

NTT DOCOMO, INC.
FY2023/3Q Results : Analyst Meeting Q&A

Opening

MC : Now, we would like to start NTT DOCOMO's third quarter results presentation for the fiscal year ending March 2024. I am the head of IR. My name is AKAISHI. I'll be serving as your MC today.

Today's presentation is broadcast live via Voices, and this will be distributed on the web later, so please be advised of that.

Also, for the presentation materials, you'll be using the presentation material that is stored in the IR site of NTT DOCOMO.

Let me introduce the participants from NTT DOCOMO today. We have the Senior Executive Vice President, Mr. Kuriyama. We also have Executive Vice President and General Manager of our Accounts & Finance, Mr. Kobayashi, and Senior Vice President and General Manager of Corporate Strategy & Planning Department, Mr. Tsuboya. So the three gentlemen are participating today.

Now, with respect to the proceedings, we will first have an explanation from Mr. Kuriyama regarding the outline of the financial results, after which we will be entertaining your questions. We expect to finish the entire session at around half past five o'clock p.m. Japan time.

Now we would like to start the presentation. Mr. Kuriyama, the floor is yours.

Presentation

Mr. Kuriyama : Good afternoon. This is Kuriyama from NTT DOCOMO. Please bear with me.

[#: indicates slide number]

#1

Before starting the results presentation, I would like to express my sincere sympathy to those affected by the 2024 Noto Peninsula Earthquake, as well as their families. I pray for the earliest recovery and restoration of the disaster-stricken areas. NTT DOCOMO Group will also make continuous efforts toward the recovery and restoration of the disaster-stricken areas.

Right now, let me begin the explanation of the results for the third quarter of fiscal 2023.

#2

This is the results highlights for the third quarter of fiscal 2023.

Operating revenues increased by 94.5 billion yen year on year and reached 4,518.8 billion yen. We achieved record high revenues in history.

The operating profit increased by 13.5 billion yen year on year and reached 902.2 billion yen, which is also another record high.

The profit attributable to the shareholders of NTT DOCOMO, INC., because of the impact, of the one-time impact of reduced taxes, corporate taxes, resulting from the sale of subsidiary in the previous year, the operating profit decreased by 15.9 billion yen and reached 627.5 billion yen, but without this one-time factor, we have effectively achieved an increase in profit.

#3

Next, the results by segment.

Operating revenues was affected positively by the Smart Life growth and also the Enterprise Business, which is our growth area, and also, because of the growth of the communications business, Consumer Communications Business, because of increased handset sales, so we achieved growth in all segments.

For the details of the operating profit in each business, I would like to explain this on the following page.

#4

These are the factors behind the year-on-year changes in operating profit. First, regarding Enterprise Business, we achieved a 7.6 billion yen increase in profit.

Integrated solutions and mobile, all these existing businesses expanded, which resulted in revenue growth, and also, as a result of efficiency improvement, we were able to cover up the cost increases for area quality improvement.

As far as the Smart Life Business is concerned, existing businesses, such as finance/payment, continue to grow, and also, we conducted cost efficiency improvement across organizations and across different services.

Also, the negative impact year on year for the growth investment was finished in the first half of the year; therefore, in reality we have been able to achieve a profit level which is effectively a year-on-year increase. I said effectively because in a previous fiscal year, in the third quarter, we optimized the bad debt provisions for

the credit business, so if we exclude this one-time impact, we recorded a positive impact.

And Consumer Communications Business achieved an increase of 15.5 billion yen in profit. The mobile ARPU is gradually coming to a halt in terms of its downtrend because of the expanded adoptions of mid to large sized data plans , but we continue to see the negative impact of voice decline after Covid. And also, because of programmed return benefits to customers, mobile communication revenues declined.

We have also worked on the network quality improvement and also were able to achieve profit growth because of the equipment sales balance of payment improvement and also as a result of cost efficiency improvement.

#5

Next, let me talk about the Enterprise Business.

As for Enterprise Business, the integrated solutions achieved an increase of 8% year on year, and it reached 502.4 billion yen which is the pillar of our growth. In particular, in the third quarter of last year, we introduced our focus area, which is the IoT solutions. IoT solutions in fact achieved a year-on-year growth of 13%, very high growth.

In order to solidify this growth, as part of the initiatives undertaken for the IoT solutions area, we have started the high precision positioning service, Mobile GNSS, in October of last year using very ultra-compact devices. We have newly developed an ultra-small GNSS receiver. This is easy to carry, easy to attach, and it realizes high precision positioning of people and various objects.

This high precision positioning service among the IoT solutions is expected to achieve very rapid growth, and DOCOMO business is focusing on this business.

Going forward, we will continue to reinforce our solutions and promote DX in many different areas going forward.

#6

Next, let me talk about the Smart Life Business.

Finance/payment transactions increased steadily and reached 9,750 billion yen, which represents a 20% increase year on year.

To further strengthen our financial services, we have completed the procedures for a capital alliance with Monex Group and Monex, Inc. back in January, and we've launched the business alliance in earnest.

Through initiatives leveraging the assets of the two companies, we'd like to create synergy and strengthen DOCOMO's economic sphere and achieve revenue growth, as well as profit contribution as soon as possible.

#7

Let me now talk about the improvement of quality experienced by customers in mobile applications.

We completed implementation of measures through December as planned, resulting in significant improvement of communication service quality.

In various spots nationwide, downlink throughputs have improved 170% compared to the situation prior to the implementation of these measures. Also, on major railway lines, it is now possible to view video without inconvenience, even during heavy rush hour during commuting times. So as a result, we saw significant reduction in negative opinions concerning communication quality.

In order to further the improvement of quality experienced by customers, we will continue to improve our facilities in anticipation of future demand growth. We will also acquire advanced usage data from the app and work on early detection and early improvement of areas that require countermeasures.

#8

Last but not least, I would like to explain our initiatives for the recovery and restoration in relation to Noto Peninsula Earthquake.

DOCOMO has garnered support from all over Japan, and we have worked toward service recovery and delivery of support evacuation centers. And at any given day, we have a maximum of 600 people working in these initiatives. Except for parts in Wajima City which remain difficult to access, we have restored 96% through emergency restoration initiatives.

The challenge posted by this disaster was securing communication in areas where there was suspension of communication services, but satellite service owned by DOCOMO, which is called WIDESTAR, and a shipboard-based station in collaboration with KDDI made a significant contribution in securing communication in these areas.

Also, we are working emphatically to offer comprehensive services for the care of body and mind of disaster victims, in addition to restoration of the communication network, such as online follow-up medical examination by connecting evacuees with their home doctors, and DOCOMO public mobile phone services that offer communication methods to evacuees who may have lost their phones.

As an operator that is responsible for life-related infrastructure, we will leverage the takeaways from this disaster and build a network that is more disaster-resilient and recoverable networks.

We will reinforce existing facilities through redundancy of transmission lines, reduction of size and weight of portable base stations and will actively use new technologies, such as low-orbit satellites, possible use of HAPS, and endeavor to enhance communication service resilience overall.

#9

So that's all for the presentation of third quarter results for fiscal year 2023.

Thank you for your kind attention.

Q&A

Mr. Ando : I have two questions. Both relate to Consumer Communications Business.

First of all, the level of ARPU is not coming back and in other words, it might be right to say that this is flattish. So regarding this ARPU performance, how do you analyze the reason behind this flattish growth.

You have introduced a new mobile tariff plan and you also talked about the voice element. Could you just talk about the biggest element affecting your ARPU for the last three months or so and your evaluation about this?

Mr. Kuriyama : Ando-san, thank you very much for your question. Regarding the ARPU, first of all, in July, the new mobile tariff plan IRUMO was introduced and although we cannot call it a second brand, this is focused on the low-usage customers, including youngsters as well as senior citizens, with the aim of expanding our customer base. So that has also affected the ARPU. IRUMO is quite well received, and this has been very effective to acquire new customers.

But this is not really favorably affecting, boosting the ARPU. In that sense, we want not only IRUMO but also including EXIMO to permeate to a broader user base. I think we'll try to bottoming out the ARPU thereafter by permeating these tariff plans.

The other thing that I wanted to mention was that the voice revenues recovery has been slow after COVID-19. While the overseas customers are now returning to Japan as travelers, but the voice service in Japan has not returned to the pre-Covid

level, so that is another factor that is why the performance is weaker versus our initial assumption.

Mr. Ando : A follow-up question on that. So that context, based on that context, then do you foresee, what is the possibility of ARPU returning next fiscal year?

Mr. Kuriyama : For next fiscal year, I don't think we can foresee the ARPU bottoming out next fiscal year. Securing the customer base and the improvement of our ARPU, we are now at the stage of trying to achieve them both. We'll try to solidify that and then aim for the recovery of ARPU hitting a bottom sometime next fiscal year.

Mr. Ando : Okay, thank you. My second question also relates to Consumer Communications Business. In this waterfall chart, the equipment balance of payments and recovery or improvement is what's written here. I have seen the same graph in the second quarter earnings call as well, so I am trying to subtract the number and trying to calculate the year-on-year performance, and, as a result, it seems that in the last three months, this has been one of the major factors for the profit growth in the last three months or so.

The improved equipment balance of payments, is that the major factor? Or was the cost reduction factor more of a bigger factor? If you can elaborate on this, that would be appreciated, for the improved performance of Consumer Communications Business.

Mr. Kobayashi : This is Kobayashi. Yes, the equipment, the improved equipment balance of payments is the biggest factor. We are working on cost efficiency improvement on a continual basis, but these are just absorbing the cost increases, so the rest of the performance improvement comes from improved equipment balance of payments.

Mr. Ando : Compared to the first quarter, second quarter, on a year-on-year basis, the improvement in the third quarter was larger compared to the first and second quarters, according to my calculation. If that is the case, then on a year-on-year basis, the improved equipment balance of payments accelerated, if you will, because that seems to be the case from my calculation.

Is that the right interpretation? If that is the case, this improved balance of payments of equipment, is that improving?

Mr. Kuriyama : Yes, the equipment balance of payments is on the improvement trend. Yes, that is correct.

The wholesale unit price is improving, that is for sure.

But on the other hand, then, that is not really effective for customer acquisition. That's another challenge that we are facing on the other hand.

Mr. Ando : Thank you.

Mr. Kikuchi : Thank you. Ando-san, asked for the Consumer Communications Business, so let me ask about the Enterprise Business, if I may.

In terms of the synergy effect, it was very visible in the initial phase after the integration, but I think in the recent, the synergy from this integration has not become very visible. DOCOMO business, you have changed, you have established a new brand, so is there anything that can be seen quantitatively? In fact, since the companies are separated, it is a little unclear whether there is a synergy in the first place.

What is the current situation as far as the integration process is concerned? And as we get into the next fiscal year, I know that you still have set very large targets. What type of synergies do you intend to generate after this integration in the next fiscal year? That's my first question.

Mr. Kuriyama : Thank you. Are you talking about DOCOMO, NTT Communications integration synergy?

Mr. Kikuchi : Yes. Mainly, DOCOMO and NTT Communications. That's the synergy I wanted to ask.

Mr. Kuriyama : Okay, thank you. As far as the Enterprise Business is concerned, integrated solutions is enjoying the greatest growth. As for the existing mobile, we see synergy, so we see growth in these areas as well.

With regard to integration solution, security networks solution, and workstyle solution including contact center. The other is the IoT solution. In all of these, Synergies including mobile network operations, have enabled us to support this growth. We sees continued synergies as a result of the integration among these group companies.

And as for the cost, we have mentioned facilities. And in terms of operations, we are also steadily improving. I would like to continue to do this without running out of breath.

Thank you very much. That's all.

Mr. Kikuchi : Thank you. Maybe the target itself was too high but, by March '26, you are anticipating synergy of 200 billion yen and it looks like you are slowing down. Do you believe that you are making progress in line and you can achieve this target as planned?

Mr. Kuriyama : Yes, we completely believe we can achieve this at this moment. And there are some positive upsides as I said.

And also, with regard to factors related to PSTN, we anticipate a 20 billion yen impact from PSTN integration, migration in this fiscal year. Next fiscal year we will see even more, but then beyond that, we are likely to loss of impact, so I think we are on track as far as these targets are concerned.

Mr. Kikuchi : Okay, thank you for that. So 100 billion yen synergy in 2024 and then 200 billion yen in March '26, that's the synergy impact. Then, by March '25, do you believe that you will be able to have already seen something in between?

Mr. Kuriyama : Well, I'm afraid we cannot talk about numbers in the future.

Mr. Kikuchi : Okay, I take your point. Thank you.

My second question is in relation to PSTN. I want to confirm, is it 20 billion yen this fiscal year? Next fiscal year, it's about 30 billion yen? Are we likely to see larger impacts as a result of PSTN migration?

Mr. Kuriyama : For next fiscal year, we want to refrain from commenting, but this year, 20 billion yen; next year, it's actually above 20 billion yen. So that's how you should see the numbers.

Mr. Kikuchi : In principle, 20 billion yen in reduction in revenue and that should be an impact of a 20 billion yen on profit as well because there is not much cost to increase. Is that the case?

Mr. Kuriyama : This margin will be very high. Yes, this will have impact on the margin.

Mr. Kikuchi : Okay, thank you very much.

Mr. Masuno : This is Masuno from Nomura Securities. I have two questions, one regarding Consumer Communications Business, the other one relating Enterprise Business.

The first question is about Consumer Communications Business. The mobile service revenues, compared to one year ago, the revenue reduction, first quarter, second quarter, third quarter, actually, the revenue decline has been broadening and that was offset by the improved equipment balance of payments.

i-mode and sp-mode were a net increase. It was only about 10,000 or so, slightly over 10,000 or so. Are you going to continue this operation going forward because the net additions are not really decreasing? Or do you think that there's a better way of operating the business? That's about Consumer Communications Business.

Smart Life Business, in terms of operating profit, did we have an irregular factor last fiscal year? Can you comment on these points?

Mr. Kuriyama : The first quarter, second quarter, third quarter, you are talking about the comparison of the performance. You are talking about the number of subscribers and also about the ARPU.

As for subscribers, this is also affected by the population decline, but in the competitive landscape, we are also affected by the competition. But rather than that, the ARPU impact is larger in my view. Compared to our assumptions, we are not able to increase the ARPU as much as what we had anticipated, but we are working on the streamlining of operations and of course the equipment balance of payments improvement so that we can achieve a sustainable increase of profits by working on these elements.

Mr. Masuno : So, sorry, but the initiatives for increasing subscribers, what are you contemplating?

Mr. Kuriyama : As for the subscriber number, the youngsters and also the senior citizens, those are the opportunities, especially the youngsters, the young age group, those are going to be forming our customer base in the future, so we have to secure them properly.

With the introduction of AHAMO, we have been able to secure high usage customers, but we would like to acquire low usage customers with the IRUMO plan. And, as I talked about this, the billing plans I think for the mobile service, I think we already have a competitive menu on hand, but by also working on the equipment balance sheet, balance of payments improvement, because our handset prices were not really competitive in the past, we have decided to implement measures on the handset prices as well.

Mr. Masuno : Thank you very much. Then regarding Enterprise Business, integrated solutions, their revenue growth, compared to one year ago, in the first quarter, +1%, second quarter +7% and third quarter +14%, so you have achieved a

steadfast increase in growth. So now, at last, you have been able to achieve double-digit growth, so what is the background on this? And will this double-digit increase continue?

Mr. Kuriyama : As for the background, we have been able to achieve synergies of Communications and DOCOMO including operations, and the human resources who are shifted from DOCOMO to NTT Communications, they are now getting accustomed to the business and being able to exert their capabilities.

And last year, mobile and fixed line were combined as a set, so we have started offering an integrated network service, and those are now well received by customers, and that's another factor.

Also, since last year, AI has become a boom, so the contact centers of our business are now seeing very brisk demand, and TSUZUMI was launched by NTT Group, and this is well received by customers as well. On the service side and also on the process side, all these are having a synergistic effect altogether. We have to sustain this situation and I think we can sustain this going forward.

Mr. Masuno : Okay, thank you. That's all from myself.

Mr. Kuriyama : Thank you very much.

Mr. Ando : Thank you. I'd like to ask an additional question. If I could ask about the Enterprise Business.

I believe you are tackling both large customers, as well as SMEs. When we make this type of distinction, what is the current situation? Can you talk about the situation pertaining to these two different categories of clientele?

Mr. Kobayashi : Okay. Allow me to give you the breakdown. The integrated solutions is mainly large companies. As a synergy, that is where it starts to come out. We focus on DOCOMO, it used to be only a mobile communication network, but by working with NTT Communications, it is doing very well. so we were able to add application and devices on top of this network, so we were able to offer these solutions.

And also IoT related business. DOCOMO brought it in, and the fact that it is NTT Communication's sales force is effective.

SMEs sometimes behave in similar way to Consumer Communications Business, but the ARPU is somewhat affected by the discount, but even against this backdrop, I think we are able to have flat operating profit. And going forward, we will be able

to do better going forward, so hopefully, we will be able to provide solutions to SMEs based on this type of infrastructures. That is going to be the challenge and issue for the next fiscal year. That is all. Thank you.

Yoshio Ando: Thank you for that.

Mr. Masuno : Thank you. Related to my previous questions, Smart Life offering profit for the third quarter. If you just single out the three months' period on a year-on-year basis, you have recorded a decline. Is this because last year's same quarter performance was so high? But that's still the same as the second quarter level, so was there a one-time factor, one-time expenses in the third quarter only, such as investment? Can you elaborate on that point? And what is going to happen with the fourth quarter? If you can give us some outlook, that would be appreciated.

Mr. Kobayashi : This is Kobayashi. In the third quarter, as Kuriyama-san mentioned in his presentation, there was an irregular factor last fiscal year. Last fiscal year, allowance for doubtful accounts was too high so we made a reversal, so if we exclude that impact, I think the Smart Life Business would have been positive and achieved a year-on-year growth.

But also, in the fourth quarter, I think the profit growth will be much stronger because some of them are like dealing with losses from various businesses in the last fiscal year. So Smart Life Business on a full year basis is expected to achieve a year-on-year increase in profit on a full year basis.

Mr. Masuno : The profit level, 49.7 billion yen for the first quarter, 53.7 billion yen for the second quarter and 58.5 billion yen for the third quarter, so it's about 50 billion yen. If you don't have any one-time factor at the fourth quarter, can we expect that this level will be sustained as well?

In the last three month, you have to achieve 70 billion yen or so, otherwise, you won't be able to achieve the full year target.

Mr. Kobayashi : As I just mentioned, the fact that there are things that were slightly negative in the previous year is the opposite of the third quarter, and there is a negative in last year. That if we continue to grow in the same way this year, the margin of profit increase compared to last year will increase.

Mr. Masuno : It was 126 billion yen for your first nine months and 235 billion yen is the full year target. Therefore I think you have to achieve 70 billion yen in the fourth quarter but are you designing to achieve this with the service growth?

Mr. Kobayashi : Not only the service growth, but on the last fiscal year there were incremental expenses last fiscal year, but those one-time factors will not be the case this fiscal year, so costs will come down at the same time. Revenue will also increase, so we will be delivering both in the fourth quarter.

Mr. Masuno : You didn't have that kind of one-time factor in the third quarter. And if it's 50 billion yen in the third quarter and 70 billion yen in the fourth quarter, I think revenue growth will be the main contribution factor. Is that what you're saying?

Mr. Kuriyama : This is about Smart Life Business achievability of the full year target. Smart Life Business will make an effort to achieve the profit target, but also at the entire DOCOMO Group we will try to achieve the profit target at the entire company level.

Mr. Masuno : All right. Thank you.