

**NTT DOCOMO, INC**  
**FY2023/1Q Results : Analyst Meeting Q&A**

**Opening**

**MC:** From now, we would like to start NTT DOCOMO's FY2023 first quarter financial results briefing session.

My name is Akaishi from the IR office. I will be serving as the facilitator today. Today's briefing session will be streamed live and at a later date it will be streamed on the website as well, so we seek your understanding on this beforehand.

Regarding today's materials, please refer to the presentation materials that are posted on our IR site.

I would like to introduce today's attendees:

NTT DOCOMO, Representing Member of the Board,  
Senior Executive VP Kuriyama;

Executive VP, General Manager of Accounting & Finance Kobayashi;

Senior Vice President, General Manager of Corporate Strategy & Planning  
Tsuboya.

These three will be attending today.

Next, I would like to explain today's schedule.

First of all, from our Senior Executive VP Kuriyama, there will be an explanation regarding the outline of the financial results followed by questions from the floor. We are planning to end this session at 5:45 p.m. Japan time. We would like to explain the outline of the financial results. Mr. Kuriyama, please.

**Presentation**

**Mr. Kuriyama:** Thank you very much for joining us today. Let me present the financial results for the first quarter.

[#: indicates slide number]

**#2**

Let's start with the operating revenue. This increased 36 billion yen or 2.5% year on year and reached 1,457.8 billion yen.

Operating profit increased by 9 billion yen year on year or by 3.2% and went up to 292.7 billion yen.

So both operating revenue and operating profit increased.

### #3

Let me now talk about the results by segment.

So the revenue of growth business of enterprise and smart life business enjoyed very robust growth. And the drop in consumer communications has become much smaller. So last year was negative 24.5 billion yen but this year the negative is only 9.3 billion yen.

As for operating profit, there is a decline in operating profit for smart life business due to an up-front investment. Operating profit from enterprise and consumer communications increased.

So operating profit is in line with our annual projection. I'll talk about the details from the following pages for each of the segments.

### #4

I'll first explain the key factors behind these changes in the first quarter operating profit.

Operating profit for enterprise grew. There were growth in integrated solution and existing businesses expansion such as mobile. We were able to increase operating profit even covering the impact of electricity cost, as well as costs related to shifting our resources for future growth.

Operating profit for smart life decreased, but if we exclude the accelerated growth investment impact, operating profit actually increased in this segment. There is healthy organic growth in finance/payment and marketing solutions. And while there was a decrease in operating profit in segment due to accelerating growth investments in finance, video, and XR, if we exclude the impact of such investment, the segment is enjoying positive growth in operating profit.

Consumer communications is experiencing growth in operating profit. We were able to further narrow the decline in mobile communication service revenue through expanded uptake of mid- to large-sized data plans. We implemented improvement in the performance of equipment sales, also improved efficiency in marketing policies and transforming network structure. And we were able to deliver a year-on-year increase despite the impact from increasing electricity costs.

### #5

Let's now talk about each business, starting with enterprise business. Operating revenue in the segment grew due to expanded mobile solutions and integrated solutions business based on an increase in SASE projects, as well as from an

increase in existing business domains, such as mobile communication and data network.

As you see on the right-hand side, the construction and transport sector are facing the so-called 2024 issue related to strengthening of overtime work regulations, as well as a shortage of the working population. Response toward productivity improvement and work style reform is therefore very urgent. We would like to introduce DX solutions in order to solve these challenges.

As you see on the top, we have announced the collaboration with Takenaka Corporation and Shimizu Corporation. We will pursue digitalization of various information on site, as well as construction management work, and pursue strengthened collaboration and seek 30% improvement in construction management operations.

On the bottom, we talk about the fleet management. DOCOMO Group has provided safe driving support and operational efficiency for a total of 100,000 vehicles at 3,000 companies up until now. In April, we launched LINKEETH, which is a renewed program of DOCOMO doco-desu-car. As a result of this renewal, we are now able to support work salary reform through digitalization of daily reports and vehicle inspection, as well as vehicle number optimization, to enhance collaboration with third parties, as well as promotion of green transformation based on improved fuel efficiency. Through these initiatives, we will aim to double the scope of fleet management over the medium term. We will continue to deliver DX-based solutions to further industries going forward.

## **#6**

The next page is smart life business.

Finance/payment transactions has grown, up 3.08 trillion yen. Especially in the matured market of credit card, dCARD GOLD has topped 10 million members in June. And the ratio of GOLD card members in total is 17 million. So the percentage of GOLD card is 60% and transactions are increasing steadily as well.

In contents and lifestyle, dTV was renewed in April and we launched a new video distribution media, Lemino. We are continuously delivering exclusive contents, such as high-profile sports events, etcetera. And MAU, Monthly Active User, has topped 5 million in 3 months, which is seven times growth. The target is 20 million MAU, so we are steadily expanding towards an early achievement of that target. We will continue to expand our smart life business by providing various services that match our customers' lifestyle.

## **#7**

Next is consumer communications business.

The number of 5G subscribers is 22.45 million and steadily increasing. Our customers who have shifted to 5G are increasing daily usage as well. Therefore, we will be promoting the shift over to medium and large data volume plans.

The right-hand side is regarding providing a customer-oriented service mix. Since July, we launched the services of eximo and irumo. These are the names of the new tariff plans. By combining this with more enhanced video finance and payment services, we are now able to provide a service mix that matches the lifestyle and needs of our customers even more.

For example, to the customers using our video service, we also offer eximo as a base and DOCOMO Hikari and enabled them to comfortably use the optical network in their homes, as well as when they're outside without worrying about data volume because it's eximo.

Furthermore, payment for these services can be paid using dCARD GOLD, and the points accumulated by a good deal can be used for d payment. So in such a way, we believe that offering a service mix which matches our customers' lifestyle is important. We will continue to enhance our customer experience conscious initiatives that will support our customers' mobile life value improvement.

## #8

Lastly is regarding improving the network quality, which caused you concerns.

Given the backdrop of rapid recovery of movement or flow of people post-Covid and the rapid increase of video content usage, especially in the younger generations, there were situations where smartphone connection difficulties occurred, mainly in the heavily populated areas in four districts.

However, we have conducted measures to improve the network quality, and now the users can use our services generally without any inconvenience. For further improvements, in order to have our customers use our communication services comfortably, we will meticulously understand the customer usage status, not only in the urban centers but also nationwide to accelerate implementing of optimal measures.

NTT DOCOMO will continue to create new life values and lifestyles and promote initiatives that allow you to change our society and industries together with our partners. Thank you for your kind attention.

## Q&A

**Mr. Kikuchi:** Thank you. Mr. Kikuchi here. Thank you so much for taking my question. Now this time around, the factors that drive the increase in operating profit are in relation to cost reduction in the consumer communications. I think that has been the major driver in the improved performance. Can you elaborate specifically what you did in terms of cost reduction? That is my first question.

**Mr. Kuriyama:** Thank you for your question. It's not just about cost. Sales decrease in the rate of decline was also considerably effective. I hope you will take that into account. ARPU is diminishing its shortfall. And as far as cost is concerned, from the second quarter of last fiscal year onwards, we've been able to improve handset sales-related performance, so that's been an impact.

And also, as far as marketing is concerned, we will pursue various efficiencies, so we will be more efficient when it comes to sales and marketing.

At the same time, it's not just sales. Various operations at various centers, we have consolidated various centers in order to improve our resilience. So I think all of these factors have served to improve our efficiency in the overall sense.

**Mr. Kikuchi:** Okay, thank you for your response. So there are a lot of factors involved in the improved performance.

**Mr. Kuriyama:** Yes. From the second quarter of last fiscal onwards, gross margin has improved for handset sales.

**Mr. Kikuchi:** So maybe that impact will be smaller as you head towards the fourth quarter. But other elements, all the other positive drivers, will they be valid beyond the second quarter as well?

**Mr. Kuriyama:** Yes, that's right. Yes, the gross margin improvement in handset sales has taken place from the second quarter of last fiscal, so they will diminish toward the fourth quarter, but other factors will continue to make improvement to the bottom line until the end of the year.

**Mr. Kikuchi:** Okay, thank you for that. Now improvement in the gross margin, in the margin for your handset sales, what did you do in order to improve this margin in terms of handset sales? I think you were involved in the sales of handsets of one year. I believe that you were also affected by competitors' one-yen sales in the second half of the previous fiscal year. How did you improve?

**Mr. Kuriyama:** I wish to respond to your question, but my response would actually be relevant to the most core part of our sales and marketing strategy, so I'm not able to share that. I hope you understand.

**Mr. Kikuchi:** Okay, I take your point. Okay, half of the 20 billion yen improvement is due to the improved margin of the handset sales. Will that be the right interpretation?

**Mr. Kuriyama:** I'm afraid if I were to tell this, I'm afraid we would not be able to keep our numbers secret. It's not 50%. It's not as high as 50%. Let's just put it that way.

**Mr. Kikuchi:** Okay, I take your point. Let's go on to the second question. With regard to the enterprise business, up until last year, your enterprise business really had driven your improved operating profit. Now it seems that compared to the growth in operating revenue, the growth in operating profit is somewhat smaller compared to the past pattern. Are there any specific factors?

And also, from the second quarter onwards, do you believe that you can expect positive performance due to synergy performance? Can we expect improved operating profit for the enterprise business from the second quarter onwards? I would appreciate your outlook on the performance of the enterprise business.

**Mr. Kuriyama:** Okay, thank you for your question. Service business has not seen many changes.

But if I were to point out, I think the shrinkage of the PSTN-based services, which was very profitable up until now, that is my question. The mobile-based services, will it offset that through improvement through the introduction of integrated service. So I think we're in the middle of this transition.

In the enterprise business, we are expanding services centered on integrated solutions and mobile. In addition, we are working to improve the efficiency of operations and reduce costs, including NTT Communications and NTT Comware, through DCC collaboration. By combining these, we would like to return to profitability and raise profits in the fiscal year.

**Mr. Kikuchi:** Okay, long distance services. The long distance communication services are on a downward trend right? The individual customers have been moved to DOCOMO, but I think there has been churn among the enterprise customers. As you see migration in the PSTN services next year, do you think that churn, the churn of the enterprise business will continue? Are you likely to see churn?

**Mr. Kuriyama:** Yes, this year's impact is 5 billion yen, and I think a larger amount will be involved next fiscal year, so we need to offset that. We need to offset such loss so that we will end up in the positive territory. So that is the plan we have in place.

**Mr. Kikuchi:** Okay, thank you. That is all for my question. Thank you for your response.

**Mr. Ando:** I have two questions. The first is regarding the net adds. Precisely speaking, from the outside I don't understand very well; however, it seems that it is not accelerating that much is what I assume, and is that correct? This is the result of measures to improve profitability, and I would like you to explain, including your interpretation of it, whether you are not so concerned about it.

**Mr. Kuriyama:** Thank you very much. The net adds increase is not accelerating was your question. Regarding the first quarter, probably that is true. Regarding this, in head of July, we have launched eximo and irumo, so we can expect the positive effects of that.

But the overall profitability, I think you, Mr. Ando, you were already implying that the ARPU is the most effective one. Well, first of all, ARPU is my most concern because that affects all of the subscribers, so how do we bottom it out?

And the next is the churn rate. The churn rate is not just that it is going to decline the revenue and profit, but it also is going to increase the cost to acquire new subscribers. That's for the short-term. And the medium term, we need to look at the net add is important as well. But this time we need to improve the ARPU and churn rate to achieving the plan for this fiscal year.

ARPU is now bottoming out, and the churn rate is relatively low. And at the same time, the differences by quarter, we are able to keep it very small in terms of the differences.

So towards the annual plan, we don't have a large concern in terms of the progress.

**Mr. Ando:** Thank you very much. My second question is, on page 5 of the presentation material, on the left-hand side, there was, looking at the chart, and that, at the bottom is in the wavy line so it's kind of cut off, so I just wanted to confirm. For the integrated solutions revenues, it is not increasing that much. The previous year showed a large increase. However, this year it seems that it has not increased that much. But the enterprise business revenues increase seems to be stronger or strong is how I interpret this. Is that correct? And what is the content of this?

**Mr. Kuriyama:** Thank you very much. First of all, for the first quarter, the integrated solutions, relatively speaking, they have large-scale deals combining our services, so by a quarter, order receiving and the effect of that, there will be ups and downs if you look at it by quarter. And you are seeing that effect of that.

But structurally speaking, in terms of the revenue, solidifying the foundation for the revenue increase and through the solutions, we acquire the larger-scale deals is a more natural way of increasing the enterprise business is how we look at this.

**Mr. Ando:** Excuse me, so the enterprise business revenue, is there a reason for that being larger?

**Mr. Kuriyama:** That is due to mobile. There are three. First is customer contact, which is demand toward CX is rapidly growing, and for us, the majority, they use mobile.

And the second point is remote work and remote operation, and regarding that, mobile is the main medium that our customers use.

Third, IoT solutions using mobile devices are growing. IoT solutions leveraging mobile, which is building management in real estate, or the construction site is another application, and in various ways the mobile solution is increasing.

In addition to that, looking at that outcome the comprehensive way, providing security behind the scenes, demand is increasing for that as well. That is why overall mobile is increasing.

**Mr. Ando:** Thank you very much. I understood it very well.

**Mr. Masuno:** Thank you. Masuno of Nomura Securities. Thank you. It seems that you have very robust operating profit. As a consumer communications business, it's also profitable, which was a big surprise.

So my first question, about the consumer communications business, do you see ARPU is the bottoming out from 3,990? Do you see that the level will be increased from the second quarter onwards? Is my projection correct?

And also, as far as the net adds are concerned, we only know about i-mode and sp-mode. I think there is a loss or down by 29,000 subscribers in the first quarter, but in July, the new late plan was introduced. But this was not well received by the media. But I actually think irumo is very positive. As imagined, I think irumo is successful in holding the churn rate, and this should lead to improvements.



So thanks for the second quarter onwards, the net add situation should improve. I believe ARPU has already bottomed out, and net adds are going to improve and irumo will stop the churns. How do you see this situation with regard to those factors? I would appreciate your views. Thank you.

**Mr. Kuriyama:** Yes, thank you for your question. Let's talk about the ARPU first.

Yes, we would like to see this bottom out. But take a look at the trend from the previous year. I believe that hopefully this will be the bottoming out. So 4,030 yen is the number we are providing as a guidance for the fiscal year because we will be able to achieve this.

As for the net adds, as you point out, it just so happens that ahamo, irumo and eximo were all in Japanese katakana characters, and some people felt that these products were not very straightforward. But when DOCOMO launched its own name, DOCOMO, people didn't understand. So I think the naming of these, and the title of our services were very impactful.

And these are not just straightforward billing plans. I believe that we see a different phase. We believe the phase in the competition in the marketplace has really changed. It's not just about handsets. Finance settlement, video, health care, additional services are now being introduced on top of the mobile solutions. So therefore, mobile is going to be the foundation of the lifestyle infrastructure. Mobile is going to be the life infrastructure for the public. As I mentioned earlier about the service mix, I think we are in a phase of competition and value provided to customers, such as the combination of billing plans and various services.

So I think in terms of, we are embarking on a different phase when it comes to offering new values to customers and in terms of competition. So that is our thinking. We hope that these services will penetrate among the customer base. It will take some time.

As far as the billing plan is concerned, yes, irumo is low-priced, but I think it will be very popular with customers who are going to use more than large, a larger amount of data.

**Mr. Kobayashi:** I would like to supplement what Mr. Kuriyama mentioned. From a different perspective. Let me try to add to what Mr. Kuriyama mentioned. This was related to Mr. Ando's question. Net adds had an impact on the ARPU? Yes, i-mode, sp-mode are decreasing, as you pointed out, Mr. Masuno.

There are a lot of users who are churning at a very short pace, and that's become an issue for us, so we are fundamentally changing the way we acquire customers. So

that being the case, the i-mode and sp-mode customer base has been decreasing as a result.

So this should not have a negative impact on ARPU itself. So, yes, ARPU is below 4,000 yen at this time, but we believe that we will see more positive trends going forward.

ARPU, so let me try to respond to the substance of ARPU. In response to the impact of price reductions due to the transition to Gigaho, Gigalight, and Ahamo, as was discussed at today's press conference, the number of customers who watch a lot of videos is increasing, so we are offering higher mid/large data-volume billing plans. The effect of choosing, the so-called upselling, was almost as planned.

There is a big element, which is the voice calls. Voice calls were growing considerably due to the COVID19, and I thought that this impact would still remain, but it was a little weaker than expected. But I think in principle, the impact of price reduction and our reference to upsell, the promise is very much in line with our expectations, and I think from the second quarter onwards, the performance should see improvement.

**Mr. Masuno:** Thank you for your response. Let me ask about the enterprise business, rather, for my second question.

The synergy of the combination and integration of NTT DOCOMO, NTT Comware, and NTT Communications, I was hoping that this would translate into increased integrated solution sales. But it seems that mobile communication is increasing, so maybe that is also due to the synergy of the integration of these three companies. And I know it's difficult for you to calculate, but how do you see the synergy of the integration of these three companies in terms of the enterprise business segment? Are you not measuring the synergy effects, but rather sales growth for the enterprise business?

**Mr. Kuriyama:** Okay, thank you for your question. Yes, we know you expect a great deal in terms of the synergy. We have to meet those expectations, but we are focusing on overall enterprise business sales.

As far as the individual customers are concerned, they see a combination of different services, and we also combine different software. And we want to offer integrated total solutions to the customers, so we don't disaggregate the elements because this is not suitable to the way in which customers actually use our services. So we don't disaggregate the substance of these services.

**Mr. Masuno:** Okay, if that is the case, let me ask further. From the second half of last year to the first half of this year, have you seen any response, progress, proposals, or sales activity on a quarterly basis?

**Mr. Kuriyama:** Yes, that is indeed the case. So the demand for DX in the market overall and CX-based services and demand for solutions remain very robust. And this applies not just to us. I think other system integration providers also benefit from that. This is clear from the comments that these companies have made when they present their financial results. So customers' preference and IoT-related demand is very strong. Also, security-related services, the demand is increasing for all these services, in particular in the most recent.

In particular, I think there is a sense of hope right now, as I talked about in last year's 3Q results, but within IoT, in real estate and regional development, for example, we are using mobile technology to manage office facilities such as robotics, gate management, and lighting. There is also a demand for total implementation.

The word CASE is used in the automobile industry. There are cases where connectivity is first introduced and then used as a platform-like service with added security, so there is a sense of expectation in this field.

And also now we have integration of these three companies, we want to realize the synergy as a result of these three companies. So we want to add on new applications so that we'll be able to add new values to the customers.

And the number of proposals has indeed been increasing.

**Mr. Masuno:** Okay, thank you. That is all for my question. Thank you.

**Mr. Tsuruo:** This is Tsuruo from Citigroup Securities. Hello.

My first question, the net add was slightly weak. And if possible, at this point, can you share with us the MNP situation? Especially, Rakuten came out with the "Strongest-Plan", but the market is saying it's not that much of a factor. So can you please share the comments regarding this June and July situation as well?

**Mr. Kuriyama:** Thank you for your question. The overall situation is as I have mentioned before. It wasn't that strong.

And regarding Rakuten, it has launched the "Strongest-Plan". And for a moment, there was tension, but reflecting back, there was not that much of an impact of that plan.

**Mr. Tsuruo:** Okay, so that situation has not changed in July as well?

**Mr. Kuriyama:**Yes.

**Mr. Tsuruo:**Okay, understood.

And my second question is, the measures for the network congestion, page 8 in the material, you've done such a thing in April throughout June, but if you did that, it seems that the capex has not shown an increase. Actually, it's declining. So these types of measures can be taken care within the current budget, and even though you continue this, this is not going to impose pressure on the capex spending. Is that correct?

**Mr. Kuriyama:** Thank you very much for your question. From April to June, the reason why there is a slight drop is because the base stations, this is not the four areas within Tokyo, but nationwide, when we construct the base stations, as a capex, we have to negotiate with the landowners, etcetera, so there was a slight delay of that negotiation process.

And also, within here, the enterprise customer-related items are included, so it's not just the impact from the consumer communication segment.

And for the four areas within Tokyo, center Tokyo, it's not capital investment, but the majority is area tuning that our engineer improves the way frequencies are distributed to increase the coverage ratio.

But physically, there is an area that requires a base station, and within the material it says at the middle of the platform of Shibuya Station, that cannot be covered from the peripheral area's base station. So we need to spend a capex and construct the base station and increase the coverage ratio. That's all.

**Mr. Tsuruo:** Thank you.