

Q&A Summary (English Translation – Japanese is Original)

Date: Wednesday, November 8, 2023

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 Although Nintendo is not financing its theme park initiatives, it does directly invest in visual content like *The Super Mario Bros. Movie* and the just-announced plan to develop a live-action film of *The Legend of Zelda*. With that in mind, I would like to hear your thoughts on the risks and opportunities associated with expanding Nintendo IP beyond dedicated video game platforms, as well as your thoughts on investing the company's capital. Going forward, do you intend to accelerate your initiatives utilizing IP outside of dedicated video game platforms? Also, how do you strike the right balance between efforts to maximize the value of Nintendo IP and the risk of devaluing that IP?

A1 Shuntaro Furukawa (Representative Director and President):

In executing our initiative to expand the number of people who have access to Nintendo IP, we think there should be a variety of ways we are involved in those initiatives financially. Regarding the operation of theme parks, we felt that licensing was the appropriate way to go because Nintendo does not have the necessary know-how. On the other hand, visual content can become a valuable software asset for our company, so we felt we needed to be deeply involved in the creative side, among other aspects of such initiatives. For this reason, we decided that it was necessary to take appropriate risks in film production, including investing our capital. As the accumulation of software assets is important for our long-term business strategy, we will be leveraging our cash on hand over the long term with initiatives in fields like visual content that have a high affinity with our dedicated video game platform business.

Regarding the balance between maximizing IP value and the risk of causing devaluation, it is important to continue developing projects one by one, being careful to prevent excessive exposure of the IP and to not let down our game fans, given their expectations and emotional attachment. Our top priority remains the development of our game IP, and we are pleased that *Super Mario Bros. Wonder* got off to a good start on its release for Nintendo Switch in October, thanks in part to the positive influence of the movie.

Shigeru Miyamoto (Representative Director, Fellow):

Regarding the live-action film of *The Legend of Zelda*, I know we face an extremely high

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	<p>hurdle in producing a film that will not disappoint the global fan base. With this challenge in mind, I have been discussing this project with Avi Arad, Chairman of Arad Productions Inc., for about 10 years. Movies are just like games, in that you need to spend a lot of time working on them until you get to something you're satisfied with. Movies therefore need sponsors who can lend their full support until completion. For the production of our movies, Nintendo itself acts as a sponsor. To produce the movie, we were able to assemble a group of people who are willing to commit time to the production until we come up with something we feel confident about.</p> <p>For <i>The Super Mario Bros. Movie</i>, Chris Meledandri, the founder and CEO of Illumination, and I had creative control for all aspects of movie production, and together we continued with production until we were satisfied. For the live-action film of <i>The Legend of Zelda</i>, Avi Arad and I are taking plenty of time to prepare. We hope to release something good that will meet everyone's expectations, so please look forward to it.</p>
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Q2	<p>Following the release of <i>The Super Mario Bros. Movie</i>, was there anything unexpected in the reactions in different markets or the ripple effects on business? Also, I would like to ask again about your mid- to long-term strategy for the visual content business as a whole. Are you thinking of further expanding the selection of Nintendo visual content and providing it all in one place in the future? Or do you think that the main role of visual content is to support the dedicated video game platform business?</p>
A2	<p>Miyamoto:</p> <p>Each time, we work hoping that what we create might have a major impact, but the huge reaction to that movie felt like something that has not happened in a long time. Even before the film released, I felt that something new might happen, but the number of people who saw it exceeded what I had hoped for. In Japan, many people went to see the movie, and I had lots of experiences with my neighbors talking about Nintendo.</p> <p>Looking at the response by region, Mexico was a little surprising. The install base of our dedicated video game platforms is not as large in Mexico as in other major sales regions, but the box office revenues were high there. We learned that there are many Mario and Nintendo fans in Mexico, and sales of Nintendo Switch there have increased. Visual content has great significance in the way it helps people become familiar with Nintendo's IP and characters even in regions where Nintendo's dedicated video game platforms are not as widespread. Going forward, we are determined to work even harder in our visual content business.</p> <p>In addition, we previously provided a service called Virtual Console, which allowed titles released for older Nintendo hardware to be available for download and play on newer hardware. Even now, software released for the NES and other platforms can be played on Nintendo Switch, but the mechanisms that allow old games to be played on new hardware require development effort every time new hardware comes out. The nice thing about visual content is that, once it has been created, it can be provided for a long time without much</p>

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	<p>modification. I hope we can enable more people to come to cherish Nintendo's IP and characters through this synergy of games and visual content, so that the whole family can enjoy Nintendo's content.</p>
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Q3	<p>Hardware and software sales in the first half were both great, considering the platform is in its seventh year. Can you give us some reasoning as to why the Nintendo Switch Platform continues to perform well? I figure that <i>The Super Mario Bros. Movie</i> had a positive impact on the dedicated video game platform business, but as a company, how do you evaluate that? Also, were hardware sales driven in any way by the release of models with special designs like Nintendo Switch – OLED Model - The Legend of Zelda: Tears of the Kingdom Edition? When you develop models with special designs like that, what points do you keep in mind? Lastly, Nintendo Switch sales from January to March of this year were not particularly strong, but sales began growing again in April. What do you make of that?</p>
A3	<p>Miyamoto:</p> <p>Before the release of <i>The Super Mario Bros. Movie</i>, the response to the movie and its impact on the dedicated video game platform business were unknown. When the movie was released and as the number of people who had seen it increased, the sales of Mario related merchandise began to gradually increase as well. After seeing that, I sensed that the movie might also have a positive impact on sales of <i>Super Mario Bros. Wonder</i>. In Japan, thanks to the efforts of TOHO-TOWA (the local film distributor), the film remained on screens for a long time, well into the summer, and many people were able to see the movie in theaters. I think that increased interest in Mario helped lead to significant sales for <i>Super Mario Bros. Wonder</i>. Releasing a movie does not necessarily mean that sales of related software will increase as a result. Our entire company must devote energy to efforts that increase awareness of our IP and characters and generate interest among people. To this end, we will continue to focus our efforts to develop each IP, carefully working on every initiative.</p> <p>Ko Shiota (Director, Senior Executive Officer):</p> <p>This year, our special-edition hardware includes not only Nintendo Switch – OLED Model - The Legend of Zelda: Tears of the Kingdom Edition, but also Nintendo Switch – OLED Model - Mario Red Edition (released in October), and Nintendo Switch Lite - Animal Crossing: New Horizons Bundle (released in November). The developers are not simply creating a variety of consoles decorated with characters. Our goal is always to develop hardware with specifications that feel like they are of value to people. Special-edition hardware is often released around the same time as new software, and in order to incorporate our IP in the designs, the hardware developers work closely with the software teams as an integrated hardware and software development effort. In developing this kind of special-edition hardware, we focus on creating a sense of value for consumers. This means incorporating not only inventive designs and colors, but also manufacturing techniques that are not used in the regular versions.</p>

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	<p>Furukawa:</p> <p>In the first half of the financial year, our hardware and software sales increased year-on-year. I think this is an exceptional case for a platform in its seventh year. On the other hand, due to the release of <i>The Legend of Zelda: Tears of the Kingdom</i> in May of this fiscal year, we expected that the first half would account for a larger portion of our full-year results than usual. Even so, <i>The Legend of Zelda: Tears of the Kingdom</i> got off to a faster start than we expected, and that yielded significant results. In addition, the release of special-edition hardware gave consumers who were thinking of buying a replacement or additional Nintendo Switch fresh new hardware to purchase, which I think helped as well.</p> <p>On top of that, sales grew for <i>Pikmin 4</i>, primarily in Japan but also in other markets, where the title has outsold previous titles of the <i>Pikmin</i> series. We believe this is partly a result of our efforts to develop our various IPs outside of the dedicated video game system space, alongside the release of software. In the first half of the fiscal year, we were able to increase software sales by generating excitement around the <i>Pikmin</i> IP as part of our efforts to expand the number of people who have access to Nintendo IP.</p> <p>However, considering the outlook for Nintendo Switch, we do not think it will be easy for sales to grow on a year-to-year basis, especially for the hardware, since it has entered its seventh year. This is something we've anticipated from the beginning of this fiscal year and has not changed. In order to achieve our full-year plan, it will be essential for us in the third quarter, with the holiday season and beyond, to grow software sales by diligently supporting each title, both new and previously released, and in hardware to work to turn the demand for additional consoles and the new demand for consoles into actual purchases.</p>
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Q4	<p>Thanks in part to the success of <i>The Super Mario Bros. Movie</i>, your mobile and IP related income is increasing. Can you tell us about the extent to which you want to grow revenue in this area in the future?</p> <p>I expect dedicated video game platforms will continue to be the core of your business, but is IP utilization in things like visual content going to become an additional pillar of revenue? Currently, your mobile and IP related business accounts for less than 10% of total sales. Have you considered setting a target percentage of total sales and expanding the business?</p>
A4	<p>Furukawa:</p> <p>We do not intend to simply set a numerical sales target for our mobile and IP related business and then aim for that. The use of Nintendo IP requires extremely careful supervision so we don't negatively affect the image people have of our IP or harm the emotional attachment they've formed with it from playing our games. While we always strive to achieve the maximum results possible in each initiative, we do not believe that setting numerical targets such as revenue for the IP related business is appropriate.</p> <p>By deepening their fondness for Nintendo games and IP through our initiatives to expand</p>

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	<p>the number of people who have access to Nintendo IP, we hope to provide opportunities for individuals to get their hands on a dedicated video game system for the first time. That is the core of our business, and it also encourages those who might have played our games before, but are taking a break from video games for a while, to try one of our dedicated video game systems again.</p> <p>While the goal of our IP development initiatives is not to create a second revenue pillar comparable to the dedicated video game platform business, we do believe that it is essential to the sustainable invigoration and growth of our core business.</p>
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Q5	<p>Regarding the utilization of cash on hand, there was mention in the presentation that the amount was expected to exceed what was initially indicated, primarily in the area of “games” under “building software assets”. Is this because the development of both games and other content, like movies, is accelerating? I'd like to hear more about why you expect the scale of investment to increase.</p>
A5	<p>Furukawa:</p> <p>In the presentation, we discussed how the utilization of cash on hand going forward is expected to increase from what was announced in 2021 (a maximum of 450 billion yen as of that announcement), particularly in the area of games.</p> <p>The first reason for this is the increased investment in the Corporate Headquarters Development Center, Building No. 2 (tentative name), as covered on the slide. We're holding more discussions on the second development center with a longer-term perspective than when the plan was initially made. In strengthening our in-house development resources, we're not simply increasing the number of people. We're also thinking about the kind of environment that will be required as game development becomes longer, more complex, and more sophisticated.</p> <p>In addition, given that there have been changes in the external environment since the announcement was made two years ago and considering the success of <i>The Super Mario Bros. Movie</i>, among other factors, we are continuously discussing how we can best utilize our cash on hand. Against this backdrop, the period of expenditure is expected to be longer than the five-years previously discussed [in the 2021 announcement].</p> <p>Our continuing discussions around “building software assets” in areas of “non-game entertainment” and around our initiatives tied to building a “foundation for maintaining and expanding relationships with consumers” are always conducted from a standpoint of determining how we can best improve Nintendo's corporate value in the long term. When there is anything else we can announce, we will provide updates.</p>

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Q6	<p>I have a question about your approach to game development. You say that integrated hardware-software development is Nintendo's core business. Prior to Nintendo Switch, it seemed like the characteristics of your hardware were often the driving force in delivering new and innovative gameplay. But now it seems to me that it's software that's driving the new kinds of gaming for Nintendo Switch. For example, I feel like while both <i>The Legend of Zelda: Tears of the Kingdom</i> and its predecessor, <i>The Legend of Zelda: Breath of the Wild</i>, were released on Nintendo Switch, they play very differently. Has there been some kind of change in the relationship between hardware and software, or in your approach to software development? If so, I'd like to hear about it.</p>
A6	<p>Miyamoto:</p> <p>The Legend of Zelda series gameplay has evolved in tandem with our hardware. We believe that the fun of a video game lies in interactive gameplay, where a player can experiment through trial and error to see how the game reacts. While <i>The Legend of Zelda: Tears of the Kingdom</i> doesn't use hardware-specific technology like a motion sensor to let Link swing his sword, it makes full use of the Nintendo Switch controller and the platform's development environment, utilizing the characteristics of the hardware to deliver smooth and intuitive controls over a wide variety of movements. This demonstrates the deep coordination between hardware and software in our development process, which we will continue to strengthen, so we hope you look forward to our future software releases.</p> <p>Shinya Takahashi (Director, Senior Managing Executive Officer):</p> <p>The integrated hardware-software concept hasn't changed, but it used to be that software development often did not begin until after the hardware development had been completed. Recently, the hardware and software development teams have been holding discussions as a single unit, starting in the early stages of hardware development. This allows us to create software that takes advantage of hardware characteristics and develop hardware that enable new ideas in software. The hardware and software teams will continue to work as one, not just for the development of our dedicated video game platform hardware and software, but also for accessories and other hardware products, in order to create products that consumers enjoy playing.</p>

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