

Business Briefing (Enterprise & Solutions Segment)

Q1

My question concerns the state of orders from manufacturing industry companies as a whole. Are projects becoming longer in term? I am under the impression that long-term projects are increasingly widespread from the upstream to the downstream. Am I right in understanding that you have growing opportunities to receive orders for long-term projects in light of order size?

A1

While projects are growing in size, more and more clients want to see services launched as early as possible. Thus, it is not that long-term projects are increasing particularly.

However, looking at the state of involvement, the period of interaction with each client increasingly tends to become longer since clients nowadays get involved from an early stage. This is despite the fact that, looking at the development process alone, the project terms are prone to be shortened more or less. We also deliberate on the project together with the client to start from the concept formulation stage.

Q2

I note that Slide 6 illustrates your performance trend. Could you tell us how profit margin rises due to a higher project turnover? To put it conversely, securing orders for long-term projects would probably stabilize revenues and expand them steadily. Is it better to think that profitability is unlikely to improve much in the manufacturing segment in light of the current conditions? I would like to have your comment on this point.

A2

Relations with distribution and services industry clients end up being long-standing ones since IT itself is closely related to such entities' business. For example, our relations with a client developing an EC website become long-standing because, after development, version upgrades and function additions take place time and again. In this respect, we are able to secure business thanks to the strong relationship with the client without acquiring a new project order each time. Such instances have been occurring with distribution industry clients, enabling us to improve profits.

Another point is the fact that NTT DATA is striving to improve profits by pursuing operations with a focus on its expertise. We have in place a human resource development program, which has been reinforced markedly. Although a straightforward system development project does not command a

high unit price, for the Company to get involved with the client throughout from the upstream stage causes the unit price to increase. In this situation, in fields in which the Company excels, it is able to lead the client.

We think the Company will achieve improved profits by pursuing operations with a focus on fields in which it excels, instead of securing orders for various projects in fields of little relevance.

Nevertheless, in a move to prepare for expanding operations, NTT DATA will also need to make investment, meaning its profits are not poised to grow markedly in the 2017-to-2019 period. However, profits from projects themselves are designed to increase for the period.

Q3

As for the Organization shown in Slide 3, the Manufacturing IT Innovation Sector seemingly contains many companies that have been acquired. The list of group companies has been expanded due to a series of company acquisitions since 2003-2004 or so. Many of them, being not wholly-owned by NTT DATA, probably have relationships with their former parent companies, which presumably transferred subsidiaries to NTT DATA in order to let them grow through the arrangement, thereby contributing to the former parent companies. I think there has probably been no instance of NTT DATA integrating acquired group companies even after more than 10 years.

For example, from an outsider's perspective, I think it is advisable to integrate JSOL Corporation with NTT DATA BIZINTEGRAL CORPORATION because they can both cater for manufacturing industry clients. Surely NTT DATA wants to combine its arms in order to tap into the resources to the extent possible?

A3

First of all, some integration has already taken place. We integrated SAP service provider NTT DATA Science Corporation with NTT DATA Itec Corporation, principally an SAP distributor, to establish NTT DATA Global Solutions Corporation. There is a fair likelihood of NTT DATA considering the option of integrating its external distribution arms if doing so would bring significant merits.

As for our group companies based on a capital alliance with Japan Tobacco Inc. and Sekisui Chemical Co., Ltd., we are seeking to expand business with the parent companies mainly through capital alliance rather than combining resources through integration. This takes into account the fact that these group companies have a good knowledge of their client operations and their clients

face particular circumstances.

As regards NTT DATA BIZINTEGRAL CORPORATION and JSOL Corporation, the former is a package business operator, requiring it to be equidistant to various partner firms while the latter is currently one of our partner companies. Consequently, in order not to lose various advantages and in consideration of differences in business format and mission, we are keeping the current structure intact without imprudently integrating.

Q4

An outsider is not fully aware of the specific numbers. What is the approximate proportion of companies that grew after being acquired by NTT DATA? In overseas locations, your group companies have been integrated on a region-by-region basis, which I think is attributable to the fact that they received capital contributions from NTT DATA. Although having probably secured resources better than rival firms, the company will likely acquire orders for mega-sized projects in the financial services and public-sector fields as well in Japan from now on, which in my view would cause its resources to become less sufficient. I wish to see the organization allocate its group resources appropriately in that scenario. Could you tell us about the future reallocation of your resources?

A4

We seek to acquire better orders for projects by using our group resources to generate high added value, as you indicated. With respect to centralized management, the parent company NTT DATA taking initiative toward its group companies more actively will render it unnecessary for them to make choices individually for specific optimization. Regarding SAP programs, for instance, their personnel assemble as the “SAP Global One Team” and enable a variety of knowledge to be shared. These group companies also engage in mutual staffing assistance activities to aid those experiencing a staff shortage. This means that, although not being integrated as corporate organizations, these companies integrate with each other on a project-by-project basis and engage in operations while striking a good balance between client circumstances and the integration. How to utilize resources effectively is an extremely important issue, as you suggested. It should be understood, however, that there are circumstances in which no solution can be obtained by simply integrating the group companies into one entity.

Q5

Mr. Yamaguchi, Director and Executive Vice President is also in charge of China and APAC, which seemingly have offshore and other value chains connected to Japan. Why is he in charge of China

and APAC as well? What type of synergy is he aiming for?

A5

First of all, although local clients in the APAC region are important, we note that NTT DATA to date has failed to provide sufficient support to many Japanese companies having set up shop in countries such as Thailand and Singapore. We will likely be able to accelerate efforts to support Japanese companies in the region by seeing the situation from the viewpoint of collaboration with the Japan side, rather than from the perspective of standalone NTT DATA Asia Pacific. Given that many Japanese manufacturing and distribution companies have set up shop in the APAC region, synergy is expected to be generated by the fact that one single executive is in charge of all APAC operations.

Although it is not confined to the Enterprise & Solutions Segment, offshore development is one subject for enhancing the collaboration with the Japan side. To date, the advantage of offshore development has been its low-cost profile, but resources in China are no longer cheap. With the serious shortage of human resources, the Enterprise & Solutions Segment will work together on not only offshore development but also on early parts of upstream processes. We are engaged in business in China in collaboration with the Japan side.

Q6

Slide 16 states a “Sense of Direction for Strategy.” I suspect that the client would fear that NTT DATA expanding horizontally would cause identical applications and knowhow to be utilized, allowing rival firms the opportunity to compete strongly. How should I consider this point?

A6

We will not apply horizontal expansion to anything related to client confidentiality. However, knowhow in comparable systems will be shared within the organization and expanded horizontally. We will refrain from expanding to clients’ direct competitors, and have no intention whatsoever to duplicate a client project as it is and expand it horizontally to another firm.

Q7

As for horizontal expansion, there is the scenario of a transportation company client itself, for example, becoming an IT service firm. If that happened, would the client become a rival or work with NTT DATA? What do you think?

A7

Although clients aggressive in IT investments express the intention to continue investing through in-house efforts, they are faced with the issue of insufficient resources. After all, user companies are not well equipped with human resources who are capable of developing IT systems properly and well-versed in operations, as NTT DATA is. For this reason, the Company has been mandated with operations at a client well-known for its aggressive IT investments. This situation, however, will not last forever, so we are required to raise the added value further.

Q8

Slide 19 highlights the CAFIS initiative. If financial institutions begin to provide bitcoin-related services starting from next year, it would probably involve a scheme akin to debit card services. Will it go through the CAFIS settlement network?

A8

The financial institutions' scheme flows themselves will likely go through their networks. If the CAFIS network were used, that would be recorded as NTT DATA's net sales. If financial institutions established a scheme specific to them, the usage of that part would be recorded as their net sales.

Q9

Slide 25 highlights the Mitaka Data Center project. The service launch is said to be slated for April 2018. Does NTT DATA intend to grow the business to 100.0 billion yen by 2020 on a three-year cumulative basis?

A9

That's correct.

Q10

As for the initiative for incorporation software for automobiles, you have acquired a subsidiary of Sharp Corporation and are focused in this area. Will NTT DATA focus on the infotainment field or the engine control field in the coming years?

A10

We will focus on various domains such as the infotainment field and the car control information field involving CAN data.