

Questioner 1

Q1

In the company presentation material for the financial results, you mentioned that the decreased operating income of the Financial, Enterprise & Solutions, and EMEA & LATAM Segments was attributable to “an increase of costs for business expansion.” I think that the costs include those for investments for growth and structural transformation, as you explained at the beginning of the fiscal year. Please tell us the amount of money you spent and the purposes of spending.

A1

With the cost of the sales ratio that remained on par with the previous fiscal year on a consolidated basis, the net sales and the gross profit increased. The growth was offset by the increased SG&A expenses. The R&D expenses especially increased from the previous fiscal year by about 30%. Overall, while the R&D expenses for future growth have grown, investments for future growth, which are also included in the administrative expenses, have grown, too. Please note that we used about 10% of the annual budget as these costs were not incurred so much in the first quarter.

Q2

In the previous fiscal year, large-scale projects that became unprofitable in the second and third quarters curtailed the growth of profit. What is your overall view on large-scale unprofitable projects in the second and third quarters of this fiscal year?

A2

There were no unprofitable large-scale projects in the first quarter. Also, we have incorporated various approaches to strengthen measures to prevent projects from becoming unprofitable in the new medium-term management plan. However, the past trend shows that unprofitable projects often occur in the second and third quarters. So we have to monitor the status going forward.

Q3

Please show us what outlook you have for the large-scale projects that became unprofitable in the second and third quarters of the previous fiscal year.

A3

Our outlook has remained unchanged since the beginning of this fiscal year. While we need to monitor the future developments of these projects, we have not recorded big losses from them at the moment.

Q4

Regarding the “code payment gateway” as one of the topics highlighted in the company presentation for the financial results, please show us the current status of the service and your view on how it would contribute to net sales and profit in the future.

A4

The code payment gateway, which was launched this April, is yet to contribute to revenue. However, we have received numerous offers from clients who wish to use the service. Given the convenience provided by the QR code payment service for end-users, we expect the business to grow in the future.

Q5

I heard that you might change the CAFIS charging system in the future. What is your current approach for the system?

A5

We believe that payment service providers can start or expand the service more easily and smoothly by using the CAFIS system and think that it is still competitive. Although some people see commission rates as a problem with cashless payment, the CAFIS rate is one of the lowest among all cashless payment fees. If the number of payment transactions increases, we are highly likely to discount or review the rate. We will make an appropriate decision depending on the business condition and the world trend but have currently no plan to announce any significant change in our approach.

Q6

Are you involved in the incident of unauthorized access to Seven Pay?

A6

We are not involved in the development of Seven Pay. We participate in other development projects of Seven & i Holdings as one of their solution providers. Thus, we are not in a position to comment on this case.

Questioner 2

Q1

Please tell us why EBITA of the North America Segment decreased without the effect of the reduction in costs for PMI and the restructuring of 2.9 billion yen, which were incurred in the previous fiscal year.

A1

One of the reasons is the North America Segment's investments for growth. Also, profit declined due to the PMI costs for multiple M&A deals concluded in the second half of the previous fiscal year and in this fiscal year while we completed PMI for the former Dell Services. We expect profit to recover from now on.

Q2

You say that the North America Segment won multiple contracts for large-scale projects in the first quarter. Are the profit margins for the projects higher or lower than those for past projects?

A2

As the North America Segment is unwilling to close a contract by sacrificing the profit margin, the segment secures a certain level of profit margin, in our view. The largest contract the segment won is a five-year contract worth over 20 billion yen with the United States Agency for International Development. It also closed other contracts worth billions of yen. The pipelines continue to expand, and the situation is totally different from one year ago, which gives us enough hope for the future.

Q3

I understand that you expect improvements in profitability as the profit margins for projects for which the segment recently won contracts are higher than those from past projects, although profit in the first quarter is low due to investments for growth. Is my understanding correct?

A3

New orders received by the North America Segment has bottomed out in the period from the fourth quarter of the previous fiscal year to the first quarter of this fiscal year. Such new projects will generate net sales in the second half of this fiscal year when we expect to see improvements in profitability in line with the growth of net sales.

Questioner 3

Q1

Please tell us how much loss the unprofitable projects incurred in the first quarter.

A1

The loss amount is as small as 0 billion yen.

Q2

I think that you will appropriate the budget of 10 billion yen necessary for structural transformation in this fiscal year for the EMEA & LATAM Segment. For what segments will you appropriate the budget of 10 billion yen for investments for growth? I understand that you have spent about 10% of both the annual budgets. Is my understanding correct?

A2

Please understand that the budget of 10 billion yen necessary for structural transformation is appropriated for the EMEA & LATAM Segment, and the budget of 10 billion yen for investments for growth will be used for all segments. We have spent less than 10% of the budget of 10 billion yen for structural transformation in the EMEA & LATAM Segment.

Q3

Concerning the CAFIS business, please show us the actual full-year net sales of the previous fiscal year, the forecasted full-year net sales of this fiscal year, the actual net sales of the first quarter of this fiscal year, and the year-on-year change in net sales for the first quarter.

A3

We do not disclose net sales of the CAFIS business. As a wide variety of payment services is used, the traffic volume of the CAFIS has grown by 10% annually. This applied to the first quarter, too.

Questioner 4

Q1

Were the percentages of the budgets for investments for growth and structural transformation you spent as expected when compared with the company's plan? Do you expect that you will spend more in the second and following quarters?

A1

For the structural transformation, as digital-related businesses have expanded, we will take various measures such as reskilling and redeployment, for example, due to projects in Germany that do not match the portfolio of development personnel. Since there is a time lag between establishing a plan and actually spending costs for such measures, we spent less money in the first quarter and will spend more in the second and following quarters. The percentages of the budgets we spent in the first quarter were largely as expected when compared with the company's plan.

Q2

I would like to ask a question on the new orders received by the North America Segment. You said that the segment won contracts for multiple large-scale projects. Did the segment continue to receive more orders for IT outsourcing, an area where NTT DATA has an advantage? Or, has the segment received more orders for DX-related projects or projects to which you can be committed from the upstream phase?

A2

The contract amount for an IT outsourcing-related business tends to be huge. Although the segment has received some orders for small-scale DX-related businesses, most of the large-scale projects increasing in the segment are related to IT outsourcing where we traditionally have an advantage.

Q3

I would like to ask a question on the domestic environment for new orders. I think that there is a trend among companies to replace their legacy enterprise systems with new systems when they seek to achieve DX. Have you already received or do you expect to receive new orders for such innovation projects?

A3

The situation differs depending on whether a client has been provided with our services in the enterprise system field, where we have a strength, or not. For example, from clients of the Financial or Enterprise & Solutions Segment, who have used our IT outsourcing services for their enterprise systems, we will receive more orders for data migration from a legacy system as they move toward full digitalization. In such a case, a greater business opportunity will be created by changing an existing system so as to facilitate AI or others to use data rather than by winning a contract for digital businesses including AI businesses. On the other hand, for clients who have not used our services for their enterprise systems, we will adopt an approach of starting from the digital businesses. Overall, there will be a trend where clients take a further step in moving toward digitalization with their legacy assets, instead of simply trying out PoC or others.

Questioner 5

Q1

You said that overall performance was good. What do you think about new orders received when comparing the result with the internal forecast? Please provide us with your explanation for each segment.

A1

For the Financial Segment, the contract amount for a project under which services continue to be provided for several years tends to be huge. If the segment won a contract for such a project in the previous fiscal year, new orders received inevitably decreases year-on-year. However, such a decrease is predictable at the beginning of a fiscal year. New orders received decreased in the Financial Segment in the first quarter, as we expected, and the segment's overall performance was in line with the forecast, too. The North America Segment, however, managed to receive more new orders than expected at the beginning of the fiscal year, in the first quarter of this fiscal year continuing from the fourth quarter of the previous fiscal year, in our view. Other than that, we saw no positive and negative surprises.

Q2

Please show us the current status of the pipelines of the North America Segment.

A2

The segment has maintained pipelines with sizes above certain level. So far, the performance including that of the pipelines has been very robust.

Questioner 6

Q1

The North America Segment spent 2.9 billion yen for PMI and restructuring in the previous fiscal year. How much did the segment spend for PMI in this fiscal year?

A1

The North America Segment spent 2.9 billion yen for PMI for the acquisition of the former Dell Services and restructuring in the previous fiscal year and is now carrying out PMI for the acquisition of Sierra Systems and Cognosante in this fiscal year. The PMI costs for these two companies are expected to be less than one billion yen, which is minor.

Q2

Concerning net sales of the Enterprise & Solutions Segment, please show us the proportion of the growth boosted by the consolidation of new companies through M&A to organic growth.

A2

Paygent and Netyear Group were newly consolidated in this fiscal year. M&A contributed to about 25% of the increased net sales (a year-on-year increase by 14.4 billion yen). About 75% of the increase was attributable to organic growth. The CAFIS business and the business for manufacturers have grown organically.

Questioner 7

Q1

You said that you used about 10% of the annual budget for investments for growth, which is expected to exceed the amount in the previous fiscal year by 10 billion yen. The annual plan publicized at the beginning of the fiscal year indicated that you would record the investments of about 7 billion yen as those for other segments and the remaining investments of about 3 billion yen as those for each segment. In the first quarter, you did not seem to record so many investments for other segments. What is your plan for the investments for growth in the second and following quarters?

A1

We record the investments of about 7 billion yen made by the head office as the investments for other segments and the remaining investments of about 3 billion yen as those for each segment. In the first quarter, while the head office made investments relatively as planned, each segment has not made much investments for growth yet. Each segment will make investments at its discretion in the second and following quarters.

Q2

I have a question on the regular level of new orders received by the North America Segment. I understand that unless exchange rates fluctuate significantly, the segment is regularly expected to receive new orders to the value of 100 billion yen in a quarter. Is my understanding correct?

A2

The amount of new orders received by the North America Segment is highly volatile. Due to very large contracts worth tens of billions of yen, the amount differs significantly from quarter to quarter. However, we think that the amount will be about 400 billion yen on a full-year basis. Currently, we are not pessimistic about the amount because we think that the pipelines are relatively robust.

Q3

While net sales of the North America Segment are expected to increase by 4.3% in the annual plan of this fiscal year, they increased by 1.5% in the first quarter. Are the new orders the segment received until the fourth quarter of the previous fiscal year sufficient for it to achieve the annual goal? Or, will it need to win more contracts for projects in the pipelines to achieve the goal? Please show us whether the new orders are sufficient to achieve the profit target, too.

A3

We do not think that the new orders the North America Segment received are sufficient to achieve the net sales target in this fiscal year. In the second and following quarters, the segment is expected to continue to win contracts worth 100 billion yen in each quarter and to achieve the targets of net sales and profit as expected. The segment won large-scale contracts in the fourth quarter of the previous fiscal year and in the first quarter of this fiscal year, most of which will contribute to net sales in the second half of this fiscal year. Therefore, we believe that net sales growth rate will increase gradually, resulting in a profit increase.

However, we can never be optimistic in the fierce, competitive environment in North America and we are engaged in activities to win more contracts vigilantly.

Also, there is a difference between the time necessary for an order from a new client to contribute to net sales and the time necessary for an order for a renewal project to contribute to net sales. While it naturally takes longer for an order from a new client to contribute to net sales, we can record net sales from a renewal project more quickly after closing a contract for it. Therefore, we think that we will not achieve the goal of this fiscal year unless we win contracts for renewal projects without fail in the second and following quarters.