

Q&A at Earnings Results Briefing for Q3 FY2018

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Speakers: Ken Miyauchi (CEO), Jun Shimba (COO), Yasuyuki Imai (COO), Junichi Miyakawa (CTO), Kazuhiko Fujihara (CFO)

Q1 Please tell us the main factors that caused the increase in profits in Q3 FY2018.

A1 A major factor was the increase in smartphone subscribers. Marketing for both the *SoftBank* and the *Y!mobile* brands went well, ARPU started to grow, and the churn rate has been decreasing. The number of broadband subscribers also increased, resulting from the bundled offering for mobile and broadband subscribers with discounts.

Q2 Were cost reductions resulting from RPA (Robotic Process Automation – business process automation by using software robots) another factor behind the profit increase in Q3 FY2018?

A2 Pursuing both Growth Strategy and Structural Reform is important for our business operation. We have been implementing Structural Reform under the slogan “Half & Twice.”

Q3 Other companies are expected to reduce price plan of the telecommunication charge lease tell us about the pricing strategy for the *SoftBank* brand.

A3 We have three brands, and we will achieve balance by tackling large-data-volume plans with the *SoftBank* brand and low-priced plans with the *Y!mobile* brand.

Q4 Please tell us your policy for handset sales after the separation of service fees and handset payment.

A4 We are basically going to secure profits from handset sales. Given that some people want low-priced handsets while others do not mind expensive ones, we are going to implement marketing that responds to various needs.

Q5 Are you going to respond to Docomo’s price reduction with the sub-brand

Y!mobile?

- A5 Internally, we do not position our brands as main brand or sub-brand. We want to serve various users' needs.
- Q6 Will you encourage the *SoftBank* brand users who do not use data communication much, such as seniors (elder people), to switch to the *Y!mobile* brand?
- A6 Even among seniors, there are plenty of users who would like to use smartphones more if only they knew how to use them. We believe that once they understand the attractiveness of smartphones, more users will move to the *SoftBank* brand.
- Q7 What do you think about the government's request to reduce prices?
- A7 People who want low prices use the *Y!mobile* brand, while users who want to watch high-resolution videos such as 4K and 8K or who want high-performance handsets use the *SoftBank* brand. We also offer the ultra-low-priced brand *LINE Mobile*. So we are not thinking of reducing prices across the board.
- Q8 Please tell us about operating income of PayPay and WeWork Japan, the joint ventures in non-communication areas. Will you consider listing them on the stock market in the future?
- A8 PayPay is currently not profitable as it has just been launched, and we are not considering a stock-market listing. Payment services are useful for enhancing the value of smartphones, and we believe that they will make a big contribution to the businesses of both Yahoo Japan and SoftBank. And besides payment services, we expect numerous other businesses to emerge in the future. At WeWork, desks costing over 100,000 yen are selling out immediately, and customers benefit from being able to change their location easily based on their business conditions. If we can sell 100,000 desks, we will have sales of over 100 billion yen, so we believe it can be profitable. In such case, we can expect the possibility of listing the company.
- Q9 Please tell us about negotiations with Ericsson concerning compensation for the service outages.

A9 We refrain from answering that.

Q10 I get the impression that churn rates are still high. Which kinds of users are churning mostly?

A10 The churn rate for Main Subscribers was 1.03%, among which churn rates are relatively high for data cards and tablets. The churn rate for smartphones is 0.79%, 0.06 pp improvement year on year.

Q11 Please give us the breakdown for the number of smartphone subscribers for the *SoftBank* brand and the *Y!mobile* brand.

A11 The *Y!mobile* brand accounts for around 20%.

Q12 Please tell us your policy for the 4-year installment upgrade program, and its possible impact.

A12 We started offering 4-year installments to make it easier for people to buy expensive handsets. We believe we should make purchasing easy even with the separation of handset payment and service fees. Therefore currently we continue to offer 2-year and 4-year installment programs while studying how to minimize inconvenience for customers.

Q13 Please tell us your view on Huawei equipment.

A13 Basically, we are not considering replacement of 4G equipment made by Chinese vendors. With respect to 5G, we are considering various vendors taking network security and technology advantage into account. We intend to make a decision by consolidating all factors, including standards for security and reliability, and government's IT procurement policies.

Q14 If you switch from Huawei to other vendors for both 4G and 5G, how much do you expect this would cost?

A14 We use Huawei equipment for base stations and certain network components. We have decided to replace equipment worth of several billion yen, and we think that is probably all it will cost.

Q15 Please tell us why you do not unify *Y!mobile* and *SoftBank* brands?

A15 *Y!mobile* has established its value as a brand. Users like it because it is easy to use and the price plans are simple.

Q16 Rakuten is expected to start providing a service using a virtual network. How will SoftBank build its core network?

A16 We are also making progress with virtualized core network.

Q17 Regarding MIC's urgent proposal to completely separate handset payment from service fees, please tell us whether you think it necessary to change the design of the Ultra Giga Monster Plus price plan.

A17 Currently we are not considering any major changes.

Q18 Please tell us when you are going to introduce the price plans that separate handset payment from service fees for the *Y!mobile* brand, and how much the price reduction will be.

A18 We are planning to launch separated plans in H1 FY2019. We would like a bit more time to consider and determine what sorts of plans would be popular to users.

Q19 Please tell us what has changed after your IPO.

A19 There have been changes since the time we were preparing for the IPO. We have added four outside directors, and the style of board meetings has changed. There has also been a mindset shift, with officers becoming more aware of their directing responsibilities. We have approximately 900 thousand shareholders. To our shareholders, it is important that we substantially grow our earnings and show them our strategy for further growth. Our management team became even more conscious about that after the IPO.

Q20 Please tell us what you think about the difference between your current stock price and analysts' target. How do you feel your growth strategy is being perceived?

A20 We believe that it is important both to take our time to properly explain our growth strategy, and to improve our earnings. Going forward, we are going to deploy even more businesses through joint ventures, expand the ways of using smartphones, and enhance user's benefit. Looking ahead at the evolution of IT over the next 5-10 years, we are confident that we will be able to substantially grow our earnings. By increasing our earnings, thus gaining trust, we believe we will be able to achieve the target stock price.