



After 10 years of hit-and-miss efforts to leverage its brand, the "Super Mario Bros. Movie" ups the ante in Nintendo's bet it can turn Mario into a rival to Mickey Mouse. (Source photos by Ken Kobayashi and Kyodo)

## **BUSINESS SPOTLIGHT**

# Nintendo's Mario mission: grab IP limelight as Switch sales dim

Small nongames business gains traction, with blockbuster movie to boost earnings

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TOKYO -- From theme parks to convenience store snacks and movies, Nintendo's long road to wean its business model off reliance on video console sales has one constant: a plumber called Mario.

For nearly 10 years, the Kyoto-based giant has been working away, with hits and misses, at an intellectual property-based transformation. It's a shift designed to leverage its brand and protect its earnings, and investors, from the new-hit-to-fading-star cycle of the video games business.

Earnings due next week will provide a key measure of the company's progress toward becoming an entertainment giant like Disney, analysts say. The numbers will show how much Nintendo made in the April-June quarter from the release of "The Super Mario Bros. Movie," a computer-animated flick that has reaped **\$1.35 billion** at the box office globally since its April 5 release. That makes it the biggest movie so far this year.

Analysts like Toyo Securities' Hideki Yasuda expect a boost for Nintendo numbers to the tune of around \$200 million. "It will probably be 20 to 30 billion yen in operating income," said Yasuda, who raised his rating on the company's shares to buy from sell in May following the film's success.

Nintendo's IP business remains dwarfed by its console commerce. Consoles typically account for 90% of the company's revenue, estimated by analysts at about 410 billion yen for the first quarter.



In Tokyo, Nintendo's stand-alone store is located in the youth-centric Shibuya district. (Photo by Ken Kobayashi)

But progress on IP is vital if it is to break away from the up-down cycle that repeats itself as the company's gaming consoles age, analysts say.

Earlier this year, **Nintendo warned** it expects to sell 15 million of its aging flagship Switch consoles in the year through next March -- a 17% slide from the previous fiscal year, when the figure had already dropped more than 20%. The Switch workhorse is now in its seventh year.

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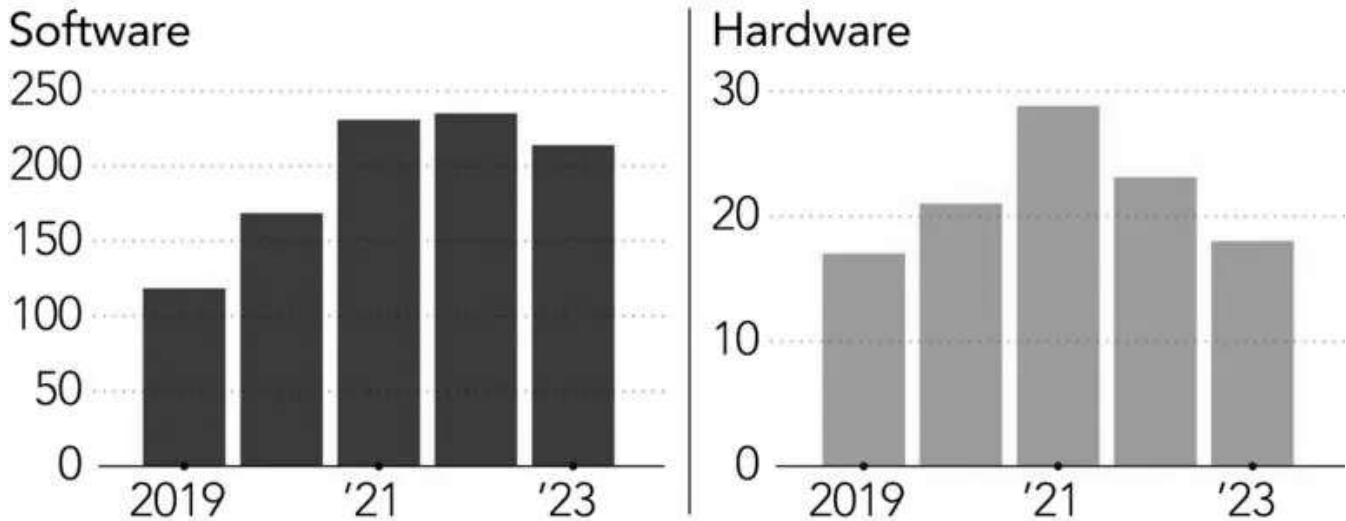
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That May 9 warning pushed company stock nearly 2% lower, but it has since resumed momentum and was up 16% year-to-date as of the end of Tokyo trading July 27 at 6,376 yen -- within touching distance of its peaks since 2000. Still, that's well below both the 28% growth in the Nikkei 225 benchmark index this year and the 30% rise in shares of technology and entertainment peer Sony.

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## Nintendo Switch sales: What goes up...

(Consolidated sales, in millions of units; as of March of each year)



Source: Nintendo

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Shigeru Miyamoto, the game creator who brought Mario to life, went on record in 2019 as saying he hoped to one day develop Mario into a character that could **rival Mickey Mouse**.

Buoyed by the positive response to the movie -- success that will bolster Nintendo's position as a hitmaker in **dealings with Hollywood** -- Miyamoto told Nikkei Asia earlier this year that people can expect **more big-screen Nintendo product**.

"The Super Mario Bros. Movie" was coproduced by Miyamoto and Chris Meledandri, founder of Universal Pictures' Illumination animation studio -- who now sits on Nintendo's main board as its sole external director.

"Nintendo is like a talent agent. We have a lot more entertainers in store," Miyamoto said in an interview, declining to give details. "There are characters suited for video content, and well-known characters. We have various options."



Mario game creator Shigeru Miyamoto attends the premiere of "The Super Mario Bros. Movie" in Los Angeles in April. © Reuters

Corporate comparisons with Walt Disney Co. may appear optimistic. The **U.S. giant** is worth nearly \$160 billion by market capitalization, while Nintendo is valued at close to \$60 billion.

But the Super Mario movie has become the third-highest-grossing animated film of all time in less than four months, closing in on No. 2, Disney's "Frozen 2" at \$1.45 billion since its 2019 release. Disney's 2019 remake of "The Lion King" -- like "Frozen 2," no longer playing in movie theaters -- is in the top spot with \$1.66 billion.

According to Nina Kolar, attorney at law and trademark and design attorney with IP law and consulting firm Dennemeyer, the Disney-Nintendo gap has narrowed.

"I would say they [Nintendo] have moved closer, but are not there yet," Kolar said. "The difference between Mickey Mouse and Mario is that Mickey Mouse has been a children's story from the start. Mario and Nintendo have started out from another industry [gaming]," which puts character growth, both in terms of evolution and popularity, on a different path.

"However," she said, "I do believe that Mario is very well on his way to rub shoulders with the greats."

Masahiro Ono, an equity analyst covering the gaming sector for Morgan Stanley MUFG, raised Nintendo's stock price target to 7,100 yen from the previous 6,200 yen late in June after the company announced a brand-new Mario console game would be released in October.



Mustachioed brothers Mario and Luigi star in the biggest-grossing movie so far of 2023. © 2023 Nintendo and Universal Studios

With the movie boost in view, he forecasts Nintendo operating profit of 147 billion yen for the first quarter, up from 101 billion in the same period last year. That's already nearly a third of the company's full-year forecasts, which are typically conservative.

"IP value continues to improve," said Ono. "This is very important for investors because the value of IP is proportional to the number of people who play on consoles now and in the future."

According to Nintendo's most recently published numbers, it has 290 million registered console user accounts.

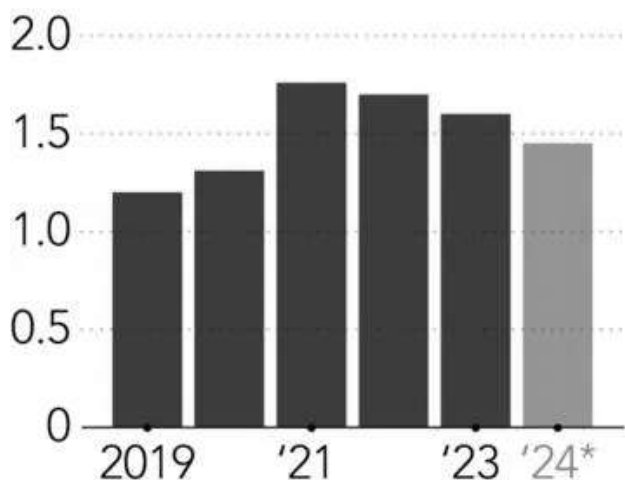
To be sure, Nintendo's IP strategy has not been a smooth road.

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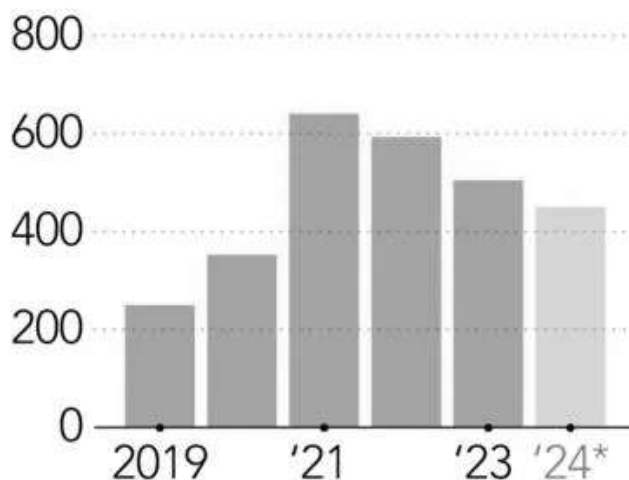
## Nintendo earnings: Following the Switch cycle

*(Annual numbers through March each year, in yen)*

**Net sales** *(In trillions)*



**Operating profit** *(In billions)*



\*Forecast

Source: Nintendo

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Partnerships with internet companies DeNA and Line to spread gaming via smartphones and social networking have come and gone.

"Both were far from success in terms of profitability," said Yasuda from Toyo Securities.

Some geographical expansion has also been fraught with difficulty. In China, the company announced a partnership with tech giant Tencent Holdings in 2019. The company hoped to tie Switch console to WeChat-branded payment and online shopping services and launch a smarter gaming experience than in other regions.

But due in part to Chinese authorities' long history of regulation, more than 90% of the country's game market remains reserved for PCs or smartphones.

Nintendo has plugged away on IP development nonetheless under its stated strategy of "increasing the population that comes into contact with the world of games."

Four years ago, it opened its first brick-and-mortar store in Tokyo's youth-centric Shibuya district, selling goods like stuffed toys, stationery and T-shirts. The next store is scheduled to open in Kyoto in the fall.



After opening in Japan in 2021, Super Nintendo World has started another site at Universal Studios Hollywood in the U.S., with a further opening in Singapore in the works. (Photo by Tomooki Mera)

In March 2021, Super Nintendo World opened at Universal Studios Japan (USJ) in Osaka, after two postponements due to the COVID-19 outbreak.



With an investment of more than 60 billion yen by USJ's operator, the theme park has lured visitors with attractions like this year's "Super Mario Power-up Summer" -- a chance to take part in a **giant water fight** with park staff dressed as Mario, Luigi and other characters.

A spokesperson for the USJ management company called the opening of Super Nintendo World "the third big wave" in its history. That places it on par with the records of 2001 when the park opened and drew approximately 11 million visitors, and 2014 when the opening of the "Wizarding World of Harry Potter" attracted about 12.7 million people.

Super Nintendo World also opened this year at Universal Studios Hollywood in the U.S., with a further site expected in Singapore in the future.

In the past few years, Nintendo has featured Mario and other video game characters on nongame products in Japan and elsewhere to reach out to consumers beyond the traditional gamer fan base.

It teamed up with the 7-Eleven convenience store chain in Japan to launch a line of pastries with character designs on packaging. Meanwhile Walmart.com in the U.S. offers a range of casual apparel, accessories, snacks and crackers featuring Mario.



Moviegoers attend a special screening of "The Super Mario Bros. Movie" in Los Angeles. © AP

And while Hollywood is in gridlock for now with writers and actors on strike, film industry watchers expect future projects for Nintendo are bound to involve considering a "**Super Mario Bros. Movie 2.**"

Still, as the importance of IP grows for the company, some say it may need more radical action if it's to reduce reliance on a single game character.

"There has always been an argument that Nintendo should consider M&A," said Morgan Stanley MUFG analyst Ono.

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