</p>  <p><small>©2017 MARVEL GAMES INC. CAPCOM GAMES, INC. 2017. CAPCOM U.S.A., INC. 2017. ALL RIGHTS RESERVED.</small></p>	<p><b>Resident Evil</b></p> <hr/> <p>Number of Titles: <b>128</b> Unit Sales: <b>91.0</b> (Million units)</p> 	<p><b>Breath of Fire</b></p> <hr/> <p>Number of Titles: <b>15</b> Unit Sales: <b>3.2</b> (Million units)</p> 	<p><b>Final Fight</b></p> <hr/> <p>Number of Titles: <b>10</b> Unit Sales: <b>3.2</b> (Million units)</p> 	<p><b>Street Fighter</b></p> <hr/> <p>Number of Titles: <b>91</b> Unit Sales: <b>42.0</b> (Million units)</p> 
<p><b>Mega Man</b></p> <hr/> <p>Number of Titles: <b>152</b> Unit Sales: <b>35.0</b> (Million units)</p> 	<p><b>Ghosts'n Goblins</b></p> <hr/> <p>Number of Titles: <b>14</b> Unit Sales: <b>4.2</b> (Million units)</p> 	<p><b>Commando</b></p> <hr/> <p>Number of Titles: <b>2</b> Unit Sales: <b>1.2</b> (Million units)</p> 	<p><b>1942</b></p> <hr/> <p>Number of Titles: <b>3</b> Unit Sales: <b>1.4</b> (Million units)</p> 	

# ESG Data

CAPCOM CO., LTD. and its consolidated subsidiaries. Years ended March 31

	2012	2013	2014	2015	2016	2017	2018	2019
<b>Environmental (Non-consolidated)</b>								
Emissions (t)	14,561	17,354	18,130	16,476	14,892	15,285	15,021	<b>14,152</b>
Energy Consumption per Basic Unit*1	0.07725	0.07412	0.07090	0.06663	0.06193	0.06018	0.05994	<b>0.05869</b>
Year on Year Rate of Change (%)	89.6	95.9	95.7	94.0	92.9	97.2	99.6	<b>97.9</b>
<b>Social</b>								
Number of Employees	2,265	2,476	2,601	2,681	2,839	2,811	2,952	<b>2,832</b>
Number of Employees (Non-consolidated)	1,698	1,820	1,951	2,033	2,114	2,194	2,426	<b>2,530</b>
Content Developers	1,455	1,623	1,808	1,902	2,052	1,994	2,141	<b>2,032</b>
Number of female managers	11	20	19	20	24	25	25	<b>24</b>
Ratio of Female employees (%)	21	21	21	20	19	20	21	<b>21</b>
Number of non-Japanese employees (Non-consolidated)	45	63	69	72	91	99	107	<b>149</b>
Ratio of non-Japanese employees (%)	2.7	3.5	3.3	3.4	4.0	4.3	4.2	<b>5.6</b>
Number of onsite nursery school users	—	—	—	—	—	—	13	<b>25</b>
Number of employees who took childcare leave	15	18	18	21	24	26	25	<b>33</b>
Male	3	1	3	5	0	3	6	<b>12</b>
Female	12	17	15	16	24	23	19	<b>21</b>
Cumulative number of participants in senior tours	330	1,030	1,550	1,681	1,871	2,037	2,247	<b>2,463</b>
Cumulative number of regional vitalization projects	1	1	3	5	10	15	19	<b>22</b>
Number of educational support activities	35	43	63	51	55	58	40	<b>29</b>
Number of guest lectures held	7	9	24	25	18	28	17	<b>15</b>
Number of participants	665	1,506	1,920	2,361	1,853	1,853	1,767	<b>1,392</b>
<b>Governance</b>								
Number of directors	15	15	14	14	10	12	11	<b>11</b>
Internal directors	10	10	9	9	5	6	5	<b>5</b>
External directors	5	5	5	5	5	6	6	<b>6</b>
Ratio of external directors	33.3	33.3	35.7	35.7	50.0	50.0	45.5	<b>45.5</b>
Number of board of directors meetings held	16	14	15	16	14	15	15	<b>10</b>
Number of board of corporate audit and supervisory committee*2 meetings held	14	14	15	12	13	14	16	<b>10</b>

\*1. Calculated using the method defined by the Agency for Natural Resources and Energy.

\*2. Capcom transitioned from a company with a corporate auditor system to a company with an audit and supervisory committee on June 18, 2016.

## Consolidated Statements of Income

	2012	2013	2014	2015	2016	2017	2018	(million) yen	(thousand) USD
								2019	2019
<b>Net sales</b>	82,065	94,075	102,200	64,277	77,021	87,170	94,515	<b>100,031</b>	<b>909,378</b>
<b>Cost of sales</b>	49,609	61,911	72,251	38,379	47,175	56,438	59,895	<b>62,809</b>	<b>570,992</b>
<b>Gross profit</b>	32,456	32,163	29,949	25,898	29,846	30,731	34,619	<b>37,222</b>	<b>338,385</b>
<b>Selling, general and administrative expenses</b>	20,150	21,942	19,749	15,403	17,816	17,080	18,582	<b>19,078</b>	<b>173,438</b>
<b>Operating income</b>	12,318	10,151	10,299	10,582	12,029	13,650	16,037	<b>18,144</b>	<b>164,947</b>
<b>Non-operating income</b>									
Interest income	85	92	97	98	95	47	58	<b>171</b>	<b>1,562</b>
Dividend income	10	9	10	13	13	13	14	<b>16</b>	<b>152</b>
Settlement received	—	—	210	92	—	—	—	<b>—</b>	<b>—</b>
Exchange gain, net	—	745	566	292	—	—	—	<b>362</b>	<b>3,295</b>
Settlement received	67	—	—	—	—	—	—	<b>—</b>	<b>—</b>
Other	126	257	238	168	195	130	145	<b>422</b>	<b>3,844</b>
Total	289	1,105	1,122	664	304	192	219	<b>974</b>	<b>8,855</b>
<b>Non-operating expenses</b>									
Interest expense	115	107	96	85	119	141	103	<b>80</b>	<b>727</b>
Commission fees	66	60	69	83	59	44	64	<b>69</b>	<b>628</b>
Additionally paid retirement benefits	—	—	—	—	—	117	112	<b>601</b>	<b>5,468</b>
Office transfer expenses	—	—	—	—	—	63	254	<b>—</b>	<b>—</b>
Compensation expenses	—	—	138	—	—	—	—	<b>—</b>	<b>—</b>
Loss on closing amusement stores	—	—	142	142	—	—	—	<b>—</b>	<b>—</b>
Exchange losses, net	456	—	—	—	752	746	407	<b>—</b>	<b>—</b>
Other	151	144	27	84	55	141	59	<b>173</b>	<b>1,576</b>
Total	788	312	475	396	985	1,253	1,002	<b>924</b>	<b>8,400</b>
<b>Ordinary income</b>	11,819	10,944	10,946	10,851	11,348	12,589	15,254	<b>18,194</b>	<b>165,401</b>
<b>Special gains</b>	8	—	—	—	—	—	—	<b>—</b>	<b>—</b>
<b>Special losses</b>	402	7,224	5,630	150	197	99	104	<b>423</b>	<b>3,854</b>
Net income before income taxes	11,425	3,719	5,315	10,701	11,150	12,489	15,149	<b>17,770</b>	<b>161,547</b>
Income taxes-current	3,513	2,968	950	1,146	6,377	1,832	4,617	<b>6,603</b>	<b>60,036</b>
Income taxes-deferred	1,188	(2,222)	920	2,937	(2,972)	1,777	(405)	<b>(1,385)</b>	<b>(12,595)</b>
Total	4,701	746	1,870	4,084	3,405	3,610	4,212	<b>5,218</b>	<b>47,440</b>
Net income	6,723	2,973	3,444	6,616	7,745	8,879	10,937	<b>12,551</b>	<b>114,106</b>
<b>Net income attributable to owners of the parent</b>	6,723	2,973	3,444	6,616	7,745	8,879	10,937	<b>12,551</b>	<b>114,106</b>

## Consolidated Statements of Comprehensive Income

	2012	2013	2014	2015	2016	2017	2018	(million) yen	(thousand) USD
								2019	2019
<b>Net income</b>	6,723	2,973	3,444	6,616	7,745	8,879	10,937	<b>12,551</b>	<b>114,106</b>
<b>Other comprehensive income</b>									
Net unrealized gain or loss on securities, net of tax	9	138	8	71	(168)	105	31	<b>(112)</b>	<b>(1,025)</b>
Cumulative translation adjustments	(344)	2,669	2,333	2,863	(1,494)	(262)	(601)	<b>428</b>	<b>3,899</b>
Adjustments for retirement benefits	—	—	—	(114)	9	(38)	21	<b>20</b>	<b>188</b>
Total other comprehensive income	(334)	2,807	2,341	2,820	(1,653)	(196)	(548)	<b>336</b>	<b>3,062</b>
<b>Comprehensive income</b>	6,389	5,780	5,786	9,436	6,092	8,683	10,389	<b>12,888</b>	<b>117,169</b>
Comprehensive income attributable to									
Owners of the parent	6,389	5,780	5,786	9,436	6,092	8,683	10,389	<b>12,888</b>	<b>117,169</b>
Non-controlling interests	—	—	—	—	—	—	—	<b>—</b>	<b>—</b>

# Consolidated Balance Sheets

## Assets

	2012	2013	2014	2015	2016	2017	2018	(million yen) 2019	(thousand USD) 2019
<b>Assets</b>									
<b>Current assets</b>									
Cash on hand and in banks	24,752	31,522	29,720	32,204	28,429	24,537	46,539	53,004	481,856
Notes and accounts receivable-trade	17,285	11,687	18,134	8,005	9,879	20,175	12,930	13,970	127,008
Merchandise and finished goods	1,793	1,756	1,191	1,225	1,704	1,583	1,102	1,182	10,748
Work in progress	443	906	942	1,672	2,085	2,040	1,349	734	6,679
Raw materials and supplies	1,417	1,592	996	1,020	1,954	2,040	1,616	538	4,891
Work in progress for game software	22,373	18,888	10,355	16,833	24,825	30,150	25,635	16,926	153,879
Deferred tax assets	4,239	6,497	2,865	2,042	3,382	2,495	3,201	—	—
Other	2,791	4,054	2,355	2,712	3,673	2,478	3,371	4,518	41,080
Allowance for doubtful accounts	(58)	(64)	(55)	(56)	(18)	(21)	(34)	(58)	(535)
Total current assets	75,038	76,841	66,506	65,659	75,917	85,480	95,712	90,817	825,609
<b>Fixed assets</b>									
Tangible fixed assets, net of accumulated depreciation									
Buildings and structures, net	5,125	4,907	4,998	6,136	11,297	11,004	11,106	10,845	98,596
Machinery and vehicles, net	21	34	15	22	23	16	10	24	220
Tools, fixtures and furniture, net	1,052	1,105	1,208	1,578	1,875	1,932	1,840	1,377	12,518
Equipment for amusement facilities, net	1,637	1,199	1,431	1,101	1,342	1,616	1,565	1,821	16,561
Land	4,298	5,052	5,052	4,953	5,234	5,234	5,234	5,235	47,595
Lease assets, net	709	849	825	995	1,042	835	668	718	6,534
Construction in progress	—	108	44	2,541	8	128	371	336	3,059
Total tangible fixed assets	12,844	13,258	13,577	17,328	20,825	20,768	20,797	20,359	185,085
Intangible assets	3,911	7,909	7,368	10,668	8,135	2,843	725	432	3,935
Investments and other assets									
Investments in securities	368	515	542	621	454	574	625	576	5,242
Claims in bankruptcy and reorganization	265	66	65	66	65	67	19	19	177
Lease deposits	4,522	4,341	4,108	4,036	3,867	3,920	4,034	3,979	36,181
Deferred tax assets	908	733	3,699	1,595	2,952	4,311	2,782	6,420	58,366
Other	663	776	819	876	916	1,003	900	834	7,583
Allowance for doubtful accounts	(275)	(78)	(77)	(78)	(78)	(72)	(24)	(32)	(292)
Total investments and other assets	6,452	6,355	9,159	7,117	8,179	9,804	8,338	11,798	107,257
Total fixed assets	23,208	27,523	30,104	35,113	37,140	33,417	29,861	32,590	296,279
<b>Total assets</b>	98,247	104,365	96,611	100,773	113,057	118,897	125,573	123,407	1,121,888



## Liabilities and Net Assets

	2012	2013	2014	2015	2016	2017	2018	(million) yen	(thousand) USD
								2019	2019
<b>Liabilities</b>									
<b>Current liabilities</b>									
Notes and accounts payable-trade	7,257	6,304	4,950	3,089	4,053	2,288	2,625	3,988	36,261
Electronically recorded monetary obligations	—	634	6,926	988	888	4,886	839	1,153	10,486
Short-term borrowings	7,259	11,194	4,050	3,452	1,497	9,323	1,473	—	—
Current portion of long-term borrowings	—	—	—	—	—	—	—	1,579	14,356
Lease obligations	322	364	370	483	525	502	392	406	3,694
Accrued income taxes	2,977	2,111	758	823	6,470	1,580	4,453	4,251	38,649
Deferred tax liabilities	7	—	93	147	40	2,308	766	—	—
Accrued bonuses	2,111	1,679	1,802	1,832	2,080	2,263	2,866	3,089	28,090
Other	9,391	9,616	6,594	6,427	6,799	6,840	13,618	8,743	79,483
Total current liabilities	29,327	31,905	25,547	17,246	22,355	29,994	27,037	23,212	211,021
<b>Long-term liabilities</b>									
Long-term borrowings	6,145	6,000	3,000	7,540	11,111	6,788	8,315	6,735	61,235
Lease obligations	429	553	519	589	601	399	329	369	3,361
Deferred tax liabilities	225	2	46	48	18	29	23	6	58
Accrued retirement benefits for employees	1,509	1,697	—	—	—	—	—	—	—
Liabilities for retirement benefits for employees	—	—	2,158	2,101	2,323	2,596	2,819	3,004	27,309
Asset retirement obligations	325	329	404	489	502	509	501	571	5,193
Other	932	1,047	1,059	1,427	975	805	1,127	758	6,894
Total long-term liabilities	9,567	9,630	7,187	12,195	15,532	11,128	13,115	11,445	104,052
<b>Total liabilities</b>	<b>38,895</b>	<b>41,536</b>	<b>32,735</b>	<b>29,442</b>	<b>37,888</b>	<b>41,122</b>	<b>40,152</b>	<b>34,658</b>	<b>315,074</b>
<b>Net assets</b>									
<b>Shareholders' equity</b>									
Common stock	33,239	33,239	33,239	33,239	33,239	33,239	33,239	33,239	302,175
Capital surplus	21,328	21,328	21,328	21,328	21,328	21,328	21,328	21,328	193,899
Retained earnings	27,328	27,998	29,160	33,801	39,297	45,402	53,602	62,595	569,054
Treasury stock	(15,846)	(15,848)	(18,134)	(18,140)	(18,145)	(21,448)	(21,454)	(27,456)	(249,600)
Total shareholders' equity	66,049	66,718	65,593	70,228	75,719	78,521	86,716	89,708	815,528
<b>Accumulated other comprehensive income</b>									
Net unrealized gain or loss on securities, net of tax	(46)	91	99	170	2	107	139	26	244
Cumulative translation adjustments	(6,650)	(3,981)	(1,647)	1,215	(278)	(541)	(1,142)	(713)	(6,488)
Accumulated adjustments for retirement benefits	—	—	(169)	(283)	(274)	(313)	(292)	(271)	(2,469)
Total accumulated other comprehensive income	(6,697)	(3,889)	(1,717)	1,102	(550)	(747)	(1,295)	(958)	(8,713)
<b>Total net assets</b>	<b>59,352</b>	<b>62,828</b>	<b>63,875</b>	<b>71,331</b>	<b>75,168</b>	<b>77,774</b>	<b>85,421</b>	<b>88,749</b>	<b>806,814</b>
<b>Total liabilities and net assets</b>	<b>98,247</b>	<b>104,365</b>	<b>96,611</b>	<b>100,773</b>	<b>113,057</b>	<b>118,897</b>	<b>125,573</b>	<b>123,407</b>	<b>1,121,888</b>

Total current liabilities includes the current liabilities "Allowance for sales returns" for the fiscal years ended March 31, 2012 through March 31, 2014 and "Asset retirement obligations" for the fiscal years ended March 31, 2012 through March 31, 2016.

# Consolidated Statements of Cash Flows

	2012	2013	2014	2015	2016	2017	2018	(million yen) 2019	(thousand USD) 2019
<b>Cash flows from operating activities</b>									
Net income before income taxes	11,425	3,719	5,315	10,701	11,150	12,489	15,149	<b>17,770</b>	<b>161,547</b>
Depreciation and amortization	3,123	3,406	4,638	3,535	5,712	5,980	4,706	<b>3,228</b>	<b>29,348</b>
Impairment loss	80	58	—	49	105	—	—	<b>393</b>	<b>3,573</b>
Amortization of goodwill	112	132	131	63	—	—	—	—	—
Increase (decrease) in allowance for doubtful accounts	9	1	(16)	(1)	(38)	(1)	(36)	<b>32</b>	<b>299</b>
Increase (decrease) in accrued bonuses	(362)	(474)	88	(3)	263	186	604	<b>223</b>	<b>2,028</b>
Increase (decrease) in allowance for sales returns	(12)	69	(100)	(87)	—	—	—	—	—
Increase (decrease) in accrued retirement benefits for employees	126	185	—	—	—	—	—	—	—
Increase in liabilities for retirement benefits for employees	—	—	195	207	264	204	253	<b>214</b>	<b>1,950</b>
Interest and dividend income	(95)	(101)	(107)	(111)	(109)	(61)	(71)	<b>(189)</b>	<b>(1,721)</b>
Interest expenses	115	107	96	85	119	141	103	<b>80</b>	<b>731</b>
Exchange losses (gains), net	424	(485)	(435)	(188)	60	18	134	<b>(127)</b>	<b>(1,161)</b>
Loss on sales and/or disposal of fixed assets	321	216	93	100	92	99	104	<b>30</b>	<b>281</b>
Gain on sales of investment in securities	(8)	—	—	—	—	—	—	—	—
Loss on restructuring	—	6,949	5,537	—	—	—	—	—	—
Decrease (increase) in accounts receivable - trade	(5,550)	5,760	(6,351)	10,382	(2,208)	(10,393)	7,059	<b>(858)</b>	<b>(7,801)</b>
Decrease (increase) in inventories	(1,450)	(493)	1,196	(764)	(1,651)	158	1,588	<b>1,621</b>	<b>14,738</b>
Decrease (increase) in online contents in progress	—	—	(1,741)	(3,347)	1,479	(704)	—	—	—
Decrease (increase) in work in progress for game software	(11,899)	(2,837)	6,010	(6,443)	(8,778)	(2,266)	4,069	<b>8,876</b>	<b>80,698</b>
Increase (decrease) in notes and accounts payable - trade	1,720	(474)	4,806	(7,856)	935	2,280	(3,690)	<b>1,665</b>	<b>15,143</b>
Other	(1,526)	(5,485)	(3,953)	(1,129)	(2,087)	1,659	6,320	<b>(7,286)</b>	<b>(66,238)</b>
Subtotal	(3,447)	10,253	15,404	5,187	5,309	9,792	36,296	<b>25,675</b>	<b>233,417</b>
Interests and dividends received	86	109	86	118	130	62	73	<b>191</b>	<b>1,736</b>
Interests paid	(115)	(105)	(98)	(85)	(120)	(140)	(101)	<b>(81)</b>	<b>(739)</b>
Income taxes paid	(4,195)	(3,610)	(2,190)	(934)	(972)	(6,513)	(1,546)	<b>(5,938)</b>	<b>(53,987)</b>
Net cash provided by operating activities	(7,672)	6,647	13,201	4,286	4,347	3,200	34,721	<b>19,847</b>	<b>180,427</b>

	2012	2013	2014	2015	2016	2017	2018	(million yen) 2019	(thousand USD) 2019
<b>Cash flows from investing activities</b>									
Payments into time deposits	(2,465)	—	(3,517)	—	—	(200)	—	—	—
Proceeds from withdrawal of time deposits	—	2,499	—	—	4,205	—	—	—	—
Payment for acquisition of tangible fixed assets	(2,153)	(3,086)	(2,203)	(5,465)	(5,813)	(3,074)	(2,767)	(2,093)	(19,033)
Proceeds from sales of tangible fixed assets	434	659	1	206	4	5	0	4	38
Payment for acquisition of intangible assets	(527)	(1,578)	(497)	(195)	(290)	(253)	(150)	(112)	(1,024)
Payment for purchase of investments in securities	(12)	(12)	(12)	(12)	(13)	(13)	(13)	(14)	(136)
Payment for other investing activities	(379)	(453)	(115)	(141)	(113)	(222)	(259)	(182)	(1,662)
Proceeds from other investing activities	307	597	189	111	380	131	343	138	1,258
Net cash used in investing activities	(4,794)	(1,375)	(6,155)	(5,496)	(1,639)	(3,628)	(2,847)	(2,261)	(20,559)
<b>Cash flows from financing activities</b>									
Net (decrease) increase in short-term borrowings	6,760	4,290	(10,000)	(1,050)	—	5,000	(5,000)	—	—
Proceeds from long-term borrowings	3,000	—	—	8,162	2,500	—	—	—	—
Repayments of long-term borrowings	(3,711)	(499)	(145)	(3,169)	(883)	(1,497)	(1,323)	(1,473)	(13,392)
Repayments of lease obligations	(418)	(327)	(383)	(406)	(496)	(535)	(509)	(414)	(3,766)
Payment for repurchase of treasury stock	(2,703)	(1)	(2,286)	(5)	(5)	(3,302)	(5)	(6,001)	(54,561)
Proceeds from sales of treasury stock	0	0	0	0	—	—	—	—	—
Dividends paid by parent company	(2,339)	(2,298)	(2,283)	(2,251)	(2,228)	(2,794)	(2,738)	(3,554)	(32,314)
Net cash used in financing activities	587	1,162	(15,099)	1,278	(1,115)	(3,130)	(9,577)	(11,443)	(104,035)
<b>Effect of exchange rate change on cash and cash equivalents</b>	(845)	2,800	2,648	1,811	(1,160)	(533)	(96)	323	2,939
<b>Net (decrease) increase in cash and cash equivalents</b>	(12,724)	9,235	(5,404)	1,879	431	(4,091)	22,201	6,464	58,772
<b>Cash and cash equivalents at beginning of year</b>	35,011	22,287	31,522	26,118	27,998	28,429	24,337	46,539	423,083
<b>Cash and cash equivalents at end of year</b>	22,287	31,522	26,118	27,998	28,429	24,337	46,539	53,004	481,856

- "Other," under cash flows from operating activities, includes Decrease (increase) in other current assets and Increase (decrease) in other current liabilities for the fiscal years ended March 31, 2012 through March 31, 2017.
- "Proceeds from other investing activities," under cash flows from investing activities, includes Proceeds from sales of investments in securities and Collection of loans receivable for the fiscal years ended March 31, 2012.

# Consolidated Statements of Changes in Net Assets

Previous fiscal year (April 1, 2017 to March 31, 2018) (million yen)	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
<b>Balance as of April 1, 2017</b>	33,239	21,328	45,402	(21,448)	78,521
Changes of items during the fiscal year					
Cash dividends			(2,737)		(2,737)
Net income attributable to owners of the parent			10,937		10,937
Repurchase of treasury stock				(5)	(5)
Disposal of treasury stock		0		0	0
Net changes of items other than shareholders' equity					
Total changes of items during the fiscal year	—	0	8,200	(5)	8,194
<b>Balance as of March 31, 2018</b>	33,239	21,328	53,602	21,454	86,716

Previous fiscal year (April 1, 2017 to March 31, 2018) (million yen)	Accumulated other comprehensive income				Total net assets
	Net unrealized gain on securities, net of tax	Cumulative translation adjustments	Accumulated adjustments for retirement benefits	Total accumulated other comprehensive income	
<b>Balance as of April 1, 2017</b>	107	(541)	(313)	(747)	77,774
Changes of items during the fiscal year					
Cash dividends					(2,737)
Net income attributable to owners of the parent					10,937
Repurchase of treasury stock					(5)
Disposal of treasury stock					0
Net changes of items other than shareholders' equity	31	(601)	21	(548)	(548)
Total changes of items during the fiscal year	31	(601)	21	(548)	7,646
<b>Balance as of March 31, 2018</b>	139	(1,142)	(292)	(1,295)	85,421

Current fiscal year (April 1, 2018 to March 31, 2019) (million yen)	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
<b>Balance as of April 1, 2018</b>	33,239	21,328	53,602	(21,454)	86,716
Changes of items during the fiscal year					
Cash dividends			(3,558)		(3,558)
Net income attributable to owners of the parent			12,551		12,551
Repurchase of treasury stock				(6,001)	(6,001)
Disposal of treasury stock		—		—	—
Net changes of items other than shareholders' equity					
Total changes of items during the fiscal year	—	—	8,993	(6,001)	2,991
<b>Balance as of March 31, 2019</b>	33,239	21,328	62,595	27,456	89,708

Current fiscal year (April 1, 2018 to March 31, 2019) (million yen)	Accumulated other comprehensive income				Total net assets
	Net unrealized gain on securities, net of tax	Cumulative translation adjustments	Accumulated adjustments for retirement benefits	Total accumulated other comprehensive income	
<b>Balance as of April 1, 2018</b>	139	(1,142)	(292)	(1,295)	85,421
Changes of items during the fiscal year					
Cash dividends					(3,558)
Net income attributable to owners of the parent					12,551
Repurchase of treasury stock					(6,001)
Disposal of treasury stock					—
Net changes of items other than shareholders' equity	(112)	428	20	336	336
Total changes of items during the fiscal year	(112)	428	20	336	3,328
<b>Balance as of March 31, 2019</b>	26	(713)	(271)	(958)	88,749

Current fiscal year (April 1, 2018 to March 31, 2019) (thousand USD)	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
<b>Balance as of April 1, 2018</b>	302,175	193,899	487,296	(195,039)	788,331
Changes of items during the fiscal year					
Cash dividends			(32,348)		(32,348)
Net income attributable to owners of the parent			114,106		114,106
Repurchase of treasury stock				(54,561)	(54,561)
Disposal of treasury stock		—		—	—
Net changes of items other than shareholders' equity					
Total changes of items during the fiscal year	—	—	81,757	(54,561)	27,196
<b>Balance as of March 31, 2019</b>	302,175	193,899	569,054	(249,600)	815,528

Current fiscal year (April 1, 2018 to March 31, 2019) (thousand USD)	Accumulated other comprehensive income				Total net assets
	Net unrealized gain or loss on securities, net of tax	Cumulative translation adjustments	Accumulated adjustments for retirement benefits	Total accumulated other comprehensive income	
<b>Balance as of April 1, 2018</b>	1,269	(10,387)	(2,657)	(11,776)	776,554
Changes of items during the fiscal year					
Cash dividends					(32,348)
Net income attributable to owners of the parent					114,106
Repurchase of treasury stock					(54,561)
Disposal of treasury stock					—
Net changes of items other than shareholders' equity	(1,025)	3,899	188	3,062	3,062
Total changes of items during the fiscal year	(1,025)	3,899	188	3,062	30,259
<b>Balance as of March 31, 2019</b>	244	(6,488)	(2,469)	(8,713)	806,814





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