

Financial Results Briefing for Fiscal Year Ended March 2022 (Online)

Nintendo Co., Ltd.

Q & A Summary

Date: Tuesday, May 10, 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. 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 Regarding the financial forecast for the current fiscal year (ending March 2023), what is the reasoning behind the year-on-year decline in software unit sales? Also, how did you determine the assumed exchange rates, as they differ substantially from current market rates? If possible, please explain Nintendo's sensitivity to changes in exchange rates and how much of an impact a 1-yen shift against the U.S. dollar or euro will make on sales and profits.

A1 Shuntaro Furukawa (Representative Director and President):

The financial forecast for the current fiscal year takes into account the present manufacturing and sales environments, and the following three explanations are the key points.

The first point is the hardware sales units forecast for this fiscal year. As the global shortage of semiconductors and other parts continues, we are still experiencing difficulties in the procurement of necessary components. There remain uncertainties within our plans for hardware production. Considering this production situation, we decided to set our hardware sales units forecast at 21 million, which is a decrease of about 2 million units year-on-year.

The second point is the software sales units forecast. Upon comprehensively accounting for factors such as new Nintendo titles scheduled to be released this fiscal year, demand for evergreen titles released during previous fiscal years, and new titles scheduled to be released by other software publishers, we decided to set our forecasted unit sales at 210 million, which is a decrease about 20 million units year-on-year. It is difficult to make an accurate forecast since, at the beginning of the year, we cannot predict other software publishers' product release schedules, and because the overall scale of software sales has grown considerably. However, we believe that we will be able to continue sales in the 200-million-unit range.

The third point is that we must account for the balance in supply and demand of components such as semiconductors, as well as the situation regarding logistics. The financial forecast for the current fiscal year anticipates a rise in manufacturing costs (due to an increase in the price of components such as semiconductors) and a substantial rise in the cost of shipping due to a supply-demand imbalance surrounding the transportation industry, affecting the transportation of hardware produced in preparation for the holiday season.

The assumed exchange rates for this fiscal year are 1 U.S. dollar = 115 yen and 1 euro = 125 yen. Taking into consideration the recent sharp fluctuations in exchange rates, we have decided to pay attention to not only the current market rates, but also long-term rate fluctuations among other economic factors when determining the assumed exchange rates.

Regarding the impact of changes in exchange rates on our financial statements, because we do not disclose our yearly sales forecast figures in foreign denominations, we are unable to provide a figure as to how much of an impact it could have on our current forecast. If we take

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	<p>the previous fiscal year as an example, sales in foreign denominations were 6.3 billion U.S. dollars and 3.1 billion euros, so the impact of a 1-yen shift in exchange rates would amount to 6.3 billion yen and 3.1 billion yen, respectively.</p> <p>Gross profit is impacted by purchase costs in foreign denominations. Purchases made in U.S. dollars totaled 5.8 billion U.S. dollars during the previous fiscal year. While we do make purchases in euros, they are not in large amounts. Furthermore, because a portion of purchases will remain as part of inventory, not all purchases will impact profits and losses during the same fiscal year.</p> <p>In terms of SG&A, the effects of changes in exchange rates will mainly impact expense calculations of our foreign subsidiaries. If the yen depreciates, expenses will increase, thus negatively impacting our profitability.</p> <p>Foreign exchange gains and losses within non-operating profits or losses are mainly affected by the revaluation of foreign-currency denominated assets and liabilities owned by Nintendo Co., Ltd. Again, if we use the previous fiscal year as an example, our net current assets* in foreign denominations were 3.1 billion U.S. dollars and 0.6 billion euros. If we do not account for fluctuations in net current assets over the fiscal year, we can estimate that a 1-yen shift in exchange rates will result in around 3.1 billion yen and 0.6 billion yen, respectively, in foreign exchange gains or losses.</p> <p>*Net current assets = cash + accounts receivable – accounts payable – loans payable to subsidiaries and affiliated companies</p>
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Q2	Please tell us about the initial sales status of <i>Nintendo Switch Sports</i> , released on April 29, including the sales situation by region as well as its contribution to Nintendo Switch Online.
A2	<p>Furukawa:</p> <p><i>Nintendo Switch Sports</i> is off to a very good start in every region. With this title, players can experience sports through intuitive controls using the Joy-Con controllers, and since it is approachable even for those who do not usually play video games, we believe it has the potential to broaden the range of consumers.</p> <p>Also, <i>Nintendo Switch Sports</i> is a title that becomes more appealing when you play it online, and even those who do not usually play games online can easily participate and enjoy online matches with it. For example, you can team up with a family member to compete online with other players. On its initial release, the game has mainly been purchased by consumers who already own a Nintendo Switch system. In Japan, it is being picked up by consumers from a wide range of age groups. In Europe and North America, consumers in their mid-20s who have experienced <i>Wii Sports</i> and <i>Wii Sports Resort</i> are the main demographic. We are planning to release <i>Splatoon 3</i> in the current fiscal year, which can also be enjoyed online. We would like to promote these titles throughout the year and communicate the fun of online gameplay to consumers, including those who may become new hardware purchasers.</p>

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Q3	Please tell me about the attachment and retention rates for Nintendo Switch Online. Has the newly added access to <i>Mario Kart 8 Deluxe – Booster Course Pass</i> at no additional cost started in March had any impact on Nintendo Switch Online + Expansion Pack such as an increase in the number of subscribers? The pricing of Nintendo Switch Online + Expansion Pack is favorable (in comparison to the unit price of each individual piece of add-on content); are you planning on making add-on content a regular part of the subscription service?
A3	<p>Furukawa:</p> <p>An updated number of Nintendo Switch Online members will not be announced today. Last year, we disclosed there were 32 million subscribers as of September 2021. Since then, the number of subscribers has steadily increased alongside sales of hardware units. Since not all consumers renew their subscriptions after the expiration of their membership periods, we think it is important to continuously make the service more compelling through the addition of titles that utilize online gameplay and improvements to the service itself.</p> <p>In March of this year, we added a new “Missions & Rewards” feature to Nintendo Switch Online. By completing missions (such as “Play Software That Supports Online Play” or “Play Game Trials Software”), players can earn My Nintendo Platinum Points, which can then be redeemed for rewards such as “icon elements.” Furthermore, Nintendo Switch Online + Expansion pack (started in October 2021) now offers access to <i>Mario Kart 8 Deluxe – Booster Course Pass</i> (released in March) at no additional cost. We will continue to expand upon the service and deliver various content throughout the year.</p> <p>The number of Nintendo Switch Online + Expansion Pack members is steadily increasing, and its share among the overall Nintendo Switch Online subscriber-base is gradually expanding. By region, the ratio is especially high in the United States. When we first started Nintendo Switch Online + Expansion Pack, the majority of subscribers were those who migrated from the original Nintendo Switch Online membership plans. However, we began to see an increase in new subscribers late last year, caused mainly by the introduction of popular Nintendo 64 titles and add-on content for <i>Mario Kart 8 Deluxe</i> and <i>Animal Crossing: New Horizons</i>.</p> <p>Whether or not we offer future add-on content as part of Nintendo Switch Online + Expansion Pack will depend on the user-friendliness of the overall experience and the compatibility of each piece of software. Each title will be distributed in a way that best fits its characteristics.</p>
Q4	The upcoming software titles for the current fiscal year have already been announced to some extent, and I think one of the major differences from past platforms is that a rich lineup of new software is still being added to your library, even in the sixth year of Nintendo Switch. Can you explain the reasons for such a difference? Also, I think that a next-generation game system will be launched at some point in the future. Historically, newly launched platforms did not always

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	<p>have a smooth transition from prior generations. Please tell us your thoughts on how you plan to maneuver to the next generation of hardware.</p>
A4	<p>Furukawa:</p> <p>We have already announced some software titles that will be released through next spring. Unlike in the past, even though Nintendo Switch has gone through five years since its launch, there is still a rich lineup of new titles to be released. The biggest reason for this is that, thanks to the smooth launch of Nintendo Switch itself, we have been able to concentrate our development resources on one platform. On the other hand, looking back on past experiences of generational change such as the change from the Wii and Nintendo DS eras, we recognize that one of our tasks is ensuring the transition to future generations of hardware is as smooth as possible. To that end, we are focusing on building long-term relationships with our consumers (through Nintendo Accounts). While continuing to release new Nintendo Switch software for consumers to enjoy, we aim to maintain relationships across hardware generations through services that utilize Nintendo Accounts and by providing opportunities for them to experience our IP through other non-gaming channels.</p>

Q5	<p>When compared to the forecasted 5% year-on-year decrease in net sales for the current fiscal year, the decline in the hardware and software unit sales forecast looks to be out of proportion. It seems improbable that you would be able to achieve 1.6 trillion yen in net sales unless an extremely large portion of your sales comes from Nintendo Switch - OLED Model. In what ratio do you expect to sell each of the Nintendo Switch models? Also, I believe you used railways to transport products to Europe in the previous fiscal year, but this option is likely unavailable due to the current situation in Ukraine. Have you considered any alternative means of transportation?</p>
A5	<p>Furukawa:</p> <p>We have been able to maintain high demand for Nintendo Switch - OLED Model so far, and because it will contribute to the entire fiscal term in this fiscal year, we believe this model will represent a larger portion of hardware sales. Out of sell-through figures for the previous fiscal year, about 25% of overall hardware purchases were made by those who already owned a Nintendo Switch system. About 30% of Nintendo Switch Lite unit sales were repeat purchases (demand for additional Nintendo Switch systems after the first) and 40% of Nintendo Switch - OLED Model unit sales were repeat or replacement purchases. In order to achieve our forecasted sales of 21 million units, it will be essential to maximize demand among both first-time and repeat purchasers. Furthermore, we believe the proportion of Nintendo Switch - OLED Model sales will grow along with the increase in demand for multiple systems.</p> <p>You are correct in your assumption regarding railway transportation of products to Europe. One of the challenges for the current fiscal year is that, when we take our current production environment into consideration, it is very difficult to plan the transportation of products not only to Europe but also to other regions. Normally, we would build up our inventory during the summer and transport our products by ship early, so they arrive in time for the peak holiday</p>

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	<p>season. However, when looking at the current fiscal year, we believe that we need to utilize other means of transportation including air more than usual, and we are planning based on that assumption.</p>
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Q6	<p>Out of the cash utilization plan of up to 450 billion yen announced during last year’s Corporate Management Policy Briefing, how much is incorporated into the consolidated financial forecast for the current fiscal year?</p>
A6	<p>Furukawa:</p> <p>We do not disclose specific details regarding how much progress we have made in the utilization of cash on hand. However, we previously announced our plan to acquire Kyoto city-owned land adjacent to Nintendo headquarters this fiscal year. In this area, we will build Corporate Headquarters Development Center, Building No. 2 (tentative name), which will accommodate our future needs in the expansion and reinforcement of research and development. Aside from this example, there are various preparations underway in both gaming and non-gaming fields.</p>

Q7	<p>DeNA Co., Ltd. (DeNA) announced a sale of their shares in Nintendo and commented that “the companies will move to the next stage of enhancing their relationship.” Are there plans to move beyond the existing collaborations, namely those of development and operation of mobile applications and support for Nintendo’s online businesses, or will it be an extension of your current relationship?</p>
A7	<p>Furukawa:</p> <p>This does not affect our cooperative relationship. DeNA and Nintendo have built a strong relationship based on trust, and we have been working collaboratively in the development and operation of mobile applications and online services centered around Nintendo Accounts. We plan to continue making progress in our collaborations. While we are unable to make any further disclosures from our side, we would like to say that during the past seven years, both companies have learned many things through our collaborations, and we would like to continue to further strengthen our cooperative relationship in the business between the two companies.</p>

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