

## **2018 Third Quarter Earnings Results Conference Q&A Summary**

### **1. Credit Suisse – Mr. Yoneshima**

Q. About the cooperation with KDDI, could you share any details about how the collaboration came about, and why you chose KDDI? Will the extensive roaming agreement have any impact on the capex plans?

A. (Yamada)

Since receiving approval for our 4<sup>th</sup> generation mobile communications system (4G) special base station deployment plan, we have been working on building out our own network, but as offering nationwide coverage from the launch would prove difficult, we believed a roaming partner would be necessary. We contacted KDDI, and during the discussions both parties saw the merits in the agreement and decided to cooperate. As we had initially anticipated that some sort of roaming agreement would be necessary, there should not be any major impact on the original capex plans and business plans.

Q. About credit card fees for contracted merchants, in October, there were reports about the government requesting a reduction in fees. As Japan's largest credit card company, what is your opinion on the reports?

A. (Hosaka)

The request to reduce credit card fees for contracted merchants is related to government policy to promote the adoption of cashless payments in SMEs. The government thinks the fees are too high and so want them reduced, but how the card companies should return the 2% fees hasn't been decided yet. Our revenue structure is balanced between not only fees from contracted merchants, but from cash advances, shopping revolving balance fees and other sources, so we don't believe there will be a major impact. Our idea from the start has been to bring fees for contracted merchants to as close to zero as possible, and not to rely on revenue from these fees, so we have worked to build up other safe assets. Even if our revenue does drop due to the lowering of the fees, compared to other companies, we have a relative advantage as we can expand our revenue from other sources.

Q. In the presentation, you mentioned that the nature of income from the domestic EC business has changed. Could you tell us specifically what has changed and how it has improved?

A. (Takeda)

Broadly speaking, there have been 3 changes. The first is that as we promote the expansion of the Rakuten Ecosystem, users have started become aware of the benefits and convenience of being able to use points across services, and the cross-use ratio is growing. As a result, the customer acquisition cost (CAC) is decreasing, and the overall efficiency is beginning to grow. The second is that as we have gained knowhow from analyzing the marketing activities carried out with merchants on Rakuten Ichiba, we are now able to more efficiently procure and sell highly profitable products. The third is that by increasing our collaborations with various partners such as Bic Camera or Yamada Denki, we have been able to reduce unnecessary costs.

## **2. Nomura Securities – Mr. Nagao**

Q. With the MNO service set to launch utilizing your own network infrastructure in the 23 wards of Tokyo, Osaka City and Nagoya City in October 2019, could you tell us about the current progress in acquiring locations for the base stations in those areas?

A. (Yamada)

With the figures changing every day, I can't share any specific details, but even with the issues in the field, we are proceeding with our plans for a launch in Tokyo, Osaka and Nagoya and some surrounding areas with our own network services in October next year.

Q. About the combined Rakuten Pay app mentioned at the previous earnings conference, have there been any changes to the launch date? Could you tell us about how you plan to promote the app to users?

A. (Nakamura)

Development is progressing well. We are already testing the combined payments app internally, and we believe our customers will be very satisfied with the level of convenience. I think we will probably be able to share more details about the timing of the release at the next earnings results announcement. As the app is an upgraded version of the existing Rakuten Pay app, from a marketing perspective, we already have a user base. We also plan to carry out campaigns for the launch of the new service, and will collaborate within the Rakuten Group to carry out various promotional activities.

Q. You mentioned that C2C businesses are building momentum, but in which areas are you seeing the momentum and what are the reasons behind it?

A. (Kono)

The C2C businesses are maintaining their strong performance across the board. Since last year, we have made a number of changes to the businesses, including the brand change and the introduction of commission fee. In February this year, we integrated Rakuma and Fril, and in June, we introduced the 3.5% commission fee. Even after the introduction of the commission fee, we have been able to maintain the growth rate and I feel we are getting closer to the top player. Going forward, we will focus on service cross-use within the Rakuten Group. We want to increase the cross-use by promoting the acquisition of new users from other group services and guiding C2C customers to other group services.

## **3. Mizuho Securities – Mr. Iwasa**

Q. Regarding the losses of the overseas businesses, could you tell us the plans for Q4 and onwards to reduce the losses?

A. (Hirose)

The profit drop in the overseas businesses is mainly due to Rakuten Marketing and PriceMinister. The restructuring of Rakuten Marketing's businesses is now over, and we expect to see the business recover in the future.

A. (Arima)

Since acquiring LinkShare, Rakuten Marketing has produced strong profits both in Japan and overseas. Taking into consideration the slowing rate of growth in the affiliate industry, we decided to search for revenue sources in fields other than affiliate, and over the past few years have made acquisitions and expanded into display advertising and other fields. However, with Google, Facebook and other players also active, these

fields are highly competitive, and we learned that it is very difficult to generate a profit. This was particularly noticeable this year, where despite sales growing several times compared to when we made the acquisitions, income has been decreasing. From this fiscal year, we have reorganized the company to compete again in fields similar to affiliate and are on the way to recovery, and are looking forward to next fiscal year. Our overseas businesses mainly consist of EC business and ad businesses, and the EC businesses are performing extremely well.

A. (Takeda)

We have taken some strategic actions in the US and Europe. Things have settled down with the PriceMinister brand change, and the bottom line is growing. Rakuten's presence in Europe is also growing, and we plan to drive this further through our partnership with FC Barcelona. In the US, the unification of Ebates and Rakuten.com is underway, with preparations being started in Q3 and full operation expected to take place in Q4. We expect to see the results of this unification next fiscal year.

Q. You said that GMS, including Rakuten Ichiba, is increasing, but could you tell us about the number of customers, the frequency of purchases per customer, and changes in the average purchase price? You also mentioned that Rakuten Brand Avenue is also growing, but what sort of products are selling well on Rakuten Direct and in other genres?

A. (Takeda)

By efficiently utilizing timely campaigns that meet the needs of our users, we have been able to increase the volume of transactions for all member ranks. At the same time, through TV commercials we are acquiring new users and seeing existing users improve their ranks. For the higher-ranking members, in particular platinum and diamond ranked members, the growing cross-use ratio is leading to higher service usage frequency.

Q. In the mobile industry, there are talks about the other existing operators reducing their fees. Rakuten has stated that it will provide the same quality service at a low cost. With the difference in fees being less than originally planned, will this have any effect on your new customer acquisition strategy?

A. (Yamada)

The plans of the other operators to reduce fees aren't clear, and the details of our price strategy are also not fixed yet either. But the cost of switching carriers is going down due to government policy, including the movement to get rid of the 2 or 4 year binding contracts and removing the SIM lock on devices, and we believe that comprehensive marketing, not just prices, can affect customer acquisition. So the announcements by other operators to lower their costs aren't directly disadvantageous to us, but on the contrary the reports have led to consumers being interested in Rakuten's MNO market entry, which is a plus for us.