

Q&A Summary

Date: Thursday, February 3, 2022

Attendees: Shuntaro Furukawa (Representative Director and President)
Hajime Murakami (Executive Officer)

- The following are the main questions and answers from the financial results briefing (online). 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 Please tell us about the trends in evergreen titles. Sales of evergreen titles have increased further compared to the same period of last fiscal year. What kind of consumer behavior supported this sales trend? Were there more consumers who purchased evergreen titles alongside newly released titles? Or did more consumers purchase evergreen titles together with a Nintendo Switch – OLED Model system since it was newly launched?

A1 Shuntaro Furukawa (Representative Director and President):
Evergreen titles that were released in previous fiscal years have made up a larger share of overall software sales since the last fiscal year. So far this fiscal year, in the nine months between April and December, titles released in past years comprised approximately 60% of unit sales for first-party software (sell-through, see Note) in major regions. Looking at only the three months between October and December, evergreen titles comprised approximately 50%, due to strong sales of new titles.

Regarding sales trends for evergreen titles, consumers who newly purchase Nintendo Switch hardware often choose to buy an evergreen title as their second or third game. In addition, as Nintendo Switch enters its sixth year, we believe there will be a decrease in the percentage of first-time purchases in terms of future demand for hardware, compared to what we have seen so far. We expect to see more purchases of multiple systems within the same household, as well as consumers replacing a previous Nintendo Switch system with Nintendo Switch – OLED Model. In these cases, consumers often already own the evergreen titles, so we believe that the ratio of evergreen title sales will decrease unless there is a major increase in first-time hardware purchases.

On the other hand, we believe that both first-time purchasers of Nintendo Switch and those who already own the hardware are interested in purchasing new titles. Going forward, it will be important to offer not only a variety of hardware but to also strengthen sales of both evergreen and new titles.

(Note) Sales to individual consumers. In addition to units sold by retailers, this number also includes units sold to individual consumers through Nintendo's direct-sales sites and as downloadable software.

Q2 I'd like to hear more about your plans for the fourth quarter (January-March 2022). The operating profit forecast for the fourth quarter seems rather conservative considering the

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	<p>strong sales for <i>Pokémon Legends: Arceus</i> and the planned release of <i>Kirby and the Forgotten Land</i> in March. What is your perspective on this? I'd like to know how much you incorporated the impact of <i>Pokémon Legends: Arceus</i> into the forecast.</p>
A2	<p>Furukawa:</p> <p>Three major changes have been made to the financial forecast for this period. The first is that the hardware sales volume forecast was revised downward from 24 million units to 23 million units. This is mainly due to insufficient supply of semiconductor components, and we estimate that it would be difficult to produce and sell the quantity that was previously planned. On the other hand, considering our sales results through the third quarter, the software sales forecast has been revised upward from 200 million units to 220 million units. We have not made any major changes to the sales plans for the fourth quarter. The third change is that the estimated exchange rate for the U.S. dollar was adjusted from 105 yen per dollar to 110 yen per dollar.</p> <p>For the fourth-quarter sales forecast, in terms of hardware production, we were able to secure sufficient stock for our sales volume forecast of 23 million units without significant issues, but the distribution remains somewhat opaque. In particular, logistical delays continue to occur for products shipped to markets outside of Japan. Given this situation, we do not think that the hardware sales volume will greatly exceed our forecast.</p> <p>Regarding software, we have not made any major revisions to the plans for the fourth quarter, and we believe there is room for a bit more growth in sales depending on future trends. While <i>Pokémon Legends: Arceus</i> was just released last week (on January 28), initial sales are very strong. Since this title has not only appealed to those who previously played Pokémon titles on Nintendo Switch, but also has garnered interest for others by offering a new kind of Pokémon experience, we expect many consumers to enjoy the game. In addition, <i>Kirby and the Forgotten Land</i> is scheduled for release in March. We are working toward achieving our planned goals by greatly increasing sales of first-party titles through these offerings.</p>
Q3	<p>I'd like to hear about the production and sales situation for Nintendo Switch hardware. You could say that the shipment volume for the third quarter (October-December) was large, but I get a sense that shipments to the U.S. were a little weak. Was that because of logistical delays? Also, looking at the trend in component procurement toward next fiscal year, do you see any change from the situation to date?</p>
A3	<p>Furukawa:</p> <p>Regarding the production and sales of Nintendo Switch hardware, we were able to produce enough hardware to meet demand through the first half (April-September), and stores had inventory throughout the world. But in the months following October, which includes the holiday season when sales are at their highest level, the situation varied in different regions. In Japan and Europe, there were temporary scarcities of Nintendo Switch – OLED Model, but in general, for the Nintendo Switch family overall, we were able to produce and supply enough hardware to meet demand. On the other hand, in the U.S., shortages continued from the third</p>

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	<p>week of November (Thanksgiving) onward. In December, we were not able to meet all of the demand, and that situation has continued through the beginning of the year.</p> <p>Since the start of this fiscal year, we have said that the outlook is uncertain due to the shortages of semiconductors and other components. We have not seen signs of any major changes since we entered 2022, so the situation remains the same. The fact that we were able to sell hardware during the holiday season at the same level as the previous year under these circumstances was thanks in large part to the support of our partner companies, and I would like to express my deep gratitude to them for this. Going forward, we will work to manufacture as much hardware as possible to satisfy demand.</p>
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Q4	<p>Could you please explain the annual playing users metric in more detail? How does it compare to when you sold 100 million units of the Wii system? Do you see any connection between this metric and software sales trends? Also, what kinds of business decisions make use of this number of annual playing users? If the number of players remains at high levels or even increases, could it lead to a decision to postpone the launch of the next-generation game system?</p>
A4	<p>Furukawa:</p> <p>The annual playing users metric counts the number of users, out of all the Nintendo Accounts registered to Nintendo Switch systems, who started up at least one Nintendo Switch game during a given 12-month period. Our consumer base is highly diverse, and consumers vary greatly in how frequently they play games and how many games they purchase. So, looking at the number of playing users over 12 months, which is a long period of time, serves as a metric that helps to better understand our business.</p> <p>We base our day-to-day business decisions on a variety of indicators including the number of annual playing users, according to the circumstances of the moment.</p> <p>As for comparisons with the Wii system, Wii and Nintendo Switch have very different feature sets, and the software lineup and the way titles are played on them are also different. Moreover, the game industry and the environment surrounding our company have changed significantly since the time of the Wii launch in 2006. Nintendo Switch has reached the same level of cumulative sales of 100 million units, but we do not make simple comparisons with Wii.</p> <p>The fact that so many consumers are playing Nintendo Switch creates a greater opportunity for people to pick up new titles when they are released in the future. With Nintendo Switch's user engagement rising to record levels toward the end of last year, we believe the platform is heading into its sixth year with strong momentum.</p> <p>There are currently nearly 100 million annual playing users, and going forward, it is important to consider how we can maintain and expand on that number. This will also be essential when we consider our plan for the next hardware platform.</p>

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Q5	This is about initiatives related to the metaverse and to NFTs. In one respect, you could say you have already taken the initiative with <i>Animal Crossing: New Horizons</i> , but the metaverse has such large potential, so I'd like to know your views to the extent you can share at this time.
A5	<p>Furukawa:</p> <p>The metaverse has captured the attention of many companies around the world, and it has great potential. When the concept of the metaverse is introduced in the media, games like <i>Animal Crossing: New Horizons</i> are sometimes brought up as examples. In that sense, the metaverse is of interest to us.</p> <p>But at this point in time, there is no easy way to define specifically what kinds of surprises and enjoyment the metaverse can deliver to our consumers. As a company that provides entertainment, our main emphasis is on ways to deliver fresh surprises and fun to our consumers. We might consider something if we can find a way to convey a "Nintendo approach" to the metaverse that many people can readily understand, but we do not think that is the situation at the present time.</p>
Q6	What percentage of users purchased the <i>Animal Crossing: New Horizons</i> paid add-on content, <i>Animal Crossing: New Horizons – Happy Home Paradise</i> ? I'd also like to hear about sales trends and reactions.
A6	<p>Furukawa:</p> <p>We do not disclose attach rates of individual pieces of add-on content for specific titles, but digital sales grew enormously in Q3, and one factor in that was the <i>Animal Crossing: New Horizons</i> add-on content. It is playable by subscribers to Nintendo Switch Online + Expansion Pack, and there were both consumers who bought the add-on content on its own and those who played it through Nintendo Switch Online + Expansion Pack. In addition, the last fighter in <i>Super Smash Bros. Ultimate Fighters Pass Vol. 2</i> was released during the same period. The introduction of such major add-on content for existing software contributed to Nintendo Switch's user engagement. We believe that the introduction of new titles and this sort of add-on content in the holiday season had the effect of both growing hardware sales and increasing sales of other software.</p>
Q7	I have a question about hardware manufacturing costs. It appears that costs are rising slightly due to the current semiconductor shortage, but what degree of impact does that have on gross profit? Also, going forward, will you increase production volume to secure the required volume of hardware even if costs rise, or do you decide production volume while taking costs into account to a certain degree?
A7	<p>Furukawa:</p> <p>Nintendo Switch was launched several years ago, and we have continued to work to reduce costs, but the recent component shortages are leading to increased costs. And even though</p>

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	<p>the rise is gradual, it has been impacting our gross profit. Looking at the full year, we anticipate that impact to be minor this fiscal year, but if costs continue at current levels through next fiscal year as well, then we would expect hardware profitability to decrease correspondingly compared to this fiscal year. In addition, as has already been mentioned, Nintendo Switch – OLED Model has a lower profit margin than Nintendo Switch and Nintendo Switch Lite. Unless the situation changes dramatically, we do not foresee profitability improving next fiscal year and beyond. That said, these cost increases do not affect our production plans, and we will continue to produce the volume required to meet demand.</p>
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Q8	<p>I know it is difficult to allocate development resources to the mobile and IP related business given your focus on the dedicated video game platform business, but have you considered growing this field by, for example, outsourcing game application development to outside developers, with Nintendo supervising, so as not to have to allocate your resources?</p>
A8	<p>Furukawa:</p> <p>We're currently operating five titles in the mobile business, as well as the application <i>Pikmin Bloom</i>, which was released by Niantic. We believe that the mobile business has the effect of continuously promoting awareness of our IP to consumers all over the world, at a certain level. The consumers who have downloaded these titles include many who do not own one of our dedicated video game platforms, so we feel that our mobile business is significant in generating touchpoints with new audiences.</p> <p>Nintendo IP is rooted in games, and a major characteristic of this is that consumers develop strong feelings toward – and attachments to – the IP while actually playing the games. The source of the IP's value isn't just its outward design, but also the game experience itself. Because of this, our basic policy is that any expansion must respect the unique characteristics of our IP in order to avoid harming consumers' personal attachments and fondness for it. We appreciate your understanding for this approach in expanding our IP.</p>

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