

Nintendo Co., Ltd. (OTC: NTDOY)

Sector: Information Technology

Target Price	Current Price	52w High	52w Low	P/E	Market Cap	Dividend Yield	Beta
\$73.26	\$67.04	\$72.82	\$35.82	19.56	\$64.74B	2.84%	0.83

Industry: Consumer Electronics, Video Games

Business Description:

Founded in 1889 as a Japanese playing card manufacturer, Nintendo has grown into an international leader in the interactive entertainment industry. Nintendo develops, produces, and markets hardware and software for both TV-linked and handheld consoles, setting the standard for fun, challenging games that provide family-friendly entertainment. Nintendo's core strength lies in its intellectual property where it owns exclusive rights to its original characters and video game titles. This includes international icons such as Super Mario Brothers, Legend of Zelda, Pokemon, and Kirby. With this intellectual property, Nintendo produces innovative video games that intend to leave people positively surprised and delighted.

Industry Trends:

The Consumer Electronics and Video Games industries are rapidly growing due to changes in consumer tastes, which has only accelerated due to the stay-at-home orders brought on by the COVID-19 pandemic. In fact, according to a study by NPD, 32 million more Americans are playing video games in 2020 than there were playing in 2018. That means about 3 out of every 4 Americans now plays video games. Heavy gamers (those who play 15+ hours a week) make up about 29% of this segment, which has seen a 6% increase since 2018. With stay-at-home orders in effect due to the pandemic, 35% of gamers have reported higher playing times as it provides a way to connect with family and friends and unwind. In addition, 94% reported an increase in engagement on platforms they were already using, and 6% reported that they specifically began using a new device around the beginning of the pandemic. Nintendo is poised to take advantage of this blossoming industry, despite the fact that their two competitors, Sony and Microsoft, are releasing their next-gen consoles in mid-November 2020. The Playstation 5 and the Xbox series X do not compete directly with Nintendo's flagship platform--the Switch--as the Switch has a different target demographic with a lower price point, exclusive Nintendo titles, and even its design which features portable handheld gaming. Heading into the holiday season, the Switch is actually projected by some to outsell both the new Playstation and Xbox as its cheaper price may be more appealing to consumers who are currently tight on cash and its availability, as both Sony and Microsoft may struggle to meet demand

Valuation Assumptions:

WACC: 9.3%

Perpetuity Growth Rate: 4.5%

Margin of Safety: 9.2%

Report Prepared By:

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Investment Thesis:

Nintendo's current business model and product offerings, along with its future prospects, position it for success and growth moving forward. It continues to enjoy booming and growing success from its flagship Switch platform, and saw outstanding performance in the last fiscal quarter. Its Nintendo Switch Online service grew 73% from January to September and represents a source of growing recurring revenue. Incredible results from new game releases like *Super Mario 3D All Stars*, as well as a slate of upcoming game releases, and growth in the mobile gaming segment also point to a promising future. New, unique, products like *Ring Fit Adventure*, an exercise action role play game, and *Mario Kart Live: Home Circuit*, an augmented reality game, should also boost sales. COVID-19 has resulted in a boon for the video game industry, and Nintendo has reaped the rewards, growing sales 113% last quarter. Its surge in hardware sales represent a foundation for more software sales. Moreover, NPD analysts project the Switch to outsell Xbox and Playstation rivals this holiday season, and project subscription revenue to spike as well. The company's exclusive family of characters represent a competitive advantage over rivals and a stable source of demand. Its rock-solid balance sheet, with zero debt and over \$14 billion in cash, lowers risk. All of these factors considered, Nintendo is a great company with a promising outlook moving forward.

Risks:

The greatest risks facing Nintendo which may negatively impact its share price include, but are not limited to:

- Competition from rival console hardware and software manufacturers
- Disruption of supply chains and delays in product launches associated with the COVID-19 pandemic
- Failure to adapt to the changing industry landscape
- Foreign exchange rate fluctuation
- Potential decline in Switch sales

Corporate Social Responsibility:

Nintendo emphasizes protecting the environment and working towards a sustainable society. It relocated its Spain office to reduce energy consumption; its U.S. office committed to using 100% renewable energy. All offices are committed to the most efficient shipping and operating strategies to reduce energy consumption and CO2 emissions. The company publishes a Corporate Social Responsibility report every year detailing its efforts in this area. It has an ESG score of 18, which is classified as "Low" and ranks it 79th out of 765 companies in the "Software and Services" industry.

Industry Comparison

	ESG RISK RATING	INDUSTRY RANK
Electronic Arts Inc	12.7	6 out of 765
Activision Blizzard, Inc.	17.0	55 out of 765
NEXON Co Ltd	17.4	63 out of 765
NetEase, Inc.	18.0	80 out of 765
Nintendo Co. Ltd.	18.0	79 out of 765