

**Management**

Interview with the President

New Mid-term Plan of the BANDAI NAMCO Group

In accordance with our Mid-term Vision — *CHANGE for the NEXT: Empower, Gain Momentum, and Accelerate Evolution* — we will aim to be a group that continually changes as we move forward toward the next stage under our new Mid-term Plan.

BANDAI NAMCO Holdings Inc. recently announced the details of its new Mid-term Plan, which starts from April 2018. In this issue of the newsletter, BANDAI NAMCO Holdings' President Mitsuaki Taguchi discusses the new Mid-term Plan, including the main strategies, the organizational framework to advance those strategies, and his thoughts about the formulation of the plan.

The results for the third quarter of FY2018.3 have been announced.

Taguchi: In the first nine months of FY2018.3 (April to December, 2017), we recorded net sales of ¥483.1 billion and operating income of ¥53.4 billion.

In the Toys and Hobby business, established IP* products remained popular in Japan, including the *KAMEN RIDER* series and the *DRAGON BALL* series. In the Network Entertainment business, network content for Japan and overseas markets continued to register strong results, and a solid performance in home video games was supported by the new *Tekken7* and by repeat sales in Europe and the Americas. In the Visual and Music Production business, continued popularity was enjoyed by the *Love Live!* series and the *GIRLS und PANZER* series.

In this way, products and services based on core IP were popular in each business field, and our sales increased from the same period of the previous year. However, in terms of profits, we did not reach the level achieved in the corresponding period of the previous fiscal year. This was due to differences in the launch timing of core products and in the product mix, as well as to upfront costs associated with the opening of VR and other new facilities.

For the full-year forecast, we considered the results in the first nine months and the current business trends. Network content

continues to record solid results, both in Japan and overseas, and accordingly we revised our sales forecast.

While the previous forecast called for net sales of ¥620.0 billion and operating income

of ¥57.0 billion, the current forecast is for net sales of ¥63.0 billion and operating income of ¥57.0 billion. The new Mid-term Plan starts in April. To ensure that it gets off to a solid start, we will do our utmost to reach operating income of ¥60.0 billion, which was the initial objective for the current plan's final year at the time the plan was launched. We will work tenaciously toward that goal.

The forecast for the FY2018.3 year-end dividend has been revised.

Taguchi: I will explain the details later, but from the new Mid-term Plan, which starts in April 2018, we will introduce a new approach to providing shareholder returns. We have also decided to apply this approach in advance to the year-end dividend for FY2018.3. Consequently, the forecast for the year-end dividend for FY2018.3 is ¥83 per share (base dividend of ¥20, performance-based dividend of ¥63), and the forecast for the annual dividend is ¥95 per share (base dividend of ¥32, performance-based dividend of ¥63).



BANDAI NAMCO Holdings' President Mitsuaki Taguchi explains the new Mid-term Plan (February 9)

Would you provide an overview of the current Mid-term Plan?

Taguchi: Under the current Mid-term Plan, which started from April 2015, we aimed to further strengthen the IP axis strategy, which is our strength, and to expand our operations in global markets. We faced challenges in certain areas, but through the hard work of our employees we were able to make progress that was basically in line with our expectations, both quantitatively and strategically. Specific results included progress with established IP, such as the *Mobile Suit Gundam* series and the *DRAGON BALL* series, for which we were able to achieve new roll-outs through innovation in products and services.

We also worked to nurture new IP into established IP, including the *Love Live!* series and *IDOLiSH7*. Furthermore, we expanded business for the mature fan base in Japan and overseas, and we also substantially expanded IP outlets, such as live events, network content in Japan and overseas, and home video games overseas.

*IP: Characters and other intellectual property

We will introduce a capital policy emphasizing cost of capital, and to drive rapid strategic advancement we will transition to system of five business units.

Would you discuss any issues that remain from the current Mid-term Plan?

Taguchi: One issue was that I think we could have done even more in regard to creating new IP. Under the new Mid-term Plan, we will implement aggressive initiatives to drive the creation of new IP. In addition, looking overseas, the Toys and Hobby businesses faces some remaining challenges in Europe and the Americas. Furthermore, in Asia we conducted aggressive initiatives and were able to expand our business. In China, however, we have not yet made a full-blown entry into the market. We will take steps to change our approach in overseas markets, in line with the characteristics and situations in each region.

On the other hand, I believe that there are also new opportunities. Combinations of our

IP axis strategy and new technologies, such as VR, will continue to foster unprecedented new possibilities. Also, the spread of online visual product distribution is expanding the popularity of Japanese IP on a worldwide basis. In China, where we have not yet implemented a full-blown roll-out, the entertainment market is recording significant growth. Under the new Mid-term Plan, we will strengthen the IP axis strategy from all perspectives, including IP outlets, areas, and targets, and we will strive to further increase our opportunities.

What was the focus of attention in the formulation of the new Mid-term Plan?

Taguchi: Currently, the operating environment is undergoing dramatic change on a global scale, and the players and rules in the

entertainment field are themselves changing. We have reached a stage where simply following the previous models will not be enough. We have a strong sense of crisis because we will not be able to survive if we simply extend our previous ways of doing things. In formulating the new plan, we worked with the strong belief that we had to change as we targeted the next stage. First, we considered and discussed where the Group should aim to be in 10 years. We determined that, as a leading entertainment company, in 10 years we would like to be the world's most inspiring entertainment group for children and other fans around the world. We all agreed that we would like to be a group of companies and employees that draw on abundant individuality to meet expectations, not only in terms of volume but also in the quality and appeal of our products and services. We formulated the new Mid-term Plan from the viewpoint of what we have to do over the next three years in order to make progress toward that vision.

Would you explain the new Mid-term Plan vision?

Taguchi: The vision of the new Mid-term Plan is *CHANGE for the NEXT: Empower, Gain Momentum, and Accelerate Evolution*. In order to make progress toward becoming the leading entertainment company that we want to be in 10 years, and to demonstrate our industry presence, I would like to make the next three years a period of "CHANGE." This vision encompasses a range of meanings, including the following. (1) Change to an IP-creating company — We will aim to further strengthen the IP axis strategy and drive the increased creation of new IP. (2) Change to a new business model — In the midst of a changing business environment, we will change to a business model appropriate for the time. (3) Change to a unifying ALL BANDAI NAMCO concept — To achieve further penetration and expansion of the IP axis strategy, in each region Group members will work together and take the initiative on a regional axis basis. (4) Change to a corporate group centered on people — We will encourage employees to leverage their wide-ranging individuality, work energetically, and take on challenges. We should strive to make the three-year period of the new Mid-term Plan be a time for implementing change in all

areas as we aim for the next stage and strive to create new entertainment that meets the expectations of fans. In accordance with this idea, we will advance 4 main strategies — the IP axis strategy, business strategy, region strategy, and personnel strategy.

Would you explain the numerical targets under the new Mid-term Plan?

Taguchi: Under the current Mid-term Plan, we have aimed to establish a business foundation that can continue to generate, in a stable manner, net sales of ¥500.0 billion and operating income of ¥50.0 billion, without regard to whether or not we have hit products at that time. Under the new Mid-term Plan, we will strive to further reinforce our business foundation and to achieve continued growth. In FY2021.3, the final year of the new plan, we are aiming for record-high sales and profits, with net sales of ¥750.0 billion, operating income of ¥75.0 billion, operating income margin of 10% or more, and ROE of 10% or more.

Would you describe the capital policy?

Taguchi: In preparing for the start of the new Mid-term Plan, we considered our capital policy from various perspectives, such as the direction the Group will take and the type of management we should implement. As a result, with increased attention to cost of capital and ROE, we changed to the following policy for returns — Provide a return to shareholders that targets a total return ratio of 50% or more and based on stable dividend payments of 2% of DOE. We added DOE as an indicator in order to increase awareness of the cost of capital, and we adopted the total payout ratio as an indicator because it will facilitate a flexible shareholder return policy with an emphasis on capital efficiency and ROE, which are of considerable interest to stakeholders.

We will consider the acquisition of our own shares as necessary. In that regard, we will give comprehensive consideration to such factors as the share price trends, investment projects, and business trends. We have also established standard internal rules based on multiple indicators. On this basis, we will look at the overall situation.

New Mid-term Plan of the BANDAI NAMCO Group

Please discuss the organizational framework.

Taguchi: From April, the name of the aggregated business companies will change from "SBUs" to "Units," and the Group will shift from a 3-SBU structure to a 5-Unit structure. This will enable swifter advancement of the main strategies. The Network Entertainment business will be reorganized into the Network Entertainment Unit and the newly established Real Entertainment Unit. In the Real Entertainment business, the core company will be BANDAI NAMCO Amusement Inc., which combines BANDAI NAMCO LIMITED and the amusement machine business of BANDAI NAMCO Entertainment Inc. The Real Entertainment Unit will utilize real-world venues to provide settings and content that leverage the distinctive strengths of BANDAI NAMCO. In Visual and Music Production, the core company will be BANDAI NAMCO Arts Inc., which combines BANDAI VISUAL CO., LTD. and Lantis Co., Ltd. The unit will work to strengthen IP production with more-thoroughly integrated visual products,

music, and live events. The IP Creation Unit, a new independent unit that was established as a spin-off from Visual and Music Production, will focus on the creation of new IP, with SUNRISE INC. as the core company.

After the Ordinary General Meeting of Shareholders in June, the presidents of the Units' core companies will serve concurrently as directors of the holding company. In this way, we plan to implement Group management from the viewpoints of both overall Group optimization and the growth of each business. The holding company will change from the current system of two representative directors to one representative director. Chairman and Representative Director Shukuo Ishikawa will become Chairman and Director from April. After the Ordinary General Meeting of Shareholders in June, Mr. Ishikawa will become Advisor and will continue to provide a wide range of management advice.

Numerical Targets of the New Mid-term Plan

	FY2018.3 forecasts	FY2021.3 targets
Net Sales	¥630.0 billion	¥750.0 billion
Operating Profit	¥57.0 billion	¥75.0 billion
Operating profit margin	9.0%	10.0% or more
ROE	11.4%	10.0% or more

Capital Policy (Shareholder Returns Policy)

Revise shareholder returns policy to place more emphasis on capital costs and ROE

Existing policy	Provide a return to shareholders that targets a payout ratio of 30% in accordance with consolidated operational results and based on stable annual dividend payments of ¥24 per share.
New policy	Provide a return to shareholders that targets a total return ratio of 50% or more and based on stable dividend payments of 2% of DOE

*Implement revised policy ahead of schedule, starting with the year-end dividend for FY2018.3

New Organizational Framework



We are stepping up investment in IP creation and working to expand overseas business fields, such as in China, Europe, and the Americas.

Would you discuss the main strategy “accelerate evolution in IP axis strategy”?

Taguchi: In “accelerate evolution in IP axis strategy,” we will work to “boost capability to create IP (structural changes)” and “invest aggressively in IP creation.” In working to boost capability to create IP (structural changes), the front lines throughout the Group will give the highest priority to creating and nurturing IP, and will continue to pursue innovation in established IP through products and services. We will strive to create IP not only within the Group but also through open cooperation with a wide range of external partners. In addition, the most important mission of the newly established IP Creation Unit will be the creation and nurturing of new IP. Working in close cooperation with Group businesses, the unit will advance the creation of IP coordinated with products and services. We will also bolster investment in IP creation, such as visual production, cooperation with other companies, and enhancement of our technical capabilities in production. Moreover, we will establish systems so that we can secure talented human resources

in a stable manner to facilitate the ongoing, steady provision of high-quality products.

In investing aggressively in IP creation, on top of normal investment, we will invest ¥25.0 billion in IP creation over the three years of new Mid-term Plan (other than investment in partner companies). Our plans for this ¥25.0 billion include investment in original IP creation in each unit; Groupwide investment through the IP Strategy Headquarters; and investment to support a wide range of challenges within the Group, such as new businesses. This will include certain short-term investment, but the majority will be investment aimed at planting seeds for the medium to long term, with a focus on where we want to be in 10 years. Through this investment over a period of three years, we would like to make sure that the IP axis strategy remains strong in the years ahead.

Would you discuss the business strategy “empower push into new entertainment”?

Taguchi: Under the business strategy “empower push into new entertainment,” we will establish

and enhance our business infrastructure, expand and strengthen our business fields, and promote incubation. To establish and enhance business infrastructure, first, we established the Real Entertainment Unit. This unit will provide real entertainment that utilizes real-world venues, which are points of customer contact; technological development capabilities; and expertise in leveraging IP worldviews. We will draw on our strength in having one value chain that extends from the development of machines and content to the provision to customers, and work to implement efficient operations. In addition, we will focus on the roll out of venues that are differentiated through BANDAI NAMCO’s distinctive strengths in VR and other areas, and of new types of venues coordinated with Group businesses.

Also, targeting the creation of new digital services, we will concentrate functions and strengthen and enhance platforms. First, we will promote recognition of the Group’s IP and products by concentrating video distribution functions in Japan into one company and strengthening distribution of animations and promotional images, Next, through BXD Inc., which was established through joint investment by BANDAI NAMCO Entertainment Inc. and Drecom Co., Ltd., in the spring we will launch a new platform — *enza* — and commence

distribution of browser games for smartphones. In addition to game distribution, we plan to roll out initiatives that leverage our strengths and are coordinated with Group businesses. Furthermore, we will enhance the fan club business and deepen connections with IP fans.

The Group is also working to expand and strengthen its business fields.

Taguchi: Under the new Mid-term Plan, we will energetically roll out business initiatives for fields and targets that offer significant opportunities. Moving forward, we will continue working to strengthen our products for the mature fan base, which has substantial growth potential in Japan and overseas. To that end, we established BANDAI SPIRITS CO., LTD., and we will concentrate the mature-fan business of the Toys and Hobby Unit in this new company, including plastic models, collectable items, and lottery-related products. In particular, we will focus on overseas expansion. For example, in North America, we will strengthen our sales network, and in China we will expand *Gundam* plastic models and aggressively utilize e-commerce. Moving forward, we will continue aiming to be the

world’s number one comprehensive hobby entertainment company. To that end, we will develop products that will meet the needs of fans and accelerate our business operations.

The live event market continues to record growth in Japan and overseas. BANDAI NAMCO Arts Inc. combines BANDAI VISUAL CO., LTD. and Lantis Co., Ltd. Through this initiative, we will further reinforce IP production with more-thoroughly integrated visual products, music, and live events. In addition, we will step up live events, live viewings, and sales of goods for IP fans in overseas markets as well as in Japan. Also, e-sports events are drawing attention around the world as a new genre of live event, and we will work in cooperation with industry organizations and companies to implement full-blown initiatives in this area, centered on BANDAI NAMCO Entertainment Inc.

Moreover, “venues” are also an important element in the enhancement of live events. We recently acquired a 3,500 square meter site in Shibuya-ku, Tokyo, where we plan to build an integrated facility that will offer venues for live music, theater productions, and other events. After it is completed, we will utilize this facility for a wide range of the Group’s live events.

Would you discuss the region strategy “Gain momentum with ALL BANDAI NAMCO”?

Taguchi: Each region will form a unifying ALL BANDAI NAMCO concept and aim to advance strategies autonomously on a regional axis basis. In Japan, we will continue striving to be number one in each market and business. In Europe and the Americas, we will focus on achieving growth in the network content and home video game businesses, and we will change our approach in the Toys and Hobby business. In Asia, we will move forward with the implementation of detailed business initiatives in line with regional characteristics.

China is positioned as a key region in the new Mid-term Plan. There are many fans of Japanese IP in China, and the entertainment market is expected to record continued growth. Accordingly, we will make a full-blown entry into China. To that end, we established a holding company in Shanghai in December 2017. Moving forward, we will strengthen collaboration with local partners, and we will advance a strongly localized IP axis strategy incorporating both Japanese and locally originated IP.

Outline of the New Mid-term Plan



Overview of subsidiaries after reorganization

BANDAI SPIRITS CO., LTD.

Establishment	February 15, 2018
Location	Komagata, Taito-ku, Tokyo
Representative	Masaru Kawaguchi President and Representative Director
Common stock	¥100 million (wholly-owned subsidiary of BANDAI NAMCO Holdings Inc.)
Description of business	Planning, development, manufacture and sales of toys, plastic models, prizes for convenience stores and so forth for mature fan base
Number of employees	About 450



BANDAI NAMCO Amusement Inc.

Change in trade name	April 1, 2018
Location	Mita, Minato-ku, Tokyo
Representative	Hitoshi Hagiwara President and Representative Director
Common stock	¥10,000 million (wholly-owned subsidiary of BANDAI NAMCO Holdings Inc.)
Description of business	Real entertainment business, including planning, production, and sales of amusement machines, and planning and operation of amusement facilities and facilities incorporating virtual reality (VR) and IP
Number of employees	About 750



Amusement

BANDAI NAMCO Arts Inc.

Change in trade name	April 1, 2018
Location	Ebisu, Shibuya-ku, Tokyo
Representative	Kazumi Kawashiro President and Representative Director
Common stock	¥2,182.5 million (wholly-owned subsidiary of BANDAI NAMCO Holdings Inc.)
Description of business	Planning, production, and sales of visual and music content and package software; planning, production, sales, and management, etc., of music masters and musical works
Number of employees	About 240



BANDAI NAMCO Arts

We are focusing Group capabilities to take on challenges and establish a presence that is indispensable to fans around the world.

In China, we are already offering network content services, which have become popular, and during the period of the new Mid-term Plan, we will consider the establishment of business companies for the Toys and Hobby business and the Visual and Music Production business. Through the implementation of a range of Groupwide initiatives, we will work to achieve expansion in the scale of the Group's operations in China.

To advance these initiatives under the ALL BANDAI NAMCO concept, we will consider taking steps to build a system to further reinforce collaboration, such as moving toward an integrated office in each region. In addition, to bolster our presence around the world and to enhance Group unity, we will consider efforts to promote the BANDAI NAMCO brand on a worldwide basis.

Please explain the personnel strategy.

Taguchi: In advancing all of our strategies, the Group's human resources are our greatest asset. I believe that the BANDAI NAMCO Group should seek to be "a group centered on human resource management, with a focus on entertainment and imagination," where employees with various individual characteristics can work with motivation and energy. We have been working for some time on such initiatives as training the necessary global personnel, enabling personnel exchange within the Group, and establishing systems for promoting healthy, energetic working styles for employees. In addition, under the new Mid-term Plan, we will take steps to advance systems that help employees to take on challenges, such as frameworks that provide support in IP creation, and we will build a foundation that enables employees to take the initiative on the front lines.

Do you have a message for our readers?

Taguchi: I believe that a key strength of the BANDAI NAMCO Group is the advancement of shared values across our various business domains under the ALL BANDAI NAMCO concept, in accordance with the IP axis strategy. I think we should strive to achieve a presence that is indispensable to fans around the world. To that end, we should take a sincere approach to IP and fans, leverage our experience, and aim to be a group that can draw out and maximize the appeal of IP through products and services. However, our environment is now undergoing dramatic change, and to give shape to this idea, we need to do more than simply rely on previous ways of doing things. I think we need to transition to a new IP axis strategy in line with the times. At this point, if we do not change, BANDAI NAMCO Group will not be able to survive in the future. With that sense of crisis, and without being bound by previous ways of doing things, we will approach this change as an opportunity to take on new challenges. I would like to ask for your continued support as everyone at the Group works together to take on new challenges with boundless curiosity.