

2024 Consolidated Full-Year and Q4 Financial Results Briefing Q&A

[NHK, Nishigata Reporter]

This is Nishigata from NHK. I have two questions. First, Rakuten has achieved operating profitability for the first time in five years. Looking back on fiscal 2024, could you share your evaluation and thoughts, Mr. Mikitani? Second, regarding achieving full-year profitability for the mobile business in fiscal 2025, what challenges do you foresee, and how do you plan to address them? Thank you.

[Mikitani]

We have been working on the very challenging Rakuten Mobile project for some time now, and it has become clear that its contribution to the Rakuten ecosystem is significant in many ways. As you may have seen from today's presentation, the entire group is growing, and the mobile factor plays a major role in this. I think that increasing the number of Rakuten Mobile users to 10 million or 20 million has proven to solidify our consumer-facing services.

Additionally, taking on such a challenging project has made the entire group more robust. It has fostered a culture of focusing on operational efficiency and working capital, which has strengthened the group's overall teamwork.

Regarding the second question about achieving EBITDA profitability this year, we plan to continue what we have been doing while also increasing advertising revenue through Rakuten Mobile. We know that encouraging 5G usage will increase data ARPU, so we will focus on that as well.

As mentioned earlier, we are strong among people in their 20s, 30s, and 40s, but our market share drops significantly among those aged 55 and older, particularly those over 60. We need to improve our approach to older demographics. Additionally, while we are strong in urban areas, we are relatively weak in regional cities and prefectures, so we will strengthen our regional strategies.

We also aim to further enhance synergies within the Rakuten Group. Lastly, we will focus on generating profits by selling our software overseas through Rakuten Symphony. This could potentially become a core business for the Rakuten Group. Since our international business has also become profitable, we will continue to strengthen this area as well.

[Nikkei, Matsuda Reporter]

This is Matsuda from the Nikkei. I have two questions. First, could you share your thoughts on Rakuten Mobile achieving monthly profitability? While December's results were likely boosted by the year-end sales season, do you believe the current structure is sustainable for achieving monthly profitability, or are there still areas that need improvement? If there are areas that need improvement, what are they?

Second, regarding the goal of achieving full-year profitability for the mobile business this fiscal year, I believe one target is reaching 10 million subscribers. Are there any specific numbers or goals you are particularly focused on achieving this year? Thank you.

[Mikitani]

In December, as you mentioned, the "Rakuten Mobile Saikyo Thanks Festival" significantly boosted revenue, including advertising income. As shown on slide 38, EBITDA has improved dramatically. However, there are seasonal factors, particularly in March, when new users sign up, which may result in higher marketing costs in February and March.

While I cannot promise that EBITDA will be positive every month from the start, our goal of achieving full-year profitability this year is highly feasible.

As for this year's outlook, our primary focus is on reaching 10 million subscribers. One strategy is to strengthen our approach to older demographics and regional areas, where we are relatively weak, while maintaining our strong position among younger users in urban areas.

[Freelance, Onishi Reporter]

This is Onishi. Congratulations, Mr. Mikitani, on achieving profitability. It has been a long five years, during which the world has changed significantly. Hyperscalers are now dominating, with much of Japan's government cloud being taken over by them. Additionally, there is massive global investment in AI. How does Rakuten plan to engage in these areas?



Will you aim to become one of the hyperscalers, or will you take a different approach? Now that Rakuten Mobile has emerged from below the surface, what are your plans for the next phase?

[Mikitani]

There are two main directions: the international expansion of the Rakuten Group as an ecosystem and the development of Rakuten Group as an IT platform centered on Rakuten Symphony.

First, as an ecosystem, Rakuten Group is generating significant profits through services like Rakuten Viber, Rakuten Kobo, and Rakuten Viki. While these are currently individual points, we aim to connect them into a network and monetize our membership-based business model overseas. This is a unique model that differs from those of hyperscalers like Google, Amazon, Meta, Apple, and Microsoft, and I believe it still has potential.

To achieve this, we aim to provide high-quality user experiences using AI, offering a comprehensive range of consumer services. For example, we are making progress with semantic search and multilingual capabilities, as introduced today.

Second, Rakuten Symphony focuses on the international expansion of wireless networks, which hyperscalers are not doing. Rather than competing directly with hyperscalers, we aim to become a new type of hyperscaler in areas they cannot or do not address. For example, Rakuten Viber is performing well in Eastern Europe, Vietnam, and the Philippines, while Rakuten Kobo is thriving in Canada, Europe, and Taiwan. We will pursue these two strategies.

[Freelance, Ishino Reporter]

This is Ishino. I have two questions. First, regarding Rakuten Mobile, you previously requested a trial discount from the Ministry of Internal Affairs and Communications. Given the current pace of customer acquisition, it seems you may no longer need to pursue this. How much are you relying on this, and do you still plan to implement it, or is it no longer necessary given your current progress?



[Mikitani]

It's difficult to discuss strategy openly, but offering a free trial period is one option we are considering. However, this would fall within the framework of how much we can give back to customers. We will carefully evaluate and decide which approach is more effective.

[Freelance, Ishino Reporter]

Second, regarding AST SpaceMobile, you mentioned that Rakuten Mobile users would be the only ones able to connect during disasters. In the U.S., T-Mobile announced that Starlink's direct communication service would also be available to other carriers' users for a fee. Will Rakuten's service be exclusively for its own users, or do you plan to offer it to other carriers' users for a fee? If you have any plans, please share them.

[Mikitani]

From a technical perspective, I believe AST SpaceMobile's technology is currently the only one capable of providing broadband direct-to-mobile communication. However, I will leave it to experts to evaluate this further.

As for the business model, it is still under consideration. The key point is how we can make the service available to others, not just Rakuten Mobile users, during major disasters, while considering capacity limitations. This is something we will need to explore further.

----- The media Q&A session ended -----

[Okumura, Analyst from Okasan Securities]

Thank you. I have one major question. Regarding your future profits, I think it's wonderful that your Non-GAAP operating profit is expected to expand significantly this fiscal year. However, since this is not the profit attributable to investors, I would like to confirm whether you are aiming for net profit attributable to investors to turn positive this fiscal year, considering the interest payments and profit outflows related to your funding activities over the past few years. Additionally, after achieving profitability, what is your target ROE? Furthermore, regarding dividends, I believe they are very important from the perspective of shareholder voting rights. What conditions would need to be met for you to resume dividend payments? That's all from me.

[Hirose]

This is Hirose from the finance team. Regarding profit outlook, I apologize, but we do not disclose specific performance forecasts. As I mentioned earlier, for 2025, we are aiming for continued profitability in operating profit, and we ask for your understanding on this point. While we have not specifically commented on net profit, our ultimate goal is to steadily increase it and improve our financial position. However, we ask for your understanding that we cannot specify the timing at this stage. Therefore, we are not yet in a position to comment on ROE targets.

As for dividends, we have announced that we will continue to withhold dividend payments for fiscal 2024 as part of our efforts to improve our financial position. Moving forward, we will consider dividends while balancing financial improvement and stable dividend payments, but our priority will be on improving our financial position.

[Mikitani]

Regarding dividends, I think it depends on how you look at it. Fundamentally, we are offering shareholder benefits in the form of a 30GB SIM card. If we were to forcibly convert this into a dividend payout ratio, even though our stock price has risen, it would equate to around 40-something percent.

We are operating a capital-intensive mobile network business, where variable costs are minimal. This means that once we surpass the breakeven point, the business model allows for dramatic profit increases due to the leverage effect. While the initial entry barriers were challenging, I believe we have overcome the most difficult phase. Naturally, we aim to

significantly reduce interest-bearing debt, and we will take various measures to achieve this.

[Hoshi, Analyst from Nomura Securities]

This is Hoshi from Nomura Securities. I have two questions regarding capital investment. First, regarding the 150 billion yen capital investment planned for 2025, could you provide details on its allocation? I assume it includes base station construction, AST SpaceMobile, and the two Rakuten Symphony pilot projects you mentioned earlier.

Second, after achieving operating profit profitability and moving into the next phase in 2026 and beyond, in which areas do you plan to prioritize capital investment? If you have any plans or priorities in mind, I would appreciate it if you could share them to the extent possible.

[Mikitani]

Regarding AST, we took on the initial startup risk, and we have an arrangement where Rakuten Mobile can utilize it without requiring significant additional investment or costs. Therefore, no major additional investment or expenses are expected for AST.

On the other hand, we initially relied heavily on KDDI's roaming services, for which we are grateful, but it also came with significant cost burdens. Additionally, as user data consumption increases, we need to make further investments, particularly in 5G, to enhance network quality. While we rarely hear complaints about network quality anymore, and most users are satisfied, the increasing data usage necessitates additional investments in 5G.

As the number of users grows, we also need to strengthen the core network. Conversely, investing in these areas will allow us to further reduce future roaming costs. I believe this is a positive correlation, where investments in network quality will lead to cost savings in the long run.

[Nagao, Analyst from BofA Securities]

This is Nagao from BofA Securities. Congratulations to President Mikitani and the group on achieving profitability. I have one question regarding Rakuten Mobile. What is your subscriber target for this year? You mentioned earlier that your approach to older age groups is somewhat weak. Since this is a segment where existing carriers are particularly strong, how do you plan to approach this demographic moving forward? That's all from me.

[Mikitani]

It's a ground war. We'll go around the entire country. Reaching a major milestone is one of our goals. We aim to achieve 10 million subscribers. This is a word-of-mouth business, so it might accelerate, but we also need to consider the marketing and product strategies of other carriers. Our target is to exceed 10 million subscribers. This will have a significant impact on the entire Rakuten Group, and we are determined to achieve it.

Regarding older age groups, unfortunately, I will be turning 60 this year and entering that demographic myself. There are different perspectives on this. Some might say it's great that we are capturing younger users. However, for those in their 60s, I suspect many are paying other carriers around 7,000 yen for only 3GB of data. We need to conduct a ground war to raise awareness among these individuals about how much they can save by switching to Rakuten Mobile.

Frankly speaking, I believe many of these people are overpaying. While this may be a revenue source for other carriers, we aim to operate fairly. We will communicate clearly that by switching to Rakuten Mobile, they can enjoy free calls, free SMS, 2GB of free data when traveling abroad, and unlimited usage for just 2,980 yen. We will work diligently to spread this message.

[Mikitani]

This fiscal year, we aim to achieve full-year profitability and continue to deliver profits to meet everyone's expectations. Thank you for your support.

----- The investor & analyst Q&A session end -----