

Questioner 1

Q1

New orders received increased in the North America Segment because the segment won projects in the public sectors and healthcare. I would like to know how many projects that had not been expected at the beginning of the fiscal year are included in the projects the Segment won, besides the ones that were expected. Also, please roughly tell us the types of new projects won by the segment. Were they mostly the ones that could improve profitability toward your goal of an overseas EBITA of 7% in the Mid-Term Management Plan? Or were they, for the most part, the positively challenging ones that would contribute to future business growth in spite of profitability risk?

A1

The new orders received in the North America Segment increased by 85.6 billion yen year-on-year in the first half of this fiscal year and by 41.9 billion yen year-on-year in the second quarter (3 months). In the fiercely competitive environment, we received new orders, including those that were not expected, resulting in good performance.

As for the details of the new orders received, we received an order from the US Agency for International Development for a large-scale project for the public sector. We also received multiple healthcare projects, including a large-scale project from Tenet. Our profitability is gradually on the rise as our competitiveness has improved.

Questioner 2

Q1

The three domestic segments saw an increase in sales and profits, which were, however, lower than I expected. Could you tell us about the impacts of loss from unprofitable projects and growth investment on profits?

A1

In the current fiscal year, we plan to spend 10 billion yen more in growth investment, of which selling, general and administrative expenses increased by 4.4 billion yen in the first half of the fiscal year. We also plan to spend 10 billion yen for the structural transformation in the EMEA & LATAM Segment, of which about 20% was spent in the first half of the fiscal year. In the first half, we recorded a loss of 6.2 billion yen from unprofitable projects. In such a situation, however, profits increased due to sales growth. Operating income increased by 3.7 billion yen year-on-year in the first half of the fiscal year.

Q2

Could you tell us how the amount of loss from unprofitable projects affects the full-year earnings forecast?

A2

Although we posted 6.2 billion yen loss from unprofitable projects in the first half, we are planning to make growth invest and spend structural transformation expenses as planned at the beginning of the fiscal year in the second half also. To achieve an operating income of 148 billion yen of the full-year earnings forecast, we will increase profits from sales growth, prevent additional posting of losses from unprofitable projects, and control other costs.

Q3

Were the loss from unprofitable projects you posted in the second quarter related to the large-scale unprofitable project that arose in the previous fiscal year? How will you specifically prevent unprofitable projects in the second half?

A3

The unprofitable project which incurred the largest amount of loss in the second quarter was the same project as the large-scale unprofitable project in the previous fiscal year and the one before that. We successfully completed the part that had been planned to start services by the second quarter. We are planning to launch services in the second half, in a highly difficult site that has complicated operation with the largest amount of workload. Unlike other systems, characteristically, this project successively launches services while expanding sites and connectivity with other systems. Another characteristic of this project is that we must check, together with the client, how the system with enormous variations and patterns can be used and operated in the final phase. In that phase, when we checked with the client, we found malfunctions in the system. Therefore, we additionally needed to deal with the problems. This is why we posted all the amount of loss as far as we could reasonably estimate as of the present. It is unlikely that this project will further incur a large amount of loss.

Q4

Apart from the large-scale unprofitable project that occurred in the second quarter, do you expect any risk of incurring great loss from an unprofitable project in this fiscal year?

A4

In the previous fiscal year, we posted annual loss of 16.9 billion yen from the unprofitable project, though we do not expect such size in the current fiscal year.

Q5

The North America Segment has seen a consecutive increase year-on-year in new orders received in the recent three quarters. When will its net sales and operating income increase accordingly?

A5

The Segment received a number of orders for large-scale projects worth over 10 billion yen from the second half of the previous fiscal year. Since these projects are extremely large in scale, it takes certain time to migrate from competitors' systems or clients' in-house systems to ours. Therefore, it is taking time for the projects to contribute to net sales or operating income. However, we expect them to gradually contribute to net sales and operating income from around the fourth quarter of this fiscal year.

Q6

Six months has passed since you launched the code payment gateway services. How many clients have you acquired? What is your prospect for this service?

A6

CAFIS, which is Japan's largest payment infrastructure network that we run, is connected to about 2,000 member stores and about 1,500 sites of financial institutions, in addition to about 120 credit card operators, which is nearly every credit card company in Japan. CAFIS has two favorable winds: one is that the government wants to raise the cashless payment ratio to 40% by 2025; the other is the point return system for cashless payment that was launched in October 2019. These factors have enabled us to increase traffic in CAFIS.

For the code payment gateway, we have already signed contract with multiple payment operators and launched services. We are also planning to work with more operators. Likewise, contracts with member stores are also increasing, but we cannot disclose the concrete figures.

Questioner 3

Q1

New orders received grew significantly in the following segments: the Public & Social Infrastructure, the Financial, and the North America Segments in the second quarter (3 months). What kind of large-scale projects were won by these segments? Were those projects for existing clients or new ones?

A1

It was in the Public & Social Infrastructure Segment and the North America Segment that new orders received grew significantly in the second quarter. The Public & Social Infrastructure Segment's projects were mostly for renewal and hence did not have much effect on sales growth. However, they contribute to the maintenance of the current level of net sales. The North America Segment has of course renewal projects but has acquired some projects for new clients and extended ones for existing clients based on digital technologies worth tens of billions of yen. In the previous fiscal year, we had a hard time receiving new orders and sales declined. We would like you to know that we have received a number of new orders which has the effect of increasing net sales. These include the ones we received in and after the fourth quarter of the previous fiscal year. In the Financial Segment, the year-on-year decrease in the first half is reduced from the first quarter. However, the projects in this segment are basically renewal projects.

Q2

Were the large-scale projects that the North America Segment acquired IT outsourcing projects? The increase in new orders received of the EMEA & LATAM Segment remained as slight year-on-year in the second quarter (3 months), excluding the impact of foreign exchanges. Could you tell me about changes, if any, in business environment in Europe?

A2

Most of the North America Segment's long-term large-scale projects are IT outsourcing projects, but recent orders are not limited to simple outsourcing. Clients very much like our projects involving automation and other digital technologies, often leading to new orders. We have achieved this because we have steadily invested in digital technologies. This is a good trend.

Although the growth in the EMEA & LATAM Segment appears to be slightly on the decline, it is actually expanding if we disregard the impact of foreign exchanges. New orders received fluctuate to some extent if you look at it on a quarterly basis, and they did not grow much in the second quarter (3 months). However, we expect to receive a considerably large-scale order worth over 500 million euros in the next 10 years from Naturgy, a leading gas and electricity company that operates in Europe and Latin America. Since we signed the basic agreement in the second quarter, we could not reflect it in the new orders received in the EMEA & LATAM Segment. We plan to post it as new orders received in the third quarter onwards. We believe we are continuing to maintain strong performance in Europe, too.

Q3

The North America Segment recorded a decrease in profit if you ignore the impact of reduced PMI and

restructuring costs that arose from the acquisition of the former Dell Services. The EMEA & LATAM Segment is also expected to spend money on the structural transformation in the second half of the fiscal year. Both Segments, therefore, seem to be behind the schedule in terms of the full-year earnings forecast. What is the status of profitability in your overseas businesses? Would it be possible to sufficiently offset the decline with domestic businesses in case they perform lower?

A3

In the North American Segment, the new orders received, which is a leading indicator of performance, is on the rise. Although we paid selling expenses in advance to receive orders, we are in a stage where net sales and operating income will gradually increase from the third quarter. We would like to achieve the full-year profit target, although operating income seems slightly weak at the present.

The EMEA & LATAM Segment is expected to spend 10 billion yen in the current year for the structural transformation. In the first half of the fiscal year, we spent about 20%, so we are slightly behind the schedule in terms of cost expenditure. This is, however, a difference of just about several hundred million yen from preliminary profit projection in the Segment. It is within the scope of achieving the earnings forecast.

Questioner 4

Q1

While the EMEA & LATAM Segment recorded the increase in new orders received in the second quarter, can it achieve the profit target if the growth slows down? Will you spend money on the structural transformation as planned at the beginning of the fiscal year, regardless of success or failure of the profit target achievement?

A1

As we mentioned earlier, we do not think that the growth of EMEA & LATAM Segment's new orders received is slowing down. The year-on-year performance in the second quarter (3 months) appears to remain unchanged, excluding the impact of foreign exchanges. Since we expect a large-scale project in the third quarter, we believe we are continuously in a favorable environment to receive new orders. Business on which net sales and operating income are based is making progress as planned.

The structural transformation measures themselves have been developing steadily. Therefore, we are planning to spend money on them as planned in the second half of the fiscal year.

Q2

You have many SAP-certified engineers. Could you tell us about the current status and future prospect of the demand in relation to SAP's 2025 Deadline?

A2

We have about 15,000 employees engaged in SAP globally, with 1,000 of them in Japan. New orders received in this fiscal year include very few "2025 Deadline" projects. However, as countries across the world will start dealing with the issue, we can expect it to contribute to the expansion of our business.

Questioner 5

Q1

To what extent will the large-scale unprofitable project contribute to the earnings after you launch the service?

A1

The entire project will be ultimately launched at the beginning of the fiscal 2020. After that, like for other systems, we expect to work on projects for maintenance and operation as well as enhanced capabilities.

Q2

The size of the business will be significant after the service is launched, wouldn't it?

A2

In this project, a highly advanced system is being built. Therefore, we can expect to receive orders for additional projects for enhanced capabilities.

Q3

Which business size is larger? Before or after the service is launched?

A3

After the service is launched.

Q4

Of the projects in the North America Segment that contribute to a year-on-year increase of 85.6 billion yen in new orders received, how will the major ones contribute to the performance in the fourth quarter of this fiscal year onward?

A4

Projects won in the North America Segment in the first half of the fiscal year are diverse. They are not limited to those with net sales that are reported a few months later. Some are awarded by time-and-material contracts and some are application development and SAP projects. We have received new orders for various types of projects. Clients' business sectors are also diverse: healthcare, finance, and other sectors. We have acquired such diverse customers, and we are on the whole getting better. Although I said that the long-term and large-scale IT outsourcing project could only contribute to performance around the fourth quarter, this is not the only project we have acquired. In fact, we have very actively received new orders, resulting in the better performance trend.

Q5

I assume that the structural transformation in the EMEA & LATAM Segment includes integration of the systems across Europe and re-training of the employees. The Segment experienced a slow rise in new orders received in the second quarter. Was this because sales personnel decreased while undergoing re-training, resulting in reduced sales efficiency? Will there be a case in the future where sales efficiency

drops while employees get re-trained?

A5

The major structural transformation efforts that the EMEA & LATAM Segment is making in the current fiscal year are related to digital transformation. More specifically, they include unleashing of employees' potential as digital workforce, the recruiting of digital human resources, and the early retirement programs. These measures will not reduce sales efficiency significantly. With regard to unleashing employees' potential, both OJT and Off-JT will take place as in Japan. We combine these two to unleash employees' potential. Although some employees will not be able to engage in actual business temporarily during the trainings, this impact is included in the annual budget of 10 billion yen.