docomo business Forum ’23 Small Meeting

Q&A Session Minutes

Session1	
Q	docomo business Forum '23 had many visitors and tours. Please tell us about the impact of the event, such as any increases in the numbers of customers or consultations after the event.
A	We link the attributes and interests of visitors to future business opportunities. We also receive business cards from customers when they come to the venue, and in some cases, that leads to direct business negotiations.
Q	Has becoming a docomo business brand brought about any changes in visitor attributes?
A	The total number of visitors was reported to be 5,800, but we do not yet have a detailed breakdown of the attendance. One change, though, is that integration with DOCOMO—with branches nationwide—has helped us expand beyond the normal scope of attendance, traditionally Tokyo, and draw more visitors from rural areas.
Q	What impressed me this time was that there was more content about applications and solutions than before, a trend that I feel is accelerating. In the NTT Group, NTT Facilities, NTT Urban Solutions, NTT Data, and other organizations also provide applications and solutions. Therefore, although it may seem easy to expand as you advance into the field of applications and solutions, I think it will be difficult to find a position. Please tell us the direction your company is headed and your thoughts on synergies and cannibalization within the NTT Group.
A	In order to provide customers and industries with one-stop support for DX conversion, there is an increasing number of cases where apps and solutions are provided in the business environment. There are various companies in the NTT Group, but each has the same purpose and basically works together rather than against each other. Each company has its own strengths, and we feel that we are working together in a formation that prevents conflicting arrangements.

Q	I got the impression that it was more of letting a good thing go to waste than confliction. I have heard about similar initiatives from NTT DATA, and I feel the same way about them.
A	There are multiple means of achieving one DX. No one knows the correct answer. Which technology is better depends on the point of view, so I don't want to standardize everything and do it like a planned economy.
Session2	
Q	The synergies resulting from the integration of DOCOMO and NTT Communications (hereinafter referred to as “NTT Com”) are particularly strong in the corporate sector, and I believe that synergies include cost-reduction effects. I have also heard that increasing sales is a major growth driver. I understand that there are synergies in both integrated solution revenue and other sources, but how much synergy does each of them currently hold? Also, what kind of scale can we expect in the future?
A	We have set a goal of achieving operating revenues of 2 trillion yen in the corporate business by fiscal 2025, and we are making progress as planned. The first quarter of this fiscal year is also on track to meet the annual earnings forecast, and things are following what we originally expected. The pillar of growth is integrated solutions, and we aim to increase the revenue ratio of integrated solutions from about 35% at present to over 50% in FY2025. For integrated solutions, we want to earn revenue by increasing added value in areas like mobile and fixed fusion services, IoT, and applications. Outside the integrated solutions field, PSTN migration is expected to have a continuing impact on revenue until FY2024. We would like to increase the number of existing networks and mobile lines.
Q	I think PSTN migration will bring about a sales decline of tens of billions in the next fiscal year. To cover that, integrated solutions will need to have a double-digit increase in revenue. Looking at integrated solutions, I think the former DOCOMO's mobile, IoT, and solutions account for a bit over 30%, and the fixed and cloud infrastructure of the old NTT Com is about 60%. What kind of fields will grow in the future, and what is your outlook for the next fiscal year?
A	We are considering growth strategies in various business categories, but we believe that the largest growth will be in the areas where we provide

	various combinations without dividing them into fixed and mobile devices. Among them, solutions that combine various services account for about half of the integrated solutions revenue, and that area has seen the largest growth over the last two years. In the past, voice systems were the mainstay, but solution systems have surpassed them. Furthermore, solutions will grow as we approach 2025. With their ties to solutions, mobile and fixed networks, along with cloud infrastructure, will also see growth.
Q	The IoT of the former DOCOMO was growing for a long time, but I got the impression that the traditional SI business of the former NTT Com was struggling to turn a profit. Will it be profitable, unlike before?
A	The gross margin of SI and solutions is managed as a KPI. Although there are some things that are not very profitable for individual companies, we are focusing on accumulating and modeling them as forms of know-how. For example, by modeling and creating repeatable patterns for individual management concerns such as SASE solutions and reforms in customer contact points, gross margins are gradually improving. Instead of just offering SI, we are working company-wide to bring it closer to services and secure profits within it.
Q	Is the overall gross margin, including that for solutions, increasing?
A	The gross profit margin of the company as a whole is steadily increasing, and the gross profit margin for solutions is especially important.
Session3	
Q	You commented, “We are working together as much as possible to avoid conflicts within the NTT Group. Also, there should be various ways to implement DX.” In that context, how do you share information about your customers? Are you doing it individually or systematically? I think that even if there are conflicts within the group, each group is at a stage where they are moving forward with their efforts.
A	I think we are making progress in areas that should be shared across the NTT Group, such as trends in customer needs. For example, generative AI has come up a lot recently. NTT is trying to create a new LLM, so we are sharing information about what kinds of projects and effects are happening in relation to generative AI. Additionally, in June, NTT established a new organization that connects R&D and the market, which we hope will leverage R&D and technology to

	maximize synergies across the group. We share information throughout the company about areas that the NTT Group needs to strengthen and areas that are important for succeeding in global competition.
Q	I understand that technology-based information sharing has been done for a long time, but how do you control information sharing from a marketing perspective? Is there a department that sorts the relevant information?
A	There are types of information, such as what we are doing with our customers, that we do not share. We do not share information until we have the customer's consent to do so. Conflict can arise in that type of setup, but we don't know.
Session4	
Q	I have heard about the technical aspects of IOWN, but I would like to ask about the marketing side. Now that the service has already started with the launch this year, what is the status of marketing and service provision? If anyone can do it with optical transmission equipment, optical switches, and optical fibers, I wonder if KDDI could do it in a similar way. How can NTT Com maintain its competitive advantage in Japan?
A	In March of this year, NTT East and West began offering “APN IOWN 1.0,” a new low-latency service using an all-photonics network in the form of a dedicated line within the given prefecture. Since NTT East and West are the main providers of the service, we do not know the exact sales figures. However, since NTT Com is in the data center business, we would like to take initiatives such as using APN technology between data centers to increase added value and bring out the uniqueness of NTT Com. Since we have a variety of platforms other than data centers, we are finding use cases with corporate customers that take advantage of APN's low latency and low power consumption and are also developing applications and platforms, which exemplifies NTT Com.
Q	I think the fact that NTT East and West are providing the service means that it is an infrastructure-oriented APN service. When it comes to the service’s potential roles in data center solutions, will it be incorporated into NTT Com's services, or will it be sold to another data center operator nationwide? What are the current plans?

A	We have begun planning to use it between NTT Com's data centers. However, although we have received requests for connections between other customers' data centers and NTT Com's data centers, as well as between other customers' data centers, we have not yet reached the point of considering any concrete provision.
Q	Is that because Communications lacks the capacity or know-how to provide APN? NTT East and West provide services. Does NTT Com's lack of a track record mean that there isn't a system in place to pursue that possibility?
A	The reason is that we are only halfway through the development of APN technology and have yet to master the operational know-how for responses in the event of a breakdown. The longer the distance, the more important the operation and supporting technology become, so we want to do what we can to provide this service in the future.
Session5	
Q	I would like to hear about trends in the industry as a whole. The three telecommunications companies (DOCOMO, KDDI, and SB) and the four companies including IIJ are increasing revenue in their enterprise businesses, and I think their margins are improving. All four companies are doing well, especially after COVID-19; analysts ask all the companies which companies are winning, and all of them say that none of them are losing. Basically, when upgrading the NW in 4 to 5 years, after COVID-19, customers will increase their budget and spend money on the front NW side, moving toward cloud, platform, and integrated solutions, including on-premises. Therefore, should we assume that all four companies are seeing improving results? Are sales increasing due to competition, or are NW budgets increasing across Japan, with your company leveraging synergies and achieving gains on both sides?
A	I think the pie in Japan as a whole is increasing. Customers are moving forward with DX due to recent shortages of human resources and operational capacity. On the other hand, since we need to pursue the EX and well-being of our employees, we are creating a remote environment and protecting them from cyber-attacks. We believe that DX investment is increasing due to changes in the business environment and ESG management. I think the four companies are trying to take advantage of that new aspect.

Q	However, from a customer's perspective, I think they are paying not only for solutions but also for traditional corporate communication services such as data connectivity and voice. I think there will be a decline in revenue here. Do you feel that solutions are growing even when you include traditional communications service revenue? Do you think the market is expanding even when you include traditional sales?
A	The traditional service is MPLS, which often goes open and ends up on the Internet—but this trend is not very common in Japan. Looking at individual customers' networks, we have been working on many projects involving the conversion of what was previously done using MPLS to an open SASE type, but when looking at the overall pie, I don't get the impression that the traditional side has dropped significantly.