

Q&A at Earnings Investor Briefing for Q1 FY2019

Date: Monday, August 5, 2019 6:00 pm – 7:00 pm

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Q1 I believe you will see profit benefit from continued decrease of Discount on ARPU next year. However, what will be the drivers of profit growth after next year?

A1 First, regarding Mobile communications services in the Consumer segment, we anticipate that the Total ARPU and the number of subscribers will continue to maintain the trend of growth for some time going forward. In addition, from a cost standpoint, we are also making further improvements in operation efficiency. We expect these will continue to support our solid profit growth as we move forward. In broadband services, we believe there will be further growth. In Enterprise segment, we will also continue to strive for growth so that our stakeholders can actually see the business growing rapidly. Moreover, as we have made Yahoo Japan Corporation (“Yahoo Japan”) as our consolidated subsidiary, we will have to deliver results from synergy in various aspects of our business operations. For instance, given the large number of corporate customers in the Media business of the Yahoo Japan, there is potential for various types of collaborations with the Enterprise segment at SoftBank. In addition to the growth of our existing businesses, we expect an incremental growth from synergy with Yahoo Japan. We are making efforts in all these areas to aim to achieve our announced target - operating income of 1 trillion yen within the next few years.

Q2 I understand that the number of registrations and the number of payment transactions for the smartphone payment service PayPay are gaining good momentum. However, due to the upfront investment, loss in this business impacted the profit of the Other segment for Q1 FY2019. Going forward, the profit loss impact to results will remain through the equity method. When do you estimate PayPay will begin to make profit and contribute to consolidated results?

A2 At present, PayPay is in the process of expanding its user base to achieve the goal of becoming the No. 1 smartphone payment service in Japan. The number of cumulative registered users has exceeded 9.8 million. The company is focusing on expanding this number to 20 million and then 30 million to establish a dominant business position. In addition, we aim to build up various businesses centering around PayPay, with

combined efforts from Yahoo Japan, who owns the O2O (Online to Offline) and advertising businesses, and from SoftBank who has strength in penetrating smartphones. Business models centering around payment services has already been established in overseas markets, such as Alipay, offered by the Alibaba Group, and Paytm in India. I believe we can deploy the same model in Japan as well.

Q3 Revenue increased by 24% year-on-year in the business solution and others portion of the Enterprise segment. What are the specific businesses that drove revenue growth?

A3 Business solution and others include cloud, IoT, digital advertising, robotics and other strategic businesses. These businesses are in the early stage and are just starting to contribute to earnings. Going forward, we plan to continue to plant business seeds while expanding current operations. At present, each of these businesses are still small in scale. We plan to explain each of these businesses individually as they expand.

Q4 You mentioned that cost efficiency is improving, but can you explain what progress has been made in shifting headcounts from the mobile communications business?

A4 We are transferring work force from existing businesses to new businesses so as not to increase our headcounts companywide. At present, more than 3,000 employees are being transferred to new businesses. This enables us to launch new businesses without increasing personnel cost while constantly improving the efficiency of our operations at existing businesses.

Q5 In other words you are transferring 3,000 employees to associates to exclude them from your operating expenses?

A5 The majority of these employees are still SoftBank employees but are working in new businesses domains. From a financial viewpoint, we are maintaining our overall cost while shifting a portion of our employees to develop new businesses.

Q6 Can you explain why handset sales units are increasing although the sales of goods and others was down year-on-year?

A6 Sales volume includes the sales of individual SIM cards. In particular, SIM card sales are good for Y!mobile and LINE MOBILE. Meanwhile, handset sales were down year-on-year, especially for handset upgrades. This negative impact triggered the decline in overall sales of goods and others year-on-year. However, the decline in revenue was 7.3 billion yen and therefore the overall impact was limited.

- Q7 I understand that you are in the phase for growing sales in the Business solution and others portion of the Enterprise segment. However, I would like to know what degree of contribution to overall profit can be seen presently?
- A7 Profit is naturally rising year-on-year in Business solutions and others. However, as there are also upfront investments being made, the contribution to profit is smaller than the level of revenue growth.
- Q8 What is profit/loss forecast for PayPay? Also, you announced the launch of PayPay Mall. Is this a business that will be operated by PayPay?
- A8 PayPay commenced full-fledged operations in autumn 2018. In contrast with 1H FY2018, when PayPay had not yet launched its business, we are seeing negative impact to our earnings in 1H FY2019. In 2H, it depends on how we position the cost, but we believe the impact to earnings should be milder compared with 2H FY2018, when PayPay implemented the 10 Billion Yen Campaign. Furthermore, in contrast with a year earlier when PayPay was a wholly-owned subsidiary, we expect a milder impact given our ownership, which now dropped to 50% including the portion owned by Yahoo Japan. PayPay Mall is essentially a Yahoo Japan business. This business will create a direct sales mall which mainly uses PayPay for payments. Since the business uses the PayPay brand, there will be possibilities for various collaborations, including campaigns with PayPay.
- Q9 Trends in the Media business at Yahoo Japan are weak. This turned out to be a negative surprise for Yahoo Japan's earnings in Q1 FY2019. In the remaining nine months of FY2019, in what fields do you expect to see synergy with SoftBank?
- A9 First, we expect to see quick wins from synergy with the Enterprise segment at SoftBank. SoftBank will serve a role similar to being a sales agent for Yahoo Japan. We are pursuing a win-win business model, where SoftBank will also get reasonable return. Also, we recognize that digitalization is a topic for many companies. I believe we can also create a win-win situation with customers by providing good solutions with Yahoo Japan in this area.
- Q10 Sales of goods and others was down 7.3 billion yen year-on-year but the cost of goods sold rose 13.8 billion yen. Does this mean that revenue from handset sales deteriorated?
- A10 The Distribution segment had a major impact on the rise in cost of goods sold. Given the narrow profit margin in the Distribution segment, the increase in cost of goods sold

reflected the growth in sales. Looking purely at the sale of goods, there are no noteworthy changes.

Q11 Is my understanding correct that sales promotion costs in the recent few months have been a factor driving up sales-related expenses? Also, are you actually spending more given that you are normalizing sales commission fees, rather than recording them as one-time fees (according to IFRS15)?

A11 That is correct. The increase in commission fees are recognized as contract cost and have been shown as depreciation expenses, therefore the amount is different from the actual cost incurred.

Q12 Can you tell us what percentage of SoftBank brand users are selecting unbundled plans that separate handset payments from service fees?

A12 The trend remains unchanged among new subscribers. Almost all new users choose unbundled plans. Among upgrades, a portion of subscribers stick with their existing contracts but we are recommending the unbundled plans to our subscribers

Q13 Although it may have been temporary, previously it seemed that there was an increase in users upgrading from Y!mobile to SoftBank. Can you explain what the current trend is?

A13 In contrast with Q4 FY2018, the shift from SoftBank to Y!mobile has been strong in Q1 FY2019.

Q14 Following the announcement of new service fee plans by your competitors, was there a change in the composition ratio of SoftBank and Y!mobile?

A14 There was no major change. SoftBank remains competitive among high-end users while demand remains strong for Y!mobile. In particular, demand is high for the “Smartphone Debut Plan” for the SoftBank brand. This is contributing to an improvement in the churn rate and an increase in the acquisition of new users.

Q15 It appears you are smoothly making good progress in cost efficiency and are developing new businesses without increasing costs. Is there still room for cost efficiency improvement going forward?

A15 We achieved an improvement in cost efficiency thanks to the cumulative efforts at each department. Moving forward, we plan to further improve efficiencies by leveraging

technology, such as implementing RPA. We are heading in the direction to improve the overall operating efficiency rather than focusing on cost reductions.

Q16 In your ARPU forecast, Total ARPU is increasing but ARPU before discount is declining. Discount on ARPU is also decreasing in tandem with the reduction of the monthly discount plan. These declines are likely to level off after they have dropped to a certain extent. It will be necessary to increase the per-user service fee but it seems as if SoftBank's focus is currently on capturing low-end users by promoting "Smartphone Debut Plan." This does not suggest a rise in the Total ARPU. Do you expect to see your Total ARPU increase even after the positive impact from the decrease in monthly discount plans winds down?

A16 It is our opinion that increase in smartphone subscribers will form the foundation for our business in the future. In Japan, there are still nearly 30 million feature phone users that could become smartphone users in the future. It is important what kind of business scenario we can create when we launch full-fledged 5G services. In the US and South Korea, the full-fledged launch of 5G services is triggering a change in ARPU trends. Furthermore, smartphones will be a crucial element for the OTT layer internet business we plan to deploy with Yahoo Japan, as well as for PayPay once it is fully developed.

Q17 It appears to me that the profit structure at Yahoo Japan is unable to flexibly respond to changes in the external environment. With the consolidation of Yahoo Japan, what changes will be made to Yahoo Japan's corporate structure under the leadership of SoftBank?

A17 It is our belief that Yahoo Japan has growth potential. As the parent company, we will shoulder the responsibility for undertaking the revitalization of Yahoo Japan. It is our goal to take Yahoo Japan in a direction that will put stakeholders at ease. In FY2018, Yahoo Japan posted a decline in profit but FY2019 will be a year in which Yahoo Japan's profit decline levels off and makes a turnaround toward recovery. We plan to execute definitive measures that will contribute to growth without excess volatility in earnings in the short term. Meanwhile, we also aim to ensure that Yahoo Japan achieves profit growth to achieve its 2023 operating income target of 225.0 billion yen by providing our full cooperation.