NTT DOCOMO FY2021/1Q Results: Analyst Meeting Q&A

Mr. Masuno: According to slide No. 3, which explains the factors behind the changes in operating profit, mobile communications services revenues decreased by 9.7 billion yen compared to the same period of the previous fiscal year. However, the ARPU has been flat and you secured net additional subscriptions, so I believe the revenues from DOCOMO brand recorded a slight increase, thus the decline in mobile communications services revenues was completely attributable to the loss of MVNO revenues. Is my assessment correct? In addition, the equipment sales profitability, i.e., the net amount of selling revenues and expenses, recorded a year-on-year decrease of 3.6 billion yen. Because the reduction of selling expenses was a profit-boosting factor for other mobile operators, I was somewhat surprised that this was one of the causes behind the decrease of profit. Can you explain the background? Further, you mentioned earlier that 5G-related investments and promotion of finance/payment business were the major elements behind the 30.1 billion-yen increase in other operating expenses. Can you give us a breakdown as to the actual amount spent for 5G and finance/payment services, respectively? I would like to know the changes in profit generated by these services.

Mr. Hiroi: Your assessment pertaining to mobile communications services revenues is correct. As for equipment sales profitability, because of our active promotion of “ahamo” and aggressive migration of 3G subscribers, there has been a slight increase in selling expenses, which resulted in a little deterioration over the same period of last fiscal year. With respect to other operating expenses, the changes of depreciation associated with 5G investments that I commented earlier are reflected in the increase of network-related expenses. Other key elements comprising other operating expenses include the sales promotion costs for various Smart life-related offerings.

Besides the above, there was a slight increase in device-related expenditures in the telecommunications business for enterprises, and a little increase in the cost of goods sold at our shops. The stepped-up sales activities at shops caused an increase in selling-related expenses including costs of goods sold, which rose in tandem with sales promotion expenditures.

Mr. Masuno: Regarding mobile communications services revenues, I believe the sales of DOCOMO brand brought about a slight revenue growth. While the entire industry lost tens of billions of yen in revenues, only DOCOMO managed to avoid a decrease. Can you briefly explain the reasons why the underlying ARPU remains strong? I also believe you have been able to acquire a considerable number of net additions, but since your churn rate has been rising, does this imply you have secured a huge number of fresh subscriptions? If you could provide us with a brief explanation about the background, it would be appreciated.

Mr. Hiroi: As it was mentioned during NTT’s results announcement session that was held earlier, the churn rate appears to have risen due to heightened subscriber liquidity with increased numbers of port-ins, port-outs, fresh subscriptions and churns, as the market entered a phase of competition in which all mobile carriers introduced new brands and strongly promoted the sales of 5G devices.

Regarding the ARPU trends, as you pointed out, we have been able to secure a certain number of net additions. However, there were also factors that caused a negative impact on the ARPU, such as the launch of “ahamo” plan and the downgrading of rate plans by

existing subscribers.
The expanded adoption of “Gigaho” plan, on the other hand, has had an effect to boost the ARPU. And as you are aware, there is still a little impact from the remaining “Monthly Support” discount contracts. The ARPU for FY2021/1Q was the result of the mix of all these factors. Those were the elements that affected the ARPU, but I would like to reserve further comments regarding the size of impact of each component.
Mr. Kobayashi: To add a few more comments on churn rate, the FY2021/1Q churn rate of 0.58% is exactly the same as the rate two years ago, before the outbreak of COVID-19. While there may be some room for further improvement, given that the competition in FY2019 was also very fierce, we believe the level last year was somewhat low.
The churn rate for the month of July has already dropped to a level comparable to last year.
Mr. Masuno: I estimate that you acquired approximately 900,000 net additions, which was derived from the sum of sp-mode and i-mode subscriptions. Is it correct to assume that is indicative of your current momentum?
Mr. Hiroi: I would like to refrain from commenting on concrete numbers, but in our view, the performance hitherto has been favorable.

Mr. Ando: In my memory, I believe this is the first time you disclosed the planned amount of customer returns of 250 billion yen. Previously, I believe you gave us a projection concerning a net decrease of revenues totaling 60 billion yen. Can you provide us with a breakdown of items included in the 250 billion-yen program and the percentage of each item to the total budget?
Mr. Hiroi: The amount has been estimated based on certain assumptions, reflecting the various rate revisions executed in the past as part of our customer return measures. Over the years, we have offered affordable and easy-to-use rate plans catered to the needs of customers, starting with the launch of “Gigaho” and “Gigalight,” and most recently introducing the “ahamo” plan. I hope you would understand that we calculated the gross impact of all these plans, which is estimated to be over 250 billion for this fiscal year.
Mr. Ando: Then, does the starting point of the calculation date back to quite a few years ago?
Mr. Hiroi: Correct. The timeframe of this calculation remains unchanged from the time we made our previous statement in which we estimated the size of customer returns to be 400 billion yen. Back then, we netted out various elements in calculating the impact, but this time around, we simply presented the gross amount of customer returns.
Mr. Ando: The market was very turbulent in the months of April and May after the launch of “ahamo” plan, but from around June, I believe the situation has returned to normal, which I think will allow you to get an indication of the future trends. Can you explain your subscriber acquisition performance in June and subsequent months, so we can get a hint about the future trends?
Mr. Hiroi: The trend varies from month to month, but overall, our performance for the months of June and July has been favorable and we would like to maintain this momentum as much as possible as we head towards the second half of the year. To this end, we plan to employ a variety of strategies and initiatives, e.g., starting to receive applications for “Home 5G” service. By actively pursuing these initiatives, we will aim to

maintain or further improve the current performance.
Mr. Ando: Can you comment on your net additions and MNP subscriber acquisition performance in the period after June, which I believe have recorded gains compared to the period before the introduction of "ahamo?"
Mr. Hiroi: We have been able to maintain improved levels on a year-on-year basis.

Mr. Kikuchi: I have a question regarding your ARPU. I would like to know the level of ARPU before applying discounts, an indicator you previously disclosed to us. Could you also comment on level of gross ARPU, as I believe there is still a large amount of "Monthly Support" discounts outstanding.
Furthermore, can you explain the impacts from discounts that were implemented around the end of last year and the "ahamo" plan? I believe you secured a certain number of upsells because the proportion of large bucket users among the main brand had been low. Please give us an overview concerning the impacts from rate reductions, deterioration of mix and upsells.
Mr. Hiroi: We do not disclose ARPU data other than the gross amount, as it would be misleading to make disclosures that reflect the impact of discounts implemented a long time ago, and also because we currently have a strategic intent to firmly control our mobile communications services revenues.
Our goal is to make available a wide array of rate plans suited to the needs of customers, expand their adoption and achieve upsells—this is what we would like to control over the medium term. We would like to properly control our mobile communications services revenues, maintaining the current level or even achieving upsides. Accordingly, we have decided not to disclose our historical ARPU that has been calculated with various preconditions.
Regarding our assessment of "ahamo" following its launch, one of the positive effects was the higher-than-expected growth of subscriptions, which demonstrates that the plan successfully catered to the needs of customers. Because we have been able to acquire a certain number of totally fresh subscriptions other than the switch of rate plans within our existing user base, I believe we can give a positive evaluation to "ahamo".
In terms of the impact on mobile communications services revenues, certainly there are some negative effects because the switch to "ahamo" leads to a drop in ARPU for some customers. However, in our observation of the trends over the last few months, the number of customers who can enjoy an outright benefit by switching to "ahamo" has started to decrease because those early adopters who can clearly expect a benefit have migrated to "ahamo" soon after its launch, and the proportion of upsells have been gradually increasing of late. These positive impacts are gradually becoming visible. We will continue to promote "ahamo" and develop various rate plans and strategies toward the goal of further expanding our customer base. Through these initiatives, we will strive to maintain and even expand our mobile communications services revenues over the medium term.
Mr. Kikuchi: Have you seen any changes in the composition of your large data bucket users or DOCOMO brand subscribers as a result of the effective rate reduction by removing the usage cap from the DOCOMO brand large data plan?
Mr. Hiroi: I do not understand what you mean by change of composition.
Mr. Kikuchi: You were able to take the lead in lowering the rates for the main brand

because a large proportion of your customer base were users of low data plans, so I believe you had anticipated to generate some upsells among those low data users (excluding “ahamo” users) to the large data plan if you lowered its rate. Please let us know if you have seen any positive impacts on your ARPU, etc.?

Mr. Hiroi: The adoption of “Gigaho” has also been expanding at a favorable pace, but I do not think it induced a composition change significant enough to boost the ARPU.

Mr. Kikuchi: You mentioned that you plan to operate the business in a way that could expand mobile communications services revenues over the medium term. Generally speaking, when I take into consideration of the results of DOCOMO and your competitors as well as the estimated gross ARPU and other factors, am I correct to understand that you think you would be able to operate the business without reducing, or even expanding the mobile communications services revenues in the next fiscal year and the following year?

Mr. Hiroi: Due to the strategic launch of a series of rate plans hitherto, we anticipate negative impacts on our mobile communications services revenues for the current and next fiscal year.

However, we will at the same time properly manage our business so we can maintain or even increase our profits. If we can successfully expand our market share, it will eventually lead to positive outcome. We therefore believe that it is possible to maintain our communication services revenues.

Mr. Kikuchi: This year, you are projecting a slight net increase of subscriptions and a small growth in ARPU despite the impact of “ahamo.” While the ARPU may decline going forward, the drop in mobile communications services revenues will be driven mainly by MVNOs. Accordingly, will it be correct to assume that you are expecting an increase in the communications revenues from DOCOMO brand users?

Mr. Hiroi: I would like to refrain from providing a concrete comment, as the result would be affected by a number of factors including the future expansion of “ahamo” user base, the number of new subscribers, and the percentage of users switching rate plans, etc.

Mr. Kikuchi: Regarding MVNOs, I construed that the decrease in mobile communications services revenues is attributable to MVNOs, because the revenues from DOCOMO brand and “ahamo” users has recorded an increase. The decrease of MNVO revenues can be divided into the two components of the number of subscriptions and ARPU. The ARPU, I believe, has been dropping due to systemic reasons, so I would like to hear your views concerning Rakuten’s impact on the number of subscriptions. Further, if your MVNO revenues have dropped by more than 10 billion yen in FY2021/1Q, what will be the estimated impact for the full year?

Mr. Hiroi: As you just pointed out, the revenues from MVNOs have been declining due to the impact of prices, the wholesale rates and the number of subscriptions.

While it is difficult to predict the speed of change in the periods ahead, we currently project that these elements will continue to affect the revenues at a certain pace this fiscal year.

Mr. (Hideaki) Tanaka: In your earlier comment concerning the breakdown of Smart life business and Other businesses, you mentioned that the FY2021/1Q revenues from Smart life business increased by 5.1 billion yen year-on-year, but the progress seems to be slow vis-à-vis your full-year revenue growth target of 53.8 billion yen. In contrast, the operating revenues from Other businesses for FY2021/1Q recorded a year-on-year increase of 4.9 billion yen, a very fast pace of growth toward your guidance of achieving an increase of 4.6 billion yen for the full year. Can you explain the factors behind these trends and the outlook for the future?

Mr. Hiroi: First, about Smart life business, finance/payment services continue to be the driver behind its revenue growth. The growth of content/lifestyle services has been slower than our earlier expectations, so we need to further accelerate this business as we head toward the second half of the year.

Content/lifestyle services include our digital content, known as “d services” as well as Oaklawn Marketing, which has suffered a slight setback in revenues this year after achieving brisk sales in the same period last year driven by the stay-at-home demand. The lackluster performance in these areas is reflected in the numbers.

Other businesses include the income from system integration business targeting enterprise users. The relatively steady expansion of this business was the main driver behind the revenue growth of Other businesses.

Mr. (Hideaki) Tanaka: The performance of Oaklawn Marketing must have been predictable, but what are the fundamental causes of the weakness of content business?

Mr. Hiroi: Among our video offerings, services like “d anime store” has been enjoying great reviews for its rich portfolio of animation titles, but other video services are generally struggling amid the fierce competition with global brands and other rivaling offers.

Our “d magazine” service was launched some time ago, but we need to further beef up its competitiveness because various other players in the market have introduced many competing services.

Mr. Takahashi: Your net additions appear to have actually worsened if modules are taken out from the calculation. May I ask you to provide us with some more details by the type of product, e.g., handsets, tablets and MVNOs, which recorded a decrease according to your earlier comment?

Mr. Hiroi: Your analysis concerning the net additions trend excluding modules is correct. However, the number includes MVNO subscriptions, which have been negatively affected by the significant change in competitive environment. The net additions reflect the outcome after absorbing this negative impact, so we can fairly say that our net adds performance for handsets has been relatively favorable.

Mr. Takahashi: Will it be correct to understand that you secured positive net additions for tablets as well?

Mr. Hiroi: I meant we recorded positive net additions for handsets and tablets combined. If you single out tablets, its performance is not as favorable as handsets.

Mr. Takahashi: I would like to ask about your views concerning the profit outlook for FY2021/2Q and beyond. Since you forecast a slight year-on-year increase in profits for the full year, I believe you are generally expecting that your profits will start to rebound sometime in or after FY2021/2Q. However, because there was a reversal of point allowances worth 20 billion yen in FY2020/2Q, should I expect that the clear turnaround will only happen in the FY2021/3Q or beyond? Or, will it happen in FY2021/2Q?

Mr. Hiroi: We of course plan to achieve an increase in profit in the second half of the year, and indeed in our plan, profit generation is heavily skewed to the latter part of the fiscal year. We have recorded a slight decrease in profit in the early part of the year, but we expect the trajectory will turn positive later in the year driven by the growth of Smart life profit and improved cost efficiency in telecommunications business, particularly the improved efficiency of marketing expenses through the adoption of DX. We believe the effects of these initiatives will likely kick in towards the end of the fiscal year.

Mr. Moriyuki: You mentioned earlier that the total number of “ahamo” users reached 1.8 million. Among them, what are the percentages of existing customers switching from other plans and customers porting in from other carriers? Have you seen any changes in their proportion?
Mr. Hiroi: I would like to reserve comments on the specific percentage. As for the change of proportion over time, the split has remained almost the same, but we have seen a gradual increase of migrators from other carriers.
Mr. Moriyuki: Are you talking about the absolute number?
Mr. Hiroi: I was referring to the proportion. In terms of absolute number, we saw a peak in April immediately after the launch of “ahamo,” and the pace of growth has slowed thereafter.
Mr. Moriyuki: Concerning Smart life business, should we expect its profit will continue to decrease in FY2021/2Q and then start to recover in the second half to achieve gains on a full year basis, because you recorded losses in FY2020/4Q?
Mr. Hiroi: Your assumption is correct.

Mr. (Katsunori) Tanaka: This is a question concerning your capital expenditures plan. Your CAPEX increased considerably in FY2021/1Q over the same period of the previous fiscal year due to the rollout of 10,000 base stations, but you have not changed your full-year guidance. I therefore believe the CAPEX for the remaining quarters will come down. However, you need to complete the rollout of 20,000 stations by the end of the fiscal year in March 2022, so I am concerned if you can control the CAPEX within the planned amount. If you think you can manage in accordance with your annual plan, in which area do you think you can achieve efficiency improvement? From which quarter will we begin to see a year-on-year decrease in the amount of CAPEX?
Mr. Hiroi: Based on the current progress, because there was a concentration of capital expenditures in the first quarter, we are confident that we can steadily manage our CAPEX within the annual budget without making any changes to the planned investments for the second and third quarters of the year.
Further, when compared to the same periods of the previous fiscal year, because we spent a large amount of CAPEX in the third and fourth quarters of FY2020 and FY2019, I am sure that you will notice a large drop around the fourth quarter in the year-on-year comparison of our quarterly expenditures.
Mr. Kobayashi: If I add a comment on what is happening with our net accounts, because macro equipment that can efficiently cover a large area became available in the second half of last fiscal year, we installed a considerable number of these equipment in FY2020/2H. We recorded an increase in CAPEX in the first quarter of this fiscal year, partly because we faced difficulty in rolling out base stations in the first quarter of last year due to COVID-19. In terms of the progress against the full-year CAPEX budget, we only spent 16% in FY2020/1Q but the number for FY2021/1Q grew to 22.3%. I hope you

would understand the progress so far has been just in line with our plan.

Mr. Tsusaka: With your net adds acquisition improving quite significantly, I have an impression that you have considerably regained competitiveness, so I would like to know your views concerning its sustainability.

I think the PR effect of "ahamo" was quite strong in the beginning, but the main battle field of competition has now shifted to the lower price range. Your two main competitors have introduced extremely low-priced plans, and I heard they are enjoying brisk sales in the market. Do you have any plans to offer something to counter these plans, or do you think it is unnecessary to do so? Do you think you can sustain your competitiveness with your current pricing strategy?

Mr. Hiroi: Regarding whether we can sustain the favorable momentum, if the current competitive landscape remains intact, we believe there is a good chance of sustaining it because we will continue to implement additional strategic measures and the motivation of our employees has been heightened.

If we look at the current market conditions, we foresee that the price competition in the middle- and low-data capacity plans will definitely intensify, and we will make sure to be well prepared for that. If we can make adequate preparations in these areas, we shall be able to sustain our performance.