

Q&A at Earnings Investor Briefing for Q2 FY2019

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Q1 Please tell us about the scale of sales promotion expenses for the first half of this fiscal year, including those deducted from the revenue of handset sales. While mobile communications revenues have grown significantly, the segment income for Consumer segment in Q2 has grown by only 1.9% year on year. What are the reasons for the increase in expenses?

A1 The majority of the 15.5 billion yen increase in sales commissions and sales promotion expenses in the first half is related to the Consumer segment. In Q2 FY18, costs were kept low. Activities, including advertising and in-store promotions, increased overall.

Q2 SoftBank Corp. (the Company) plans to expand 5G coverage nationwide during 2021 to 2022. How will you realize this given the limited annual forecast for capital expenditures of 380 billion yen?

A2 Out of the capital expenditure of 380 billion yen forecasted for each fiscal year, the ratio of 5G investments will increase in the future, particularly from the second half of this fiscal year. When we are able to implement 5G on existing spectrums, we expect situations where we can switch from 4G to 5G. We are designing the overall scheme as a whole, including the utilization of the new spectrum. Even considering 5G investments, there is still a significant decline compared with previous investments, and depreciation costs are expected to decline from 2021 onwards.

Q3 How much is the revenue of "Ouchi Denki" out of the Consumer segment revenue? What are your thoughts on future growth and profitability?

A3 Sales of "Ouchi Denki" included in the revenues from sales of goods and others increased by approximately 20 billion yen year on year in the first half of the fiscal year under review. The absolute amount of sales is about 30 billion yen, and the business has just begun. As the revenues from sales of goods and others as a whole has declined by c. 10 billion yen, sales of handsets have declined by more than 30 billion yen. Since there are more opportunities to recommend "Ouchi Denki" at stores, we expect it to grow for a while.

- Q4 In the "Other" business, excluding one-time profit related to Cybereason Japan, profit increased. Specifically, what kind of companies and businesses are growing?
- A4 SB Payment Service described in the materials, as well as businesses operated by SB Players Group, such as Odds Park and Satofull, also performed well. SB Technology and cloud services also contributed to profit growth. These contributed to a profit increase by c. 4 billion yen year on year in Q2. In addition, there is impact from PayPay being included in the scope of consolidation last year, but becoming deconsolidated this year.
- Q5 I would like to confirm the factors behind the increase in profit next fiscal year. What will be the impact of Discount on ARPU in next fiscal year? Please explain the factors behind the increase in profit next fiscal year, including the effects of subsidiaries and equity-method associates.
- A5 We expect a growth from our Enterprise segment and broadband business. We do not expect a decline in profit because mobile communications for consumers will also contribute to the growth to a certain extent. Subsidiaries are also gaining accumulated growth, including the bottoming out of Yahoo Japan, the joining of ZOZO, and an increasing number of companies that have achieved record-high earnings. We are preparing in this fiscal year in order to achieve profit growth next year as well. The outlook for mobile communications revenues for the next fiscal year is not as optimistic as this fiscal year, and ARPU growth is also expected to decline. On the other hand, the cost for sales commission is expected to decrease.
- Q6 Are there triggers for implementing share buybacks? What is the current situation regarding such triggers? Also, please tell us about your dividend policy in the event of an uplift in profit.
- A6 Share buybacks is an exceptional option, partly because of our high ROE and low equity ratio. The current share buyback program is for the purpose of exercising stock options. Regarding dividends, we emphasize stability and take into account the quality of profit (whether the profit associates with cash flow, whether there is continuity, etc.). The dividend of 85 yen will definitely be paid.
- Q7 In the first half, is it accurate to assume that the discount on handsets which is deducted from sales did not change significantly year on year, and instead, sales commissions increased? When discounts are deducted from sales, it is recognized in the subject

period, but since sales commissions are amortized, the burden will remain in the next fiscal year. How do you decide on which method to take?

A7 Your understanding is correct. We do not fluctuate this amount much.

Q8 "Tokusuru Support" is a different operation compared to other companies, and is provided to all other users in addition to "SoftBank" users. Moreover, sales incentives of 20,000 yen can be discounted. Will this discount be actively utilized?

A8 There is nothing decided at this point in time, but it is one option. We believe that 4-year installments will make it easier for customers to purchase high-priced handsets. For customers who wish to change their handsets in short periods, we will accept trade-ins of handsets and receive a program fee so users can change their handsets as soon as possible. Although there are virtually no customer complaints and the level of customer satisfaction is high, we would like to operate in line with the revision of the law. We would like to combine various measures to formulate new competitive measures.

Q9 Regarding ARPU, is the decline in ARPU before discount only due to the brand mix? Is the ARPU of each brand growing? Since the rate of decline of Discount on ARPU is peaking, can we assume that the increase of 120 yen in Total ARPU will slow down in the future? At the end of last fiscal year, the shift from the "Y!mobile" brand to the "SoftBank" brand exceeded the opposite shift. What is the current situation? How do changes in the brand mix affect ARPU before discount?

A9 The ARPU of the "SoftBank" and "Y!mobile" brands has not changed much, and the brand mix has a significant impact. Monthly discounts will continue to decline, but the rate of decline will slow down. Regarding brand transition, in the spring sales season, there were many upgrades from the "Y!mobile" brand to the "SoftBank" brand, but now there are slightly more shifts from the "SoftBank" brand to the "Y!mobile" brand, so we would like to stress this in our future initiatives.

Q10 The Distribution segment and Business solution and others portion of the Enterprise segment are growing strongly. However, since these include hardware, were there temporary factors, such as a rush ahead of the consumption tax hike? Please tell us about the outlook for the second half.

A10 There was impact from switching of Windows operating systems and a rush ahead of the consumption tax hike. For the second half, we do not think the Distribution segment will be the same as in the first half, but going forward we will continue to focus on

increasing profit year on year. The impact from revenue in the Business solution and others portion of the Enterprise segment on profit is not so large.

Q11 Are there any developments that can be expected in the future regarding the dual brand shops of "SoftBank" and "Y!mobile" brand? Are there any quantitative indications of the effects and costs?

A11 It may be misleading if we only look at the "SoftBank" and "Y!mobile" brands. When "SoftBank" customers consider changing contracts, there are quite a number of cases in which they shift to "Y!mobile" instead of churning out to MVNOs outside the group. Conversely, when "Y!mobile" customers consider changing contracts, though switching to other MNOs is an option, a high percentage of customers select "SoftBank." "Y!mobile" started with Willcom and E-Access, so it originally had less than 1,000 shops, but now it has more than 2,000 shops, including dual brand shops. We are able to increase choices for customers, and improve productivity by operating dual brands sales in the same locations. Including sales force, we are carefully implementing brand management.

Q12 There was an explanation that Total ARPU is declining due to brand mix, but the ARPU of each brand is flat. What structure caused that result?

A12 We are implementing various discount measures. While the unit price of the "SoftBank" brand will decline as family discounts are included, an increasing number of consumers are shifting to the 50GB "Ultra Giga Monster Plus" brand, which will have a positive impact on ARPU. In addition, customers using smaller data capacity plans tend to churn more, which has positive impact. These mix lead to the net ARPU decline.

Q13 How is PayPay included in this fiscal year's guidance? On top of that, momentum is very strong, so how should I think about the balance between promotions and profit in the future?

A13 PayPay is growing, so spending will increase even if the same measures are implemented because of the size of the user base. However, now it is a time to expand, and we will spare no effort. The number of stores that want to sign up is increasing in response to the growth in the number of users, so we will spend a certain amount of cost. We intend to comply with our guidance, but decline to comment on specific figures at this point. There is no doubt that investment will increase by 10 billion yen from the previous year.

Q14 The Yahoo Service Promotion Department was established, but in what time frame do you expect this to contribute to results? Please tell us about focus areas, etc.

A14 The impact in this fiscal year is limited, but this is a good example. The enterprise division has many points of contact with major enterprises and will be introducing cases to this new department. We will work together with Yahoo Japan to make more specific proposals. We are making steady progress to make positive contribution from next year.

Q15 Could you give a summary of the movements after the amendments to the Telecommunication Business Act in October? How was the net increase in subscribers in October? Is this a factor for profit acceleration or a factor for slowdown in future growth?

A15 The Company had less customer acquisition and reduced churn, particularly in the "SoftBank" brand, which had a big impact from rush demand in September. However, the impact on the Company's business itself is not that much, as declines in both acquisition and churn offset each other. Although the impact on the "Y!mobile" brand is relatively small, it is still affected by the overall market. We want to revitalize it a little more. I think September was a special month due to the effects of the consumption tax and other factors. As PayPay and Yahoo Japan have become stronger, we will consider various ways of differentiating ourselves from competitors.

Q16 Please tell us about the progress made in the new business domain over the past three months, the medium-term outlook for equity in earnings of associates, and capital gains.

A16 Cash management is very important. The investment budget is 50 billion annually, and we will prioritize within that discipline. I think both WeWork Japan and PayPay are in good progress in winning out. WeWork Japan has been developed with discipline in Japan, and PayPay is developing with along with the plan of monetization. We are developing in the same way for DiDi Mobility Japan and OYO Hotel Japan and expect the same progress in the future.