

**Management****Interview with the President**

Taking On a Range of Challenges, Including Investing to Achieve Sustained Growth and Expand Corporate Value

We have passed the half-way point of the Mid-term Plan ending FY2018.3. BANDAI NAMCO Holdings' consolidated results in the first half of FY2017.3 recorded favorable progress. For example, we reached new record highs in both sales and profits. In this issue of the newsletter, BANDAI NAMCO Holdings' President Mitsuaki Taguchi discusses the progress with the Mid-term Plan and the situation with each of the Group's businesses.

Would you provide an overview of the first half of the fiscal year?

Taguchi: In August 2016, we made an upward revision to the results forecast for the first half of the fiscal year. We ended up surpassing the revised figures and achieved record highs for both sales and profits. In the Toys and Hobby Business, favorable results were recorded by established IP* products in each region, such as *Mobile Suit Gundam* in Asia and Japan and *Power Rangers* in Europe and the Americas. In general, results were in line with initial plans. Also, in the Network Entertainment Business, *DARK SOULS III* home video game software became a major hit, and smartphone game applications for domestic and overseas markets, such as *DRAGON BALL Z DOKKAN BATTLE*, maintained high levels of popularity. The Network Entertainment Business provided a strong driving force that supported the Group's overall results. In the Visual and Music Production business, favorable performances were recorded by initiatives centered on popular IP, such as *Love Live!* series and *GIRLS und PANZER*. These IP are receiving strong support from both existing fans and new fans.

The outlook for the full fiscal year has been revised.

Taguchi: Considering the results in the first half of the fiscal year and the current situation in each business, we revised the full-year projections to ¥590.0 billion for net sales and ¥57.0 billion for operating income. These challenging projections represent record-high levels of net sales and operating income for the BANDAI

NAMCO Group. In the second half of the fiscal year, we will continue striving to achieve our projections while taking on the challenge of implementing a variety of initiatives, including investment for sustained growth.

The Mid-term Plan is making favorable progress.

Taguchi: The goals of the Mid-term Plan comprise further strengthening the IP axis strategy and expanding our overseas business. We are already starting to see results from our initiatives, and we will further reinforce these trends. In this way, our first task will be to build a platform that can generate net sales of ¥500.0 billion and operating income of ¥50.0 billion in a stable manner. We will then aim for the next stage. I think that there are still many things that we need to do to achieve sustained growth. To resolve these issues, we need to step up innovation in order to heighten the sustainability of businesses and IP. We also need to strengthen strategic investment in order to cultivate new initiatives. In addition to typical investments, in FY2016.3 we also implemented strategic investments, such as acquiring commercialization rights for new IP and making WiZ CO., LTD., a planning and development company, a subsidiary. In FY2017.3, we are continuing to step up IP initiatives overseas and are starting to invest in such areas as strengthening relationships with IP rights holders.

We have passed the half-way point of the Mid-term Plan, and our performance has been basically in line with the plan, including our financial results. However, it will not be easy



Mitsuaki Taguchi
President & Representative Director,
BANDAI NAMCO Holdings Inc.

to achieve our objectives for the final year of the plan — net sales of ¥600.0 billion and operating income of ¥60.0 billion. In addition, these objectives do not represent a one-time achievement of a certain level of performance. We must approach them as a transit point on the way to sustained growth in the future. Accordingly, we will take on the challenge of implementing initiatives to further strengthen our foundation.

What steps are being taken for the next Mid-term Plan?

Taguchi: Specific details have not been finalized, but we recently started the formulation process by discussing where we want the Group to be in 10 years. We had an off-site meeting of all officers, including outside directors and outside audit & supervisory board members, to determine the Group's long-term vision. At this meeting, we reemphasized the need to bolster the IP axis strategy, which will remain our biggest strength in the years ahead. We also recognized that we will achieve growth by leveraging this strength on a worldwide basis. Accordingly, I believe that, rather than striving to finalize things on our own, we need to think about the Group's growth while drawing on outside knowledge and capabilities through the formation of a wide range of partnerships.

* IP: Intellectual property, such as characters

Leveraging technical capabilities and rapidly addressing new platforms

Would you discuss the circumstances in the Toys and Hobby Business?

Taguchi: From the fall, new programs were launched for *KAMEN RIDER Ex-Aid*, *Heybot!*, and *Digimon Universe App Monsters*. Of these, *KAMEN RIDER Ex-Aid* has drawn considerable attention. Children can easily adapt to its TV game motif, and its design leverages luminescent colors. This bold challenge has been well received by children, and *KAMEN RIDER Ex-Aid* products have made a strong start, even for products in the *Heisei Riders* series. This will be a key product for the busy year-end sales period. Repeated broadcasts have been establishing the popularity and recognition of *Heybot!* animations, which are for elementary school boys, and of *Digimon Universe App Monsters* animations. Accordingly, we will utilize products to carefully nurture these IP.

In addition, targeting the busy year-end sales period, we will launch major products in the *Power Rangers* and *Ultraman* series for boys and the *Pretty Cure!* and *Himitsu no Cocotama* series for girls. Also, *Tamagotchi* reached its 20th anniversary, and we launched an anniversary product, *Tamagotchi m!x*. Characters that appeared in the first-generation *Tamagotchi* also make an appearance in the anniversary product. In this way, two generations — parents and children — can enjoy playing *Tamagotchi* together.

What is the situation overseas?

Taguchi: For *Power Rangers*, which is a leading IP in Europe and the Americas, there will be a nationwide movie launch in the United States in March. In advance of this opening, a new TV series — *Ninja Steel* — will start. In conjunction with TV and movies, we will conduct a series of large-scale promotions, and we will work to build on these initiatives to promote business in FY2018.3 and thereafter. For girls, the *Miraculous* action doll has become popular, and moving forward we will nurture it as new IP. In addition, in Europe and the Americas, we are working to step up initiatives for figures and other collectable products as well as for plastic models. As one of those initiatives, this fall we commenced sales of *DRAGON BALL* plastic models in conjunction with the launch of *DRAGON BALL XENOVERSE 2* game software and an overseas campaign for *DRAGON BALL Z DOKKAN BATTLE* game application.

In Asia, *Gundam* plastic models continue to record favorable results. We have started the distribution for the second season of *Mobile Suit Gundam: Iron-Blooded Orphans* at the same time in Japan and overseas, and we are also holding events in locations throughout Asia. In these ways, we are implementing detailed marketing initiatives. Moreover, for *KAMEN RIDER*, in overseas markets we are selling products that have the same specs as products in Japan. In addition, we are also

offering localized transformation belts with varying specs and at different price ranges. In these ways, we are implementing initiatives to deepen our ties with local markets.

What is the situation in the Network Entertainment Business?

Taguchi: Currently, virtual reality (VR) and augmented reality (AR) are drawing attention. In conjunction with the recently introduced PlayStation VR, we have launched *SUMMER LESSON*, which enables users to enjoy characters and communications, and *The iDOLM@STER Cinderella Girls: Viewing Revolution*, which enables users to enjoy highly realistic live performances. Both of these products have been highly evaluated. In addition, we also plan to offer titles for Nintendo Switch, which is Nintendo's new platform. One of our strengths is the ability to rapidly respond to the launch of new platforms because we are always in contact with advanced new technologies. Moving forward, we will continue to take on challenges that leverage the technical capabilities of the BANDAI NAMCO Group.

Moreover, in home video game software, as I mentioned, *DARK SOULS III* has become a major hit. In addition, *DRAGONBALL XENOVERSE*, which launched in February 2015, has recorded shipments of more than 4 million units. *DRAGON BALL XENOVERSE 2*, the latest entry in the series, was launched in October and initial shipments surpassed 1.4 million units. We will continue to implement online events and other initiatives to sustain the popularity of *DRAGON BALL XENOVERSE 2* for an extended period of time.

Focus Products in Each Business



KAMEN RIDER Ex-Aid transformation belt is off to a good start.



Worldwide, *DRAGON BALL Z DOKKAN BATTLE* has surpassed 100 million downloads.

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In visual packaged products, the new series *Love Live! Sunshine!!* is recording favorable results.

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How is the Network content business doing in Japan and overseas?

Taguchi: In Japan, *The iDOLM@STER Cinderella Girls: Starlight Stage*, which has been available for more than a year, continues to maintain one of the top popularity rankings among rhythm game applications. It has become an extremely well-established, long-lived product. Moreover, *DRAGON BALL Z DOKKAN BATTLE* recently surpassed 100 million downloads worldwide. Overseas, solid market presences have been created by *DRAGON BALL Z DOKKAN BATTLE* and other products that are distributed online around the world, as well as by *Naruto Mobile* in the China market. In the second half of the fiscal year, we will launch additional new titles in Japan and overseas. We will also work to promote *DOKKAN BATTLE* and *ONE PIECE Treasure Cruise* by implementing large-scale campaigns overseas. In these ways, we will strive to further increase enthusiasm for the network content business.

Would you discuss the situation in the Amusement Business?

Taguchi: Existing amusement facilities in Japan have recorded year-on-year improvement in results. In addition, our differentiated content and locations are popular. These include *Seaside Kids' Beach*, which leverages our technical capabilities, as well as *ANI ON STATION* and *Nazo Tomo Cafe*, which are new business formats. In amusement machines, which faced difficult conditions in the previous fiscal year, we will aim to improve revenues through initiatives with a streamlined group of popular titles. Furthermore, we are also working on a variety of projects that combine amusement facilities and machines. *VR ZONE Project i Can*, which is offered on a limited-time basis, grew out of those initiatives. This project provides value that is only available from the BANDAI NAMCO Group. Moving forward, we will continue working to provide differentiated locations and content.



Working with the attitude that we must take on challenges in order to gain momentum and accelerate evolution

What is the situation in the Visual and Music Production Business?

Taguchi: *GIRLS und PANZER* has become an exceptionally long-run theatrical film, and this IP has earned a high level of popularity, centered on visual and music packaged software. Recently, we announced that we had decided to produce *GIRLS und PANZER: The Final Chapter*, and fans are showing increasing interest in the series. For the *Love Live!* series, *Love Live! Sunshine!!* has been introduced, and the *Aquors* school idol group has been launched to follow up the $\mu's$ group. Support has been received from existing fans and new fans are also being created, resulting in ideal launches. For *Mobile Suit Gundam*, we will continue to provide products aligned with the characteristics of each target group. *THE ORIGIN* series and *Thunderbolt* are for older customers, while the second season of *Mobile Suit Gundam: Iron-Blooded Orphans* is for teenagers.

In addition, *IDOLiSH7*, which originated from a game application, has recorded rapid growth. The game itself is popular, and the music CD has also recorded extremely favorable sales. From this fall, we launched the *Dream Festival!* and *Magic-Kyun! Renaissance* animations, which are targeted at adult women and feature multidimensional male idols. The Group will focus on implementing IP development initiatives that will foster the acquisition of new groups of customers.

Where will the Group focus its enthusiasm?

Taguchi: In addition to working to achieve the Mid-term Plan, our top priority will be to achieve sustained growth for the Group and to expand corporate value over the medium to long term. Targeting those objectives, we will always work with a sense of urgency, and maintain a rigorous focus on the customer. On that basis, we will strive to track the current changes in the

times and to rapidly implement initiatives. Moreover, in addition to taking steps to address current issues, we will also invest in IP, businesses, and services from a medium to long term viewpoint. We will work to build a business portfolio that includes not only Japan but also markets around the world. Thanks to everyone's hard work, the Group is now making good progress. Moving forward, the entire Group will work together with the attitude that we must take on challenges in order to gain momentum and accelerate evolution.

The approach of “taking on any challenges that have interesting potential” has been adopted throughout Sunrise, which has created a number of visual products that are the focus of attention.

In recent years, Sunrise Inc. has created a number of popular visual products, such as the *Mobile Suit Gundam* series, which is a big hit, and *Love Live!* series, which has become a major boom that could be called a social phenomenon. In this section, Sunrise President Yasuo Miyakawa discusses the role of Sunrise as a member of the BANDAI NAMCO Group, the Group’s distinctive strengths, the current status of BANDAI NAMCO Pictures INC., which was established last year, and the future outlook.

Sunrise has been known for its robot animations, but the company has also created a number of other popular products.

Miyakawa: I think we are having good results with our approach of “taking on any challenges that have interesting potential.” Previously, we certainly had an image as a robot animation company, but Sunrise has developed a culture of taking on interesting challenges, and this free and open atmosphere has resulted in the creation of multiple products. In addition to the animation of the underlying work, we have a tradition of nurturing our business, with a commitment to original products. One of the reasons why the *Love Live!* series is enjoying such success is that Sunrise has a culture of nurturing original products.

Being a member of the BANDAI NAMCO Group is also key strength.

Miyakawa: I think that the Group has an amazing collaborative power. In conjunction with animations, Group companies are working together, not only in toys and games but also in such areas as music and live events. Group companies do not take a scattered approach to commercialization. Rather, activities are carefully controlled on a Groupwide basis with an IP-centered approach. These comprehensive strengths are important, and I believe that they are unique to the BANDAI NAMCO Group.

What do you think about the huge success of the *Love Live! Series*?

Miyakawa: In producing animations, we do our utmost to carefully create the products. The director, scriptwriter, and staff were

strongly committed to this project, and we focused on quality above all else. That led to the careful creation of the animations, and to coordinated initiatives including animations, music, and live events.

What led to the mix of video, music, and live events?

Miyakawa: I think the start can be traced to the *Mobile Suit Gundam SEED FESTIVAL*, a full-fledged live event integrating video and music that was held in 2003. Subsequently, in 2006 Lantis Co., Ltd. joined the Group, and in 2010 BANDAI NAMCO Live Creative Inc. was established. In this way, we developed the ability to conduct full-scale music and live event business activities that we can control ourselves. With the entire Group working together on video, music, and live events, we developed the ability to create stage presentations that reproduce the IP world-setting in an extremely high-fidelity manner that satisfies customers. This marked a significant step forward for us, and the result can be seen in the *Love Live!* series.

What role does *Gundam* play for Sunrise?

Miyakawa: The *Gundam* content comprises three basic elements. These are robots, a war-time setting, and a group of youths. Based on these elements, we have created a wide variety of products by working freely in line with the times. As a result, *Gundam* has maintained its popularity for 37 years. In addition, I also think an important role was played by the development of the product world-setting, with important roles played both by both products, such as *Gundam* plastic models, and by animations.

This could be said not just about *Gundam* but about all products. The creation of a product starts from the strong determination of a single employee who says “I want to make this.” The hit products that we have created to date include many that were originally opposed by nine out of ten people at the planning stage because the originality of the products was not understood. Projects that are supported by nine out of ten people tend to be simple extensions of something that was done in the past. My priority in planning meetings is to focus on what the producers believe in and are committed to. I have confidence in the strong commitment of the company’s producers and I trust them to do a great job.

Multiple new programs are being broadcast.

Miyakawa: In the fall, broadcasts were started for the second season of *Mobile Suit Gundam: Iron-Blooded Orphans*, *Dream Festival!*, *Magic-Kyun! Renaissance*, *Classicaloid*, and *Heybot!*. The *Heybot!* IP has invigorated the Group through collaborations with toys and games for elementary school boys. *Dream Festival!* and *Magic-Kyun! Renaissance* are



Mobile Suit Gundam: Iron-Blooded Orphans
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Love Live! Sunshine!!
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Heybot!
©BNP/BANDAI,HEYBOT!PROJECT

targeted at women, where there is a market but we have not yet captured a sufficient share. Furthermore, *ClassicaLoid* is an entirely new product that aims for integration with

classical music. We are taking on new challenges for each of these products, so please look for new developments.

Continuing to create IP and products that reflect a commitment to the original work

What is your view of the current situation for IP?

Miyakawa: Currently, I am working as a member of the government's Cool Japan Promotion Council. The communication of Japan's culture around the world will be a positive development for the industry, and I will strive to help advance this initiative in a forward-looking manner from the viewpoint of IP. The closing ceremony for the Rio Olympics changed the world's view of and interest in Japanese IP, and this will also be a tailwind for the industry. Furthermore, I am working as a member of the Intellectual Property Strategy Promotion Bureau. It has been said that those who control intellectual property control industrialized countries. The government is also focused efforts on IP, which is extremely important for our industry. Our competitor are located around the world, so we need to move beyond the domestic approach that we have followed in the past and take on challenges with strong determination. We need to carefully consider not only how to create hit products but also how to protect our IP.

A year has passed since the establishment of BANDAI NAMCO Pictures.

Miyakawa: BANDAI NAMCO Pictures was established in April 2015 through the separation of a portion of the production department at Sunrise. The company's aim is create animations, especially animations for children and families. BANDAI NAMCO Pictures has just gotten started, but moving forward the company will focus its efforts on continued initiatives to create the products that will follow *Aikatsu!* and *BattleSpirits*. In product development, BANDAI NAMCO Pictures will continue to focus on products for elementary school children and other children. Also, considering the trend in Japan toward fewer children, in the future we must create products

that are popular not only in Japan but around the world.

What are your policies toward work?

Miyakawa: My personal policy is "let's have fun doing this." Next, I believe in working to achieve the things that you want to do. For example, one of the reasons why we established a live events company is that I personally like live events. Everyone has occupations that fascinated them when they were young, and things that they want to do. I think it is a good thing for those interests to be utilized and achieved on the company "stage." That process generates creativity and enthusiasm for work and leads to dynamic business activities.

From the company's viewpoint, we will continue working to create original products while placing a high priority on the underlying work. On the other hand, in creating visual products there has to be a period for "development." Moving forward, I would like us to achieve a good balance between products that are the focus of front-line initiatives and products that are in development.

What type of company would you like to see Sunrise become in the years ahead?

Miyakawa: I would like to see Sunrise become a company that rapidly creates IP and original products. Also, right now the company needs to improve in the area of consistently creating new video products each year. I would like to achieve this goal. Initially, this will entail initiatives on a small scale and may require some time. However, I would like Sunrise to be a company that can work together with new partners and talent, build relationships, and continue to create high-quality video products.



Yasuo Miyakawa
President & Representative Director
Sunrise Inc.

Profile of President Yasuo Miyakawa

<Background>

April 1981	Joined BANDAI CO., LTD.
January 1996	Director of Bandai Digital Entertainment
April 2000	Joined Sunrise Inc.
April 2001	Network Development Manager
April 2004	Director
April 2008	Managing Director
April 2011	Senior Managing Director
April 2013	Vice-President & Director
April 2014	President & Representative Director (current position)
April 2015	President & Representative Director of BANDAI NAMCO Pictures INC. (current position)