

Q&A Summary

Date: Wednesday, November 9, 2022

Attendees: Shuntaro Furukawa (Representative Director and President)

Shigeru Miyamoto (Representative Director, Fellow)

Shinya Takahashi (Director, Senior Managing Executive Officer)

Satoru Shibata (Director, Managing Executive Officer)

Ko Shiota (Director, Senior Executive Officer)

Hajime Murakami (Executive Officer)

- The following are the main questions and answers from the 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 I would like to hear how you are thinking about your next fiscal year. Next year will be the seventh year since Nintendo Switch launched, and you will also be moving forward in new areas of business such as IP expansion, including a movie. As Nintendo Switch progresses further into its life cycle, I would like to know how you will complement it with those other businesses.

A1 Shuntaro Furukawa (Representative Director and President):

First, we will concentrate our efforts into this holiday season sales with the goal of outperforming our sales plan for the current fiscal year. We believe this will allow Nintendo Switch to continue its momentum into its seventh year.

We continue to see robust sales for Nintendo Switch hardware. In terms of first-time purchases, there are certainly differences from what we saw the first few years after launch, however, we have been able to generate different varieties of demand. Examples include demand for multiple systems within the same household and replacement demand for users moving from the original Nintendo Switch model to Nintendo Switch – OLED Model, both helped by the release of special editions of the hardware with *Splatoon 3* and *Pokémon Scarlet & Violet* themes. In essence, our approach to the Nintendo Switch business next fiscal year is similar to this fiscal year.

In terms of software, we have *Pokémon Scarlet* and *Pokémon Violet* slated for release next week. For the next fiscal year, we have already announced *The Legend of Zelda: Tears of the Kingdom* and *Pikmin 4*, both titles featuring key Nintendo IP. And as you pointed out, the upcoming *The Super Mario Bros. Movie* is very important to us and is an example of one of our new initiatives. Tying these initiatives all together, based on our strategy as discussed in today's presentation, we intend to work to continually build more and more touchpoints between people and Nintendo IP.

Q2 What kind of initiatives are you considering to further increase the number of Nintendo Switch Online members and to bolster the enthusiasm of existing members?

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A2	<p>Furukawa:</p> <p>As of September 2022, the number of paid Nintendo Switch Online members has surpassed 36 million. While there are some users who choose not to renew their memberships once they expire, the number of members is increasing overall, along with increases in people playing Nintendo Switch and titles that support online play. In addition, the Nintendo Switch Online + Expansion Pack service, which we started last year, is accounting for a gradually increasing proportion of overall memberships thanks in part to the addition of Nintendo 64 titles.</p> <p>The goal of Nintendo Switch Online as a service is to help users to enjoy playing on Nintendo Switch for a long time, so we are considering various initiatives, including further enhancements to the content of the service. As we discussed in today's presentation, our goal is to continue to use Nintendo Account to maintain long, positive relationships with our consumers. In line with this strategy, we consider Nintendo Switch Online as our initiative to encourage our users to continue to enjoy Nintendo Switch for many years to come.</p>
Q3	<p>I would like to hear about why the initial unit sales for <i>Splatoon 3</i> were so different in Japan, versus abroad. I know that in general, the overseas markets tend to get off to a slower start than the Japanese market, but the regional difference for <i>Splatoon 2</i> was not as large as the difference this time around. Do you think there were any macroeconomic factors impacting this?</p>
A3	<p>Furukawa:</p> <p>For <i>Splatoon 3</i>, I believe the difference in unit sales between Japan and elsewhere appears large because of the extremely high initial sales volume we saw in Japan. However, the title is off to a strong start outside of Japan as well, with numbers higher than we saw for <i>Splatoon 2</i>. The market environment is most likely one of the reasons why the initial response was so strong in Japan. Capcom's <i>Monster Hunter Rise: Sunbreak</i> released at the end of June, and user activity in Japan started to increase especially during the summer. Subsequent releases including <i>Xenoblade Chronicles 3</i>, <i>Kirby's Dream Buffet</i>, and the <i>Mario Kart 8 Deluxe - Booster Course Pass</i> add-on content helped maintain a high level of engagement. We held the <i>Splatoon 3</i> Splatfest World Premiere during that time, and were able to generate a great deal of excitement, particularly in the Japanese market. One important consideration for <i>Splatoon 3</i> was how we can deliver the game not only into the hands of active users who have long been passionate <i>Splatoon</i> players, but also those who previously played but are taking a break. It turned out that, in addition to these two types of players, the number of new players has far exceeded our expectations. A similar trend is present outside of Japan as well, and we believe this to be the result of bringing Nintendo Switch to even more users than at the 2017 release of <i>Splatoon 2</i>.</p> <p>To summarize, we believe initial unit sales in Japan were much higher than anticipated because we were able to sufficiently increase Nintendo Switch engagement towards the release of <i>Splatoon 3</i>. Conversely, we view it as a positive that there is potential for further sales growth in markets outside of Japan.</p>

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Q4	Have you considered changing the price of hardware given the recent depreciation of the yen? In addition, with Nintendo Switch in its sixth year, are there any changes to your approach to lengthen the product life cycle, given factors such as the current levels of inflation, yen depreciation, and changes in the competitive environment?
A4	<p>Furukawa:</p> <p>Currently, there are no plans to raise the price of our hardware. However, the yen has depreciated at an unexpected level for a long duration, so we will carefully consider as we monitor the situation going forward. It is true that for Japan in particular, hardware profitability has decreased due to the prolonged depreciation of the yen.</p> <p>How we view the effects of inflation and other factors remains unchanged. While we believe there is currently no major impact, we will continue to monitor various factors of our product sales.</p>
Q5	You previously acknowledged the challenge in the dedicated video game platform business when the hardware generation changes. The previous software is no longer playable on the new hardware, necessitating a start from scratch. However, by utilizing Nintendo Account or maintaining backward compatibility on new hardware, it now seems possible for content to endure across hardware generations, similar to how visual content is treated. I think there are both advantages and disadvantages to having newly launched hardware maintain backward compatibility with previous hardware, but what kind of internal discussions have you had about this subject?
A5	<p>Shigeru Miyamoto (Representative Director, Fellow):</p> <p>In the past, we built a service called Virtual Console as a way for players to enjoy classic games on more modern hardware. In terms of compatibility, visual content has an advantage because it can be enjoyed continuously as long as you have a playback environment. However, legal rights for visual content can become quite complicated, so I have mentioned before that Nintendo is proceeding with visual content with a firm grip on the rights. Previously, software development for dedicated video game systems was conducted in development environments dedicated to each hardware platform. This meant that those environments could not be brought forward when the hardware changed, and it would become impossible to play software released for previous hardware without making changes. However, the software development environments have recently been gradually integrated. So, generally speaking, it has become easier to implement an environment where software released for past hardware can be played on new hardware.</p> <p>Having said so, Nintendo's strength is in our creation of new entertainment, so when we release new hardware going forward, we plan to continue to offer new and unique gameplay that cannot be realized on existing hardware.</p>

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Q6	I would like to ask about your thoughts on expanding the “Mario” IP. What expectations should we have for <i>The Super Mario Bros. Movie</i> (to be released in Japan on April 28, 2023)? Also, you have moved forward with the strategy of expanding the number of people who have access to Nintendo IP through mobile, visual content, and theme parks, with Mario leading the way, but what fields are you considering expanding into next? I would like to hear about the long-term expansion of Nintendo IP.
A6	<p>Miyamoto:</p> <p>For <i>The Super Mario Bros. Movie</i>, I have been working together with Mr. Chris Meledandri, the founder and CEO of Illumination, from the start, through seven years of planning and six years of production. During that time, we have thought a lot about the appeal of transforming games into films and about what audiences are looking for.</p> <p>With novels and comics, people have already enjoyed their stories, so I think movie adaptations guarantee a certain amount of enjoyment. But with video games, it is the gaming experience that makes them compelling, so a movie that adheres to the story of a game will not necessarily be interesting. Moreover, people who have played the game will expect a movie experience that is faithful to their memories of the game, while those who have never played the game will expect a movie that is enjoyable as an independent piece of entertainment. We spent a significant amount of time trying to figure out how to overcome these two challenges. While it is a bit presumptuous to say so myself, I think we managed to get it right, so I hope you will enjoy the movie.</p> <p>Since around 2014, we have been conducting business to expand the number of people who have access to Nintendo IP. Nintendo has transitioned from a maker of <i>hanafuda</i> playing cards to a maker of western playing cards to a video game company, but an important aspect throughout these changes is that Nintendo has held many characters and IP of its own. I like to think of Nintendo as an entertainment agency full of world-class talent. These days, we live in a world where companies that deploy and maintain their infrastructure are inevitably in power. But we want to be a strong company that can match up against anyone by creating and managing content, as well as having the capability to disseminate the content ourselves.</p>
Q7	The proximity between consumers and Nintendo is now closer through Nintendo Account and Nintendo Switch Online, and I think it has become easier than before to see things like user activity in games. Do you think this kind of information will affect the development of software and the next-generation platform?
A7	<p>Shinya Takahashi (Director, Senior Managing Executive Officer):</p> <p>Tools like social media provide us with more opportunities for feedback from consumers and we receive a variety of information. Although we cannot adopt all of the input as they are, we need to always pay attention to how people respond to our games and then think about how we can entertain them as we proceed with development.</p>

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We want to develop products that are fun for consumers while also enjoying the development process exploring what kinds of interesting things are possible, including new initiatives for Nintendo Switch Online.

Ko Shiota (Director, Senior Executive Officer):

In the Nintendo Switch generation, it feels like we have gotten closer to our consumers via Nintendo Account. I think an integrated hardware-software business that captures the spirit of Nintendo will continue to be central to many of the activities that spring from the strategy described in today's briefing. The most important thing with our dedicated video game platform is to deliver a unique gaming experience. In our development of both hardware and software going forward, we must consider ways to more easily connect our core video game business with the consumer experiences outside of our dedicated video game platform through Nintendo Account.

We are not at a stage where we can talk about the next-generation platform. But we think it is most important to create unique integrated hardware-software products. The activities we leverage through Nintendo Account should be well connected to those products.

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