

Please find below the summary of Mickey's speech on August 23rd, 2016.

Good morning and good day.

Thorough understanding requirement for our security practices

Today's security ASAKAI was very rich and very important.

I'm sure that not all of our staff members are joining this meeting, so leaders and managers please make sure everybody go through contents.

For those not participating today please make sure they watch video and understand importance of our security practices.

As you know, it is not just about desktop PC anymore, most people are using smartphone with remote access with Viber and so forth.

Most important point is that every single one, not only Rakuten staff members but also our clients really understand dangerousness

of lack of understanding of the importance of security practices which is very simple but should be very aware.

If there is any suspicious things please make sure you report to proper person or department.

Meetings with IT companies

Today, I want to share my activity in Silicon Valley.

As I mentioned I started to spend a little more time on Crimson House West and started to have external and internal meetings.

For external meetings last week I had with Apple, Google, eBay, Facebook, Lyft and sort of other startups.

All of them are willing to strengthen partnership with Rakuten, they know how much more potential Rakuten group has.

I was very delighted to hear that.

Enhancement of diversity and communication

More than just having external meeting, internal meeting with US businesses were very productive.

Not only I gave several suggestions, started deeply understand business issues, but at the same time, it gave me several hints how we can improve Japanese business strategy as well.

More and more I re-realized global diversification strategy is working extremely well.

I would like to enhance information exchange between not only in JPN but among national offices, businesses and we should make sure that we have rich communication among businesses.

That is very important.

Potential of data utilization

For example, US Rakuten marketing's performance marketing business is doing very well.

I gave suggestion we should use some of the data we gathered from Rakuten affiliate Linkshare.

For their display business, they found their performance have improved significantly two times three times, sometimes ten times.

Looking back on, of course, Amazon has a very big advertisement business using their data.

Looking back situation in Japan, probably Rakuten has the richest data among Japanese internet service companies yet we are not best utilizing it.

Potential is huge.

Also we started to make very creative our original initiatives using data as well.

The key again I mentioned this at last ASAKAI, is how to utilize data.

We are sitting on the gold mine, treasury.

So this is going to be very important, everybody please think not just that this data is not available so we cannot use it.

Please throw away those sort of hypothesis and think about if I have these data what can I do and think about how can I gather it.

I think try to improve for example our internet advertisement product efficiency by two times or three times is not that difficult

if you use the data properly and then for our each businesses probably it is not so difficult to use data and do much more effective marketing.

We are still not utilizing our data enough that is one of the most important point I would like to make.

Proper attitude for data utilization

So now many businesses started to think about it.

It is a good direction.

One I point I would like to make at this week's ASAKAI is definitely let's think more deeply how we can utilize the data we currently have.

Some of the data are restricted to be used without any good reasons, so let's think about what kind of data do we have as a group.

For example can we use credit card data for advertisement.

Think about re-try to come up with action plan and also sort of systematic approach of implementing utilization of data is very important.

[Question] Thomas Brennetot from EC Marketplace Development Department (RCH)

Few weeks back, in a Rakuten Ichiba Asakai I think you mentioned that a lot of Kaizen projects have cannibalized themselves and we should chase more users of our competitors. I won't ask you if you know Google GMail but do you know Google Inbox? A same email services but 2 different UIs for 2 different kind of users. What do you think about a version of Ichiba focus on product and user with a new UI?

[Answer]Mickey

Definitely. If you think about performance of our app we have very simple UX design which brings big performance.

At the same time, our long page approach works well for desktop PC.

We are deeply analyzing how we can best design our apps and we have tried in the past to create a separate UX for senior users but we gave up due to the complexity around this idea.

It was not so targeted as we learned even senior people in Japan were becoming sophisticated shoppers as a matter of fact.

We can think about it but the most important things are:

One, we would like to be more scientific and use AI to make our pages & apps more efficient and 2nd. we should automatically personalize these pages.

These are 2 things we are doing and we are not currently contemplating having 2 separate UX which can be too complicated from operation point of view.

[Question] Masahiro Yamada from Travel

I have a question about business expansion.

When thinking of business expansion from Japan to the world or increasing # of services offered, what do think is the most important thing to keep in mind.

Mickey

There are 2 things. We started vision 2020. We divided our businesses into 3 categories: Strong, Smart, Speed.

So we need to have different approaches for each of these business categories.

For example, speed business we need to be lean and grow fast.

Also we started to do this aggressive business model in June for Rakuten Ichiba

As you know we struggled a little from our classic marketplace model.

The introduction of our new what we call PROMONO which means we provide our service for free, if merchants quality is very good and if they are qualified. This destructive approach strategy is working very well and GMS growth is very strong.

Even for old business we should come up with of smarter strategy. Do not be trapped in success of Japanese businesses.

We need to have a little bit different approach to expand our business.

The second thing is about Data that I have been talking about. In Japan we are one of top companies in terms of ownership of customer data

Also in the US we have Slice which has close to 5 million accesses of purchase history and Rakuten marketing, Ebates etc

The amount of date we have in the US is massive too. So how can we get data? Can we sort of arbitrage? Or can we be a little different?

Why is Rakuten Card so successful? Because we have data and we have access to users.

Without data it's difficult to make good judgement. We need to think about what is our data strategy in each respective countries. This may contradict with our governance approach because each company has certain level of autonomy but by combining data we can do a lot.

That's why we need to make sure Rakuten Group function as a team. So 2nd point is Data. This is very important. We should think about what is our data strategy in Taiwan, Europe.

Crimson House West

[Question] Kevin Kong from Slice (CHW)

Bank of Japan is offering a score of low negative interest rates and today hedge fund forecast that there is a 50/50 chance of hikes by year end.

So this will most likely have ripple effects on other central countries you raised as well.

How do you approach uncertain environment especially for Rakuten's exposure to Financial services. Specifically where do you find sustainable yield zero interests economy.

[Answer]Mickey

Yoshi, do you want me to answer?

Let's get professional question first

[Answer]Yoshi

In the short term most of our assents are consumer related so the impact of negative interest rates in Japan is fairly limited.

In that sense we can say we are not 100 % immune but fairly remote from the impact.

[Answer]Mickey

I do not want to talk only about Japanese Economy but since I am advisor of cabinet to prime minister.

(As per Japan's economic policy) We have 3 Arrows right. 1st Arrow is Fiscal Policy, 2nd Arrow is Aggressive Monetary Policy, and the 3rd Arrow is Industrial Reform.

The 1st and 2nd arrows are combined. Their monetary policy has been reasonably successful. But I think what we definitely need is more aggressive innovation in business side. So that's still a challenge of this economy. I personally do not think this negative interest rate, macroeconomic policy is doing well.

For us, exchange rate will have certain level of impact for our businesses including our P/L.

At the same time we need to think in a very long time horizon. 105-110 (JPY/USD Exchange Rate) is a good range but its little bit overshooting these days.

I am not a foreign exchange trader so I do not have special opinion but I think it's going little bit too much. Personally I think we will see certain level of adjustment

So that's about it I did not properly answer your question but I will talk with Yoshi after this and think if there is anything we should do for our business.

Thank you.

Hiroshi 'Mickey' Mikitani