

BANDAI NAMCO

Fun for All into the Future

BANDAI NAMCO NEWS

Bandai Namco Holdings Inc.

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Management**Interview with the President****Masaru Kawaguchi**

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Bandai Namco Holdings Inc.



Record-high results in the first half of FY2023.3

Bandai Namco Holdings Inc. has announced its results for the first six months of FY2023.3 (April to September, 2022). In this issue of the newsletter, President Masaru Kawaguchi discusses the results, the current circumstances, and other matters.

The results for the first half of FY2023.3 have been announced.

Kawaguchi: Looking at our results in the first six months of FY2023.3, net sales were ¥477.6 billion, operating profit was ¥81.6 billion, recurring profit was ¥92.3 billion, and profit attributable to owners of parent was ¥66.5 billion. We achieved record highs for sales and profits. By business, the Digital, Toys and Hobby, and Amusement businesses achieved record-high results.

Please discuss the circumstances in the Digital business in the first half.

Kawaguchi: *ELDEN RING*, which was launched in the fourth quarter of the previous fiscal year, reached cumulative worldwide sales of 17.5 million units by the end of September. In the first six months, unit sales of repeat titles reached 19.21 million units, compared with 15.2 million units in the same period of the previous fiscal year. In addition, the ratio of download sales to full package sales was 63%. Both made a contribution to earnings. Moreover, multiple new titles that were launched in the second quarter became smash hits.

Looking at network content, there were no new title releases, but existing titles, such as *DRAGON BALL* and *ONE PIECE*, had favorable results, benefiting from synergies with growing IP* enthusiasm that resulted from the opening of films.

What is the situation in the Toys and Hobby business?

Kawaguchi: The operating environment in the Toys and Hobby business is changing. These changes include the influence on the gross profit margin resulting from the higher costs accompanying the depreciation of the yen, increases in freight rates, etc. In this setting, we exceeded the previous year's results with a strong increase in the top line overall.

By category, favorable results were recorded by *Gundam* plastic models and other products for the mature fan base, such as collectible figures and character lottery products; established IP toys; card products, such as trading card games and digital cards; confectionary; etc. By IP, favorable results were recorded worldwide by such established IP as *Gundam*, *DRAGON BALL*, and *ONE PIECE*. These results were attributable to timely business development activities in collaboration with media initiatives.

Please discuss the IP Production business and the Amusement business.

Kawaguchi: In the IP Production business, we implemented a Unit consolidation and reorganization, and we advanced initiatives to strengthen IP creation. In addition, centered on mainstay IP, such as the *Gundam* series and the *Love Live!* series, we rolled out initiatives in such areas as visual-work production, packaged product sales, online distribution, live events, and the licensing business. Overall, we did not reach the level recorded in the previous year, when licensing revenues were favorable, but we made progress that was

basically in line with plans. In the Amusement business, certain regions were affected by the spread of COVID-19, but in Japan favorable results were recorded by prizes and digital cards that are Toys and Hobby products. The amusement facility business had favorable results, with net sales at existing amusement facilities up 21.6% year on year. In addition, in collaboration with Group IP and product brands, we moved forward with the opening of amusement facilities that leverage Bandai Namco's distinctive strengths. Amusement machine sales were favorable, centered on Europe and the Americas.

What is the situation regarding the results forecasts for the full fiscal year?

Kawaguchi: The results in the first half were favorable, and accordingly we revised the full-year results forecast. In comparison with the initial forecasts of net sales of ¥880.0 billion and operating profit of ¥100.0 billion, the new full-year forecasts are for net sales of ¥940.0 billion and operating profit of ¥128.0 billion, which exceed the record-high levels in the previous fiscal year, when we had global hit titles.

In the first half of FY2023.3, results were favorable due to such measures as strengthened worldwide roll-outs of established IP products and initiatives addressing the lifestyles of fans. We were able to maintain favorable results without relying significantly on any single IP or hit product/service. In this way, we further enhanced our foundation for growth.

(Continued on next page)

*IP: Characters and other intellectual property

We revised the full-year results forecast with consideration for such factors as results in the second quarter

The operating profit forecast of ¥128.0 billion is higher than the level for the final fiscal year of the Mid-term Plan, but the achievement of the Mid-term Plan is not the goal of Bandai Namco. To address the expectations of fans and other stakeholders, we will continue to aim for the achievement of sustained growth.

Would you discuss the trends and focus topics for each business in the second half?

Kawaguchi: In the Digital business, we think that unit sales of repeat titles will decline in the second half, but there will be no change to our strategy of providing high-quality titles for both home video games and network content that can be enjoyed by fans over long periods of time. In addition to measures to see that *ELDEN RING*, which has become a major hit, will be enjoyed over an extended period of time, we are taking steps to nurture the IP, such as creating Toys and Hobby products. Looking at new titles in home video games, in October we launched *DRAGON BALL THE BREAKERS*. Also, in January 2023 we will launch *ONE PIECE ODYSSEY*, a *ONE PIECE* RPG that has been requested by many fans. Both of these titles will be rolled out worldwide over extended periods of time in collaboration with IP media initiatives. Looking at network content, in addition to stable progress with existing titles, we will also launch new titles, such as *Sword Art Online*. In this way, we will strengthen our title lineup. In the second half, accompanying the launch of these new titles, we expect to record

upfront expenses, such as development, marketing, and other expenses.

Also, in regard to IP metaverse initiatives, we will conduct a closed test of Gundam plastic model colonies within FY2023.3. In the Digital business we will also take steps to strengthen our development capabilities and advance new technology initiatives. In Japan, to bolster high-end development capabilities, we established a new company together with development partners. Moreover, to reinforce our development capabilities for overseas development titles, we made a German studio a subsidiary, where the title *Park Beyond* is now under development. We also established Bandai Namco Entertainment 021 Fund, which invests in start-ups. This fund is advancing initiatives in connection with a variety of partners, without being limited to the Bandai Namco Group. One recent example is an investment in a company that has developed and is operating a blockchain social game.

In the second half, we expect that the Toys and Hobby business will continue to be influenced by the depreciation of the yen. Also, as a result of measures to strengthen marketing in categories with favorable results, we anticipate an increase in SG&A expenses in the second half in Japan and overseas.

Looking at products, those for *KAMEN RIDER GEATS*, which started TV broadcasting in September, got off to a favorable start. Also, the plastic model of the *Gundam* that plays the lead role in *Mobile Suit Gundam THE WITCH FROM MERCURY*, which started TV broadcasting in

October, is recording highly favorable sales. The range of purchasers has expanded to include such groups as women and teenagers, and we will implement continued initiatives to retain new fans.

Furthermore, in the past several years significant growth has been recorded in such categories as cards, confectionary, and capsule toys. In cards, *ONE PIECE CARD GAME* was launched in July. It has gotten off to a favorable start, with high evaluations for its game play and illustrations. Overseas, we plan to launch a Chinese version in November and an English version in December. In confectionary, we are creating hit products that have been supplemented with IP collectability features. In capsule toys, we are expanding opportunities to fans to experience these products with the roll out of specialty stores in cooperation with the Amusement business. Going forward, in Toys and Hobby operations, in addition to toys, we will leverage various IP touchpoints to implement wide-ranging development initiatives that draw on Bandai Namco's distinctive strengths. On the other hand, in regard to higher raw materials prices resulting from the depreciation of the yen, we will continue to implement measures from a variety of directions, such as cost reductions, increased efficiency, and creative initiatives in the area of specifications.

What are the circumstances in the IP Production Unit and the Amusement Unit?

Kawaguchi: In the IP Production business, we have launched strategic IP products in the second half, such as *Gundam*, *That Time I Got Reincarnated as a Slime*, and *BLUELOCK*, and we anticipate an increase in earnings from these initiatives. *Mobile Suit Gundam THE WITCH FROM MERCURY*, which was produced

in an in-house studio, is being broadcast in Japan and is also being distributed online worldwide from a variety of platforms. The visual product has also been highly evaluated. It has become a major topic of conversation and reached the number one position worldwide in trending topics on Twitter. In IP Production, we will continue to focus on IP quality. In addition, with IP as the starting point, we will implement initiatives in packaged products, live events, and the licensing business, and we will also implement global roll-outs and online distribution, which have been recording significant growth in recent years. In these ways, we will work to maximize IP value.

Moreover, we changed our organizational system from April. To further strengthen IP creation capabilities, we are consolidating know-how and implementing personnel exchanges. The combination of different approaches, such as creation in-house and creation through collaboration with partners, has made it possible to create more varied IP. Next year, we will advance the consolidation of the offices of companies within the Unit, and we will further accelerate fusion.

In the Amusement business, in the second half we anticipate increases in the cost of materials procured at facilities, higher utility costs, and increased depreciation accompanying the opening of new facilities and the introduction of new amusement machines. In addition, the Amusement business is susceptible to the influence of the spread of COVID-19, and accordingly we are paying careful attention to the operating environment.

Going forward, we will continue working to increase efficiency. In addition, we will actively utilize Group resources, such as prizes and digital cards, and roll out amusement facilities that leverage our unique know-how in a variety of areas, from planning to operation. Examples include facilities specializing in IP, such as Gundam Park; facilities that gather together a variety of Group products and IP brand shops, such as Bandai Namco Cross Store; and sports variety facilities, such as VS PARK. Also, for amusement machines, in the second half we will launch a new model in the *CLENA* series of highly popular prize machines. Going forward, we will continue to develop and roll out machines that address market needs.

been able to highlight to overseas fans the comprehensive strengths of ALL BANDAI NAMCO and the scope of our business categories. I have been impressed by the results of these activities when I directly experienced the enthusiasm of IP fans on the front lines. Going forward, we will strive to effectively leverage these favorable circumstances.

We have also consolidated office bases in each region. Employees have developed a new mindset, and the process of fusion is moving ahead. Under the ALL BANDAI NAMCO concept, we have strengthened our commitment to aiming for both global growth and IP value maximization, and our possibilities are expanding. Going forward, we will further expand our global business initiatives, centered on North America and China, which are key markets.

Finally, do you have a message for readers?

Kawaguchi: In the first half of FY2023.3, we were able to achieve record-high levels of net sales and profits. The engine of this achievement was our employees, who are Bandai Namco's greatest asset. I have personally experienced this while visiting various companies and events. The Group's growth is the accumulation of the growth of its employees, and we will strive to promote the Group's growth by supporting the growth of our employees. First, we will aim for the achievement of the record-high results in the current full-year forecast, and then for sustained growth over the medium to long term. Please look forward to exciting developments for Bandai Namco in the years ahead.

Aiming to put the Purpose into practice with our comprehensive strengths under the ALL BANDAI NAMCO concept

Would you discuss the trends in overseas business?

Kawaguchi: We exhibited at New York Comic Con in October. Large-scale events can now be held in real venues, and we are aggressively exhibiting in a variety of regions. Previously,

Group companies had individual booths, but now we are exhibiting by IP. This is not the result of top-down instructions. Rather, it is the result of employees around the world thinking and taking action in order to maximize IP value. Under this initiative, we have



▲ New York Comic Con, where our booth was organized by IP.



▲ ONE PIECE CARD GAME got off to a strong start.

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◆ Consolidated Financial Results in First Half of FY2023. 3

(million yen)

| | Net Sales | Operating Profit | Recurring Profit | Profit Attributable to Owners of Parent |
|----------------------|-----------|------------------|------------------|---|
| Results | 477,620 | 81,607 | 92,365 | 66,557 |
| Year-on-Year Changes | 121.3% | 132.2% | 144.1% | 168.4% |

◆ Full-year Consolidated Results Forecast for FY2023.3 and Results in Previous Year

(million yen)

| | Net Sales | Operating Profit | Recurring Profit | Profit Attributable to Owners of Parent |
|---|-----------|------------------|------------------|---|
| Revised Projections* (as of November 2022) | 940,000 | 128,000 | 139,000 | 95,000 |
| Results in Previous Year (April 2021 to March 2022) | 889,270 | 125,496 | 133,608 | 92,752 |

* Forward-looking statements are based on a variety of assumptions and are not promises or guarantees that the stated future forecasts/measures will be realized.

◆ Consolidated Financial Results by Segment in First Half of FY2023. 3

(million yen)

| Business Segment | Net Sales | Segment Profit |
|---------------------------|-----------|----------------|
| Digital | 193,897 | 44,649 |
| Toys and Hobby | 213,368 | 33,562 |
| IP Production | 35,065 | 3,459 |
| Amusement | 48,657 | 4,804 |
| Other | 15,070 | 456 |
| Elimination and Corporate | (28,439) | (5,324) |
| Consolidated Total | 477,620 | 81,607 |

Continuing to work together with fans to invigorate IP and provide high-quality products and services

In April 2021, Nao Udagawa, who up to that point had worked in the development of the Digital business, became the president of BANDAI SPIRITS CO., LTD., which conducts activities in the Toys and Hobby business. Based on the IP axis strategy, she is working to strengthen business for the mature fan base and to bolster collaboration within the Entertainment Unit. In this section of the newsletter, she discusses the current circumstances for BANDAI SPIRITS around the world, the future outlook, and other matters.

It has been a year and a half since you became president.

Udagawa: At first, I was a little bit surprised at the difference in the business cycle between the Digital business and the Toys and Hobby business. However, the two businesses have the same approach of developing operations on an IP axis and providing high-quality products and services to customers, which is fundamental at Bandai Namco.

What results have been seen from initiatives fusing physical and digital elements?

Udagawa: One major point has been that, by combining these operations in the same Unit, it has become possible for executives to grasp more-detailed information about the other side's businesses and numbers. Also, collaboration on an IP axis has further deepened. For example, it is now possible to foster a cycle in which people working in IP-related positions in the Digital business and the Toys and Hobby business meet together to hold discussions under the same strategy, and to implement measures.

On the front lines, each company had been focusing on the point of product launch, but now the companies can take a medium to long term perspective in regard to IP trends and developments. Synergies arising from

collaboration to maximize IP value are being generated in a variety of front-line settings.

The IP axis strategy seems to be working well.

Udagawa: At New York Comic Con in October, IP axis corners were installed within the Bandai Namco Group booth, such as for *DRAGON BALL*, *ONE PIECE*, etc. In one place, we exhibited the products and services for the brands developed by each business, arranged by IP. We took steps to make our booth fun for attendees, such as installing a photo spot and distributing samples. IP fans were able to directly experience products and services in a wide range of genres. I think that Bandai Namco has been able to accomplish what we set out to do.

What factors are responsible for the favorable results of BANDAI SPIRITS?

Udagawa: In particular, I think that one background factor is that there has been an increase in opportunities for overseas customers to directly experience Japanese anime. Over the past few years, it has become possible to implement online visual product distribution with no time lag between Japan and overseas. A variety of information is distributed through SNS, etc. Also, overseas fans are promoting the appeal of Japanese anime through

word of mouth. With interest in Japanese anime increasing in these ways, we have been able to provide products in a timely manner, and this fact has led to the current favorable conditions in the market for products for the mature fan base.

As BANDAI SPIRITS targets the global market, what is the company focusing on?

Udagawa: In addition to rapidly taking action, I think that it is important to continue to provide fans with high-quality products. For example, with plastic models, in addition to the conventional sales route of specialty stores, we have now expanded to large-scale retailers, increasing the opportunities for customers to encounter our products. I think it is important that, as we continue to expand our sales routes, we simultaneously continue to make products that not only meet but exceed the expectations of customers who have purchase products through those routes.

What regions are a special focus?

Udagawa: Of course Japan is also included in our initiatives to strengthen global business development. In the short term, we will further strengthen our footing in the Japanese market. At the same time, overseas we will continue working to achieve expansion in the global market, centered on North America and inland China.

Would you discuss countermeasures to a shortage of *Gundam* plastic models?

Udagawa: All of our employees want to do a good job of delivering products to large numbers of customers. Currently, we are focusing on making progress with preparations for a new plant at the BANDAI HOBBY CENTER. In addition, in collaboration with related bases within the Group, we are implementing initiatives to increase production efficiency. Furthermore, with the cooperation of related

parties in distribution, we are advancing the establishment of a system that facilitates appropriate sales. Going forward, we will continue to implement a variety of initiatives.

Please discuss the future product brand strategy.

Udagawa: There are points of focus for each brand, and common initiatives include

enhancement of the originality and value of all brands. There are many issues, such as the rising prices of raw materials, but continuing to provide customers with things that have value is indispensable for the growth of individual brands.

We would like BANDAI SPIRITS to be a company in which the growth of individual employees is a source of strength and makes us indispensable around the world

What are special focus topics and products?

Udagawa: The first would be the new *Gundam* TV series, *Mobile Suit Gundam THE WITCH FROM MERCURY*. In preparation for the start of broadcasting, we held a variety of events throughout Japan, such as GUNDAM NEXT FUTURE, a large-scale event connecting fans with the *Gundam* series. I believe that we were able to enhance the enthusiasm and expectations of fans in advance.

In addition, in regard to sustainability, we are implementing the Gunpla Recycling Project, which recycles plastic runners (part of the plastic model framework) that have been collected through the cooperation of fans. Through this project, we are aiming to recycle 15 tons within this fiscal year. The collection of runners is being implemented on a Group-wide basis, and in these endeavors the Group is leveraging the facilities of Bandai Namco Amusement Inc. and the distribution resources of BANDAI LOGIPAL INC. As one part of these initiatives, we held Gundam R Strategy 2022, an event which included the distribution of *Eco Plastic* products. This year, the event was held in more than 45 locations around Japan, and many people participated. Sustainability activities implemented together with fans draw on the distinctive characteristics of Bandai Namco, and through these types of activities we will enhance our connections with fans going forward. We are very grateful to have this opportunity.

Are there other points of focus?

Udagawa: In Akihabara, Tokyo, we held TAMASHII NATION 2022 for the public for the first time in 3 years. This large-scale event featured collectible items for the mature fan base. This was one of the largest ever real events for products in all categories, including first public exhibitions. In addition, we also collaborated with TAMASHII NATIONS STORE TOKYO, a directly-managed store, and implemented online distribution. In these ways, we were able to highlight our products to many fans.

Also, in commemoration of the 15th anniversary of the TAMASHII NATIONS brand in 2023, we decided to hold a worldwide tour visiting New York, Tokyo, Mexico, Shanghai, and Paris. TAMASHII NATIONS products have many fans not only in Japan but around the world. We have high expectations that this tour will be an excellent opportunity to highlight these products worldwide.

Connections with fans around the world are becoming stronger.

Udagawa: The Mid-term vision of the Bandai Namco Group is "Connect with Fans." Personally, this is also my greatest motivation. For me, the greatest reward is the delight of customers, and I think that this also motivates employees.

In regard to connections with fans, are there any other specific initiatives?

Udagawa: Recently, in the communication of information about IP and products, there is a



Nao Udagawa
President and Representative Director,
BANDAI SPIRITS CO., LTD.

sense of being enthusiastic together with fans, and I think that the metaverse might be one platform that boosts that in the future. Through the Group's IP Metaverse Concept, we will strive to facilitate the creation of broad, deep, and multifaceted connections with fans around the world. In addition to connections between Bandai Namco and fans, we will also strive to foster connections among fans themselves and to build metaverse initiatives.

What are your policies toward work?

Udagawa: I believe that the individual growth of all employees, including me, is linked to the growth of the company. Accordingly, my aim is to strengthen individuals and the company through collaboration. I would like to see everyone taking on challenges without fearing change, and people with diverse know-how and backgrounds working hard together in a process of growth. I would like BANDAI SPIRITS to be a company that is indispensable to many people.



▲ New York Comic Con



▲ GUNDAM NEXT FUTURE



▲ TAMASHII NATIONS STORE TOKYO

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