

# Nintendo Co., Ltd. (TSE: 7974)

Tomorrow's Rising Winner

SUSS Invest | Equity Research

**BUY: JPY 11,208**

**GICS Sector:** Communication Services  
**Industry:** Interactive Home Entertainment

## Research Team

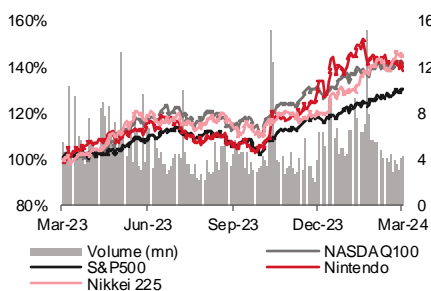
Tan Ki Siong	Director
Jerome Chua	Analyst
Kan Yi Yong	Analyst
Celine Soon	Analyst

## Basic Information

Target Price (JPY)	<b>11,208</b>
Current Price (29-Mar-24, JPY)	<b>8,196</b>
+/- Potential	<b>+36.8%</b>
Market Capitalisation (JPY)	<b>9,542bn</b>
Shares O/S	<b>1.16bn</b>
52-Week Trading Range (JPY)	<b>5,082 – 9,028</b>
Average 3M Daily Volume	<b>5.34mn</b>
LTM P/E	<b>19.3x</b>

Source: S&P Global

## 1Y Price Performance vs. Nikkei 225, NASDAQ 100 and S&P 500 (Rebased to Nintendo)



Source: S&P Global

## Key Executives

Name	Position
Shuntaro Furukawa	Chairman & President
Hajime Murakami	GM of Finance Admin
Satoru Shibata	GM of Marketing & Licensing

Source: Company Reports

## Major Shareholders

Name	Ownership
Public Investment Fund	9.6%
Blackrock Inc.	7.0%
Nomura Asset Management	4.5%

Source: S&P Global

## Financial Summary

Units: JPY bn	2019A	2020A	2021A	2022A	2023A	2024E	2025E	2026E	2027E	2028E
Revenue	1,201	1,309	1,759	1,695	1,602	1,763	1,933	2,113	2,303	2,503
COGS	699	667	788	749	716	783	853	926	1,002	1,082
SG & A	175	198	226	243	263	280	298	315	332	348
EBIT	250	352	641	593	504	570	640	715	797	885
Net Income	194	259	480	478	433	417	471	527	590	659
FCFF	129	341	506	309	269	416	424	491	546	593

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## Executive Summary

We initiate coverage of **Nintendo Co., Ltd. (TSE: 7974)** with a **BUY** rating and a **JPY 11,208** target price, representing an upside potential of **+36.8%**. We derived our target price based on the Discounted Cash Flow (“DCF”) Approach, supported by Relative Valuation as a sanity check.

## Investment Summary

**Timeless IP propels expansionary top-line growth:** Nintendo excels in leveraging its iconic IP brands and cultivating customer loyalty to drive sustained growth. With a focus on cross-generational appeal and strategic expansion into new markets, Nintendo maintains its dominance in the gaming industry, solidifying its position as a leading force through innovative approaches and adaptive strategies.

**Competitive product lineup strengthens revenue generation:** Nintendo's console success is driven by its in-house software dominance and exclusivity, backed by its iconic IP franchises. Dominance in the in-house gaming space elevates Nintendo's console sales and software income stability while maximizing revenue retention. Its competitive pricing, unique hybrid design, and retro title compatibility makes it a compelling and economical choice.

**Constant innovation solidifies Nintendo's market appeal:** Nintendo excels in creating unique gaming experiences and is poised for continued success with plans to launch a new console, likely the Switch 2, in 2025. The company is expanding its global presence, particularly in Asian markets outside Japan, by opening new stores and hosting events. This strategy, coupled with Nintendo's history of collaborating with other studios for consistent game lineups, keeps it at the forefront of the gaming industry.

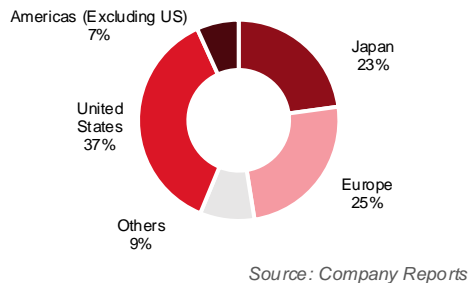
## Investment Risks

**Short game lifecycles amplify pressure for innovation:** Need for consistent product development to overcome limited product lifecycles. Delayed releases impact market share and investor confidence, necessitating adaptiveness to evolving technologies to secure patronage.

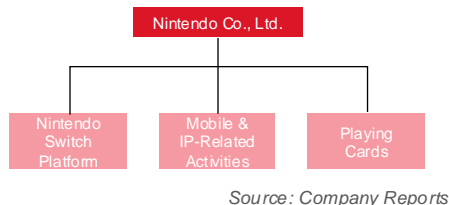
**Highly concentrated Nintendo Switch revenue stream (c. 96%):** Overreliance on the Nintendo Switch platform leaves Nintendo vulnerable to market fluctuations, heightened by missed revenue diversification opportunities, with untapped IP potential and lack of monetization of mobile segments.

**Foreign exchange risks from global exposure (70% of revenue):** Continued geopolitical conflicts or sustained hawkish monetary policies in other countries Nintendo operates in may drive interest rates and currency conversion costs upwards, dampening Nintendo's margins and weighing heavily on its current leverage.

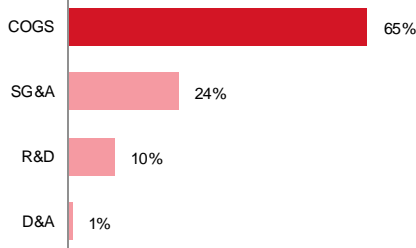
**Fig 1.1: Revenue Breakdown By Geography, 2023**



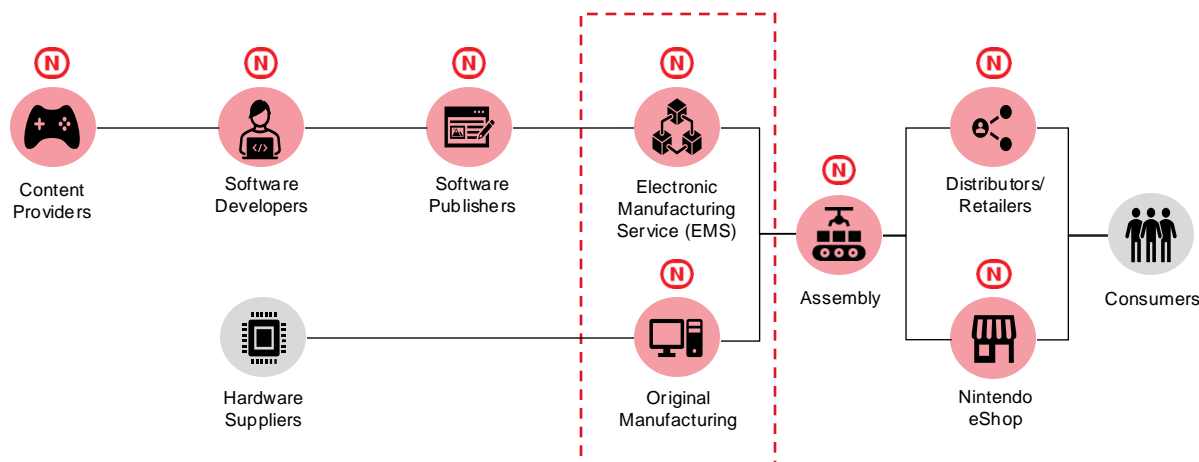
**Fig 1.2: Operational Breakdown by Products**



**Fig 1.3: Operating Expenses Breakdown, 2023**



**Fig 1.4: Nintendo's Value Chain**



Source: Company Reports, Team Analysis

**Fig 1.5: Market Consensus Vs. Our Views on Nintendo**

Source	Market Consensus	Our Views
J.P.Morgan	Nintendo's reliance on timeless IP risks alienating older audiences and limiting competitiveness against competitors in mature gaming markets.	Nintendo's leverage on timeless IP, focus on inclusive gaming and strategic expansions ensures multi-generational loyalty, sets it apart from competitors, and promises sustained success.
MIZUHO	People are satisfied with Nintendo games provided on smartphones and might decide not to purchase its hardware.	Nintendo's economically-priced hybrid consoles, complemented by its exclusive in-house software, drive consumer demand for its hardware, even amidst economic headwinds.
Bloomberg Intelligence	Nintendo has a lack of foresight and will not be able to replicate the innovations and success of the Switch.	Nintendo has constantly innovated and adapted to the needs of the market, coming up with new and exciting consoles to get ahead of the gaming curve.

Source: Analyst Reports, Team Analysis

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**Business Description**

Founded in 1889 and based in Kyoto, Japan, Nintendo Co., Ltd. ("Nintendo") is a leading force in home entertainment, specialising in hybrid consoles, home console hardware, and software. Known for iconic video game series like Super Mario, The Legend of Zelda, and Pokémon, Nintendo has expanded its digital footprint through a joint venture with DeNA Co., Ltd ("DeNA"). Established in April 2023, the Tokyo-based Nintendo Systems focuses on digitalizing Nintendo's operations and extending its ecosystem to various platforms, signalling innovative growth opportunities.

**Geographical Presence**

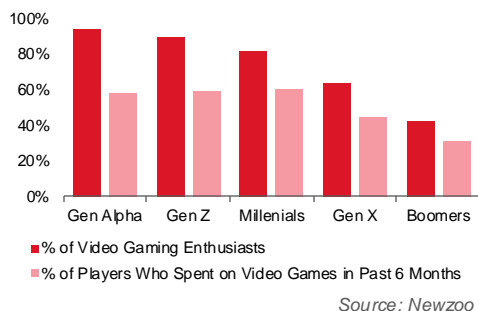
Though based in Japan, the country accounts for 23% of Nintendo's total revenue, with the largest share of 37% from the United States, 25% from Europe, 7% from the Americas excluding the United States ("US"), and 9% from other countries (Fig 1.1).

**Revenue & Cost Structure**

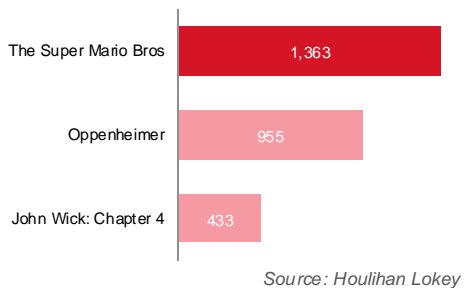
Nintendo's revenue is mainly driven by its Nintendo Switch platform encompassing hardware and software products, and accessories, accounting for an estimated 94% of total revenue, with 2% in other video games. The remaining revenue is contributed by mobile and intellectual property ("IP")-related income and other offerings, namely playing cards.

Nintendo's key cost drivers are cost of goods sold ("COGS") – direct production costs including hardware manufacturing and software development costs, selling, general and administrative expenses ("SG&A") – including advertising expenses, salaries of software engineers etc., research and development expenses ("R&D") – driven by ongoing hardware and software updates to enhance product quality and performance, comprising 65%, 24%, and 10% of total operating expenses as of 2023A (Fig 1.3).

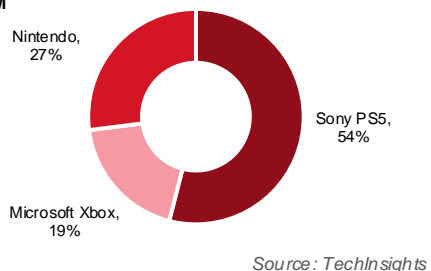
**Fig 2.1: Video Games Elicit High Appeal Across Generations, 2023**



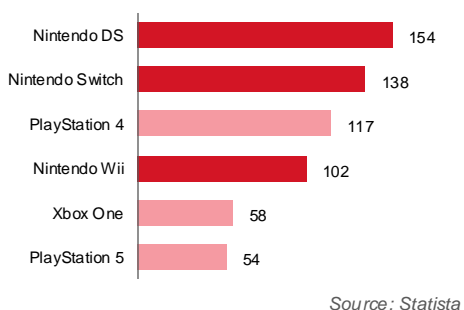
**Fig 2.2: Popularity of Video Game IP, 2023, USD mn**



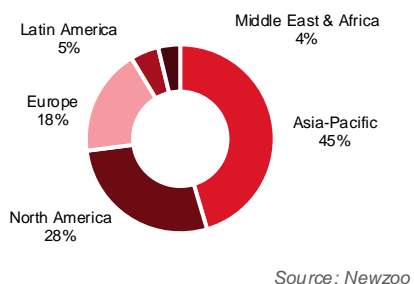
**Fig 2.3: Console Gaming Market Share, 2023, % of TAM**



**Fig 2.4: Nintendo's Latest 3 Console Lifetime Sales vs. Competitors, mn**



**Fig 2.5: Global Video Gaming Revenue by Region, 2023, USD bn**



## Industry Analysis & Competitive Positioning

### Gaming Trends

#### *Exponential gamer growth facilitates increased monetization*

The global gaming market is expected to reach USD 245bn by 2030 from USD 136bn in 2023, registering a compound annual growth rate (“CAGR”) of 8.8%. Projected growth throughout the forecast period will be driven by (1) Continued growth in gamer populations, (2) Strong lineup of new game releases, and (3) Increased monetization via paid downloadable content (“DLC”) and microtransactions. In a 2023 market study on video gaming, Newzoo had found that Gen Alpha, Gen Z and Millennials held the highest proportions of video gaming enthusiasts. Gamers from these age groups are open to spending money on video games – they topped the spending population list back in 2023 (Fig 2.1). As Gen Alpha grow and gain access to their own disposable income, their video game spending is expected to increase, forming a significant proportion of target consumers.

#### *Intellectual property – the key to exclusivity*

In recent years, the global gaming market has seen a late-stage gold rush for premium IP. In 2023, The Super Mario Bros movie – adapted from Nintendo’s Super Mario IP – had outperformed regular box office hits (Fig 2.2), hinting at the unique advantage of video game IPs. These adaptations leverage on gamers’ sense of nostalgia, while also enticing non-gamers through exciting content and sequences. In turn, these efforts help to ramp up demand for relevant games and platforms, helping game producers generate new subscribers and diversify revenue. In recognition of this value-added advantage, major players are making big acquisitions of premium IP; one notable case is Disney’s USD 1.5bn acquisition of Epic Games in February 2024. Moving forward, game providers are expanding on their subscription models – leveraging on key age groups’ gaming inclinations to grow recurring revenues, a buffer against cyclicality.

### Competitive Positioning

#### *Competitive landscape*

Within the gaming console industry, Nintendo operates in a fiercely competitive landscape, largely dominated by Sony's PlayStation and Microsoft's Xbox. As of Q3 2023, Sony's PlayStation 5 holds the lion's share at 54% of the Total Addressable Market (“TAM”). Despite a 15% decline in year-on-year shipments, the company remains a significant player, particularly in key regions such as the Americas, where it recorded over USD 5.6bn in revenue in 2022. Amidst challenging circumstances, Nintendo has managed to maintain a strong foothold, commanding 27% in market share, second only to Sony (Fig 2.3).

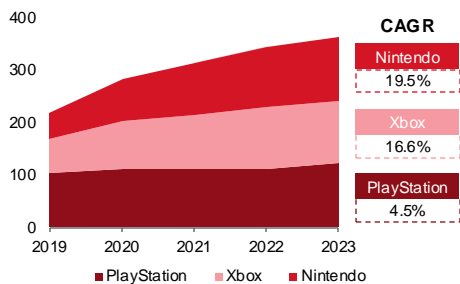
#### *Nintendo's differentiation in the video gaming space*

Nintendo sets itself apart in the video gaming industry by championing inclusive gaming experiences, attracting a broad audience with its "Everyone" rated titles. The Switch's ability to merge home and mobile gaming has fuelled its success, becoming its best-seller with nearly 123mn units sold by 2023. Nintendo thrives with its strength of innovation and market differentiation to deliver unique gaming experiences, tapping on diverse user segments. Its 19.5% CAGR in active users for the Switch, against Xbox and PlayStation’s 13.0% and 3.6% CAGR respectively, demonstrates its superior IP appeal in driving consumer retention (Fig 3.1).

#### *Extending Nintendo's intangible edge across various mediums*

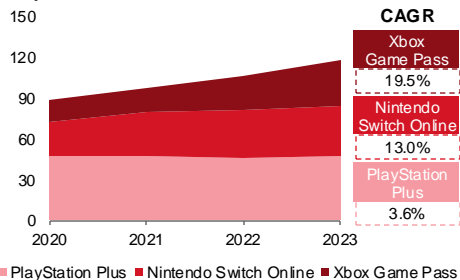
Nintendo excels in leveraging on its classic franchises such as Super Mario, Zelda, and Animal Crossing, broadening its reach beyond core gamers to diverse audiences through games, movies, merchandise, theme parks, and mobile apps. Its strategic partnership with Universal, starting in 2016, facilitated the creation of Nintendo-themed Universal Studios attractions, with significant ventures in Japan and Hollywood.

**Fig 3.1: Annual User Base, Nintendo vs. PlayStation, mn**



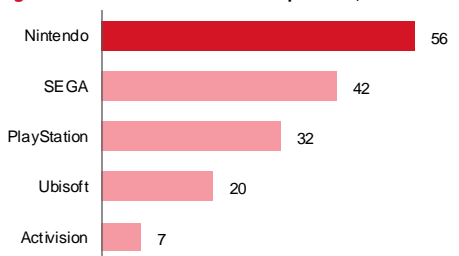
Source: Statista

**Fig 3.2: Nintendo Switch Online Subscriptions vs. Competitors, mn**



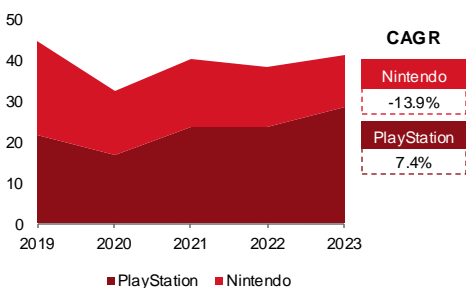
Source: Statista

**Fig 3.3: Nintendo's NPS vs. Competitors, 2024**



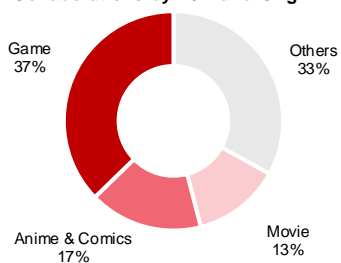
Source: Comparably

**Fig 3.4: Revenue per Annual Playing User – Nintendo vs. PlayStation, JPY k**



Source: Newzoo

**Fig 3.5: Collaborations by IP/Brand Origin**



Source: Newzoo

The Super Mario Bros. Movie, which has helped generate USD 1.36bn in worldwide revenue, highlights the widespread appeal of Nintendo's IPs. Collaborations with other companies further extend Nintendo's influence, as seen in partnerships such as a Mario-themed Monopoly board game or a Pokémon crossover with McDonald's Happy Meals. This approach not only re-engages existing fans, but also introduces its characters to different demographics, contributing to its brand visibility and expands its audience reach. Hence, it ensures Nintendo's brand remains relevant across various platforms and media, fostering the continued retention of its timeless IPs within both older and newer generations.

### Investment Thesis

#### Timeless IP propels expansionary top-line growth

##### *Brand inclusivity cultivates multi-generational loyalty*

Nintendo has established a strong brand identity by focusing on family-friendly games, exemplified by iconic franchises like Super Mario, Animal Crossing, and Splatoon. The company's branding gives it a unique advantage in the market, engaging wider audiences across all age groups. While competitors – PlayStation and Xbox, target mature audiences, Nintendo ensures that its games are compatible with its younger audiences, placing emphasis on inclusivity with “Everyone” and “Everyone 10+” ESRB ratings across Nintendo titles, contrasting sharply with competitors' offerings. By adapting even its shooter game titles such as Metroid Prime and Splatoon to be family friendly, it allows parents to enjoy quality time with their children through gaming., Nintendo's focus on creating all-inclusive game designs underscores its differentiated market potential in expanding its user base, boosting future top-line growth.

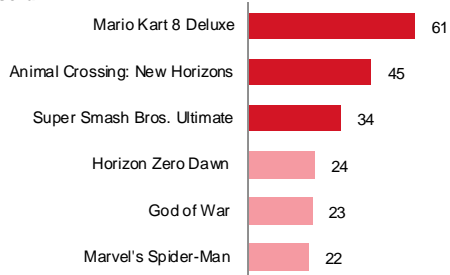
Nintendo leverages on millennial nostalgia across generations, spanning generations from Gen X to Gen Z, bolstering its product success with iconic consoles like the Nintendo Entertainment System (“NES”) and GameBoy. This multi-generational marketing strategy, coupled with Nintendo's rewards programs – Nintendo Switch Online (“NSO”) and My Nintendo – enhances user experience and fosters loyalty across generations. Nintendo is well positioned with a 13.5% CAGR, higher than PlayStation Plus at 0% CAGR (Fig 3.2), while capturing more subscriptions than Xbox Game Pass. With a remarkable Net Promoter Score (“NPS”) of 56 – a metric measuring customer loyalty, Nintendo outshines its competitors, positioned 17<sup>th</sup> on Comparably's Global Top Brand list, surpassing its closest competitor, PlayStation, positioned at 31<sup>st</sup> (Fig 3.3). Nintendo's all-inclusive branding and favorable customer loyalty positioning demonstrates its ability to capture consumers across generations, highlighting its robust customer retention capabilities, ensuring continued engagement through the appeal of its exclusive IP assets.

##### *Superior IP and expansion into new markets*

Nintendo's extensive IP portfolio and strategic expansion into new markets further bolster its brand and revenue streams. While Nintendo's CAGR of revenue per annual playing user did not perform as well as PlayStation, it is likely due to the growth in user base outpacing that of revenue (Fig 3.4). Furthermore, it is found that the most popular collaborations are formed between game IPs, as they significantly boost user engagement (Fig 3.5). Notably, the new release from the iconic Zelda series in May 2023 – Tears of the Kingdom – took the gaming world by storm, selling a staggering 10mn copies within the first 3 days of its launch. With potential revenue exceeding USD 700mn based on initial sales alone, it is poised to become one of Nintendo's highest-grossing games, setting new industry benchmarks.

With such strength and potential, Nintendo leverages on the versatility of its IP to reach beyond characters. This has enabled revenue diversification through merchandise, movies, theme parks, mobile games and others, making their IP now a cultural staple with broad appeal.

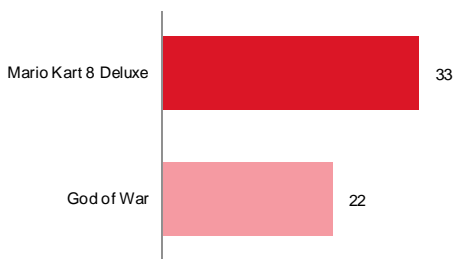
**Fig 3.6: Top-selling In-house Titles, 2023, mn units sold**



**Note:** Red bars represent Nintendo's in-house game titles

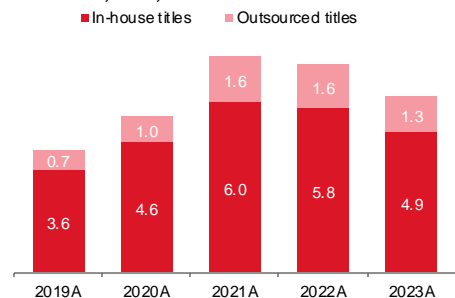
Source: Websearch

**Fig 3.7: Nintendo vs. PlayStation's Top-selling Title, 2023, USD, Revenue per Copy Sold**



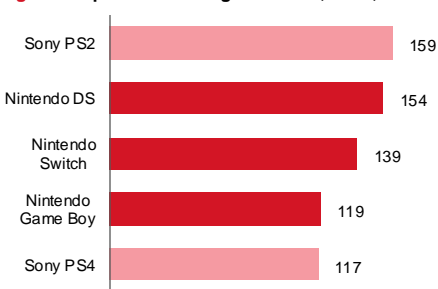
Source: Websearch

**Fig 3.8: Nintendo's Software Revenue by Distribution, 2023, USD bn**



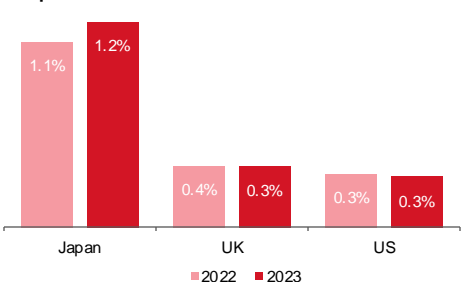
Source: Statista

**Fig 3.9: Top 5 Best-selling Consoles, 2023, mn**



Source: Statista

**Fig 3.10: Video Game Expenditure, 2022-23, % of Disposable Income**



Source: Economist Intelligence Unit

Nintendo's global brand presence is reinforced by the expansion of SUPER NINTENDO WORLD theme parks and its strong presence in mobile gaming – with over 860mn downloads. The success of their venture into the movie industry with The Super Mario Bros. Movie helped generate over USD 1bn in global sales, catalyzing a 30% increase in sales for related titles and a 40% growth in new users for related mobile apps. Such achievements highlight Nintendo's ability to capitalize on its IPs across various media. Moving forward, Nintendo plans to release a sequel to the Super Mario Bros. movie in 2026, demonstrating commitment to combining traditional console gaming with expansive media ventures. By strategically utilizing its IP in upcoming game titles and expanding into new markets and platforms, Nintendo continues to solidify its position as an adaptable and enduring brand in the global entertainment industry, promising ongoing top-line growth and sustained success (Appendix B).

**Competitive product lineup strengthens revenue generation**

*In-house game dominance shapes revenue robustness*

Nintendo's strategy, in emphasizing software exclusivity and integrated hardware-software synergy, is key to its market dominance. By exclusively offering popular franchises like Mario, Zelda, and Animal Crossing, Nintendo compels consumers to purchase its consoles. Nintendo's top-grossing in-house titles, Mario Kart 8 Deluxe and Animal Crossing: New Horizons (Fig 3.6) significantly outperformed PlayStation's leading in-house titles, emphasizing Nintendo's revenue robustness in the in-house game space. Comparing the top-selling title of Nintendo against PlayStation's based on revenue per copy sold, Nintendo outperforms by 50% (Fig 3.7).

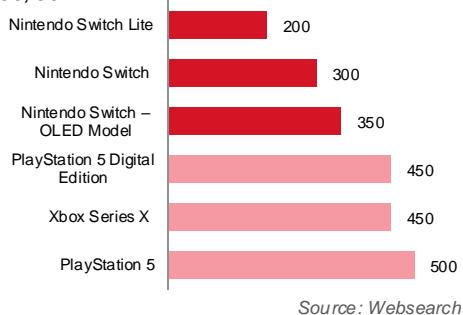
Furthermore, Nintendo generates most of its software revenues from in-house games (Fig 3.8). In May 2023, sales generated from its titles totalled USD 28bn – 79% of its total software revenue since the Switch's launch. This model allows Nintendo to retain maximum profits and ensures greater stability in software revenue, unlike competitors who rely more on outsourced titles. Nintendo can direct consumers back to its business, offering games exclusive to its proprietary consoles. This strategy, coupled with the appeal of the Nintendo Switch, optimizes its revenue generation, and widens the reach of its franchises and characters.

*Competitive pricing sustains revenue amidst headwinds*

Nintendo's outstanding console appeal is underlined by the Nintendo Switch's success, approaching the PlayStation 2's long-standing record, having sold over 139mn units in just 7 years (Fig 3.9), and indicating its ability to surpass industry giants. Video game expenditures as a percentage of disposable income in US and the United Kingdom ("UK") – key markets for Nintendo – were lower than those of Japan's, suggesting that consumers from those regions are more concerned about value for money spent on video gaming products (Fig 3.10). This is especially a key issue as economies worldwide are in the midst of recovering from high inflation.

Hence, the Nintendo Switch, priced lower than its competitors and elevated by its unique hybrid design, is positioned as an economical and versatile gaming option (Fig 3.11). Moreover, the Nintendo Switch Online service, competitively priced against the PlayStation Plus and Xbox Game Pass (Fig 3.12), offers access to an expanded library of classic games from older consoles, enhancing console appeal through nostalgia and complementing its value proposition. Nintendo's dual strategy of software exclusivity and competitive hardware and software offerings helps consolidate its market position. By leveraging on iconic in-house titles and competitive pricing, Nintendo not only captivates gamers, but also ensures a consistent and substantial revenue stream from price-sensitive consumers. Hence, such initiatives reinforce Nintendo's brand appeal, presenting it as a compelling choice for gamers seeking both modern and nostalgic gaming experiences.

**Fig 3.11: Console Selling Prices vs. Competitors in US, USD**

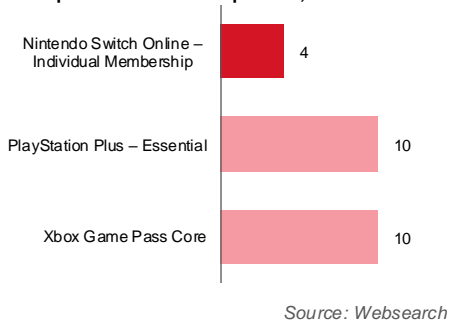


**Constant innovation solidifies Nintendo’s market appeal**

*Nintendo's innovative hardware strategy: Nintendo Switch*

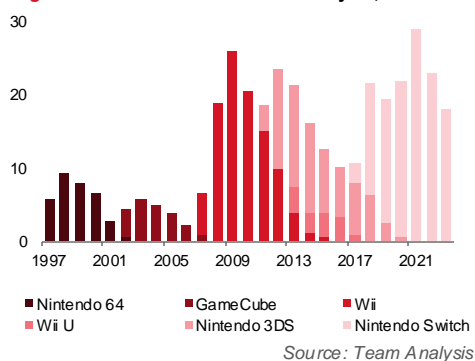
Nintendo’s prospects lie in its slate of innovative products and adaptability to market changes. A key aspect of Nintendo’s innovative product strategy is its focus on creating unique and engaging gaming experiences rather than merely competing on technicality. It has had significant successes in creating hybrid consoles. For example, after ceasing Nintendo 3DS production, it understood consumers’ needs and focused on creating ground-breaking products. For gaming software, Nintendo’s game development philosophy often involves taking risks and exploring new gameplay ideas, which has often allowed it to stay ahead of the bell curve.

**Fig 3.12: Nintendo Switch Online 1-month Subscription Price vs. Competitors, USD**



Looking ahead, the highly adaptable nature of Nintendo’s hardware strategy suggests continued success. As the Switch approaches the end of its cycle and management forecasts reduced sales for hardware and software alike come 2025, Nintendo has indicated it will announce a successor to the Switch by March 2025, marking a renewed product lifecycle. Coupled with an exponentially growing user base, constant advancements in hardware and software allow Nintendo to remain at the top of consumers’ minds.

**Fig 3.13: Nintendo’s Hardware Life Cycle, mn**



*Global engagements to enhance consumer coverage*

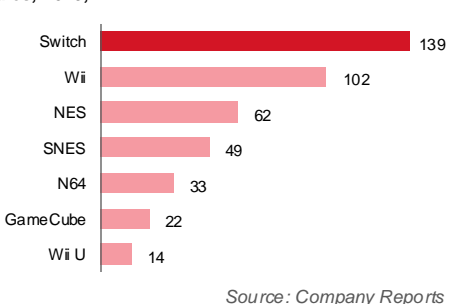
Nintendo is looking to expand globally while strengthening its market presence in existing countries. With its geographical segments mainly being in the United States, Japan and Europe, Nintendo is actively expanding in Asian markets outside of Japan – given that Asian revenues constituted 45% of global gaming revenues (Fig 2.5). As of 2023, while holding only 8% of its assets in other Asian countries, Nintendo has generated a lucrative Asset Turnover Ratio of 18.2x. As Nintendo indicates intentions in further expansions outside of Japan, we expect significant increases in its assets in other Asian countries, while maintaining similar or better asset turnover ratio geographically. To expand geographically, it has plans to (1) Open pop-up stores in cities such as Seoul, Singapore, and Hong Kong, (2) Open additional theme park areas in Singapore and (3) Host Nintendo Live events in Taipei, Seoul, and Hong Kong. Through its strategic plan of enhancing brand presence and consumer engagement in these countries, we believe that Nintendo will generate increased returns on its assets in the long term.

**Fig 3.14: Nintendo’s Geographical Expansion Plans**



In a similar fashion, Nintendo has continued efforts to strengthen its presence in these established markets through various initiatives, including theme parks like Super Nintendo World in the United States and plans for future expansion in these regions.

**Fig 3.15: Nintendo Home Consoles Lifetime Unit Sales, 2023, mn**

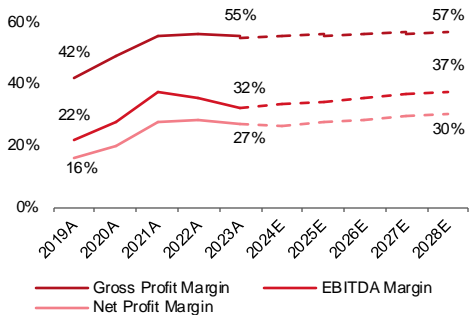


*Strategic partnerships to widen user appeal*

Nintendo’s forte in producing record-breaking game titles have been the results of not only its own in-house production capabilities, but also its willingness in collaborating with other studios and bringing major external titles to its stores. Successful collaborations include Fire Emblem Three Houses (with Koei Tecmo) – the best-selling game of the Fire Emblem franchise, and Super Smash Bros. Ultimate (with Bandai Namco) – the 3<sup>rd</sup> best-selling Switch game (Fig 3.5). Bringing in external parties to work on Nintendo’s titles has allowed it to diversify its title lineup in unique ways and help maintain a consistent stream of releases over historically long product lifecycles – growing with each advancement (Fig 3.13).

Back in February 2023, Nintendo signed a 10-year agreement with Microsoft to bring Call of Duty – a top global game franchise – to Switch consoles. Moving forward, such ventures into games of different genres should help Nintendo to diversify its user base, allowing it to explore in-house creation of new genres to capture new gamers. Should the Switch 2 provide optimized gaming capabilities to display graphics like those of Call of Duty, such collaborations may help generate increased appeal for the Switch 2’s eventual release, and earn Nintendo greater top-line growth.

**Fig 4.1: Profit Margins, % of Revenue**



Source: Team Analysis

## Financial Analysis

### Maximizing revenue growth and profitability

Nintendo has shown robust revenue growth over the past five fiscal years, with a CAGR of approximately 5.9%, from JPY 1,201bn in 2019A to JPY 1,602bn in 2023A. Despite COVID-19 disruptions, its profitability surged in 2021A, driven by indoor entertainment demand and the success of "Animal Crossing." Starting at 22% in 2019A, the company's EBITDA margin has remained stable above 30% for the past three years with a high of 37% in 2021A (Fig 4.1). Even with a slight dip since 2021A, profitability ratios currently still exceed pre-COVID levels. In the next five years, Nintendo's margins are projected to increase alongside its expanding revenue, driven by the upcoming releases of Switch 2 in 2025 and The Super Mario Bros. Movie 2 in 2026. Moving forward, Nintendo may leverage on economies of scale to enhance cost efficiency, thereby optimizing its profitability. As a result, both EBITDA and net profit margins are forecasted to rise from the current levels of 32% and 27% to nearly 38% and 30% respectively by 2028. This resilience in revenue growth and margin stability not only underpins Nintendo's current success but also positions the company for sustained growth and increased profitability in the years ahead.

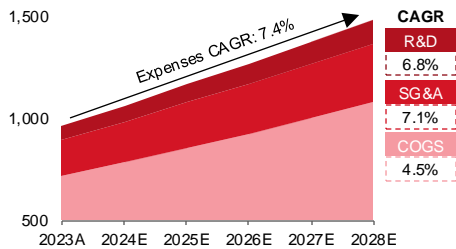
### Robust liquidity enhances shareholder value

Nintendo's financials showcase a robust liquidity position, having attained substantial cash reserves of JPY 1,264bn in 2023A. Its working capital efficiency has steadily improved, with the current ratio rising from 3.8x in 2021A to 4.3x in 2023A, projected to reach 6.3x by 2028E. This accumulated liquidity not only bolsters Nintendo's ability to navigate uncertainties but also enables it to seize potential merger and acquisition ("M&A") opportunities which synergize with its business. In April 2022, Nintendo announced its plans to acquire an industrial site measuring 10,029m<sup>2</sup> in Kyoto for JPY 5bn – to build a new R&D facility scheduled to open in 2027. In addition, it has plans to devote over USD 880mn till 2027E to bolster its development capacity. Its cash utilization strategy also signals a move towards bolder investments, akin to the Walt Disney Company's approach. Apart from dividends and buybacks, Nintendo is venturing into theme parks and movies, leveraging its on its iconic IP. Moving forward, its projected net income growth will help to grow operational cash flow ("OCF", CAGR 15.4%) to outpace the rise in current liabilities (CAGR 3.7%), thereby growing OCF at a faster rate towards its previous high of 1.16x in 2021A. This strategic pivot reflects improved liquidity management and resource efficiency, bolstering Nintendo's financial resilience and operational stability, eventually leading to promising shareholder returns.

### Debt prudence widens growth avenues

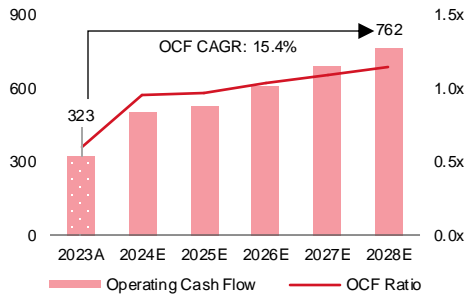
Nintendo maintains a conservative debt structure, evidenced by the near absence of long-term debt throughout the analyzed period. Although its Debt-to-Equity ("D/E") ratio had gradually increased from 0% in 2019A to 0.3% in 2023A, the forecasted D/E ratio is expected to decrease further to 0.03% in 2028E, indicating a continued commitment to financial prudence (Fig 4.4). Overall, Nintendo's leverage remains low amongst peers, with an extremely low D/E ratio of 0.3% in the last twelve months ("LTM"), reflecting its minimal reliance on debt financing (Fig 4.5). This prudent approach not only mitigates financial risk but also minimizes interest expenses and enhances profitability. Subsequently, this amplifies Nintendo's borrowing capacity, fortifies financial stability against economic fluctuations, and instills confidence among investors, ultimately expanding avenues for sustainable growth and development. Overall, Nintendo's stable cash position ensures financial stability and resilience against industry cyclicality, balancing stability with flexibility for future investments and growth opportunities.

**Fig 4.2: Expenses Forecast, JPY bn**



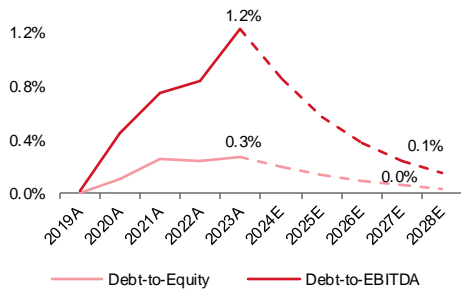
Source: Team Analysis

**Fig 4.3: Operating Cash Flow Forecast, JPY bn**



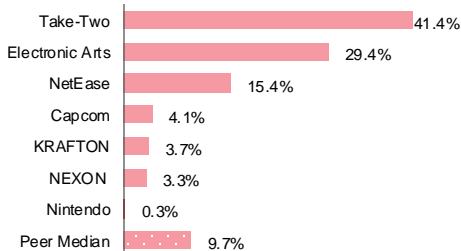
Source: Company Reports, Team Analysis

**Fig 4.4: Nintendo's Leverage Positioning**



Source: Team Analysis

**Fig 4.5: Nintendo's Debt-to-Equity vs. Peers, LTM March 2024**



Source: Team Analysis

**Fig 5.1: WACC Computation**

Capital Asset Pricing Model		
Risk-free Rate	2.29%	Blended from US, Japan, Germany (10Y Treasury)
Beta	0.87	Bottom-up Beta of Peer Group
ERP	4.43%	US, Japan, Germany (Damodaran)
CRP	0.24%	US, Japan, Germany (Damodaran)
<b>CoE</b>	<b>6.34%</b>	

Cost of Debt		
Pre-tax CoD	1.56%	Blended from US, Japan, Germany (10Y Treasury)
Corporate Tax Rate	30.62%	Japan (Damodaran)
<b>CoD</b>	<b>1.08%</b>	

WACC		
Proportion of Equity	99.93%	Market Cap as at Valuation Date
Proportion of Debt	0.07%	LTM Mar-24
<b>WACC</b>	<b>6.33%</b>	

Sources: Damodaran, Team Analysis

**Fig 5.2: Sensitivity Analysis (Gordon Growth)**

WACC	Terminal Growth Rate				
	0.4%	0.9%	1.4%	1.9%	2.4%
7.3%	8,529	8,993	9,536	10,180	10,954
6.8%	9,092	9,642	10,295	11,080	12,043
6.3%	9,750	10,412	11,208	12,185	13,412
5.8%	10,531	11,339	12,330	13,574	15,183
5.3%	11,472	12,477	13,739	15,371	17,564

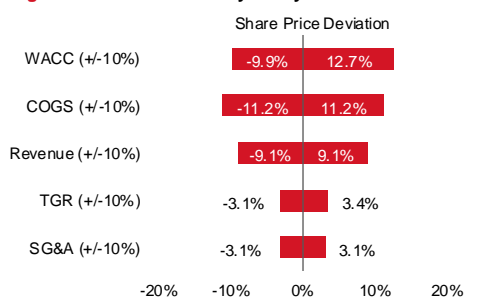
Source: Team Analysis

**Fig 5.3: Sensitivity Analysis (Exit Multiple)**

WACC	Exit Multiple				
	11.9x	12.4x	12.9x	13.4x	13.9x
7.3%	8,431	8,890	9,427	10,063	10,828
6.8%	8,987	9,532	10,177	10,953	11,905
6.3%	9,638	10,292	11,080	12,045	13,258
5.8%	10,410	11,209	12,188	13,418	15,009
5.3%	11,340	12,334	13,581	15,195	17,362

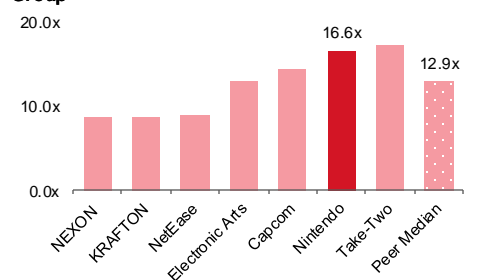
Source: Team Analysis

**Fig 5.4: Indirect Sensitivity Analysis**



Source: Team Analysis

**Fig 5.5: FY+2 EV/EBITDA of Nintendo vs. Peer Group**



Source: Team Analysis

## Valuation

We reiterate our **BUY** recommendation for Nintendo Co., Ltd. with a target price of **JPY 11,208**, presenting a **+36.8%** upside potential based on the closing price of **JPY 8,196** on March 29, 2024.

### DCF Valuation (Gordon Growth)

We recognize that DCF (Free Cash Flow to Firm) effectively reflects Nintendo's potential cash flows from its new console, Switch 2, and its games in the upcoming years. Hence, the DCF method reflects its upside potential from its market share and comparative advantage over peers. We derived our target price primarily through the Gordon Growth method, while using Relative Valuation as a sanity check.

### Weighted Average Cost of Capital ("WACC")

The cost of equity for Nintendo was determined using the Capital Asset Pricing Model ("CAPM"; Fig 5.1). By considering Nintendo's main geographic presence in Japan, Germany and United States, we determined a weighted risk-free rate of **2.29%**, referencing their respective 10-Year Treasury Yields as of March 29, 2024. Drawing from Damodaran's data on equity risk premiums ("ERP") from countries where Nintendo operates, we derived an ERP of **4.43%**. The beta of Nintendo is computed to be **0.87** using the Bottom-up method to better reflect its sensitivity to the Nikkei 225 Index, compared to the Regression method. Following the bottom-up approach, we collected the betas of Nintendo's peers, unlevered them, and re-levered this value with Nintendo's D/E ratio to compute a bottom-up Beta of **0.87**. Putting everything into CAPM, we derived a cost of equity of **5.82%**. On the debt side, Nintendo's pre-tax Cost of Debt of **1.56%** was computed using Japan's 10-Year Treasury Note Yield of **0.73%**. We then added the weighted Country Default Spread of **0.24%**, calculated using Japan's Default Spread of **1.03%**, weighted by Nintendo's Revenue from Japan (**22.83%**). Next, we added the Company Default Spread of **0.59%** to derive a total of **1.56%** for pre-tax cost of debt. This was multiplied by Japan's corporate tax rate of **30.62%** to arrive at the after-tax Cost of Debt of **1.08%**. With a market D/E ratio of **0.07%**, we arrived at a WACC of **6.33%**.

### Relative Valuation (Comparable Companies Analysis)

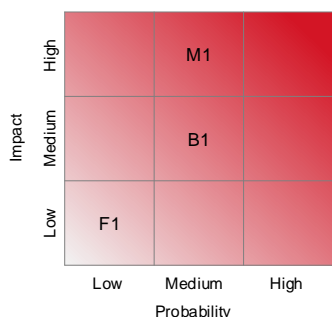
Comparing Nintendo with public companies as a sanity check, we determined Nintendo's implied share price to be **JPY 11,080** with a **35.2%** upside potential. We derived our target price by selecting an EV/EBITDA FY+2 multiple. We chose to use EV/EBITDA for Nintendo for several reasons. Firstly, we prioritize assessing its operational efficiency compared to industry peers. This metric allows us to gauge its ability to generate revenue and manage operating costs effectively, providing insight into its core profitability, excluding non-operating and non-cash items. Secondly, the gaming industry in which Nintendo operates is not typically capital-intensive, suggesting that factors such as depreciation and amortization are not significant economic costs for the company. Lastly, EV/EBITDA factors in its debt and cash holdings, offering a comprehensive view of its financial health by considering its financial obligations. Therefore, we consider EV/EBITDA to be the most suitable metric for evaluating Nintendo's valuation.

### Sensitivity Analysis

Conducting a sensitivity analysis, critical factors that will impact Nintendo's target price are WACC, COGS, and Revenue (Fig 5.5). We emphasize that a BUY recommendation is maintained as we observe a lower perpetual growth; a lower exit multiple and a higher discount rate still represent an upside higher than Nintendo's current share price.

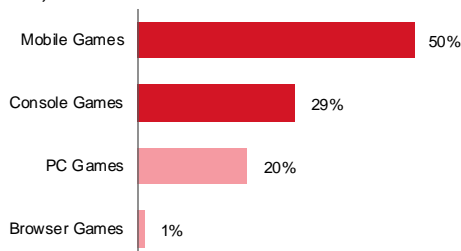


**Fig 6.1: Nintendo's Risk Matrix**



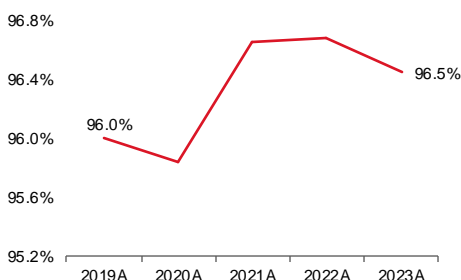
Source: Team Analysis

**Fig 6.2: Video Gaming Market Share by Segment, 2023, % of TAM**



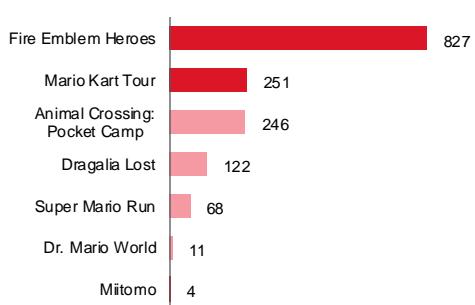
Source: Newzoo

**Fig 6.3: Revenue from Dedicated Video Game Platform, % of Revenue**



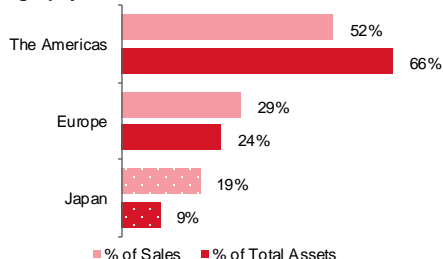
Source: Company Reports

**Fig 6.4: Nintendo Global Mobile Game Revenue, Oct 2023, USD mn**



Source: Statista

**Fig 6.5: Nintendo's Net Assets and Sales by Geography, 2023**



Source: Company Reports

## Investment Risks

### Market Risk (M1) | Short game lifecycles amplify pressure for innovation

The limited life cycle of consoles and software games in the gaming market creates pressure on Nintendo for continued innovation of hardware and software – time intensive and costly, where any delays impact market share and investors' confidence. The 6% drop in Nintendo's shares from the postponement of the Switch 2's launch highlights the market's sensitivity. Challenged with the Switch's generational transition, now in its decline stage in its 8th year, Nintendo may struggle to adapt swiftly to new technologies.

**Mitigation:** Nintendo's popular and profitable software titles help to sustain high player engagement long after game titles are launched. For instance, The Legend of Zelda: Tears of the Kingdom has quickly sold over 20mn units since its 2023 release. Nintendo's focus on innovative games and hardware optimization without competing on powerful architectures has sustained console sales, reaching 139mn units sold in 2023, with the Switch family delivering a record of 122mn annual playing users throughout 2023. Nintendo's niche appeal with exclusive software and hybrid consoles ensures constant patronage from its loyal user base.

### Business Risk (B1) | Highly concentrated Nintendo Switch revenue stream (c. 96%)

Nintendo's over-reliance on its dedicated video game platform – over 96% of total revenue, leaves it vulnerable to gaming market fluctuations (Fig 6.3). Any decline in the Switch's popularity may significantly impact financial performance. Since 2022, despite exceeding 800mn unique downloads across its mobile applications in over 164 countries and regions, only an estimated 3% of sales is from the mobile gaming market, including IP-related income. Over-reliance on console demand may dampen revenue in adverse events due to the lack of revenue diversification.

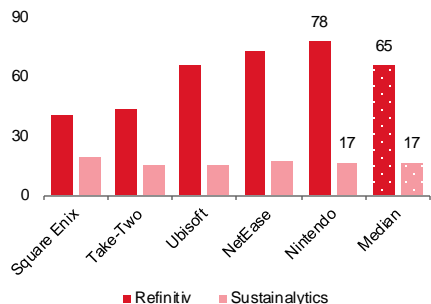
**Mitigation:** Nintendo has diversified into IP monetization with successful film ventures and the Super Nintendo World expansion. In 2023, it recorded a 32% increase in adjusted EBITDA to USD 833mn. Despite the rising mobile market, at 50% of the global video game market share in 2023, Nintendo concentrates heavily on its dedicated platform (Fig 6.2). However, its mobile revenue exceeded USD 1.5bn in 2023, led by Fire Emblem Heroes generating nearly USD 827mn to date from only 13.3mn downloads, demonstrating its potential heights (Fig 6.4). Through its joint venture with DeNA, Nintendo Systems, Nintendo can further tap into mobile markets and diversify revenue streams.

### Financial Risk (F1) | Foreign exchange risks from global exposure (70% of revenue)

Sales outside of Japan account for over 70% of Nintendo's total sales (Fig 6.5). In addition, it holds a significant amount of assets in foreign currencies. As such, any prolonged hawkish sentiment in foreign monetary policies, inflation hikes or continuation of geopolitical conflicts may steepen default spreads and risk premiums, causing Nintendo's assets to be devalued. Alternatively, currency conversion costs may increase, dampening its profitability and presenting difficulties in raising capital for expansion.

**Mitigation:** Nintendo mitigates foreign exchange risks by constantly hedging its monetary receivables and payables – denominated in foreign currencies – in derivative contracts, to protect itself against foreign currency fluctuations. Furthermore, Nintendo's high interest coverage ratio of 4,134.2x strongly suggests that it will be able to service ongoing interest obligations without significant issues. With its prudence in working capital and debt management, Nintendo will be able to shoulder significant capital investments to finance its growth.

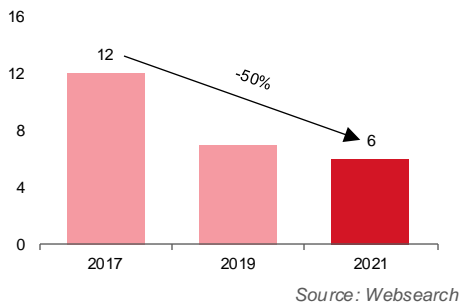
**Fig 7.1: Nintendo's ESG Ratings Against Peers**



**Note:** For Refinitiv, higher ESG scores indicate a better ESG rating; opposite case for Sustainalytics

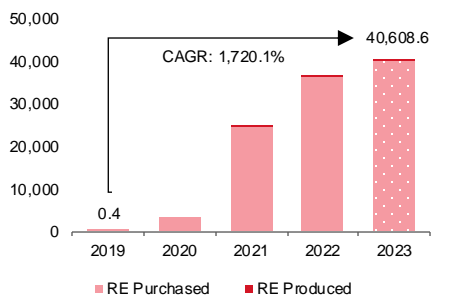
Source: Refinitiv, Sustainalytics

**Fig 7.2: Power Consumption Of Switch Models, watts**



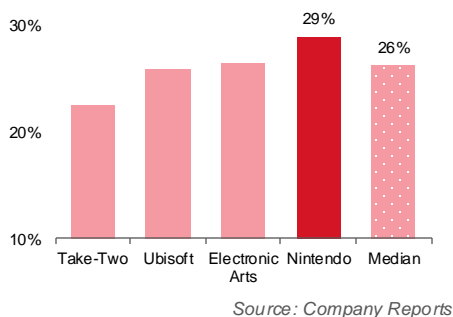
Source: Websearch

**Fig 7.3: Renewable Energy Usage, gigajoules**



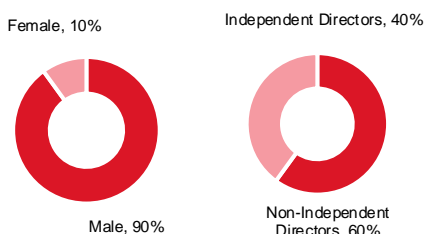
Source: Company Reports

**Fig 7.4: Female Employees, 2023, % of All Employees**



Source: Company Reports

**Fig 7.5: Board directors' Breakdown**



Source: Company Reports

## Environmental, Social & Governance

Nintendo was rated higher than its peer group median for both Refinitiv ESG and Sustainalytics Risk Rating Scores (Fig 7.1) – a reflection of its dedication towards creating positive impact for surrounding communities.

### Environmental – Good, with room for improvement

In its bid to become environmentally friendly, Nintendo has actively embarked on various initiatives. For instance, the Nintendo OLED Switch – launched in 2021 – consumes approximately 6 watts while displaying games on television screens, half the energy required for previous models (Fig 7.2). In addition, the OLED Switch’s packaging was reduced by nearly 18% in size, which enhanced shipping efficiency and reduced wastage of paper materials by 15%. In the past 5 years, Nintendo has exponentially ramped up its renewable energy usage to c.41k gigajoules in 2023 (Fig 7.3), exemplifying its operational effectiveness and dedication towards adopting sustainable operations. Despite the initiatives mentioned, Nintendo’s lack of disclosure about its long-term environmental targets may signal confusion over its commitment, which we believe can be further improved.

### Social – Very Good

Nintendo has delivered positive social impact through local community engagement, stringent procurement policies, and workplace Diversity, Equity & Inclusion initiatives. As of 2023, Nintendo’s female employees constitute 29% of all employees – higher than its peer median (Fig 7.4). In consideration of employees who have begun parenting, Nintendo has set goals to increase the percentage of men utilizing childcare leave to 50%, which has been surpassed at a rate of 72%. However, we believe that Nintendo has much room for improvement in this regard. In addition, Nintendo aims to improve social conditions by helping marginalized communities through a popular form of comfort – games. Through Nintendo’s partnership with the Starlight Children’s Foundation, it has delivered over 7.2mn consoles to more than 11mn critically ill children. In Starlight’s impact surveys, 83% of respondents agreed that playing the Nintendo Switch helped reduce anxiety and boredom – a much-needed alleviation for children’s fears and pain from treatment.

Moreover, a German study into Major Depressive Disorder found that playing Super Mario Odyssey led to a near 50% reduction in depressive symptoms. These are attributable to Nintendo’s social and family friendly games, including multiplayer options on the Switch, which promote personal well-being through gaming. These real-life applications serve to cement Nintendo’s irreplaceable proposition as a leading game-maker not only for leisure, but also for wider communities in need of care.

### Governance – Good, with room for improvement

Nintendo is led by Shuntaro Furukawa, its President and Chairman of its Board of Directors, which supervises management activities and oversees approval of major management decisions. Nintendo’s Board of Directors are selected based on their experience and competency in various areas (Appendix J). As of 2024, Nintendo’s board independence and gender diversity stand at 40% and 10% (Fig 7.5), both of which we believe can be improved.

Directors are compensated based on a mix of fixed and variable components, namely (1) Base salary, (2) Performance bonuses, and (3) Stock-based compensation; the latter 2 awards are contingent upon Nintendo’s achievement of profit targets. The mixed compensation format incentivizes directors to strategic decisions aligned with Nintendo’s best interests, ensuring essential support on its path to long-term profitability.

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## Appendix A – Porter's 5 Forces

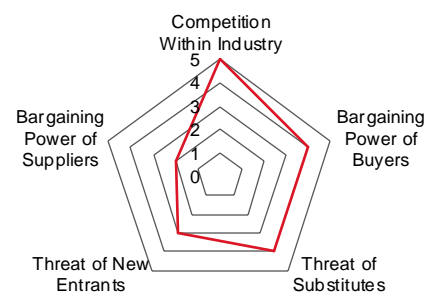
**Threat of New Entrants (3):** Nintendo faces moderate challenges from new competitors. The high costs and brand loyalty in video game software and hardware development act as barriers. While mobile gaming offers a more accessible market, Nintendo remains relatively protected.

**Bargaining Power of Buyers (4):** Buyers hold significant sway in Nintendo's gaming world. With diverse users across consoles, PCs, and mobiles, individual gamers have less bargaining power. Price sensitivity and the shift to digital game sales put pressure on Nintendo's pricing strategies in both software and hardware.




**Bargaining Power of Suppliers (2):** Suppliers pose a moderate influence. In software, key suppliers like chipmakers have some power, but Nintendo's diverse sourcing and standardized components reduce dependence. Hardware development benefits from long-term partnerships and standardized components, maintaining a balanced supplier relationship.

**Threat of Substitutes (4):** Substitutes pose a high threat. The abundance of entertainment options, free-to-play models, and technological convergence challenge Nintendo. Both software and hardware face competition from various platforms and services, demanding strategic responses.

**Competitive Rivalry (5):** Competition is fierce in Nintendo's world. Facing rivals like Sony and Microsoft in console gaming, and adapting to the dynamic mobile gaming landscape, Nintendo must prioritise innovation, differentiation, and competitive pricing. Price wars and aggressive marketing further intensify the competitive landscape.



## Appendix B – Nintendo's Upcoming IP Releases

Product	Game Titles	Release Date	Price (USD)
	Paper Mario: The Thousand-Year Door	May 23, 2024	\$59.99
	Luigi's Mansion 2 HD	June 27, 2024	\$59.99
	Metroid Prime 4	To be confirmed (TBC) 2024	TBC 2024

## Appendix C – Revenue Build

Nintendo Co., Ltd (TSE: 7974) For Year Ended 31 March, JPY Billions Unless Stated Otherwise	Historical					Forecasted					2
	2019A	2020A	2021A	2022A	2023A	2024E	2025E	2026E	2027E	2028E	
<b>Revenue Forecast</b>											
Total Revenue	1,201	1,309	1,759	1,695	1,602	1,763	1,933	2,113	2,303	2,503	
Revenue from Hardware Sales	1,034	1,050	1,356	1,280	1,140	1,257	1,380	1,511	1,648	1,794	
<b>ASSUMPTIONS</b>											
<b>Hardware</b>											
Units Sold (bn units)	0.02	0.02	0.03	0.02	0.02	0.02	0.02	0.02	0.02	0.02	Units Sold
YoY Growth - Live Case		24.07%	37.09%	(20.01%)	(22.07%)	5.00%	4.80%	4.62%	4.46%	4.32%	
1. Bull Case						6.50%	6.30%	6.12%	5.96%	5.82%	1.50%
2. Base Case						5.00%	4.80%	4.62%	4.46%	4.32%	5.00%
3. Bear Case						3.50%	3.30%	3.12%	2.96%	2.82%	1.50%
Unit Price (¥)	60,991	49,932	47,033	55,491	63,424	66,595	69,791	73,016	76,272	79,567	Unit Price
YoY Growth - Live Case		(18.13%)	(5.81%)	17.98%	14.29%	5.00%	4.80%	4.62%	4.46%	4.32%	
1. Bull Case						6.50%	6.30%	6.12%	5.96%	5.82%	1.50%
2. Base Case						5.00%	4.80%	4.62%	4.46%	4.32%	5.00%
3. Bear Case						4.00%	3.80%	3.62%	3.46%	3.32%	1.00%
Revenue from Software Sales	119	204	344	360	405	447	491	537	586	638	
<b>Software</b>											
Units Sold (bn units)	0.12	0.17	0.23	0.24	0.21	0.22	0.24	0.25	0.26	0.27	Units Sold
YoY Growth - Live Case		42.32%	36.84%	1.81%	(8.98%)	5.00%	4.80%	4.62%	4.46%	4.32%	
1. Bull Case						6.50%	6.30%	6.12%	5.96%	5.82%	1.50%
2. Base Case						5.00%	4.80%	4.62%	4.46%	4.32%	5.00%
3. Bear Case						3.50%	3.30%	3.12%	2.96%	2.82%	1.50%
Unit Price (¥)	1,002	1,210	1,490	1,530	1,894	1,989	2,084	2,180	2,277	2,376	Unit Price
YoY Growth - Live Case		20.72%	23.20%	2.64%	23.80%	5.00%	4.80%	4.62%	4.46%	4.32%	
1. Bull Case						6.50%	6.30%	6.12%	5.96%	5.82%	1.50%
2. Base Case						5.00%	4.80%	4.62%	4.46%	4.32%	5.00%
3. Bear Case						4.00%	3.80%	3.62%	3.46%	3.32%	1.00%
<b>Mobile, IP-related and Other Income</b>											
Mobile, IP-related and Other Income	48	54	59	56	57	60	63	66	69	72	Unit Price
YoY Growth - Live Case		13.35%	8.28%	(4.66%)	1.14%	5.00%	4.90%	4.82%	4.76%	4.74%	
1. Bull Case						6.50%	6.40%	6.32%	6.26%	6.24%	1.50%
2. Base Case						5.00%	4.90%	4.82%	4.76%	4.74%	5.00%
3. Bear Case						4.00%	3.90%	3.82%	3.76%	3.74%	1.00%
<b>Cost of Goods Sold</b>											
Cost of Goods Sold	(699)	(667)	(788)	(749)	(716)	(783)	(853)	(926)	(1,002)	(1,082)	
% of Revenue - Live Case	58.25%	50.96%	44.83%	44.20%	44.72%	44.42%	44.12%	43.82%	43.52%	43.22%	
1. Bull Case						43.92%	43.62%	43.32%	43.02%	42.72%	0.50%
2. Base Case						44.42%	44.12%	43.82%	43.52%	43.22%	0.30%
3. Bear Case						44.72%	44.42%	44.12%	43.82%	43.52%	0.30%
<b>Operating Expenses</b>											
Selling General & Admin Expenses	(175)	(198)	(226)	(243)	(263)	(280)	(298)	(315)	(332)	(348)	
% of Revenue - Live Case	14.60%	15.11%	12.83%	14.34%	16.40%	15.90%	15.40%	14.90%	14.40%	13.90%	
1. Bull Case						15.60%	15.10%	14.60%	14.10%	13.60%	0.30%
2. Base Case						15.90%	15.40%	14.90%	14.40%	13.90%	0.50%
3. Bear Case						16.20%	15.70%	15.20%	14.70%	14.20%	0.30%
Provision for Bad Debts	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	
% of Revenue - Live Case	0.02%	0.02%	0.02%	0.01%	0.01%	0.01%	0.01%	0.01%	0.01%	0.01%	
1. Bull Case						0.01%	0.01%	0.01%	0.01%	0.01%	0.01%
2. Base Case						0.01%	0.01%	0.01%	0.01%	0.01%	0.00%
3. Bear Case						0.04%	0.04%	0.04%	0.04%	0.04%	0.03%
R & D Exp.	(70)	(84)	(93)	(102)	(110)	(121)	(133)	(145)	(158)	(172)	
% of Revenue - Live Case	5.80%	6.43%	5.30%	6.03%	6.87%	6.87%	6.87%	6.87%	6.87%	6.87%	
1. Bull Case						6.37%	6.37%	6.37%	6.37%	6.37%	0.50%
2. Base Case						6.87%	6.87%	6.87%	6.87%	6.87%	0.25%
3. Bear Case						7.17%	7.17%	7.17%	7.17%	7.17%	0.30%
<b>Interest Expenses</b>											
Interest and Investment Income	13	15	6	3	25	33	41	45	55	66	
% of Revenue - Live Case	4.77%	3.87%	1.00%	0.56%	4.34%	1.87%	2.12%	2.12%	2.37%	2.62%	

## Appendix D – Supporting Schedules

Nintendo Co., Ltd (TSE: 7974) For Year Ended 31 March, JPY Billions Unless Stated Otherwise	Historical					Forecasted				
	2019A	2020A	2021A	2022A	2023A	2024E	2025E	2026E	2027E	2028E
<b>Assumptions</b>										
Beginning of Period	31/3/2018	31/3/2019	31/3/2020	31/3/2021	31/3/2022	31/3/2023	31/3/2024	31/3/2025	31/3/2026	31/3/2027
End of Period	31/3/2019	31/3/2020	31/3/2021	31/3/2022	31/3/2023	31/3/2024	31/3/2025	31/3/2026	31/3/2027	31/3/2028
Days in Period	365	366	365	365	365	366	366	365	365	366
Revenue	1,201	1,309	1,759	1,695	1,602	1,763	1,933	2,113	2,303	2,503
Cost of Sales	(699)	(667)	(788)	(749)	(716)	(783)	(853)	(926)	(1,002)	(1,082)
<b>Working Capital Schedule</b>										
Short Term Investments	238	326	557	504	616	595	612	669	730	793
% of Revenue	19.86%	24.94%	31.68%	29.75%	38.44%	33.75%	31.68%	31.68%	31.68%	31.68%
Accounts Receivable	78	133	140	141	120	140	154	169	184	199
Days Sales Outstanding	24	37	25	30	21	24	24	24	24	23
Inventory	135	89	87	204	259	194	212	230	249	268
Days Inventory Outstanding	71	49	40	95	132	91	91	91	91	91
Other Current Assets	48	63	51	70	57	63	70	78	85	94
% of Revenue	4.04%	4.84%	2.88%	4.14%	3.55%	3.59%	3.63%	3.67%	3.71%	3.75%
Accounts Payable	60	98	115	151	149	147	156	170	183	192
Days Payables Outstanding	31	54	50	74	70	64	61	61	61	63
Accrued Exp.	4	4	5	5	4	5	6	6	7	7
% of Cost of Sales	0.56%	0.66%	0.66%	0.73%	0.59%	0.66%	0.66%	0.66%	0.66%	0.66%
Other Current Liabilities	119	187	249	285	297	287	302	330	359	381
% of Cost of Sales	16.98%	28.01%	31.60%	38.01%	41.54%	36.60%	35.40%	35.60%	35.80%	35.20%
Common Dividends Paid	78	108	194	241	239	193	219	244	274	306
Dividend Payout Ratio	40.19%	41.88%	40.39%	50.36%	55.16%	41.88%	41.88%	41.88%	41.88%	41.88%
<b>Property, Plant &amp; Equipment (PPE) Depreciation Schedule</b>										
Net PPE	82	83	84	85	100	104	110	117	127	138
Capital Expenditure	11	6	4	2	17	8	10	12	14	17
% of Revenue	0.89%	0.47%	0.23%	0.13%	1.09%	0.47%	0.52%	0.57%	0.62%	0.67%
Depreciation of Existing PPE	(6)	(7)	(11)	(8)	(8)	(3)	(3)	(3)	(3)	(3)
Depreciation of New PPE						(0)	(1)	(1)	(2)	(2)
Total Depreciation	(6)	(7)	(11)	(8)	(8)	(4)	(4)	(4)	(5)	(6)
<b>PPE List</b>										
	FY2022 Book Value	Proportion	Useful Life in Years							
Buildings and structures, net	42,571.0	87.7%	32							
Tools, furniture and fixtures, net	4,498.0	9.3%	8							
Machinery, equipment and vehicles, net	1,477.0	3.0%	18							
Weighted average useful life (years)	28.9									
Depreciation of Existing PPE from FY2023						3	3	3	3	3
Waterfall Depreciation of New PPE						0	1	1	2	2
	FY2024E	8								
	FY2025E	10								
	FY2026E	12								
	FY2027E	14								
	FY2028E	17								
<b>Intangible Assets Schedule</b>										
Net Intangible Assets	14	15	15	17	19	19	19	18	17	15
Useful Life (years)	5.0									
Capital Expenditure	0	4	3	5	5	5	6	6	7	8
% of Revenue	0.01%	0.29%	0.17%	0.32%	0.30%	0.29%	0.30%	0.31%	0.32%	0.33%
Amortization of Existing Intangible Assets	(3)	(3)	(3)	(3)	(4)	(4)	(4)	(4)	(4)	(4)
Amortization of New Intangible Assets						(1)	(2)	(3)	(5)	(7)
Total Amortization	(3)	(3)	(3)	(3)	(4)	(5)	(6)	(7)	(9)	(10)
Depreciation of Existing Intangible Assets from FY2023						4	4	4	4	4
Waterfall Depreciation of New Intangible Assets						1	2	3	5	7
	FY2024E	5								
	FY2025E	6								
	FY2026E	6								
	FY2027E	7								
	FY2028E	8								
<b>Lease Repayment Schedule</b>										
Lease Maturity Date	30/9/2030									
Years Remaining	7.5									
Average Interest Rate	1.82%									
Year						1	2	3	4	5
Beginning Balance						6	5	4	3	2
Less: Repayment						(1)	(1)	(1)	(1)	(1)
Ending Balance						6	5	4	3	2
Interest Payments						0.11	0.09	0.07	0.05	0.04
<b>Debt Schedule</b>										
Debt Maturity Date	31/10/2030									
Years Remaining	7.6									
Interest Rate	0.50%									
Year						1	2	3	4	5
Beginning Balance						0.19	0.14	0.10	0.07	0.05
Less: Repayment						(0.05)	(0.04)	(0.03)	(0.01)	(0.01)
Ending Balance						0.19	0.14	0.10	0.07	0.05
Interest Payments						1.43	1.08	0.75	0.49	0.39

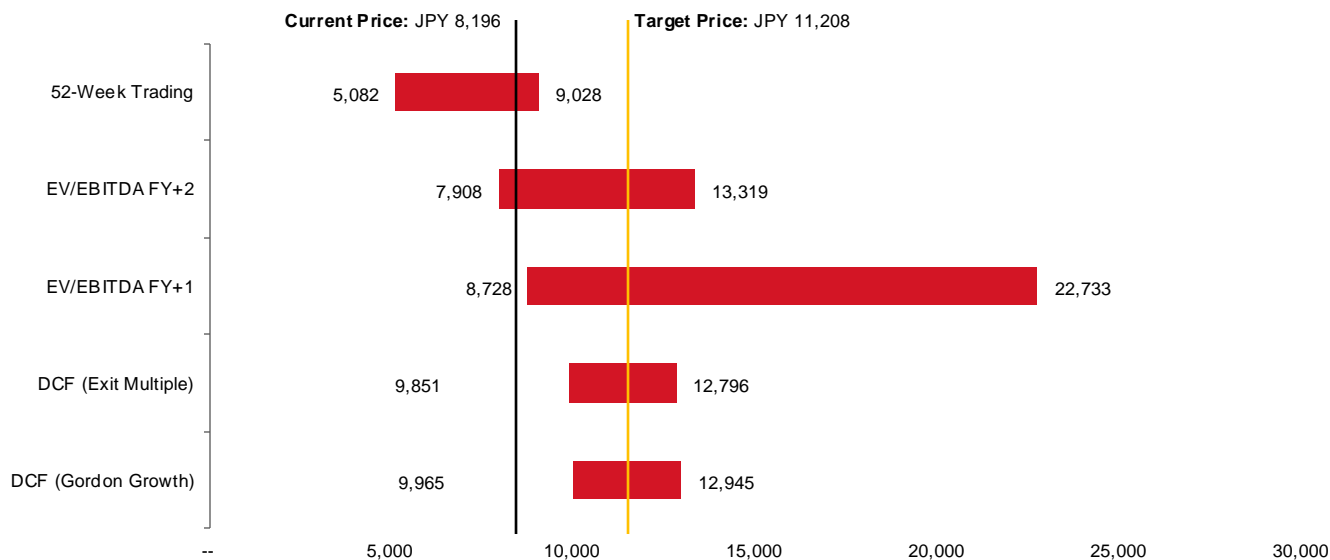
## Appendix E – Pro-Forma Income &amp; Cash Flow Statements

Nintendo Co., Ltd (TSE: 7974) For Year Ended 31 March, JPY Billions Unless Stated Otherwise	Historical					Forecasted				
	2019A	2020A	2021A	2022A	2023A	2024E	2025E	2026E	2027E	2028E
<b>Income Statement</b>										
Revenue	1,201	1,309	1,758	1,695	1,602	1,763	1,933	2,113	2,303	2,503
Less: Cost Of Sales	(699)	(667)	(788)	(749)	(716)	(783)	(853)	(926)	(1,002)	(1,082)
<b>Gross Profit</b>	<b>501</b>	<b>642</b>	<b>970</b>	<b>946</b>	<b>885</b>	<b>980</b>	<b>1,080</b>	<b>1,187</b>	<b>1,301</b>	<b>1,421</b>
Selling General & Admin Expenses	(175)	(198)	(226)	(243)	(263)	(280)	(298)	(315)	(332)	(348)
Provision for Bad Debts	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)
R & D Exp.	(70)	(84)	(93)	(102)	(110)	(121)	(133)	(145)	(158)	(172)
Depreciation & Amortization	(6)	(7)	(11)	(8)	(8)	(8)	(10)	(12)	(14)	(16)
<b>Other Operating Expenses, Total</b>	<b>(251)</b>	<b>(289)</b>	<b>(330)</b>	<b>(353)</b>	<b>(381)</b>	<b>(410)</b>	<b>(441)</b>	<b>(472)</b>	<b>(504)</b>	<b>(536)</b>
<b>Operating Income (EBIT)</b>	<b>250</b>	<b>352</b>	<b>641</b>	<b>593</b>	<b>504</b>	<b>570</b>	<b>640</b>	<b>715</b>	<b>797</b>	<b>885</b>
Interest Expense	--	--	(0)	(0)	(0)	(2)	(1)	(1)	(1)	(0)
Interest and Investment Income	13	15	6	3	25	33	41	45	55	66
<b>Net Interest Expense</b>	<b>13</b>	<b>15</b>	<b>6</b>	<b>3</b>	<b>25</b>	<b>31</b>	<b>40</b>	<b>44</b>	<b>54</b>	<b>65</b>
Income/(Loss) from Affiliates	7	8	7	27	27	--	--	--	--	--
Currency Exchange Gains (Loss)	5	(16)	24	46	40	--	--	--	--	--
Other Non-Operating Income (Expense)	3	1	3	3	5	--	--	--	--	--
<b>EBT Excl. Unusual Items</b>	<b>278</b>	<b>360</b>	<b>680</b>	<b>671</b>	<b>602</b>	<b>601</b>	<b>679</b>	<b>759</b>	<b>851</b>	<b>950</b>
Gain (Loss) On Sale Of Investments	(1)	1	(1)	0	(0)	--	--	--	--	--
Gain (Loss) On Sale Of Assets	(0)	(0)	2	(0)	(0)	--	--	--	--	--
Asset Write-down	(5)	--	--	--	--	--	--	--	--	--
Other Unusual Items	(0)	--	--	3	--	--	--	--	--	--
<b>EBT Incl. Unusual Items</b>	<b>272</b>	<b>361</b>	<b>681</b>	<b>674</b>	<b>601</b>	<b>601</b>	<b>679</b>	<b>759</b>	<b>851</b>	<b>950</b>
Income Tax Expense	(77)	(103)	(201)	(197)	(168)	(184)	(208)	(232)	(261)	(291)
<b>Net Income to Company</b>	<b>195</b>	<b>259</b>	<b>480</b>	<b>478</b>	<b>433</b>	<b>417</b>	<b>471</b>	<b>527</b>	<b>590</b>	<b>659</b>
Minority Int. in Earnings	(1)	(0)	(0)	(0)	(0)	--	--	--	--	--
<b>Net Income</b>	<b>194</b>	<b>259</b>	<b>480</b>	<b>478</b>	<b>433</b>	<b>417</b>	<b>471</b>	<b>527</b>	<b>590</b>	<b>659</b>
<b>Cash Flow</b>										
<b>Net Income</b>	<b>272</b>	<b>361</b>	<b>681</b>	<b>674</b>	<b>601</b>	<b>417</b>	<b>471</b>	<b>527</b>	<b>590</b>	<b>659</b>
Depreciation & Amort.	10	10	11	11	11	8	10	12	14	16
(Gain) Loss From Sale Of Assets	5	--	--	--	--	--	--	--	--	--
(Gain) Loss On Sale Of Invest.	1	(1)	--	--	--	--	--	--	--	--
(Income) Loss on Equity Invest.	(7)	(8)	(7)	(27)	(27)	--	--	--	--	--
Other Operating Activities	(71)	(111)	(131)	(264)	(193)	--	--	--	--	--
<b>Cash from Ops.</b>	<b>171</b>	<b>348</b>	<b>612</b>	<b>290</b>	<b>323</b>	<b>451</b>	<b>467</b>	<b>540</b>	<b>606</b>	<b>663</b>
Changes in Net Working Capital:										
Change in Acc. Receivable	(8)	(55)	(1)	8	32	(21)	(14)	(14)	(15)	(15)
Change In Inventories	8	43	7	(85)	(46)	65	(18)	(18)	(19)	(19)
Change in Acc. Payable	(50)	25	17	23	9	(2)	9	13	14	8
Change in Other Net Operating Assets	12	84	34	(51)	(64)	(16)	9	21	22	14
<b>Cash from Investing</b>	<b>45</b>	<b>(188)</b>	<b>(137)</b>	<b>94</b>	<b>112</b>	<b>7</b>	<b>(33)</b>	<b>(75)</b>	<b>(82)</b>	<b>(88)</b>
Capital Expenditure	(11)	(10)	(7)	(8)	(22)	(13)	(16)	(18)	(21)	(25)
Sale of Property, Plant, and Equipment	(0)	1	5	0	0	--	--	--	--	--
Invest. in Marketable & Equity Secur.	57	(176)	(138)	101	133	21	(17)	(57)	(60)	(64)
Other Investing Activities	(0)	(4)	3	(0)	0	--	--	--	--	--
<b>Cash from Financing</b>	<b>(109)</b>	<b>(111)</b>	<b>(195)</b>	<b>(337)</b>	<b>(291)</b>	<b>(176)</b>	<b>(199)</b>	<b>(222)</b>	<b>(248)</b>	<b>(277)</b>
Long-Term Debt Repaid	--	--	--	--	--	(0)	(0)	(0)	(0)	(0)
Long-Term Leases Repaid	--	--	--	--	--	(1)	(1)	(1)	(1)	(1)
Repurchase of Common Stock	(31)	(0)	--	(95)	(51)	--	--	--	--	--
Common Dividends Paid	(78)	(108)	(194)	(241)	(239)	(175)	(197)	(221)	(247)	(276)
Other Financing Activities	(0)	(3)	(1)	(1)	(2)	--	--	--	--	--
<b>Net Change in Cash</b>	<b>101</b>	<b>36</b>	<b>311</b>	<b>91</b>	<b>172</b>	<b>282</b>	<b>235</b>	<b>243</b>	<b>276</b>	<b>298</b>

## Appendix F – Pro-Forma Balance Sheet

Nintendo Co., Ltd (TSE: 7974) For Year Ended 31 March, JPY Billions Unless Stated Otherwise Balance Sheet	Historical					Forecasted				
	2019A	2020A	2021A	2022A	2023A	2024E	2025E	2026E	2027E	2028E
<b>ASSETS</b>										
Cash And Equivalents	845	890	1,185	1,207	1,264	1,546	1,782	2,025	2,300	2,598
Short Term Investments	238	326	557	504	616	595	612	669	730	793
Accounts Receivable	78	133	140	141	120	140	154	169	184	199
Inventory	135	89	87	204	259	194	212	230	249	268
Other Current Assets	48	63	51	70	57	63	70	76	85	94
<b>Total Current Assets</b>	<b>1,345</b>	<b>1,502</b>	<b>2,020</b>	<b>2,126</b>	<b>2,315</b>	<b>2,539</b>	<b>2,830</b>	<b>3,170</b>	<b>3,548</b>	<b>3,953</b>
Net Property, Plant & Equipment	82	83	84	85	100	104	110	117	127	138
Long-term Investments	192	262	245	346	318	318	318	318	318	318
Other Intangibles	14	15	15	17	19	19	19	18	17	15
Deferred Tax Assets, LT	58	72	83	88	104	104	104	104	104	104
Other Long-Term Assets	0	0	0	0	0	0	0	0	0	0
<b>Total Assets</b>	<b>1,690</b>	<b>1,934</b>	<b>2,447</b>	<b>2,662</b>	<b>2,854</b>	<b>3,083</b>	<b>3,381</b>	<b>3,727</b>	<b>4,113</b>	<b>4,527</b>
<b>LIABILITIES</b>										
Accounts Payable	60	98	115	151	149	147	156	170	183	192
Accrued Exp.	4	4	5	5	4	5	6	6	7	7
Curr. Income Taxes Payable	63	66	157	100	83	83	83	83	83	83
Other Current Liabilities	119	187	249	285	297	287	302	330	359	381
<b>Total Current Liabilities</b>	<b>246</b>	<b>355</b>	<b>526</b>	<b>541</b>	<b>533</b>	<b>522</b>	<b>546</b>	<b>588</b>	<b>631</b>	<b>662</b>
Long-Term Debt	--	--	--	--	0	0	0	0	0	0
Long-Term Leases	0	2	5	5	6	5	4	3	2	1
Pension & Other Post-Retre. Benefits	15	20	21	25	23	23	23	23	23	23
Other Non-Current Liabilities	15	15	20	22	25	25	25	25	25	25
<b>Total Liabilities</b>	<b>276</b>	<b>393</b>	<b>572</b>	<b>593</b>	<b>588</b>	<b>575</b>	<b>598</b>	<b>639</b>	<b>681</b>	<b>712</b>
Common Stock	10	10	10	10	10	10	10	10	10	10
Additional Paid In Capital	12	15	15	15	15	15	15	15	15	15
Retained Earnings	1,557	1,707	1,993	2,199	2,393	2,635	2,909	3,215	3,558	3,941
Treasury Stock	(157)	(157)	(157)	(220)	(271)	(271)	(271)	(271)	(271)	(271)
Comprehensive Income and Other	(13)	(35)	13	66	119	119	119	119	119	119
Minority Interest	5	0	0	0	0	0	0	0	0	0
<b>Total Shareholders' Equity</b>	<b>1,415</b>	<b>1,541</b>	<b>1,875</b>	<b>2,069</b>	<b>2,266</b>	<b>2,509</b>	<b>2,783</b>	<b>3,089</b>	<b>3,432</b>	<b>3,815</b>
<b>Total Liabilities And Shareholders' Equity</b>	<b>1,690</b>	<b>1,934</b>	<b>2,447</b>	<b>2,662</b>	<b>2,854</b>	<b>3,083</b>	<b>3,381</b>	<b>3,727</b>	<b>4,113</b>	<b>4,527</b>

## Appendix G – Football Field Chart



## Appendix H – Weighted Average Cost of Capital

### WACC

Revenues (JPY bn)	2019A	2020A	2021A	2022A	2023A	Weightage
Japan	266	301	397	359	366	23%
Europe	305	327	441	424	395	25%
United States	461	487	625	633	592	37%
Others	101	116	189	176	140	9%
Americas (Excluding United States)	68	78	106	104	108	7%
<b>Total Revenues</b>	<b>1,201</b>	<b>1,309</b>	<b>1,759</b>	<b>1,695</b>	<b>1,602</b>	<b>100%</b>

Bottom-Up Beta: List of Peers	Country	Levered 2Y Beta	Tax Rate	D/E Ratio
NeEase, Inc.	China	0.48	25.00%	0.04
Roblox Corporation	USA	1.54	25.00%	0.07
KRAFTON, Inc.	South Korea	1.21	25.00%	0.02
Take-Two Interactive Software, Inc.	USA	0.93	25.00%	0.13
NEXON Co., Ltd.	Japan	0.89	30.62%	0.01
Electronic Arts Inc.	USA	0.67	25.00%	0.06
Capcom Co., Ltd.	Japan	0.48	30.62%	0.01
<b>Median</b>		<b>0.89</b>	<b>25.00%</b>	<b>0.04</b>

### Cost of Equity

Risk-free Rate	
Japan	0.73% Japan 10-Year Treasury Note Yield as at 29/03/2024
Germany	2.30% German 10-Year Treasury Note Yield as at 29/03/2024
United States	4.20% US 10-Year Treasury Note Yield as at 29/03/2024
Weighted Risk-free Rate	2.29%
Unlevered Beta	0.87 Bottom-Up Method
Corporate Tax Rate - Japan	30.62% Damodaran Research - Jan 2024
Market D/E Ratio	0.00 Nintendo's D/E Ratio - FY2023
Re-levered Beta	0.76
Equity Risk Premium	
Japan	5.63% Damodaran Research - Jan 2024
Germany	5.10% Damodaran Research - Jan 2024
United States	5.10% Damodaran Research - Jan 2024
Equity Risk Premium	4.43%
Country Risk Premium	
Japan	1.03% Damodaran Research - Jan 2024
Germany	0.00% Damodaran Research - Jan 2024
United States	0.00% Damodaran Research - Jan 2024
Country Risk Premium	0.24%
<b>Cost of Equity</b>	<b>6.34%</b>

### Cost of Debt

Pre-tax Cost of Debt:	
Risk-Free Rate	0.73% Japan 10-Year Treasury Note Yield as at 29/03/2024
Country Default Spread - Japan	1.03% Damodaran Research - Jan 2024
Japan Revenue Weightage	22.83% FY2023
Weighted Country Default Spread	0.24%
Company Default Spread	0.59% Damodaran - S&P Credit Rating 'AAA'
Pre-tax Cost of Debt	1.56% Synthetic Credit Rating - Damodaran
Corporate Tax Rate - Japan	30.62% Damodaran Research - Jan 2024
<b>Cost of Debt</b>	<b>1.08%</b>

### Weighted Average Cost of Capital

Cost of Equity	6.34%
Cost of Debt	1.08%
Market Capitalization	9,542
Total Debt	6
Proportion of Equity	99.93%
Proportion of Debt	0.07%
<b>WACC</b>	<b>6.33%</b>



## Appendix I – Comparable Companies Analysis

## Comparable Companies Analysis

Date:	29/3/2024
Currency:	JPY

Ticker	Company Name	Capital Structure		Multiples											
		Mkt. Cap (bn)	Enterprise Value (bn)	EV/Revenue			EV/EBITDA			EV/EBIT			P/E		
				LTM	FY+1	FY+2	LTM	FY+1	FY+2	LTM	FY+1	FY+2	LTM	FY+1	FY+2

## Target Company

TSE:7974	Nintendo Co., Ltd.	9,542	7,533	4.4x	4.5x	4.7x	13.2x	13.6x	16.6x	13.5x	14.0x	16.4x	19.3x	N.M.	N.M.
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## Comparable Companies

NASDAQGS:NTES	NetEase, Inc.	9,791	7,588	5.2x	4.0x	2.8x	12.4x	10.5x	8.9x	27.5x	15.5x	9.7x	16.8x	13.8x	12.2x
NYSE:RBLX	Roblox Corporation	3,649	3,582	3.5x	2.0x	4.6x	N.M.	42.2x	29.1x	N.M.	N.M.	N.M.	N.M.	N.M.	N.M.
KOSE:A259960	KRAFTON, Inc.	1,285	958	5.2x	4.0x	3.5x	10.2x	9.6x	8.7x	11.6x	11.0x	9.7x	20.1x	17.7x	15.5x
NASDAQGS:TTWO	Take-Two Interactive Software, Inc.	3,832	4,226	5.6x	5.5x	3.9x	45.2x	41.8x	17.3x	N.M.	51.8x	20.1x	N.M.	68.0x	24.0x
TSE:3659	NEXON Co., Ltd.	2,107	1,508	3.6x	3.4x	3.1x	10.7x	12.1x	8.7x	11.4x	12.9x	9.4x	29.6x	N.M.	N.M.
NASDAQGS:EA	Electronic Arts Inc.	5,366	5,232	5.0x	4.8x	4.4x	19.3x	14.6x	12.9x	37.5x	16.8x	13.7x	35.4x	19.2x	17.2x
TSE:9697	Capcom Co., Ltd.	1,169	1,068	2.5x	2.7x	6.5x	15.4x	17.0x	14.3x	16.4x	18.1x	15.2x	24.5x	N.M.	N.M.

Low				2.5x	2.0x	2.8x	10.2x	9.6x	8.7x	11.4x	11.0x	9.4x	16.8x	13.8x	12.2x
25th Percentile				3.5x	3.0x	3.3x	11.1x	11.3x	8.8x	11.6x	13.6x	9.7x	20.1x	16.7x	14.6x
Mean				4.4x	3.8x	4.1x	18.9x	21.1x	14.3x	20.9x	21.0x	13.0x	25.3x	29.7x	17.2x
Median				5.0x	4.0x	3.9x	13.9x	14.6x	12.9x	16.4x	16.2x	11.7x	24.5x	18.4x	16.3x
75th Percentile				5.2x	4.4x	4.5x	18.3x	29.4x	15.8x	27.5x	17.8x	14.8x	29.6x	31.4x	18.9x
90th Percentile				5.3x	5.1x	5.3x	32.2x	41.9x	22.0x	33.5x	34.9x	17.7x	33.1x	53.3x	22.0x
High				5.6x	5.5x	6.5x	45.2x	42.2x	29.1x	37.5x	51.8x	20.1x	35.4x	68.0x	24.0x

N.M.: Not Meaningful

Ticker	Company Name	Beta							
		5Y Beta	2Y Beta	Avg Beta	Book Debt	Market Cap	Market D/E	Marginal Tax Rate	Unlevered Beta

## Target Company

TSE:7974	Nintendo Co., Ltd.	0.28	0.12	0.20	--	9,542	0.00	30.62%	0.12
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## Comparable Companies

NASDAQGS:NTES	NetEase, Inc.	0.59	0.48	0.53	391	9,791	0.04	25.00%	0.46
NYSE:RBLX	Roblox Corporation	1.66	1.54	1.60	248	3,649	0.07	25.00%	1.47
KOSE:A259960	KRAFTON, Inc.	1.28	1.21	1.25	22	1,285	0.02	25.00%	1.20
NASDAQGS:TTWO	Take-Two Interactive Software, Inc.	0.74	0.93	0.84	497	3,832	0.13	25.00%	0.85
TSE:3659	NEXON Co., Ltd.	0.23	0.89	0.56	30	2,107	0.01	30.62%	0.89
NASDAQGS:EA	Electronic Arts Inc.	0.77	0.67	0.72	313	5,366	0.06	25.00%	0.64
TSE:9697	Capcom Co., Ltd.	0.22	0.48	0.35	8	1,169	0.01	30.62%	0.48

Low		0.22	0.48	0.35	8	1,169	0.01	25.00%	0.46
25th Percentile		0.41	0.57	0.55	26	1,696	0.02	25.00%	0.56
Mean		0.78	0.89	0.84	215	3,885	0.05	26.61%	0.85
Median		0.74	0.89	0.72	248	3,649	0.04	25.00%	0.85
75th Percentile		1.02	1.07	1.04	352	4,599	0.06	27.81%	1.04
90th Percentile		1.43	1.34	1.39	433	7,136	0.09	30.62%	1.30
High		1.66	1.54	1.60	497	9,791	0.13	30.62%	1.47

## Appendix J – Discounted Cash Flows (Gordon Growth, Exit Multiple)

Nintendo Co., Ltd (TSE: 7974) For Year Ended 31 March, JPY Billions Unless Stated Otherwise	Historical					Forecasted				
	2019A	2020A	2021A	2022A	2023A	2024E	2025E	2026E	2027E	2028E
End of Period	31/3/2019	31/3/2020	31/3/2021	31/3/2022	31/3/2023	31/3/2024	31/3/2025	31/3/2026	31/3/2027	31/3/2028
<b>Computations - Free Cash Flow to Firm</b>										
Operating Profit	250	352	641	593	504	570	640	715	797	885
Less: Unlevered Taxes	(76)	(108)	(196)	(182)	(154)	(174)	(196)	(219)	(244)	(271)
<b>NOPAT</b>	<b>173</b>	<b>244</b>	<b>444</b>	<b>411</b>	<b>350</b>	<b>395</b>	<b>444</b>	<b>496</b>	<b>553</b>	<b>614</b>
Less: Capital Expenditures						(13)	(16)	(18)	(21)	(25)
Add: Depreciation & Amortization						8	10	12	14	16
Add/(Less): Changes in Net Working Capital						25	(14)	2	2	(12)
Less: Minority Interest						(0)	(0)	(0)	(0)	(0)
<b>Free Cash Flow to Firm</b>						<b>416</b>	<b>424</b>	<b>491</b>	<b>546</b>	<b>593</b>
WACC										6.33%
Year						0.01	1.01	2.01	3.01	4.01
Mid-Year Convention						0.00	0.51	1.51	2.51	3.51
<b>Present Value (PV) of FCF</b>						<b>416</b>	<b>411</b>	<b>448</b>	<b>469</b>	<b>478</b>

### Implied Equity Value (Gordon Growth Method)

<b>Valuation Date</b>	<b>29/3/2024</b>
PV of Cumulative FCF	2,220
PV of Terminal Value	9,572
Terminal Growth Rate	1.42%
Terminal Value	12,241
WACC	6.33%
Add: Cash	1,264
Less: Debt and Leases	(6)
Less: Minority Interest	(0)
<b>Implied Equity Value</b>	<b>13,049</b>
Shares Outstanding (bn)	1.16
<b>Implied Share Price</b>	<b>11,208</b>
Current Share Price	8,196
<b>Potential Gain/(Loss)</b>	<b>36.8%</b>

### Implied Equity Value (Exit Multiple Method)

Terminal EBITDA	901
Exit Multiple (EV/EBITDA)	12.9x
Implied Enterprise Value	11,642
Add: Cash	1,264
Less: Debt and Leases	(6)
Less: Minority Interest	(0)
<b>Implied Equity Value</b>	<b>12,899</b>
Shares Outstanding (bn)	1.16
<b>Implied Share Price</b>	<b>11,080</b>
Current Share Price	8,196
<b>Potential Gain/(Loss)</b>	<b>35.2%</b>

## Appendix K – Relative Valuation

### Relative Valuation (FY+1 EV/Revenue)

	Min	25th Percentile	Mean	Median	75th Percentile	90th Percentile	Max
Peers' Multiples	2.0x	3.0x	3.8x	4.0x	4.4x	5.1x	5.5x
<b>Implied Enterprise Value (JPY bn)</b>	<b>5,007</b>	<b>7,540</b>	<b>9,424</b>	<b>10,014</b>	<b>11,021</b>	<b>12,726</b>	<b>13,825</b>
Less: Debt and Leases	(6)						
Less: Minority Interest	(0)						
Add: Cash	1,264						
<b>Implied Equity Value (JPY bn)</b>	<b>6,264</b>	<b>7,540</b>	<b>9,424</b>	<b>10,014</b>	<b>11,021</b>	<b>12,726</b>	<b>13,825</b>
Shares Outstanding (bn)	1.16						
<b>Value per Share (JPY)</b>	<b>5,380</b>	<b>6,477</b>	<b>8,095</b>	<b>8,601</b>	<b>9,466</b>	<b>10,931</b>	<b>11,875</b>

### Relative Valuation (FY+2 EV/Revenue)

	Min	25th Percentile	Mean	Median	75th Percentile	90th Percentile	Max
Peers' Multiples	2.8x	3.3x	4.1x	3.9x	4.5x	5.3x	6.5x
<b>Implied Enterprise Value (JPY bn)</b>	<b>7,005</b>	<b>8,289</b>	<b>10,276</b>	<b>9,719</b>	<b>11,206</b>	<b>13,327</b>	<b>16,215</b>
Less: Debt	(6)						
Less: Minority Interest	(0)						
Add: Cash	1,264						
<b>Implied Equity Value (JPY bn)</b>	<b>8,262</b>	<b>9,547</b>	<b>11,533</b>	<b>10,976</b>	<b>12,463</b>	<b>14,584</b>	<b>17,472</b>
Shares Outstanding (bn)	1.16						
<b>Value per Share (JPY)</b>	<b>7,096</b>	<b>8,200</b>	<b>9,906</b>	<b>9,427</b>	<b>10,705</b>	<b>12,527</b>	<b>15,007</b>

### Relative Valuation (FY+1 EV/EBITDA)

	Min	25th Percentile	Mean	Median	75th Percentile	90th Percentile	Max
Peers' Multiples	9.6x	11.3x	21.1x	14.6x	29.4x	41.9x	42.2x
<b>Implied Enterprise Value (JPY bn)</b>	<b>8,676</b>	<b>10,162</b>	<b>19,018</b>	<b>13,157</b>	<b>26,466</b>	<b>37,797</b>	<b>38,033</b>
Less: Debt	(6)						
Less: Minority Interest	(0)						
Add: Cash	1,264						
<b>Implied Equity Value (JPY bn)</b>	<b>9,933</b>	<b>10,162</b>	<b>19,018</b>	<b>13,157</b>	<b>26,466</b>	<b>37,797</b>	<b>38,033</b>
Shares Outstanding (bn)	1.16						
<b>Value per Share (JPY)</b>	<b>8,532</b>	<b>8,728</b>	<b>16,335</b>	<b>11,301</b>	<b>22,733</b>	<b>32,465</b>	<b>32,666</b>

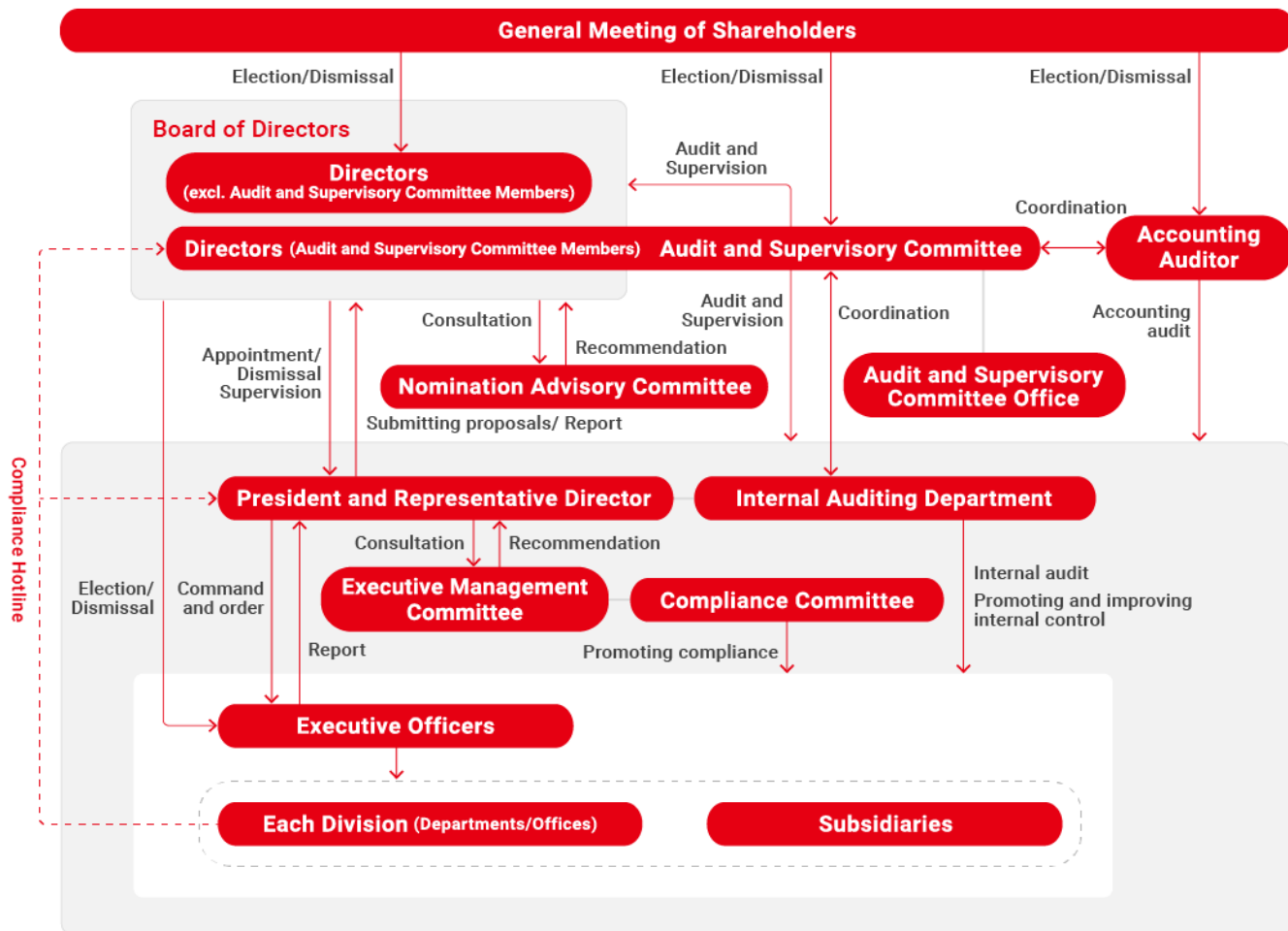
### Relative Valuation (FY+2 EV/EBITDA)

	Min	25th Percentile	Mean	Median	75th Percentile	90th Percentile	Max
Peers' Multiples	8.7x	8.8x	14.3x	12.9x	15.8x	22.0x	29.1x
<b>Implied Enterprise Value (JPY bn)</b>	<b>7,812</b>	<b>7,949</b>	<b>12,868</b>	<b>11,642</b>	<b>14,250</b>	<b>19,853</b>	<b>26,223</b>
Less: Debt	(6)						
Less: Minority Interest	(0)						
Add: Cash	1,264						
<b>Implied Equity Value (JPY bn)</b>	<b>9,069</b>	<b>9,206</b>	<b>14,125</b>	<b>12,898</b>	<b>15,507</b>	<b>21,110</b>	<b>27,480</b>
Shares Outstanding (bn)	1.16						
<b>Value per Share (JPY)</b>	<b>7,790</b>	<b>7,908</b>	<b>12,132</b>	<b>11,080</b>	<b>13,319</b>	<b>18,132</b>	<b>23,603</b>

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**Appendix L – Nintendo’s Governance Hierarchy and Directors’ Competencies**



Main expertise and experience of directors considered necessary for the Company’s Board of Directors are as follows:

Directors	Comprehension of the company’s business	Corporate management	Software production, IP creation	Hardware development, technical research	Sales and marketing	Global business	Finance and accounting, tax affairs	Legal affairs, compliance	Business risk management
President, Representative Director, Member of the Board Shuntaro Furukawa	●	●				●			●
Executive Fellow, Representative Director, Member of the Board Shigeru Miyamoto	●		●			●			
Senior Managing Executive Officer, Corporate Director, Member of the Board Shinya Takahashi	●		●			●			
Managing Executive Officer, Corporate Director, Member of the Board Satoru Shibata	●	●			●	●			
Senior Executive Officer, Corporate Director, Member of the Board Ko Shiota	●			●		●			
Outside Director, Member of the Board Chris Meledandri		●	●			●			
Corporate Director, Member of the Board (Audit and Supervisory Committee Member) Takuya Yoshimura	●							●	●
Outside Director, Member of the Board (Audit and Supervisory Committee Member) Katsuhiro Umeyama							●		●
Outside Director, Member of the Board (Audit and Supervisory Committee Member) Masao Yamazaki							●		●
Outside Director, Member of the Board (Audit and Supervisory Committee Member) Asa Shinkawa								●	●

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