

## **2019 Second Quarter Earnings Results Conference Q&A Summary**

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

Q. What are the challenges that Rakuten faces in terms of installing base stations and other technological issues as you prepare to launch an MNO service? It was also mentioned that you will have a small launch, but can you comment on the scale of the launch?

A. (Tareq)

One of the pleasant surprises when we looked at network performance is latency, which was equivalent to what I've seen from other global MNOs. From April of 2018, we completed construction of our two large data centers and private telco cloud covering edge and data centers. When you have a Software Defined Network (SDN), agility to fix problems is much faster than any traditional telecom operation. Having our own telco cloud is very exciting because it gives us a platform of connectivity that we can go global with. I hope that everyone recognizes the efficiency that comes from cloud. Today, Rakuten takes only 8.5 minutes to bring one site on air. Traditional telecom companies took 72 hours. Network has been in production since July of 2019, where all systems have been hooked and migrated to production. IP transport, backhaul, packet core, IMS, vRAN, BSS, OSS, has all been completed. Since July 1<sup>st</sup> we have given our own employees the responsibility to test the network, and I am personally very confident about the quality of the network. But I also have an obligation to assure, that October 1<sup>st</sup> when we Small Launch, there are no mistakes. Quality is absolutely a focus area for us.

A. (Yamada)

We will be announcing the future plans and details in early September, however there is no change to the fact that it will be an official launch. While the launch may be limited scale, it will not be targeted to a certain demographic and will be fair for all users.

Q. Domestic EC GMS growth rate of 14.5% YoY seems extremely high. What businesses are contributing to this high growth rate? Also, what are some exceptions for the 3,980 yen threshold for free shipping?

A. (Takeda)

Considering the scale of the business, Rakuten Ichiba made significant contribution to the Domestic EC growth. As for Rakuten Travel, while the overall industry did well due to the 10-day Golden Week this year, our transaction growth was relatively strong compared to the competitors. As for the free shipping threshold, there is no difference in prices of delivery depending on the location or destination, including Okinawa and Hokkaido. However, large products and chilled products are excluded.

Q. What was the impact of Lyft and other investment businesses which is included in the "Others" section of the Internet Services segment?

A. (Hirose)

Valuation losses of 4.4 billion yen, which includes Lyft, had a big impact in the "Others" section of the Internet Services segment. Performance of other businesses are improving, and in general we see losses from these businesses contracting.

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

Q. While the Domestic EC GMS growth is remarkable, performance improvement in Rakuten Ichiba was also mentioned. What are some of the KPIs that improved?

A. (Takeda)

The growth of Rakuten Ichiba is a result of the overall improvement in fundamental indicators such as the unit price of customers, number of users by membership rank, and the number of active users, contributing to overall improvement in business performance. Continuous improvement of our platform contributed to the improvement of these indicators.

Q. While the marketplace businesses are doing well, investments to strengthen the logistics network are continuing. What are your thoughts on the balance between investment in logistics and the profits of overall domestic EC?

A. (Takeda)

Regarding logistics, we receive many comments from user surveys, and expectations for improving our logistics network is very high. On the other hand, demand from the merchant side is also strong, which is increasing utilization rates of our logistics facilities at a considerable rate. We will continue to strengthen our own logistics network to fulfill the needs of our merchant and customers.

A. (Mikitani)

Investments in logistics will increase the value of the Rakuten platform and contribute to the improvement of customer satisfaction. At the same time, we believe using the Rakuten logistics network will help improve merchant margins, so we will continue to invest into logistics.

Q. For the mobile business, network buildout seems to be progressing steadily, but the losses are increasing quarter over quarter. What kind of costs will you incur in the future, and how will the losses in the MNO business impact the financials for the next fiscal year?

A. (Mikitani)

As for the mobile business, we are considering various strategies, and our earnings will vary depending on our marketing strategy. While we may market gradually, it is also possible to get market share rapidly. On the other hand, since we will be relying heavily on roaming at the time of launch, we would like to accelerate the construction of our radio stations to establish our own network as soon as possible. We believe the customer needs of a high quality low cost service is very high, and we expect a large inflow of customers.

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

Q. What is the status of the mobile network buildout? In addition, it was mentioned that the buildout plan will be pulled ahead, but what is the technical reason as to why it can be pulled ahead?

A. (Mikitani)

The mobile network has been technically verified and the contracts are well underway. Although there has been a slight delay in connecting fiber, it is now on track. Rather,

the network speed has been faster than we expected and we are not concerned about the technical aspect. In regard to the installation of antennas, we are working closely with convenience stores and other major businesses to reach 96% population coverage. The Tokyo, Nagoya, Osaka areas are where it takes the most time, so we expect the network buildout to progress smoothly in other areas.

Q. What do you analyze is the reason for the increase in number of domestic EC customers? Is it growing from market growth or users switching from other services?

A. (Takeda)

Breaking down the increase in number of users, we notice that the repeat rate is increasing in addition to the new user acquisition. Enhancement in product lineup and logistics services has led to improved customer retention. In addition, expansion in size of new services, such as the number of Rakuten Brand Avenue shops, has led to new user acquisition.

A. (Mikitani)

More fundamentally, measures to further increase the value of the ecosystem, such as SPU improvements, are increasing customer acquisition, retention, and cross-use. While SPU is currently at 16 times, cross-use due to SPU is promoting inflow of customers into high lifetime value businesses such as Rakuten Card, Bank, and Insurance. As such, we are reaping benefits even after considering point costs.

A. (Hosaka)

As for our FinTech business, awareness of the convenience of Rakuten Card is increasing, leading to acceleration in number of customers acquired. Cross-use in the FinTech business, centered around Rakuten Card, is accelerating by designating Rakuten Bank as the withdrawal account for Rakuten Card, purchase of insurance policies with Rakuten Card, and purchasing investment trusts with Rakuten Points.

#### **4. Citigroup Global Markets Japan – Mr. Tsuruo**

Q. At the Rakuten Optimism Conference 2019, it was mentioned that the total amount of point backs for the year has reached 260 billion, and it will be 500-600 billion in the future. When will this be?

A. (Mikitani)

Currently, the Global GTV is over 15 trillion yen, growing at about 25% YoY. Points are awarded for most Rakuten Group services, and if this growth rate continues, the total point back could reach 500 or 600 billion yen soon. In addition, Rakuten is currently focusing on international brand integration. For example, Ebates, a service used by more than 30 million people annually, is being unified under the Rakuten brand, and our streaming service is also being rebranded to "Rakuten TV". We are also considering ways to rebrand Rakuten Viber, and we expect these efforts will lead to improving international recognition of the Rakuten brand, which will contribute to the growth of Global GTV.

Q. Are there any updates for the Rakuten Pay business?

A. (Nakamura)

As announced in June, the partnership with JR East will enable Suica issuance and charging within the Rakuten Pay app. This will allow payments to be made at

approximately 600,000 stores, including approximately 5,000 railway stations and 50,000 buses nationwide. Though the service design will be communicated in the future, this will allow users to collect and use Rakuten points. I want to proceed with a solid strategy that does not rely on campaigns.

A. (Mikitani)

Rakuten Pay is integrating various financial services such as Rakuten Edy, Rakuten Cash, barcode transfer, etc. into one app. Furthermore, if the app can convert Rakuten Cash into Rakuten Points, this will allow customers to pay with Rakuten Pay at all Rakuten Points eligible stores. In addition, acquiring customers with large campaigns can be done at any time, so we want to adopt a strategy that is sustainable.