

Rise of Titan: Reimagining Fantasies

EPICK Capital

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Table of Abbreviations

| Abbreviation | Explanation |
|--------------|---|
| 5G | Fifth-generation Wireless |
| APAC | Asia-Pacific |
| AR | Augmented Reality |
| ATVI | Activision Blizzard |
| B | Billion |
| CAGR | Compound Annual Growth Rate |
| CO2 | Carbon Dioxide |
| EA | Electronic Arts |
| EBITDA | Earnings before Interest, Taxes, Depreciation, and Amortization |
| EBIT | Earnings before Interest and Amortization |
| EU | European Union |
| EV/EBITDA | Enterprise Value to EBITDA |
| FX | Foreign Exchange |
| GAW | Games Workshop |
| IP | Intellectual Property |
| IPO | Initial Public Offering |
| FY | Fiscal Year |
| mm | Million |

| Abbreviation | Explanation |
|--------------|--------------------------------------|
| M&A | Mergers and Acquisitions |
| PIPE | Private Investment in Private Equity |
| P/E | Price to Earnings (ratio) |
| R&D | Research and Development |
| T | Trillion |
| TAM | Total Addressable Market |
| TTWO | Take-Two Interactive |
| UK | United Kingdom |
| US | United States |
| VR | Virtual Reality |
| YoY | Year-over-year |




Executive Summary

Bandai Namco's Course of Action


Should Bandai Namco acquire Games Workshop?

Bandai Namco should **NOT** acquire Games Workshop



- The market **overvalued** Games Workshop by 32.8%
- The high industry premium rate does not explain the **little synergies that provide post-acquisition**
- The debt resulting from the acquisition will only **destroy value** because of a high premium from Games Workshop **unwilling to sell**

Bandai Namco should acquire



- Mattel's IP strategy, brand portfolio, and operational business segments **closely align with Bandai Namco**
- New and upcoming products such as Barbie featuring in NFTs and the Metaverse
- After analysis of synergies, this **transaction is feasible**



1. Industry Overview

Defining and Shaping the Industry

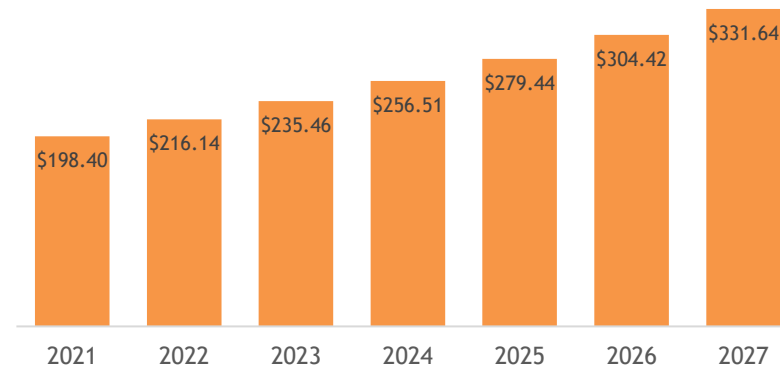
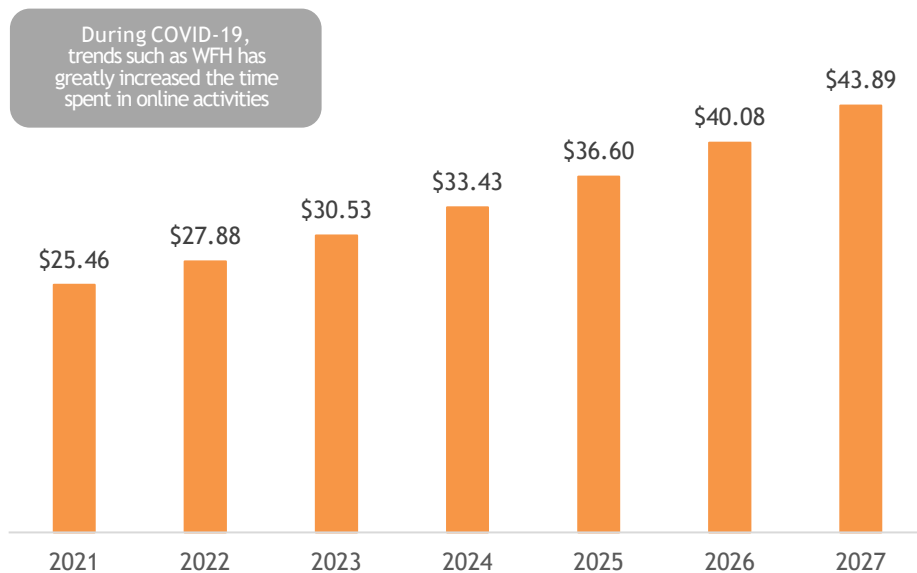
Gaming and Anime industry Overview



A CAGR of 9.5% indicates the Anime industry is expected to grow to a market value of \$48B+ by 2028. Whereas the gaming industry was valued at \$198.4 billion in 2021. Registering a CAGR of 8.94%, the gaming industry is expected to reach a value of \$339.95 billion by 2027.

As technology advances, the need for online entertainment increases, causing growth
Global Market Value of the Anime Industry, 2021-2027, USD Billion FY2021

Global Market Value of the Gaming Industry, 2021-2027, USD Billion FY 2021



Industry Trends

Mobile Gaming is the way: Alongside technological advancements such as AR, VR, cloud gaming, and 5G, mobile gaming has overtaken both console and PC gaming.

Anime expansion: Japan still has the largest share of 44.9% in the anime market by 2020. Expansion into other regions plays a key role in the development of the anime industry.

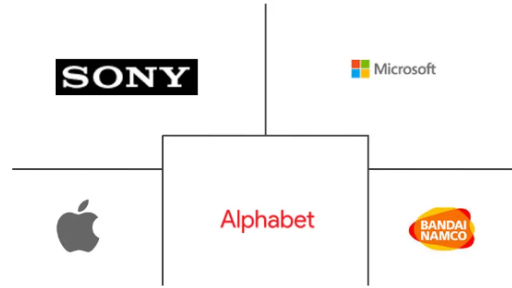
Source: (Grand View Research, 2021), (Mordor Intelligence, 2021)

Segments within the Industry and Regional Insights

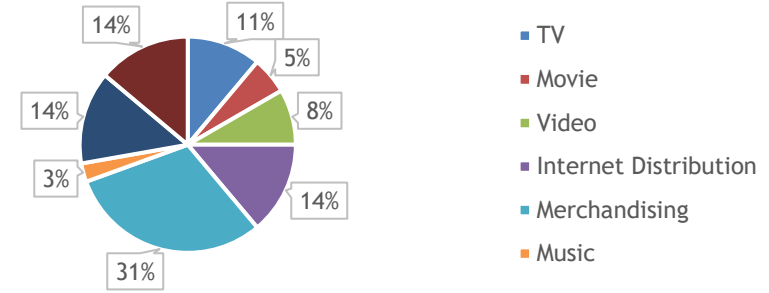


IP licensing and merchandising comprise the greatest market share in the anime industry. Technological improvements facilitate the sales of these items via online channels. In the gaming industry, Asia Pacific is anticipated to hold the largest market share, with Japan, South Korea and China showing high growth potential

The gaming industry is highly competitive and fragmented without dominant players



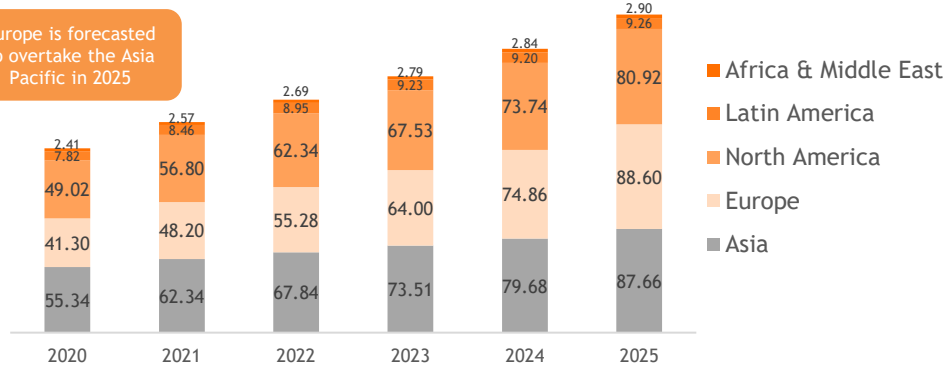
Global Anime Market, by type, 2021



China and Asia Pacific currently hold the greatest revenue in gaming

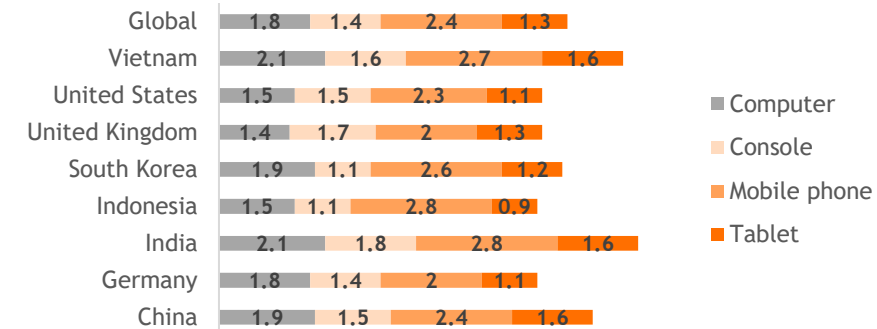
Global video game market value from 2020 to 2025, by region, USD billion

Europe is forecasted to overtake the Asia Pacific in 2025



Mobile Gaming taking a dominant role

Devices used for video games by Geographic Region, FY2021



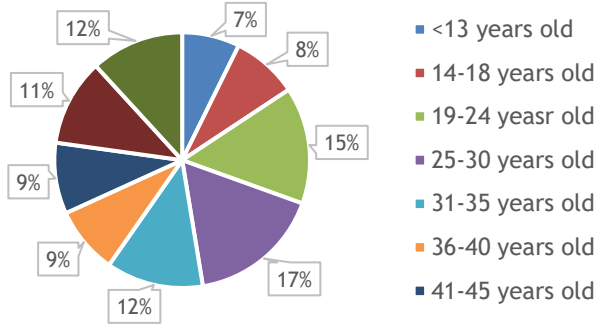
Source: (Morder Intelligence, 2021), (Statista, 2021)

China's regulatory policies

China has recently embarked on a major clampdown on private enterprise, initially targeted on the booming tech sector. Lately, the regulatory policies have expanded to reach other industries, including anime and gaming. Chinese regulators claimed to protect children from “electronic drugs”.

Children in China are spending more time in video games

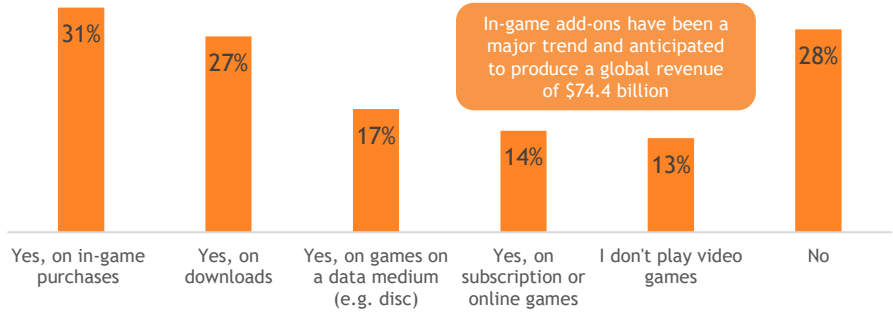
Share of mobile game players in China as of June 2021, by age group



China has been tightening playtime to 90 minutes on weekdays and three hours on weekends for children

The majority of spending are contributed by in-game purchases

Have you spent money on video games in the past 12 months?



China is also looking to ban games with Japanese influence, effeminate and violence

Japanese productions banned in China

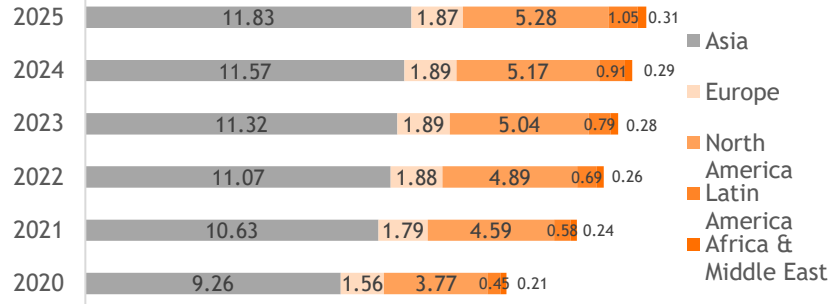


Over 50 anime and artworks was banned in China due to reasons including ideas of rebellion and the usage of China-related historical events. Children's cartoon, including “Barbie Dream Adventure” and “My Little Pony” were considered not appropriate for kids

Source: (Statista, 2021)

Further regulating the gaming and anime market

Loot boxes are one of the most heavily regulated purchases in China, but still generating impressive sales of \$ billion

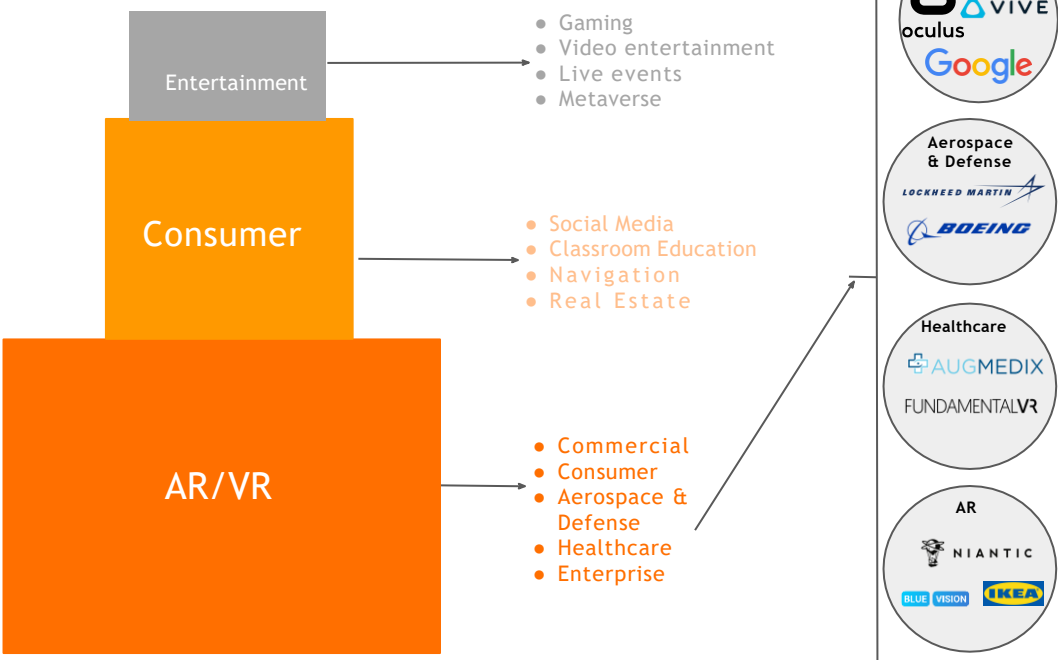


AR/VR is changing the Anime and Gaming Industry



Segments of the AR/VR Industry

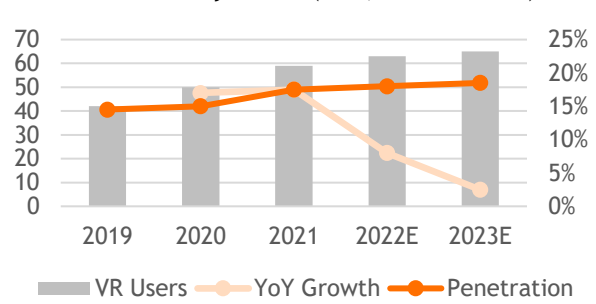
Technology companies are hopping on the trend



Source: (Goldman Sachs, 2021)

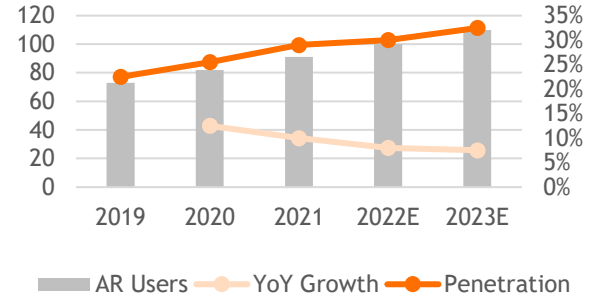
Consumer adoption of AR & VR will be a driving factor in business opportunities

US Virtual Reality Users (mm, 2019-2023E)



AR represents a larger opportunity when compared to VR

US Augmented Reality Users (mm, 2019-2023E)

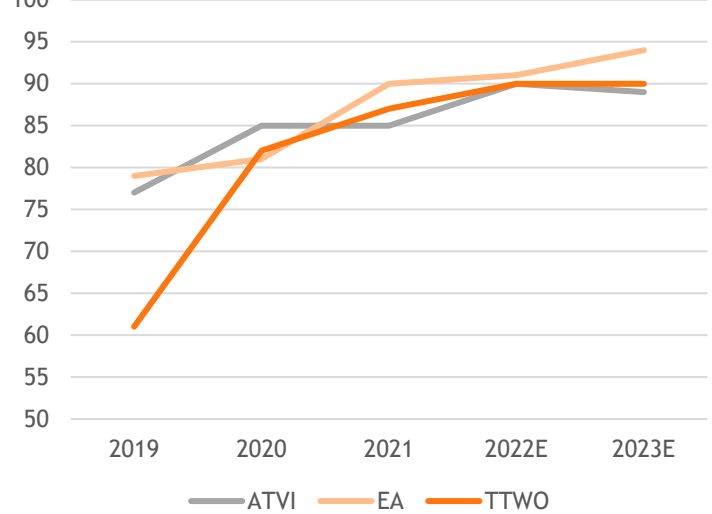


Technological advances (such as 5G, edge computing) coupled with more use cases (beyond gaming, social media, entertainment) are likely to drive consumer adoption

“Metaverse” The Future of Web 3.0 Will Disrupt the industry

Emergence of Virtual Experiences and Widespread Gamer Adoption Highlights

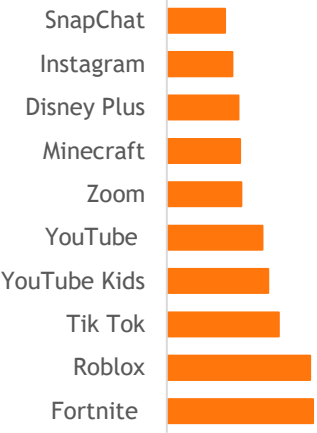
Digital Bookings by AAA Publishers, %, 2019-2023E



Since the release of Fortnite in 2017, Epic Games have created an ecosystem in which they can promote live services (e.g., monetize skins) and host virtual events (e.g., Travis Scott) for gamers to connect with each other as well as the artist. Since then, the business model across video games publishers has transformed from physical unit sales to in-game content.

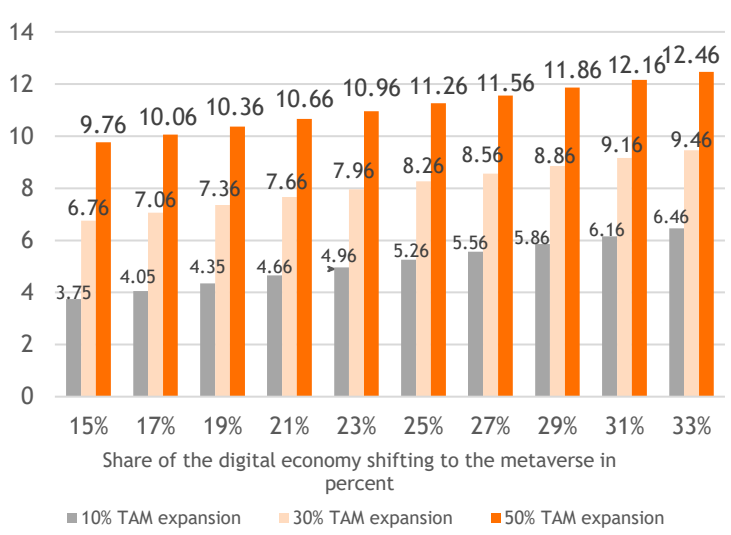
Opportunity Ahead

Time Spent by App, minutes, 2020



Looking at the top apps by time spent in 2020 across the US, UK, Spain, Fortnite and Roblox rank first and second with more than an hour and a half spent in the games, both of which are open environment multi-player games, signaling the value the younger generation places on social elements and virtual worlds within gaming.

Metaverse potential market opportunity worldwide 2021, by scenario (in trillion U.S. dollars)



According to the United Nations, the global digital economy represented 15.5% of total GDP in the world. Increased investments of Metaverse from public companies and private markets has presented the opportunity for enhanced growth, demonstrating field disruption and change.

Source: (Goldman Sachs, 2021)

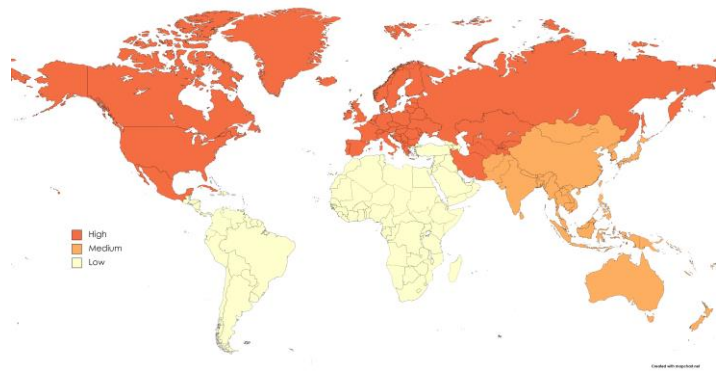
Games and Toys

The global games and toys market was valued at \$261.65 billion and is expected to expand at a CAGR of 9.91% from 2022 to 2026. The reasons for industry expansion include parents' increased interest in green toys, the resurgence of conventional toys and the collaboration with the exponentially expanding video games market.

Asia Pacific is the fastest growing market

A rising reference could be seen in educational toys beyond the core skills. i.e. toys that encourages children to do problem solving and domestic programming

Toys and Games Market: Market Size(%), Global, 2020



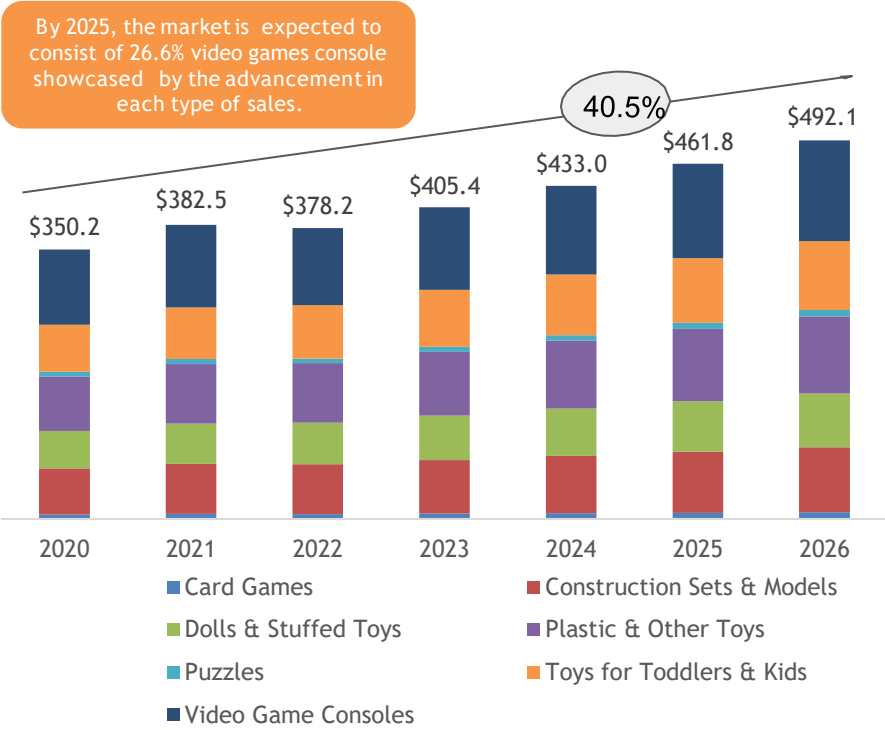
- The games and toys market currently have a fragmented and competitive market without dominant players
- New product development has been the most preferred strategy, with a focus on M&A to achieve consolidation and optimize offerings.



Top companies in the toys and games industry

Movies, videos games, cartons -digitalizing IPs are the major boost

Revenue in segments in million USD



Source: (Statista, 2021), (Mordor Intelligence,2020)

II. Company Analysis

1

BANDAI
NAMCO

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GAMES
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STRATEGIC FIT

II. Company Analysis

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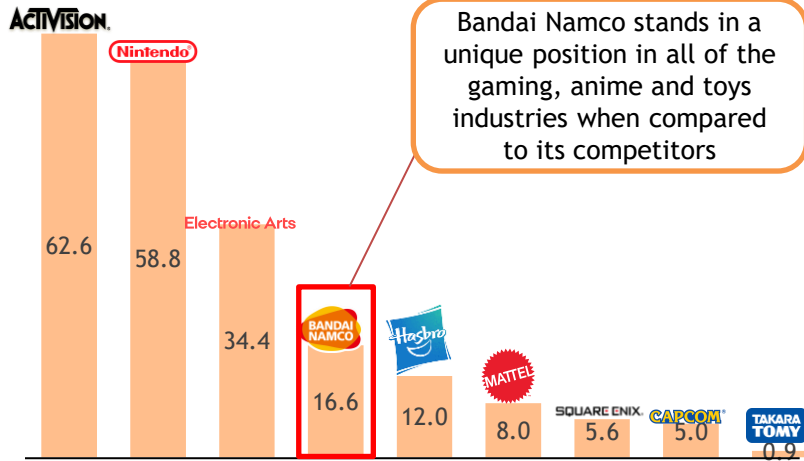
GAMES
WORKSHOP

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STRATEGIC FIT

Bandai Namco Overview

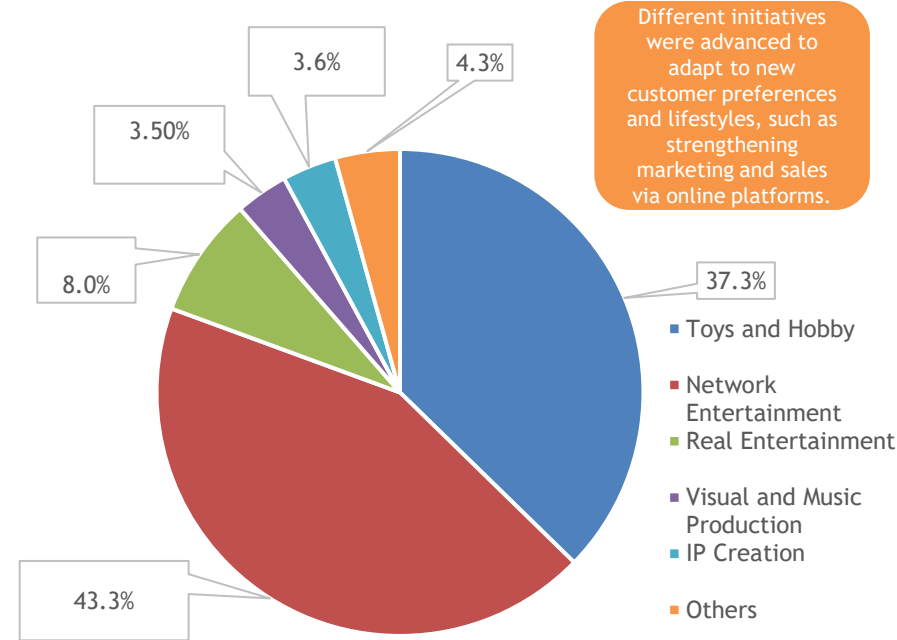
Bandai Namco has a significant share in the Anime, Gaming and Toy industry



Bandai Namco stands in a unique position in all of the gaming, anime and toys industries when compared to its competitors

In 2021 43.3 % of Bandai Namco's sales are contributed by Network Entertainment

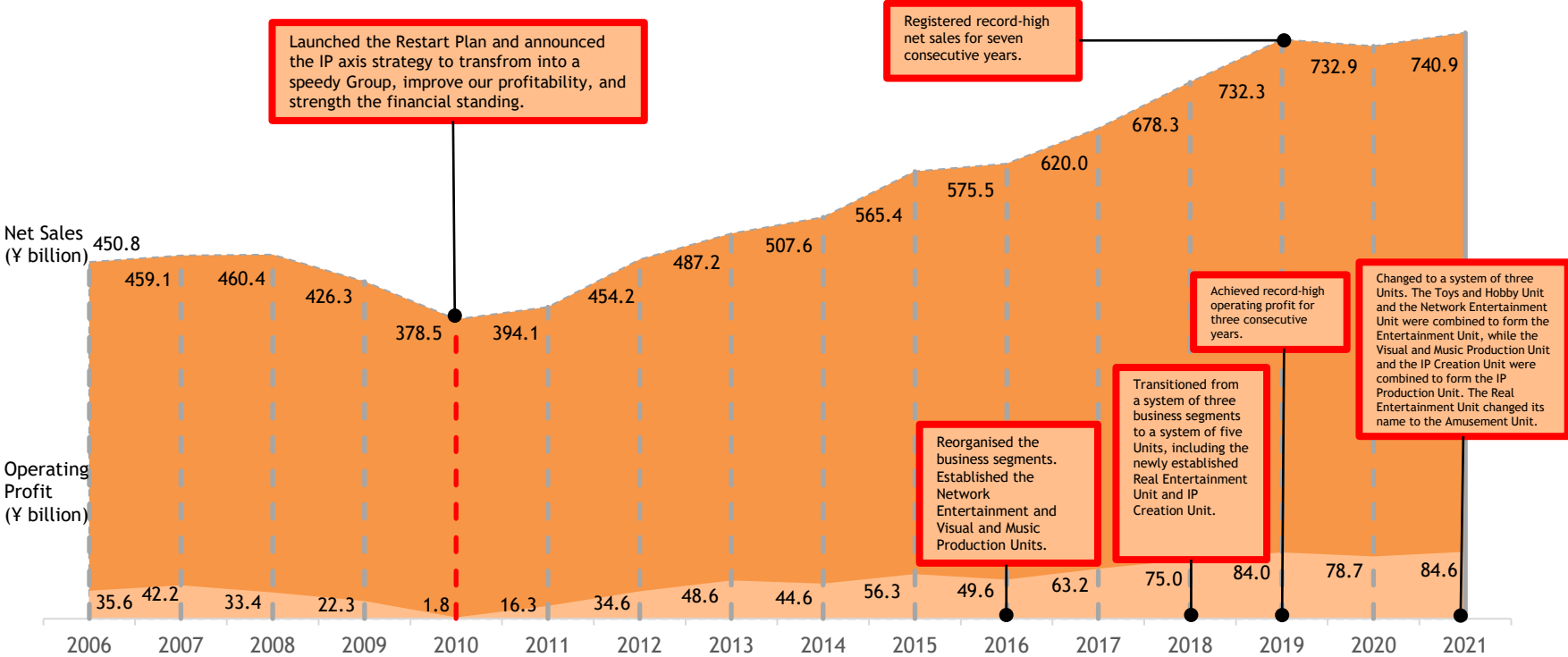
Segments sales ratio break down



Different initiatives were advanced to adapt to new customer preferences and lifestyles, such as strengthening marketing and sales via online platforms.

Bandai Namco Industry Partners

Source: (Bandai Namco, 2021), (Statista, 2021)



Source: (Bandai Namco, 2021)

Bandai Namco's greatest strength

Bandai Namco focuses on The IP Axis Strategy

2021: A favourable sales in digital content and home video games. There are popularities in products of mature fan base and products utilizing new IP

Sales and growth of iconic IP products and Services (Group Total), in million USD

KAMEN RIDER series



2020
266.0
▼
2021
246.4

ONE PIECE



2020
297.6
▼
2021
324.0

BORUTO/NARUTO



2020
110.8
▼
2021
182.5

Mobile Suit Gundam series



2020
665.9
▼
2021
810.0

DRAGON BALL series



2020
1150.2
▼
2021
1086.2

IP values are maximized by leveraging IP worldviews and providing optimal products and services in the optimal regions at optimal times.

Source: (Bandai Namco, 2021)

Bandai Namco's Value creation process

1 Input of key management resources

- Diversifying human resources
- Expand technical capabilities through R&D investments
- Maintain a stable financial position
- Improve planning and development capabilities
- Embrace changes in technology, such as digital adoption
- Achieve further growth in global markets
- Expand sales and marketing capabilities

2 Sustained growth over the medium to long term

- Consolidate IP Axis strategy
- Expansion of IPs in specific regions
- Creating new entertainment content
- Increasing customer satisfaction
- Utilize diverse human resources
- Break through national borders, races and languages, achieving a sustainable society

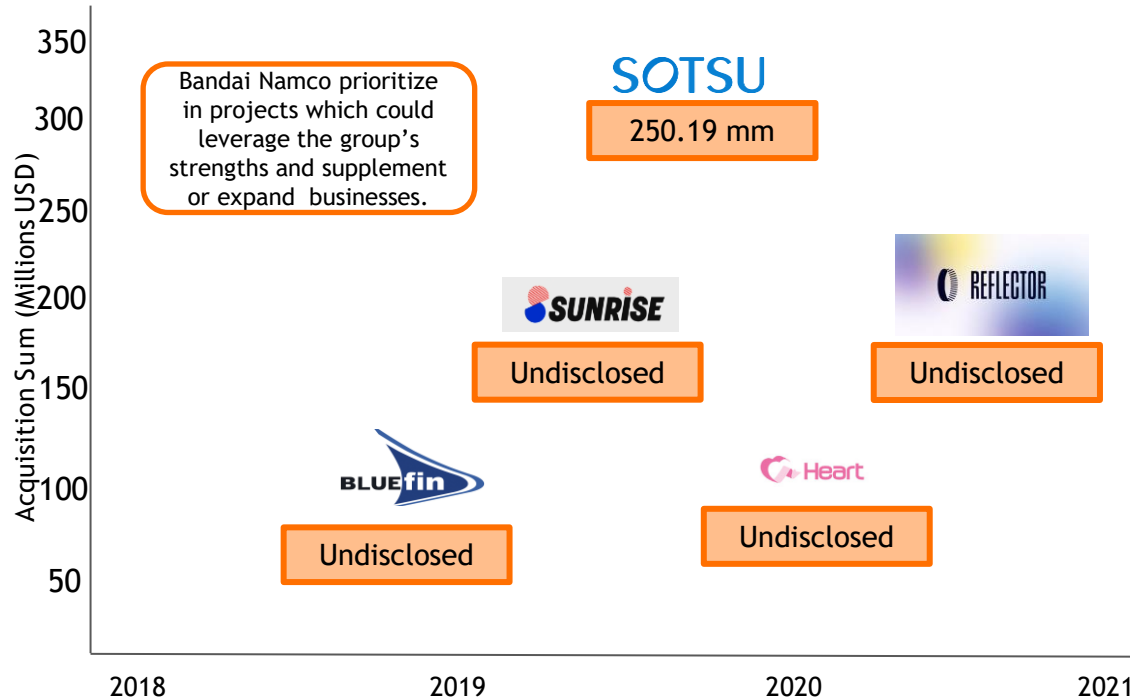
Bandai Namco's past acquisitions



Bandai Namco's M&A focuses on IP creation and Entertainments

Bandai Namco's major M&A strengthens entertainment capabilities and IP Axis

Bandai Namco's Major Acquisitions and Mergers 2018-2021



Two major acquisition strategies of Bandai Namco

Investments are based on quantitative metrics, such as the internal rate on return (IRR) and return on invested capital (ROIC) standards. On top of scale expansion, profits of both sides are enabled and lead to gains in overall corporate values.

Entertainment

IP production

BLUEfin: enhanced sales of products for the mature fan base in North America

Xebec Corporation: Foster new IP creation and innovation with current IP

HEART CORPORATION: strengthen toy and hobbies sector through wholesale improvements

SOTSU CO., LTD: develop TV programs planning and copyright business, mainly targeted on the value chain of Gundam

Reflector Entertainment Ltd.: strengthen the development on network content and home video games

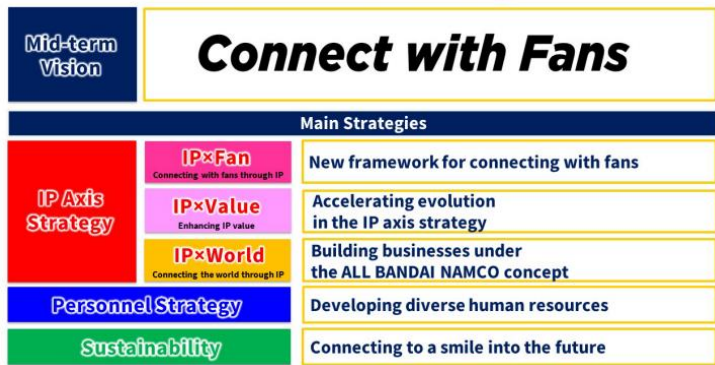
Drecom Co., Ltd.: enhance the capability of smartphones content creation, such as games and media

Source: (Bandai Namco, 2021), (Capital IQ, 2021)

Primary threats and opportunities of Bandai Namco

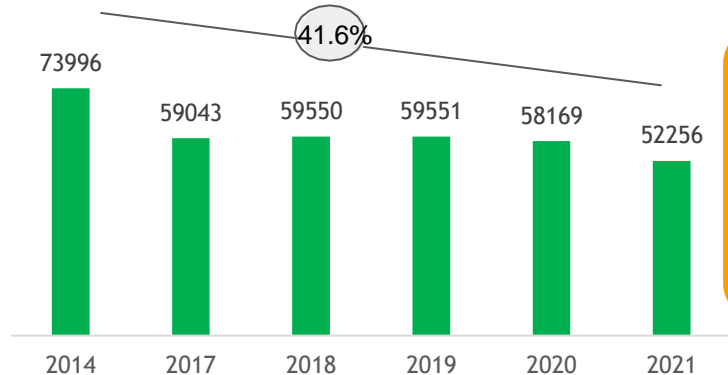
Creating the "IP Metaverse"

Bandai Namco's Mid-term Vision



Bandai Namco achieved a reduction of 41.6% in CO2 emissions over the 7-year period

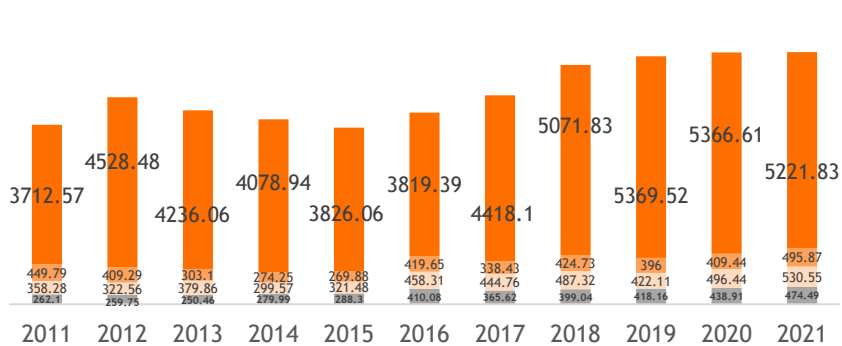
Bandai Namco Group CO2 emissions FY2014 - FY2021



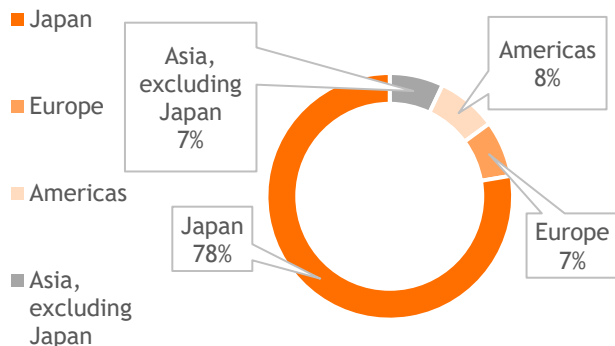
While Bandai Namco has been able to meet its ESG targets, certain risks need to be addressed, such as the increasing cost in production and raw materials due to carbon and plastic regulations.

Bandai Namco's net sales by geographic region from FY2011 to FY2021

(In million US dollars)



Bandai Namco's global expansion



The APAC region has a market share of 32.5% in the anime and gaming industry, whereas over 70% of Bandai Namco's revenue are contributed by Japan alone.

China leads the global video games market with a revenue of \$40.85 billion. Expanding into APAC, US and EU regions are favorable.

Source: (Bandai,2021), (Statista, 2021)

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Financial Analysis

Acquisition Feasibility

Alternative Solution

Conclusion

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Games Workshop in its Competitive Environment

Games Workshop Soars in Market Share

Company Overview

- Games Workshop is a vertically integrated business with the primary line of business being the design, manufacturing and selling of fantastical miniature models, as well as secondary products being painting guides, audio dramas, rulebooks, short stories, and novels.

Games Workshop is the global leader for tabletop miniature gaming, a market it created

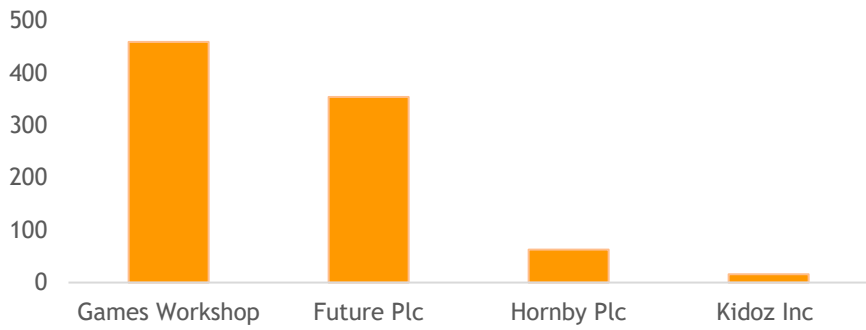
- The main competitors to Games Workshop are:



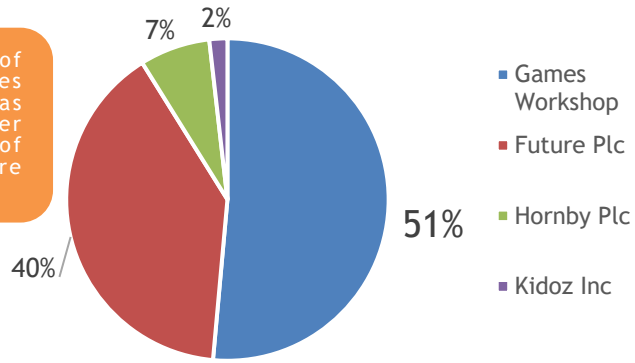
- Despite of these competitors, they are no direct competitors as none of them can match Games Workshop's vertical integration in the marketplace.

Leading Market Share of 51%

2021 Revenue of Games Workshop, compared to its main competitors in million USD.



Amongst the pool of competitors, Games Workshop rise as the dominate player with over half of the market share with growth.



Source: (ThisIsMoney, 2020)

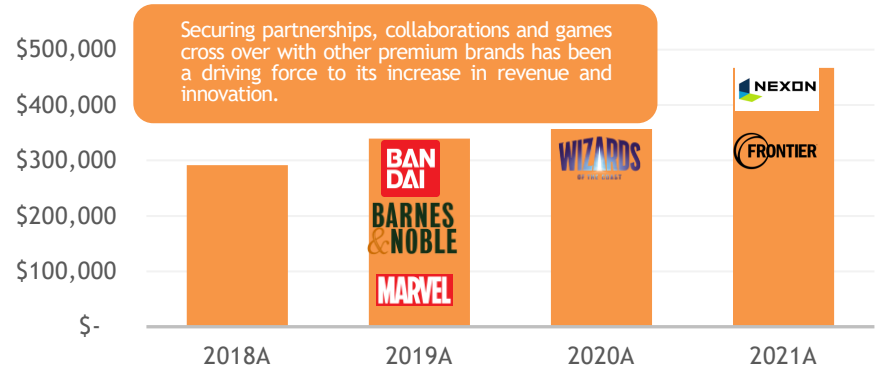


Games Workshop and Market Expansion

Games Workshop's Strategic Industry Partners to Increase Sales

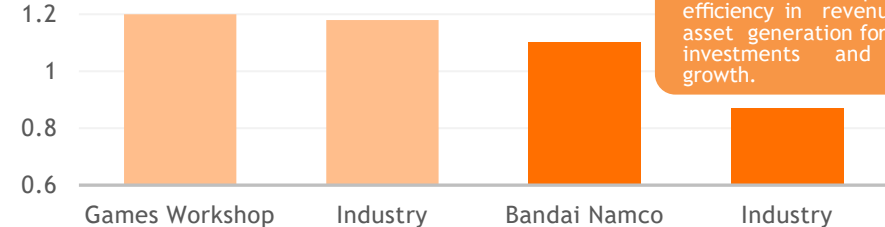
Company partnerships were key in revenue growth

Games Workshop's YoY Total Revenue, in thousands USD



Current asset turnover ratio is higher than industry average and Bandai Namco

Games Workshop Asset Turnover Ratio



Games Workshop shows efficiency in revenue and asset generation for more investments and R&D growth.

Source: (Games Workshop, 2021)

Games Workshop's strategic partners can be categorised into 4 main categories



Games Workshop Continues to Grow Amidst COVID-19

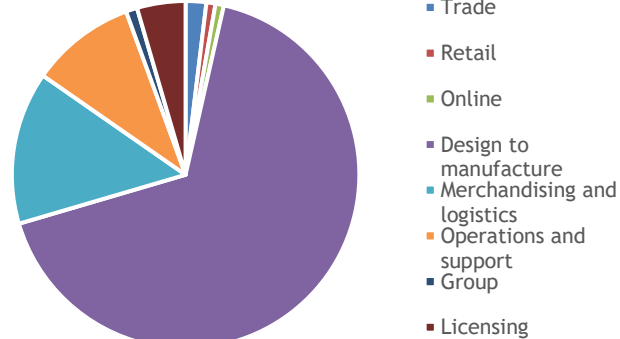
Online sales were up by 87%

Best Selling Products:



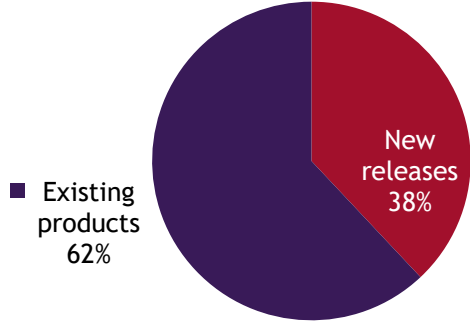
Diverse Product Range

2021 Business Segment by % Revenue



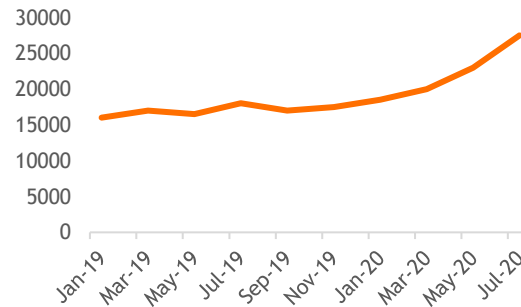
Games Workshops focused investment in the Research and Development department has shown great rewards with design to manufacture is the major segment of revenue.

Research and Development: Success on New Product Mix



Most of Games Workshop customers are collectors, hence many have been adding the new releases to their existing collection. This is also Games Workshops way of tackling new entrants to the dynamic industry, where its dynamics is established by major players like Games Workshop. This hugely reduces the window of profits for new players.

Warhammer sees a pandemic jump in their subreddit activity



Several online live-streams were held for new product launches, combined with fun commentary. revealed new products. The most popular of the online preview shows had over 500,000 views, with its accompanying articles read up to 1 million times.

Source: (Brandwatch, 2020)

Games Workshop: Capabilities and Strengths

Global Ecosystem and Brand Recognition across Business Segments

Established Manufacturing and Supply Chain Network

- Its manufacturing is based in Nottingham, with over 200 workers, and two distribution hubs in Tennessee and Australia
- Products are sold in the three key channels of the global network of retail stores and lastly its official e-commerce website

Global Operations

- Operation spreads internationally in the UK, US, Canada, Belgium, Poland, China, Japan, France, Spain, Australia, Germany, New Zealand and Italy
- As of May 2021, there are 523 operating stores in 23 countries which accounts for over 75% of the business's annual income

Agile Store Management

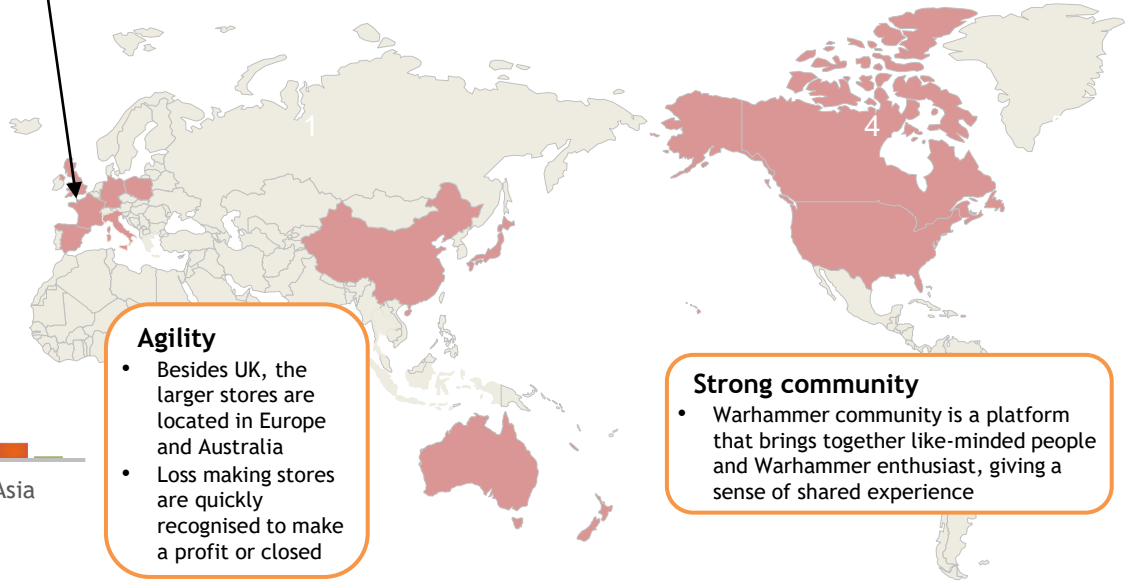
- Most of the bigger stores are in the UK, Europe and Australia, and total global domination has no room for passengers: loss-making stores are quickly reorganised to make a profit or closed

Global Revenue Distribution

2021 Revenue in million USD



Source: (Statista, 2018), (Games Workshop, 2020)



Agility

- Besides UK, the larger stores are located in Europe and Australia
- Loss making stores are quickly recognised to make a profit or closed

Strong community

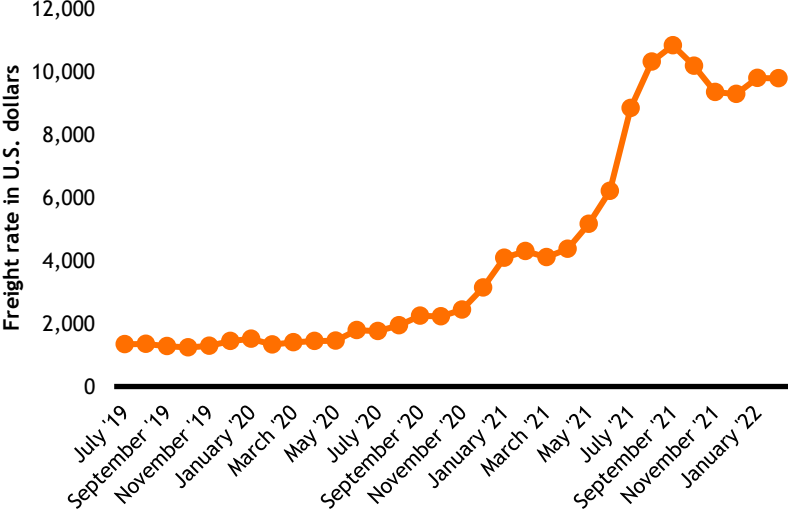
- Warhammer community is a platform that brings together like-minded people and Warhammer enthusiast, giving a sense of shared experience

Games Workshop's Primary Challenges and Opportunities

GAW Operates in Declining Business Segments but can Grow in IP monetization

COVID restrictions leading to supply chain issues

Global average monthly freight rate in U.S. dollars.



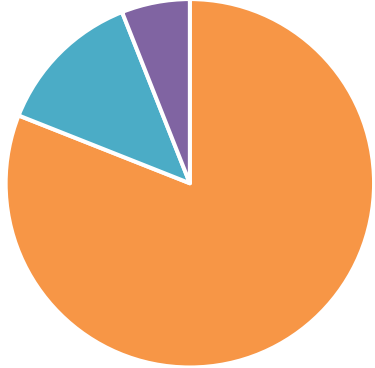
UK's exit from the EU has further incurred higher shipping and freight costs and product delays. In 2021, an **extra \$3 million USD** was spent for the increased warehousing costs, and similar amounts were spent on salary hikes, boosting staff numbers, design and intellectual property.

Consumer trends and changes in appetite

Customers are becoming more interested in investing in higher end toys with better materials. Report from the Toys Association, stated that the incorporation of more sustainable material and toy businesses that exhibit commitment to the environment is what customers are more often seeking after. According to their survey, 78% parents said the sustainability of the toys they buy for their children was important to them.

The toy industry's current varied commitment levels in sustainability

- Zero or anecdotal commitment or action to sustainability
- Comprehensive sustainability strategy
- Solid commitment but lack transparency



The Sustainable Toys market size was valued at \$18,939.1 million in 2020 and is estimated to reach \$59,643.9 million by 2030, registering a CAGR of 12.5% from 2021 to 2030.

Source: (Statista, 2020), (ToysNews, 2020)

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STRATEGIC FIT

Strategic Fit Between Games Workshop and Bandai Namco

Games Workshop and Bandai Namco Current Operations Post-Integration

| | | |
|---|---|--|
| <h3>Market Focus</h3> <ul style="list-style-type: none">  Games Workshop's product line is more expensive and tailored to higher-end markets  Bandai Namco wants to introduce products and services that leverage the worldviews of IPs | <h3>Fan Base</h3> <ul style="list-style-type: none">  Both Games Workshop and Bandai Namco has an established audience/ fan base  Foster deep, broad, and multifaceted connections with fans around the world | <h3>Shipping Efficiencies</h3> <ul style="list-style-type: none">  Bandai Namco and Games Workshop are located in the different parts of the world  Introduces supplier efficiencies when packaging and distributing product |
| <h3>Partner Collaboration</h3> <ul style="list-style-type: none">  Games Workshop provides a traditional approach to develop new products  Bandai Namco provides a relatively new approach to better their product line | <h3>Global Presence</h3> <ul style="list-style-type: none">  Games Workshop has a very strong presence in the UK  Bandai Namco is aiming for an overseas sales ratio of 50% | <h3>Production Capacities</h3> <ul style="list-style-type: none">  Games Workshop is based in Nottingham, with over 200 workers, and two distribution hubs in Tennessee and Australia.  Bandai Namco has an Entertainment Unit that monitors the production of toys and hobbies products |

Source: (Games Workshop, 2020), (Bandai Namco, 2021)



III. Financial Analysis

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COMPARABLES

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PRECEDENT
TRANSACTIONS

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SYNERGIES

Games Workshop' Potential Peer Groups

Our Peer Group Segments for Games Workshop Consist of Manufacturing, Toy Design, Toy Conglomerate and Toy Retailer

Manufacturing



Logic: Games Workshop manufactures handmade, classic wooden games

Toy Design



Logic: Younger and family-oriented designs



Toy Conglomerate



Logic: Increase in sales in products. Expanding on a commercial scale

Toy Retailer



Logic: Platforms, retailers to sell toys

Games Workshop's Peer Group Segment Relevance Analysis






Based on our Analysis, Video Games and Retailers should be Discarded

| | Market Size | Market Size CAGR | | Revenue Drivers | Cost Drivers | Retained |
|-------------------|---------------------------|---------------------------|--|---|---|----------|
| Toy Manufacturing | \$129.45B ('21) | 8.93% ('18-'23) | | <ul style="list-style-type: none"> • Retail • Manufacturing and trade • Services | <ul style="list-style-type: none"> • R&D • Production Capability • Licensing | |
| Toy Design | Same as toy manufacturing | Same as toy manufacturing | | <ul style="list-style-type: none"> • Retail • Manufacturing and trade • Services | <ul style="list-style-type: none"> • R&D • Production Capability • Licensing • IP | |
| Toy Conglomerate | Same as toy manufacturing | Same as toy manufacturing | | <ul style="list-style-type: none"> • Retail • Manufacturing and trade • Services | <ul style="list-style-type: none"> • Production Capability • Licensing • IP | |
| Video Games | \$178.31M ('21) | 14.5% ('20-'26) | | <ul style="list-style-type: none"> • Retail • Merchandise • Services | <ul style="list-style-type: none"> • R&D • Production Capability • Licensing | |
| Retailers | \$25T ('19) | 4% ('19-'25) | | <ul style="list-style-type: none"> • Retail • Merchandise • Services | <ul style="list-style-type: none"> • Production Capability • Licensing • Logistics | |

Source: (Reuters, 2020)

Games Workshop's Peer Group Margins Analysis

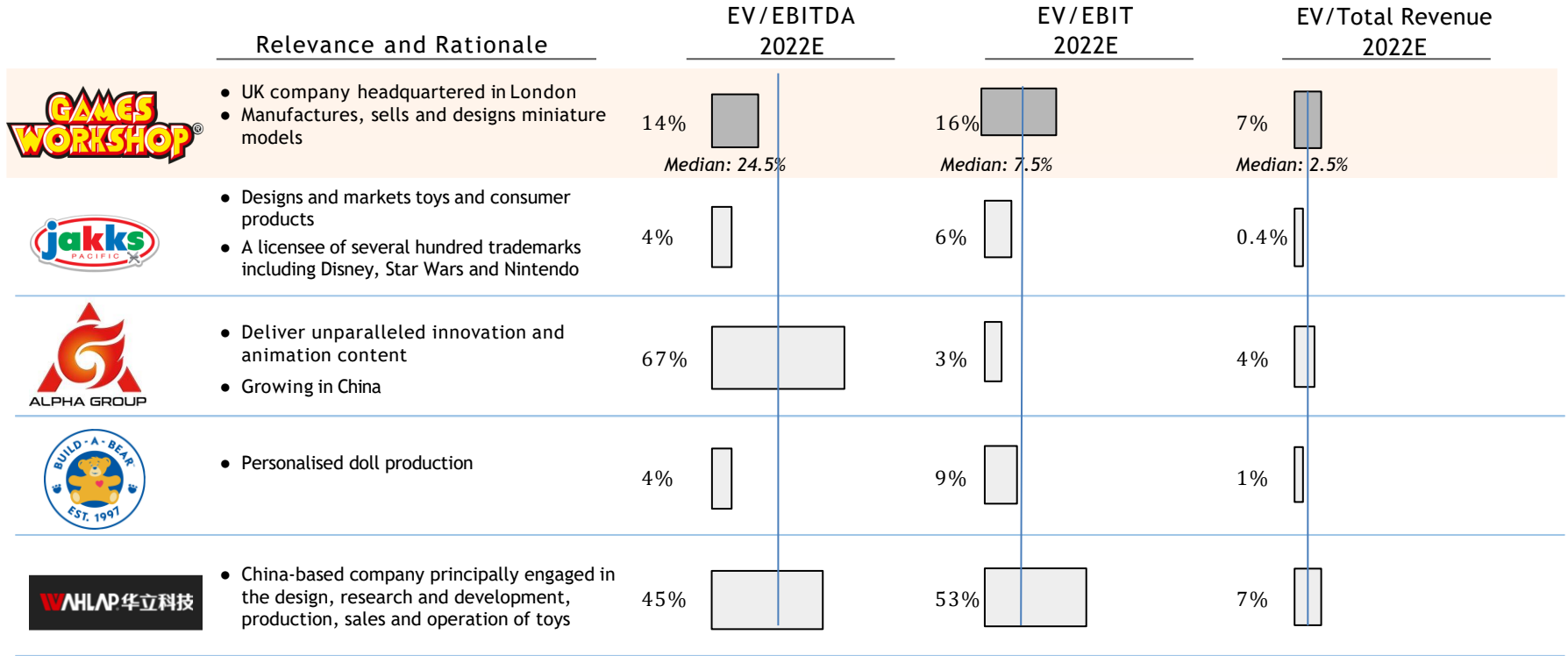
EBITDA, EBIT, and Net Income Margin Projections for 2022

| Relevance and Rationale | EBITDA margin 2022E | EBIT margin 2022E | Net Income Margin 2022E |
|--|---------------------|--------------------|-------------------------|
|  <ul style="list-style-type: none"> UK company headquartered in London Manufactures, sells and designs miniature models | 49% Median: 15% | 40% Median: 12% | 34% Median: 11% |
|  <ul style="list-style-type: none"> Designs and markets toys and consumer products A licensee of several hundred trademarks including Disney, Star Wars and Nintendo | 8% | 6% | 4% |
|  <ul style="list-style-type: none"> Deliver unparalleled innovation and animation content Growing in China | 6% | 3% | 3% |
|  <ul style="list-style-type: none"> Personalised doll production | 15% | 12% | 11% |
|  <ul style="list-style-type: none"> China-based company principally engaged in the design, research and development, production, sales and operation of toys | 27% | 17% | 15% |

Source: (Games Workshop, 2020), (Baidu, 2021), (Evercore ISI, 2021), (J.P. Morgan, 2021), (Morgan Stanley, 2021)

Games Workshop's Peer Group Margins Analysis

EV/EBITDA, EV/EBIT, and EV/Revenue Multiples



Source: (Games Workshop, 2020), (Baidu, 2021), (Evercore ISI, 2021), (J.P. Morgan, 2021), (Morgan Stanley, 2021)

Discounted Cash Flow (Part 1)

Valuation of GAW

| Discounted Free Cash Flow Valuation | | | | | | | | | | |
|---|------------|------------|------------|------------|------------|------------|------------|------------|--|--|
| <i>\$ in thousand except per share data</i> | | | | | | | | | | |
| | 2018 | 2019 | 2020 | 2021 | 2022e | 2023e | 2024e | 2025e | | |
| Free Cash Flow | \$ 64,186 | \$ 66,127 | \$ 105,688 | \$ 135,846 | \$ 127,476 | \$ 138,412 | \$ 157,718 | \$ 179,717 | | |
| Discount Factor | | | | | 1.1 | 1.22 | 1.35 | 1.49 | | |
| PV of Future Cash Flow | | | | | \$ 115,435 | \$ 113,501 | \$ 117,116 | \$ 120,847 | | |
| Total Revenue | \$ 291,325 | \$ 339,383 | \$ 356,745 | \$ 467,195 | \$ 507,321 | \$ 550,846 | \$ 627,678 | \$ 715,227 | | |
| Revenue Growth Rate: | | 16.50% | 5.12% | 30.96% | 8.59% | 8.58% | | | | |
| Net Income | \$ 78,940 | \$ 87,065 | \$ 94,312 | \$ 161,375 | \$ 144,243 | \$ 156,618 | \$ 178,463 | \$ 203,355 | | |
| Net Income Margins | 27% | 26% | 26% | 35% | 28.43% | 28.43% | 28.43% | 28.43% | | |
| Net Income | \$ 78,940 | \$ 87,065 | \$ 94,312 | \$ 161,375 | | | | | | |
| FCFE / Net Income | 81.31% | 75.95% | 112.06% | 84.18% | | | | | | |

Terminal Value

| | |
|------------------------|--------------|
| Free Cash Flow | \$ 2,322,841 |
| Discount Factor | 1.49 |
| PV of Future Cash Flow | \$ 1,561,943 |

| | |
|----------------------|--------------|
| Required Return | 10% |
| Perpetual Growth | 3% |
| Today's Value | \$ 2,028,842 |
| Shares Out | 32840 |
| Fair Value of Equity | \$ 61.8 |

Average Revenue Growth Rate & Net Income Margin

| | |
|-----------------------------|--------|
| Average Revenue Growth Rate | 13.95% |
| Average Net Income Margin | 28% |

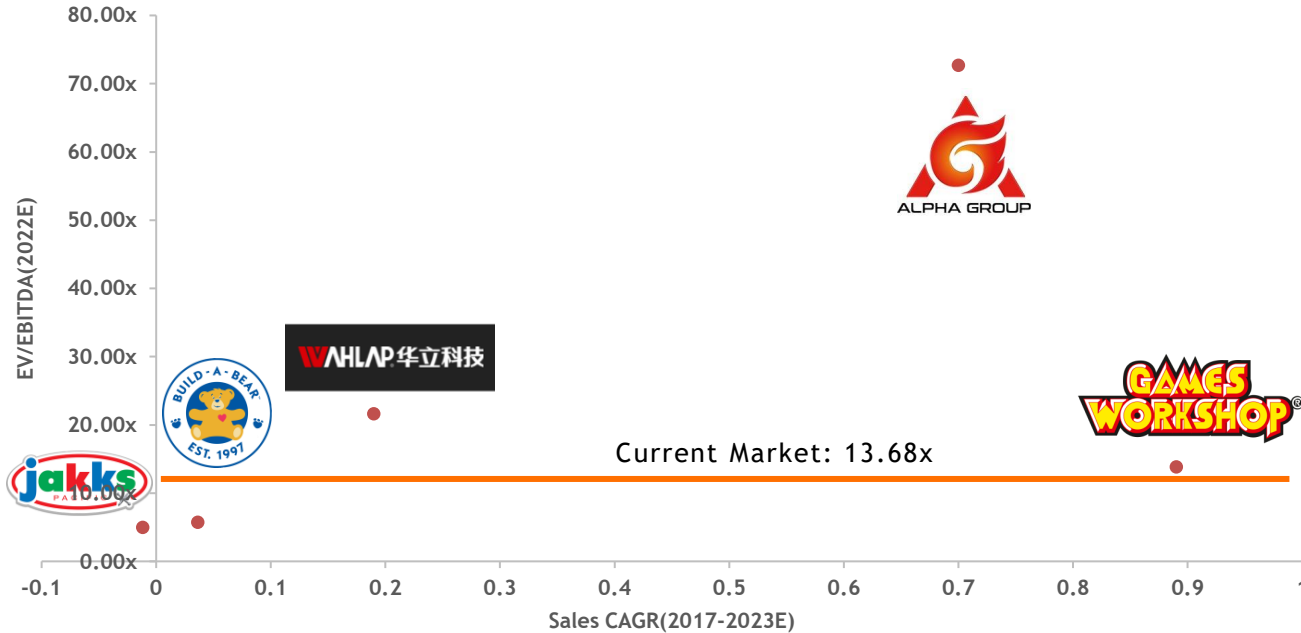
Present GAW Value = \$2.03B USD

Source: (Yahoo Finance,2021)

EV/EBITDA vs. Sales CAGR

Multiples and Sales CAGR Comparisons amongst Games Workshop's Peer Group

EV/EBITDA (2022E) vs Sales CAGR (2017-2023E)



Takeaways

Games Workshop's 2022E EV/EBITDA is trading higher than the current market multiple of 13.68x

Games Workshop's high EV/EBITDA multiple demonstrates overvaluation of the Company compared to its peer groups and the current market.

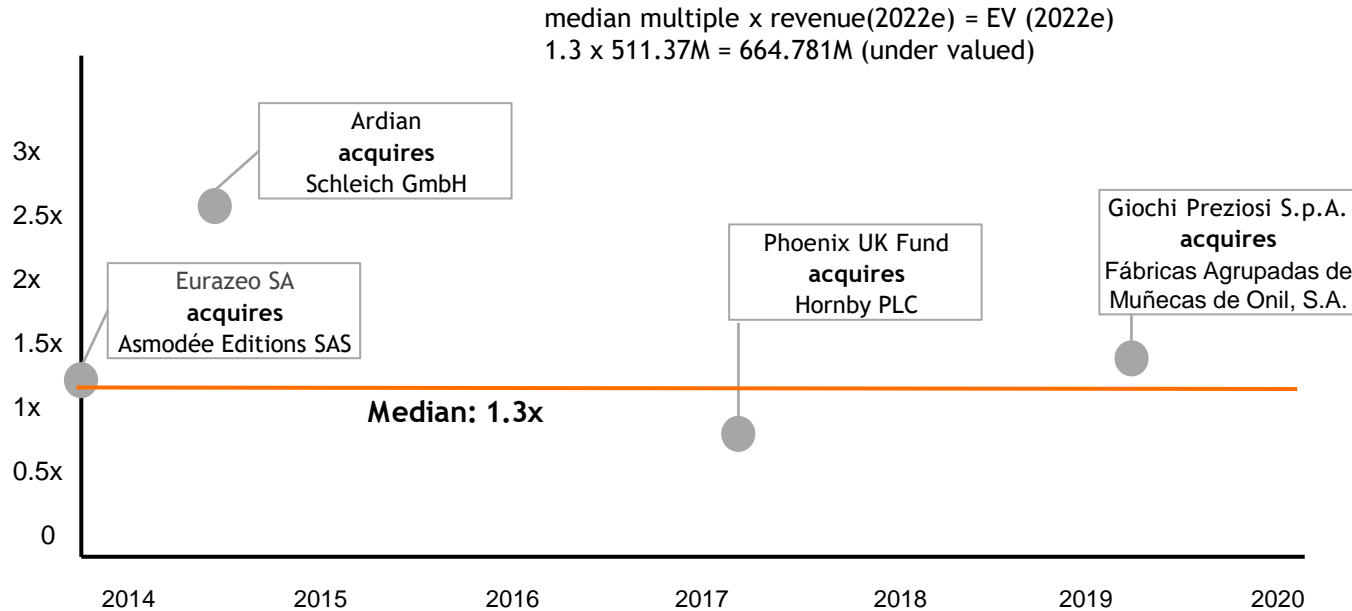
Source: (Capital IQ, 2022)

Comparable M&A Transaction Multiples

Precedent M&A Transactions

Precedent Transaction Multiples: LTM EV/REVENUE

EV/REVENUE



Takeaways

Although comparable EV/REVENUE M&A multiples can give a rough estimation of Bandai Namco's value after the potential Games Workshop acquisition, they are not the most accurate metric because...

1. Sizes of the targeted companies in comparable transactions can vary significantly
2. Premiums paid to acquire these target companies could vary greatly in the case of Bandai Namco/ Games Workshop
3. Synergies also differ on a case to case basis, as each company has its own unique offerings

Source: (Capital IQ, 2021), (Reuters, 2020)



III. Financial Analysis

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COMPARABLES

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3

SYNERGIES

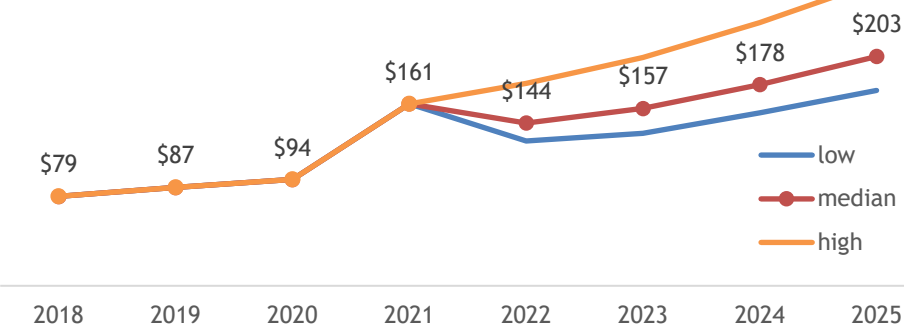


Financial Breakdown

Revenue and Net Income Growth Projections through 2025

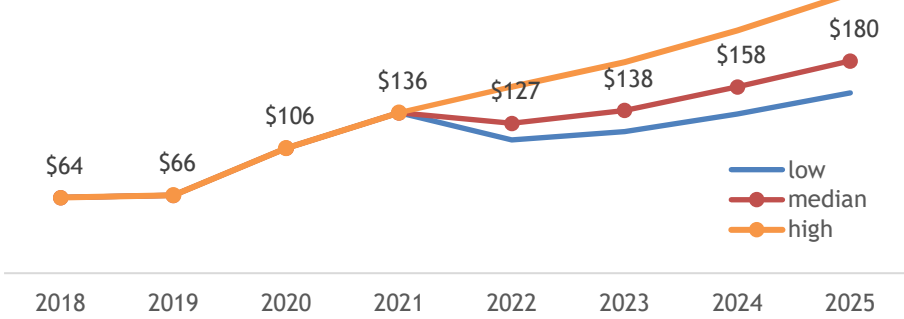
GAW's Net Income is expected to grow by 26% between 2021-2025

Predicted Net Income 2021-2025



Free Cash Flow (FCF) is expected to grow by 32% between 2021-2025

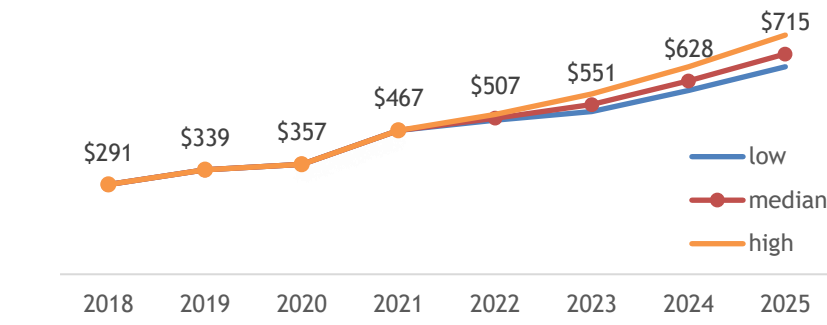
Predicted Total Revenue 2020-2025



Source: (Yahoo Finance, 2021)

GAW's Revenue is expected to grow by 63% between 2021-2025

Predicted Enterprise, Games Workshop Revenue 2021-2025



Financial Breakdown

All Revenue, Net Income and FCF Forecasts Trend Upward

- Total revenue forecasts demonstrate steady upward growth through 2025, resulting in a general 63% increase in revenue
- GAW's net income is expected to grow steadily from \$161M in 2021 to \$203M in 2025. Optimistically, the net income can rise till \$269M in 2025
- GAW is expected to have \$180M free cash outflow in 2025, a 32% increase compared to that in 2021
- These trends show that GAW's product lines (e.g., Warhammer) will continue to be in demand for years to come

Scenario Analysis

Bear, Base, and Bull Revenue Growth Projection for GAW's Business Segments

| | The Board Game Market | Competition in the Market |
|---------------------------|--|---|
| Bear Case Scenario | <ul style="list-style-type: none"> ❖ Mobile games and their retention of players from traditional board games to online games like Dota 2 and League of Legend has led to the decline of the board game market | <ul style="list-style-type: none"> ❖ Existing technology for manufacturing plastic miniatures maybe replaced by 3D printers. Hence other companies may replicate the quality and scale of production which GAW manufactures |
| Base Case Scenario | <ul style="list-style-type: none"> ❖ Online gaming platforms have different target audience, and they are independent. The board game market shares are expected to grow steadily and won't affected the mobile gaming industry | <ul style="list-style-type: none"> ❖ In addition to investing in new infrastructure, GAW continues to upgrade older infrastructure. Market share continues to grow for GAW in the toys and special interest hobbies sector, and it trades at a premium on sales-based multiples |
| Bull Case Scenario | <ul style="list-style-type: none"> ❖ Due to technological advancements and the increasing digitization of board games, board game market shares are expected to grow during the forecast period, leveraging technological advances. | <ul style="list-style-type: none"> ❖ Games Workshop remains to be the global leader of tabletop miniature gaming and it continue attract enthusiasts with wide age-range. Global distribution by GAW increase accessibility for costumer. The company also increase exposure through its online and social media marketing |

Source: (Edison Group, 2022)

Discounted Cash Flow (Part 1)

Valuation of GAW

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|---|------------|------------|------------|------------|------------|------------|------------|------------|--|--|
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Average Revenue Growth Rate & Net Income Margin

| | |
|-----------------------------|--------|
| Average Revenue Growth Rate | 13.95% |
| Average Net Income Margin | 28% |

Present GAW Value = \$2.03B USD

Source: (Yahoo Finance,2021)

Discounted Cash Flow (Part 2)

WACC Calculation

WACC Assumptions

WACC Assumption

| | |
|---------------------------|------|
| Beta | 1.19 |
| Risk-Free Rate | 2% |
| Expected Return in Market | 11% |
| Equity Risk Premium (ERP) | 9% |
| Effective Tax Rate | 19% |
| Cost of Preferred Stock | 0% |

Cost of Debt Calculation

Cost of Debt

| | |
|------------------------|-------|
| Pre-Tax Cost of Debt | 2.10% |
| Tax Rate | 19% |
| After-Tax Cost of Debt | 1.70% |

Cost of Equity Calculation

Cost of Equity

| | |
|--------------------------|--------|
| Risk-Free Rate | 2% |
| Equity Risk Premium(ERP) | 9% |
| Beta | 1.19 |
| Cost of Equity | 12.71% |

Effective Tax Rate

Calculated Effective Tax Rate

| | |
|--------------------|-----------|
| Income Before Tax | \$199,603 |
| Income Tax Expense | \$37,302 |
| | 19% |

Total Capitalization

Capitalization

| | \$Amount | %Weight | Cost% |
|---------------------------|--------------|---------|--------|
| Market Value of Debt | \$ 629,629 | 17% | 0.29% |
| Market Value of Equity | \$ 3,161,370 | 83% | 10.50% |
| Market Value of Preferred | \$ - | 0% | |
| Total Capitalization | \$ 3,790,999 | | 10.79% |

WACC = 10.79%

- The Weighted Average Cost of Capital (WACC) shows a company's cost of capital across its debt and equity.
- GAW's WACC of 10.79% is used in DCF analysis as the required rate of return (discount rate).
- Additionally, it implies that GAW must pay an average of \$0.1079 to investors for every \$1 in funding that it receives.

Source: (Capital IQ,2020)

Executive
Summary

Industry
Overview

Company
Overview

Financial
Analysis

Acquisition
Feasibility

Alternative
Solution

Conclusion

Precedent Transactions – Games Workshop Group plc

(i) Announced 02/03/2012-02/03/2022 (ii) Based in European Developed Markets (iii) Hobbies, Toys and Games Companies

| Acquirer Name | Target Name | Announcement Date | Percentage Acquired | Transaction Enterprise Value | LTM Revenue | LTM EBITDA | Valuation Multiples | | |
|---|---|-------------------|---------------------|------------------------------|-------------|------------|---------------------|----------------|--------------|
| | | | | | | | TEV/LTM Revenue | TEV/LTM EBITDA | |
| Giochi Preziosi S.p.A. | Fábricas Agrupadas de Muñecas de Onil, S.A. | 06/28/2019 | 100.0% | 280.8 | 224.7 | 22.5 | 1.3 x | 12.5 x | |
| Phoenix Asset Management Partners Ltd | Hornby PLC (AIM:HRN) | 06/21/2017 | 20.9% | 32.8 | 59.6 | NM | 0.5 x | N/A | |
| Phoenix Asset Management Partners Ltd | Hornby PLC (AIM:HRN) | 06/21/2017 | 16.2% | 41.9 | 59.0 | NM | 0.7 x | N/A | |
| | Casdon Limited | 5/7/2015 | 49.0% | 0.5 | 12.0 | 0.9 | 0.0 x | 0.6 x | |
| Ardian | Schleich GmbH | 05/18/2014 | 100.0% | 377.1 | 151.5 | N/A | 2.5 x | N/A | |
| Eurazeo SA (nka:Eurazeo SE (ENXTPA:RF)) | Asmodée Editions SAS | 11/12/2013 | 100.0% | 193.9 | 149.1 | N/A | 1.3 x | N/A | |
| Litebulb Group Limited | Meld Group Limited | 11/5/2013 | 100.0% | 11.9 | 11.5 | N/A | 1.0 x | N/A | |
| Maximum | | \$ | 377.1 | \$ | 224.7 | \$ | 22.5 | 2.5 x | 12.5 x |
| 75th Percentile | | | 237.4 | | 150.3 | | 17.1 | 1.3 x | 9.5 x |
| Median | | | 41.9 | | 59.6 | | 11.7 | 1.0 x | 6.5 x |
| 25th Percentile | | | 22.3 | | 35.5 | | 6.3 | 0.6 x | 3.6 x |
| Minimum | | | 0.5 | | 11.5 | | 0.9 | 0.0 x | 0.6 x |

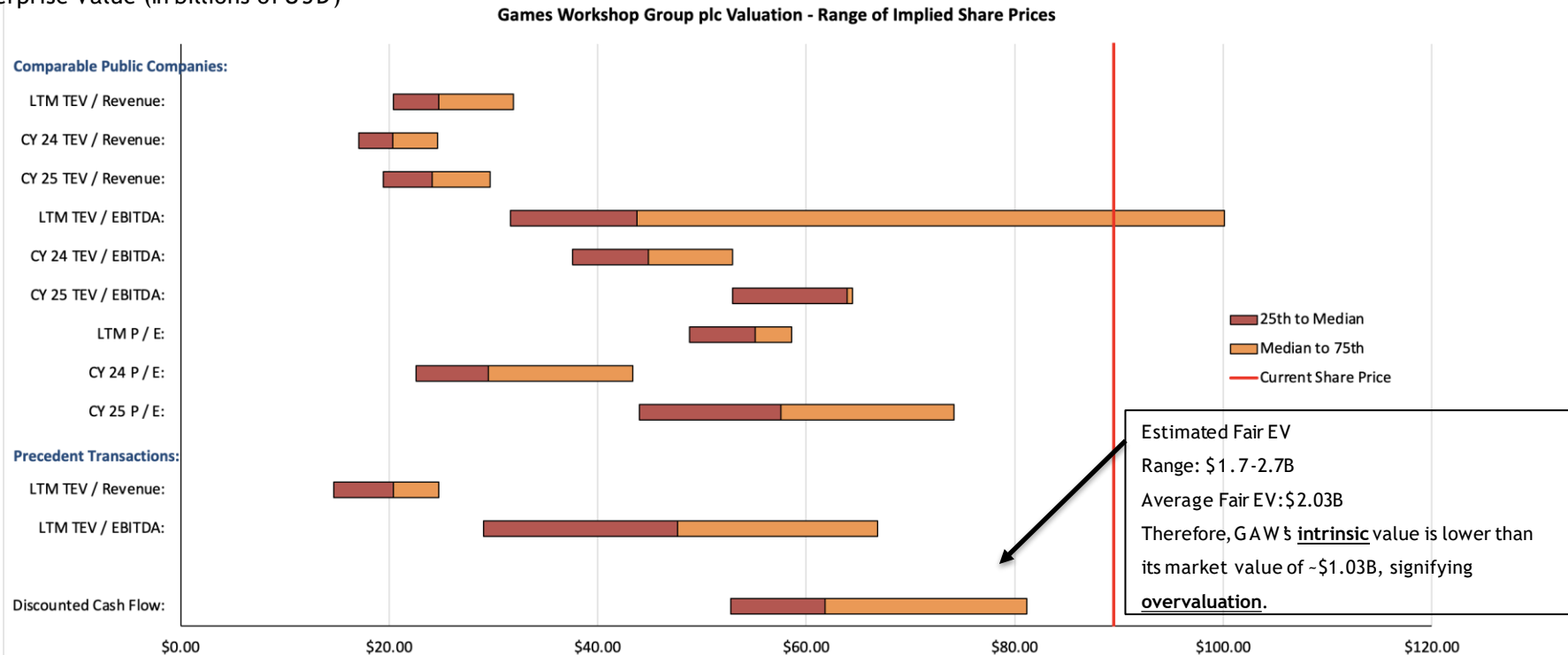
Source: (Yahoo Finance, 2021)

Fair Enterprise Value Determination

Football Field EV Range

Football Field

Fair Enterprise Value (in billions of USD)



Source: (Capital IQ, 2020)



III. Financial Analysis

1

COMPARABLES

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SYNERGIES

Synergies Overview

Analysis of Potential Synergies for Bandai Namco and Games Workshop

| | Potential Synergies of Bandai Namco and Games Workshop | Duration | Explanation |
|-----------------------------------|--|----------|---|
| Shared information and technology | <ul style="list-style-type: none"> Improvements in operational efficiencies Expansion preparation and set up regional headquarters | 1-3 yrs | <ul style="list-style-type: none"> Analysis followed Cost reduction, hard to calculate |
| Sales and marketing | <ul style="list-style-type: none"> Utilize extra sales channels Combination of warehouses and logistics solutions | 1-3 yrs | <ul style="list-style-type: none"> Analysis followed Analysis followed |
| Research and Development | <ul style="list-style-type: none"> Develop new infrastructure and new 3D printing technologies IP Metaverse synergies | 5-7yrs | <ul style="list-style-type: none"> Different product design Analysis followed Long term |
| Supply chain efficiencies | <ul style="list-style-type: none"> Utilize same suppliers and manufacturers to increase production Manufacturing products from own factories to reduce cost and increase quality | 3-5yrs | <ul style="list-style-type: none"> Logistics complications Wider access to consumer markets |
| Post-Merger | <ul style="list-style-type: none"> Employee relationship management Partner recognition reevaluation and service terms | Lifelong | <ul style="list-style-type: none"> Productivity measure Specialized partner programs difficult to integrate |

Source: (Ashkenas, 2019)

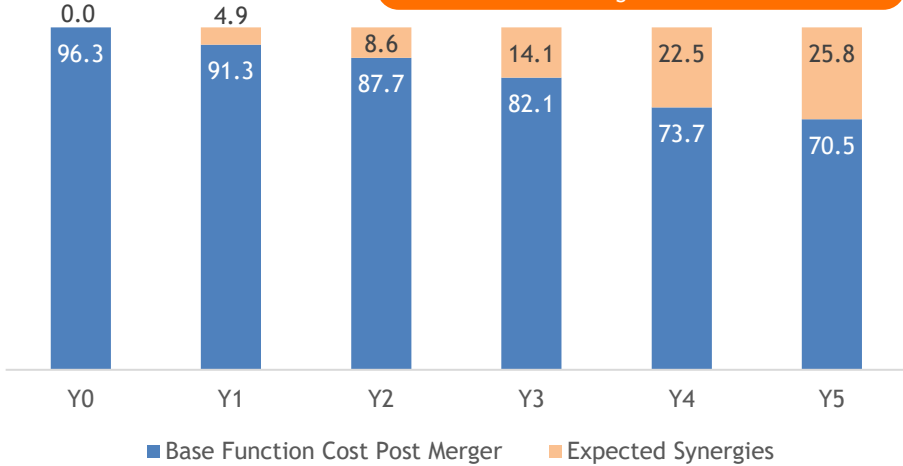
Fostering IP axis strategy

All of Game’s Workshop IPs could be used in Bandai Namco’s IP creation and expansion



Estimated Cost Savings Post Merger Y0-Y5, Millions USD

Initial base cost post merger estimated from 4% of GAW market cap. Assuming 35% is manufacturing costs from GAW, GAW(FY2021) total 14.1M USD used in manufacturing and can be saved.



Potential Collaborations

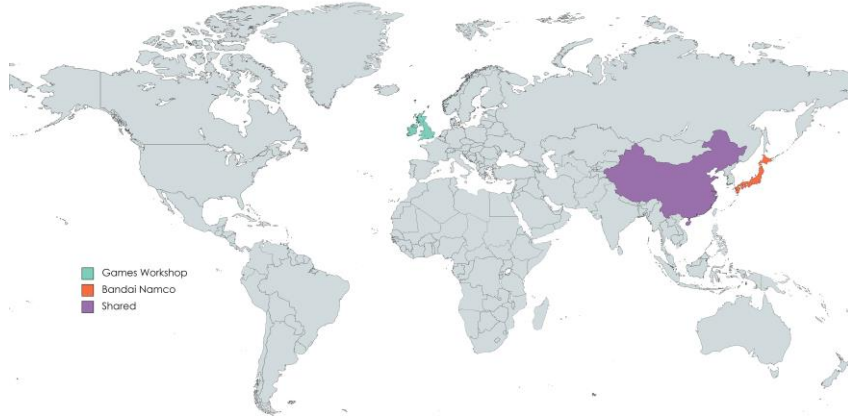
- Experiences and developments of licensing and royalty opportunities associated with video games, TV and film productions can be exchanged
- Adding Games Workshop’s IP into Bandai’s Namco \$130 million 'IP Metaverse' to enhance IP value, connecting a larger fans base and spanning projects worldwide outside of Japan
- Games Workshop acts as a booster on leveraging companies’ strengths to fuse physical products and venues with digital elements
- Reinforcing Bandai Namco’s goals - “data foundation” and IP content development

Source: (Bandai Namco, 2021), (Games Workshop, 2021)

Utilize distribution network, production capabilities and logistic solutions

Both companies heavily rely on few sources of supply. Integration of operations increases production stability to meet the global rising demands.

Location of manufacturing sites



Bandai Namco's Expansion into the west



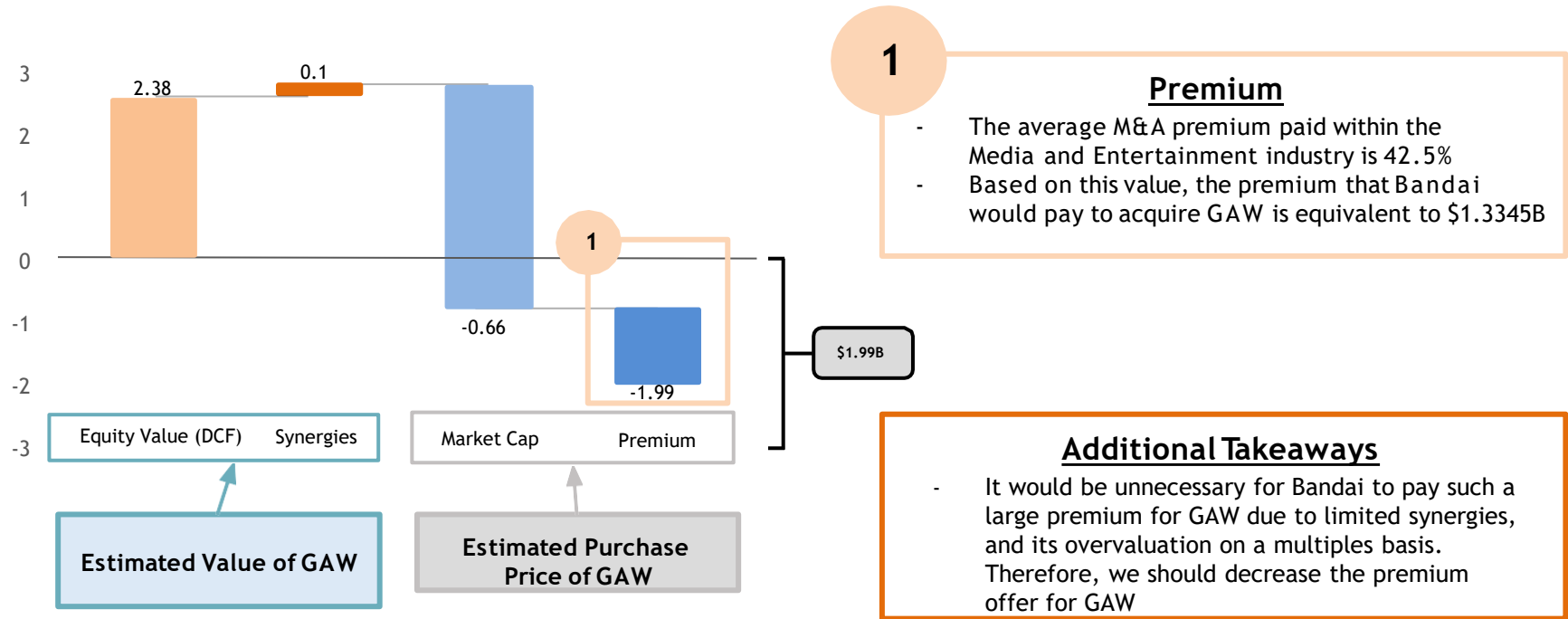
Source: (Statista, 2021), (Games Workshop, 2021), (Bandai Namco, 2021)

Combining Distribution Networks

- Games Workshop's extra investments in logistics, particularly warehousing, could add short-term pressure on profit if sales growth weakens. Logistic costs could rise to 5% from 3.7% after taking on new costs
- Bandai Namco's warehouses and experiences global distribution solutions could be utilized, thus cheaper measures and increase efficiencies on distribution developments
- For instance, overseas sales account for about 50% of annual shipments of Mobile Suit Gundam. Manufacturing networks could be reallocated based on the type of products, geographical locations and segmental demands to minimize shipping costs and forex expenses
- Miniatures for Game's Workshop are all made in the UK, a new product line of 'made in UK' high-quality figures can be implemented to Bandai Namco

Purchase Price of GAW

If Bandai Namco were to Acquire GAW, the Company would Suffer a Financial Loss of \$1.99B



Source: (Capital IQ, 2020)

IV. Acquisition Feasibility

Functionality of
Company Integration

Type of FX Risks

Transaction Risk

- The risk faced by Bandai Namco when making financial transactions between jurisdictions, e.g., Japan-UK
- Change in the exchange rate before the acquisition transaction settlement
- The time delay between transaction and settlement

Economic Risk

- Risk that Bandai Namco's market value is impacted by unavoidable exposure to exchange rate fluctuations
- Created by macroeconomic conditions such as geopolitical instability and/or government regulations

Translation Risk

- Risk faced by Bandai Namco when conducting business in a foreign jurisdiction, and of which Bandai Namco's financial performance is denoted in its domestic currency
- Risk becomes higher when Bandai Namco holds a great portion of its assets, liabilities, or equities in a foreign currency

Existing Strategies - Bandai Namco



- Reduces risks of short-term currency exchange rate fluctuations between major currencies with foreign exchange contract transactions when necessary
- Provides an opportunity to share and discuss the risks in each region, etc. at the Group Business Report Meetings at which the Directors of the Company and Representative Directors of each of the regional headquarters attend

Source: (Bandai Namco, 2021), (Bandai Namco, 2020)

FX risks - Bandai Namco

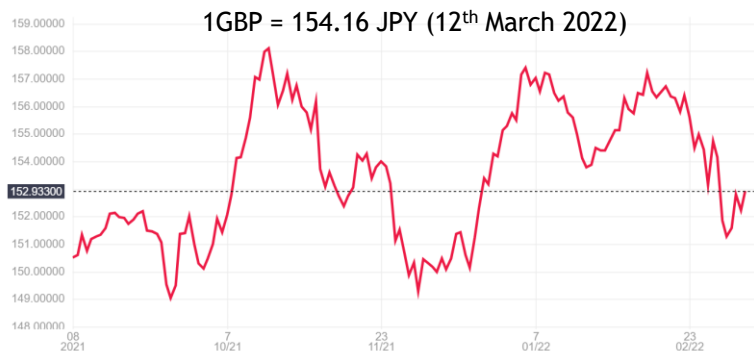
Strategies to solve the FX risk

Identifying Risk

- Assets located overseas
- Exchange rate fluctuations

Exposure

- Level of overseas business expected to increase if M&A is successful
- Exchange rate fluctuations



Source: (Bandai Namco, 2021), (Bandai Namco, 2020),

Proposed Strategies



Forward Contract

A binding contract in the FX market that locks in the exchange rate for the purchase or sale of a currency on a future date

Terms are not standardized, can be tailored to an amount & for any maturity or delivery period



Deal-Contingent Hedge

Like a derivative which combines the best aspects of a standard FX forward and an FX option

No payment upfront and Bandai Namco can lock in a forward rate

If the M&A is successful, a small spread is added to pay for the hedge. If it fails, the hedge disappears and there's no fee



Risk Reversals

Allows Bandai Namco to hedge its position by buying and selling options simultaneously

Required to pay a premium to buy an option

This cost may be offset by income produced by writing an option



Vanilla Option

Enables purchase or sale of an underlying asset at a pre-determined strike price inside a defined timeframe and for any maturity or delivery period

Call and put options, which give owners the right, but not the obligation to buy or sell an underlying asset

Value Creation for Shareholders

Accretion/Dilution Analysis



| Acquirer | Target | Pro |
|----------------|------------------|----------------|
| Bandai Namco's | Games Workshop's | Forma (Year 1) |

| Acquirer | | |
|--|-------------|--|
| Current share price | \$37.44 | |
| Diluted shares outstanding | 439,340,000 | |
| 2013 Earnings per share (EPS) forecast | \$1.19 | |
| Acquirer shares issued in transaction | 48,242,521 | |

| Target | | |
|--|-----------------|--|
| Pre-deal share price | \$93.43 | |
| Offer price per share | \$110.00 | |
| % Offer Premium | 17.7% | |
| Shares outstanding | 32,840,000 | |
| Offer value | \$3,612,400,000 | |
| 2013 Earnings per share (EPS) forecast | \$4.84 | |

| Accretion / dilution analysis | | |
|----------------------------------|---------------|---------------|
| Implied standalone net income | \$522,814,600 | \$158,945,600 |
| Implied standalone pretax income | \$871,357,667 | \$264,909,333 |

| | |
|---|-----------------|
| Pro forma pretax income - unadjusted | \$1,136,267,000 |
| Less: Interest expense from new deal debt | (\$90,310,000) |
| Less: Incremental D&A expense | (\$2,880,000) |
| Less: Deal fees | (\$5,000,000) |
| Less: Financing fees amortization | (\$400,000) |
| Plus: Synergies | \$100,000,000 |
| Pro forma pretax income - adjusted | \$1,137,677,000 |

| | |
|------------------------------|----------------------|
| Pro Forma Net Income | \$682,606,200 |
| Pro Forma Shares Outstanding | 487,582,521 |

| | |
|---------------------------------------|---------------|
| Pro Forma EPS | \$1.40 |
| Acquirer standalone EPS | \$1.19 |
| Accretion / Dilution per share | \$0.21 |
| Accretion / Dilution % | 17.6% |

Source: (Wall Street Prep, 2022)

| Deal Assumptions | |
|------------------------------------|-----------------|
| Deal date: | 31/12/2022 |
| Form of consideration | |
| % Stock | 50.0% |
| % Cash | 50.0% |
| Tax rate: | 40.00% |
| Deal debt: | |
| Acquirer new borrowing | \$1,806,200,000 |
| Term of loan | 5 years |
| Interest rate on new debt | 5.0% |
| Financing fees | \$2,000,000 |
| Annual financing fee amortization | \$400,000 |
| Synergies: | \$100,000,000 |
| Asset write-ups: | |
| Book value of target assets | \$171,200,000 |
| Fair market value of target assets | \$200,000,000 |
| Asset write-up | \$28,800,000 |
| Useful life | 10 years |
| Incremental D&A expense | \$2,880,000 |
| Deal fees: | \$5,000,000 |

We are offering 17.7% price premium to stockholders based on our financial analysis. The cash portion will be financed entirely by debt, while 50% of the acquisition will be financed by stocks, 50% in cash. Games Workshop contributes \$100M USD in synergies, which increases value per share by \$0.21. Trading on equity maximizes shareholder return by 17.6%.

Sensitivity analysis

| Accretion / dilution sensitivity at various % consideration and \$ offer price per share assumptions | | | | |
|--|----------|----------|--------|--------|
| Offer price: | | % stock: | | |
| | | 0% | 50% | 100% |
| | \$80.00 | \$0.31 | \$0.28 | \$0.26 |
| | \$93.43 | \$0.28 | \$0.25 | \$0.22 |
| | \$130.00 | \$0.20 | \$0.17 | \$0.14 |

Executive Summary

Industry Overview

Company Overview

Financial Analysis

Acquisition Feasibility

Alternative Solution

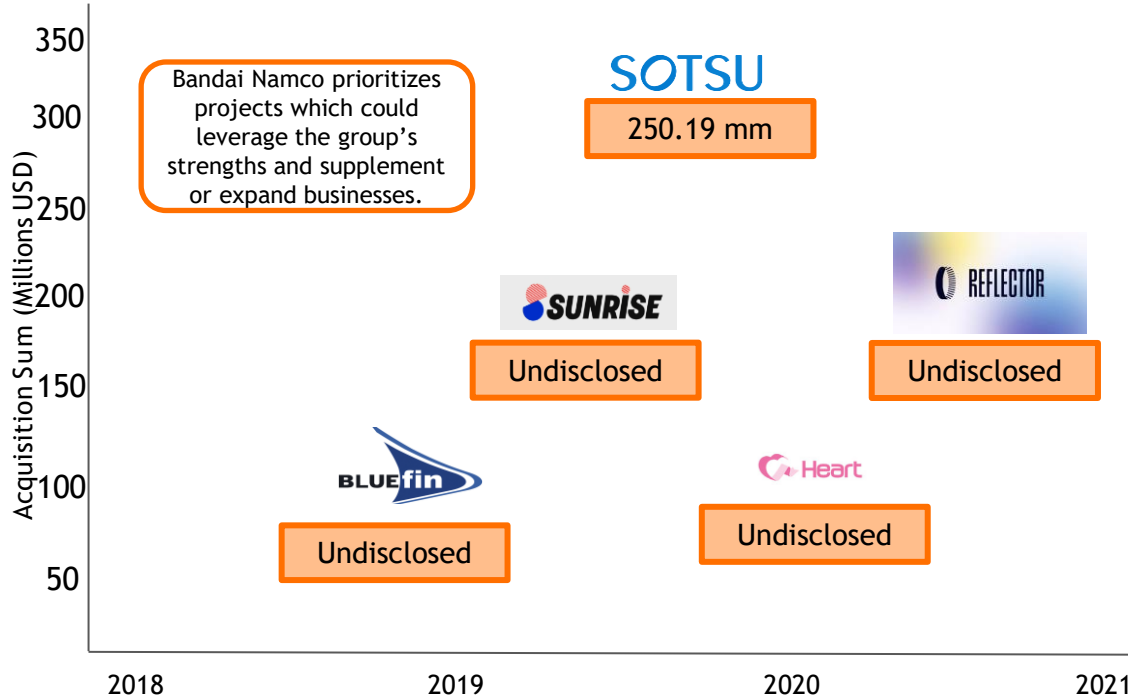
Conclusion

Bandai Namco's Past Acquisitions Forecast Future Mergers

Bandai Namco has gone through 12 total acquisitions. Most are private investments.

Bandai Namco's major M&A strengthens entertainment capabilities and IP Axis

Bandai Namco's Major Acquisitions and Mergers 2018-2021



Bandai Namco's Investments by Round Type

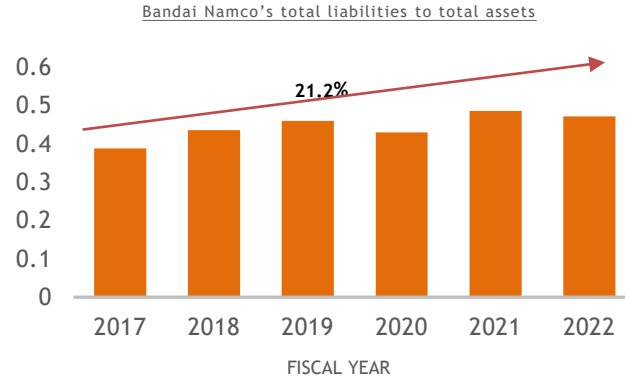
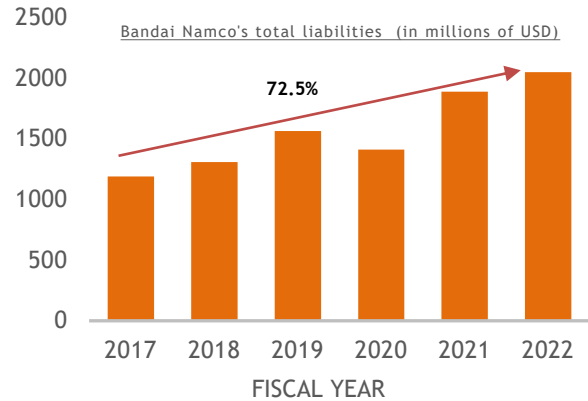


- 4 out of 12 acquisitions are disclosed and most acquisitions occur in the growth stage
- Mostly rely on private investments on a relatively small scale

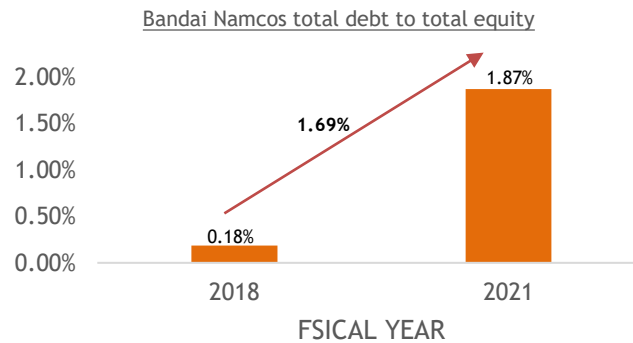
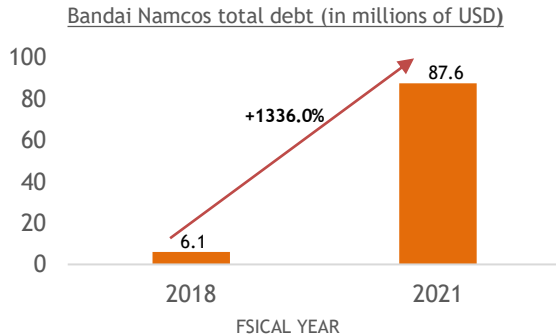
Source: (Bandai Namco, 2021), (Capital IQ, 2021)

Debt Financing Feasibility

Given Bandai Namco's 2021 Total Debt and Liabilities, Debt-Financing is Unfeasible



In 2022, Bandai Namco's total debt grew 1136% from \$6.1m to \$87.6m. Consequently, total liabilities grew 72.5% from \$1189m to \$2051m.

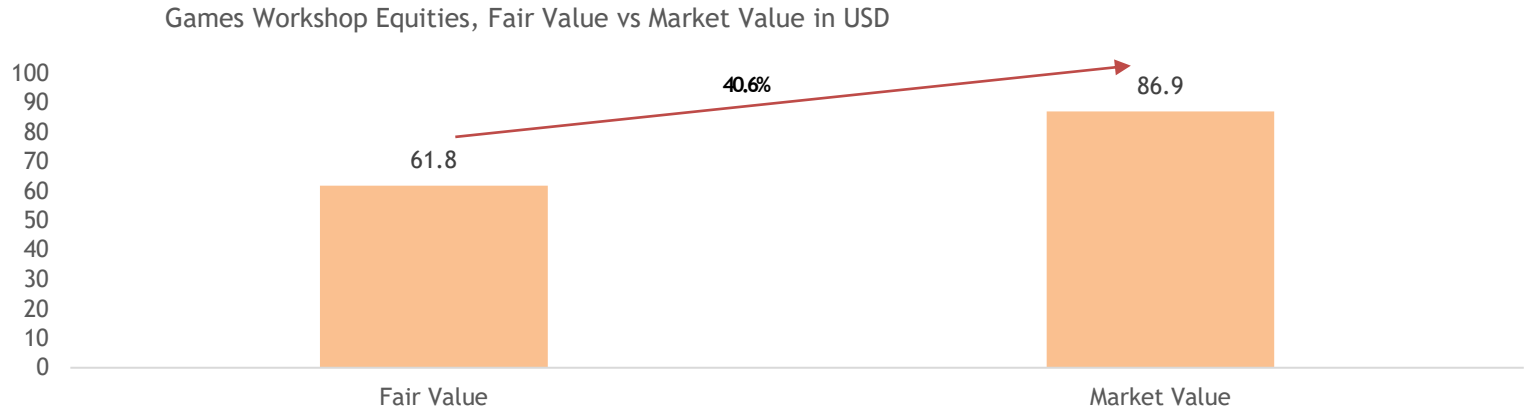


Bandai Namco has a rapid increase in debt recently, which puts further stress on the company if were to acquire Games Workshop using debt financing. In consequence, it reduces the free cash flow available for other segments.

Source: (Capital IQ, 2021)

Games Workshop Overvaluation and Purchase Price

Based on Fair EV Calculations, Bandai Should Not Acquire GAW due to Overvaluation and High Premiums



Games Workshop is Overvalued

There is a 40.6% increase when comparing the fair value of equity to the market value. It means that Bandai Namco would need to acquire a company that is trading at almost double its fair value of equity.

17.6% premium is considerably high given that Bandai Namco is acquiring a company with double its value of equity

Source: (Capital IQ, 2020)

Conclusively...

Bandai Namco should not acquire Games Workshop

Synergies do not justify the costs associated.

- Financial modeling and DCF show **Games Workshop is 40.6% overvalued**
- Synergies of **\$100M do not justify** expenses needed to complete overall transaction
- Games Workshop's online business is relatively underdeveloped

Company loses fundamental innovation driver.

- Debt financing would have to be used to complete merger and Bandai Namco overall **debt is considerably high**
- The **clash** between Japanese and European **corporate cultures** might decrease employee morale
- Bandai Namco lessens its ability to deliver innovative products due to lack of diversification in GAW's business (target demographics), thereby **losing brand value**

Source: (Bandai Namco, 2021), (Games Workshop, 2021)

V. Alternative Solution

Looking further

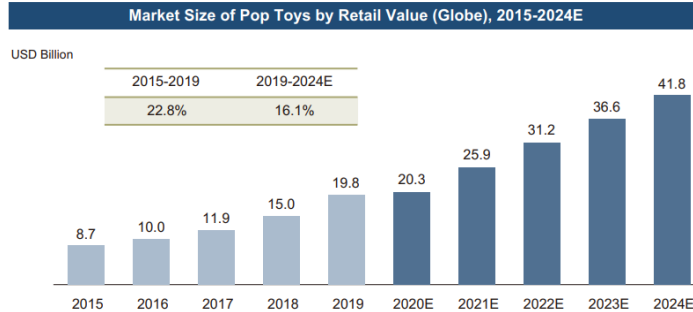
Pop Mart Overview

Chinese Toy Manufacturer Founded in Beijing in 2010



Key Financials

- Market cap: 54.325B HKD
- EV: 49.34B HKD
- EV/EBITDA: 48.32x
- P/E: 54.03x
- Dominating 75% market share



- CAGR :16.1% (2019-2024E) in the Pop Toys industry
- IPO at 38.5HKDper share, doubled in share value to 77.1 HKD at the end of the day

Pop Mart Industry Partners



Main Competitor



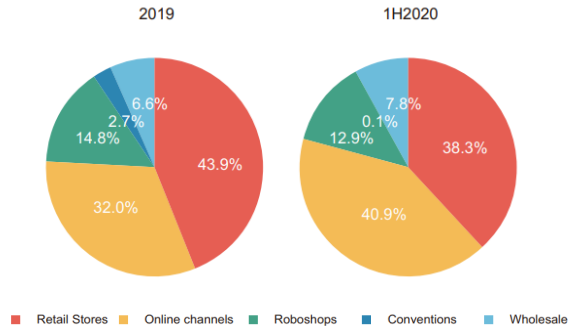
Source: (Pop Mart, 2021), (Pop Mart, 2020),

Company Overview

- Sells 8 categories of lifestyle commodities
- Toy, Home, Digital, Stationary, Bags, Accessories, Beauty and Candy.
- Creative IP market growth potential
- Strong APAC presence, recent opening of London store
- Founded in Beijing in 2010

In 2019& 1H2020 >38 % of Pop Mart's sales are Contributed by retail stores

Segments sales ratio break down



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Pop Mart Overview

Chinese Toy Manufacturer Founded in Beijing in 2010

POP MART

Business Model

- Aim to expand its presence in Japan, Korea, Singapore and Europe
- Build a presence on global social media platforms, an outward expansion should be expected in the coming years.
- Seek to capitalize on the historic changes to the consumer market's preferences, driven by the younger generation's shift in consumption patterns
- Open 150+ new retail shops over the next 2 years.

Acquisition Rationale

Existing IP

- Bandai Namco and Pop Mart can have cross over collaborations for new products

APAC Presence

- Pop Mart has a very strong presence in China, and it has an established fan base across Asia. Bandai Namco can expand its APAC Presence and extent it beyond Japan

Stylish and new

- Pop Mart has been leading the revolution of China's pop toy culture, growing the industry from a niche market to the mainstream pop culture

Source: (Pop Mart, 2021), (Pop Mart, 2020),

Growth Strategies

1. Increasing Release of IP Creation

- High-quality content and IPs also create opportunities for cross-over collaborations to attract more fans.

2. From niche to mainstream

- 'Blind Box' concept makes pop toys more desirable, affordable and accessible to fans, further bringing the pop toy market into the mainstream

3. Dedicated and Growing Fan Base

- With stylish design and aesthetic value, pop toys can be owned for display, collection or exchange

4. Expand into overseas market and access channel

- Expand into Japan, Korea and Singapore
- Open 70 overseas retail stores and 700 overseas roboshops in 2022

5. Broaden Product and Service Offerings

- License more IPs and expand opportunities for collaboration in other forms



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Pop Mart's Peer Group Margins Analysis EBITDA, EBIT, and Net Income Margin Projections for 2022

POP MART

Sawrio

BUILD-A-BEAR EST. 1997

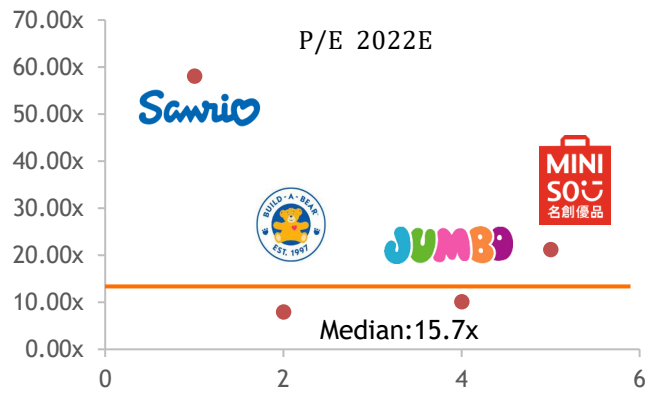
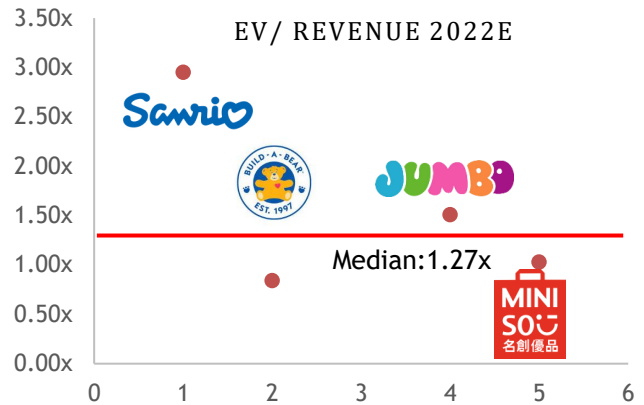
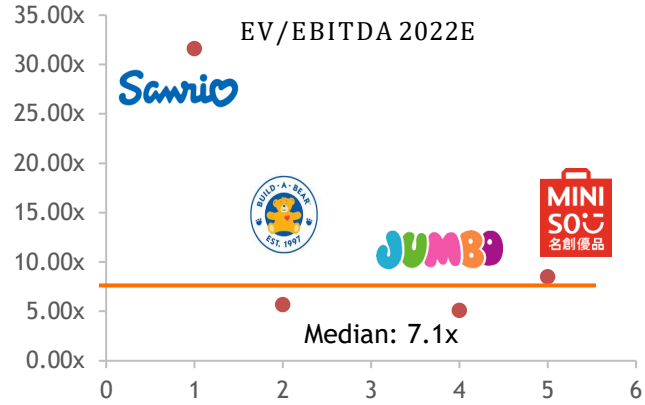
kidsland

JUMBO

MINI SO 名創優品

Relevance and Rationale

- Chinese pop toy manufacturer & retailer
- Share price doubled on the day of IPO
- Japanese company that designs, licenses, and produces products focusing on the kawaii segment of Japanese popular culture
- Personalised doll production
- Wholesale toys, infant products
- Greek company whose main operation is retail sale of toys, baby items, seasonal items, decoration items, books and stationery
- Japanese-inspired lifestyle products offering high quality household goods and cosmetics at affordable prices.



Valuation Summary

1.27 x Pop Mart Revenue (2022E) = 1151.1153M

7.10 x Pop Mart EBITDA (2022E) = 2158.4M

Pop Mart EV (2021) = 6452M

Therefore
POP MART
Is
OVERVALUED

Source (Capital IQ,2020)

Discounted Cash Flow (Part 1)

Valuation of Pop Mart

| Discounted Free Cash Flow Valuation | | | | | | | | |
|--------------------------------------|-----------|------------|------------|------------|------------|--------------|--------------|--------------|
| \$ in thousand except per share data | | | | | | | | |
| | 2018 | 2019 | 2020 | 2021e | 2022e | 2023e | 2024e | 2025e |
| Free Cash Flow | \$15,869 | \$64,370 | \$90,030 | \$132,337 | \$195,222 | \$287,988 | \$424,835 | \$626,709 |
| Discount Factor | | | | 1.14 | 1.3 | 1.48 | 1.68 | 1.91 |
| PV of Future Cash Flow | | | | \$116,255 | \$150,657 | \$195,239 | \$253,013 | \$327,883 |
| Total Revenue | \$ 81,293 | \$ 265,982 | \$ 397,128 | \$ 592,684 | \$ 874,317 | \$ 1,289,777 | \$ 1,902,658 | \$ 2,806,769 |
| Revenue Growth Rate: | | 227.19% | 49.31% | 49.24% | 47.52% | | | |
| Net Income | \$ 15,724 | \$ 71,277 | \$ 82,713 | \$ 132,303 | \$ 195,171 | \$ 287,913 | \$ 424,725 | \$ 626,547 |
| Net Income Margins | 19% | 27% | 21% | 22% | 22.32% | 22.32% | 22.32% | 22.32% |
| Net Income | \$ 15,724 | \$ 71,277 | \$ 82,713 | | | | | |
| FCFE / Net Income | 100.92% | 90.31% | 108.85% | | | | | |

Terminal Value

| | |
|------------------------|-------------|
| Free Cash Flow | \$5,668,024 |
| Discount Factor | 1.91 |
| PV of Future Cash Flow | \$2,965,405 |

| | |
|----------------------|-------------|
| Required Return | 14% |
| Perpetual Growth | 3% |
| Today's Value | \$4,008,451 |
| Shares Out | 1400527 |
| Fair Value of Equity | \$2.86 |

Average Revenue Growth Rate & Net Income Margin

| | |
|-----------------------------|--------|
| Average Revenue Growth Rate | 47.52% |
| Average Net Income Margin | 22% |

Present Pop Mart Value = \$4.01B USD

Source: (Yahoo Finance,2021)

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Discounted Cash Flow (Part 2)

WACC Calculation

WACC Assumptions

| WACC Assumption | |
|---------------------------|-------|
| Beta | 1.38 |
| Risk-Free Rate | 1.72% |
| Expected Return in Market | 11% |
| Equity Risk Premium (ERP) | 9.28% |
| Effective Tax Rate | 28% |
| Cost of Preferred Stock | 0% |

Cost of Debt Calculation

| Cost of Debt | |
|------------------------|--------|
| Pre-Tax Cost of Debt | 18.73% |
| Tax Rate | 28% |
| After-Tax Cost of Debt | 13.49% |

Cost of Equity Calculation

| Cost of Equity | |
|--------------------------|--------|
| Risk-Free Rate | 1.72% |
| Equity Risk Premium(ERP) | 9.28% |
| Beta | 1.38 |
| Cost of Equity | 14.53% |

Effective Tax Rate

| Calculated Effective Tax Rate | | |
|-------------------------------|----|--------|
| Income Before Tax | \$ | 78,463 |
| Income Tax Expense | \$ | 21,766 |
| | | 28% |

Total Capitalization

| Capitalization | | | |
|---------------------------|--------------|---------|-------|
| | \$Amount | %Weight | Cost% |
| Market Value of Debt | \$ 37,347 | 1% | 5.44% |
| Market Value of Equity | \$ 7,294,592 | 99% | 9.86% |
| Market Value of Preferred | \$ - | 0% | |
| Total Capitalization | \$ 7,331,939 | | 15.4% |

WACC = 15.4%

- The Weighted Average Cost of Capital (WACC) shows a company's cost of capital across its debt and equity.
- Pop Mart's WACC of 10.79% is used in DCF analysis as the required rate of return (discount rate).
- Additionally, it implies that Pop Mart must pay an average of \$0.154 to investors for every \$1 in funding that it receives.

Source: (Capital IQ,2020)

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Precedent Transactions – Pop Mart Interational Group Ltd

(i) Announced between 02/03/2012-02/03/2022 (ii) Based in Asia/Pacific (iii) Hobbies, Toys and Games Companies

| Acquirer Name | Target Name | Announcement Date | Percentage Acquired | Transaction Enterprise Value | LTM Revenue | LTM EBITDA | Valuation Multiples | |
|---|---|-------------------|---------------------|------------------------------|-------------|------------|---------------------|----------------|
| | | | | | | | TEV/LTM Revenue | TEV/LTM EBITDA |
| Round One Corporation (TSE:4680) | Goldlok Holdings(Guangdong) Co.,Ltd. (SZSE:002348) | 29/10/2021 | 4.5% | 229.7 | 72.2 | N/A | 3.2 x | N/A |
| | SK Japan Co.,Ltd. (TSE:7608) | 22/10/2021 | 32.8% | 11.9 | 47.6 | 3.0 | 0.3 x | 4.0 x |
| | Guangdong Qunxing Toys Joint-Stock Co., Ltd. (SZSE:00257) | 3/8/2021 | 2.8% | 425.5 | 13.7 | 7.1 | 31.1 x | 60.0 x |
| | Amuse Group Holding Limited (SEHK:8545) | 22/2/2021 | 6.0% | 7.2 | 26.7 | 3.2 | 0.3 x | 2.3 x |
| Corstone Asia Co., Ltd. ; Mirae N Co., Ltd. ; Nvestor | Youngtoys,Inc. | 27/8/2020 | 100.0% | 126.4 | N/A | N/A | N/A | N/A |
| | Shifeng Cultural Development Co., Ltd. (SZSE:002862) | 19/8/2020 | 5.0% | 329.9 | 45.6 | 1.2 | 7.2 x | N/A |
| Wuhan Golden Laser Co., Ltd (SZSE:300220) | Doll No. 1 Wuhan Technology | 5/7/2020 | 82.9% | 2.7 | 1.4 | N/A | 2.0 x | N/A |
| | C & H HK Corp., Ltd | 27/3/2020 | 25.7% | 4.5 | N/A | N/A | N/A | N/A |
| Beijing Jiulianhuan Data Service Center (Limited Pa | Guangdong Qunxing Toys Joint-Stock Co., Ltd. (SZSE:00257) | 4/11/2018 | 20.0% | 506.9 | 2.8 | N/A | N/A | N/A |
| | Break co., ltd | 10/2/2017 | 100.0% | 2.8 | 27.8 | N/A | 0.1 x | N/A |
| Mattel Marketing Holdings Pte. Ltd. | SONOKONG Co., Ltd. (KOSDAQ:A066910) | 10/10/2016 | 12.1% | 96.6 | 120.8 | 9.0 | 0.8 x | 10.7 x |
| | Perfectech International Holdings Limited (SEHK:765) | 3/10/2016 | 80.0% | 70.2 | 29.3 | 3.4 | 2.4 x | 20.4 x |
| BANDAI NAMCO Holdings Inc. (TSE:7832) | WiZ Co., Ltd. | 8/3/2016 | 55.0% | 3.7 | 6.4 | N/A | 0.6 x | N/A |
| BANDAI NAMCO Holdings Inc. (TSE:7832) | WiZ Co., Ltd. | 9/3/2016 | 32.4% | 15.3 | 6.3 | N/A | 2.4 x | N/A |

| | | | | | | | | |
|-----------------|----|-------------|----|-------------|----|------------|--------------|---------------|
| Maximum | \$ | 506.9 | \$ | 120.8 | \$ | 9.0 | 31.1 x | 60.0 x |
| 75th Percentile | | 203.8 | | 46.1 | | 6.2 | 3.2 x | 20.4 x |
| Median | | 42.8 | | 27.3 | | 3.3 | 2.0 x | 10.7 x |
| 25th Percentile | | 229.7 | | 6.4 | | 3.0 | 0.4 x | 4.0 x |
| Minimum | | 2.7 | | 1.4 | | 1.2 | 0.1 x | 2.3 x |

Fair Enterprise Value Determination

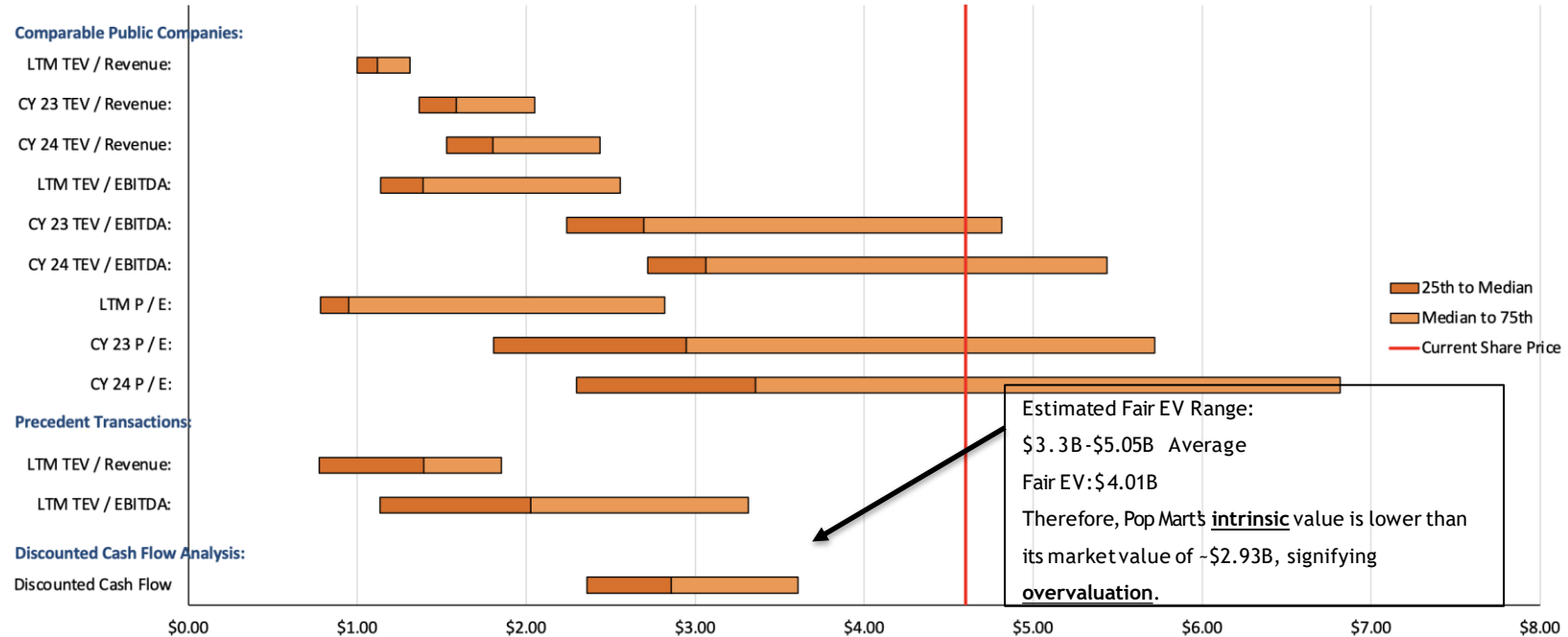


Football Field EV Range

Football Field

Fair Enterprise Value (in billions of USD)

Pop Mart International Group Limit Valuation - Range of Implied Share Prices



Source: (Capital IQ, 2020)

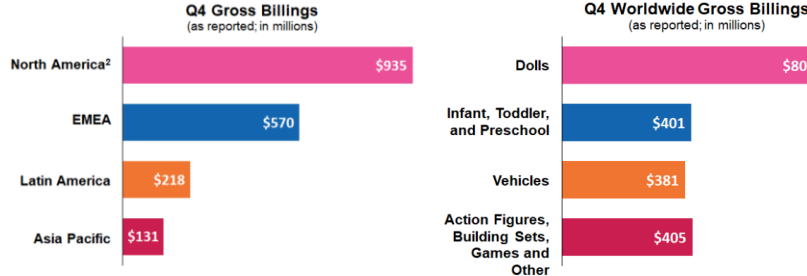
Mattel, Inc Overview



American multinational toy manufacturing and entertainment company founded in 1945

Key Financials

- Market cap: 7.97B USD
- EV: 10.17B USD
- EV/EBITDA: 9.4x
- P/E: 9.50x
- Net income: 903.0M USD
- CAGR : 7.3% (2021-2028E) in the global toys market



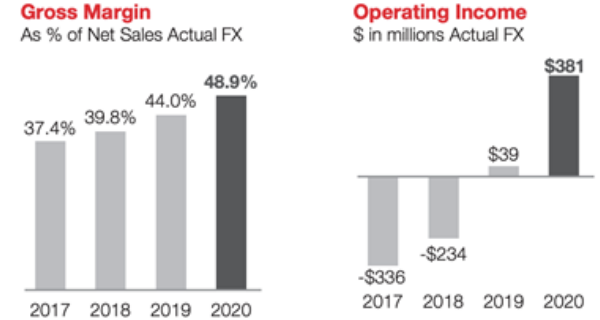
Source: Mattel Inc, 2021 Q4 Earnings Presentation

- Total Revenue increase in the 3 quarter 2021 by 8 % year on year

Company Overview

- Offers a variety of products for children and families of all ages
- Iconic brands such as Barbie, Fisher-Price, Thomas & Friends and Hot wheels,
- Over 5100M USD in gross billings
- It owns 13 factories and has companies in 35 locations worldwide
- Products available in more than 150 countries through retail and e-commerce companies.

Operating income expected to continue to increase in 2022



Source: Mattel Inc, 2021 Q4 Earnings Presentation

Mattel Industry Partners



Main Competitor



Source: (Mattel Inc 2022)

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Mattel, Inc Overview



American multinational toy manufacturing and entertainment company founded in 1945

Business Model

- Offers a different products in different age groups from 0-6months to 5+ years
- Owns the intellectual properties of different brands to secure its genuine business assets and market share
- License agreements with brands and e-commerce companies to develop their marketing strategy
- Owns manufacturing facilities overseas and outsources manufacturing to Mexico, China and Indonesia

Acquisition Rationale

Existing IP

- Partner with World Patent Marketing and sell the products through World Patent Marketing's Online Superstore

Global Presence

- Mattel has a very strong worldwide presence. Bandai Namco can expand its global presence and extent it beyond Japan

Market Leader

- Mattel has been leading the toy culture, growing the industry even further

Growth Strategies

1. Optimising Operations

- Improving profitability by optimizing operations by growing their Power Brands and expanding their brand portfolio.

2. Retaining IP

- Aimed at restoring profitability and reigniting topline growth while capturing the value of Mattel's IPs

3. Expanding Retail

- Continue to expand through online retail, franchise management and e-commerce

4. New Business

- Building out its own direct-to-consumer ("DTC") business.

5. Fans

- Creating Mattel Creations, an innovative platform featuring limited edition collectable products aimed at fans of all ages.



Source: (Mattel Inc 2022)

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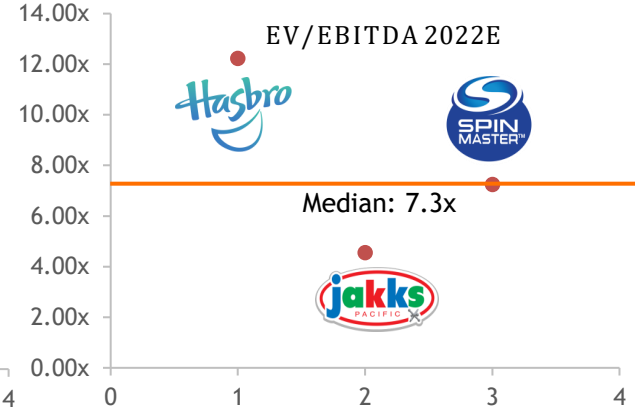
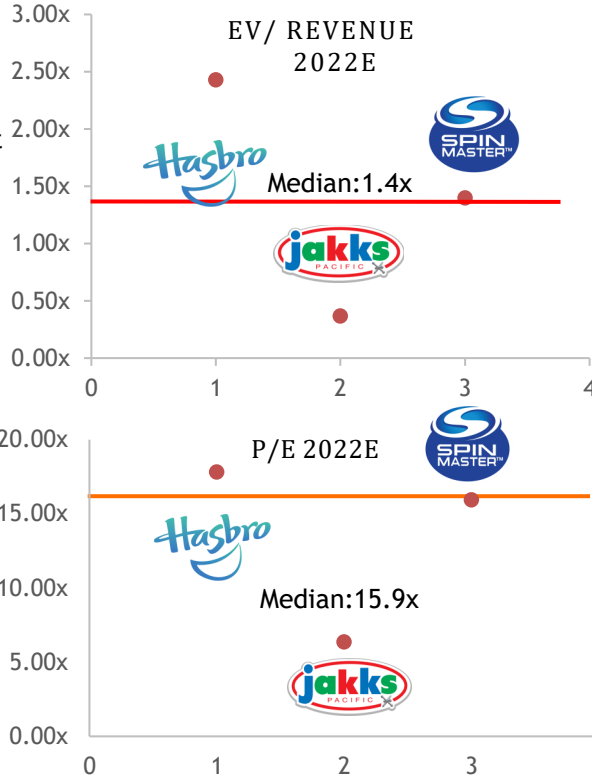
Mattel's Peer Group Margins Analysis

EV/EBITDA, EV/Revenue, and P/E Projections for 2022



Relevance and Rationale

- American multinational toy manufacturing and entertainment company
- American multinational conglomerate with toy, board game, and media assets, headquartered in Pawtucket, Rhode Island
- American company that designs and markets toys and consumer products, with a range of products that feature numerous children's toy licenses
- Canadian multinational toy and entertainment company marketing consumer products for children



Valuation Summary

1.4 x Mattel Revenue (2022E)
= 8198.876 M

7.3 x Mattel EBITDA (2022E)
= 8056.28M

Mattel EV (2021)
= 10,745.9M

Therefore
Is OVERVALUED

Source: (CapitalIQ,2022)

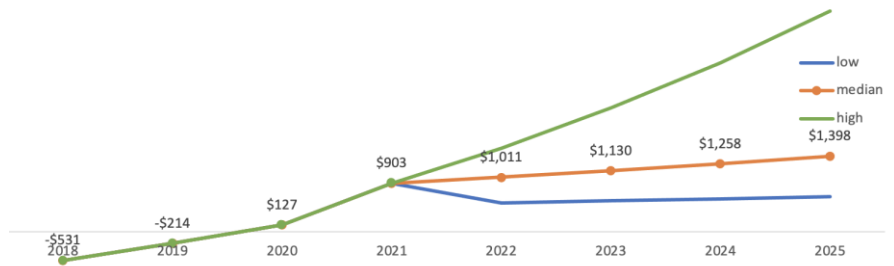


Financial Breakdown

Revenue and Net Income Growth Projections through 2025

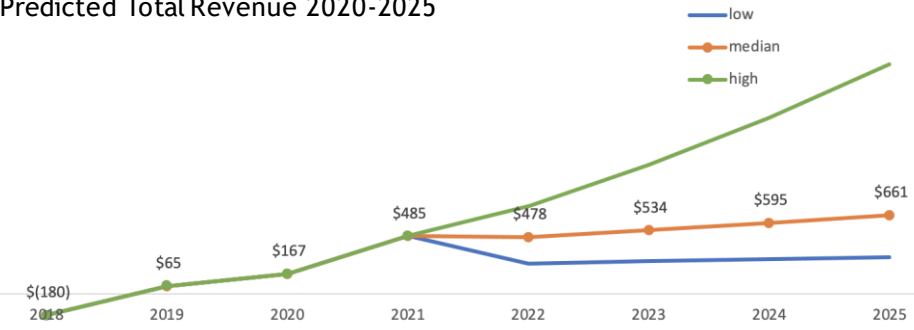
Mattel's Net Income is expected to grow by 26% between 2021-2025

Predicted Net Income 2021-2025 (In Millions USD)



Free Cash Flow (FCF) is expected to grow by 32% between 2021-2025

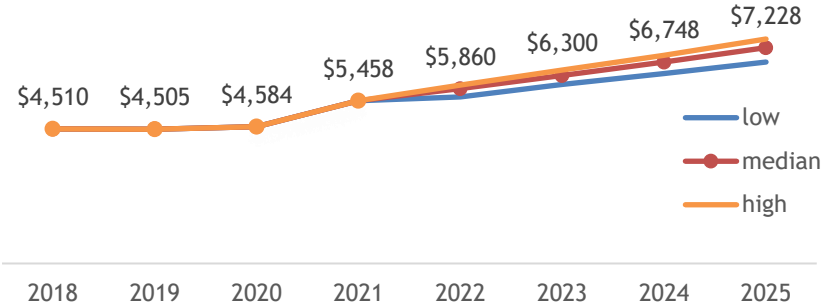
Predicted Total Revenue 2020-2025



Source: (Yahoo Finance, 2021)

Mattel's revenue is expected to grow by 32% between 2021-2025

Predicted Enterprise, Mattel Revenue 2021-2025 (In Millions USD)



Financial Breakdown

All Revenue, Net Income and FCF Forecasts Trend Upward

- Total revenue forecasts demonstrate steady upward growth through 2025, resulting in a general 63% increase in revenue
- GMW's net income is expected to grow steadily from \$161M in 2021 to \$203M in 2025. Optimistically, the net income can rise till \$269M in 2025
- GMW is expected to have \$180M free cash outflow in 2025, a 32% increase compared to that in 2021
- These trends show that GMW's product lines (e.g. Warhammer) will continue to be in demand for years to come

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Discounted Cash Flow (Part 1)

Valuation of Mattel

| Discounted Free Cash Flow Valuation | | | | | | | | | | |
|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--|--|
| <i>\$ in thousand except per share data</i> | | | | | | | | | | |
| | 2018 | 2019 | 2020 | 2021 | 2022e | 2023e | 2024e | 2025e | | |
| Free Cash Flow | \$ (179,731) | \$ 64,625 | \$ 166,903 | \$ 485,000 | \$ 477,720 | \$ 534,413 | \$ 594,730 | \$ 660,923 | | |
| Discount Factor | | | | | 1.14 | 1.29 | 1.47 | 1.67 | | |
| PV of Future Cash Flow | | | | | \$420,541 | \$414,139 | \$405,718 | \$396,909 | | |
| Total Revenue | \$ 4,510,852 | \$ 4,504,571 | \$ 4,583,660 | \$ 5,457,700 | \$ 5,860,000 | \$ 6,300,000 | \$ 6,748,118 | \$ 7,228,110 | | |
| Revenue Growth Rate: | | -0.14% | 1.76% | 19.07% | 7.37% | 7.51% | | | | |
| Net Income | \$ (530,993) | \$ (213,512) | \$ 126,628 | \$ 903,000 | \$ 1,010,534 | \$ 1,130,457 | \$ 1,258,047 | \$ 1,398,069 | | |
| Net Income Margins | -12% | -5% | 3% | 17% | 17.24% | 17.94% | 18.64% | 19.34% | | |
| Net Income | \$ (530,993) | \$ (213,512) | \$ 126,628 | \$ 903,000 | | | | | | |
| FCFE / Net Income | 33.85% | -30.27% | 131.81% | 53.71% | | | | | | |

Terminal Value

| | |
|------------------------|-------------|
| Free Cash Flow | \$6,105,020 |
| Discount Factor | 1.67 |
| PV of Future Cash Flow | \$3,666,289 |

| | |
|----------------------|-------------|
| Required Return | 14% |
| Perpetual Growth | 3% |
| Today's Value | \$5,303,595 |
| Shares Out | 352240 |
| Fair Value of Equity | \$15.06 |

Average Revenue Growth Rate & Net Income Margin

| | |
|-----------------------------|-------|
| Average Revenue Growth Rate | 7.11% |
| Average Net Income Margin | 1% |

Present Mattel Value = \$5.3B USD

Source: (Yahoo Finance,2021)

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Discounted Cash Flow (Part 2)

WACC Calculation

WACC Assumptions

| WACC Assumption | |
|---------------------------|-------|
| Beta | 1.47 |
| Risk-Free Rate | 1.72% |
| Expected Return in Market | 11% |
| Equity Risk Premium (ERP) | 9.28% |
| Effective Tax Rate | 37% |
| Cost of Preferred Stock | 0% |

Cost of Debt Calculation

| Cost of Debt | |
|------------------------|--------|
| Pre-Tax Cost of Debt | 18.70% |
| Tax Rate | 37% |
| After-Tax Cost of Debt | 11.78% |

Cost of Equity Calculation

| Cost of Equity | |
|--------------------------|-------|
| Risk-Free Rate | 1.72% |
| Equity Risk Premium(ERP) | 9.3% |
| Beta | 1.47 |
| Cost of Equity | 15.4% |

Effective Tax Rate

| Calculated Effective Tax Rate | |
|-------------------------------|--------------|
| Income Before Tax | \$183,806.00 |
| Income Tax Expense | \$68,649.00 |
| | 37% |

Total Capitalization

| Capitalization | | | |
|---------------------------|---------------|---------|-------|
| | \$Amount | %Weight | Cost% |
| Market Value of Debt | \$ 4,924,746 | 36% | 5.44% |
| Market Value of Equity | \$ 8,910,000 | 64% | 9.86% |
| Market Value of Preferred | \$ - | 0% | |
| Total Capitalization | \$ 13,834,746 | | 14.1% |

WACC = 14.1%

- The Weighted Average Cost of Capital (WACC) shows a company's cost of capital across its debt and equity.
- Mattel's WACC of 14.1% is used in DCF analysis as the required rate of return (discount rate).
- Additionally, it implies that Mattel must pay an average of \$0.141 to investors for every \$1 in funding that it receives.

Source: (Capital IQ,2020)



i) Announced between 02/03/2012-02/03/2022 (ii) Based in United States and Canada (iii) Hobbies, Toys and Games Companies

| Acquirer Name | Target Name | Announcement Date | Percentage Acquired | Transaction Enterprise Value | LTM Revenue | LTM EBITDA | Valuation Multiples | |
|--|--|-------------------|---------------------|------------------------------|-------------|------------|---------------------|----------------|
| | | | | | | | TEV/LTM Revenue | TEV/LTM EBITDA |
| Cartamundi NV | The United States Playing Card Company | 4/6/2019 | 100.0% | 220.0 | 112.0 | N/A | 2.0 x | N/A |
| Funko, Inc. (NasdaqGS:FNKO) | Forrest-Pruzan Creative LLC | 15/2/2019 | 100.0% | 12.2 | N/A | N/A | N/A | N/A |
| Edison Nation, Inc. (nka:Vincoventures, Inc. (NasdaqGS:EDN)) | Cloud B, Inc. | 30/10/2018 | 72.2% | 4.6 | N/A | N/A | N/A | N/A |
| Hasbro, Inc. (NasdaqGS:HAS) | Saban Brands Voyagers And SCG Characters And | 1/5/2018 | 100.0% | 529.2 | N/A | N/A | N/A | N/A |
| Spin Master Corp. (TSX:TOY) | GUND, Inc. | 5/3/2018 | 100.0% | 76.0 | N/A | N/A | N/A | N/A |
| Basic Fun, Inc. | All Assets of K'NEX Brands, L.P. | 9/2/2018 | 100.0% | 29.0 | N/A | N/A | N/A | N/A |
| Spin Master Corp. (TSX:TOY) | Swimways Corporation | 2/8/2016 | 100.0% | 93.5 | 90.0 | N/A | 1.0 x | N/A |
| Vtech Holdings Limited (SEHK:303) | LeapFrog Enterprises Inc. | 5/2/2016 | 100.0% | 41.0 | 222.9 | N/A | 0.2 x | N/A |
| Indian Industries, Inc. | Triumph Sports USA, Inc. | 22/1/2016 | 100.0% | 10.0 | N/A | N/A | N/A | N/A |
| | Funko, LLC | 2/11/2015 | N/A | N/A | N/A | N/A | N/A | N/A |
| Spin Master US Holdings, Inc. | Cardinal Industries, Inc. | 10/6/2015 | 100.0% | 52.6 | 43.8 | N/A | 1.2 x | N/A |
| Sassy 14, LLC | Sassy, Inc. | 28/7/2014 | 100.0% | 12.8 | N/A | N/A | N/A | N/A |
| Propel Equity Partners | Summit Products, LLC | 19/5/2014 | 100.0% | 3.1 | N/A | N/A | N/A | N/A |
| Mattel, Inc. (NasdaqGS:MAT) | MEGA Brands Inc. | 28/2/2014 | 100.0% | 447.2 | 406.5 | 45.2 | 1.1 x | 9.9 x |
| Cyber Kiosk Solutions, Inc. | XSKN, Inc. | 27/2/2013 | 35.0% | 0.2 | N/A | N/A | N/A | N/A |
| POOF-Slinky, Inc. | Fundex Games, Ltd. | 20/12/2012 | 100.0% | 1.7 | 17.2 | N/A | 0.1 x | N/A |
| | Lightman Grant, Inc. (nka:QMIS Finance Securit | 28/11/2012 | 76.9% | N/A | N/A | | N/A | N/A |
| Fairfax Financial Holdings Limited (TSX:FFH) | MEGA Brands Inc. | 21/9/2012 | 2.0% | 291.3 | 416.1 | 44.1 | 0.7 x | 6.6 x |
| JAKKS Pacific, Inc. (NasdaqGS:JAKK) | Maui Toys Inc. | 26/7/2012 | 100.0% | 65.0 | N/A | N/A | N/A | N/A |

| | | | | | | | | |
|-----------------|----|-------------|----|--------------|----|-------------|--------------|--------------|
| Maximum | \$ | 529.2 | \$ | 416.1 | \$ | 45.2 | 2.0 x | 9.9 x |
| 75th Percentile | | 93.5 | | 314.7 | | 44.9 | 1.2 x | 9.1 x |
| Median | | 41.0 | | 112.0 | | 44.7 | 1.0 x | 8.3 x |
| 25th Percentile | | 10.0 | | 66.9 | | 44.4 | 0.4 x | 7.4 x |
| Minimum | | 0.2 | | 17.2 | | 44.1 | 0.1 x | 6.6 x |



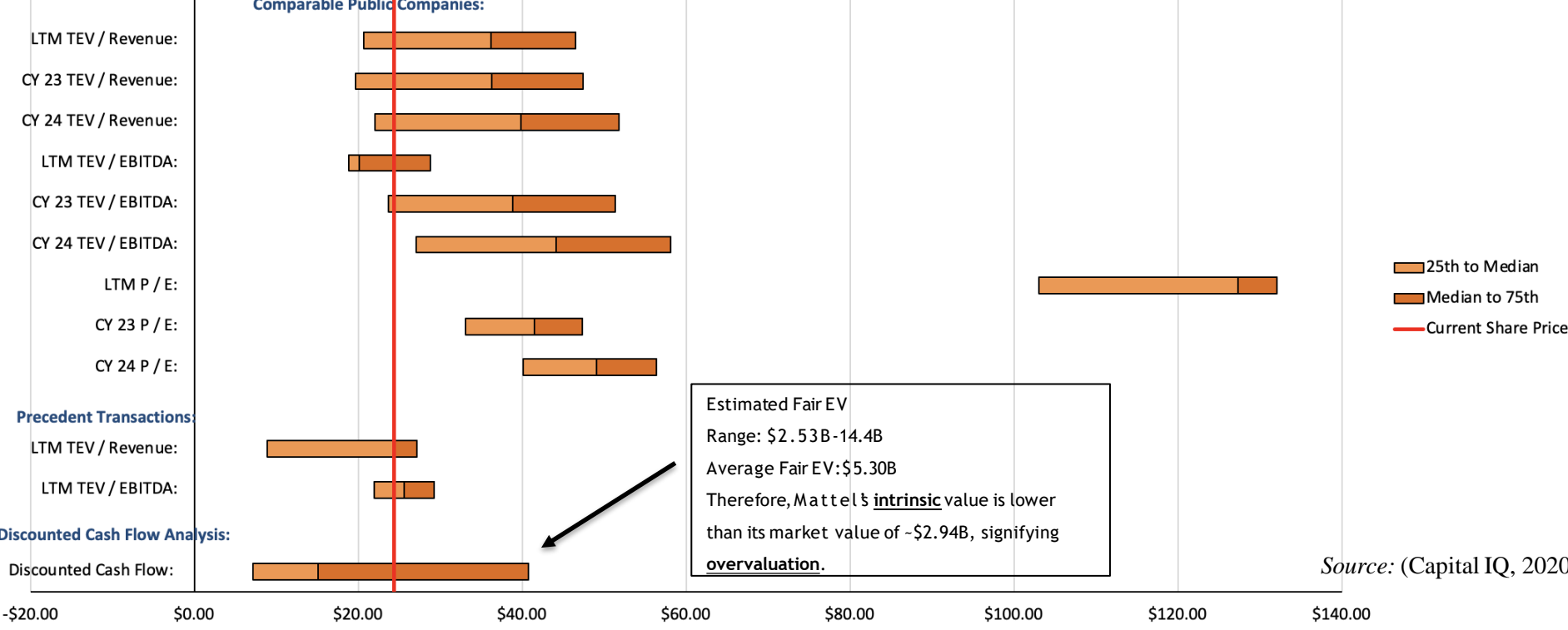
Fair Enterprise Value Determination

Football Field EV Range

Football Field

Mattel Inc. Valuation - Range of Implied Share Prices

Fair Enterprise Value (in billions of USD)



Source: (Capital IQ, 2020)

Consolidate IP Axis Strategy



- Integrate fans base of different gender, geographical regions and age group
- Enhance IP creation and maintain existing IPs through partnerships between different IPs and products
- Introducing marketing and manufacturing synergies
- Facilitate cross-region expansion

Source: (Bandai Namco, 2021), (Mattel, 2021)

Road to digitalization

Metaverse

Expands on Bandai Namco's current development of "IP Metaverse". Building an integrated fans network through player-to-player interactions. Connections with the real world by interlinking physical stores and items, such as toys, T-shirts and other merchandise.

AR and VR development

The key strategy to Metaverse construction. Connects fans with each other through virtual events, such as movies, live events and other social VR and AR experiences. Exchange in current VR and AR implementation on IPs.

Multimedia development

Facilitate resources on multimedia publication, such as TV series, movies and other forms of online deliverables.



VI. Conclusion

Final Decisions

Therefore...

Bandai Namco Should Not Acquire Games Workshop and Should Instead Opt for a More Synergistic and Cost-Effective Approach: Acquiring Mattel

Should Bandai Namco acquire Mattel?

Synergies

Games Workshop's misalignment of target demographics and lack of digitalization to connect with fans and difficulty with organizational restructuring, make an acquisition unviable.

Valuation and Cost

Although there is an estimated synergies amount of \$100M, the potential benefits would be severely outweighed by the financial losses incurred due to Games Workshop's overvaluation.

Alternative

Bandai Namco should acquire Mattel due to the new target's fairer valuation, combined with product alignment and IP strategies.

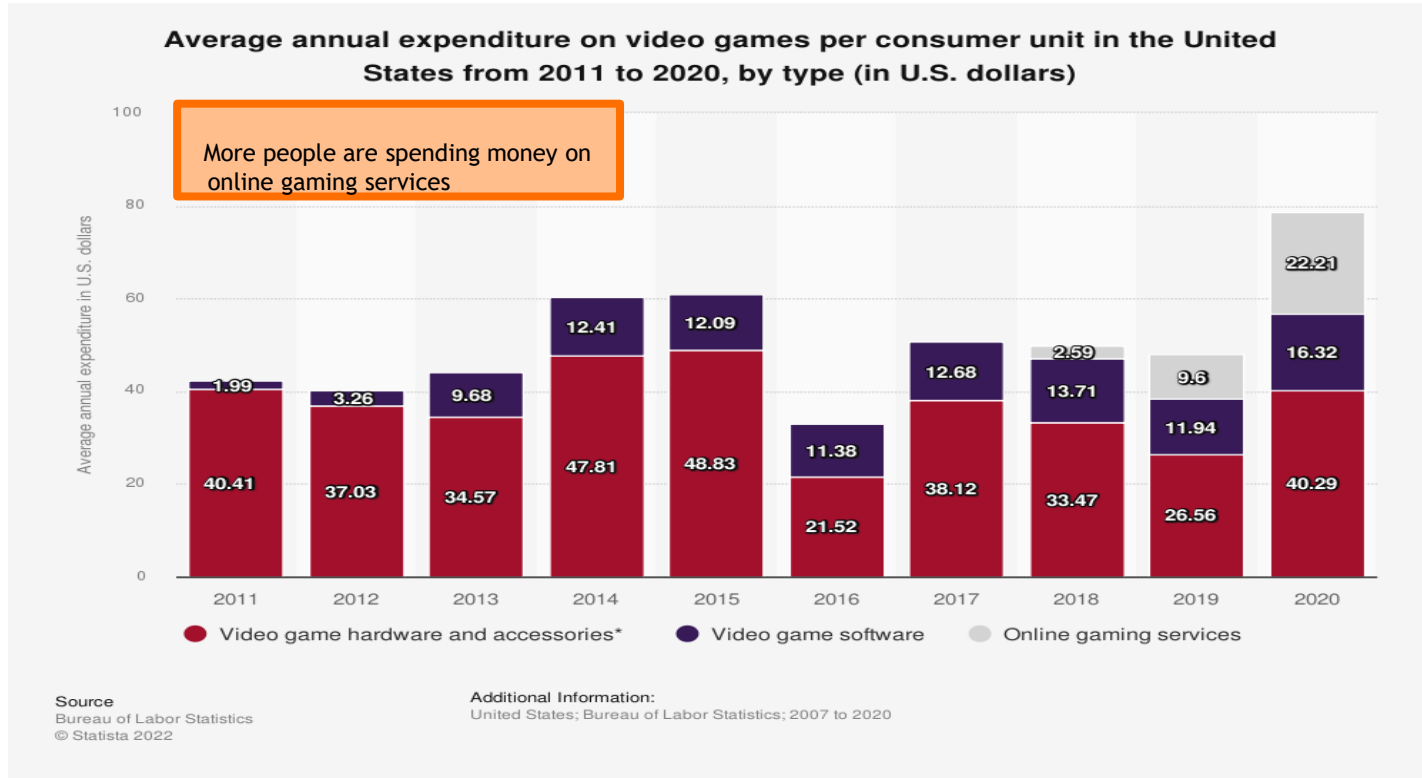


Appendix

A Deeper Dive

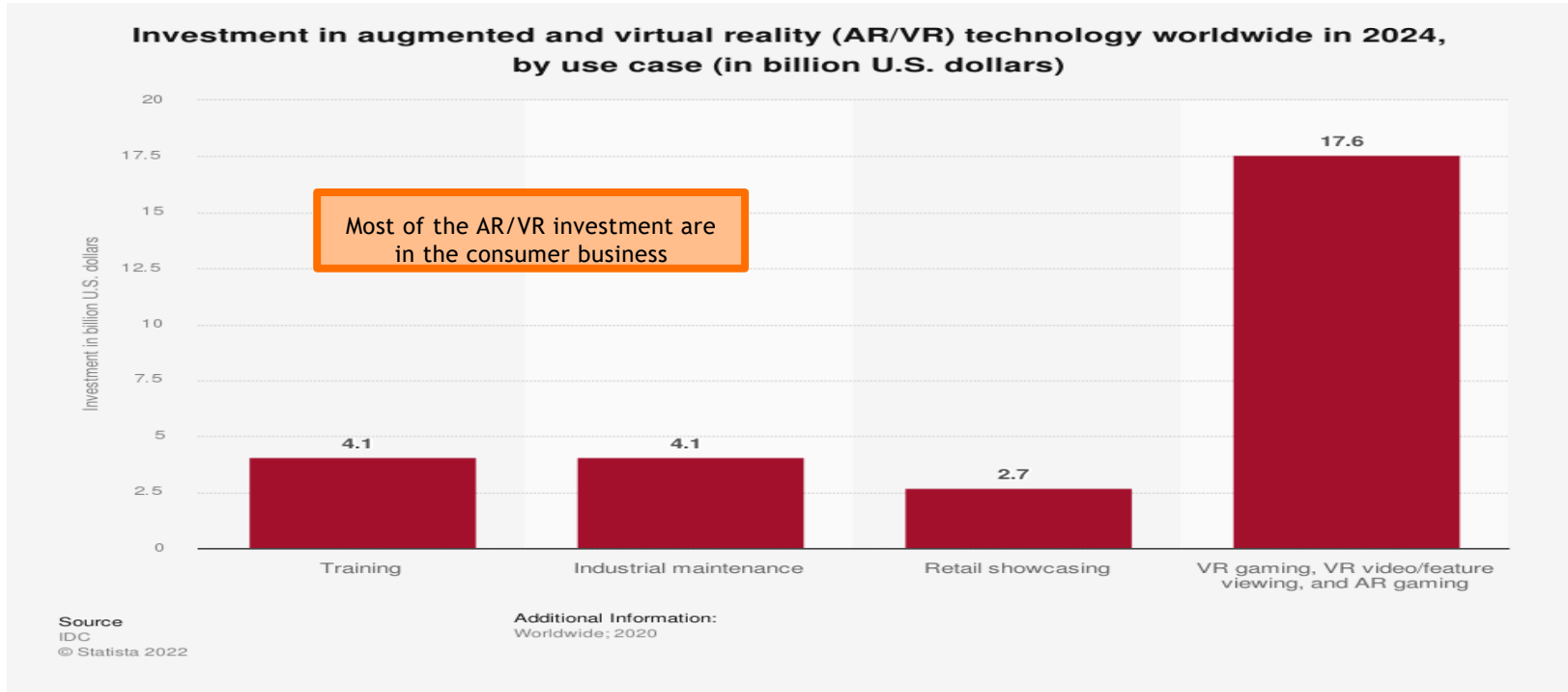
Industry Analysis

Consumer annual expenditure on video games



Source: (Statista, 2021)

Appendix



Source: (Statista,2021)

Appendix

Industry Overview

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