

## **Outline of Q&A Session at Investors Meeting on Results for FY2018 3Q (Held on February 4, 2019)**

Please note that the content has been supplemented, edited, and reordered for greater clarity and ease of understanding.

Unless otherwise specified, English-language documents are prepared solely for the convenience of non-Japanese speakers. If there is any inconsistency between the English-language documents and the Japanese-language documents, the Japanese-language documents will prevail.

The information on this website contains forward-looking statements in addition to historical or current facts. These forward-looking statements are no more than estimates or conjectures made based on the information available at the time and are exposed to a variety of risks and uncertainties. As a result, actual business or financial performance could differ substantially.

### ■ Integrated marketing solution/Mobile payment

Q. About how many PayPay users do you need to implement the integrated marketing solution?

A. We would like to introduce a service that fully functions with the current 4 million user base. As the number of users expands, we will refine this solution so that it will be more useful for the clients. In addition, we will also use marketing tools such as T Points to perfect it into a marketing solution that can merge the online and offline worlds.

Q. In order to implement the integrated marketing solution, the extent of offline purchase data you can acquire through PayPay will become important. Thus, I believe that you first need to expand the number of merchants. Please tell us the current number of merchants and the outlook.

A. There are three important factors in mobile payment. The most important is user experience which has to excel the convenience of paying by cash. The second is number of users and the third is the number of merchants. This is exactly why we are strengthening the sales force for merchant acquisition. The number of merchants has not reached the level that we can disclose yet, but when the time comes, we would like to reach a number that we can announce confidently. In the medium to long term, we are aiming to have a state in which PayPay can be used everywhere in Japan.

Q. In the next term, which KPI will you focus the most for PayPay?

A. In the short term, we want to focus on the acquisition of chain stores and increase places where users can pay with PayPay. From March, we plan to have Lawson available for users to pay with PayPay.

Meanwhile, business that can be created from maximizing the payment amount is big. Therefore, in the mid-long term, we will focus on the payment amount.

Q. You wouldn't be able to grasp what users purchased even if they pay with PayPay, thus wouldn't it be of little use for the integrated marketing solution?

A. In the next few years, we hope to create a state in which the business operators would want to tie up with Yahoo Japan even if they have to provide us their data.

Q. Are you planning to promote the integrated marketing solution alone or do you have collaboration with partners in view?

A. Of course we plan to collaborate with offline players since integrated marketing solution in the offline world is a business model that cannot exist unless we have offline players. Also, we do not think that PayPay is the only means in the integrated marketing solution, so we will consider collaborations such as those with T Points.

Q. Please inform us more on the product-related paid search advertising for Yahoo! Shopping which you explained as an example of an integrated marketing solution product. When do you expect to begin providing this?

A. We are planning to have advertisements that can mainly be used by manufacturers for the sales promotion of their own products. Other companies are already selling this kind of advertisement so this itself is nothing new. The advertising fee we can receive from our tenants is limited so with this new advertising product, we can have external advertisers (especially manufacturers) as our clients. By linking this with our transaction value, we can expect to expand revenue. We have already begun tests on this and the official launch is scheduled to be in fiscal 2019.

Q. "Loss on equity method investment" recorded in 3Q, is this mainly due to PayPay?

A. Yes. Investment loss due to PayPay in 3Q is roughly JPY 9 billion. PayPay began its business in 2Q, thus the cumulative loss is a little over JPY 10 billion.

Q. You have already invested JPY 20 billion for PayPay's capital. Wouldn't this be used up in a year or so? What is your view on future capital injections?

A. Currently, JPY 20 billion has been invested by SoftBank and JPY 20 billion by us, a total of JPY 40 billion. Basically, the two companies plan to invest equal amounts.

Q. Will account linkage with The Japan Net Bank be prioritized when paying with PayPay?

A. In terms of our commerce strategy, it is important that we maximize the ratio of in-house payments. In fact, in the second PayPay Giveaway Campaign, higher bonus points will be given to payments that are made with YJ Card linkage than those linked to credit cards of other companies. Moving on, we would like to think of various benefits that will maximize the ratio of in-house payments.

Q. There were security issues such as fraudulent use in PayPay's first Giveaway Campaign. You have teamed up with Paytm, which is the largest smartphone payment operator in India. Didn't they share their know-how with you?

A. It is true that there were some aspects that were insufficient in our development. For example, we feel responsible that there was no limit set on the number of times security code of credit card can be entered. Meanwhile, there is also a big issue on the standard of cyber security in Japan. In fact, most of the reasons for the fraudulent use were not due to PayPay. Information that was already stolen or credit card information that was traded in the dark web, etc. was used through PayPay. We think that it is also important to hike user literacy in the future in order to promote cashless payment in Japan.

Q. Please disclose the ratio of payments made via bank accounts, YJ Card and credit cards of other companies during the first PayPay Giveaway Campaign.

A. We do not disclose the details but many payments were made via credit cards.

Q. Unification of standards for QR codes is being discussed in Payments Japan Association. When you think about the future of the mobile payment market, what do you think should be done?

A. Right now, we are not using an existing network but are creating a merchant network from scratch. We would like to leverage this originality moving on.

#### ■ Advertising Business

Q. Please tell us the current situation on measures against ad frauds and how you evaluate the measures.

A. We have completed re-screening the partner websites to which we have terminated distribution and have resumed distribution to the websites whose safety have been confirmed. In 3Q, we had a negative effect of around JPY 1.2 billion on our revenue and the impact is expected to be around JPY 1 billion for 4Q. For 2H of this fiscal year, we expect that around JPY 0.7 billion will resume.

Q. Why did you have a favorable result in revenue from premium advertising excluding shopping-related advertising in 3Q?

A. We have started providing this product to advertisers via all devices and not through specific devices. We began this measure from 3Q and this has proceeded favorably.

Q. Why is the revenue of video ads on smartphones decreasing compared to the previous quarter?

A. There is a seasonal factor. Revenue in 2Q and 4Q tend to increase, thus we had a slight decrease compared to the previous quarter.

■ Others

Q. You explained that you plan to maintain operating income at a level above JPY 140 billion until fiscal 2022. I would like to know how you envision the trend by fiscal years. If you envision a flat growth, is there room for you to revise shareholder return?

A. Depending on the amount of investments made for integrated marketing solution, the level of income will vary, but we expect that we will have a somewhat linear growth. However, if we need to conduct new measures in order to respond to changes in the market environment, there is a possibility that the operating income will be somewhere around JPY 140 billion. We will probably announce the guidance at the beginning of every fiscal year. For the shareholder return, we do not intend to make changes from this year's policy.

Q. In regards to the revision you have made on how much you will actually spend on investment for new challenges, considering the investment amount up to 3Q, you seem to expect to spend approximately JPY 9 billion in 4Q. Do you have specific plans on what you will be investing in?

A. For media-related investments, we are beginning to be able to procure video contents efficiently, but would like to continue to focus on procuring video contents externally and on producing of original video contents. For commerce-related investments, we will allocate the funds to investments on YJ Card and PayPay-related matters. Especially for PayPay, we will pay for part of the cost related to "1 in 5 chance of full cashback for Yahoo! Premium members" in the second Giveaway Campaign.

Q. How do you intend to review wasteful spending in investments and operating expenditures, etc.?

A. We always aspire to have a lean management. We constantly scrutinize the effects of all investments and of course terminate the ones that are not effective. We would especially like to tighten up our expenditures on depreciation and amortization, business commissions and personnel expenses.

Q. Please give us an outlook of Advertising business and Commerce business for 4Q.

A. We expect revenue for paid search advertising to increase by around 10% compared to the same quarter last year and display advertising revenue to be flat. Shopping transaction value is expected to achieve approximately 20% growth year on year. The take rate for Shopping business is expected to be in the high 4% level.