

Six-Month Financial Results Briefing for Fiscal Year Ending Mar. 2021 (Conference Call)  
Nintendo Co., Ltd.

## Q & A Summary

Date: Thursday, November 5, 2020

Attendees: Shuntaro Furukawa (Representative Director and President), Hajime Murakami (Executive Officer and General Manager, Finance Administration Division)

- The following are the main questions and answers from the financial results conference call. Please note that portions of this content have been edited or revised to improve readability.
- If you quote from this Q&A, please include a citation or link to this file.

<b>Q1</b>	I'd like to hear about how I should compare the results for this period with your revised full-year forecast. How much higher were the results for the first half of this fiscal year relative to the plan? Is there any part of the outlook for the second half of the year that pulled the forecast higher?
<b>A1</b>	<p>Shuntaro Furukawa (Representative Director and President):</p> <p>Historically, the percentage of sales occurring in the third quarter (October to December) has been extremely high in our business; specifically, it has accounted for as high as 40% or 50% of the annual sales. Accordingly, our typical approach is to watch the sales trends going into the third quarter and revisit our forecasts for the year if necessary. This year, the hit title <i>Animal Crossing: New Horizons</i> and the recovery of Nintendo Switch hardware production for the summer sales season, with the subsequent improvement in marketplace supply, led to continued strong sales of both hardware and software across all regions. We revised the financial projections primarily to reflect the strong sales seen through the first half of this fiscal year in our full-year forecast. We have not made any major revisions to the financial projections for the second half of the year from the initial plan, but we want to take consumer response to the software lineup for the second half of the year (announced in September) into consideration, and carefully evaluate the trends going into the upcoming holiday season.</p>
<b>Q2</b>	Compared to the first quarter (April to June), which was affected by COVID-19, do you believe that the demand for Nintendo Switch hardware and software has leveled off in the second quarter (July to September), or that there is still strong demand?
<b>A2</b>	<p>Furukawa:</p> <p>For some background on the strong financial results seen in the first quarter and continuing throughout the second, <i>Animal Crossing: New Horizons</i> (released in March) continued to see a lot of attention and the recovery in hardware production meant that the number of new consumers purchasing a Nintendo Switch increased. We also believe that the Nintendo Switch business has gained momentum through the creation of a cycle in which those consumers who purchased Nintendo Switch for <i>Animal Crossing: New Horizons</i> are now purchasing their second and third titles. <i>Animal Crossing: New Horizons</i> and <i>Ring Fit Adventure</i> were both released in the previous fiscal year and saw acceptance by a broad range of consumers, and new titles released this fiscal year, such as <i>Paper Mario: The Origami King</i> and <i>Super Mario 3D All-Stars</i> have also seen strong sales. As we also discussed in the Financial Results Explanatory Material (page 12), sales of previously released titles are rising in tandem with the increase in</p>

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	the hardware install base, and sales continue to be strong across both new and evergreen titles. As such, Nintendo Switch is maintaining sales momentum as it enters into the holiday season of its fourth year since launch, and we are striving to extend that momentum as long as possible.
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<b>Q3</b>	I would like to ask about the sales outlook for the third quarter. Do you see stronger momentum in sales, compared to the same period of the previous fiscal year? Based on the current state of sales, what are you expecting for the year-end sales season?
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<b>A3</b>	<p>Furukawa:</p> <p>We continued to see strong demand for Nintendo Switch hardware through the summer and into October, especially in the major regions of Japan, the U.S. and Europe, and we believe sales are continuing at a good pace. The year-end sales season is extremely important when viewed from a perspective of overall sales volume, and we want to achieve a high number of sales during this period. Although we may not have the kind of first-party titles that will record massive sales immediately after release this year like we did with last year's <i>Pokémon Sword</i> and <i>Pokémon Shield</i>, or <i>Super Smash Bros. Ultimate</i> the year before that, we are nevertheless looking to make this another big holiday season. This is thanks to the many consumers, including those new consumers who developed an interest in Nintendo Switch because of <i>Animal Crossing: New Horizons</i>, picking up our new titles, titles released in conjunction with the Super Mario Bros. 35th Anniversary and our evergreen titles.</p>
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<b>Q4</b>	It seems like many of the previously released titles that hit the million mark in this six-month period were ones that people can enjoy playing together. Were these games consciously recommended to consumers who played <i>Animal Crossing: New Horizons</i> or is this the result of a natural accumulation of sales? And looking back, what are your thoughts on this situation in the first half of the year?
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<b>A4</b>	<p>Furukawa:</p> <p>We want those consumers who first played Nintendo Switch because of <i>Animal Crossing: New Horizons</i> to become aware of and play as many different titles as possible, regardless of whether those titles are new or evergreen. <i>Ring Fit Adventure</i> is one such example. The recently released <i>Pikmin 3 Deluxe</i> has frequently been chosen as the next title after <i>Animal Crossing: New Horizons</i> by many consumers, especially in Japan. The Super Mario Bros. 35th Anniversary campaign is raising the visibility of the various Mario titles available on Nintendo Switch, and we're starting to see good results from that. And as you pointed out, the popularity of titles that people can enjoy together and are possible only on Nintendo Switch, like <i>Mario Kart 8 Deluxe</i> and <i>Super Mario Party</i>, is increasing greatly, and we believe this can be seen in the performance of titles that have broken the million-seller mark.</p>
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<b>Q5</b>	<i>Pokémon UNITE</i> (announced by The Pokémon Company on June 24) is planned to be cross-platform for Nintendo Switch and smart devices. While this was likely decided by The Pokémon Company, I believe that the two companies (Nintendo and The Pokémon Company) have close ties. I'd like to hear Nintendo's thoughts on cross-platform titles.
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<b>A5</b>	Furukawa: <p>After advance discussions with The Pokémon Company about <i>Pokémon UNITE</i>, it was decided that given the genre of the game and the anticipated player population, a cross-platform format was appropriate. That said, we have no plans for cross-platform play for Nintendo titles.</p>
<b>Q6</b>	You discussed how Nintendo Switch is just hitting the mid-point of its life cycle, but do you feel that sales so far this year were driven by a spike in demand due to COVID-19? Or do you think that the overall business can continue to grow steadily in the next fiscal year and beyond?
<b>A6</b>	Furukawa: <p>Nintendo Switch has seen cumulative sales exceeding 60 million units since launch and is just now entering the middle of its life cycle. We continue to see this as building a foundation for growth that goes beyond the life cycles of our previous hardware platforms.</p> <p>Furthermore, when <i>Animal Crossing: New Horizons</i> was released (March 20, 2020), Nintendo Switch had already been available for three years, and we believe that many consumers who became aware of the system during that time but had not yet purchased it were inspired to do so because of the interest surrounding <i>Animal Crossing: New Horizons</i>. Our situation this year was defined by the benefits of this major hit title creating significant demand.</p> <p>Moving forward, we will continue efforts to extend the Nintendo Switch life cycle, while promoting initiatives that make use of Nintendo Accounts and pursuing our goal of motivating consumers to play our platforms for years to come. The dedicated video game business is based on consumers buying the hardware and then also purchasing software, so <i>Animal Crossing: New Horizons</i> becoming a major hit and encouraging hardware purchases among so many consumers goes beyond impacting the business this one year and is extremely significant to the overall Nintendo Switch life cycle.</p>
<b>Q7</b>	Regional sales in the "Other" region (as shown on page 4 of the Financial Results Explanatory Material) increased significantly, but I'd like to hear about sales trends in these "other" regions individually, like mainland China and Australia.
<b>A7</b>	Furukawa: <p>Nintendo uses this term primarily to refer to Australia, New Zealand and regions of Asia outside Japan. Looking at growth in regional sales compared to the same period of the previous fiscal year, we see that whereas sales grew by 67% in Japan, 61% in the Americas and 72% in Europe, sales for the "other" region grew by a huge 152%.</p> <p>We hear from Tencent that, in mainland China, <i>Ring Fit Adventure</i> got off to a great start when it was released by them on September 3 and it continues to sell well. In some cases, <i>Ring Fit Adventure</i> is driving sales of the Nintendo Switch hardware.</p> <p>Sales in the Asia region excluding Japan were 6.7 times higher in the fiscal year ended March 2020 compared to the year ended March 2017, when Nintendo Switch was launched. At the time of the Nintendo Switch launch, it was only available in the "other" regions of Hong Kong, Singapore and parts of the Middle East. Since then, the sales regions have broadened to</p>

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include South Korea, Taiwan, mainland China (sales by Tencent) and other parts of Southeast Asia. In looking at how our sales in the Asia region have grown to be a larger part of our business, we are now able to release many Nintendo titles at the same time they debut in the major markets of Japan, the U.S. and Europe, as we have been trying to more efficiently localize our software with more languages in accordance with the increasing sales in regions such as South Korea and Taiwan. Talking about software sales in the Asia region, in addition to the previous extremely strong showing by the Pokémon franchise titles, the sales numbers are also growing for evergreen Nintendo titles, and now a wide range of consumers have begun purchasing *Ring Fit Adventure* and *Animal Crossing: New Horizons*. In Australia, sales of Nintendo Switch are growing steadily at a similar rate to the good performance in Japan, the U.S. and Europe.

**Q8** This year, people are staying at home because of COVID-19 and it seems that this has created demand for Nintendo Switch among those who might not otherwise buy the console. What kinds of strategies do you have to keep these new consumers interested in Nintendo Switch and continuing to purchase software next year and beyond?

**A8** Furukawa:  
We recognize that one of our biggest challenges is how we maintain the interest of the many new consumers who purchased Nintendo Switch this year in the coming years.  
I can't get into any specifics here, but with an eye on the consumers who purchased Nintendo Switch in order to play *Animal Crossing: New Horizons*, we are continuing to implement measures such as releasing seasonal updates for this title to encourage people to continue playing Nintendo Switch. People buy new software for different reasons, and they have different levels of interest in games. Because of this, we will come up with and undertake a variety of initiatives so that many people will maintain their interest in our games and entertainment.

**Q9** What kind of impact do you think games from other software publishers will have on the Nintendo Switch business going forward? I feel that unit sales of titles by other software publishers have been growing at a faster pace than those of Nintendo titles, so what can you say about the future ratio of titles by Nintendo and other software publishers?

**A9** Furukawa:  
As discussed in the Financial Results Explanatory Material (page 14), other software publishers plan to release a wide variety of titles for Nintendo Switch going forward. There are many genres of games that we cannot make on our own and their providing these kinds of titles enriches the Nintendo Switch gaming experience, so we are very grateful for that. Regarding the speed of growth in unit sales, the fact is that sales of Nintendo Switch software are increasing both for Nintendo titles and titles by other software publishers, and we want Nintendo Switch to be a platform on which both can continue to sell well.

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<b>Q10</b>	Unit sales of <i>Animal Crossing: New Horizons</i> were down a bit in the second quarter compared to the first, but do you expect sales to pick up again during the year-end sales season and to continue to drive good business momentum?
<b>A10</b>	Furukawa: The sales pace of <i>Animal Crossing: New Horizons</i> has eased compared to the period around its initial release, but among all our titles, this one continues to maintain high sales levels. As I mentioned in response to a previous question (Q7), this title is also driving Nintendo Switch hardware sales in Asian markets, which have relatively smaller sales numbers than the markets in Japan, the U.S. and Europe. Going forward, we will continue to implement in-game events and would like to create a situation where consumers will keep enjoying the game for a long time. This will be the first year-end sales season for <i>Animal Crossing: New Horizons</i> , and we hope even more people will take that opportunity to purchase the game.

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