



Interview with the President

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Record-High Results in First Half of FY2019.3 Strengthening the Creation of New IP in Collaboration with a Wide Range of Partners

In the first half of FY2019.3 (April to September 2018), the BANDAI NAMCO Group achieved record-high results in both consolidated net sales and operating profit. In this issue of the newsletter, BANDAI NAMCO Holdings' President Mitsuaki Taguchi discusses the trends in each Unit, highly anticipated products and services that will be launched in the second half of the fiscal year, and the future outlook.

Results were favorable in the first half.

Taguchi: Looking at our consolidated results in the first half of FY2019.3, net sales were ¥334.6 billion and operating profit was ¥43.9 billion. We have gotten off to a good start in the first fiscal year of the Mid-term Plan. In particular, the Toys and Hobby Unit and the Visual and Music Production Unit recorded significant gains year on year. The Network Entertainment, Real Entertainment, and IP Creation units also got off to solid starts. Key IP* and other products and services turned in good performances, and all units achieved the first-half plans that we announced at the beginning of the fiscal year. I think that these results are an indication of how we have successfully strengthened the Group's portfolio.

What were the factors behind the growth in the Toys and Hobby Unit and the Visual and Music Production Unit?

Taguchi: In the Toys and Hobby Unit, favorable results were registered in all categories, including toy-related items. In particular, *Gundam* plastic models recorded significant sales gains in Japan and overseas, and solid performances were registered by figures and other collectible items and by lottery-related products. We are starting to see the results of our measures to strengthen businesses for the mature fan base, which is one of our main strategies under the Mid-term Plan. In the Visual and Music Production Unit, visual and music packaged products for *Love Live! Sunshine!!*, *THE IDOLM@STER*, *IDOLiSH7*, and other IPs were popular, and live events and related activities also enjoyed solid

popularity. Moreover, we saw synergy effects with initiatives that integrated the three elements of visual, music, and live.

What about the influence on full-year forecasts?

Taguchi: Thanks to everyone's hard work, we had good results in the first half, but at this point we have not revised or reevaluated the full-year forecasts. In the second half, the Toys and Hobby business will have the busy Christmas and New Year sales period, which is its largest sales period, and we will also launch multiple major home video game titles. Moreover, the operating environment and consumer purchasing trends are undergoing dramatic change, and in this setting it will be difficult to reach our forecasts simply by extending our current performance, especially in the digital content business. We will carefully reexamine this situation when the influence of these trends on our results becomes clear. Moving forward, I would like everyone to do their utmost and aim for record-high results while implementing forward-looking investments and initiatives.

As for dividends, our interim dividends will be ¥18 per share. We will consider our annual dividends in accordance with our basic policy of providing a return to shareholders that targets a total return ratio of 50% or more and based on stable dividend payments of 2% of DOE.

How is the progress with the Mid-term Plan?

Taguchi: CHANGE is the major theme of the Mid-term Plan, and we have clarified our

mission with the change from three SBUs to five Units. On that basis, we are continuing to take on challenges. Going forward, we will leverage this approach and strive to establish a new style for the Group.

We still face many challenges. In particular, we must do even more in the creation of new IP in order to strengthen the IP axis strategy, which is our most important task. However, we are not aiming just to increase numbers. We need to foster collaboration among Group businesses and propose a deep and extensive range of new IP that can be rolled out over the medium to long term.

In the creation process, we will need to work together with a wide range of partners rather than trying to do everything within the Group. This type of IP creation will also require considerable strength, and accordingly there will be challenges that are difficult for a single division or company to tackle on its own. That is why we created the BANDAI NAMCO Content Fund as one framework for providing support for people on the front lines as they take on challenges. We plan to start full-scale investment in the next fiscal year, but currently we are making selections from among more than 50 proposals. I am sensing a trend throughout the Group, as an increasing number of people want to plant new seeds.

In addition, in China, which we have positioned as a key market, we are working to further strengthen operations that are already under way. To advance the ALL BANDAI NAMCO concept, we are also making steady progress with preparations for full-scale roll-outs in other businesses.

*IP: Characters and other intellectual property

Advancing Initiatives in Japan and Overseas to Strengthen Our Business for the Mature Fan Base

Would you discuss the trends in each Unit?

Taguchi: In the Toys and Hobby Unit, broadcasts of *KAMEN RIDER Zi-O* started in September, and the launch was favorable. This marks a turning point as the 20th series in *Heisei KAMEN RIDER*. Generations of RIDERS make appearances, and as a result *KAMEN RIDER Zi-O* is popular with fans across a wide range of age groups. Related products are also enjoying good results, including the transformation belt, which is a core item. These are key products for boys, and we expect them to do well in the busy Christmas and New Year sales period.

For girls, we launched *Tamagotchi Meets*, a new *Tamagotchi* model. This product provides the enjoyment of taking care of characters, and in addition a new application that links *Tamagotchi Meets* units enables users of the new model to enjoy communicating with each other. The Toys and Hobby Unit is starting to create a growing number of products that incorporate digital functions. In December, we will launch *UNLIMITIV* shoes for elementary school students. By digitizing information obtained through communication with a smartphone application, these shoes will enable users to increase their athletic ability while having fun. In addition, in 2019 we will launch *AI CARD-DASS*, a brand of card games that utilize AI. We plan to introduce *ZENONZARD*, an original IP that originated from *AI CARD-DASS*.

What is the Toys and Hobby Unit doing for the mature fan base?

Taguchi: To further strengthen and expand our business for the mature fan base in North America, we cooperated with a local partner in the establishment of a new company, BANDAI NAMCO Collectibles LLC, which uses the brand BLUEfin. Moving forward, we will leverage the new company's broad distribution infrastructure as well as its marketing know-how, which is aligned with the preferences of local fans. In this way, we expect to boost our sales of products in North America.

In China, we opened *THE GUNDAM BASE SHANGHAI* in August. This is our flagship *Gundam* plastic model

facility. We are seeing a very favorable response, and the Chinese market is showing signs of future potential that exceeds our previous expectations. We will utilize *THE GUNDAM BASE SHANGHAI* to do more than just sell *Gundam* plastic models. We will also use it as a base for the comprehensive provision of information to Chinese fans about *Gundam* works and other products and services.

In addition, the *DRAGON BALL* trading card game is popular with the mature fan base, especially in North America. Moving forward, we will take steps to build interest in North America, such as holding nationwide tournaments in the U.S., and we will also work to expand our business in Europe, South America, and other regions.

What is the situation in the Network Entertainment Unit?

Taguchi: In game applications and other network content, key titles maintained high levels of popularity, including *DRAGON BALL Z DOKKAN BATTLE*, *ONE PIECE*, and *THE IDOLM@STER*. In addition, a new title — *DRAGON BALL Legends* — got off to a favorable start. I believe that these successes are a result of our focus on holding effective events and taking steps to build interest. In these ways, we are encouraging fans to enjoy playing for long periods of time. Going forward, we will continue working to further enhance the quality of our titles and operations.

Is the Company making progress with new platforms?

Taguchi: For *enza*, up to this point we have focused on stability, but moving forward we

will bolster promotions to increase awareness. In addition, we will leverage the distinctive strengths of BANDAI NAMCO to enhance the provision of value. For example, with *DRAGON BALL BUCCHIGIRI MATCH*, collaborative initiatives with other Units have already been initiated. These include *DRAGON BALL Dragon Potato*, a confectionary food that is being sold by BANDAI. We plan to continue to implement collaborative initiatives with companies and products inside and outside the Group. Also, looking at our efforts to strengthen game titles, we recently held a presentation for developers, and more than 120 people participated. We will implement a variety of measures as we work to build platforms, such as advancing preparations for title development.

What are the trends in home video games?

Taguchi: In home video games, after the launch of *SOULCALIBUR VI* in October, we plan to introduce a series of major, high-potential titles in the second half, including *GOD EATER 3*, *ACE COMBAT7: SKIES UNKNOWN*, and *JUMP FORCE*. In the future, in addition to developing high-quality games that earn strong evaluations from fans, we will also take steps to add even more value, such as facilitating the enjoyment of additional download content. In this way, we are working to implement measures that encourage fans to play for long periods of time.

Furthermore, in August we participated in EVO 2018, a fighting game tournament that was held in the U.S. Looking at the number of registered entrants, *DRAGON BALL FighterZ* was the No. 1 title, and *TEKKEN7* was No. 3. This demonstrates the high degree of compatibility between our titles and e-sports. We are also moving forward with a variety of measures in Japan, and in the future we will continue to aggressively implement initiatives in the

Japanese market, such as developing compatible titles and sponsoring tournaments.

What is the situation in the Real Entertainment Unit?

Taguchi: Following Yokohama in November, we will open a Hamleys retail-tainment mall in Fukuoka in December. This is a collaborative initiative with Hamleys, which is England's oldest toy store. It will bring together a wide range of features, including real and digital performances, attractions that draw on BANDAI NAMCO's distinctive strengths, and game corners. We are positioning this mall as a new type of venue. By incorporating performances with abundant entertainment value, we will work to enhance our hospitality skills and create new forms of entertainment.

In arcade games, we launched *Mobile Suit*

Gundam: Extreme Vs. 2, which has earned strong reviews. In Osaka, we have opened *VR ZONE OSAKA* as a new-format facility. We have started to operate new models of *Godzilla VR* and other games at this facility, and *VR ZONE OSAKA* has gotten off to a solid start.

Furthermore, in July we opened the second *TONDEMI*, a next-generation indoor athletic facility, and in October we launched *Indoor Adventure Island Docodoco*, which enables visitors to enjoy attractions using projection mapping. Both of these new facilities have enjoyed solid popularity. Moving forward, we will continue to aggressively provide these types of new venues that leverage the distinctive strengths of BANDAI NAMCO.



We will take the initiative to transform ourselves into a company from which consumers expect great things, even in a future marked by ongoing technical innovation.

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

Taguchi: *IDOLiSH7* has turned in favorable results. The live event that was held in July was popular, and the tickets sold out. *THE IDOLM@STER* and *Love Live! Sunshine!!* also continue to record strong results. We are taking steps to maximize appeal of mainstay IPs throughout the visual, music, and live fields. In particular, live events are starting to play a central role in the Group's business activities. This is something that we did not anticipate 10 years ago. Both the scale and the geographic scope of live events are expanding, and accordingly we will step up our focus on this growing business.

Looking at IP creation, we plan to launch *The Magnificent KOTOBUKI*. This is a new Groupwide IP that reflects collaboration initiatives including animations, game applications, and toys and hobby products. Furthermore, we are working aggressively in IP creation from a variety of angles, including collaboration with external partners.

Please discuss the latest activities at the IP Creation Unit.

Taguchi: Currently, the TV animation *Gundam*

Build Divers is one of the major factors behind the solid results of *Gundam* plastic models in the Toys and Hobby business. This is because the animation has stimulated demand for the plastic models. *Gundam Build Divers* features appearances by generations of *Gundam* plastic models, and it is popular not only in Japan but throughout Asia. In November, *Mobile Suit Gundam Narrative* was released in theaters, and I think that the buzz surrounding this product will also have a positive knock-on effect in stimulating further demand for other Group products and services. *Mobile Suit Gundam* will reach its 40th anniversary in 2019, and we are preparing a wide range of initiatives to commemorate this milestone, including visual products and events. For 2020 we are also planning the *Gundam GLOBAL CHALLENGE*, which will involve making a full-scale *Gundam* actually move. We have high expectations for this initiative.

Furthermore, broadcasts of *DOUBLE DECKER! Doug & Kirill*, a new *TIGER & BUNNY* animation series project, have been started, and we also plan to release a theatrical version of *Love Live! Sunshine!!*. We have a number of exciting projects in the pipeline.

In production, we made an equity investment

in Sublimation Inc., a computer graphics production company. The industry has reached the point where computer graphics are indispensable in animation production. Through this investment, we will strengthen our computer graphics production capabilities and enhance our production skills for both hand-drawn and computer-graphic animations.

Do you have a message for shareholders?

Taguchi: We were able to achieve a solid performance in the first half of the fiscal year, and I think this performance was attributable to the high evaluations that our products and services received from customers. However, we cannot sit back and relax just because our results are strong right now. We must continue striving to create new IP and strengthen established IP as we make further progress toward the construction of a balanced IP portfolio.

BANDAI NAMCO wants to be a group for which consumers have high expectations, even in a future operating environment marked by ongoing technical innovation. To that end, in line with our Mid-term Vision of CHANGE, we must work to transcend previous ways of doing things and conventional wisdom, anticipate changes in the times and in our fans, and take steps to adapt accordingly. A major theme of the Mid-term Plan is CHANGE for the future. On that basis, the BANDAI NAMCO Group will strive to approach change as an opportunity rather than something to be afraid of. We want our fans around the world to expect great things from BANDAI NAMCO.



THE GUNDAM BASE SHANGHAI
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IDOLiSH7 live events
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Leveraging abundant human resources and strong technologies and production capabilities to create diverse entertainment

BANDAI NAMCO Studios Inc. was established in 2012 when the development function was split off from BANDAI NAMCO Games Inc. (currently, BANDAI NAMCO Entertainment Inc.). Today, BANDAI NAMCO Studios is a group of professional creative engineers that handle content planning, production, development, and operation. The company continually takes on the challenges of researching and creating new technologies, without limiting itself to existing titles. In this section of the newsletter, Hajime Nakatani, president of BANDAI NAMCO Studios, discusses the company's strengths and future outlook.

Would you describe BANDAI NAMCO Studios' business activities?

Nakatani: BANDAI NAMCO Studios conducts planning and development of network content, home video games, arcade games, and other products. We principally work with titles launched by BANDAI NAMCO Entertainment. In October 2018, our research, planning, and development functions in the areas of amusement facility content and amusement machines were split off to establish BANDAI NAMCO Amusement Lab Inc. Both companies will continue working together closely as we advance content development initiatives. We will implement multifaceted activities, such as developing home video games, arcade games, network content, and other products for a single title, as we did with *TAIKO: DRUM MASTER* and the *Mobile Suit Gundam: Extreme Vs.* series.

What the key strengths of BANDAI NAMCO Studios?

Nakatani: In markets around the world, we are seeing a large number of products and services that leverage new technologies, such as artificial intelligence (AI), the Internet of Things (IoT), augmented reality (AR), and virtual reality (VR). In addition to the game development that we have been implementing, we are also responding to this trend by conducting R&D to further enhance and extend leading-edge technologies that are entirely new. This is one of our strengths. In addition, we have established an environment that enables us to implement thorough development activities that are focused on the production of high-quality content. For example, our in-house facilities include specialized sound effect and motion capture studios.

Moreover, we also have an edge in terms

of scale. We have a workforce of more than 1,000 people with a wide range of know-how. From planning and production to hardware/software prototyping and sound, visual, and art production, we can address diverse needs with comprehensive, flexible proposal and implementation capabilities.

A number of attention-getting titles have been launched.

Nakatani: Looking at this fiscal year, in home video games *SOULCALIBUR VI* from BANDAI NAMCO Entertainment was launched in

October, and starting in December there are plans for multiple launches of major numbered titles, such as *GOD EATER 3* and *ACE COMBAT 7: SKIES UNKNOWN*. We hope that fans will enjoy experiencing the enhanced expression and game play that these titles offer. These are titles that will be rolled out worldwide, and accordingly our objective was to offer leading-edge content that can address global demand. To that end, the development of these games involved a wide range of engineers and companies.

Looking at titles from outside the Group, we were in charge of the development of *Super Smash Bros. Ultimate*, a major Nintendo title for the Nintendo Switch that is scheduled for launch in December 2018. This title reflects the full use of our technical and production capabilities.

Are there other products that incorporate distinctive ideas from BANDAI NAMCO Studios?

Nakatani: We conducted the planning and development for two attractions opened by BANDAI NAMCO Amusement Inc. — *Nigekiru* at the *VS PARK* amusement facility, which was opened in April at EXPOCITY in Osaka, and *Indoor Adventure Island Docodoco*, in

On the front lines of production activities at BANDAI NAMCO Studios



Developing home video games



Motion capture



◀ Live event for *THE IDOLM@STER* using technologies from BANDAI NAMCO Studios
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which was opened in October at Tachikawa Takashimaya S.C. in Tokyo. Both of these attractions utilize projection mapping technology. The people working on these projects discussed how to use projection mapping, which is a visual technology, in order to maximize the fun of the attractions. We built a prototype of the attractions in-house, which were used for a cycle of repeated testing and improvement. In this way, we aimed to create fun attractions that can be enjoyed by a wide range of users.

In addition, the BanaCAST (BANDAI NAMCO Character Streaming Technology)

developed by BANDAI NAMCO Studios was used at a number of events. For example, BANDAI NAMCO Entertainment held a mixed reality (MR) live event at the DMM VR THEATER for *THE IDOLM@STER*. Also, Ryo from the creators group supercell produced a live event by the virtual artist EGOIST. Our BanaCAST technology enabled the characters to be faithfully reproduced, so that it was almost as if they were really on the stage. By utilizing motion capture techniques and adding real-time character movements and voices, we were able to implement realistic interaction with customers at the venues.

Leveraging future-focused ambitions and ideas to take on the challenge of manufacturing products with distinctive strengths

What is the source of BANDAI NAMCO Studios' diverse technologies and ideas?

Nakatani: I think it is our strong spirit of inquiry. Our mission includes searching around the world for new technologies without limiting ourselves to Japan. This is also one of the objectives of the BANDAI NAMCO Accelerator project, under which BANDAI NAMCO Studios advances projects. (BANDAI NAMCO Accelerator is a project that recruits and supports business ideas from startups.) New technologies are rapidly being created one after another, and we are always taking steps to foster the proposal of new projects. We are continually working to find interesting new things, research them, and figure out how to best match them up with the Group's multiple content outlets. I think that those initiatives have taken shape.

What issues does BANDAI NAMCO Studios face?

Nakatani: The Group is now implementing full-scale overseas development initiatives. In this setting, we face the urgent task of building a foundation for the development of products that can capture the interest of customers around the world. To that end, in planning and development we need to work together with others in Japan and overseas who have high levels of technical skills, ideas, and planning capabilities. We will also strive to achieve further improvement in manufacturing. Rather than aiming for 100

small hits, we will strive to create 10 mega-hits. By increasing the precision of mega-hit creation, we will be able to reduce manufacturing costs, and the funds that are freed up in that way can then be used for new development and marketing initiatives. To establish that type of favorable cycle within the company, we will implement the PDCA cycle and work to implement manufacturing that offers true value to customers, that is, manufacturing products with distinctive strengths.

What is your policy regarding work?

Nakatani: To give shape to the seeds of ideas and technologies, I think we must have ambitious, forward-looking objectives and then work energetically to realize those objectives. I think it is often the case that ideas which can be achieved easily don't amount to very much in the end. Ideas are put through to a process of trial and error, which in turn results in the generation of new ideas and improvements that we can utilize. In this way, I think that for the first time we will be able to implement manufacturing in a manner that delights customers.

When BANDAI NAMCO Studios was established, we announced that our motto would be Innovation through Creativity. This motto incorporates the idea that we want to leverage everyone's creativity and foster innovation. When people hear the word innovation, they frequently think of large-scale reforms, but actually there are many historical examples of situations in which innovation was fostered



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through the accumulation of smaller ideas. I believe that we should aim to cultivate a corporate culture in which people are always actively discussing the ideas that fuel that process.