

Q & A Summary

If you quote any or all of this Q&A, please display the URL of this website or insert a link to this website.

<p>Q1</p>	<p>Regarding the downward revision of the Nintendo Switch hardware unit sales forecast for this fiscal year, what is different now compared to your expectations at the start of this fiscal year? I'd also like to know how many units you intend to sell in the coming fiscal year, and your sales strategy for doing so.</p>
<p>A1</p>	<p>Shuntaro Furukawa (President and Representative Director):</p> <p>This holiday season, we were able to release three major titles (<i>Super Mario Party</i>, <i>Pokémon: Let's Go, Pikachu! / Pokémon: Let's Go, Eevee!</i>, and <i>Super Smash Bros. Ultimate</i>), and were able to grow our year-on-year hardware sales in every region.</p> <p>Yet despite having been able to sell fairly large volume of hardware during the holiday season, it is true that we now do not anticipate reaching the forecasted 12-month sales volume set at the beginning of this fiscal year. As we look back so far (for this fiscal year), we now evaluate that our efforts to fully convey the appeal of Nintendo Switch hardware and software to the number of new consumers we originally hoped to reach were insufficient.</p> <p>And from the viewpoint of our full-year unit sales forecast for this fiscal year, while we expected that releasing titles during the holiday season would help to increase sales, the year-on-year sales increase during the first half of the fiscal year (April to September) turned out not big enough, which also affected the revision of the unit forecast as we looked back now.</p> <p>We will talk about the next fiscal year in more detail at a later time, but basically we want to further increase both our hardware and software unit sales more than this fiscal year. We want to further enrich our software lineup and convey its appeal to consumers, so that they decide this (calendar) year they would buy Nintendo Switch.</p>

<p>Q2</p>	<p>For the reason the Nintendo Switch hardware sales forecast for this fiscal year was revised down to 17 million units, I would think it is largely because Nintendo Switch hardware sales did not increase during the first half of this fiscal year and the releases of major titles were concentrated in October through December. I'd like to know what kind of process management is currently in place for software development, as well as your approach to Nintendo Switch hardware from the viewpoint of making software easier to develop?</p>
<p>A2</p>	<p>Shinya Takahashi (Director, Senior Managing Executive Officer):</p> <p>Compared to the NES (Nintendo Entertainment System) era, there are a lot more developers, larger development teams. We conduct development in a variety of locations as the number of development centers also increased. Even so, development is being managed more systematically than before. So although it's true that the volume of software is increasing, there are more people involved in developing it, there are more development processes in place to bring it all together, and development scale has expanded, I believe, regarding plans how to develop software, we are working better than before partly because development departments have been integrated. I have heard some people say we have a tendency towards slow</p>

	<p>development, but that’s certainly not true in every case. We have titles currently in development that we haven’t announced yet, some of which we’re preparing to release this year, and I don’t anticipate the kind of delays they would be concerned about.</p> <p>Shigeru Miyamoto (Representative Director, Fellow):</p> <p>I am continuing to entrust more authority to younger people, and I believe it is through them that we have established our own unique, Nintendo-like development structure. I want to continue to nurture their growth, while we preserve Nintendo’s unique way of making games.</p> <p>Regarding our development process, the fact that we have developed and released <i>Super Smash Bros. Ultimate</i>, which can be called a mega-title, shows that the process is running smoothly and that operations are going well, I believe. .</p> <p>At the same time, one appealing aspect of the video game business is that you can create something a lot of consumers will react very positively to if you add just a little extra value, even if it’s not dependent on hardware performance. There are indie games spreading widely across consumers even though those titles were not large-scale titles developed by many people. We always value this point and want to nurture the people who can create “core components” like that. And if we can continue to repeatedly refine the "core components of play" that those individuals create into the future, I think we'll be able to continue creating Nintendo-like products, and I feel that those individuals are steadily growing at Nintendo.</p> <p>Ko Shiota (Director, Senior Executive Officer):</p> <p>The Nintendo Switch hardware is a game system with unique functionality and features, and we're aware that means there are certain hurdles when it comes to creating games. But even so, there are currently a very large number of titles being released by other software publishers. In order to make this happen, we prepared and provided a development environment and tools early on that software developers could use from the very first stages of development of Nintendo Switch. And in addition to domestic game developers, Nintendo Technology Development Inc., a development subsidiary, serves as an overseas contact for detailed feedback from mainly European and American game developers who use this development environment, which helps us continuously enhance it. As our endeavor to make game development even slightly smoother and more efficient continues, so does the increase in the number of titles developed by other software publishers in our view.</p> <p>Indie developers in particular very often use a "game engine" as a framework for their game development, and we made these development environments available from the very beginning. I believe this is why indie titles have been available on Nintendo Switch from its early stages.</p>
--	---

<p>Q3</p>	<p>You described the new basic strategy, which is “expanding the number of people who have access to Nintendo IP.” Did the importance of how many units of hardware have been sold change compared to before when you changed your business strategy from “expanding the gaming population” to this new basic strategy?</p>
<p>A3</p>	<p>Furukawa:</p>

	<p>During the presentation, I explained that we will continue to pursue the basic strategy of expanding the number of people who have access to Nintendo IP. Hardware sell-through (volume sales by retailers to consumers) remains very important as a key performance indicator (KPI), for our company, but I think that the number of hardware units in active use is an equally important KPI. The number of active users for each game application is another critical KPI for our mobile business, not just for the dedicated video game platform business, and we regularly track the numbers for both.</p> <p>The reason why these numbers in active use are important is because consumers who continue to play with the hardware have more opportunities to purchase subsequent software. To keep consumers using the hardware, we must first and foremost continue to release new software, and we also need to provide ways such as add-on content so that consumers can play one title for a longer time. Making long-term services like Nintendo Switch Online more appealing can also contribute to maintaining the utilization of the hardware.</p>
--	---

<p>Q4</p>	<p>Unit sales of Nintendo 3DS have declined significantly. I'd like to hear your thought on sales plans, for instance, coexistence of Nintendo 3DS and Nintendo Switch, as well as any ideas for Nintendo Switch at a lower price point or smaller size as such.</p>
<p>A4</p>	<p>Furukawa:</p> <p>While the Nintendo 3DS market has contracted faster than we anticipated, currently many of consumers who newly purchase Nintendo 3DS are consumers purchasing Nintendo 3DS as their first game system. Nintendo 3DS is appealing as a portable game system, that is easy to carry around since it is small and light, and at a very desirable price point. Demand still remains from parents looking to purchase a first game system for their children. That is why our basic policy is to proceed with both Nintendo Switch and Nintendo 3DS in our dedicated video game platform business.</p> <p>Regarding future sales of Nintendo Switch, what we first need is to drive sales of one system per household, and we will work towards increasing demand to expand the installed base much further than now. On the other hand, in a survey of households asking how many family members use Nintendo Switch, we found that, while a certain number of households have multiple family members who play on a single console, some households have already purchased multiple consoles. Going forward, we aim to generate such demand among consumers as they feel like "I want to have my own Nintendo Switch console" through measures such as software offerings, not necessarily so that each person will have one, but so that each household will have multiple Nintendo Switch consoles.</p>

<p>Q5</p>	<p>Even though you've stated your intention to maximize the value of Nintendo IP, it's still impressive to see that titles using existing IP can exceed sales of 10 million units. But your titles that have offered new kinds of play have not yet demonstrated explosive growth in sales nor have they taken the world by storm like some of your past offerings. Do you think the variety of consumer preferences is a factor in this? Considering the possible reasons and how the</p>
------------------	--

	<p>environment has changed compared to how it was before, I'm wondering if you feel the need to alter Nintendo's development concept in response. Also, have there been any changes with regards to the younger developers to whom Mr. Miyamoto is delegating responsibilities? I can imagine there are some aspects that should change and some that should not, and I'd like to hear your current take on the matter.</p>
<p>A5</p>	<p>Takahashi:</p> <p>It is really gratifying to see so many consumers enjoying new games that make use of the Nintendo IP we have developed to this point. Some may say that those titles are just reusing our old IP, but I don't see us creating the same things over again, given that the actual content of these games is different.</p> <p>It is true that consumer preferences are becoming more varied, but when we make games, the most important points are how we will make each game enjoyable for consumers and how we will create sources of fun, and I see no reason to change that. That said, games are being made differently now in comparison with the past ways of game development before the Internet and some other aspects of the current era, and we are constantly aware of those changes and thinking about how to incorporate them. So I think it is best that we keep thinking of ways to mix the old with the new, to incorporate new ways of thinking and to bring forward any old ways of thinking that are still valid appropriately.</p> <p>Miyamoto:</p> <p>The reason I'm delegating responsibilities to the younger generation is not because I feel that I cannot keep up with the sensibilities of young people. And I don't think Nintendo developers are hung up on the classics and unable to develop anything new. You do not have to worry because we are capable to respond to the variety of preferences in today's world.</p> <p>In baseball, if you want to hit a home run, you need to take a decisive swing to send the ball into the stands. Likewise, we take on the creation of bold new games without fear of failure. And because Nintendo has the strength for backing to do so, we can aim to hit home runs rather than trying squeeze bunt. To me, that's the entertainment business.</p> <p>In comparison with the era of "expanding the gaming population," the current situation seems like a dream situation to us because the number of consumers with access to games has expanded to a large degree. And now they have a better understanding of digital media, so a really good idea can lead to a huge business in the blink of an eye. One of the things that make Nintendo so appealing in this kind of environment is our characters widely known beyond generations, like Super Mario, who will be turning 35 next year. By <i>Super Mario Party</i>, which has sold in greater numbers than we expected across several demographics, I realized that consumers come back at any time if we leverage these characters and create fun products. Placing value in areas like that is the essence of our IP strategy. It's not about clinging on to series titles, so please look forward to our offerings in the future.</p>

<p>Q6</p>	<p>This is about theme park development. With work progressing steadily to open the theme park by the start of the 2020 Summer Olympics in Tokyo, I would imagine that a complete view of the</p>
------------------	---

	<p>project is getting clear inside the company, since it's about a year away from opening. Is there anything about this topic you can comment on at this time? I'd like to know in which schedule and timing you will announce details.</p>
<p>A6</p>	<p>Miyamoto:</p> <p>Because the theme park is operated by Universal Parks & Resorts, we cannot talk about anything they have not yet announced. But every effort is being made to advance preparations, and Universal Studios Japan is our top priorities, as is making sure we will be ready by the start of the Tokyo Olympics in 2020. After the opening in Japan, "SUPER NINTENDO WORLD" areas will also be built in the parks in Hollywood and Orlando in the US for the enjoyment of everyone.</p> <p>We are in frequent contact with Universal Parks & Resorts, working closely together to develop the theme park from a creative standpoint. Building work on our area at Universal Studios Japan is progressing, and the construction of interiors will be starting on a full-scale operation. Osaka is close to Kyoto, so we check on the progress of the work frequently. I think it will be really worth the wait.</p>

<p>Q7</p>	<p>Female gamers are growing in number year after year, but what is the proportion of female employees in your hardware and software development departments?</p>
<p>A7</p>	<p>Takahashi:</p> <p>There are many female developers in the software development departments. Especially, there are many design works involved in developing software, and very high number of females among our designers. Many of them have children, and we have created an environment to work with comfort even for those who have children. I think that it is a very good workplace where women can participate actively and find satisfaction in their work.</p> <p>Miyamoto:</p> <p>There are also many females actively involved in development. The director of the Animal Crossing series is a woman, and there are many female designers working actively. When I had chances to look at other development companies in Europe and the US, they give the impression that they're overwhelmingly male-dominated. Compared to companies like that, Nintendo has a lot of female developers energetically working.</p> <p>Shiota:</p> <p>This is a common issue in Japan that there is not a high percentage of female workers in engineering professions like hardware development and systems development. And it's true in our company that compared to software development, the percentage of female workers in hardware development is low. However, Nintendo's work includes approach to unique technologies, so I believe the proportion of female employees could potentially change in the future.</p>

Q8	<p>You mentioned (in the presentation) that the Nintendo Switch Online subscriber base (excluding free trials) has exceeded 8 million accounts, which suggests the service has gotten off to a really good start. I assume the people who purchased <i>Super Smash Bros. Ultimate</i> subscribed to the service at once, but I am wondering how many signed up for 12-month memberships.</p> <p>Given the current content of the service and your pace of releasing a few major, first-party titles in a year, I imagine it might be hard to maintain a relationship with those members. The service is off to a great start, but what do you plan to offer to members going forward?</p>
A8	<p>Furukawa:</p> <p>We do think Nintendo Switch Online has had a good start coming out of the holiday season, helped in large part by <i>Super Smash Bros. Ultimate</i>.</p> <p>We are not disclosing details by each membership plan but among consumers who have purchased memberships, however, a growing percentage is now opting for shorter plans like the one-month membership. This is in contrast to the situation around the end of October of last year, when we reported that over half were opting for a 12-month family or individual membership.</p> <p>It is critical that these members want to continue using the service for a long time rather than letting it expire, and for that we need to build relationships with consumers and enrich the content. With this in mind, we are currently planning ways to boost the appeal of the service on a yearly basis. We will announce more details as soon as we are ready.</p> <p>As was mentioned in the presentation, Nintendo Switch Online is a way to leverage Nintendo Accounts to build long-term relationships with consumers. As such, it is very important to our future business and we are giving it our all.</p> <p>Takahashi:</p> <p>The recent release of <i>Super Smash Bros. Ultimate</i> built on the first surge in membership sparked by <i>Splatoon 2</i> led to take the subscriber base to where it is today in terms of numbers. We are preparing various new offerings for consumers who subscribe to the service.</p>
Q9	<p>On the other side of the globally expanding gaming population and the sudden rise of e-sports, video game addiction is currently under study by the Ministry of Health, Labour and Welfare in Japan and it seems to become a social issue. What is your acknowledgment of video game addiction, and what measures are you considering to combat it?</p>
A9	<p>Furukawa:</p> <p>I think the problem of game addiction is more about becoming overly dependent on video games than is about any issues with the games themselves. One thing we have done as a company that creates games is to implement features that allow parents to limit the time that their children can play games. I think that further implementing features like this, and raising awareness among more people that these features exist is one way we can face this issue.</p>

Q10	What are you hoping for going forward from the collaboration with LINE Corporation, beyond <i>Dr. Mario World</i> ? By collaborating with LINE, are you signaling a particular interest in developing games for younger segments of the population, such as teens?
A10	<p>Furukawa:</p> <p>I believe everyone is familiar with LINE, which is virtually synonymous with "messaging application" in Japan. We believe that the real-life social graph (connections between friends via the Internet) cultivated by LINE, as well as the technologies supporting it, will be a very strong platform for consumers to enjoy our game applications, which is why we have formed this collaboration. And <i>Dr. Mario World</i> is a puzzle game, so we hope many people will enjoy it, regardless of gender or age.</p>
Q11	In the presentation, you mentioned that Nintendo Switch is continuing to sell at a pace close to that of Wii, although there is a difference in launch timing. Wii was a huge hit with about 26 million units sold in its third year after launch, after which sales decreased. Will Nintendo Switch follow this same pattern?
A11	<p>Furukawa:</p> <p>The launch timing for Wii and Nintendo Switch were indeed different, plus the business environment has also changed, so I don't think we can make a simple comparison between the two platforms. And Wii had <i>Wii Sports</i>, which appealed to all consumers from the moment the hardware was launched, and which contributed to its explosive popularity. Conversely, consumers played multiple titles on Nintendo Switch from its first year, and the fact that they are continuing to play them after that is what contributes to enlarge its installed base. Going forward, I think the way this platform grows will also be different. So, rather than comparing it to Wii, I would like to keep pursuing Nintendo Switch's unique challenge to the market, and by doing so, continue to sell it for a long time.</p>
Q12	The "expanding" part of "expanding the number of people who have access to Nintendo IP" may be important, but looking at third-quarter software sales and the presence of two titles with sales of over 10 million units in a single quarter, it seems pursuing "depth" is also important. I think it is important to provide more software for consumers who have already purchased Nintendo Switch. I'd like to know your software lineup for next fiscal year and after, and if you've considered the possibility of increasing R&D spending to increase title count going forward.
A12	<p>Furukawa:</p> <p>As you've pointed out, "depth" is also important, and we've considered many factors with regards to our future lineup.</p> <p>Takahashi:</p> <p>In addition to the titles we have already announced for scheduled release in 2019, we're also preparing for releasing software titles which would delight consumers including one that is good fit for Nintendo Switch Online. As developers, we are always thinking about how we come up</p>

with seeds of entertainment that consumers are going to enjoy, and how to grow it to new products. I would like to continue developing and releasing such products in the future as well.

Miyamoto:

I have a very positive attitude about R&D investment. Because we are cooperating with other companies on software development, we're working on a larger scale than what can be handled solely within the company in terms of managing software development. But even as we expand the development scale, it is important that we will firmly maintain the Nintendo-made quality of the software. I know some people say we just need to hire more developers. We aren't merely focused on increasing development staff, but we are focusing on nurturing more developers adequately within Nintendo. I want us to actively invest in the products we develop, in order to maintain the quality we desire.

Q13	I'd like to hear about the future of your big hit titles released during October to December last year. The initial response was extremely strong, but will that be met with a drop in sales momentum? Or will the strength of that initial momentum on release help download sales and purchases based on word-of-mouth to grow, resulting in a net positive effect on future sales?
A13	<p>Satoru Shibata (Director, Senior Executive Officer):</p> <p>We feel very fortunate that the initial sales pace for <i>Super Mario Party</i>, <i>Pokémon: Let's Go, Pikachu!</i>/<i>Pokémon: Let's Go, Eevee!</i>, and <i>Super Smash Bros. Ultimate</i> has been so strong.</p> <p>However, that doesn't exactly mean we're satisfied. Before their release, we challenged ourselves to see how we could expand our consumer base with each of these titles. For <i>Super Mario Party</i>, the question was "How could we reach people other than children and parents?" With <i>Pokémon: Let's Go, Pikachu!</i>/<i>Pokémon: Let's Go, Eevee!</i>, we asked "How could we reach people who had played <i>Pokémon GO</i>, for example, but never played Nintendo Switch?" With <i>Super Smash Bros. Ultimate</i>, we asked "How could we reach not only fans of the Super Smash Bros. series, but also those who had never played it before?" If you look at the demographics of the consumers who purchased each of these titles, I'm not convinced we've completely overcome these challenges yet.</p> <p>So our aims are to keep working on them this year, to expand sales of these titles to new consumer demographics, and to keep selling these games for a long time, which is one of our strengths.</p>

End