



NEWSLETTER

BANDAI NAMCO NEWS

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BANDAI NAMCO Holdings Inc.

BANDAI NAMCO Mirai-Kenkyusho
5-37-8 Shiba, Minato-ku, Tokyo 108-0014

Management

Interview with the President

Strengthening the IP Axis Strategy and Expanding Global Initiatives will Continue to be Important Themes Under the Next Mid-term Plan.

The Group has started the final year of the Mid-term Plan, and our consolidated results for the first quarter of FY2018.3 show solid performances in core products and services in comparison with our initial plans. In this issue of the newsletter, BANDAI NAMCO Holdings' President Mitsuki Taguchi discusses the steps leading up to the next Mid-term Plan and the situation with each of the Group's businesses.

How were the results in the first quarter?

Taguchi: In the first quarter of FY2018.3, due to product lineups and launch timing differences, we did not reach the level of results achieved in the same period of the previous fiscal year, when highly profitable products, such as the *DARK SOULS III* home video game, became major hits and we registered a record-high level of results. On the other hand, in comparison with our plans, each SBU recorded solid results for core IP* products and services, including continued solid results in domestic and overseas network content. As a result, our net sales were ¥144.0 billion, and operating profit was ¥15.6 billion. For the Group overall, we recorded good results in the first quarter.

Would you discuss the results forecasts for the first half and the full fiscal year?

Taguchi: Network content and other core IP products and services continue to record favorable results. We have carefully examined our plans for the second quarter and thereafter, and as a result we now expect our results for the first half and the full fiscal year to exceed our initial forecasts. Consequently, in conjunction with our results in the first quarter, we revised our first half forecasts to net sales of ¥295.0 billion and operating profit of ¥27.0 billion and our full-year forecast to net sales of ¥620.0 billion. With the operating

* IP: Intellectual property, such as characters

environment in the entertainment industry undergoing dramatic change, we face many uncertain elements, but we will strive to achieve our target figures.

What challenges remain in the final year of the Mid-term Plan?

Taguchi: When we started the current Mid-term Plan, the numerical targets called for net sales of ¥600.0 billion and operating profit of ¥60.0 billion in FY2018.3, but we were able to achieve these targets one year ahead of schedule. In addition, we are moving forward with the establishment of a foundation as a Group that can continue to generate, in a stable manner, net sales of ¥500.0 billion and operating profit of ¥50.0 billion, without regard to whether or not we have hit products at that time. However, our goal is not simply the achievement of this Mid-term Plan. Rather, the Mid-term Plan is simply a transit point as we move toward continued growth over the next 10 years or 20 years, and accordingly we still have many things to do and face many challenges.

For example, we need to further expand our IP portfolio so that our results are not significantly influenced by a single IP's launch timing or results. Moreover, in the creation and nurturing of new IP, we need to further activate our initiatives and increase our speed. This strengthening of the IP axis strategy will remain an important theme under the next Mid-term Plan.



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

Furthermore, under the current Mid-term Plan we are working to expand global initiatives, and the overseas sales ratio is increasing in such categories as home video games, network content, and *Gundam* plastic models. Nonetheless, there are still categories and regions in which we need to implement further initiatives. I also believe that we must continue working to achieve our aim of Groupwide growth in global markets.

How much progress has been made with the formulation of the next Mid-term Plan?

Taguchi: Currently, we are conducting a variety of discussions and refining our strategies and measures. In formulating the plan, we first redefined where we want the Group and each SBU to be in 10 years, and then we considered what has to be done in the next three years in order to move in that direction.

For the BANDAI NAMCO Group, there will be no change in our efforts to advance the IP axis strategy on a worldwide basis, to interact sincerely with IP fans, and to draw out the maximum appeal of IP through products and services.

Expanding DRAGON BALL Product and Service Initiatives Overseas

Taguchi: In addition, we must also consider the frameworks for continually creating and nurturing IP, as well as the development of the human resources for those initiatives. I believe that our ability to build on more open thinking and to adapt our organizational design to circumstances that change with the times is a distinctive feature of the BANDAI NAMCO Group as well as one of our strong points. Moving forward, we will continue to take on the challenge of innovation in our business models, and we will strive to foster collaboration among Group businesses and further cooperation with external partners.

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

Taguchi: Established IP products enjoy continued popularity in Japan. For pre-school boys, the new *Super Sentai* series and *KAMEN RIDER* series are enjoying favorable results, with both posting year-on-year gains. In July, the new *ULTRAMAN GEED* program was started, and related products have recorded solid results. Moreover, *KAMEN RIDER Build*, a new *KAMEN RIDER* series, was launched in September, and we expect it to benefit from the solid trend in the pre-school boys category.

For girls, the *PRETTY CURE!* series continues to be popular. Also, in July we launched *Remin & Solan*, a doll that can be enjoyed

together with an original picture book from Disney. It has been well received by two generations — parents and children — and we will work to develop this into a new category for girls.

In addition, *DRAGON BALL* continues to record solid results, centered on *DATA CARDDASS*, and *Gundam* maintains stable popularity, including overseas. For *Gundam*, as we move forward we will implement worldwide initiatives to provide information about *Gundam* and *Gundam* plastic models, starting with the comprehensive facility for *Gundam* plastic models that opened in August and the life-sized *Unicorn Gundam* statue that was set-up in late September. Moreover, for adult customers, *BANPRESTO CO, LTD.*, which specializes in prizes for adult customers, has joined the Toys and Hobby SBU from FY2018.3, and accordingly we will further strengthen our initiatives for adult customers and expand our portfolio.

Overseas, in Europe and the Americas, in addition to the established IP *Power Rangers*, we started full-scale roll-outs of Toys and Hobby products for *DRAGON BALL*, which is highly popular in the fields of home video games and game applications. In North America, we launched a card game in July. This strategic product was launched after thorough preparations, and we have high expectations for future initiatives.

What is the status of the Network Entertainment SBU?

Taguchi: In network content, we are seeing continued good results for *DRAGON BALL Z DOKKAN BATTLE* and *ONE PIECE Treasure Cruise*, which are being rolled out worldwide, and for *NARUTO* titles and other products in Asia. Of these, *DRAGON BALL Z DOKKAN BATTLE* was ranked No. 1 in store sales rankings in 16 countries and regions in July. It has become a major title with a cumulative total of more than 200 million downloads. In Japan, *IDOLM@STER* titles are doing extremely well. *THE IDOLM@STER MILLION LIVE! Theater Days*, which was launched at the end of June, got off to a good start, with 3.90 million downloads in less than one month after its launch. In the future, we will continue to roll out products, centered on core titles in each region, and we will also aggressively launch new titles.

In home video games, *TEKKEN 7* is recording sales in line with our expectations. Furthermore, targeting the worldwide market, we are preparing new titles in the *ACE COMBAT* and *PROJECT CARS* series, so please look forward to these launches. In addition, we are introducing a number of software titles for the Nintendo Switch, such as *ONE PIECE* and *DRAGON BALL*.

BXD Inc. has been established.

Taguchi: Recently, BANDAI NAMCO Entertainment Inc., through a joint investment with Drecom Co., Ltd., established BXD Inc. as a new company that distributes and operates a platform for smartphone browser games.

Plans call for the distribution of new titles to commence from next spring. BXD Inc. will provide high-quality titles that are easy to enjoy, and, through collaboration involving Group products and services, will strive to provide a wide range of entertainment that transcends the game framework.

In the network field, we are also working aggressively to bolster our operations through initiatives with partners, such as a capital tie-up with a game data analysis company.

Rather than simply “respond” to the changes of the times, we want to be a company that stays one step ahead by positively “adapting”

What is the situation with VR ZONE SHINJUKU, which opened in July?

Taguchi: We opened this large-scale VR facility in Shinjuku, Tokyo, and it has been very well received. VR is highly compatible with IP, which is the foundation of our strategy. Accordingly, through this facility we will learn about the expectations of our customers in regard to the future direction of our IP. Moving forward, we will continue to introduce new activities on a regular basis, and we will leverage this facility as a venue to take on new challenges.

In addition, favorable evaluations have been earned by facilities that incorporate new forms of entertainment, such as facilities that utilize IP and augmented reality (AR). Also, we have introduced trampolines and wall climbing at *SPACE ATHLETIC TONDEMI*, an indoor athletic facility recently opened in AEON MALL Makuhari New City in Chiba City. This facility has become popular, especially with families and young customers.

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

Taguchi: In Visual and Music Production, our plan calls for roll outs of new visual products for core IP to be concentrated in the second half of the fiscal year. Accordingly, in the first half we are aggressively working to draw attention to these IP assets through events and other means.

In the future, we plan to launch a number of new offerings of popular core IP. *MOBILE SUIT GUNDAM: THE ORIGIN, Clash at Loum* were shown in September, and the second phase of the TV animation *Love Live! Sunshine!!* will be broadcast from October.

Also, the launch of the first stage of *GIRLS und PANZER: The Final Chapter* is planned for December. We will work to deliver the latest versions of these popular IP assets to fans, and we will strive to create and nurture new IP by devoting resources to the development of new high-quality products. In addition, through such multidimensional initiatives as live events and stage shows, we are taking steps to make the most of the worlds of IP and expand the base of fans. Moreover, targeting future global initiatives, we are instituting measures aimed at expanding the number of animation song fans in overseas markets. These initiatives include launching an animation song distribution service and holding overseas animation song events. I believe that the positive effects of these initiatives will extend not only to the Visual and Music Production business but to the entire Group.

Animation festivals have been sponsored in Europe and the Americas. What has been the response from fans?

Taguchi: In early July, ANIME EXPO, one of the largest anime conventions in North America, was held in Los Angeles in the U.S., and Japan Expo, which introduced Japanese culture, centered on manga and games, was held in Paris, France. Both expos attracted large numbers of visitors. At ANIME EXPO, Group companies have exhibited at individual booths in previous years. This year, we also had a BANDAI NAMCO Group booth, which had a special focus on *DRAGON BALL* products and services.

In addition, the Anisong World Matsuri, a large animation song event, was held at



a site adjoining the ANIME EXPO. Top artists, such as *Aqours* from *Love Live! Sunshine!!*, produced a tremendous reaction among the attendees.

Do you have a message for shareholders?

Taguchi: At the shareholders' meeting in June, we received many questions, and I think that this meeting proved to be a venue for smooth communication with shareholders. Moving forward, we will continue to place a high value on these types of opportunities.

We have used the phrase “respond to the changes of the times,” but as we move forward I think it will be more appropriate to use the word “adapt” rather than “respond.”

The word “respond” includes the nuance of reacting after something has happened, but “adapt” has a sense of moving to embrace change and taking an approach of staying one step ahead. As Darwin is reported to have said, survivors are the ones that are the most adaptable to change. I believe that we need to lead the way into a new era by positively embracing change rather than fearing it, and in this way to continue to take on challenges. I would like to ask for your continued support.



DRAGON BALL Z DOKKAN BATTLE has surpassed 200 million worldwide downloads.



In North America, sales of DRAGON BALL SUPER CARD GAME began in July.

The Group's competitive advantages in the amusement market includes advanced technical capabilities, "places" in the form of more than 250 facilities, and IP

The Group recently opened *VR ZONE SHINJUKU*, one of Japan's largest VR entertainment facilities, in Shinjuku, Tokyo. It is thronged with customers who want an immersive experience and new astonishment. In this section, Makoto Asanuma, Managing Director of BANDAI NAMCO Entertainment Inc., which is in charge of the Group's amusement business, discusses market trends, the potential of VR, and future initiatives.

Would you discuss your current responsibilities?

Asanuma: I am responsible for advancing real entertainment; for the AM Business Unit, which handles arcade games, etc., installed in amusement facilities; and for SP Project for the pachinko and pachislot business. In contrast to entertainment centered on digital elements, such as smartphone game applications and home video games, real entertainment leverages locations at which people can actually gather and enjoy the entertainment. My role is to expand this field.

Was the recently opened *VR ZONE SHINJUKU* the first initiative in this area?

Asanuma: That's right. This project leverages the knowledge and know-how that we cultivated at *VR ZONE Project i Can*, a facility that we opened on a limited-time basis in Odaiba, Tokyo. *VR ZONE SHINJUKU* is one of the largest VR facilities in Japan, and with a space of 3,500 square meters, it enables visitors to experience 16 types of activities, centered on VR.

Over the past few years, conditions in the amusement market have continued to be difficult. To overcome these challenges, we will need to decisively change our thinking in ways that are different from a simple extension of existing approaches to business. In producing *VR ZONE SHINJUKU*, we wanted to build an entirely new entertainment facility that has never been seen before. We went through a process of trial and error as the opening approached, and thanks to everyone's hard work, visitor satisfaction is high and the reviews have been even better than expected. Moving forward, we will strive to further increase recognition of this facility and to offer this experience to as many customers as possible.

Did collaboration among Group companies play a role?

Asanuma: The provision of services at *VR ZONE SHINJUKU* resulted from our efforts to focus the comprehensive strengths of the Network Entertainment SBU. BANDAI NAMCO Entertainment Inc. and BANDAI NAMCO Studio Inc. worked on VR equipment planning and development, while NAMCO LIMITED is handling facility operation. In addition, we have received many proposals from within the Group, such as inquiries about the potential of developing certain types of products for sale at the facility's shop from companies in the Toys and Hobby SBU. In this way, I believe that the strengths of the Group include our diverse know-how and our ability to propose ideas. There may be a strong clash of opinions, but it is encouraging that there are colleagues who can engage in discussions with passion from a variety of different angles, while everyone is working in the same direction. In the future, we will continue to



◆ **VR ZONE SHINJUKU**
Address: Kabukicho 1-29-1, Shinjuku Ward, Tokyo
(7 minutes walk from the east exit of JR Shinjuku Station / 2 minutes walk from Seibu Shinjuku Station)
Hours of operation: 10:00 - 22:00 (last entry at 21:00)
Days of operation: Open 365 days a year
Method of use: Advance reservation system
Fee: Entrance fee - ¥800; children - (6 to 12) ¥500; 5 and younger - free 1-day 4-ticket set: ¥4,400 (set of 4 entrance tickets and activity tickets)
* VR activities are for customers aged 13 and over.
* For further information of the reservation method, etc., please refer to the website: <http://vrzone-pic.com>

leverage the Group's internal knowledge and work to further ramp up enthusiasm for *VR ZONE SHINJUKU*.

What is the competitive advantage of the BANDAI NAMCO Group in the VR market?

Asanuma: The Group has developed know-how through research into sensory-feedback machines conducted over many years, and NAMCO LIMITED has cultivated operational know-how through more than 250 amusement facilities in Japan and overseas. By combining this know-how and VR technologies, I believe we will be able to provide entertainment that leverages the strengths of BANDAI NAMCO. And our greatest strength of all is IP.

At *VR ZONE SHINJUKU*, visitors can enter the worlds of a variety of IP, such as *Evangelion*, *DRAGON BALL*, and *Mario Kart*. The introduction of activities that utilize IP facilitates the creation of images for VR content and motivates customers to experience VR. Also, the use of VR to offer concrete versions of images held by customers leads to further demand for the VR experience. IP has the wonderful power to forge strong connections between our customers and our ideas, and my appreciation of that power has been reinforced.

What is the future of the VR business?

Asanuma: With *VR ZONE SHINJUKU* positioned as our flagship facility, we will take on a variety of challenges. With that content, we will aim to roll out more than 20 small to

medium sized stores in Japan and overseas under the name *VR ZONE Portal*. Customers can understand the fun of VR if they experience it for themselves. We will pursue the potential of the VR business by launching touchpoints that enable customers to readily experience VR in locations around the world.

The company has started to develop gaming machines as a new initiative?

Asanuma: In September 2016, in cooperation with Ainsworth Game Technology Limited, a leading developer of gaming machines that

is based in Australia, we began joint development of gaming machines for casinos. As the first step, we developed a slot machine themed on *PAC-MAN*, which has been placed into operation in Las Vegas and other North American locations. *PAC-MAN* is extremely popular in North America, and the *PAC-MAN* gaming machine is highly regarded. As with our VR initiatives, this product demonstrates the strength of IP. Moving forward, we plan to implement area expansion and enhance our IP lineup.



Makoto Asanuma
Managing Director,
BANDAI NAMCO Entertainment Inc.

We want to offer new forms of surprise in accordance with the key phrase "I have never seen or experienced this before"

What is the situation with arcade games in existing facilities?

Asanuma: Conditions were extremely challenging in the first year of the current Mid-term Plan. In this setting, we reevaluated our product lineup and organizational system and took steps to increase efficiency, and as a result we were able to make a restart. A distinctive feature of the arcade games at existing amusement facilities is the "entirely free platform." For example, a large number of matters are up to the discretion of the manufacturer, such as the specifications and sizes of the machines as well as the content of the play. Anything that the manufacturer thinks of can be added, and accordingly it can be extremely difficult to make the decision that "this is good enough." However, in consideration of the challenging environment, we also changed the direction of our machine development. I think that we need to reconfirm our understanding of the situation, identify our strengths and what we need to do, and implement development with a sense of speed. Moving forward, we will continue to refine our activities and work to develop and provide high-quality machines that meet the needs of the age.

What is your emphasis in the development of human resources?

Asanuma: Without the development of human resources, there can be no business. Entertainment is an industry in which the pace of

change is extremely fast, but I believe that if a company nurtures its human resources and leverages its strengths, it can overcome difficulties no matter how much the market environment changes. To that end, supervisors must know more about their subordinates. What are their strengths? What are their interests? In what areas can they best apply their strengths? Supervisors need to know the answers to these questions, raise motivation on the front lines, and establish environments conducive to effective work. I believe this is the mission of management.

What strategies are being considered for the next Mid-term Plan?

Asanuma: Leveraging the experience gained under the current Mid-term Plan, we will continue to take on the challenge of creating new things and generating high-impact entertainment in line with the key phrases "I have never seen this before" and "I have never experienced this before."

The pace of progress in technology has been dramatic, and over the past three years the change has been remarkable. Over the period of the next Mid-term Plan, I believe there will be multiple new technologies that we cannot even imagine at this point. We should approach these changes as opportunities and rapidly launch measures to stay one step ahead of the expectations of our customers.

The *PAC-MAN VIDEO SLOT WILD EDITION* gaming machine is being rolled out in North America



PAC-MAN® VIDEO SLOT WILD EDITION®
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