Continuing to invest in user expansion and sustainable growth

Kenkichi Nomura

Director, Executive Vice President and Chief Financial Officer (CFO)

Transformation of business model and net cash position

Improving financial condition over the past decade

Thanks to the understanding and support of our users and stakeholders, we were able to achieve operating income growth for the 11th consecutive year in fiscal 2023.

As shown in the table on the following page, over the past 10 years, Capcom's operating income has increased 5.5 times and net cash 5.2 times. In terms of profitability, the operating margin increased by 27 percentage points to 37.5%, and ROE for the most recent period was 24.4%, exceeding 20% for the fourth consecutive year.

Factors behind this strong performance include Capcom's expanded sales reach into new countries and regions driven by our shift to bolster digital sales, our ability to tap into long-term sales of previously released catalog titles, and optimally-timed price reductions that factor in the age of our titles, which contributed to increased sales volume.

Additionally, manufacturing and sales costs for physical products also declined significantly, and efforts to rein in increases in expense items (cost of sales plus SG&A expenses) were even more successful than sales growth, resulting in a lower cost of sales ratio and a significant increase in operating margin.

Meanwhile, the Arcade Operations and Amusement Equipments businesses have overcome their respective challenges and entered a phase of stable growth, leading to continued profitability and cash growth.

Net cash position

Over the past three years, Capcom has changed its employee compensation system and was able to increase net cash by 23.7 billion yen year over year at the end of fiscal 2023 despite also increasing total personnel costs.

Cash is steadily increasing due to the sustained 10% or better growth in annual operating income in each of the last nine fiscal years. We monitor ROIC trends at both the consolidated level and for each major business, and over the last three years, consolidated ROIC exceeded 50%, and ROIC for our three major business segments has also been steadily improving. At the same time, we manage the profitability of title development by checking the ROI (operating income divided by development investment) of individual titles. Our findings show that the ROI of each title has steadily increased due to the growth of catalog title sales, which is one of the factors increasing cash.

Investment for continued sustainable growth

With net cash increasing, there are more options for reinvesting in our businesses for future sustainable growth, making investment decisions more important than ever.

Given that the amount of risk has increased due to changes in the business environment in our industry, I believe it is important to balance three elements in cash management: namely, 1) business reinvestment, 2) returns to shareholders, and 3) employee compensation.

Please see the CHO's section of this report for information on employee compensation.

Cash utilization: current situation of reinvesting in our businesses

In addition to direct investment for business expansion, business reinvestment also includes spending money to improve the working environment for employees and benefit programs that contribute to higher productivity.

■ Addressing increased investment in development

In recent years, our investment in development has increased with each passing year, growing 1.6 times over the past decade. These investments are expected to exceed 50.0 billion yen in our fiscal 2024 plan. Although our development team is working tirelessly to improve the efficiency and productivity of title development, we still believe that higher investment inputs for development of titles is inevitable.

One of the reasons for the uptick in development investment is the need to improve user satisfaction in response to the greater sophistication of game device capabilities. Traditionally, we have used the 60-month map to oversee our title development process. Recently, however, there have been cases in which we exceed the typical 60-month time frame due to factors including additional content for titles. This is why we approach medium- to long-term investment management by creating a medium- to long-term lineup while tracking progress.

Consolidated statements of income items

	2014/3	2019/3	2024/3	Compared to 2014/3	Compared to 2019/3
Net Sales	102,200	100,031	152,410	149.1%	152.4%
Operating income	10,299	18,144	57,081	554.2%	314.6%
Operating margin	10.1%	18.1%	37.5%	+27.4pts	+19.4pts
Net income	3,444	12,551	43,374	1259.4%	345.6%
ROE (return on equity)	5.4%	14.4%	24.4%	+19.0pts	+10.0pts

Consolidated balance sheet items

	2014/3	2019/3	2024/3	Compared to 2014/3	Compared to 2019/3
Cash and deposits	29,720	53,004	125,191	421.2%	236.2%
Interest-bearing debt	7,050	8,315	7,217	102.4%	86.8%
Net cash	22,670	44,689	117,974	520.4%	264.0%

Trends in sales territories and number of units sold

	2014/3	2019/3	2024/3	Compared to 2014/3	Compared to 2019/3
Countries & regions	184	222	235	127.7%	105.9%
Unit sales	17,500	25,300	45,893	262.2%	181.4%
Of which, new titles	11,800	11,100	9,596	81.3%	86.5%
Of which, catalog titles	5,700	14,200	36,297	636.8%	255.6%

When starting production of a title, we consider the scale of development by referencing past sales data, and the process involves application and then approval. Within this, we use the medium- to long-term lineup and title-specific ROI and ROIC management as primary benchmarks. In turn, we formulate sales plans in conjunction with the scale of investment.

However, we need to take into account changes in the way users play and their preferences, among other matters, and our response to these changes still represents a risk factor.

The need to enhance cash reserves to address these risks has not changed, and increased investment in response to change will certainly be necessary.

■ Addressing the need for more office space for development teams

Based on our human resources investment strategy, the pace at which the Group's headcount is rising has continued to increase by about 150 every year, reaching a level 1.4 times that of 10 years ago, and 1.3 times that of 5 years ago. Of particular note, we have increased the number of our developers by more than 250 people (approximately 12%) over the past three years, causing our current office space to reach capacity. This is something we must address with some urgency. We have already acquired land adjacent to our head office and are building new office space. Looking at the medium to long term, we have positioned real estate investment as a business asset for securing space to be one of the major points of future cash utilization.

■ M&A opportunities

We are also investing in M&A to ensure our ability to consistently provide new title content, expecting that these deals will strengthen our development capabilities. We have acquired two development-related companies since fiscal 2023 (making them subsidiaries) in an effort to expand our development system. Since it takes time to train creators, we are stepping up mid-career recruitment and actively considering M&A deals that will provide personnel who can produce immediate results.

In addition, it will be critical to introduce new technologies in many more areas as users' ways of playing games become more diverse, and looking ahead we must keep in mind the use of things such as network technologies in game development.

■ Investment in the Arcade Operations business

In the Arcade Operations business, we have achieved results by bolstering our domestic network and will continue to expand this using a scrap-and-build approach.

In the Amusement Equipments business, we are also putting systems in place to achieve our goal of releasing four cabinets per year. These businesses are positioned to be more important than ever for expanding recognition of our game content and enhancing brand value.

■ Initiatives for market expansion: stepping up efforts to capture users in developing and emerging countries

In order to continue sustainable growth, we need to penetrate our brand throughout the world and expand our user base. Toward this end, we are promoting investments in the licensing business and movie and video productions that utilize our IP. Through these easily accessible user gateways, we aim to create opportunities for people who have never played our games to experience our IP. We believe that by increasing the recognition of our content worldwide, we will strengthen the brands of our IP further.

In addition, brand penetration requires understanding the characteristics of each country and region and conducting appropriate marketing. Therefore, we will also invest in human resources, organizations, and systems/networks to correctly understand user trends.

Shareholder returns

Finally, Capcom's basic policy is to provide shareholders with (1) increased corporate value through higher profits and (2) stable dividends with a consolidated dividend payout ratio of 30%. We will also pay close attention to stock price trends and understanding of our management strategies in the market, and flexibly buyback shares according to the situation.

From the viewpoint of returning profits to shareholders, the annual dividend for fiscal 2023 was 70 yen (payout ratio 33.7%), a further increase from the previous year's dividend of 63 yen, which included a commemorative dividend of 10 yen for our 40th anniversary.

As shown in the following table, our stock price has grown in proportion to the increase in net income over the period, demonstrating that we have made steady progress in the enhancement of corporate value. We will continue to strive to meet and exceed the expectations of our shareholders and investors through dialogue.

Changes in cost structure

	2014/3	2019/3	2024/3	Compared to 2014/3	Compared to 2019/3
Cost of sales	72,251	62,809	67,755	93.8%	107.9%
Selling, general, and administrative expenses	19,749	19,078	27,572	139.6%	144.5%
Cost + SG&A expenses	92,001	81,887	95,328	103.7%	116.4%
Cost + SG&A expense ratio (compared to sales)	90.0%	81.9%	62.5%	-27.4pts	-19.4pts

Trend in cash flows

	2014/3	2019/3	2024/3
Operating cash flow	13,201	19,847	36,921
Accounts receivable factors	6,351	858	71
Notes and accounts payable factors	-4,806	-1,665	1,438
Real operating cash flow	14,747	19,039	38,431
Investing cash flow	-6,155	-2,261	-5,962
Financing cash flow	-15,099	-11,443	-15,969

R&D investment and productivity

	2014/3	2019/3	2024/3	Compared to 2014/3	Compared to 2019/3
Number of employees (consolidated)	2,601	2,832	3,531	135.8%	124.7%
Annual R&D investment	26,691	27,038	43,042	161.3%	159.2%
ROI (operating income / R&D investment)	38.6%	67.1%	132.6%	+94.0pts	+65.5pts

Shareholder returns

	2014/3	2019/3	2024/3	Compared to 2014/3	Compared to 2019/3
Net income	3,444	12,551	43,374	1259.4%	345.6%
Fiscal year end stock price (adjusted closing price)	489.5	1,240	5,590	1,142.0%	450.8%
Dividend per share (adjusted)	10	17.5	70	700.0%	400.0%
Dividend payout ratio (%)	65.5	30.3	33.7	–	–

*The stock was split on a basis of two shares for every share of common stock on April 1, 2018 and April 1, 2021. The figures listed for fiscal year end stock price (adjusted closing price) and dividend per share (adjusted) are presented on the basis of the number of shares as of the fiscal year ended March 31, 2024.