

CEO Commitment



Kenzo Tsujimoto

Chairman and
Chief Executive Officer (CEO)

To Create the World's Most Entertaining Games
**With a Solid Management Foundation and Capabilities,
 We Aim to Enhance Corporate Value through Content Branding**



Five Elements Required for Sustainable Corporate Value Enhancement

I think a manager's corporate social responsibility is exceedingly simple: by setting up a business and employing people, you grow your company, earn profit, pay taxes and then provide dividends; this allows you to build a relationship of co-existence and co-prosperity with stakeholders, and allows the Company to continue on.

I believe the perpetuation of this cycle leads to the sustainable enhancement of corporate value. However, this requires the incorporation of five elements: **1** a corporate philosophy and culture that fosters the

ambitions and values set out at our founding, **2** human resources that are passionate about growing the Company, **3** business advantages that leverages the Company's competitiveness, **4** management strategy that quickly responds to market changes and **5** governance (ESG) that facilitates risk control.

On the following pages, I will explain to our shareholders how we are favorably positioned in each of these five elements that facilitate sustainably enhancing corporate value.



CEO Commitment

Elements for Enhancing Corporate Value **1** Corporate philosophy and culture **2** Human resource capabilities **3** Business advantages

Our Three-Tier Management Foundation is the Bedrock of our Competitive Advantage

Corporate Philosophy and Culture— We Value the Ambition to be the Best in the World

Capcom’s basic philosophy is to create an entertainment culture through the medium of games by developing highly creative content that excites and stimulates the senses. In other words, we help build an emotionally rich society by creating entertainment culture with the world’s most entertaining games.

➔ For details, please refer to “Corporate Philosophy” on page 02

In 1983, I founded Capcom under the motto of “originality and ingenuity” with the vision of developing games people would find entertaining; in a word, I wanted to create games of world-class quality. Underpinning this was my belief that increasingly sophisticated graphics and more immersive worlds would eventually make games as moving and impressive as a Disney film.

34 years later, I have amassed more than 2,800 colleagues who share this vision. These values have become our corporate culture and DNA, with (1) a spirit that is always eager to take on new challenges and (2) a sense of pride to constantly strive to be world-class deeply ingrained in every Capcom employee.

Again and again, we have been able to produce unique series, including *Street Fighter*, *Resident Evil* and *Monster Hunter* because of the fertile soil of a corporate culture cultivated over many years.

Human Resource Capabilities— A Sincere and Unwavering Spirit

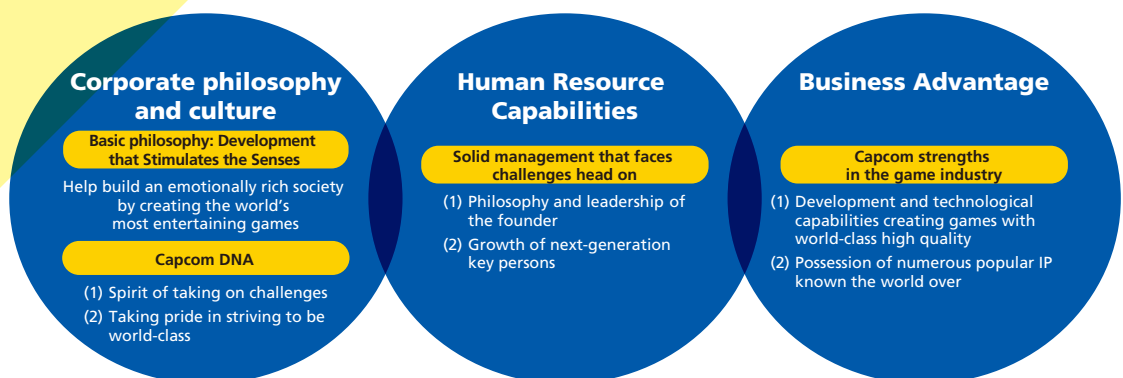
Within corporate management, people’s character and spirit are important management resources that have a substantial impact on corporate value. In last year’s integrated report, I discussed my management philosophy and capabilities as founder, demonstrated by: (1) realizing the ambitions I had for Capcom at its founding to create multiple worldwide major hit titles and (2) persevering until we succeed, establishing both earnings growth and earnings volatility control since our founding.

➔ For details, please refer to “Capcom Management Resource VRIO Analysis and Evaluation/Measures” on page 76

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 for the next-generation?

Key people for the next-generation are President Haruhiro Tsujimoto and Executive Corporate Officer Yoichi Egawa. Both have the qualities necessary for management. For example, even when Capcom was a small business, President Tsujimoto was on hand as a member of the founding family, working with the sense of responsibility and self-awareness inherent in a family-run operation. Even after becoming president, he never rested on his laurels: leveraging his diligence and sincerity, he went on to establish the Arcade Operations business, while also taking pains to utilize

Diagram 01 Three-Tier Management Foundation



our content across multiple mediums. As for Executive Corporate Officer Egawa, who joined Capcom right after its founding, he has a track record of delivering results: from working on the development of CP system boards to establishing the Pachinko & Pachislo and Mobile businesses, he has led R&D with an attitude of never running away, never giving up—no matter how tough the circumstances.

These two distinct individuals were also thoroughly trained by me, and when combined with the corporate culture we have cultivated over many years with the aforementioned approach to visualizing management, I think we have in place a robust team in whose management style long-term investors can place their trust.

**Business Advantages—
Two Competitive Barriers**

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

world over. [➔For details, please refer to "Capcom Management Resource VRIO Analysis and Evaluation/Measures" on page 76](#)

Combining these strengths with our capital and the relationships of trust we have with hardware manufacturers creates significant competitive advantages (profitability) in the Consumer sub-segment. Against this backdrop, in the consumer market, technological standards and development costs rise with each hardware cycle, while the life of major titles has grown longer and models for capturing user time and spending have come to predominate. [➔For details, please refer to page 44](#)

Furthermore, while strictly speaking not a competitive advantage per se, in sub-segments other than Consumer our rollout of popular IP across multiple mediums contributes to stable earnings. Moreover, if we make use of our strengths in the Mobile Contents sub-segment, there is a potential for it to become a core business in the future, thus we will continue to treat it as a management priority issue. [➔For details, please refer to "Growth Strategy" on page 29](#)

Elements for Enhancing Corporate Value **4** Management Strategy

Increasing Fans of Capcom IP via Strategic Shift to Recurring Revenue Model

1. Summary of Former Medium-Term Goals

Up to now, we had aimed for operating income of 70.0 billion yen for the cumulative five-year period ending on March 31, 2018, and an operating margin of 20% in the fiscal year ending March 31, 2018 as our medium-term goals.

Our current forecast calls for operating income of 61.0 billion yen for the cumulative five-year period and an average operating margin of 14.4%, both of which are solid improvements over the previous two cumulative five-year periods.

However, we will fall short of our cumulative

Diagram 02
Cumulative Five-Year Operating Income and Operating Margins (Billions of yen)

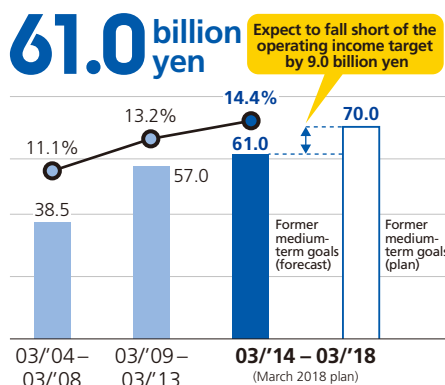


Diagram 03
Operating Income by Business Segment (Cumulative Five-Year) (Billions of yen)

	Medium-term goals				Compared to previous fiscal year	Compared to goal
	03/'04 – 03/'08	03/'09 – 03/'13	03/'14 – 03/'18	03/'14 – 03/'18		
Digital Contents	28.0	59.5	51.6	57.0	-7.9	-5.4
Arcade Operations	9.8	5.4	4.7	8.5	-0.7	-3.8
Amusement Equipments	13.2	8.9	21.6	20.0	12.7	1.6
Other Businesses	1.1	4.8	4.5	5.5	-0.3	-1.0
Adjustment	-13.6	-21.6	-21.4	-21.0	0.2	-0.4
Total	38.5	57.0	61.0	70.0	4.0	-9.0

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operating income target by 9.0 billion yen. [Diagram 02]

Breaking down causal factors by business segment [Diagram 03], in the Amusement Equipments business, by expanding our pachislo lineup and strengthening our sales structure, we were able to significantly exceed the profit level (1.6 billion yen over the target) of the previous ten years when we focused on the consignment business. The Digital Contents business made contributions through concentrating on in-house development of Consumer games and improving our download ratio. At the same time, although we focused efforts on in-house development to acquire Mobile management know-how, these efforts did not bear fruit. PC Online in-house development and alliances in Asia also failed to meet expectations, resulting in our falling short of the target by 5.4 billion yen. In the Arcade Operations business, we felt the impact of consumption tax hikes beginning in April 2014, resulting in lower earnings per customer and increased costs due to tax increases, causing us to miss targets by 3.8 billion yen.

Next, regarding the operating margin in the fiscal year ending March 31, 2018, we have been able to improve margins and maintain them in the mid-15% range, however this will put us 4.3% under the target. Similar to the reasons we failed to achieve operating income targets, the challenging conditions faced by our individual businesses were a factor. On the other hand, we have been flexibly making development and business investments for the future beyond those in our plans in order to achieve sustainable growth. For example, even if the construction of R&D Building #2 (increase in amortization expenses) and the hiring of more than

100 new graduates each year (lower productivity) impacts current margins, these were positioned as upfront investments executed to increase profits stably in the future.

In summation, we have made significant strides toward establishing the foundation for our core Consumer business to be a future driver of growth. This leaves us with the issue of the Mobile business, which can become the next pillar of growth.

Given the above, we have rescinded our previous medium-term business goals, and will work toward new medium-term business goals going forward.

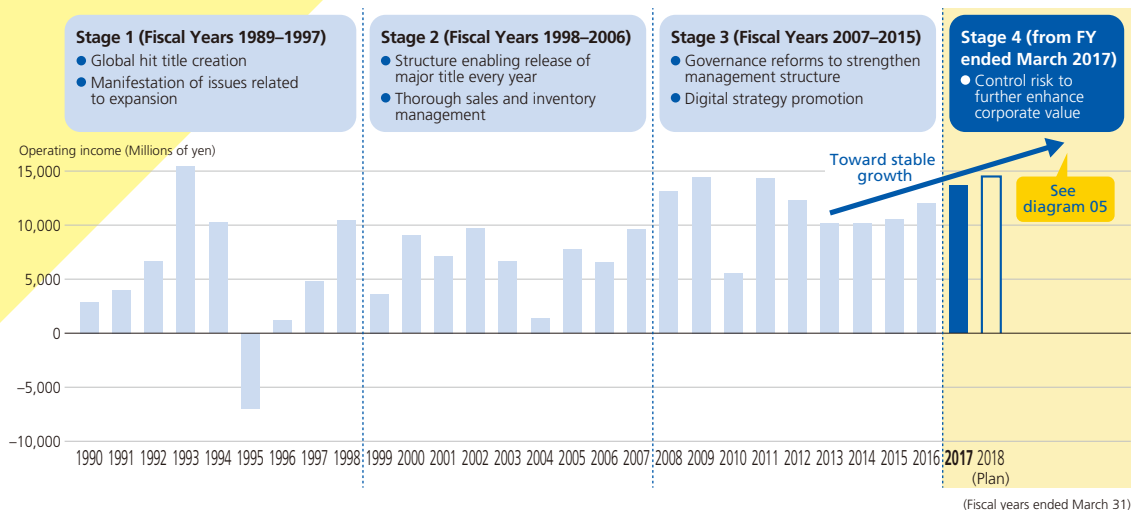
2. Establishment of New Medium-Term Goals (1) Management Direction

Capcom management policies are to (1) create exciting, world-class content (IP), (2) maximize earnings by leveraging our rich library of IP across multiple platforms and media and (3) maintain these activities to become a continuous sustainable growth company.

(2) Management Goals

We have established operating income growth each fiscal year as the KPI 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 build-up model of stable growth. 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

Diagram 04
Four Management Stages and Operating Income Trends



a specific rate of increase, but we are considering a profit growth rate between 5%–10%. [\[Diagram 05\]](#)

(3) Management Strategy

We are currently in the fourth stage (beginning in fiscal year ended March 31, 2017), which is the culmination of my experience as a manager. The main theme now is controlling risks to further enhance corporate value as a sound growth strategy. [\[Diagram 04\]](#)

As a manager, I classify corporate risks into two main categories: earnings volatility risks and management decision risks. First I would like to discuss the control of earnings volatility risks.

To mitigate earnings volatility risks over the medium-to long-term, measures enabling sustainable growth must include (1) transforming the foundation of our Consumer business model from a traditional one-time sale “transactional model” to a continuous “recurring revenue model” and (2) creating a business portfolio and diversifying earnings risks by thoroughly leveraging Capcom’s basic strategy, Single Content Multiple Usage. [\[Diagram 05\]](#)

Historically, earnings in Capcom’s core Consumer business fluctuated depending on whether or not we created hit titles. Although we achieved some success (controlled earnings volatility) through timing the releases of multiple hit titles in the past, it did not meet my objectives for stable growth. However, since 2013, game consoles have been equipped with robust online functionality, enabling us to develop growth strategies around digital.

Specifically, new titles [\[Diagram 05-A\]](#) will work as

growth drivers as we (1) release approximately three major titles each year, (2) extend the sales life of the full game and additional digital downloads to 3–4 years, and (3) strengthen our presence overseas, which comprises approximately 85% of the market.

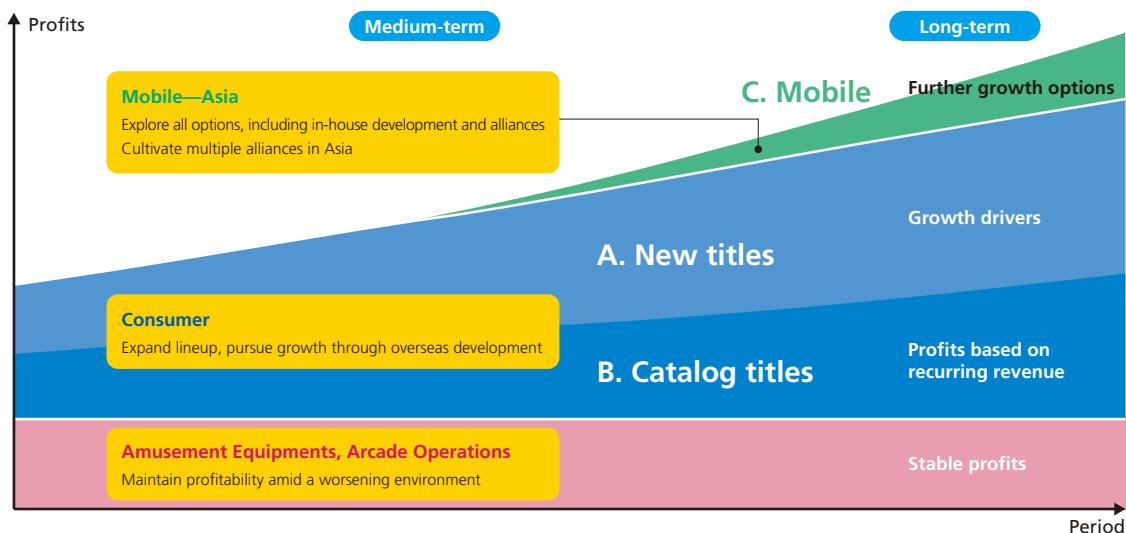
Next, in terms of catalog titles [\[Diagram 05-B\]](#), we will generate profits on a recurring revenue basis through (1) download sales of past titles and (2) the launch of past hit titles for current-generation game consoles.

Furthermore, our Single Content Multiple Usage strategy has not yet been of a scale sufficient to offset volatility in Consumer games. However, in addition to the fact that now Mobile and PC Online account for 75% of the market as game platforms, because both are recurring revenue businesses, we will thoroughly leverage our IP to pursue in-house development, alliances, M&A and a variety of other possibilities, building a business foundation as a further growth option (second pillar). [\[Diagram 05-C\]](#)

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

Diagram 05

Medium-to Long-Term Growth Image



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Elements for Enhancing Corporate Value **5** Governance (ESG)

Creating Shared Value Unique to a Game Company while Tackling Social Issues

I believe that resolving social issues through business activities and building healthy relationships with stakeholders, while at the same time promoting the Creating Shared Value (CSV) concept that generates social and economic benefits, will lead to the enhancement of corporate value. [\[Diagram 06\]](#)

1. Building a Healthy Relationship Between Games and Society

Traditionally, games have provided joy and stress relief; in recent years however, following an increase in mobile games, new issues such as minors spending large amounts of money on in-game purchases and real money trading (RMT) are beginning to appear. In recognition that this is a substantial problem for the industry overall, companies are working together primarily through industrial organizations to (1) establish guidelines and educate, (2) share information on issues and examples among member companies and (3) regularly exchange information with guardians, educators, consumer organizations and governments. [➔ For details, please refer to "Relationship with Customers" on page 55](#)

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

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 IPs in local revitalization activities to support (1) economic development, (2) cultural development, (3) awareness for improved public safety and (4) awareness of elections. We are achieving quantitative social outcomes through solving the common problem of attracting and appealing to the youth demographic. [➔ For details, please refer to "Relationship with Regional Communities" on page 56](#)

At the same time, these four activities deliver value to Capcom in the form of (1) improving existing user satisfaction through event participation and (2) enhancing the image of games among middle-aged and seniors. With respect to (2) in particular, this segment cannot be considered current users, thus by contributing popular contents to local communities, we are able to cultivate new game users through their personal smartphones.

3. Commitment to Employees

As can be seen from the fact that labor costs (base costs) account for approximately 80% of development costs, the game industry is a labor-intensive industry and an extraordinarily knowledge-intensive industry, thus human resources are an especially important management resource.

I recognize the importance of diversity for creating

Diagram 06
Initiatives for Creating Shared Value (CSV)



content that will resonate globally, thus Capcom promotes the retention and training of talented human resources without regard for gender or race. We also conduct various development programs, because human resource development is directly linked to strengthening our R&D capabilities. In addition, we not only bring together the world’s most advanced development facilities and technologies, but also ensure a robust development environment that includes facilities such as an onsite daycare center, all of which allows developers to concentrate on their work. Regarding remuneration, in addition to regular bonuses, Capcom has introduced a system offering incentives and assignment allowances for each title in an attempt to further increase motivation.

➔ For details, please refer to “Relationship with Employees” on page 57

In my view, the most critical aspect of human

resource development is providing an environment that enables employees to take on new challenges. Managers typically tell their employees to do this, but I think that if employees are being urged to, they must be provided with a proper safety net. Without a safety net in place, no one will jump onto the flying trapeze, even if they are pushed. The manager’s role is to push employees to take on one new challenge after another, identify obstacles and come up with solutions. 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.

The management visualization initiatives in which I am engaged [\[see the next section\]](#) play a role in providing employees with a space in which they are free to grow and be active.

Reducing Management Decision Risks through Governance Reforms Spanning 18 Years

The more we accelerate the execution of our growth strategies, the higher the risks become. I think governance is useful for avoiding and minimizing these risks. As risks can be broadly categorized into earnings volatility risks and management decision risks, I will now explain how governance can be used to control management decision risks. [\[Diagram 07\]](#)

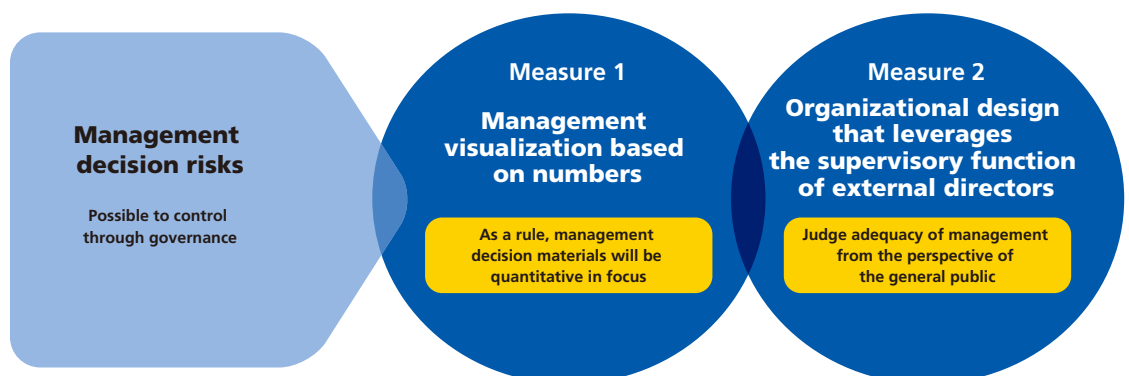
Measure 1: Management Visualization Based on Numbers

In line with changes in company scale and business characteristics, I think it is important that management also be able to flexibly change its management style.

For example, when a company is small, management is like the pilot of a propeller aircraft engaging in visual flight. They are always present and make decisions based on confirming conditions with their own eyes. On the other hand, when a company is large, management is more like the pilot of a jumbo jet. In this case, it is too risky to make decisions based solely on visual flight.

Diagram 07

Measures for Utilizing Governance to Reduce Management Decision Risks



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Accordingly, the pilot switches to instrument flight to control the aircraft. Similarly, corporate managers must rely on numbers to make decisions.

For this reason, I require that materials (documents) used for decision-making are, in principle, quantitatively focused. Specifically, these materials compare and contrast net sales, year-on-year performance and earnings forecasts, which make it easier to identify problems by enabling us to confirm complex combinations of data. Furthermore, these materials are used by external directors for supervisory purposes and provided to investors as part of our IR activities. This is part of the mechanism I call “management visualization.” Management decisions based on visualizing operations enable us to evaluate the Company with two sets of eyes using a system attempting to achieve management transparency.

Even when I talk with developers, numbers are the common language. Using only qualitative words and sentences leaves significant room for arbitrariness on the part of the person in charge. In comparison, numbers enable comparisons from a variety of angles, facilitating decisions based on real conditions.

“Businesses performing well should be left alone. The manager’s job is to focus initiatives on businesses that are facing problems or not proceeding according to plans, and to make changes enabling them to succeed. Top management exists to make decisions, not constantly hang around the workplace.” The risk control efforts I am engaged in at present, involve teaching next-generation members to effectively utilize the management experience I have accumulated as founder of the Company. The systemization of management will enable Capcom to continue functioning steadily into the future.

Measure 2: Organizational Design that Leverages the Supervisory Function of External Directors

For the past 18 years, Capcom has executed a variety of governance reforms. → For details, please refer to page 17

Since introducing the external director system in the fiscal year ended March 31, 2002, external directors have increased to account for 50% of the Board of Directors as of June 2016. This is based in part on investor concerns 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 has not changed since the system was introduced, but in short, we appoint directors who are specialists and command the highest level of ‘insight’ into their respective areas, and who are able to objectively make 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 without making allowances for industry conditions, who are not intimidated by the company founder and who are able to determine validity from the general public’s point of view.

Furthermore, in June 2016 Capcom transitioned from a company with a board of corporate auditors to a company with an audit and supervisory committee. We determined that to maintain stable corporate management, we must further strengthen our management base and ability to thoroughly manage risks.

For additional details, please refer to the Governance section in this report on page 61.

Enhancing Corporate Value and Shareholder Returns

Management Philosophy Balancing 27 Consecutive Years of Dividend Payments and All-Time Highest Dividends*

1. Basic Policy Regarding Dividends

“Given that we are building a foundation for stable growth and have achieved the fourth consecutive year of operating income growth, how do we approach shareholder returns?”

I think shareholder returns are an important management issue, thus dividends are determined with consideration for future business development and changes in the management environment.

And, the conclusion arrived at through discussions

* Ordinary dividends excluding commemorative or special dividends

by the Board of Directors was that, to place more emphasis on the return of profits, we will strive to pay stable dividends with a consolidated dividend payout ratio of 30% as our basic policy. This means that we will pay dividends steadily in accordance with profit growth, without making judgments based on performance volatility in a single fiscal year, while also bearing in mind the continuation of stable dividends.

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. This belief is based on my background, on having lost my father when I was young; even though I opened a retail business I struggled, however I felt gratitude for the stable revenue I earned each day. We also receive requests for stability from long-term investors who manage 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 27 years since we went public in 1990, and have steadily increased our dividend amount. [\[Diagram 08\]](#)

Capcom’s basic shareholder return policy aims to (1) enhance corporate value through investment in growth, (2) continue paying dividends (30% payout

ratio) according to performance levels while striving for stable dividends and (3) acquire treasury stock to increase the value of earnings per share. Over the past ten years, the dividend amount has increased 1.7 times. Furthermore, we believe it is also important to efficiently utilize shareholders' equity, thus we are improving ROE along with the acquisition of treasury shares.

➔ For details, please refer to “Financial Strategy According to the CFO” on page 39

2. Dividends for This Fiscal Year and the Next

In the fiscal year ended March 31, 2017, the ordinary dividend (excluding commemorative or special dividends) for the full fiscal year was an all-time high of 50 yen. Also, we acquired treasury stock in the amount of 1.48 million shares. In the next fiscal year (ending March 31, 2018), we plan on paying a dividend of 50 yen.

Going forward, we will continue to strengthen shareholder return by securing investment capital, buying back shares and gradually raising the dividend in line with earnings.

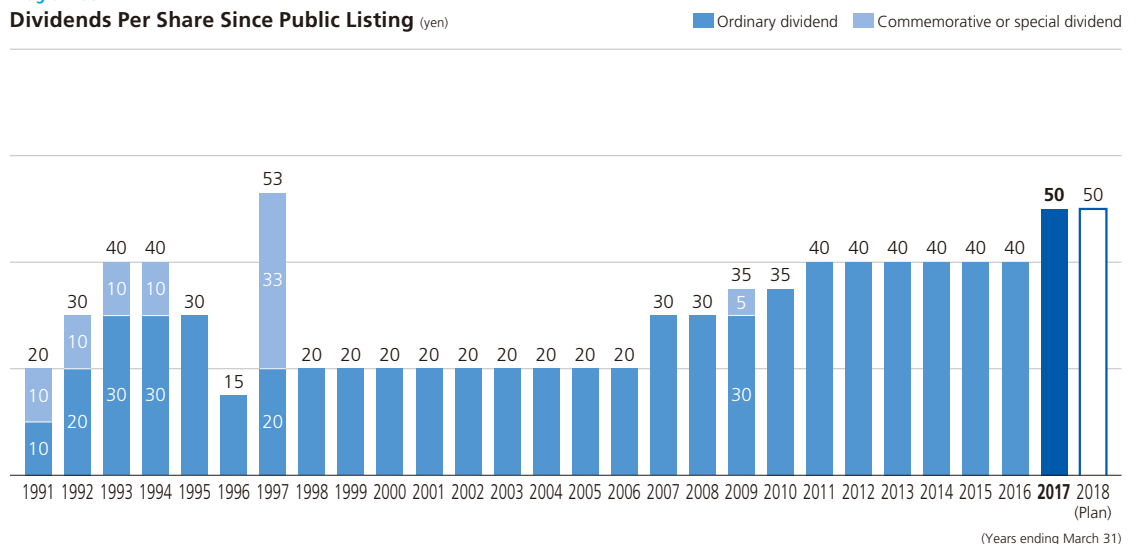
As a senior manager with 50 years of experience in this industry, my goal is to increase market capitalization and achieve corporate growth exceeding that of the past 34 years to continue meeting the expectations of all Capcom shareholders.

Kenzo Tsujimoto
Chairman and
Chief Executive Officer (CEO)



Diagram 08

Dividends Per Share Since Public Listing (yen)



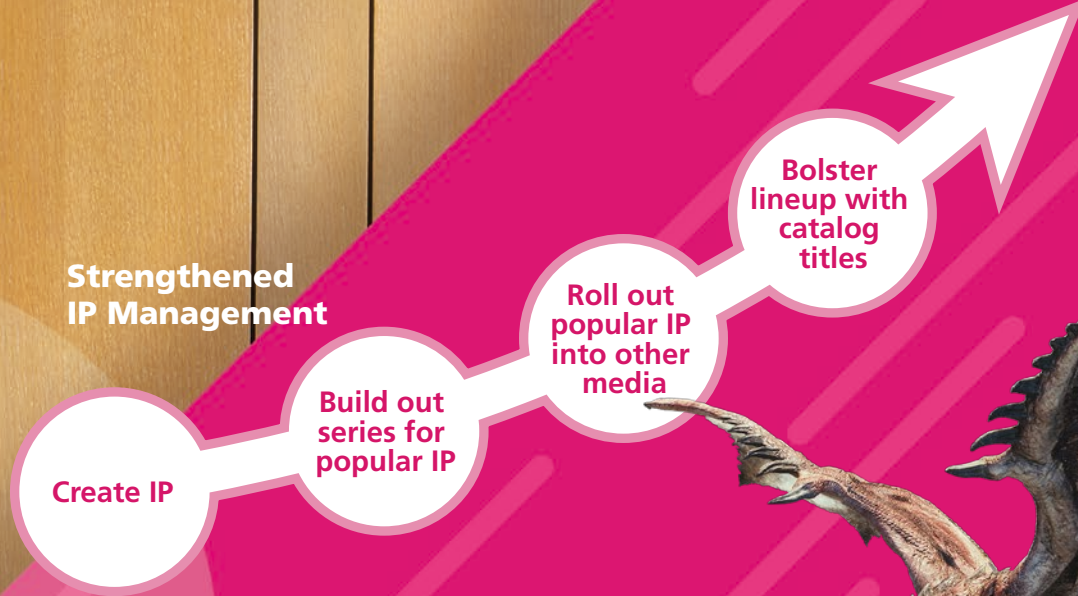
The COO's Discussion of Growth Strategies

A portrait of Haruhiro Tsujimoto, a middle-aged man with dark hair, smiling broadly. He is wearing a dark navy blue suit jacket, a white dress shirt, and a red patterned tie. His right hand is raised in a fist, resting near his chest. The background is a warm, wood-grain texture. On the right side, there are large, semi-transparent pink and purple circular and rectangular shapes.

Haruhiro Tsujimoto

President and
Chief Operating Officer (COO)

Maximize user numbers and earnings of each IP



We are Promoting our Brands Globally by Strategically Leveraging Capcom IP

During the fiscal year under review, the game market saw the successive launches of both new game consoles as well as VR devices, which are highly compatible with games, marking the start of a new generation.

I view the biggest changes in the market this year to have been (1) the growth of digital downloadable content, which accounted for half of the consumer market, our core business, indicating further changes in user purchasing behavior and (2) in the mobile market, where current game play trends have peaked and we began exploring the evolution of what comes next.

To continue growing in this constantly changing

game market, it is critical that we aggressively utilize our rich library of IP, one of our strengths, in developing series and expanding into other media (Single Content Multiple Usage). In addition, rather than maintaining our conventional individual title-based marketing strategies and revenue management, I think it is necessary to, with a sense of speed, analyze platforms and user segments and strengthen brands more comprehensively by individual IP (series).

On the following pages, I will provide details on Capcom's growth strategy.

Growth Strategy ① Consumer Business Expansion

- Steady Launches of Core IP in Global Markets
- Bolster Digital Downloads (Full-Game & Additional Content)
- Strengthen Brands on an IP Basis

Growth Strategy ② Overhaul Our Online Business

- Domestic Alliances—Exploring Partnerships to Effectively Use Our IP
- Overseas Alliances—Promoting Regional Strategies in Asia, Europe and North America
- Internal R&D—Focusing Efforts on Developing High-Quality Games

Annual Growth in Operating Income

The COO's Discussion of Growth Strategies

Diagram 09

Consumer Business Operating Margin (%)

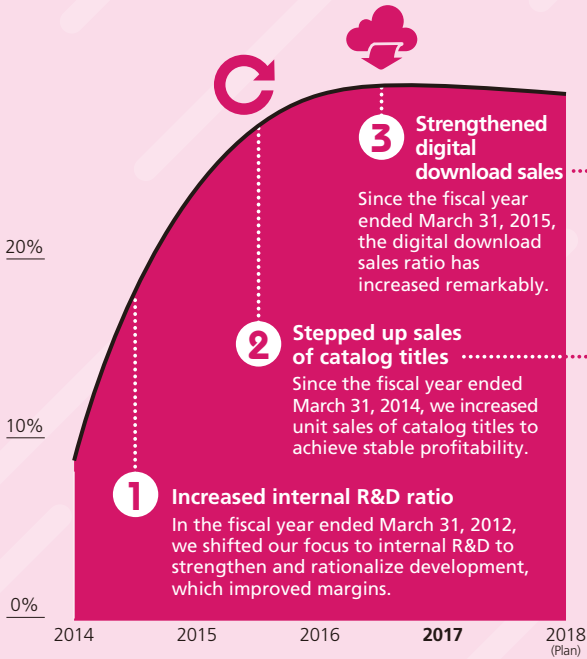


Diagram 10

Digital Sales and Digital Ratio

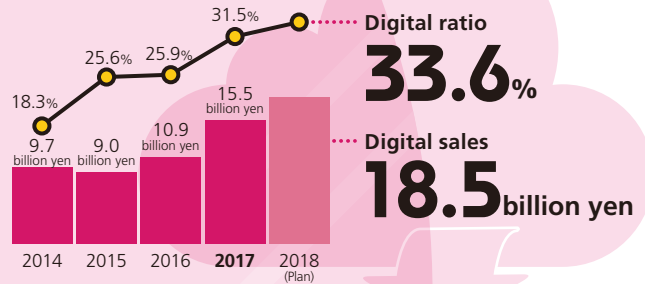
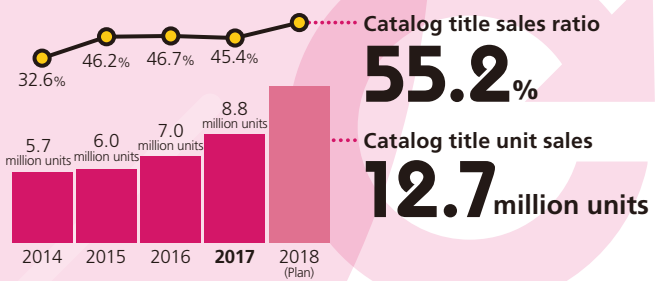


Diagram 11

Unit Sales and Ratio of Catalog Titles



Growth Strategy

1

Consumer Business Expansion

Overcoming the Earnings Volatility Unique to the Hit Business, Realizing Annual Growth in Operating Income

Generally, earnings fluctuate significantly in the Consumer business depending on whether or not you have a hit title.

To smooth fluctuations in performance and achieve stable growth, since 2012 Capcom has made efforts to transition to a recurring revenue model by promoting the (1) stable launch of core brands and (2) strengthening of download sales.

In the consumer market, which is expected to grow to 27.2 billion dollars in 2021 (up 28.3% compared to 2016), the increasing sophistication of development technologies is raising barriers to entry, causing a decline in the number of software developers. This is an advantageous environment for Capcom, as we possess a wealth of IP and strong technological capabilities. [Please refer to "An Analysis of the Market and Capcom" on page 75](#)

Capcom positions the Consumer business, our source of corporate value, as one of the most important businesses in our growth strategy. We will reduce performance volatility and realize our new medium-term business goal of annual growth in operating income through the implementation of the following three measures. [\[Diagram 09\]](#)

Measure 1 Steady Launches of Core IP in Global Markets

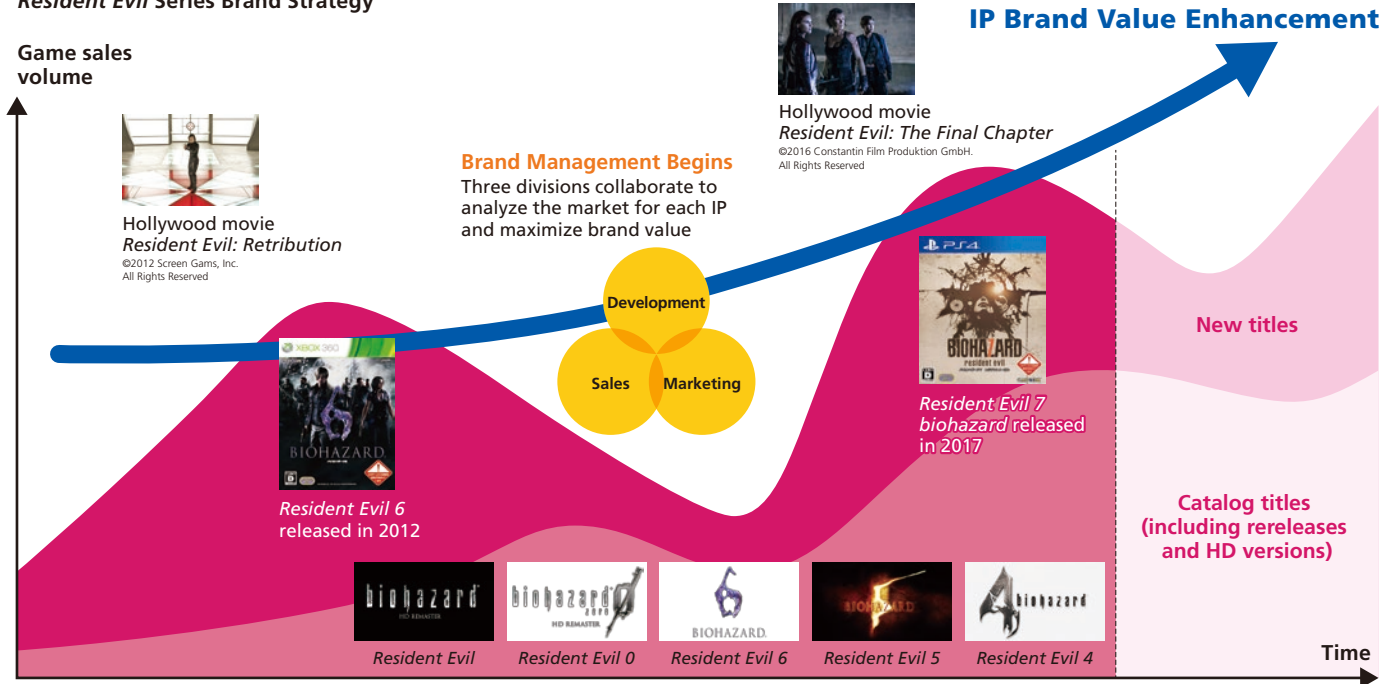
One of Capcom's strengths is our large library of popular IP, backed by our in-house production of legendary content. In the past, there were times when earnings fluctuated significantly due to the number of major titles launched during the fiscal year. [Please refer to Diagram 04 on page 23](#)

However, since structural reforms conducted in the fiscal year ended March 31, 2013, and the full-fledged use of our strategic map (60-month), we have formed a title portfolio focused on stable growth and established a mechanism for placing 2,000 developers on a 52-week map at the required time on the required development team. As a result, we shortened the launch cycle for each series from 3-4 years to 2.5 years, enabling the launch of multiple major titles each fiscal year; thus, we will expand our lineup over the medium- to long-term. [Please refer to Diagram 05 on page 24](#)

Furthermore, we think there is substantial room for growth in the European and North American markets, which comprise 85% of the consumer market. We will aggressively launch content already popular in these markets, including *Resident Evil* and *Street Fighter*, while strengthening the global expansion of the *Monster Hunter* brand.

Moreover, to achieve medium- to long-term growth,

Diagram 12

Resident Evil Series Brand Strategy

it is also essential to create new IP. Concurrent with the above measures, we are allocating a certain percentage of development investment to develop new brands.

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

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

In addition to new and catalog core IP titles, Capcom has strengthened distribution of digital downloads for current generation game consoles, and digital sales are growing steadily. [Diagram 10] In particular, catalog titles and rereleases for current-generation game consoles have contributed to revenue over the long-term as we have promoted the transition to a recurring revenue model. [Diagram 11] As for points 1 and 2 above, there is still a lot of room to expand our lineup, including with dormant IP, thus we will focus efforts toward this goal going forward.

In addition, with respect to additional content, we will focus on rolling out content best suited to the format, including releasing new characters in *Street Fighter*. This will not only promote ongoing user engagement and contribute to revenue, it will also lead to increased user satisfaction and expanded sales of upcoming titles.

Through these measures, we will increase our digital ratio from 31% at present, to 50% over the medium-term.

Measure 3 Strengthen Brands on an IP Basis

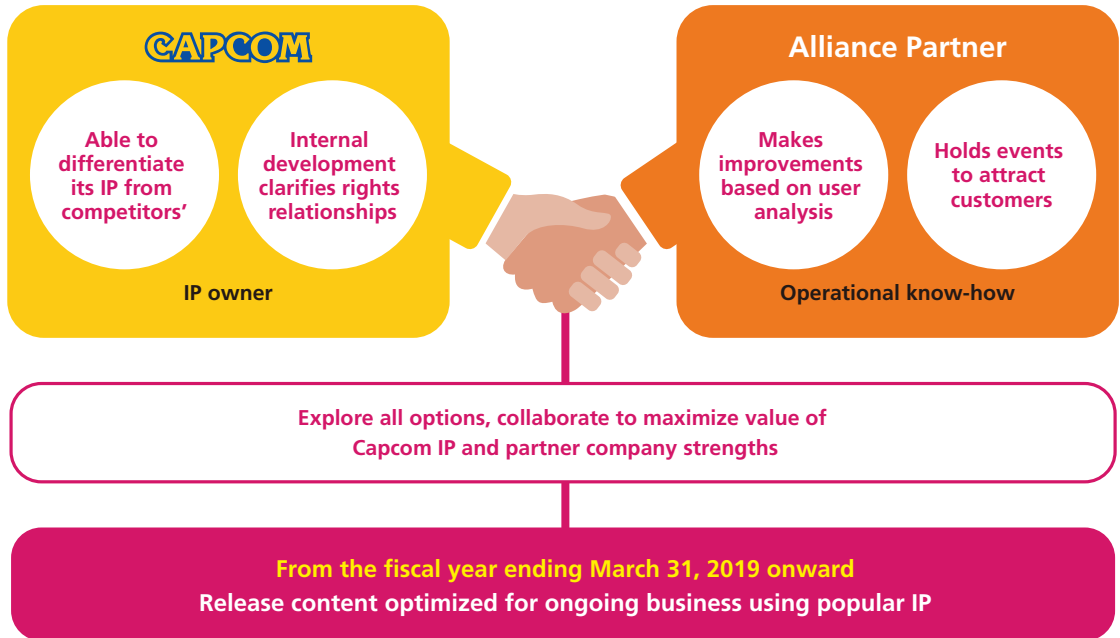
The potential for new titles to become hits in the current consumer market is declining because of the oligopoly of major titles requiring large investment and advertising expenses, longer sales periods due to the spread of digital downloads, and the increasing length of time users spend continuing to play a single game. Given this environment, IP brand strategy based on careful market analysis and sales strategy is extremely important for securing stable revenues. [Diagram 12]

Accordingly, assuming a long-term sales period for full-game downloads, with individual titles we will strengthen post-launch marketing measures such as additional content and pricing strategies, and maximize profits during the earnings period. Furthermore, we will attempt to strengthen brands and expand our fan base, leveraging synergies in sales by launching and developing promotions for not only new titles, but also catalog titles and rereleases for current-generation game consoles from the same IP during the same time frame. For example, in the run-up to our new title *Resident Evil 7 biohazard* this fiscal year, we rereleased *Resident Evil 4*, *5* and *6* for current-generation game consoles during the same time window, resulting in overall IP (*Resident Evil*) unit sales that substantially exceeded our initial plans.

We are working toward globally coordinating a three-pillar system comprised of our development, marketing and sales divisions in order to comprehensively analyze the user attributes, platform ownership status and price sensitivity for each IP, as well as to maximize revenues and brand power.

The COO's Discussion of Growth Strategies

Diagram 13
Mobile Contents Domestic Alliance Plan



Growth Strategy

2

Overhaul Our Online Business

Transforming the Mobile Business into a Growth Business: a Priority Issue for Management

Investors have asked “why is Capcom’s Mobile business lagging behind in terms of sales volume and growth rate, as compared to other companies in the same industry that are expanding revenues in the growing mobile market?” This is because, despite taking suitable measures to overhaul a primarily in-house development structure for the past three years, we have been unable to achieve satisfactory results. We recognize that the mobile game market accounts for the majority of the game market, and think our investors’ point is valid; thus, we made a decision: we will return to our foundation and maximize profits by thoroughly leveraging our advantageous position of possessing a wealth of popular IP. We will focus efforts on creating a business platform that places no restrictions on the Mobile business. In other words, going forward, we will explore all possibilities: not only internal R&D, but also alliances and M&A with companies specializing in the mobile sector.

Measure 1 Domestic Alliances— Exploring Partnerships to Effectively Use Our IP

Critical prerequisites for success in the Mobile business include (1) possessing popular IP able to be differentiated from numerous other competing titles and (2) possessing the operational know-how to implement appropriately timed game content updates and in-game events based on user behavior analysis.

The challenge for Capcom is how to respond to the second point. Titles such as *Monster Hunter Explore* contribute to stable earnings, however, greater operational know-how will be needed in order to take advantage of business opportunities.

To resolve this issue, we will accelerate alliances in Japan. ^[Diagram 13] Specifically, as the market environment has intensified in the past year, the rising importance of point one has provided a tailwind, increasing alliance proposals from companies specializing in the mobile sector and enabling Capcom to negotiate multiple options.

When negotiating, we are leaving all options open, and will adopt an alliance structure that maximizes the strengths of both parties (Capcom’s IP and the target company’s operational expertise). We will consider aspects such as the IP, development structure, game genre, and monetization methods to be used in order to make the optimal decisions for each deal. At this

Diagram 14
Mobile Content Strategy by Region



junction, I am unable to discuss which companies we are working with, specific titles or launch dates; however, once the details of an alliance are decided, we will make an effort to quickly move forward with development. Our aim is to begin launching titles from the fiscal year ending March 31, 2019.

Measure 2 Overseas Alliances—Promoting Regional Strategies in Asia, Europe and North America

The overseas mobile market is four times larger than that of Japan and Asia in particular—which includes, China—is expected to drive growth going forward. In light of varying market characteristics in each region, Capcom will create hit titles promoting strategies tailored to each region. [\[Diagram 14\]](#)

First, in the Asian region, we had focused our efforts on PC Online development; however, the market is shifting towards mobile, so we will concentrate on the Mobile business going forward. Specifically, we will expand our business focusing on development and operations by licensing out IP to major local players. The reason for promoting licensing (alliances) is to avoid country risk in Asia and acquire operational know-how based on local user preferences. With the exception of Taiwan and a few other places where we are engaged in proprietary development, we have determined alliances to be effective at this time. Multiple projects

are already underway as we establish a foothold for full-scale efforts beginning in the next fiscal year.

In Europe and North America, where the proportion of female and younger users is comparatively higher than other areas, our analysis leads us to believe there is a significant opportunity for creating new genres unlike any other in conventional mobile games. We have already set our sights on several of these and have begun new projects and alliances with companies knowledgeable in this area.

Measure 3 Internal R&D—Focusing Efforts on Developing High-Quality Games

Mobile device specifications have improved substantially and we predict that in one or two more generations we will be able to develop mobile games with quality rivalling that of Consumer games. Capcom will solidify its Mobile business foundation through alliances in Japan and overseas and, with an eye to the long-term, engage in internal game development for high-spec devices. By having Consumer game developers also participate in mobile development, we can pioneer new genres, as we did with *Toraware no Paruma*, while maximizing revenue by utilizing mobile as another platform in the multi-platform approach of our Consumer business.

The Head of Development Discusses Development Policies and Foundation Building

Development
Management

The Foundation and Policies that Drive the World's Most Entertaining Games

The DNA of Capcom's game development is deeply infused with Chairman Tsujimoto's approach to craftsmanship: making the highest quality in the world, and going one step further to create something truly interesting. This thinking has not changed since the Company's founding. The exhilaration and sense of fulfillment of leading this elite group of talented individuals toward being the very best in the world is a feeling that I would not trade for anything.

Over the years, I have lead numerous projects, anchored by the motto of "never running away, and never giving up." Going forward, I am resolved to meet the expectations of the Chairman, and therefore the expectations of all of our customers, in my efforts.

My duties as the person responsible for development are to strengthen our development structure to ensure the world's highest quality games, while launching multiple major titles each year, scoring a hit mobile title, expanding our downloadable content offering, and leveraging our back catalog of titles. Beyond that, I must further strengthen our production pipeline, while working on the development of new IP.

To realize these goals, it is essential that we expand our development resources (our people). To this end, we formulated a human resource strategy that breaks from traditional approaches, and are focusing efforts on both recruiting and training development personnel, and building up our development environment.

Yoichi Egawa

Director and Executive Corporate Officer
In charge of Consumer Games Development
and PS/AM Business Division



Diagram 15
Main Pipeline (Plan for Fiscal Years 2015–2017)

Brand	Fiscal year ended March 31, 2016	Fiscal year ended March 31, 2017	Fiscal year ending March 31, 2018 (plan)
Resident Evil	<ul style="list-style-type: none"> ● Resident Evil: Revelations 2 ● Resident Evil 6* ● Resident Evil 0* 	<ul style="list-style-type: none"> ● Resident Evil 7 biohazard ● Resident Evil 4* ● Resident Evil 5* ● Umbrella Corps 	<ul style="list-style-type: none"> ● Resident Evil: Revelations* ● Resident Evil: Revelations (NSW) ● Resident Evil: Revelations 2 (NSW) ● Resident Evil 7 biohazard Gold Edition
Monster Hunter	<ul style="list-style-type: none"> ● Monster Hunter X (Cross) 	<ul style="list-style-type: none"> ● Monster Hunter XX (Double Cross) ● Monster Hunter Stories 	<ul style="list-style-type: none"> ● Monster Hunter: World ● Monster Hunter XX (Double Cross) Nintendo Switch Ver. ● Monster Hunter Stories (ver.1.2)
Dead Rising		<ul style="list-style-type: none"> ● Dead Rising* ● Dead Rising 2* ● Dead Rising 2: Off the Record* ● Dead Rising 4 	<ul style="list-style-type: none"> ● Dead Rising 4 (PS4)
Street Fighter	<ul style="list-style-type: none"> ● Street Fighter V 		<ul style="list-style-type: none"> ● Ultra Street Fighter II: The Final Challengers
Devil May Cry	<ul style="list-style-type: none"> ● DEVIL MAY CRY 4 Special Edition 		
Dragon's Dogma	<ul style="list-style-type: none"> ● Dragon's Dogma: Dark Arisen (PC) 		<ul style="list-style-type: none"> ● Dragon's Dogma: Dark Arisen*
MARVEL VS. CAPCOM		<ul style="list-style-type: none"> ● Ultimate Marvel vs. Capcom 3 	<ul style="list-style-type: none"> ● Marvel vs. Capcom: Infinite
Total	7 titles	11 titles	Over 11 titles <small>Excludes unannounced titles as of September 30, 2017</small>

Notes: 1. * indicates current generation game consoles 2. NSW: Nintendo Switch

The Head of Development Discusses Development Policies and Foundation Building

People and Technology: Building Up the Dual Foundations Essential to Game Creation

Bolstering Development Personnel

Growing a Young Pool of Talent

Within the creative field of game development, the most important factor in being able to quickly adapt to the ever-increasing scale of game development, while at the same time bolstering the lineup of major titles needed to provide stable growth, is building up our personnel base. To this end, we have hired 100 developers every year since fiscal 2011 with the goal of maintaining a workforce of 2,500 developers by fiscal 2021. To ensure the quality and quantity of our human resources, we have introduced unique training and mentoring systems to increase both human skills and technical skills, establishing a practical means of developing young employees to become fully self-sufficient by their third year of employment.

The reason we choose in-house production over subcontracting, despite increased fixed costs, can be found in advancements in and the growing scale of game development. We judged that, in addition to there being few subcontractors able to provide us with the necessary support, creating an environment of friendly competition is essential to world-class development and technological capabilities.

Developing Core Human Resources

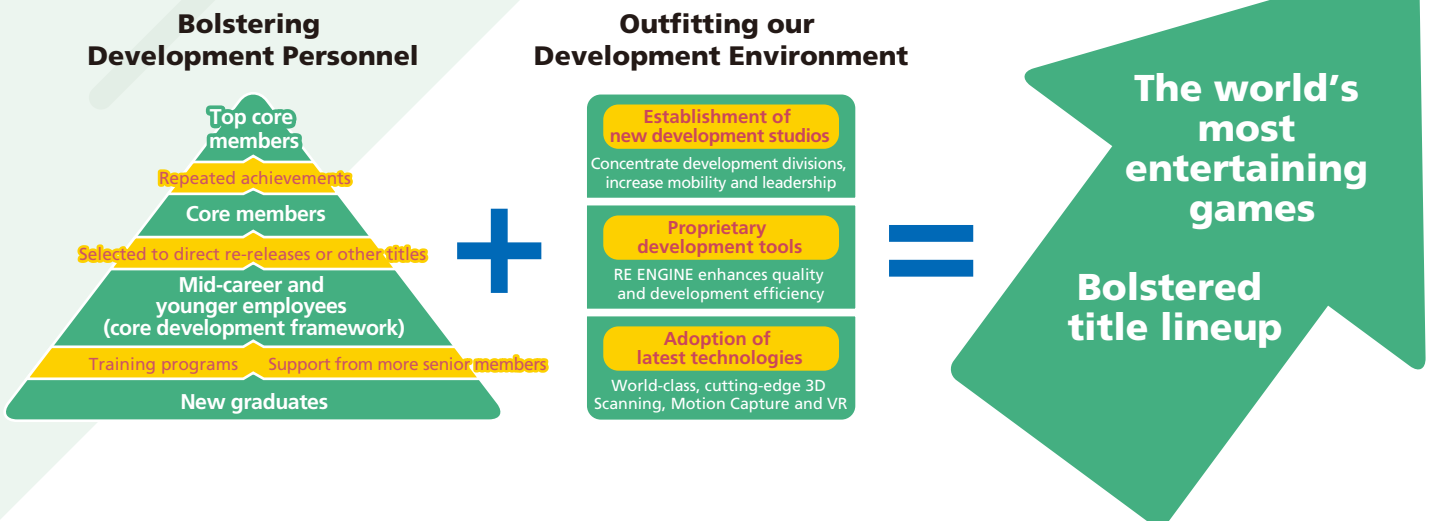
Another important initiative is developing mid-career and younger employees (core development framework) to become “core members” who will lead overall game development. No matter how much we increase the number of our younger employees, if we do not bolster core members such as producers and directors in each section, we will not be able to increase our title lineup.

We will selectively promote talented personnel in key areas and cultivate them through title development.

Occasionally, our employees must cope with failure, and sometimes they will hit a wall, but a wealth of experiences is the source of personal growth.

Within a development organization, I believe it is the responsibility of management to provide an environment enabling employees to take on challenges while reducing business risk from failure.

We are already seeing the result of this selective promotion reflected in major titles and current-generation console re-release titles. Going forward, we will also proactively assign young people to mobile development.



Outfitting our Development Environment

It is our belief that building an environment to facilitate the creation of entertaining games and maximally leverage the talents of developers is vitally important, thus, we have established a number of world-class R&D centers and development facilities.

RE ENGINE

Enabling graphical expressions nearly indistinguishable from live action, this engine also supports the latest technologies, including VR. Further, it dramatically shortens the time required for each process in game development. One merit of an in-house development engine is that the engine team is able to collaborate with the game development team to constantly improve specifications. This important foundational asset helps us realize quality appreciated the world over.



3D Scanning

Capcom has a 3D scanning studio world-class in scale and equipped with approximately 130 cameras. Photographing items in 360° enables them to be scanned as 3D objects.

This substantially reduces the time required for CG modeling traditionally done by hand, and in addition to efficiency, enables us to pursue even higher precision and quality.



Motion Capture

This technique uses an infrared camera to detect actual human movement, which is converted to data on a computer. In pursuit of realistic character movement, we built a new studio boasting a ceiling height of seven meters, one of the largest in Japan. This makes it possible to record wire action, falling stunts and other actions from different heights.



Virtual Reality (VR)

VR technology enables users to experience immersion in virtual worlds. Users are able to enjoy an overwhelming sense of realism as images completely fill their field of vision. *Resident Evil 7 biohazard* was the first game in the industry to be fully VR-compatible, and garnered high praise both in and outside the Company for providing a horror-entertainment experience beyond imagining.



Financial Strategy According to the CFO

Proactively Investing in a Stable Financial Foundation to Create a Virtuous Cycle of Growth

Kenkichi Nomura

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

Q What is the basic policy underpinning Capcom's financial strategy?

A We support the achievement of our growth strategies from a funding perspective.

Capcom has made an effort to improve net cash and increase capital efficiency to build a lean financial foundation and secure funding to invest in growth. At present, we are executing a growth strategy aimed at enhancing corporate value over the medium- to long-term. We are increasing investment in R&D by approximately 30 billion yen every fiscal year to enhance the development environment in our core Digital Contents business and to bolster our title lineup. We will more closely scrutinize the selection and concentration of invested capital and thoroughly review cost of sales, selling, general and administrative expenses and other costs and strive to improve our earnings structure. We will support the achievement of growth strategies from a funding perspective by strengthening our financial base, and securing cash and commitment lines at a level commensurate with the scale of investment.

Q In what ways have you increased capital efficiency up to now?

A We exceeded our target for ROE.

We established a numerical target for ROE as an indicator of capital efficiency and achieved the following results.

Target: (Moving average for three fiscal years ended March 2017)	8-10%
Result: (Moving average for three fiscal years ended March 2017)	10.7%

We achieved the target with an ROE averaging 10.7% over the past three fiscal years. In terms of priority items underlying the achievement of this target, (1) with regard to net income margin improvement, we were able to achieve stable increases compared with the

previous three fiscal years. In addition, (2) TAT and (3) financial leverage are also on the rise.

ROE components	3/15	3/16	3/17	3/18(Plan)
(1) Net margin (%)	10.3	10.1	10.2	10.2
(2) TAT (%)	63.8	68.1	73.3	—
(3) Financial leverage (times)	1.41	1.50	1.53	—
ROE (%)	9.8	10.6	11.6	12.2

We forecast ROE of 12.2% in the next fiscal year.

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

Q How will you secure net cash and manage risks?

A We are working on building a mechanism to efficiently create net cash.

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

Moreover, net cash in the fiscal year under review was 8.4 billion yen, which decreased for the third year in a row. In addition to increased development investment in accordance with bolstering our lineup, this was mainly due to an approximately 10.0 billion yen increase in accounts receivable, trade, due to titles launched at the end of the fiscal year under review. Considering accounts receivable, trade, at the end of each fiscal year, the amount has generally been maintained at roughly the

Investing for Our Growth Strategy

Financial Strategy Overview

Strategy ①

Improving Net Cash

ROI status for each title and thorough working capital efficiency

Strategy ②

Increasing Capital Efficiency

ROE
10.7%
(Moving average for three fiscal years ended March 2017)

same level as net cash for the past several fiscal years. Thus, we can say that assets contributing to so-called future growth, including the balance of titles in development, have been steadily rising. ^[Diagram 16]

with cash on hand (24,337 million yen) as well as an unused 21.7 billion yen commitment line of credit (total contract value: 26.7 billion yen) to maintain an appropriate range.

Q What is the status of internal reserves and fund procurement?

A We have secured levels enabling us to respond to normal increases in development costs.

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

Given these conditions, to ensure our ability to procure funds, we determine the level of cash and cash equivalents that needs to be maintained in consideration of reserves from the investment plan and risk management. This amount will then be supplemented

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

A We invest 80% of management resources into the 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 including VR, we must invest in hiring more developers and improving our development environment. Accordingly, we will allocate about 80% of management resources (R&D investment and capital expenditure totaling 34.5 billion yen in the fiscal year ending March 31, 2018), amounting to an investment of 27.5 billion yen, in the Digital Contents business. Moreover, we use the asset in-development turnover rate as an indicator measuring investment level adequacy. In the fiscal year under review, the asset in-development turnover rate was 2.9, slightly higher than 2.8 in the previous fiscal year. ^[Diagram 17]

Diagram 16
Net Cash on a Historical Basis (Billions of yen)

8.4 billion yen

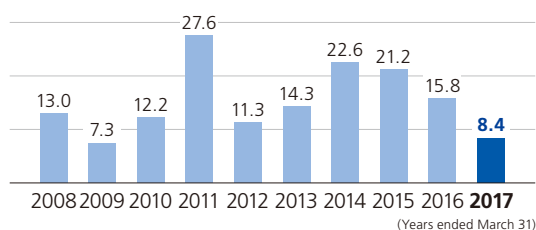


Diagram 17
In-development asset turnover ratio (%)

2.9%

