

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

Q & A Summary

Date: Monday, February 1, 2021

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.

Q1	Your profit forecast for the fourth quarter (January to March) seems very modest, based on the progress made during the three quarters that ended on December 31. What is your take on this? Also, is the somewhat conservative fourth quarter forecast a result of your anticipating interruption to production due to the shortage of semiconductors and other components?
A1	<p>Shuntaro Furukawa (Representative Director and President):</p> <p><i>Animal Crossing: New Horizons</i> was released in March of the previous fiscal year and was a significant driver of not only software sales but also hardware sales. Accordingly, while our financial forecast for the fourth quarter of this year appears to fall short of the same period last year, the profit level is as high as that of the fiscal year before last. Nintendo Switch sales from January this year suggest that demand remains very high, so as we will continue to grow hardware sales by actively promoting the software titles planned for release in February and March, we'd like to work to be able to exceed that announced financial forecast. For the current fiscal year, semiconductor procurement conditions have only a minor impact on earnings, so these numbers for the latest financial forecast are not the result of the semiconductor shortage.</p>

Q2	Regarding shareholder returns, possible actions include buying back shares and revising the dividend payout ratio, so I'd like to hear about the discussions that led to the idea of a special addition to the annual dividend this time. Also, do you plan to enhance shareholder returns if business results exceed expectations in the future as well?
A2	<p>Furukawa:</p> <p>As we mentioned before, we are in the entertainment business, where change is profound and the future is very hard to predict. People's tastes in entertainment have grown more diversified in recent years, and it has become more pronounced that we are in a business for which success is not guaranteed. We would consider the significant growth in our business during this fiscal year to be an example of this in action. As we explained at the Corporate Management Policy Briefing (held in September of last year), given this environment, we will continue to conduct business with a focus on delivering unique play and putting smiles on the faces of consumers worldwide. There will be times when we need to take risks.</p> <p>In this kind of business environment, we greatly appreciate all of our shareholders who have supported our company's philosophy and have invested for the mid-to-long term. In a fiscal year like this, when results far exceed our initial plans, we thought the best idea was to return to these shareholders an amount that exceeds what would have been awarded in accordance with our basic dividend policy. We arrived at this idea both because of the characteristics of</p>

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	<p>our business, and from the perspective of how we stand with our stakeholders, which we must always keep in mind. This is the context in which we decided to make a special addition to our dividend for the current fiscal year. In the future, we'd like to keep an eye on the business environment and other trends and take measures such as this addition to the dividend if we deem it appropriate.</p> <p>Our basic policy is to return profits directly to shareholders by paying out dividends that take the profits for the period into account. We recognize that (as mentioned in the question) a share buyback is another method of returning to shareholders, and we will observe the business environment, our share price, and stock market trends, carrying out this measure if necessary.</p>
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Q3	<p>On page 14 of the Financial Results Explanatory Materials, with the chart for digital sales trends, you show a significant increase in sales in the third quarter for what is grouped as "Download-only software, add-on content, and Nintendo Switch Online, etc." Can you give some background on this increase? Also, what can you say about the outlook for next fiscal year and beyond?</p>
A3	<p>Furukawa:</p> <p>The increase in sales for download-only software, add-on content, and Nintendo Switch Online resulted not from any large jump in a specific area, but rather from growth across all three, compared to the previous fiscal year. Regarding download-only software, sales were especially strong for indie titles in overseas markets. As for the increase in sales of add-on content, major contributions came from the second round of add-on content for <i>Pokémon Sword Expansion Pass</i> and <i>Pokémon Shield Expansion Pass</i>, which was released in the third quarter, and from <i>Fighter Pass Vol. 2 for Super Smash Bros. Ultimate</i>. Nintendo Switch Online sales increased thanks in part to the growth in membership that has accompanied the rise in hardware sales.</p> <p>Looking at next fiscal year and beyond, it is our view for this category that sales volumes and sales ratios will increase or decrease depending on content and the timing of releases, rather than that they will continue at their current level. That said, the continuous growth of digital sales in general is not limited to these factors. Consumers who have bought digital products and experienced their convenience tend to prefer to continue to make digital purchases, so we see digital sales continuing to trend upward over the mid-to-long term.</p>

Q4	<p>The cumulative sales volume for Nintendo Switch has reached approximately 80 million units, and is now within range of the approximately 100 million units recorded by Wii. Going forward, what do you think is needed to continue to grow Nintendo Switch sales even further?</p>
A4	<p>Furukawa:</p> <p>Nintendo Switch has entered the middle of its lifecycle, and sales have greatly increased in the fourth year after the 2017 launch, reaching a wider range of consumers. Because <i>Animal Crossing: New Horizons</i> was a hit, many consumers became interested in Nintendo Switch, and that was one of the major reasons for the sales increase of the systems. We are aiming to</p>

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	<p>continue this momentum and increase the cumulative sales volume to overtake that of Wii.</p> <p>While we are considering various measures to achieve this, one point that we consider critical to this effort is the fact that a wide range of consumers are currently playing Nintendo Switch. Many of those who purchased Nintendo Switch at launch have already played a variety of different titles, while there are also consumers who were encouraged to purchase a Nintendo Switch by the release of a game in a series like Pokémon or Animal Crossing. In addition, there are consumers who purchased a game system for the first time in a long while because in 2020, they were spending more time at home, or who purchased a system due to nostalgia from the Super Mario Bros. 35th Anniversary campaign. Nintendo Switch will be entering its fifth year, and it's important for us to continue to provide the next title of interest to each of these various consumers.</p> <p>And our research has found that approximately 20% of the Nintendo Switch family sell-through between October and December 2020 in the main regions was due to demand for multiple systems within the same family. We will aim to continue increasing our sales volume by rigorously responding to this kind of demand for multiple systems as well.</p>
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<p>Q5</p>	<p>Are there any changes in how Nintendo Switch software is selling due to the diversification of the consumer base? Looking at the balance of software sales in this fiscal year, it looks like the ratio of sales for evergreen titles has increased in comparison to new titles, and it feels as if the way software sells has changed, compared to when Nintendo Switch launched. Please also tell me about your initiatives for encouraging new hardware purchasers to continue to buy software.</p>
<p>A5</p>	<p>Furukawa:</p> <p>Compared to a typical year, unit software sales this fiscal year have included a larger contribution from titles released in previous fiscal years, and this is reflected in the list of million-seller titles. Looking at total sell-through of first-party titles in the major regions for April through December last year, you can see that titles that were released in the previous fiscal year or earlier accounted for approximately 80% when you include <i>Animal Crossing: New Horizons</i>, and around 60% when you exclude that one title. In short, titles released in previous fiscal years contributed greatly to our business, both for this overall fiscal year and for the holiday season.</p> <p>In addition, many consumers who purchased hardware to play <i>Animal Crossing: New Horizons</i> have continued to purchase other software. Looking at the global numbers, they often purchase evergreen titles like <i>Mario Kart 8 Deluxe</i>, <i>Super Smash Bros. Ultimate</i>, <i>The Legend of Zelda: Breath of the Wild</i>, and <i>Super Mario Party</i>. In addition, Mario-related titles sold very well during the holiday season, as a result of the Super Mario Bros. 35th Anniversary campaign that began in September. In Japan, consumers also chose titles like <i>Pikmin 3 Deluxe</i> and KONAMI's <i>Momotaro Dentetsu: Showa, Heisei, Reiwa Mo Teiban</i>. On the other hand, there are also consumers who continue to exclusively play <i>Animal Crossing: New Horizons</i>, and they are enjoying communicating with their friends and playing the regularly held in-game events.</p> <p>In this manner, what a consumer plays next can differ depending on when and why they</p>

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	purchase their Nintendo Switch, so for the next fiscal year we will focus on encouraging more consumers to pick up already released titles in addition to providing new titles.
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Q6	Global Nintendo Switch sales volume (sell-in) for the fourth quarter is forecast to be 2.4 million units, but based on external data, sell-through in Japan in January already reached a certain level, so there seems to be a major difference between the two. I assume that the sell-through number includes units shipped in 2020, so the actual difference between sell-in and sell-through might be smaller. However, with the sales momentum being very strong, can you share your thoughts about the differences in sales trends for the fourth quarter in different regions? Also, there have been no major titles released this fiscal year, so what will the software lineup look like for the next fiscal year?
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A6	<p>Furukawa:</p> <p>With regard to our sales forecast for the fourth quarter, we are in a different situation than we were with the release of <i>Animal Crossing: New Horizons</i> last year, but nevertheless, sales have maintained strong momentum. If this situation continues, we see the possibility of sales exceeding our fourth quarter plans, so we will keep up our efforts to sell hardware. As for the regional sales ratios, our plans are in line with the regional sales performances seen thus far.</p> <p>Our software lineup for next fiscal year is a topic we will discuss at the appropriate time. We have already announced our plans to release <i>Super Mario 3D World + Bowser's Fury</i> in February, followed by <i>MONSTER HUNTER RISE</i> in March (see note 1), and <i>New Pokémon Snap</i> in April (see note 2). As always, we are preparing a variety of software titles for consumers in the coming fiscal year.</p> <p>Note 1: This title will be released and sold by Capcom Co., Ltd. Note 2: In Japan, this title will be released and sold by The Pokémon Company.</p>
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Q7	How has the situation for Nintendo Switch sales in China through the third quarter changed relative to past performance? To what extent are these changes reflected in your upward revision of the financial forecast for the full year? I'd also like to hear your thoughts on the effect of Lunar New Year demand.
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A7	<p>Furukawa:</p> <p>As noted in our earnings release, sales volume in China is included in the "Other" region category and is not disclosed separately. However, Tencent recently confirmed that it had shipped 1 million units in the Chinese market between the December 2019 launch and the end of 2020. We do not discuss our sales expectations in China, but we have seen hardware sales increase steadily as more titles become available. Specifically to this point, we heard from Tencent that many consumers have purchased a console together with <i>Ring Fit Adventure</i> since its release last September.</p> <p>Nintendo Switch has only been available for sale in China for little over a year, so the volume of sales there is not especially large compared to other regions. Even so, we understand that a broad range of consumers in China, like in other countries, are embracing our unique integrated hardware and software entertainment as exemplified by <i>Ring Fit Adventure</i>, and we</p>
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	<p>believe that sales are developing favorably.</p> <p>We expect an increase in sales due to factors such as the Lunar New Year, but not on a scale yet to significantly impact our business as a whole. We see this as an effort that will take some time.</p>
Q8	<p>You've talked about extending the Nintendo Switch lifecycle and further expanding the installed base, and that the user base has already become quite diversified. Where do you think there is room to grow, for example, demand for a second system, sales expansion in other regions, or expanding through something like Nintendo Switch Lite, which just completed its second holiday season? I heard news that you have no plans for a new model for the time being, but I'd like to hear more about your strategy for the Nintendo Switch family of systems.</p>
A8	<p>Furukawa:</p> <p>Starting with the subject of new Nintendo Switch models, we will be releasing Nintendo Switch – Mario Red & Blue Edition (as a set including a carrying case and Nintendo Switch console with special Mario designs) alongside the release of <i>Super Mario 3D World + Bowser's Fury</i> on February 12. We also plan to release a special design of the hardware as Nintendo Switch MONSTER HUNTER RISE Edition in March. With this release schedule for new hardware and Nintendo Switch having just marked its highest sales in its fourth year on the market, we do not have plans to announce a new model.</p> <p>Moving on to future expansion of the installed base, we believe that as the number of Nintendo Switch users continues to grow, this will also drive increasing demand for a second system among the Nintendo Switch family of systems. In addition, sales in the "Other" region, which includes Asia, are increasing with an even higher growth rate than Japan, North America and Europe, so we want to further expand these sales.</p> <p>When we look at a percentage of new demand for Nintendo Switch so far, while we have made significant progress in some countries and regions, certain places have an even greater capacity for further growth. Looking at population size, for example, I think there is still plenty of room for new demand in the U.S. and Europe, even more so than in Japan. That said, there are already many people in these regions who have purchased the hardware in these past four years, and so for sales to grow even further, we will need to communicate the appeal of Nintendo Switch as a video game system to people who have not yet bought one as a result of our past initiatives. We will need to continue to create opportunities that lead to a purchase. I believe these initiatives will continue to be very important going forward.</p>

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