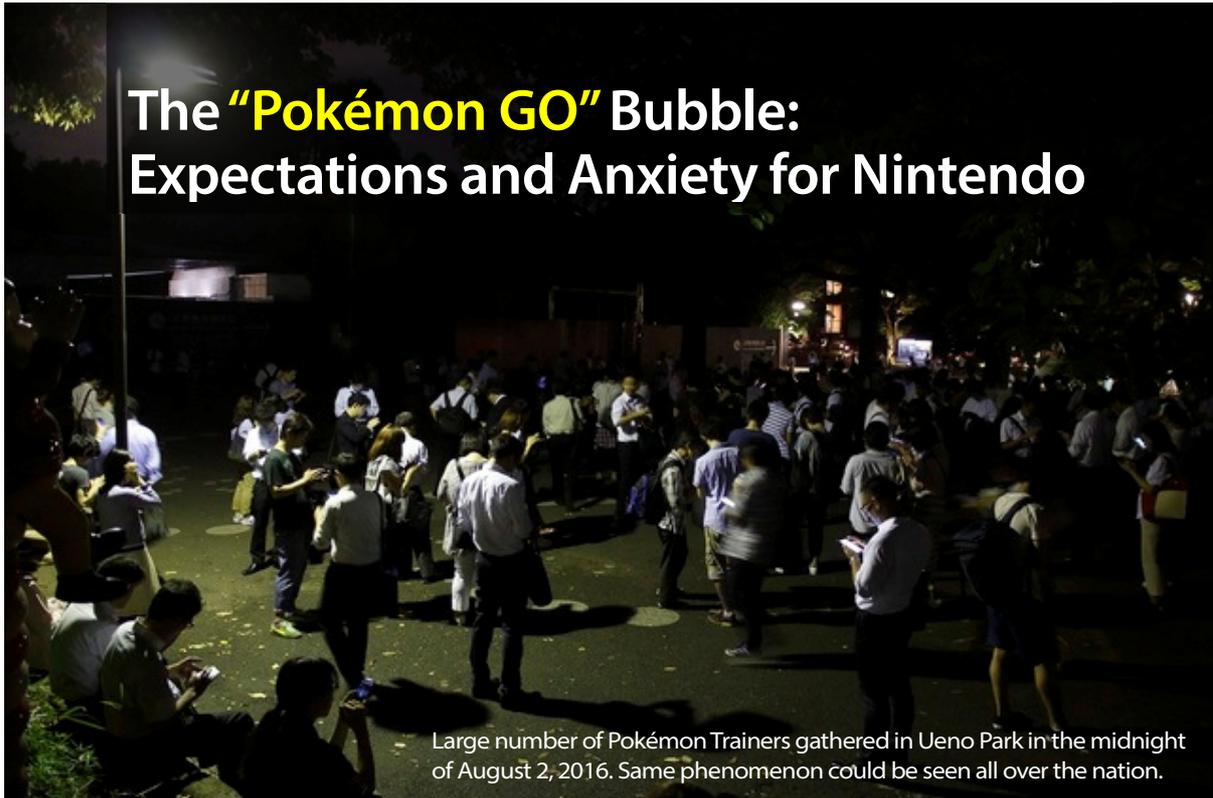




The “Pokémon GO” Bubble: Expectations and Anxiety for Nintendo



Large number of Pokémon Trainers gathered in Ueno Park in the midnight of August 2, 2016. Same phenomenon could be seen all over the nation.

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July 25 (Monday), 7:00 p.m. Even though it's a weekday night, the view at Kinshi Park in Tokyo's Sumida Ward is an unusual one. Hundreds of people are gathered here, some of them business people on their way home from the office. Almost everyone has a smartphone in hand, and they're all wandering around in silence, not saying a word. The game everyone's playing is “Pokémon GO.”

At Kinshi Park, Osaka Park, and Tsuruma Park (in the city of Nagoya), there are large numbers of “Pokestops,” locations where players can acquire items for use in capturing monsters. Kinshi Park in particular has gotten a lot of attention on Twitter as a place where players can catch one of the rare monsters, “Bulbasaur,” and large numbers of Pokémon Trainers (players) have been attracted to the area.

Three days earlier, on Friday 22 at 10:30 a.m., Pokémon GO was launched for players in Japan. The game is currently available in approximately forty countries and regions, and has reached the top position in app sales rankings in Japan, the United States and the United Kingdom with remarkable speed.

Pokémon GO is a smartphone game jointly developed by Niantic, a company that spun out of Google Inc. in the United States, and one of Nintendo's affiliate companies, Pokémon. What makes the game unique is its combined application of GPS (global positioning system) and AR (augmented reality) technologies, which makes it seem as if monsters are actually appearing in your town, and allows the player to experience catching them in this environment.

Yasuda Hideki, an analyst at the Ace Research Institute (ARI), explains its success in terms of three factors. The combination of market saturation of pocket monster (Pokémon) products, which have sold

over 200 million volumes, the accumulated map data of locations all over the world provided by the “Google Maps” software supplied by Niantic, and the use of smartphones rather than a specialized game console allowed the game to be distributed instantly after the launch. “In terms of popularity that transcends races and national boundaries, Pokémon is on the same level as Disney,” Yasuda says.

The game is a huge hit all over the world, and Nintendo’s stock prices have risen dramatically. On July 6, the date of the game’s launch in the United States, shares of Nintendo stock were trading at 14,380 yen, and by the 19th, the value had more than doubled, reaching 31,770 yen per share. On the following day, the 20th, the total trading value of Nintendo was 732.3 billion yen, setting a new record for a single stock.

However, on the day service launched in Japan, Nintendo issued a press release announcing that “the impact on the company’s overall performance is limited.” At the start of the week, on the 25th, shares hit limit down, decreasing in value to around 23,000 yen.

The company started this term in the red, but...

Evaluations of Nintendo go back and forth between strong and weak. How much will Pokémon GO contribute to the company’s future?

For this project, the main developers were Niantic and Pokémon. The revenue from the game mainly comes from player purchases of premium items.

First of all, 30% of the revenue from these in-app purchases is deducted by the distribution platform, either Google or Apple depending on the phone used, as a commission. This charge is sometimes referred to as the “admission fee.” The amount that is then received by the developer, operator, and distributor for the game, Niantic, is the remaining 70%.

Next, Niantic provides payments for licensing and various other fees to Pokémon. Although the exact ratio of the total earnings received by Pokémon has not been made public, Mori Haruka, an analyst at J.P. Morgan Securities, says, “It’s probably about 20 or 30% (of the total earnings).”

Nintendo is only involved after this point. Nintendo owns 32% of Pokémon’s company stock, and since Pokémon is an affiliated company, the equity method is applied. If we assume Pokémon’s profit ratio is 70%, Nintendo can use the equity method to take 32% of the company’s profits, and these funds can then be applied to non-operating profit and losses. Nintendo’s portion of the total earning is probably less than 10%. “If in-app purchase earnings of 30 billion yen per month continue for one year, this could provide a maximum operating income boost of up to 25 billion yen,” Mori says.

Nintendo’s operating income was 28.7 billion yen in March 2016, so the impact the game could have on the company’s performance is considerable. Although the company is in a deficit of 38.6 billion yen in the current first quarter due to rising yen values, how much Pokémon GO can do to turn things around is in question.

There are also other secondary sources of revenue aside from item sales. One example is sponsor fees. McDonald’s has partnered with Nintendo to set up Pokestops and “Gyms,” locations where players can put monsters into battle against each other, at all 290 restaurants in Japan as a means of attracting customers. McDonald’s sells Happy Meals with Pokémon toys, and one staff member says, “We have a close relationship with Pokémon” (Karasawa Shunsuke, Chief of the National Marketing Department). The payment in return for this service is said to be about 1 billion yen per year.

Although the product will not launch until September, there is also a wearable device that will link to

Pokémon GO in the works, as well as other peripheral accessories. Nintendo is also working on a joint development smartphone game with DeNA that it will be personally involved with, and the planned launch date is this fall. In this way, the company is also sowing the seeds for future medium-term growth.

Pokémon GO gave Nintendo a renewed sense of the value of its content assets. Although the market valuation of the company's stock following the release was excessively high, now that the initial boom has faded, this is the time for the company to show its true potential to the world.

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