

Q & A Summary

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Q1	<p>What is your strategy for Nintendo Switch this holiday season? <i>Pokémon: Let's Go, Pikachu!</i>, <i>Pokémon: Let's Go, Eevee!</i>, and <i>Super Smash Bros. Ultimate</i> will be releasing soon. It is necessary to sell to those who did not buy Nintendo Switch despite a strong software lineup last year. With what kind of user base do you envision popularizing Nintendo Switch? And could you talk about the current user demographics for Nintendo Switch and how you see the user base expanding? How do you evaluate a status on pre-orders that have started for <i>Pokémon: Let's Go, Pikachu!</i>, <i>Pokémon: Let's Go, Eevee!</i>, and <i>Super Smash Bros. Ultimate</i>?</p>
A1	<p>Shuntaro Furukawa (President and Representative Director):</p> <p>The things that make Nintendo Switch uniquely appealing are, for example, that it is a home console system that can be carried around and you can play “anytime, anywhere, with anyone,” that it has shareable Joy-Con, and that people can bring multiple systems together for local multiplayer matches. With regards to our strategy for this holiday season, there are two things we need to do. We need to encourage consumers who already have a Nintendo Switch system to continue playing it, and we need to expand our user base by encouraging people who do not have the system yet to purchase it. Our primary approach to encouraging continued play is to release new software titles. We have a full lineup of games for this holiday season, including <i>Super Mario Party</i>, <i>Pokémon: Let's Go, Pikachu!</i>, <i>Pokémon: Let's Go, Eevee!</i>, and <i>Super Smash Bros. Ultimate</i>, and we are actively working to maximize sales for each. We will also encourage people to keep playing their Nintendo Switch systems through our services including expanding our add-on content, and leveraging the Nintendo Switch Online service that newly began in September.</p> <p>Regarding the broadening of our user base, we expect there are still plenty of people who have played Nintendo games in the past but have not yet purchased Nintendo Switch. It is our view that we have not fully communicated the appeal of the system to these consumers, so it is important that we adequately convey the unique capabilities and appeal of Nintendo Switch to them. Likewise, there are people out there who play video games, but have never bought a Nintendo system. It is important that our messaging to them clearly shows that there is a more varied lineup of more titles including ones from other software publishers to play on Nintendo Switch than on previous Nintendo platforms. Plus, they can bring their systems with them to play local multiplayer together, and they can play these games on the go instead of only in front of the TV, all thanks to the unique play styles made possible by Nintendo Switch. Finally, it is important that we communicate the appeal of Nintendo Switch to people who seldom play games. Regarding our approach to consumers who do not normally play games, with Nintendo Labo being one of the ways, we attempt to promote long-term sales that go beyond this holiday season.</p> <p>Pre-orders are going well for <i>Pokémon: Let's Go, Pikachu!</i>, <i>Pokémon: Let's Go, Eevee!</i>, and <i>Super Smash Bros. Ultimate</i>. We will actively promote these titles via television commercials and other advertising methods in several regions, so we expect pre-orders to grow even further.</p>

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Q2	Multiple titles like <i>The Legend of Zelda: Breath of the Wild</i> and <i>Mario Kart 8 Deluxe</i> that were released before or during the last fiscal year have sold over 1 million units in the first half of this fiscal year alone. What factors do you find contribute to such strong sales for titles released before or during the last fiscal year? Also, some companies keep their unit sales up by lowering the price of older software titles. What is your pricing strategy?
A2	Furukawa: Titles like <i>The Legend of Zelda: Breath of the Wild</i> , <i>Mario Kart 8 Deluxe</i> , and <i>Super Mario Odyssey</i> are what we call “hardware drivers” in that consumers are very often interested in buying these titles when making a new hardware purchase. Titles released already in the previous fiscal years remain capable of driving hardware sales. The key is to figure out what makes these titles appealing, and how we can get consumers to understand that appeal. Going forward, we plan to incorporate add-on content and other factors that will keep these titles in the spotlight, so they will continue to sell alongside the hardware. We take the value of software very seriously. What we want with our evergreen titles is to maintain their values as long as possible without lowering the prices.

Q3	Is there any possibility you would make Nintendo titles like Mario Kart or Super Smash Bros. available to cross-platform or cross-device play like <i>Fortnite Battle Royale</i> has done?
A3	Furukawa: If publishers want to release cross-platform titles, and doing so would make consumers happy, then as long as it is technically feasible, we would want to support them. That said, we have absolutely no plans to offer any Nintendo games as cross-platform titles at this time.

Q4	Could you tell us about your unique management strategy as President? For example, should we expect you to announce any medium-term business plans, or to provide any shareholder returns including a stock split? Should we expect you to spend money in new ways, for instance, by setting up a venture fund?
A4	Furukawa: I want Nintendo to continue being an entertainment company that brings smiles to people’s faces under our basic strategy, which is to expand the number of people who have access to Nintendo IP. To be more specific, there are our dedicated video game platform business, our smart-device business, and the IP-related business as represented by theme parks or movies. I want to grow them to realize potential of these three pillars of revenue. Regarding the return to shareholders and new ways of spending money, I do not anticipate any major changes from our current approach at this time.

Q5	I wanted to confirm your sales strategy for Nintendo Switch, including the strategy for the next fiscal year. No major titles were released between January and September of this year, and while I understand you are concentrating the release of major titles between October and December, I wonder if this was the correct strategy for the period you need to grow the audience for
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	<p>Nintendo Switch. Can we expect the same business strategy of concentrating major title releases in October through December next fiscal year, or do you intend to adjust your strategy to keep sales momentum up?</p>
A5	<p>Furukawa:</p> <p>The previous fiscal year was the first one after the launch of Nintendo Switch, and during that time, we released a succession of major first-party titles that helped sustain the momentum building behind Nintendo Switch. If you compare this year to last year, we are still releasing new titles, but each title's sales volume is at a smaller scale than last year. That is true. Software development takes a long time, so there will inevitably be periods during the hardware lifecycle when we are unable to release major new titles. During those times, what we must do is make use of a variety of different methods to fill any gaps between the times we have major title releases. We do that by continuing to promote the sale of titles released in the previous year, release add-on content, highlight the appeal of hardware itself, and use services like Nintendo Switch Online to keep the utilization ratio of the hardware up.</p> <p>As for our software release plans for the next fiscal year and beyond, we have not disclosed all the information yet. We are currently discussing initiatives for the next fiscal year and beyond based on this fiscal year, and we will talk about those at a later time.</p>

Q6	<p>What is your approach for Nintendo Switch sales going forward? The system attach rate for software to this point has been extremely high, especially in North America, which clearly attests to the power of Nintendo IP. Based on the sales trends so far, how do you intend to convey the appeal of Nintendo Switch going forward?</p>
A6	<p>Furukawa:</p> <p>Major titles are fundamental to any large increase in sales activity for Nintendo Switch. Because we are concentrating the release of major titles in the second half of this year, the extent to which sales grow in the coming holiday season will be very important.</p> <p>Although software is the most important factor for selling Nintendo Switch across a long lifecycle, also important is the question of how many people we can get to appreciate the inherent appeal of Nintendo Switch and the uniqueness of the system. The methods we use to convey that appeal to someone who has played Nintendo games in the past will not be the same as the methods we use for someone who plays games but not on a Nintendo platform, or to someone with little interest in games themselves. We are brainstorming company-wide on ways to convey the appeal of Nintendo Switch to the people we have not been able to reach with our existing methods.</p>

Q7	<p>There was talk about how you see some elements in <i>Dragalia Lost</i> would make it a hit when it was announced in April (during the Financial Results Briefing for the fiscal year ended March 2018). Are there any differences in terms of user age demographics, conversion rates, or pricing model in this game compared to other games from Nintendo or Cygames?</p>
A7	<p>Furukawa:</p> <p>For <i>Dragalia Lost</i>, it was in one way meaningful for us to develop an action RPG on smart</p>

	<p>devices for a worldwide audience through collaboration of our developers and Cygames' developers. That was the objective that launched the project, and it seems now that the game has gotten off to a good start. Despite being an entirely new IP in a title that has only been available for around one month, it seems to have found a certain number of consumers who play it continuously. I cannot talk in detail about utilization ratio or conversion rates, but things are going as we expected or possibly even a little better.</p> <p>As for user demographics, in Japan it is being played not only by Nintendo fans but also by plenty of Cygames fans. In the US, the user base is predominantly Nintendo fans. Our reasoning behind saying that the game has found a certain number of audiences with the consumers who play it continuously is based on comparisons to our past applications that show it has remarkably stable activity. Sales are also relatively steady each day, and the various packs of items sold to aid in making in-game progress likewise stand apart from what we have seen with past applications.</p>
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Q8	Do you have plans to expand into the Chinese market with Nintendo Switch or smart-device applications?
A8	<p>Furukawa:</p> <p>I cannot say anything new at this time about our plans to start our business in China with Nintendo Switch or smart-device applications. We are continuing to look into a business opportunity in China, but the reality is that there are a variety of issues that give us the impression that it will not be easy to do. And although the market for games in China is incredibly huge, the market for dedicated video game platforms is small, so even if we were to enter into China, the challenges we would face there certainly would not be simple ones. Even so, I would very much like to try and see how receptive the Chinese market would be to Nintendo IP.</p>

Q9	You explained during the presentation that over half of all people who purchased subscriptions to the Nintendo Switch Online service opted for a 12-month Family or Individual Membership. Could you give us more details about things like the number of subscribers at launch, or region and age range information about these subscribers?
A9	<p>Furukawa:</p> <p>We think Nintendo Switch Online had a good launch, but the service has only just begun, so we have no plans to disclose any current subscriber ratios or number of subscribers at this time. Our objective for launching the service is to bring "More Games. More Features. More Fun." to Nintendo Switch. Our focus at this point is on boosting the appeal of the service. We need to further enhance the content of the service for the subscriber base to reach a certain size, so that is what we're working on, with the understanding that the time it will take to do so will be measured in years.</p> <p>As for the kind of service this will develop into in the future, Nintendo Switch Online is essentially a digital service, but we are also offering controllers specifically for use with Nintendo Entertainment System - Nintendo Switch Online exclusively to subscribers of the</p>

	service. We see the need to develop the service beyond being merely digital, in ways play to our strengths as a company that operates an integrated hardware and software business.
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Q10	What has been the response from users to <i>Fortnite Battle Royale</i> and other cloud-based games offered by other software publishers for Nintendo Switch? Also, do you expect this will have any implication on business in the future?
A10	<p>Furukawa:</p> <p>Epic Games released the Nintendo Switch version of <i>Fortnite Battle Royale</i> at the time E3 was held this past June, and it has gained so much momentum that it been downloaded onto nearly half of all Nintendo Switch systems sold to consumers worldwide to date. By region, the greatest number of downloads has been in the US, but the game is also growing in Japan. There is no question that <i>Fortnite Battle Royale</i> has contributed to the increase in our digital sales, but it is also significant in that users continue playing it, meaning that it boosts the utilization ratio of the hardware.</p> <p>Generally, I think having the Nintendo Switch software lineup augmented by titles from publishers who make use of cloud gaming technologies is a very positive thing. And it is really meaningful in terms of expanding our user base, because there are some titles that probably could not be offered on Nintendo Switch any other way.</p>

Q11	I'd like to ask about collaborations within your smart-device business. You developed <i>Dragalia Lost</i> in collaboration with Cygames, and I understand that especially in the US, it is being played mainly by Nintendo fans, which I would say underscores the powerful draw of the Nintendo brand. Have other companies approached Nintendo about collaborating in the future? What do you think about collaborations in general? I also want to ask about the impression that Nintendo is behind on releasing new applications. Can you give us a current update on development?
A11	<p>Furukawa:</p> <p>We began our smart-device business as an essential way to get our characters and games into the hands of a larger audience, given that smart devices have become prevalent in a way that dedicated video game platforms simply cannot match. That being said, it is also important that we keep our dedicated video game platform business on Nintendo Switch and other platforms stocked with titles, which is why it would be unrealistic for us to provide all of the development resources needed for the smart-device business on our own. Through the right mix of our own development resources and collaboration with other companies, our plan is to introduce applications at a rate of around two to three titles a year. As for future smart-device business plans, we intend to use our existing IP in addition to new IP like <i>Dragalia Lost</i> as we continue to develop applications that are relevant to different user demographics. In doing so, we believe we can expand the number of people who have access to Nintendo IP. With regards to any future collaborations, we will actively pursue opportunities worth further consideration, if there are any, just like we have been doing to date.</p> <p>The update on Nintendo titles is that development of <i>Mario Kart Tour</i> is currently</p>

	<p>progressing towards release during this fiscal year, as planned. Based on our past experience, the most important thing is not an application's launch, nor its initial momentum, but whether consumers are going to continue playing the application. We will release more information about <i>Mario Kart Tour</i> once it is fully prepared to meet that challenge.</p>
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Q12	<p>We know that Nintendo Labo is a strategic product designed with the Nintendo Switch platform cycle in mind, meant to appeal to demographics that are not interested in franchise (popular series) game titles. Given that objective, do you intend to focus on expanding Nintendo Labo sales next year and onward, or do you think you would continue to propose new kinds of projects?</p>
A12	<p>Furukawa:</p> <p>We released Nintendo Labo as a new way to play, which is something I think the consumers who purchased it have appreciated. And because it is the kind of product that makes a good gift for children, we expect sales growth during what will be the first holiday season for Nintendo Labo. We knew from the start that the sales trend for Nintendo Labo would be different from that of games like Mario or Zelda, and we want this to be a product that continues to sell for a long time as a new way to play on Nintendo Switch.</p> <p>As for any initiatives to expand the Nintendo Switch user base without relying on our franchise titles, we do have a variety of new ideas besides Nintendo Labo. We will announce these at a later time.</p>

Q13	<p>A lot of people seem to feel like there are major titles from other publishers that are missing on Nintendo Switch. Are you currently doing anything to address that? Also, do you think the situation will change in the next fiscal year or later?</p>
A13	<p>Furukawa:</p> <p>We believe that giving consumers a wide selection of software is an extremely important part of operating our platforms. That is why we welcome the introduction of a variety of titles from many different software publishers. Even so, I do not think it is realistic to expect that every major title will become available on Nintendo Switch. We are speaking with publishers about them actively putting titles on Nintendo Switch that would be an especially good fit for its unique features as a home console system you can carry around, including handheld mode and the ability to bring systems together for local multiplayer. Given the strong publisher support Nintendo Switch has, I would expect the number of titles on it will increase a lot more. That is what really keeps the Nintendo Switch business on the right track.</p>

Q14	<p>Sales of Nintendo 3DS hardware and software are both trending downward from the same period last fiscal year. You mentioned that this system has coexisted with Nintendo Switch, but I'm curious what you think about the future of the handheld video game platform business?</p>
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A14	<p>Furukawa:</p> <p>Demand for Nintendo 3DS is shifting over to consumers who are playing games for the first time. This kind of entry-level demand will likely reach its peak during the holiday season, so we want to maximize sales during that time. Looking at this regionally, sales in Japan did decline compared to the same period last year, but when you consider the Nintendo 3DS business historically, note that the Japanese market is where it caught on first and where it is now already widespread. So, I believe its major markets will be those outside of Japan, going forward.</p> <p>Regarding the future of the handheld video game platform business, while it is true that Nintendo Switch is a game system you can carry around, Nintendo 3DS has advantages in terms of size, weight, and price point as a handheld system. The two systems have definitely coexisted, and for now our dedicated video game platform business will proceed with both Nintendo Switch and Nintendo 3DS. I expect we will continue selling Nintendo 3DS as long as there is demand for it.</p>
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Q15	I see that 3-month Nintendo Switch Online subscriptions are being offered in Nintendo Switch bundles that come with software (in some regions). Is this something you plan to do ongoing?
A15	<p>Furukawa:</p> <p>We are offering these kinds of free trials because we think it is very important to have consumers enjoy a chance to experience the Nintendo Switch Online service. And I expect we will continue to look at tactics like this that expand the opportunities for consumers to do so as needed.</p>

Q16	You've talked before that you aim at increasing business profitability and prolonging the life cycle of the console, but looking back now that the first half of this fiscal year was over, what is your appraisal of the Nintendo Switch business, including the online business?
A16	<p>Furukawa:</p> <p>Based on the results for the first half of this fiscal year, I think we are making good progress towards our projections for the full year. We knew our plan from the start of this fiscal year to sell 20 million Nintendo Switch units (for the fiscal year) was not going to be an easy challenge to meet, but we saw it as a worthy challenge in the second year of hardware sales. As expected, sales during this fiscal year are going to be concentrated in the second half, and we anticipate our sales will really hit their stride during the holiday season.</p> <p>As for the question of how we can keep profitability trending upward over the long term, given that we are in the entertainment business, that answer will largely depend on whether we release hit products. Even so, there are a few ways we can work towards stabilizing revenues. One of these is the model where we add to revenues through add-on content that is available on and after the release of a major title. And the model where we earn revenues with a service like Nintendo Switch Online, where money is paid continuously at regular intervals. There is also the model where we earn continuous revenues through the operation of smart-device applications as a service. These initiatives will probably still need a lot of time to</p>

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	<p>develop. Although our smart-device business has not yet reached the scale where it can serve as a pillar of revenue, we are steadily laying the groundwork for it to increase the profitability of overall Nintendo business. Looking at things in the long term, I can see these preparations are falling into place.</p>
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