How Nintendo Sets Itself Apart in the Gaming Industry

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Nintendo Financial Analysis

Nintendo’s financials currently tell a story of stability overall, but also one of preparation. Nintendo has seen a notable drop in profits, but it is likely due to the release of a new console in the next fiscal year. Nintendo presents itself as stable, and keeps its hold in the market due to differentiation and exclusivity of products.

This is an analysis of Nintendo and the console gaming industry. It will show Nintendo’s performance over time, and its strategies for thriving in the market.

SIC 1: 50920210
NASDAQ: NTDOY

Financial Analysis:

As of March 31, 2023
(In Millions USD)

<table>
<thead>
<tr>
<th>Ratio</th>
<th>Calculation</th>
<th>Number Fill</th>
<th>Result</th>
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<tbody>
<tr>
<td>Current</td>
<td>C assets/ C liab</td>
<td>17,402/4,011</td>
<td>4.34</td>
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<tr>
<td>Quick</td>
<td>(Cash+mark sec.+A/R-inv)/C liab</td>
<td>(9,501+4,629+901-1,944)/4,011</td>
<td>3.26</td>
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<tr>
<td>Inventory Turnover</td>
<td>COGS/ INV</td>
<td>5,385/4,011</td>
<td>1.34</td>
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<td>Fixed Asset Turnover</td>
<td>Sales/Net fixed assets</td>
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<td>Total Asset Turnover</td>
<td>Sales/total assets</td>
<td>12,042/21,460</td>
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<td>Debt to Assets</td>
<td>Total debt/total assets</td>
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<tr>
<td>Debt to Equity</td>
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<td>4,419/16,141</td>
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<td>Net Margin</td>
<td>Earnings after tax/total sales</td>
<td>3,254/12,042</td>
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<td>Return on Assets</td>
<td>NI/total assets</td>
<td>3,659/21,460</td>
<td>.171</td>
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<td>Return on Equity (%)</td>
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<td>19.96%</td>
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<td>EPS</td>
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<tr>
<td>Price to Earnings</td>
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<td>13.82%</td>
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As of March 31, 2022
(In Millions USD)

<table>
<thead>
<tr>
<th>Ratio</th>
<th>Calculation</th>
<th>Number Fill</th>
<th>Result</th>
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<tbody>
<tr>
<td>Current</td>
<td>C assets/ C liab</td>
<td>17,572/4,468</td>
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<td>Ratio</td>
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<tr>
<td>Quick</td>
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<td>(9,971+4,168+1,166-1,687)/4,468</td>
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<td>14,011/22,003</td>
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<td>Debt to Assets</td>
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<td>Debt to Equity</td>
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<td>Net Margin</td>
<td>Earnings after tax/total sales</td>
<td>3,948/14,011</td>
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<td>Return on Assets</td>
<td>NI/total assets</td>
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<td>Return on Equity (%)</td>
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<td>EPS</td>
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<tr>
<td>Price to Earnings</td>
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<td></td>
<td>15.24%</td>
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</table>

As of March 31, 2021

(In Millions USD)
Analysis of Ratios:

- **Current**
  - Analyzing the past few years, Nintendo has consistently improved their balance between current assets and current liabilities, meaning they are using both in a more efficient way over time.

- **Quick**
  - Like the current ratio, Nintendo has had relatively steady improvement in this regard, with a slight dip in 2022.

- **Inventory Turnover**
  - Inventory turnover has decreased over the past three years. Since one of their main sales is their consoles, this is understandable. Their most recent console, the Nintendo Switch, and the Nintendo Switch Lite, are supposed to last multiple years, and often most households only need to buy one console. A steady decline in console sales is to be expected as it gets further from the console's initial release date. Additionally, the PS5 by Sony came out in 2023, and most likely took away more sales than Nintendo predicted. I would expect this to change this year, as they plan to announce their new console later this year.

- **Fixed Asset Turnover**
  - Fixed asset turnover has also seen a decline. As sales decreased, they have also been increasing their fixed assets. This is likely to prepare for new product production. When the Nintendo Switch came out, they basically had stock outs, and could not provide enough for the demand they were facing. It would not be unreasonable to assume that they are preparing for their new release to handle demand better. Alternatively, they may have suffered from overshooting demand, especially as time passes between release of the Switch and the present.

- **Total Asset Turnover**
  - Total asset turnover is like the other two, sales decrease and an increase in assets has decreased the ratio, most likely in preparation for a new release.

- **Debt to Assets**
  - Debt to Assets has been consistently low for the past few years, this means they use very little debt to finance their activities.

- **Debt to Equity**
  - Debt to equity has continued to be very low over the years. This is evidence that Nintendo has a positive relationship with its shareholders and is able to uphold that relationship consistently.

- **Return on Assets**
Return on assets was stable until about 2023, then there is a notable drop in the difference between net income and assets. Similar to the turnover ratios, this is likely due to less console sales, and preparation for the new release.

- Return on Equity
  - Return on equity has been declining over time due to lower sales but consistent shareholder support. This is likely evidence that the decline in sales is expected, and shareholders understand the cycle of profit that Nintendo goes through.

- EPS
  - EPS had a drastic shift between 2022 and 2023, the steep drop in earnings per share can partially be explained by the large drop in net income of about one billion dollars.

- Price to Earnings
  - The price to earnings has fortunately decreased, meaning that they were able to earn more at a lower price point.

**TRS: (2023)**

\[
\left( \frac{\text{Ending Stock Price} + \text{Acc Div}}{\text{Beg Stock Price}} - 1 \right) = \text{TRS}
\]

- Nintendo (NTDO) - \((49.38+123)/35.37 - 1 = 3.87\%\)
- Playstation (SONY) - \((85.01+2.12)/77.15 - 1 = 0.92\%\)
- Xbox (MSFT) - \((408.70+4.03)/244 - 1 = 0.69\%\)

Note: Nintendo is hard to compare to its competitors, because both competitors are in a wide range of industries, and their financials aren’t fully broken down. Sony and Microsoft stay afloat in the gaming industry via their consoles and video game exclusives. Nintendo, however, holds their own against them, despite the major asset difference, due to differentiation.

**Internal: VRIO**

Analyzing Nintendo under the VRIO model, Nintendo’s brand recognition, innovation and exclusivity are its greatest strengths. The other consoles have a wide range of video game properties that are well known, but even people who have never picked up a controller recognize most of Nintendo’s starring characters. Additionally, Nintendo games can only be played on Nintendo consoles, which means if a person wants to interact with Nintendo content at all, they have to buy their console. Finally, the real way they stand against PlayStation and Xbox is their experimentation. Nintendo is well known for their consoles having unique gimmicks with every generation. The Nintendo Switch being both a mobile and at-home console is an example. There are things that the other consoles do better, such as ports of high graphics PC games, but Nintendo still remains strong.

**Resources:**

- Nintendo Switch Console and Variants
• Nintendo Video Games
• Nintendo Merchandise
• Nintendo Licensing to third parties
• Nintendo Amusement Park

• Nintendo Switch Console and Variants
  o Valuable
    ▪ Yes
  o Rare
    ▪ Yes
  o Costly to Imitate
    ▪ Yes
  o Organized to capture value
    ▪ Yes
  o Conclusion: Nintendo has a sustained competitive advantage with its consoles. It stands apart from competitors via differentiation and price competitiveness. As they release more consoles, they will be able to take advantage of this consistently. Unlike the other consoles, the Nintendo Switch can be used as both a household console, and a mobile device. This feature is completely unique solely to the Switch.

• Nintendo Video Games
  o Valuable
    ▪ Yes
  o Rare
    ▪ No
  o Costly to Imitate
    ▪ No
  o Organized to capture value
    ▪ Yes
  o Conclusion:
    ▪ Nintendo has a competitive parity with its video games. There is a certain level of exclusivity to their games, as they can only be played on their console. However, while Nintendo Games are high quality and have a unique feel, other gaming companies have releases that are also just as unique.

• Nintendo Merchandise
  o Valuable
    ▪ Yes
  o Rare
    ▪ Yes
  o Costly to Imitate
    ▪ Yes
  o Organized to capture value
    ▪ Yes
o Conclusion:
  • Nintendo has a sustained competitive advantage with its merchandise. Due to owning many beloved characters and gaming franchises, they have a wide range of merchandise to provide. Due to Nintendo’s draconian legal practices, imitations of their products are quickly shut down, making Nintendo the primary provider of their merchandise. They are also very innovative with their merchandise designs, accommodating the super-fan as well as the more casual customer.

• Nintendo Licensing to third parties
  o Valuable
    ▪ Yes
  o Rare
    ▪ No
  o Costly to Imitate
    ▪ No
  o Organized to capture value
    ▪ Yes
  o Conclusion:
    o Nintendo has competitive parity with its licensing. Other game developers can pay Nintendo to make their games playable on their consoles, or even get physical cartridges for the console. However, the other console companies and PC have similar systems, and it’s not uncommon for indie developers to release their games on multiple platforms.

• Nintendo Amusement Park
  o Valuable
    ▪ Yes
  o Rare
    ▪ Yes
  o Costly to Imitate
    ▪ Yes
  o Organized to capture value
    ▪ Yes
  o Conclusion:
    ▪ Nintendo has a sustained competitive advantage with Super Nintendo World. While there are other amusement parks, no other gaming console company or gaming company has an amusement park exclusively for their franchises. Nintendo was ahead of the curve with this concept, and with their customer base being drawn in by the characters and games they provide, Nintendo has a unique audience that will consistently show up at the park.
External: STEEP

Under the STEEP analysis, the gaming industry is extremely lucrative, but can be high risk. It is the largest entertainment industry in the world, and is constantly growing. Small businesses, large corporations, and even single individuals all can thrive from the industry, as its consumer base is looking to have fun, and that can manifest itself in many ways. That being said, there are risks. A heavy monetary investment does not guarantee success, and like all forms of art, whether or not a game is enjoyable is unpredictable and subjective. Navigating those nuances and not losing your place in the market is difficult, but has a massive payout if you are successful.

Sociocultural Factors

- The video game industry is the largest entertainment industry in the world. The global revenue generated from this industry is greater than both movies and music combined. Video game culture started with a niche, highly passionate customer base with a high willingness to pay. As they have become more popular with younger generations, there is now an unshakable cultural influence that comes from video games. Video game culture fosters togetherness and passion, while also providing a means to escape from the stressors of life. It is an ever-growing industry that only has gained more influence.
- Opportunities: It is the largest entertainment industry in the world with lots of facets, there is an extremely large and diverse customer base. It is also easy to enter this market, as even one, team game developers can have a place in the market.
- Threats: The hardware side of gaming is a lot harder to enter as a new competitor. There are three main console brands, PlayStation, Xbox, and Nintendo that dominate the market.

Technological Factors

- Technologically video games have accelerated in the past decade alone. Consoles, gaming PC’s, and even VR headsets have all seen drastic improvements in performance, and the video games designed for them take full advantage of those advancements. Immersion in video games only becomes stronger in sound design, graphical performance, and art direction.
- Opportunities: Video games and their hardware push each other. As games get more complex, the demand for better hardware increases. As better hardware is developed, the demand for improved graphics, game size, and features in games increases.
- Threats: The R&D for hardware development is exorbitant, and to a certain extent, with substantial risk. A simple improvement to performance is a safe venture, but being experimental or creative with new console features can backfire tremendously.

Economic Factors
• The economy also has had a major role in the boom of the gaming industry. Despite the harsh economic environment, the customer base’s willingness to pay has steadily risen with the price increases in the industry. Gaming has a high, up-front cost, but it is understood that the investment in gaming hardware is well worth the value the products provide. And with indie gaming developers gaining substantial ground, there are countless affordable games available.

• Opportunities: Consoles are viewed as an investment, with an understanding that they will be used for years, this allows console brands to set their prices high, with notable leaps in price between each generation of console.

• Threats: Affordable alternatives to mainline consoles tend to not sell well, and it is difficult to convince buyers of your console’s competency without the same level of reputation as the leads in the industry.

Ecological Factors
• The industry is not particularly ecological in its practices. Despite this, the customer base of video games does not put a high emphasis on environmentally friendly practices like they may in other industries. The consoles have expensive parts, and they require a lot of energy, but again, the consumers seem to have little concern for this, and care more about performance.

• Opportunities: Since there is little precedent of environmental awareness, if a brand were to introduce a more energy efficient product, or even a green campaign, it would stand out to those who don’t normally think about the environment.

• Threats: Video games require a lot of power and have many specialized parts. For consoles, there is little one can do to repair them without voiding warranties or other issues. Customers who have strong values for wellness of the environment are not going to be easily convinced by any “green” campaigns.

Political and Legal Factors
• Video games have not been without their struggles, however. Even now, there are many in the older generations that believe there is a direct correlation between video games and youth violence. This has been disproven, but some still push for legal action to be taken to regulate video games. Additionally, video games lately have had “gacha” systems, which in layman’s terms, is a form of digital gambling. There is discourse about whether or not loot boxes and other odds-based purchases should be regulated by age or excluded entirely.

• Opportunities: It is technically possible to patent video game mechanics. If a company makes a unique mechanic in their games, they can sustain their differentiation through patenting.

• Threats: If micro-transaction pseudo-gambling options are banned, many video game companies will suffer a major financial hit. Most popular multiplayer games have a gambling system for cosmetics or even playable characters. Some businesses would go bankrupt immediately.
Sources:
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