

Nine Months Financial Results Briefing for Fiscal Year Ending March 2023 (Online)
Nintendo Co., Ltd.

Q&A Summary

Date: Tuesday, February 7, 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	Looking at Nintendo Switch software unit sales, I get the impression that although sales were firm in other regions, they have weakened in the Americas. Can you talk about the factors behind regional differences in the pace of software sales?
A1	<p>Shuntaro Furukawa (Representative Director and President):</p> <p>In the Americas, software unit sales for the nine months between April and December decreased by 19.5% year-on-year. When you look at region-by-region performance, the Americas was the only region where unit sales declined year-on-year. During the same period of the previous fiscal year, sales of evergreen titles like <i>Mario Kart 8 Deluxe</i> and <i>Animal Crossing: New Horizons</i> were strong, and particularly in the Americas, new titles like <i>The Legend of Zelda: Skyward Sword HD</i>, <i>Mario Golf: Super Rush</i> and <i>Metroid Dread</i> were also strong, resulting in software sales for that region to grow significantly. Sales were down for the same period this fiscal year, due to factors such as the absence of sizable growth in sales of evergreen titles, particularly during the third quarter (October-December).</p> <p>In Japan, <i>Splatoon 3</i> was released in September and got off to a good start, and factors like this helped us maintain momentum as we entered the third quarter with the holiday season. As a result, software sales continued to fare well in Japan compared to other regions after the November release of <i>Pokémon Scarlet</i> and <i>Pokémon Violet</i>.</p> <p>In Europe, the situation during the third quarter was different from the Americas. Titles such as <i>Nintendo Switch Sports</i> and <i>Mario Strikers: Battle League</i>, both released during this fiscal year, saw their sales grow during the holiday season, with the result that the percentage decline in software unit sales was comparatively lower than in hardware unit sales.</p> <p>In other regions, the decline in hardware unit sales was accompanied by a decline in software unit sales, but in addition to <i>Pokémon Scarlet</i> and <i>Pokémon Violet</i> having an extremely strong showing centered on Asia, <i>Nintendo Switch Sports</i> and <i>Splatoon 3</i> also had steady growth, and as a result, software unit sales for the third quarter decreased only slightly year-on-year.</p>

Q2	Regarding hardware, you explained that sell-through [see note] during the holiday season fell short of expectations, but how did the demand for multiple systems fare during that period? Also, with Nintendo Switch entering its seventh year next fiscal year, do you expect a natural decline in unit sales?
-----------	---

Q&A Summary

A2	<p>Furukawa:</p> <p>As background for our revised financial forecast, we explained that planned shipments for the fourth quarter (January-March) were revised mainly because holiday season sales did not meet expectations in overseas markets. The production constraints caused by the shortage of semiconductors and other components were largely resolved in October of last year, and through our efforts to deliver products for the holiday season, our shipment volume through the end of the third quarter generally matched the revised plan implemented at the time of our six-month financial results. On the other hand, holiday season sales were not as large as the past two years, with the result that sell-through fell short of expectations.</p> <p>When looking at the overall Nintendo Switch family, demand for multiple systems continues to account for around 30 percent of unit sales this fiscal year, so there has been no major change. However, when you look at individual models, the demand for Nintendo Switch and Nintendo Switch Lite as additional systems has increased year-on-year. That said, although the proportion of demand for Nintendo Switch – OLED Model as an additional system was quite high following its 2021 launch, there has been an increase in demand as a first Nintendo Switch system over time. This resulted in a smaller proportion of Nintendo Switch – OLED Model systems being purchased as an additional console in the current fiscal year.</p> <p>Nintendo Switch is coming up on its seventh year of sales in March, and we see this as uncharted territory in the history of our dedicated video game platforms. Under these circumstances it is hard to imagine that hardware sales will continue to grow at the same pace they have to date. However, there are titles under development for Nintendo Switch, and new titles will continue to be proposed going forward. We are seeing both new demand and multiple system demand for the hardware, so we think there is still room for growth in sales. To that end, we want to maintain a high level of engagement with the hardware and create new demand not only by releasing new titles but also by working further to convey the appeal of existing titles.</p> <p>[Note] Sell-through refers to sales made 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 or as downloadable software.</p>
-----------	---

Q3	<p>Considering the unit sales results for the current fiscal year, it seems like it will be difficult to stop the slowdown in hardware sales just by releasing new software. Are you planning any specific measures for next fiscal year?</p>
A3	<p>Furukawa:</p> <p>Nintendo Switch will soon mark its seventh year since launch. Ideally, we would like to maintain unit sales volume next fiscal year at the same scale as this fiscal year. However, looking back at the holiday season, our results were affected in part by external factors like the change in consumer behavior caused by inflation and the diversification of entertainment choices due</p>

Q&A Summary

	<p>to the resumption of economic activity. Especially in overseas markets, it was more of a challenge for Nintendo Switch to be seen by consumers as their first choice of entertainment. Sales have been steady entering the fourth quarter, but in the Nintendo Switch's seventh year, it might be hard to increase unit sales with hardware-related initiatives alone. That is my candid impression. In your question, you said "just by releasing new software," but motivating people to play games for a long time and inspiring them to pick up new titles are both extremely important factors when it comes to maintaining the momentum of our dedicated video game platform business. Next fiscal year, we plan to release <i>The Legend of Zelda: Tears of the Kingdom</i> in May and <i>Pikmin 4</i> in 2023. By using these kinds of opportunities to convey the appeal of Nintendo Switch, we will work to maximize sales through new purchases, replacement purchases, and additional purchases so we can maintain and increase our business momentum.</p>
--	---

Q4	<p>Looking at the sales of <i>Pokémon Scarlet</i> and <i>Pokémon Violet</i> and <i>Splatoon 3</i>, it seems that series with established popularity are accounting for a growing percentage of overall software sales. What are your thoughts regarding this situation? I would also like to hear how you plan to incorporate new titles that have the potential to expand the user base, similar to <i>Ring Fit Adventure</i> and <i>Nintendo Switch Sports</i>, as well as titles from other software publishers into the lineup.</p>
A4	<p>Furukawa:</p> <p>Last holiday season, <i>Pokémon Scarlet</i> and <i>Pokémon Violet</i> had a very large presence worldwide, and sales were beyond our expectations. On the other hand, there were changes in the external environment, and it was more difficult for Nintendo Switch to be chosen by consumers as their most preferred entertainment option when compared to the past two years. As a result, sales of evergreen titles as second or third purchases did not grow as expected. Going forward, we will work to better convey the appeal of these kinds of titles to consumers.</p> <p>More than 25 years has passed since the release of the first Pokémon game, while it has been less than a decade since the Splatoon series debuted. In both cases, sales have grown with the latest release greatly outselling the previous release, purchased not only by series fans but by a wide range of new players. One of the characteristics of our IP is that it has been nurtured by our consumers over many years of gameplay, and we recognize the great significance of the fact that many people enjoyed these series titles during the holiday season. Looking at it from a slightly longer perspective, it was a holiday season in which we achieved our goal of building long-lasting relationships with our consumers.</p> <p><i>Ring Fit Adventure</i> and <i>Nintendo Switch Sports</i> are games with intuitive controls that even people who usually do not play games can readily enjoy, and during the holiday season these titles were purchased by many consumers not only in Europe but in other regions as well. We will continue to develop and release titles with Nintendo's unique entertainment appeal made possible by our integrated hardware-software development.</p> <p>Regarding other software publishers, they released many titles for Nintendo Switch last year</p>

Q&A Summary

	and are preparing a variety of titles for this year as well. With their continued cooperation, we hope to expand our business together.
--	---

Q5	Going forward, what kind of life cycle do you expect for Nintendo Switch? If the hardware unit sales gradually decrease in the future, will software sales similarly decrease? Or do you expect software sales to stabilize at a certain level due to the increase in annual playing users? Please also talk about your pricing strategies for hardware and software going forward.
A5	<p>Furukawa:</p> <p>Nintendo Switch, which will soon enter its seventh year, has sold over 120 million units cumulatively, and we believe that it is entering uncharted territory in Nintendo's dedicated video game platform business. In this environment, it will not be easy to maintain hardware sales at the same pace as before. For this reason, our new challenge for the seventh year is finding ways to encourage users who are considering new purchases, replacement purchases, and additional purchases to pick up a Nintendo Switch.</p> <p>We believe that both new titles and evergreen titles can create opportunities for new users to purchase hardware. Furthermore, maintaining engagement with the hardware can lead to the introduction of new software. In December of last year, we saw the highest-ever level of Nintendo Switch engagement, and many consumers continue to play Nintendo Switch. Given the situation, it is important going forward to communicate the appeal of Nintendo Switch through software offerings to consumers considering new purchases, replacement purchases, and additional purchases of the hardware.</p> <p>SUPER NINTENDO WORLD will have its grand opening at Universal Studios Hollywood this February, and <i>The Super Mario Bros. Movie</i> will premiere in April. By creating opportunities for consumers to encounter Nintendo topics in areas outside of the dedicated video game platform, we aim to maintain the overall momentum of our business.</p> <p>As we continue the Nintendo Switch business over the long term, we have tried to preserve the value and prices of both hardware and software as much as possible. We do not believe that policy needs to be changed at this point.</p>

Q6	Although sales of new titles are doing well, sales are not increasing for second and third titles. What plans do you have to raise sales going forward?
A6	<p>Furukawa:</p> <p>Looking at sell-through of first-party titles for Nintendo Switch, evergreen titles released in prior fiscal years accounted for approximately 60% of sell-through last fiscal year and approximately 50% this fiscal year, which shows that the sales ratio for new titles has increased. One reason is that since demand for multiple Nintendo Switch systems has increased, people who already own the hardware can play the same title without purchasing it again, which has led to a decrease in unit sales of evergreen titles. Also, looking at the ratio of new title sales by</p>

Q&A Summary

	<p>region, the ratio increased greatly this fiscal year in Japan and Asia, but the increase was smaller in Europe, and there was almost no change in the United States.</p> <p>Many new titles have been released for Nintendo Switch up to this point, and we have communicated their appeal as much as possible. The hardware will soon enter its seventh year and has been purchased by many people, but the first title purchased by a consumer differs depending on when they purchased the hardware. We believe there are various ways we can communicate the appeal of software released in the past [and not just new titles] to consumers who have recently purchased hardware. In addition, consumers have a very wide selection of software they can choose from, so we can work on ways to make it easier for them to see recommended titles.</p>
--	---

Q7	<p>The number of annual playing users has increased, but what about play time? Nintendo Switch will soon enter its seventh year, so we believe that a different strategy from before is required to invigorate the platform. Please tell us your thoughts from the perspective of how to increase play time.</p>
A7	<p>Furukawa:</p> <p>We believe that users' play time differs depending on the characteristics of the software. Nintendo's titles include various types of games, ranging from those that are played for a comparatively long time and played continuously over a long period, to games that a player concentrates on for a certain number of hours until it is completed, at which point they move on to the next title. We believe that this vast variety is one of the appeals of the Nintendo Switch platform.</p> <p>For software that is not run as a service, there is a trend of greatly increased play time immediately after release, followed by decreased play time as people complete the title, but this has the advantage of making it easier for consumers to pick up the next title. Consumers who play a few titles for short periods of time are also very important to us, which is why we use annual playing users, rather than play time, as our KPI. For long-term growth of the overall platform, we do not think all Nintendo Switch systems being constantly active is strictly necessary, but we would like to increase play time in accordance with the characteristics of the software.</p> <p>In addition, one of the major differences in life cycle from our previous dedicated video game platforms is that our strategy for the Nintendo Switch generation is to pursue various initiatives to expand the number of people who have access to Nintendo IP. These are initiatives that provide consumers access to Nintendo IP outside of the dedicated video game platform in order to maintain and expand the core dedicated video game platform business. These initiatives include mobile apps, theme parks, and official stores like Nintendo TOKYO and Nintendo OSAKA. In addition, we believe that <i>The Super Mario Bros. Movie</i> scheduled for release this spring will provide an opportunity for many people around the world to view Nintendo's characters on a big screen, starting with a character that is representative of our company, Mario. We want to use these initiatives to invigorate the Nintendo Switch platform.</p>

Q&A Summary

Q8	What are your thoughts regarding next fiscal year's business results? You mentioned extending the Nintendo Switch life cycle by releasing software, but please tell us about any other initiatives, such as digitalization, that you are considering.
A8	<p>Furukawa:</p> <p>Several new titles, including <i>The Legend of Zelda: Tears of the Kingdom</i> are scheduled for release next fiscal year. Through the release of these titles, we aim to have many people come in contact with our IP. <i>Pokémon Scarlet</i> and <i>Pokémon Violet</i> and <i>Splatoon 3</i>, released this fiscal year, have recorded steady sales and have been purchased by many new consumers. In addition, sales of <i>Kirby and the Forgotten Land</i>, released at the end of the previous fiscal year, continues to grow significantly this fiscal year, and the title has performed strongly in Europe and Asia where sales of the Kirby series have been relatively weak up to now. For next fiscal year, the lineup that has already been announced includes games for very important IP like <i>Zelda</i> and <i>Pikmin</i>, and the Mario movie is planned to be released as well, so our approach is to maximize the appeal of each IP and game to greatly increase sales momentum.</p> <p>In addition, digital sales have increased year-on-year due to increased sales of downloadable versions of packaged software and the steady increase in Nintendo Switch Online memberships. In particular, sales greatly increased for the digital versions of <i>Splatoon 3</i> and <i>Pokémon Scarlet</i> and <i>Pokémon Violet</i>, and their incorporation of online play elements contributed to the increase in Nintendo Switch Online memberships. By continuing to increase the appeal of the Nintendo Switch Online service, we would like to further expand memberships.</p>

End