Financial Results Briefing for Fiscal Year Ended March 2024 (Online)
Nintendo Co., Ltd.

Q&A Summary (English Translation of Japanese Original)

Date: Tuesday, May 7, 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	I'd like to hear your thoughts about your game software development resources. You will be announcing your software lineup for the second half of 2024 in a Nintendo Direct in June but judging by the first half, the lineup seems weaker than usual. Have much of your development resources already been shifted to the successor to Nintendo Switch? I'd also like to hear about your long-term strategy for expanding your development resources.
A1	Shuntaro Furukawa (President and Representative Director, Member of the Board): Creating a successor to Nintendo Switch takes years of preparation, so of course many aspects must be taken into consideration in terms of software development resources. But we are also continuing to develop software for Nintendo Switch, and will announce more about our upcoming software lineup at the Nintendo Direct scheduled in June. We have continuously expanded our development resources over the past several years through the recruitment of recent graduates and mid-career hires. We will continue to actively work to secure the necessary development resources to increase the long-term value of our IP and to constantly offer unique entertainment proposals. Although development resources could be expanded through M&A, first we will work within the company with our developers, who thoroughly understand and have built up the Nintendo brand over the years, to have them nurture talent who can drive Nintendo's future development. In addition, many of our external development partners have gained a deep understanding of Nintendo's way of thinking and game development methods over the many years of collaboration, and we would like to further strengthen our ties with such partners. The process of game development will inevitably become longer, more complex, and more advanced. It is vital that Nintendo offers consumers new and unique experiences through game development, so we will actively invest in expanding our development resources.

Q2	Looking at the hardware sales forecast for the current fiscal year (ending March 2025), if the forecast does not include sales of the successor to Nintendo Switch, it seems like the numbers are not that much lower than the previous fiscal year (ended March 2024). Are you thinking that announcing a successor system will not affect the momentum of the Nintendo Switch business?
A2	Furukawa: The sales forecast for the current fiscal year does not include the successor to Nintendo Switch. Nintendo Switch hardware sales remain relatively strong, but we are now in the system's

	eighth year, and we recognize that it is becoming more challenging to maintain momentum as time passes. Even so, during last year's holiday season, many new consumers picked up a Nintendo Switch system for the first time, particularly children and families in markets outside of Japan. We will release new titles this fiscal year and, in addition, many people have watched *The Super Mario Bros. Movie* through various means since its theatrical release, so with factors like that, we believe we will be able to continue to generate new demand. Also, there is a large catalog of existing Nintendo Switch games, so if we can effectively convey the appeal of these evergreen titles, we believe we can also pursue the demand for multiple systems in the same household, born from the unique value of Nintendo Switch. We do not think the announcement of the successor to Nintendo Switch and future related communications will have zero impact on Nintendo Switch sales. However, we hope to maximize sales this fiscal year by maintaining a good balance between new demand and demand for multiple systems. Our hardware sales forecast of 13.5 million units for the fiscal year will not be easily achieved, but with the intention of challenging ourselves, we have set this number as the initial fiscal year guidance.

Q3	I'd like to hear about the relationship between cash utilization, which you mentioned in past Corporate Management Policy Briefings, and the successor to Nintendo Switch. The existence of the successor to Nintendo Switch had not been announced at the time of the Corporate Management Policy Briefing last November, so I imagine it would have been difficult to describe cash utilization in relation to it. But did the amount of cash utilization explained at the time also include the investment related to the successor system? One of the fields you define for cash utilization is "foundation for maintaining and expanding relationships with consumers," and your Nintendo Account initiatives are included in this field. Will you continue to make active use of Nintendo Account with the successor to Nintendo Switch?
A3	Furukawa: We have defined "building software assets" and "foundation for maintaining and expanding relationships with consumers" as fields of investment for cash utilization, and various initiatives in both fields are under consideration or have been implemented already. However, investment in the development of the successor to Nintendo Switch has been carried out as part of our normal business activities. For this reason, the investments in the successor to Nintendo Switch are not the main focus of our cash utilization. In regards to “building software assets,” investments in visual content, which is entertainment other than video games, are currently taking precedence in our cash utilization. However, in the future, there may also be video game-related investments, and it is possible that this will have something to do with the successor to Nintendo Switch. In terms of the "foundation for maintaining and expanding relationships with consumers," our efforts are centered around Nintendo Account to improve user experience and create new added value. One example of cash utilization in this regard is the establishment of Nintendo

	Systems Co., Ltd. as a joint venture with DeNA Co., Ltd. Nintendo Account was prepared before the launch of Nintendo Switch as a way to maintain long-term relationships with consumers across hardware generations, so we will continue to make active use of Nintendo Account with the successor to Nintendo Switch as well.

Q4	I think one big change over the lifecycle of Nintendo Switch is the remarkable growth in digital sales. Looking back at the progress of the digital business and its contribution to financial results thus far, I would like to know what expectations you have for the digital business over the lifecycle of the successor to Nintendo Switch.
A4	Furukawa: As you pointed out, the expanded scale of our digital business can be cited as one of the major changes since the release of Nintendo Switch. In the previous fiscal year, robust sales of Nintendo Switch Online memberships and add-on content for games such as *Pokémon Scarlet* and *Pokémon Violet*, *Mario Kart 8 Deluxe*, and *Splatoon 3*, as well as the depreciation of the yen, led to increases in both the digital sales amount and the digital sales ratio. Our objective is not to simply increase the share of digital sales, but to maximize overall game software sales, including sales of physical software. This policy will remain unchanged going forward. In this context, we need to enhance user-friendliness for both consumers who play packaged software and those who play download versions. Going forward, we intend to keep working on improvements to devise better solutions. Compared to 2017, when the Nintendo Switch was launched, digitalization has progressed in many aspects of our lives. At this moment, if digital content continues to become more useful and convenient over time, we believe that more of our consumers will choose digital products with the successor to Nintendo Switch, just as they did with Nintendo Switch.

Q5	For hardware sales, the forecast of 13.5 million units for this fiscal year seems like an aggressive target, given the sales figures for Q4 of the previous fiscal year. What initiatives do you have in mind to achieve this? Regarding hardware supply, you had said before that when new hardware is released, you would like to manufacture and ship units in sufficient quantities to satisfy consumer demand, as a countermeasure against reselling. Given the recent improvements in the semiconductor market, do you think it is likely that you would be able to ship enough units of the successor to Nintendo Switch to meet the demand, right from the time of launch?
A5	Furukawa: As was the case with the previous fiscal year, we are somewhat ambitious in our hardware sales forecast for the start of the fiscal year. Given the status of recent sales, we recognize this is not an easy figure to achieve. In the previous fiscal year, hardware sales momentum picked up due to hits such as *The Legend of Zelda: Tears of the Kingdom* and *The Super Mario Bros. Movie*. In the end, sales exceeded the initial forecast of 15 million units, reaching 15.7 million.

Q&A Summary (English Translation of Japanese Original)

	This year we will need to implement various initiatives to sell the forecasted number of Nintendo Switch. During last year's holiday season, we sold hardware bundled with software, and we also conveyed the appeal of having multiple units of Nintendo Switch in a household. We plan to implement various initiatives to approach 13.5 million units of sales in the current fiscal year as well. Regarding the supply of the successor to Nintendo Switch, we cannot give a specific answer, as we have not yet announced the timing of the launch. However, currently there is no semiconductor shortage like we saw up until 2022, so we are not anticipating the supply of semiconductor components to be a major issue when we launch the successor to Nintendo Switch.

Q6	Regarding the successor to Nintendo Switch, is there any special intention behind calling it a "successor?" Looking back at past hardware announcements, Wii U was described as a "system to succeed Wii," and Nintendo Switch as a "game platform with a brand-new concept." This time it is described as a "successor to Nintendo Switch." Is this an indication of your intent to continue with the gameplay and concept of Nintendo Switch? You said there will be an update during this fiscal year. At that time, will you talk about its launch timing and specifications?
A6	Furukawa: At this stage, we cannot say anything more about the successor to Nintendo Switch. For today's announcement, we determined that the most appropriate expression to use was "successor to Nintendo Switch." Information will be released in stages leading up to the launch, as we have done with previous new hardware announcements.

Q7	Nintendo has announced its expected operating profit for the current fiscal year to be 400 billion yen. The fact that you can forecast this much profit during what is largely a hardware transition period can suggest that the base profit level of the company has risen. Before the release of Nintendo Switch, I recall a time when the market was anticipating an operating profit of over 100 billion yen as a “Nintendo-like profit.” I'm sure a lot has changed in the seven years since the release of Nintendo Switch, but I'd like to hear your thoughts on what constitutes a “Nintendo-like profit.”
A7	Furukawa: I know that in the past, many people expected an annual operating profit of 100 billion yen as the kind of profit structure that is characteristic of Nintendo. However, at this time, we will refrain from talking about a specific figure for what we consider to be appropriate for Nintendo. The operating profit of 400 billion yen in the financial forecast announced today is based on a hardware sales projection which will require great effort to achieve. We have similar thoughts regarding software. For this reason, if software sales greatly underperform expectations, it will not be easy to achieve the 400 billion yen operating profit. We announced this figure at the

	beginning of the fiscal year to embrace the challenge of achieving our sales plan. It is extremely important to maintain the momentum of the Nintendo Switch business going forward this fiscal year by implementing various sales initiatives for hardware and by communicating information about new software titles. In addition to this, we intend to carry out a range of initiatives in areas outside the dedicated video game platform to distribute information to our consumers. For example, via initiatives like Nintendo Museum which is scheduled to open in fall 2024, we consider this year to be important for sustaining the momentum of Nintendo's overall business, and not just the Nintendo Switch business. At the same time, this fiscal year is when we devote ourselves to preparations for the successor to Nintendo Switch, and we believe that our top priority is to both maintain the momentum of Nintendo Switch and prepare for its successor. Rather than being overly focused on single-year profits, we have positioned this as a year to prepare for the future and to implement initiatives for continued growth and a long-term rise in corporate value.

Q8	I think that using *The Super Mario Bros. Movie* to expand awareness of Nintendo IP even in regions where Nintendo Switch is not available for purchase was a highly effective measure. I understand that a movie in general requires a long production time and involves a sizable investment. Going forward, is there a possibility of using smaller scale visual content, such as animated series or short videos, to expand the number of people who have access to Nintendo IP?
A8	Furukawa: In the financial results for last year, unit sales decreased for both hardware and software, but we managed to maintain momentum for the overall business through initiatives aimed at expanding the number of people who have access to Nintendo IP. Although the relative depreciation of the yen was also a factor, our assessment is that the movie had a major impact in the background on both revenue and profit increases in the end. From the perspective of expanding the number of people who have access to Nintendo IP, the movie has played a larger role beyond its effect on earnings. Although *The Super Mario Bros. Movie* is no longer in theaters, it has been viewed by increasing numbers of people through video streaming services and other media. We recognize that movies are a very effective way to generate interest in Nintendo games, and we will continue to work on movie production going forward, as we have already announced. In addition, Nintendo Pictures Co., Ltd., which we made a subsidiary in 2022, is working on various initiatives in the visual content business, and not just feature-length films. As with game development, our basic policy with visual content is to make announcements when we are satisfied that we have created something fun. In other words, as the creative teams go through the process of trial and error, we will make further announcements when we have something new to share.

Q&A Summary (English Translation of Japanese Original)

Q9	I understand that Nintendo uses "annual playing users" as an important indicator. This indicator has continued to grow since it was first disclosed, even after Nintendo Switch hardware sales have peaked. Do you expect the numbers to dip this fiscal year? Also, will annual playing users continue to be an important indicator for Nintendo even after the release of the successor to Nintendo Switch?
A9	Furukawa: The number of "annual playing users," which is an important indicator for Nintendo, recently exceeded 123 million users (for April 2023 through March 2024). This is up from the previous year and is the highest number to date. New titles like *The Legend of Zelda: Tears of the Kingdom* and *Super Mario Bros. Wonder* posted high sales in 2023, and many people took the opportunity to play on Nintendo Switch, so the number of annual playing users also increased. I think one of the keys going forward is how well we succeed at releasing titles for consumers that can create these kinds of opportunities to play on Nintendo Switch. This fiscal year, it is more important to sustain business momentum than to further expand the Nintendo Switch business, so we intend to maintain the number of annual playing users at as high a level as possible and carry that into the future. Going forward, as we continue our integrated hardware-software dedicated video game platform business, the emphasis will be on whether the people who have purchased our hardware keep playing games over the long term. For the healthy growth of our business, we believe it is vital that people take the opportunity to play games in a variety of scenarios, like when they get together for holidays and birthdays. For this reason, the number of annual playing users, which indicates how many consumers have played our games over the last 12 months, will continue to be an important indicator.

End