Questioner 1

Q1

In the North America Segment, new orders received increased from the previous fiscal year. However, I guess that order backlog wasstill small given the low level of new orders received in the previous fiscal year. Could you tell us about your forecast on future order intakes and the current status of your pipelines? Also, please explain the impact of M&As on your performance.

A1

For the North America Segment, the amount of new orders received exceeded one billion US dollars in a single quarter for the first time since the start of the COVID-19 pandemic. In the first half of this fiscal year, we received orders for large-scale projects from clients in the service and insurance sectors. In the second quarter of the previous fiscal year, we won multiple large-scale projects, so, while it was not easy, we were able to steadily increase order intake.

Since we implemented the structural transformation into digital-centric business in the previous fiscal year, slightly less than 80% of new orders received were related to digital and the gross profit margin ratio improved. Moreover, Nexient, which we acquired this fiscal year has strength in the digital field and the company’s performance remains strong.

As for the status of the pipelines for new orders, we are highly likely to win multiple projects mainly in the financial, public, and healthcare sectors in the third and fourth quarters, so we expect our strong performance to continue going forward.

Regarding the impact of M&As on our performance, they helped increase net sales by around eight billion yen in the first half. Organic growth was partially affected by the sale of the business, but the sales increased by around seven billion yen due to the services for the healthcare and financial sectors that we started in the previous fiscal year and these businesses will continuously contribute to the full-year results.

Q2

New orders received also increased in Japan. What kinds of projects did you win?

A2

For the Financial Segment, new orders received declined from the previous fiscal year partly due to less orders compared to the previous fiscal year when we won large-scale projects, but this was already incorporated in the full-year forecast and the results were just as planned. The Public & Social Infrastructure Segment, which saw large growth, received a particularly large number of new orders for upgrade projects of the central government and ministries and related digital projects. The telecom sector, where we expanded the content service, also made great contributions to the increase in new orders received. The Enterprise & Solutions Segment was robust, winning a large number of digital projects for the distribution and service industries. For example, there are increasing demands for systems for online transaction like e-commerce, for the digitalization of logistics, warehouses, and production management, and for the unified management and analysis of customer information. For the manufacturing industry, the number of projects increased significantly, such as those related to IoT, clients' data analysis platforms, and analysis systems using AI. In addition, the SAP business is on an upward trend from the previous fiscal year.

Q3

You revised the price of CAFIS in October last year. Am I correct in assuming that your net sales increased in the first half including the impact of the price revision?

A3

The net sales in the first half of this fiscal year were almost the same as last year's. The impact of the price revision on the performance was already incorporated in our business plan.

Q4

I heard that you would like to control unprofitable projects. Do you have any potentially risky projects?

A4

We recorded a loss of 10.3 billion yen from unprofitable projects in the fiscal year ended March 31, 2020, while we were able to reduce losses to 1.4 billion yen in the previous fiscal year. In the first half of this fiscal year, we had a loss of 1.5 billion yen from unprofitable projects while we could firmly control them. We would like to continuously contain unprofitable projects in the second half.

Questioner 2

Q1

Please explain the effects of the Structural Transformation implemented up until the previous fiscal year in the North America and EMEA & LATAM Segments, respectively.

A1

The effects of the Structural Transformation in the first half were plus five billion yen in the EMEA & LATAM Segment. In the North America Segment, the Structural Transformation helped increase operating income by seven billion yen in the first half. We expect to see similar effects from the Structural Transformation in the second half, too.

Q2

The EBITA margin in the EMEA & LATAM Segment was 4.6% in the first half, far exceeding the full-year forecast of 2.7%. I would like to know if you plan to spend additional money on the Structural Transformation and other activities in the second half.

A2

At the beginning of the fiscal year, we planned to spend a total of 12 billion yen on brand integration and additional digital transformation measures—approximately six billion yen on the former and approximately six billion yen on the latter. In the first half, we spent approximately four billion yen in total. There will be no change to the full-year spending plan. Regarding the EBITA margin, the income increased by approximately 2.5 billion yen thanks to sales growth while the effects of the Structural Transformation were plus approximately five billion yen. In addition to these, there was an allowance expense for operating receivables due to a bankruptcy application by a client in LATAM as a temporary cost incurred in the previous year, which did not occur this fiscal year. In addition to, we had temporary income from the sale of the receivables in this fiscal year. For these reasons, the income growth in the first half looks high compared to the previous fiscal year.

Q3

The other day, NTT DATA's parent company Nippon Telegraph and Telephone Corporation announced a review of its Mid-term Management Strategy, and the strategy included your company's KPI for the fiscal year 2023. What does this mean? The strategy's primary KPIs included a consulting business sales ratio of 25%. Does the plan aim to double the consulting business sales ratio that your company currently discloses?

A3

We are currently discussing the issue in the next Mid-term Management Plan for the fiscal year 2022 to the fiscal year 2025. We will closely examine specific numerical targets and disclose them in the future.

Questioner 3

Q1

The operating income margin significantly improved from the previous fiscal year. Please explain factors for the growth of each segment, including whether there were temporary factors or not.

A1

For the Public & Social Infrastructure Segment, the cumulative second-quarter operating income margin reached 10.9%, up 0.5 percentage points from the previous fiscal year. There were no special events, while regional companies included in the consolidated accounting of the Public & Social Infrastructure Segment have been recovering this fiscal year from the impact of COVID-19 in the previous fiscal year, which contributed to the growth of the operating income margin.

The Financial Segment's cumulative second-quarter operating income margin was 9.5%, up 1.3 percentage points from the previous fiscal year. Our profitability has improved thanks to the accumulation of multiple projects, and there were no temporary factors.

As for the Enterprise & Solutions Segment, the cumulative second-quarter operating income margin rose 3.3 percentage points from the previous fiscal year to 11.5%. While the segment was affected by COVID-19 in the previous fiscal year, this fiscal year's strong order intake and sales have helped improve the operation rate. For that reason, the operating income margin increased.

For the North America and EMEA & LATAM Segments, the main reason for the improved operating income margin is the effects of the Structural Transformation including the improved operation rate. Also, especially in the EMEA & LATAM Segment, there was an allowance expense for operating receivables due to a bankruptcy application by a client in LATAM as a temporary cost incurred in the previous year, which did not occur this fiscal year. In addition to, we received temporary income from the sale of the receivables in this fiscal year. For these reasons, the year-on-year income growth rate looks high in the first half of this fiscal year.

Q2

I remember that you said at the beginning of this fiscal year that the effects of the Structural Transformation in the EMEA & LATAM Segment would be plus four billion yen this fiscal year, but you have already seen an effect of plus five billion yen in the first half. Therefore, have there been any changes to the full-year forecast?

A2

At the beginning of this fiscal year, we explained that the Structural Transformation would have an effect of plus 40 billion yen. This forecast only includes the amount of foreseeable cost reductions, such as restructuring, and we already saw the effects of plus three billion yen in the previous fiscal year.

The effects of plus five billion yen in the first half that I explained earlier are from the Structural Transformation results that do not include the cost reductions by restructuring, such as the improved top-line revenue and enhanced profitability associated with the progress in digitalization. Since it is difficult to clearly distinguish between improvements in the operation rate from the effects of COVID-19 in the previous fiscal year and the effects of the Structural Transformation, the improved operation rate was included in this figure. The performance started to gradually recover from the impact of COVID-19 in the second half of the previous fiscal year, so we believe that there will be less effect from the improved operation rate in the second half than in the first half. For that reason, there is no change to the forecast we made at the beginning of the fiscal year.

Questioner 4

Q1

You have mentioned the improved operation rate several times. To put it the other way around, it might mean that there will be no idle operations in the second half and after. In that case, will the current improvement slow down? Or will you take measures to address that, such as strengthening recruiting activities? Please explain your view on the tight operation rate?

A1

While the shortage of human resources in the IT service industry is a serious issue, we have the advantage of having approximately 40,000 employees and approximately 50,000 employees from nearly 160 business partner companies in Japan. So, deepening ties with our business partners is one way to address the issue. Currently, we recruit increasing number of new graduates as well as hiring more than 300 experienced employees a year. We are handling the issue with these multiple measures.

Q2

In Japan, NTT DATA is a popular company to work for, so there will be no problem. However, your overseas performance has rapidly improved and the talent shortage is concerned. Will you be able to maintain capacities to keep sales growth rates of five to nine percent in the future?

A2

The average market growth rate in Europe and the United States is three to five percent, and we want to aim for higher sales growth rates. However, competition over digital talent has been intensifying and labor costs are on an uptrend in Europe and the United States. We will work on the issue while paying close attention to these factors.

Q3

Regarding the case of API on Page 15 of the Company Presentation, I would like to know why you implement it for free of charge. Is this a system under which you do not charge users but do charge providers fees?

A3

NTT DATA has long provided various services by having financial institutions connect via ANSER and other systems, which is one of our strengths. The purpose of the service is to encourage fintech companies and local governments to use the API by making use of the strong connections with financial institutions. Basically, we will not charge for the use of API itself, but we are going to firmly support various services arising from it.

Questioner 5

Q1

Please explain the Structural Transformation costs for the North America Segment and its effects as well as the status of growth investments.

A1

In the North America Segment, we spent 16 billion yen on the Structural Transformation in the previous fiscal year, and we expect the effects of plus 15 billion yen this fiscal year.

As for growth investment, we plan to increase investment this fiscal year by three billion yen from the previous fiscal year. However, the spending in the first half is at the same level as the previous fiscal year and most of the increased amount is expected to be spent in the second half and after.

Questioner 6

Q1

I have the impression that the North America Segment's performance was not satisfactory, excluding the effects of large-scale projects and foreign exchange rates. Can you now expect stable growth without relying on large-scale projects?

A1

As I mentioned previously, as for the North America Segment, we received new orders worth more than one billion US dollars in a single quarter for the first time since the COVID-19 pandemic occurred, and we recognize that the segment has recovered considerably. In the third quarter and after, we are highly likely to receive orders for several projects mainly in the financial, public, and healthcare sectors. So we expect the segment will remain strong.

Q2

I think that the effects of the Structural Transformation for the North America Segment are calculated as plus four billion yen during the second quarter. If that is true, it seems to me that there was little effect from increased income associated with sales growth. Could you please explain this?

A2

In projects we have received recently, the gross margin itself has been improving, but the competition for digital talent is quite fierce. So, the increase in labor costs, including recruiting costs, worked slightly negatively. We are now considering measures to improve the situation, such as how to get new recruits ready for work as quickly as possible.

Q3

New orders received in the EMEA & LATAM Segment were strong. Please explain the details of each region. Europe has seen an increase in COVID-19 cases. Has it had any impact?

A3

In the EMEA & LATAM Segment, new orders received were strong in all major countries. In Spain, the business for the financial sector was quite solid in the first half. In Germany, the business for the auto, telecom, and media industries went well. In Italy, we have strength in digital projects for the financial, telecom, and utility sectors and our business has been robust in the country since the previous fiscal year. In the United Kingdom, the business has been stagnant for a while, but we started to receive many orders for digital projects of telecom and media companies.

The number of COVID-19 cases is increasing in Germany, and there are some concerns. However, the situation is different from last year. The Structural Transformation into the digital-centric business have firmly produced results.

Questioner 7

Q1

In the first half, your operating income increased by more than 40 billion yen from the previous fiscal year. How much did the results exceed your plan? Please explain upside and downside risk factors throughout the year.

A1

The operating income progress rate against the full-year forecast was steady at over 60%, which far exceeds our expectations. In the first half, the stronger-than-expected sales led to an increase in gross margins, while sales operations such as proposals were relatively reduced due to the greater-than-expected order intake, resulting in the ratio of selling, general and administrative expenses decreasing below normal levels. In addition, the concentration of temporary income led to better progress than expected. In the second half, sales are not expected to grow as much as they did in the first half. Also, sales operations will return to normal levels, and we will not receive any temporary income. For these reasons, we do not expect as much year-on-year income growth as in the first half.

Conversely, we expect additional costs for the integration of business companies and additional measures in the EMEA & LATAM Segment, but we believe we will be able to absorb the cost increase. In the previous fiscal year, there were costs for the Structural Transformation in the North America Segment and for impairment losses related to the review on part of the business that occurred in the fourth quarter of FY2020, but these costs do not occur this fiscal year. For the reason, we expect it is possible to secure as much operating income as in the first half. However, given that we received temporary income in the first half, we do not think that the current momentum will continue in the second half. Globally, there are uncertainties, such as the recent business conditions, semiconductor shortages, and rising crude oil prices, so we think it is necessary to carefully examine the investment motivations of our clients. We would like you to understand that we have left the full-year forecast unchanged with the situation of additional measures in mind.

Q2

Please explain the possibility of selling businesses and how to proceed with the Structural Transformation in the North America Segment.

A2

For the North America Segment, we have conducted the planned sale of non-core, non-digital businesses this fiscal year, and we expect a sales decline of approximately 20 billion yen a year. From here on, we will strengthen digital and consulting businesses. Currently, slightly less than 80% of new orders received are related to digital businesses and the gross profit margin ratio has also improved. By industry, we are strong in the public, finance/insurance, healthcare, and manufacturing industries. In the digital field, we excel in automation, cloud computing, AI, data analysis, security, and CX. We would like to promote the digital business and the consulting business by combining these strengths. As for M&As, we are positive about M&A deals if there are good offers in our focus areas.