

Questioner 1

Q1

The Public & Social Infrastructure Segment has contributed more to the whole company's net sales and operating income than other segments. I would like to know if the expansion of the scale of services for the central government and related agencies you explained is just temporary. Regarding the cumulative increases in net sales by 17.4 billion yen and operating income by 10.7 billion yen for 6 months, please provide details on them for each of the first and second quarters (three-month period each).

A1

Net sales increased by 9.1 billion yen in the first quarter (three-month period) and 8.2 billion yen in the second quarter (three-month period). Operating income increased by 3 billion yen in the first quarter (three-month period) and 7.6 billion yen in the second quarter (three-month period). Please note that the significant increase in operating income in the second quarter (three-month period) was due to a decrease in the profit impact of provisions for unprofitable projects.

Q2

Given your answer, I understand that you expect an increase in net sales by 8 to 9 billion yen and an increase in operating income by approximately 3 billion yen for each quarter in the second half. Is my understanding correct?

A2

By the end of the second quarter, we won some contracts unexpectedly, and project scales tended to be somewhat larger than expected when the full-year business forecast was drawn out. We believe that net sales would continue on an upward trend in the second half, although we have yet to provide specific figures.

Q3

Regarding operating income of the EMEA & LATAM Segment, please tell me how large the impacts due to the COVID-19 impacts were and how much the segment spent on the structural transformation.

A3

Please understand that since it is challenging to distinguish COVID-19 impacts on business aspects including net sales from those on others, the financial results of the second quarter include COVID-19 impacts. As an example of a special case attributable to COVID-19 impacts, a client in South America filed for bankruptcy, which resulted in provisions for impaired receivables of 1.7 billion yen in the first 6 months of this fiscal year. Please understand that the decreased operating income of the EMEA & LATAM Segment was due mainly to this event.

In the first half, the segment spent almost half of the full-year budget for a structural transformation of 4 billion yen. The amount spent in the first 6 months was as much as the corresponding period of the previous fiscal year, which had little impact on year-on-year change in operating income.

Q4

I understand that you plan to allocate 11 billion yen for the structural transformation of the North America Segment on a full-year basis. Please show me how much the segment spent by the end of the second quarter.

A4

We plan to allocate net 11 billion yen on a full-year basis: 16 billion yen of spending and 5 billion yen of benefits. Specifically, the segment is enhancing and re-skilling digital talents, optimizing resources, and consolidating offices and data centers; 3.5 billion yen, or approximately 20% of the full-year budget, was spent in the first half. A larger portion of the remaining budget is expected to be invested in the fourth quarter. The benefits of 5 billion yen will be brought about in the second half.

Q5

Please tell me how much losses from unprofitable projects you recorded in the first and second quarters (three-month period each). How different are they compared with the corresponding period of the previous fiscal year?

A5

We recorded almost zero losses from unprofitable projects in the first quarter (three-month period) both in the current and the previous fiscal years. For the second quarter (three-month period), we recorded losses of 6.2 billion yen in the previous fiscal year and 0.2 billion yen in this fiscal year. The difference of 6 billion yen contributed to an increase in operating income.

Questioner 2

Q1

You said that the North America Segment spent 3.5 billion yen for structural transformation. Excluding that impact, the year-on-year decrease in operating income for the first 6 months seems small. Furthermore, EBITA appears not to have deteriorated so much with 1.5 billion yen for the first quarter (three-month period) and 1.6 billion yen for the second quarter (three-month period). You said that COVID-19 impacts on the North America Segment were minor than expected. Do you think that the segment hit bottom in the second quarter or the situation may get worse in the third quarter? Do you expect that the segment will recover with profitability boosted by structural transformation? Please give me future prospects.

A1

Although COVID-19 impacts in North America are very significant, thanks to the hard work of members of the North America Segment, financial performance has not deteriorated so much. This is partly because the performance had not been affected so badly as of the end of the second quarter in contrast to our expectations that order backlogs that are expected to be converted into net sales in this fiscal year would decrease by 8% due to project cancellations or postponements. In addition, the number of orders for digital projects and new services from existing clients exceeded our expectations.

Although we announced a full-year forecast that new orders received would decline significantly, the segment won large-scale contracts, which are worth tens of billions of yen, in the second quarter and onward. Despite the very harsh situation, if things go well as in the second quarter, we expect new orders received, net sales, and operating income to exceed the full-year forecast.

Q2

Given your explanation that the segment has successfully converted order backlogs into net sales and won new contracts, I understand that it would keep operating income on par with the first half in both third and fourth quarters, excluding costs for structural transformation. Is my understanding correct?

A2

If the situation in the second half is similar to the first half, operating income will remain on par with the first half. However, it will depend on COVID-19 impacts. The remaining 80% of the budget for structural transformation will be spent in the second half.

Q3

Similar to the performance of the North America Segment, that of the EMEA & LATAM Segment seems not to have deteriorated so much. I know that the situation is different from that in North America but would like to ask you whether there are any regions, including Germany, Italy, Spain, and LATAM, that might face a tougher challenge. Or do you think that you could keep the situation unchanged?

A3

The UK government announced another lockdown for England from November 5 to December 2, which

shows the severity of COVID-19 impacts. In the first half, manufacturers such as automakers in Germany faced a very tough challenge. Conversely, in Italy, businesses for the financial, utility, and telecommunication industries have performed strongly, and financial results have been robust because of effects from structural transformation and digital transformation implemented by the end of the previous fiscal year. In Spain, where everis operates, although some of the businesses for the insurance and telecommunication industries have seen COVID-19 impacts, businesses for the public sector and the utility industry have been robust. Although COVID-19 impacts do not allow optimism, if the trend seen in the first half continues in the second half, new orders received and net sales will recover.

Q4

The next fiscal year marks the final year of the medium-term management plan. We are seeing effects from structural transformation implemented in Europe and structural transformation in progress in North America, and robust performance in Japan. How do you analyze this? When COVID-19 impacts fade, will it be possible for you to achieve the target of operating income margin even if it may be difficult to achieve the goal of net sales? Or are you evaluating COVID-19 impacts before reconsidering the plan? Please let me know what idea and view you currently have regarding the medium-term management Plan.

A4

In the first half, net sales and operating income increased by 2.3 billion yen and 0.1 billion yen, respectively, which is on par with the previous fiscal year and means no growth due to COVID-19 impacts. We have not considered changing KPIs and when to achieve the goals of the medium-term management plan but will evaluate situations and COVID-19 impacts in the third quarter before making a decision. Although we are struggling to grow as clients' businesses face harsh conditions due to COVID-19 impacts in this fiscal year, we have witnessed companies attempting to recover their businesses by using IT and digital technologies as the Japanese government plans to establish a digital agency. Since these trends will be positive for us, we will do our best in the second half anyway.

Questioner 3

Q1

The Public & Social Infrastructure Segment recorded new orders received of 75.6 billion yen in the second quarter (three-month period), which represents a year-on-year decline of approximately 51%. Is this decline in line with the expectation or worse than the expectation? Please explain the size of the large-scale projects for which you won contracts in the previous fiscal year, too.

A1

We received orders for multiple large-scale projects in the previous fiscal year, and the decline in this quarter was due mainly to less orders for large-scale projects than in the previous fiscal year. As we receive different numbers of orders in different quarters, it may make no sense to compare the results of 3 month periods. However, we believe that due to unexpected orders and expanded project scales, we could receive more new orders than expected.

Q2

The Financial Segment also saw a two-digit year-on-year decline in new orders received in the second quarter (three-month period). Do you think that the segment received more new orders than expected, too?

A2

We think that the Financial Segment's performance is robust, too. In our view, the Public & Social Infrastructure Segment's new orders received exceeded the expectation more significantly, and the Financial Segment's new orders received exceeded the expectation by a small margin.

Q3

The new orders received by the Enterprise & Solutions Segment in the second quarter (three-month period) were nearly on par with the previous fiscal year. Do you think that the segment received more new orders than expected?

A3

When compared with the published full-year business forecast, the segment's new orders received exceeded the expectation due to fewer COVID-19 impacts. However, as the segment has been a major contributor to the growth of new orders received and net sales for recent years in Japan, the results nearly on par with the previous fiscal year seem sluggish. Given the situation in the first half, we have a strong probability to exceed the full-year forecast.

Q4

If the U.S. government is changed as a result of the presidential election, are there risks that order backlogs are postponed, downsized, or suspended? I understand that in the previous fiscal year, a loss was incurred from Brazilian projects due to the change of the government.

A4

This is a difficult question to answer. Some factors remain uncertain to us. However, the loss from a driving simulator project in Brazil incurred in the previous fiscal year was due to a drastic change in legal systems after the law revision in 2019. Since order backlogs in North America are from projects of updating and adding new functions to systems of the central government and related agencies, a change of the government will not affect them.

Questioner 4

Q1

As of the end of the second quarter, order backlogs were worth nearly 2.7 trillion yen, which represents a year-on-year increase of approximately 7%. What percentage of the order backlogs do you think will be converted into net sales in the second half? Please explain it from a company-wide perspective and by segment.

A1

I am sorry, but we don't disclose the figures by segment. For the whole company, approximately 780 billion yen of the order backlogs will be converted into net sales by the end of this fiscal year. There are segments whose backlogs are converted into net sales over time and those that complete the conversion in a relatively short period of time. Please understand that the conversion seen in this fiscal year will not continue forever.

Q2

Does the amount of approximately 780 billion yen represent an increase or a decrease from the previous fiscal year?

A2

I do not have the figures on hand, but I think that this fiscal year's figure remains almost unchanged from the previous fiscal year. New orders received in the first half were on par with the corresponding period of the previous fiscal year, and order backlogs have increased from the beginning of the fiscal year. It is our core businesses that drive the conversion of order backlogs into net sales over a medium to long term, which means that the conversion will occur stably. Instead, I think that orders that are received in this fiscal year and will be converted into net sales by the end of the year will be vulnerable to COVID-19 impacts and others.

Questioner 5

Q1

Let me ask you about the environment where you receive new orders. You said that COVID-19 impacts were smaller than expected. Do you think that new orders received in the second half will increase or decrease on a year-on-year basis? Please show me your forecast for Japanese and overseas businesses separately.

A1

I think that new orders received in the second half will just depend on COVID-19 impacts. Most of the new orders received in the first half were those for which sales activities and contract procedures had been going on by the end of the previous fiscal year. Conversely, as the SI industry is said to lag behind the economic trend, we will need to monitor developments in the second half due to COVID-19 impacts in the first half. Since the resurgence of COVID-19 cases in Europe and North America is expected to affect our performance in the second half significantly, it is too early to mention a forecast of second half. However, considering the results in the first half, there is no risk that full-year new orders received would decrease by approximately 370 billion yen on a year-on-year basis anymore, and we think that it would be possible for us to achieve the full-year forecast. But it is still uncertain if new orders received recover to the previous fiscal year's level.

Q2

When comparing the financial results in the second quarter with those in the first quarter, did you receive more business inquiries from clients that have not been reflected in new orders received? Or did the number of business inquiries remain unchanged?

A2

For example, the North America Segment won a contract for a large-scale project in the second quarter, and new orders received have grown even in a pandemic. If this trend continues, new orders received will not fall to the level of the full-year forecast. In the first half, each segment in Japan made a significant progress in new orders received toward achieving the full-year forecast. If the situation remains unchanged, new orders received will exceed the full-year forecast.

Q3

Let me ask about the situation faced by NTT DATA Business Solutions, which operates SAP business in Europe. I think that the subsidiary faces a little tougher situation as its key clients are medium- and small-sized companies. Is the subsidiary affected by the downward revision to the full-year forecast for the fiscal year ending December 31, 2020, of SAP SE in Germany? Please give me your view.

A3

Intelligence, a core company of NTT DATA Business Solutions, has its headquarters in Germany and faces difficulties in winning new contracts for consultancy and license businesses because it is difficult for them to call on clients in a pandemic. However, with many recurring businesses and the conversion of

order backlogs into net sales, the subsidiary will continue to make efforts to achieve the full-year forecast.

Q4

Please give me an update on the large-scale projects of the Public & Social Infrastructure and the Financial Segments that became unprofitable in the previous fiscal year. I understand that especially the unprofitable project of the Financial Segment has not reached the most critical part yet. Does the risk of adding provisions remain unchanged?

A4

For the project of the Public & Social Infrastructure Segment, we launched key services and think that we will not record a big loss anymore. For the project of the Financial Segment, we communicate with the client well and postpone the service launch under the condition to avoid an additional loss.

Questioner 6

Q1

You said that the North America Segment won contracts for multiple large-scale projects. Please tell me what kind of projects did the segment win? A digital project? Or another conventional project? Or a project that will potentially expand projects for which the segment won a contract in the past?

You also said that COVID-19 impacts were smaller than expected. If you replace human resources may not have high added value but can secure cash flows without fail with new digital human resources as part of structural transformation, new orders received may decrease in a short term because the digital human resources might not perform well at first. Do you expect that human resource replacement will have impacts on the financial results in the third and the fourth quarters?

A1

Most of the large-scale projects are those for the public sector. Not all of them are digital projects, but for some projects, we received orders for the entire operation and will add automation functions utilizing digital technologies, for example. Such digital-related projects are growing, and the digital projects account for 60%–70% of the total.

We have already been enhancing and re-skilling digital human resources in Germany and Italy among European countries. Despite a small time lag, the transition has gone smoothly, especially in Italy, and we have received more orders for digital projects steadily. In this fiscal year, digital and new service projects for the financial, telecommunication, and utility industries have been robust, and I believe that digital human resources will perform well without a time lag.

Q2

If the North America Segment's new orders received are affected by COVID-19 impacts without a time lag, the number in the third quarter will be likely to decrease on a year-on-year basis due to less orders than in the previous fiscal year, in my view. In the fourth quarter, do you think that the segment will see a year-on-year increase because the number of the corresponding period of the previous fiscal year is not so high?

A2

Both in North America and Europe, if COVID-19 impacts get bigger, which may result in another lockdown, for example, clients will face a tougher situation and difficulty in decision making for investment in a large-scale project. We are not in a state where we can talk about a year-on-year increase or decrease for each quarter with absolute certainty, but I think that the results will exceed the full-year forecast.

Q3

Do you think that the creation of a digital agency in Japan will be positive for your business over a medium term? Or do you think there are negative factors that may offset positive effects? Please give me your current view.

A3

Of course, I hope that the creation of a digital agency will be positive for our business. With the inauguration of the Suga administration in September, the move of making the government and the entire society more digital will accelerate, in my view. The digital agency will promote two key DX initiatives: the sophistication of government services and streamlining and improving the efficiency of governmental agencies. Besides these, we will see the acceleration of the digitalization of financial institutions' and companies' administrative procedures as well as a link and collaboration between government, financial, and corporate services. NTT DATA established "Social Design Office" on October 29, 2020, with a desire to contribute to DX in Japan through company-wide collaboration. At NTT DATA, the public, financial, and enterprise segments, overseas segments, and R&D sections will work together and utilize their experiences and knowledge for the contribution.

Q4

Although the improvement of efficiencies of existing government services alone may not have major positive impacts, I understand that the expansion of new government services and the collaboration with peripheral industries will provide a big opportunity. Is my understanding correct?

A4

The sophistication of government services will link everything and promote coordination and collaboration with financial and corporate services. I think there will be needs for utilizing the existing governmental agencies' systems optimally while introducing digital technologies for further automation and increased efficiency.