



Interview with the President

First Quarter of FY2020.3 — Off to a Good Start Groupwide Effort to Achieve the Full-Year Forecast

The BANDAI NAMCO Group's mid-term plan will soon reach the halfway point. In this issue of the newsletter, BANDAI NAMCO Holdings' President Mitsuaki Taguchi discusses the results in the first quarter of FY2020.3 (April to June, 2019) and the trends in each business.

The results for the first quarter have been announced.

Taguchi: In the first three months of FY2020.3, we achieved net sales of ¥159.2 billion and operating profit of ¥22.8 billion. This marks the achievement of a new record high for first quarter sales. In operations, favorable results were recorded by the Toys and Hobby business. Products for the mature fan base generated solid results in Japan and overseas, and toys and toy-related items registered firm results in Japan. The Network Entertainment business recorded solid sales of network content in Japan and overseas and favorable repeat sales of home video games.

The forecasts for the first six months of the fiscal year have been revised.

Taguchi: With consideration for our results in the first quarter, for the lineup of products and services planned for the second quarter, and for our marketing plans, we revised the profit forecast for the first six months of the fiscal year. The forecast for net sales in the first half is ¥340.0 billion, unchanged from the initial forecast, while the forecast for operating profit has been changed from ¥31.0 billion to ¥40.0 billion. Looking at the first half operating profit forecasts by business, the forecast for the Toys and Hobby business has been changed from ¥10.0 billion to ¥14.0 billion, and the forecast for the Network Entertainment business has been changed from ¥16.0 billion to ¥21.0 billion.

As for operating profit in the Network Entertainment business, the forecast for the second quarter is lower than the results in the first quarter, but this is not because we anticipate difficult business conditions. In network content, we launched one new title in Japan and overseas in the first quarter, but we plan to launch nine titles in the second quarter. Also, in home video games, we did not launch any major titles in the first quarter, but in late September we plan a worldwide launch of a new title, *CODE VEIN*. As a result, in both network content and home video games, we will incur development expenses as well as advertising and other marketing-related expenses, and accordingly we are planning for upfront expenses in the second quarter.

What is the outlook for the full fiscal year?

Taguchi: In regard to the full-year forecast for FY2020.3, we have not revised the initial forecasts for net sales of ¥720.0 billion and operating profit of ¥70.0 billion. Businesses are currently making favorable progress, but the operating environment is undergoing dramatic change on a worldwide scale, and in these circumstances, I think we will need to carefully monitor market and customer trends. In addition, we plan to launch multiple new major home video game titles in the fourth quarter. Also, targeting growth over the medium to long term, we will continue to aggressively implement investment in such areas as IP



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

development and technical research. Moving forward, the entire Group will continue working, without relaxing our efforts, in order to achieve the current full-year plan.

The Group is actively participating in large-scale overseas events.

Taguchi: The BANDAI NAMCO Group and rights holders launched *DRAGON BALL WORLD ADVENTURE*, a jointly sponsored tour event that visited eight cities around the world. Starting in San Diego in July, the tour then visited Shanghai, Mexico City, Hong Kong, and Cologne, for a total of five cities by August. In each of these cities, we highlighted the appeal of *DRAGON BALL* products and services. At the Anime Expo 2019, which was held in North America in June, Group members from Japan and overseas worked together under the ALL BANDAI NAMCO concept. We had an exhibit that centered on *Mobile Suit Gundam* and held a live event for *Love Live! Sunshine!!* Moving forward, we will leverage these types of opportunities, directly highlight the appeal of IP to fans around the world, and use the feedback received to enhance future business development initiatives.

*IP: Characters and other intellectual property

Working together under the ALL BANDAI NAMCO concept to implement initiatives in China, which we have positioned as a key region

What are the market trends in China?

Taguchi: China is positioned as a key region in the current Mid-term Plan. Under our holding company in Shanghai, we have established four business companies in China, and we are aiming to foster collaboration in the Chinese market under the ALL BANDAI NAMCO concept. The employees of the five companies work in the same office, and under this system they can communicate with each other in a natural manner. *Gundam* plastic models, *Ultraman* toys, smartphone game apps, and other products are currently popular, and sales are increasing. In addition, as a new initiative, in October BANDAI NAMCO Holdings Inc. and SHUEISHA Inc. plan to establish a joint venture company in Shanghai. The new company, which will be part of the Toys and Hobby business, will develop products based on manga for which SHUEISHA owns the copyright and sell them on e-commerce sites. We will strive to deliver products that meet the preferences of local IP fans and reflect a dedication to quality.

Would you discuss the trends in each business?

Taguchi: In the Toys and Hobby business, *Gundam* plastic models will reach their 40th anniversary in 2020, and accordingly we are working to increase sales of *Gundam* plastic models in Japan and overseas. From July, we began distribution of *SD Gundam World Sangoku Soketsuden*, a

new animation that will eventually be available in 23 countries and regions outside of Japan. This visual product reflects a strong awareness of China and other Asian regions, such as the theme of the History of the Three Kingdoms (Sangokushi). In addition to the distribution of this product, we will also work to further increase sales of *Gundam* plastic models.

Moreover, we will strengthen our production system to address demand, which is expected to increase due to expanding overseas sales of *Gundam* plastic models. Up to this point, we have manufactured these products at the Bandai Hobby Center manufacturing base in Shizuoka and at Group companies in Japan. We have also commissioned cooperating plants in China to make certain products. Moving forward, we will expand the floorspace and augment the production facilities at the Bandai Hobby Center. The new building that will house the additional floorspace is expected to start operation in fall 2020. In this way, we plan to expand the production capacity of the Bandai Hobby Center to about 1.4 times the current level.

Furthermore, we have started distribution of *ZENONZARD*, a digital card game that leverages AI. This is the first project from the BANDAI NAMCO Content Fund, which invests in IP creation from a medium to long term viewpoint. We will nurture *ZENONZARD* not only as a new genre but also as IP.

What is the situation in Network Entertainment?

Taguchi: In Network Entertainment, following *CODE VEIN*, we plan to launch additional worldwide home video game titles in 2020 — *DRAGON BALL Z KAKAROT* and *ONE PIECE Pirate Warriors 4*. In addition, although the timing has not yet been decided, we have announced the launch of *ELDEN RING*, an action RPG game developed jointly by BANDAI NAMCO Entertainment Inc. and FromSoftware Inc. This title has generated considerable buzz as a new product from the two companies that jointly produced the *DARK SOULS* series, which is a major worldwide hit.

In home video games and in network content, we are focusing on development that reflects a dedication to quality. By continuing to implement measures that appeal to customers, such as launching high-quality titles, offering download content sales, and holding events, we will aim to roll out products that can be enjoyed for long periods of time.

In addition, in game-related industries, the launch of a variety of new platforms has been announced. BANDAI NAMCO's basic policies are to consider everything from a customer-centric viewpoint and to take into account multiple platforms in line with customer needs. Moving forward, we will thoroughly consider what types of approaches are feasible and what customers expect.

What is the situation in Real Entertainment?

Taguchi: In Real Entertainment, existing facilities in Japan are recording favorable performances,

due in part to solid results with prize machines. Also, we are now stepping up the roll out of new formats that provide venues for customers to enjoy experiences that draw on BANDAI NAMCO's distinctive strengths, such as the *TONDEMI* sports athletic facility. As one part of those initiatives, in July we opened *MAZARIA*, a large-scale facility that leverages the know-how and technical capabilities of BANDAI NAMCO to reproduce the worldview of IP. *MAZARIA* enables customers to experience

the sensation of entering the worlds of animations and games. Making the most of the location in Ikebukuro, Tokyo, we will work to capture demand from a wide range of fans, including inbound demand. In the August and September sales period, we held a large-scale campaign linked with the *ONE PIECE* film. Leveraging synergies with the film, we took steps to create buzz about IP and facilities, such as launching multiple figure prizes available only at our facilities.



Continuing to aim at becoming the Leading Innovator in Global Entertainment through our products and services

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

Taguchi: In Visual and Music Production, we are creating, nurturing, and producing IP through the integration of the three elements of visual, music, and live. Examples of the effectiveness of this approach to production include *IDOLiSH7* and the *Love Live!* series. At an *IDOLiSH7* live event held for two days in July, which included a live viewing, the number of attendees reached 160,000, and sales of goods were favorable. The *Love Live!* series has reached its ninth anniversary. In addition to sales of packaged software and goods, in January 2020 we plan to hold a *Love Live!* festival with the participation of four school idol group cast members who appear in the series. This event will be held in Japan at Saitama Super Arena. In these ways, we are working to create buzz about the IP through a variety of initiatives. Moving forward, we will work to roll out initiatives in line with IP characteristics and to aggressively produce new IP.

Please discuss the IP Creation Unit.

Taguchi: In IP Creation, we will provide a variety of types of *Gundam* visual products in conjunction with the *Gundam* 40th Anniversary. These initiatives will not only address the needs of current fans but also help us to make progress with new regions and new fans. Following *SD Gundam World Sangoku Soketsuden*, we plan to start distribution of the latest visual product in the *Gundam Build Series* from October, and then to release *Gundam Reconguista in G*

Theatrical Movie and Mobile Suit Gundam Hathaway.

In addition, we are also working aggressively in the creation of new IP. At the Anime Expo held in the U.S. in July, we announced the production of *ORBITALE RA*, a new science fiction feature-length animation from director Katsuhiro Otomo, as well as the new *AKIRA* animation project, and these projects generated buzz around the world. In IP Creation, we will continue working to create new topics of conservation.

How was the General Meetings of Shareholders?

Taguchi: We received a range of opinions and questions at the General Meeting of Shareholders held on June 24. Through communication with shareholders, I reaffirmed my understanding of how we are receiving support from a wide range of people, including not only investors but also fans of our products and services as well as fans of BANDAI NAMCO itself. In addition, BANDAI NAMCO Holdings Inc. was recently selected as a component issue for the Nikkei 225. Our selection as one of the 225 companies that represent listed companies in Japan is expected to enhance the presence of BANDAI NAMCO around the world. To maintain the trust and support of stakeholders around the world over the long term, we will continue working to be the leading innovator in global entertainment, offering "Dreams, Fun and Inspiration" through our products and services.

The Group is approaching the halfway point of the mid-term plan.

Taguchi: We are entering an age in which the appeal of Japanese IP is increasingly recognized around the world and its popularity is growing, while on the other hand previous ways of thinking and business models will, by themselves, no longer be effective. To continue to earn the support of customers in the next era, BANDAI NAMCO will actively implement measures to ensure that new products and services meet the needs of the new age and aggressively invest in planting seeds for the future. As indicated by the vision in the current Mid-term Plan, CHANGE for the NEXT — Empower, Gain Momentum, Accelerate Evolution, we will move forward to the next stage without fearing change.



▲ DRAGON BALL Z KAKAROT
©バードスタジオ/集英社・フジテレビ・東映アニメーション
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▲ IDOLiSH7 2nd LIVE "REUNION" live event
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◀ SD Gundam World Sangoku Soketsuden
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Addressing changes in customer needs by providing new forms of fun and leveraging individuality

The Real Entertainment Unit's mid-term vision is "We Create Entertainment Experience Only Here and Now Worldwide." The Unit is working to operate amusement facilities and develop amusement machines that leverage the distinctive strengths of the BANDAI NAMCO Group. In this section, Hitoshi Hagiwara, the president of BANDAI NAMCO Amusement Inc., the core company of the Real Entertainment Unit, discusses the market environment in Japan and overseas, facilities and amusement machines that are recording favorable results, and the Unit's strategies and vision for the future.

Would you discuss the environment in the Japanese amusement market?

Hagiwara: The biggest changes in the amusement market environment are in customer needs. The widespread use of smartphones has enabled customers to obtain vast amounts of information on their own, and there is growing demand for things that are different from what everyone else is doing. In this age, we cannot achieve customer satisfaction without addressing needs for so-called "intangible consumption," in which consumers act with clear purpose based on information that they have obtained themselves. Our Unit is not limited to the tangible goods business, in which we make and sell products. We are also aggressively developing the intangible experience business, where we provide inspiration that leverages the distinctive strengths of the BANDAI NAMCO Group. In these ways, we are addressing changing needs.

What are the BANDAI NAMCO Group's key points of competitive advantage and differentiation?

Hagiwara: The biggest strength of the BANDAI NAMCO Group is the IP axis strategy, which is being implemented on Groupwide basis. In

addition to our strengths in the ability to utilize diverse IP, the Group also has a range of business formats and extensive know-how, and accordingly we can develop a variety of types of fun based on different approaches. Last year, the amusement machine planning and development functions were separated from BANDAI NAMCO Studio Inc., a game content development studio, to establish BANDAI NAMCO Amusement Lab Inc. This step was taken with the objective of creating new fun for amusement facilities. Accordingly, I believe it will become a major strength in the development of attractions and activities that utilize new technologies.

In our pursuit of new types of fun, one turning point was the installation in 2016 of the *Indoor Seaside Kid's Beach* at *Asobi Park Plus*, an indoor playground. *Indoor Seaside Kid's Beach* uses the latest computer graphics and 3D audio effect technologies to reproduce the environment of the seaside in the tropics. It enables customers to experience the sensation of running barefoot in the waves that wash up on the beach. By providing new types of entertainment that were not available with businesses operated under the traditional game center model, we have been successful at leveraging original characteristics

and drawing customers who are acting with purpose. To develop the *Indoor Seaside Kid's Beach* content, we leveraged the know-how of the BANDAI NAMCO Group. We are working to provide new types of fun by drawing on the Unit's strengths in being able to develop machines and content, operate the venues that provide them, and deliver services to customers through a single value chain.

Specifically, what types of venues are being created?

Hagiwara: Favorable results are being recorded at *VS PARK*, an entertainment-related sports facility. The number of fitness gyms is increasing in each region in Japan in line with the growing health orientation throughout society, but there are hardly any sports-themed facilities that customers can enjoy casually. At *VS PARK*, we also offer digital activities, such as *Nigekiru*, the world's first game that enables participants to compete with all their might over a short distance as they try to outrun fierce animals that are projected on the wall. These facilities enable customers to move their bodies while enjoying cheerful, boisterous fun with friends.

In addition, in July 2019, we opened *MAZARIA*, which is based on the concept of a "place to enter the worlds of animations and games." *MAZARIA* is located in Ikebukuro, Tokyo, which is known as a symbolically important area in Japan for animations. This facility offers a variety of VR activities, and customers can enjoy an immersive experience that seems as if they are entering animations and games. This applies not only to the games but to the entire space, including the furnishings and BGM. Furthermore, the same building also houses *NamjaTown*, which was rolled out previously by our Unit. After enjoying leading-edge activities at *MAZARIA*, customers can experience an entirely

different retro atmosphere at *NamjaTown*. In this way customers can spend an entire day enjoying themselves at BANDAI NAMCO facilities.

In addition to rolling out these types of new formats, we are also taking on the challenge of implementing new initiatives at game centers and other existing amusement facilities. One of those initiatives was the *BANNAM Banpaku*, which opened in August in conjunction with the release of *ONE PIECE STAMPEDE*, the new *ONE PIECE* film. With the cooperation of rights holders, this project was conducted on a Groupwide basis, centered on BANDAI NAMCO Amusement Inc. We implemented a

range of initiatives, such as offering film-related figures (a total of eight varieties) as prizes available only at NAMCO facilities. We have a large number of facilities in large-scale shopping centers that also house movie theaters, and accordingly the exhibition of the film has a major influence on sales at our facilities. The entire Group is working to create further buzz for the *ONE PIECE* film, which is highly popular among a wide range of customers, and as a result we expect sales at our facilities to benefit from synergy effects.



Hitoshi Hagiwara
President and Representative Director,
BANDAI NAMCO Amusement Inc.

Aiming for growth and evolution for the entire Unit by taking on the challenge of new initiatives while valuing individuality

What is the situation in amusement machines?

Hagiwara: In FY2019.3, *Mobile Suit Gundam Extreme Vs. 2*, a new amusement machine, recorded favorable results. Following *Sword Art Online Arcade: Deep Explorer*, which has been in operation since March, this fiscal year we will roll out titles that aggressively leverage the IP that is the Group's strength. These will include *JoJo's Bizarre Adventure: Last Survivor*, which is scheduled to be launched this winter.

What kind of progress is being made with overseas initiatives?

Hagiwara: In March 2019, we established BANDAI NAMCO Amusement (SHANGHAI) CO., LTD., which handles planning and management of amusement facilities in China. Moving forward, we will start to implement full-blown initiatives, and we will advance business development measures in the Chinese market with a sense of urgency, with local operations taking the lead.

In the North America market, the environment remains challenging, but there is no doubt that the U.S. is a promising market, and therefore we will need to move forward in a resolute, strategic manner. Furthermore, we will continue to take on challenges in India, where we have already started to roll out

facilities. Middle-class incomes are increasing in India, and in 10 years India is expected to have the world's third largest economy, after China and the U.S. As a market with considerable growth potential, we will implement initiatives with a focus on the future.

Would you discuss the activities at other companies?

Hagiwara: Each of the Unit's business companies has its own individual character. For example, *Asakusa Hanayashiki*, which is operated by Hanayashiki Co., Ltd., has built a brand as the oldest amusement park in Japan. We recently opened *Asakusa Kagekijo*, a multipurpose hall, at *Asakusa Hanayashiki*. At this facility, in addition to *Hanayashiki Professional Wrestling*, which has been in operation for many years, such as *HANA FURISODE NO MAI*. In this way, we will take on the challenge of new initiatives while valuing the brand image cultivated by each company, and we will aim for growth and evolution for the entire Unit.

What are your policies toward work?

Hagiwara: I strive to talk to employees as individuals, rather than as members of a particular organizational unit or people in a certain position. Including partner employees and part-time workers, the Unit has a total of more

than 6,000 employees. For customers, however, an employee's unit or position does not matter. I have stressed that I want all of our staff members to share the same goal of delighting customers, and to work together on that basis. No matter how much progress is made by digitalization, the importance of the value created through human interaction will never change. In work related to amusement facilities, including amusement machines, it goes without saying that the content that we provide is important. In addition, we will also continue working to address the needs of customers while emphasizing the added value created by human interaction.



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