

NTT DOCOMO FY2020 Financial Results: Analyst Meeting Q&A

Mr. Kikuchi: I have two questions. You explained that operating profit for FY2021 is projected to decrease by 11.1 billion yen, and mobile communications services revenues by some 60 billion yen, from the previous fiscal year. By calculation, if there are factors that have an effect to lower the profit by 60 billion yen, there must be other elements that will boost the profit by around 50 billion yen. On the other hand, when I look at your operating expenses, depreciation/amortization and communication network charges are forecast to increase by some 20 billion yen, respectively. This means that you must find elements that have an effect to raise your profit by 90 billion yen to arrive at your guidance.

Please give us a breakdown that explains why the projected year-on-year decrease in operating profit from telecommunications business can be managed at 11.1 billion yen.

Mr. Hiroi: What you pointed out is correct. We plan to make up for the decrease in revenues from telecommunications business by cost efficiency improvement, which will be driven mainly by digitalizing our sales channel and overall operations of the Company. The two major contributors that will allow us to limit the profit decrease to 10 billion yen are reduction of marketing-related spend and costs of our overall business operations.

Mr. Kikuchi: Facility-related costs are estimated to increase. Do you really think it is possible to achieve efficiency improvement worth 100 billion yen only by addressing the efficiency of sales channel, etc.?

Mr. Hiroi: I believe you are slightly overestimating the increase of costs. For example, the profit impact from communication network charges is expected to be neutral because of the expansion of “docomo Hikari” optical fiber broadband business. Also, roughly half of the depreciation amount will be eliminated due to write-offs. In other words, the point you should keep an eye on the management of costs is roughly the size comparable to the projected decline in mobile communications services revenues.

Mr. Kikuchi: To follow up on that, I believe your depreciation/amortization recorded an increase of some 20 billion yen in the last fiscal year as well. Because you are projecting a decline in capital expenditures this fiscal year, depreciation/amortization will likely stabilize eventually. When do you foresee it will start to decrease?

Mr. Hiroi: If you look at the historical trends, I believe you can easily understand that the amount of depreciation/amortization converges to a level comparable to capital expenditures with a time lag of a few years. This is what you should expect. Because the average useful life of DOCOMO’s assets is slightly shorter compared to other NTT group companies, the alignment with the CAPEX amount is expected to occur relatively faster.

Mr. Kikuchi: My second question. While this was discussed to a certain extent during NTT’s analyst meeting yesterday, I would like to ask you to give us a breakdown of the projected decline in mobile communications services revenues of 60 billion yen. I understand that you stopped disclosing the impact of discounts on ARPU this time around, but I would appreciate it if you could explain the factors behind the 30-yen decline in ARPU. It would be helpful if you can give us a breakdown of the impacts from i) rate reduction, ii) decrease of “Monthly Support” discount and iii) MVNO revenues, etc.

Mr. Hiroi: It is difficult for us to provide you with more details beyond what we already explained yesterday concerning the elements causing a decrease in revenues, so I hope

you would make various assumptions looking at the ARPU.

Regarding the disclosure method of ARPU, i.e., with and without applying the impact of discounts, we thought this method of disclosure made things more complicated and difficult to understand, because the number of elements included in the calculation increases significantly, depending on where the starting point for the impact calculation is set.

In our business management, we basically attach a strong focus on our ultimate revenues, which is managed by multiplying the ARPU by the total number of users. While the ARPU for FY2021 may come down by 30 yen, we would like to mitigate the revenue impact by expanding our user base as much as possible.

The impact from the “Monthly Support” discount program will continue to be sizable for the next 1-2 years. The speed of decline in the absolute amount of discounts slowed in FY2020 compared to FY2019, and the impact from “Monthly Support” discounts will disappear in FY2022. I believe you can extrapolate from these developments and make predictions.

Mr. Masuno: I have two questions. The first is about the competitive landscape. Amid the general increase in churn rate in the overall market, you have successfully kept your churn rate extremely low, with your FY2020/4Q handset churn rate remaining flat year-on-year, and mobile churn rate including data plans recording a decline. I believe you have recorded net subscriber increase of some 100,000 each in FY2020/3Q and 4Q which indicates that there was a significant impact from the “ahamo” plan.

You commented earlier that the full-year ARPU for FY2021 is expected to decrease by 30 yen year-on-year, but I think this is a level that you can completely offset if you can acquire net inflows of 100,000 on a quarterly basis. Thus, I believe the rate reductions that you have executed did not cause you any impact at least in this context. Although you are projecting a 60 billion-yen decrease in mobile communications services revenues for the current fiscal year, the amount for the last fiscal year came in 54 billion yen higher than planned. Even if the timing of MVNO rate revision had been different, your mobile communications services revenues would have remained the same as your initial forecast developed a year ago. In this regard, you maintained the revenues unchanged from the level you had planned in the beginning of last fiscal year despite executing the rate reductions. Can you share with us your views on this point?

Mr. Hiroi: Your comments are positive and encouraging for us. It would be ideal if things develop in the way you mentioned. We, however, do not have such an optimistic forecast for handset net additions, and that is why our guidance looks like this. We would like to deliver performance as close to what you described as possible. While we thought we developed a relatively aggressive forecast for our total user count, we do not see things as aggressively as you.

Mr. Masuno: I would be in a trouble if you say acquiring 100,000 net adds in a quarter is too high a target. What do you think?

Mr. Kobayashi: The number that we indicated relates to consumers, as we have been discussing the “ahamo” plan from the perspective of consumers. The number will become higher if enterprise customers are included. If we look at things from the angle of consumers that have higher ARPU and revenue impact, what Mr. Hiroi explained will be our projection.

Mr. Masuno: Even if that is the case, you would be able to partly make up for the 30-yen decline in ARPU with the increase of net additions, amid all these deliberations concerning rate reductions. While I believe the data rates will continue to come down in the next fiscal year and beyond, the impact from the reduction of MVNO voice wholesale rate is a one-off factor that applies only to this year. This makes me believe the impact of the rate revisions is not expected to be so significant.

My second question relates to the growth of non-telecommunications businesses. According to your plan for this fiscal year, the main growth driver is expected to be finance/payment business, as Other businesses (e.g., “Mobile Device Protection Service” and enterprise solutions) are not likely to record a significant profit growth. Both “d Payment” and credit card service process a huge amount of transactions, but it was reported that PayPay has a gross merchandise value (GMV) of approximately 3,200 billion yen. What is the size of distribution/transaction volume you aim to achieve with your credit card and smartphone payment service? Also, as I believe the profit from 5G solutions will start to increase going forward, how do you estimate the profit growth of the segment in which the solutions business is included?

Mr. Hiroi: I construed that you asked the total amount of “d Payment” transactions. Am I correct?

Mr. Masuno: No, I wanted to know your estimates concerning the growth of total finance/payment transactions, including credit cards and other services, in the future. I believe there is a large gap between you and Rakuten, but how much do you think you can narrow the gap?

Mr. Hiroi: The total transactions increased from some 5.3 trillion yen in FY2019 to around 7 trillion yen in FY2020, and we would like to maintain this momentum. If you single out “d Payment”, there is indeed a gap between us and PayPay, but the total amount of transactions of our payment solutions including “d CARD” has grown to a considerable size, and this business is the largest source of revenue in our Smart life business. We aspire to continue to expand the business without dropping the current speed of growth.

Mr. Masuno: The profit from solutions is not likely to increase significantly this fiscal year, but what are the prospects for the next fiscal year and beyond?

Mr. Hiroi: As for solutions, we have already started marketing various 5G-compatible solutions, but their profit margin is still low, thus its profit contribution for FY2021 is expected to be insignificant. Meanwhile, we established a new joint venture with Komatsu to offer B2B2X solutions. As shown by this example, the projects which had previously been in the POC phase are now being launched as concrete businesses. We thus believe the profit contributions from the solutions business will become larger in FY2021 and subsequent years.

Mr. Ando: I also have two questions. The first is about your Mobile Number Portability (MNP) performance. In April, you recorded net inflows, which I believe was affected by the progress of processing the accrued subscription applications for “ahamo” plan. How do you foresee your MNP subscriber acquisition trend after this impact runs its course? As your overall performance (including not only “ahamo” subscriber acquisitions but also your churn rate, etc.) has been faring favorably overall, do you think there is a good chance for you to maintain your MNP subscriber acquisitions in the positive territory? I would like to know your current views on this.

Mr. Ii: As you rightly pointed out, we have been making progress in converting the pre-orders for “ahamo” service into actual contracts. Now that the total “ahamo” subscriptions exceeded 1 million, the pace of growth will likely level off as we move forward. However, had it not been for “ahamo”, the users might have switched to the second brands, etc. offered by other carriers. This is an important point. I believe our competitors are nowadays losing more subscribers than before, but we, in contrast, enjoy a positive situation of halting the outflows that had lasted for some time.

There are also a good number of existing customers, who had previously had to make do with the “Giga Light” plan due to a lack of other suitable options, switching to “ahamo” lured by its affordable rate. On the other hand, we have also seen some downgrades by customers who had previously used “Gigaho” to “ahamo” because the data capacity offered by the unlimited plan was too much for them. We have seen these types of internal rebalancing within our own customer base hitherto. Furthermore, we have succeeded in regaining some users who had switched to Rakuten Mobile or MVNOs, and some totally fresh subscribers have also joined our service.

To comment on how this will affect our MNP performance, the return of customers who had switched to other service providers will have a positive impact. In addition, those who had the possibility of switching to other providers deciding otherwise is another positive factor for the MNP performance. Further, the proportion of subscribers choosing large data buckets (such as “Gigaho Premier”) has been increasing of late. As we have seen an increase in the number of customers opting to purchase a 5G-enabled handset, as opposed to 4G, to enjoy 5G services, this will likely be the main battlefield in the competition in the days ahead.

Mr. Ando: Let me ask my second question. As the user base of “ahamo” grows from 1 million to 2 million. Can you once again share your views on how these users will overlap with the uptake of Smart life services?

Mr. Fujiwara: This is Fujiwara of Corporate Strategy and Planning Department. For Smart life business, we intend to drive growth primarily through our finance/payment services, but we intend to firmly strengthen our video distribution business, etc., following the launch of 5G. We will aim to expand the adoption of these services while assisting customers on the pricing front through the provision of a comfortable usage environment eliminating the need for customers to worry about their data allowances.

Mr. Ii: I would like to add a few words. The “ahamo” plan enjoys great reviews among the users in their 20s and 30s. The plan is also subscribed by very young users in their teens, but many of these users do not yet own a credit card. We are currently striving to offer bundles aiming to have these customers choose our “d CARD” as their first credit card, so we can successfully guide them to use our finance/payment offerings. Another way of guiding them to our Smart life services is, of course, to have them use our video and other content services on a large data bucket plan, but there are so many options for such content services in the market. We therefore would like to rather navigate these customers to use our finance/payment offers. To give you an example, we have recently launched a campaign in which we offer additional data capacity of 5GB under the “ahamo” plan to subscribers who have signed up for “d CARD GOLD”.

Mr. Okumura: Two questions, please. The first is about the revenue impact from rate reductions such as the launch of “ahamo” plan. Do you think the impact will be larger

next fiscal year than the current fiscal year? Can you explain how your revenues will be affected? If you foresee the bottom to occur during this fiscal year, there should be certain positive elements that will offset the revenue impact for next fiscal year, such as subscriber migrations, upsell, acquisition of fresh subscribers, etc. Can you share with us your expectations concerning the contribution from each of these elements?

Mr. Hiroi: The number of “ahamo” subscriptions is expected to gradually increase following its launch this fiscal year. The total number of subscribers choosing “ahamo” is projected to be larger next year than this year, thus the negative revenue impact will likely expand. How we can mitigate this negative impact through the expansion of our overall user base will be key, and we will make every effort to achieve this.

Mr. Okumura: Moving on to my second question, you previously set a target to achieve 990 billion yen in operating profit for the fiscal year ending March 31, 2024, but do you plan to set a new profit target after the planned consolidation with NTT Communications? Or will keep your operating profit target of 990 billion yen from telecommunications business and Smart life/Other businesses combined unchanged?

Mr. Hiroi: Because the NTT group is currently going through a major change in its structure, we would like to share with you our ambitions for the absolute amount of profit on a separate occasion when the time is ripe. Regardless of the formation of the group, we aspire to maintain the growth trend of profits not only at DOCOMO but also at NTT Communications. We would like to ask you to give us a little more time to plan on the concrete numbers and the speed of growth.

Mr. Kinoshita: I have two questions. As you raised a goal to create new lifestyles, can you elaborate how this is positioned within your overall business? That’s my first question. In concrete terms, I believe there are many services competing against your “dTV” video business, and I have the impression that the competitors’ offers are growing at a faster pace. Do you believe there is a good rationale for DOCOMO to actively promote this business? Please also confirm if it is correct to understand that your entry in arena operations was not primarily for revenues but rather for accelerating the uptake of 5G service.

Mr. Hiroi: Certainly, the video content market is a crowded space with many formidable competitors. But we have also stepped up the marketing of our “dTV” service, and, while it may be difficult to achieve a remarkable expansion, we believe we have secured a business size that is well positioned for stable profit increase depending on how we sell the service. In addition, “d anime store” offers great potential for further expansion, and the service has shown growth of late. Accumulating solid profits from these potentially profitable services will provide us with a very important profit foundation. We will therefore properly compare the costs, and will take a selective approach for the various “d-services” focusing on those that can make profit contribution or offer high growth potential. We also intend to strategically address new services that can bring about the synergy of accelerating the adoption of 5G.

Mr. Kinoshita: Is it correct to consider that you are offering XR services mainly for the purpose of propelling the adoption of 5G?

Mr. Hiroi: Exactly. You can think of it that way.

Mr. Fujiwara: Whether through 5G or not, we must also consider how to capture the “stay-at-home” demand in view of the new normal brought about by COVID-19. We will

therefore once again polish up whatever services we can.

Mr. Kinoshita: In the presentation, there is a description concerning the planned rollout of medical services including online treatment. Can you elaborate on the revenue model of healthcare/medical services?

Mr. Hiroi: The health/medical care domain has been positioned as an area that we should tackle strategically. Not only DOCOMO, but the entire NTT group recognize that this is a market that will grow over the middle to long term. However, when it comes to the current business model, the progress of deregulation has not been sufficient in some areas, and we hope to see further deregulation of online treatment business in the future. We aim to realize a model that will allow us to generate revenues from the provision of a platform that enables medical doctors to properly treat patients online. As a foundation for this, we plan to further upgrade our “d health care” service, which provides health management tips, etc. to consumers, thereby increasing the number of healthcare service users among the consumers, and achieve further monetization through online treatment service. We would also like to expand into the pharmaceuticals sales business further down the line, but please understand that the concrete development of this business model requires some more time.

Mr. Ii: Membership model is the key here. We need to secure a stable source of income by acquiring subscribers who are willing to pay a fixed rate every month as a member, because we cannot earn so much from pay-as-you-go services. The question is how we can deliver value commensurate the fixed rate. If we can achieve this, we can expect to earn a large sum of revenues, multiplying the monthly rate by the membership base we own.

Mr. Kinoshita: Should I expect that you are headed for a membership model for online treatment as well?

Mr. Ii: I would like to reserve my comments because this relates to our strategy. I can say that it is considered as one of the models, and I hope you can guess from that statement.

Mr. Kinoshita: I believe the provider of online treatment service is Medley. Can you explain the flow by which DOCOMO receives revenues from the operation of platform?

Mr. Hiroi: It is difficult to share the details as this relates to our practical business strategy. In any event, we intend to be involved in such a manner.

Mr. Takahashi: I would like to ask two questions. First, you declared to pursue “customer first,” which I think is extremely important as many of your services are for consumers. President Ii mentioned in his comments at the outset that you now have the ability to compete. I agree that you have regained competitiveness quite significantly with the launch of “ahamo,” “Giga Premier” and the “Economy” plan which you are currently preparing jointly with MVNOs. However, it is questionable if you can really claim that you put customers first as far as the volume-zone “Giga Light” customers are concerned. Do you have any plans to revise the “Giga Light” rates in the future? Or do you plan to shift your focus to the collaboration with MVNOs? Please let us know your planned initiatives for the “Giga Light” user segment.

Mr. Ii: It is senseless to consider the pricing strategy only from DOCOMO’s perspective, as this is something that must always be considered in view of the competitive landscape. Therefore, we must consider how to set prices looking at the state of competition among the low data capacity market covered by “Giga Light”.

For the low data capacity market, we are planning to introduce an even less expensive package in collaboration with MVNOs. Because it is useless to offer two similar plans, how to differentiate the two becomes important. We are currently seeing rebalancing of customers following the introduction of a middle-capacity data plan. We will first observe the trends for some time, and consider the positioning of “Giga Light” keeping an eye on the moves of the competition.

Mr. Takahashi: Do you plan to design the “Economy” plan in a way that it will look clearly different from “Giga Light”?

Mr. Ii: Yes, we plan to design it that way.

Mr. Takahashi: You talked about the expansion of user base several times, so I would like to ask about the breakdown of the 1.58 million net additions forecast for this fiscal year. In FY2020, the number of modules increased significantly. If modules continue to grow at the same pace this fiscal year, it could be estimated that modules will account for the majority of 1.58 million. On the other hand, there are also some negative factors, such as the MVNO counts, with Rakuten making progress in converting its current MVNO users into MNO service, etc. Can you share with us your projections on the breakdown of the 1.58 million net additions, with a rough estimate on the number of handsets, modules and MVNO subscriptions?

Mr. Hiroi: The number of modules for FY2020 was affected by an irregular factor caused by customers’ circumstances and we do not forecast an increase this year. Also, the enterprise accounts, which were sustained by the “Giga School” project in FY2020, is expected to lose momentum this fiscal year. The consumer portion of handset sales is expected to underpin our baseline revenues and we are projecting a steady increase in this component.

Mr. Takahashi: Will it be correct to anticipate a slower growth for MVNO subs?

Mr. Kobayashi: In FY2020, the net additions of modules was 2.3 million, but project the number to be 1.79 million for FY2021. We also project a significant decrease in data devices due mainly to stabilization of the initial demand from “Giga School” initiative. Regarding MVNOs, we anticipate a decline in MVNO subscriptions due to the launch of Rakuten Mobile (MNO) service by Rakuten. We do not disclose the breakdown of our net adds projections.

Mr. Tsusaka: Two questions please. Regarding the discussion on the reduction of voice service rates, please share with us your views concerning the expectations of the regulator for the mobile industry, and the potential risk on your business from this issue.

Mr. Fujiwara: In the deliberations, it has been pointed out that there has been little progress in the reduction of usage-based voice rates. But operators, including DOCOMO and others, are offering flat-rate plans and family discount options, and at present, 70% of users are using flat-rate plans. Therefore, while the usage-based voice plans have become the sole focus of attention, we have been arguing that customers have fully enjoyed the benefits and savings in using voice services, and we hope to receive their understanding. Instead of focusing only on the usage-based pricing regime, we hope things will be considered in view of the whole voice rate structure including flat-rate plans.

Mr. Tsusaka: Things may be decided by the government at the end of the day, but will it be correct to construe that you do not foresee any risks on your business?

Mr. Fujiwara: We will endeavor to receive their understanding through discussions.

Mr. Tsusaka: Should I consider that you do not perceive this so much as a risk for your future profit at this point, so long as you are able to obtain their understanding? How sizable will be the negative impact? Or is this something we do not need to care about?

Mr. Hiroi: Please allow us to reserve our comments, because if we share our views now, it could cause various repercussions. But please understand we are thinking about various things.

Mr. Tsusaka: How do you estimate the future impact of non-telecommunications business on your bottom line? If you have any plans, please share them with us. For example, I believe you currently attach a strong focus on credit card and other financial businesses. If we assume Rakuten's credit card is the most successful service in the category, in my estimate, the profit to be generated by your credit card business would be approximately 30 billion yen per annum when your credit card business grows to a size comparable to Rakuten's. This implies that even DOCOMO's credit card business grows to the most profitable level in Japan, it will only contribute some 30 billion yen to your total operating profit of 900 billion yen. I therefore believe you will have to pile up profits from many different sources. I am aware that you are developing services in new fields (that are different from conventional services like Mobile Device Protection), so it would be appreciated if you can give us an indication on the projected size of profits from non-telecommunications offerings and the timeframe to achieve that.

Mr. Hiroi: As you pointed out, when we look at the profit generated by our Smart life offerings today, the largest driver is indeed the finance/payment business. However, the speed of its growth will likely level off once the business reaches a certain scale. Having said that, however, we expect the growth trend to continue for the next several years, and we will make sure not to lose the speed of expansion.

We have started implementing certain initiatives, defining areas that offer promising market potential, including the healthcare services that we discussed earlier. We are currently sowing the seeds for the future, with an ambition to expand our portfolio without losing the momentum before the expansion of finance/payment business stabilizes.

Mr. Tsusaka: Have you set any targets for the contribution from new businesses, such as 10% or 20% of your total profit, when your operating profit grows to, for example, 1 trillion yen?

Mr. Hiroi: We have not set any numerical targets in absolute terms, but we would like to increase the relative profit contribution from new businesses.

Mr. Eguchi: I would also like to briefly ask two questions. The first is about your enterprise strategy. I understand that you have been putting efforts behind the enterprise business, and have achieved tangible progress as exemplified by your alliance with Medley and Komatsu. Can you share with us your plans, with some comments on your assessment of the current state, the progress of strategy execution, and projected timing of revenue contribution, etc.?

Mr. Ii: Thank you for the question. As you rightly pointed out, it is impossible to cultivate new domains only on our own, so it is important to ally with good partners. Medley has a strong presence and solid customer base in the medical field, and Komatsu owns strength in the construction machinery market. It has been taking time to establish the

business/revenue models, but as a new DOCOMO, we are striving to speed up the process. DOCOMO has historically made many small investments/alliances, but have little experience in large-scale M&A. Thus, we need an alliance strategy which includes the possibility of customer base acquisition. The investment per se is not the end, so business alliance will do in some cases. However, if we are to ultimately commit ourselves, establishment of joint ventures and acquisitions could also be a viable option. In this context, we are moving forward with a sense of speed, believing that things that do not materialize in three years' time are worthless. We are now actively sowing the seeds for both Smart life and enterprise businesses.

Mr. Eguchi: My second question concerns "Sustainability Management" on page 20 of the presentation, in which you have given some KPIs. From a financial point of view, your revenue structure today is very much skewed toward telecommunications business. How far, do you think, your revenue structure will change in terms of the contributions from BtoC, Smart life, enterprises, etc.? NTT has set EPS, ROIC and cost reduction as major KPIs, so I would like to ask the most important KPIs for President Ii—the KPIs that must be achieved or defended by all means?

Mr. Ii: I received a very difficult question at the end of today's session. First, we must maintain our MNP customer acquisition performance in the positive territory. We, at last, managed to get our head above the water after a constant defeat over the last 12 years. Staying in the positive territory is therefore the most fundamental indicator for our mobile business.

In the area of enterprise business, we consider that our future collaboration with NTT Communications will provide us with a major trigger for change, allowing us to offer converged services blending fixed and mobile. Further, the combination of small- and mid-sized enterprises currently served by DOCOMO and the large corporations currently covered by NTT Communications is also expected to open up a new market for us.

Because we live in a competitive environment, we, of course, must cut down on our costs. If our costs are too high, we cannot provide any discounts and cannot win in the bids of customers. Cost reduction, including network and sales costs, should be a very important KPI for us, because it will lead to lowering our cost of service and securing proper level of profit margin.

I also believe we are slow in the adoption of digital technology. The Company is so accustomed to operating with manpower that we need to step up our efforts to advance digitalization of sales activities for both enterprises and mass users.

It does not mean that everything must be converted to online; mixed adoption of online and offline solutions is fine. However, we must adopt digitalization as a KPI, otherwise we cannot bring down our costs and adapt to the remote-style society of the future. These are the basic ideas concerning the points we should address to make the Company stronger.