

NTT DOCOMO FY2022/3Q Results: Analyst Meeting Q&A

(MC) From now, we would like to start the briefing on Fiscal Year 2022 Third Quarter Financial Results of NTT DOCOMO. Thank you very much for participating today despite your busy schedules. I am Akaishi from NTT DOCOMO IR Office and will be facilitating this call. Today's briefing will be streamed live on NTT DOCOMO's IR information website and at a later date streamed on-demand as well. We seek your understanding on this beforehand.

Before the briefing, there are three housekeeping announcements. First, I would like to introduce today's attending members. There are three; Representative Member of the Board, Senior Executive VP, Kuriyama; Executive Vice President, General Manager of Corporate Strategy and Planning Department, Yamazaki; Executive VP, General Manager of Accounts and Finance Department, Kobayashi. Next is regarding today's schedule. First, Senior Executive Vice President, Kuriyama will explain the outline of the results according to the slides followed by opening up the floor for questions. We plan to end this session around 5:50 p.m. Japan time. Lastly, as for the material used today, the financial results slide will be posted on NTT DOCOMO's IR info website together with other related materials, please refer to them.

Now we will start the briefing. Mr. Kuriyama, please.

Results Overview

(Kuriyama) Thank you very much. I would like to share with you the financial results for the third quarter of fiscal year 2022.

#1

Let me start with the results highlights. Operating revenue increased by ¥63.7 billion year on year up to ¥4,424.4 billion. Operating profit increased by ¥2.9 billion up to ¥888.8 billion. We had increase in both operating revenue and operating profit. The growth areas of enterprise business and smart life business expanded in a very steady fashion, and we are able to secure increase in operating profit on a year-on-year basis. We are making a strong progress against our plan.

#2

Let me now turn to results by segment. This is self-explanatory. Both enterprise business and smart life business that drive DOCOMO's growth achieved increase in operating revenue and operating profit.

#3

Let me now talk about key factors behind the changes in our operating profit. As you can see, increased operating profit for the growth domains of enterprise business and smart life business exceeded the decline in consumer communication operating profit. As for enterprise business, integrated solutions revenue, which was the growth driver, increased to ¥35.8 billion year on year. Also,

there was increase in revenue-linked expenses and electricity fees. Operating profit increased by ¥28 billion due to improved efficiency after process integration between NTT DOCOMO and NTT Communications. In smart life business, marketing solutions and finance/payment business grew in a very steady fashion. We also made anticipatory investment for the new business domains, but still achieved increase in operating profit of ¥15.8 billion. As for consumer communications, the mobile communication service revenue declined from the impact of the customer return program based on improved cost efficiency related to sales channel and network structural transformation, the drop in operating profit was controlled to ¥41 billion.

#4

Next, I will explain the breakdown of each segment and introduce the topics. First is regarding the enterprise business. As you can see, the integrated solutions revenue is steadily increasing. Out of the various products, especially IoT-related ones are considered to be one of the main drivers of growth for integrated solutions, therefore currently we have stepped up IoT initiatives. In fact, we are seeing many IoT solutions-related project orders coming in from various industry sectors. We believe this is proof of being able to provide solutions in an integrated manner from mobile to the application layer as a result of synergies generated from DOCOMO and NTT Communications.

We will strategically enter the layers of connectivity and security as the first step and device an application as the second step. Not only will we sell the network, but also provide a secure environment, as we work on the improvement of the business process to help our customers to solve issues, such as supporting DX. By promoting horizontal deployment in various industry sectors including global, there is potential to bring in broad demand from large to small and medium companies, therefore we would like to surely grow this IoT solutions.

#5

Next is regarding smart life business. Finance business and marketing solutions, which drive the smart life business, continue to expand steadily. Finance and payment transactions, this is for credit card and QR code, continue to perform well and increased by 25% year on year. Marketing solutions grew by 23% year on year due to the expansion of dPoint external sales, which is used by corporate customers and advertisement business where the corporate customers post advertisement through us, and this is done through data-driven solutions.

At the middle of the slide, we are showing a business case of joint initiative with various industries. This is a new type of an initiative in terms of being able to obtain cross-industry purchasing data. For the manufacturing customers and for the retail customers, this is a valuable thing. Through such data analysis, this can be utilized in proposing initiatives to our customers or develop new products. We will continue to utilize our customer base, which is largest in the industry and our merchant partners' network to further expand our marketing support business for our manufacturing and retail customers.

#6

Lastly is regarding consumer communications business. 5G subscribers steadily increased to 18.22

million, which was approximately double on a year-on-year basis. Through DOCOMO Seishun Wari and Under 15 Hajimete Sumaho Plan launched last December, we are focusing on acquiring younger generation customers and continue to enhance our customer base by looking at the overall lifetime value.

As you can see on the right hand side, including resolving societal issues, this is to increase our providing value. As initiative promotion of reuse and repair, we are focusing on immediate repair. In addition to the immediate repair at DOCOMO shops which we started last September, we are planning to start a service to provide repair at the customers' preferred location this spring. Through providing a very convenient immediate repair service, we will promote the reuse of handsets and effective use of them. We will continue this initiative of reuse and recycle to contribute to the promotion of recycling society.

As explained, as DOCOMO we will strive as a company that can continuously provide new values and emotional sensations. Thank you for your support and understanding. That is all.

Q&A

(Masuno) I would like to ask two questions, first relates to the enterprise business and the other relates to consumer communication business. Let me start with the question about the enterprise business. If you take a look at the three-month period, the operating income increased 9% year on year. As you mentioned earlier, the integrated solutions business in the three-month period increased 8%, ¥11.7 billion year on year. If you take a look at the enterprise business, there is an increase of ¥38.2 billion which means that the integrated solutions is also increasing. But the others is increasing to ¥26.5 billion, but it had declined in the first quarter and second quarter. When you take a look at the overall segment, the system integration business is growing. In terms of the enterprise business, when you take a look at the three-month period, can you give us more detailed numbers for the factors that make up this business segment? Can you talk about the factors in the business, which is growing? That is my first question.

(Kuriyama) Thank you very much. Let me respond to that question. The integrated solutions business is growing, but the other segments might be increasing. That is the gist of your question, I understand. First of all, the customers' demand for IP, IP Voce, and IP network is still very strong. Conversely, it means that from our perspective the end of the PSTN services is in sight. Therefore, IP network needs to be leveraged by the mobile and we want to offer those fruits to the customers. For example, 0ABJ number, the prefix can be used by mobile side. There are a lot of requirements for that. Large companies, SMEs; they all want to be able to use the same prefix for the mobile phone number. I think that demand has been spreading. That is one factor. This is one of the positive effects of the integration of our business.

(Masuno) Thank you. That is clear. If that is the case, you seem to highlight on integrated solutions, but what about the others? There is increase in other factors that make up this business segment. Is

my understanding correct?

(Kuriyama) Yes, that is right. Other factors are also contributing.

(Masuno) Okay. Thank you. That is clear. My second question relates to the consumer communication business. I asked the same question to the members of the NTT holding company in the earlier session. The mobile communication service revenue declined only ¥2 billion which means that it is roughly flat. People migrating to mid- and large-sized data plan. Can you elaborate more? What about the contribution from Ahamo and what about the unlimited plan for NTT DOCOMO's data plan and also usage-based plan at NTT DOCOMO? I think these three factors are contributing. Can you give us the order in which factors had a significant impact on? Can you talk about how people are migrating to mid- and large-sized data plan?

(Kuriyama) Thank you. We cannot give you the overall picture, but with regard to the ARPU structure, as you are aware, from the second quarter to the third quarter, yes, it was flat. As for the structure is concerned, the impact of the reduction in the billing plan is now halted. On a cumulative basis, it is over ¥200 billion, but that impact is declining every year. The users who were subject to this have already migrated to larger plans. The impact of this is now waning.

We see upsell in migration. In particular, these customers are migrating to mid- to large-sized data plans. That is more or less offsetting the impact of the reduction in the plan; maybe not totally, but three-fourth of the impact is now being nullified. The impact of the migration of the mid- to large-sized data plans in Gigaho, I think the transition to large-sized data plans are probably the largest and also the Ahamo. Yes, there is a concern that the introduction of Ahamo will actually invite people to move to lower plans. However, when we introduce the large data size for Ahamo, we see actually consumers shifting to large data packets even in Ahamo. Also in the immediate sense, we see greater mobility in terms of foreign travelers coming to Japan. The positive impact is now being felt certainly. I think moving forward into the fourth quarter we would like to see a positive impact from greater mobility of foreign travelers coming to Japan.

(Masuno) I see. If that is the case, in the second quarter, the Gigalight usage-based people were using more, right? I think voice communication demand also improved. But what about the third quarter? The Gigaho had the most significant impact, would you say?

(Kuriyama) Yes, that is the case. That is our interpretation as well.

(Masuno) Okay. Thank you. That being the case, in totality, the consumer communication as an engine for profit, the situation has already stabilized.

(Kuriyama) Yes, it is looking much more firmer and stronger. That is our interpretation.

(Masuno) Okay. Thank you. That is clear. That is all of my questions. Thank you, sir.

(Tsuruo) First of all, within NTT there was a discussion regarding the electricity price. I would like you to elaborate on the impact that your company had from that. It is said that about half was impacting DOCOMO. What is the actual situation and specifics and how much of that cost is covered or not? And for next fiscal year, if there is going to be remaining negative impact, where do you think that is going to lie in?

(Kuriyama) Thank you very much. Regarding the electricity cost in the third quarter in our group on a year-on-year basis, about 40% increase, it is about ¥18 billion impact. On a full year basis, this fiscal year, it is about ¥26 billion of an impact. In that sense, there is quite of an impact. But having said that, this crosses various segments. Each segment's improvement and efficiency and saving energy itself, our efforts are actually observing this cost increase overall. But the most impacted one is really the consumer communications business. In that sense, the base stations, a dynamic sleep function will be utilized and we are utilizing other technologies. Looking at overall company picture, the remote work is promoted, and due to that, we have been reducing the office spaces. NTT Communications, they had to sell offices. The whole office, we have shut it down. These types of efforts need to continue. Regarding next fiscal year, we believe that this impact is not going to change. Overall, how we are going to manage the profit level is the crucial thing that we need to work on.

(Tsuruo) Thank you. The second is regarding CAPEX. The fourth quarter, you said you are going to do it all at once. Can you explain the background on why the progress was not as well as you have planned? In the fourth quarter, is the work amount the amount that you can do all in the fourth quarter and also in the next fiscal year? In the communications business revenue, I think you are controlling the CAPEX against that revenue and the revenue is going to stabilize. In that situation, how should we look at the CAPEX spending for next fiscal year? If possible, if you can explain about the breakdown with base stations and others.

(Kuriyama) Thank you very much. Regarding next fiscal year, as you have pointed out, against the sales, we are going to control the CAPEX spending. And the breakdown, we are working on it right now, so we cannot share that with you. For this fiscal year, we are behind the schedule or the plan, but it is only slight, so we do have the work plan that we can do in the fourth quarter. The network CAPEX is the large amount, but there are investments that we have to make to respond to the demands. Looking all that, we would like to have it in line with the plan amount.

(Tsuruo) Followup question. The communication CAPEX to sales is 16.8%. That is the full year forecast outlook. If we continue that into next fiscal year, next fiscal year the CAPEX is going to increase because this year the revenue is going down, so the CAPEX is slightly increasing. Can you explain for next fiscal year?

(Kuriyama) Next fiscal year, we are planning it right now, so I cannot comment on that. But it is not that just simply because our sales went up that the CAPEX is going to increase as well in line with that increase. That is not the case. Either way, the revenue incoming as source for the CAPEX is the 5G business. We would like to keep an eye on that trend and control the CAPEX spending. Thank you.

(Tanaka) Thank you for this opportunity. I have just one question, if I may. I think you have very strong progress. When you take a look at the supplementary data, it seems that you still have room in the fourth quarter. The ARPU situation was very positive in the third quarter. But what about the fourth quarter? Is there a factor that could bring down the ARPU during the fourth quarter? Are there any such factors that could be downsizing for the ARPU? In the case of net earnings, I do not think there is much change. Do you anticipate any changes in the ARPU in the fourth quarter? Is there going to be some change in the ARPU situation for the fourth quarter? That is my first question.

(Kuriyama) Thank you for the question. The competitive landscape remains very competitive and very challenging. We had to face that during the fourth quarter as well. Also, the number of business days is small in the fourth quarter. That is why the number every year is lower for the fourth quarter.

(Tanaka) I see. Point taken. Which means that the drop from the third quarter to the fourth quarter in the previous year, you are not expecting this level of drop, right? Do you think that ARPU of ¥4,000 can be maintained into the fourth quarter of this fiscal year, there is no seasonal factor?

(Kuriyama) Although we believe there are several seasonal factors, we are on track. Yes, we are already in the month of February. I do not think we will be that way off base from our expectations for the fourth quarter.

(Tanaka) Okay, so you are on track. The ARPU outlook for the full year is more or less achievable, doable.

(Kuriyama) Yes, in the second quarter, as Mr. Ii mentioned, we already reached ¥4,000 and ¥4,000 was the bottom. We hope to translate that into moderate upward trend going forward. DOCOMO Group is contributing utmost effort to achieve this direction.

(Tanaka) Thank you very much. That is all from my questions.

(Kikuchi) I have two questions. The first is to confirm the QA that was just done. Your company in the medium-term plan CAPEX-to-sale is 16.5% in March of 2026. What are you using for the denominator and numerator? That has not been disclosed to us. But towards that target, when we

think about the progress, how much a progress have you made? Have you sufficiently achieved that or do you have some more work to do is what I would like to know first.

(Kuriyama) We believe that we are in the range of achieving this target, and I think the recent situation is actually showing that.

(Kikuchi) This 16.5%, you have already achieved that?

(Kuriyama) At this point, you mean?

(Kikuchi) Yes, at this point.

(Kuriyama) At this point, we have not achieved it. But either way, towards the final year, the key is how we are going to control this.

(Kikuchi) Okay. By the way, how much would it be, if we calculate this fiscal year with this 16.5%?

(Kuriyama) We are expecting 16.8%.

(Kikuchi) Okay, understood. Thank you. The second question, smart life business, first half ¥12.3 billion increase in revenue and ¥5.1 billion decline in operating profit. In the third quarter, the degree of increase in revenue has become larger by ¥28.6 billion. On the other hand, the decline in profit in the new business areas, you experienced a decline, and that has become larger and was ¥12.8 billion. You talked about the marketing solution. You said that third quarter, it has only accelerated. Is that the correct understanding in terms of increase in revenue? But for the new business area obtaining that, you are showing a decline in profit. What is the reason behind that?

(Kuriyama) Thank you for your question. First of all, for the marketing solutions, it is starting to ramp up and contributing to the increase in revenue. The largest contributor is finance, plus marketing solutions are the factors for the increase in revenue. For the decline in profit, marketing solutions require some advance investment, and if I may add a bit more, the finance side, as been explaining from before, the system investment is required to conduct various data-driven analysis and that is impacting the numbers.

The most impactful one is the electricity cost. We started the electricity power business. The first year we have assumed it to be a loss-making year. We thought that the hard cost will come out beforehand, but due to the Ukraine war the electricity price hiked. Even though we implemented other cost reduction initiatives, that is not sufficient, it is not catching up.

(Kikuchi) The credit card system has started the operation and the electricity cost has increased. It is impacting the smart life business as well.

(Kuriyama) Yes, those are the two major ones.

(Kikuchi) If I may add to confirm, for the consumer communication business, to improve the cost efficiency, that efficiency is downsizing. The first half it had a ¥26.3 billion positive impact, but in the second half that effect has gone down by about ¥10 billion. That is because the electricity cost went up and third quarter was ¥18 billion in total. If we look at third quarter consumer, it has declined by ¥10 billion. This ¥18 billion electricity cost is impacting the cost efficiency decline of consumer communications?

(Kuriyama) Yes, because consumer communication business has most impacted by the electricity price hike.

(Kikuchi) The cost efficiency has gone down by more than ¥10 billion, but on the other hand you are improving the efficiency as well. Consumer communications cost increase seems like about ¥20 billion. Is that due to just electricity cost?

(Kuriyama) In detail, there are other elements, but the impacting one is electricity cost. The electricity power in the third quarter was slightly under ¥10 billion, just electricity cost.

(Kikuchi) Okay, understood. Thank you very much.

(Ando) I have two questions. My first question is about the mobile sales situation. We would appreciate you sharing your recognition about the mobile handset sales. As far as the market is concerned, I think we see some turbulence in the marketplace. The churn rate is now on the increase in the marketplace. I think it is now competing with new customers instead of replacement of handsets. That is the situation of the marketplace. That is my understanding. Against that backdrop, as for DOCOMO, are you going to emphasize customer acquisition? I think that is the sales and marketing policy, which you are following. Is my interpretation correct? Are you really focusing on marketing and sales that focuses on acquiring new customers? If that is the case, then I think you are going to adopt the new policy for distributor agencies. Do you believe that this is the right direction and has your policy had impact? I would appreciate you sharing with us your views about the marketplace. Thank you.

(Kuriyama) Thank you for the question. There are many ways to see the marketplace, but as for the churn rate is concerned, yes, in the previous year there was an increase, but compared against that, that is no longer the case. There were some changes from quarter to quarter. For example, there was impact of other company eliminating zero-yen handset plan and some companies also stopped their promotion. I think it is a reflection of that. It is nonrecurring. If we take a look at this situation

from a flat situation, this is not that big change and we are still maintaining a very positive position in the marketplace.

As far as the measures which we market our product, in terms of human demographics, we see the decline in birth rate. The overall population for Japan is not going to be increasing, so we should focus on quality than on quantity. It is important that we maximize our profitability against that backdrop. That is how we need to maintain and expand our customer base. That is how we want to pursue our policy. I think that is the philosophy based on which we create our marketing and sales and I think we are shifting to that direction as we speak.

(Ando) Okay. Point taken. Thank you. Let me turn to my second question. It is about the enterprise business. In your enterprise business, I think you are saying that there is going to be an impact of increase in profitability over the medium term. What about the cost side? I think network integration probably represents a major cost item, I would understand. Can you talk about the progress of the network integration? How do you see the cost situation, if you can give us an update on this matter? Thank you very much.

(Kuriyama) Thank you for the question. With regards to the network, this network is not going to change overnight. We have to spend several years to address the situation. Yes, it will have an impact, but it is not going to have an immediate impact of course. Be it network or systems, I think we have to take a look at this. Over the medium-to-long term, we will make sure that we implement this in the fullest of the sense, and we hope that we will do our best so that we will be able to benefit from those integration processes at that time.

(Ando) If that is the case, compared to the situation when you came up with the plan, how would you rate your progress? Is it going to be more time-consuming compared to the plan that you came up with at the beginning?

(Kuriyama) No, that is not the case. Because the foundation will take time, we have to work to make sure that we have the right foundation. Of course, we have to work on network-related facilities, and I cannot give you the details. Over the short term, we want to make sure that we will be able to reap benefits over the short term as well starting from the next fiscal year.

(Ando) Thank you very much.

(Tanaka) I have just one question. For the enterprise business sales, the increase of it is accelerating and you have explained that you are seeing a good synergy generating. There were many explanations regarding each company growing, but the market itself for the enterprise business, what is the demand towards it? Due to the economic situation stagnating, what kind of impact are you experiencing? Even though it is impacting your company because of the synergy you have, you can overcome those

negativities. What is your outlook moving forward?

(Kuriyama) First of all, the economic situation, the enterprise business will be impacted by that. In the last two years, the corporate customers are struggling on how they are going to allocate their capital, what kind of investments they will be making. However, if you look at the basis of that, it is not just investment towards improving cost efficiency, but their investments to digital transformation in order to obtain new customers, new businesses. The companies that have a room for change or the companies who like to make major transformation, we will have that demand and we can obtain those businesses.

Not just looking at the individual companies, but originally if we just look at NTT Communications, they were connecting a location to a location, place-to-place network. It was a place-to-place network security or cloud business. However, by joining DOCOMO from place to person or from people to things or sensor monitor, that is the connection that they are creating. There is the connectivity and then there is security for that and on top of that there is application and the device will be used, that is what they were aiming for.

In that sense, through COVID-19 pandemic, they have connected the people and people because of the remote working and that demand has occurred and we have acquired that. Next at the same time is to connect the things in various forms. For example, energy or mobility, it is connectivity plus security plus something else. The demand for that is rising. We are hoping that this will be the target of our value proposition and we believe we can do that. That is going to bring us about further growth.

(Tanaka) Thank you very much for your thorough explanation. That concludes my question.

(Moriyuki) I would like to ask about consumer segment marketing policy that you are following. You are reducing the number of shops and going to be increasing the number of mobile-based shops. Through that, what effect are you seeing? What impact are you seeing from that? What about the cost or the incentive? Has the distributor agency commission changed as a result of this change in your policy? If you can give us an update, we would appreciate it. Thank you so much.

(Kuriyama) Thank you for your question. As far as marketing cost is concerned, this is linked with the number of contact that we have the customers. We want to make sure that we are flexible in this. I would like to ask my colleague to give us the details. Mr. Kobayashi, can you give us the details?

(Kobayashi) When it comes to the overall operation cost of the sales channel is concerned, first of all, the traffic of customers coming into the shops is actually coming down significantly. Our fixed expenses inclusive of the number of shops is now declining in a steady fashion. On the other hand, now we have sales taking place in different malls. If we want to conquer non-DOCOMO customers, actually people who come to the shops already have decided to come to DOCOMO, so we have to go after other type of customers. We want to improve the number of the MNP, mobile number portability. I think these mobile shops in shopping malls are effective. With regards to the sales and promotion marketing cost overall, the number of sales is coming down. I guess the backdrop, it is important that

we manage the profitability. But we have been maintaining profitability against the backdrop of declining handsets sales and we are also making a strong position in mobile number portability. We cannot give you the details, I am afraid, but please understand that we are managing this situation quite well.

(Moriyuki) I am not asking for the details. I did not expect details, but if I could ask the following. What about new acquisitions and replacement of customers? What about the cost pertaining to customers who seek replacement of handsets and also new customers? Can you give us a sense, what is the difference between the two?

(Kobayashi) In terms of the average, for example, the fixed cost per customer is coming down. How much are we spending per customers? I am afraid we cannot give you the details, I hope you understand. I think we are spending a bit more in terms of acquiring new customers because of the competitive landscape. Having said that, overall you can take a look at the profit and loss situation for each handset, we are making improvements. We cannot give you the details, but we are making improvement in the overall situation. That is what I need you understand.

(Moriyuki) What about the percentage of sales coming from mobile shops?

(Kobayashi) I am afraid I cannot give you the details. To be very accurate, the people who go to online shops, there are a lot of internal simulations, but we cannot give you the details, I am afraid.

(Moriyuki) But are you making progress?

(Kobayashi) Yes. If you compare the before and after sales, the sales from these mobile shops are already contributing, but it is important that we do not overdo and lose efficiency.

(Moriyuki) Thank you very much for the response.