Analyst Meeting Q&A (Earnings Release for the Three Months Ended June 30, 2020)

Questioner No. 1	
Q1	Your FY2020/1Q ARPU reversed the downtrend and recorded an increase compared over the same period of last fiscal year, and you also predict a favorable trend for the full year. Can you explain the factors behind this improvement and the outlook for the next fiscal year? Also, despite the projected increase in full-year ARPU, you forecast a year-on-year decrease in mobile communications services revenues of approximately 71 billion yen. Please comment on the reasons for this huge drop and the prospects for the next fiscal year.
A1	The ARPU has been improving as a result of the various measures we have implemented and also because of the contribution of voice communications revenues which were slightly positively affected in FY2020/1Q by the COVID-19 outbreak. Regarding your point about the large negative impact we estimated for our full-year mobile communications services revenues, we foresee a relatively strong impact from reduced international roaming revenues, etc.,. caused by COVID-19. In addition, our subscriber acquisition performance has been improving, but still fell short of recording significant gains.
Q2	Does your ARPU calculation include international roaming revenues? Haven't you factored in a considerable decrease in mobile communications services revenues resulting from a reduction of voice and data rates for MVNOs and reduced MVNO subscriptions?
A2	International roaming revenues are included in the ARPU calculation. The projected decrease in mobile communications services revenues is due to our conservative assessment on the projected decline in the number of subscriptions and the negative revenue impacts from services that are not included in the ARPU calculation.
Q3	Regarding your shareholder returns, you mentioned that you have decided on "a dividend increase due to good prospects for solid financial performance." Please share with us your views concerning your overall shareholder return policy including share repurchases and dividend payments, as well as the prospects for receivables liquidation when things return to normal in the next fiscal year or beyond.
A3	Nothing has been decided for the shareholder returns for the next fiscal year and beyond. However, our basic policy is to provide "continuous dividend increase and enrichment of shareholder returns" and we intend to push forward this policy to meet the expectations of our shareholders as much as possible. If you look at our track record for the last several years, you will notice that we have actively executed returns to our shareholders. A dividend increase is planned for this year again after last year, and we have successfully managed to raise the amount of dividend per share without significantly increasing the total dividend payout by reducing the total number of outstanding shares skillfully using the share repurchase program. We intend to adhere to this policy going forward. With respect to the financing through receivables liquidation, while keeping an eye on the overall usage of proceeds, we plan to make investments for our future growth and any amount remaining will be used for shareholder returns. We plan to properly execute the receivables liquidation program discerning the use of proceeds.

Questioner No. 2	
Q1	Your FY2020 full-year mobile ARPU is estimated to be 4,250 yen, which is exactly the same as the number for FY2020/1Q. However, your mobile ARPU has in fact improved since FY2019/3Q due mainly to the moderated impact of "Monthly Support" discounts and other factors, and I believe this trend will continue going forward. Please explain the reasons why you estimated your full-year mobile ARPU would remain unchanged from FY2020/1Q?
A1	Other than the "Monthly Support" program, there are various factors that positively or negatively affect the ARPU, and new rate plans that we introduced last year also continue to impact the ARPU. Although the termination of "Monthly Support" program brings about a positive impact, we do not foresee a significant improvement for our full-year ARPU because subscriber migration to "Gigaho" and "Gigalight" packages will continue to progress. The competition in the mobile phone market remains harsh, and we do not rule out the possibility of employing measures to counter the competition to propel our future growth, which could also suppress the increase of mobile ARPU.

Q2	When you introduced your new rate plans, President Yoshizawa declared to "recover operating profit to the 990 billion-yen level after a temporary deterioration caused by the launch of new rate plans." He also commented on the likelihood of "achieving 990 billion yen in operating profit earlier than originally planned." Can you confirm if there are any changes to the prospects of delivering 990 billion yen in operating profit in the year ending March 2024 in light of the impacts of COVID-19?
A2	We provided our medium-term outlook when we unveiled our medium-term targets in FY2018. Even after taking into consideration the impacts of COVID-19, which were totally unexpected back then, we basically plan to maintain our revenues and profit targets of our mobile communications business as much as possible. The biggest driver that will propel the profit recovery to 990 billion yen over the medium term will be the non-telecommunications business, i.e., Smart life business and Other businesses. In particular, the transactions processed with our finance/payment services have been increasing at a remarkable pace, and in our content/lifestyle business, the number of active users has been on an uptrend with many people building a habit of using content services in their everyday lives. There are no changes to our basic policy to aim for 990 billion yen in operating profits in FY2023 by steadily securing revenues and profit in our Smart life business and Other businesses. At present, we are confident that there is a good chance of achieving this target.

Questioner No. 3	
Q1	Can you elaborate on the elements driving the operating profit growth of Smart life business and Other businesses and its future outlook? Because the content/lifestyle and finance/payment services are likely to deliver a relatively large amount of profit growth this fiscal year, can you share with us your views on the factors behind this? In your full-year guidance, a 11.9 billion-yen increase in the operating profit is projected for Smart life business and Other businesses combined. As you have already achieved a profit growth of 13.6 billion yen in the first quarter alone, please explain why you do not forecast any further increase in the remaining periods?
A1	The revenue growth resulting from the expansion of finance/payment transactions is the largest driver behind the profit increase of Smart life business. However, the pace of growth in the recent months was affected by the COVID-19 outbreak and came in slower compared to our initial expectations. On the other hand, in our content/lifestyle services, the percentage of active users has been rising driven by the increase in the number of people opting to watch videos at home amid the new normal of society. Specifically, content services like "Disney+," "d anime store" and "Sugotoku-Contents" have recorded a solid increase in their subscription count compared to the same period of last fiscal year. As these services are provided under a monthly contract, the increased utilization rate does not translate into revenue growth as is, but we believe steady use of service by customers will eventually contribute to revenue expansion. Regarding your suggestion about the slower growth of operating profit in the second half of the year relative to actual amount achieved in FY2020/1Q, we intend to further cultivate "d Payment" merchants and increase the number of stores supporting the service to over two million to make the service more accessible. There are many competing payment services, so we will promote "d Payment" with the aim of garnering regular usage by customers and prepare for "full-scale business management centered on our membership base." In the content/lifestyle category, with a wide variety of services offered in the market, we intend to renew our content and applications toward the second half of the year. In this way, we currently plan to appropriate a certain amount of necessary expenses to drive our medium- to long-term growth.
Q2	This is a question about your enterprise business. Please explain the recent trends of telework-related revenues that came under the spotlight due to COVID-19. Please also give us an explanation on the measures that are required to establish this into a major line of business.
A2	With respect to telework-related revenues, for one thing, we have seen an increase in the number of telecommunications circuits, which include the demand for Wi-Fi routers. The voice traffic has also recorded an increase, and the heightened telework demand is expected to produce additional revenues. In the area of solutions, there has been an increase in inquiries for solutions relating to telework and remote education, including web conferencing and chat tools. We have rolled out various free-of-charge measures in response to these demands, and we hope that they will eventually lead to commercial orders. As for the areas that offer growth potential, in addition to the aforementioned opportunities, we

	plan to deploy solutions that will automate routine processes or assist remote operations to support the new needs of customers in the post-coronavirus society, and thereby accelerate growth.

Questioner No. 4	
Q1	In your Smart life business and Other businesses, what specifically contributed to the profit growth in FY2020/1Q? Can you also explain the profit contribution of NTT Plala? You explained the costs required for expansion of “d Payment” merchant network would be a factor that will likely suppress your profit in the periods ahead, but that contradicts with your recent performance where you have generated profits while cultivating the merchant network, so please give us a more detailed explanation.
A1	There are two major cost elements in our “d Payment” business. One is the cost for merchant acquisition. The development of merchant network will not stop once the number of participating stores reach two million, and we intend to continue expanding the merchant network thereafter spending an appropriate amount of costs. The other is the cost required for usage promotion, including the campaigns aimed at improving the customer awareness of “d Payment,” such as the coordination with “Mainapoint” service to have customers register and start using “d Payment,” etc. We plan to steadily implement these campaigns and other measures in or after FY2020/2Q. We have not been able to completely use the cost allocated for campaigns and other promotions in FY2020/1Q as many activities in the society were stagnant during this period, which resulted in a somewhat inflated level of profit. Please also be advised that the profit contribution of NTT Plala was not as significant as its revenue contribution.
Q2	I believe the expression “usage promotion” refers to the reward of “d POINTs,” and I got an impression that you are lavishly giving away “d POINTs.” You might have suppressed the expenditures in FY2020/1Q, but haven’t you already spent a huge amount in the preceding periods?
A2	You may have developed a perception that we spent a huge sum of expenditures during the last fiscal year. Recently, however, we are taking a more cost-conscious approach, spreading out campaigns so that people can try out our “d Payment” service in different locations, e.g., convenience stores, drug stores, etc. We will attach a strong focus on the acquisition rate and refrain from haphazardly rolling out campaigns as we move forward.
Q3	In your plan, the number of net additions for the full year is projected to be 715,000. In this projection, how did you estimate the number of existing Rakuten MVNO users moving out to Rakuten MNO service? I would appreciate if you can comment on this together with an update on the recent trends.
A3	The total net additions for our overall mobile phone service are estimated to be 715,000, which include communication modules and MVNO subscriptions using DOCOMO-network. Of this number, modules account for approximately 1.5 million, which means we are projecting a net loss of subscriptions if modules are excluded. While our subscriber acquisition performance for both handsets and data plans has been showing a trend of improvement, we still project a negative growth for the full year. With respect to the projection for MVNO subscriptions, we have factored in a certain number of Rakuten Mobile MVNO users migrating to Rakuten Mobile’s MNO service. The number of outflows of DOCOMO subscribers to Rakuten has so far been insignificant. We believe some MVNO subscribers have already switched to Rakuten’s MNO service, but we do not think there has been a significant number of outflows.

Questioner No. 5	
Q1	Your mobile communications services revenues recorded a drop of slightly less than 20 billion yen in FY2020/1Q compared to the same period of the previous fiscal year. Can you give us a breakdown of this decline? Particularly, your voice MOU increased by approximately 16 minutes year-on-year. While I do not think all of them are billable traffic, I guess this positively affected your revenues. So, please give us an explanation separating the trends for voice and data. Please also explain the impact of the new rate plans on your FY2020/1Q performance. Will it be correct to assume that the new rate plans had a net negative impact on your FY2020/1Q results more than cancelling out the positive impacts from the reduced “Monthly Support” discounts?
A1	Regarding the positive revenues impact from voice and data services, data communications have shown a

	constant increase in traffic for some time now, but many of our data plans are offered under a monthly flat-rate structure. We therefore believe the contribution of voice service, which more directly reflects the actual usage, overwhelmed the impact of data service as a factor behind the recent revenue growth. The impact of the new rate plans has been more or less in line with our expectations, delivering effects reflecting the growth of subscriptions. The net revenue impact from the new rate plans was slightly in the negative territory after taking into consideration the positive contribution of reduced "Monthly Support" discounts, but we believe these two factors are nearly balancing out.
Q2	Please share with us your current assessment on your price competitiveness. Compared with the rate plans of the competition, even after combining the discounts offered through your "Family Discount" or "Hikari Set Discount" packages, your rates are still more expensive. I therefore believe you may have to alter your conventional retention-oriented strategy and adopt of new approach to compete in the market. What are your views?
A2	As you rightly pointed out, the major focus of our new rate plans has been the retention of customers through the "Minna DOCOMO Wari" program designed for families and the "Hikari Set Discount." The "Minna DOCOMO Wari" program, in particular, is applied to the vast majority, or some 85% of our customer base. We believe we have been able to offer a reasonably good level of prices through these two retention measures, and it is very important to properly communicate the benefits of our new rate plans. For example, at the shopfront, we are currently explaining the "d POINT" program, etc., as part of household budget consultation fair initiative. We believe we can compete fairly well in the market if we can successfully convey the benefits of our plans. In addition, in particular segments of the market where the competition is intensifying, e.g., elderly users contemplating a switch to a smartphone, there are certain number of cases where the "Minna DOCOMO Wari" discount cannot be applied because these users require only one or two contracts. To address this issue, we initiated a measure that lowers the rates for these subscribers to a level comparable to applying the "Minna DOCOMO Wari" discount. Furthermore, last month, we rolled out a measure targeting the youth segment of age 15 and under with the aim of acquiring genuinely new subscriptions. We intend to counter the competition leveraging these initiatives.

Questioner No. 6	
Q1	Please explain the progress of the credit card and other receivables liquidation program. I believe this will make a positive contribution to your working capital. How is this factored in your free cash flow projections?
A1	We started the liquidation of receivables late last fiscal year, but nothing was executed in FY2020/1Q due to the impact of COVID-19. The credit card receivables run on a cycle of one month, therefore, after completing the liquidation of receivables worth 50 billion yen in the end of last fiscal year, the balance returned to the previous level by the end of the first quarter of FY2020, which had a negative impact on our FY2020/1Q cash flow. For the full year, we plan to liquidate receivables worth 150 billion yen in or after FY2020/2Q, and that is factored in our full-year free cash flow projections.
Q2	Previously, you hinted on the possibility of conducting receivables liquidation in a larger scale. Do you think 150 billion is a reasonable size?
A2	Certainly, the asset size that could be addressed with our liquidation program is slightly larger. However, because there are uncertainties caused by the outbreak of COVID-19 this fiscal year, we only included in our projection an amount that we can execute with certainty. Keeping an eye on the prevailing circumstances, we may review our plans in a timely manner if we see the possibility of further expansion.
Q3	Can you explain the sales strategy you plan to employ for customer acquisition toward the second half of the year?
A3	In the second half of the year, the adoption of 5G is expected to accelerate in earnest with the release of less expensive standard handsets. We therefore plan to compete leveraging our new rate plans and strongly promoting 5G. On top of that, we will also combine the other benefits offered by our finance/payment services and "d POINT" etc., so we can compete with our overall strengths.

Questioner No. 7	
Q1	I believe your voice ARPU fared quite favorably in FY2020/1Q due to the impact of COVID-19, but you

	explained that the growth has begun to stabilize. Do you think the voice usage has already peaked out? Please inform us of the recent trends of voice and data ARPU in the new normal of society.
A1	Your understanding is correct. With respect to the actual usage, voice usage has begun to return to the normal state after showing an increase in the months of April and May. We have also seen a structural change in the ARPU in line with the expanded adoption of teleworking, and data usage has been rising both among enterprises and consumers.
Q2	Can you give with us the current number of new rate plan subscribers and the target for March 31, 2021?
A2	The total number of new rate plan subscriptions as of March 31, 2020 was 14.94 million. Our plan is to increase this number by approximately 10 million within FY2020. The total number of subscriptions as of June 30 was 17.87 million, which grew further to over 19 million on August 1.
Q3	Some predict the spread of COVID-19 infections will subside, but others predict it will further increase as we head into winter. In the case of the latter, should we expect an increase in your profit as you will be able to save your marketing spend for the near term. Or, would you rather increase your marketing expenses if you foresee an upside in profit generation?
A3	That is very difficult to predict. Over the years, voice ARPU has continued to record year-on-year decreases but it behaved differently and recorded an increase in the period from March to May this year. The June data remained unchanged from the same month of the previous fiscal year. According to the trends so far, traffic has been showing a constant year-on-year increase. At present, the level of traffic has returned to the usual level, but if the number of COVID-19 infections start to expand again, people might spend longer hours at home, which may induce an increase in traffic. Depending on how things unfold in the future, some cost items may increase and other may drop. Please be advised that our current guidance does not assume a second wave of COVID-19 infections.