

Questioner 1

Q1

In the forecasts for the fiscal year 2022, the total increase in operating income in all segments from the previous fiscal year is 26.7 billion yen. However, the stand-alone forecast for operating income growth in the entire company is just 9.4 billion yen, excluding the effects of the business combination with NTT Ltd. It seems to me that this forecast includes a fair number of income decrease factors, such as increased strategic investment and company-wide adjustment. Could you explain the details of the forecast? (See Pages 55 to 57 of the Company Presentation.)

Assuming the combination with NTT Ltd., the operating income is expected to grow by 23.4 billion yen from the previous fiscal year and the combination will have the effect of increasing operating income by nearly 14 billion yen. To what extent are factors such as combination costs taken into account? Also, while the net income is expected to decline from the previous fiscal year, is this because NTT DATA's share of net income from overseas businesses will decrease?

A1

As I mentioned in the presentation, we will increase the amount of strategic investments across the company by about 15 billion yen from the previous fiscal year and include a total of 30 billion yen investment in the forecasts for the fiscal year 2022, aiming to accelerate the implementation of the medium-term management plan.

Specifically, we set five focus industries—healthcare, insurance, banking, automobile, and telecommunications and will invest more in these industries across the world. We also set five focus technology areas of cloud, AI/data analysis, cyber security, Enterprise Application Service (EAS), and Application Development Management (ADM) and plan to invest to create services and offerings in these areas that can be commonly used worldwide.

As for the breakdown of the 14 billion yen increase in operating income based on the combination with NTT Ltd., we forecast that NTT Ltd.'s operating income for the second half of the fiscal year 2022 would be about 25 billion yen, while we also estimate combination costs, such as PMI costs at about 10 billion yen.

Meanwhile, since NTT Ltd. is now implementing structural transformation, the profitability ratio is low in both operating income and net income. Especially, the net income is forecast to be about 2 billion yen for the second half of the fiscal year 2022, partly due to financial and tax costs. In addition, we will see a year-on-year decline because NTT DATA has 55% equity ownership in an overseas operating company to be established on October 1, 2022.

Q2

In the new medium-term management plan, you set a target of overseas EBITA margin of 10%, which seems to me to be quite an ambitious target. I think what you have explained in

the presentation included concrete measures to achieve this target, while I wonder where the quantitative effect of these measures lies, how much effect they have, and how they will help increase the overseas EBITA margin to 10%.

A2

As for NTT DATA's overseas businesses, the North America Segment achieved an adjusted EBITA margin of 7% in the fiscal year 2021 and we plan to increase the EBITA margin by 0.5% in the forecasts for the fiscal year 2022. Similarly, the EMEA & LATAM Segment plans to increase the EBITA margin by 1.5% in the forecasts for the fiscal year 2022 and achieve 7% in the fiscal year 2023.

These are based on the structural transformation for digital transformation that have been thoroughly conducted in the North America and EMEA & LATAM Segments for the past few years, the effects of which have been appearing since the fiscal year 2021. From now on, we will further strengthen businesses in the digital and consulting areas. In the North America Segment, more than 80% of new orders received are related to the digital area and the gross margin upon order intake rose by 2% from the previous fiscal year to 28%. In the North America and EMEA & LATAM Segments, we will expand businesses mainly in the digital and consulting areas, where we can expect profits for sure. Once again, we would like to create globally competitive offerings and increase profitability ratios.

Questioner 2

Q1

Regarding the results for the fiscal year 2021, the operating income especially in the Enterprise & Solutions Segment is below the adjusted forecasts and the profitability ratio for the fourth quarter looks quite low. I would like to know the background and reasons for this as well as whether there have been unprofitable projects.

A1

In the fourth quarter, the Enterprise & Solutions Segment reported a year-on-year decline in operating income, but this is due to prior investment to expand businesses. The amount of the investment increased by about 3 billion yen from the previous fiscal year. Also, we examined investment recovery risks for part of our business assets and reported an impairment loss of about 1 billion yen.

In the results for the fiscal year 2021, an unprofitable project occurred in the Public & Social Infrastructure Segment. In addition to the fact that the project, which was for a client in the public sector, had a short development period, it was highly difficult since it required high technological capabilities involving the use of a new product. We accepted the order for the project as a challenge, but we found it a little difficult to implement it. As a result, we had a loss of about 3 billion yen.

Q2

I would like to ask about the order intake plan for the fiscal year 2022 and the situation regarding inquiries in each region by segment. Under conditions without the effects of the combination with NTT Ltd. and excluding the impact of foreign exchange rates, the North America Segment is expected to see a decline of about 4% while the EMEA & LATAM Segment will remain on par with the previous fiscal year. It seems to me that the momentum of order intake in overseas businesses will slow down. In your plan, the number of new orders received in the Public & Social Infrastructure Segment is expected to decrease. Could you explain the plan's background?

A2

In the IT service sector, most projects for renewing existing systems involve the utilization of digital technology. Also, there are many orders for new digital projects, which is a very good trend for both the sector and NTT DATA.

In the fiscal year 2022 order intake plan, the Public & Social Infrastructure Segment will see a year-on-year decline of 65.3 billion yen and the decline is due to fewer orders received compared to the previous fiscal year when we received large-scale projects. There are now

many businesses related to existing system renewal and digital projects and this is a very favorable situation for us. The Financial Segment has received orders for various new projects mainly for banks. There are more and more orders for projects for renewing existing accounting systems and digital projects. The Enterprise & Solutions Segment has been receiving an increasing number of orders mainly for digital projects from manufacturing and distribution companies.

When it comes to overseas businesses, the number of new orders received has been significantly growing in the EMEA & LATAM Segment, mainly for digital projects. Since the last fiscal year, we have been doing quite well in all countries and in all industries and businesses where we excel. The performance is especially strong in Germany and Spain. Furthermore, NTT DATA Business Solutions located in Germany has been performing well while our business in the U.K. has been robust as well.

While there are so many projects in the North America Segment, many of the existing projects are traditional renewal ones. Especially, given that the segment is promoting businesses focusing on earning power and profitability ratio, if profitability ratio conditions do not fit that stance at the time of renewal, we might, depending on negotiations, refuse to accept orders. Even so, the situation of order intake and business is quite strong on the whole.

Questioner 3

Q1

The new medium-term management plan sets a net sales target of over 4 trillion yen. If the current sales of NTT Ltd. are simply added, I think that you plan to increase sales by approx. 500 billion yen over four years. Given this, I wonder which contributes more to increasing sales, overseas businesses or domestic businesses. If you have a breakdown of the planned increase, please explain it.

Also, when I look at the scheme to integrate overseas operating companies, it seems to me that the scheme will allow you to implement additional M&A deals smoothly. So, I would like to know if you are considering, or expecting, M&As to expand overseas businesses.

A1

In our basic view on sales growth to achieve the new MMP target, we expect sales to increase consistent with market growth rates in the respective regions.

In domestic businesses, we anticipate a growth of roughly 4%–6%. As for the market in the North America Segment, since we are now reforming the existing business portfolio, our current plan puts more focus on profitability ratios than sales. In addition, we expect synergies from the combination with NTT Ltd. and we would like to increase both sales and profits. In the EMEA & LATAM Segment, we basically expect growth consistent with market growth and we would like to increase sales at a constant rate.

When it comes to M&As, we are planning some deals mainly in the digital area. Especially for the North America Segment, we will continue M&As that we have been working on for the past few years. For the EMEA & LATAM Segment, we will actively conduct M&As in such countries as Spain, the U.K., and Germany, while the current plan does not include sales increase from M&As. In the future, we aim to achieve further growth through successful M&A deals.

Q2

The scheme for the overseas business combination with NTT Ltd. seems to be a deal favorable to NTT in the short term and I think NTT DATA's stock price for the past few days reflected reactions to the combination. I would like to know how you plan to increase your equity ownership in the overseas operating company in the future, including negotiations with NTT going forward.

A2

The purpose of establishing the joint company is described on Page 36 of the Company Presentation. We will work together to further promote One NTT business. From now on, businesses utilizing smart city, smart world, fifth-generation networks, IOWN, and other

technologies will emerge, and NTT DATA will make sure to utilize NTT's excellent R&D results to create competitive solution services down the road. At the moment, we do not plan a future change of our equity ownership in the overseas operating company. Rather, we believe it is more important to produce synergies through strong collaboration.

Q3

So far, you have implemented overseas M&As with itelligence and other companies, and now you finally have seen the effects of the structural transformation. At this time, your company's minority shareholders may find it difficult to understand the benefits of 45% of your net income from existing overseas businesses going to NTT. You say you will generate synergies. However, when the overseas operating company starts to generate profits in the future, I wonder if we could expect something like benefits in terms of taxes and contribution to net income exceeding your equity ownership of 55% by utilizing losses being carried forward or other means.

A3

We expect that the recent combination with NTT Ltd. will have synergy effects of about 30 billion yen in the fiscal year 2025 and continue to produce synergy effects after that. So, we believe it is worth NTT DATA's equity ownership. Also, we will closely examine benefits in terms of taxes and losses being carried forward.

Questioner 4

Q1

You say that the PMI cost for the combination with NTT Ltd. is around 10 billion yen. I would like to know the accurate amount and your estimate on how long the cost will persist after the combination takes place in the second half of the fiscal year 2022. When you acquired Dell Services in the past, the PMI cost quite a lot and it took several years for you to recover. So, could you tell me how long and how much it will take to complete the PMI for the latest combination and make it contribute to the results?

Also, I would like to know the qualitative details of the most likely hurdle for the PMI on the combination with NTT Ltd.

A1

In the forecasts for the fiscal year 2022, we expect the PMI cost and other costs related to the combination to be around 10 billion yen, as explained previously. However, NTT Ltd. has made great progress in its structural transformation effort and plans to spend 38 billion yen on structural transformation initiatives throughout the fiscal year 2022. The structural transformation cost is expected to considerably decrease in the next fiscal year and after, and NTT Ltd. will contribute to our profits.

As for the PMI for existing overseas businesses of NTT Ltd. and NTT DATA, which I explained at first, we assume, we will spend around 10 billion yen not only in the fiscal year 2022 but also in the following years, while we estimate synergies from the combination will exceed the cost by the fiscal year 2025. As I said before, we estimate synergy effects at around 30 billion yen in the fiscal year 2025, which we believe will help increase profits considerably.

Since the combination has not taken place yet, we will decide the details of our PMI plan in the future, while we consider how to create an organization to promote global businesses in the most appropriate manner, among other issues. Basically, we will examine how to reduce the so-called overhead costs and where to make strategic investments as an aggressive PMI.

Q2

In the forecasts for the fiscal year 2022, my understanding is that you focus on profitability ratios and do not simply aim for sales growth in the North America Segment. Even so, it seems to me that this prospect is quite weak when the impact of foreign exchange rates is excluded. It is OK if you just make the plan very carefully. However, I wonder if you have any assumptions such as declining business conditions due to the war between Russia and Ukraine.

Also, when it comes to the supply side, the turnover rates among global system integrator companies have jumped, which has intensified the already fierce competition for acquiring talent over the past three to six months. Given this situation, could you explain how you will acquire

talent overseas as well as updates on cost increases and countermeasures?

A2

While you have pointed out that the plan for order intake and other issues is a little weak, we do not basically assume that the market is shrinking due to the Russia-Ukraine conflict and other factors or that the market sentiment is negative. In that sense, as I said before, we have cases where we do not accept some of the less profitable projects at the time of contract renewal in the North America Segment. To increase the portfolio of more profitable digital projects, we actually have a little conservative view on order intake and net sales.

As for talent, the cost of acquiring talent, including remunerations, has been skyrocketing globally. This situation has continued since the last fiscal year, and we have tried to generate profits while making up for the increased cost. We pass the increased cost onto prices at the time of contract renewal to clients and on other occasions and make efforts to secure profits by increasing the number of projects being digitized and negotiating unit price hikes in contract renewal processes.

Also, in the digital area, many projects contribute to clients' businesses and are initially highly profitable, making it easier for us to pass human resource and other costs onto prices. So, it is important for us to make sure to increase the digital business.

Questioner 5

Q1

I understand that you aim to achieve an overseas EBITA margin of 10% based on synergy effects from the combination with NTT Ltd. However, given that NTT is suggesting that NTT Ltd. would need more structural transformation, I believe acquiring upstream consulting talent in overseas businesses is quite important to be successful in the digital business.

I think that the combination with NTT Ltd. will allow you to acquire more lower-tier personnel and that your prospect of an overseas EBITA margin of 10% is somewhat optimistic. Also, the personnel acquisition cost is expected to increase. What prospect do you have in this regard, including the structural transformation of NTT Ltd.?

Your company has increased its presence in digital strategies in overseas businesses in recent years, while NTT Ltd. will likely offer more value by providing services related to infrastructure such as data centers. From the past trends, I think it would be very difficult to manage the operations of two organizations that have different strengths. Could you give me your view on this point?

A1

In NTT DATA's overseas businesses, consulting and digital projects have relatively high profitability ratios and the digital shift has helped increase profitability ratios. NTT Ltd. provides managed services such as data centers, networks, and cloud, and the data center business has a high profitability ratio. Also, NTT Ltd. is carrying out structural transformation to make these managed services more sophisticated. Since they are currently implementing reforms to provide advanced infrastructure, we expect that NTT Ltd.'s profitability ratio will also increase in the future, and we will make the effort together with them.

When it comes to managing two organizations, our domestic business has the consulting and solutions sector that is in charge of data centers, networks, and cloud businesses that are relatively close to NTT Ltd.'s businesses. These businesses have a long history in NTT DATA, and we have significantly increased sales and profits by linking them closely to consulting and application services in the respective business categories. Similarly, we have experience and results in the domestic business. From now on, digitalization will connect various things and people. When that happens, the power to bond and connect will be as important as the ability to create systems for connecting things and people. So, we believe that we will be able to increase the value of our offerings and enhance profitability ratios by combining the strengths of these two companies.

Questioner 6

Q1

Since the overseas operating company will be established on October 1, you assume in the fiscal year 2022 forecasts that the combination with NTT Ltd. described on Page 54 of the Company Presentation is expected to contribute to the results for the six months of the second half. However, given that the combination will help increase sales by about 610 billion yen in the fiscal year 2022 and contribute to your businesses throughout the year in the fiscal year 2023, I think you will achieve results close to the target of 4 trillion yen in the new medium-term management plan in the fiscal year 2023. Please tell me if I am wrong.

A1

While we are currently examining the details, NTT Ltd.'s sales plan for this fiscal year is temporarily at a high level because it takes into account sales from outstanding orders that have been accumulated due to the impact of the supply chain such as semiconductor shortages. These figures will decline a little and will be equalized after the fiscal year 2023.