

## **Q&A session at the small meeting for analysts (May 13, 2022)**

•Questioner 1

Q1

NTT DATA's new Medium-Term Management Plan aims for consolidated net sales of 4 trillion yen and a consolidated operating income margin of 10%. What is your estimate of NTT Ltd.'s profitability ratio?

A1

Regarding NTT Ltd.'s results for FY2021, adjusted EBITA, excluding temporary costs such as structural transformation costs, was approximately 63 billion yen and adjusted EBITA margin was approximately 6%. Regarding forecasts for FY2022, adjusted EBITA is estimated at approximately 86 billion yen and adjusted EBITA margin is over 7%. These figures are at the same levels as the profitability ratio of NTT DATA's North America Segment. We would like to increase these numbers by creating synergies as well as achieving organic growth.

Q2

My understanding is that NTT Ltd. has gone through pretty challenging times as it has been streamlining its businesses and implementing other measures continuously. While NTT DATA will take over the initiative in managing the company from NTT, I wonder what difference that will make.

A2

NTT Ltd. has been operated as a separate company under the umbrella of NTT Inc. so far. Especially, these companies have operated businesses overseas independently. NTT Ltd. will be combined with the overseas business of NTT DATA, which will allow us to offer comprehensive services as a unified brand. This is the difference the business combination will make. We think that operating businesses as a single company will enable us to offer services at fair prices. Also, as NTT DATA's and NTT Ltd.'s capabilities complement each other, the latest business combination will make it possible to establish a system that provides total and full-stack services, giving us a competitive edge.

Meanwhile, NTT Ltd. estimates the structural transformation cost at approximately 38 billion yen in FY2022. NTT Ltd. will withdraw from countries and projects where they cannot make profits, optimize personnel arrangement, integrate IT foundation and facilities, optimize services within NTT Ltd., etc., so that they can quickly establish a system to pursue synergies from the business combination with NTT DATA.

•Questioner 2

Q1

I would like to know what you think about NTT Ltd.'s structural transformation cost of approximately 38 billion yen in FY2022. I have an impression that the structural transformation has been prolonged and wonder if it can be completed within this fiscal year. Also, what impact will it have on NTT DATA's P/L in the future?

A1

The cost of approximately 38 billion yen will be used to improve the efficiency of NTT Ltd. itself. While this cost will not be reduced to zero in the next fiscal year and after, it is not expected to be as large as 30 to 40 billion yen. That is why, we believe that the operating income from NTT Ltd. will improve going forward.

Q2

Am I correct in assuming that the PMI cost for the business combination with NTT Ltd. is approximately 11 billion yen in FY2022? How will you combine the overseas businesses of both companies?

A2

Yes, you are correct. The PMI cost for the business combination with NTT Ltd. is estimated at around 11 billion yen in FY2022. As to the way of overseas business combination, we assume that we will combine businesses by country, especially in Europe. Meanwhile, we are discussing a management system for the overseas operating company and will announce details in the future.

Q3

What about the power relationship between NTT DATA and NTT? Will the business combination let NTT DATA take the initiative?

A3

The purpose of establishing an independent overseas operating company is to achieve business operations that allow independent and flexible decision-making, and we are not concerned about the influence of NTT. On the other hand, we believe that the utilization of IOWN and DOCOMO's offerings will help us demonstrate synergies as a whole, so we will strengthen cooperation with the NTT Group more than ever, especially in the field of research and development.

Q4

How much interest-bearing liabilities does NTT Ltd. carry? I think the company has many data centers and wonder how much property, plant, and equipment it owns.

A4

This information is not individually disclosed. You can assume that the level as of the end of FY2021 is several tens of percent larger than that of NTT DATA at approximately 500 billion yen. Data centers make up a large proportion of NTT Ltd.'s property, plant, and equipment.

•Questioner 3

Q1

You estimate that the synergy effects from the business combination with NTT Ltd. will be approximately 30 billion yen in FY2025. What about the estimate of the synergy effects for the period until that year?

A1

We think that speed is important for both PMI for the business combination and the creation of synergies. While the PMI cost for each year is not equivalent, it is estimated at around 10 to 20 billion yen a year. We would like to implement PMI quickly so that the synergy effects will exceed the PMI cost as soon as possible. Specific synergy effects will include the reduction of overhead and IT costs through the business combination, while we assume that the greatest effect would be synergistic synergies. We believe that we will be able to take advantage of the complementary relationship between the two companies and offer services with higher added value.

Q2

How have you collaborated with NTT Ltd. so far?

A2

We have collaborated with NTT Ltd. in areas where NTT Ltd. excels, such as private 5G, and managed IT services by taking advantage of application development where NTT DATA has strength. The latest business combination will enable us to provide comprehensive services in a more integrated manner.

Q3

Could you explain your view on the plan to increase strategic investment in FY2022 by approximately 15 billion yen from the previous year?

A3

This investment covers the whole world, including Japan. We plan to increase investment in the fields of technologies that can be shared and used globally, aiming to increase our global competitiveness. Regarding investments to contribute to social changes (data linkage platform, cross-industry offerings, etc.), we would like to create offerings mainly in Japan first and then expand them to the world. We will also increase our consulting capability on a global scale.

Q4

I would like to know why the operating income of the Enterprise & Solutions Segment increased in FY2021.

A4

The market conditions were quite favorable in the last fiscal year, and there were many inquiries about projects. For these, the personnel utilization rate improved, which made a great contribution. The personnel utilization rate is at a high level at the moment, and we will consider whether we can further increase profits while stepping up efforts to acquire talent.

•Questioner 4

Q1

Could you explain your forecast for net sales of NTT Ltd.?

A1

For FY2022, the company's net sales are forecast at 1.22 trillion yen, up 165.3 billion yen year-on-year. As for device sales, deliveries were delayed due to the effects of the supply chain, such as semiconductor shortages, and order backlog increased. As these will be turned into income in FY2022, we expect the net sales to increase, among other reasons. Concerning forecasts after FY2023, we would like to closely examine them during the PMI process.

Q2

I would like to know about the segment structure and service structure of the overseas operating company to be established after the business combination.

A2

We are currently considering the disclosure composition of segments and services of the overseas operating company after the business combination.

To give some details about the situations for respective regions, the business scale of NTT Ltd. in the APAC region is large, so the business combination is expected to help increase our presence in the region. On the other hand, given that NTT DATA operates on a large scale in the North American region, we think that operations in the region will be led by NTT DATA's overseas business. In Europe, NTT DATA and NTT Ltd. operate on a similar scale, and we will continue to discuss how we combine businesses in the region.

Additionally, I would like to provide details about NTT Ltd.'s services. The company has a competitive edge, especially in the data center business, and the profitability ratio of the business is high. For that, we will continue to invest in the business to increase future profits.

Q3

What do you plan to do to increase profits from NTT DATA's existing overseas businesses, which exclude the effects of the business combination with NTT Ltd.?

A3

The structural transformation of overseas businesses we have implemented so far has helped us shift toward more profitable digital projects. We will aim to achieve an adjusted EBITA margin of 9% by further implementing measures to increase profitability ratios in the future. Meanwhile, the structural transformation of NTT DATA's North America Segment was completed at the end of FY2020. The EMEA & LATAM Segment has been promoting the integration of global brands as well as the integration of business companies, and we plan to implement the structural transformation until FY2022. After FY2023, we assume that several billion yen will be spent on measures for regular business operations, but we do not plan to implement structural transformation at the 10 billion yen level.

•Questioner 5

Q1

Please explain NTT Ltd.'s cash and deposits level as well as NTT DATA's interest-bearing liabilities in overseas businesses and its cash and deposits level.

A1

NTT does not individually disclose cash and deposits level of NTT Ltd. Additionally, as NTT Ltd. is a separate company from us at present, we will refrain from commenting on this matter. NTT DATA's current interest-bearing liabilities in overseas businesses are not large, partly because we have implemented M&As and other measures to help increase capital. The cash and deposits level is not disclosed to the public, so we would like you to estimate it from EBITA and other available data.

Q2

What do you think about a return from the 112 billion yen used to obtain shares worth 4% of the overseas operating company?

A2

We evaluated the latest spending of 112 billion yen in the same manner as that of ordinary M&As. We evaluated the increase in EBITDA and other aspects and determined that we will be able to expect a certain return that matches the capital cost.