

From: Richard Kahn <[REDACTED]>

To: "jeffrey E." <jeevacation@gmail.com>

Subject: Re: NINTENDO: 600 MILLION REASONS TO BUY ON WEAKNESS

Date: Sun, 10 Jun 2018 09:12:13 +0000

Yes

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On Jun 10, 2018, at 12:58 AM, jeffrey E. <jeevacation@gmail.com> wrote:

AMANDA????

On Sat, Jun 9, 2018 at 10:58 PM jeffrey E. <jeevacation@gmail.com> wrote:

----- Forwarded message -----

From: Paul Barrett <[REDACTED]>

Date: Sat, Jun 9, 2018 at 9:40 PM

Subject: FW: NINTENDO: 600 MILLION REASONS TO BUY ON WEAKNESS

To: jeffrey E. <jeevacation@gmail.com>

And from ML

Paul Barrett

Alpha Group Capital LLC

142 W 57th Street, 11th Floor, New York, NY 10019

[REDACTED] (o) [REDACTED] (c)

[REDACTED]



From: Ens, Amanda <[REDACTED]>
Sent: Monday, June 4, 2018 9:28 AM
To: Paul Barrett <[REDACTED]>
Subject: NINTENDO: 600 MILLION REASONS TO BUY ON WEAKNESS

From Arif Imam on our Japan Sales desk

cid:image001.jpg@01D27C5D.0DCBD2B0

BUY NINTENDO (PO Y70,000, +55%): POKEMON WILL BOOST SWITCH SALES

We've been waiting a long time to see the shake out of those momentum investors crowded into this name and that has finally started to occur, the naysayers and boo birds are back! The Switch console sales momentum has clearly slowed, their new Labo game has not been impressive, and the coming E3 expo has a decent lineup of games but nothing earth shattering leading us to another potential reason to sell down the stock further as momentum seems fleeting. The stock has broken its 200 dma and should settle in nicely at a fairly strong support level of Y36,000 (or PER of 15.7x) which is an excellent re-entry level as some very important catalysts still lie ahead of us.

Pokémon Go had 600 mn downloads globally, what Nintendo does to convert even a small percentage of these users will have a profound impact on future earnings and the stock will resurrect itself. Never count out this company's management especially with the stock now trading at 17.6x our FY3/19 EPS of Y2,291.

<Key Upside Factors>

- **Pokémon Games and Switch Console Upside:** do not lose sight of the Switch tablet being a mobile device. Between now and November's Pokémon launch **what if** Nintendo:
 1. develops a new Switch tablet that has both a cellular connection and a camera function ?
 2. unveils the true intended purpose of the Poke Ball ?
 3. converges smartly those 600 mn smartphones users, a newly designed Switch tablet, and the Switch online portal ?

- **Significant Room for Digital Sales Upside:** Digital sales in FY3/18 was only 17% vs over 50% among overseas game software companies. There is a plenty of room for its increase. We project download sales ratio will rise to 40% over the next 3 years.
- **Smart device revenue/Switch online:** Nintendo is getting serious about smart device game business opportunities evidenced by the operation alliance with Cygames (which has the highest ratio of hits of any domestic mobile game developer). We are expecting related sales to grow to ¥87.9bn (+123.6%) in FY3/19, ¥127.2bn (+44.7%) in FY3/20 and ¥219.6bn in FY3/21. Also, Switch online will be launched in Sep 2018. The earnings impact will be limited, we think it will be a source of stable earnings like PS+.

cid:137979694

Nintendo (7974)

Time to factor in earnings upside on rising demand from casual gamers; reiterate Buy

Reiterate Rating: BUY

PO: 70,000 JPY | Price: 42,400 JPY

Equity | 30 May 2018

Key takeaways

- Keep ¥70,000 PO, Buy; plenty of room to price in positive news
- Casual gamer demand from Smash Bros. and Pokemon will drive consensus-beating growth
- Focus on new title announcements at E3, initial sales trends for Mario Tennis Aces, Dragalia Lost

FULL
REPORT



Keep ¥70,000 PO, Buy; plenty of room to price in positive news

Ahead of the E3 game show next month, we revise our estimates after reviewing FY3/18 results but leave our PO unchanged at (still based on a cash-adjusted P/E of 21x on our FY3/20 FY3/20 EPS estimate). Nintendo's share price has corrected owing to the weak data point after FY3/18 results. We, however, continue to see solid potential for sustained earnings growth, driven by the release of in-house developed titles such as *Super Smash Bros. and Pokemon*, a robust pipeline of titles from third-party developers in the US and Europe, and digital sales growth. Nintendo's shares look undervalued relative to its global peers, and with valuations looking increasingly attractive, we reiterate our Buy rating.

Casual gamer demand to drive consensus-beating growth

We make modest upward revisions to our OP estimates for FY3/19 from ¥366.4bn to ¥368.9bn (consensus ¥298.2bn) and for FY3/20 from ¥468.3bn to ¥470.4bn (¥389.7bn). The revisions largely reflect our expectation of an improvement in Switch margins, thanks to growth in digital sales. In our view, the consensus outlook fails to sufficiently factor in the impact of digital sales, as well as to fully reflect the potential boost to hardware sales from the release of Nintendo IP titles (such as Mario Tennis Aces) or third-party titles. Our Switch hardware shipment assumptions are unchanged, at 26mn units for FY3/19 and 33mn units for FY3/20.

Focus on new titles at E3, *Mario Tennis Aces*

Potential catalysts include (1) positive feedback from this year's E3 (12-14 June) for titles such as *Super Smash Bros.*, (2) announcements on new titles for launch in FY3/19 and beyond (12 June), (3) initial sales for *Mario Tennis Aces* (scheduled launch 22 June) and (4) the launch of mobile game *Dragalia Lost*. Clear signs of tight demand for the Switch console could lead to heightened expectations that Nintendo will eventually raise guidance. Longer-term focus points include updates from Nintendo regarding the China business, as well as theme park and movie-related initiatives.

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Hiroyasu Eguchi Sc
Research Analyst
Merrill Lynch (Japan)

This report is intended for Masahiro Honda



Read the research report for complete information including important disclosures and analyst certification(s).

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