OASIS

February 26, 2014

Mr. Satoru Iwata
President and CEO, Nintendo Co., Ltd.
CEO, Nintendo of America
11-1 Kamitoba-hokotate-cho,
Minami-ku Kyoto 601-8501
Japan

Dear Mr. Iwata,

Oasis, a private investment fund management company, is an advisor to entities that are the beneficial owners of shares of Nintendo Co. Ltd.

I am following up on my letter to you dated June 11, 2013, in which I wrote to you that as both customers and shareholders, Oasis would like to see Nintendo develop and sell games for the iOS and Android platforms, and that as shareholders, we look forward to participating in your current business and your future success.

I was prompted to write this follow up, open letter to you after analyzing Facebook's purchase of WhatsApp for $19 billion. We believe that Facebook's decision demonstrates the value placed on maintaining supremacy in the limited pool of mobile social interaction. It is the battle for consumer attention on the smartphone. According to media reports, users in many countries spend up to 25% of their time on smartphones using WhatsApp. As the holder of what is arguably the largest library of casual games, Nintendo is well placed to make an immediate entry into mobile. Adapting the Nintendo library for smartphones could profoundly alter the complexion of the "attention share" currently occupied by Facebook, WhatsApp, and mobile games developers. The same people who spent hours playing Super Mario, Donkey Kong, and Legend of Zelda as children are now a demographic whose engagement on the smartphone is valued by the market at well over $100 billion if we look at the aggregate value of all companies competing for attention on mobile.

What Nintendo can learn from Netflix

In 2013, Netflix grew revenues by 21%, and the stock price increased by 296% – the best performer in the S&P 500. Netflix understands that a company cannot live on great content

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alone. The accessibility of the content is of equal importance – consumers want to be able to choose the content, choose the time, and choose the platform. It is "what I want, when I want it, and on the device I want to use". Would Netflix have been so successful if consumers had to buy a device or special television to access their service? No, of course not. Nintendo's analogue to Netflix's enormously successful *House of Cards* series is the Mario franchise. I can watch *House of Cards* on my iPad, on my TV or on my smartphone – but unfortunately, I have to go through the trouble of buying a Nintendo device (one that is sold at a loss) to access Mario.

Nintendo needs to embrace this thematic change in consumer demand, behavior and expectations to stay relevant. It is readily apparent that the standard elasticity of demand principle no longer applies in the consumer entertainment market when access requires the purchase of a physical product. The WiiU price cut of $50 last September has done little increase unit shipments, which have continued to disappoint initial expectations of management and investors, especially during the year-end holiday season. Consoles are far from dead – PlayStation and Xbox are still enormously successful – but the content is typically different from the Nintendo library. Appealing to hardcore gamers as a means of moving console units would require a far more dramatic shift by Nintendo than the changes we are suggesting. We do not believe it is a question of content, but a question of delivery.

Candy Crush-ing Casual Consoles

On February 18, King Digital filed its US IPO prospectus. The dramatic success of this company should be eye opening for Nintendo. According to the prospectus, King Digital has 500 million installs and has 1.2 billion daily game plays. This is a staggering level of customer engagement. Net Income reportedly went from $8 million in 2012 to a whopping $568 million in 2013 – levels Nintendo has not achieved since 2011. We believe it should be apparent to you that your audience of the causal, social gamer has moved to mobile devices. King accomplished all of this on capital expenditure of only $15 million in 2013. This is an incredible return on invested capital versus the risk of building capacity to manufacture consoles that may not sell.

Need for Change

At the Karen Leung Foundation Investor Conference in Hong Kong last June and as detailed in my previous letter to you, I proposed that Nintendo sell its games in the App Store and Google Play. These sentiments were subsequently echoed by investment analysts and in the media. However, Nintendo management has continued to tie its future to hardware sales despite compelling evidence of consumer demand for a platform-neutral strategy. For example, if one searches for "Super Mario" in Samsung's online app store in China, you will see that others are apparently attempting (poorly and illegally) to do what Nintendo is in a position to do, correctly and powerfully.

Additionally, we believe Nintendo should explore partnering with or acquiring an experienced development studio that has successful (Top 10 grossing) free-to-play games in order to lower the risk associated with such a transition. Free-to-play requires specialized experience including frequent updates, a different game structure, and frequent monitoring for what is working – basically a more iterative process compared to a "traditional" single game release. We understand free-to-play game development is an art unto itself. Zynga, a company with significant experience developing Facebook games, felt it was necessary to bring in expertise, and acquired Natural Motion Games last month for $527 million. While free-to-play might need more maintenance, this model can extend the life of the game IP and lower the volatility of cash flows. We believe Nintendo can create very profitable games based on in-game revenue models with the right development team. Just think of paying 99 cents just to get Mario to jump a little higher.

Nintendo, as you have eloquently stated, is a company with a history of pivoting. Oasis believes that time has come again. As a shareholder, we are asking Nintendo – for the sake of the company and for the sake of its IP remaining relevant – to embrace the change underway in the sector. We own Nintendo stock because we believe that when Nintendo does pivot, the upside for all stakeholders will be huge.

I would welcome the opportunity to meet with you and discuss our ideas further.

Sincerely yours,

Seth Fischer
Chief Investment Officer
Oasis Management Company Ltd.