

# **Kenzo Tsujimoto, President and CEO Statement at May 2007 Fiscal Year 2006 Results Meeting**

## **1. Greetings**

- (1) My name is Kenzo Tsujimoto, President and CEO of Capcom, Co., Ltd.. I appreciate your participation in this presentation of our fiscal year results during this busy financial season.
- (2) As you may already be aware, our consumer game sales, with titles such as Dead Rising and Lost Planet, have greatly exceeded our sales expectations. Thusly, our forecast was readjusted twice taking into account such factors. Our results this fiscal year are in line with the revised forecast presented on April 17<sup>th</sup>.
- (3) Specific details on the fiscal year financial results will be presented later by our director and managing corporate officer, Mr. Kazuhiko Abe.
- (4) For my part of the presentation, I will cover some of the questions that have been raised by investors in the course of our investor relations activities.

## **2. Long-term Company Direction**

- (1) I would like to begin by explaining Capcom's long-term direction.
- (2) Capcom is a global leader in game development and technology and has armed itself with a strong lineup of titles to compete in the growing international video game market.
- (3) In order to maximize this strong lineup of game titles, Capcom follows a one content, multiple use policy to increase revenues across the business group.
- (4) Capcom's long-term goals are to maintain a yearly growth of 10% and attain an operating margin of 15%.
- (5) There are several issues that need to be addressed in order to reach these goals, and I will now go into greater detail regarding these specific issues and management's response to them.

## **3. Issues to be Resolved**

- (1) First off, I would like to discuss the ways in which Capcom will address the various issues that need to be resolved in order to reach our long-term goals.
- (2) Major Emphasis on Strengthening Key Divisions  
In order to make Capcom more competitive, we will focus on further strengthening development of our core home video games business, marketing efforts and sales efforts. We plan to create a title portfolio that accurately reflects the global market share, as well as strengthen our R&D organization and staff. Our title lineup includes many new titles in our existing franchises over the next period, including "Resident Evil 5."
- (3) Focusing on Expansion Overseas  
The overseas market cannot be ignored if Capcom wishes to reach its long-term goals. We have instituted reforms with the management of our North American subsidiary, and the results have been positive. This period, we plan to focus on instituting necessary reforms with the European subsidiary.

- (4) **Business Selection and Concentration**  
In order to realize the collective group potential, it is important that Capcom makes prompt scrap-and-build efforts a cornerstone of its business. In order to improve R&D's overall position, "Studio 8," "Flagship," and "Clover Studio" have been closed while those resources have been focused on expanding areas such as the online business "Daletto" and the North American mobile content developer "Capcom Interactive." We have also established "Capcom Korea," to gain a foothold in a new market. We will also continue to implement changes that improve the efficiency of the overall group.
- (5) **Expanding the Scope of Business**  
The one content, multiple use policy is critical for maintaining stable growth in the long-term. This period, Capcom will place further effort into providing amusement machine peripherals and the online business to expand into new business territory. Profitability in the arcade game sales business has slightly fallen, so plans are in place to reorganize the R&D structure within that business.
- (6) **Strengthening Corporate Structure**  
In order to spur growth, it is important to not only enact reforms with the management of individual business divisions, but also with the management of the entire organization. It is important to clearly separate "management," which decides the overall company direction and determines strategies for the group organization, human resources, capital and finances, with "operations," which runs the individual businesses and subsidiary branches. By doing this, each division can better employ its specialized knowledge and each subsidiary can optimize their operations for their own specific regions to improve the speed of business, thereby greatly improving the efficiency of the entire organization.

#### **4. Mergers and Acquisitions**

- (1) Now I would like to discuss thoughts on mergers and acquisitions.
- (2) In order to maintain stable growth, it is important for Capcom to turn its efforts to increase its share in the overseas market where much of the growth in the home video game and mobile content markets are taking place.
- (3) There have been many mergers and acquisitions in the industry in recent years with companies attempting to secure popular content or to expand, but Capcom is currently not envisioning any mergers with domestic game companies or toy makers.
- (4) One reason for this is that a merger with a domestic company would not bring with it content that is popular overseas and thus would not contribute to Capcom's overseas growth. Another reason is that potential partnerships would likely become restricted, narrowing the possibilities with licensing business opportunities.
- (5) On the other hand, mutual shareholding in, business partnerships with, or acquisition of companies that create content popular around the world is something Capcom is actively pursuing. As an example from this last period, to pursue a vertical approach to starting up our mobile content business, Capcom acquired Cosmic Infinity, a company with popular mobile content. Also, to start up our online game portal business, Capcom has joined with the Dwango Group to found Daletto Co., Ltd.
- (6) Business partnerships that capitalize on the unique strengths of the companies involved are critical to successful partnerships and acquisitions as well as to contributing towards growth.
- (7) As a publicly traded company, there is always the possible threat of being acquired by another company, but one measure of defense is to make sure that Capcom's value as a company continues to rise to prevent weak share prices from making it a tempting target on the market.
- (8) Proving that Capcom is a growing company is one reason why our goal is a stable 10% continual annual growth.

- (9) It was felt that our share price did not accurately reflect Capcom's R&D ability and technical prowess, and that is why we decided to buy back 2.5 million shares last period, bringing our total treasury stock up to 6 million shares. Capcom is also currently considering whether or not to continue with further stock reacquisitions.
- (10) In order to generate good faith about Capcom's growth strategies, I will begin to take an even more active role in investor relation efforts and maintain solid communication ties with the market.

## **5. Future Financing**

- (1) Now I will go into Capcom's future plans with regard to financing.
- (2) Within the consumer game business, which is Capcom's core business, gaming software usually requires around two years to develop. Taking into account the required investment in next-generation game development and the growth of other businesses, a steady supply of funds will be a necessary resource going forward.
- (3) In order to raise asset efficiency, we believe it is necessary to trim down and avoid holding unnecessary surplus assets. To accomplish this, we would like to apply funds with no immediate need to the repayment of interest-bearing debt.
- (4) To secure the required financing as it is needed, we are employing a commitment line of 15 billion yen and exploring options for guaranteeing the liquidity of available funds for our business.
- (5) From the perspective of equity cost, we will closely monitor our title development and storefront expansion and rely on our commitment line rather than equity financing for the foreseeable future.

## **6. Shareholder Returns**

- (1) For the next topic, I would like to discuss the current view on shareholder returns.
- (2) The management of shareholder returns is of the utmost importance to us at Capcom. Our fundamental policy is to take our financial situation and future business plans into consideration while continuing to maintain stable dividend payouts.
- (3) We readjusted our forecasted annual dividend payout to increase it from 20 yen per share to 30 yen per share. One reason behind this decision is to consider the 1.5% yield for long-term (10-year) government bonds. The other reason is that Capcom has built a solid financial foundation for generating future profit that gives the company strong prospects for maintaining stable growth going forward.
- (4) If our current business plans are successful and we are able to guarantee a stable increase in profits, Capcom will consider raising the dividend payout or reacquiring stock to increase profits for our shareholders.

## **7. Social Action Programs**

- (1) Last, I would like to discuss Capcom's public service activities.
- (2) Based on our corporate philosophy and responsibility, Capcom is sponsoring public service activities focusing on aiding child education and educating society.
- (3) It is also important for Capcom's continued growth to build solid relationships with the community outside of our direct stakeholders.

- (4) In its efforts to support education, Capcom helps elementary and middle school-aged children experience working through video games as part of the vocational learning aspect of the integrated studies curriculum.
- (5) For supporting the education of society, Capcom has donated 24,000 copies to elementary schools and 2,700 copies to public libraries of the educational “Secrets of Video Games” book you have each been provided.
- (6) The book begins with the introduction to the work of video game creators, a career popular with young children, and goes into life with video games, larger societal issues such as expert opinions on the effects of video games on the brain, and the financial competitiveness of the video game industry. The information contained within is also useful for educators and guardians and helps to foster a true understanding of video games.

## **8. Concluding Remarks**

That concludes my portion of the presentation. Now, Mr. Abe will present a more detailed explanation of our fiscal year results and the strategic breakdown by business division.