FY2025 Q3 Consolidated Financial Results

Media Q&A Session

Mr. Ono (Yomiuri Shimbun)

Firstly, regarding the September quarter, this is the first time in six years that you've achieved an operating profit. Mr. Mikitani, could you please share your frank impressions and, once again, the main reasons for this turnaround to profitability? My second point is that while operating profit has improved, the net loss remains at a similar level to the previous year. I would appreciate a more detailed explanation of this factor. It's unclear why the net loss hasn't decreased, despite the reversal of derivative valuation gains/losses in the third quarter. Could you please clarify this?

Mikitani (Rakuten Group CEO)

I feel that we have finally reached this point. There has been a significant reduction in the deficit of the mobile business, and we have already achieved EBITDA profitability. This has led to the creation of various synergies, and our e-commerce and financial businesses have also performed well overall. As one of the factors driving this fundamental change, I believe that various initiatives utilizing AI have contributed significantly. This includes cost reductions and improved efficiency in external advertising. Moving forward, we believe that accelerating these synergies and further leveraging data AI will be key. For the second question, Mr. Hirose will provide the answer.

Hirose (Rakuten Group CFO)

I understand that you are referring to the cumulative Q3 period. Firstly, both operating profit and pre-tax profit have certainly improved. Regarding quarterly profit, or quarterly profit attributable to owners of the parent, the primary factor is taxes. As you can see from the financial results brief, although the pre-tax quarterly loss has improved, corporate income tax expenses have expanded from 29 billion yen to 56 billion yen. As a result, the quarterly loss this year is 113.4 billion yen, compared to a loss of 127.1 billion yen in the previous year. In connection with this, regarding owners of the parent and non-

controlling interests, non-controlling interests have increased. Both these tax aspects and non-controlling interests have been impacted by Rakuten Card being excluded from consolidated taxation due to the 15% investment from Mizuho Group in December last year, which consequently led to an increase in so-called non-controlling interests. In any case, we will strive to further improve these areas by expanding the profitability of our businesses going forward.

Mr. Sakuragi (Nikkei Shimbun)

I would like to ask about the changes in the point award rules for Furusato Nozei (hometown tax donation system). You mentioned an increase in demand in Q3 due to a last-minute rush, and you anticipate a reactionary decline in Q4. Could you please tell us how you view the impact of this change in the mid-to-long term?

Matsumura (Rakuten Group President of Commerce & Marketing Company)

Regarding Furusato Nozei, the market has been growing steadily. As you mentioned, the point rules were revised at the end of Q3, starting from October. In the short term, there was a last-minute rush in September, and we anticipate some rebound in Q4. However, for the full year, we expect continued overall growth. The demand was simply brought forward, and we believe the overall trend remains unchanged, with continued growth. For next year and beyond, we need to observe how much change occurs as this new system is actually implemented. However, we believe that the Furusato Nozei market itself will continue to grow. As you are aware, users receive significant benefits not only from points but also from the tax donation itself, so continuing this system is highly rational. Within this context, our focus should be on how to increase our market share within this growing market, and we are currently concentrating our efforts and further strengthening our initiatives in this area.

Mr. Onishi (Freelance)

Regarding achieving operating profitability for the first time in six years, Mr. Mikitani, compared to your initial assumptions when entering the mobile business, would you say you are on schedule, behind schedule, or ahead of schedule in reaching this point? Also,

looking solely at Rakuten Mobile, while the deficit is shrinking, it continues to incur operating losses. How many more years do you anticipate it will take to achieve profitability?

Mikitani (Rakuten Group CEO)

I believe we are mostly on schedule. However, compared to when we initially started, the business plan has changed somewhat, such as building our own nationwide network. On the other hand, I believe the synergies with the Rakuten Group have been even greater than we initially anticipated. Regarding Rakuten Mobile's overall profit and loss situation, this will largely depend on the speed at which we acquire customers. Even now, in terms of EBITDA, we are at 8 billion yen, and if we consider what we call pre-marketing cash flow, meaning assuming we don't need to spend on new acquisitions or marketing, we are already generating about 24 billion yen in EBITDA per quarter. So, it comes down to the speed of customer acquisition and this profit and loss calculation. While I cannot announce a specific timeline, I believe we can continue to acquire customers at our current cruising speed.

----- End of Media Q&A Session -----

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Analyst Q&A Session

Mr. Nagao (BofA Securities)

Thank you. This is Nagao from BofA Securities. I have two quick questions. The net increase in Rakuten Mobile subscribers is accelerating. Could you please explain the background of this acceleration? And though it might be a bit premature, what kind of net increase pace do you anticipate after reaching 10 million subscribers this fiscal year, particularly by the end of next year? My second question is, in Mr. Mikitani's presentation earlier, he mentioned that Rakuten Mobile's affordability is a competitive advantage amidst inflation. However, since it remains relatively inexpensive, what are your thoughts on a price increase? Those are my two points.

Mikitani (Rakuten Group CEO)

Regarding the net increase, other companies are also undertaking various initiatives, so we hope to grow at a pace that slightly accelerates our current speed. Meanwhile, our corporate sales, particularly expanding to small and medium-sized enterprises that we haven't targeted before, are progressing smoothly, and we recognize this. We are eager to reach the milestone of 10 million subscribers as soon as possible, and we aim to grow at the same speed or even faster next year compared to this year. For the second question about price increases, we plan to consider pricing by adding various optional services. However, given that we are still a challenger and the synergies are very significant, I believe that, despite some minor adjustments, we will likely continue with the current approach for the time being. That is all.

Mr. Matthew (CLSA Securities)

My question is about the use of AI. Could you share some of the feedback you're getting from e-commerce merchants regarding their desired functionalities? Additionally, could you comment on when we might see a ChatGPT-like service embedded in your application or website, making it easier to find what users are looking for? Is there a timeline you have

in mind?

Matsumura (Rakuten Group President of Commerce & Marketing Company)

Regarding your first question, we provide several AI tools to merchants and consumers. For merchants, these tools primarily enhance the productivity of operations related to Ichiba. Most merchants already utilize these tools and we have received very positive feedback. For example, we offer tools that enable merchants to create and develop creatives with ease, significantly improving productivity from an operational standpoint. Overall, we have received much positive feedback from merchants. However, there is still ample room for improvement in terms of productivity enhancements through AI tools for merchants. Our teams are diligently working on this.

Cai (Rakuten Group CAIDO)

Regarding the second question, we are integrating Rakuten AI into existing applications such as Ichiba, Travel, and Rakuten Link. We have found that for vague queries, our AI can guide users from general questions to concrete actions, increasing their confidence in making further purchases.

Mikitani (Rakuten Group CEO)

Regarding customer acquisition, we are making various efforts, not just one, and we are also working daily to improve our services. And the underlying hypothesis we have is that by subscribing to Rakuten Mobile, shopping on Rakuten Ichiba and using Rakuten Card will be promoted, and mobile will become a very important growth driver beyond this. I truly feel that this hypothesis is correct. While our financial business, e-commerce, travel, and advertising businesses are all performing well, I believe the foundation for that growth is indeed coming from mobile. I feel that this large investment is starting to bear fruit, and regarding Symphony, which could be called a byproduct, with the success of Rakuten Mobile, we are receiving many inquiries from overseas, and I believe the situation has become favorable.

----- End of Analyst Q&A Session -----