

Q&A Summary (English Translation of Japanese Original)

Date: Tuesday, February 6, 2024

Attendees: Shuntaro Furukawa (President and Representative Director, Member of the Board)
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	You previously explained that Nintendo Switch, in its seventh year since launch, had entered "uncharted territory." Looking back now at the nine months until the end of holiday sales season, how do you see the Nintendo Switch business as having performed this fiscal year? I'd also like to know whether good performance in the Nintendo Switch business will impact the time frame for the launch of new hardware.
A1	<p>Shuntaro Furukawa (President and Representative Director, Member of the Board):</p> <p>Last year, when Nintendo Switch entered its seventh year since launch, we said we had entered uncharted territory because, in the history of our dedicated video game platform business, it was unprecedented to expect sales of 15 million units of hardware and 180 million units of software in the seventh year of the life of a system. When we look at the sales situation so far this fiscal year against this backdrop, we believe that hardware sales have held stable since the first half and that the holiday season results were steady. Increasing the number of new consumers has become more difficult, given that the platform is in its seventh year after launch, but as previously discussed, we want to maintain momentum in the business through a good balance of both first-time buyers and demand for multiple units. During the holiday season, we noted a particular rise in first-time buyers of our hardware, and we see this as a positive sign for the Nintendo Switch business going forward.</p> <p>Looking at software, although overall unit sales were slightly lower year-on-year, we released new titles for flagship Nintendo IP including <i>The Legend of Zelda: Tears of the Kingdom</i>, <i>Pikmin 4</i>, and <i>Super Mario Bros. Wonder</i> this fiscal year, and were enjoyed by many consumers. I think that this year has been meaningful, both in terms of releasing a steady stream of new Nintendo titles, and in terms of increasing the popularity of these kinds of series going forward.</p> <p>Regarding new hardware, we are unable to make any comments beyond saying that our company is constantly conducting research and development on new hardware and software. As we mentioned before, articles claiming to reference information released by Nintendo and other speculations have been appearing mainly on the internet lately. Information that has not been officially announced by Nintendo can mislead consumers and investors. We encourage you to exercise good judgment based on the information we provide on our official websites and social media accounts. It takes a long time and thorough planning to get ready for new hardware, and those plans are not impacted by whatever the latest business conditions might be.</p>

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Q2	This fiscal year, <i>The Super Mario Bros. Movie</i> was a hit, and sales in the mobile and IP related business are doing well. How has this impacted profitability? Also, how do you think sales in the mobile and IP related business will trend over the medium term, including initiatives other than movies?
A2	<p>Furukawa:</p> <p>This fiscal year, in addition to an increase in regular royalty income, there were also revenues related to <i>The Super Mario Bros. Movie</i>, with the result that sales in the mobile and IP related business increased greatly year-on-year. Although a portion of the revenues associated with the movie continue to come in even after its theatrical run is over, the majority stems from the box office revenues associated with movie theater screenings. For this reason, we think that the increase in sales in our mobile and IP related business this fiscal year has been largely due to the temporary factor of the theatrical release of the movie. Income from smart-device applications has decreased slightly year-on-year. However, download numbers and active users have increased for both <i>Super Mario Run</i> and <i>Mario Kart Tour</i>, thanks in part to the movie's impact.</p> <p>This fiscal year, sales volumes for both hardware and software were slightly lower year-on-year, but operating profit and other profits increased. This is largely due to the increase in mobile and IP related income, in addition to the impact of the depreciation of the yen.</p> <p>From a medium-term perspective, the amount of royalty income we see coming from areas other than visual content has increased compared to when we started putting our full effort towards expanding the number of people who have access to Nintendo IP, and this income is continuously growing. Our top priority with our IP expansion initiatives is to invigorate our dedicated video game platform business by increasing the value of Nintendo IP and creating points of contact with consumers. As large as this field has grown, we intend to work to generate stable revenues in this initiative as well.</p>
Q3	Looking at the software sales numbers, there has been no sizable drop year-on-year despite the fact that the popular titles <i>Pokémon Scarlet</i> and <i>Pokémon Violet</i> were released in the same period of last fiscal year. I expect that <i>Super Mario Bros. Wonder</i> made a large contribution to sales during the three months of the third quarter (October to December), but it seems evergreen titles like <i>Super Smash Bros. Ultimate</i> and <i>Mario Kart 8 Deluxe</i> also sold well. Were they also supported by the additional exposure from factors like the streaming of the movie?
A3	<p>Furukawa:</p> <p>Sales of new first-party titles have done well this fiscal year, including <i>The Legend of Zelda: Tears of the Kingdom</i> and <i>Pikmin 4</i>, which were released in the first half, and <i>Super Mario Bros. Wonder</i> and <i>Super Mario RPG</i>, released in the third quarter. In addition, the release of the movie has helped drive sales of Mario related titles released last fiscal year and earlier. We believe that overall software unit sales have held firm this fiscal year, even though they are down a bit</p>

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	<p>compared to the previous fiscal year (ended March 2023), when <i>Splatoon 3</i>, <i>Pokémon Scarlet</i> and <i>Pokémon Violet</i> were released heading into the holiday season.</p> <p>During this fiscal year's holiday season, <i>Super Mario Bros. Wonder</i> served as a major driver of sales and at the same time, titles from other software publishers have also sold well, and sales overall have grown with a good balance between new and evergreen titles as well as between Nintendo and other software publishers' titles.</p> <p>Sales of <i>Super Mario Bros. Wonder</i> have grown at a faster pace than previous Super Mario titles. The game itself has been well-received in terms of its content, but I think another factor is that it is a title that can be played by two or more people. Around half of the people who play this game do so in multiplayer mode, so I think the title suited the need for a game that many people can enjoy with family and friends during the year-end holiday season, when people get together. In addition, <i>The Super Mario Bros. Movie</i> is available for streaming around the world. So even though the theatrical release is over, the number of people who have seen the movie for the first time continues to increase, and we believe this has also helped drive the good sales of <i>Super Mario Bros. Wonder</i>.</p>
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Q4	<p>If you subtract hardware unit sales for the first three quarters from the revised full-year forecast, the estimated sales for the fourth quarter (January to March) are calculated to be less than 1.8 million units. That seems quite low for a fourth quarter, but do you think it is a reasonable number? I'd also like to hear your thoughts on projected hardware sales for the next fiscal year.</p>
A4	<p>Furukawa:</p> <p>Hardware sales are moving generally as expected, but based on sales in the third quarter, we have increased our forecast for the full year by 0.5 million units. The outlook for the fourth quarter is basically unchanged from the beginning of the fiscal year. As Nintendo Switch is entering its eighth year, we do not think it will be easy to maintain sales at the same level as in the past.</p> <p>We will present a hardware unit sales forecast along with our earnings forecast for the next fiscal year when we announce our financial results for the current full year. That being said, Nintendo Switch has already entered uncharted territory, and I think it will be hard for the unit sales to grow at the same pace next fiscal year as they have to date. Even so, many people worldwide got their hands on a Nintendo Switch for the first time this holiday season, and we were able to maintain high levels of engagement with the hardware. A number of new titles are set for release next fiscal year, both from Nintendo and other software publishers, and by continuing to promote the appeal of those titles as well as existing ones, we aim to maintain the momentum of the overall Nintendo Switch business.</p>

Q5	<p>It seems that Nintendo's approach to the life cycle of hardware has changed since the launch of Nintendo Switch. I'd like to hear your thoughts on the difference between Nintendo Switch</p>
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	and past platforms, and what is being emphasized in your research and development of a next-generation platform.
A5	<p>Furukawa:</p> <p>The major difference between Nintendo Switch and past platforms is that we have integrated a handheld system and a home console system, which in the past were two separate platforms. That allowed software development resources to be concentrated on Nintendo Switch. We have been able to release a continual stream of new titles, and one result is a longer life cycle compared to past platforms.</p> <p>Looking to the future, the most important thing for Nintendo is that we provide people with distinctively Nintendo entertainment that is fun and surprising in new ways. At the current time, we believe that our integrated hardware-software dedicated video game platform business is the optimal way to continue to offer our unique entertainment, and that policy will continue to guide our research and development initiatives going forward.</p> <p>Another difference from past platforms is that we have been working with DeNA to spread the use of Nintendo Account since before the launch of Nintendo Switch. Nintendo Accounts are an important touch point for maintaining long-term connections with our consumers. They can be used when consumers migrate to new hardware. Furthermore, they are also an important way for us to reconnect with people who have been taking a break from video games for a while and then, at some point, become interested in the unique entertainment that Nintendo has to offer. From that perspective, I believe that Nintendo Accounts will continue to be important going forward.</p>

Q6	[During the Corporate Management Policy Briefing held November last year,] there was mention of many people watching <i>The Super Mario Bros. Movie</i> even in regions where Nintendo's dedicated video game platform business has not made much headway. Are you considering taking the movie's success as a hint to expand your dedicated video game platform business to regions in which Nintendo Switch is not currently sold?
A6	<p>Furukawa:</p> <p><i>The Super Mario Bros. Movie</i> was played in theaters and made available for streaming in far more countries and regions than we sell Nintendo Switch. <i>The Super Mario Bros. Movie</i> was especially well-received in Central and South America, notably Mexico, and so we increased our promotional efforts more than usual there during this past holiday season. As a result, while hardware sales decreased overall, they increased in Mexico. In addition, we also expanded sales channels in Southeast Asia and implemented initiatives to raise awareness of Nintendo for more consumers. In these regions, we want to first create a relationship with consumers through Nintendo Switch, and then utilize this foundation for our future business activities.</p>

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Q7	I'd like to dig a little deeper into your intent to expand sales to "Other" regions following the success of the movie. While I think there are various bottlenecks when trying to expand business in "Other" regions, I'd like to know what kind of challenges there are, and whether it would be possible to fundamentally resolve them. Am I correct in assuming that the hardware pricing, in particular, is a challenge?
A7	<p>Furukawa:</p> <p>Hardware pricing is one of the hurdles we face in the "Other" region, and finding a solution within the boundaries of our dedicated video game platform business has been a challenge. However, during this period we were able to use a different method, the movie, as an opportunity to introduce consumers to Nintendo IP. It is becoming possible to use methods other than dedicated video game platforms, including mobile apps, to introduce consumers in these regions to Nintendo.</p> <p>Last year, we brought pop-up versions of the official stores we run in Japan to South Korea, Hong Kong, and Singapore, and many consumers came to purchase merchandise. Beyond that, in addition to Universal Studios Japan and Universal Studios Hollywood, SUPER NINTENDO WORLD in Orlando in the U.S. and in Singapore are also scheduled to open.</p> <p>As for regions where hardware pricing has been a challenge, we are continuing to implement initiatives that will encourage consumers to become fond of Nintendo through our IP and ultimately play on our dedicated video game platforms, which is the core of our business.</p>
Q8	Will the story for the film based on The Legend of Zelda revolve around a previously released video game, or will it be a completely new narrative?
A8	<p>Furukawa:</p> <p>We announced in November last year that we had started development of a live-action film of The Legend of Zelda. Shigeru Miyamoto, Executive Fellow and Representative Director of Nintendo, and Avi Arad, Chairman of Arad Productions Inc., who has produced many mega hit films, will be co-producing this film. Currently, we cannot discuss the release date or content of the movie, so please wait for future updates.</p>
Q9	It looks like Nintendo has built a secure foundation for both its initiatives for the dedicated video game platform and for IP expansion. However, looking at the past, I think that external factors such as the introduction of new hardware by competitors and the rise of mobile gaming have impacted Nintendo's business. Recently, new forms of entertainment have appeared, and video games themselves continue to evolve. Given this external environment surrounding Nintendo's business, what kind of risks need to be considered going forward?
A9	<p>Furukawa:</p> <p>Every day, we conduct our business with a great sense of urgency. Generational transitions of platforms for the dedicated video game business are not an easy task. Since we have often experienced hardship in the past following a good-selling platform, we never automatically</p>

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assume that our current position is solidified. Furthermore, as you mentioned, our business is constantly subject to fierce competition. When we take a broader perspective and look at entertainment as a whole, our competitors are not just other video games but also various other forms of leisure, making it a very tough industry. All this makes it even more important to continue offering unique proposals that make our brand an appealing choice for consumers.

For us to keep offering unique entertainment that can be enjoyed by consumers all over the world, we believe the best strategy at this time is to continue pursuing our integrated hardware-software dedicated video game platform business. While we are working on all kinds of research and development projects and initiatives based on this belief, Nintendo products are different from basic necessities in that consumers will quickly lose interest if they are not fun. For this reason, we recognize the importance of continuing to implement initiatives that encourage people to feel familiar with Nintendo in areas other than dedicated video game platforms, increasing the number of consumers who are fans of Nintendo IP over the long-term, and maintaining our relationship with these consumers.

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