

Q & A Summary

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

Q1	Will you sell Nintendo Switch in China? What is your view of China in the long term as a market for Nintendo Switch?
A1	<p>Tatsumi Kimishima (President and Representative Director):</p> <p>We are aware of the vast size of the Chinese market, but we are not selling in that market at present. That said, there are software publishers in China that are developing games for Nintendo Switch. One of those titles was introduced just the other day (during the September 14, 2017, broadcast of Nintendo Direct), and we hope our consumers are looking forward to its release. As business opportunities expand in China, we believe that Chinese software publishers will develop more software for Nintendo Switch. We have previously researched the possibility of selling our products in China, and that effort continues as we consider bringing Nintendo Switch to the Chinese market.</p>
Q2	I found the data on the “Nintendo Switch Gameplay Trends for Japan, the US, and Europe” slide (as shown in the presentation) to be very interesting, showing “Gameplay in TV mode is primary” at under 20%, “Gameplay in tabletop mode or handheld mode” at around 30%, and “Playing in both modes” at over 50%. Now that you can tell how users are utilizing their Nintendo Switch systems in the past half-year since launch, don’t you have any ideas about adding other features like video viewing outside of gameplay?
A2	<p>Kimishima:</p> <p>We believe that our consumers have grasped how Nintendo Switch is unique in offering three different gameplay modes. Nintendo Switch is a console, and at the same time it is also portable, allowing for different gameplay modes. Although we would not go so far as to say “one system per person,” we are thinking about the potential for this to spread as more of a personal device.</p> <p>Nintendo Switch is a dedicated video game system, and we are focusing our messaging on the attractiveness of Nintendo Switch as a dedicated video game system. We hope to bring in broader consumer demographics by proposing new gameplay modes using Nintendo Switch.</p>
Q3	Nintendo Switch sales have been favorable since the beginning for both hardware and software, but it remains difficult to purchase the hardware, and now ahead of the holiday season it seems that inventory levels are unusually low. What are your thoughts at present about what the bottlenecks are in the production system, and what are you thinking about ways to increase or decrease production volume in the future?
A3	<p>Kimishima:</p> <p>Even though the Nintendo Switch launch was in March (and not during the holiday season), we had planned at the start of this fiscal year to ship 10 million units of hardware by the end of March 2018, based on our understanding of the high level of interest from so many consumers</p>

before the launch. The 10 million target was a very high figure, and we simply didn't think such a high-volume sales target was easy to meet. However, we've continued to receive favorable consumer response after launch and inventories remained low, and I think we must own up to the fact that our initial projections were too conservative. The Nintendo Switch system itself is made from a huge number of components, and we've made urgent requests to many of our contract manufacturer to ramp up production, with some of them even installing additional production lines. We released yesterday's upwardly revised full-year hardware shipment target of 14 million units because we now project that we are capable of shipping that many units. This 14-million-unit shipping target for the full year means that we plan to ship roughly 10 million units just in the second half of this fiscal year, and production at this pace would manufacture even more than that. For instance, just splitting those 10 million units across six months translates to over 1.6 million units shipped per month going forward, with the production capacity being more than that. I think you can tell from recent Nintendo Switch sales trends that shipments are improving. I think we are ready and able to deliver Nintendo Switch to our many consumers around the world this holiday season.

<p>Q4</p>	<p>In the presentation you explained that in Japanese market, Nintendo Switch user demographics are expanding to include more female consumers and more families. Are you increasing the lineup with an eye to capturing these largest demographics next year? The Animal Crossing application is out. Are you planning on any tie-ins between the smart-device applications and dedicated video game systems? In addition, are you considering any means of leveraging tie-ins to lead children or female consumers to your dedicated video game systems (from smart devices)?</p>
<p>A4</p>	<p>Kimishima:</p> <p>We think that Nintendo Switch sales volume was up in the first half of this fiscal year because Nintendo fans who love games understood the Nintendo Switch concept and purchased the system. The coming holiday season is when we expect purchases from many consumers, including children and families. As such, we believe we need to fully explain titles already on the market, and we also need to put out titles that offer new ways of playing and that can entice even more consumers to enjoy our offerings. Nintendo Switch is designed to provide many different ways of playing, and while we cannot talk about any specific titles at this point, we are working to be able to offer new ways of playing that utilize new and different intellectual property (IP), and we hope you'll look forward to the results of our efforts.</p> <p>We cannot announce anything presently about potential tie-ins between the smart-device application <i>Animal Crossing: Pocket Camp</i> and our dedicated video game systems. We will continue to consider tie-ins between smart-device applications and our dedicated video game systems.</p>

Six Months Financial Results Briefing for Fiscal Year Ending March 2018

Nintendo Co., Ltd.

<p>Q5</p>	<p>The presentation explained that the continual release of software would lead to an increase in hardware use among the Nintendo Switch systems connected to the Internet. I would like to know any specific figures you have, such as the number of units in operation or the Internet connection rate. Also, apparently Nintendo will be moving its online service for Nintendo Switch over to a for-pay model in 2018. What kind of reaction are you getting at this point? Please also tell us what changes you expect to see in the ratio of systems connected to the Internet once these services are for-pay.</p>
<p>A5</p>	<p>Kimishima:</p> <p>We will continue to consider key performance indicators (KPIs) so that we can talk in terms of specific figures.</p> <p>The shift to for-pay for the Nintendo Switch Online service was originally planned to begin in the autumn of 2017, but we pushed that back into 2018. With the paid online service starting, we are taking time to prepare services that offer our consumers greater satisfaction. We cannot announce anything specific at this time, but in essence, the shift to for-pay will allow us to provide better services to our consumers.</p>
<p>Q6</p>	<p>There have been past questions about your plans to release smart-device applications in China, but do you think it will be possible to release smart-device titles in China perhaps in the next fiscal year?</p>
<p>A6</p>	<p>Kimishima:</p> <p>We are aware of the scope of the Chinese market which is very large. Our understanding is that there are many consumers awaiting Nintendo's games there. Nintendo cannot expand its business in China alone, and an important issue is whether we can proceed with a partner entity in China to bring our IP to consumers in China. We can see the possibility for such a partner relationship arising in future. Nintendo will continue to consider those options.</p>
<p>Q7</p>	<p>In attending presentations in various places, I've heard that Nintendo had a very negative outlook about the Nintendo Switch manufacturing plan at the start of the fiscal year. I'd like to hear the reasons within the company for this, such as whether this was because the management team was being very conservative about Nintendo Switch sales projections, or because of weak projections from the parts procurement team or sales team. And, considering the sales trends going into the holiday season starting soon, it looks like you need to substantially increase (manufacturing and shipping) volumes in the next fiscal year, and I'm personally very concerned that miscalculations arising at the start of this fiscal year could lead to bottlenecks in efforts to increase production next fiscal year. I'd like to hear your opinions about this point.</p>
<p>A7</p>	<p>Kimishima:</p> <p>The target of 10 million Nintendo Switch units announced as the (pre-revised) annual shipping forecast at the beginning of the fiscal year is very important. As I explained at the financial results briefing (on April 28, 2017), if we could sell 10 million units this fiscal year, we</p>

	<p>would be able to maintain momentum for the Nintendo Switch business. In the video game business, it is very common for nearly half of all annual sales to occur in the third quarter of the fiscal year, which includes the holiday season. We created our production plans on that assumption. Prior to the Nintendo Switch launch, we often heard opinions about whether it was feasible to launch in March instead of at the holiday season, out of concern that sales would not meet expectations after that launch. Nintendo Switch sales have contradicted those predictions with strong momentum since launch. Looking back, it is true that our forecasts were conservative, but we did not have a negative outlook when drafting the Nintendo Switch sales plans.</p> <p>We have increased our Nintendo Switch shipment projections for this fiscal year from 10 million units to 14 million units. We will be shipping roughly 10 million units during the second half of the fiscal year, meaning we will manufacture more than 10 million units, requiring very large production numbers every month. That, in turn, requires that we maintain a corresponding level of production capacity. Based on these figures we provided, I'm sure you can imagine the rough minimum production volumes needed to meet that monthly production capacity moving forward. In the course of your reporting, I think you can understand how firmly interconnected our cooperative system is to maintain the critical supply levels from our parts manufacturers for that production capacity. Given all that we have experienced this fiscal year, our production capacity is ready for next fiscal year, and we will take appropriate measures if we project that even greater capacity is needed.</p>
--	---

<p>Q8</p>	<p>In the presentation we just saw, you made the point that Nintendo Switch sales could potentially catch up with Wii sales levels, depending on growth in the holiday season. The Wii hardware was really excellent, one could say legendary, but even so, after a certain point, sales dropped off rapidly. Looking at Nintendo Switch, it is selling not just on the novelty of the hardware but also on the attractiveness of the software, and it looks like third-party support will also increase going forward. However, if it does catch up to Wii, what kind of strategy are you looking towards past that point that would be different from Wii? And what do you see in the external environment surrounding Nintendo Switch that is different from the Wii period?</p>
<p>A8</p>	<p>Kimishima:</p> <p>When we consider consumer reactions to the Nintendo Switch hardware, how they are enjoying the available games, and how much we've actually sold even with a March launch, we believe we can maintain the same level of momentum we saw with Wii, so long as the holiday season goes as expected. With the holiday season about to begin, we now focus on making steady progress in executing our plans.</p> <p>Nintendo Switch offers players experiences they have never had before with other hardware video game systems. Our current momentum is very likely because so many consumers have grasped this. However, the nature of the entertainment business is that consumers will move on if something else more interesting appears. A lot of thought has gone into the game software sold for Nintendo Switch so far, and although I cannot go into the specifics, for the next fiscal</p>

	<p>year, Nintendo is constantly thinking of ways to offer more entertaining experiences so that even more consumers will enjoy the Nintendo Switch for a long time. We have formulated both medium- and long-term plans, but at the same time we are also considering contingency plans in case those original plans do not come to fruition.</p>
<p>Q9</p>	<p>It appears that the company will be able to exceed 100 billion yen for operating profit this fiscal year, but what are your thoughts on “Nintendo-like profits”? And the balance sheets show that you have very ample cash reserves. I’d expect that all your investors are hoping for share buyback, but perhaps you are thinking instead of putting that towards M&A or R&D for further company growth. I’d like you to explain your current standpoint on profit levels and how best to utilize cash reserves.</p>
<p>A9</p>	<p>Kimishima:</p> <p>We project that operating profit will exceed 100 billion yen if Nintendo Switch sales meet our expectations, and that is predicated on getting through this holiday season with solid performance. Our business is supported by stable capital, and the 100 billion yen mark is one of our milestones to pass on the way to reaching even higher levels. Our focus is on meeting all of our projections for this fiscal year to allow us to reach those higher levels as early as possible.</p> <p>The video game business is very volatile, depending heavily on whether consumers will accept our product or not. There will always be peaks and troughs, coming in waves. Our responsibility is to ensure that we hit higher peaks, again and again. In terms of operating profit, we must continue to create wave peaks that push us over that 100 billion yen mark. Again, that mark is not an end in itself for Nintendo, but rather a waypoint to be exceeded. Our aim is to push for even higher growth going forward.</p> <p>In terms of how we use our cash on hand, our basic policy is to provide shareholder returns in the form of dividends when our profit increases. Our earnings are significantly affected by exchange rates, so we have decided to pay out a dividend per share that is equivalent to either 33% of consolidated operating profit or 50% of the consolidated payout ratio, whichever is greater. For example, total dividends paid out for the last fiscal year came to roughly 50 billion yen. We want to continue being a company that can offer that amount.</p> <p>In addition, new unprecedented technologies are gaining consumer acceptance at a rapid pace, and we must actively invest in ways that allow us to compete with these technologies. We intend to use our capital to that end.</p> <p>Our profit can vary widely depending on whether our products are hits in the marketplace, and in the years preceding the Nintendo Switch launch, our cash reserves declined by hundreds of billion yen. The peaks and troughs in this business are this extreme, and we need sufficient cash reserves to make it to the next wave peak. I wouldn’t consider our current cash reserves to be very high, but if reserves increase going forward, we would need to consider different approaches.</p> <p>We are looking at possibilities for share buyback in terms of the timing and what kind of</p>

	<p>effect that would have, but I cannot say anything specific at this juncture other than that share buyback is something we always have on the table, and we will make an announcement when we are able to do so.</p> <p>Our views on our cash balance take into account many different factors, including the options we have just discussed.</p>
--	---

Q10	<p>In Nintendo's position as a platform manufacturer, its dedicated video game platform business generates income received from third-party developers to produce games on the Nintendo platform, in the form of fees for contracted manufacturing. However, for smart devices, Nintendo pays some of its revenues as fees to Apple and Google. Please tell us about your thoughts on the future, and whether Nintendo might become a platform provider for its own smart-device applications.</p>
A10	<p>Kimishima:</p> <p>Nintendo is a newcomer for the smart-device business, and there is still much we have to learn. Nintendo has a large stock of valuable IP characters and has developed many games. We cannot, however, simply port our existing games and IP to smart-device applications. A lot of thought is going into what kind of games for smart devices will further our business and how we can continue to foster good relationships with our existing dedicated video game platform business. Among the various ideas, a primary concern is enabling our consumers to play on not only smart devices, but also our dedicated video game systems.</p> <p>We want to build up the smart-device business as a core pillar of Nintendo's various businesses, but we have not yet reached that level. Nintendo is not at a stage where we can consider becoming a smart-device platform developer.</p>

Q11	<p>According to today's presentation, over 300 developers are working on the Nintendo Switch games. What is the momentum among third-party developers compared to Wii, your past hit system? Are there many third-party developers working on new titles exclusive to Nintendo Switch?</p>
A11	<p>Kimishima:</p> <p>At present, software sales volumes at our software publishers have not reached the levels we saw for Wii. This is in part because the total cumulative sales volume for the Nintendo Switch hardware hasn't yet reached 10 million units, and in part because past Nintendo platform sales trends have led software publishers to be cautious at the start. That said, software publishers have taken the Nintendo Switch ideas and concepts to heart. Consumers' support over the past several months has been increasing as the momentum for Nintendo Switch sales continues to grow. More and more developers are telling us that they want to produce software for Nintendo Switch now. More than 300 software publishers including indie developers are now developing game titles. Nintendo is very much looking forward to a wide variety of titles from software publishers moving forward.</p>

Q12 It looks like Nintendo has set specific agendas for each Nintendo Switch software title so far. For example, as I understand it, *1-2-Switch* was about getting users to experience the Joy-Con, *The Legend of Zelda: Breath of the Wild* was about getting core gamers to purchase the Nintendo Switch hardware, and the large number of one-on-one titles was about getting users to understand Joy-Con sharing. I'd like to hear about the agendas for the titles coming out through the end of the year. And what agendas are you thinking about for next year and beyond?

A12 Kimishima:

In thinking through how best to introduce the new concept of Nintendo Switch in a way that consumers would find easy to understand, we did discuss what kind of software to release when, as you pointed out. We knew there were so many consumers eagerly awaiting the launch of *The Legend of Zelda: Breath of the Wild*, so we decided to release it at the same time as Nintendo Switch. Many of those who purchased that new Zelda title along with a Nintendo Switch hardware at launch had an increased interest for system. They found that they could play Nintendo Switch as a traditional console game and yet take Nintendo Switch with them. *1-2-Switch* was also released at the same time as Nintendo Switch to foster greater understanding of the ways in which the Joy-Con controllers could be shared during game play. *Splatoon 2* was released not only for the many fans who enjoyed playing *Splatoon* on Wii U, but for even more fans who quickly discovered that multiple players could come together with Nintendo Switch in handheld mode (even though it is also a console system) and play together. And then we have *Super Mario Odyssey*, which we released just the other day. This game allows family members and groups of friends to play together in various ways, an element for greater enjoyment in the run-up to the holiday season. We've been thinking about these kinds of things in determining our software lineup to date, but the most critical issues are increasing the number of consumers who enjoy playing Nintendo Switch, and expanding our consumer demographics. Looking ahead to the next fiscal year and beyond, we hope to bring in broader consumer demographics for Nintendo Switch much as we did for Wii, by continuing to offer new ways to play.

Q13 The e-sports genre appears to be quite popular outside of Japan, and I'd like to ask about Nintendo's opinions on this genre. For instance, even in Japan, recently there's been Splatoon Koshien, and there also have been e-sports pro teams established for Splatoon and looking for members, with the field looking quite active. What can you tell us about Nintendo's efforts going forward in relation to these activities?

A13 Kimishima:

The main enjoyment in what's called e-sports is that players themselves can enjoy competing in the game, and those around the players can enjoy watching. This has been part of our core thinking in creating games at Nintendo, and we intend to continue creating games along these lines.

We are well aware that many consumers are interested in the e-sports genre, and that this

Six Months Financial Results Briefing for Fiscal Year Ending March 2018

Nintendo Co., Ltd.

	<p>genre is showing signs of growing worldwide. For example, in the e-sports world right now, winners generally receive some form of compensation. We've been engaging in various activities to get everyone to have a Nintendo kind of experience using our own competitive games, and we've been thinking a lot about quite what kind of reward would make winners happy.</p>
--	---

Q14	<p>(In this revision to financial projections) Nintendo has substantially increased its forecast for advertising expenses. What was the reason behind this increase?</p>
A14	<p>Kimishima:</p> <p>Advertising expenses include things like promotional spending that is tied to sales, and we increased our projection for advertising in line with our increased projection for sales. We will also continue to engage in various other kinds of publicity to increase consumers' understanding of Nintendo Switch, prompting us to boost our projected advertising expenses.</p>