

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

Results of the Mid-term Plan basically in line with expectations, record high sales and profits in the first quarter

We have started the second year of the Mid-term Plan, and we are approaching the plan's turning point. The recently announced consolidated results for the first quarter of FY2017.3 were basically favorable, including record high levels of sales and operating income. 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.



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

How were the results in the first quarter?

Taguchi: In the first quarter of FY2017.3, the Network Entertainment SBU and the Visual and Music Production SBU got off to favorable starts, and the Toys and Hobby SBU implemented aggressive initiatives. The Group's net sales were ¥144.7 billion and its operating income was ¥23.4 billion. Both of these figures represent record highs for the Group.

On the business front, *DARK SOULS III*, a home video game software product that was launched in April, became a major hit, with sales of 3.5 million units in Europe and the Americas. Network content also continued to record favorable results, including *The IDOLM@STER Cinderella Girls: Starlight Stage* in Japan and *NARUTO MOBILE* and *DRAGON BALL Z DOKKAN BATTLE* overseas. Furthermore, the *GIRLS und PANZER* IP enjoyed a significant gain in popularity, with hit products including music software coordinated with the launch of movie-version package software. Moreover, music package software for *Love Live! Sunshine!!*, a new entry in the *Love Live! School idol project* series, and visual package software for *Mobile Suit Gundam THE ORIGIN* earned solid popularity.

What are the results forecasts for the first half and the full fiscal year?

Taguchi: Considering the results in the first quarter, for the first half we are forecasting net sales of ¥290.0 billion and operating income

of ¥32.0 billion. These are upward revisions of the forecasts released at the beginning of the fiscal year. For the full fiscal year, however, we have not changed the forecasts released at the beginning of the fiscal year because the dramatic changes in the operating environment and the uncertain situation make it difficult to forecast the year ahead. Under the current Mid-term Plan, through the promotion of our focus strategies, we are working to become a group that can continue to steadily generate net sales of ¥500.0 billion and operating income of ¥50.0 billion, and then to aim for the next stage. In FY2016.3, we aimed to achieve net sales of ¥500.0 billion and operating income of ¥50.0 billion for two consecutive years, but we missed the operating income target by a small amount. In FY2017.3, we will once again take on this challenge, and we consider the initial forecasts of net sales of ¥580.0 billion and operating income of ¥50.0 billion to be the minimum targets that we must achieve.

The Group is reaching a turning point under the Mid-term Plan. Would you discuss the progress of the plan?

Taguchi: We are strengthening the IP axis strategy and making favorable progress with the strategy of expanding our business overseas. In the first quarter, exchange rates had the effect of reducing net sales by ¥4.5 billion. In real terms, we are making favorable progress. However, even if we make good progress up to the turning point, we do not know what will happen after that, due in part to changes in

the operating environment, and accordingly we will have to carefully tighten the reins. The reason why results are favorable at this point is that our employees have not been satisfied with the status quo. Rather, they have continued to take on challenges and foster innovation. Moving forward, rather than simply carrying on with what we have done in the past, I think we need to continue to focus on challenge and innovation, in IP as well as in products and services.

What is the situation in the Toys and Hobby SBU?

Taguchi: In Japan, our portfolio of established IP is producing solid results, with favorable performances being turned in by such products as *Mobile Suit Gundam*, *KAMEN RIDER*, *PRETTY CURE!*, and *DRAGON BALL*. At this point, our IP portfolio is well balanced, and moving forward I would like to reinforce our portfolio even further. For preschool children, *Ultraman Orb* has gained popularity since broadcasts started in July, and broadcasts of *KAMEN RIDER Ex-Aid*, a new entry in the *KAMEN RIDER* series, will start in October. The motif of *KAMEN RIDER Ex-Aid* is "TV games," and the hero incorporates entirely new innovations. BANDAI will sell the Transformation Belt, which is an established products, as well as transformation products.

Further strengthening the IP portfolio in Japan and overseas

In addition, for elementary school students, broadcasts of *Heybot!*, a new program produced by BANDAI NAMCO Pictures. In this animation, the hero is a robot. There are many jokes, and it is also enjoyable for adults to watch. We have high expectations for *Heybot!*

Moreover, since broadcasts began in 1999, *Digimon* has been popular with a wide range of age groups for many years. Broadcasts of *Digimon Universe App Monsters* will start from October. For both *Heybot!* and *Digimon*, we plan to create products through Groupwide initiatives, such as facilitating entertainment through the coordinated use of toys and games. Formerly, *Digimon* was also very popular overseas. I think that *Digimon* has the potential to succeed not only in Japan but also overseas, and accordingly we will work to carefully nurture this IP.

What is the situation for the Toys and Hobby business overseas?

Taguchi: In Europe and the Americas, the *Power Rangers* series is our core IP, and *Power Rangers Super Dino Charge*, which is a remake of *Zyuden Sentai Kyoryuger*, continues to record favorable results, centered on North America.

A *Power Rangers* movie is also planned for March 2017, and we are currently making preparations for that release. In addition, this

year we will roll out toys, stuffed toys, sundries, and a wide range of other products in conjunction with the opening of Disney/Pixar's *Finding Dory* film in many countries. Other new IP includes *Miraculous*, an animation for girls that is currently being broadcast in North America, South America, Europe, and other markets and is achieving top-class viewership rates for a children's program. We plan to launch a range of toys from summer, and we

Addressing the diverse needs of customers by taking on challenges from a variety of angles, including IP and virtual reality

What is the status of the Network Entertainment Business?

Taguchi: In home video game software in Europe and the Americas, *DRAGON BALL XENOVERSE* was launched in February 2015 and continues to enjoy repeat sales. *DRAGON BALL XENOVERSE 2* product, will be launched in fall 2016. The announcement of this launch has also garnered substantial attention overseas, demonstrating how *DRAGON BALL* fan groups continue to expand overseas. *DRAGON BALL* also has a smartphone game application that is distributed worldwide and is earning support. Moving forward, we will continue to firmly

have very high expectations for *Miraculous*.

In Asia, *Mobile Suit Gundam* continues to record favorable results. In addition to online distribution of visual products from GUNDAM.INFO, which is a *Gundam* information site, we are holding events that are finely tuned to the characteristics of each region. In these ways, the world of *Gundam* is reaching customers in local communities, and we are fostering the identification of the *Gundam* IP with *Gundam* plastic models. I believe that this is one of the reasons why the market continues to steadily expand.

provide products and services for this established IP, both in Japan and overseas.

In game applications and other network content, there is growing demand overseas for games using Japanese IP, and this is an opportunity for us to open up significant markets. Accordingly, in addition to our title lineup, we will also work to expand the regions in which we provide online distribution.

Moreover, for *Tekken*, we recently introduced *Tekken 7 FATED RETRIBUTION*, an arcade game machine. In home video game software, we plan to release a new *Tekken* title in spring 2017, and moving forward we will continue

working to build up this IP.

In addition, in conjunction with the launch of the PS VR, which is scheduled for October, we will launch *Summer Lesson: Hikari Miyamoto Seven Days Room* and *THE IDOLM@STER CINDERELLA GIRLS: Viewing Revolution*. These titles will be launched at the same time as the PS VR. *Summer Lesson* will utilize virtual reality to enable users to communicate with characters as if they were really there, and it is already the focus of high expectations. Moreover, *IDOLM@STER* enables users to experience a life stage overflowing with realism while they are in their own homes.

Moving forward, the BANDAI NAMCO Group will continue to take on the challenge of development in the field of virtual reality.

Project i Can, a Topic of Conversation

Taguchi: In Odaiba, Tokyo, we have opened the *VR ZONE Project i Can* as a laboratory for the enjoyment of virtual reality. This project has been opened on a limited-time basis, from April to October 2016, and all of the available times have already been reserved. The project offers different types of VR activities, such as walking along a board protruding from a high-rise building and piloting a robot. Each of these is highly immersive and the play experience is fun not only for those playing the game but also for those watching the player.

The technologies and know-how that we cultivate through this project will be used in a variety of business development initiatives in the future and will help us to remain at the forefront of the industry.



Doing our utmost to advance the Mid-term Plan and meet the expectations of the Group and its IP fans

What is the situation in the amusement facilities business?

Taguchi: Performance has been favorable at existing facilities in Japan, and results are up year on year. I believe that this performance is the result of our efforts to continually provide fresh, new things, such as prizes and events. This applies to the VR experience facility I mentioned a moment ago, and NAMCO is also implementing a range of initiatives, such as providing cola-flavored potato chips and potato-chip-flavored cola on a limited-time basis and launching *Indoor Seaside Kid's Beach*, which uses BANDAI NAMCO Entertainment's latest technology to enable customers to experience seashore amusement. These initiatives have been made possible by implementing trials from a variety of directions, including IP and virtual reality, and reproducing customers diverse needs in facilities, and we will make more proposals of this type in the future. Arcade game machines are an important type of content for amusement facilities, and moving forward we will strive to offer initiatives that combine places and content and leverage the distinct strengths of the BANDAI NAMCO Group. The Act on

Control and Improvement of Amusement Business, etc. (Amusement Businesses Law) was recently revised, and it is now possible for children to enter amusement facilities up to 10:00 pm if they are accompanied by a parent or guardian. Previously, they could not enter after 6:00 pm, so for the industry this will be a definite improvement. There is no question that there are needs for families who want to enjoy entertainment after they eat dinner, and accordingly we will consider safe, secure, user-friendly services that become a part of modern lifestyles.

How about Visual and Music Production SBU?

Taguchi: *Love Live! School idol project* has become a major hit, and the new TV animation *Love Live! Sunshine!!* has been started. It has received an extremely favorable evaluation, including from existing fans. Music package software is already on sale, and support from users is so strong that it would not be an exaggeration to say that it has taken off like a rocket. The quality of the TV broadcasts has also been highly evaluated, and I think that the new *Love Live! School idol project* series

has made an excellent start.

For *Mobile Suit Gundam*, we have implemented target strategies in line with various customer groups, and for older customers we are providing *Mobile Suit Gundam Unicorn* and *Mobile Suit Gundam THE ORIGIN*. For younger customers, broadcasts of the second season of *Mobile Suit Gundam: Iron-Blooded Orphans* will start from October, and we will strive to capture *Gundam* fans in Japan and overseas. In addition, in the visual and music products field, the media window for enjoyment of IP is rapidly diversifying from the conventional packaged software to a wide range of options, including online distribution, live events, stage versions, and live viewings. Moving forward, we will implement media window strategies without limiting ourselves to existing models.

Do you have a message for shareholders?

Taguchi: At the recent shareholders' meeting, I had a strong sense that our shareholders were fans of the BANDAI NAMCO Group and of our IP. We will do our utmost to advance the Mid-term Plan so that everyone can realize their expectations and their dreams. I would like to ask for your continued support as we move forward.

◆ Products that made a contribution in the first quarter



Mobile Suit Gundam series plastic models have earned continued popularity under the implementation of initiatives at the same time in Japan and the rest of Asia.

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DARK SOULS III has become a major hit overseas, with sales of 3.5 million units.

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GIRLS und PANZER has achieved strong popularity, centered on visual packaged software.

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Advancing a sales strategy that fully leverages IP value based on our strengths in local marketing and distribution

The Network Entertainment business is recording favorable progress overseas, and an especially strong contribution is being made by sales of home video game software that leverages IP, such as *DRAGON BALL* and the *NARUTO* series. In this section, Masaaki Tsuji, who is a director and in charge of overseas business at BANDAI NAMCO Entertainment, and who also serves as representative director at five companies in Europe and the Americas, discusses the current situation and outlook for overseas business, centered on Europe and the Americas, as well as promising products.

Would you describe your background and the scope of your current responsibilities?

Tsuji: Ever since I entered BANDAI in 1984 as a mid-career hire, I have been responsible for overseas business. When I was at BANDAI AMERICA INC., I was involved with the launch of *Power Rangers*, which has now become a major IP for the Toys and Hobby business in Europe and the Americas. Subsequently, I moved to the U.K., where I worked as president and representative director of BANDAI U.K. LTD. At that point, I was 40, and that was also when I first became a president. My experiences during that period have had a very strong impression on me.

Since that time, I have continually been involved with the Toys and Hobby and home video game software businesses, centered on Europe and the Americas. Currently, I am a director and in charge of overseas business at BANDAI NAMCO Entertainment, and I am also a representative director at five companies, including BANDAI NAMCO Holdings UK

LTD. and BANDAI NAMCO Entertainment America Inc. I work on the overseas development of all businesses, including the Network Entertainment business and the Toys and Hobby business, and have overall responsibility for business in Europe.

The home video game software business faced difficult conditions in the past, but the situation has improved. What factors have led to this improvement?

Tsuji: Results were challenging in FY2010.3, but we steadily implemented thorough improvement measures related to management. We implemented a rigorous approach of returning to the fundamentals, with a focus on methods of business that leverage our strengths, investment that was appropriate for our operational scale, dynamic communications, and an organizational structure that could make steady advances in the future. Rather than simply working on defensive measures, we also discussed what we needed to do for

future growth. Overseas competitors spent substantial amounts on the development of highly anticipated software and promoted and sold their products through large-scale promotional initiatives. In this setting, our products had a strong advantage — our ability to leverage IP. To communicate the appeal of that IP, we strengthened our local marketing. Specifically, we transitioned from general, untargeted marketing using TV to direct communication with users who are IP fans through events and websites. As a result of these initiatives, *DRAGON BALL XENOVERSE*, the *DARK SOULS* series, and other products became major hits due to synergies between the appeal of titles themselves and our efforts to formulate targeted strategies and implement pinpoint marketing. I think that this led to improvement in the home video game software business.

What are the strengths of the in-house sales network?

Tsuji: Key strengths include our ability to differentiate ourselves from competitors through the IP axis strategy, as well as our in-house sales network. Download sales have replaced the previous packaged product sales as the driving force behind growth. In this setting, there is a trend in the game industry toward the closure of bases in regions around the world. However, I do not think that packaged products will disappear. We have received high evaluations for the strength of our sales network, which extends around the world, and for our local marketing capabilities, which are aligned with regional characteristics. As a result, we have been given responsibility for the sales of many leading products from other companies. The success of our in-house titles and the fact that we are in charge of the sales

of multiple hit titles from other companies have contributed to our favorable results in home video game software in Europe and the Americas.

The network content business is also recording growth.

Tsuji: We developed local marketing capabilities through home video game software, and we are now leveraging those capabilities in network content marketing, such as for *DRAGON BALL Z DOKKAN BATTLE*, a game application that is being distributed from Japan

to regions around the world. In network content, I believe that there are opportunities not only for Japanese IP titles but also for IP titles from overseas. By providing support for IP titles originating in Japan, we will accumulate know-how for business development initiatives for network content originating in Europe and the Americas. Taking on the challenge of new things also helps employees to grow. Moving forward, I would like to support employee development by providing space for employees to take on new challenges.



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Further expanding the scale of overseas business development initiatives that reflect an understanding of regional characteristics

Moving forward, which products look promising for overseas markets?

Tsuji: Overseas shipments of *DARK SOULS III* surpassed 3.5 million units within three months of the launch. Overseas, popular titles have the characteristic of maintaining high levels of sales for extended periods of time, and accordingly I think we should continue to focus on this area. In addition, from this fall, the second version of *DRAGON BALL XENOVERSE* is scheduled for a worldwide sales launch. *DRAGON BALL XENOVERSE*, a home video game software product, has recorded favorable sales, centered on Europe and the Americas. The new version maintains the concept of the previous version while powering up the content, and we have high expectations. Moreover, the *Tekken* series of arcade game machines is very popular overseas, and there have been global tournaments for these machines. Next spring, we plan to launch *Tekken 7* home video game software as a new title in this series.

What is the future outlook?

Tsuji: Under the previous Mid-term Plan, we worked to rebuild the Network Entertainment business in Europe and the Americas, and under the current Mid-term Plan, we have been taking steps to build a foundation for growth. Having established a foundation, as we move forward we will consider a wider range of business development initiatives.

First, we will formulate sales and marketing strategies closely tied to regions, and we will aim to further expand our operational scale. In addition to languages and legal systems, consumer preferences also vary by region. A strategy that has been successful in one region will not necessarily be successful in another. Different regions in Europe have different preferences. For example, Japanese IP is accepted more quickly in France and Spain than in other regions in Europe. Sales methods are also different. In some areas download sales account for nearly 50% of sales, while in other areas packaged product sales play the central role and download sales contribute less than 10%. Based on an understanding of these regional differences, we will aim to establish systems aligned with regional characteristics and strive to become a company with even stronger marketing capabilities. In addition, to expand the scale of our operations, it is necessary to invest in the development or acquisition of new products and to build a framework for autonomous, independent business management. Entertainment is an industry marked by overall acceleration in global trends and dramatic change. Game content will continue to offer significant possibilities in the years ahead, while transmission methods and platforms will change. Moving forward, we will strive to respond flexibly without holding on to fixed concepts for our business models.

What is your favorite saying?

Tsuji: My favorite saying is “Handle minor matters with emotion, decide serious matters with reason.” This means that small, everyday matters should be handled with human feelings, while logical judgment should be given priority in making major decisions. Business people in Europe and the Americas may have a logical, business-like image, but actually they give an extremely high priority to human connections. Moving forward, I will strive to make important decisions, such as decisions about company management, in a calm manner while reflecting the wishes of employees to the greatest extent possible. In this way, I will work to further reinforce our overseas foundation.

◆ Game-related products and services being rolled out overseas

Left: *DARK SOULS III*, a full-scale RPG, has achieved cumulative overseas shipments of 3.5 million units.

Right: *DRAGON BALL Z DOKKAN BATTLE*, a smartphone game application that is being distributed around the world.



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