

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

Questioner No. 1	
Q1	Operating profit from Smart life business and Other businesses for the three-month period of FY2020/2Q recorded a year-on-year increase of over 20 billion yen. Can you explain the factors behind this growth with a breakdown by business line?
A1	The profit expansion of Smart life business and Other businesses was driven by two key factors: (i) impact of accounting treatment and (ii) organic growth of Smart life business. With respect to the impact of accounting treatment, because some four years have elapsed since we started the issuance of “d POINTs” and we now have a good understanding on customers’ usage behavior of both time-limited points and regular points (validity: 48 months), we carried out a reversal of provisions for the points that will not be used under the guidance of our accountant. This had a profit impact of roughly 20 billion yen. The remaining increase was achieved through the organic growth of Smart life business, which was driven mainly by the expansion of finance/payment business, e.g., credit card and “d Payment” services.
Q2	Then, will it be right to conclude that a large portion, or nearly 90%, of the profit increase of Smart life business was attributable to an accounting factor? Did you carry out this accounting treatment in the second quarter and not in the first quarter of FY2020?
A2	Accounting treatment was one of the factors, but organic growth also drove the profit increase. The reversal of provisions was conducted in FY2020/2Q.
Q3	It is widely speculated that you will shortly unveil a new rate plan. Can you share with us the views of NTT and DOCOMO, respectively, following the announcement by SoftBank and KDDI of their new plans and the request from the government. Also, when do you plan to make an announcement of your new rates?
A3	One thing we need to address in relation to the requests from the government and the Prime Minister is the large-capacity plan. We are aware that this plan is relatively more expensive and there is still a price gap with overseas markets. KDDI and SoftBank have rolled out new rates using the UQ and Y!Mobile brands to tackle this point. We, at DOCOMO, are currently studying how to deal with this issue, looking into various possible options including the launch timing and level of rates. However, we cannot provide any concrete information at this juncture, because the TOB is currently in progress and this is a matter that relates to our strategy. We appreciate your kind understanding. It is also difficult to comment on the concrete timing of introduction.

Questioner No. 2	
Q1	As it is difficult to analyze the number of enterprise users and net additions from the information you disclose, can you inform us if there has been any impact on the quarterly net additions trend from COVID-19? I recall that you executed a free trial in FY2020/1Q under which you offered remote-work systems, etc., for free. Have you been able to convert them into commercial contracts?
A1	<p>Thanks partly to our active corporate sales activities, and also because many companies have promoted work-from-home and digital transformation amid the COVID-19 outbreak, we have recently seen stronger demand among enterprise clients.</p> <p>During our FY2020/1Q results presentation, we mentioned that we provided free trial of remote-work systems to approximately 600 companies, mainly SMEs, and some of these have led to actual orders.</p> <p>On a related note, the “GIGA School” program is expected to be further accelerated throughout this fiscal year. Accordingly, we anticipate to receive a large number of orders in relation to the “GIGA School” project in the second half of the year. After acquiring 270,000 subscriptions in FY2020/1H, we now have good visibility to secure a similar scale of orders in FY2020/2H.</p>
Q2	Can you once again sort out what will change after you become a wholly-owned subsidiary of NTT, as opposed to being a public company? According to NTT’s explanation, collaboration with NTT Communications and NTT COMWARE and cost reduction were the projected benefits. I would appreciate if you could explain in concrete terms what kind of changes you foresee from your perspective.

A2	<p>There are a number of objectives behind this transaction, but the actual studies will only begin after the completion of the TOB. This structural change is expected to have a huge impact on our corporate sales activities. While we currently offer solutions centered on mobile technologies, customers' requirements for systems and solutions are wide-ranging. Without being confined to mobile solutions, by making use of the assets and capabilities owned by the broader NTT group integrating cloud capabilities, AI and technologies for transmission network construction, we shall be able to respond to customers' requirements in one-stop with a shorter lead time.</p> <p>Also, in our R&D activities, we already take advantage of the research outcomes of NTT labs, but if we carry out the research and development of 6G and IOWN in collaboration with them, we will be able to move forward with the construction of next-generation networks and global standardization even more powerfully. We also intend to utilize the group's resources and the laboratories' development works for the expansion of our Smart life business and Other businesses.</p>
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Questioner No. 3	
Q1	With the introduction of the new rate plans in the last fiscal year, you are providing customers with returns worth hundreds of billions of yen, so I believe your customers are already satisfied as demonstrated by the low churn rate. Under such circumstances, can you expect any ripple effects on other businesses or services by executing another round of rate reduction?
A1	The international price discrepancy survey between Japan and other markets conducted by the Ministry of Internal Affairs and Communications (MIC) revealed that the large-capacity 20GB plan is more expensive relative to overseas. Accordingly, we recognized that there are issues with the large-capacity plan. We intend to review our rate plans, not because of the price is expensive relative to other countries, but from the viewpoint of the effects we can expect by introducing a new rate targeting the customer segment using the 20GB plan. We of course believe there is a good chance of acquiring customers from our competitors by launching a new plan, through which we aim to maintain and even lower our churn rate.
Q2	Can you share with us some details about your enterprise business, including the overall size of business, mobile subscription revenues from enterprise clients, and the revenue contribution of individual services such as solutions and IoT, etc? Please also present your views on the overall vision and prospects for enterprise business.
A2	Enterprise business has been performing relatively well, recording growth in both domains of network and solutions. As for the composition, revenues from mobile subscriptions have hitherto accounted for the bulk. However, seizing the opportunities presented by 5G, we have been making company-wide endeavors to expand solution revenues, which have been growing steadily in line with the launch of various services. I cannot provide you with detailed numbers, but I hope my explanation gave you the overall picture of the business.
Q3	Which service, in particular, do you have high expectation for?
A3	Our corporate customers show strong expectations for solutions incorporating 5G. These solutions cannot be realized just only with the 5G network, and they need to integrate with the cloud and applications for processing, including the edge equipment and edge cloud etc. to realize low-latency processing. By employing cloud and other network configuration technologies, etc., in collaboration with the NTT group, these solutions can be realized more efficiently at lower costs. The concrete areas of application for which we have high expectations include factory support, process management, remote monitoring/control, and medical/healthcare, etc.

Questioner No. 4	
Q1	Please give us a breakdown of the revenues from Smart life business and Other businesses. I understand that the revenue impact from the consolidation of NTT Plala has already run its course, so please explain the reasons behind the huge revenue growth. In fact, operating revenues from Smart life business for the three months of FY2020/2Q recorded a 22% year-on-year increase. Can we expect a similar pace of

	growth in FY2020/3Q and beyond?
A1	The operating revenue contribution from various categories of Smart life and Other businesses was as follows (rounded in 5% units): content/lifestyle approximately 35%; finance/payment approximately 20%; support services for customers' peace of mind approximately 30%; and enterprise solutions/others approximately 15%. As for the factors driving the revenue growth, with the impact from the integration of NTT Plala running out after FY2020/1Q, the current expansion is driven primarily by finance/payment business. However, please be aware that the FY2020/2Q operating revenues include the impact of reversal of point provisions that I explained earlier. The organic growth excluding this impact will likely continue in the second half of the year.
Q2	This is a question relating to your earlier comment on rate plans. I got an impression from your statement that you are considering to introduce a more competitive rate plan than those of other operators to address the issue of the 20GB plan, an area where you have not yet introduced sufficient measures, if you cannot foresee the benefit of acquiring customers from your rivals just by offering something comparable. What are your views?
A2	What we tried to convey earlier was that we currently lack a rate plan suited for users requiring 20GB of data per month, a bucket that sits in between "Gigaho" and "Gigalight" plans. We are considering to set a new plan for this size that can deliver a positive impact. We would like to reserve comments pertaining to the actual level of the rate.
Q3	In my understanding, I thought all carriers have so far refrained from providing a rate plan for 20GB, in order to make it easier to upsell customers to higher plans. Is it correct to understand that carriers have no choice but to study the launch of a 20GB plan given the prevailing socioeconomic circumstances?
A3	As you pointed out, this is related to the fact that 20GB has become a talk of the town. The MIC's international price gap survey made a comparison using 20GB as a benchmark, and 20GB has drawn attention with extensive coverage by newspapers and other media. When a comparison is made based on 20GB, we will be compared by the price of our largest bucket of 60GB, i.e., "Gigaho." If we reduce the data volume to 20GB, we believe we can also lower the rate to a commensurate level.

Questioner No. 5	
Q1	It seems that you are contemplating a pricing measure for the 20GB large-capacity plan. Can you share with us how you plan to counter the sub-brands, including your current assessment of your price competitiveness?
A1	We do not have any plans to launch a sub-brand any time soon. We will study from various options the appropriate pricing measures to counter the competition.
Q2	In the last several years, we have seen pricing pressure coming out of the government on a regular basis. After implementing the new rate plan that you are currently reviewing, can we expect you will be able to completely eliminate the risk of rate reduction requests from the government? Overseas investors have voiced their concerns that it is difficult to make investments if regulatory risks emerge all of a sudden on a repeated basis.
A2	Even if we offer simple and easy-to-understand rates, they do not necessarily fit the needs of all customers. On the other hand, if we devise campaigns to cater to the requests of customers, it could result in diminishing the ease of understanding or the necessity of employing countermeasures against the rate plans offered by the competition. With or without the request from government, we believe we will have to review our rates on an ongoing basis responding to the changes in environment to make our plans more affordable and accessible to users.

Questioner No. 6	
Q1	Concerning the number of 5G subscriptions, can you provide us with your target number of 5G users for December 31, 2020, and the actual number of 5G-enabled iPhones sold as well as its percentage to your net additions after its release in October?

A1	<p>iPhone 12 enjoys great popularity and the number of pre-orders is considerably higher compared to iPhone 11 launched last year. However, the actual sales have been underperforming compared to the same period of last fiscal year due to the impact of product supply, etc. The 5G net additions for the month of October reached 120,000 (as of October 29, 2020), and iPhone 12 accounted for a fairly large portion of this number.</p> <p>We would like to reserve comments on the concrete 5G subscription target for December 31, 2020, but we expect to achieve a reasonably high number in view of the steady pace of sales so far.</p>
Q2	<p>The total “d POINTs” used recorded a favorable increase of over 20% year-on-year, but how has the points awarded been faring? Please also explain your sales performance after the fraud case involving “docomo kouza” service came to surface in October.</p>
A2	<p>Following the “docomo kouza” fraud incident, there was a temporary slowdown in the growth of users because we voluntarily suspended sales activities targeting “d POINT” users. However, because we have successfully expanded the number of locations where “d POINTs” can be used, the points awarded has also grown at a favorable pace and its amount exceeds point usage.</p>
Q3	<p>Do you have any plans to suppress the amount of points to be awarded in FY2020/3Q following the “docomo kouza” incident?</p>
A3	<p>That is not in our plan. The number of customers using “d POINTs” is continuing to increase. We will employ stepped up measures to protect “docomo kouza” and other services, and encourage users to more heavily use “d POINTs.”</p>