

Financial Results Briefing for Fiscal Year Ended March 2023 (Online)

Nintendo Co., Ltd.

Q&A Summary

Date: Tuesday, May 9, 2023

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	<p><i>The Super Mario Bros. Movie</i> is a big hit. What impact will that have on your strategy of expanding the number of people who have access to Nintendo IP? Do you expect non-game revenues to account for a greater percentage of total revenue in the future, or do you see this as one result of the IP expansion initiatives you have implemented to date?</p>
A1	<p>Shuntaro Furukawa (Representative Director and President):</p> <p>There has been a positive reception worldwide to <i>The Super Mario Bros. Movie</i>, and Mr. Miyamoto (Nintendo Representative Director and Fellow), who served as co-producer of the movie also appreciates the response. I have heard that many are going as families, and that some people have already watched the movie multiple times. The movie is an opportunity for people of all ages, from small children to seniors, to come in contact with our IP, and not just those already familiar with Nintendo and Mario. As an example of our strategy of expanding the number of people who have access to Nintendo IP, this has yielded a great result.</p> <p>In terms of the impact on our business, in the short term, the revenues from the box office and secondary uses of the movie will be reported as sales in the current fiscal year (ending March 2024). But what is more important is that the movie inspires interest in Mario games and has a positive effect on sales of Nintendo Switch hardware and software over the medium to long term. In fact, we are already seeing a variety of positive effects. For example, sales are growing for Mario related merchandise, and there is a slight rise in activity for classic Mario titles that can be played through Nintendo Switch Online. In the long term, we think this will become a powerful touch point, turning people who have never really played games before into fans of Mario and Nintendo, and renewing the interest of people who used to play (on a Nintendo game platform) but are taking a break.</p> <p>As for the future, we plan to pour our efforts into a variety of visual content, as we did last year with the consolidation of Nintendo Pictures Co., Ltd. as a subsidiary. We are very happy that this movie is a hit, but will remain focused on carefully developing and further expanding each IP while respecting its unique characteristics, just as we have done in the past. Through our strategy of expanding the number of people who have access to Nintendo IP, we want to bring people in contact with our characters and the worlds depicted in our games, with the goal of continually invigorating our core dedicated video game platform business.</p>

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<p>Q2</p>	<p>You have the stated goal of extending the lifecycle of Nintendo Switch. How much has your confidence in this goal increased at the present time? Do you feel that <i>The Super Mario Bros. Movie</i> can help extend the lifecycle even further? Also, although the movie's box office revenues are included in the financial forecast for this fiscal year, am I correct in assuming that the positive ripple effects of the movie on the Nintendo Switch business have not been taken into account?</p>
<p>A2</p>	<p>Furukawa:</p> <p>Six years have passed since the launch of Nintendo Switch, and cumulative sales have exceeded 120 million units. In the history of our dedicated video game platform business, we have never anticipated sales of 15 million units of hardware and 180 million units of software in the seventh year for a system, so we see ourselves as having entered uncharted territory.</p> <p>Under these circumstances, we think the release and global success of <i>The Super Mario Bros. Movie</i> will have a positive impact on the Nintendo Switch business. Add to that the May 12 release of <i>The Legend of Zelda: Tears of the Kingdom</i>, and we are experiencing very good tailwinds in the seventh year.</p> <p>The financial forecast includes anticipated sales related to the movie, but specific amounts are not disclosed. The forecasts of sales such as movie theater screenings, DVD and Blu-ray discs, streaming, and merchandise are based on the percentage of our stake in the movie. We plan to count this revenue in sales on our earnings statement, included as part of our mobile and IP related income, starting from the first quarter of this fiscal year. Of the movie production costs, the portion invested by Nintendo has already been recorded as an intangible asset on the balance sheet, and it will be amortized in accordance with future revenue recognition and included in the cost of sales.</p> <p>The movie-related revenues will impact earnings mostly in the current fiscal year, but I think that the positive ripple effects from the movie on the Nintendo Switch business will be greater over the medium to long term. We have not factored these effects into our financial forecast, but we have seen a certain amount of growth in sales of Mario related titles since the release of the movie. We would like to continue aiming to maximize sales by maintaining these tailwinds.</p>
<p>Q3</p>	<p>Historically, annual operating profit has peaked at 500 to 600 billion yen, and cumulative hardware unit sales seem to hit a threshold at 140 to 160 million units. How do you plan to break that barrier? <i>The Super Mario Bros. Movie</i> has expanded the number of people who have access to Nintendo IP, but how will you connect this to even further market expansion and growth of your dedicated video game platform business?</p>
<p>A3</p>	<p>Furukawa:</p> <p>Recent examples of expanding the number of people who have access to Nintendo IP include the opening of SUPER NINTENDO WORLD in Japan and the United States, as well as the establishment of directly operated official stores with new locations in Japan in</p>

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	<p>addition to overseas. In the last few years, the number of ways in which consumers have access to Nintendo IP has expanded greatly, and among those, the recent movie is a particularly large-scale initiative.</p> <p>These kinds of activities to increase points of contact between consumers and Nintendo IP are important, and we believe that there is still room for expansion in this area, including expanding the regions in which we implement these initiatives. At the same time, we believe that it is crucial to maintain closer and longer relationships with consumers. To support this, before the release of Nintendo Switch, we created the Nintendo Account system as a mechanism for building relationships with consumers and expanded the various services that utilize these accounts.</p> <p>Over the past year, we made Nintendo Pictures Co., Ltd. a subsidiary and established Nintendo Systems Co., Ltd. We are utilizing both internal resources at Nintendo and the assistance of external parties to expand contact points with Nintendo IP outside of video game systems and create a foundation for building relationships with consumers. By doing so, we aim to further grow the overall scope of our business and create an environment where consumers can enjoy our dedicated video game platforms, which comprise the core of our business, over a long period of time.</p>
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Q4	<p>The number of annual playing users for Nintendo Switch is continuing to rise even as we enter its seventh year since launch, so from that perspective, I feel that it is possible to say that there is less of a need to release a next-generation platform. When you do release a next-generation platform, do you foresee a dramatic increase in the number of annual playing users, or will you maintain it at the level of at least 100 million users?</p>
A4	<p>Furukawa:</p> <p>The growth in annual playing users has become more gradual compared to three or four years ago and going forward, we expect to be at a point where we prioritize maintaining high engagement while also aiming to invite in new users. Gaming system operation tends to fluctuate based on the release timing of major titles, so we will continue to release a steady flow of software. We also believe that we need to keep providing opportunities for consumers to play Nintendo Switch, rather than relying solely on new software releases.</p> <p>We do not believe that reaching a certain number of annual playing users means that there is no need to release a next-generation platform. I cannot say anything specific about a next-generation platform at this time, but we are always working on various projects aimed at the future by asking ourselves what kind of fun proposal we can make which can possibly provide new and unique entertainment.</p> <p>And in the case of future new hardware releases, the annual playing users will largely depend on how widely the hardware is adopted. From that standpoint as well, we believe that how we maintain a high level of consumers actively playing Nintendo dedicated video game platforms while transitioning to the next generation of hardware will be a very important topic going forward. However, at this stage, we believe that our top priorities are</p>

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	maintaining and expanding the utilization of Nintendo Switch, which has entered its seventh year since launch, and maintaining business momentum.
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Q5	My question is about hardware and software pricing. Material costs for hardware seem to be lower than they have been for a while. Is there a possibility of a price cut in the future? On the software side, <i>The Legend of Zelda: Tears of the Kingdom</i> is ten dollars more expensive (in the U.S.) than the previous title, <i>The Legend of Zelda: Breath of the Wild</i> . Could it be that development costs are on the rise? I'd like to hear your thoughts on future software pricing.
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A5	<p>Furukawa:</p> <p>With regard to hardware, prices for certain materials have fallen but overall costs remain high. We must also continue to account for the impact of factors such as inflation and foreign exchange rates. Production was highly impacted during the previous fiscal year (ended March 31, 2023), so we are ensuring our parts procurement occurs far enough in advance to ensure stable production. Even if raw material prices decrease, it will take time for this to be reflected in manufacturing costs. Currently, there are no plans to reduce the price of our hardware during this fiscal year. On the other hand, while we also have no plans to raise prices, the yen continues to be weak, and procurement costs remain high, so we will continue to monitor the situation carefully.</p> <p>Regarding the price of software, the MSRP (manufacturer's suggested retail price) of <i>The Legend of Zelda: Tears of the Kingdom</i> is ten dollars higher in the U.S. than its predecessor, but this does not indicate a general increase in the price of our software. Our approach is to determine the appropriate price of a product on a case-by-case basis. It is true that development costs are on the rise due to the enhanced breadth of content and the requirement of more advanced technology to support online play, so the pricing for our new titles going forward is something that we will continue to consider thoroughly.</p>
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Q6	Your forecast for this fiscal year shows that unit sales are expected to decrease by about 15% year-on-year for both hardware and software, and there will probably be additional negative effects on sales due to the appreciation of the yen. Yet, full-year sales are expected to decline by 9.5% year-on-year, which is a narrower rate of decline. What kinds of positive impact on sales are you anticipating?
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A6	<p>Furukawa:</p> <p>Let me start by explaining our overall approach to the earnings forecast. Given that recent hardware sales have declined by more than 20% year-on-year, a 16.5% decrease of 15 million units is not a goal that we will be able to achieve easily. However, this fiscal year started with the theatrical opening of <i>The Super Mario Bros. Movie</i> and we also plan to release the latest entry in The Legend of Zelda series, which contribute to the acceleration in the Nintendo Switch business that we are working towards in its seventh year since</p>
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	<p>launch. Our aim is to leverage this momentum into maximizing sales during the holiday season to achieve our sales plans.</p> <p>In terms of software, we will release a variety of new titles, starting with <i>The Legend of Zelda: Tears of the Kingdom</i> and <i>Pikmin 4</i>. We also plan to release paid add-on content for <i>Pokémon Scarlet</i> and <i>Pokémon Violet</i> as well as <i>Splatoon 3</i>, all of which we released last year.</p> <p>As for the gap between the rate of decrease in hardware and software units sold and the decrease in net sales, we expect the OLED model, which has a higher unit price, to represent a larger portion of hardware sales during this fiscal year. Unit prices for software are likewise variable between Nintendo titles and titles from other software publishers, and sales can fluctuate depending on the product mix. Also note that the paid add-on content such as those for <i>Pokémon Scarlet</i> and <i>Pokémon Violet</i>, as well as <i>Splatoon 3</i>, are not reflected in the sales volume forecast we shared. We have also seen an increase in revenue related to Nintendo Switch Online with the release of Game Boy Advance titles for Nintendo Switch Online + Expansion Pack. In addition, our IP related business is expected to generate revenue this fiscal year from the movie, in addition to our usual royalty income. All of these factors together account for less of a decline in net sales compared to unit sales.</p>
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Q7	<p>Nintendo Switch was announced under the development codename “NX” in March 2015, and then the official name was announced in October 2016 prior to its launch in March 2017. Looking back, do you consider this a success in terms of hardware marketing, given there was a space of about two years between the initial announcement and launch? Do you think a similar interval between the announcement and launch of a next-generation platform will be necessary?</p>
A7	<p>Furukawa:</p> <p>Looking back at the release of information leading up to the Nintendo Switch launch, we announced the “NX” development codename in March 2015 during a joint announcement with DeNA Co., Ltd. regarding our business and capital alliance (as it related to joint development of smart-device game applications and its operation, and also the core system development centered around Nintendo Account). When we announced our entry into the mobile business at that time, we needed to let people know that Nintendo would be continuing to focus on the dedicated video game platform business as our core business. So, I believe that the timing of the Nintendo Switch announcement was a special case.</p> <p>We will provide information about hardware and software at the appropriate time for each product and strive to reach a wide range of consumers.</p>

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