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Nintendo: An Outsider as Successor[[1]](#endnote-1)

Ruth S K Tan and Yupana Wiwattanakantang wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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January 2014 was an unusually cold winter in Tokyo, Japan. Nintendo Co., Ltd. (Nintendo) had the daunting task at that time of informing investors at an Osaka press conference that it had downgraded its annual earnings forecast for a third straight year. The predicted huge annual loss of ¥35 billion[[2]](#endnote-2) (US$335.76 million) was due to the company’s lacklustre performance. Its main products, video game console Wii U and portable game system 3DS, had not impressed its fans, who had moved to mobile gaming. Nintendo’s president, Satoru Iwata, apologized for the company’s underperformance, but investors were left wondering whether Nintendo had any forthcoming cool, revolutionary games.[[3]](#endnote-3) In January 2014, Nintendo’s share price dropped 12 per cent.

Nintendo had just lost its visionary and charismatic leader, Hiroshi Yamauchi, in the fall of 2013. Yamauchi had transformed his family playing cards company into an empire and had introduced many iconic characters and games to the world, including *Donkey Kong, Super Mario, Pokémon,* the hand-held game console Game Boy, and the Wii video game console. He had instilled in Nintendo the philosophy that creativity was always important, even more so than technological advancement.[[4]](#endnote-4)

Yamauchi had left his family with a huge inheritance but also a huge dilemma. His offspring stood to inherit more than 10 per cent of Nintendo, but they had to settle an enormous inheritance bill within a year; Japan’s inheritance tax was one of the highest in the world. Yamauchi’s heirs would be taxed at the highest rate of 50 per cent. The Yamauchi heirs sought the company’s advice on this matter. How should Nintendo solve the current financial trouble?

Hiroshi Yamauchi and the rise of NINTENDO

In 1889, Fusajiro Yamauchi, a craftsman, opened a small shop in Kyoto. He designed playing cards and added interesting stories and colours to them. To attract attention, he named his shop using three *kanji* characters—*nin, ten,* and *do*—which taken together meant “leave luck to heaven” or “work hard but in the end, it is in heaven’s hands.”[[5]](#endnote-5)

Fusajiro passed the business to his adopted son-in-law, Sekiryo, in 1929. Following the family tradition, Sekiryo had also adopted his son-in-law, Shikanojo. Unfortunately, Shikanojo abandoned the family in 1932, leaving behind his five-year-old son, Hiroshi. Hiroshi Yamauchi was raised by his grandparents, and although he went on to study at Waseda University in Tokyo, he soon had to drop out and return to Kyoto when his grandfather suffered a stroke in 1949.[[6]](#endnote-6)

Yamauchi took the leadership role of the business at age 22 and quickly made his presence felt. He fired all family members and replaced long-time employees. In the 1950s, he began mass producing plastic playing cards and printed the hugely popular Disney characters on them. He then ventured into many businesses, including sugar, instant rice, taxis, and even “love hotels” (a type of short-stay hotel originating in Japan), but failed in these ventures, putting Nintendo at the brink of bankruptcy in the late 1960s. Eventually he realized that Nintendo’s greatest asset was the extensive distribution network his family had meticulously built up over decades of selling playing cards. His focus then shifted toward products that could be sold through this distribution network, and he experimented with several electrical toys before settling on video games.[[7]](#endnote-7)

Yamauchi saw the potential of the video game industry. In 1980, Nintendo released the portable liquid crystal display (LCD) game machine Game & Watch, which sold 43.4 million units globally. In 1981, Nintendo released *Donkey Kong*, created by Shigeru Miyamoto. It became a big success. The main character was later re-named Mario. In 1983, Nintendo released the Famicom (short for “family computer”), which was known as the Nintendo Entertainment System outside of Japan. The company sold more than 60 million units of the Nintendo Entertainment System.[[8]](#endnote-8)

With Famicom, Yamauchi had found a new business model. He told Shoshinkai, a Japanese wholesaler group, to “forgo profits on the hardware. Famicom is just a tool to sell our games. This is how we shall make our money.”[[9]](#endnote-9) His vision also included opening up the hand-held game market to women and children.

In 1989, Nintendo released the first portable game system, Game Boy, which revolutionized portable gaming. Game Boy had full-featured, eight-bit games in a black-and-white LCD format, whereas the existing portable gaming was much like a watch, consisting of crudely-made LCD units that swapped and projected images onto a static background.

To enter the U.S. market, Nintendo launched the Game Boy version of *Tetris* and quickly dominated the U.S. video game market. In 1990, Nintendo released *Super Mario*, which became a big hit, selling nearly 120 million units.[[10]](#endnote-10) With *Donkey Kong* and *Super Mario*, Nintendo had a virtual monopoly on the game market.[[11]](#endnote-11) Nintendo rode into the global game market for families when it released *Pokémon* in 1996, selling almost 220 million units. Some experts felt that this “marked the beginning of the proliferation of mobile technology and the growth of ubiquitous gaming.”[[12]](#endnote-12)

Interestingly, Yamauchi was neither an engineer nor a video game designer. Instead, he had great vision, ideas, and leadership. Yamauchi sought talented employees for Nintendo. He realized that artists, not technicians, made the best games. Truly skilled game artists conceptualized entire immersive worlds, transforming their work into emotive art that captured the depth and feeling of the characters.

Yamauchi placed game designers at the helm of hardware design.[[13]](#endnote-13) Consoles served as game platforms and were designed to suit the game concepts. This approach gave Nintendo an enormous competitive advantage, as it allowed flexibility in game development. Nintendo’s designers could develop games faster and cheaper than its rivals, who relied heavily on existing hardware to support the software games.

To develop cool games, Yamauchi established game-design research groups R&D1 (Research and Development 1), R&D2, and R&D3, led by creative young talents, a few of whom became well-known game gurus. Yamauchi cultivated these young talents by setting them to compete against one another.[[14]](#endnote-14) A well-known story within Nintendo was of Yamauchi challenging Gunpei Yokoi, the leader of the R&D1 research group, to invent something that would drive kids crazy. Yokoi’s group came up with Game Boy, Game & Watch, *Ultra Hand, Love Tester, Metroid, Kid Icarus,* and *Excitebike.*

Shigeru Miyamoto led the R&D4 group in designing graphics for Nintendo’s new product, the video game. His group launched various hit products, namely *Mario Brothers, The Legend of Zelda,* and *Donkey Kong*. The Mario franchise appeared in more than 200 games, with the *Super Mario* series alone selling more than 260 million units.[[15]](#endnote-15) Miyamoto became known as the master in the games world.

Miyamoto described the atmosphere at Nintendo:

When I first decided to go to work for a company, I wanted to create things, so I wasn’t looking for a company to work for—I was looking for a company to sponsor me so that I could create the things that I wanted. Because as an artist, that’s really what you want—you want someone to sponsor you as an artist. The best situation is, as an artist, the company gives you the freedom to create what you want, and the company is able to generate profit off of what you create, and you’ve got the freedom to use as much of that profit as you want to create your next thing. So, I’ve never had a reason to leave the company.[[16]](#endnote-16)

Besides in-house talent, Yamauchi recruited talent from outside Nintendo. Masayuki Uemura, headhunted from Sharp Corporation, helped develop the Famicom. Satoru Iwata, recruited from HAL Laboratory, Inc., played a major role in developing the famous *Pokémon* game in 1996. This practice of recruiting talent from other firms was, and continued to be, uncommon among large Japanese companies.

Yamauchi also crafted an excellent production system that ensured high profit margins. The production of video game machines was basically outsourced to smaller suppliers, allowing Nintendo to maintain a relatively small staff with low overhead costs.[[17]](#endnote-17)

Yamauchi was well-known for managing Nintendo with high-speed, top–down autocratic rule. As Yokoi said in 1996, “When I suggested the production of a handy flat game machine, the president [Yamauchi] immediately told me to start developing, whereas the Sales and Marketing guys didn’t listen to me.”[[18]](#endnote-18)

Software entrepreneur Henk Rogers, a close friend of Yamauchi, said this about him: “As I grew to know him more, he seemed to become more isolated, even from his own family. He was tough as nails and quick to reach a decision. When he did, everybody fell in line. He was a difficult man to please. If you publicly disagreed with him, your days were numbered.”[[19]](#endnote-19)

Rogers highly admired Yamauchi but did not see him in the last 10 years of his life. “I wish I could have seen him one more time. He was my mentor, although I knew I would never be like him. There will never be another Yamauchi in the game industry.”[[20]](#endnote-20)

YAMAUCHI and HIS FAMILY

Yamauchi had one son and two daughters. His son, Katsuhito, worked at the Canadian subsidiary of Nintendo for a year before joining Nintendo Japan, first in the movie production department, producing *Pokémon* movies, and then in the corporate marketing group.[[21]](#endnote-21) One of his daughters was married to a doctor. The other daughter, Yoko, was married to Minoru Arakawa, who had graduated from the prestigious Kyoto University as a civil engineer and went on to study at the Massachusetts Institute of Technology. He worked at Marubeni Corporation in its real estate division and headed up the development of a condominium complex in Vancouver.[[22]](#endnote-22)

Yamauchi’s life and passion was truly his business. His deep involvement in the company meant he was an “unavailable” father, who was often elusive and angry.[[23]](#endnote-23) Nintendo became a wedge between him and his children; they hated Nintendo for consuming him.[[24]](#endnote-24) In a BBC interview in 2004, Arakawa said, “Mr Yamauchi’s life is all business. He will continue to think about Nintendo until he dies.”[[25]](#endnote-25)

YAMAUCHI SUCCESSOR PLANNING

Yamauchi was impressed by his son-in-law Arakawa’s experience and persuaded him to join Nintendo. In 1979, Arakawa was appointed as the president of Nintendo of America. Arakawa was instrumental in helping Nintendo take over the American living room. He oversaw the introduction of famous products such as arcade games *Space Fever* and *Radarscope*, Game & Watch, and Game Boy.[[26]](#endnote-26) By 1990, Nintendo of America had sold almost 30 million consoles. The Nintendo Entertainment System could be found in one out of three American homes. Arakawa was promoted to serve on Nintendo’s board and took on the double role of president/chairman of Nintendo of America in 1999. It seemed clear that Arakawa would be Yamauchi’s successor.

To everyone’s surprise, however, on January 8, 2002, at age 55 Arakawa announced his resignation and left Nintendo, saying he needed some rest.[[27]](#endnote-27) Yamauchi was cited by the Japanese media as saying, “Arakawa is not suitable for Nintendo’s presidency as he is too nice.”[[28]](#endnote-28)

The two men were indeed different. Yamauchi was an incredibly colourful character, known to be unpredictable and outspoken, who occasionally made “bizarre pronouncements about his business rivals.”[[29]](#endnote-29) Yamauchi once publicly chastised Arakawa for his lackadaisical response to Sega Enterprises Ltd. and promoted the more aggressive Howard Lincoln as chairman of Nintendo of America in 1994.[[30]](#endnote-30)

SATORU IWATA AS SUCCESSOR

In May 2002, Yamauchi named Satoru Iwata as Nintendo’s new president. Iwata had worked at Nintendo for just two years, yet he was chosen to lead the US$20 billion global company (see Exhibit 1). At the press conference, Yamauchi spoke highly of his 42-year-old successor:[[31]](#endnote-31)

Taking into account the things I’ve encountered in my experiences as Nintendo president, I have come to the conclusion that it requires a special talent to manage a company in this industry. I selected Iwata-san based on that criteria. Over the long term, I don’t know whether Iwata-san will maintain Nintendo’s position or lead the company to even greater heights of success. At the very least, I believe him to be the best person for the job. [Iwata] has the instincts you need to survive in this business.

Born in Hokkaido in 1959, Iwata was fascinated with technology from a young age. He studied computer science at the Tokyo Institute of Technology. His first career was at HAL Laboratory, Inc., which, at that time, was a small game software start-up that was developing game titles for Nintendo’s early consoles. When HAL Laboratory, Inc. collapsed in 1992, Iwata took over and revived the business. Iwata joined Nintendo as the head of the corporate planning division in 2000 and as a board member. One of his famous products was the home video console GameCube.

Yamauchi remained chairman of the board until June 2005 and then continued serving Nintendo as an advisor. Iwata routinely consulted Yamauchi on corporate policies. Yamauchi’s close involvement in Nintendo’s operations could be seen from his statement to the Nihon Keizai Shinbun prior to the launch of the two-screen Nintendo DS hand-held device in 2004, where he stressed the importance of the device’s success to the future of the company: “If the DS succeeds, we will rise to heaven, but if it fails we will sink to hell.”[[32]](#endnote-32)

In 2006, Nintendo launched a new niche with the Wii console, designed explicitly for the family. The Wii, with motion control and accessibility embedded into its very design, became the best-selling game console of all time. It was the first home video game system to sell over 10 million consoles in a single year. Nintendo’s cash pile and stock price skyrocketed (see Exhibit 1). Nintendo’s share price reached a peak in November 2007 at ¥72,100 per share. Yamauchi’s personal fortune leapt to US$7.8 billion in 2007; he was ranked as the third-richest man in Japan by Forbes.[[33]](#endnote-33)

NINTENDO’S FIRST LOSS IN THREE DECADES

Nintendo was fighting an uphill battle in the new era of the video game industry. In 2011, it launched its new 3DS console featuring an offbeat, stereoscopic, three-dimensional display but failed to impress fans. Iwata took personal responsibility and cut his own salary by 50 per cent, to around $770,000.[[34]](#endnote-34)

In March 2012, Nintendo suffered its first annual loss in three decades. Its revenue fell 35 per cent from the previous year (see Exhibit 2), and losses totalled US$531.1 million. In November 2012, Nintendo released the Wii U, the Wii’s successor. It was Nintendo’s first Wii console in six years and came with a dedicated *Super Mario* game title. Its main new feature was a touch-screen controller with a 6.2-inch high-definition screen, allowing the player to see an aspect of the game that was different from what appeared on the television screen. Unfortunately, the Wii U could not impress the market.

Sony Corporation’s (Sony’s) PlayStation 4 and Microsoft Corporation’s (Microsoft’s) Xbox One were launched in late 2013 and greeted by lines of fans. The devices were faster and offered more animation capabilities than Nintendo’s Wii U. The PlayStation 4 helped Sony reclaim the number-one position in the game console market for the first time in eight years (see Exhibit 3).

rise of MOBILE GAMES

Apple Inc. (Apple) drastically changed the mobile industry with the 2007 launch of the iPhone 2G, which had a desktop-like interface and ran on an iOS operating system. In July 2008, the App Store opened with 500 apps, to be followed later (in early 2012) by Google Play, a digital distribution service developed by Google. Technological evolutions between 2007 and 2013 in smartphone and tablet devices, including faster processors, larger screens, more input points, and better overall graphics capabilities, had enhanced the innovation of cutting-edge mobile games.

The app store ecosystem—made up of big players such as Apple, Google, and Facebook, Inc., which entered the market in 2012—and free-to-play games on personal computers allowed game developers from all over the world to publish their games for a worldwide audience and to continuously improve and expand their game in terms of gameplay and business model. Basically, the video game industry had shifted from games developed as a product to games run as a service.[[35]](#endnote-35) Unlike the existing business model by Sony, Microsoft, and Nintendo, in which games were played on closed platforms, this new model allowed consumers to choose more broadly from the app stores by clicking and downloading.[[36]](#endnote-36) The traditional console game designers now faced the challenge of dealing with decades-old graphics and costly game development.

Mobile platforms had also attracted a whole new audience, people who previously had not considered themselves as gamers. Apple’s App Store was the biggest single platform in the mobile industry, accounting for around 50 per cent of mobile game market revenues. Analysts forecasted that Apple and Google would earn around US$4 billion and US$3 billion, respectively, in game revenues in 2014, eclipsing Nintendo’s game revenue of US$2.4 billion in 2013.[[37]](#endnote-37) Amazon.com Inc. and several Chinese app stores would also likely grab a significant market share in Android games; major Chinese app stores included 360 Mobile Assistant, Tencent’s MyApp, Xiaomi Inc.’s MIUI, and Baidu Inc.’s Mobile Assistant.

The global video game market was expected to grow at a compound annual growth rate of 6.7 per cent to $86.1 billion by 2016. According to market researcher Newzoo, there had been a shift away from console games towards games on smartphones, tablets, the Internet, and social networks (see Exhibit 3).

MASSIVE EARNINGS DOWNGRADE

Nintendo was slow to adapt to the changing industry.[[38]](#endnote-38) The family-focused content of Nintendo had lost its appeal; yet Nintendo still held onto its business model by directly selling its much-loved characters, such as Super Mario, and much-loved game series, such as *The Legend of Zelda* and other iconic games, or by licensing them to other developers.

Iwata continued to insist upon “no mobile,” arguing that the company’s success depended on keeping the player experience alive on its own dedicated hardware.[[39]](#endnote-39) Fortunately, Nintendo had a strong balance sheet with zero debt outstanding and large cash reserves of ¥478 billion (US$5,093 billion) as of the end of fiscal year March 31, 2013. Its cash holding ratio (cash ÷ total assets) was 33.1 per cent, much higher than the industry average of 16.4 per cent (see Exhibit 1). It was Yamauchi’s policy to have deep pockets, as the video game industry was about innovation and the market was tremendously competitive and always changing.[[40]](#endnote-40) Iwata said that Yamauchi’s final words before his death were to tell Iwata to kill himself if the Wii U failed.[[41]](#endnote-41)

Early in January 2014, Nintendo shocked the market by announcing a massive earnings downgrade, mostly due to poor sales of its struggling Wii U console. Nintendo expected to make another loss, of around US$250 million. Iwata held himself responsible and took a 50 per cent pay cut. The seven board members also took pay cuts, of 20–30 per cent.[[42]](#endnote-42)

YAMAUCHI’S INHERITANCE

Yamauchi passed away at the age of 85 on September 19, 2013, and the news was reported by the media worldwide. Yamauchi’s net worth as estimated by *Forbes* was around US$2.1 billion, and his ranking in terms of wealth was 12th-richest person in Japan and 491st-richest person in the world in April 2013.[[43]](#endnote-43) His wealth included his 11 per cent stake in Nintendo.[[44]](#endnote-44) At a price of ¥11,560 per share, this amounted to ¥155 billion (US$1.64 billion) (see Exhibits 4 and 5).

Japan imposed both gift and inheritance tax on beneficiaries. As of 2013, the gift and inheritance taxes were levied progressively on the fair market value of net assets. The maximum inheritance tax was 50 per cent on net assets over ¥300 million. There were some basic exemptions for inheritance tax, namely, ¥50 million plus ¥10 million for each legal heir.[[45]](#endnote-45) For the gift tax, the basic annual exemption for all gifts received was ¥1.1 million, which was applied to all gifts received by the recipient during the year. For residential property, a one-time gift of up to ¥20 million to a spouse was allowed if the couple had been married for more than 20 years. In addition, a person aged 65 or older was allowed a one-time gift of up to ¥25 million to descendants aged 20 or older.

Applying the highest tax rate of 50 per cent, the Yamauchi family’s tax obligation on the inherited shares alone would be about ¥77 billion, to be paid within one year. The family had a few options to obtain cash. They could sell the shares either in the stock market or to strategic buyers such as Sony, the Walt Disney Company, and Microsoft. Alternatively, they could try to negotiate with the company to pay special dividends or conduct share buybacks.

Unlike in the United States, where repurchased shares were cancelled, in Japan, companies were allowed to retain the shares as treasury stock, which could be reissued at the management’s discretion, without shareholders’ approval, in contrast to regular equity issues. Treasury stock did not confer any voting rights or rights to dividends, and was recorded in the balance sheet as a reduction in the number of shares outstanding. Therefore, treasury stock was often used to increase insider control and protect the company against activist shareholders. Treasury stock was also used to finance mergers and acquisitions or strategic alliance activities. Treasury stock could also be transferred to employee incentive schemes.

Unlike other wealthy individuals, Yamauchi had not set up charitable foundations. He once said, “I think I am involved in community service sufficiently. I am the biggest individual taxpayer in Kyoto, and Nintendo is the largest taxpayer overall.”[[46]](#endnote-46) In 1992, Yamauchi acquired a major stake in the Seattle Mariners, the Major League Baseball team, even though he had no interest in baseball and had never gone to a baseball game in his life. He saw the public relations value in rescuing the financially troubled major league team for Seattle, where Nintendo of America was located. Yamauchi personally provided US$75 million of the US$125 million purchase price (60 per cent ownership), but had less than 50 per cent of the voting stock.[[47]](#endnote-47)

WHAT TO DO now?

Nintendo was facing many challenges and obstacles and had to consider how to deal with the Yamauchi family’s inheritance tax. Should Nintendo consider dividends or share buybacks? Should Nintendo merge with a large company such as Sony, Microsoft, or the Walt Disney Company? Should it consider acquiring suppliers to gain better control over the retail side of the supply chain such as production of its games, consoles, and merchandise?

Exhibit 1: nintendo balance sheet (in ¥ millions, 2008–2014)

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | **FY2008** | **FY2009** | **FY2010** | **FY2011** | **FY2012** | **FY2013** | **FY2014** |
| **12 Months Ending** | **03/31/2008** | **03/31/2009** | **03/31/2010** | **03/31/2011** | **03/31/2012** | **03/31/2013** | **03/31/2014** |
| **ASSETS** |  |  |  |  |  |  |  |
| Cash & Cash Equivalent | 899,251 | 756,201 | 886,995 | 812,870 | 462,021 | 478,761 | 474,297 |
| Short-Term Investments | 353,070 | 463,947 | 365,326 | 358,206 | 496,301 | 424,540 | 320,918 |
| Accounts & Notes Receivable | 145,611 | 135,149 | 130,809 | 134,933 | 41,229 | 45,439 | 28,640 |
| Inventories | 104,842 | 144,752 | 124,673 | 92,712 | 78,444 | 178,721 | 160,799 |
| Other Current Assets | 144,060 | 148,676 | 83,585 | 69,985 | 62,791 | 64,789 | 39,482 |
| **TOTAL CURRENT ASSETS** | **1,646,834** | **1,648,725** | **1,591,388** | **1,468,706** | **1,140,786** | **1,192,250** | **1,024,136** |
| LT Investments & LT Receivables | 66,870 | 48,085 | 38,117 | 32,228 | 61,205 | 103,362 | 113,372 |
| Net Fixed Assets | 55,150 | 71,064 | 79,586 | 80,864 | 87,856 | 86,152 | 94,190 |
| Gross Fixed Assets | 102,079 | 119,458 | 131,223 | 132,441 | 145,741 | 153,987 | 157,326 |
| Accumulated Depreciation | 46,929 | 48,394 | 51,637 | 51,577 | 57,885 | 67,835 | 63,136 |
| Other Long-Term Assets | 33,636 | 42,893 | 51,895 | 52,499 | 78,554 | 66,114 | 74,712 |
| **TOTAL LONG-TERM ASSETS** | **155,656** | **162,042** | **169,598** | **165,591** | **227,615** | **255,628** | **282,274** |
| **TOTAL ASSETS** | **1,802,490** | **1,810,767** | **1,760,986** | **1,634,297** | **1,368,401** | **1,447,878** | **1,306,410** |
| Liabilities & Shareholders’ Equity |  |  |  |  |  |  |  |
| Accounts Payable | 335,820 | 356,774 | 264,613 | 214,646 | 86,700 | 107,045 | 47,665 |
| Short-term Borrowings | - | 9 | 190 | 187 | 57 | 75 | 19 |
| Other Short-Term Liabilities | 231,402 | 184,131 | 142,734 | 118,468 | 68,681 | 87,355 | 107,968 |
| **TOTAL CURRENT LIABILITIES** | **567,222** | **540,914** | **407,537** | **333,301** | **155,438** | **194,475** | **155,652** |
| Long-Term Borrowings | - | 15 | 157 | 94 | 69 | - | 25 |
| Other Long-Term Liabilities | 5,295 | 15,907 | 16,707 | 19,041 | 21,869 | 25,883 | 32,295 |
| **TOTAL LONG-TERM LIABILITIES** | **5,295** | **15,922** | **16,864** | **19,135** | **21,938** | **25,883** | **32,320** |
| **TOTAL LIABILITIES** | **572,517** | **556,836** | **424,401** | **352,436** | **177,376** | **220,358** | **187,972** |
| Total Preferred Equity |  |  |  |  |  |  |  |
| Minority Interest | 98 | 25 | 174 | 224 | 81 | 131 | 157 |
| Share Capital & APIC | 21,705 | 21,791 | 21,798 | 21,799 | 21,799 | 21,799 | 21,799 |
| Retained Earnings | 1,208,170 | 1,232,115 | 1,314,613 | 1,259,838 | 1,169,145 | 1,205,590 | 1,096,482 |
| **TOTAL EQUITY** | **1,229,973** | **1,253,931** | **1,336,585** | **1,281,861** | **1,191,025** | **1,227,520** | **1,118,438** |
| **TOTAL LIABILITIES & EQUITY** | **1,802,490** | **1,810,767** | **1,760,986** | **1,634,297** | **1,368,401** | **1,447,878** | **1,306,410** |

Note: ¥ = JPY = Japanese yen; US$1 = ¥105.28 on January 1, 2014; FY = fiscal year; LT = long-term; APIC = additional paid-in capital.

Source: Nintendo, “Annual Filings: Income Statement for TYO: 7974 (Nintendo) March 31, 2000–March 31, 2014,” Bloomberg LP, accessed October 31, 2016.

EXHIBIT 2: NINTENDO INCOME STATEMENT (in ¥ millions, 2000–2014)

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **FY2008** | **FY2009** | **FY2010** | **FY2011** | **FY2012** | **FY2013** | **FY2014** |  |
| **12 Months Ending** | **03/31/2008** | **03/31/2009** | **03/31/2010** | **03/31/2011** | **03/31/2012** | **03/31/2013** | **03/31/2014** |  |
| **Revenue** | **1,672,423** | **1,838,622** | **1,434,365** | **1,014,345** | **647,652** | **635,422** | **571,726** |  |
| Cost of Revenue | 972,362 | 1,044,981 | 859,131 | 626,379 | 493,997 | 495,068 | 408,506 |  |
| **Gross Profit** | **700,061** | **793,641** | **575,234** | **387,966** | **153,655** | **140,354** | **163,220** |  |
| Operating Expenses | 212,841 | 238,378 | 218,667 | 216,890 | 190,975 | 176,764 | 209,645 |  |
| Operating Income or Losses | 487,220 | 555,263 | 356,567 | 171,076 | −37,320 | −36,410 | −46,425 |  |
| Foreign Exchange Losses (Gain) | 92,346 | 133,908 | 204 | 49,429 | 27,768 | -39,506 | -39,287 |  |
| Net Non-Operating Losses (Gain) | −38,901 | −26,778 | −11,078 | −6,285 | −4,212 | −7,100 | −18,067 |  |
| **Pre-tax Income** | **433,775** | **448,132** | **367,441** | **127,932** | **−60,876** | **10,196** | **10,929** |  |
| Income Tax Expense (Benefit) | 176,532 | 169,134 | 138,895 | 50,261 | −17,659 | 3,029 | 34,131 |  |
| **Income before XO Items** | **257,243** | **278,998** | **228,546** | **77,671** | **−43,217** | **7,167** | **−23,202** |  |
| Minority Interests | −99 | −91 | −89 | 50 | −13 | 68 | 20 |  |
| **NET INCOME (LOSSES)** | **257,342** | **279,089** | **228,635** | **77,621** | **−43,204** | **7,099** | **−23,222** |  |

Note: ¥ = JPY = Japanese yen; US$1 = ¥105.28 on January 1, 2014; FYI = fiscal year; XO = extraordinary.

Source: Nintendo, “Annual Filings: Income Statement for TYO: 7974 (Nintendo) March 31, 2000–March 31, 2014,” Bloomberg LP, accessed October 31, 2016.

Exhibit 3: THE GLOBAL CONSOLE MARKET

Panel A: Annual Sales of Video Game Consoles, ending March 31 (in million units)

Note: As Nintendo and Sony’s fiscal year ended in March 31, sales of Microsoft’s Xbox were calculated accordingly; PSP = PlayStation Portable.

Panel B: Global Game Market Share by Segment (%)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | 2012 | 2013 | 2014 | 2015 | 2016 |
| Massively Multiplayer Online Game | 19.80 | 21.20 | 21.90 | 22.30 | 22.70 |
| PC/MAC | 9.80 | 8.60 | 7.50 | 6.60 | 5.80 |
| Tablet | 3.20 | 5.30 | 7.50 | 9.60 | 11.60 |
| Smartphone | 10.60 | 12.10 | 13.60 | 15 | 16.20 |
| Television Console | 36.70 | 36.10 | 34.80 | 33.50 | 32.40 |
| Web Games | 10.20 | 9.40 | 8.60 | 7.90 | 7.30 |
| Hand-Held Console | 9.80 | 7.30 | 6.10 | 5.10 | 3.90 |

Note: PC = personal computer; MAC = Apple Inc.’s Macintosh computer

Source: The game market share for 2013–2016 was estimated according to “Global Games Market Report Infographics, 2013,” Newzoo, July 15, 2013, accessed December 19, 2017, <https://newzoo.com/insights/infographics/global-games-market-report-infographics-2013/>.

Exhibit 4: NINTENDO’s LARGEST SHAREHOLDERS & SHAREHOLDINGS

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| 2011 | % | 2012 | % | 2013 | % |
| Hiroshi Yamauchi | 11.08 | Hiroshi Yamauchi | 11.08 | Hiroshi Yamauchi | 11.08 |
| JP Morgan Chase Bank | 5.48 | State Street Bank & Trust Company | 7.52 | State Street Bank & Trust Company | 8.40 |
| Bank of Kyoto | 4.99 | Bank of Kyoto | 4.99 | JP Morgan Chase Bank | 6.09 |
|
| State Street Bank and Trust Company | 4.65 | Japan Trustee Services Bank Trust Account | 4.81 | Bank of Kyoto | 4.99 |
| Japan Trustee Services Bank Trust Account | 4.56 | JP Morgan Chase Bank | 3.73 | Japan Trustee Services Bank | 3.74 |
|
| Nomura Trust & Banking | 3.73 | Nomura Trust & Banking | 3.73 | Nomura Trust & Banking | 3.73 |
| Master Trust Bank of Japan | 3.37 | Master Trust Bank of Japan | 3.61 | Master Trust Bank of Japan | 2.64 |
| SSBT OD05 Omnibus Account | 1.74 | SSBT OD05 Omnibus Account | 2.02 | SSBT OD05 Omnibus Account | 1.88 |
| Moxley & Co. | 1.62 | Moxley & Co. | 1.52 | Northern Trust Co. (AVFC) | 1.58 |
| Sumitomo Trust & Resona Bank Retirement | 1.37 | Chase Manhattan Bank | 1.39 | Bank of New York Treaty | 1.01 |

Source: Nintendo, “Annual Filings: Income Statement for TYO: 7974 (Nintendo) March 31, 2011– March 31, 2013,” Bloomberg LP, accessed October 31, 2016.

EXHIBIT 5: CUMULATIVE STOCK RETURNS of NINTENDO versus the NIKKEI 225 (%)

Note: Nikkei 225 was a Japanese stock market index for the Tokyo Stock Exchange and the most widely quoted average of Japanese stocks.

Source: “Nikkei 225 Index (NKY:IND) and Nintendo (7974),” Bloomberg LP, accessed October 31, 2016.

ENdnotes

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