

Q & A Summary

If you quote any or all of this Q&A, please display the URL of this website or insert a link to this website.

Q1	I'd like to hear more about the thinking behind Nintendo's business expansion in China. Can we presume you chose to collaborate with Tencent in order to establish a solid base for your business there? Also, how long do you anticipate it will take to grow the business in China into one of the pillars of revenue?
A1	<p>Shuntaro Furukawa (President and Representative Director):</p> <p>It is true that Tencent Holdings Limited (“Tencent”) has applied for a game console review to launch Nintendo Switch in China, as disclosed on a Chinese government agency website. The reason for our collaboration with Tencent is because they hold one of the largest positions in China's network communication and game marketplaces, which we think will allow us to maximize the expansion of our business there. In the past, our dedicated video game systems like Nintendo DS and Nintendo 3DS were sold in China under the brand of our consolidated subsidiary, iQue (China) Ltd., but we cannot say these were a great success. With that in mind, we decided to work closely with a local company to do business in China.</p> <p>We recognize that the Chinese market is vast and attractive, but looking forward, we don't expect our video game business in China to easily expand, given that our primary markets for dedicated video game consoles, Japan, the Americas, and Europe have been built over the course of more than 30 years. The launch timing for Nintendo Switch in China is not yet determined, so nothing in this area has been included in the financial forecast for the current fiscal year (ending March 2020). However, even if it were to be included, we would not anticipate it having a significant effect on overall financial results for this fiscal year.</p> <p>With so many people around the world now playing games, we recognize that one of the challenges we must tackle with in the medium and long term is how we take the unique entertainment experiences that Nintendo offers with our integrated hardware and software and expand to regions beyond Japan, the Americas, and Europe. Discussions about expanding in China at this point are just one part of our larger approach for addressing a gaming population that is expanding widely, not just in our current primary markets. This is not a short-term plan, but something we want to work on steadily over multiple years.</p>

Q2	The sales target of 20 million units for Nintendo Switch hardware that was determined at the beginning of the previous fiscal year (ended March 2019) was set as a worthy challenge, and ultimately you were not able to reach that target. Should the hardware sales plan of 18 million units for this fiscal year be considered a “plan” instead of a “target”? The software lineup is becoming fairly clear, but besides Nintendo titles, what other strategies do you have for achieving sales of 18 million units? For example, what new marketing strategies, enhancements of online services, and initiatives with other software publishers do you have?
A2	<p>Furukawa:</p> <p>The plan for this fiscal year, which marks the third year since Nintendo Switch was launched, is based on factors such as a steady expansion of the hardware and software businesses and a</p>

	<p>growth in sales volume considering the momentum possessed by Nintendo Switch since the turn of the year, and the software lineup planned for this fiscal year. Nintendo Switch has reached many consumers in the two years since launch, and consumers are taking it away from the TV to play in even more occasions than we originally suggested. The lineup of software to be released this fiscal year by Nintendo and other software publishers is extremely diverse, and we feel it will be able to accommodate the playstyles of each and every consumer. Through this combination of a rich software lineup and the diverse ways of playing the hardware, we hope to expand our business and achieve our plan for the current fiscal year.</p>
--	--

Q3	<p>In the presentation, there was discussion of the use of sales per hardware unit as a metric, in place of the attach rate of software per unit of hardware. How do you expect this metric to trend over the lifecycle of Nintendo Switch? As the hardware installed base increases, the number of software sales per hardware unit seems likely to decline somewhat compared to now, but do you think there is still room for growth in software sales per hardware unit?</p>
A3	<p>Furukawa:</p> <p>We tried using the "sales per hardware unit" metric in the presentation to demonstrate that the Nintendo Switch business can't be measured by the unit sales of software and hardware alone. Nintendo Switch is currently in a growth phase. You pointed out that the software attach rate and the sales per hardware unit will fall as the hardware installed base continues to increase. Considering the Nintendo Switch lifecycle going forward, we believe the continuous release of major titles is extremely important. Our goal is to increase the software attach rate while boosting sales per hardware unit. At the same time, we would like to increase sales for the Nintendo Switch platform as a whole by increasing the appeal of services like Nintendo Switch Online and getting more consumers to join.</p>

Q4	<p>Free Nintendo Switch Online memberships were recently given to Twitch Prime members. What kind of discussions are going on within the company regarding initiatives with other platforms?</p>
A4	<p>Furukawa:</p> <p>Decisions to work with other companies' platforms are made on a case-by-case basis. Because this is a partnership, there naturally has to be a benefit for both parties. We won't pursue just any initiative, but will discuss each new idea as it comes up.</p>

Q5	<p>Amid a significantly changing external environment, including cloud gaming and 5G, what are your thoughts on the future of Nintendo's core integrated hardware and software business?</p>
A5	<p>Furukawa:</p> <p>I don't think all games will move to the cloud right now, but the technology is steadily advancing. In the future, I expect that technologies such as the cloud and streaming will evolve further as a way to deliver games to consumers. We must keep up with such changes in the environment. On the other hand, I believe that our core value, the unique entertainment experiences that can only be achieved through the development of integrated hardware and software, will further increase in value. Delivering unique entertainment that only Nintendo can</p>

	create will continue to be our top priority.
--	--

Q6	In the presentation, you compared sales per hardware unit for Wii and Nintendo Switch. Can you explain why Nintendo Switch sales grew so much more each year than Wii did?
-----------	--

A6	<p>Furukawa:</p> <p>The digital business environment surrounding Nintendo Switch has changed tremendously, compared to what it was for Wii. A multitude of download-only software titles are available for Nintendo Switch, and there is also the subscription service, Nintendo Switch Online, which is something Wii did not have. Another factor is the extremely good sales of accessories like Joy-Con and the Nintendo Switch Pro Controller.</p>
-----------	---

Q7	The Nintendo 3DS sales plan is considerably scaled back this fiscal year. Do you intend to use Nintendo Switch to go after the handheld game system market? I'd like to hear how you plan to revitalize the handheld game system market.
-----------	--

A7	<p>Furukawa:</p> <p>Our plans for Nintendo 3DS sales this fiscal year are lower compared to the previous fiscal year, but the demand for Nintendo 3DS is stable and I expect steady sales as we continue to position it as an entry-level game system, differentiated from Nintendo Switch. As for Nintendo Switch, the lineup of software planned for release this year includes titles for series that in the past were developed for our handheld game systems. Since Nintendo Switch can be played in handheld mode, these titles will potentially give consumers who previously played games on handheld systems a reason to purchase Nintendo Switch.</p>
-----------	---

Q8	Regarding mobile games, two titles are scheduled for release this summer, but can we expect several more titles to be released during the current fiscal year?
-----------	--

A8	<p>Furukawa:</p> <p>Our basic policy for mobile applications is still to release two to three titles a year. This fiscal year, we first intend to focus on two titles: <i>Dr. Mario World</i> and <i>Mario Kart Tour</i>. As for our plans after that, there is nothing we can currently talk about, but we will update you in the future as we make those determinations.</p>
-----------	--

Q9	Nintendo has shown interest in China for some time now, and I assume the company has conducted market surveys, so how do you see the present Chinese market?
-----------	--

A9	<p>Furukawa:</p> <p>China is a huge market, so the expectations for our business there are probably very high. The reality, however, is that the Chinese game market is almost all mobile games and PC games. The market for dedicated video game platforms has not been very large, so we recognize that this will be a new challenge for us.</p>
-----------	--

Q10	The number of accounts with Nintendo Switch Online memberships has reached 9.8 million, but are there people coming and going? For example, are people joining to play <i>Super Smash Bros. Ultimate</i> or <i>Splatoon 2</i> and then canceling their memberships, or joining just to play <i>TETRIS® 99</i> ? Or, have most of them continued to be members once they have joined? I would like more details about the growth in account numbers.
A10	<p>Furukawa:</p> <p>We recognize that the number of accounts that have subscribed to Nintendo Switch Online is increasing steadily corresponding to the pace that the hardware install base is growing. Naturally, not everyone remains a member, and there are cases where users joined during the holiday season and then canceled after three months. There are also new members who joined after <i>TETRIS® 99</i> was released in February as an exclusive game for Nintendo Switch Online members, and others who have remained members because of <i>TETRIS® 99</i>. To expand Nintendo Switch Online even further, we need to continue offering elements like this, that highlight the distinct value of Nintendo Switch Online.</p>

Q11	Can you provide some background on the recent specification changes made to portions of the game system for <i>Dragalia Lost</i> , including the changes to "summon" (the mechanism for obtaining characters and such at random)?
A11	<p>Furukawa:</p> <p>The momentum <i>Dragalia Lost</i> is exhibiting now has been steady rather than strong compared to right after release. DAU (daily active users) numbers are stable, and ardent fans continue to play it not only in Japan but in other regions as well. We are presently introducing improvements to make gameplay more enjoyable and keep people playing, and the recent design changes are part of that effort. They were introduced after studying the feedback we've received since the application released.</p>

Q12	During the presentation, you touched on the idea of targeting consumers you have not yet appealed to as a way to achieve continuing long-term sales for Nintendo Switch. But why do you think there are demographics you have not been able to approach with the Nintendo Switch hardware and the current lineup of software? Also, what do you think Nintendo can do to make purchasers out of these consumers?
A12	<p>Furukawa:</p> <p>The software lineup for Nintendo Switch at launch consisted largely of Nintendo series titles, and the hardware installed base grew because many consumers purchase these kinds of games. As the hardware moves through its second and third year after launch, more and more titles from a variety of other software publishers have become available, but I believe Nintendo also needs to offer new ideas to attract the consumers we haven't been able to appeal to yet. In order to convince those consumers who did not choose to get Nintendo Switch over these past two years to purchase Nintendo Switch, I think we need to offer even newer kinds of gaming experiences.</p>

Q13	In the presentation, you reported extremely good Nintendo Switch sell-through for the fourth quarter of last fiscal year, but slightly unsatisfactory hardware unit sales (sell-in) for last fiscal year. How should we interpret the difference between the sell-through momentum and sell-in numbers? Also, what is your take on year-end inventory levels?
A13	<p>Furukawa:</p> <p>Sell-in and sell-through are not coupled, and gaps are bound to arise due to differences in timing. In the fiscal year ended March 2018, we entered the fourth quarter with retailer inventories at very low levels, while the scale of retailer inventories at the start of the calendar year 2019 was different from the previous year. Sell-through is currently trending extremely favorably, so I have no concerns about the momentum of Nintendo Switch, and I think that the inventories at fiscal year-end in March 2019 are at appropriate levels.</p>
Q14	This fiscal year marks the third year for Nintendo Switch, and I believe it is time for software sales to make a greater contribution to profits. Why did you settle on that level of profits in your forecast? Also, I'd like to hear about the positioning of Nintendo Switch's third year.
A14	<p>Furukawa:</p> <p>As Nintendo Switch enters its third year since launch, I understand that some people might worry the hardware is going to peak out. But looking at the momentum of Nintendo Switch since the start of the year, that is absolutely not the case, and we made our financial projections based on the expectation that sales of both hardware and software will continue to grow. I would like it if our financial results outperform the forecast by selling even more hardware and software.</p>
Q15	I'd like to hear more about your plans for expansion in China. Recently, Nintendo's basic strategy has been to "expand the number of people who have access to Nintendo IP," so I'm curious if you are thinking about bringing things like the mobile business, theme park, and official shop into China. And are you discussing these kinds of strategies with Tencent?
A15	<p>Furukawa:</p> <p>Our basic strategy will continue to be to "expand the number of people who have access to Nintendo IP." The most important thing under this basic strategy is to provide consumers with unique entertainment through our integrated development of hardware and software. At the same time, however, we also make active use of Nintendo IP, as explained at the management policy briefing in February.</p> <p>Actively using Nintendo IP includes the expansion of IP through our mobile business, theme parks, and other methods, but we are not currently able to discuss anything specific about our expansion in China. At this time, we are only announcing that a collaboration with Tencent has been underway regarding plans to sell Nintendo Switch in China, and we are not able to discuss any other aspects of that business.</p>

Q16	My question is about Nintendo Switch usage. I can see how releasing new titles like <i>TETRIS® 99</i> will increase use of the hardware, but I'd like to know if you've had any success implementing measures to raise engagement rates with software that has already been released.
A16	Furukawa: <p><i>TETRIS® 99</i> has helped maintain Nintendo Switch engagement, as well as increase the number of new members joining Nintendo Switch Online. And when we add new titles to Nintendo Entertainment System – Nintendo Switch Online, one of the services available to Nintendo Switch Online members, we see consumers returning to play on Nintendo Switch. As for individual titles, we released the first add-on content just the other day for <i>Super Smash Bros. Ultimate</i>, to give one example. The release of add-on content and updates like this is proven to raise engagement rates again that may have temporarily dropped.</p>

Q17	Why are you doing a closed beta test for <i>Mario Kart Tour</i> ? Will future mobile games be tested like this as well?
A17	Furukawa: <p>We won't necessarily test all future applications this way. For <i>Mario Kart Tour</i>, we want to have a decent number of consumers playing from the start, which means we need to test the game thoroughly so we'll know what the gameplay experience will be like when a lot of consumers are playing it. Our plan is to run the closed beta test and gather consumer feedback to make our final adjustments to the application.</p>

Q18	Regarding your sales forecast for Nintendo Switch software, why are your current plans so conservative relative to the recent sales growth seen with the strong sell-through following the turn of the year?
A18	Furukawa: <p>We don't necessarily base our software forecasts simply on how much we expect sales to grow compared to the previous year. Rather, we consider our future software lineup and a variety of other factors as a whole. We want to ensure that we sell the quantity we have planned on, and to sell an even larger quantity if possible.</p>

Q19	I understand that digital sales are trending upwards, but I'd like to hear your take on digital sales in this fiscal year. Also, do you have any initiatives meant to further increase digital sales?
A19	Furukawa: <p>We recorded an especially large increase in digital sales during the previous fiscal year. Sales of digital versions of packaged software have increased with the overall software sales growth on Nintendo Switch, as have sales of download-only software and add-on content, all of which contribute to an increase in digital sales. At our management policy briefing this February, we talked about further developing the business which leverages Nintendo Accounts as part of our basic strategy to “expand the number of people who have access to Nintendo IP.” Starting with Nintendo Switch Online, digital business is very closely associated with Nintendo Accounts.</p>

	Furthering the business which leverages Nintendo Accounts is a key part of expanding our digital business, and we intend to implement a variety of initiatives in this area.
--	--

Q20	This is about the mobile business. Companies involved in the mobile business seem to operate on the idea that increasing the number of applications is the way to build up sales. When it comes to Nintendo mobile applications, do your sales pile up when you release new applications?
------------	---

A20	<p>Furukawa:</p> <p>Releasing new applications and increasing the overall number of games doesn't necessarily lead to an increase in sales. While sales are growing for some applications, engagement for some is decreasing as time passes since release and sales decline. But what makes running this business as a service unique is that, even if engagement is dropping, introducing an update or event can bring engagement back up and help sales to recover. We use a variety of initiatives in each of our currently available applications to keep sales continuously moving upward.</p>
------------	---

Q21	What are your thoughts on the risk of a hostile takeover? Do you have any preventative measures or countermeasures against a takeover?
------------	--

A21	<p>Furukawa:</p> <p>We have not adopted what is generally called anti-takeover measures. However, in the case that we face a malicious takeover which would damage the value of the company or the common interest of the company's shareholders, we do have systems in place, both within the company and in connection with outside experts for such an occurrence, to take all legal and appropriate steps against it even if we have not proactively put preventive measures in place. This is a topic we will continue to investigate further.</p>
------------	---

Q22	In terms of business development in China, I would think that starting with mobile games would yield the greatest business opportunity. Will you be collaborating with Tencent in the mobile business as well?
------------	--

A22	<p>Furukawa:</p> <p>I cannot say anything at this time about the possibility of our mobile business in China. Discussions inside our company are ongoing, so we will share more information at a later time when we are able.</p>
------------	---

End