

# Overview of Capcom's Business and Outlook for the Future

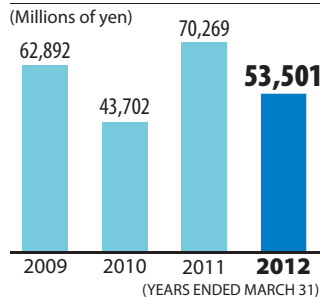


## Consumer Online Games

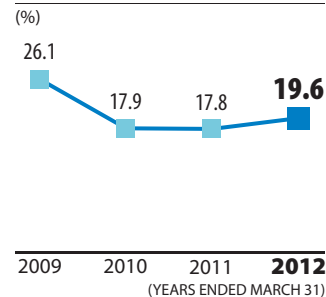
This business is engaged in the development and sales of home video games and the development and operation of PC online games. We will continue concentrating management resources on this business, which represents 65% of company sales, and developing games that meet diverse user needs. We consider action and adventure games our forte, and have released many creative million-seller titles worldwide.



### Net Sales

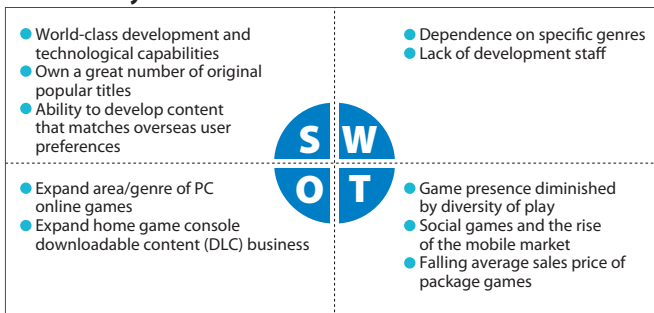


### Operating Margin



\*1 Before the fiscal year ended March 31, 2009, the Consumer Online Games business is described as the Home Video Games business.  
 \*2 In the fiscal year ended March 31, 2011, Capcom restructured its business segment divisions, and as a result, some figures before the fiscal year ended March 31, 2009 have been retroactively adjusted.

### SWOT Analysis



S: Strength W: Weakness O: Opportunities T: Threats

### Market Trends

Although the package market contracted 3.8% from the previous year, downloadable content (DLC) increased 53.6% and the rapidly expanding PC online market increased 33.6%

In 2011, the home video game (package) market was worth 22,500 million dollars (down 3.8% from the previous year), the third straight year of negative growth. As in the previous year, the reasons for this include (1) a decline in game console annual unit sales, as manufacturers have not introduced new hardware for six years, (2) lower average retail prices of package software as a result of intensified competition, (3) the diversification of sales into digital distribution and other forms, etc.

The market mainly consists of three regions: North America, Europe and Japan. While the ratio of each region's share was 5:3:2, respectively, around 2000, our overseas sales ratio is increasing every year due to the maturation of the Japanese market, caused by a falling birthrate and various other social factors, as well as the increase in the global gaming population combined with the growth of emerging gaming nations. In 2011, sales were 10.1 billion dollars (down 6.5% from the previous year) in North America, 8.9 billion dollars (down 1.1% from the previous year) in Europe and 3.5 billion dollars (down 2.8% from the previous year) in Japan, with foreign markets representing 85% of the overall market. **Diagram 23**

In contrast, the DLC market expanded significantly to 4.3 billion dollars (up 53.6% from the previous year), a result of companies beginning to focus on DLC associated with major titles and the



"Monster Hunter 3 (Tri) G"



"Resident Evil: Operation Raccoon City"



"Street Fighter X Tekken"

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"Onimusha Soul"

advance of global network infrastructure improvements. Consequently, the home video game market is trending higher than the previous year on the combination of package games and DLC.

The PC online game market, with an increase in users due to the rise of new genres such as Facebook and other SNS browser games, grew rapidly to 18.7 billion dollars (up 33.6% from the previous year).

Diagram 24

As for the outlook for the next fiscal year, although Nintendo will release the new game console Wii U and the market will continue to be invigorated by the increase of DLC, time is required before the next generation console cycle begins in earnest. We expect the total market for package games and DLC to decline slightly to 26,000 million dollars (down 3.0% from the previous year).

At the same time, the 2012 PC online game market is forecast to continue expanding to 20,800 million dollars (up 11.2% from the previous year). Improvements to the global network environment and an increase in households with broadband will be the drivers of growth. In addition to the growth in households with broadband from 334 million in 2011 to 442 million by 2016, and the introduction of new channels such as game services using cloud computing, we expect the package game market to expand to over 26,200 million dollars by 2016.

With the package market maintaining a fixed scale and the DLC and PC online markets growing over the medium term, the key for software makers in terms of maximizing earnings is investing each year in various software platforms with proven track records. However, that is only possible for companies that "possess multiple popular major titles" and "a development structure efficient enough to produce year after year". Going forward, the fight for survival among game software manufacturers will surely intensify.

## Operating Results for This Fiscal Year

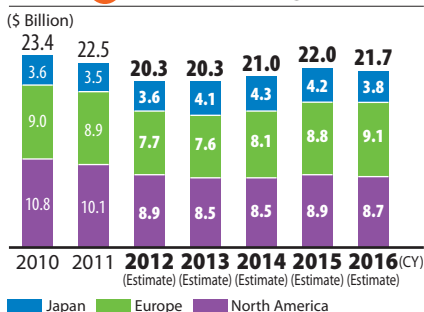
### Release of Three Million-Seller Titles Amidst Lower Sales and Earnings and Decreasing Repercussions from Sale of Several Major Titles Last Year

Capcom's strength in the Consumer Online Games business is threefold. First, we have scores of "long-lasting intellectual properties with universal market appeal" such as million-seller titles and popular characters. Diagram 25 Second, we maintain an "advanced ability to develop original game content" without relying on licenses obtained from external sources. We also possess a "high level of technology", assisted by the "MT Framework", an integrated development environment built to provide common development tools for Xbox 360, PS3, PC, Wii, Nintendo 3DS and PlayStation Vita platforms. Lastly, we have "strong overseas marketing capabilities" as represented by effective sales operations in overseas markets, which are the majority of our markets, with a proper understanding of regional preference for game titles, market characteristics and business practices.

This fiscal year (ended March 31, 2012), sales of home video game major title "Monster Hunter 3 (Tri) G" for the Nintendo 3DS surpassed 1.6 million units, well above the projected number of units. Also, "Resident Evil: Operation Raccoon City"(PS3, Xbox 360), a title created in collaboration with overseas developer Slant Six Games, showed steady growth, shipping 1.7 million units. Meanwhile, "Street Fighter X Tekken" (PS3, Xbox 360), despite oversupply in the fighting genre, sold 1.4 million units, lower than projected, but enough to make it the third million-seller title this year.

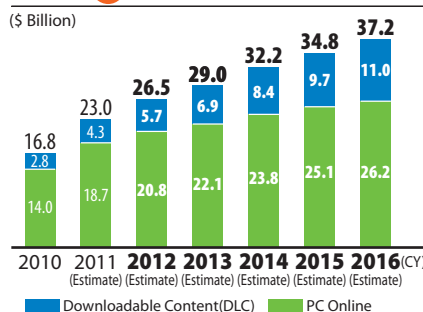
We also released several software tie-ups, including titles derived from popular series "Resident Evil: Revelations" (Nintendo 3DS) and "Ultimate Marvel vs. Capcom 3" (PS3, Xbox 360, PlayStation Vita).

Diagram 23 Home Video Game Software Markets (package)



Source: International Development Group

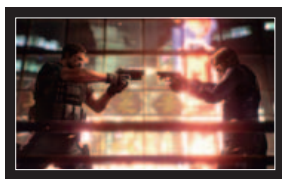
Diagram 24 PC Online and DLC Market



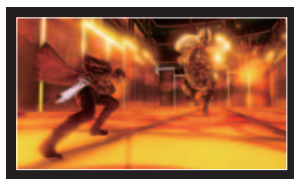
Source: International Development Group

Diagram 25 Total Number of Units of Major Titles Sold (As of March 31, 2012)

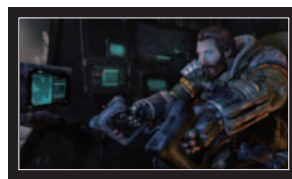
| Major Titles   | Number of Products | Total Number of Units Sold (Thousands) |
|----------------|--------------------|--|
| Resident Evil  | 73 titles          | 49,000                                 |
| Street Fighter | 73 titles          | 33,000                                 |
| Mega Man       | 129 titles         | 29,000                                 |
| Monster Hunter | 21 titles          | 21,000                                 |
| Devil May Cry  | 15 titles          | 10,000                                 |
| Dead Rising    | 11 titles          | 5,300                                  |
| Lost Planet    | 13 titles          | 4,800                                  |
| Ace Attorney   | 16 titles          | 4,300                                  |
| Sengoku BASARA | 21 titles          | 3,100                                  |



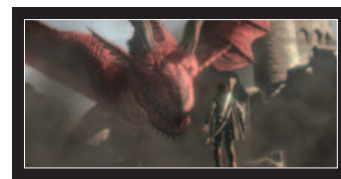
"Resident Evil 6"



"DmC Devil May Cry"



"Lost Planet 3"



"Dragon's Dogma"

We also released a diverse array of elaborately planned software, including new title "Asura's Wrath" (PS3, Xbox 360).

At the same time, online game "Monster Hunter Frontier Online" (PC, Xbox 360) has been consistently popular from start to finish.

In 2011, as a result of repercussions from the global sale of several major titles in the previous year, our market shares in the respective markets where we operate were as follows: Japan 7.6% (down 3.4 points from the previous year), North America 1.5% (down 0.1 points from the previous year) and Europe 0.8% (down 0.8 points from the previous year). **Diagram 26**

Consequently, Capcom released a total of 68 titles and shipped a total of 15.7 million units (down 23.4% from the previous fiscal year). The resulting net sales increased to 53,501 million yen (down 23.9% from the previous fiscal year), and the operating income was 10,502 million yen (down 16.0% from the previous fiscal year).

## Outlook for the Next Fiscal Year

### 4th Million-Seller Game with Flagship Software "Resident Evil 6", Improving Profitability through Aggressive Distribution of Downloadable Content (DLC)

Capcom's medium-term business goal call for expanding our share in the package game market and expanding DLC and PC online game sales—including online content—to 30,000 million yen by March 2015. To achieve this medium-term business goal, in the next fiscal year (ending March 31, 2013), we will continue promoting the business developments begun this fiscal year, namely (1) shorten the series title sales cycle, (2) strengthen online contents, (3) create new franchise and (4) enhance development staff (See P23 "Our Strategy for Growth").

In regards to (1), we will shorten the development period and develop series products in 2.5 years by creating core game elements in-house and outsourcing other operations to outside development companies. In terms of (2), we are aggressively developing the PC online and DLC businesses. In addition to new PC online game titles, we will offer new browser games "Onimusha Soul" and "Browser Sengoku BASARA". We will also consider expanding "Monster Hunter Frontier Online" in Asia. Regarding DLC, in addition to strengthening download sales related to package software, we aim to expand all-around earnings by considering main title download distribution in line with package sales. In regard to (3), we will create new popular next generation franchise, allocating 20% of development investment to new products through efficient development in (1). Regarding (4), we aim to expand the scale of our business through the proactive hiring of 1,000 new employees over the next 10 years.

New titles next fiscal year include the release of "Resident Evil 6", the first new title for this series in three and a half years, "DmC Devil May Cry", "Lost Planet 3" and "Dragon's Dogma".

Furthermore, in consideration of the volatile market environment and our business structure, we will merge the Consumer Online Games and Mobile Contents businesses under the new name Digital Contents business to unify organizational management.

As a result of the aforementioned policy changes, we forecast net sales of 80,000 million yen and operating income of 15,000 million yen for the Digital Contents business next year.

**Diagram 26** Market Share by Region (CY2011 Amount of Sales for Package Software)

#### Japanese Market

| Company name     | Share (%)    |
|------------------|--------------|
| 1. Namco Bandai  | 18.6         |
| 2. Nintendo      | 18.4         |
| 3. Square-Enix   | 9.6          |
| <b>4. Capcom</b> | <b>7.6</b>   |
| 5. Konami        | 6.7          |
| 6. Koei          | 4.7          |
| 7. Sega          | 4.2          |
| 8. Level Five    | 3.9          |
| 9. SCE           | 3.1          |
| 10. Pokemon      | 2.1          |
| Others           | 21.1         |
| <b>Total</b>     | <b>100.0</b> |

Source: Enterbrain, Inc.  
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#### North American Market

| Company name      | Share (%)    |
|-------------------|--------------|
| 1. A              |              |
| 2. B              |              |
| 3. C              |              |
| 4. D              |              |
| 5. E              |              |
| 6. F              |              |
| 7. G              |              |
| 8. H              |              |
| ⋮                 | ⋮            |
| <b>13. Capcom</b> | <b>1.5</b>   |
| <b>Total</b>      | <b>100.0</b> |

Source: The NPD Group/ Retail Tracking Service

#### European (UK) Market

| Company name           | Share (%)    |
|------------------------|--------------|
| 1. Electronic Arts     | 20.1         |
| 2. Activision Blizzard | 13.2         |
| 3. Nintendo            | 9.8          |
| 4. UBI Soft            | 9.3          |
| 5. Microsoft           | 6.1          |
| 6. THQ                 | 5.1          |
| 7. SCE                 | 4.3          |
| 8. Bethesda Softworks  | 4.3          |
| ⋮                      | ⋮            |
| <b>19. Capcom</b>      | <b>0.8</b>   |
| Others                 | 27.0         |
| <b>Total</b>           | <b>100.0</b> |

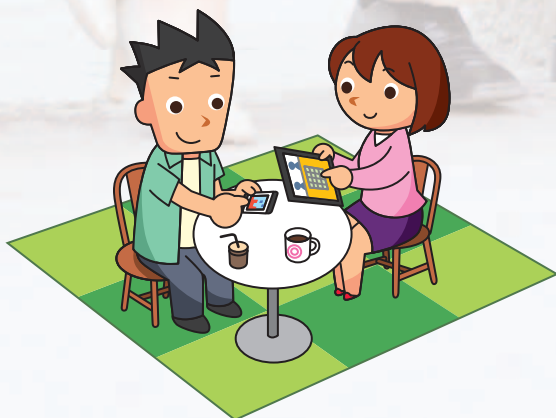
Source: ChartTrack / ELSPA

# Overview of Capcom's Business and Outlook for the Future



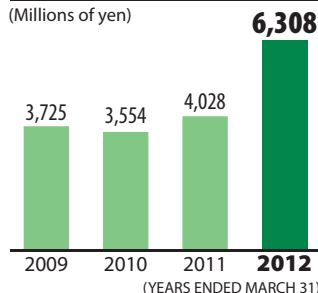
## Mobile Contents

This business segment develops and distributes games for mobile phones. In the high growth mobile content market, we are able to respond flexibly to advances in smart phones and tablet PCs with our own brand titles and licensed content from other companies, enabling us to expand earnings even further.



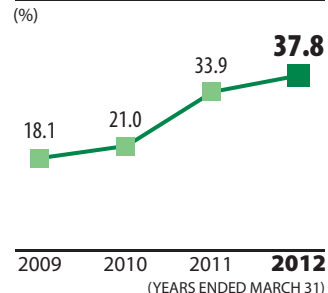
### Net Sales

(Millions of yen)



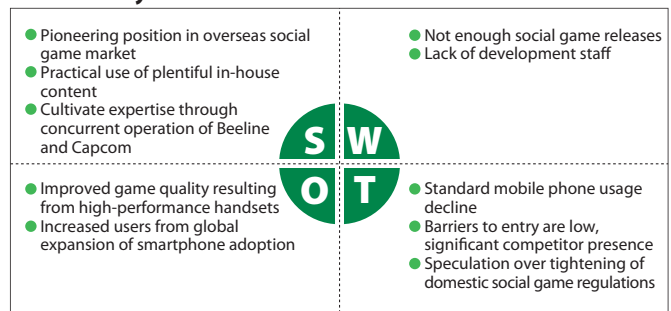
### Operating Margin

(%)



\* In the fiscal year ended March 31, 2011, Capcom restructured its business segment divisions, and as a result, some figures before the fiscal year ended March 31, 2009 have been retroactively adjusted.

### SWOT Analysis



S: Strength W: Weakness O: Opportunities T: Threats

### Market Trends

#### 76.2% Increase in Rapidly Growing Global Mobile Contents Market Chance to Expand Earnings for Companies Possessing Numerous Popular Software Properties

The 2011 mobile contents market achieved significant global growth, increasing to 7,400 million dollars from 4,200 million dollars in 2010 (up 76.2% from the previous year). **Diagram 27** The main reasons for this were (1) the advance of smartphones and other mobile devices in all countries of the world, (2) the rise of high-performance tablet devices and (3) the spread of social games due to the increase in mobile users.

By region, the advanced North American market was worth 1,970 million dollars (up 75.9% from the previous year) and the European market was worth 1,280 million dollars (up 70.7% from the previous year) and the Asian market including Japan was worth 3,230 million dollars (up 77.5% from the previous year). Furthermore, in emerging and Eastern European markets, as well as other areas, the global market grew rapidly to 910 million dollars (up 84.6% from previous fiscal year).

For the past three years, the mobile content market has been in a period of great upheaval. This is because of (1) changes in the ways that users purchase games and (2) changes in development company business models.

With regard to the first point, up to now games were purchased using a "sell-out" model, where the user purchased a single download of their chosen game. Recently, the trend has shifted toward the "Freemium" model, where the game can be downloaded for free, but



Phoenix Wright: Ace Attorney 123HD



Street Fighter IV: Volt



"Smurfs' Village"

© Pezo - 2010 - Licensed through Lafag Belgium - www.smurf.com.  
All game code © 2011 Beeline Interactive, Inc.

a premium is charged for access to additional items and other game content the user may require.

In regards to the second point, for development companies, the standard mobile phone market has been largely unprofitable for two reasons. (a) The OS used for the handsets of each mobile phone company differed, and distributing games across a jumble of disparate networks required transplantation costs, and (b) to distribute games to users required interfacing with several companies (the handset maker, the telecommunications provider, etc.), which led to high fees (50% of sales in the United States and Europe). However, with the introduction of open source operating systems such as Apple's iOS and Google's Android in the smartphone market, (i) development companies are now able to distribute content to a wide range of users with these limited OS platforms without the need for transplantation costs and (ii) with fewer companies to interface with along the way, fees are lower (30% of sales with iOS). As a result, companies possessing numerous notably popular software properties are able to release several leading titles as one part of multiplatform development, expanding opportunities to improve profits. **Diagram 28**

In terms of future outlook, given the global distribution system including Apple's App Store and Google's Google Market Place, Capcom expects smartphone shipments to exceed the 480 million units (up 63.5% from previous year) shipped in 2012. **Diagram 29** Also, the rapid spread of tablet devices is expected to drive expansion in the mobile market as its share grows from 1.9% in 2011 to 34.4% by 2016.

As a result, Capcom expects the mobile content market to grow to 21,000 million dollars in 2016 (an average annual growth rate of 23.2%), growth roughly on track with the home video game market.

Furthermore, in the domestic social game market, although the Japan Consumer Affairs Agency introduced regulation on "complete

gacha" mechanics causing concern the market would shrink, part of the regulation lessened the impact. Formulating guidelines regarding in-game representations, each operating company strengthened voluntary initiatives to improve the game environment and provide users with peace of mind, safety and enjoyment. Capcom expects this market to grow as game developers, no longer dependent on speculation, will continue to provide wholesome and original games.

## Operating Results for This Fiscal Year

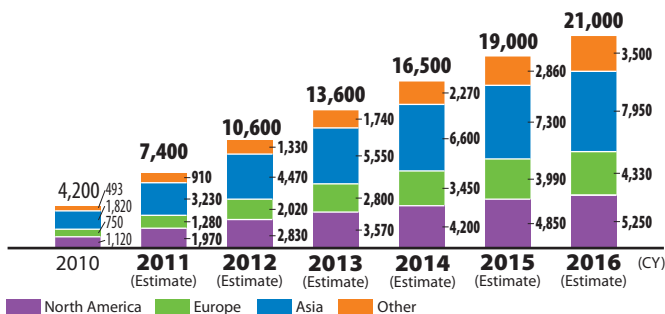
### Beeline and Capcom Brands Doing Well Sales Up 56.6%, Operating Income Up 74.6%

One of Capcom's strengths in the Mobile Contents business is our ability to make effective use of the expertise and content developed through home video games under the Capcom brand, which is then distributed to mobile phones worldwide. Another of our strengths is the ability to acquire light users who differ from traditional Capcom users through the Beeline Brand using popular characters and novel content from other companies in games distributed to smartphones globally.

This fiscal year (ended March 31, 2012) major title "Smurfs' Village" was ranked the App Store's top seller, reaching number one in 80 countries. It continued to perform well as "Snoopy's Street Fair" continued to make a vigorous effort in Japan and Asia. As a result, Capcom's strategic brand Beeline surpassed 56 million downloads worldwide, significantly contributing to increased profitability. **Diagram 30** Also, U.S. subsidiary affiliate Beeline Interactive Inc. became a direct subsidiary of Capcom and we established Beeline Interactive Europe Ltd. in an attempt to strengthen the link between the three development bases and speed up decision making.

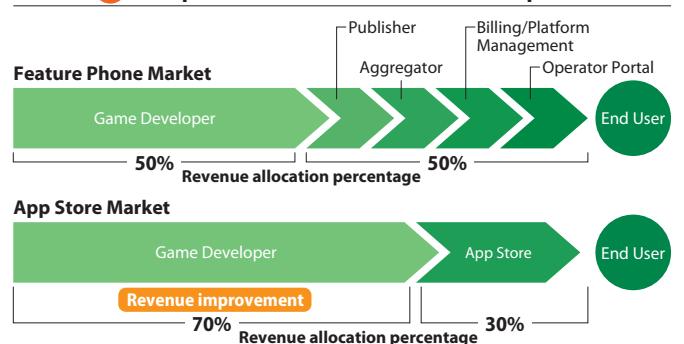
### Diagram 27 Mobile Content Market

(\$ Million)



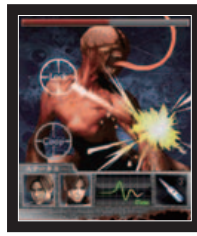
Source: IDG

### Diagram 28 Comparison of Feature Phone and Smartphone Markets

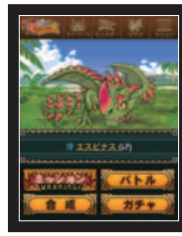




"Snoopy's Street Fair"  
© 2011 Peanuts Worldwide LLC



"Resident Evil: Outbreak Survive"



"Monhan Tankenki Maboroshi no Shima"  
©CAPCOM 2011 developed by gum!



"Minna to Monhan Card Master"  
©CAPCOM developed by gloops



"Shrek's Fairytale Kingdom"  
Shrek and all related characters ©2012 DreamWorks Animation L.L.C. All rights reserved. All game code ©2012 Beeline Interactive, Inc.

At the same time, we integrated the Mobile Contents, Home Video Game and PC Online game development divisions, realizing a more flexible development structure through organizational integration.

"Resident Evil: Outbreak Survive" which began distribution in June 2011 on GREE, a major Japanese mobile phone social game site, "Monhan Tankenki Maboroshi no Shima" released in December (GREE) and "Minna to Monhan Card Master" (Mobage) released in February 2012 have more than one million members each, demonstrating their potential.

As a result, net sales were 6,308 million yen (up 56.6% from the previous fiscal year) and operating income was 2,385 million yen (up 74.6% from the previous fiscal year).

## Outlook for the Next Fiscal Year

### Aiming for 90.2% Sales Growth by Expanding User Numbers in Japan and Overseas, Increasing Number of Beeline and Capcom Brand Titles

Regarding business developments in the next fiscal year (ending March 31, 2013), we will continue to focus on developing content for the smartphone and SNS game markets, where high growth remains the forecast for the foreseeable future both in Japan and overseas.

In terms of strategy, Capcom will (1) expand domestic market share by increasing the number of social games under the Capcom brand and (2) strengthen Beeline's management structure and release major titles targeting a wider customer segment in an aim to intensify relations with existing users and acquire new customers.

The Capcom brand strategy attempts to achieve synergy with home video games through multi-platform development using the brand

power of popular Capcom titles created in Japan. In this way, the mobile version draws the light user to the home version, and the home version draws the core user to the mobile version. Furthermore, Capcom will significantly expand number of social game releases through proactive employment of developers and collaboration with outside companies, and provide content from domestic platforms such as GREE for overseas development. Additionally, Capcom will start developing original content as well as popular home video game content.

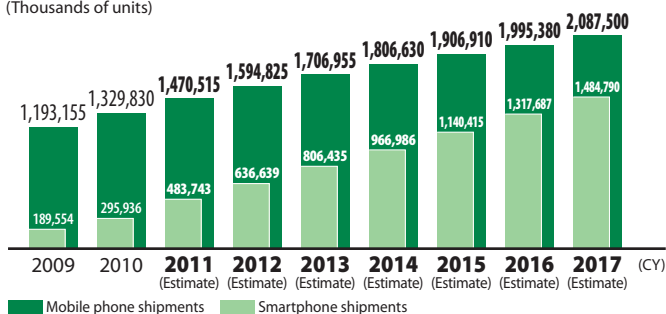
At the same time, Beeline brand strategy will continue to focus on strengthening social games for smartphones. The reason for creating a second brand is because Capcom brand games have an image of difficulty and complexity about them, creating obstacles that would prevent most light users who normally don't play games from purchasing a casual download. Developing a new brand circumvents these obstacles altogether. Furthermore, development facilities in North America, Europe and Japan are developing social games that incorporate distinctive characteristics to acquire users in developing regions where home video game consoles have yet to be adopted. In terms of the title lineup for next year, "Shrek's Fairytale Kingdom", featuring DreamWorks character Shrek, popular in Western countries, and 15 other titles will be released in an attempt to establish a brand like "Smurfs' Village" as soon as possible.

Furthermore, from next fiscal year, in consideration of major changes in market environment and business structure, Capcom will merge the Mobile Contents and Consumer Online Games businesses to create the Digital Contents business.

As a result of these changes, Capcom forecasts sales of 80,000 million yen and operating income of 15,000 million yen in the Digital Contents business next year.

**Diagram 29** Mobile Phone Market Shipments

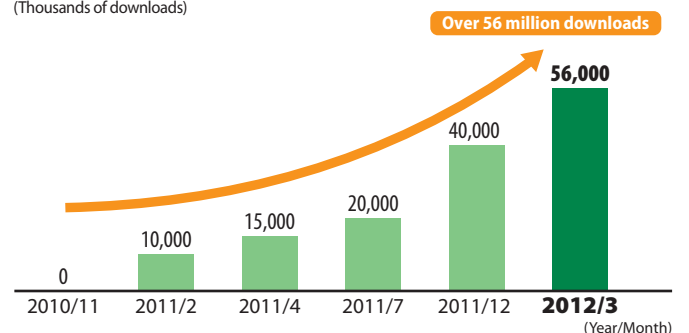
(Thousands of units)



Source: "Results of Smartphone Market-Related Research 2011" by Yano Research Institute Ltd. (July 26, 2012)  
\*1 On a manufacturer shipment basis \*2 Forecasts and estimates are as of June 2011  
\*3 32 countries and one region covered in target region \*4 While smartphones are included in mobile phone market shipment figures, PHS, digital photo frames and tablet PCs are not.

**Diagram 30** Capcom SNS Game Downloads

(Thousands of downloads)



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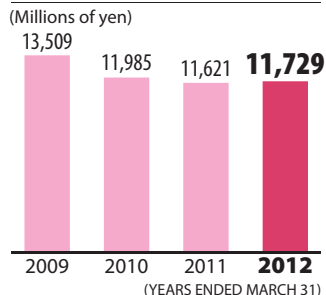


## Arcade Operations

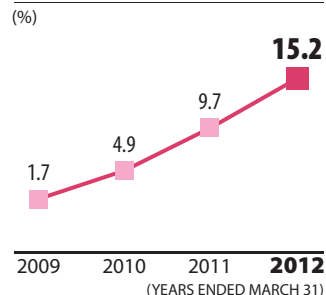
We operate "Plaza Capcom" amusement facilities in Japan. These arcades are predominantly in large commercial complexes and host various events designed to attract families and female customers. We have diligently followed a scrap-and-build policy to maximize our efficiency in arcade operations.



### Net Sales

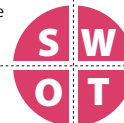


### Operating Margin



### SWOT Analysis

- |  |  |
|--|--|
| <ul style="list-style-type: none"> <li>Specialize in opening mall-based large-scale facilities which secure a stable customer base</li> <li>Thorough scrap-and-build focused on investment efficiency ensure sustainable earnings</li> </ul> | <ul style="list-style-type: none"> <li>Low sales growth from small number of carefully selected facilities</li> <li>Little synergy with proprietary contents</li> </ul>                            |
| <ul style="list-style-type: none"> <li>Expanded ability to attract customers through installation of new machines</li> <li>Hedges risks through inverse relationship to home video game market</li> </ul>                                    | <ul style="list-style-type: none"> <li>Reduced desire to consume resulting from natural disasters or brownouts</li> <li>Decline in number of suburban mall-based large-scale facilities</li> </ul> |



S: Strength W: Weakness O: Opportunities T: Threats

### Market Trends

**Market Declines Slightly by 1.7%, Near Last Year's Level on Inexpensive, Nearby and Short-Duration Leisure Activities Market Has Stabilized from Stronger Management of Each Company's Existing Facilities**

During the previous fiscal year (ended March 31, 2011), the number of facilities decreased after the domestic arcade facility market contracted for three straight years, its value decreasing to 495.8 billion yen (down 1.7% from the previous year); the rapid decline, which started in fiscal 2007 and lasted for three years has temporarily ceased. **Diagram 31** Facilities decreased slightly to 18,638 locations (down 3.0% from the previous year). **Diagram 32**

This fiscal year (ended March 31, 2012) despite the voluntary restraint resulting from the Great East Japan Earthquake of March 2011 and its impact on consumer consciousness, inexpensive, nearby and short-duration leisure activities fueled the renewal of arcade facilities. However, electricity conservation from summer resulted in shorter hours of operation and flagging popularity of prizes, resulting in a market nearly the same as last year.

In terms of outlook for the future, concerns over planned power outages in certain areas and repercussions from last year's expansion of short-distance leisure cannot dispel the uncertainties. However, closing unprofitable facilities and augmenting investment in existing facilities, we expect to secure about the same level of investment in the development of new products as last year as the market stabilizes.



Plaza Capcom Oita



Plaza Capcom Morioka



Plaza Capcom Omagari



Plaza Capcom Ishinomaki

## Operating Results for This Fiscal Year

### Net Sales Up 0.9%, Operating Income Up 58.0%, Achieved First Increase in Sales and Profits in Three Years by Establishing Customer-Oriented Community-Based Facilities

Capcom's strengths in this business category are: (1) specialization in opening mall-based large-scale facilities that quickly secure a long-term stable customer base, (2) the planning and operation of sales venues popular with customers and (3) the ability to maintain higher profitability than the competition by selling or shutting down unprofitable facilities to raise return on investment.

In this fiscal year, we held various events, updated existing facilities and implemented a "service day" in an attempt to create new demand, establishing customer-oriented community-based facilities. Furthermore, in addition to holding arcade experience tours for people 50 years and older, Capcom also worked to expand its customer base to include female, family and older-generation customers, while endeavoring to improve the earning capacity by controlling investments, reducing costs, and operating arcades in line with current market conditions.

Despite a slowdown in customer traffic and intensification of competition with other game consoles including smartphones, with which there is an overlap of the customer base, sales per customer increased as a result of these measures, along with the contribution mainly of proprietary coin-operated games.

In the absence of closing or opening of arcades during the current period, the total number of arcades remained the same as the end of the previous fiscal period at 37.

Achieving 101% of previous year existing store sales, net sales increased to 11,729 million yen (up 0.9% from the previous year) and

operating income increased to 1,787 million yen (up 58.0% from the previous year), the first increase in sales and earnings in three years.

## Outlook for the Next Fiscal Year

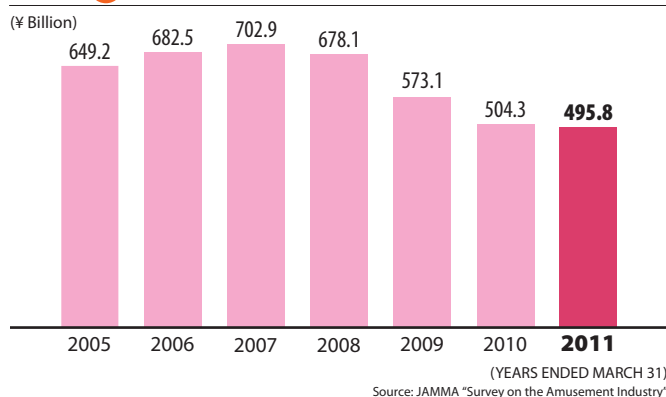
### Thorough and Efficient Facilities Management, Closure of Unprofitable Facilities Increased Capital Expenditure Improves Earnings, Forecasting Operating Margin of 15.8%

Next fiscal year (ending March 31, 2013), although the arcade facilities market will likely bottom out, it will take time for a full-fledged recovery from the repercussions of the uptick in inexpensive, nearby and short-duration leisure activities after the earthquake disaster. Capcom will ensure profits through the continued efficiency of its management structure. We also aim to improve the earnings of existing facilities by increasing the amount of capital expenditure and carefully selecting existing facilities for upgrades and machines for investment.

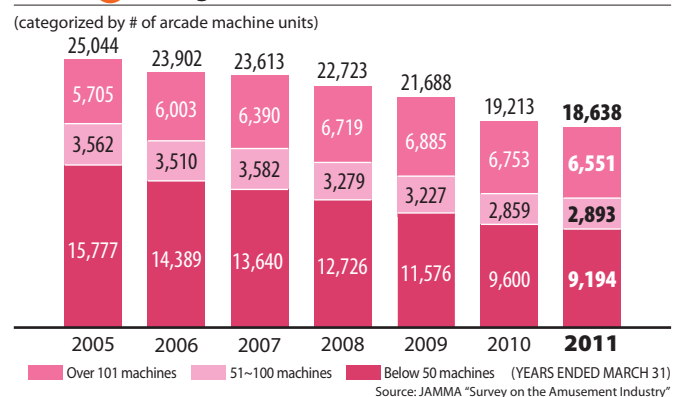
In terms of the opening and closing of facilities, we will further strengthen efficient facilities and close unprofitable ones, while moving forward with the establishment of new facilities in areas with a high concentration of customers to establish new revenue streams. In the next fiscal year, we plan to open two new facilities, and close three old ones.

We forecast net sales of 12,000 million yen and operating income of 1,900 million yen in the next fiscal year.

**Diagram 31** Arcade Facilities Market Trends



**Diagram 32** Change in Number of Storefronts





# Overview of Capcom's Business and Outlook for the Future

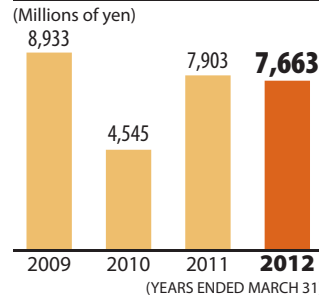


## Amusement Equipments

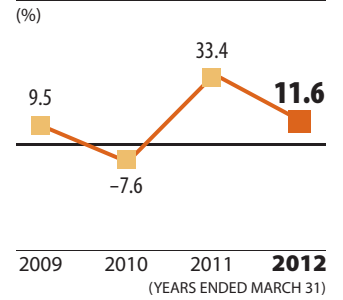
We are engaged in two other businesses based on the content used for our home video games. The Pachinko & Pachislo business is involved in the development, manufacture and sales of frames and LCD devices for gaming machines as well as software. The Arcade Games Sales business develops, produces and distributes arcade games for amusement facilities, creating synergy between businesses.



### Net Sales



### Operating Margin



\* In the fiscal year ended March 31, 2011, Capcom restructured its business segment divisions, and as a result, some figures before the fiscal year ended March 31, 2009 have been retroactively adjusted.

### SWOT Analysis

|   |   |
|---|---|
| <ul style="list-style-type: none"> <li>High quality development capabilities cultivated through home video games</li> <li>Multiple usage of plentiful in-house content</li> <li>Ability to observe real time market movements through company-owned arcades</li> </ul>        | <ul style="list-style-type: none"> <li>Lack of title lineup</li> <li>Low probability of hit machines due to lack of development expertise</li> </ul>  |
| <ul style="list-style-type: none"> <li>Market recovery via introduction of popular machines</li> <li>Market expansion through network and 3D and other new technologies</li> <li>Market recovery from relaxation of regulation on business affecting public morals</li> </ul> | <ul style="list-style-type: none"> <li>Declining operator investment appetite</li> <li>Long-term market stagnation</li> <li>Market fluctuations resulting from changes to regulation on business affecting public morals</li> </ul> |

S: Strength W: Weakness O: Opportunities T: Threats

### Market Trends

#### Pachinko Machine Market Contracts by 10.0%, Pachislo Machine Market Expands 26.9% and Arcade Game Market Bottoms Out, Heads for Recovery

The Amusement Equipments business consists of two businesses that develop the content of our home video games, the Pachinko & Pachislo business and the Arcade Games Sales business.

The size of the Pachinko & Pachislo sales market during the previous fiscal year (ended March 31, 2011) contracted slightly to 1173.6 billion yen (down 3.1% from the previous year). **Diagram 33** This was primarily due to significant contraction in the Pachinko machine market, which accounts for 60-70% of the market.

During this fiscal year (ended March 31, 2012), in accordance with the modification to the gaming aspect of Pachinko machines under the "Regulations on the Entertainment and Amusement Trades Rationalizing Act" revised in 2004, although the market has until now continued to focus on decreasing Pachislo and increasing Pachinko, with Pachinko machine oversupply and the greatly improved operational experience of Pachislo machines, the Pachislo machine backlash continues.

In terms of the outlook for the future, with respect to Pachislo machines, the arrival of major hit machines selling over 50,000 units, as well as the development of cases that meet market needs stimulating purchase intention of Pachislo halls, we expect the market to be revitalized.

Next, in the previous fiscal year, in line with the bottoming out of the amusement facilities market, the arcade games domestic product sales market surpassed the previous year for the first time in four years, growing to 161.6 billion yen (up 3.2% from the previous year) . **Diagram 34** By genre, prize game machines (accounting for 20.4% of the market),



"Super Street Fighter IV"



"Monster Hunter"

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©Sammy ©RODEO



"CR Sengoku BASARA 3  
—Sekigahara Battle—"

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"Monster Hunter Medal Hunting"



"MONHAN NIKKI SUGOROKU  
AIRU MURA"

which are easily affected by the economy, increased to 32.9 billion yen (up 9.3% from the previous year). Other factors affecting market recovery were coin-operated games (accounting for 18.9% of the market), which grew to 30.6 billion yen (up 5.9% from the previous year). In this fiscal year, the market is nearly on track with last year due to the return of facility operators' need for capital expenditure and additional customers from the release of popular character-themed products.

In terms of the outlook for the future, although there is apprehension over repercussions from inexpensive, nearby and short-duration leisure activities that intensified after the earthquake, with new prize products and coin-operated game machines, as well as the release of network machines, a gentle recovery should be on the way.

### Operating Results for This Fiscal Year

#### Repercussions from Last Year Lower Pachislo Machine Profitability, "Monster Hunter" Series Arcade Games Doing Well

Capcom's strength in this business is our ability to maintain high profitability through the multiple usage of our wealth of intellectual properties in a variety of areas.

In the Pachinko & Pachislo business, Capcom develops attractive software featuring our proprietary content along with that of other companies, using our technological expertise in high-resolution image processing cultivated through the development of home video games is our strength. In the P&S business this fiscal year, sales of approximately 7,000 "Street Fighter IV" Pachislo machines with cases created in house and favorable sales of outsourced Pachislo machine "Monster Hunter" contributed to earnings. However, margins were lower compared to the high margins of last year's cases developed in-house.

Making use of the high awareness of Capcom content, the strength of the Arcade Games Sales business is the ability to develop coin-operated game machines that anticipate steady sales by meeting stringent market needs. This fiscal year, although the effect of the Great East Japan

Earthquake has impacted consumer consciousness, the Arcade Games Sales business is heading in a favorable direction on arcade invigoration from inexpensive, nearby and short-duration leisure activities and brisk sales of "Monster Hunter" branded coin-operated game machine "Monster Hunter Medal Hunting" and "MONHAN NIKKI SUGOROKU AIRU MURA". Capcom also promoted cost reductions and rationalization across all businesses.

The resulting net sales increased to 7,663 million yen (down 3.0% from the previous fiscal year), and the operating income was 890 million yen (down 66.2% from the previous fiscal year).

### Outlook for the Next Fiscal Year

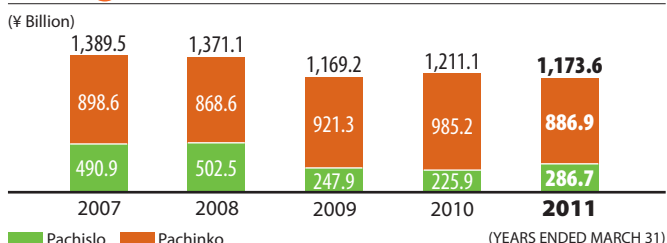
#### P&S business to Strengthen Sales of Outsourced and In-House Cases Arcades Games Sales to Concentrate on the Popular Content of Coin-Operated Games

Next fiscal year (ending March 31, 2013), P&S business developments will include the release of a higher number of Pachislo machines as a result of increased demand for Capcom's specialized machines fitted with LCD screens. High performance hardware and a spike in promotion expenses are intensifying competition among companies, resulting in further polarization. In light of this, Capcom will (1) expand the consignment business which is expected to contribute stable profits, (2) enter into an alliance with the Fields Corporation to enhance development capabilities and strengthen sales network and (3) introduce major popular home video game contents in an aim to increase the number of outsourced and in-house cases sold.

At the same time, although the market has bottomed out, in the Arcade Games Sales business facility operators will continue to be cautious about the selection and concentration of their investments. Capcom will focus on the development of coin-operated games using popular in-house and well-known content from other companies in an attempt to differentiate from other company's products.

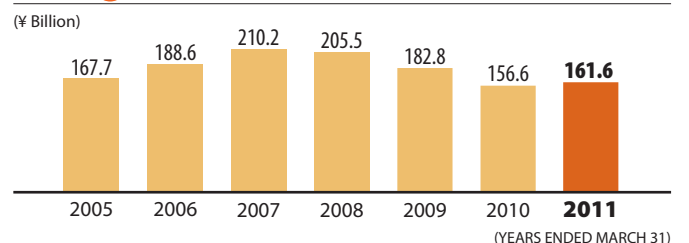
As a result of these measures, we forecast net sales of 10,000 million yen and operating income of 2,300 million yen.

**Diagram 33 Major Gaming Machines Market (New Machine Sales)**



Source: Manufacturer sales base compiled by Capcom using Pachinko Maker Trends (2009-2011); Yano Research Institute Ltd.

**Diagram 34 Arcade Game Market Trends**

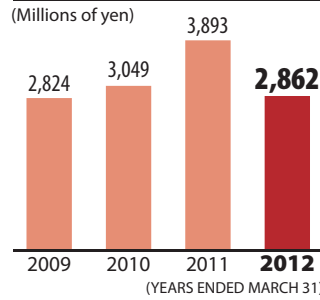


Source: JAMMA "Survey on the Amusement Industry"

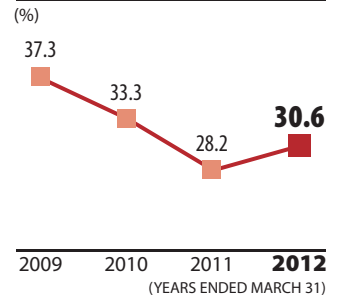
# Overview of Capcom's Business and Outlook for the Future



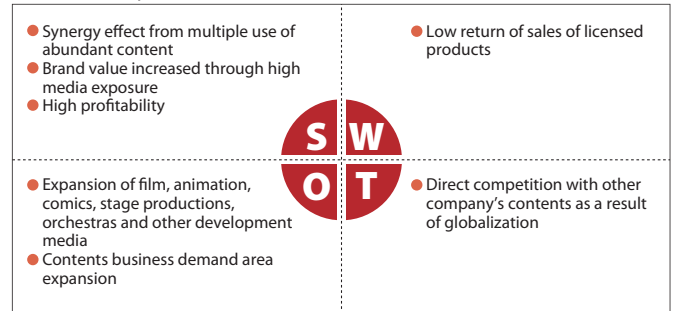
## Net Sales



## Operating Margin



## SWOT Analysis



S: Strength W: Weakness O: Opportunities T: Threats

## Other Businesses

Based on a Single Content Multiple Usage strategy of developing game content for various media, we will pursue a variety of copyright-related business opportunities including publishing (walkthrough and strategy guides as well as game settings collections) and licensing (music CDs and licensed merchandise). Furthermore, we are concentrating on developing game content into movie and TV animation programs.



## Operating Results for This Fiscal Year

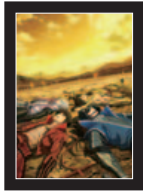
### Despite Progress on Several Projects Involving Popular Series, Fewer Major Game Titles Compared to Last Year Resulted in Lower Sales and Profits

Capcom's strength in this category is its ability to take advantage of the strong synergy with the Home Video Games business by making multifaceted use of its abundant intellectual properties. In particular, the brand value of our movie-related business has risen through extensive media exposure. This leads to greater sales of video game software, completing a virtuous sales cycle.

During this fiscal year (ended March 31, 2012), we continued to execute our Single Content Multiple Usage strategy (see "Growth Strategy 3" on P29), conducting various projects based on each game title to enhance the branding of our game content and maximize profits.

These projects were implemented across all business segments, with each division involved in the launch of arcade games, mobile content, walkthrough and strategy guides and character goods, as well as movie and TV animation programs and other events in connection with the release of our home video games. [Diagram 35](#)

Specifically, we focused on increasing the "film version of Capcom contents", which strengthens the promotion and sales of home video games. Although other Japanese software manufacturers have made similar moves, the number of Capcom game titles adapted into movies and the attendant box-office revenues demonstrate our clear competitive advantage in this area. [Diagram 36](#) This success is a result of (1) our strength in creating original content, underpinned by owning more proprietary content than our competitors and (2) the global popularity



"Sengoku BASARA  
—The Last Party—"  
©CAPCOM/TEAM BASARA



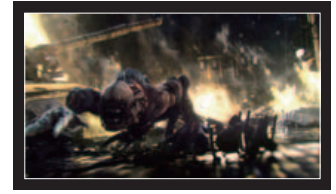
"Ace Attorney" Movie  
©2012 CAPCOM / "Ace Attorney"  
FILM PARTNERS



"Monster Hunter The Real"



"Resident Evil: Retribution"  
©2012 Screen Gems, Inc. All Rights Reserved.



"Resident Evil: Damnation"  
©2012 CAPCOM CO., LTD. / Resident Evil CG2 Film Partners

of our titles, which are suitable for adaptation into movies for global distribution.

For example, movies that received a great response were "Sengoku BASARA -The Last Party-" drew 210,000 viewers and earned 300 million yen at the box office; in February 2012, the release of the film version of "Ace Attorney" drew 405,000 people and earned 520 million yen at the box office.

Ahead of the release of "Monster Hunter 3 (Tri) G", Capcom held a "Monster Hunter Festa '11" in six cities across Japan and engaged in aggressive promotion activities at amusement park Greenland (Kumamoto Prefecture), Universal Studios Japan (USJ, Osaka) and held related events at the hot spring resort Shibu in Nagano Prefecture.

Furthermore, Capcom made efforts to expand its fan base with a Tokyo Philharmonic Orchestra concert and the opening of the Capcom Bar offering game-related food and drinks.

Capcom is also moving forward with a number of multi-development projects including "Resident Evil", "Street Fighter", "Devil May Cry" and "Dead Rising". Given the above, as well as lower sales of walkthroughs and related products resulting from the lack of major titles compared to the previous fiscal year, net sales increased to 2,862 million yen (down 26.5% from the previous fiscal year), and the operating income was 877 million yen (down 20.1% from the previous fiscal year).

## Outlook for the Next Fiscal Year

### Accelerating Collaborations with Other Industries in Pursuit of Synergy between Hollywood Movies and Home Video Games

Looking ahead to the next fiscal year (ending March 31, 2013), we will continue to execute our Single Content Multiple Usage strategy. We will attempt to maximize sales of home video games and promote the "Resident Evil" brand to a wide spectrum of the customer segment with the global release of "Resident Evil 6", Hollywood movie "Resident Evil: Retribution" and CG animation "Resident Evil: Damnation". Also we will continue to try new ideas, including a tie-up with a real escape game and the opening of an official "Resident Evil" restaurant.

As for titles in Japan, we will continue to hold plays and fan appreciation events in addition to the "Sengoku BASARA" television drama. Capcom will also continue the "Monhan" movement with "Monster Hunter" orchestral concerts and a second USJ event in an attempt to develop various events for the casual user.

Functioning as horizontal deployment for game content, these cross-industry collaborations enable our products to reach a wider audience and enhance our brand value.

In light of these efforts, we forecast net sales in the next fiscal year of 3,000 million yen and operating income of 800 million yen.

### Diagram 35 List of Our Content that Has Been Adapted into Movies and Theatrical Productions

| Category              | Date                  | Production Type            | Content Title   |
|-----------------------|-----------------------|----------------------------|---|
| Movie                 | Aug. 1994             | Animated movie             | Street Fighter II   |
|                       | Dec. 1994             | Hollywood movie            | Street Fighter  |
|                       | Mar. 2002             | Hollywood movie            | Resident Evil   |
|                       | Sep. 2004             | Hollywood movie            | Resident Evil: Apocalypse                                   |
|                       | Mar. 2005             | Animated movie             | Mega Man Battle Network                                     |
|                       | Nov. 2007             | Hollywood movie            | Resident Evil: Extinction                                   |
|                       | Oct. 2008             | CG movie                   | Resident Evil: Degeneration                                 |
|                       | Feb. 2009             | Hollywood movie            | Street Fighter: The Legend of Chun-Li                       |
|                       | Aug. 2010             | Movie                      | ZOMBREX DEAD RISING SUN                                     |
|                       | Sep. 2010             | Hollywood movie            | Resident Evil: Afterlife 3D                                 |
|                       | Jun. 2011             | Animated movie             | Sengoku BASARA -The Last Party-                             |
|                       | Feb. 2012             | Movie                      | Ace Attorney  |
| Sep. 2012             | Hollywood movie       | Resident Evil: Retribution |   |
| Oct. 2012             | CG movie              | Resident Evil: Damnation   |   |
| TV animation          | Apr. 1995             | TV animation               | Street Fighter II V   |
|                       | Mar. 2002             | TV animation               | Mega Man Battle Network                                     |
|                       | Oct. 2004             | TV animation               | Viewtiful Joe   |
|                       | Oct. 2006             | TV animation               | Mega Man Star Force   |
|                       | Jun. 2007             | TV animation               | Devil May Cry   |
|                       | Apr. 2009             | TV animation               | Sengoku BASARA  |
|                       | Jul. 2010             | TV animation               | Sengoku BASARA2   |
|                       | Aug. 2010             | TV animation               | MONHAN NIKKI GIRIGIRI AIRU MURA KIKI IPPATSU                |
|                       | Jul. 2011             | TV animation               | MONHAN NIKKI GIRIGIRI AIRU MURA G                           |
|                       | Autumn 2012           | TV animation               | IXION SAGA DT   |
| Theatrical production | Feb. 2009             | Takarazuka Revue Company   | Phoenix Wright: Ace Attorney - The Truth Comes Back to Life |
|                       | Jul. 2009             | Theatrical production      | Sengoku BASARA  |
|                       | Aug. 2009             | Takarazuka Revue Company   | Phoenix Wright: Ace Attorney 2                              |
|                       | Apr. 2010             | Theatrical production      | Sengoku BASARA Stage Adaptation second stage                |
|                       | Oct. 2011             | Theatrical production      | Sengoku BASARA: Samurai Heroes                              |
| May 2012              | Theatrical production | Sengoku BASARA 2           |   |
| TV drama              | Jul. 2012             | TV drama                   | Sengoku BASARA -MOONLIGHT PARTY-                            |

### Diagram 36 Revenue Ranking of Japanese Game Content that Has Been Adopted into Movies

| Title                                     | Original writer company | Box-office revenue (worldwide) |
|---|-------------------------|--------------------------------|
| 1. RESIDENT EVIL: AFTERLIFE 3D            | Capcom                  | \$296,221,663                  |
| 2. RESIDENT EVIL: EXTINCTION              | Capcom                  | \$147,717,833                  |
| 3. RESIDENT EVIL: APOCALYPSE              | Capcom                  | \$129,394,835                  |
| 4. RESIDENT EVIL                          | Capcom                  | \$102,441,078                  |
| 5. STREET FIGHTER                         | Capcom                  | \$99,423,521                   |
| 6. SILENT HILL                            | Konami                  | \$97,607,453                   |
| 7. FINAL FANTASY: THE SPIRITS WITHIN      | Square                  | \$85,131,830                   |
| 8. SUPER MARIO BROS.                      | Nintendo                | \$20,915,465                   |
| 9. HOUSE OF THE DEAD                      | Sega                    | \$13,818,181                   |
| 10. STREET FIGHTER: THE LEGEND OF CHUN-LI | Capcom                  | \$12,764,201                   |

As of June 30, 2012. (Capcom figures)