

The Future of Entertainment: Video Games, Fantasy, and Anime

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Table of Abbreviations

Abbreviation	Explanation	Abbreviation	Explanation
ACJ	Anime Consortium Japan	IP	Intellectual Propriety
AR	Augmented Reality	JP	Japan
ARPU	Average revenue per user	MMORPG	Massive Multiplayer Online Role Play Game
AU	Australia	M&A	Mergers & Acquisitions
BCG	Boston Consulting Group	mm	Million
BN	Bandai Namco	NPV	Net Present Value
BRL	Brazilian Real	NZ	New Zealand
B2B	Business to Business	OPM	Operating Profit Margin
bn	Billion	OTT	Over the Top
CAGR	Compounded Annual Growth Rate	PC	Personal Computer
CN	China	ROA	Return on Assets
CO2	Carbon dioxide	ROE	Return on Equity
COGS	Cost of Goods Sold	R&D	Research & Development
Co.	Cooperation	SG&A	Selling, general, and administrative expenses
DCF	Discounted Cash Flows	SVoD	Streaming Video on Demand
EBIT	Earnings before interest and taxes	S&P	Standard and Poor's
EBITDA	Earnings before Interest, Taxes, Depreciation, and Amortization	t	Ton
EV	Enterprise Value	UK	United Kingdom
e.g.	"exempli gratia" or for example	US	United States
excl.	Exception	VR	Virtual Reality
FX	Foreign Exchange	WACC	Weighted Average Cost of Capital
FY	Fiscal Year	YoY	Year-over-year
GW	Games Workshop	40K	40,000
HR	Human Resources	~	Approximately

Executive Summary

Bandai Namco's Course of Action

Executive Summary

Should Bandai Namco acquire Games Workshop?

Bandai Namco Holding Inc, a worldwide leading Japanese developer of entertainment-related products and services, aims to expand its geographic footprint in the West and strengthen its IP portfolio through a potential acquisition of Games Workshop Group (UK), a worldwide leading developer and manufacturer of miniature figures and games based on the well renowned Warhammer franchise.

Bandai Namco **should fully acquire** Games Workshop, on the back of the deals'...

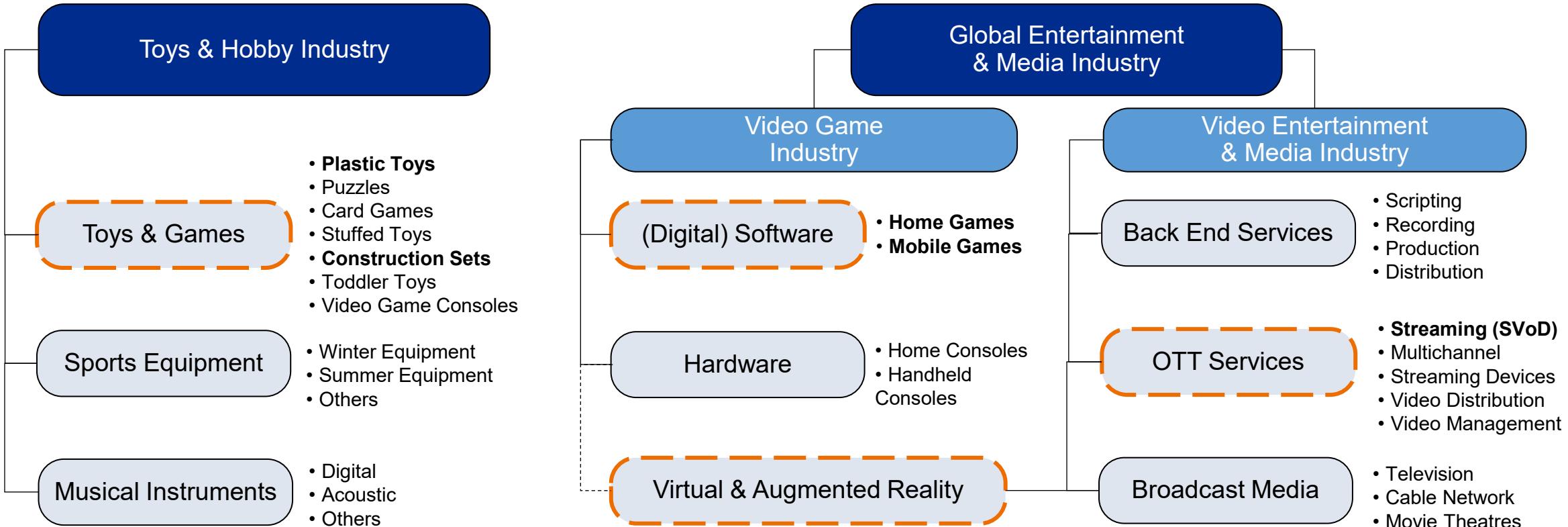
Financial Value	Strategic Fit	Acquisition Feasibility
 <ul style="list-style-type: none"> As of March 3rd, 2022, the market is undervaluing Games Workshop's \$94.04 price per share by 24%, creating a window for an acquisition Expected synergies from cost reductions and revenue generation amount to \$270.1 mm for the next five years A maximum purchase price of \$4,102.9 mm is suggested, which includes a premium range of up to 33% to current market value 	 <ul style="list-style-type: none"> Games Workshop's IP strengthens Bandai Namco's IP axis strategy, allowing for future content creation for both physical and digital worlds, connecting fans around the globe Bandai Namco's overseas' sales will increase from 22% in 2021 to 28% in 2026, accelerating the company's mid-term goal to increase its western presence An acquisition would result in an immediate addition to the in-house IP revenue mix of 53.4%, a fit that cannot be achieved by other identified alternatives 	 <ul style="list-style-type: none"> Given Bandai Namco's EBITDA margin (15.1%), strong operating cash flow (\$546 mm), and low debt-to-EBITDA ratio (0.4x); a finance structure of ~76% debt and ~24% is proposed, resulting in minimum IRR of 10% and MOIC of 1.4x Current market landscape shows no regulatory impediment risk that could threaten the closure of the deal A full buyout approach enables the biggest immediate value creation for Bandai Namco

I. Industry Overview

Defining and Shaping the Industry

Industry Breakdown

Bandai Namco is operating in three industries, namely Toys & Hobby, Video Games and Video Entertainment & Media



The **Toys & Games** segment, valued at **\$297 bn in revenues**, is growing at a **CAGR of 4.62%**, with plastic toys and construction sets being two key segments of the sector

The **Video Game industry**, particularly the sales of digital game software, is valued at **\$155 bn in revenues**, is expected to grow strongly at a **CAGR 12.84%**

The **OTT Services** sector, in particular **SVoD**, is valued at **\$71 bn in revenues**, is experiencing strong growth at a CAGR of **15.40%**

Sources: (Yufei Han, 2020, Statista), (Shaulova & Biagi, 2020, Statista)

Toys & Hobby Market Overview (1/2)

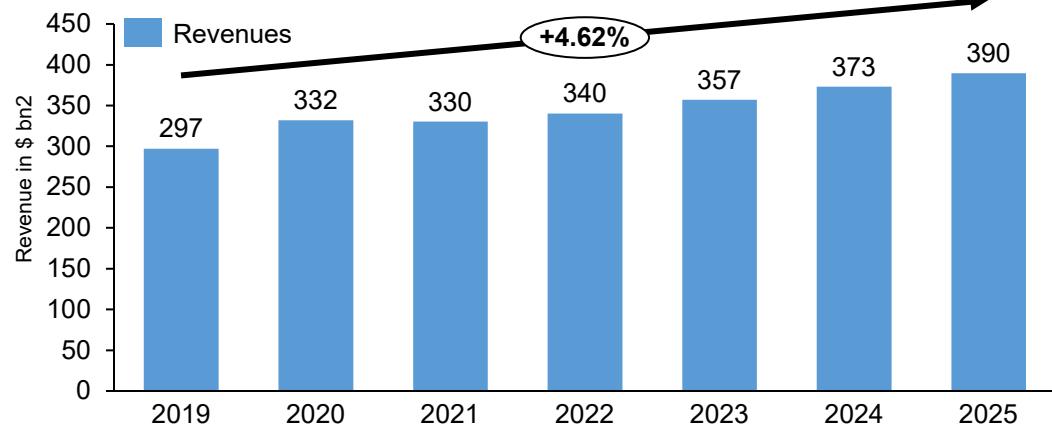
The Toys & Games segment generates the highest revenue, and is expected to keep growing in the next five years especially in the US, China and United Kingdom



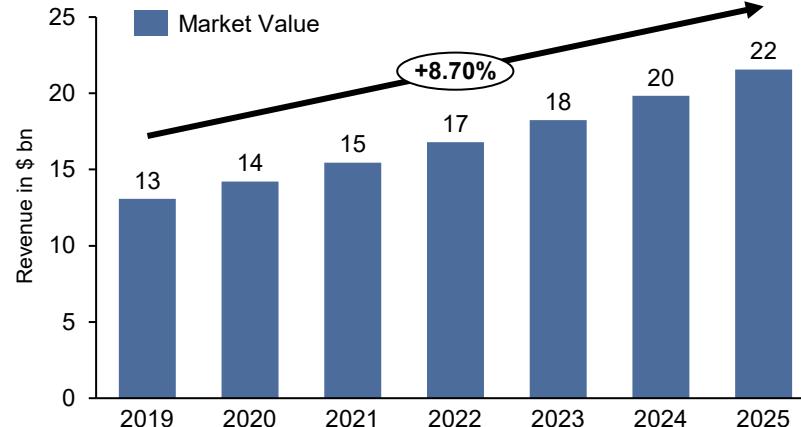
Toys & Hobby Market Overview

- Overall, Toys & Hobby products generated \$ 452 bn in sales worldwide in 2019
- Toys & Games** is the largest segment of the Toys & Hobby market with ~65% of total sales (\$297 bn in revenues in 2019), excluding Board Games
- Asia**, is the biggest market in the Toys & Games segment with 52% of revenues and it's expected to grow at a CAGR of 5.5% from 2019 to 2025
- According to Business Wire, the **Card and Boards Games** market by revenue is expected to grow at a CAGR of ~9% during the period 2021-2026, impacted by an increase in popularity as a result of the **COVID-19 pandemic**
- The top 5 players of the Cards and Board Games are **Games Workshop Group PLC, NECA/WizKids LLC, IELLO USA LLC., Grey Fox Games, Disney**

Toys & Games Segment Revenue Forecast¹



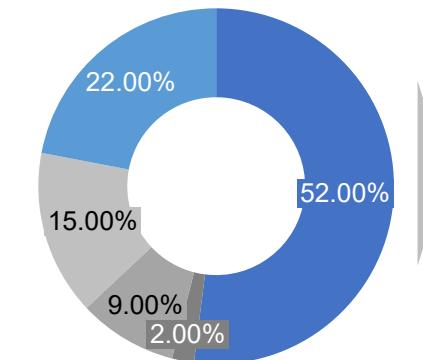
Global Cards and Board Games Market Value²



Toys & Games Key Players/Brands



Revenues by Geographic Region in the Toys & Games Segment



Key Markets	Drivers of Growth
Asia	5.5% (China, India, Japan)
Americas	2.8% (USA, Brazil, Mexico)
Europe	2.1% (UK, Germany, Russia)
Africa	7.4% (Egypt, Nigeria, South Africa)
Oceania	3.6% (Australia, New Zealand, Papua New Guinea)

Note: ¹Value in billion \$. ²Value in billion \$ based on 2019
Source: (Shaulova & Biagi, 2020, Statista), (Business wire, 2021)

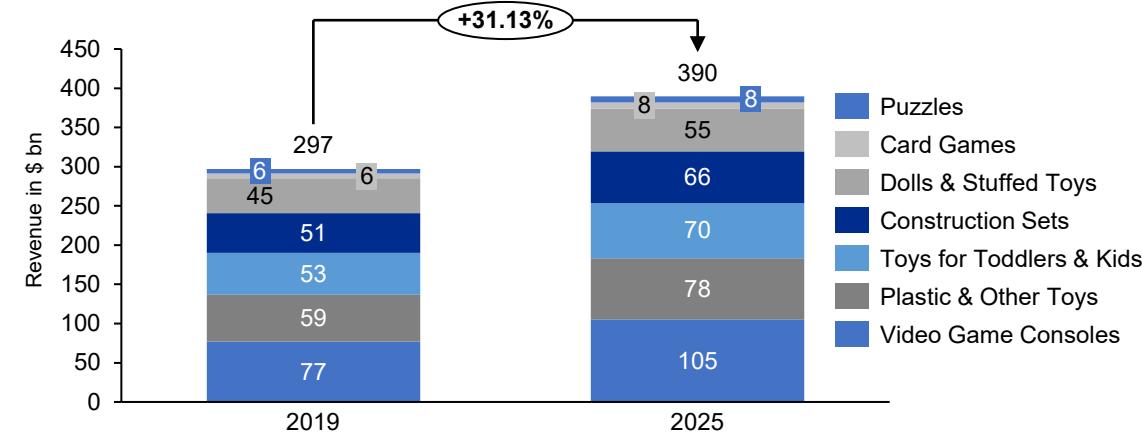
Toys & Hobby Overview (2/2)

China, United States and United Kingdom markets are positioned as major engines for growth for the Toys & Games segment

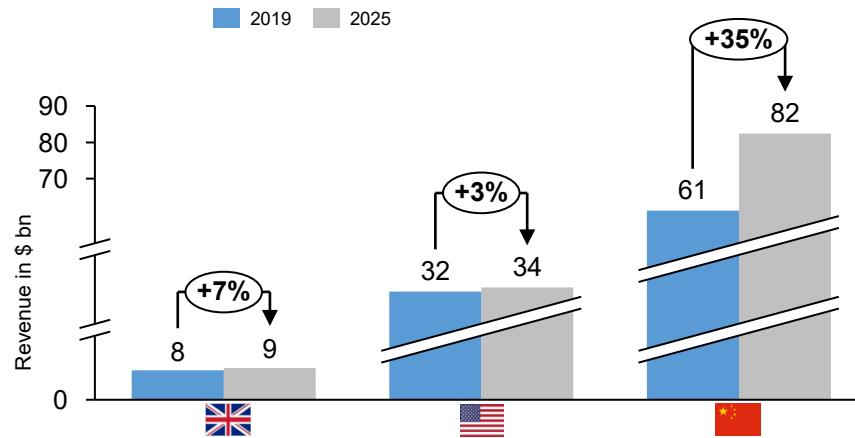
Toys & Hobby Market Overview

- Toys & Games segment revenues are expected to **grow by 31.1%** between 2019 and 2025 and reach **\$390 bn** (CAGR of 4.62%)
- Video game consoles** are expected to generate the highest revenue in the Toys & Games segment **with 27% of revenues** followed by **plastic & other toys with 20%** and **construction sets with 17%**
- Asia** represents the largest market in terms of revenues for sales of Toys (\$ 109 bn), followed by the **Americas** (\$ 46 bn) and **Europe** (\$ 19 bn)
- China** is forecasted to grow its Toy sales by **35%**, followed by the **UK** with **7%** and the **US** with **3%**
- A global market survey shows **preference** in purchase **channels** of toy products, with **retail stores** being the most popular (75%), followed by **online shops** (58%)

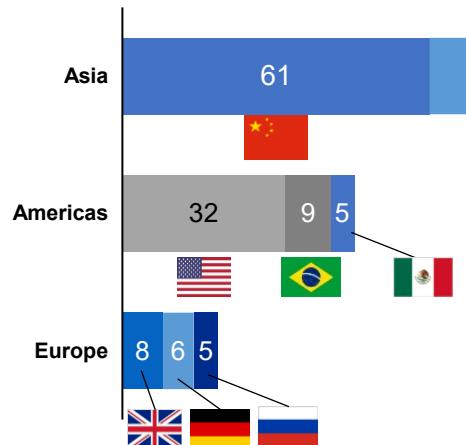
Revenues by Type of Product for Toys and Games segment¹



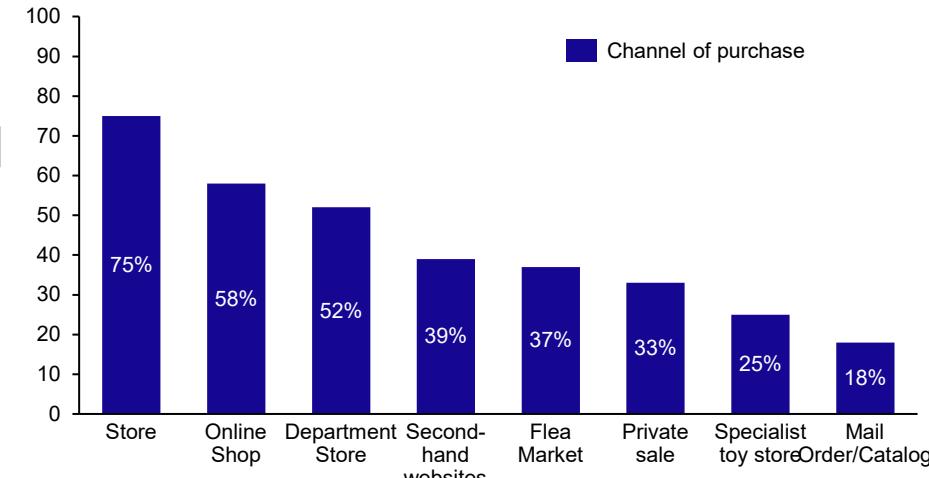
Revenue growth for Toys and Games¹



Top Toy Revenue by Market¹



Global Market Survey – Purchase Channels



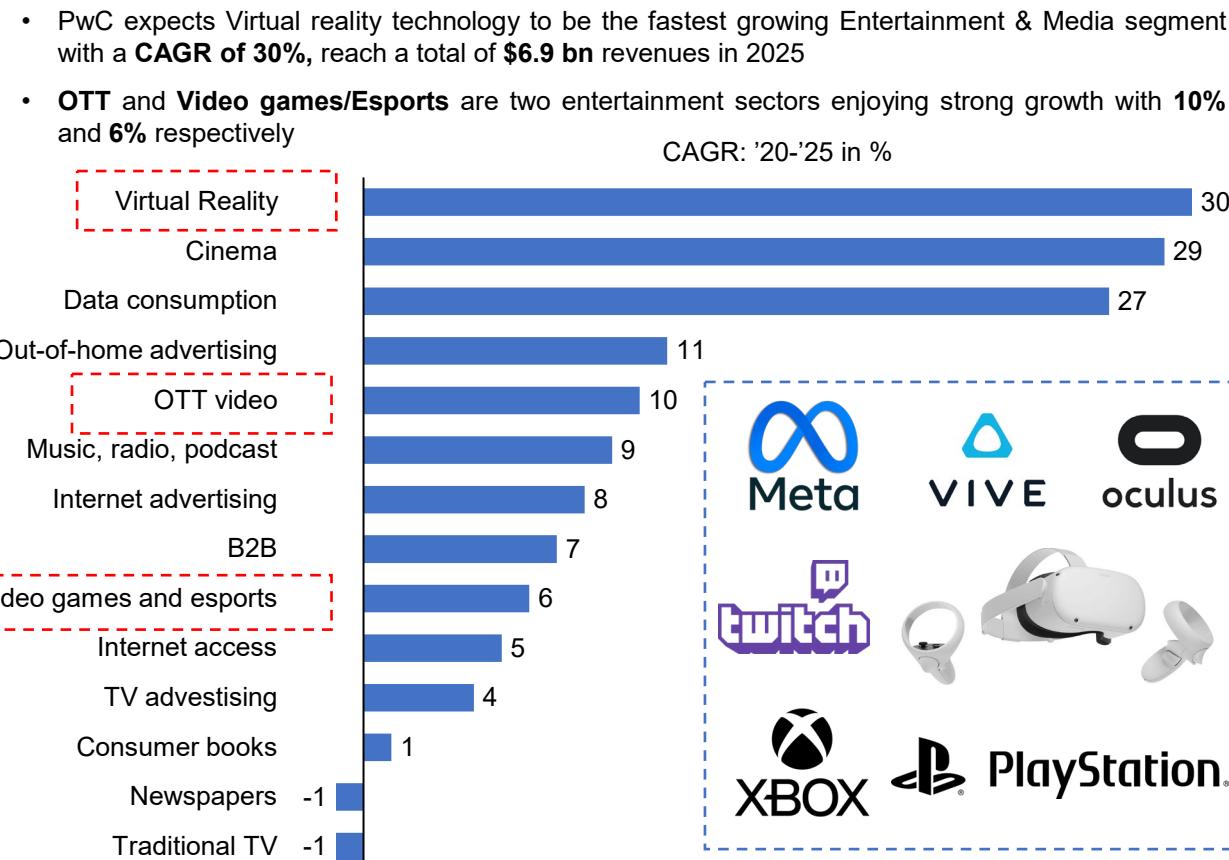
Note: ¹Value in billion \$. ² Data from 2020 express in million USD \$ converted with a conversion rate of 110.71

Source: (Shaulova & Biagi, 2020, Statista), (Tighe, 2019), (Wood, 2021)

Entertainment & Media Industry Trends

Key players are positioning themselves to capitalize on ongoing digitalization trends, particularly in VR, OTT and Video game segments

Projected Global Growth in Entertainment & Media by Segment



Recent Mergers & Acquisitions in Entertainment & Media

Date	Value of Transaction	Deal
Jan 2022	\$68.7 bn	Microsoft agrees to acquire Activision Blizzard Inc. for their IP's and studios
May 2021	\$43 bn	AT&T spins off and merges Warner Bros. with Discovery
May 2021	\$8.5 bn	Amazon agrees to acquire film studio MGM
May 2021	\$5.0 bn	Verizon agrees to sell Verizon Media unit (Yahoo/AOL) to Apollo
Mar 2021	\$7.5 bn	Microsoft acquires video game company Zenimax
Feb 2021	\$1.1 bn	RTL Group agrees to sell adtech unit SpotX to Magnite
Dec 2020	\$1.2 bn	Sony Pictures agrees to acquire anime video-streaming service Crunchyroll from AT&T
Nov 2020	\$2.0 bn	Penguin Random House agrees to acquire Simon & Schuster publisher from ViacomCBS

More information in Appendix Slide 83: Gaming Industry M&A History

The race towards digitalization in Entertainment & Media industry has attracted over **\$130 bn** of M&A transactions in the last couple of years.

Source: (Huff Eckert, 2021, PwC)

Digital Video Games Market Overview

Mobile games drive the majority of revenue within the gaming market, followed by subscription based game purchases, particularly in China, the United States, and United Kingdom



Key Takeaways

- Video Game products generated **\$155.5 bn in sales** worldwide in 2021 with a projected **CAGR of 11.94%** from 2016-2026
- Mobile gaming** revenue makes up the majority of sales with **70.3%**
- China, US and Europe** generate **66.8% of total revenue** (\$103.6 bn) of the global digital video games market
- China** is currently the biggest market with **31.4% of revenues** and it's expected to grow at a **CAGR of 9.3%** from 2021 to 2026
- The **US** market, making up **19.6% of sales**, is projected to grow with a **CAGR of 8.33%**, fueled by demand stemming from the Covid-19 pandemic, with **Europe** growing at a similar **CAGR of 8.7%** and **15.7% of sales**

More information in Appendix Slide 84: COVID-19 impact on Technology Adaptation

Market Composition

Mobile Games

Paid app-download for smartphones and tablets



Downloads Games

Online sales of video games for gaming console/PCs via direct download



Online Games

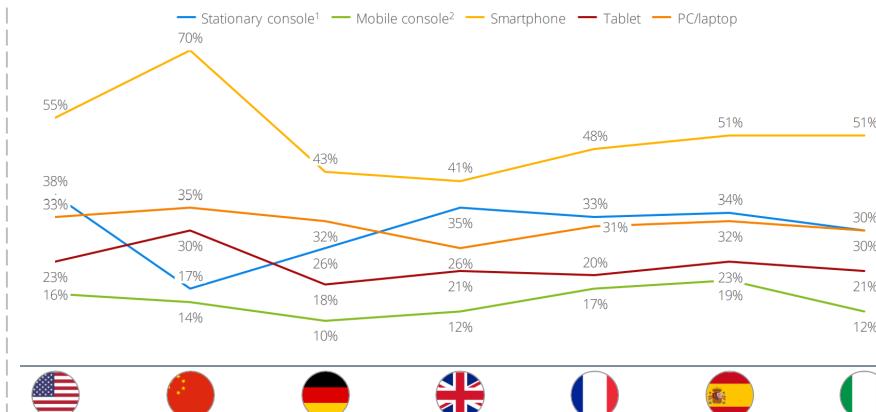
Subscription-based games



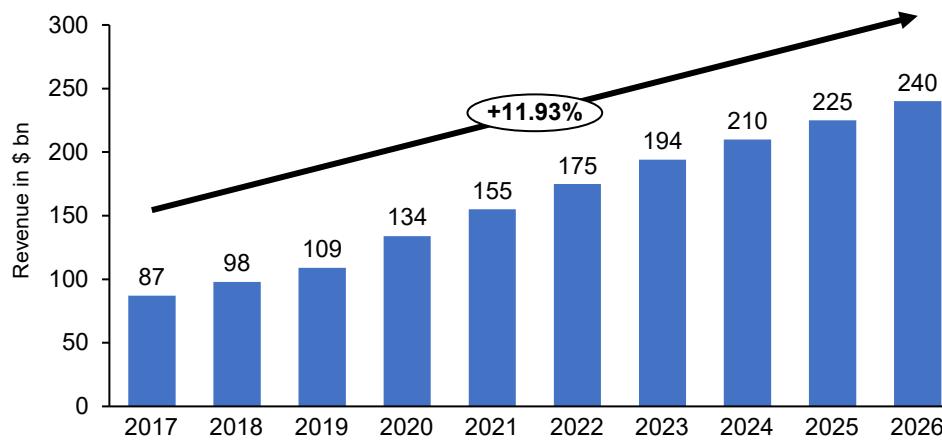
Gaming Networks

Subscription-based access to online premium services

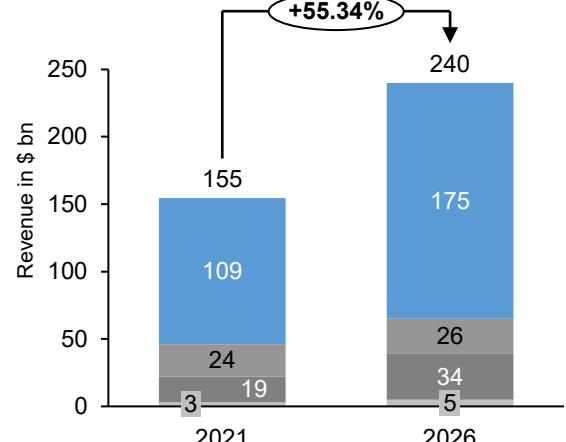
Popularity of Devices Utilization for Playing Video Games



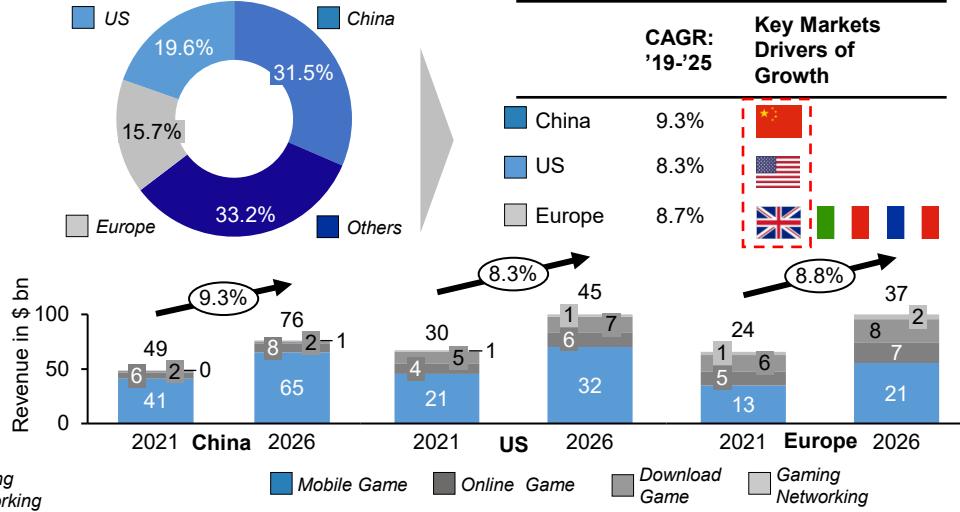
Digital Video Game Total Market Revenue Forecast¹



Revenues by Type of Product¹



Revenue Split across Geographic Markets (in%)¹



Note: ¹Value in billion \$ related to 2021, The analysis of the Digital Video Game Industry focuses only on digital sales and excludes physical game sales
Source: (Clement, 2021, Statista), Digital Media Report (Statista, 2021)

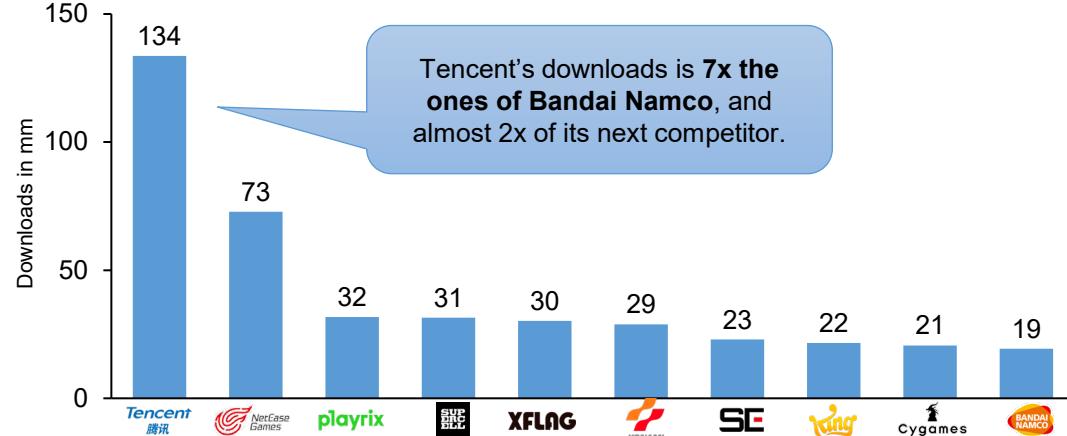
Mobile Games Segment Overview

China, the US and UK enjoy the strongest growth in the mobile gaming segment, making up over 50% of total global revenue

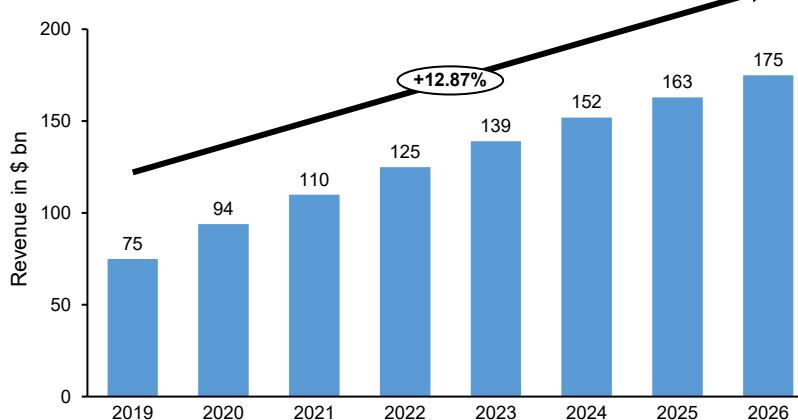
Mobile Games Market Overview

- The large and rising smartphone user base and low barriers of entry via **free-to play** business models are major drivers of the Mobile Game segment growth, with a **CAGR of 12.87% until 2026**
- China** is one of the dominant markets for the Mobile games sector with **\$41.1 bn** sales, accounting for **37.4%** of the total Video Game market in 2021 and generating **84.2%** revenue of the Chinese Digital Video Game market, with a projected **CAGR of 9.3%** until 2025
- The mobile gaming revenue share for leading markets is heavily saturated by other Asian markets such as **Taiwan, Japan and South Korea**
- The **US** and **European** mobile gaming segments are projected to grow at a CAGR of **8.9%** and **9.7%** from 2021 to 2025, respectively
- The mobile game market is very competitive, with **Tencent** leading the pack as the largest company in the segment

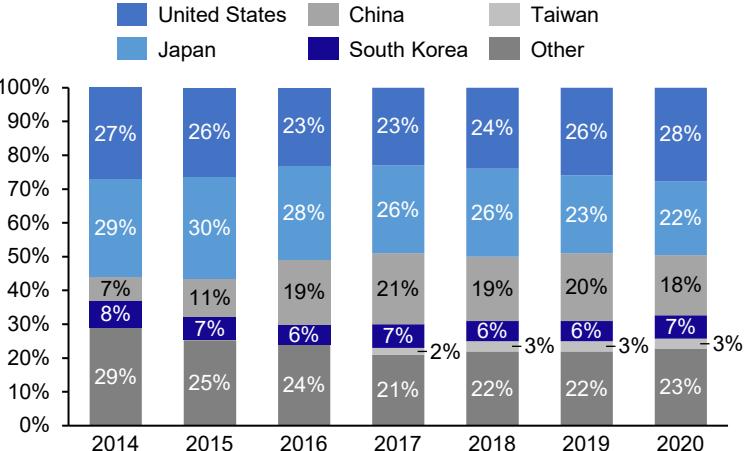
Leading iPhone Gaming App Publishers Ranked by Total Downloads 2021²



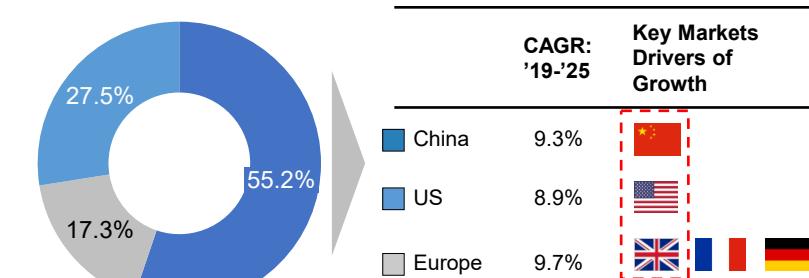
Mobile Games Market Revenue Forecast¹



Mobile Game Revenue Share for Leading Markets



Revenue Split across Top Three Geographic Markets¹



Home Video Games Segment Overview

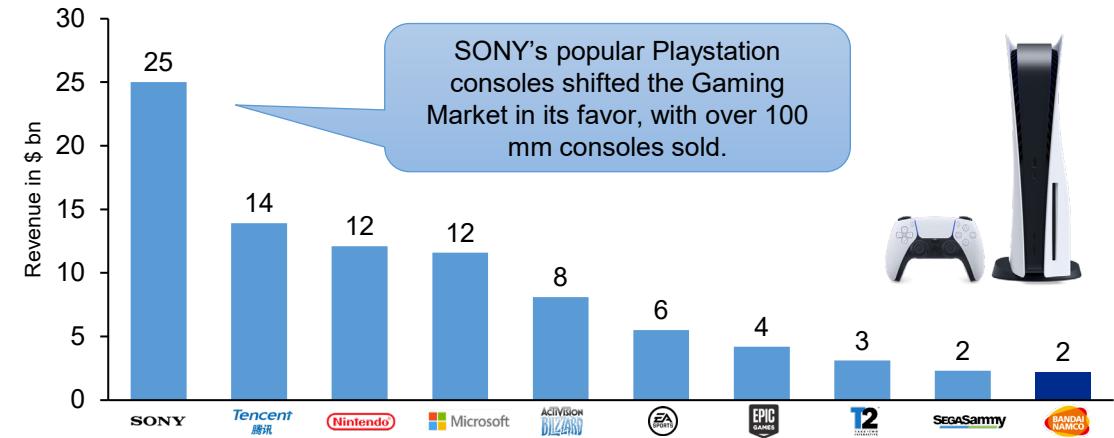
A shift to digital consumption has disrupted the home video games segment, with Sony, Microsoft and Nintendo paving the way with their popular Gaming Consoles and IP driven growth



Home Game Market Overview

- The Home Video Game segment is expected to grow to **\$65 bn** with a **CAGR of 9.7%**
- The increase of the number of gamers and technological advancements over the years resulted in a continue increase of the Home Video Game demand, with a popularity surge during the **COVID-19 pandemic**
- ~41% of the total home video game market revenue stems from **Online Games**, showing an interest in games that host a large community
- New **Virtual Reality** technology is a novel key driver to increase the number of gamers by 2025, for that reason investors believe that **59% of gaming** will dominate the investment directed to the development of this technology
- In the previous decades the consumption of Home Video Game has shifted to from physical to digital from **20% in 2009 to 83% in 2018**, a trend that will only grow in the years to come

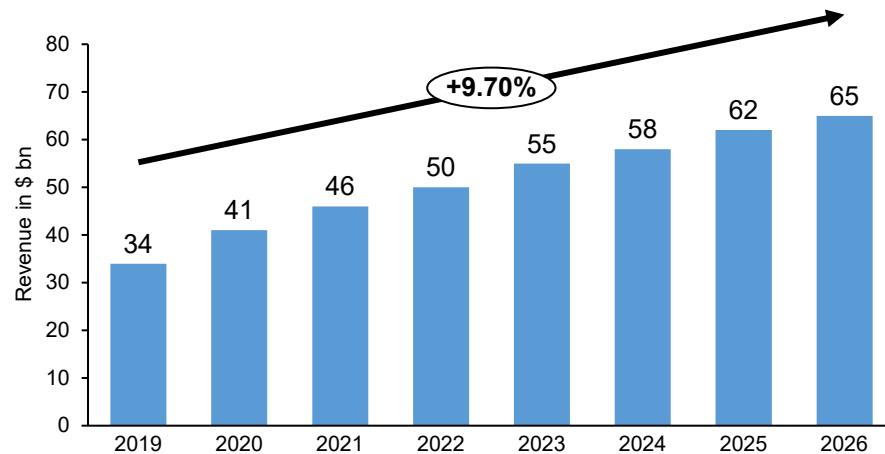
Major Player of the Market Ranked by Revenue 2022¹



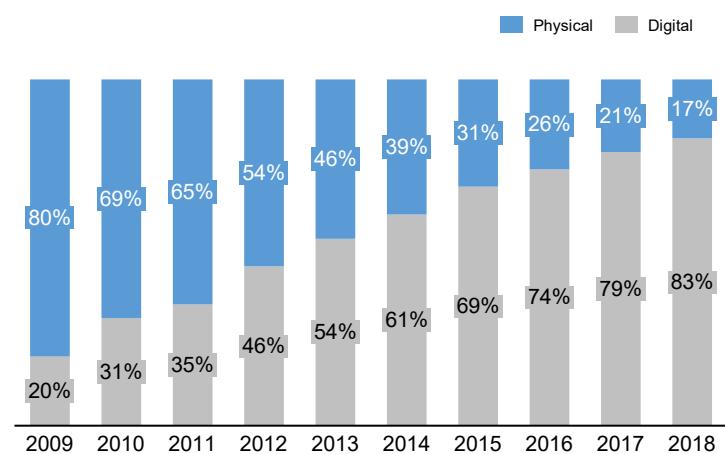
SONY's popular Playstation consoles shifted the Gaming Market in its favor, with over 100 mm consoles sold.



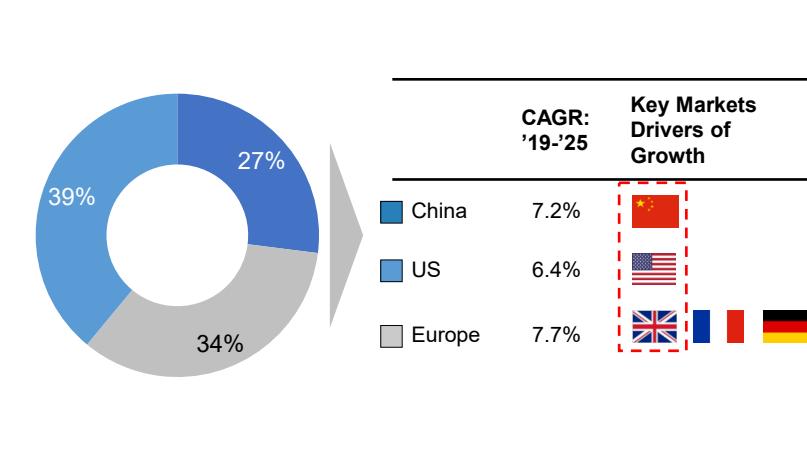
Home Video Game Market Revenue Forecast¹



Home Video Game Shift to Digital



Revenues Split by Top three Geographic Markets¹



Note: ¹Value in billion USD \$ related to 2021

Source: (Clement, 2021), Digital Media Report (Statista, 2021), (Mordor Intelligence, 2021)

Virtual Reality & Metaverse Market Overview (1/2)

VR has matured into a technology that is experiencing increasing demand in the Entertainment and Media sectors, with other sectors following the more sophisticated the technology will become



Market Overview

- Virtual reality has enjoyed strong interest from both consumers and companies as one of the technologies of the future
- The VR market is expected to grow by **867%** from 2021, with a **CAGR of 113%**
- Sales of VR **hardware** and **software** is seeing a projected **CAGR of 16%** from 2016-2023, while VR gaming revenue takes half of the total **\$5.1 bn revenue with a projected CAGR of 29%**.
- Many renowned companies such as **Microsoft** and **Facebook/Meta** are heavily investing into VR technology in order to be ready for the **Metaverse**, a concept that combines VR and AR technology for users to connect in a virtual space
- After the **disruption** of the gaming and entertainment market, multiple other industries will be impacted with the rise of sophisticated and reliable VR technology, especially **healthcare** and **education**

Key Virtual Reality Players



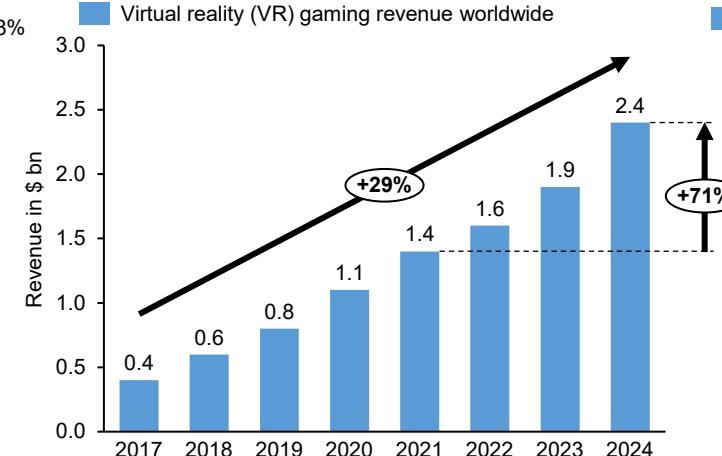
Further sectors expected to witness disruption

Healthcare/medical devices	38%
Education	28%
Workforce development/training	24%
Manufacturing	21%
Automotive	19%
Marketing and advertising	16%
Logistics/transportation	16%
Retail/e-commerce	15%
Military and defense	13%
Commercial real estate	13%
Residential real estate	10%
Tourism	5%
Other	4%

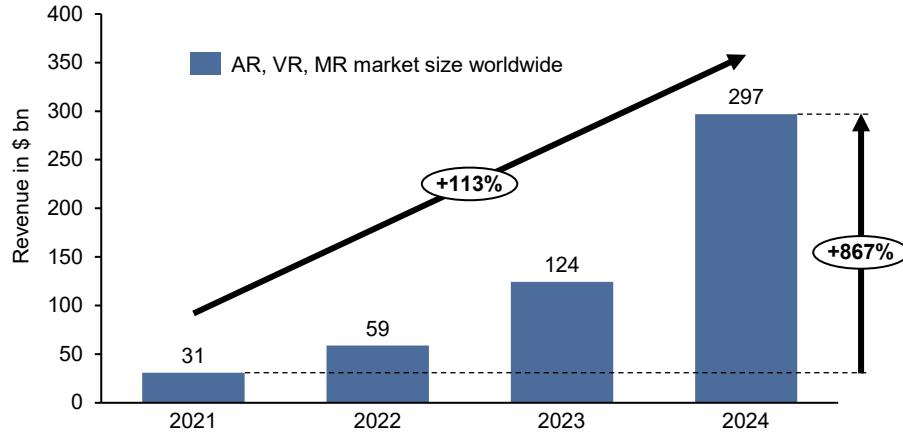
Key Hardware Providers



VR Revenue by Sector



Market Size of AR, VR and MR



More information in Appendix Slide 85: VR/AR Application Trends

Sources: (Grand View Research, 2021), Virtual Reality Report (Statista, 2021)

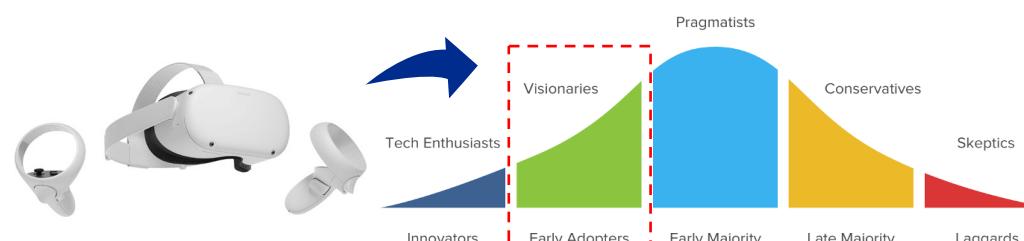
Virtual Reality & Metaverse Market Overview (2/2)

Rising investment into consumer VR technology will give the Metaverse concept room to grow and prosper in the coming years, particularly with demand in gaming and entertainment adaptations at its core



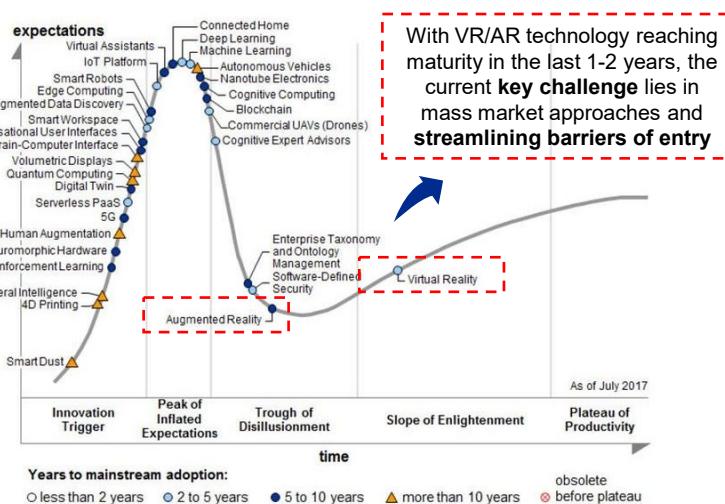
Trends Overview

- Virtual reality has been thriving and seen strong investments, especially in the **consumer segment**
- These investments stem from a promise of the “**future of entertainment**”, including a new way to consume and enjoy video games and shows/movies, or **connect** to people around the world
- The rise of the “**Metaverse**” has initiated a new trend and kicked off the race into building robust and intuitive VR infrastructure and technology
- Currently, VR is still **not mainstream** and can be regarded as a **visionary** product on the product adoption curve:



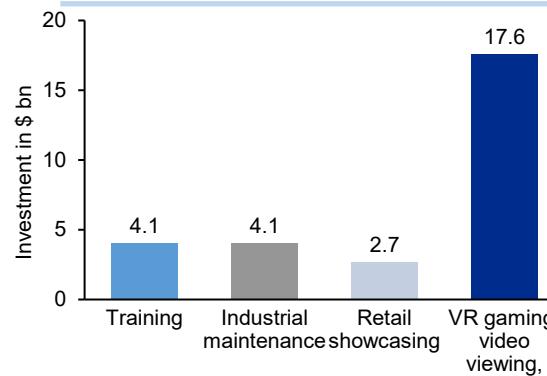
Gartners Hype Cycle for Emerging Technologies (2018)

- 2017 placed VR/AR technology as an emerging technologies with 2-5 and 5-10 years on the **maturity development timeline**, respectively
- In 2022, this places VR theoretically **ready for mainstream and mass distribution**
- However, **barriers for entry are high and adoption rates are low**, currently slowing down the efforts and promise of the Metaverse future
- It is likely to see **AR** take a stronger hold in the next 2-3 years as it holds less financial and physical barriers for direct use (e.g. Microsoft Hololens)

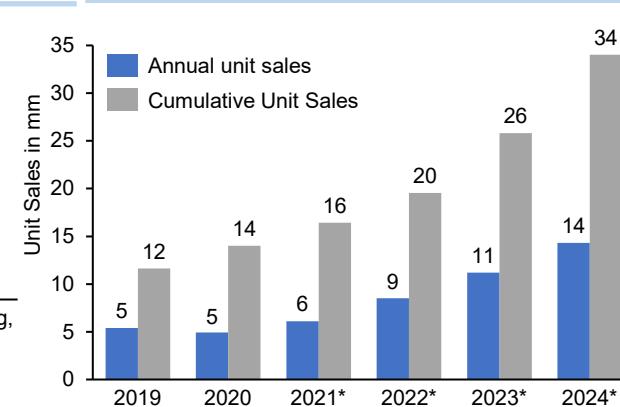


More information in Appendix Slide 85: VR/AR Application Trends

Investment in AR/VR technology

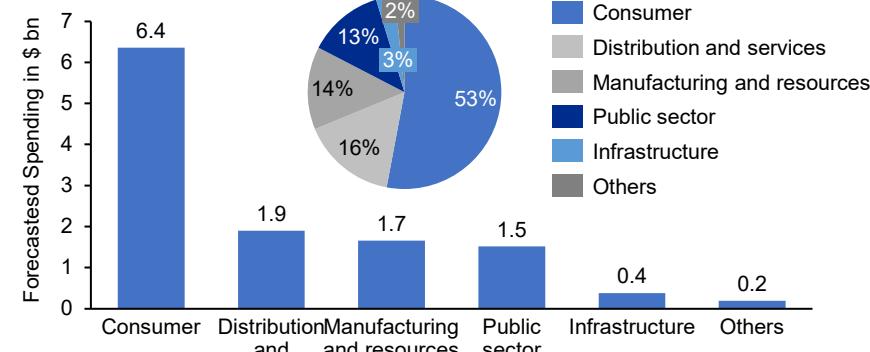


VR headset unit sales worldwide (mm)



AR and VR forecast spending worldwide (\$bn), 2020

- With over **50%** of forecasted spending, **consumer** content will be the main focus of VR technology, with gaming at its core
- Services** is a second with **16%** of total spending, with the aim to streamline the VR experience



Executive Summary

Industry Overview

Company Analysis

Financial Analysis

Acquisition Feasibility

Alternative Solution

Conclusion

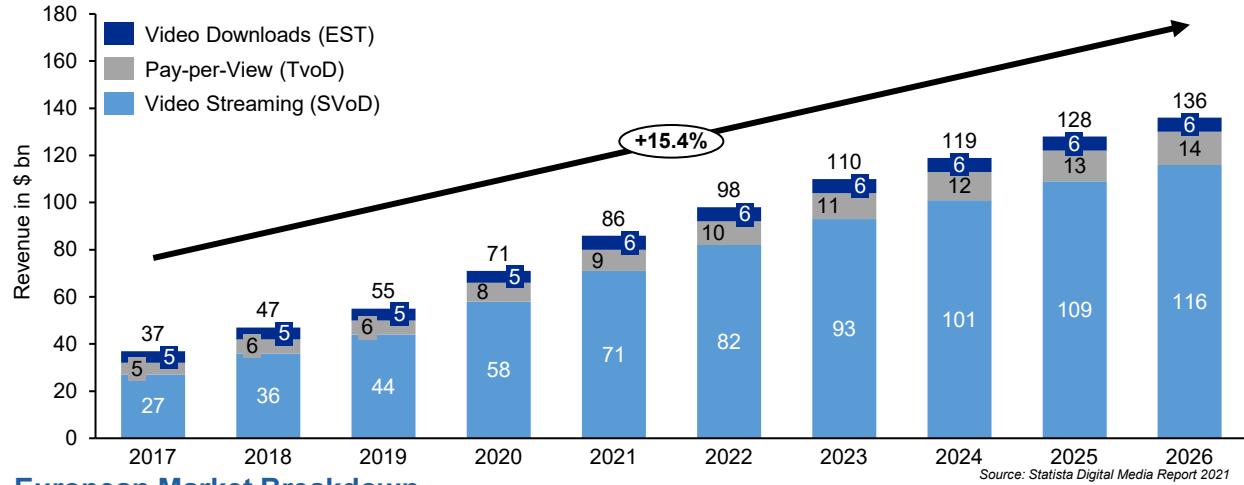
OTT & Subscription Video on Demand Market (1/2)

Increasing popularity of SVoD drives majority of revenue in the OTT market, with the US as the major market followed by EU and China

SVoD Market Overview

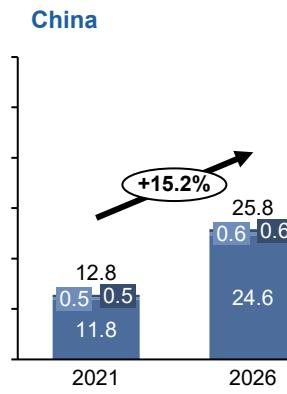
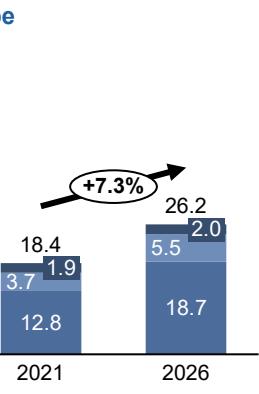
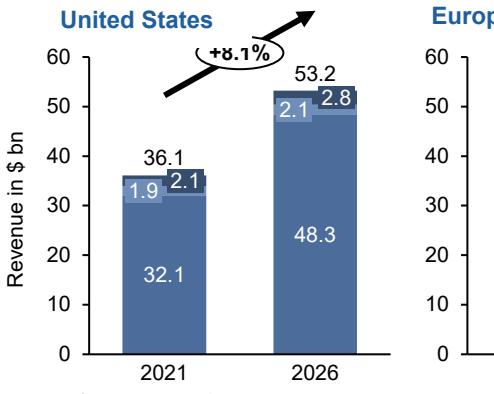
- SVoD is part of the **OTT market**, which offers audio and video content bypassing cable (and hence over the top!), broadcast television or telecom channels. It also includes **Live and Game Streaming**.
- Currently valued at **\$101.42 bn**, OTT market is expected to reach **\$223.07bn by 2026**, with a CAGR of 13.87%, during the period of 2021 - 2026
- SVoD appeal has risen through its **unlimited access** subscription model
- Revenue in the SVoD segment is projected to reach **\$71.2bn in 2021**
- Revenue is expected to show an annual growth rate (CAGR 2021-2025) of **11.04%**, resulting in a projected market volume of **\$108.3 bn by 2025**
- User penetration** will be **14.3%** in 2021 and is expected to hit **18.2% by 2025**
- The average revenue per user (ARPU) is expected to amount to **\$66.29**
- In global comparison, most revenue will be generated in the US (\$32 bn in 2021)
- China shows the biggest growth of all markets with a forecasted CAGR of 15.2%

Global Revenue forecast SVoD market¹



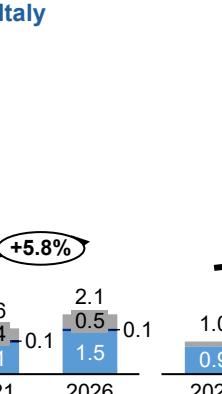
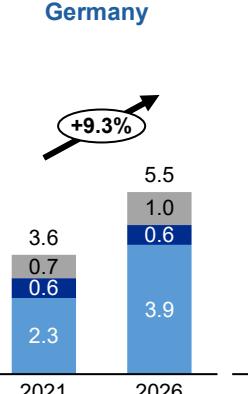
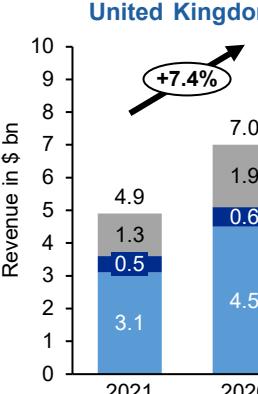
SVoD Market sizes, regional comparison¹

■ Pay-per-View (TvoD) ■ Video Downloads (EST) ■ Video Streaming (SVoD)



European Market Breakdown

■ Pay-per-View (TvoD) ■ Video Downloads (EST) ■ Video Streaming (SVoD)

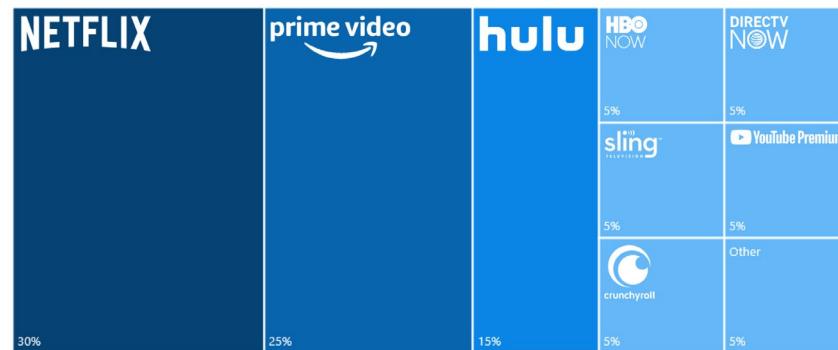


OTT & Subscription Video on Demand Market (2/2)

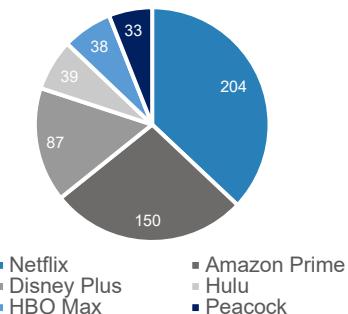
Diversified content offering is key for customer growth in the SVoD market, showcased by Netflix's, Hulu's and Prime Video's offering, with a large chunk stemming from animated content, an appeal that is shown in Japan's growing SVoD revenue numbers

Key Players and Global Subscriber Count

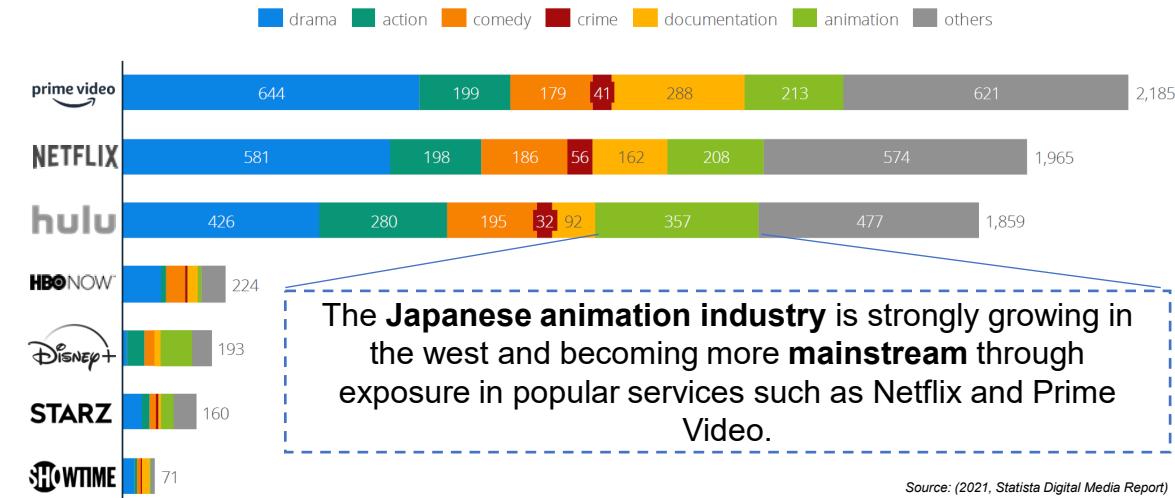
- Market is primarily dominated by **Netflix, Amazon Prime Video and Hulu**
- Diverse** cast of **genres** and **exclusive content** are the main drivers of subscriber count growth across all services



Global Subscribers 2021 (mm)

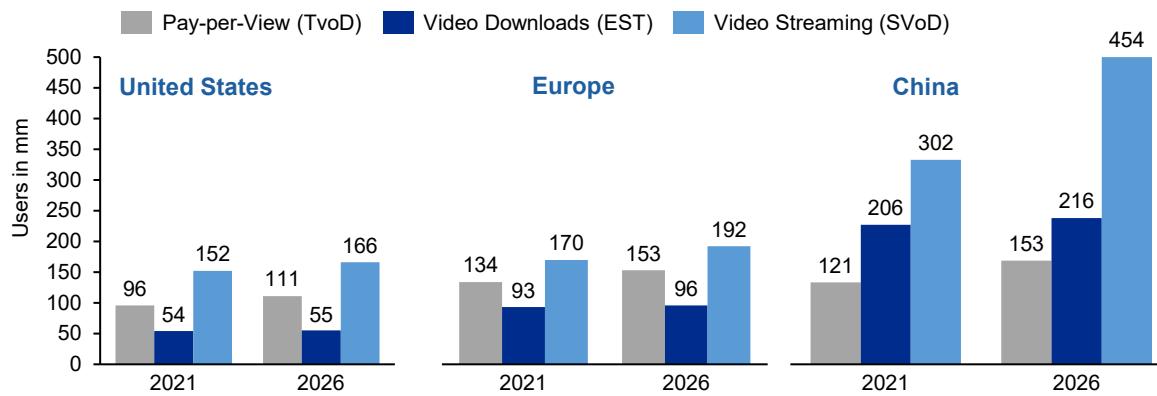


Range of Genres of SVoD Providers in the US in 2019

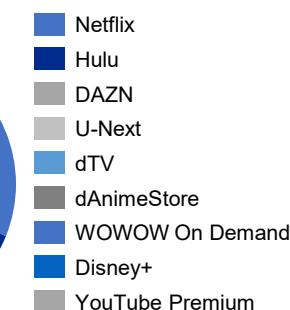


Source: (2021, Statista Digital Media Report)

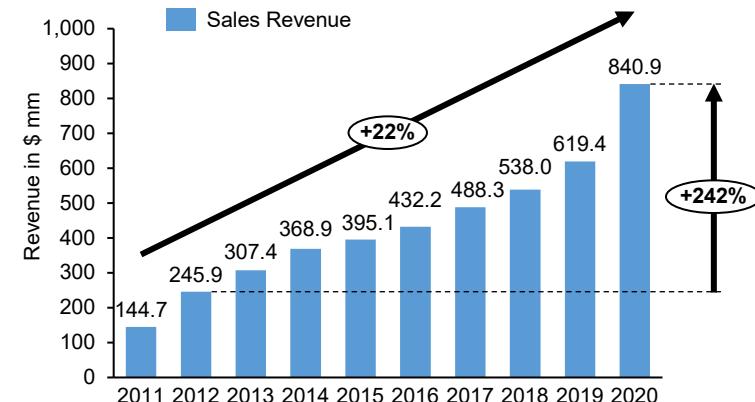
Number of users forecasted (mm)



Most used SVoD services Japan 2021



SVoD Anime revenue Japan¹



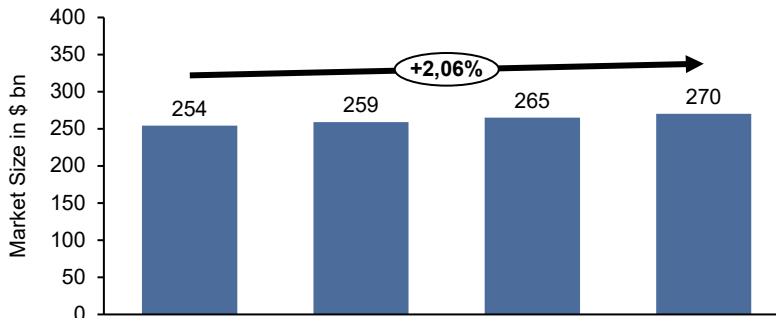
Animation Market Overview

Growing popularity and mainstream appeal of animated shows and franchises out of Japan creates opportunity for global expansion

Animation Market Overview

- The global **animation market** has seen small growth over the years, with a **CAGR of 2.06%** from 2017 – 2020, while the Japanese segment has grown strongly with a **19% overseas CAGR**
- Animation content can be segmented into **Japanese Anime**, and **Western Animation**, e.g. Disney/Pixar
- Merchandising and overseas sales** in Japan have seen the strongest increase in the domestic animation production sector, with **21%** and **20%**, respectively
- Overseas **sales** in particular have **grown 415%** since 2012 with a **CAGR of 19%**, now **taking 51% of total sales** in Japan

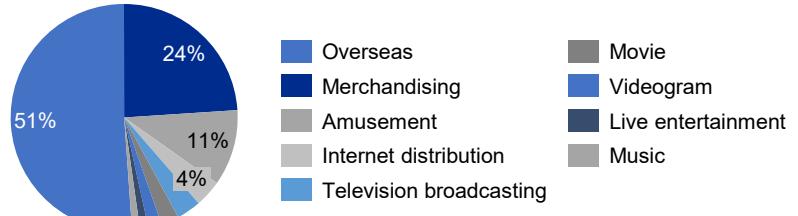
Animation Global Market Size¹



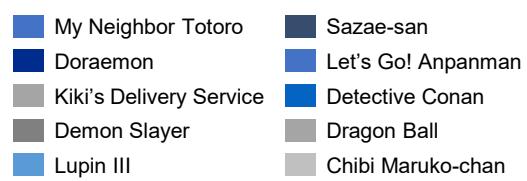
Highest box-office record 2020:
Demon Slayer Mugen Train,
\$ 364.5 mm, 12x than the second
highest grossing Anime movie in 2020



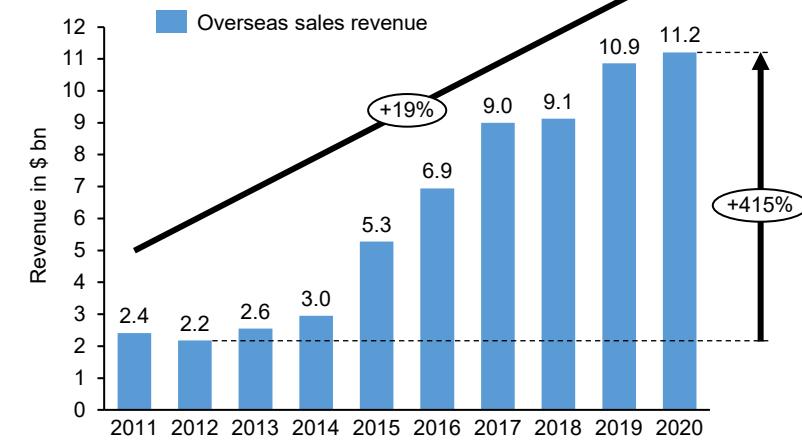
Revenue animation industry in Japan, 2020, by segment (%)



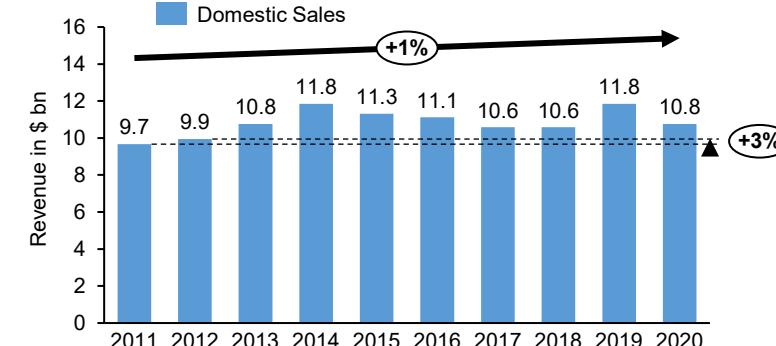
Most popular animation characters Japan 2020, Survey



Overseas revenue of Japan Animation industry¹



Domestic revenue of the Animation industry in Japan¹



Note: ¹Value in bn \$.; Conversion Rate from Bandai Namco Capital IQ FY 2021 with YEN/USD = 0.009041673

Source: (Statista, 2020), (Capital IQ, 2022), (Kimetsu, 2022)



II. Company Overview

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BANDAI NAMCO

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STRATEGIC FIT

Bandai Namco Overview (1/2)

With 70+ years of experience, Bandai Namco continues to be a global leader in the Toys & Entertainment industries

Bandai Namco Overview

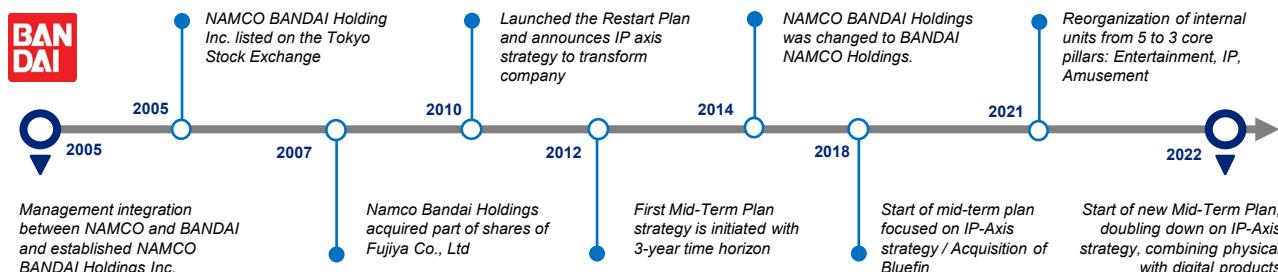
- Bandai Namco Holdings, Inc. (BN)** engages in the development, manufacture, and sale of entertainment-related products and services, including **toys and media**, with total revenue of **\$6.7 bn** and a **5.12% CAGR from 2017 to 2021**
- Headquartered in **Tokyo, Japan**, most revenues stem from the **Toys/Hobbies and Entertainment** segments across 8 subsidiaries (e.g., Bandai)
- The brand utilizes more than **300 IP** per year to roll out products and services. Major IP include Pac-Man, Dragon Ball, One Piece, and Suit Gundam, with the latter being an in-house IP
- Bandai Namco's aims to become the Leading Innovator in Global Entertainment through the group's greatest strength, its **IP-Axis Strategy business model**
- A new three-year plan aimed to start **April 2022** will consolidate the companies' structure

Bandai Namco History



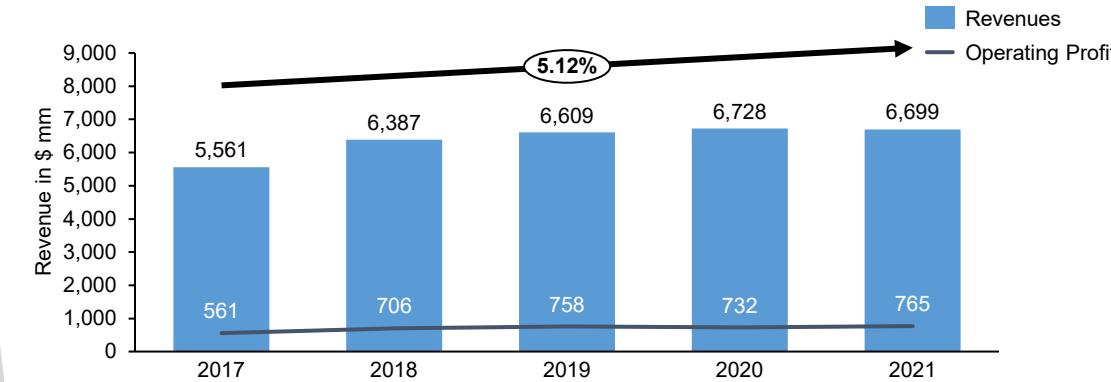
More information in Appendix Slide 86: Bandai Namco CSR/ESG Overview

- In **1950**, Bandaiya (BANDAI) was founded, selling rubber and metal toys in Japan
- In **1955**, Nakamura Manufacturing Ltd. established as an amusement company in Japan
- In **2005**, NAMCO BANDAI Holdings Inc. was established after an announcement of management integration between NAMCO and BANDAI.

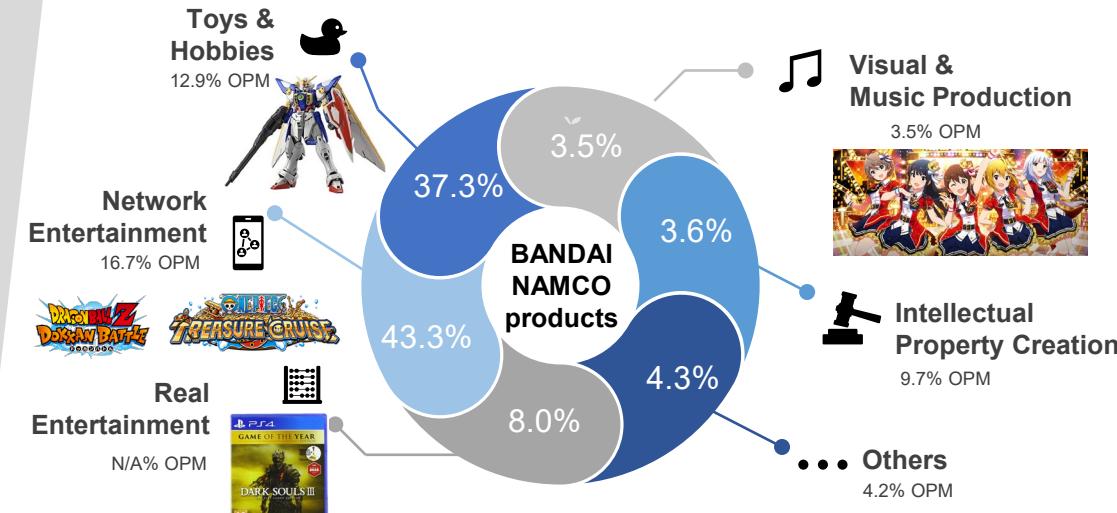


Note: ¹Value in million USD \$, Conversion Rate from Bandai Namco Capital IQ FY 2021 Statements with YEN/USD = 0.009041673
Source: (Integrated Report (Bandai Namco, 2021)), (Fact Book (Bandai Namco, 2021))

Financial Revenue Per Year¹



Financial Performance Segment Sales Ratio, 2021



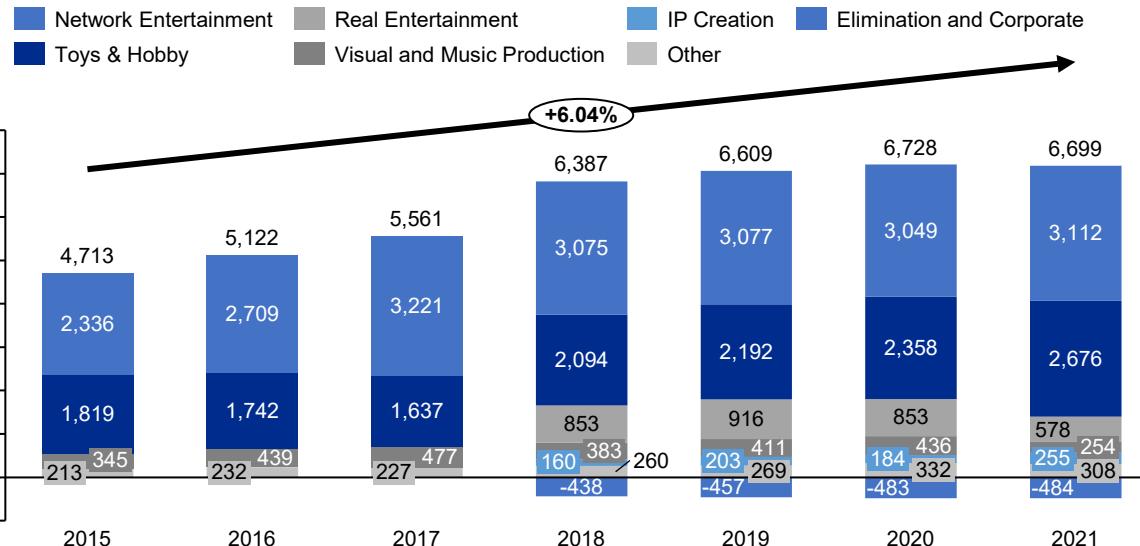
Bandai Namco Overview (2/2)

The companies' main revenue drivers lie in its toys, hobby and digital business segments, making up ~80% of sales

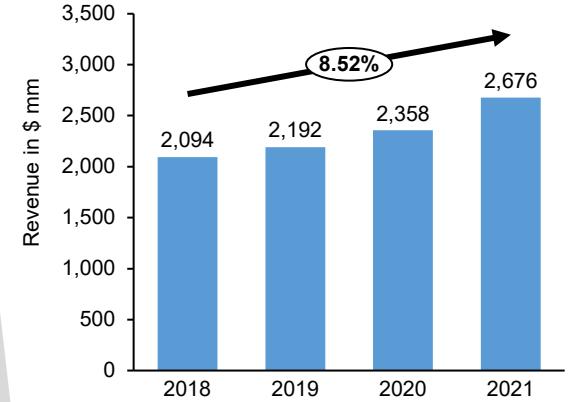
Business Segment Overview

- Bandai Namco's strongest growing sections are its **Toys & Hobby** and its **IP creation segments**, with its **Networking Entertainment** segment contributing another large majority of sales
- The **Toys & Hobby** segment grew at a **CAGR of 8.52%** from 2018 to 2021, with BN owning **49%** of its domestic **plastic model market**, while the **IP creation** unit grew at a **CAGR of 16.87%** during the same period
- Shift in consumer habits to a more digital world has directly impacted Bandai Namco's business, with a stronger focus on **IP creation in the animation market**
- New organizational structure implemented in 2021 will consolidate segments into units to **bolster IP axis strategy efforts**

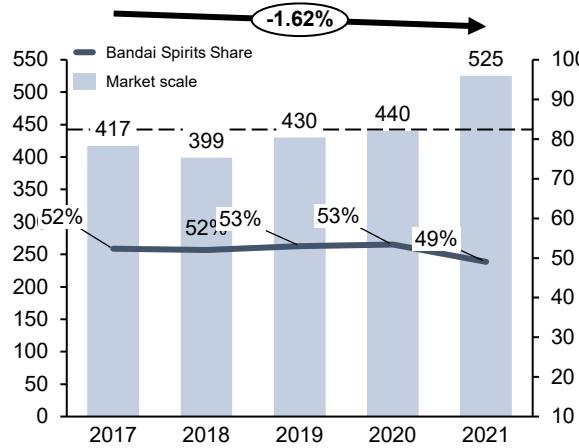
Revenues by Segment¹



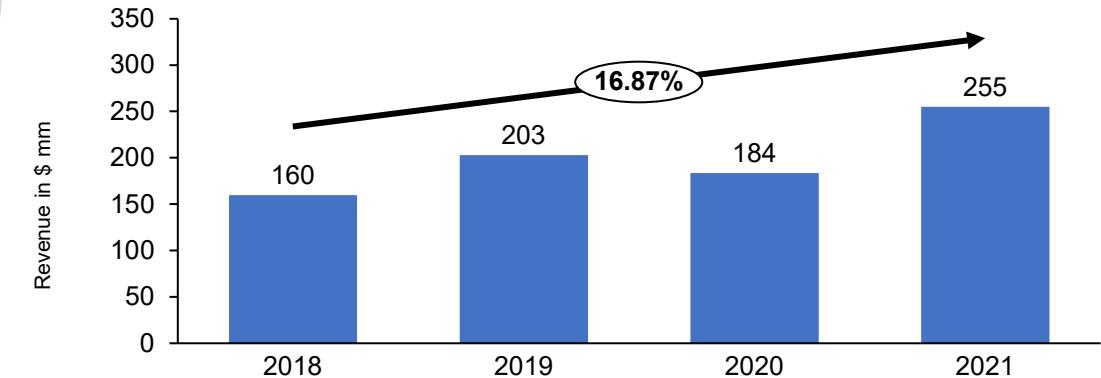
Toys & Hobby Sales Per Year¹



Plastic Model Market in JPN¹



IP Creation Revenue Per Year¹



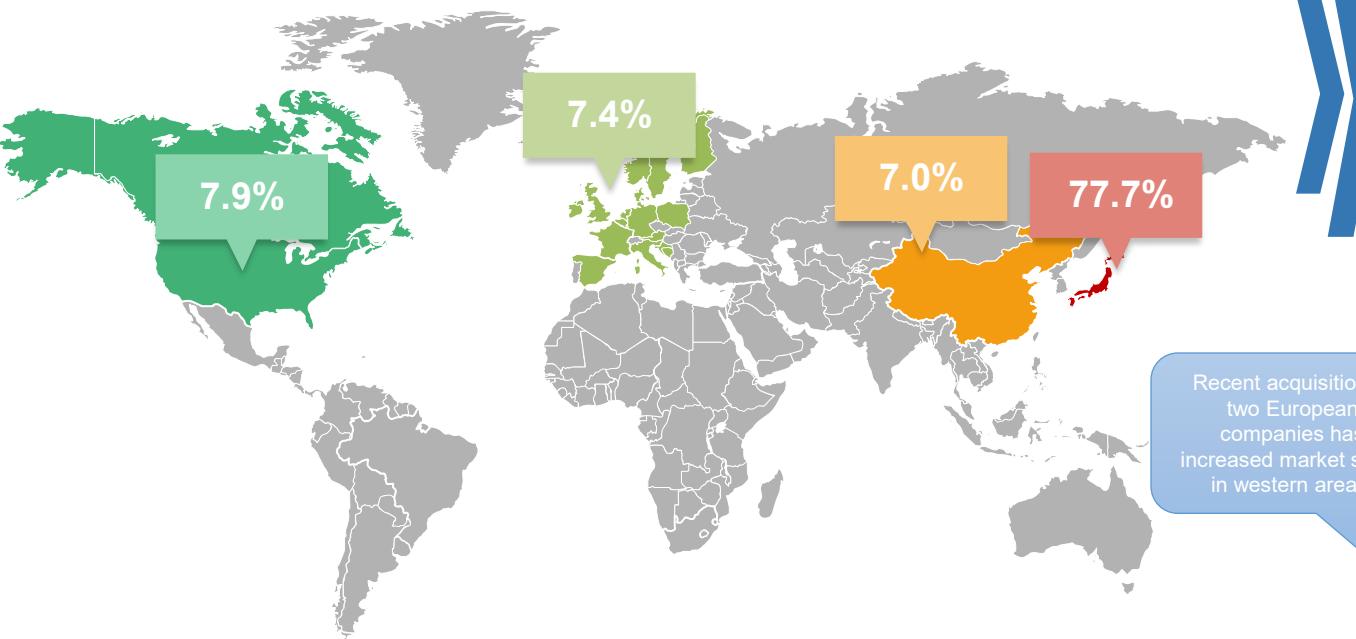
More information about BN's financial history in Appendix Slide 87: Bandai Namco's Ratio Overview

Bandai Namco's Market Position

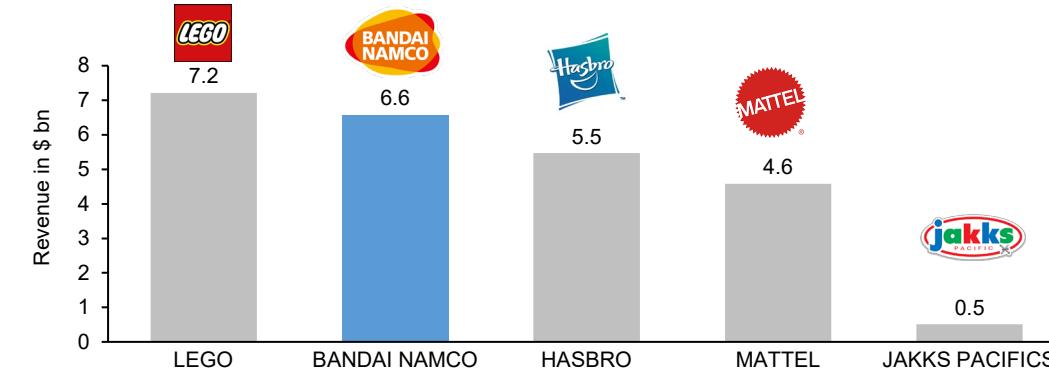
Asia is representing ~85% of the companies' total sales, manifesting BN's position as the second largest toy manufacturer worldwide

Market Presence

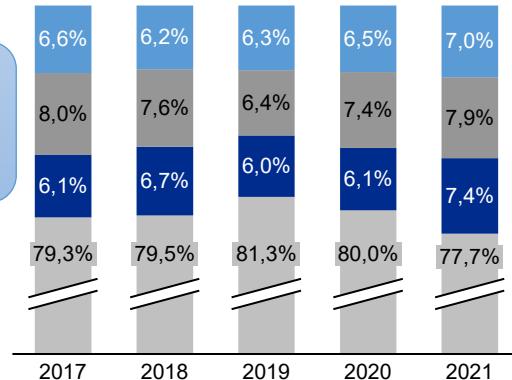
- Bandai Namco has a worldwide presence however; its local market, **Japan**, represents the **majority of net sales** with 77.7%
- For years, the company has tried to **achieve a more diversified regional mix** and gain stronger share in the western regions
- Europe** is the region that has seen the greatest **increase** as it gained **1.3 percentage points** from 6.1% in 2017 to 7.4% in 2021



Global Competitors and Company Revenues¹

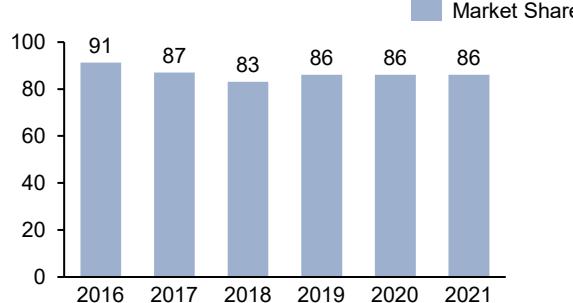


Net Sales by Region in %



Plastic Toys Market Share in Japan

- Bandai Namco is the biggest domestic brand in the plastic toys business
- With **80%+ market share** in last 6 years, BN has limited room for domestic growth



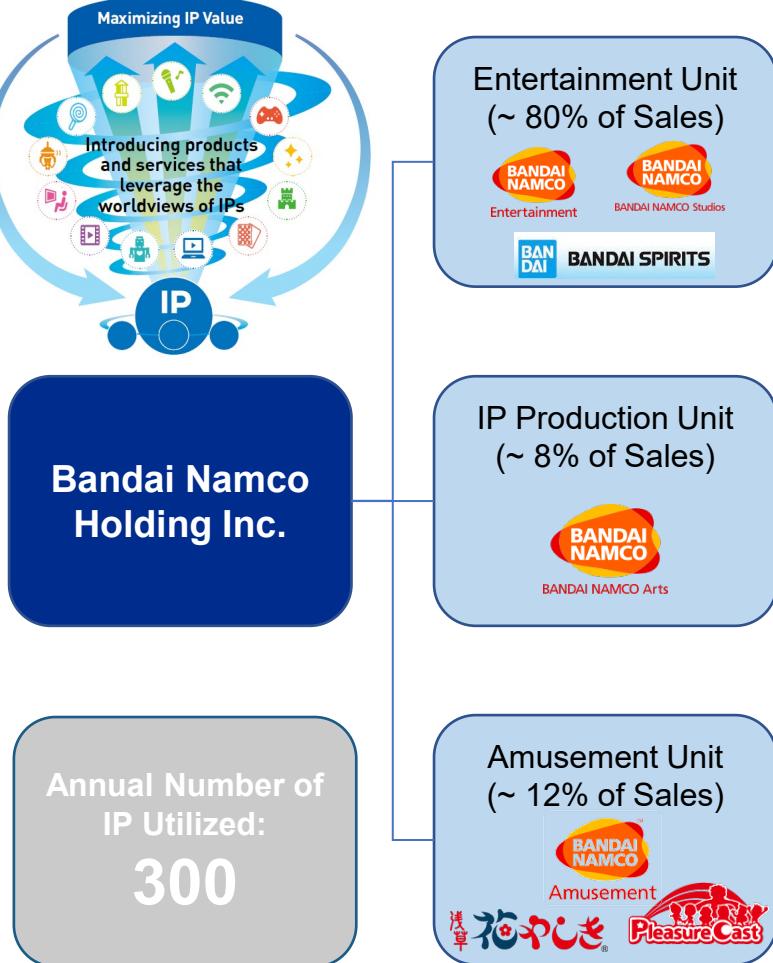
With a current **overseas sales ratio** of **22.3%**, and a **saturated domestic market** for the entertainment unit, Bandai Namco has ample white space for **growth**

Note: ¹Value in billion USD \$ related to 2020

Source: (Integrated Report (Bandai Namco, 2021)), (Fact Book (Bandai Namco, 2021)), (Shaulova & Biagi , 2020, Statista)

Bandai Namco's Organizational Structure (1/2)

The company is reorganizing and consolidating its segments into three Business Units to streamline efforts to focus on an IP driven business model starting April 2022, with 300 IPs utilized annually



Digital Business:

- Planning, development, and distribution of network content and video games (home & mobile)

Toys & Hobby Business:

- Planning, development, production of toys and other products

Visual & Music Business:

- Planning, production, and management of visual and music content

Creation Business:

- Planning, production, and management of animation including copyrights

Facilities:

- Planning and operation of amusement facilities

Machines:

- Planning, development, production, and sales of amusement machines

Units Developing IP Products and Services

● Entertainment Unit ● IP Production Unit ● Amusement Unit

Mobile Suit Gundam Series



Since its launch in 1979, Mobile Suit Gundam products have earned support among a wide range of age groups. Centered on visual products, these include plastic models, home video games, network content, and amusement machines. In addition to Japan, Mobile Suit Gundam initiatives are being rolled out around the world, including appearances in Hollywood films.

BORUTO / NARUTO



This IP was introduced in 1999, and its comics and animations have been popular around the world for many years. The BANDAI NAMCO Group is providing a wide range of products and services, centered on home video games and network content.

KAMEN RIDER Series



The KAMEN RIDER series has been popular for more than 50 years and has earned the support of a wide range of age groups around the world. The BANDAI NAMCO Group provides various KAMEN RIDER products and services, centered on toys.

DRAGON BALL Series



Launched in 1984, DRAGON BALL comics and animations have earned the support of customers around the world for many years. The BANDAI NAMCO Group provides a wide range of DRAGON BALL products and services, such as home video games, network content, card products, and figures.

ONE PIECE



Launched in 1997, ONE PIECE comics and animations have been popular around the world for many years. The BANDAI NAMCO Group provides a wide range of ONE PIECE products and services, such as home video games, network content, and figures.

Groupwide Sales by IPs (Worldwide)

	FY2020.3	FY2021.3
Aikatsu! series	3.2	2.0
Ultraman series	7.8	8.6
KAMEN RIDER series	31.2	28.9
Mobile Suit Gundam series	78.1	95.0
Super Sentai series	6.8	5.2
Anpanman	9.9	8.7
DRAGON BALL series	134.9	127.4
NARUTO	13.0	21.4
PRETTY CURE! series	8.4	6.6
ONE PIECE	34.9	38.0

Note: Sales before elimination of inter-segment transactions

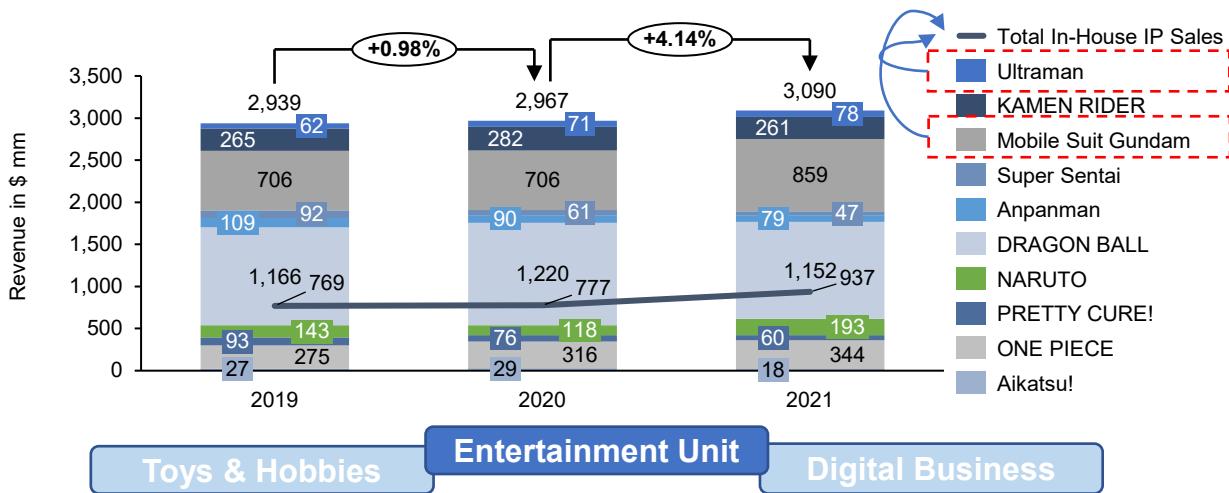
Only 1 of the 5 highest selling IPs is owned in-house!

Source: (Integrated Report (Bandai Namco, 2021)), (Fact Book (Bandai Namco, 2021))

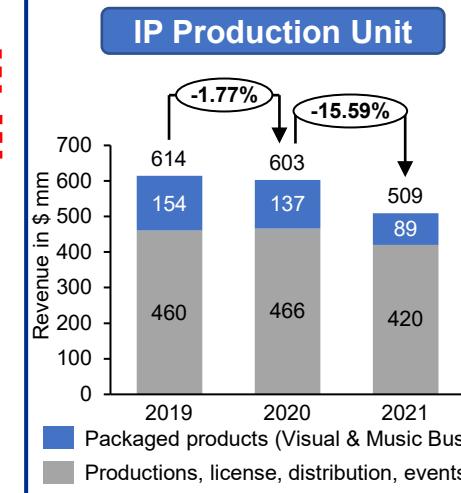
Bandai Namco's Organizational Structure (2/2)

Gundam is the company's biggest in-house IP that drives revenue especially in toy sales across the globe, while the licensed IP Dragon Ball is driving mobile video games sales in the company's digital business

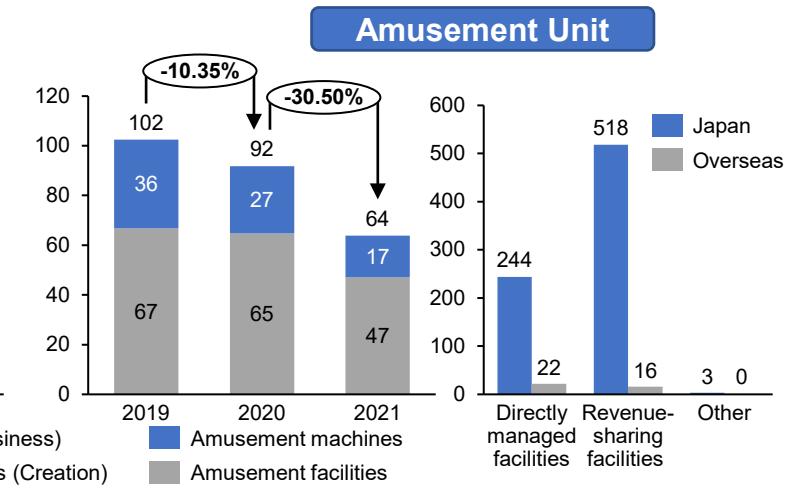
Groupwide Sales by IPs¹ (Global)



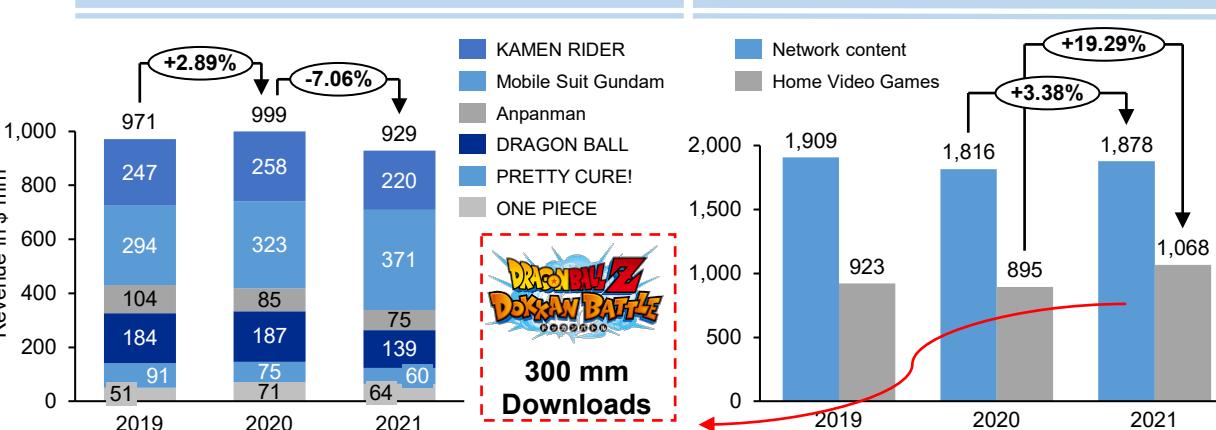
IP Sales by Category¹



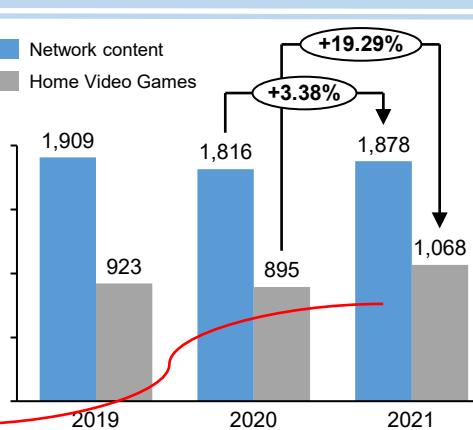
Worldwide Facility Overview



Sales IP Toys & Hobby Unit¹



Sales by Category²



IP-Axis Strategy Impact

- Only 1/3 of Bandai Namco's total groupwide sales from IP stem from wholly owned IP's
- Both the owned **Gundam and Kamen Rider IP's** generate strong sales **domestically**, but only the former meets demand internationally
- COVID-19** had severe impact on the use and demand for amusement facilities as well as worldwide stores, with a 20x ratio for domestic to oversea facilities at the end of FY2021
- Video game sales**, both mobile and home console, have **increased**, with the latter enjoying a ~19% growth from 2020 to 2021

The increasing shift towards a **connected digital world** creates demand for fully owned IP's that can be leveraged internally for product creation and international branding

Note: ¹Value in million USD \$. ²Value in billion USD \$. Conversion Rate from Bandai Namco Capital IQ FY 2021 Statements with YEN/USD = 0.009041673

Source: (Integrated Report (Bandai Namco, 2021)). (Fact Book (Bandai Namco, 2021))

Bandai Namco's Strategic Development

Recent M&A activity was aimed to strengthen the companies' capabilities to produce content for its IPs worldwide



History of Mergers & Acquisitions		Date	Partnerships		Licenses	
 GENIES ジーニーズ株式会社	Genies	Developer of personalized digital avatars to make it convenient to communicate in social media applications. This is a move towards the metaverse	2021	 Games Workshop	Creators of the global phenomenon franchise Warhammer. Partnered with Bandai for action figures and miniature toys based on the Warhammer IP	
 LIMBIC Entertainment	Limbic Entertainment	Bandai acquired Limbic Entertainment, a German game developer and seller of software, with both national and international reach	2021	 Arika	Developers of the famous Pac-Man game series, published by Bandai Namco	
 REFLECTOR	Reflector Entertainment	Developer known for creating story driven large-scale universes. Acquisition amount is undisclosed. Goal to produce 50% of content out of JPN	2020	 From Software	Creators of the popular and genre defining action role playing game series Dark Souls and newest hit Elden Ring, published by Bandai Namco	
 SOTSU	Sotsu Co.	Company acquired 100% of the shares of Sotsu Co. for 35 bn Yen. The aim is to consolidate all rights related to the Gundam franchise IP	2020	 Toei Company	Film, television production, distribution game developer studio that creates most of the popular anime shows in the world based on franchises such as Dragonball, One Piece and Kamen Rider (Toei Animations)	 
 BLUEfin	Nippon Imports / Bluefin	Company acquired an 80% stake in Nippon Imports the collectible toy sales Co. that owns and operates under the brand name Bluefin, based in California	2018	 CyberConnect 2	Creators of the globally popular Naruto Ultimate Ninja Storm game series in collaboration with Bandai Namco	
 DAIKUSI Anime Consortium Japan	Anime Consortium Japan	Company acquired remainder of shares valued at \$18.5 mm of ACJ to make it a wholly owned subsidiary. The Daisuki streaming service was shut down at the end of 2017	2017	 The Pokemon Company	Recent partnership for the game development of Pokemon Snap, a fan favorite game based on the highest grossing media franchise in the world	
 D3 PUBLISHER	D3 Publisher	Company acquired 95% stake in the company in a deal estimated to be \$12.5 mm. The deal includes American and European arms	2009	 Ufotable	Creation of toys based on the Demon Slayer anime made by Ufotable, one of the fastest growing media franchises in the world with strong reach into the west	

Acquisition Strategy

- Recent **acquisitions**, such as Limbic Entertainment and Bluefin, are moves to **bolster foothold** in the western markets as well as expand capabilities for IP Axis strategy
- Bandai Namco is leveraging strong partnerships to deliver **physical and digital goods** to fans of the biggest franchises in the world, with majority of licenses in the Asian markets

Sources: (GamesIndustry, 2020), (Nikkei Asia, 2021), (Anime News Network, 2021), (Anime News Network, 2018), (GamesIndustry, 2009), (Bandainamcoent, 2022), (Integrated Report (Bandai Namco, 2021))

Partnership Strategy

Executive Summary

Industry Overview

Company Analysis

Financial Analysis

Acquisition Feasibility

Alternative Solution

Conclusion

25

Bandai Namco's Strategic Direction

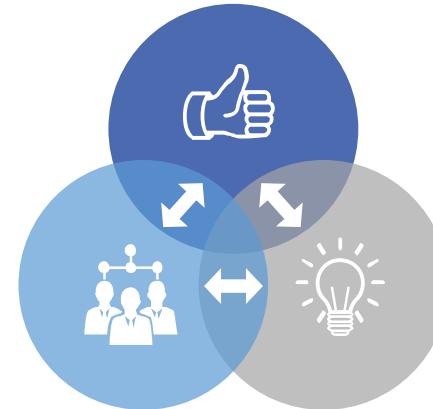
The start of a new 3-year midterm plan in April 2022 aims to create and cultivate new and existing IP both physically and digitally, with the goal to connect new and existing fans around the world



"To maximize the value of IP and achieve growth in global markets, we will continue to take on challenges under the ALL BANDAI NAMCO concept."

*Bandai Namco President
Masaru Kawaguchi*

Entertainment



- **Maximize IP Value** through diverse content outlets
- **Strengthen worldwide collaboration**
- Integrating **digital and physical entertainment** elements

Amusement

- Create new customer touchpoints
- **Leveraging and maximizing** use of Bandai Namco IP
- Creation of **new types of experiences**



IP Creation

- Creation and production of **new IP**
- **Leveraging** and combining studios
- **Strengthening** the foundation of IP-Axis Strategy

Purpose: "Fun for All into the Future"

Mid-term plan 2022-2025

- Vision: **Connect with Fans**
- **IPxFan**: Developing metaverse framework for each IP
- **IPxValue**: Accelerating evolution in the IP axis strategy with strategic investment
- **IPxWorld**: Building business under ALL BANDAI NAMCO concept across the globe

New Company Branding

- Starting **April 2022**, Bandai Namco is introducing **a new corporate logo**
- The new logo will be used on all products by Bandai Namco and other companies, under the **ALL BANDAI NAMCO** concept
- Aimed to express new purpose and **spirit** of the company and **unite** products under one brand to maximize global presence



IP Investment Strategy '22-'25

Bandai Namco plans to invest ¥40 bn, ~ \$350 mm between FY 2022 and FY 2025:

- **Strategic investment to maximize IP value (¥ 25 bn, ~ \$219 mm):**
-> New IP creation, Groupwide IP projects, open innovation
- **Investment to develop IP metaverse (¥ 15 bn, ~ \$131 mm):**
-> Establishment of data foundation, development of content

FY2019.3	FY2020.3	FY2021.3	Three-year total
¥6.0 bn	¥9.0 bn	¥10.5 bn	¥25.5 bn

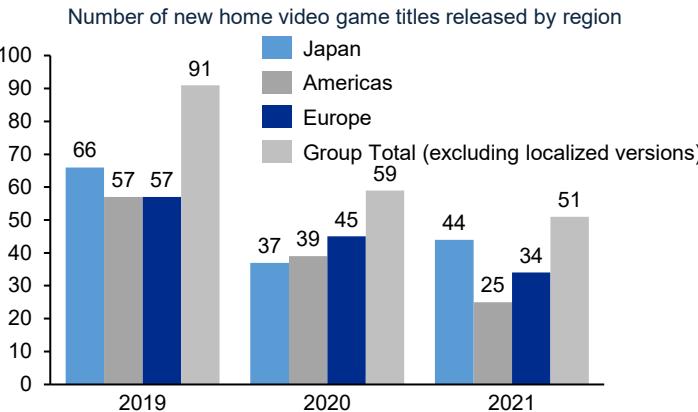
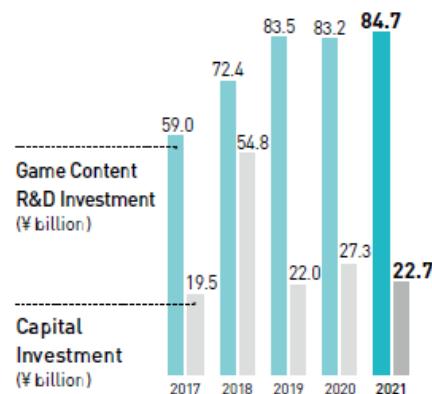
Source: (Integrated Report (Bandai Namco, 2021)), (Fact Book (Bandai Namco, 2021)), (Mid-term Plan (Bandai Namco, 2021)), (GamesIndustry, 2022), (Nikkei Asia, 2021)

Bandai Namco's Capabilities and Opportunities



An increase in R&D investment into game content matches Bandai Namco's strategic direction to bolster content portfolio diversification based on IP within its Entertainment Unit

Research and Development



- Investment into Game Content **R&D increased** by 43.5% within two years
- BN's recent acquisitions **strengthen** their **game content creation** capabilities
- BN is gearing up for more home video game releases worldwide
- Elden Ring** will be major **launch** of a new brand/IP in **2022**

Business Strategy Risk and Opportunities

Risks	Items accompanying the advancement of the IP axis strategy	Opportunities
	<ul style="list-style-type: none"> Rapid changes in markets and customers; technological progress Dependence on specific IP Increased investment related to IP creation/acquisition Damage to IP value, such as IP infringement Securing and developing human resources 	<ul style="list-style-type: none"> Promoting collaboration among regions and businesses Expanding potential for the creation of new markets and businesses

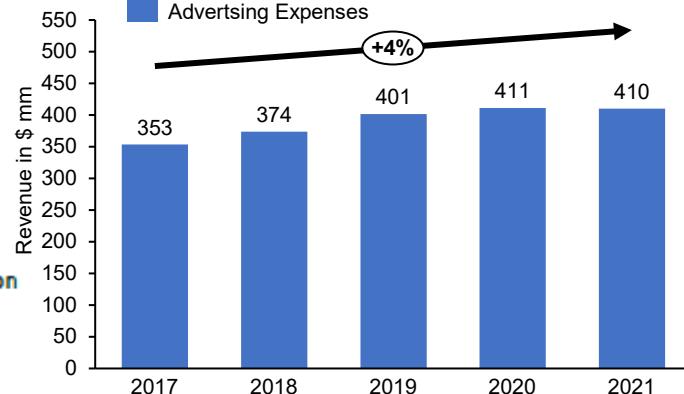
Note: ¹Data expressed in million USD \$ Conversion Rate from Bandai Namco Capital IQ FY 2021 Statements with YEN/USD = 0.009041673

Source: (Integrated Report (Bandai Namco, 2021), (Fact Book, (Bandai Namco 2021)), (Mid-term Plan, (Bandai Namco, 2021)),

Advertising Expenditure¹

- Overall spending on **advertisements** is \$410 mm for 2021 and has increased by a **CAGR of 4%**

Sales and marketing capabilities
Advertising expenses:
¥45.2 billion
(FY2021.3)



Business Unit's Risk and Opportunities

All businesses	Opportunities	Risks
Entertainment Unit	<ul style="list-style-type: none"> Spreading/expanding network environment Expanding customer touchpoints through digitalization 	<ul style="list-style-type: none"> Using online measures to strengthen initiatives to enhance IP recognition as well as global rollouts Strengthening digital initiatives, such as e-commerce
Digital business	<ul style="list-style-type: none"> Platform diversification Technological progress Rising amount of development investment 	<ul style="list-style-type: none"> Aggressively addressing new technologies and new platforms Continued investment in technical research Strengthening development system with focus on quality and increasing efficiency Continued communication with fans after release
Entertainment Unit	<ul style="list-style-type: none"> Trend toward fewer children in Japan Oil price increases; strengthened regulations regarding the trend away from the use of plastic Concentration of production regions; quality control 	<ul style="list-style-type: none"> Expanding target customer groups and regions Development and production value chain reform, initiatives to address the trend away from the use of plastic, such as new material R&D Strengthening quality control system (continued reevaluation of quality standards, implementation of Code of Conduct (COC) audits, etc.)
Toys and Hobby business		
IP Production Unit	<ul style="list-style-type: none"> Intensification of competition in IP creation Developing and securing human resources in production 	<ul style="list-style-type: none"> Consolidation of studio and production functions Enhancing production environment, strengthening human resources development Investing to enhance production technologies Strengthening collaboration with all partners inside and outside the Company
Visual and Music business		
Creation business		
Amusement Unit	<ul style="list-style-type: none"> Diversification of entertainment utilizing real venues 	<ul style="list-style-type: none"> Utilizing IP and Group resources Strengthening stable business foundation



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Games Workshop Overview

With 50 years of experience, Games Workshop continues to be a global leader in the war miniature industry

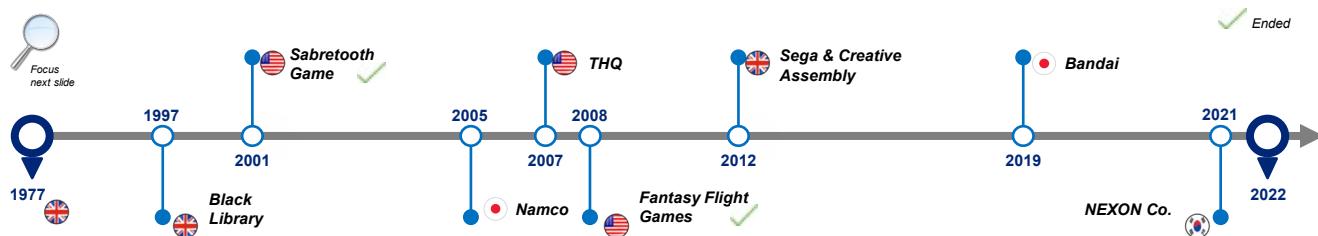
Games Workshop Overview

- Games Workshop (GW) is the prime and **most successful hobby miniatures** company in the world, engaged in designing, manufacturing and selling **miniature**, toys, books based on its IP
- Its major brands are **Warhammer** and **Warhammer 40,000** but it also holds a license for **The Lord of the Rings/the Hobbit** tabletop battle game
- Game Workshop makes the "**best fantasy miniatures**" in the world and sells products globally at a **profit**. It intends to keep it its **core business**, focusing on long-term success instead of short-term gains.
- Miniature & Figure** core business is inhouse – full control of the value chain, vertical integrated
- Company set worldwide with a **strong presence** in **Great Britain**, Continental **Europe** and **US**
- Strong **community engagement** and long-lasting **loyalty** of its customer base



Games Workshop History

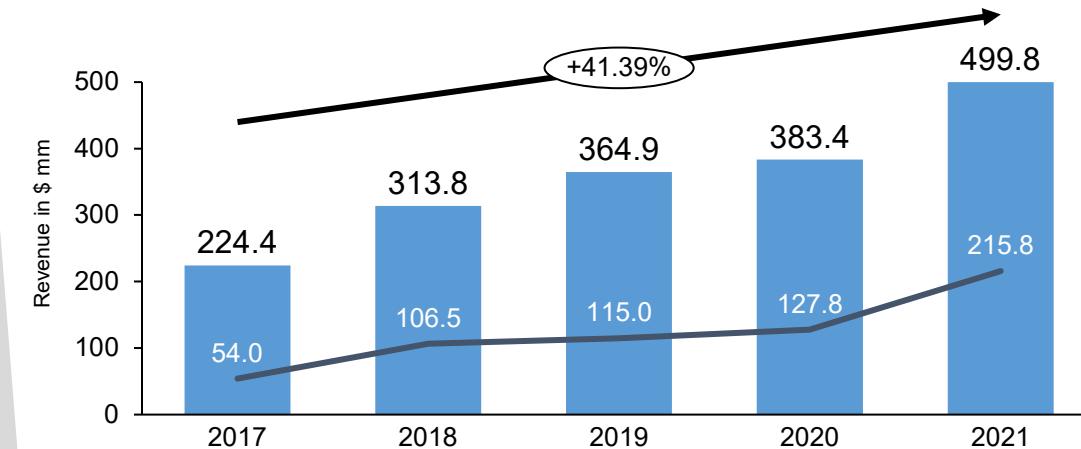
- Games Workshop was created in **UK** in **1977**
- Company went from board game manufacturer to **multi-verse hobby empire**
- Originating from the physical tabletop gaming focus, it made numerous **strategic partnerships** to expand in the **video game sector** as well as enter the book sector, founding Black Library



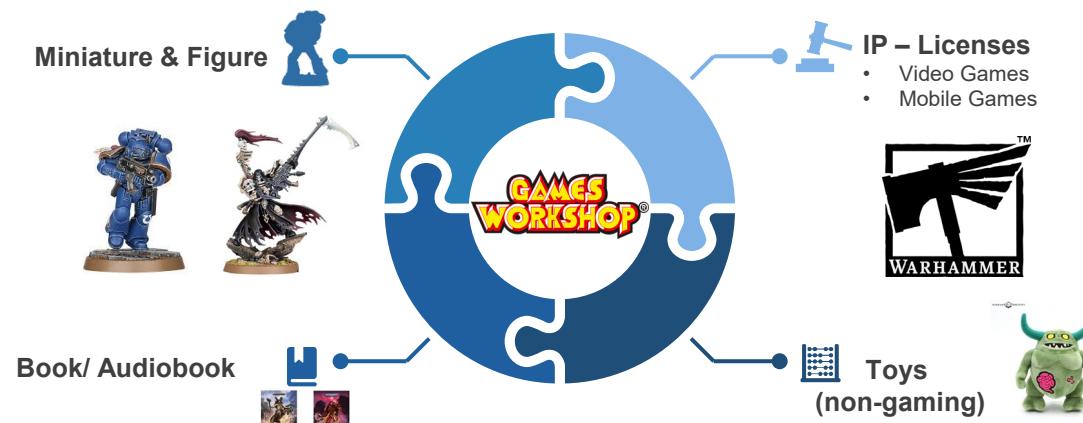
Sources: (Sturrock, 2021) (DNB, 2020) (Warner, 2019) (Games Workshop, 2021), (Games Workshop, 2022)

Note: ¹Value in million USD \$ All GW numbers are translated from £ -> \$, Rate: 1->1.42 (Annual Report 2020/2021)

Financial Revenue Per Year¹



Business Segment Overview

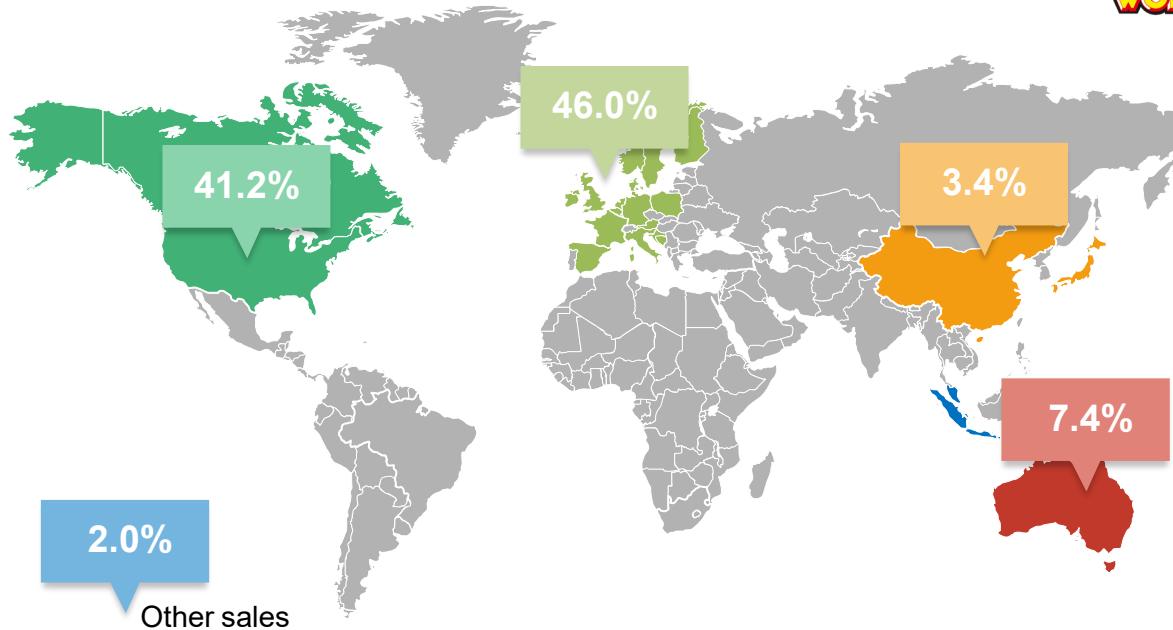


Games Workshop Market Overview

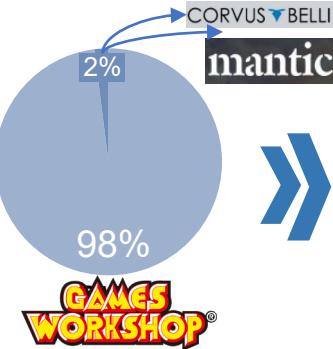
A strong presence in Europe and North America with 87.2 % of sales drives the foundation for Games Workshop's global operations

Market Presence Overview

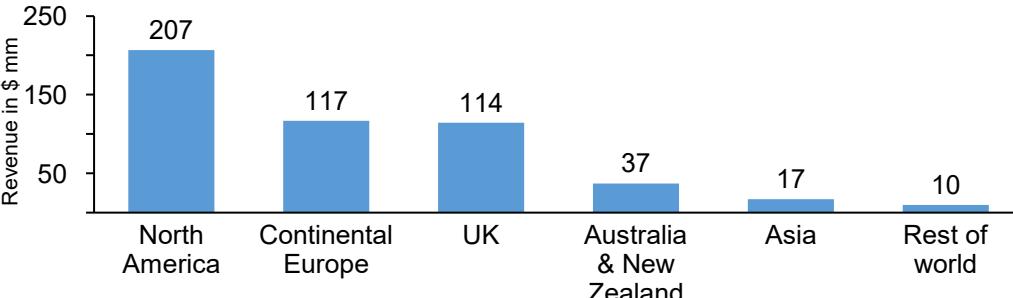
- Games Workshop started in UK, and it spread around the world with **500 retail stores** in **23 countries** across **AMERICAS, EMEA & ASIA PACIFIC**
- Strong presence in UK and Europe, followed by US and Australia
- Expansion focus pre-COVID has been on **German & US markets**
- No significant competitors in its **war gaming market**, due to its **niche nature**
- Biggest competitor **Corvus Belli**: <2% market share



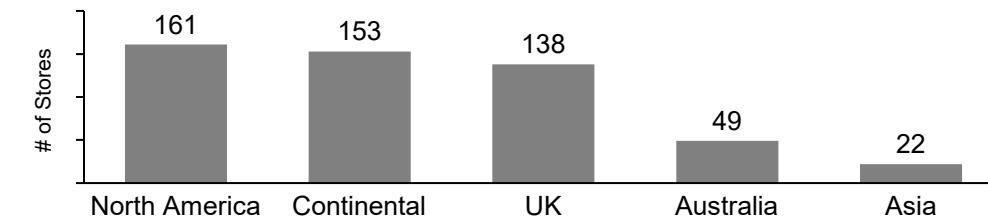
Market Share



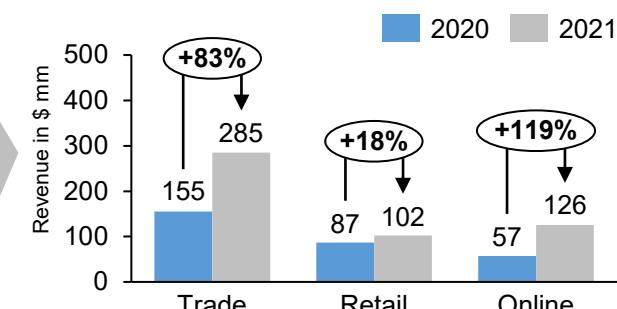
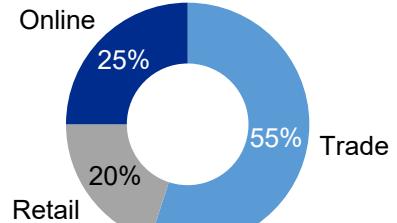
Revenue per region¹



Stores per region in 2021



Sales per segment¹



Exchange rate £ → \$: 1-1-21
(Annual Report 2020/2021)

Note: ¹Value in million USD \$
Sources: (Games Workshop Group PLC, 2021), (DNB, 2020)

Games Workshop Organizational Structure

Divided between its core business, focused on Tabletop Wargaming, and its non-core business, focused on IP licensing, Games Workshop has capitalized on its brand and community touchpoints to multiply its company value



Home Video/Mobile Games:

- Increasing the video game activity and revenues
- Focus on efforts surrounding key franchises, specifically parts of the IPs, typically driven by video game or media projects, for example the **Vermintide** and the **Total War series** of games

Online community:

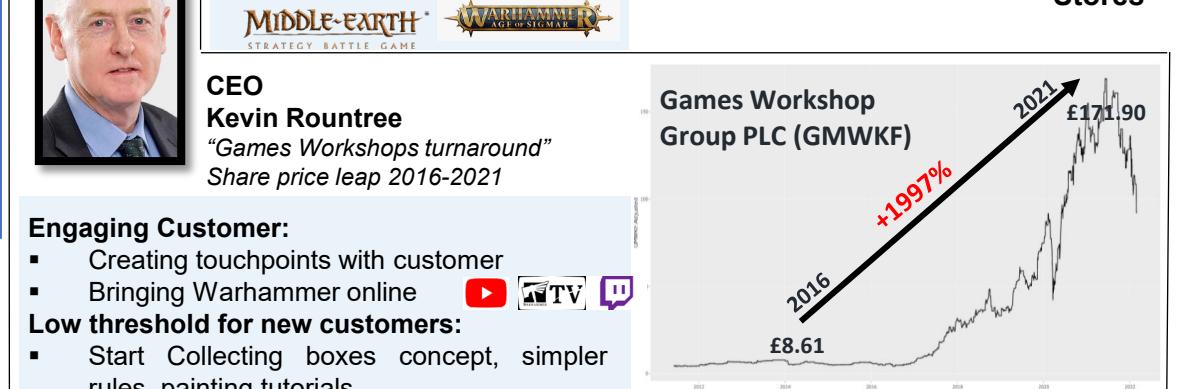
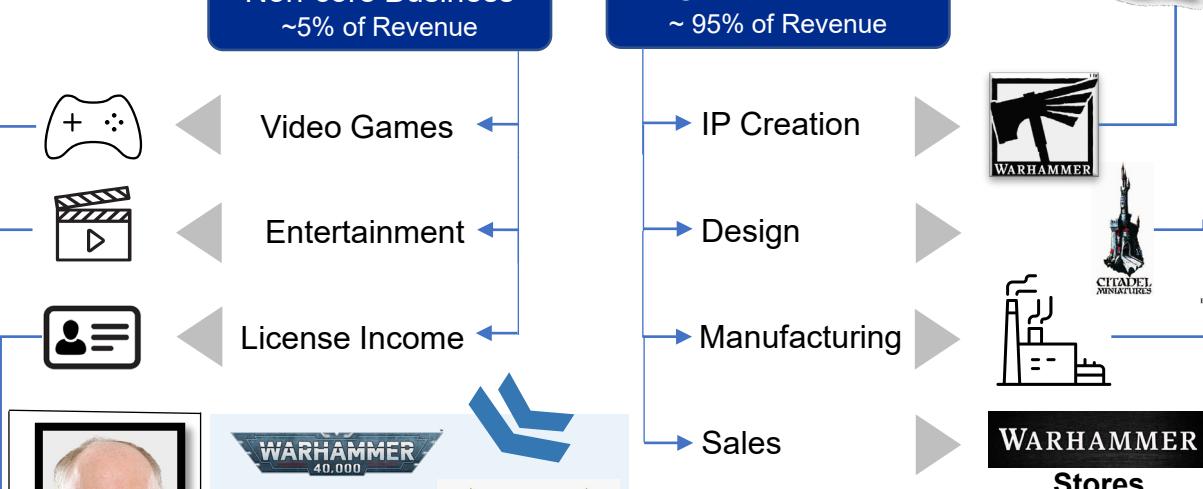
- Establishing the IPs use in widely distributed **entertainment projects**

Streaming Services / Animated content:

- Entertainment spectrum from Hollywood to the **Japanese animation** industry. Recently recruited an industry veteran who is overseeing the development in this area. Further invested in **licensing business** with the recruitment of more senior staff to the team including marketing expertise from the entertainment industry

Brand awareness & engagement:

- Engagement of various **marketing** agencies to ensure **maximization** of the return on key franchises by reaching the largest possible market



Company Analysis

Engaging Customer:

- Creating touchpoints with customer
- Bringing Warhammer online



Low threshold for new customers:

- Start Collecting boxes concept, simpler rules, painting tutorials

Lore & Storyline driver:

- Own IP & Content creators to expand universe development

Inventions:

- Symbols, Names, Artwork, Literacy, Logos

Figures:

- Development, new designs of miniature assemblies, and necessary accessories



Paint:

- Equipment & tools for figure painting

Books:

- Black Library, novel publishing division

Facilities:

- Manufacturing & recycling facilities in Nottingham

More info in Appendix Slide 88: GW's ESG & CSR Overview

Warehouses:

- Storage of hobby articles.
- Distribution centers for storage

Stores:

- Customer experience and interface for new releases and high-volume products

Exhibition centers:

- Painting master classes, figure & table top terrain exhibition, tournament location

Sources: (Johnson & Adams, 2017), (Games Workshop Group PLC, 2021)

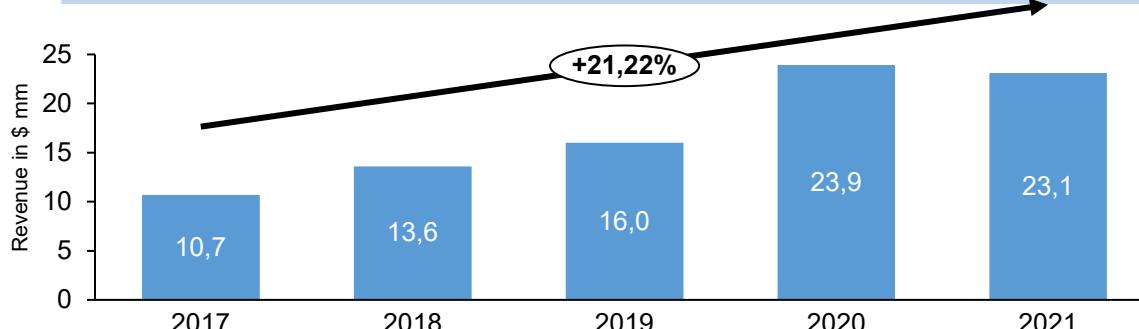
Games Workshop's IP Leverage

Utilizing its renowned IP, Games Workshop is forging partnerships and collaborations to further expand its brand and audience



On-Going Partnership		Start date	Collaborations	Other
 Black Library  Namco  THQ  Sega, Creative Assembly  Bandai  NAXON Co.	Creation of a publishing to produce fiction literacy set in Warhammer world	1997	 <ul style="list-style-type: none"> ✓ Collaborations with Bandai to create Warhammer 40K collectible action figures ✓ All the figures were sold out in the pre order ✓ First collection pre order September 2020 ✓ Second collection pre order March 2021 ✓ Third collection pre order August 2021  <ul style="list-style-type: none"> ✓ Licensing agreement for creation of video games announced in 2005 <ul style="list-style-type: none"> • Warhammer: Battle of Atluma • Warhammer: Mark of Chaos • Warhammer: Battle March ✓ Launch of Warhammer 40K: Eternal Crusade in 2016. servers closed in 2021 	 <ul style="list-style-type: none"> ✓ Single and multiplayer real time strategy game ✓ Release date February 2022  <ul style="list-style-type: none"> ✓ Collaboration with Marvel in the release of a series of comic books telling the tales of the lore of Warhammer 40K   
	Partnership to create video games based on Warhammer setting	2005		
	Video game license agreement related to Warhammer 40,000	2007		
	Multi-title licenses agreement to create video-game based on Warhammer universe	2012		
	Collaboration to produce two figures worldwide	2019		
	License agreement to produce and publish a new Virtual World based on the Warhammer world	2021		

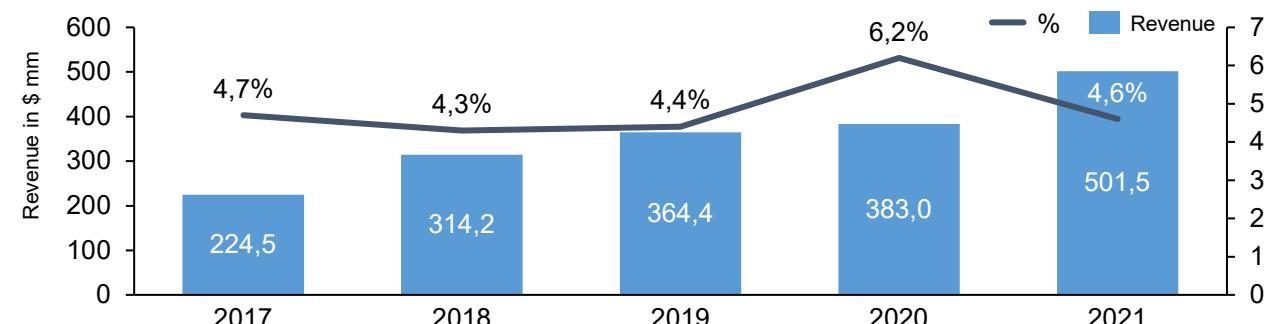
Royalty Revenues generated by IP-Licenses¹



Note: ¹Value in million USD \$ converted with a conversion rate of 1.42

Sources: (Annual Report (Games Workshop, 2021)), (Press Release Bandai Games Workshop, 2019), ((PREMIUM BANDAI, 2022), (Businesswire, 2012), (Marvel Entertainment, 2019))

Weight of partnerships over company revenues¹



Games Workshop Strategic Development

“More Warhammer. More Often” – Increasing universe exposure through both digital content and geographical reach



Two main tools to reach customers:
digital content (Warhammer +) and retail chain



Customer
Interaction/
Experience

Digital Business:

- Entertainment Channel
- Strong online community



Face to Face experience:

- Event Center



IP
Development

Company focus beside core business:

- Assigning Global IP development director

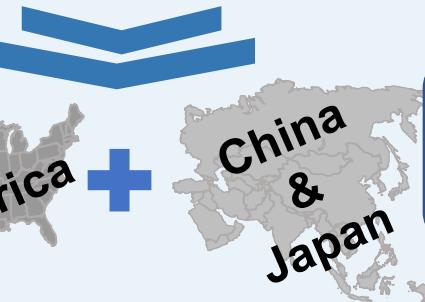
Stricter IP-guidelines:

- Strong IP protection since July 2021



Growth Engine:

- Increased Licensing income using IP in other markets



Global
Distribution

Miniatures, worldwide:

- World best miniature figures
- Engage more hobbyists into core business



Heart of the business:

- Side business to do no harm on core miniature business



Upcoming animation titles



ALTAR OF
WRATH

THE EXODITE

WARHAMMER+



Entertainment

Aiming for Strong Partnerships:

- 125 ongoing licenses
- Major video game titles in development
- Animations collaborations

“Together, we'll continue to explore animation, live action and more.”

Console, PC &
Mobile Games



Video/Mobile games

Geographical focus markets

Source: (Games Workshop Group PLC, 2021), (Games Workshop, 2022), (Warhammer Community, 2022), (SteamDB, 2022)

Games Workshop's Capabilities and Opportunities



The rise of novel manufacturing technologies and handling of IP could lead to either brand damage or new major opportunities

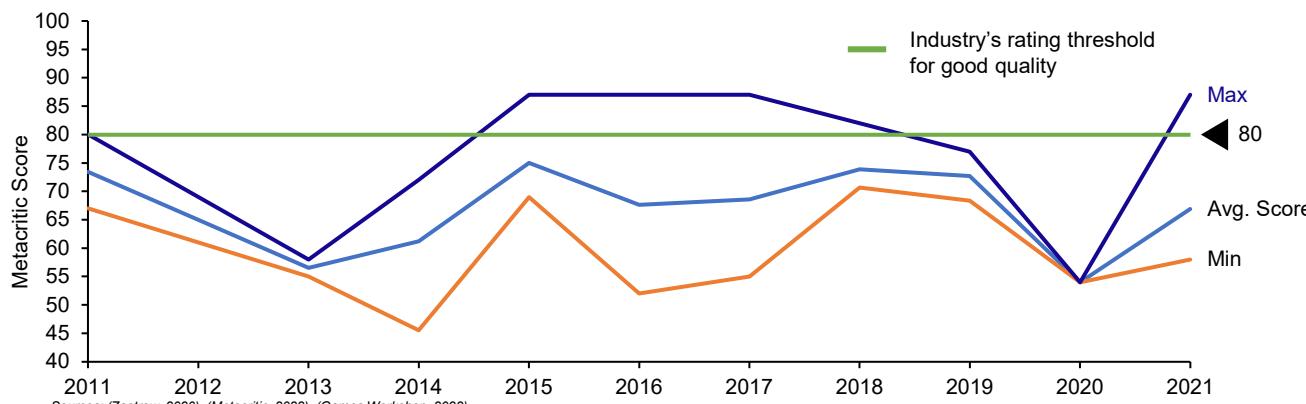
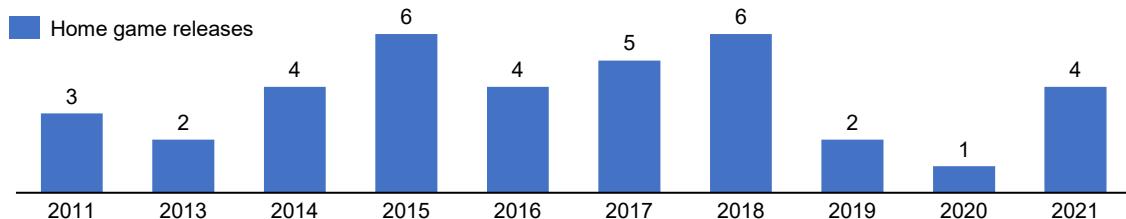
Possible Future Threats and Weaknesses

3D Printing:

- 3D printing technology is rapidly getting more sophisticated, increasing in quality & speed, thus **reducing its cost and barrier of entry**, reeling in more mainstream consumers
- Designs for miniatures could be **copied and printed illegally**, potentially causing loss in sales

Brand burn out:

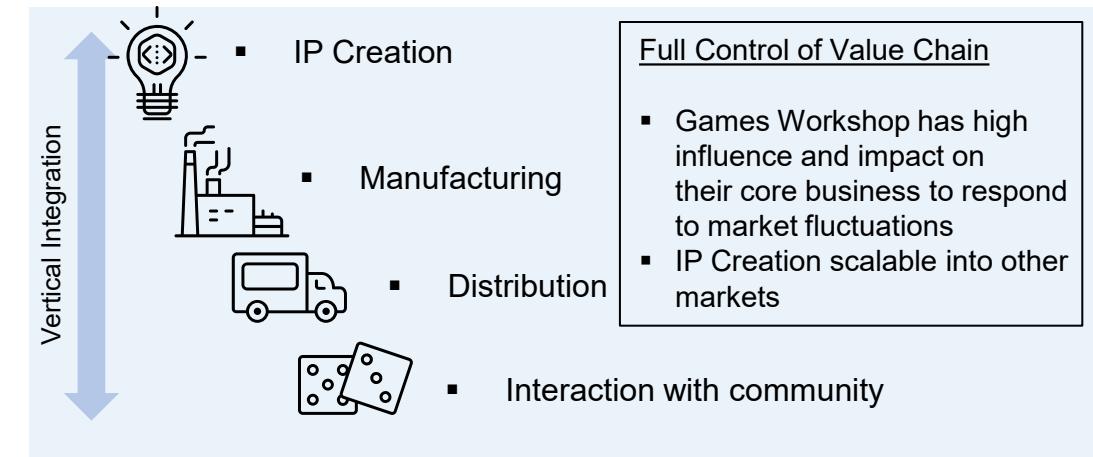
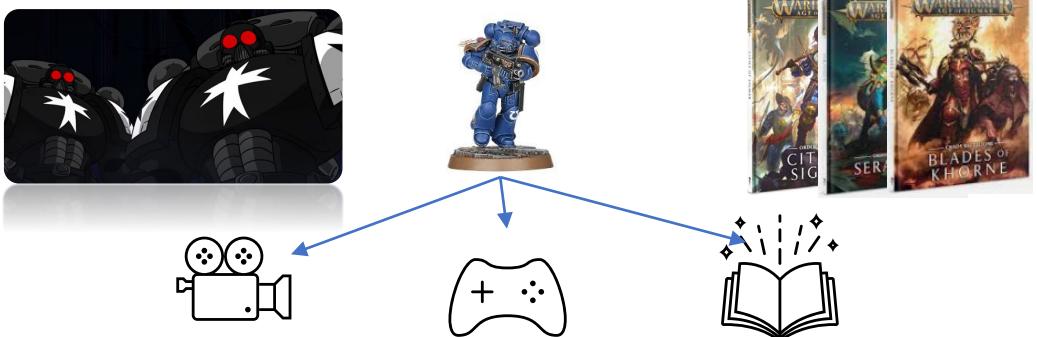
- The brand has been using its **IP** to launch multiple games per year on different platforms (XBOX, PS, PC, MAC), with mixed quality results
- This use of the IP in a **mass production** level could harm brand image in the long run, as consistent **mediocre** quality could **disappoint** consumers



Major Future Opportunities

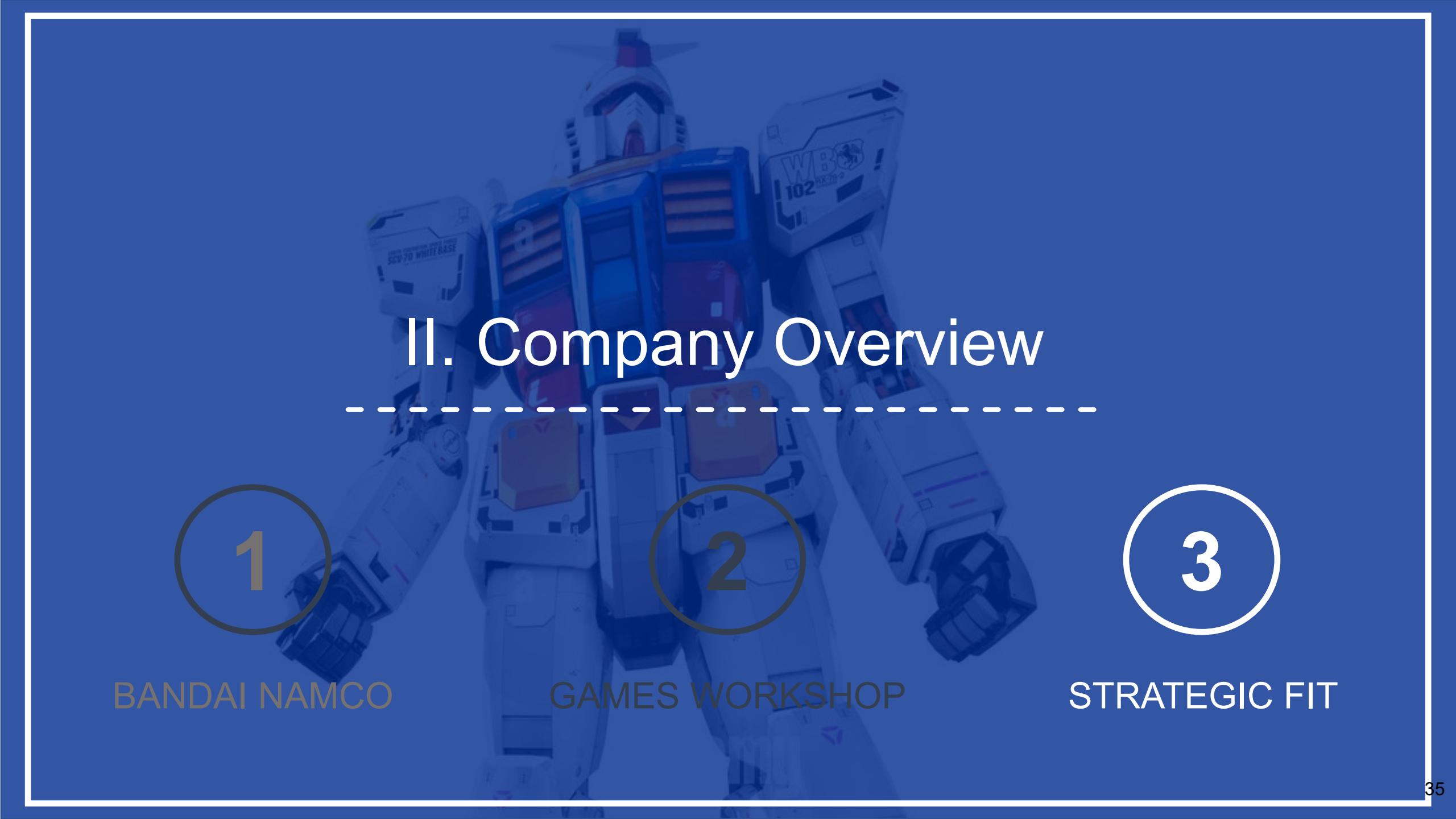
Brand and recognition:

- Extensive universe with **unlimited room for growth** and endless possibilities
- **Very strong IP** suitable for exploitation in all the main platforms, from books, to videogames and movies



Full Control of Value Chain

- Games Workshop has high influence and impact on their core business to respond to market fluctuations
- IP Creation scalable into other markets



II. Company Overview

1

BANDAI NAMCO

2

GAMES WORKSHOP

3

STRATEGIC FIT

Strategic Fit Overview

Three key areas have been identified in which BN and GW are able to draw from each others' resources, expertise and capabilities

BUSINESS UNITS

Toys

- The introduction of **Warhammer** figures in their **portfolio** will consolidate Bandai Namco's position in the toy industry and broaden their global **customer base**
- Drawing from BN expertise, GW will be able to expand their **figure lineup** to target **new customer** audiences

Video Game & Entertainment

- Warhammer** IP licensed sales numbers are stronger than most of Bandai Namco's game sales
- Potential gain of **new clients** as they get more exposure to Bandai Namco's products through Warhammer platforms
- Exposure of customers to different **range of IPs** could increase total sales volumes
- Warhammer's growing online presence shows **opportunity**

Amusement

- Creation of new **amusement machines** to accommodate Warhammer enthusiasts
- Expand the overseas amusement offering to satisfy **fans across the world**, e.g. Warhammer World
- Tournaments** organized by Warhammer could be held in all major markets
- Joint events will **connect** fans of both sides

NETWORK & FOOTPRINT

Network

- Bandai Namco's majority of stores are in **Japan**, while majority of Games Workshop's stores are in **North America** and **Europe**, creating great overlap
- Joining their store network will be mutually beneficial
- Increase the **reach** of both companies in their respective **target markets** without requiring new infrastructure

Footprint

- Main warehouses for Games Workshop are in North America, Europe and Australia, assets that Bandai Namco can use to **distribute** their products across the world at a **lower cost**
- Bandai Namco's main warehouses are located in Asia, good opportunity for Games Workshop to increase the sales in its target markets as the **price to import the products will decrease**



INTELLECTUAL PROPERTY

IP Expansion

- Bandai Namco mid-term investment plan aims to acquire **foreign IP** to capitalize on
- Games Workshop has a **fitting rich IP** to exploit for BN
- Stacked IP of both companies would increase current **in-house IP revenues by 53%**
- Games Workshop has a full control of the vertical integrated value chain, from creation of IP to customer interface

Metaverse

- Bandai Namco uses the biggest part of their **investment** budget to create the foundation for its digital infrastructure, with the goal of establishing a **metaverse** for each IP, which requires **wholly owned IP's** to thrive
- Games Workshop brings a mature customer base for the metaverse **committed to the hobby**

Geographic Customer Coverage

- Combined inhouse IP ownership complements each other creating a **global fanbase** instead of company specific regional coverage, strengthening the **community**

Sources: (Games Workshop, Annual Report 2021) . ((Integrated Report (Bandai Namco, 2021))

Intellectual Property Fit

The Warhammer IP is a strong addition to the Bandai Namco IP portfolio, according to their mid-term plan and strategic goals



Games Workshop – Complete Vertical Chain

- IP is **well protected** and provides **strong platform** to capitalize on current and future IP assets
- Is self-sufficient in their core business, Vertical Integration: **Design to Final distribution**
- Bandai will gain more **exposure** to Europe and Americas, as they are Games Workshop's **biggest markets**
- Games Workshop is looking for strong partnership to capitalize on **new product ideas**

*More details in Appendix Slide 89:
Intellectual Property Protection*



Physical channel: Manufacturing
Digital channel: Conversion to Content

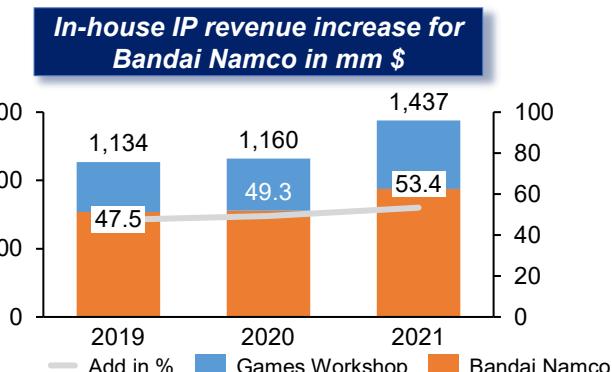


The Warhammer IP is a fitting target for Bandai's IP strategy, particularly to its longevity, customer loyalty, scope and mature appeal. It poses another universe that can capitalize on the future metaverse investments Bandai is driving.

Bandai offers a **broad platform** of distribution channels to markets and fits to the strong partner Games Workshop is looking for



Providing Mature Customer Base in Western Countries



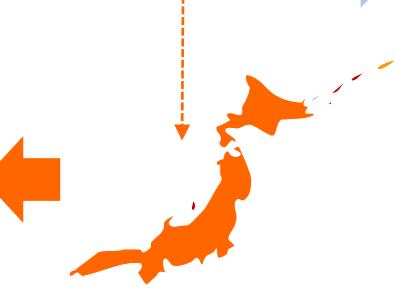
Source: (Games Workshop Group PLC, 2021), (Games Workshop, 2022), (Warhammer Community, 2022), (Integrated Report (Bandai Namco, 2021)), (Fact Book (Bandai Namco, 2021)). (Mid-term Plan (Bandai Namco, 2021))

Bandai – Horizontal distributor Expert

- Few inhouse IPs** to scale into new markets to increase capitalization
- Targeting strong IPs to **invest** in to use its conglomerate structure to **leverage** products in several industry segments
- Broad licensing portfolio** with partners
- Midterm **strategy** aimed to leverage IP's for **metaverse** creation



**BANDAI
NAMCO**



Huge market hold and available platform

Network & Footprint Expansion

Games Workshop's strong presence and distribution network in the US and European markets is attractive towards Bandai Namco's expansion goal to reach 35% overseas sales by 2025

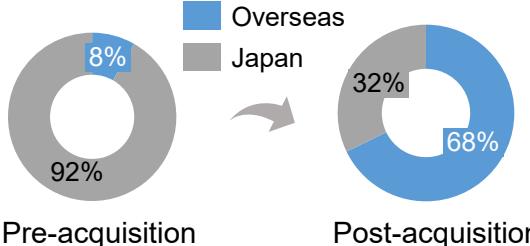
Distribution Network Overview

- Games Workshop **distribution hubs** are located in their **biggest markets**
- Bandai can use these distribution hubs to expand their global reach

It's not financially worth for the companies to **open new distribution hubs** in other markets. Therefore, sharing the existing one can benefit both. This will **reduce the distribution costs worldwide**

- Games Workshop can use Bandai Namco's distribution hubs in Asia to penetrate the market

Bandai Namco Sales Network Combination



Bandai Namco's stores are predominantly in Japan. The addition of **Games Workshop store network** to their existing one will improve the **reach** of Bandai Namco's products around the **globe** without new infrastructure



Design Center

Nottingham, UK

Manufacturing

Nottingham, UK

Distribution

Nottingham, UK

Memphis, US

Sydney, AU

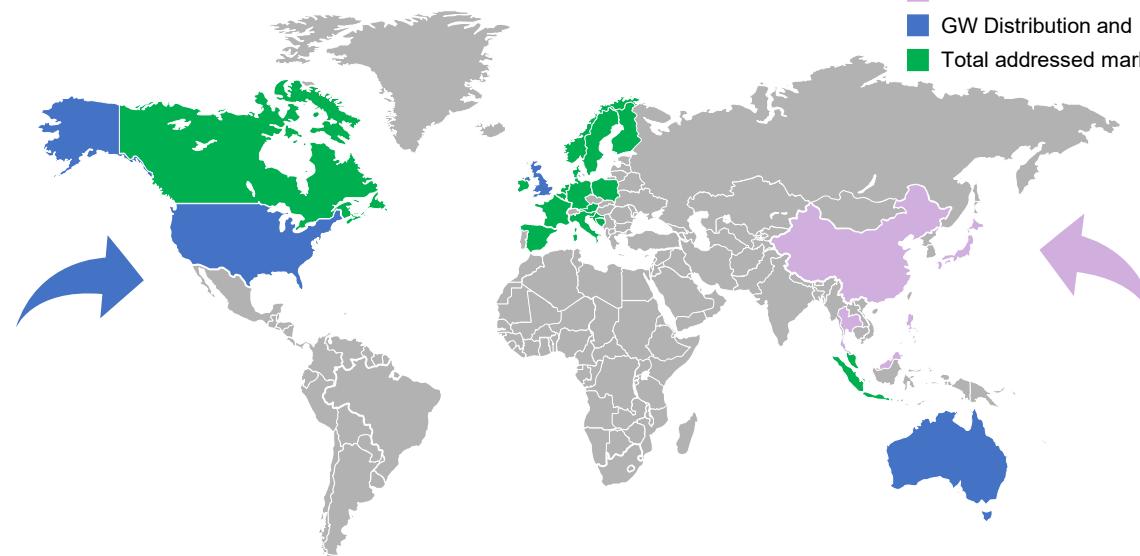
Sales

North America

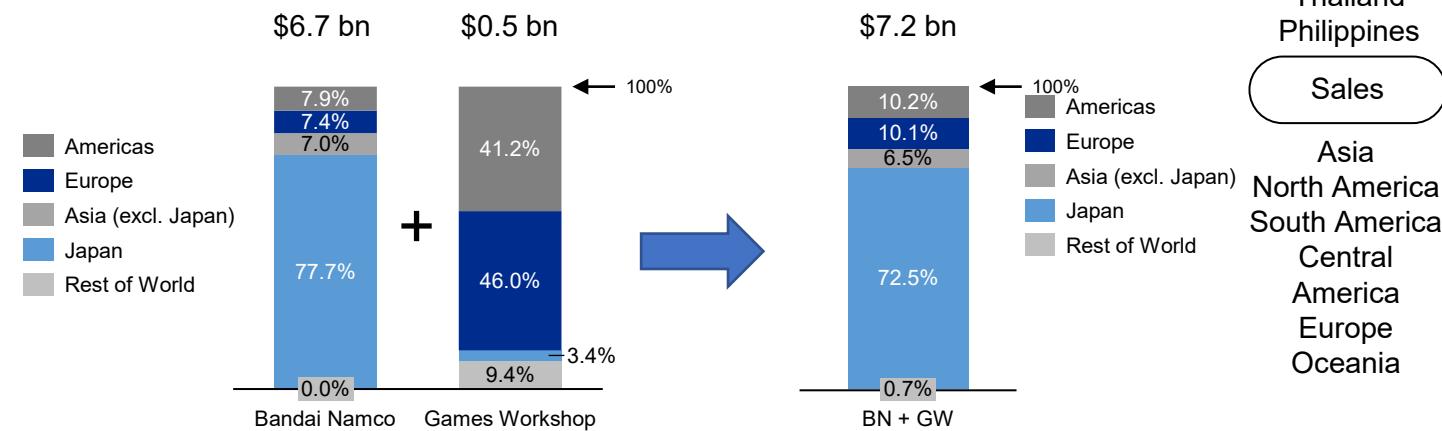
Europe

Asia

Oceania



Revenue Ratio by Region

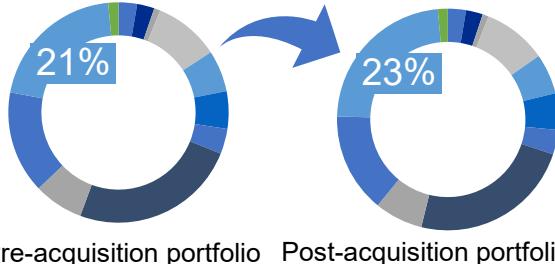


Sources: Annual Report (Games Workshop, 2021), (Integrated Report (Bandai Namco, 2021), (Games Workshop Group PLC, 2021), (BANDAI NAMCO Holdings Inc. 2022)

Toys & Amusement Product Fit

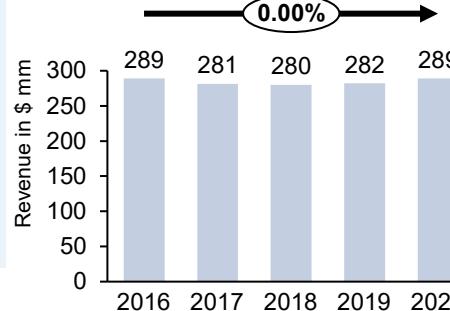
A direct overlap in the type of product offering, combined with differing target audiences, creates opportunity windows for market expansion without the threat of cannibalization

Toy Product Portfolio Fit



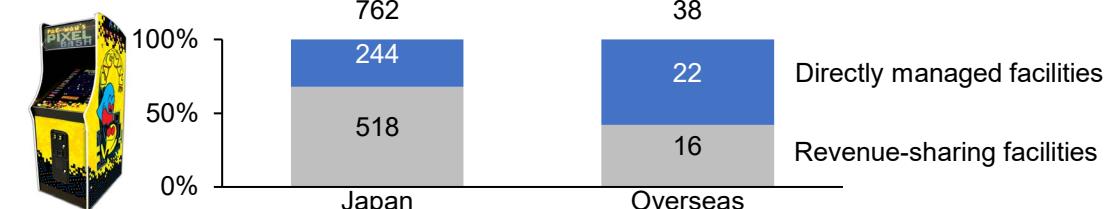
The addition of Games workshop would change the weight of **hobby products** in the portfolio, opening **new markets** to Bandai Namco

Figure Market Trend in Japan¹



Amusement Portfolio Overlap

Integration of the Warhammer world into Bandai Namco's amusement segment:



- New space in venues for machines with Warhammer IP, in all types, from capsule toys to lottery-related machines. Exposing GW brand in Japan. Vice versa, Bandai Namco would be able to sell their products in GW stores overseas

More details in Appendix Slide 90: Japanese Community



War gaming sales increase



Boost in IP exploitation



Strategic goal alignment of BN & GW



- Preeexisting collaborations** in the **toy** segment between Bandai Namco and Games Workshop positions both companies well within each others home markets
- The **mature** Warhammer community is prone to buy the Bandai-products **leveraging** the IP



WARHAMMER WORLD

- Games Workshop holds tournaments and exclusive events for their community in local stores and in big facilities



- Bandai Namco owns facilities for all their amusement machines, a place to build community around a common theme

- Warhammer Tournaments can be held in Bandai Namco amusement facilities, giving access to the rich community to players from the Asian market
- Opportunity to showcase the brand to **new potential customers**
- Larger access to more **shelf space** will allow stronger exposure of products from both companies

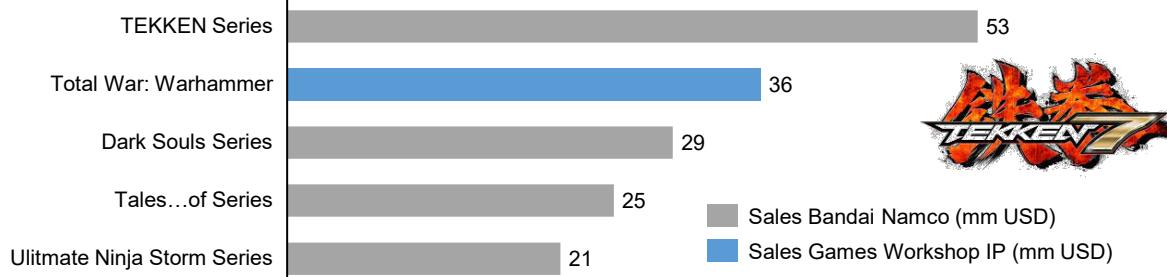
Sources: (Annual Report (Games Workshop, 2021)), (Integrated Report (Bandai Namco, 2021))

Video Games & Media Opportunity

With only ~5% of its revenue stemming from IP royalties, Games Workshop faces an immense growth opportunity in the production of games and media in-house, made possible by the support of Bandai Namco as a parent company



Video Games Compatibility



- Total million copies sold by these series, shows that **Games Workshop IP** is a very **competitive** name in the industry, and outperforms many of the best series Bandai Namco has produced, making it a very succulent addition

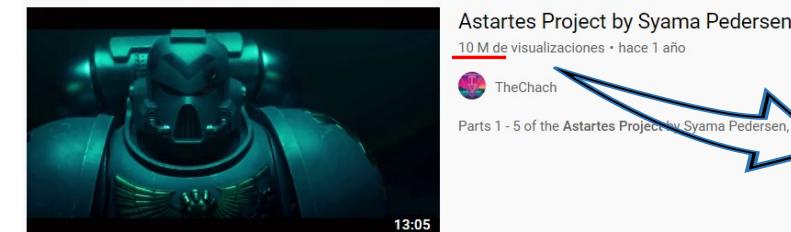
- There are **5 games** in production set to be **release in 2022** based on the Warhammer universe license
- One game has been released so far in 2022 based on the Warhammer license: Total War Warhammer 3
- There are 3 games announced to release this year and another 3 coming soon without a set date
- Bandai Namco has release one game earlier this year: Elden Ring, based on the Dark Souls franchise Formula



- Leveraging Bandai Namco's expertise and resources, such as Game Studios, Games Workshop will be able to **capitalize on their IP by creating their own games and media**.
- The Warhammer IP is a great fit for a **Metaverse** based product, as it could be used as a tabletop **AR/VR game** that combines physical figures with virtual reality gameplay
- Enthusiasts from across the globe could use Warhammer based online games to share their hobby and passion in a **virtual space**

Video Entertainment

- There is a lot of **demand** for GW **video entertainment content**, best example is the nonofficial project done by a fan and viewed over 10 million times on YouTube



10 Million views

- GW recently implemented **subscription model for digital content** as well as a freemium version that gives access to limited content



WARHAMMER COMMUNITY

- ~600,000 Subscribers
- Over 10,000 pieces of digital content
- 21.2 million email lists open



New subscription-based platform with exclusive video content.



BANDAI NAMCO Arts

- Bandai Namco's IP Production unit** would be able to leverage Warhammer IP to create Anime shows/movies similar to their popular in-house created TV shows.
- Taking advantage of the **growing customer base** in **digital platforms** and a great demand for content will elevate Bandai Namco's opportunity window
- Expanding the GW universe in the Asian market and potentially increasing the video content will lead to **new stream of consumers**

Sources: (Pcgamer, 2022). (Fact Book (Bandai Namco, 2021)). (Constantwarfare, 2022). (Streva, F., 2022). (Annual Report (Games Workshop, 2021)). (BANDAI NAMCO Entertainment Asia, 2022)

Community Driven Universe

A loyal community builds the foundation that drives storyline and engagement for the IP, resulting in high customer retention due to several angles to the hobby



- Touchpoint and amusement including hobbyist exchange, cosplay, GW major product releases



- Series, movies, short clips to further reinforce the "grim dark" atmosphere and enhance perception to the hobby



- Complementing toys to express connection with the hobby
- Generational overlap



- Universe engagement through digital gaming
- Digital platform for exploring the universe with other hobbyists



WARHAMMER FEST



Fan Events



Animation



Stuffed/Plastic Toys



Video Games

Warhammer Universe



Figure War Gaming



Painting Masterclasses



Artwork



Books and Lore

- Casual and Competitive scene where collections of figures challenge each other on a 60"x 44" battlefield

- Customization of collections by creative freedom painting assembled figures
- Painting competitions

- Artwork (physical and digital) bringing important story line and characters to life in spectacular sceneries
- Merchandise leverages artwork to expand product mix (e.g. phone cases)

- Universe, storyline and character (IP) development through novels
- New rulebook edition released in a three-year cycle, introducing new components to the game and generating hype

The Warhammer Universe has ~50 years of constant further content development. It has several angles to the hobby, and is further developed by the fan base via Games Workshops interaction with the community. The plethora in the community activities creates strong fan loyalty and ensures a longevity of the customer base.

Sources: (Pcgamer, 2022), Fact Book (Bandai Namco, 2021), (Constantwarfare, 2022), (Streva, F., 2022), Annual Report, (Games Workshop, 2021), (BANDAI NAMCO Entertainment Asia, 2022)

III. Financial Analysis

1

COMPARABLES

2

DISCOUNTED
CASH FLOW

3

SYNERGIES

Games Workshop Potential Peer Groups

We have identified four peer groups that share touchpoints with Games Workshop, namely Toys, Video Games, Animation and Books

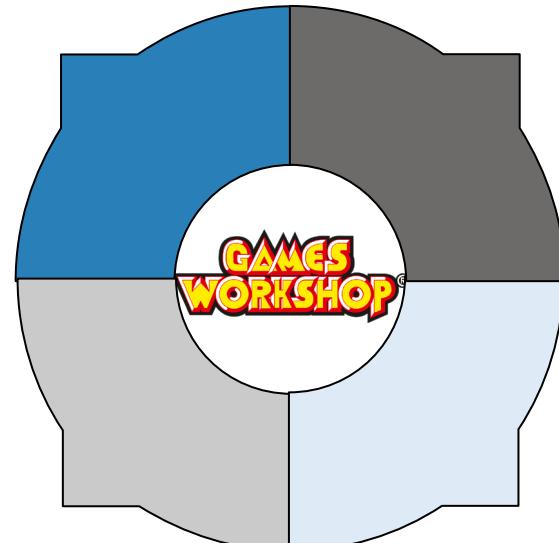
Toys & Games

As GW's **main revenue driver** and **primary market**, the toys and miniatures segment is considered a key peer group



Animation

As one of their key goals of **expansion**, the **Animation** market is a key sector for GW to consider to boost brand exposure, **community engagement** and IP usage



Video Games

Through **licensing** their Warhammer IP, GW is participating in the video game industry and looking to **grow** their reach and audience



Books & Audio Books

GW **exploits** its IP through the distribution of audiobooks and books written based on the extended universe, extending brand **awareness** and community engagement



Source: Own Team Analysis, (Games Workshop, 2022)

Games Workshop Peer Segment Relevance Analysis

Our peer analysis results in discarding the Video Games, Animation and Books peer groups due to a lack of relevance to Games Workshop's current revenue streams and impact on their brand



	Market Size	Market Size CAGR	Brand Relevance	Revenue Drivers	Cost Drivers	Result	Retained
Games Workshop	-	9.1% ('21-'26)	-	 1. Miniatures/Figures 2. Books 3. Subscription Service 4. IP Licensing	 1.COGS 2.SG&A 3.Manufacturing 4.R&D	-	-
Toys & Games	\$297 bn ('19)	4.62% ('19-'24)				<ul style="list-style-type: none"> Strong overlap in revenue drivers and cost drivers Highest brand relevance 	
Digital Video Games	\$155 bn ('21)	12.84% ('19-'25)				<ul style="list-style-type: none"> No strong revenue overlap due to outsourced production 	
Animation	\$270 bn ('20)	2.06% ('17-'20)				<ul style="list-style-type: none"> One of GW's target markets, but not sophisticated overlap yet 	
Books / Audio Books	N/A	N/A				<ul style="list-style-type: none"> Games Workshop only sells books for lore and history, not a major revenue driver 	

Games Workshop has its major revenue stream through the manufacturing and selling of Miniatures, which has the **biggest overlap with the toys segment**

Source: (Capital IQ, 2022), (Statista, 2021), Own Team Analysis

Peer Group Trading Multiples

Games Workshop's EV/EBITDA multiple is its peer's median but slightly below the groups EV/EBIT median



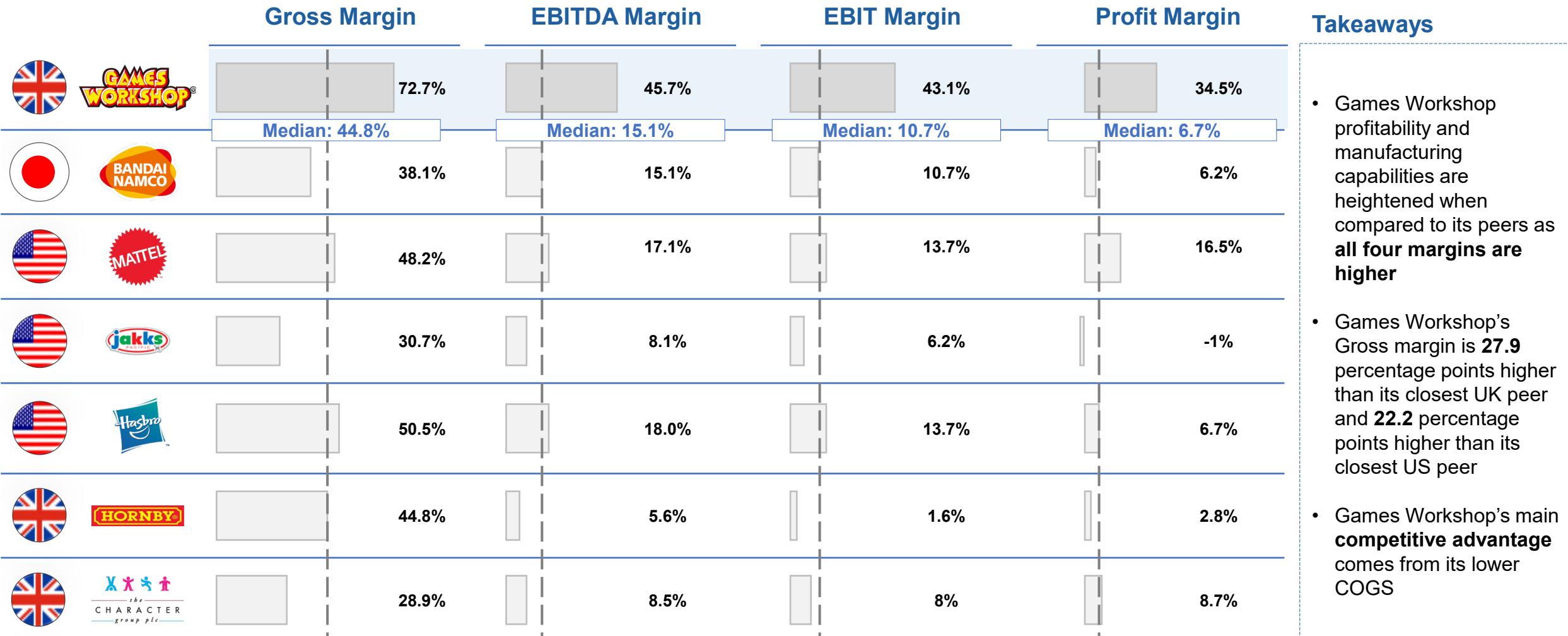
	Relevance and Rationale	Enterprise Value (\$ mm) ¹	EV/EBITDA	EV/EBIT
Games Workshop®	<ul style="list-style-type: none"> Multinational Toy Miniature and Figurine company headquartered in the UK Global IP "Warhammer" is used for licensing and content production in diverse areas 	2,881.6	12.6x	13.4x
BANDAI NAMCO	<ul style="list-style-type: none"> The largest toy company in Japan, and 2nd the largest Toy manufacturer in the world Connections and experience in Video Game production & publishing, as well as animated content 	15,036.5	Median: 12.6x	Median: 14.5x
MATTEL	<ul style="list-style-type: none"> Children's entertainment company, designs and produces toys and consumer products Headquartered in California, US 4th most valuable company in the world in Toys & Games 	10,745.9	14.9x	14.4x
jakks	<ul style="list-style-type: none"> Toy manufacturer headquartered in America 5th most valuable Toy company in the world, 9x smaller than its next peer Hasbro 	228.5	11.5x	5.9x
Hasbro	<ul style="list-style-type: none"> 4th most valuable Toy company in the world by revenue, with brands such as Magic The Gathering trading card game Headquartered in US, Rhode Island 	16,125.9	4.5x	18.4x
HORNBY	<ul style="list-style-type: none"> Hornby PLC, through its subsidiaries, engages in the design, development, production, and distribution of hobby and interactive products 	88.4	13.9x	23.6x
the CHARACTER group plc	<ul style="list-style-type: none"> Headquartered in the UK The Character Group plc designs, develops, and distributes toys, games, and gifts in the United Kingdom and internationally 	107.5	6.6x	83.7x

Note: ¹Data expressed in mm \$

Source: (Capital IQ, 2022), (Statista, 2021), (Yahoo Finance, 2022), (Mattel Inc., 2022), Own Team Analysis

Peer Group Margin Analysis

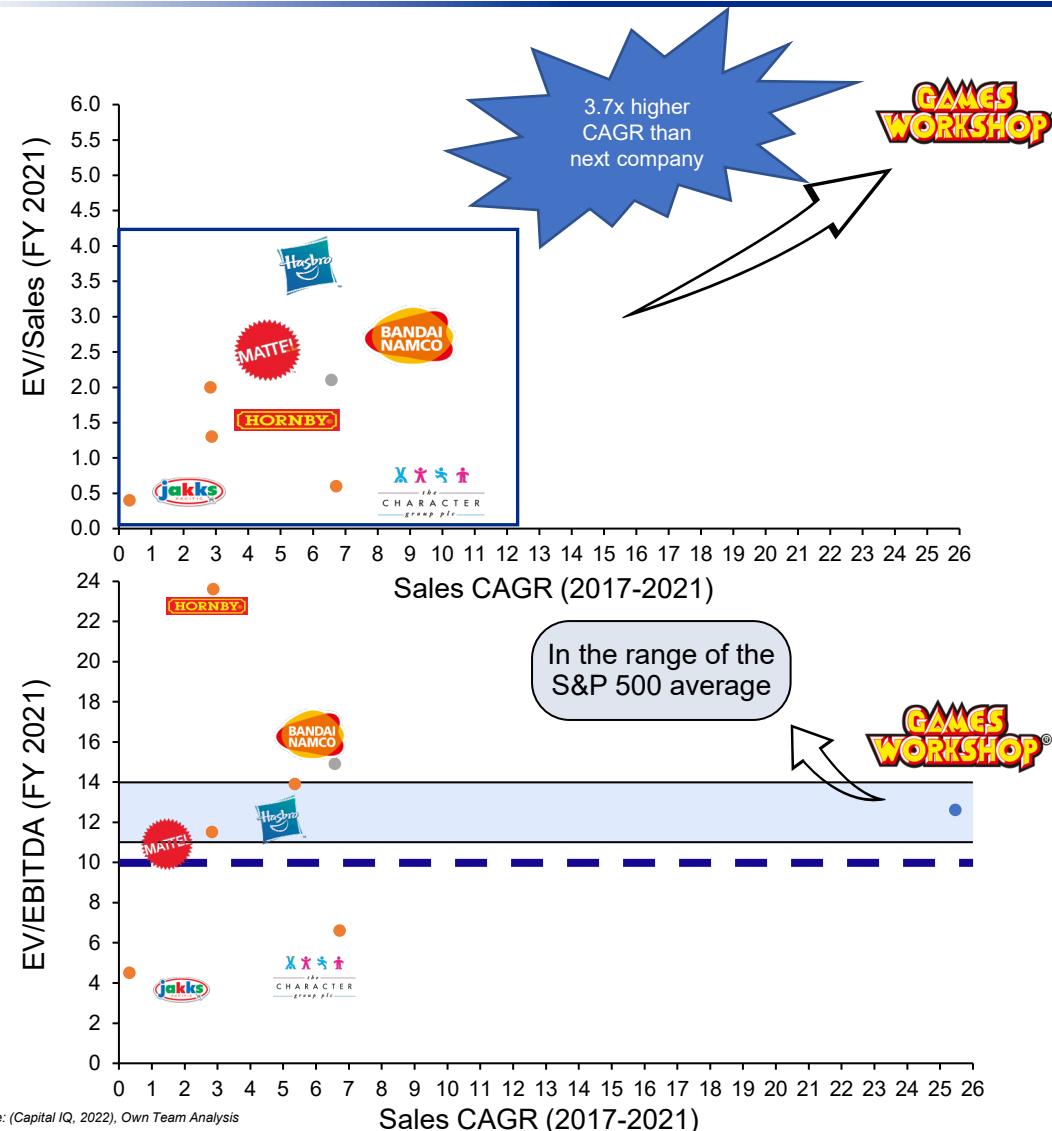
Across the board, Games Workshop's margins highlight its operational efficiency and vertically streamlined business model



Source: (Capital IQ, 2022), (Statista, 2021), (Yahoo Finance, 2022), (Mattel Inc., 2022), Own Team Analysis

EV/Sales & EV/EBITDA vs. Sales CAGR

Games Workshop sales have grown at a compounded annual growth rate of 25.5% which is 3.7x faster than its closest peer



Equity Value based on Comparables

Based on our comparable companies' multiples, Games Workshop implied share price is ~ \$90.4

Company	Country	Enterprise Value	Gross Margin	EBIT Margin	EBITDA Margin	Net Income Margin	EV/Revenue (FY 2021)	EV/EBIT (FY 2021)	EV/EBITDA
JAKKS Pacific, Inc.	United States	228.5	30.7%	6.2%	8.1%	-1.0%	0.4x	5.9x	4.5x
The Character Group plc	United Kingdom	107.5	28.9%	8.0%	8.5%	8.7%	0.6x	7.0x	6.6x
Mattel, Inc.	United States	10,745.9	48.2%	13.7%	17.1%	16.5%	2.0x	14.4x	11.5x
BANDAI NAMCO Holdings Inc.	Japan	15,036.5	38.1%	10.7%	15.1%	6.2%	2.1x	19.6x	14.9x
Hasbro, Inc.	United States	16,125.9	50.5%	13.7%	18.0%	6.7%	2.5x	18.4x	13.9x
Hornby PLC	United Kingdom	88.4	44.8%	1.6%	5.6%	2.8%	1.3x	83.7x	23.6x
High			50.5%	13.7%	18.0%	16.5%	2.5x	83.7x	23.6x
Low			28.9%	1.6%	5.6%	-1.0%	0.4x	5.9x	4.5x
Mean			40.2%	9.0%	12.1%	6.7%	1.5x	24.8x	12.5x
Median			41.4%	9.3%	11.8%	6.4%	1.6x	16.4x	12.7x

EBITDA, 2021	228.8
EV/EBITDA multiple ¹	12.7x
Enterprise value	2,911.5
<i>Total debt</i>	(66.7)
<i>Preferred stock</i>	-
<i>Non-controlling interest</i>	-
<i>Cash and cash equivalents</i>	120.8
Equity value	2,965.6
<i>Shares outstanding</i>	32.8
Implied share price	90.4

(1) Median value of comparable companies table; to eliminate outliers.

Sensitivity Analysis					
Exit Multiple					
	11.7x	12.2x	12.7x	13.2x	13.7x
EV	2,682.6	2,797.0	2,911.5	3,025.9	3,140.3
Eqty Value	2,736.8	2,851.2	2,965.6	3,080.1	3,194.5
Price/share	83.4	86.9	90.4	93.9	97.4

- Comparable analysis can be easily manipulated, as the result is completely relative to the chosen peer group. Therefore, we will utilize an additional valuation methodology, Discounted Cash Flow Model (DCF), and allocate a weight to each Equity Value to come with a fair price.

Note: ¹Value in million USD \$
Source: (Capital IQ, 2022), Own Team Analysis



III. Financial Analysis

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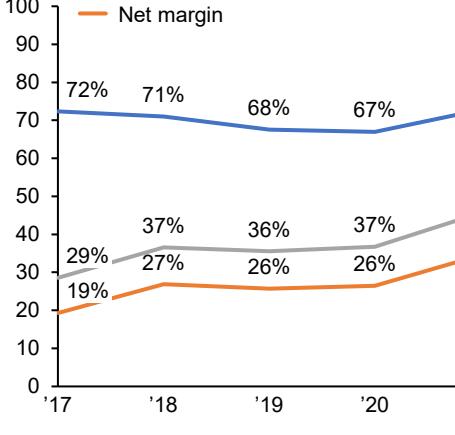
Games Workshop Ratio Analysis

Historic ratio trends of Games Workshop show robust trajectory in its operational performance and financial leverage

Profitability Ratios

- Games Workshops' **Gross Margin** has ranged between **67%** and **73%**, which is above its peer's average of **44.8%** heightening the companies strong manufacturing capabilities and ability to achieve economies of scale
- The Company's **EBITDA**, has increased from **29%** to **46%** which is also above its peer average of **15%**

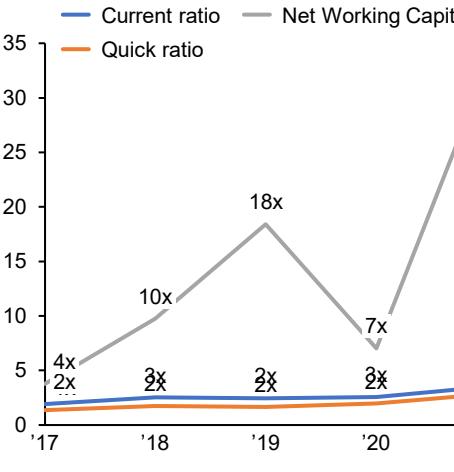
Gross margin — EBITDA margin
Net margin



Liquidity Ratios

- The company's **working capital** has flourished during the past five years as it has increased from **4x** to **33x in 2021**
- This has enabled the company to **triple its dividends** from \$30.4 mm in 2017 to \$96.0 mm in 2021
- The **quick ratio** and **current ratios** have stayed consistently stable over the last five years

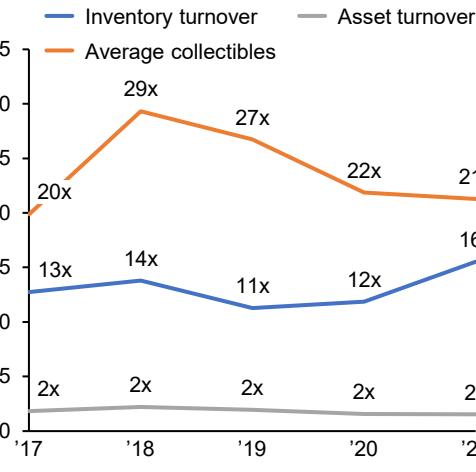
Current ratio — Net Working Capital
Quick ratio



Efficiency Ratios

- Asset turnover has remained stable over the last 5 years, showing that the same ratio of revenue is tied up in assets as in '17
- The company has been able to increase the rotation of its **inventory** as it moved **from inventory turnover rate of 13x in 2017 to 16x in 2021**

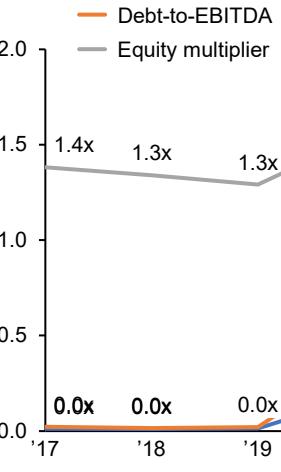
Inventory turnover — Asset turnover
Average collectibles



Leverage Ratios

- The Company's strong **cash flow** from operations has enable the company to finance its growth with little to non-leverage as its historic Debt-to-EBITDA multiple has been **below 0.5x**
- The low debt ratio of GW would allow for future projects to be **financed with leverage**

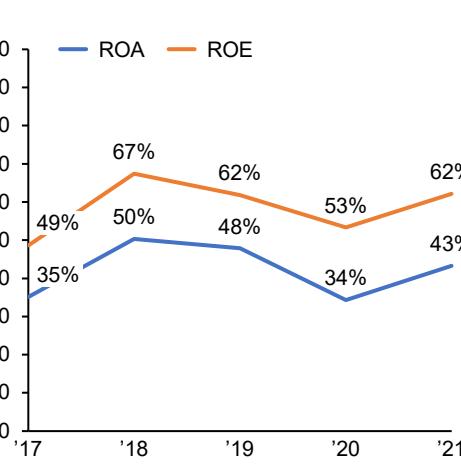
Debt ratio — Debt-to-EBITDA
Equity multiplier



DuPont Analysis

- Both **ROE** and **ROA** have been increasing over the last 5 years, with a visible decrease in 2020 due to COVID-19 pandemic.
- ROE has increased by **13%** since 2017, attributable to the **leadership and strategy** direction change occurring in 2016 heightening the management's ability to generate returns on its invested capital.

ROA — ROE



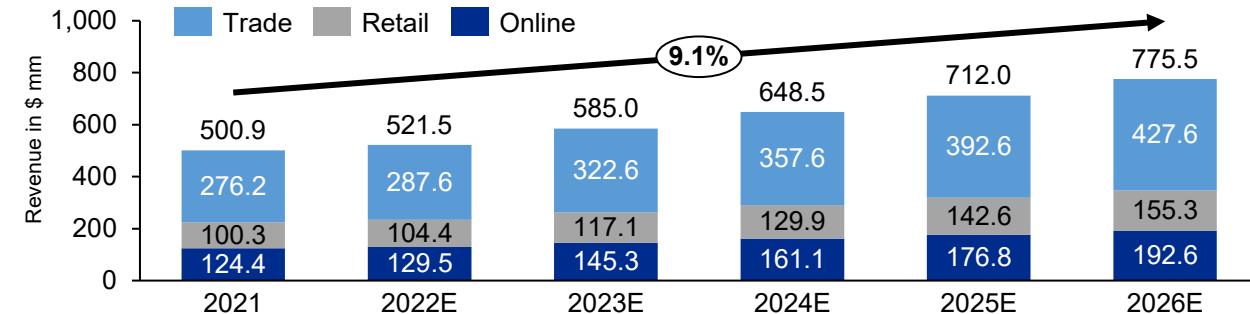
Revenue Projections & Breakdown

Games Workshop's revenues are expected to grow at a CAGR of 9.1% from '21-'26 with Asia as a key driver region

GW's Standalone Revenue Projections – Assumptions (Base)

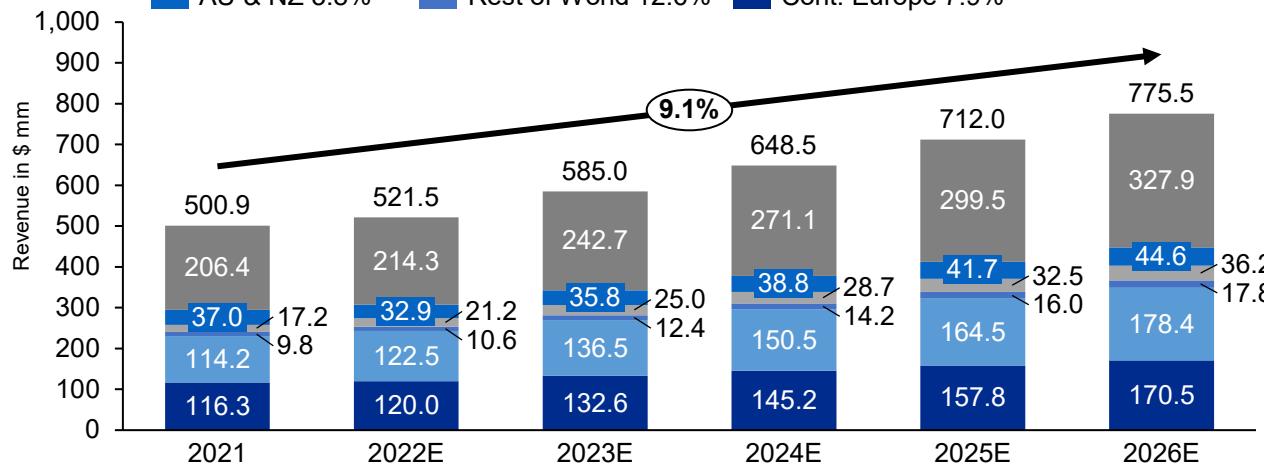
- Revenues for Games Workshop's are expected to grow at a **CAGR of 9.1%** from 2021 to 2022 and reach **\$775.5 mm**
- The revenue mix by channel is expected to remain unchanged throughout the forecasted period with **Trade accounting for ~60% of sales**
- Asia**, is expected to be the fastest growing geography with a **CAGR of 16.1%** from 2021 to 2022 followed by the Rest of World and North America with **CAGR's of 12.6%** and **9.7%** respectively for the same period
- Asia's **proportion of sales** is expected to increase by **1.2%** by 2026

Revenue Projections by Channel '21-'26

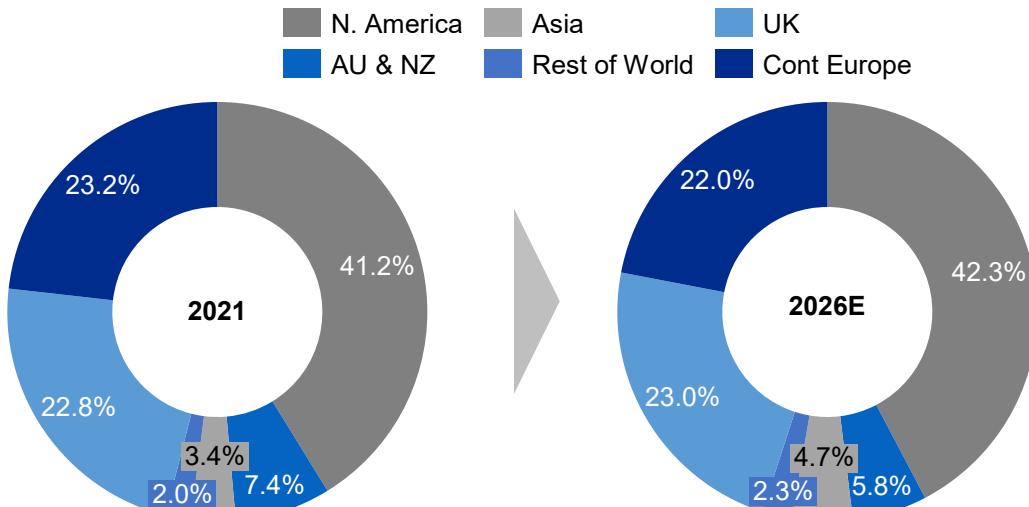


Revenue Projections by Geography '21-'26

 N. America 9.7%
 Asia 16.1%
 UK 9.3%
 AU & NZ 3.8%
 Rest of World 12.6%
 Cont. Europe 7.9%



Geographical Revenue Mix '21-'26





Games Workshop Standalone DCF – Base

Based on our Discounted Cash Flow model, Games Workshop implied share price is ~ \$128.18

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	CAGR:'17-'21	CAGR:'21-'26
Revenue	202.2	295.4	323.8	332.9	500.9	521.5	585.0	648.5	712.0	775.5	25.5%	9.1%
Growth		46.1%	9.6%	2.8%	50.5%	4.1%	12.2%	10.9%	9.8%	8.9%		
EBIT	50.0	99.1	103.6	111.4	215.7	227.2	260.7	295.4	327.9	361.1	44.1%	10.9%
Taxes	19.8%	(9.9)	(19.6)	(20.5)	(22.0)	(42.7)	(44.9)	(51.5)	(58.4)	(64.8)	(71.4)	
Depreciation & amortization		7.8	8.8	11.4	23.3	28.6	29.8	33.5	37.1	40.7	44.3	
Capital expenditure		(16.3)	(28.7)	(28.3)	(30.2)	(42.3)	(45.9)	(51.5)	(57.1)	(62.7)	(68.3)	
Changes in working capital		(3.8)	(6.0)	(8.7)	11.4	(25.7)	(1.3)	(4.2)	(4.2)	(4.2)	(4.2)	
Unlevered Free Cash Flow	27.9	53.7	57.5	93.9	133.7	164.8	186.9	212.9	237.0	261.6		
Perpetuity											4,386.2	
Discount factor							0.9	0.9	0.8	0.8	0.7	
WACC												
Present value of Free Cash Flows							155.4	166.2	178.4	187.3	3,463.0	

Games Workshop Sensitivity Analysis ¹ (in \$ mm)													
Enterprise value	4,150.2	Enterprise Value						Implied share price					
		Exit Multiple			WACC			Exit Multiple			WACC		
Total debt	(66.7)	9.5x	10.5x	11.5x	12.5x	13.5x		9.5x	10.5x	11.5x	12.5x	13.5x	
Preferred stock	-	5.1%	3,739.3	4,037.3	4,335.2	4,633.2	4,931.2	5.1%	115.65	124.74	133.82	142.91	151.99
Non-controlling interest	-	5.6%	3,659.5	3,950.5	4,241.5	4,532.4	4,823.4	5.6%	113.22	122.09	130.96	139.84	148.71
Cash and cash equivalents	120.8	6.1%	3,581.9	3,866.1	4,150.2	4,434.4	4,718.6	6.1%	110.85	119.52	128.18	136.85	145.51
Equity value	4,204.4	6.6%	3,506.3	3,783.9	4,061.5	4,339.1	4,616.6	6.6%	108.55	117.01	125.48	133.94	142.40
Shares outstanding	32.8	7.1%	3,432.8	3,703.9	3,975.1	4,246.3	4,517.4	7.1%	106.31	114.58	122.84	131.11	139.38
Implied share price	\$128.18												

- Based on our sensitivity analysis, we have an implied price per share range of \$106.31 - \$151.99 with a sweet spot of \$128.18

Note: ¹Value in million USD \$
Source: (Capital IQ, 2022), Own Team Analysis

WACC Calculation & Valuation Summary

Based on Games Workshop's current capital structure, the Weighted Average Cost of Capital is 6.1%

WACC Calculations

Target capital structure

Debt-to-total capitalization	19.3%
Equity-to-total capitalization	80.7%

Cost-of-debt

Cost-of-debt ¹	3.2%
Tax rate ²	19.8%
After-tax cost of debt	2.5%

Cost of Equity

Risk-free rate ³	1.9%
Market risk ⁴	6.1%
Market risk premium	4.2%
Games Workshop's beta ⁵	1.2
Size premium	0.0%

Cost of Equity	6.9%
WACC	6.1%

(1) Damodaran NY Stern, Retail (general) 03/03/2022.

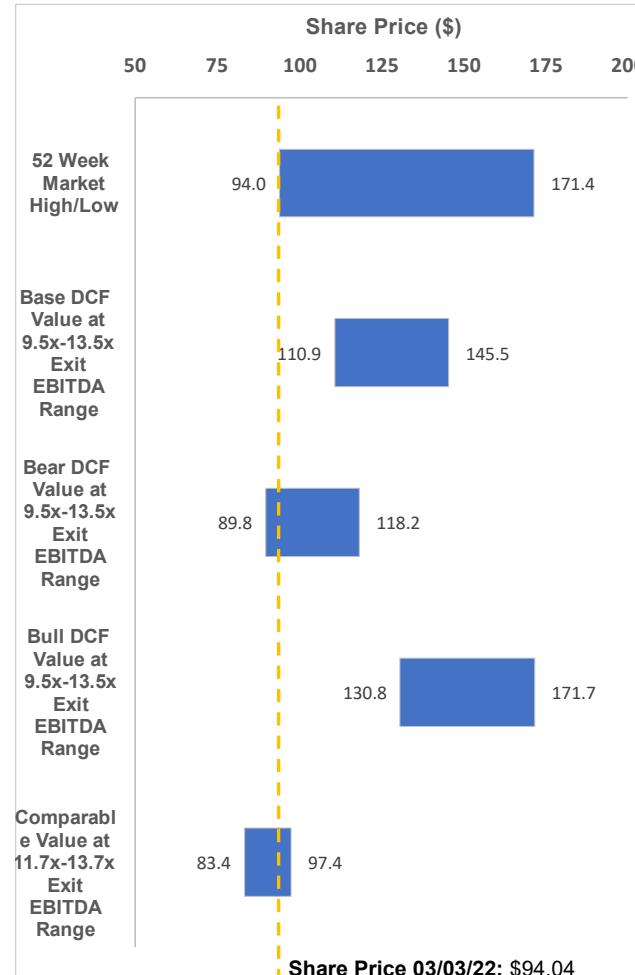
(2) Games Workshop average tax rate, 2017-2021.

(3) US Department of Treasury 10yr note 03/03/2022.

(4) US Equity Risk Premium, Damodaran NY Stearn.

(5) Capital IQ, Games Workshop 5-year beta, 03/03/2022.

Football Field – Implied Share Price Comparison¹



- Our Base and Bull DCF analysis show implied share price ranges above the current share price, and within the 52 weeks range of **\$94.0 - \$171.4**
- Both ranges highlight the current **undervaluation** of Games Workshops' share price
- The **52 weeks low lies at \$94**, which is share price at the point of time of this analysis, showing a trend impacted by current market conditions and geopolitical situation, that makes Games Workshop an **attractive buy**

Source: (Capital IQ, 2022), Own Team Analysis

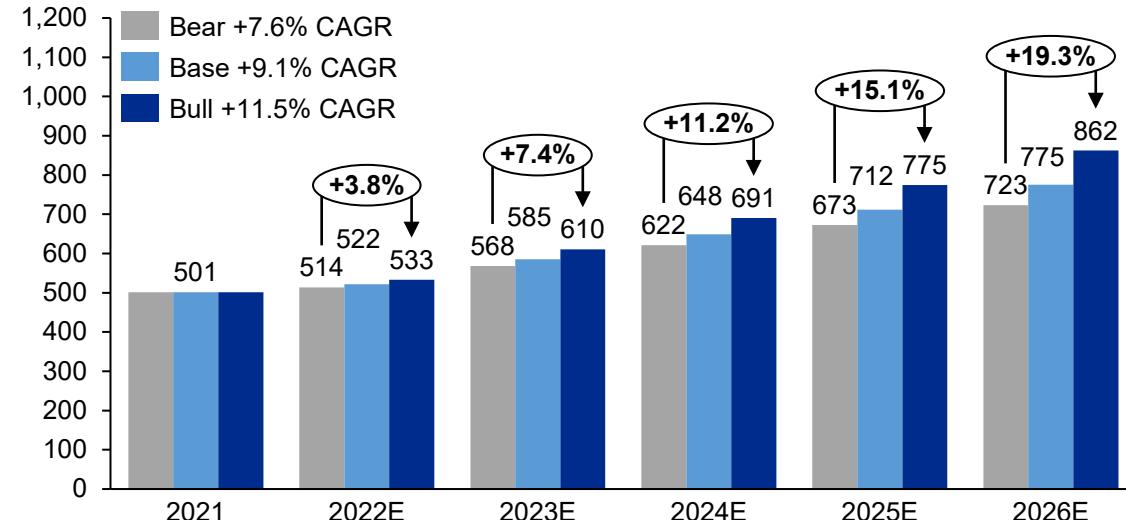
Note: WACC cost of equity values were chosen for the US target market as the valuation is performed in USD. The calculation of cost of equity with UK market standards, such as a Risk Premium of 4.6%, would slightly change the WACC overall.

DCF Scenario Analysis

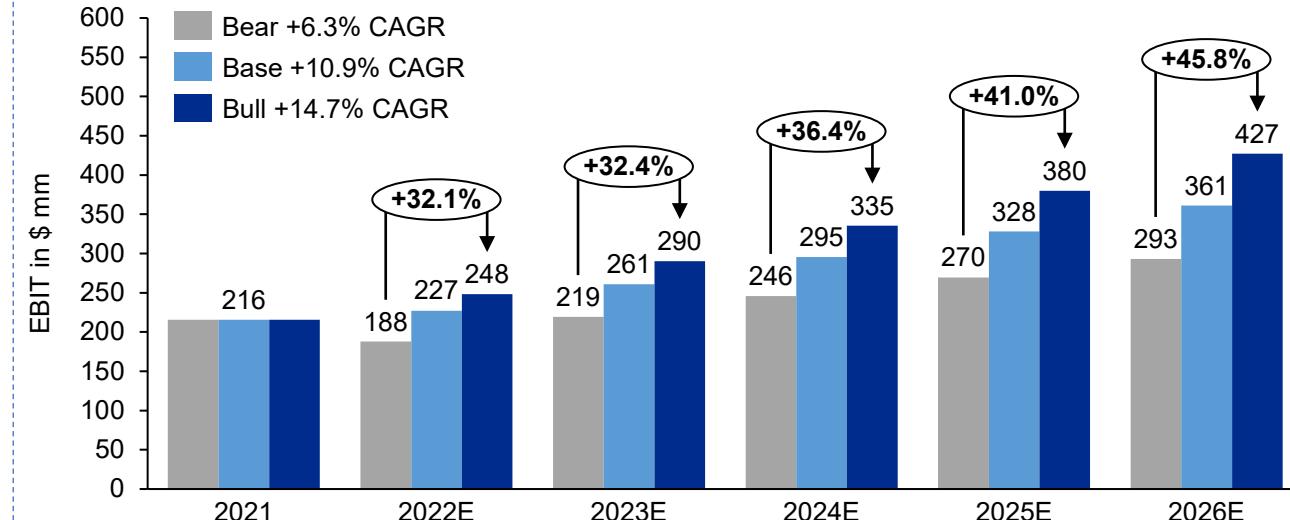
Games Workshop implied price per share range between \$104.01 for our Bear case and \$151.22 for our Bull case scenario



Games Workshop Standalone Revenue Projections¹



Games Workshop Standalone EBIT Projections¹



BEAR CASE SCENARIO ASSUMPTIONS

- Revenue:** considers a **2.0%** YoY revenue decrease from our base scenario growth rate forecast
- COGS:** increase by **3.0%** in 2022 from our base scenario and stabilizes at **29.8%** in the years that follow
- SG&A** as a % of sales increases to **27.5%** in 2022 and gradually improves to **24.5%** as sales continue to grow
- Capex:** is maintained as historic average of **8.8%** as percentage of sales
- Price per share:** \$104.01

BASE CASE SCENARIO ASSUMPTIONS

- Revenue:** forecasted on a **linear regression** model historic data 2017-2021
- COGS:** for 2022 is kept at the same historic level of 2021 and decreases by **0.5%** until its cap of **26.27%**
- SG&A** decreases by **0.5%** YoY from historical level of 2021 as sales continue to grow
- Capex:** is maintained as historic average of **8.8%** as percentage of sales
- Price per share:** \$128.18

BULL CASE SCENARIO ASSUMPTIONS

- Revenue:** considers a **3.0%** YoY revenue growth from our base scenario growth rate forecast
- COGS:** improves by **1.0%** from historic level of 2021 and decreases by **0.5%** until its cap of **25.27%**
- SG&A** decreases by **2.0%** YoY based on historic margin reduction from 2020 and 2021
- Capex:** is increased to **9.8%** as percentage of sales to facilitate growth expansion
- Price per share:** \$151.22

Note: ¹Value in million USD \$

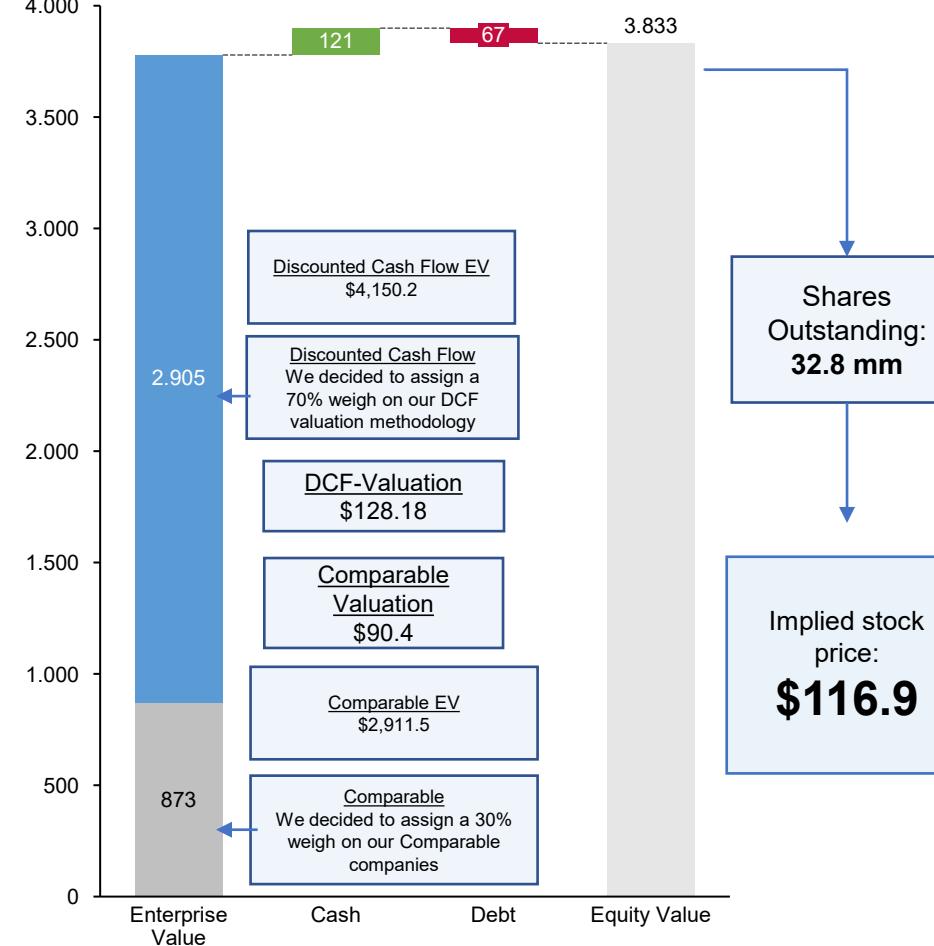
Source: (Capital IQ, 2022), Own Team Analysis

Games Workshop Valuation

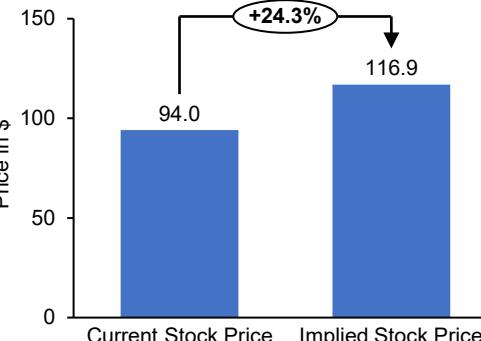
Through a weighted average of the comparable and DCF methods, Games Workshop Price/share is valued to \$116.9, resulting in an undervaluation of ~24%



Enterprise Value to Equity Value Bridge¹



Games Workshop Historic Stock Price¹ (as of 03/03/2022)



Based on our DCF for the base case scenario, Games Workshop, is currently undervalued by ~24%, which makes a possible acquisition bid very **attractive**, especially at current market levels and Games Workshop's stock performance in the last year

Note: ¹Value in million USD \$

Source: (Capital IQ, 2022), Own Team Analysis



III. Financial Analysis

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CASH FLOW

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SYNERGIES

Generated Synergies Overview

Once integrated, we expect four key categories of synergies being generated from this acquisition, with additional revenues and SG&A reductions as the main contributors



	Possible Synergies	Reasoning	Duration	Impact
Revenue Generation	<ul style="list-style-type: none"> Increase of revenue streams via larger customer base and value chain Increase in revenue streams with expansion of product portfolio 	<ul style="list-style-type: none"> Market expansion to the Asian Market (e.g. Japan), drives majority of revenue growth Expansion of product portfolio increases brand awareness, product diversity, customer loyalty and reduces entry barriers Wider IP utilization, e.g. in amusement parks, opens new revenue streams 	0-5 years	
COGS Reduction	<ul style="list-style-type: none"> Reduction of material costs Reduction of shipping and freight costs worldwide 	<ul style="list-style-type: none"> Increase in bargaining power with suppliers due to Bandai Namco's economies of scale 	0-3 years	
SG&A Reduction	<ul style="list-style-type: none"> Cut of overlap functions will reduce staffing costs (e.g. leadership functions) 	<ul style="list-style-type: none"> Talent and studios for the creation of both physical and digital content/products (toys, animes, video games) based on the "Warhammer" IP can be shared and leveraged 	0-5 years	
Capital Expenditure Benefits	<ul style="list-style-type: none"> Reduction of capex costs for new production facilities or others 	<ul style="list-style-type: none"> Leveraging existing production facilities and infrastructure overseas reduces potential investment costs Leveraging local know-how and negotiation expertise reduces barrier of entry 	1-5 years	

Bandai Namco would add multiple synergies, which amount to a **NPV of \$270.1 mm over the next 5 years**, mostly from additional Revenue and SG&A reductions

Note: *Value in million USD \$

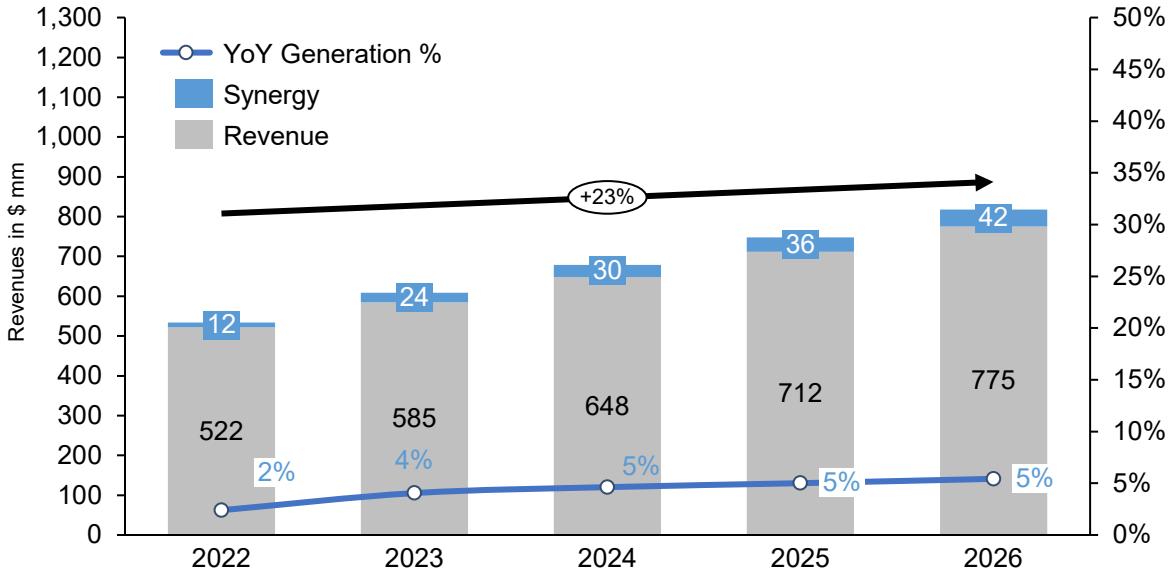
Source: (Capital IQ, 2022), Own Team Analysis, (Willems, M., 2022)

Quantified Revenue & Market Share

Access to the Japanese market will generate a revenue spike in the acquisition year due to the exposure to Bandai Namco's domestic customer audience, followed by new product launches down the line



Synergies from increase in Revenues¹



Revenues

- Accelerated** revenue **growth** through market access
- Major driver is Bandai's distribution network in Japan
- +100% sales spike in the acquisition year
- Asian market share growth by 170%

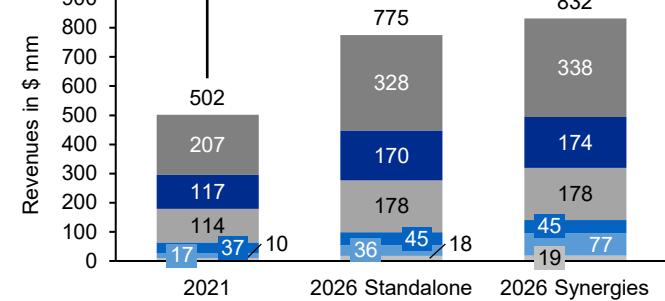
NPV

\$144.1mm

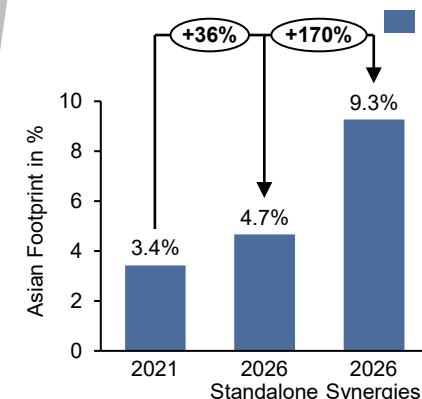
Market Growth of Games Workshop in %

Synergy boosts with additional 11%

- North America
- Continental Europe
- UK
- Australia & New Zealand
- Asia
- Rest of world

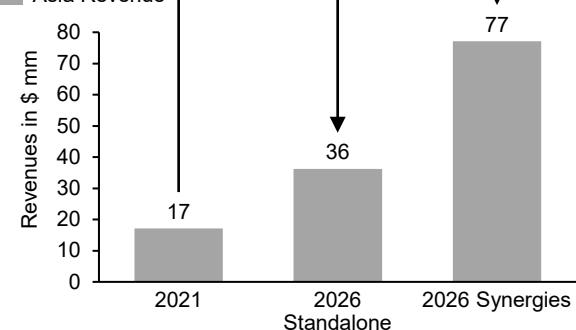


Asian Market Growth in %



Ratio Asia/Total

Asia Revenue



Cannibalization is negligible as there is almost no overlap in the customer segments and markets between Bandai Namco and Games Workshop

Note: ¹Value in million USD \$
Source: (Capital IQ, 2022), Own Team Analysis

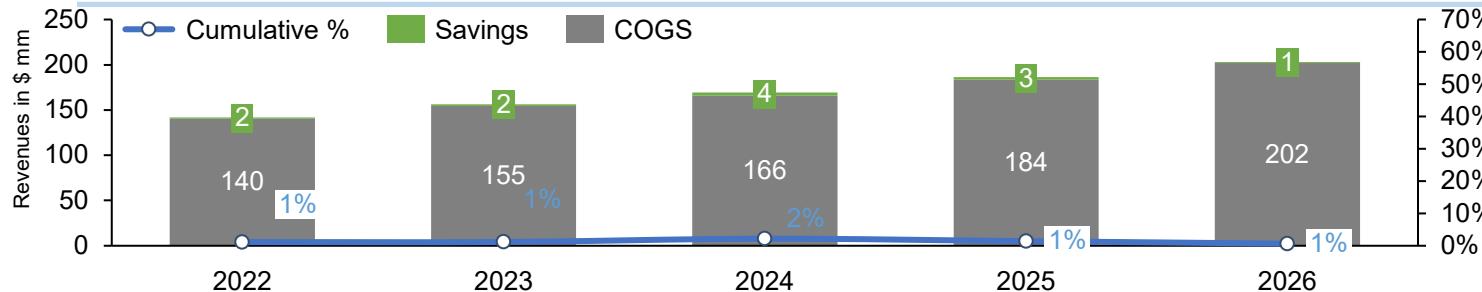


More information in Appendix Slide 91: Revenue Cannibalization

Quantified Synergies – COGS, SG&A, CapEX

As an integrated company, Games Workshop will experience cost saving synergies amounting to a NPV of \$126.0 mm

Synergies from reduction of COGS¹

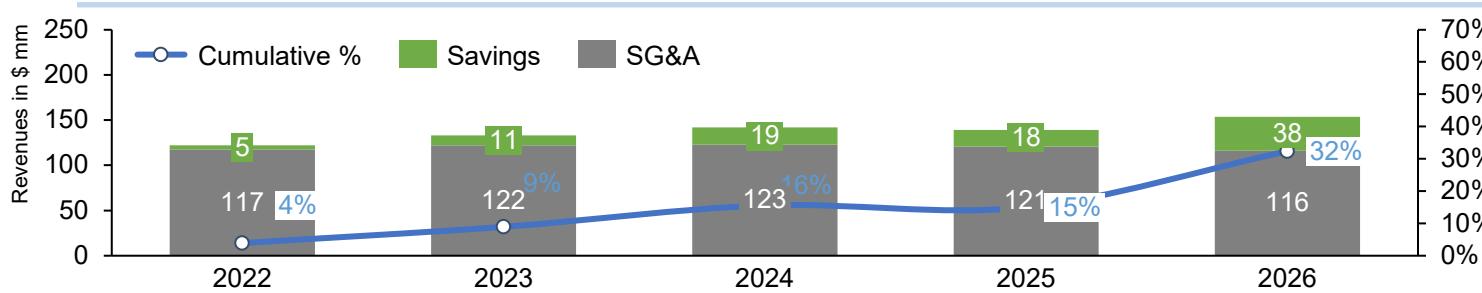


Costs of Goods Sold

- Economies of scale** via Bandai Namco's connections will achieve reduction of material costs for GW

NPV
\$11.0 mm

Synergies from reduction of SG&A¹

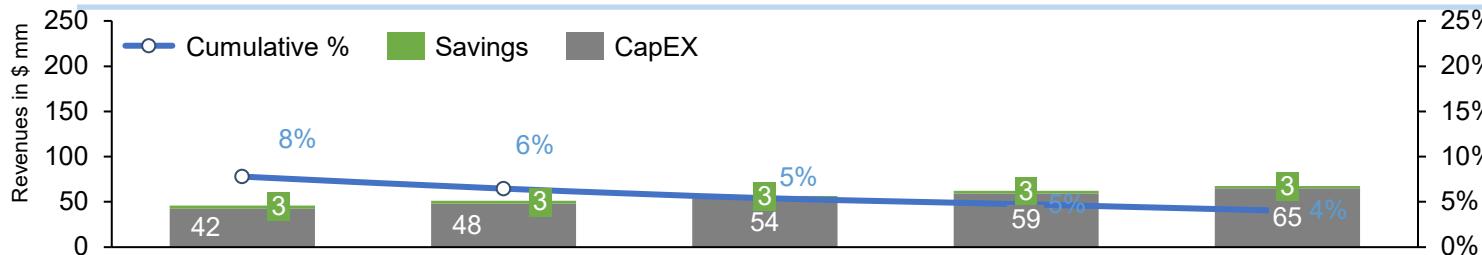


Sales, General & Administrative Expenses

- Gradually greater synergy and saving due to **combined resource allocation** and administrative workforce overlap

NPV
\$100.3 mm

Synergies of CapEX reduction¹



CapEX

- 5% of Bandai's **yearly strategic budget** into CapEX investments – production capacities in JP
- GW annual savings of ~\$3.0mm

NPV
\$14.7 mm

Note: ¹Value in million USD \$

Source: (Capital IQ, 2022), Own Team Analysis



Games Workshop Synergy DCF – Base

Based on our Discounted Cash Flow synergy model, Games Workshop's implied share price is ~ \$163.05

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	CAGR:'17-'21	CAGR:'21-'26
Revenue	202.2	295.4	323.8	332.9	500.9	534.7	611.6	684.3	757.1	832.0	25.5%	10.7%
<i>Growth</i>		46.1%	9.6%	2.8%	50.5%	6.7%	14.4%	11.9%	10.6%	9.9%		
EBIT	50.0	99.1	103.6	111.4	215.7	246.3	300.1	356.2	409.3	466.4	44.1%	16.7%
Taxes	19.8%	(9.9)	(19.6)	(20.5)	(22.0)	(42.7)	(48.7)	(59.3)	(70.4)	(80.9)	(92.2)	
Depreciation & amortization	7.8	8.8	11.4	23.3	28.6	30.6	35.0	39.1	43.3	47.6		
Capital expenditure	(16.3)	(28.7)	(28.3)	(30.2)	(42.3)	(42.4)	(48.0)	(53.6)	(59.2)	(64.8)		
Changes in working capital	(3.8)	(6.0)	(8.7)	11.4	(25.7)	(2.2)	(5.0)	(4.8)	(4.8)	(4.9)		
Unlevered Free Cash Flow	27.9	53.7	57.5	93.9	133.7	183.5	222.7	266.6	307.7	352.1		
Perpetuity												5,614.6
Discount factor						0.9	0.9	0.8	0.8	0.7		
WACC												
Present value of Free Cash Flows						173.1	198.1	223.7	243.6	4,455.5		
Enterprise value	5,294.0											
WACC	6.0%											
<i>Exit multiple, EV/EBITDA 2026</i>	11.5x											
<i>Implied perpetuity growth</i>	-0.2%											
Total debt	(66.7)											
Preferred stock	-											
Non-controlling interest	-											
Cash and cash equivalents	120.8											
Equity value	5,348.2											
Shares outstanding	32.8											
Implied share price	\$163.05											

Games Workshop Sensitivity Analysis¹ (in mm \$)

	WACC	Enterprise Value					Implied share price					
		Exit Multiple					Exit Multiple					
Enterprise value	5,294.0	9.5x	10.5x	11.5x	12.5x	13.5x	9.5x	10.5x	11.5x	12.5x	13.5x	
WACC	6.0%	4,767.0	5,149.2	5,531.5	5,913.8	6,296.0	5.0%	146.99	158.64	170.29	181.95	193.60
Exit multiple, EV/EBITDA 2026	11.5x	4,664.5	5,037.8	5,411.1	5,784.4	6,157.7	5.5%	143.86	155.24	166.62	178.00	189.39
Implied perpetuity growth	-0.2%	4,564.8	4,929.4	5,294.0	5,658.5	6,023.1	6.0%	140.82	151.94	163.05	174.17	185.28
Total debt	(66.7)	4,467.8	4,823.9	5,180.0	5,536.1	5,892.2	6.5%	137.87	148.72	159.58	170.44	181.29
Preferred stock	-	4,373.5	4,721.3	5,069.2	5,417.0	5,764.9	7.0%	134.99	145.59	156.20	166.80	177.41
Non-controlling interest	-											
Cash and cash equivalents	120.8											
Equity value	5,348.2											
Shares outstanding	32.8											
Implied share price	\$163.05											

- Based on our sensitivity analysis, we have an implied price per share range of \$134.99 - \$193.60 with a sweet spot of \$163.05

Note: ¹Value in million USD \$
Source: (Capital IQ, 2022), Own Team Analysis

Synergy DCF Valuation Summary

Based on the new capital structure, the Weighted Average Cost of Capital is 6.0%

Synergy DCF – WACC Calculation

WACC Calculations

Target capital structure

Debt-to-total capitalization	47.8%
Equity-to-total capitalization	52.2%

Cost-of-debt

Cost-of-debt ¹	3.2%
Tax rate ²	19.8%
After-tax cost of debt	2.5%

Cost of Equity

Risk-free rate ³	1.9%
Market risk ⁴	6.1%
Market risk premium	4.2%
Games Workshop's beta ⁵	1.2
Unlevered beta	1.0
Relevered beta	1.7
Size premium	0.0%
Cost of Equity	9.2%
WACC	6.0%

(1) Damodaran NY Stern, Retail (general) 03/03/2022.

(2) Games Workshop average tax rate, 2017-2021.

(3) US Department of Treasury 10yr note 03/03/2022.

(4) S&P 500 market returns since 1957.

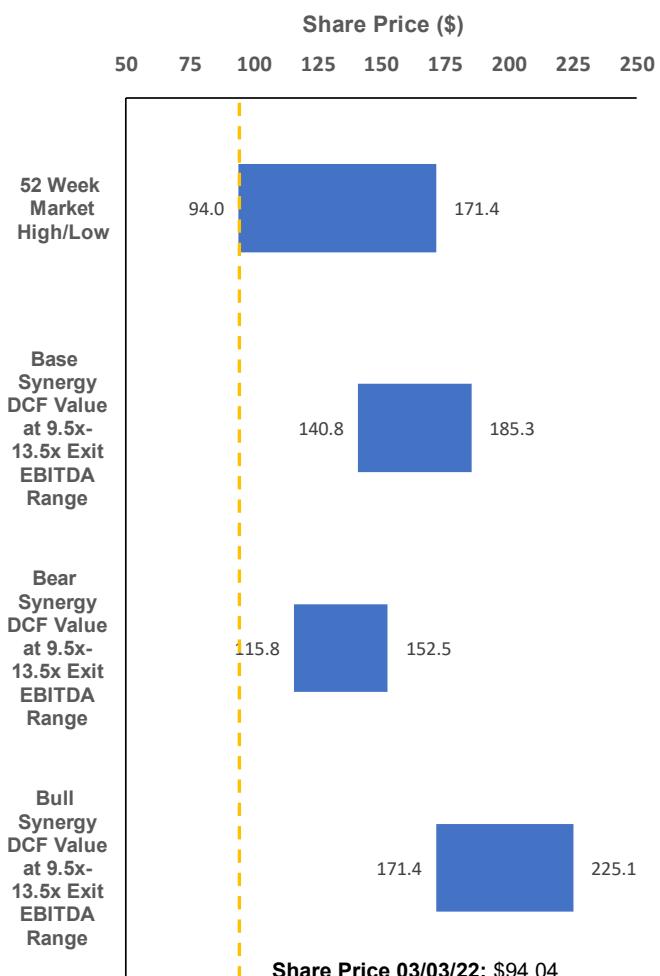
(5) Capital IQ 5-year 2022, 03/03/2022.

Share Price 03/03/22: \$94.04

Note: ¹Value in million \$: New target capital structure stemming from acquisition financing structure outlined in slide #74

Source: (Capital IQ, 2022), Own Team Analysis

Football Field Overview – Share Price²



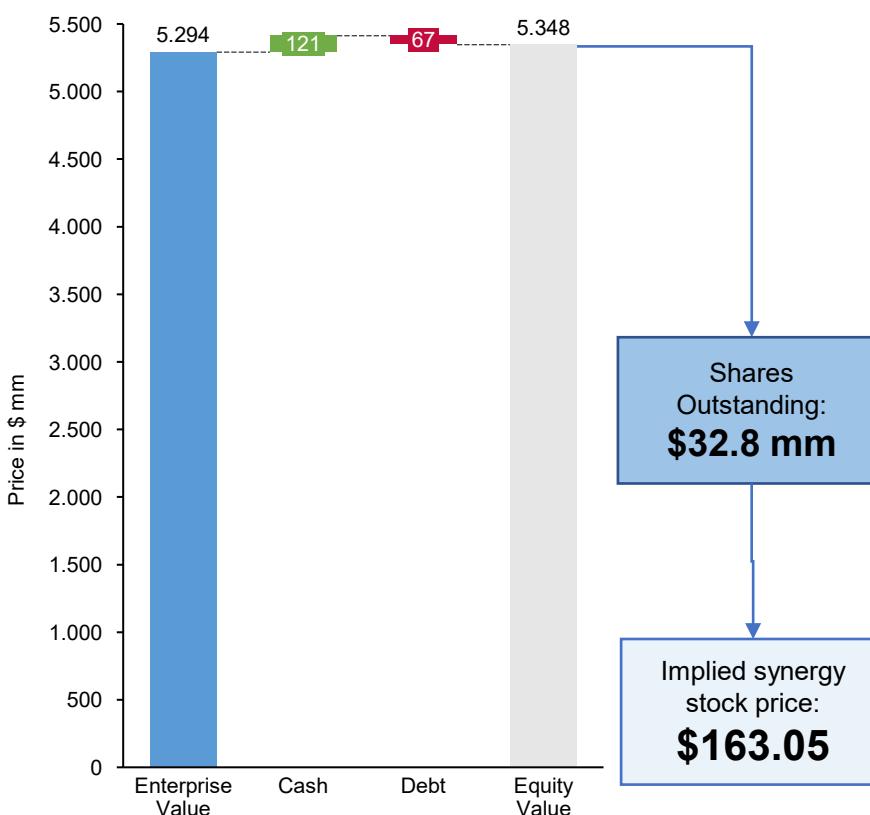
- Our Base and Bull DCF analysis show implied share price ranges above the current share price, and within the 52-week range of **\$94.0 - \$171.4**
- All synergy DCF results show that right now is the **perfect time for an acquisition**, as GW is not only undervalued by the current market, but even more value can be generated with our forecasted synergies.
- The Bear case lowest value of **\$115.8** is only slightly lower than our implied standalone price per share, which shows that even in the worst case and without significant synergies, GW is still undervalued.

Games Workshop Synergy Valuation

Through our synergy DCF valuation, GW's potential price/share is valued to \$163.05, which implies an undervaluation of ~73%

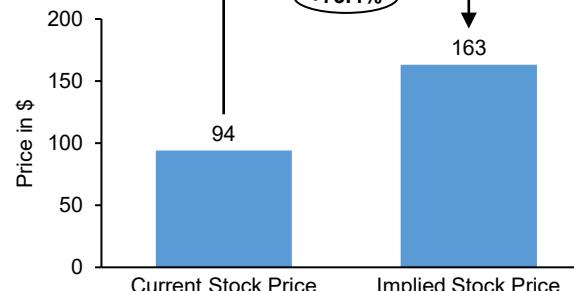
Synergy Enterprise Value to Equity Value Bridge¹

- The DCF synergy analysis results in a higher **equity value** of Games Workshop than our standalone value, leading to an undervaluation of the current stock price of **73.4%**



Note: ¹Value in million USD \$
Source: (Capital IQ, 2022), Own Team Analysis

Games Workshop Historic Stock Price¹ (s of 03/03/2022)



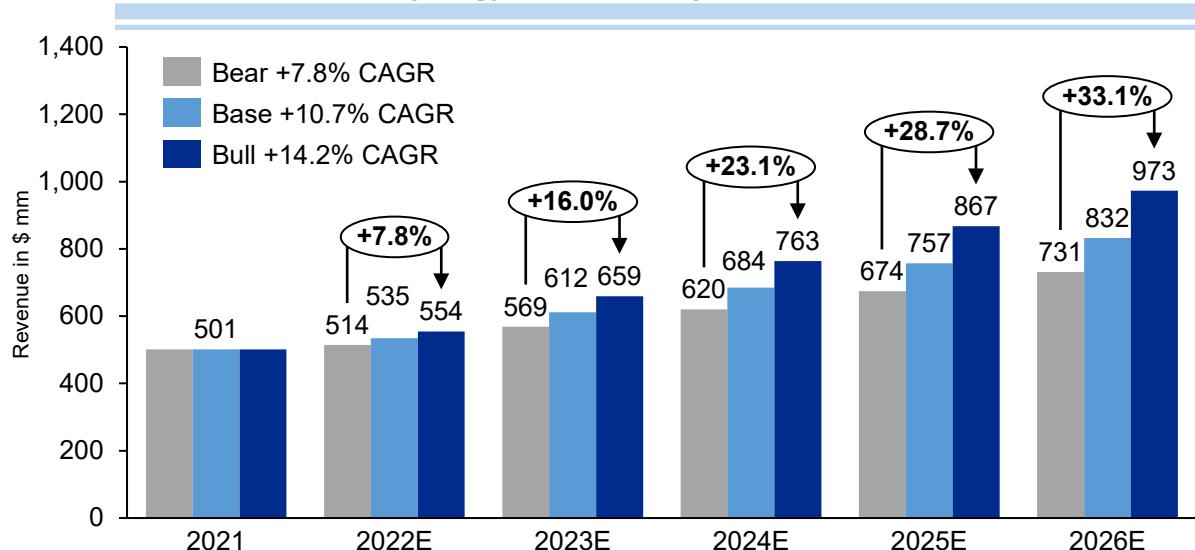
Based on our DCF for the **base case synergy scenario**, Games Workshop is currently undervalued by ~73%, which makes a possible acquisition bid **even more attractive to the standalone case**, especially considering the **potential additional upsides** in synergies that can be achieved in our **bull scenario**

Synergy Scenario Analysis

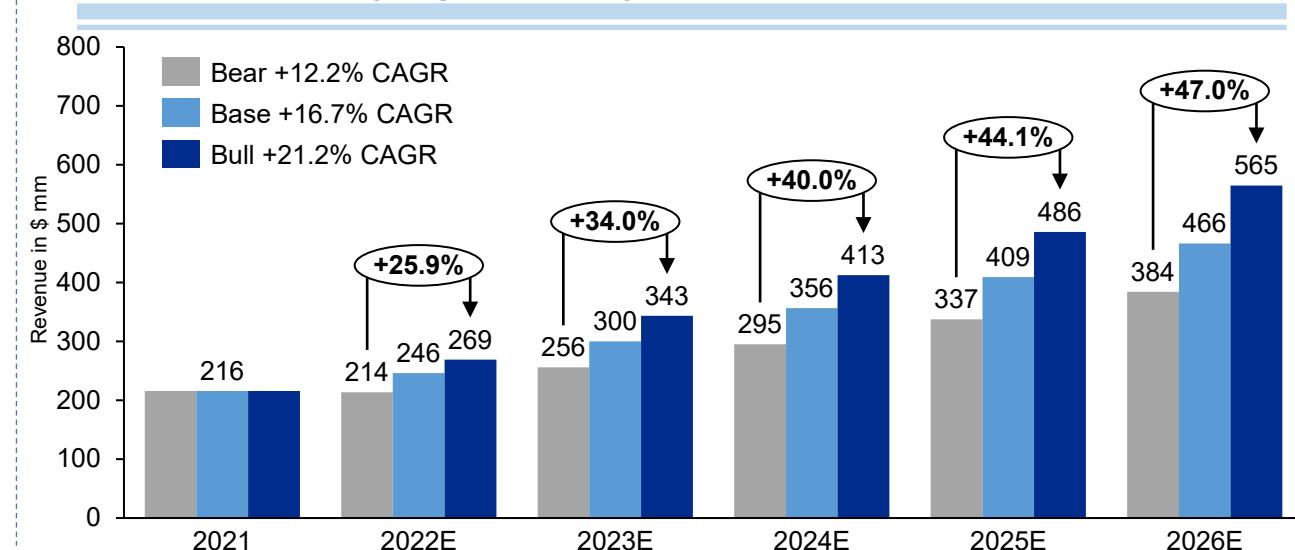
In either of the three scenarios, substantial revenue growth can be expected given that synergies are properly fostered, with CAGR's ranging from 7.8% in the Bear to 14.2% in the Bull case



Games Workshop Synergy Revenue Projections¹



Games Workshop Synergies EBIT Projections¹



BEAR CASE SCENARIO ASSUMPTIONS

- Revenue:** Expected to grow at a CAGR of 7.8% a marginal increase from standalone bear scenario
- COGS:** Decreases by 0.5% from its 2021 due to economies of scale in the purchase of raw materials: cap-rate of 24.3%
- SG&A:** Increases by 2.0% from 2022 due to high integration cost and minimal elimination of redundant positions
- CapEx:** Maintained at 7.9% as % of sales given possible utilization of facilities
- Price per share:** \$134.15

BASE CASE SCENARIO ASSUMPTIONS

- Revenues:** Expected to grow at a CAGR of 10.7% mainly driven by synergies in Asia
- COGS:** Decreases by 1.0% from its 2021 due to economies of scale in the purchase of raw materials: cap-rate of 24.3%
- SG&A:** Decreases by 2.0% from 2022 due to redundant positions
- CapEx:** Maintained at 7.9% as % of sales given possible utilization of facilities
- Price per share:** \$163.05

BULL CASE SCENARIO ASSUMPTIONS

- Revenue:** Expected to grow at a CAGR of 14.2% mainly driven by synergies in Asia and rest of the world
- COGS:** Decreases by 1.5 % from its 2021 due to economies of scale in the purchase of raw materials: cap-rate of 24.3%
- SG&A:** Decreases by 4.0% form 2022 due to redundant positions and synergies in R&D.
- CapEx:** Maintained at 7.3% as % of sales given a higher utilization of common facilities
- Price per share:** \$198.24

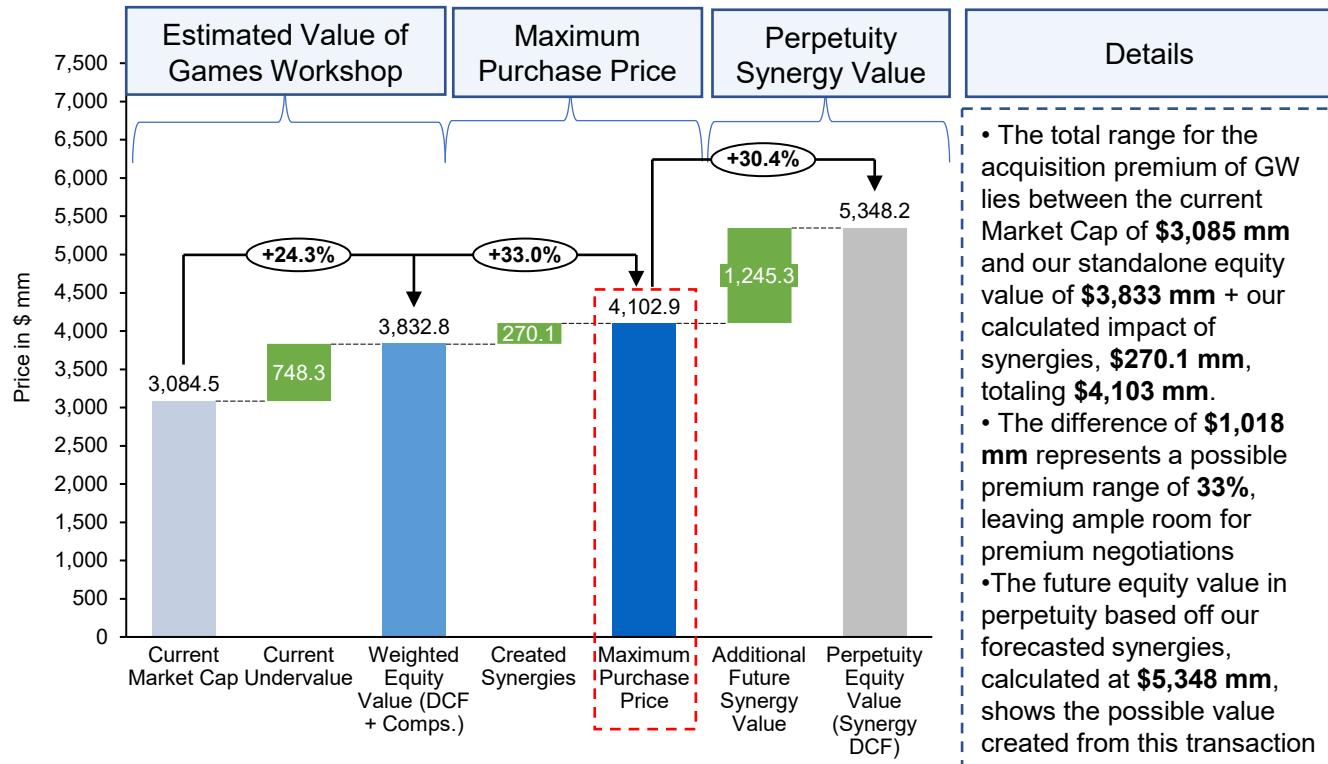
Note: ¹Value in million USD \$
Source: (Capital IQ, 2022), Own Team Analysis

Games Workshop Purchase Price Analysis

Our concluded purchase maximum purchase price is \$4,103 mm, consisting of our DCF standalone Equity Value and created synergies, resulting in an acquisition premium range of 29.6% to current market value

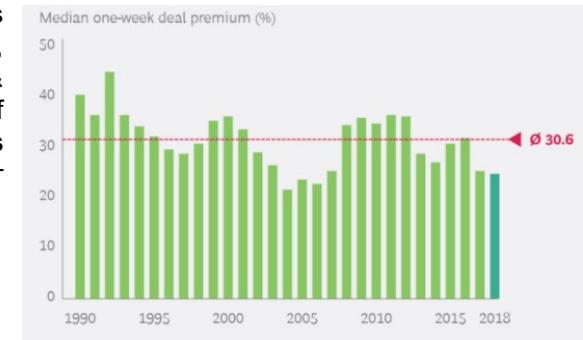
Purchase Price Valuation for Games Workshop¹

- Our combined weighted comparable and DCF analysis shows an equity value of **\$3,833 mm** for Games Workshop
- Synergy analysis totals in added value of **\$270 mm**, stemming mostly from SG&A cost savings and novel revenue streams



Acquisition Premium based on Industry

- Recent M&A activity has seen IP growth as a key driver, especially in the Video Game/Entertainment Industry (e.g. Microsoft acquisition of Activision Blizzard for franchises such as Warcraft)
- BCG reported a long-term industry M&A deal average of 30.6% in 2018**
- Games Workshop miniature business does not match any specific industry, but recent M&A activity in the Toy & Hobby industry indicates premia of **30% for equally sized transactions** (e.g. Hasbro acquisition of eOne for \$3.8 bn):



Summary

- The price for Games Workshop lies at our DCF equity value combined with the possible synergies of \$262 mm, leading to our maximum suggested purchase price of...

Max. Price: \$4,103 mm

...representing a **33% premium** just slightly above the industry average of **30.6%**. Additionally, a 1% transaction fee has to be expected on top of the given value, increasing the total transaction value.

The calculated value of Games Workshop, both standalone and with synergies, results in a possible acquisition premium range of up to **\$1,018 mm**.

Note: ¹Value in million USD \$

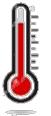
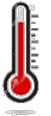
Sources: (Capital IQ, 2022), Own Team Analysis, (BCG Global, 2022), (Ashton, M., 2019)

IV. Acquisition Feasibility

Identifying acquisition risks and impact

Acquisition Risks (1/3)

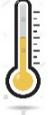
Four outlined high risks could impact the feasibility and success of the acquisition, in particular the way the IP is controlled and managed post integration

	Description	Area of concern	Threat assessment	Risk Level
Intellectual Property Direction	<ul style="list-style-type: none"> Intellectual Property and licenses have a strong protection by the owner companies since they generate high profit 	<ul style="list-style-type: none"> Licenses and IP would be owned by the buyer company 	<ul style="list-style-type: none"> GW has zero tolerance within its IP protection: its mission of "only licensing good things for the brand" could not be in line with what Bandai Namco has in mind for the brand 	
Store Design	<ul style="list-style-type: none"> The store design define how the store has to be set in order to promote the different products 	<ul style="list-style-type: none"> The companies have different culture in the design of their store according to their products and customers 	<ul style="list-style-type: none"> GW and Bandai Namco have different culture in the design of the stores, in fact, GW focus on the Warhammer hobby offering only starter sets, new release product and appropriate extended range but not all the products 	
Customer Perception	<ul style="list-style-type: none"> The acquired company can lose customers loyalty due to the acquisition, as it imposes "change" on the brand 	<ul style="list-style-type: none"> Customers may be afraid that the acquisition will change the products produced by the company 	<ul style="list-style-type: none"> Games Workshop may suffer a loss of customers since they may lose faith in the company value due to acquisition 	
FX Risk	<ul style="list-style-type: none"> Foreign exchange fluctuations increase the risk of losing money during transaction overseas 	<ul style="list-style-type: none"> Fluctuations in currencies impact both at the point of acquisition as well as future transactions (e.g., future revenue, investments) 	<ul style="list-style-type: none"> Loss of company value due to unfavourable currency devaluations in either currency (Pounds Sterling, Yen) 	

Sources: (Global Compliance News, 2022), Integrated Report (Bandai Namco, 2021), Annual Report (Games Workshop, 2021)

Acquisition Risks (2/3)

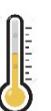
Medium risks needs to be addressed by BN but are not imminent and could impact the acquisition feasibility in certain scenarios, with manufacturing and product price/quality change being of higher concern

Description	Area of concern	Threat assessment	Risk Level
Ownership/ Leadership Structure	<ul style="list-style-type: none"> The companies have different Leadership Structure which have to be integrated in a single structure Many small shareholders – many parties to convince for a share buy-out 	<ul style="list-style-type: none"> The acquired company's leadership structure might change based on the buyer company's goals, due to possible overlap in functions 	<ul style="list-style-type: none"> BN's Corporate Philosophy respects the independence and autonomy of affiliated companies, aiming to boost the corporate value of the entire Group by maximizing the identity of these companies and generate new synergies 
Layoffs	<ul style="list-style-type: none"> Acquisition of differing companies in term of cultures and values, can potentially generate uncertainty among the employees, resulting in a reduction of productivity and a failure in integration 	<ul style="list-style-type: none"> Companies could face difficulties while engaging in the attempt to align their different employees due to differing cultures 	<ul style="list-style-type: none"> Bandai Namco's new purpose starting April 2022 is to connect all employees worldwide and work together to create new things 
Manufacturing	<ul style="list-style-type: none"> New technologies like 3D printing could affect GW's companies' production structure especially in the plastic toy/figures production 	<ul style="list-style-type: none"> 3D printer market is growing fast, and it can affect the companies which operate manufacturing through injection moulding process 	<ul style="list-style-type: none"> Games Workshop production can be impacted by 3D printing, since users can replicate figure designs from home 
Product Price/Quality Change	<ul style="list-style-type: none"> Change of product price structure after acquisition could impact current customer perception of product quality and satisfaction 	<ul style="list-style-type: none"> Loss of brand strength and loyal customer base 	<ul style="list-style-type: none"> With the niche GW R&D intact, Bandai Namco can keep both the high revenue streams and quality perception of the GW products GW price correction in March 7th mitigates eventual price adaptation from BN 

Sources: (Corporate Philosophy (BANDAI NAMCO Holdings Inc. 2022)), (Romano, S., 2022), Integrated Report (Bandai Namco, 2021), Annual Report (Games Workshop, 2021)

Acquisition Risks (3/3)

Low potential issue risk catalogue with entries to be aware of and avoid unnecessary additional cost, making the acquisition more feasible

Description	Area of concern	Threat assessment	Risk Level	
Process of Auction (Competitors)	<ul style="list-style-type: none"> If approaching Games Workshop in an unstructured and non-sensitive way, the proposal could become public prematurely 	<ul style="list-style-type: none"> Costly transaction due to several competitors are interested into the acquisition Not full exclusivity to the acquisition deal = bidding war 	<ul style="list-style-type: none"> With several bidders, the acquisition scenario could become more costly for BN and make the deal less cost-effective 	
Antitrust regulation	<ul style="list-style-type: none"> The Antimonopoly Act forbids M&As which result in a restraint of competition or tend to create a monopoly 	<ul style="list-style-type: none"> The Toy & Entertainment market as well as the Digital Video Games are concentrated markets 	<ul style="list-style-type: none"> The markets would not become monopolized by the acquisition of GW by Bandai Namco, because there are several major players 	
Cannibalization	<ul style="list-style-type: none"> A company products can cause a loss of sales in the other company resulting in a not increase in the existing product market share 	<ul style="list-style-type: none"> The companies have different products competing in different markets 	<ul style="list-style-type: none"> Games Workshop and Bandai Namco compete in different market and with different products, so there is minimal risk of cannibalization across both product portfolios 	
Purchase Price Overvaluation	<ul style="list-style-type: none"> Huge drop of share price the last year, and mitigating price setting, might make GW shareholders reluctant & more resistant to sell at current stock levels. 	<ul style="list-style-type: none"> A "fair deal" for acquiring GW can become pricier than at current share price (\$94.04), and the right premia needs to be negotiated 	<ul style="list-style-type: none"> The range for the premium between a "good deal" (under DCF valued price) and "fair deal" for GW is broad, hence a negotiation range is available for a win-win situation 	

Sources: (Corporate Philosophy (BANDAI NAMCO Holdings Inc. 2022)), (Romano, S., 2022), Integrated Report (Bandai Namco, 2021), Annual Report (Games Workshop, 2021)

Pre-Acquisition Challenges

No foreseeable anti-trust issues have been identified, making acquisition negotiations possible, however the fragmented shareholder structure could be an obstacle that a full buyout could outmaneuver



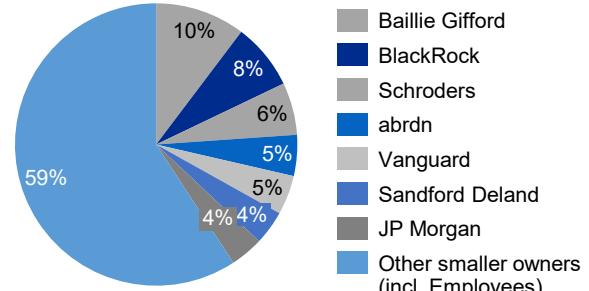
Employee benefits and acquisition defense mechanism

Ownership by acquisition would be quite difficult for the following reasons:

- Games Workshop stock is distributed across **multiple** institutional and individual **investors**, with even the largest owner, the Baillie Gifford, holding just about **10%**
- This leaves a lot of parties to be negotiated with, many of whom might be **unwilling to sell**
- This situation is further enhanced as of May 2021, when Games Workshop implemented a **share saving program** for its employees, diluting more shares into the market
- The move is promoted as a bonus to its hard-working staff, but is more commonly known as a tool for:
 - HR retention mitigation (Great Recession following COVID)
 - A defense mechanism to make takeovers more costly.
- Games Workshop has stated that they are neither interested in buying any company, nor disposing any part of their existing structure, indicating that they are protective and content with the current business structure

May 2021:
Games Workshop hands every worker £5000 in share bonuses
"[...]in recognition of our staff's contribution to these results"

Games Workshop Shareholders



Shareholder Structure:

- Not even with the top 7 shareholders on board combined, there would sufficient votes to push through with an acquisition, making a full buyout more feasible
- Games Workshop might have foreseen potential acquisition scenarios and hedged against it

Layoffs:

- Reduced management capacity is necessary after acquisition. Further SG&A savings to be expected thus, administrative layoffs may be expected
- **Process of Auction:**
- Avoidance of premature disclosure of deal proposal to avoid attraction of further competitors interested in GW

Antitrust Regulations: Herfindahl- Hirschman Index



- The toy market is considered **moderately concentrated** with a score of **2470** for the five biggest players
- Post acquisition score: **2488**
- Since the difference pre and post acquisition is lower than 200, and it doesn't occur above the 2500 mark, **this operation doesn't threaten the power balance**
- *HHI < 1,500: Low Concentration*
- *HHI < 2,500: Moderate Concentration*
- *HHI > 2,500: High Concentration*
- Recent similar M&A activity in the Toys & Hobby industry has been approved



There are no foreseeable antitrust issues with the acquisition of Games Workshop

Post-Acquisition Challenges

With their long-standing franchise Games Workshop is increasingly protective about their IP, showing strong governance by its legal department, which could pose a risk for the future vision of Bandai Namco



Games Workshop Culture

Games Workshop strategy focus on two main aspect:

- I. **IP Protection:** the company has a reputation for **zero tolerance** for its IP protection both with its fan and other companies. Licensing deal generate high profit, but the company **mission** is of “**only licensing good things for the brand**”. The zero-tolerance policy set by Games Workshop in respect of infringement of our intellectual property rights includes:

- a. Impossibility to create games, app, fan films or animations based on its setting and characters
- b. Unauthorized use of trademarks
- c. Impossibility to replicate, imitate or sold GW products
- d. Publication, books and materials are protected by copyright
- e. products cannot illegally re-cast or scanned and distributed

- II. **Store design:** the stores focus on the Warhammer hobby offering only starter sets, new release product and appropriate extended range but not all the products. The culture of GW for the design of the store is to create store with an area for Warhammer



Sources: Intellectual Property Guidelines (Games Workshop, 2022), Annual Report (Games Workshop, 2021), (The Conversation, 2022), (Games Workshop, 2022)

Games Workshop Manufacture



- The introduction of new technologies like **3D printers** could impact Games Workshop production structure. In fact, the 3D printer market is growing, and it forecast to growth at a compound annual growth rate of **17%**.
- This new technology can affect the companies that use an **injection molding process**, as it allows for faster and larger production capabilities, which can either increase the risk that the products are illegally re-cast or scanned, or requires the company to change its production structure

Product Price/Quality Change

- Games Workshops products are seen as **premium high-quality** product lines and are reinforced by high pricings to support the customer perception. The regulation of price of 5-20% across all product segments on **March 7th**, was announced to cover further shipping and overhead expenditure, but follows GW continuous price hikes to maintain the price and quality balance
- With an acquisition and a change of product pricing and change of quality plastic and figure detail, the loyalty of fan- and customer base can be compromised



Culture:

- All current GW stores worldwide have a section for Warhammer,
- With the acquisition the store will be re-design according to Bandai structure
- GW mission for IP won't be kept the same, and has to be aligned with BN's vision

Manufacture:

- New technologies like 3D printing can have an impact on the company production, especially for the figures since they can produce the product in a shorter time

Product Price:

- Loss of being a premium good

Foreign Exchange Risk Overview

Lending the required sources for the transaction in Games Workshop's local currency will minimize the FX risk for a full buyout acquisition

Bandai Namco

- Bandai Namco principal currency is **Yen**, but the subsidiaries business transact in different currencies (**Yen, Euro and US Dollar**), which exposes the company to foreign exchange risk
- The company consolidated statements are expressed in Yen, but for the end of March 2021 the statements were converted in US Dollar applying an exchange rate of $110.71 = 1\$$. Converting the currencies can often cause unalignment between the same financial statement because they has different exchange rates
- To leverage the foreign exchange risk the company uses a **hedge accounting method**:

	2020	2021	Thousands of U.S. dollars (note 3)
	Millions of yen		
Effect of exchange rate changes on cash and cash equivalents	(2,531)	3,357	30,324
Net increase (decrease) in cash and cash equivalents	(17,726)	15,031	135,771
Cash and cash equivalents at beginning of year	206,270	188,667	1,704,155
Increase in cash and cash equivalents from newly consolidated subsidiary	123	—	—
Cash and cash equivalents at end of year (note 4)	¥188,667	¥203,698	\$1,839,926

See accompanying Notes to Consolidated Financial Statements.

Games Workshop

- Games Workshop principal currency is **Sterling**, but the Group's business is transacted in Sterling, Euro and US Dollar which expose the company to the foreign exchange risk
- The risk is mainly in **transactional exposure** rising from the future sales and purchases or investment in a different currency than the functional one
- The company prevent the foreign currency volatility through the application of the **hedge accounting model** and applying the follow sensitivity assumption to movements in foreign exchange rates on **US and Euro**

	2021	2020
	Income gain	Income gain/(loss)
	£m	£m
15% appreciation of the US dollar (2020: 15%)	3.2	2.2
15% appreciation of the euro (2020: 15%)	-	(1.2)

- Since Bandai Namco and Games Workshop principal currencies are different, the acquisition can face the **Foreign Exchange risk** which can has a potentially an impact on valuations of the deal
- We assume Games Workshop's equity holders would like to be paid in **Pounds Sterling**. To mitigate any currency fluctuation, Bandai Namco would issue a **bond** in the **London Stock Exchange** to raise the funds necessary to finance the transaction
- Interest and amortization expenses** would be covered with the cash flow generated by Bandai Namco's new operations unit (Games Workshop)

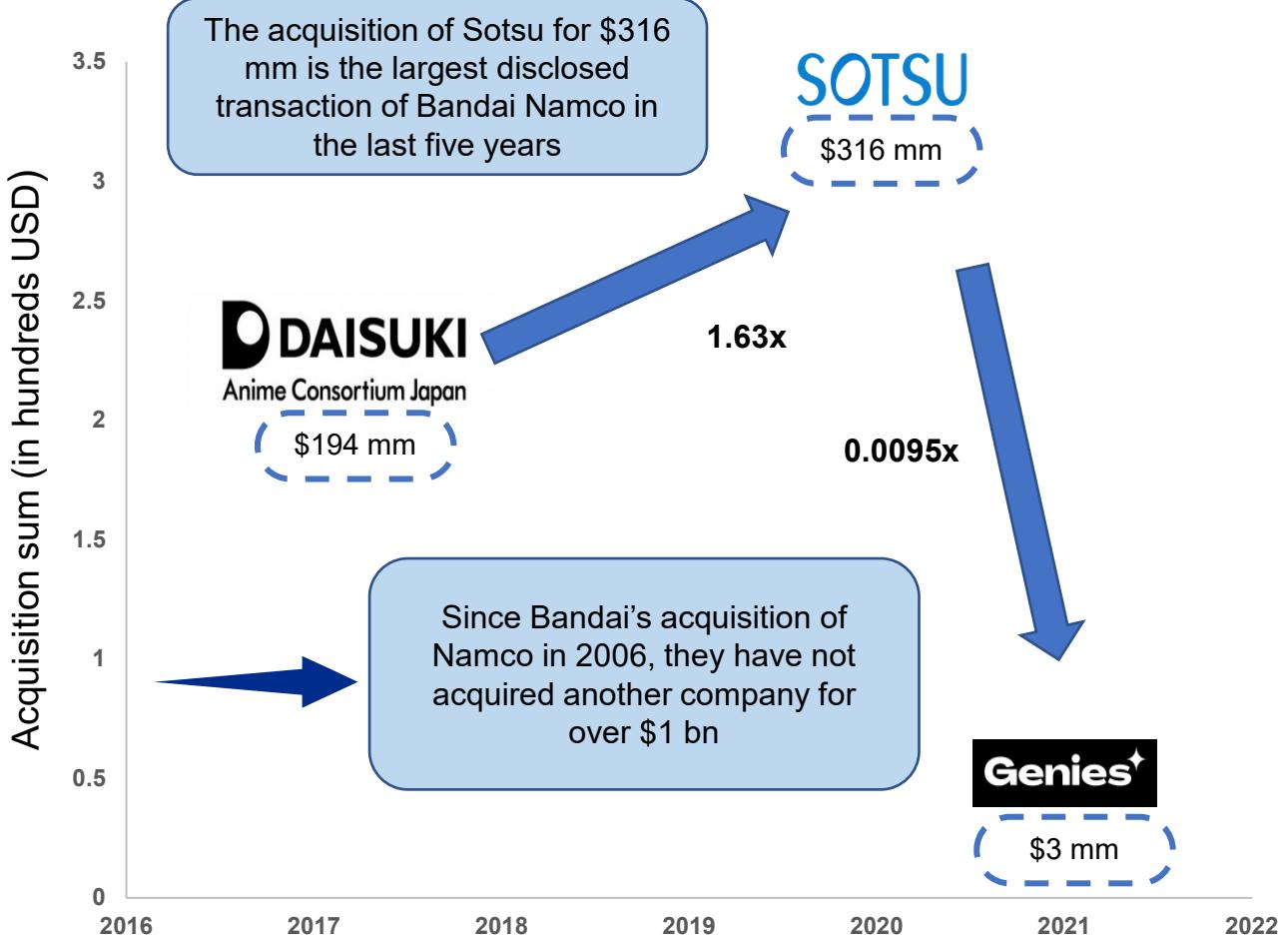
Sources: Annual Report (Games Workshop, 2021), Integrated Report (Bandai Namco, 2021), (Axial, 2022), (InsideBIGDATA, 2022)

Recent Investments of Bandai Namco

Bandai Namco's strategic moves highlight their momentum to position themselves in the entertainment space, with a track record that shows ample freedom for the acquired companies to continue operating under their brand names

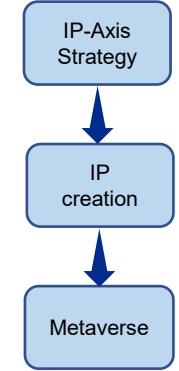


Bandai Namco's most recent activity



Bandai Namco Acquisitions by Industry

- Major industries Bandai Namco has been investing are:
 - Video Games & Metaverse
 - Toy distribution and retail
 - IP creation
- Acquired companies are located across the globe
- Movements show clear **pattern** that aligns with Bandai Namco's midterm **strategic goals**
- Further acquisitions to acquire market share and IP foothold are to be expected and feasible with their position



Post-Acquisition Integration Trends

- From all the recent acquisitions made by Bandai Namco, these companies have been incorporated into business units, but **kept their names and business identity**:



- There has been one company that was bought and dissolved:
- On April 1st 2022, 29 years after their acquisition Bandai Namco has decided to change the name of the company Sunrise:



Bandai
Namco
Filmworks

Games Workshop, with its long-standing legacy and brand, would potentially be able to continue operations in order to avoid damaging the brand and customer perception

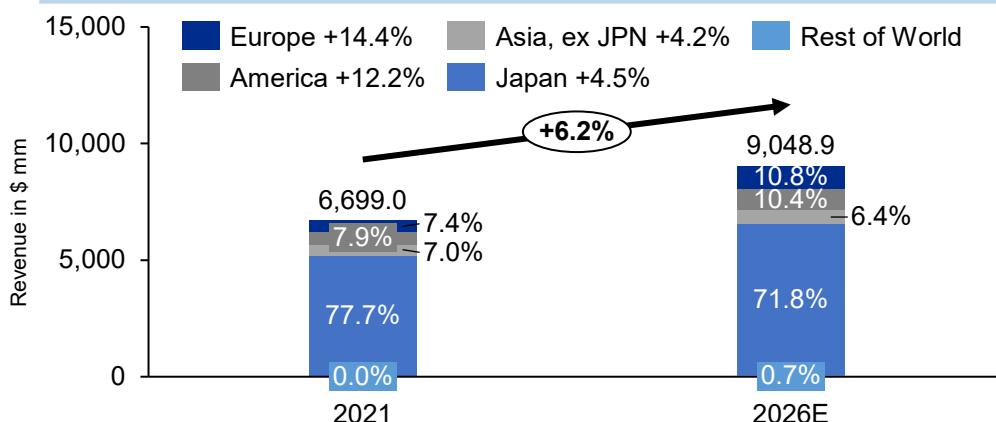
Accelerating Bandai Namco's Strategic Goals

The acquisition of Games Workshop will enable Bandai Namco to shift its revenue mix closer towards the 35% overseas sales target

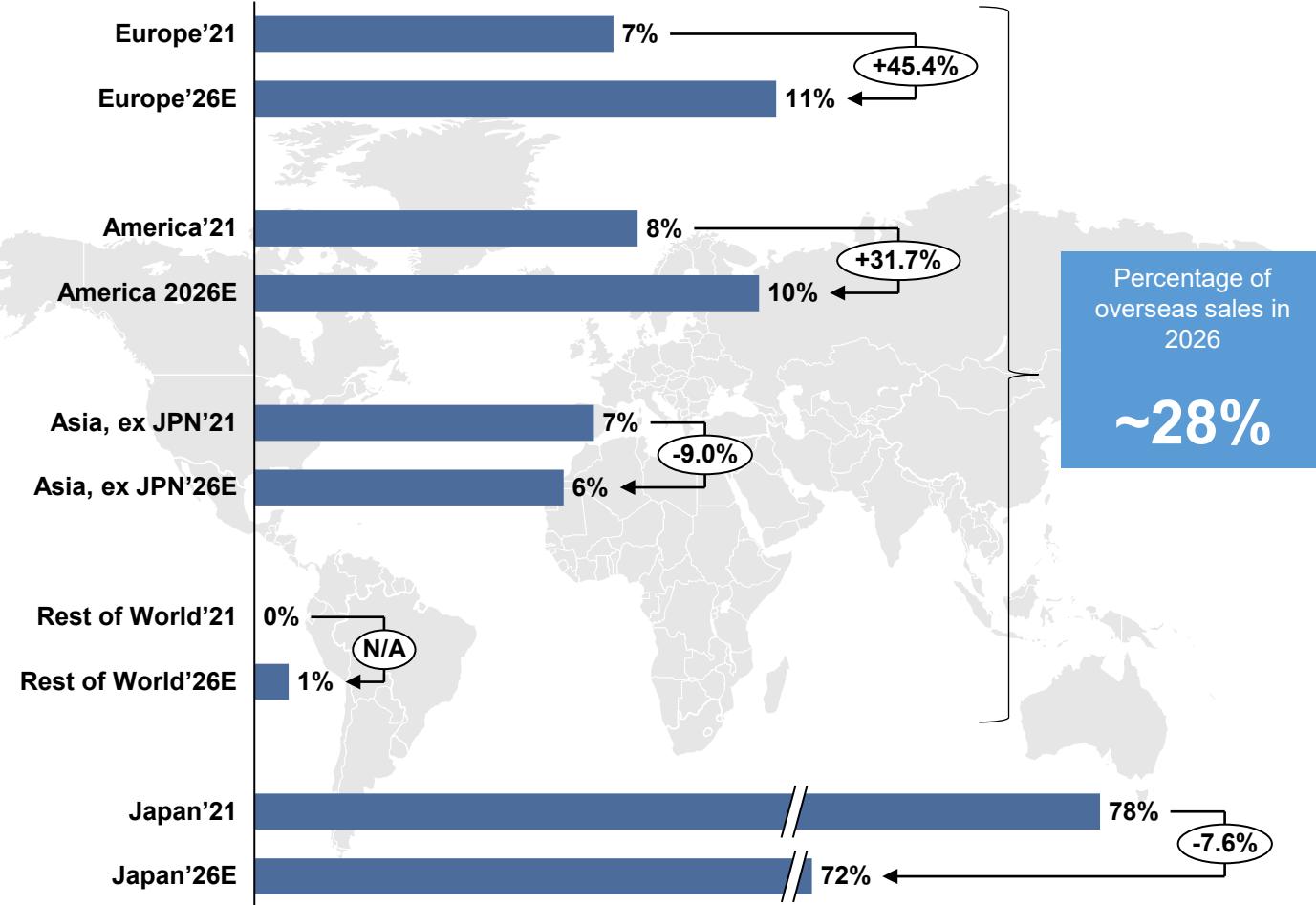
Bandai Namco's Strategic Midterm Plan

- Bandai Namco's main strategic goals for the next **3 to 5 years** plan are to:
 - **Strengthen the company's IP**
 - **Increase the company's overseas (Japan) sales from ~22% to 35%**
- The acquisition of Games Workshop would not only strengthen Bandai Namco's IP creation but also **exponentiate** the company's efforts to increase **overseas sales**
- Over the last couple of years large conglomerates like Microsoft and Sony have strongly pushed, through **mammoth IP driven acquisitions**, to strengthen their position in the Digital & Entertainment space
 - e.g. Microsoft \$68.7 bn acquisition announcement of Activision Blizzard's (known for IPs like Warcraft)

Bandai Namco's Revenue Growth by Region Post-acquisition



Bandai Namco Forecasted Geographic expansion through the acquisition (Base Case)



Sources: (Integrated Report (Bandai Namco, 2021)). (Appsflyer, 2022). (Capital IQ, 2022), Own Team Analysis

Sources & Uses to Finance the Transaction

Given BN's strong cash flow generation, ~76% of the transaction cost should be financed with debt to reach a minimum IRR of ~10%

Levering Bandai Namco's Cash Generation Capabilities

- By fiscal year 2021, Bandai Namco, reported **\$ 1,847.4 mm** in cash & cash equivalents and **\$ 1,265.0 mm** in long-term investments bringing the **Company's total cash to \$ 3,112.4 mm**
- The company reported **\$1,009.5 mm** in **Earnings Before Interest Taxes Depreciation and Amortization (EBITDA)**, representing **15.1% EBITDA margin** for 2021 fiscal year of 2021
- Additionally, in fiscal year 2021, Bandai Namco reported **\$546.9 mm** in **operating cashflow**
- Finally, in fiscal year 2021, the company's reported **\$ 182.9 mm** in **long-term debt** which represents **0.2x Debt/EBITDA 2021 ratio**
- Given Bandai Namco's strong EBITDA margin, strong operating cash flow, and current debt-to-equity ratio: we propose to lever the company to a **~3.3x Debt/EBITDA 2021** ratio to finance **~76%** of Games Workshop acquisition price
- The remaining **~24%** of Games Workshop acquisition price would be finance with Bandai Namco's **cash**
- This Debt/EBITDA ratio was chosen based on an **IRR of 10.0%**, which is a key indicator for BN's M&A decisions. Given Bandai Namco's current **RoE of 10.2%**, we assume a similar hurdle rate to their IRR valuation

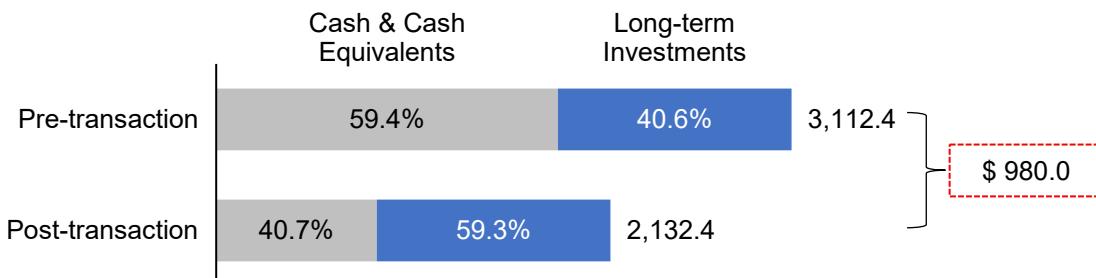
		Internal Rate of Return					
		Debt/EBITDA'21					
IRR	10.0%	IRR	3.21x	3.26x	3.31x	3.36x	3.41x
MOIC	1.36x		6.6%	8.3%	10.0%	11.9%	13.9%
Transaction Sources & Uses¹							

Sources		Uses				
Cash	24%	Acquisition Price				
Debt	76%	Transaction cost				
Total		Total				

Note: ¹Value in million USD \$

Source: (Capital IQ, 2022), Own Team Analysis, (Integrated Report (Bandai Namco, 2021)), (Fact Book (Bandai Namco, 2021))

Bandai Namco's Change in Cash¹



Bandai Namco's Change in Long-term Debt¹



Debt Amortization Schedule

- The total loan should be issued between 8-10 years, to reduce amortization and gain lesser impact on cash flow

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8
Debt		3,337.9	2,920.7	2,503.4	2,086.2	1,668.9	1,251.7	834.5	417.2
Interest expense		(105.5)	(92.3)	(79.1)	(65.9)	(52.7)	(39.6)	(26.4)	(13.2)
Amort		(417.2)	(417.2)	(417.2)	(417.2)	(417.2)	(417.2)	(417.2)	(417.2)
Amort %	8.0	13%	13%	13%	13%	13%	13%	13%	13%
Remaining balance		3,337.9	2,920.7	2,503.4	2,086.2	1,668.9	1,251.7	834.5	417.2

Note: Numbers only considers Bandai Namco's financials, numbers do not take into account the combined companies. ¹Value in million USD \$

The background image shows an aerial perspective of a residential or commercial area. Numerous buildings have solar panel arrays installed on their roofs. The roofs are a mix of dark shingles and lighter-colored panels. The surrounding ground is covered in green lawns and some paved areas. In the distance, there are more buildings and what appears to be a body of water under a clear sky.

V. Alternative Solution

Taking a broader look

Would another target satisfy Bandai Namcos' strategic goals?

Given Bandai Namco's mid-term strategy plan, other acquisition targets in the entertainment space driven by strong franchises could fulfill IP-Axis goals, with Video Game studios as key target companies



Target Area	Examples	Pros	Cons	Strategic Fit / Relevance	Financial Feasibility	Three-Year Impact	Risks
Intellectual Property		<ul style="list-style-type: none"> Targeting another company for its IP could fulfill BN's long-term strategic goals of expanding their geographical reach into target markets such as America and obtain franchises that will generate content long-term 	<ul style="list-style-type: none"> Intellectual property targets need to be carefully chosen to value their fit Risk that longevity of IPs such as Demon Slayer might be short lived Acquisition of established IPs such as Dragon Ball is financially unfeasible 				
Video Game Studios / Talent		<ul style="list-style-type: none"> Acquiring a well-regarded name in the gaming industry allows creation of novel gaming content based on IPs for western audiences Gaming market is one of the strongest entertainment industry segments 	<ul style="list-style-type: none"> The integration of a gaming studio into the BN structure could pose difficult, especially on a cultural level Video game development takes time (e.g. 2-3 years), delaying the quantifiable impact of the 				
Virtual Reality / Metaverse Studios		<ul style="list-style-type: none"> Next to Bandai Namco's IP Axis strategy, their mid-term plan is outlining the goal to create a Metaverse foundation for each of their IP's. Therefore, another potential acquisition would be a target company focusing on VR/AR infrastructure or content creation 	<ul style="list-style-type: none"> VR/Metaverse has not become a mainstream product yet, and the adaptability rates are low Quantifiable impact will be delayed until VR/AR technology barriers of entry are lowered 				
Animation Studios		<ul style="list-style-type: none"> Acquiring a western animation studio that works on domestic franchises would expand content portfolio and reach Acquiring a Japanese studio producing globally appealing anime content would boost Bandai Namco's capabilities 	<ul style="list-style-type: none"> Animated content is one part of the equation, but content based on popular franchises drive user numbers and revenues BN's largest revenues stem from Toys & Games, not animation 				
Other: Toy Companies / Partnerships		<ul style="list-style-type: none"> Instead of acquisitions, BN could pursue strategic partnerships or alliances with big players in the gaming/VR market, such as SONY, to prepare for the Metaverse Acquisition of toy companies such as Asmodee could strengthen product portfolio with IPs such as "Catan" 	<ul style="list-style-type: none"> Partnerships allows for production in licensed content, but restricts freedom Market expansion into West requires impactful and aggressive investments / Lack of IP in Toy Companies Horizontal expansion raises anti-trust concerns and won't change status-quo 				
		<ul style="list-style-type: none"> Strong and well-established IP with loyal customer base Mature customer appeal Western market footprint Physical and digital product and growth opportunities 	<ul style="list-style-type: none"> Post-Acquisition risks (e.g. leadership, culture, customer perception) Acquisition only feasible with strong leveraging of the companies' capital structure 				

Sources: (Tilt Five 2022), (Phaser Lock Interactive, 2022), (Wevr, 2022), (Games Workshop, 2022), (Ufotable, 2022), (NCSoft, 2022), (FromSoftware, 2022), (CD Project, 2022), (Bandai Namco, 2021), (4A Games, 2022), (AnimeNewsNetwork, 2022)

Acquisition Alternatives Analysis: Product Fit

With five potential acquisition targets under the lens of the IP-Axis strategy, few have the combination of product fit and IP strength that Games Workshop possesses



Company	IP/Franchises	Overview	Toys	Amusement	Video Games	Video Entertainment	IP Strength
CD PROJEKT®	THE WITCHER Cyberpunk 2077	<ul style="list-style-type: none"> Polish video game studio founded in 2002 Witcher Universe (games, shows, movies), based on the books, global phenomenon Collaboration with Netflix "Witchercon" 					
4A GAMES	STALKER METRO EXODUS	<ul style="list-style-type: none"> Ukrainian-Maltese game developer studio Built on book-series of post-apocalyptic scene Mature First-Person Shooter Games Video game focus only 					
NCSOFT®	ARENA.NET GUILDWARS 2	<ul style="list-style-type: none"> Publisher of diverse portfolio of Fantasy MMORPG games created by fully owned studios (e.g. ArenaNet) Global Community, Pay-2-Earn NFT future Franchises leaning towards the Asian market appeal Western games: Guild Wars 2 					
FROM SOFTWARE	DARK SOULS ELDEN RING	<ul style="list-style-type: none"> Japanese developer of world renowned "Souls" gaming franchise Recently released new IP game "Elden Ring", one of the most critically acclaimed games of all time Publisher: Bandai Namco Licensing for creation of figures and boardgames 					
ufotable	DEMON SLAYER	<ul style="list-style-type: none"> Respected and acclaimed Animation Studio Demon Slayer is one of the fastest growing media franchises in the world with strong demand in the west Solely focusing on animation and therefore not many touchpoints with BN units 					
GAMES WORKSHOP®	WARHAMMER	<ul style="list-style-type: none"> Strongest IP fit, both in physical and digital products Touchpoint in all BN segments, IP can be leveraged by BN's IP Creation unit to nurture novel content for growth 					

Sources: (Tilt Five 2022), (Phaser Lock Interactive, 2022), (Wevr, 2022), (Games Workshop, 2022), (Ufotable, 2022), (NCSoft, 2022), (FromSoftware, 2022), (CD Project, 2022), (Bandai Namco, 2021), (4A Games, 2022), (AnimeNewsNetwork, 2022)



Acquisition Alternatives Analysis: Global Footprint

Given Bandai Namco's target market share expansion goals, no other companies next to CD Project Red and From Software match the global fit of Games Workshop

Company	Brands	Americas	Europe	Japan	Asia (excl. Japan)	Cultural Fit	Decision/Verdict
CD PROJEKT®	THE WITCHER Cyberpunk 2077						<ul style="list-style-type: none"> While IPs are very strong and the most popular of all alternatives, post-acquisition is highly unlikely due to cultural differences and the studio publicly stating that they like to work as an independent developer studio Market Cap \$1 bn higher than GW, making acquisition financially more risky X
4A GAMES	STALKER METRO EXODUS						<ul style="list-style-type: none"> Stalker and Metro IPs are both robust, well regarded and mature western franchises, but haven't reached worldwide success as of yet Current Geo-Political situation makes the acquisition of 4A Games too risky to consider (based in Ukraine) X
NCSOFT®	ARENA.NET GUILDWARS 2						<ul style="list-style-type: none"> With online gaming franchises with consistent player numbers in the Western and Eastern markets, ArenaNet is fairly attractive Most players stem from the Asian markets however, and does not warrant a billion-dollar investment based on IP Strategy X
FROM SOFTWARE	DARK SOULS ELDEN RING						<ul style="list-style-type: none"> With a pre-existing partnership between BN and From Software, this potential acquisition poses the least risks for integration The "Souls" franchise has worldwide appeal and has seen critical acclaimed success across the board However, From Software is owned by Kadokawa Corporation, which could prove difficult for negotiations and the ultimate purchase price X
ufotable	DEMON SLAYER -KIMETSU NO YAIBA-						<ul style="list-style-type: none"> As the industry renowned highest quality animation studio in Japan and the maker of the strongest new media franchise in the world, the Product Fit with Ufotable is strong Geographically the Studio does not satisfy BN's goals of market share reach Private company and currently involved in tax-fraud allegations, making a valuation difficult X
GAMES WORKSHOP®	WARHAMMER						<ul style="list-style-type: none"> Ultimately, Games Workshop has the strongest overlap with Bandai Namco's strategic direction and vision Product fit, geographic fit, financial fit and cultural fit from pre-existing partnerships highlight that Games Workshop is the best target for Bandai Namco to consider ✓

Sources: (Tilt Five 2022), (Phaser Lock Interactive, 2022), (Wevr, 2022), (Games Workshop, 2022), (Ufotable, 2022), (NCSoft, 2022), (FromSoftware, 2022), (CD Project, 2022), (Bandai Namco, 2021), (4A Games, 2022), (AnimeNewsNetwork, 2022)

Alternative Transaction Scenario

Given the acquisition risks, a gradual acquisition strategy could help Bandai Namco mitigate size, culture, and integration challenges, but is not recommended in comparison to a full buyout strategy due to its current undervaluation

Gradual Acquisition

- To mitigate integration risks, Bandai Namco could take a scaling approach:
 - 1) **Acquire a minority interest (20%) in Games Workshop (at suggested valuation).**
 - This would allow both companies to tap-into each others customer base so that way both companies can benefit from their geographic presence. On the one hand, Games Workshop would benefit from Bandai Namco's strong presence in Japan while Bandai Namco will benefit from Games Workshop strong presence in the West
 - 2) **After two or three year, if synergies are achieved, acquire a majority interest position (51%+) in Games Workshop (at a superior valuation)**
 - This would allow both companies to focus on integrating operations and capital expenditures to achieve more synergies and additional economies of scale
 - 3) **After five years, if all synergies are achieved, acquire the remaining equity position to reach 100%. (at a superior valuation)**
 - This would enable Bandai Namco to have total control of the company and gain further synergies from duplicate C-level positions



Benefits of a Gradual Acquisition

- ✓ Reduce integration risks
- ✓ Reduce cultural mismatch in IP creation
- ✓ Expand geographic reach
- ✓ No major change to Bandai Namco's current capital structure

Limitations of a Gradual Acquisition

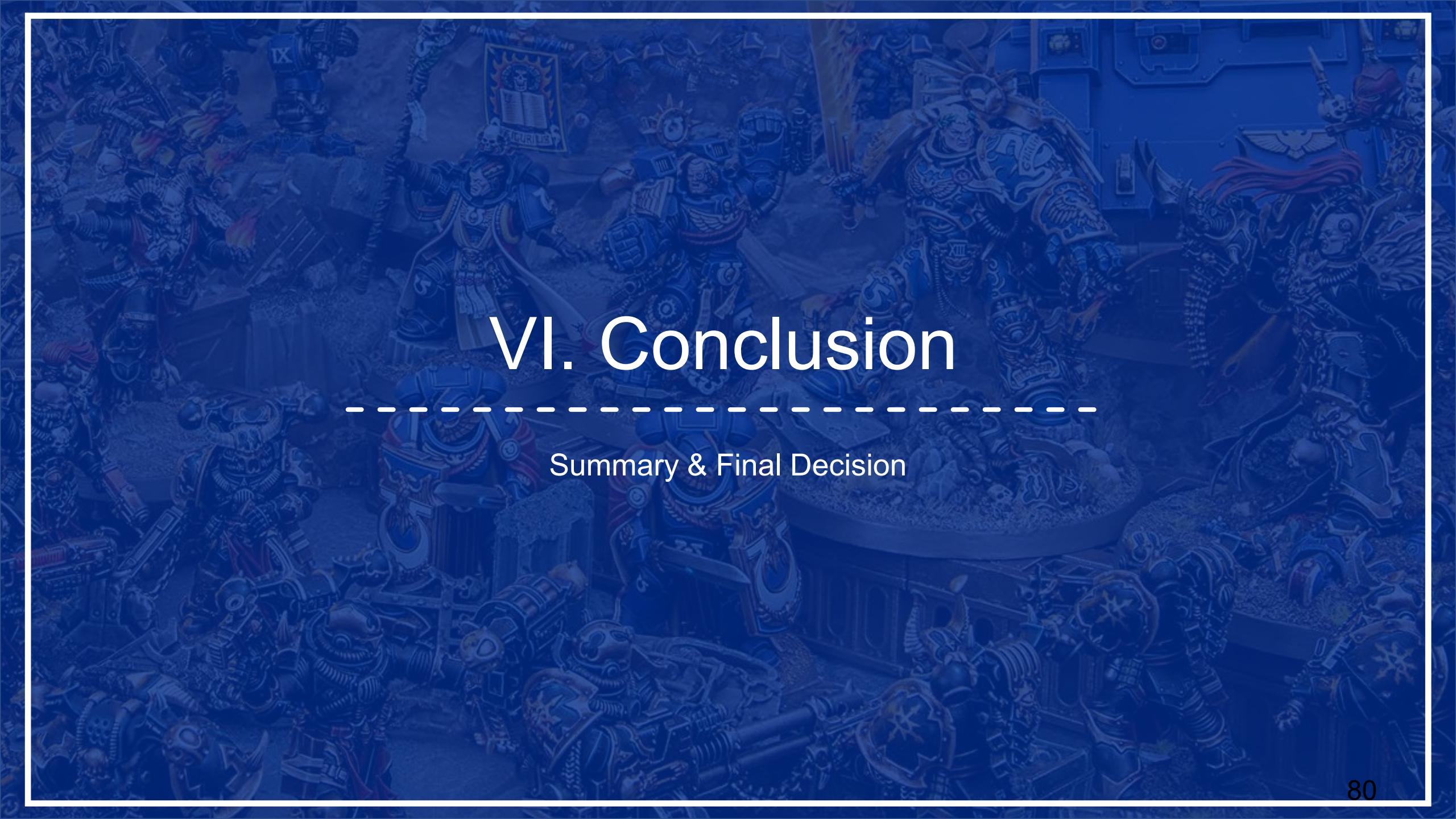
- Lack of control to influence decisions
- Raises questions on management ability to deliver value as synergies are not realized to their full extent as gained efficiencies will result in a higher purchase price in the next incremental acquisition step

Risks of a Gradual Acquisition

- ✗ Acquisition becomes more expensive and diminishes value
- ✗ Synergies are not realized, and the acquisition loses scope
- ✗ Limited access to Games Workshop's IP and Western reach
- ✗ Management miss-alignment that could derive in value the destruction of value
- ✗ Opens window for a bidding war
- ✗ Miss out on favorable market conditions, current low share price, due to economic turmoil

This strategy could easily backlash as Bandai Namco would end-up paying a higher price for less synergies, or worse, end with a minority stack with **no power to influence corporate decisions that drives their IP-Axis strategy.**

Sources: Annual Report (Games Workshop, 2021), Integrated Report (Bandai Namco, 2021)



VI. Conclusion

Summary & Final Decision

Conclusion

Bandai Namco should acquire Games Workshop in a full buyout, as it will strengthen their IP portfolio to increase revenues, expand their geographical presence, and bolster long term capabilities to create content for communities around the world



Seizing the Window of Opportunity

The market is undervaluing Games Workshop's \$94.04 price per share by 24%, creating a window for an acquisition that will mark a cornerstone in Bandai Namco's IP driven future

Leveraging Intellectual Property

With the acquisition of the Warhammer IP, Bandai Namco's IP axis strategy takes full effect, allowing for future content creation for both physical and digital products, connecting fans and seizing the momentum of the coming Metaverse landscape

Acquiring the Best Fit

An acquisition would result in an immediate addition to the in-house IP revenue mix of Bandai Namco, a fit that cannot be achieved by other identified alternatives, and will allow Games Workshop to benefit from Bandai Namco's expertise in the Entertainment & Toys industry



Creating Mutual Synergies

Strong synergies can be generated on both sides, from cost reductions and revenue generation up to geographical expansion by the combination of both companies' distribution networks and resources

Fostering Communities

Games Workshop's strong IP with 45+ years of market experience has built a loyal customer base that has evolved into a fan-based community driving the franchise forward, which can be expanded upon with new products and experiences

Building upon History

Pre-existing partnerships between both companies have build the groundwork for a post acquisition integration and smooth transition, adding to an impactful vision that is aligned on both fronts

Sources: Own Team Analysis, (Capital IQ, 2022), (Bandai Namco, 2021), (Games Workshop, 2021)



Appendix

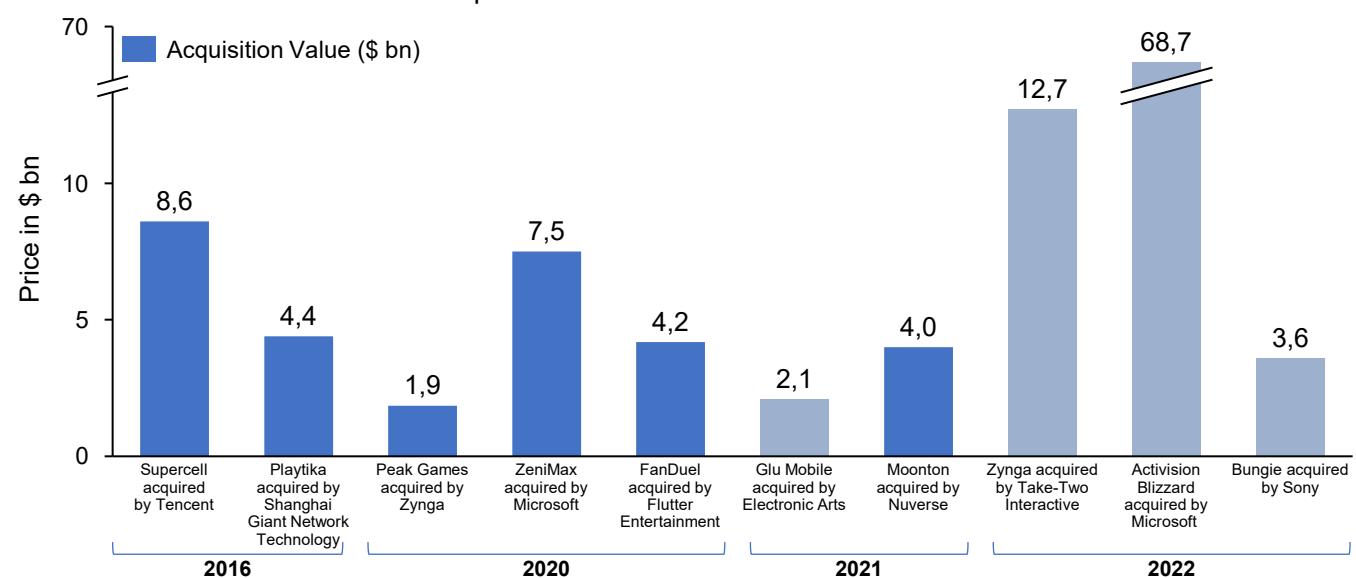
Additional Information

Gaming Industry M&A History

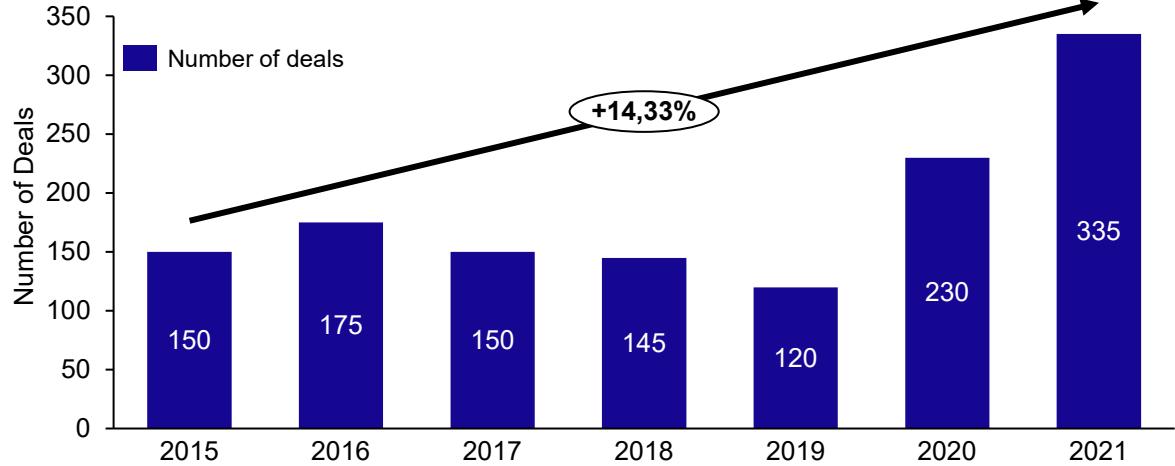
Recent activity in the gaming industry has shown significant shifts towards IP acquisition to bolster position in the console gaming market

Major Gaming Industry M&A

- In the last years, the Video Games industry has seen an increase in the **number of M&A's**, which has accelerated after the Covid-19
- Major reasons for M&A: **entry in new market segment**, **control gaming titles or franchises** and the relative **userbase**, and **increase market share**
- Premia** of IP driven M&A deals incorporate talent within gaming studios, their assets and resources (e.g. 69% premia for Activision Blizzard)
- According to the **Loup Funds analysts**, the major acquisitions of 2022, Microsoft-Activision Blizzard and Sony-Bungie, are the pioneers of a series of M&A within the gaming industry in particular in relation to **Intellectual Property**. Companies enter in this segment in order to expand and diversify their portfolios and ramp up their in-house studio expertise



Gaming M&A Historical Activity



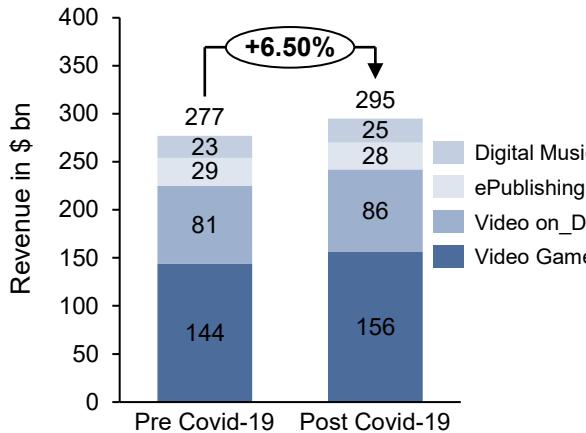
"Having a strong IP has become more important than ever in the game industry, allowing market players to develop mobile games, PC games and other types of content,..."
(The Korean Economic Daily, 2021)

COVID-19 Impact on Technology Adaption

The pandemic had a strong impact on digital entertainment consumption, pushing up subscription numbers of video streaming, gaming services and total revenues



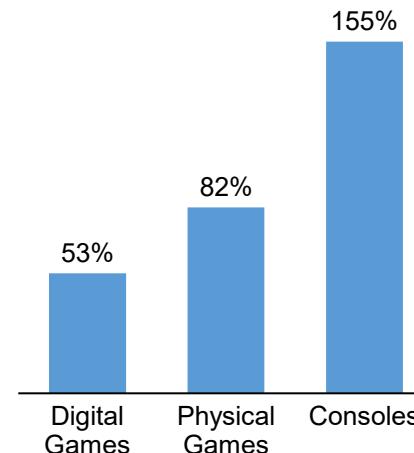
Global Digital Media Revenue Forecast¹



- During the pandemic most of the Digital Media sectors were impacted, in particular the **Video Game, Digital Music and Video on-Demand**
- The increase stems from people **spending more time at home**, which led to a rise in demand for subscription in video and music streaming services

Impact on the Sub-segment Video Game Sales²

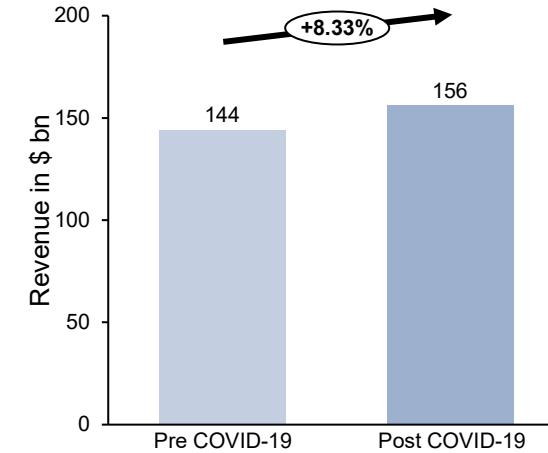
- People were seeking for new options for at-home entertainment options, resulting in an increase of the gaming platforms which attracted more and more new visitors. The Video Game industry had a peak in sales within all subsegments: **Digital Game, Physical Game and Console**



Note: ¹Value in billion USD \$ related to 2021. ²Percentage by type, global as March 2020
Source: Digital Media Report (Statista, 2021)

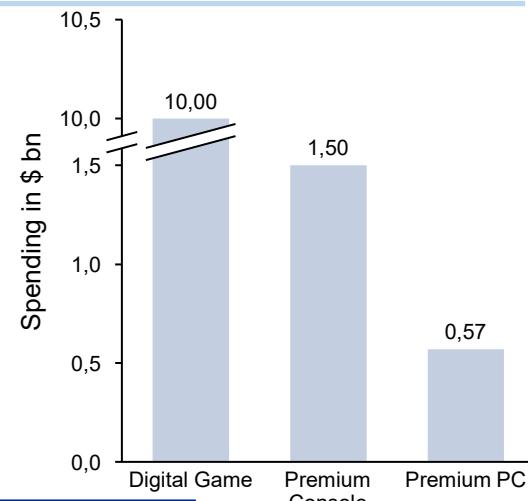
Impact on the Overall Video Game Revenue¹

- Covid-19 and the lockdown changed customer consumption behaviors significantly. People were spending more time at their homes **exploring new mediums & types**, which impacted their choices of media consumption.
- Revenues increased by **8.33%** from pre to post COVID-19
- In Latin America and Asia-Pacific countries the time spent on **video game increase drastically ~52%**

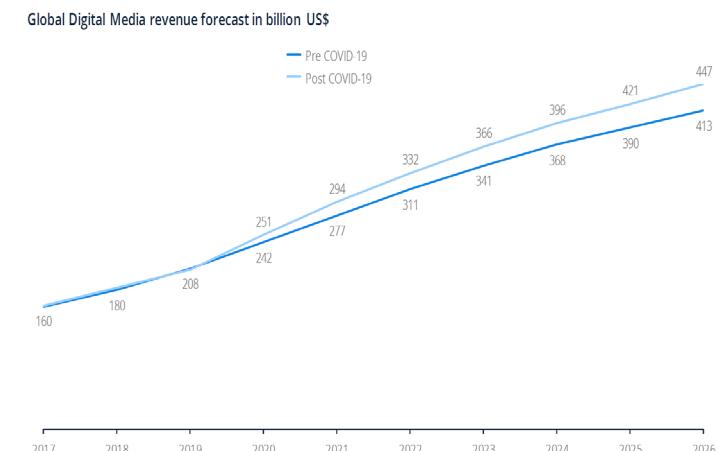


Spending on Video Games worldwide¹

- During the Covid-19 pandemic spending in video games increased drastically
- As of March 2020, the digital Game Industry increased sales by **52.9%**



Global Digital Media Revenue forecast¹



VR/AR Trends and Applications

Even though VR and AR applications have become more sophisticated, long-term mainstream captivation and retention has not been achieved as seen with hardware sales and app user numbers



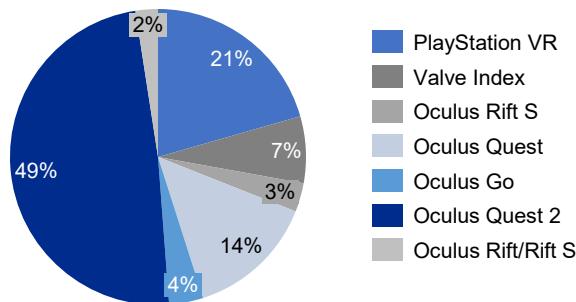
Virtual Reality Overview

Mobile VR Growth:

- Rise in the mobile phone technology are allowing to better immersive experiences for users, opening new opportunities for studios to create experiences with **low barriers of entry**
- More and more players will be able to join the immersive experiences that VR offers, as current hardware is still posing a big entry price barrier

Development of Indie Market:

- New and small studios are emerging to fulfill with the demand for VR experiences, big AAA studios view VR gaming as a **big risk due to its small install base**, creating the perfect scenario for smaller studios to develop their ideas and create new and exciting content



Most Popular Hardware

oculus \$400



VALVE

VALVE INDEX \$1400



HP REVERB G2

Windows Mixed Reality

\$570



htc VIVE \$1400

VIVE

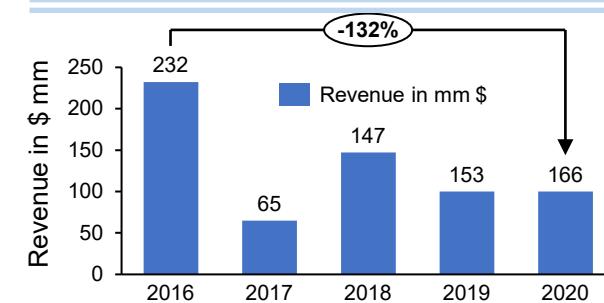
Meta

Augmented Reality Overview

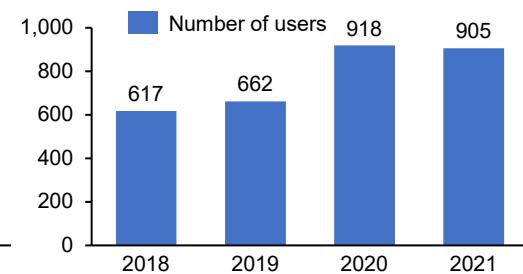


- The maturity of AR technology allows studios to create more immersive experiences for the users with better results
- The biggest success story in AR gaming is **Pokémon Go**, a smartphone ready App created by Niantic with the collaboration of Nintendo and The Pokémon Company
- After the first two months the users of this app had walked more than 4600 million kilometers combined, showing the power and influence r of this new technology to the world

Pokémon Go Revenues



Pokémon Go User Numbers (mm)



Bandai Namco CSR and ESG Overview

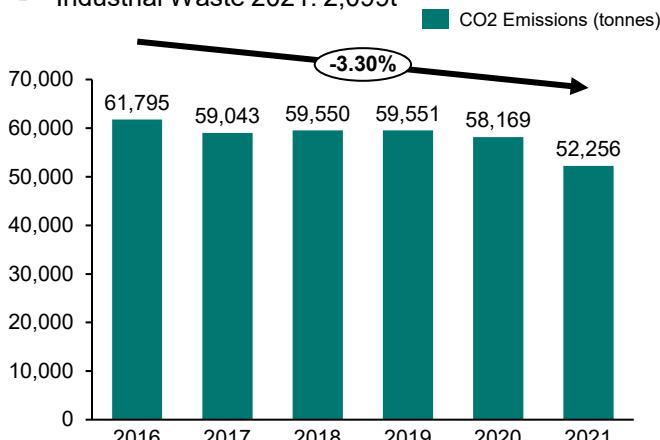
With a low ESG risk rating, Bandai Namco is already pursuing several goals to become greener and sustainable by 2050



Environmental



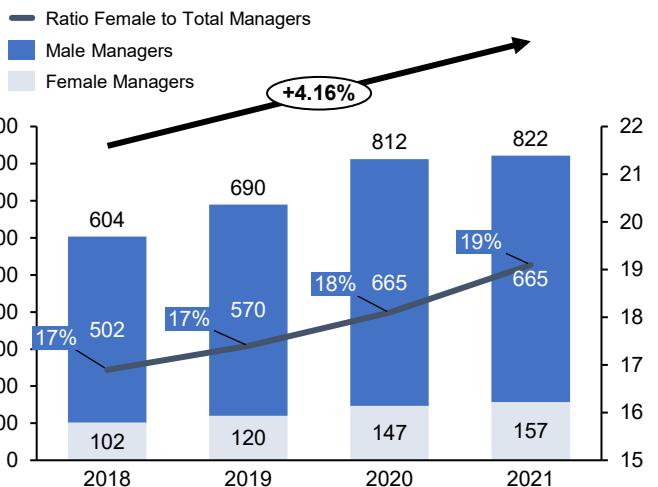
- By 2050: Targeting to reduce energy related **CO2 emissions** to net **zero**
- By 2030: Targeting to **reduce 35%** of energy related **CO2 consumption** in comparison to FY2020
- Specific targets for all business segments, incl. total & segment emission management
- Industrial Waste 2021: 2,099t



Social



- Constant push for equal opportunities across the company
- Securing the rights and equal treatment of shareholders
- **3% increase** in number of **female** managers during the last mid-term plan cycle



Corporate Governance



- Board consists of 12 members, including 4 outside directors, with one-year terms
- Statutory audit system, including 3 outside audit & supervisory board members

ESG Risk Rating COMPREHENSIVE ⓘ

17.5 Low Risk

Ranking

Industry Group (1st = lowest risk)

Software & Services

120 out of 994

Universe

Global Universe

2271 out of 14758

Negligible Low Medium High Severe

Industry Comparison

Company	ESG Risk Rating	Industry Rank
Ubisoft Entertainment SA	13.6	Low 24 out of 994
Wuhu Sanqi Interactive Entertainment Network Tech Gp Co., Ltd.	14.4	Low 38 out of 994
NCsoft Corp	16.8	Low 95 out of 994
BANDAI NAMCO Holdings Inc.	17.5	Low 120 out of 994
Perfect World Co., Ltd.	20.7	Medium 295 out of 994

Bandai Namco Ratio Analysis

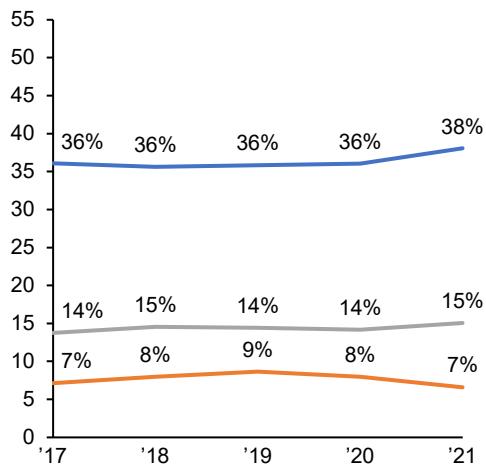
Bandai Namco's historic ratios signal ample whitespace for a levered acquisition making this acquisition feasible



Profitability Ratios

- Bandai Namco's **Gross Margin** has remained stable over the past five years and ranged between **36% and 38%**, showing strong operational efficiency
- The Company's EBITDA margin has also remained constant over the past five years at ~15%

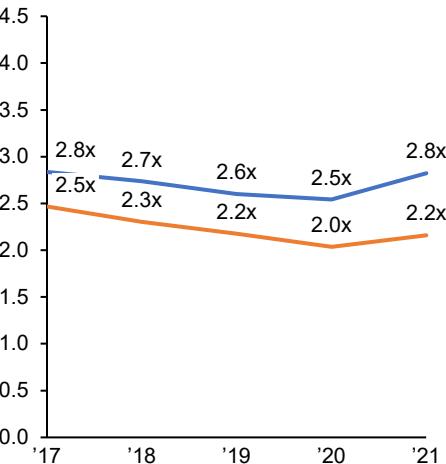
— Gross margin
— Net margin
— EBITDA margin



Liquidity Ratios

- In the past five years, Bandai Namco's **current ratio** has not been below **2.5x** a strong indicator of the company's ability to meet its short-term obligations
- Stressing this point further, Bandai Namco's **quick ratio** in the past five years has not been below **2.0x**

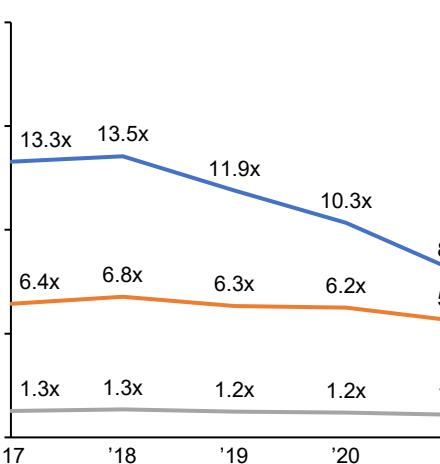
— Current ratio
— Quick ratio



Efficiency Ratios

- Over the years, Bandai Namco has become **less efficient** in managing its inventory as its turnover has **decreased from 13x to 8x**
- However, their **accounts receivables** has remained relatively stable ranging from **6.8x to 5.6x**

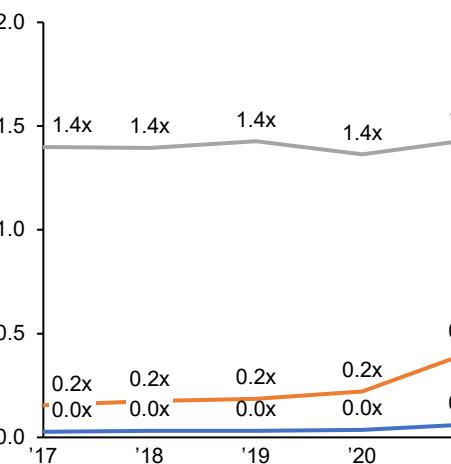
— Inventory turnover
— Average collectibles
— Asset turnover



Leverage Ratios

- The Company's strong cash flow from operations has enabled the company to finance its growth with little to no-leverage as its historic Debt-to-EBITDA multiple has been below **0.4x**
- Heightening the company's ability to take on debt would allow BN to pursue **Games Workshop's acquisition**

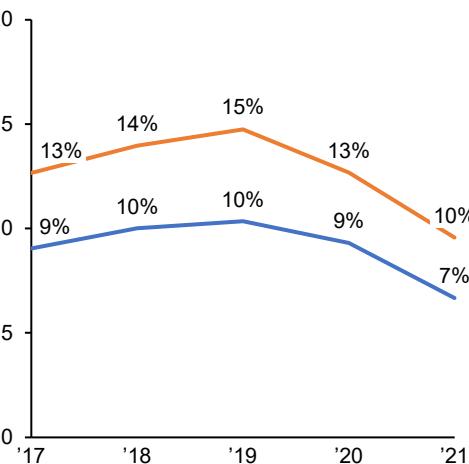
— Debt ratio
— Debt-to-EBITDA
— Equity multiplier



DuPont Analysis

- Both **ROE** and **ROA** had increased from 2017 to 2019 however, since 2020, both metrics have decreased, most likely due to the COVID-10 pandemic impact
- This is most likely due to a decrease in net income and an increase in assets during this time period

— ROA
— ROE



Source: Fact book, Integrated Report (Bandai Namco, 2021), (Capital IQ, 2022)

Games Workshop ESG and CSR Overview

With strong programs for carbon footprint reduction, Games Workshop is following the goal to lower their ESG risk via initiatives such as efficient recycling facile possibilities, contributing to a lower ESG score post-acquisition



Environmental

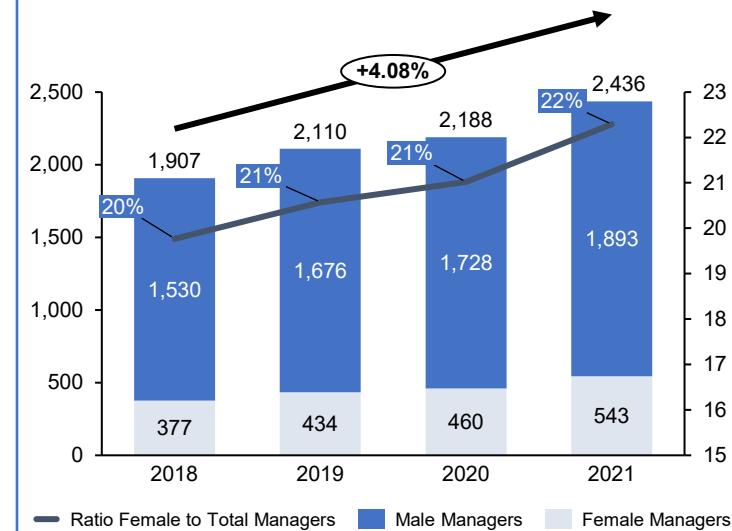


- 356 mWh renewable energy=> 7% of UK factory energy usage
- All UK retail stores are contracted to run under renewables
- Internal total carbon footprint: 51,619 tCO2e
- Internal **reduced carbon** footprint/mm£ spent by **21%**
- Major GHG emissions through supply chain, 90%
 - External material/services: 67%
 - Freight & Transport: 23%
- **Waste & Recycling facilities** for plastic and cardboard in main factories and distribution centers operational (Nottingham, Sydney, Memphis)

Social



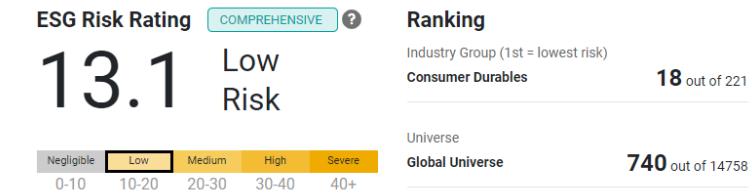
- **23%** of total staff are **female**
- 57% board members are female
- 9/9 positions are men in senior management



Corporate Governance



- Supply chain is part of ethical sourcing program (annual audit)
- Zero-tolerance to modern-slavery through-out supply chain
- Board consists of 7 members, o/w 4 female and 3 male



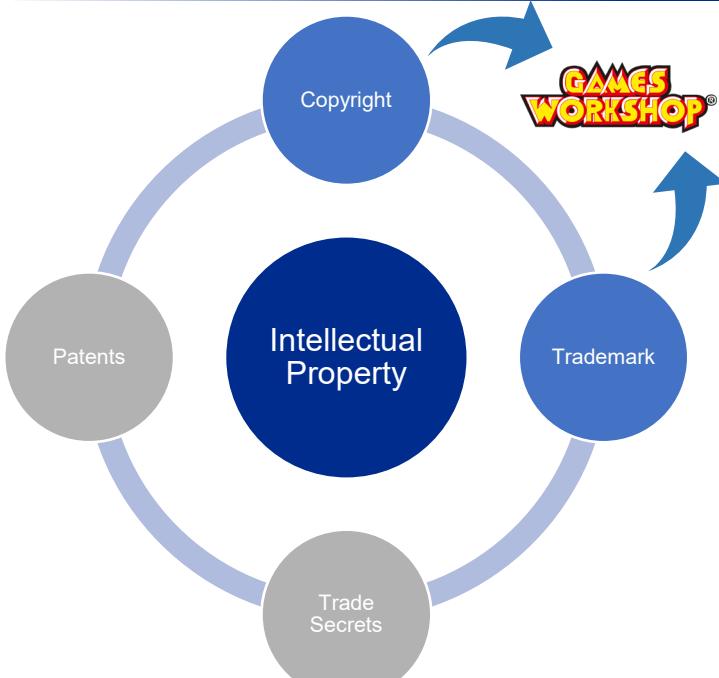
Last Update: Oct 5, 2021

Industry Comparison		
Company	ESG Risk Rating	Industry Rank
Games Workshop Group PLC	13.1	Low 18 out of 221
Sega Sammy Holdings Inc	14.2	Low 28 out of 221
Mattel, Inc.	15.5	Low 51 out of 221
Giant Manufacturing Co., Ltd.	15.6	Low 54 out of 221
Ourlpalm Co., Ltd.	16.8	Low 78 out of 221

Source: (Games Workshop, 2022), (Games Workshop, 2021), (Sustainalytics, 2022)

Intellectual Property Protection

With a long-standing franchise such as Warhammer, Games Workshop is increasingly protective about their IP, suing people over copyright and trademark infringements, showing strong governance by its legal department, which could pose a risk

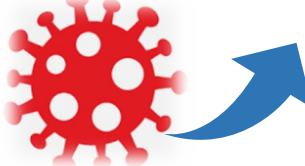


Four Types of IP

- Patents:** "A patent is a government-granted monopoly to build, sell, and use your invention (and prevent others from doing so)"
- Trade Secrets:** "A trade secret is something not generally known to the public, [...]and confers some type of economic value to the holder by the information not being known by another party"
- Copyrights:** "Copyrights protect original works of authorship, such as paintings, photographs, musical compositions, sound recordings, computer programs, books, blog posts, movies, architectural works, and plays"
- Trademarks:** "A trademark can be any word, phrase, symbol, design, or combination of these things that identifies your goods or services — it's how customers recognize your company in the marketplace"

COVID-19 accelerates the importance of IP

- Rising businesses' attention in copyright issues as brands take to the digital world



GW is aware of their strong IP and takes strict measures to protect its copyright and trademarks. This was enforced via update of their IP Guidelines in mid 2021. Several infringements were reported and impacted the distribution of GWs IP, but has also triggered IP holders from the 80ies to file IP infringements against GW

Japanese Tabletop Community Maturity



With a long history of fluctuating interest of Warhammer in Japan, which has been growing over the past seven years, there is a window of opportunity for Games Workshop to capitalize on Bandai Namco's position in the toy market

Warhammer History in Japan

1987

- Games Workshop first appearance in Japan

2000s

- Sub-culture in western suburbs of Tokyo
- 9 Games Workshop stores in Japan

2010

- New layout of global business, only 2 stores left
- No more translation into Japanese – loss of fanbase

2015

- Games Workshop team set up for store expansion – linked with CEO change in UK.
- Products available in Japanese, increase in interest and expansion of fanbase

2018

- Games Workshop team set up for store expansion

2019

- Bandai Namco collaboration, increased attention and rally to the hobby and Warhammer Universe



Sources: (Altice, 2019), (Singleton, 2020), Own Team Analysis, (Games Workshop, 2021), (Bandai Namco, 2021)

Bandai – an importer of American Games

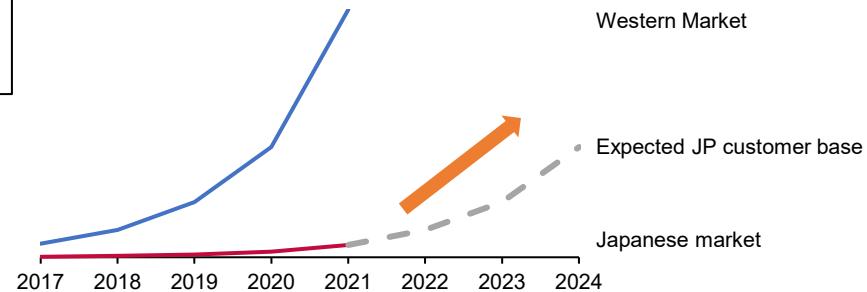


Hobby JAPAN

Release of new Warhammer game editions, enabling new hobbyist to the universe. Huge increase of players in western markets.

- Since its early foundation days in the 80ies, **Bandai** has imported and launched American games in Japan
- Toy and game community traditionally strong in Japan which are used to Western imported products
- Bandai assembly of plastic kits for models based on their IP perceived well – “Hobby Japan” launching training sessions and guides for hobby modelists in Japan.

Bandai – expected trend post-acquisition



- With a growing community in Japan, used to wargaming, plastic assembly kit hobby, a broader launch of Warhammer products would land well in Japan
- Games Workshop's recent 3-year cycle of Warhammer figure Wargaming Editions, 2022 and 2023 is preparing the next fanbase onboarding ensuring an increase in customer base, especially in these 2 years

Revenue Cannibalization

The integration of Games Workshop into Bandai Namco sees minimal revenue cannibalization due to differing target audiences and target markets



Bandai Namco Holding

- Bandai Namco's current IP portfolio is heavily tailored towards the Japanese market, leveraging the wide stream appeal of Anime throughout Japan's culture and communities, both in-house and licensed IPs
- This is highlighted by their product mix, with **77.7% of sales** stemming from Japan and **~85%** stemming from **Asian markets** overall
- Most Anime shows do not find world-wide success and are consumed by "die-hard" fans around the globe
- Anime has not yet found strong mass market foothold in western countries, with only few IPs making the jump to mainstream media, such as **Dragonball**, **Naruto**, **OnePiece**, or **Demon Slayer**



Games Workshop Group Overlap

- Games Workshop target audience resides in the west and consists of SciFi/Fantasy enthusiasts, with only **3.4% of sales** stemming from **Asia**
- Besides the minimal sales overlap, the difference in IP audience and product portfolio makes **IP overlap minimal** as well
- This results in **minimal cannibalization** between the companies, and the transaction represents a value add similar to $2+2=4$



Sci-Fi/Fantasy

Anime

Bandai Namco's Major IP Lineup

MAJOR IP IN GROUP PRODUCTS AND SERVICES

Annual Number of IP Utilized

More than 300

The BANDAI NAMCO Group utilizes more than 300 IP per year to roll out products and services. This section introduces examples of established IP.

Units Developing IP Products and Services

● Entertainment Unit ● IP Production Unit ● Amusement Unit

THE IDOLM@STER Series



This IP was introduced in 2005. Centered on idol production game content for smartphones and home video games, it has earned popularity among a wide range of fans, without regard to gender. We are rolling out a variety of products and services, such as music CDs, live events, animations, comics, Web radio, and merchandise.



IDOLiSH7



Since the launch of a game app for smartphones in 2015, IDOLiSH7 has achieved a high level of popularity, especially among women. The BANDAI NAMCO Group is rolling out a wide range of products and services, including animations, live events, music CDs, and goods.



Tamagotchi series



This in-house IP was created as a portable nurturing toy in 1996 and today is supported by two generations – parents and their children. The lineup has been expanded with the addition of new Tamagotchi versions that incorporate new trends, and the 25th anniversary will be reached in 2021.



PAC-MAN



With a theme of "eating," PAC-MAN was created in 1980 as a game that could be enjoyed by all, without regard to age or gender. Since then, in addition to game development, PAC-MAN has been used in character merchandising and has appeared in a variety of company commercials. Even today, it is popular around the world. PAC-MAN is one of the in-house IPs that is representative of BANDAI NAMCO.



PRETTY CURE! Series



The PRETTY CURE! series has been popular for more than 15 years, centered on children ages three to six. The BANDAI NAMCO Group provides a wide range of PRETTY CURE! products and services, centered on toys.



Ultraman Series



Since its launch in 1964, Ultraman has earned the support of a wide range of age groups, extending to two or even three generations. The BANDAI NAMCO Group provides Ultraman products and services, such as toys and visual packaged products.



Mobile Suit Gundam Series



Since its launch in 1979, Mobile Suit Gundam products have earned the support of a wide range of age groups. Centered on visual products, these include plastic models, home video games, network content, and amusement machines. In addition to Japan, Mobile Suit Gundam initiatives are being rolled out around the world, including appearances in Hollywood films.



DRAGON BALL Series



Launched in 1984, DRAGON BALL has earned the support of customers around the world for many years. The BANDAI NAMCO Group provides a wide range of DRAGON BALL products and services, such as home video games, network content, card products, and figures.



Love Live! Series



This IP, which was created from a project using magazines, visual products, and music, was introduced in 2010. In addition to magazine pages and visual and music packaged products, live events are highly popular.



KAMEN RIDER Series



The KAMEN RIDER series has been popular for more than 50 years and has earned the support of a wide range of age groups around the world. The BANDAI NAMCO Group provides various KAMEN RIDER products and services, centered on toys.



Super Sentai Series



The Super Sentai series has maintained its popularity with more than 45 products and has also earned support in Asia. The BANDAI NAMCO Group provides a wide range of Super Sentai products and services, centered on toys.



BORUTO / NARUTO



This IP was introduced in 1999, and its movies and animations have been popular around the world for many years. The BANDAI NAMCO Group is providing a wide range of products and services, centered on home video games and network content.



ONE PIECE



Launched in 1997, ONE PIECE comic and animations have been popular around the world for many years. The BANDAI NAMCO Group provides a wide range of ONE PIECE products and services, such as home video games, network content, and figures.



Appendix

Transaction Expected Returns Calculation

Levering Bandai Namco by 3.3x Debt/EBITDA'21 ratio is expected to yield an Internal Rate of Return 10.0%, used to identify the optimal financing structure for an acquisition of Games Workshop



Transaction's Internal Rate of Return & Money Over Invested Capital Breakdown¹

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
Revenue		534.7	611.6	684.3	757.1	832.0
<i>Growth</i>		<i>6.7%</i>	<i>14.4%</i>	<i>11.9%</i>	<i>10.6%</i>	<i>9.9%</i>
EBIT		246.3	300.1	356.2	409.3	466.4
Taxes	19.8%	(48.7)	(59.3)	(70.4)	(80.9)	(92.2)
Depreciation & amortization		30.6	35.0	39.1	43.3	47.6
Capital expenditure		(42.4)	(48.0)	(53.6)	(59.2)	(64.8)
Changes in working capital		(2.2)	(5.0)	(4.8)	(4.8)	(4.9)
Unlevered Free Cash Flow		183.5	222.7	266.6	307.7	352.1
Investment	(980.0)					
Ins & outs	(980.0)	183.5	222.7	266.6	307.7	352.1

IRR	10.0%
MOIC	1.36x

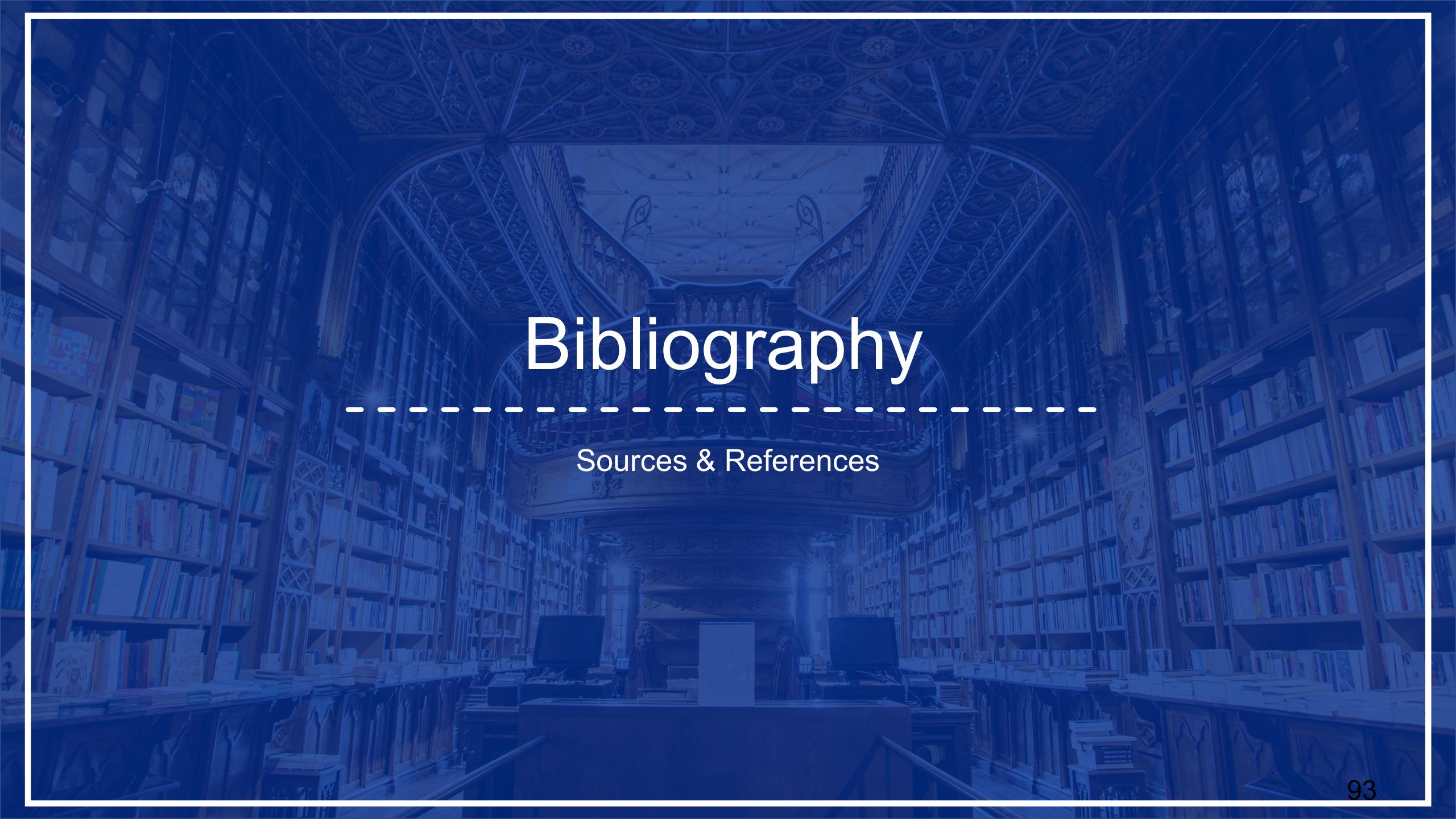
Internal Rate of Return					
Debt/EBITDA'21					
	3.21x	3.26x	3.31x	3.36x	3.41x
IRR	6.6%	8.3%	10.0%	11.9%	13.9%

Sources		Uses		
Cash	24%	980.0	Acquisition Price	4,094.0
Debt	76%	3,154.9	Transaction cost	1.0% 40.9
Total		4,135.0	Total	4,135.0

Note: Numbers only considers Bandai Namco's financials, numbers do not take into account the combined companies, ¹Value in million USD \$

Source: Own Team Analysis, (Capital IQ, 2022), (Bandai Namco, 2021)

- Bandai Namco's 2021 **RoE** is reported at **10.2%**, which we assumed as a hurdle rate for the **IRR** for this investment
- Utilizing Excel's Goal/Seek algorithm we identified and matched an IRR of this acquisition to a **Debt/EBITDA ratio of 3.3x**
- A sensitivity table outlines the impact of incremental .1x steps
- Additional leverage would increase the IRR of the acquisition, but would put Bandai Namco in a **highly levered situation** that becomes more risky
- Seeing that Bandai Namco has not taken on much debt in the past, we chose our Debt/EBITDA ratio at the value that minimizes the IRR to the hurdle rate and thus maximizes Bandai Namco's strategic goals
- **Disclaimer:** These are only the unlevered cash flows from operations used for the IRR calculation without perpetuity. Please refer to our DCF slides for the discounted Free Cash Flow calculations.

The background of the slide features a wide-angle photograph of a grand library. The ceiling is a complex, multi-tiered Gothic-style vaulting. The walls are lined with floor-to-ceiling bookshelves, each filled with numerous books. In the center of the room, there is a large, dark wooden desk or study area with a computer monitor and some papers on it. The lighting is dramatic, coming from various sources that create strong highlights and shadows on the architectural details.

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