

NTT DOCOMO FY2021/3Q Results: Analyst Meeting Q&A

Mr. Kikuchi : Thank you. This is Kikuchi. I would like to ask about the churn rate and ARPU, and also KPI. With regard to the churn rate, in your case, it is very low. The competition has also enjoyed a very low churn rate as well. Having said that, compared to the second quarter, we have noted that the churn rate has slightly increased. With regard to handsets, it was about 0.45%. It is now 0.55%. Overall, it has been increasing from 0.53% to 0.65%, so although the churn rate itself is low in absolute terms, the churn rate which was kept low until last year is now beginning to show upward signs. What is the factor behind that? How do you see the competitive landscape? How do you see your own competitiveness against this competitive landscape? I would appreciate your thoughts. I hear that the commission system is becoming more focused on acquisition in terms of sales, so please tell us if you are planning to continue this churn rate situation with an emphasis on acquisition from now on. That is my first point.

Mr. Hiroi : Thank you. Allow me to respond to your question, Mr. Kikuchi, on the topic of churn rate. As far as the churn rate is concerned, it is showing a slight increase. We are aware of that slight increase in the churn rate. As far as we are concerned, we want to expand net additions for handsets, so we have been reinforcing our efforts since last spring. We have launched “ahamo” as a result. We have also launched various rate plans toward summer. In the most recent month, “OCN mobile ONE” was launched. We are introducing various rate plans to acquire customers who use small data volume plans. That being the case, we believe that we will be able to enhance our market share in the industry and we will be able to expand our customer base in a very advanced manner. It is based on that strategy that we are taking all these measures.

Of course, having said that, since the launch of “ahamo” last spring, the competition has also launched various services and new rate plans toward spring as well as summer, and they have also reinforced their second brand, targeting small data volume plan customers. Therefore, the competition in the industry has indeed become a bit more intense. So, the competitive landscape has become a bit tighter. That is true. As a result, that is reflected in the increase in the churn rate.

As far as we are concerned, as we have already mentioned, it is important that we maintain and expand mobile communications service revenues. The subscription base, share, and customer base need to be reinforced in order to achieve that, so we will continue to make efforts to reinforce these fronts. That is my response to the first question.

Mr. Kikuchi : Okay, thank you. If I may add, are people who have transferred to DOCOMO's economy plan, “OCN mobile ONE,” going to be counted as a churn? How do you count the customers who have shifted to “OCN mobile ONE”?

Mr. Kobayash : Yes, that is how they are counted.

Mr. Kikuchi : I see. So, it is not that people are rushing to the economy plan and the churn rate has picked up? That is not the case, right? Can you give us the number of subscribers who have transferred to the economy plan? Can you share that?

Mr.Hiroi : Well, it is a plan that has just started, so we do not have accurate data. We do not have such data at this moment. Although the number is small, to the extent that I can say, it seems that this is contributing to the expansion of our user base. We have been able to appeal to new customers. It is very effective to acquire new customers. That is the kind of rate plan that we are able to offer. I think we have seen that we have been able to stop the outflow of customers and it is effective to acquire new customers. That is the impression that I have personally.

Mr. Kikuchi : Okay, thank you. My second question is about the ARPU. This time around, it is 50 yen lower than the previous quarter and 140 yen lower than the same period of the previous year. Therefore, I think you have now shifted to a downward trend in terms of the ARPU. That is how it looks at least. Can you elaborate on the backdrop? When we take a look at the competition, I think this coincides with the timing of the deep impact of your rate plan reduction. As for monthly support, I think the ARPU was supported by the monthly support that was shrinking. Is it because it is shrinking that the ARPU has suffered? Is that the result? Can you elaborate on the reasons for the drop in the ARPU? I would appreciate your thoughts. Thank you.

Mr.Hiroi : Okay, thank you. As far as the trend of the ARPU is concerned, as you pointed out, it is true that the impact of the shrinkage of the monthly support has become to be much smaller starting from the third quarter. That has had a downside impact on the ARPU. That is one of the factors.

Also, as a medium-term trend, after the launch of “Gigaho” and “Gigalight”, customers who were originally Kakepake plan (“Kake-hodai & Pake-aeru”) on Xi continue to shift to “Gigaho” and “Gigalight”. That is the basis of this trend. Also, to reinforce our competitiveness, we introduced new plans. The impact from those new competitive plans has had an impact in the recent months. That has had some downward pressure.

However, having said all of this, there is going to be such an impact on a short-term basis, but for the time being, the percentage of customers choosing “Gigaho” and customers who are buying medium-capacity and large-capacity packages are increasing, so if we can maintain this trend over the medium term, then we believe that we will be able to push up and boost the ARPU. We can expect such an effect as a result. On top of that, it is important that we work to expand our subscriber base and our user base. If we can do that, then we believe the mobile communications service revenues can be maintained and

also be expanded. We can ensure that basis.

Mr. Kikuchi : Thank you very much. I think the decline in ARPU prior to discount is now accelerating. As a result of “ahamo” and as a result of the change in the mix of your services, is the downward trend accelerating or is APRU prior to discount declining at the same pace?

Mr.Hiroi : Well, in the case of the impact of “ahamo”, “ahamo” ’s subscriptions are expanding very steadily, but as we have already talked about, back in spring and summer, we had a large number of people who subscribed to the service at that time. The speed has begun to shift to a cruising speed in the fall and winter, so the pace has dropped a little bit in the fall and winter. That being the case, the impact on ARPU will be in line with the pace of the increase in subscriptions, so there is going to be a time lag and the pace of the increase in subscriptions will have an impact on the ARPU. That is true.

Mr. Kikuchi : Okay, thank you very much. That is all from my side.

Mr.Ando : I have two questions. The first question is regarding the smart life business profit. As for the profit in the third quarter, compared to the other quarters, it seems that it is quite high. Therefore, can you explain about the content behind the way it the profit in the three months of the third quarter came out?

Mr.Hiroi : Regarding the smart life business, your question for us is on the third-quarter profit performing strongly. The driver for the increase of the smart life business profit is finance and payment. Since “d CARD” and “d Payment” services are the best services, the expansion of that business is contributing by large. Also, as I have explained, we had the special factor that came about in the second quarter. Therefore, for this fiscal year’s second quarter, it seems that the profit was slightly pressed down. I think you can look at it in that way.

As for the other businesses such as the digital content business, we have implemented initiatives to further grow those businesses. Of course, depending on the service, there are ups and downs, for example, “d anime store” is highly received and we are steadily increasing the number of users and profit. Therefore, we would like to see the increase in the services that we would like to focus on moving forward.

Mr.Ando : If I may ask a question related to that, for “d Payment,” I think the GMV growth is the trend. Having that as a premise, the expenses have ups and downs depending on the quarter, and that factor is linked to this quarter’s profit change. Is that the correct understanding?

Mr.Hiroi : Well, regarding the timing of investment or when expenses occur, the timing differs depending on the quarter. As you said, in the third quarter, from spring to summer, there are some promotional activities for expansion of the sales. That has come down a bit, which has pushed up the profit, but it is not that we have a certain level of control that we would like to keep depending on the quarter. However, there is a certain timing or certain time of the year that we make an investment. It just happened to be that this third quarter, we did not have that much of an investment. Therefore, we were able to have this increase in profit.

Mr.Ando : Thank you. This is my second question. "Economy MVNO" was launched. You did share your impression of it before. However, you have explained about acquiring new subscribers. I want to know about the retention. I am sure there is a retention factor that contributed as well. Which side do you have more expectations for? Can you elaborate a bit more on that point?

Mr.Hiroi : First of all, we do not have that much of a number in terms of data regarding this, so I would like you to consider that factor, but after the start of the launch, the number of subscribers that we have acquired is as I have already explained, and the customers who are sensitive to the pricing are the ones that are selecting this service. That is my impression.

At the end of last year and the beginning of this year, we did implement the sales promotion and we have increased the awareness of this service. As the awareness goes up, the number of 3G customers or subscribers that are migrating to this service is increasing. Therefore, for us, the purpose of this service is both to gain new customers and retention. How the numbers will show will depend on how we conduct our promotion activities. However, from now onwards, we probably will see an increase in the number of customers that will contribute to the retention side, so of course we have expectations of the positive effect from both sides.

Mr.Ando : If I may confirm, regarding the so-called second brand of your competitors, it seems that the sales volume has increased quite a lot in this quarter. So, instead of the product characteristics or service characteristics that can respond to that, the part of being able to gain from your other competitors is contributing more strongly? Is that your impression?

Mr.Hiroi : Yes. Well, the image we have is that the customers are selecting our service, so it is the product characteristics that can win against the competitors. That is what we think.

Mr.Ando : Okay, thank you very much.

Mr.Tanaka : Thank you. This is Tanaka. I would like to ask two questions, one question at a time. When we take a look at the net additions for this quarter, it is a 20,000 net loss excluding modules, right? I think the net additions seem a bit weak in terms of performance. Can you elaborate on that? Also, I think you are also showing weakness compared to your competition. Can you talk about how you see the current situation and how you see the outlook going forward?

Mr.Hiroi : Okay, thank you. I am afraid we cannot share with you specific numbers. I hope you understand. However, as was mentioned earlier, the market environment and the competitive landscape are such that from spring, summer, and autumn onwards – well, in spring, we launched “ahamo”, and we have been able to acquire customers in the marketplace in a very steadfast manner. To counter that, the competition began to compete by launching products in the same demand category, so the impact of the new product and new plan was somewhat undermined as a result of the launch of new products by our competitors.

With regard to small-usage customers, at last we were able to have a product that competes with the second brand of our competition. The timing of the launch was somewhat late. As a result, in the third quarter, the momentum that we saw back in spring and summer has become somewhat weaker, but as far as we are concerned, our user base has been expanding and the customer usage has been increasing on a year-on-year basis. Therefore, acquiring net additions on a year-on-year basis was achieved even in the third quarter. That was our target.

Mr.Tanaka : Okay, thank you for the response. What about the full-year plan? I guess for your full-year plan, you are making strides inclusive of the modules. Is that the case?

Mr.Hiroi : Yes. Again, the competitive landscape has become very intense, so we cannot be complacent, but we are making the last, final stretch, if you will, to achieve the full-year targets, and we are making efforts to expand sales.

Mr.Tanaka : Okay, thank you very much for that. This is my second question. As for your financial results forecast, regarding NTT Communications and NTT COMWARE becoming subsidiaries, to what extent have you factored that into your fourth-quarter results? I want to understand whether or not you factored in the possible contributions from NTT Communications and NTT COMWARE in your full-year forecast.

Mr.Hiroi : Can you explain the meaning of your question? I was not very clear about your question.

Mr.Tanaka : Okay. NTT Communications became a wholly-owned subsidiary firm in January, right?

Mr.Hiroi : Yes, that is true.

Mr.Tanaka : NTT Communications and NTT COMWARE became subsidiaries in January, so they will begin to contribute starting from the fourth quarter?

Mr.Hiroi : Yes, because they will be consolidated from the fourth quarter. That is true.

Mr.Tanaka : Okay. What impact do you see then? Can you elaborate on the potential profit contribution from NTT Communications and NTT COMWARE? If you can share that picture, I would appreciate it.

Mr.Hiroi : Well, if we single out just the fourth quarter and focus on the contribution of NTT Communications and NTT COMWARE, it is very difficult to specifically talk about these performances, but in principle, for this fiscal year, from January, the capital relationship will be such that they both will be wholly-owned subsidiary firms. Based on that, they synergy for this fiscal year will not be all that major. That is the actual situation. However, after they are consolidated, it is important that we show you the actual results for the fourth quarter. As for the consolidated results after factoring in these two companies, it is important that when we present our financial results as the New DOCOMO Group in the coming May, we show you those results and those performances. We have to talk to you at that juncture in greater depth if that is agreeable with you.

Mr. Tanaka : Okay, thank you. That is fine. That is all for my question.

Mr. Kinoshita : I have two questions, too. Of course, I do understand the number is still small, but as for the churn part, you said that the people who shifted over to "Economy MVNO" are included in the churn, but the subscriber number that you are disclosing is excluding "Economy MVNO." Is that the correct understanding?

Mr. Kobayashi : As an MVNO, everything included is TCA, but it is not a large number to have an impact. That breakdown is not included. In the TCA, it is all included, but just for economy itself, we are not disclosing the numbers for the data modules, the handsets, or how it is going to be.

Mr. Kinoshita : How is it handled for the ARPU calculation?

Mr. Kobayashi : It is not included in the ARPU calculation .

Mr. Kinoshita : So, “Economy MVNO” is not included in the ARPU calculation?

Mr. Kobayashi : Yes.

Mr. Kinoshita : Okay, understood. I just want to confirm on Mr. Tanaka’s question. Within NTT’s plan, DOCOMO’s numbers have not changed, but those numbers are before the consolidation. Is it correct to understand that there is a total separate set of numbers after the consolidation? This time, for the plan at the beginning of the fiscal year, which is before the consolidation, DOCOMO’s numbers are not changed.

Mr. Hiroi : Yes, that is the correct understanding. Basically, of course this probably a question that the holding company should answer, but for the NTT Group overall consolidated results, regarding DOCOMO’s results, NTT Communications’ results, and NTT COMWARE’s results, even though we have the capital relationship from January, you can look at them as separate companies like you did until now, and evaluate the overall consolidation of the group. That is fine for this fiscal year.

Excuse me, for this fiscal year, it is just the fourth quarter of the consolidation, so when it comes to the synergy effect, it is probably quite difficult to say. That is what I would like you to understand.

Mr. Kinoshita : Thank you very much.

Mr. Masuno : My first question is about the ARPU and marketing promotion. The ARPU has been coming down. One of the results is of course to the “U30 Long Wari”. It is going to increase up until March, and this is the case with the competition as well, but what will happen to the ARPU after this marketing promotion campaign is over? What about the percentage of the 5G large-capacity plan? Can you talk about that? Also, on top of that, since you are discounting the price, the incentives and marketing expenses are changing, so how do you see the impact on the distributed commission and marketing promotion cost? I would appreciate your thoughts about the marketing campaign and its effects.

Mr. Hiroi : I am afraid I cannot give you concrete numbers, but as we have talked about, there is the timing of the launch of these different rate plans and also how much positive impact this had on subscriptions as a result of these new rate plans and what will happen afterwards. Depending on those factors the impact on the ARPU will naturally vary from one case to another.

As for the “U30 Long Wari” and also the new rate plans that we are deploying, the customer base is expanding as a result of these new rate plans and campaigns. That being the case, this will have a downside impact on the ARPU for the time being and that

will probably be the case until the first half of FY2022.

Having said that, on the other hand, as a result of these campaigns, we are able to expand our customer base. From FY2020 to FY2021, and FY2021 to FY2022, the user base is expanding, and accompanying that, the revenues will also be increasing as a result. So, it is important that the mobile communications service revenues be controlled overall. That is what we are focused on.

Also, with regard to handsets, in the marketplace, we are offering direct discounts for the handsets, competition is very tough in this area. As a system, we now have a separation between the sales and handsets, and the competition is working within that space. They are providing direct discounts, where possible, in order to acquire customers. So, the direct discount for handsets is becoming very intense in terms of competition. That being the case, we will of course comply with the regulations, but it is important that we also counter and address the competition as well. We will make efforts to further expand the user base.

Mr. Kobayashi : If I could add, with regard to U30, as you pointed out earlier, there is the impact of the campaign. “ahamo” and U30 focus on younger customers, which was our weakness, so we are beginning to see results. We appreciate this. As far as U30 is concerned, the “Gigaho” selection rate is very high as a result of this campaign. Inclusive of that, we believe that this will translate into increased ARPU for the next fiscal year, so we want to monitor the situation. That is my position as the person who is responsible for finance and accounting.

Mr. Masuno : I see. I agree with your outlook as well. So, the ARPU will decline for 6 months, but will probably recover once again, and also you are able to expand your young customer base. In the industry, we see competition over the discounts for handsets. Will this competition for handset discounts stop? That is what I would like to focus on going forward.

This is my second question. From next July onward, you will be making efforts to reinforce your enterprise business, but on a standalone basis, when it comes the increase in solution offerings and revenues, how do you see the impact of that? How do you see the scale? How much positive impact do you see? I suppose this will be counted on the part of the smart life business segment, but can you share that with us, please?

Mr. Hiroi : As far as the corporate or enterprise business is concerned, we see, for example, IoT, ASP, communications service revenue, system integration order placements, and solution-related services. We see those as enterprise business revenues. Generally speaking, remote work demand is growing. We also have to be mindful of the use of remote work by our customers. Compared to the previous year, in terms of our third quarter, we see a very steadfast expansion of this demand in this area in the third quarter.

So, system integration order placements, IoT, telecommunications-related revenue, office link, and ASP services – we see an increase in revenues across all of these different segments. I think that is the situation that we see.

Mr. Masuno : You are going to be integrated with NTT COMWARE and NTT Communications. In the integration with NTT Communications, the goal is to increase the total sales by nearly 400 billion, but if you cut it out by DOCOMO alone, what percentage of this is DOCOMO?

Mr.Hiroi : Well, as far as the New DOCOMO Group is concerned, when we take a look at the enterprise business revenue as a whole, I think what you are asking is what percentage DOCOMO accounts for, right? Is that the gist of your question?

Mr. Masuno : Yes, that is the case. Can you give us a sense of scale? I think it is going to be expanding, but I just wanted to get a sense of the size of the business involved.

Mr.Hiroi : Well, when we announce our business plan in the coming spring, we will be able to explain that in greater depth, so if you can be patient and wait until then, we would appreciate your patience and understanding a little while longer. As far as we are concerned, natural we working on the different segmentation of the business for the New DOCOMO Group. Of course, the enterprise business will involve those assets brought on by NTT Communications as well as DOCOMO. We want to set the right segments. Once we do that, we hope that we will be able to update you.

Mr. Masuno : Thank you.

Mr. Tsuruo : Thank you very much for this opportunity. I have two questions. The first is regarding the CAPEX situation and network development situation. As of the end of December, can you please share the current situation of the 5G cover ratio and the tower construction? In relation to that, regarding the shortage of semiconductors, I am hearing from the industry that your company's construction of base stations is behind schedule, but what is the actual current situation and what is the schedule from now onwards? That is my first question.

Mr.Hiroi : Regarding the 5G CAPEX, basically the majority is in line with the schedule. Compared to the previous year, regarding the growth in that sense, we have been working on it since the end of last fiscal year, so it is not a big increase, but we are steadily making the investment, and the cover ratio and infrastructure development are moving along as scheduled.

As for the semiconductor shortage impact, you have mentioned the rumors within the

industry. I think that there may be an impact from that from now onwards, meaning that it is not that it is hindering our investment plan's progress, but for the procurement of components, we have devised various ways to do so. So, at this point, right now, we are not experiencing any impact. Regarding this semiconductor issue, in terms of the procurement of handsets, there is a slight impact that we are seeing and this is not a direct connection to the CAPEX, but within the industry, this is happening as well. However, we are seeing a certain level of impact in that sense.

Mr. Tsuruo : Okay, understood. So, for the construction of base stations or the utilization of the base stations, it is not being a big hindrance at this point. Is that the correct understanding?

Mr. Hiroi : Yes, that is the correct understanding.

Mr. Tsuruo : My second question is regarding the "d POINT" usage situation within the excel sheet that you disclosed. It is on 8-2. It has a high growth rate of the "d POINT" usage, but for the October-December quarter, it is almost in line with the previous year. What is happening? This fiscal year, for the full year, how should we look at this? Can you please share your thoughts?

Mr. Kobayashi : Regarding the "d POINT" usage, there is a time-limited sales promotion in relation to that, so compared to the previous year, we have suppressed that part, especially the finance business. It has been penetrated quite well, so we are able to suppress or keep the promotion activities lower.

Mr. Tsuruo : Moving forward, it is going to be the same, so compared to the previous year, is it going to be flat? Is that going to be the basic plan in terms of the guidance and others?

Mr. Kobayashi : Yes. Well, especially for the fourth quarter. Last year, it was the timing that we were going to launch "ahamo", so for the finance business, especially for "d CARD," we have implemented promotional activities. Compared to that, this time it will be flat or slightly decreasing, but next fiscal year onwards, we would like to keep a close eye on the market situation and respond. Of course, it is not going to be a large increase, but at the appropriate timing, we would like to share the guidance for next fiscal year.

Mr. Tsuruo : Thank you very much. That is all from my side.