



FY2025 Q1 Consolidated Financial Results

Media Q&A Session

[Onishi, Freelance Journalist]

First, regarding mobile, there are moves among various companies to explore price increases. Amidst rising general prices, with personnel costs increasing and moves to raise prices for many things, it might seem natural for mobile phone charges to also go up. In this context, what will Rakuten Mobile's pricing strategy be? You entered the market disruptively with price destruction, but now the overall trend seems to be towards price hikes. What choices will you make in this environment?

Secondly, also related to mobile, today's news reported that SoftBank PayPay will team up with Sumitomo Mitsui Banking Corporation. This also seems to suggest that if these entities team up, we'll see groupings like SoftBank-Sumitomo Mitsui, KDDI-Mitsubishi UFJ, and Rakuten-Mizuho. And then there's the question of what Docomo will do. Is it correct to understand that fintech mobile groups are forming around these three main players? And within that, what is the strategy for the Rakuten-Mizuho alliance to capture the market? Please address these two points.

[Mikitani, CEO]

Regarding Rakuten Mobile, unlike other companies, and as mentioned in today's presentation, we believe we are a company that has significantly controlled operating costs through virtualization technology, Open RAN, and the use of AI. In addition to that, it's not just about advertising revenue; it's also an entry point to various services. For example, when users join Rakuten Mobile, they tend to purchase about 50% more on Rakuten Ichiba. Because of such factors, we are not considering any major price increases at this stage. On the other hand, regarding service expansion, I talked about AST SpaceMobile today. The BlueBird satellite currently in orbit is 64 square meters, but the Block 2 satellites, the next ones to go up, will be 223 square meters, the size of a tennis court, and they will cover the entirety of Japan. In terms of network service, we believe we can differentiate ourselves from other companies in this aspect. As for additional services, that will be a matter for future consideration, but for the current Rakuten Saikyo Plan that we are providing, we intend to continue with the current terms.

Regarding your second point about mobile and other companies' alliances, I imagine they are proceeding with various intentions. The alliance between Rakuten Group, particularly Rakuten Securities and Rakuten Card, and Mizuho is steadily progressing on various fronts. While there are aspects related to the consumer side, for example, Rakuten Securities has



become able to handle IPO shares and also corporate bonds. Furthermore, the joint card between Rakuten Card and Mizuho Bank is also performing very well. This partnership is progressing favorably, and we intend to further explore what kind of synergies can be created in the future.

[Ono, Yomiuri Shimbun]

I have two questions. My first question is about the financial results. I understand that each segment is performing well, but looking at the earnings summary, I'm a bit concerned that the net loss has increased compared to the same period last year. I assume this is due to a one-off factor, but if there's any factor you can explain, please let me know. My second question is regarding Mobile's EBITDA being in the black if property taxes are excluded. I'm a bit hesitant about whether I can quote AI version of Mr. Mikitani's remarks as his own statements in a newspaper article. Could you please share your thoughts or confidence on this point again?

[Hirose, CFO]

Regarding the first point about the financial figures, while the operating loss has significantly narrowed and improved, financial income/expenses impacted pre-tax profit. As explained in the video, this is due to fluctuations in the hedging of perpetual subordinated bonds.

Normally, if hedge accounting was applied, this would have no impact.

Originally, there would be no impact if hedge accounting were applied. However, under IFRS accounting, perpetual subordinated bonds are recorded as capital and their yen value is fixed at the historical rate at the time of issuance. This portion has unrealized gains and losses, but the valuation gains and losses are not reflected in the capital section; only the hedge gains and losses appear in the profit and loss statement. This significant deterioration is the main factor affecting pre-tax profit, with a fluctuation amount of approximately 33.8 billion yen. On the other hand, regarding comprehensive income, the foreign exchange translation adjustment account has fluctuated due to the impact of yen appreciation.

[Mikitani, CEO]

So, it's a technical factor. Basically, it's related to finance, and I hope you understand that, Mr. Ono. As for my remarks on AI, I have thoroughly reviewed the script for them, so you can quote them as my statements.



[Kawanishi, Tsuhan Shimbun]

I have two questions. Regarding the Domestic EC business, you mentioned a 3.0% increase in Q1, and that you're aiming for mid-to-high single-digit growth from Q2 onwards. My first question is, what will be necessary to build on this and achieve further growth? My second question is about AI. You mentioned that semantic search is proving to be quite effective. Beyond search within Rakuten Ichiba, what kind of AI implementations are you considering to further stimulate users' purchasing intent?

[Matsumura, Rakuten]

Regarding your first point, about how to view the Q1 figures, as mentioned in the presentation, February last year was a leap year. Taking that into account, the growth was roughly 4%. Domestic EC includes several services: the e-commerce related Ichiba, booking-type services including Travel, and a few other services. Regarding EC specifically, it achieved a figure even higher than this overall 4.4% in Q1, and it continues to grow steadily in Q2. For booking-type services, partly due to weather and temperature factors, the numbers were a bit soft in Q1. However, in Q2, these numbers are showing strong growth again, so from Q2 onwards, I believe we can achieve further overall growth.

[Mikitani, CEO]

In medium- to long-term, the synergy with Rakuten Mobile is indeed having a significant effect. This includes new customer acquisition and an increase in the purchase amount of existing customers, with their average GMS being 47.5% higher. The ratio of active users is also steadily increasing. The synergy is increasingly effective. Another factor is further improvements in delivery-related services. We are implementing Saikyo Next-Day Delivery, and also leave-at-door delivery and similar services. As a third factor, there's the improvement in conversion rates due to AI, and on the merchant side, automation, which allows them to allocate more resources towards sales. These factors are comprehensively contributing to the strong performance, particularly for Rakuten Ichiba. I hope this gives you a good understanding. Regarding semantic search, Ting will explain a little.

[Ting, CAIDO]

We are very focused on the user problem. Fundamentally, semantic search helps users find what they want by deeply understanding their intent. We build embeddings from the ground up for all the entities in our system. When users search, we can now show more results.



Previously, sometimes we couldn't show any results in search, but now there are more and more relevant results appearing. This is a foundational technology we can apply to multiple areas such as semantic search, recommendation, and advertising. We applied semantic search in recall and can further apply it to ranking and, very soon, contextual ranking to recognize popularity and personal preferences. There are many applications we can use to meet user needs. Overall, as Mr. Mikitani mentioned, this is to increase the level of conversion so users can engage better and convert into sales that benefit merchants and our Ecosystem.

[Mikitani, CEO]

Semantic search is search by meaning. Whereas before, if there wasn't an exact word match, you'd get zero results. Now, even if there is no match, the system understands the meaning and recommends similar or related products. This, as I mentioned earlier when talking about Rakuten AI, will evolve not just within Ichiba, but also, for example, in travel, or by combining travel with various local events or restaurants. For instance, if someone says they want to go to Hokkaido, and if it's winter, it might suggest what kind of clothes or coat they should wear, or recommend restaurants. It's not just Rakuten Ichiba, but it will comprehensively provide a concierge service that includes other Rakuten Group services, and even external services outside the Rakuten Group. That's the direction we're heading. By combining Rakuten Mobile data with this, we plan to further increase its accuracy.

----- The Media Q&A Session End -----



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Analyst Q&A Session

[Nagao, BofA Securities]

I have one main question regarding the mobile business. You achieved EBITDA profitability on a basis excluding property taxes in Q1. I believe your confidence in establishing quarterly profitability going forward and the assumptions for achieving full-year profitability may have changed. Could you please share any assumptions regarding the required number of subscribers or ARPU levels?

[Mikitani, CEO]

Regarding full-year EBITDA, I believe the possibility of achieving it is extremely high. In that sense, we aim to achieve profitability each quarter. For the full year, we already achieved profitability in the first quarter, albeit by 100 million yen, and subscribers are growing consistently. Therefore, we intend to continue on this path of profitability. If we were to conduct a large marketing campaign or something similar, the conditions might change somewhat, but that is the basic premise.

[Matthew, CLSA Securities]

Could you tell us more about the new organization within FinTech and what kind of synergies that you are looking for there?

[Mikitani, CEO]

Since Hosaka-san has retired, we wanted to rejuvenate our organization. We also wanted to ensure that we maximize the synergy between FinTech and Internet Services, especially with Rakuten Ichiba. Nakamura-san used to work for our marketplace business, so he is very knowledgeable about our e-commerce business as well. I think the synergy between Rakuten Ichiba and FinTech will be much stronger. Nakamura-san used to be the head of our Asia operations in Singapore, and Sonoda-san used to work in the US. Both have a very strong financial background. Therefore, including partnerships and negotiations with, for example, credit card brands, I think this will be very powerful. The key to the growth of FinTech business is how to cross-utilize our assets, including the data we have, such as our mobile data. In my opinion, this is a diamond or golden jewel of data, and we are considering how we can utilize it for our FinTech services. Our credit card business is in very good shape. We



are now trying to utilize more AI to make our operations much more efficient. The bank is also in very good shape, especially as interest rates are going up compared to before. Other businesses are now having even closer relationships in order to maximize synergy. These people have grown organically within Rakuten Group, so we are very excited about it.

[Matthew, CLSA Securities]

Just to clarify, you're talking about analyzing consumer behavior and then determining what kind of financial products they could use. For example, if I'm using a Rakuten credit card, you can see that I'm buying certain products in offline stores, which might allow you to target me in the online world. Is it this kind of activity?

[Mikitani, CEO]

We have to be careful not to breach the privacy of users, so we must be very careful about it. However, the amount of data we can get from the credit card and from our mobile business is significant. We know more than ever, and we have what we call Customer DNA. If you consider the growth of our FinTech services in the past, it is remarkable. When we acquired DLJ, we had 150 thousand accounts and eBank, we had 3 million accounts. Securities now have 13 million and Bank 17 million accounts. We definitely want to further utilize the data. One example is Rakuten Insurance. We are focusing on acquiring our Diamond users because we know factually that they have fewer car accidents. As part of that strategy, we started to offer a special rate for auto insurance to them. That is why Rakuten General Insurance's revenue is growing. This is one example, but we want to utilize our data more.

[Fujimoto, Goldman Sachs Securities]

I have two questions. First, regarding corporate bond redemption. Looking at page 58 of the materials, it states that you will procure funds through non-interest-bearing financing as needed. Could you please share your financial policy on how far in advance you plan to secure funds for bond redemptions? My second question is about the domestic financing environment. With the significant improvement in Mobile EBITDA, I anticipate a JCR rating upgrade might be forthcoming. However, it appears that your company has not recently undertaken long-term borrowings. I'm unsure if this is because you are unable to borrow or because there is no need to borrow. Could you please explain how the domestic financing environment has changed, improved, or not improved over the past year? And is it the case that without a JCR rating upgrade, you cannot raise funds domestically?



[Hirose, CFO]

Regarding your first question about the financial policy for corporate bond redemption, we have always been proactively securing funds. Funds for fiscal year 2025 have already been procured. For 2026, the senior portion has a small volume, so we do not foresee any issues. For subordinated bonds, we are considering various methods, not waiting until the last minute, but rather assessing market conditions and exploring different approaches. These would involve instruments with equivalent equity characteristics, so we will consider options within that scope. On the other hand, regarding procurement through non-interest-bearing financing, we intend to monetize assets held by Rakuten Capital Investment business in a timely and appropriate manner, naturally while monitoring market conditions.

Regarding your second question about the domestic financing environment, we procured most of the funds needed for 2025 and beyond in 2024. Therefore, we currently have abundant cash, some of which is being invested, so please understand that there is no need for long-term borrowing at present. Regarding credit ratings, we maintain close communication with rating agencies. We hope to achieve an early rating upgrade or an upward revision of our outlook. However, even without these, if you look at slide 59, you can see that our secondary bond market performance is steadily improving, with credit spreads significantly narrowing. Our CDS has also improved. Therefore, we recognize that the financing environment has significantly improved due to the progress of our mobile business and the reduction of so-called liquidity risk.

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