Questioner 1

Q1.

New orders received by the North America Segment in the fourth quarter (three months) of the fiscal year ended March 31, 2019 increased significantly compared to the previous fiscal year. How much did large-scale projects contribute to the increase? Was the increase caused by new orders received from healthcare sector?

A1.

New orders received by the North America Segment in the fourth quarter increased by 99.4 billion yen from the previous year. This is mainly due to the contracts for multiple large-scale projects won by the segment for healthcare sector.

Q2.

Regarding the forecast on operating income in this fiscal year, you did not comment on investments for growth of the North America Segment. Please let me know what you think about investments for growth of the North America Segment in the future.

A2.

The North America Segment's sales capabilities slightly decreased due to its focus on PMI of the former Dell Services. Moreover, the segment faced changes in external environments such as clients increasing needs for digitalization and the boosted demands for cost reduction in the existing fields. For these reasons, the segment was in a tough situation and received fewer new orders than expected, some of which carried low margins, in the fiscal year ended March 31, 2018.

On the other hand, the North America Segment had made investments in automating development processes and utilizing offshore/nearshore resources to become more competitive since the second half of the fiscal year ended March 31, 2018. These efforts had increased new orders received quarterly since the second quarter of the fiscal year ended March 31, 2019, which resulted in a year-on-year increase of new orders received by 41.1 billion yen in the full-year of the fiscal year ended March 31, 2019. There is good hope because the segment has some projects exceeding US$ 100 million in the pipeline.

The North America Segment's EBITA margin, which was 3.1% in the fiscal year ended March 31, 2019, is expected to grow to 4.8% in the fiscal year ending March 31, 2020. We set a goal of raising the EBITA margin to 7% in the fiscal year ending March 31, 2022. Although I would like to refrain from telling you the specific amount of investments for growth, we intend to boost profitability of the North America Segment by taking actions to enhance its digital capabilities such as creating new digital offerings, unleashing employees' potential as digital workforce for digital transformation, and promoting automation and utilization of offshore/nearshore resources to improve productivity.

The North America Segment will reduce the number of offerings from the extremely high level at present to promote business with higher operating efficiency. With this effort, the segment will aim for profitable growth over the next three years.

Q3.

New orders received by the EMEA & LATAM Segment in this fiscal year is forecasted to increase by 24.3 billion yen from the previous fiscal year excluding the impact of foreign currency exchange (minus 15.7 billion yen). Is it possible for you to secure more new orders than the previous fiscal year while promoting the structural transformation? Don’t you assume the risk that new orders received would decrease due to the structural transformation?

A3.

The EMEA & LATAM Segment recorded high year-on-year growth in net sales of about 14% in the fiscal year ended March 31, 2019, due to efforts such as expanding the sales talent pool to boost the sales capabilities, automating development processes and utilizing nearshore resources to become more competitive, and promoting investments in new fields during the term of the previous mid-term management plan. These efforts proved to be effective to a certain degree because the EBITA margin grew to 3.4%. Operating income grew more slowly than net sales because the segment has expanded business in new fields and spent money on various measures to increase new orders received and net sales. However, we think that we need to make more investments for the profitable growth as clients’ needs for digitalization accelerate. These new investments are referred to as “investment for structural transformation.” Specifically, the segment will strengthen its efforts to create new digital offerings, unleash employees’ potential to increase talent for digital disruption, automate development processes, and utilize nearshore resources in order to enhance digital capabilities.

The EMEA & LATAM Segment, which currently comprises three major companies and about 40,000 employees in 44 countries, will become more competitive through unification, for example, by increasing operational efficiency by revamping own internal IT systems. We expect the EBITA margin to decline to 1.1% temporarily in the fiscal year ending March 31, 2020. However, we will aim for the profitable growth in expectation that the investments we make would prove to be effective in the fiscal year ending March 31, 2021, and the EBITA margin would grow to 7% in the fiscal year ending March 31, 2022.

Questioner 2

Q1.

Please show us the reason for the year-on-year increase in operating income in the fourth quarter (three months) of the fiscal year ended March 31, 2019, recorded by three sectors: Public & Social Infrastructure Segment (5.9 billion yen), North America Segment (2.6 billion yen), and EMEA & LATAM Segment (3 billion yen). Based on your full-year forecast that the North America Segment would record an increase in operating income in this fiscal year, I understand that the segment will continue to report year-on-year increases in operating income from the first quarter of this fiscal year. Is my understanding correct?

A1.

The main reason for the increase in operating income recorded by the Public & Social Infrastructure Segment is that it posted a significant increase in operating income due to growth in net sales from services for government ministries and the utility industry and that its early action to reduce costs had a tremendous effect in the fourth quarter after large-scale projects became unprofitable in the second and third quarters.

For the North America Segment, the year-on-year decrease in PMI and restructuring costs mainly contributed to the increase in operating income.

The EMEA & LATAM Segment recorded a normal level of operating income in the fourth quarter after the slower growth due to temporary cost in the third quarter. However, the segment's actual operating income was below the full-year forecast for the fiscal year ended March 31, 2019, with which we are not satisfied. Therefore, we will aim to raise the level of operating income over three years under the new mid-term management plan.

Q2.

Please provide us with detailed information on investments for growth under the new mid-term management plan to be launched in this fiscal year and the structural transformation in the EMEA & LATAM Segment.

A2.

In the previous fiscal year, we invested approximately 10 billion yen in new fields, especially digital-related areas, on a company-wide basis. In this fiscal year, we plan to invest about twice the amount mainly in digital-related areas for growth. We established the Digital Strategy Office (DSO) in 2018, specified focused fields on a global level, and now aim to create solution services to expand the digital business. For example, we will invest in the focused fields such as healthcare, connected cars, and trade blockchain.

For the structural transformation of the EMEA & LATAM Segment, which has about 40,000 employees at locations in 44 countries, we will increase operational efficiency by revamping own internal systems to solve its structural issues. In addition, in order to strengthen business, we will promote profitable growth by creating new digital offerings, unleashing employees' potential to increase talent for digital disruption, and enhancing delivery by optimizing resources and promoting automation.

Q3.

You set a target of increasing operating income to 200 billion yen during the period of the new mid-term management plan. If operating income in this fiscal year remains unchanged from the previous fiscal year, you need to increase operating income by about 50 billion yen over the remaining two years. How much do you expect to see operating income increase by in the fiscal year ending March 31, 2021, and in the fiscal year ending March 31, 2022, respectively? Also, please tell us whether you can achieve such a high growth rate through investments for growth and the structural transformation of the EMEA & LATAM Segment.

A3.

The primary objective of the new mid-term management plan is to achieve the business goals of the fiscal year ending March 31, 2022, of increasing net sales to 2.5 trillion yen, raising operating income margin to 8%, and grow the overseas EBITA margin to 7%. In order to accomplish these goals, we will carry out a drastic structural transformation in the EMEA & LATAM Segment in this fiscal year. The transformation is expected to improve profit margin significantly, especially during the period from the fiscal year ending March 31, 2021, to the fiscal year ending March 31, 2022. On the other hand, we will raise the operating income margin of domestic business, which is as high as 10% currently, by enhancing digital capabilities through investments for growth.

Q4.

Is it mandatory to achieve the business goals of the new mid-term management plan?

A4.

Yes, it is.

Questioner 3

Q1.

You said that the EMEA & LATAM Segment would make investments in structural transformation in this fiscal year. Are these temporary investments?

A1.

Most of them are temporary investments. Among the investments, the investment for unification is temporary. We will continue to make investments in creating new digital offerings, unleashing employees' potential to increase talent for digital disruption, etc. in the next fiscal year and onward.

Q2.

Please tell us why you forecast a loss of 7 billion yen for "Others" of operating income of this fiscal year.

A2.

We intend to make investments for growth both inside and outside Japan in this fiscal year. The main reason for the forecasted loss in the operating income for "Others" is investments for growth led by the headquarters.

Q3.

Are investments for growth temporary like investments in the structural transformation of the EMEA & LATAM Segment?

A3.

We would like to increase investments for growth over the mid-term period on the assumption that they will increase new orders received and net sales in the future. As the IT market faces tremendous changes in terms of digitalization, we have increased investments for growth gradually in the past two years to cope with the changes. We intend to achieve the goal of the new mid-term management plan by the end of the fiscal year ending March 31, 2022, while making investments for growth to the extent possible.

Q4.

Can I expect that the investments for growth will prove to be effective in the next fiscal year?

A4.

It is case by case. Some investments will prove to be effective during the three-year period of the new mid-term management plan, and others will do so after that. As we know many cases of investments for growth until now have resulted in increases in new orders received, we naturally believe that they will benefit us.

Q5

Will you be unlikely to record an additional provision in this fiscal year for the large-scale projects that became unprofitable in the previous year?

A5.

We provided a reserve for all potential losses we could rationally estimate as of the third quarter of the previous fiscal year and think that we will be unlikely to record huge amount of additional provision for the unprofitable projects unless an unexpected event occurs. We have already launched services for the fiscal year ended March 31, 2019, and will complete the entire project in or after the fiscal year ending March 31, 2020.

Questioner 4

Q1.

Please give us an update on the four large-scale projects of the North America Segment for which you said the receipt of orders would be postponed during the earnings conference for the first quarter of the previous fiscal year.

A1.

Out of the four large-scale projects, we won contracts for two projects in the previous fiscal year. We have made efforts to win contracts for the other two projects, one of which is not a large-scale anymore due mainly to a scope change. For the remaining one project, we are still negotiating with the client.

Q2.

Are there many healthcare projects in the pipeline for the North America Segment?

A2.

It is true that there are many healthcare projects in the pipeline. However, there are various other categories such as public, financial, and manufacturing. The quality and quantity of the projects in the pipeline are better than those in the same period in the previous fiscal year.

Questioner 5

Q1.

How much increase in expenditures do you forecast for this fiscal year due to the structural transformation and investments for growth?

A1.

We forecast that investments for growth will increase by about 10 billion yen compared to the previous fiscal year, and expenditure for the structural transformation will grow by about 10 billion yen from the previous fiscal year.

Q2.

Please tell me if you see any change in the environment for new orders in the EMEA & LATAM Segment in this fiscal year. Given the fact that the segment recorded a year-on-year increase in new orders received by 71.5 billion yen in the fiscal year ended March 31, 2019, the forecasted year-on-year increase in new orders received of 24.3 billion yen excluding the impact of foreign currency exchange for this fiscal year makes me feel that the growth is slowing. Do you take into account of the possibility of activities to win a contract being scaled down somewhat by the structural transformation?

A2.

In Europe, despite uncertainties such as Brexit, IT investments remain robust, in our view. We forecast that there will be slightly fewer orders compared to the previous fiscal year when we received many new orders, but do not consider the possibility that we would scale down activities to win a contract due to the structural transformation. As the environment for new orders remains strong, we will continue to make investments in digital-related areas as well as investments to address new services.

Q3.

The North America Segment's EBITA for the fourth quarter (three months) of the fiscal year ended March 31, 2019, was negative (minus 3.3 billion yen) in real terms compared to the previous year excluding the reduced PMI and restructuring costs. Please show us the reason for that. Also, you forecast that the North America Segment will record an increase in operating income in this fiscal year. Is there any special factor for the forecast?

A3.

The North America Segment, which was in a tough situation in terms of generating operating income in the fiscal year ended March 31, 2018, reduced costs significantly, especially in the fourth quarter. On the other hand, as the segment made positive investments at a normal level to win more contracts in the fourth quarter of the fiscal year ended March 31, 2019, operating income decreased in real terms. We expect that operating income will increase in real terms excluding the reduced PMI and restructuring costs in this fiscal year because net sales would grow and measures implemented in the previous fiscal year would prove to be effective on a full-year basis. We do not take into account of other special factors.

Questioner 6

Q1.

Are the investments for growth to be made in this fiscal year (a year-on-year increase of about 10 billion yen) and the investments in the structural transformation of the EMEA & LATAM Segment (about 10 billion yen) recognized as non-operating expenses or extraordinary losses under Japanese GAAP?

A1.

As we have already applied IFRS to our financial statements, it is difficult for us to answer your question. However, I can say that the investments for growth are not recognized as extraordinary losses even under Japanese GAAP due to their nature. On the other hand, some of the investments in the structural transformation may be recognized as extraordinary losses under Japanese GAAP, but we do not calculate them separately.

Q2.

Have you seen a higher risk of goodwill impairment for the former Dell Services?

A2.

We check the risk of goodwill impairment every year. We will see no risk of goodwill impairment, if everything goes as expected, with the year-on-year increase in new orders received of about 100 billion yen in the fourth quarter (three months) of the fiscal year ended March 31, 2019, as well as the goal of raising the EBITA margin to 7%. We also recognize that the performance bottomed out at least temporarily. Anyway, we will try to increase operating income steadily.