

BUSINESS DEALS

NTT to take over wireless unit Docomo for \$38bn

Exclusive: Japan's top mobile carrier to delist as group prepares for Suga price cuts



Nippon Telegraph & Telephone seeks to advance its 5G strategy by taking full control of wireless unit NTT Docomo. (Source photos by Nikkei)

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TOKYO -- Nippon Telegraph & Telephone will turn listed wireless carrier NTT Docomo into a wholly owned subsidiary via a tender offer expected to be worth around \$38 billion, the largest ever for a Japanese company, Nikkei has learned.

The telecommunications group will seek to purchase the roughly 34% of outstanding Docomo stock held by other shareholders and will delist the carrier once the transaction is complete.

Adding the typical 30% premium for a tender offer to the current share price puts the value of the deal at over 4 trillion yen (\$37.9 billion). The bid will be announced soon.

In a stock exchange filing on Tuesday morning, Docomo said it will discuss the matter during a board meeting later in the day.

The move will enable Docomo to more easily respond to pressure to cut wireless service prices. New Prime Minister Yoshihide Suga has said Japan's mobile rates can be reduced by around 40% and considers the issue a policy priority.

NTT also looks to speed up decision-making for more effective cooperation with other group companies, enabling more efficient investment in fifth-generation wireless and Internet of Things technology and freeing up resources for rate cuts.

While lower wireless rates will mean a temporary hit to Docomo's earnings, having NTT as the sole shareholder will mitigate the negative impact on the company.

The deal also helps consolidate the group's strengths and assets in order to pave the way for a greater push overseas. Docomo has long been the driver of the group's earnings. But Japan's wireless market has plateaued, and how the company plans to keep growing remained unclear.

"Docomo is too focused on what's happening internally," an NTT executive said. There had been concern that the unit placed too much weight on its own goals over those of the group as a whole.

By bringing Docomo back into the fold, NTT hopes to generate greater synergies within the group and reallocate resources so that it can better compete with overseas rivals in such areas as 5G and the IoT.

"There has been little appetite for change within Docomo, causing the unit to lag behind our groupwide strategy," an NTT executive said.

Docomo led Japan's mobile market at the end of June by subscriber numbers, with a 37% share to KDDI's 28% and SoftBank's 22%, government data shows. Yet because its profits per contract are lower, it is projected to report the lowest group operating profit of the three for a second straight year this fiscal year.

The majority of Docomo's capital spending goes toward wireless base stations. The company will work with NTT Communications to implement virtualization technology, enabling general-purpose equipment and software to be used rather than the specialized gear normally required.

Docomo was spun off from NTT in 1992 as part of government efforts to promote competition in the communications sector. It debuted on the first section of the Tokyo Stock Exchange in 1998 to fund capital investment.

Docomo has since made some efforts to expand overseas. The mobile carrier invested roughly 2 trillion yen in five overseas companies, including AT&T Wireless in the U.S. But it failed to make much headway with these partnerships and ended up with about 1 trillion yen in impairment losses.

"It didn't have the ability to conceptualize business ideas in new fields and has since shied away from overseas markets," an NTT executive said.

The group hopes to change this as it works to make its Innovative Optical and Wireless Network, or IOWN, a reality by 2030. "We need to make speedy decisions as one with Docomo," an NTT executive said, echoing a growing sentiment within the company. Whether NTT can tap its unit's full potential once the transaction is completed remains to be seen.

This will be the largest tender offer for a Japanese company on record. It is also the second-largest merger and acquisition deal, after the three-way merger that formed what is now Mizuho Financial Group.