

COMPANY PROFILE

# Nintendo Co., Ltd.

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## COMPANY OVERVIEW

Nintendo Co., Ltd. (Nintendo or "the company") develops, manufactures, and sells home leisure equipment. It manufactures and markets hardware and software for its home video game systems. The company operates primarily in Japan and has presence in the Americas and Europe. It is headquartered in Kyoto, Japan.

The company reported revenues of (Yen) JPY1,055,682 million for the fiscal year ended March 2018 (FY2018), compared to a revenue of JPY489,095 million in FY2017. The operating profit of the company was JPY178,347 million in FY2018, compared to an operating profit of JPY29,282 million in FY2017. The net profit of the company was JPY139,592 million in FY2018, compared to a net profit of JPY102,575 million in FY2017.

## KEY FACTS

<b>Head Office</b>	Nintendo Co., Ltd. 11-1, Kamitoba, Hokotate-cho, Minami-ku Minami-ku KYOTO-SHI Kyoto KYOTO-SHI Kyoto JPN
<b>Phone</b>	81 75 6629600
<b>Fax</b>	81 75 6629540
<b>Web Address</b>	<a href="http://www.nintendo.co.jp">www.nintendo.co.jp</a>
<b>Revenue / turnover (JPY Mn)</b>	1,055,682.0
<b>Revenue (USD Mn)</b>	9,746.5
<b>Financial Year End</b>	March
<b>Employees</b>	5,501
<b>Tokyo Stock Exchange Ticker</b>	7974

## SWOT ANALYSIS

Nintendo Co., Ltd. (Nintendo or "the company") develops, manufactures, and sells home leisure equipment. It manufactures and markets hardware and software for its home video game systems. Established brand name gives it a first mover advantage over its competitors and provides it with a strong bargaining power apart from facilitating easy customer recall. In addition, strong portfolio of titles enables the company to attract more customers thereby increasing its revenues in the coming years. However, growing competition may lead to pricing pressures thereby adversely impacting the revenues and market share of Nintendo.

<p><b>Strength</b></p> <p>Wide Geographic Presence Established Brand and Strong Portfolio of Titles Strong Focus on Research and Development</p>	<p><b>Weakness</b></p> <p>Reliance on Outside Manufacturers</p>
<p><b>Opportunity</b></p> <p>Robust Growth in Global Games Software Market Strong Growth in Mobile Gaming Market</p>	<p><b>Threat</b></p> <p>Competitive Pressure Could Dent Market Share Risk From Piracy and Unauthorized Copying Short Product Lifecycles and Changes in Consumer Preferences</p>

### Strength

#### Wide Geographic Presence

The company has a wide geographic presence. Nintendo operates in Japan, the Americas, and Europe. The company's manufacturing plants are located in Japan and it operates through subsidiaries in the US, Canada, Spain, Germany, France, Korea, the Netherlands and Australia. Furthermore, the global presence enabled the company to tap the potential market opportunities across the globe. During FY2016, the company derived around 26.9% of its revenues from Japan; 44.8% from the Americas; 25.2% from Europe, and 3.2% from other countries.

Wide geographic presence provides Nintendo with a scope of increasing its revenues by utilizing its global presence and it also reduces business risk.

#### Established Brand and Strong Portfolio of Titles

Nintendo is a highly recognized brand name within the video game industry operating in the global marketplace. The company has been operating in the video game console market since 1977 with color television games, and is considered one of the oldest companies in the gaming market. Also, Nintendo is one of the largest console manufacturers in the world, and a leader in the handheld console market. The

company had released four generations of gaming devices over the past two decades, which include Nintendo Entertainment System; Super Nintendo Entertainment System; Nintendo 64; GameCube; Nintendo DS, Nintendo DSi, Wii and Nintendo 3DS. Nintendo's well established brand name gives it a first mover advantage over its competitors and provides it with a strong bargaining power apart from facilitating easy customer recall.

In addition, the company has a strong portfolio of game titles. Some of Nintendo's game titles include NintendoLand, Super Mario Brothers, Mario Kart, Super Mario 3D Land, the Legend of Zelda: Ocarina of Time 3D, Paper Mario: Sticker Star, Pokemon Rumble Blast, Luigi's Mansion: Dark Moon, Kid Icarus: Uprising, Mario Tennis Open, Wii Sports, Wii Sports Resort, Wii Fit, Super Mario Galaxy, and nintendogs, among others. The company also launched several new titles in the recent times, including Animal Crossing: New Leaf, which became a hit with sales of more than four million units in Japan. It also launched Pokemon X, Pokemon Y and Pokémon Super Mystery Dungeon versions. Strong portfolio of titles enables the company to attract more customers thereby increasing its revenues in the coming years.

#### **Strong Focus on Research and Development**

The company primarily engages in the active development of hardware and software for handheld and home console video game systems, with support from various companies and organizations. The company in FY2016, invested JPY69,066 million on the research and development (R&D) activities. For instance, in the hardware business, Nintendo investigates and undertakes research on fundamental technologies spanning data storage technology such as semiconductor memories, display technology and electronic components. The company also carries out R&D activities to examine the applicability of various technologies including interfaces, wireless communication, networks and security to the field of home entertainment. Moreover, in the software business, the company focuses on taking full advantage of hardware features in planning its products, designing games whose elements include graphics, music and game scripts, and developing programs.

Strong focus on R&D would enable the company to develop new and innovative products and differentiate its products.

#### **Weakness**

##### **Reliance on Outside Manufacturers**

Nintendo depends on outside manufacturers for supply of key components or and assembling of finished products. Furthermore, many of these suppliers are located in overseas and any potential production interruptions would have a negative impact on the company's business. The company may face difficulty in procuring key components or products from these suppliers in case of any business disagreements. In an event of supplier's failure to provide necessary components on a timely basis, the shortage of key components could cause marginal decline due to higher costs. The lack of integration in producing certain key components or assemble finished products puts the company at a competitive disadvantage.

#### **Opportunity**

### Robust Growth in Global Games Software Market

The global games software market has been growing robustly over the past few years and is forecasted to continue growing strongly over the forecast period. According to MarketLine, the global games software market had total revenues of \$43.9 billion in 2016. The performance of the market is forecast to accelerate, with an anticipated compound annual growth rate (CAGR) of 5% for the 2016-20 periods, which is expected to drive the market to a value of \$52.8 billion by the end of 2020. Being one of the significant players in the global games software market, Nintendo is well positioned to benefit from the growing end market.

### Strong Growth in Mobile Gaming Market

The mobile gaming industry is expected to record strong growth in the coming years. According to industry estimates, the mobile games market is predicted to grow at a CAGR of 21% for the 2015-19 periods to reach \$50 billion by 2019. The growth is expected to be driven by increasing number of players, payers, as well as a higher average spend per paying mobile gamer. Moreover, Western Europe, North America and Asia Pacific are expected to remain the most appealing markets for mobile game publishers.

The company is focusing on strengthening its presence in the mobile gaming industry. The company's Pokemon Go is the most successful mobile game ever. Furthermore, Nintendo recently launched Super Mario Run which crossed 10 million downloads for Android users. Positive outlook for mobile gaming industry will enhance the company's revenues, thereby supporting the topline growth.

## Threat

### Competitive Pressure Could Dent Market Share

The company operates in a highly competitive gaming industry. It competes for the leisure time and discretionary spending of consumers with other video game companies, as well as with other providers of different forms of entertainment. Nintendo competes with Sony, Microsoft and Electronic Arts each of which develop and publish software for console platforms. It also competes with several other companies which develop and publish video games that operate on these consoles and on PCs and handheld game players, including Activision Blizzard. The company also faces growing competition from several companies, including Konami, Giant Interactive Group, Taito, and Take-Two Interactive Software.

Thus, intense competition may lead to pricing pressures thereby adversely impacting the revenues and market share of Nintendo.

### Risk From Piracy and Unauthorized Copying

The company's products are subject to threat from piracy and unauthorized copying. Any security breach could result in the disclosure of pre-release software or other confidential assets which could lead or contribute to piracy of Nintendo's games or otherwise compromise its product plans. The growth in peer-

to-peer networks and other channels to download pirated copies of the company's products, the increasing availability of broadband access to the internet and the proliferation of technology designed to circumvent the protection measures used have contributed to an expansion in piracy. Internet piracy is also fueled by the distribution and sale of infringing devices used to play illegal game files. These devices include various game copiers for the hand-held systems and modification chips for the console systems. Unauthorized copies of the company's games have been illegally distributed or downloaded through the internet, causing significant damage to the entire video game development industry.

Although legal protection exists to combat piracy, preventing and curbing infringement through enforcement of the company's intellectual property rights could be difficult, costly and time consuming. In addition, the scope of the legal protection of copyright and prohibitions against the circumvention of technological protection measures to protect copyrighted works are often under scrutiny by courts and governing bodies. The weakening of laws intended to combat piracy, protect intellectual property and prohibit the circumvention of technological protection measures could make it more difficult for Nintendo to adequately protect against piracy. These factors could have a negative impact on the company's growth and profitability in the future.

#### Short Product Lifecycles and Changes in Consumer Preferences

The interactive entertainment software market is characterized by short product life cycles and frequent introductions of new products. New products introduced by Nintendo may not achieve significant market acceptance or achieve sufficient sales to recover development, manufacturing, and marketing costs. In the past, only a few interactive entertainment software products have achieved sustained market acceptance. In addition, delays in product releases or disruptions in the release of one or more new products could adversely impact the operating results of the company. Short lifecycles of products have been adversely impacting the gaming business, and these trends will continue to have an adverse impact in the future. Such rapid changes in the gaming industry may therefore have an adverse impact on company's revenues.

In addition, Nintendo broadly operates in the entertainment segment. However, its business could be impacted with the changing trends in other entertainment fields. For instance, the video game market may shrink, if consumer preferences shift to other forms of entertainment. Although, the company continues to develop innovative and attractive products in the field of computer entertainment, there is no guarantee that all new products will be accepted by consumers due to shift in consumer preferences. The changes in consumer preferences may have unfavorable impact on the company's operations and results.

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