

NTT DOCOMO, INC.

FY2025/1Q Results : Analyst Meeting Q&A

Opening

MC: From now, we would like to start the briefing session on NTT DOCOMO's FY2025 Q1 financial results. My name is Wakui from the IR office. I will be serving as the facilitator today.

Today's briefing will be streamed live via audio. Please note that it will also be streamed on our website at a later date. For today's materials, please refer to presentation materials posted on our company IR website.

First, I would like to introduce today's attendees. Mr. Kobayashi, Representative Member of the Board of Directors, Senior Executive Vice President; Mr. Tsuboya, Executive Vice President, General Manager of Corporate Strategy and Planning Department; Ms. Fujiki, Executive Vice President, General Manager of Accounts and Finance Department.

Next, I would like to introduce the schedule. First, Mr. Kobayashi will give an overview of the financial results, followed by Q&A. We plan to finish at around 17:35.

Now, the financial results overview will be explained to you by Mr. Kobayashi.

Presentation

[# : indicates slide number]

#1

Mr. Kobayashi: Good evening, everyone. This is Kobayashi, NTT DOCOMO. Thank you very much for joining us today.

#2

First, as for FY2025 1Q financial results, operating revenue increased but operating profit decreased by 35.7 billion yen.

#3

Looking at operating revenue by segment, the Consumer Business resulted in a total revenue decrease by 8.8 billion yen, in which Smart Life increased revenue, while Consumer Communications recorded continued decline in revenue from the previous fiscal year. The Enterprise Business increased revenue by 25.7 billion yen.

#4

Regarding operating profit by segment, the Consumer Business decreased profit by 42.7 billion yen due to continuous investment in sales promotion expenses and strengthening of networks from the previous year, in addition to decreased revenue. The Enterprise Business increased profit by 7.1 billion yen.

#5,6

Next, regarding key factors behind changes in operating revenues, as I mentioned earlier for most parts and the profit is also prepared on the next page, but it is the same situation. Regarding the decrease in profit for Smart Life, I will explain the details if you have any questions, but for example, the venue business, which incurred upfront cost and the revenue will increase later. We are working on this kind of initiatives more this fiscal year, so I think it is within the scope of expectation.

#7

I will talk about the topics of each business.

#8

First, regarding Consumer Communications, we had been promoting the transition to “eximo”, but the new rate plan started on June 5, and the difference between upsell and downsell is approaching balance, so the YoY decrease in revenue has narrowed.

#9

Regarding the customer base, we continue to improve net adds performance, and MNP has been positive for 3 consecutive quarters.

#10

ARPU, which you may be interested in, is 3,920 yen, the same as the previous year, and I think we are finally bottoming out in a good confidence. The point is that ARPU change before and after migration is positive. I also mentioned earlier about revenue, the balance between upsell and downsell has improved. Upsell has started to exceed the previous quarter. We can see that situation recently.

#11

Next is “docomo MAX”, a new rate plan that we introduced as a marketing strategy. Looking at the initial uptake of this service, I think it has been generally accepted well. It encompasses a variety of values from the customer perspective, which is different from “eximo”, a simple fee plan. Initial migration rate for “docomo MAX” is better than “eximo”.

#12

Next, as for operating revenue of Smart Life, Financial services continue to lead, and revenue is increasing.

#13

If I talk about the details by Financial area, revenue increased by 12% from the previous year. Among them, credit card business is leading, and with the introduction of “d CARD PLATINUM”, we expect a considerable increase in usage per person. With PLATINUM, the transaction volume is about double compared to GOLD, and the usage per person increased by 24%. In the future, I believe that we will be able to expand and accelerate financial services by adding banks.

#14

Next is Marketing Solutions. In this area, we have been able to steadily increase revenue despite the decrease in revenue caused by the partial business unit sale of one of our subsidiaries. As for “d POINT”, in addition to being used at merchants in town, online usage is expanding, and the revenue from points sold has increased by 18%. Our strategy is to expand the “d POINT” economic zone, so we are not just selling points and ending up there. Our growth strategy is to connect to the user base of the Consumer Business mentioned earlier, so we are also introducing initiatives such as marketing DX. We are also developing a business model that matches FM Tokyo's Radio ID with “d ACCOUNT”, multiplies the data held by us and INTAGE HOLDINGS Inc. , analyzes it, and provides it to customers. Following Finance business area, I think we need to grow this marketing solution area, and I think it is a very important initiative.

#15

Next is Entertainment. It may seem that revenue in the Entertainment area is not growing, but in fact, it is making up for the decrease in revenue from legacy services such as fixed-line video services, and other areas are growing steadily. Regarding the venue business, we started operating the “Japan National Stadium” in April, and “IG Arena” will open in July, so we would like to secure new revenue in these areas as well.

#16

Next is Enterprise Business.

#17

Enterprise business increased by 25.7 billion yen, and I think we were able to mainly capture the DX demand of our customers and deliver solutions.

#18

In the solutions area, there is high demand for security and contact centers, and they are growing steadily. On the other hand, the business for SMEs, which has been an issue in the last year, is quite improving. The “GIGA school” and “DOCOMO Business Package” initiatives have been successful.

#19

In addition, there have been very large inquiries in the AI field, and on May 28, we formed a capital and business alliance with ExaWizards Inc., and started offering 20 types of AI agents as industry-specific solutions on June 19. An AI service for small and medium-sized customers called “Stella AI for Biz”, which was created by a company called SUPERNOVA Inc. that spun out from DOCOMO's startup program, started offering on June 16. Enterprise Business is also a very important growth area, and we would like to continue these initiatives.

#20

This concludes my explanation. I would like to take any questions. Thank you and best regards,

Q&A

Mr. Kikuchi of SMBC Nikko Securities : Two questions, please. I think ARPU is probably not a very useful figure because the noise from “Poikatsu” is too large. Having said that, I think it will be difficult to correct this from now on because there is a question of how to handle “docomo MAX”. Therefore, I would like to ask about mobile communication service revenue. I think that mobile communication service revenue of 607.5 billion yen in 1Q is low. Our full-year plan is for a decrease of about 50 billion yen, but there is a tendency for it to decline steadily until at least 1Q, and even if we multiply 607.5 billion yen by 4, it will not meet our full-year plan. We cannot achieve this unless we start increasing revenue at some point. Therefore, I think that by the second half of this year, it should be at the same level as last year. Do you have any prospects for that? I would be concerned if it deviates from the original plan in 1Q, but when will mobile communication service revenue start to increase as the gap between upsell and downsell for “docomo MAX” and “docomo mini” improves? The first point is that I would like to hear a forecast for both QoQ and YoY.

Mr. Kobayashi : I think this is a very critical question. First of all, as shown in the slide, mobile communication service revenue in 1Q decreased by 14.1 billion yen, but this is as planned. As MR. Kikuchi said, structurally, the impact of “Poikatsu” is also included, so ARPU is 3,920 yen, which is the same as the previous year. I would like to explain the details. First of all, the 14.1 billion yen decrease from the previous year was due to a significant loss of users through MNP in the first half of last fiscal year. We have been steadily gaining users through MNP since the second half of last fiscal year, but the impact of the decrease in users is about 1/3 of the 14.1 billion yen decrease in mobile communication service revenue. Other than that, while ARPU is leveling off, I think the reason why it is decreasing that much is due to the impact of “Poikatsu”. What I mean is that we are steadily recovering from the credit card business, QR code payment, and other businesses, and we will closely monitor how the impact of this will deepen. Another thing is that we have disclosed that ARPU has apparently decreased by about 30 yen from the 4th quarter of last fiscal year, but in fact, corporate numbers are slightly declining. I think this is probably a common trend in the entire industry. In the 4th quarter, there was the clearing of access charges, and we are also looking at the impact of this and “Poikatsu”. As for Consumer Communications, it was completely flat in the last 4th quarter and the 1st quarter of this year. What I am saying is that if we look at the impact of “Poikatsu”, which I mentioned earlier, as ARPU, there is almost a horizontal movement. This is our analysis. This is a difficult point, and you may say, "Then change the disclosure." but historically, the whole company has been issuing ARPU, so we are worried that it will not be easy. However, this is happening internally. What I want to say is, as Mr. Kikuchi said, the impact of “Poikatsu”, in particular, should decrease in the second half of the fiscal year, so we are looking at online sales at this point in time in anticipation of that.

Mr. Kikuchi : Thank you very much. In that case, the mobile communication service revenue of 607.5 billion yen in 1Q is due to seasonal factors, so in 2Q, it has almost leveled off, and it is not going down anymore. In addition, I think there are seasonal factors, such as a slight increase in summer, but for the full-year plan, online sales, in other words, can I assume that it will not decrease anymore?

Mr. Kobayashi : Yes, we will not decrease any more, and we want to do our best. It is not just that we want to do our best, but specifically speaking, “docomo MAX”, of course “docomo poikatsu MAX”, and how much demand we have for “docomo MAX” depends on our marketing. We are working on these things every day. We do not intend to decrease it.

Mr. Kikuchi : I understand. I hope that other people will hear about “docomo MAX”. Next, I would like to confirm using the figures for the increase and decrease in operating income on page 6 of the financial results presentation materials. The decrease of 39.8 billion yen in Consumer Communications operating profit is due to a decrease of 14.1 billion yen in mobile communications service revenue, and the other difference is 25.7 billion yen. I think this is rounded, but I would like you to break it down a little. I think that sales promotion expenses tend to increase by 30 billion yen or 40 billion yen from the previous year. The rest is network resilience and investment. You said that you will not increase sales promotion expenses this year, but I think it is quite difficult to increase them in the first half and decrease them in the second half. My second question is that I would like you to break down and tell us about the outlook for 2Q and beyond.

Mr. Kobayashi : It is true that Consumer Communications is struggling a little bit with sales promotion expenses and network resilience. On a quarterly basis, network resilience is several billion yen, and sales promotion expenses are ten and several billion yen. In the first half of the last fiscal year, it was difficult to set up a system at mass retail stores, and although we tried to win by investing sales promotion expenses, some of them ended up just calling out. In the third and fourth quarters of the last fiscal year, we started to achieve this quite well and became MNP plus, but sales promotion expenses will increase in the first quarter compared to the previous year as planned. I would say that the MNP market is quite active, and other companies are also taking various measures, so we are also investing a certain amount of sales promotion expenses in this area. In that situation, what we are looking at now is that in the fourth quarter of the last fiscal year, we have been monitoring sales promotion expenses for the port-in market as cost per acquisition, even if it is quite expensive, for example, in the case of mass retail stores, we accelerated the investment considerably since we started to focus on as a late comer.

From that point of view, in the first quarter of this fiscal year, even if we increase it compared to the previous year, we would like to decrease it from last year's fourth quarter. In that sense, compared to the 4Q, the performance was a little lower in terms of the unit price, and we were

able to manage it in that way. However, from my point of view, whether this is satisfactory or not, compared to the plan for the fiscal year, in the flow of intense competition, it is a little higher than the plan. In addition, there are sales promotions such as the device replacement program, for which sales have been very strong, and in the movement since last fiscal year, first of all, the unit price of the accounting reserves for the program has been increasing because of responding favorably to customers. How does that affect us? Since sales have been strong this fiscal year, it will be charged according to the number of sales. On the other hand, I think that it has contributed to things like stopping port-outs, but the number of people actually using the program is also a little high at present. Including those things, we spent more than ten and several billion yen on sales promotions and other costs in the first quarter. As I mentioned earlier, I am CFO, so of course I would like to lower the amount of unit price immediately, but at the same time, I am also checking whether it is used effectively. Compared to the previous year, the churn rate for handsets has decreased, so I think that our device replacement program is effective. We will be careful about this in the future, including the design of the program.

Mr. Kikuchi : Thank you. I would like to confirm a little more details. Is it correct to understand that the investment for network resilience is several billion yen and the sales promotion expenses are ten and several billion yen?

Mr. Kobayashi: Yes, that is the breakdown.

Mr. Kikuchi : Also, regarding the increase in sales promotion expenses, you mentioned that there was also an effect of the support program for handset purchase. At KDDI and SoftBank, the turnover rate of the program has been brought forward, and I think the program is going in an unhealthy direction more and more. By reducing the initial burden and making it heavier later, the cycle of replacing handsets is accelerated more and more, and the resale price of used handsets is set at a high level although it is also getting difficult. KDDI and SoftBank have to increase the accounting reserves for the program. They spent more than 10 billion yen in this quarter, and SoftBank spent a large amount last year, too and both of them are planning to spend in the second quarter as well. I think your company is a little different, but are the same accounting reserves for your company included in what you mentioned earlier due to the nature and structure of the program? Or, they do not come out anymore. They do not come out 10 billion yen per quarter like other companies, but is it really just an increase of ten and several billion yen in sales promotion expenses? Could you tell us the breakdown of the ten and several billion yen? The ten and several billion yen sales promotion expenses have already increased from last year's 3Q, so I don't think it will increase in this year's 3Q, but according to the atmosphere of your explanation, is it correct to say that it will increase in 2Q in the same way?

Mr. Kobayashi : From the latter part of question, we estimate it will increase in 2Q in the initial plan. Structurally, we stepped on the accelerator for this from last year's 3Q, so I think it will continue to be the same in 2Q. Regarding sales promotion expenses, I would like you to refrain from going into details, but our device replacement program is also made to be competitive while looking at other companies' programs, so we will also have a certain impact. In terms of this, conversely, if sales are good, the assignment will go up, and there is also a part that is actually exercised by those who really change and change as a result, so it is a balance between those things. We received the opinion that it is unsound, and we would like to consider how we can correct the design. However, as I mentioned earlier, I think it is also affecting the churn rate, so I think it is a balancing act with that.

Mr. Kikuchi : Thank you very much. From an accounting point of view, is there actually an additional charge in 1Q? Also, will it occur in 2Q?

Mr. Kobayashi : From an accounting point of view, we are not saying that we are going to make a major change to the system, but we are talking about a certain amount of reserve as soon as you enter the program. So, there are two ways, one is to spend in response to sales, and the other is to spend in response to replacement customers who actually use the program. So, both of them will affect the sales promotion expenses mentioned earlier.

Mr. Kikuchi : Yes, I see. You said that KDDI and SoftBank increased the amount because their calculations in the past were not enough, but your company is not the case at the moment?

Mr. Kobayashi : Well, I don't think that we were not enough. Of course, we have to review this periodically, so I don't think what we are doing is very different from what other companies are doing, but I don't think it has had a big impact this time.

Mr. Kikuchi : Thank you very much.

Mr. Masuno of Nomura Securities : There are two things. According to your company's disclosure of the number of handset contracts, there was a decrease of 39,000 in the first quarter. What is this? Even if the number of enterprise customers is decreasing, in short, there are many factors such as unit price and mass retail stores, looking at the current competitive environment in the market, I think the competition is not decreasing, but rather, it tends to be increasing. The liquidity of the market is increasing, so even if you take the same net adds, the gross sales will increase and the number of units will increase, so no matter how you look at it, it will cost more. If the number of contracts decreases, including enterprise, with the cost, it will be the same as last

year. In the second half of the year, the decrease in volume will affect income, so I think it will be a bit negative even on a quota-on-quota basis. I don't think the sales competition next March will slow down at all, so if you don't push up, the number of contracts will decrease even more. So, from a broad perspective, how do you see the current competitive environment, the liquidity of the market, and the resulting number? First of all, what is the conclusion of the 1Q results?

Mr. Kobayashi : In the 1Q, as you said, we started disclosing our handsets, so that's what happened. The biggest thing is that enterprise contracts have a considerable impact. For example, when we deliver to local governments and companies, we ask them to continue using the old generation, for example, tablets, and place new ones double. There are quite a few "GIGA school" projects, but there are tens of thousands of such projects, and when we see as net adds in a certain periods, the number of contracts is the same or slightly increased, but cancellations due to double contracts tend to occur just in the first quarter, so in fact, there is a slight decrease in this quarter. Since you talked about the big picture, I am also conscious of what Mr. Masuno said, and as you may know, Japan is a society in which the population is decreasing, so I think that we need to reduce the cost structure in line with the number of people while taking into account the impact to a certain extent, and I think that we are working on such things. However, while the population is decreasing, of course there will be demand for second devices, and I think that we need to think about recovering the share that has been decreased so far, so I think that we need to work on increasing the number of users and handsets under such circumstances. Even if this is not the reason for the large numbers, I would like to take it into account in our management.

Mr. Masuno : That's right. Also, as there was a briefing session for other companies yesterday, looking at the market, Rakuten is increasing at a pace of net increase of 1 million per year, and I think that SoftBank is not able to raise prices easily, and they also want to get a net increase of 500,000 ~ 600,000 per year. In that case, there is one vector of raising prices because they want to increase profits, but I think it is reasonable to follow the number, and increase the number for the third or fourth market share from the top, and I think that the pressure and dynamism will not change. So, what should you do? I think there is no other way but to decide whether to continue or stop selling expenses in a really efficient, strict and efficient manner. If the single price goes up, how about stopping it? Last but not least, I would like to ask how to maintain the hurdle rate, sales efficiency, and yield of sales promotion marketing.

Mr. Kobayashi : I believe that exactly what you pointed out is our biggest management issue. I mentioned the churn rate earlier, but we are not looking at it in the short term, and I do not think that we will continue this way of fighting for a long time and raise or lower the single amount of sales promotion expenses. I don't know if it is a good term to call it an economic zone, but I think our game is how to expand the area where our customers can get a good deal and feel it.

Conventionally, we call it active in three businesses, and the churn rate is very low for those who accumulate points and use them for payment, and the reverse side of “d-Barai” is a “d-card”. We are thinking of increasing this, and in the short term, in the medium term of our group, we are planning to make about 1/3 of active in three businesses in the medium term goal. Among them, we would like to make half of active in two businesses. The point is not that the short-term cost per acquisition has increased or decreased, but from a comprehensive point of view, the value of customers will accumulate more, so we have been doing such initiatives. While using sales promotion expenses, we are looking at the churn rate because in the case of active in three businesses, the churn rate will decrease considerably, to less than half, but we are looking at the ratio of such people and whether it is responding or not. Perhaps, as you said, the three Incumbent companies may think of using sales promotion expenses first in order to increase such things in the future. I think Rakuten is also looking at this, but I think the key is how many royal customers we can acquire while creating this kind of economic zone. In addition to that, what we are doing now under Mr. Maeda, President and CEO, is to provide various values, such as sports for the beginning, DAZN and NBA and other entertainment like music, etc. If customers procure sports content individually, it would be quite expensive, but we have procured it in bulk and delivered it in bundles, and we are working with local teams, such as the J. League, to encourage customers to do various things. If we can get to the point where DOCOMO can provide better, cheaper products for our customers, I think we will be able to create not only the active three businesses mentioned earlier, but also a larger economic zone, or what we call fandom, and a society where people enjoy more. I think that is what we have to do, so in conclusion, I would like to say that it is exactly what Mr. Masuno said, but I would like to convey this in numbers, and I would like to think about that in the medium term.

Mr. Masuno : Thank you very much. I would like to look forward to such a report. That is all.

Mr. Tokunaga of Daiwa Securities : I have two questions. One is the competitive environment. I can't believe that your company's churn rate went down while the other two companies increased dramatically from the previous year although the enterprise customers went down. What was working well? The promotion was aimed at people who are likely to churn, or the “docomo mini” was aimed at people who are likely to churn. I guess these strategies worked well. I also think that the competitive environment has changed since the new rates came out in June. When you analyze MNP and the number of subscriptions divided into April-May and June, are there any changes in trends or in the competitive environment? Could you tell us why the churn rate was so low and what the competitive environment was like before / after the new rates launch?

Mr. Kobayashi : Thank you for your question. First of all, I appreciate your evaluation. As I mentioned earlier, we are looking at the port-out prevention effect of active in the three businesses, and this number is higher in the first quarter compared to the last year. I think that such initiatives are steadily working. Also, as Mr. Tokunaga said, we are using AI and other tools to look at signs of cancellation in great detail, and we are doing our best in one-on-one digital marketing. Please forgive me for not disclosing MNP by month, but overall, we certainly created a new marketing system in June, and we have changed the way we sell there, so in terms of the day-to-day situation, we are moving a lot. However, while moving a lot, the current situation has not changed much from before. What is happening specifically is that on weekdays, our MNP is generally positive. On holidays, MNP goes slightly negative. There is a structural factor for this. We have been able to make a considerable comeback in the stores of mass retailers, but DOCOMO Shops in various commercial facilities are still not enough compared to other companies. We have not been able to solve the problem that when families go to such places on weekends, they are promoted by other companies' stores or events. Although improving slightly, but we can still see such a structure at our feet, I don't think there will be much change if we look at the structure. To put it the other way around, since we are doing marketing transformation as I mentioned earlier, I think we should be stronger in future. We are working internally to ensure that we do everything we can, including efforts to create a system and deliver to customers.

Mr. Tokunaga : So, is it correct to understand that the MNP Plus and the lower churn rate will continue even after the new rates?

Mr. Kobayashi : Yes. I would like to make sure that we do that.

Mr. Tokunaga : Thank you very much.

Secondly, I would like to talk about the profit guidance of Consumer Communications for this fiscal year. In 2Q, it seems to be the same as in 1Q, without a reduction effect in “PoiKatsu”, so if Consumer Communications has a decrease in profit by 40 billion yen, I think the second half for Consumer Communications profit should be increased in order to meet the guidance 400 billion yen for this year. I think there are various factors, such as a reduction in the impact of “PoiKatsu”, but I feel that you cannot achieve an increase in profit unless sales promotion expenses decrease from the previous year or network costs decrease in the second half. As Mr. Masuno said, your company is currently focusing on numbers and does not want to lose momentum, so it may be difficult to comment now, but do you think internally that you can properly reduce various costs toward an increase in profit in the second half? Or do you think that you can follow up with the top line? Please tell us about this. That's all.

Mr. Kobayashi : Thank you. These are our current management issues. First of all, the top line, or rather the user base, which you mentioned at the end, when we think about the creation of a medium-term economic zone and growth, as well as enterprise customers, we make various proposals on the assumption that we have a user base, and when we think about the marketing solutions mentioned earlier, I think that we should never lower this base for growth. This is our top priority issue. At the same time, we are not saying that we will do it even if we lose profits or even if we cannot achieve our plan? I think that we must reduce costs in every way. What I think is a major issue is that, as I mentioned earlier, ARPU will be more than flat in the Consumer Communications area. I said that we will do this properly as our management proposition. The key issue for ARPU growth is how much people will accept “docomo MAX”. As for the Consumer Communications area, not only for simple cost cutting, but also the ARPU movement and when it comes to the company-wide discussion at the end, we will do our best to increase the user base, including making profits beyond the plan in the Enterprise Business and Smartlife Business.

Mr. Tokunaga : I understand. Thank you very much. Forgive me for the details, but your company, like Softbank, has raised its processing fees a little. Are these steady efforts gradually working?

Mr. Kobayashi : This is because we made such a decision while various costs were rising, so we would like to do our best while taking advantage of this positive amount, which is also a source of funds that can be used to discount various things to our customers.

Mr. Tokunaga : Thank you very much. On page 10 of the financial results briefing material, what do you mean by 20% increase in up-selling and 30% reduction in down-selling?

Mr. Kobayashi : Thank you very much. This shows ARPU change for the customers who migrated in the 4th quarter compared with the 1st quarter. If you look at this difference in unit price, we are finally moving in the direction of an increase as a result. So, if we look at the current situation, not compared to the 1st quarter of last year, but to the latest 4th quarter, in the Consumer area, upselling and downselling are more than balanced.

Mr. Tokunaga : Does this mean the number of customers? Does it mean unit price?

Mr. Kobayashi : It's a unit price. It's the width of the unit price.

Mr. Tokunaga : Thank you. That's all.

[END]