

Questioner 1

Q1

I would like to ask a question about overseas business.

You explained that the EMEA & LATAM Segment showed year-on-year increases in new orders received, net sales, and profit in the first half due to the robust business in Europe. I would like to know which field grew, in particular.

On the other hand, you have not seen significant growth in the North America Segment. You said that pipelines of new orders had increased. Please show us when the increase would be reflected in the performance?

A1

Concerning the EMEA & LATAM Segment, we have continued to reinforce our sales capabilities, and each of the three companies, everis, EMEA, and Business Solutions, increased net sales. Some fields in Europe including the telecommunication field in Italy and the banking field in Spain have grown significantly.

Concerning the North America Segment, there is a sign of performance recovery. In the second quarter, the segment received an order for a tens-of-billions-of-yen project from a new client in the healthcare field. A comparison of new orders received in the first and second quarters in this fiscal year shows an increase of 18.4 billion yen from 69.5 billion yen of the first quarter (three months) to 87.9 billion yen in the second quarter (three months). We expect that the full effects of innovation investments and measures to reinforce sales capabilities will become visible in the second half or later.

Q2

With regard to the unprofitable project of the Public & Social Infrastructure Segment, when providing reserves for it in the previous fiscal year, you explained that it was a challenging project, but the uncertainty over the schedule of the completion would fade to some extent in this fiscal year. I would like to make sure that the status remains unchanged. When will the project start the service finally?

A2

The project will start the service from this fiscal year to the next fiscal year onward in a phased manner. We provided reserves for the unprofitable project in the previous fiscal year because of problems in performance. We provided additional reserves in this fiscal year due to problems in quality.

As the system needs to be connected to multiple systems and has very complicated data variation, it is an extremely challenging project in terms of applications and system infrastructures. Despite recording a loss, we are strengthening the structure and making company-wide efforts to reduce the amount of loss as much as possible and prevent the amount from increasing.

Q3

Did you solve the performance problems that forced you to provide reserves in the previous fiscal year?

I acknowledge that the project will start the service in a phased manner but wonder when the portion posing the quality problems that forced you to provide the additional reserves will be released. I understand that there will be no risk of providing certain amount of additional reserves going forward, if the quality problem is solved. Is my understanding correct?

A3

We identified and solved all performance problems discovered so far. With regard to the quality problems, we are conducting final checking for the portion that will be released in this fiscal year.

While there are some portions that still require further development, in the course of starting services in a phased manner from this fiscal year onward, we will make best efforts to minimize the risk of recording a loss in the future by identifying and solving all basic problems attributable to the uniqueness and other factors of data variation.

Q4

I think that the overall performance in the first half was robust, except for impacts of unprofitable projects, and it absorbed impacts of the unprofitable projects on profits. While there may be uncertainties, I understand that you will limit the loss from unprofitable projects to the extent that such loss can be absorbed by profits of the whole company in the second half and onward to achieve the forecasted full-year performance. Is my understanding correct?

A4

Yes, it is.

Q5

On November 6, NTT will announce the next mid-term management strategy of the NTT Group. While NTT East and NTT West have almost completed their structural reforms, the role of NTT Communications will be reduced with the progress in switching the network of fixed-lined telephones to the Internet Protocol network, in my view. And NTT DOCOMO is expected to see a decline in profit in the future. Under such circumstances, I think that NTT DATA will play a great role in the growth of the NTT Group and will need to cooperate with the NTT Group companies more closely.

In what type of cooperative structure will NTT DATA and NTT Group companies exert synergistic effects?

A5

On November 6, NTT will announce a new organizational structure and strategy after the establishment of a global holding company. Currently, NTT DATA has four major benefits in mind.

First of all, with the scheduled integration of NTT Communications and Dimension Data in the next year, the gradual integration of service brands such as data centers, cloud, and networks each company has rolled out separately will globally grow and

strengthen their business. On the other hand, given the possibility that everything would be connected through IoT (Internet of Things) and IoE (Internet of Everything) amid accelerated digital transformation, it would be highly beneficial for NTT DATA if our connection capability is strengthened through closer cooperation with NTT Group companies. We will aim to expand NTT Group business through much closer cooperation in order to become competitive in the Japanese and global markets and grow the total service business.

Secondly, we believe that each operating company can expand business through further accelerated cross-selling, in which services are provided by entire NTT Group.

Thirdly, amid the accelerated digital transformation, we believe that the NTT Group's speedier creation of solutions and services utilizing new technologies on a global basis would be beneficial for us.

Fourthly, as we will be able to purchase some equipment at lower prices from a global procurement company, it will be beneficial for us, too.

We will aim to give shape to these four benefits.

Questioner 2

Q1

I would like to ask a question about new orders received in the North America Segment.

While you said that the segment won a contract for a large-scale, tens-of-billions-of-yen project in the healthcare field, new orders received in the second quarter (three months) decreased by more than 10% from the previous year. Does this mean that new orders received do not show a year-on-year increase unless you receive multiple large-scale projects or new projects?

A1

I think that the reason why you ask the question is that new orders received in the North America Segment in the first half showed a year-on-year decrease of 36 billion yen compared to the full-year forecast of a year-on-year increase of 53.4 billion yen. We expected that we would face difficulties in terms of new orders received in the first half at the beginning of the fiscal year.

There was a good sign, however, because new orders received in three months in the second quarter grew by approximately 18 billion yen from the first quarter. Also, we feel confident that the number and the quality including the progress toward winning a contract and others of pipelines have become promising steadily in the past three months.

As such pipelines are expected to translate into new orders received actually in the second half and onward, we are paying close attention to the potential new orders received in the second half and the progress against the full-year forecast.

Not only in America but also in the rest of the world, clients tend to make IT investments in the digital field as much as possible and shift to in-house development in such field and aggressive fields requiring flexible and speedy action. In addition, they have had a tendency to reduce costs as much as possible in the field of legacy systems. For example, in order to help clients in cutting costs in the field of legacy systems, we have made efforts to be more competitive by making

innovation investments to strengthen technologies including automation. We have also reinforced our sales capabilities, which led to the winning of a contract for a large-scale project in the healthcare field, as explained before. It was very valuable for NTT DATA because we won the contract thanks to the combination of the advantage in the application field of the former NTT DATA, Inc. and the strength in the IT outsourcing field of the former Dell Services.

In the third quarter and onward, we will continue to promote innovation investments and reinforcement of sales capabilities and work steadily, so that we can exert an effect like this.

Q2

In the first half, the North America Segment recorded an operating income margin at around 1% and an EBITA margin at around 4%, excluding the impacts of expenses for PMI and restructuring.

Can we expect that profit margin would significantly improve if you win contracts for a wide variety of projects utilizing advanced technologies in the pipelines?

A2

We would like you to evaluate overseas business based on the EBITA margin rather than the operating income margin.

As you noted, the EBITA margin was slightly low due to some expenses for PMI and restructuring until the first quarter, but we are sure that the margin will improve because expenses for PMI and restructuring would decrease by about 10 billion yen from the previous fiscal year in the second half.

It will take some time to improve profit by increasing new orders received and net sales, but there is a sign of steady recovery.

In addition, we started to take measures to improve the efficiency of back-office divisions and others after the completion of PMI in the first quarter. The effects of these measures have already become visible in the form of the reduced SG&A expenses in the second quarter, which suggests that these measures will contribute

to cost reduction in the second half.

As we see profit of the North America Segment recovering in the short term, we will consider so that it will recover to a considerable level, also in the next mid-term management plan.

Q3

You said that the EBITA margin of the North America Segment would rise to about 4% by itself. Does the status remain unchanged?

A3

The full-year forecast remains unchanged. When deducting expenses for PMI and restructuring from the expected EBITA margin of the North America Segment at 3.1%, it would be around 4.4%. We expect that the EBITA margin will certainly grow to at least this level.

In addition, as our efforts to reduce costs from the second quarter will contribute to the full-year profit and we will record no more expense for PMI in the next fiscal year and onward, we will achieve 4% of the EBITA margin naturally and aim to raise it gradually.

Questioner 3

Q1

Are new orders received in the North America Segment in the first half on a par with or lower than the expectation in the internal plan? If it is below the expectation, please show me the reason.

Based on your explanation that the number and the quality of pipelines have been increased, there is a possibility that the performance would be better than the full-year forecast. In order to achieve the forecast, however, you will need to improve performance significantly from the previous year in the second half. Should we prepare for risk of performance below the forecast?

A1

New orders received in the North America Segment in the first half was lower than our expectation.

At the IR presentation meeting for the first quarter, we explained that the schedules for contract closing for four large-scale projects were delayed, and we would receive orders for them sometime in or after the second quarter. To add to this explanation, we won a contract for one project in the second quarter. Concerning the remaining three projects, the delayed schedule of receiving an order for one of them was as expected because, we knew about the postponement until the second half in the first quarter. For the other two projects, the delay of the schedule of closing contracts until the second half was determined in the second quarter. However, each of the projects is still in good condition to win contracts.

As you pointed out, it is true that we face difficulties in achieving a full-year forecast and need to make a significant recovery.

However, as there is a good sign, for example, like winning a contract for a large-scale project with a new client in the second quarter, as well as a large-scale project that requires us to perform long-term sales activities, we think that it is important to manage the quantity and status of pipelines well in a steady manner. We will appreciate it if you evaluate us from the long-term perspective.



Net sales in the first half was on a par with our forecast.

Questioner 4

Q1

You said that the timing of recording new orders of the North America Segment is behind schedule. Is there any particular structural factor that has caused the delay? Is there risk in the business environment, for example, of the deteriorated earnings of North American companies due to the trade war prolonging the cycle of receiving an order? Please show us your countermeasures.

A1

We recognize that the current economic condition in North America is very robust. We have a lot of diversified pipelines including projects with a highly cost-conscious client that require us to have long-term contract negotiations.

NTT DATA will perform careful management mainly for large-scale projects by taking appropriate approaches in consideration of the characteristics of each project and client.

Q2

Concerning the market shares by region and country shown on page 17 of the Company Presentation material, NTT DATA has relatively large market shares in emerging markets. With the current high volatility of emerging currencies due partly to interest rate hikes mainly in the U.S.A., how do you see the environment for new orders in emerging markets?

A2

When looking into each project, we do not see profit margin lowering. Especially, three companies in the EMEA & LATAM Segment have remained robust since the previous fiscal year. In particular, the Spanish company and others have maintained a long-term relationship with clients and expanded transactions. So far, we have not felt that the market environment has had adverse impacts on NTT DATA business and have not been concerned.

Given the highly rapid growth, it may be difficult for the EMEA & LATAM Segment to sustain the growth rate for a long time, but we believe that the segment can continue to increase new orders received and net sales at least within this fiscal year.

As we started business on a full scale in the LATAM region in the previous fiscal year, we currently have a larger business volume in Europe but have won contracts for projects steadily in LATAM in this fiscal year. The profit margin in LATAM seems almost the same as that in Europe, which means we have not received an order for an extremely unfavorable project in LATAM. Overall, we have won contracts for good projects both in Europe and LATAM.

Q3

I think that you will continue to pursue more M&A deals to increase the market shares of overseas business. If an M&A target is a company in a growing market, the valuation is higher, naturally. As this is historically one of NTT DATA's issues, please show me the current status and what you think about it.

A3

We will think about M&A in order to strengthen our advantages, but are not considering changing our basic policy that we close an M&A deal by utilizing free cash flow at this point.

Potential target companies are companies that can strengthen business in the healthcare, financial, auto, utility, and telecommunication industries in which we have advantages and those with capabilities to deal with upstream processes and the digital field as well as integration capabilities to create solution services. We will aim to promote M&A activities by taking into account these factors in a comprehensive manner.

Questioner 5

Q1

NTT DATA has developed CAFIS (Credit And Finance Information Switching system), a large and solid cashless settlement infrastructure, but I think that some companies want to develop a settlement system that bypasses CAFIS. What vision do you have for future settlement business?

A1

The number of CAFIS transactions has increased from year to year. Especially, credit card and debit card settlement transactions have significantly grown, and the number of monthly transactions exceeded 700 million.

Under such circumstances, we have established two major measures/strategies to increase the use of CAFIS further.

The first measure/strategy is what we call mutual collaboration. There are diversified and advanced new settlement services providers like LINE Pay in Japan and overseas services including AliPay and WeChat Pay. As our CAFIS has already connected with about 120 card companies, about 2,000 member stores, and about 1,500 financial institutions, we are promoting the use of this infrastructure by such new service providers. As a result, convenience for member stores will be enhanced because they will be able to use varied settlement methods, and providers will be able to offer services easily.

The second measure/strategy is the addition of various new services based on our belief that CAFIS itself must change to expand the user base further. CAFIS deals with a wide variety of settlement methods including payments using a credit card, debit card, electronic money, QR code, and smartphone and manages points. We will aim to make new services like these available earlier than competitors and grow the transaction number.

The percentage of cashless settlements in Japan is less than 20%, which is lower than other countries including Korea at 89%. In October 2018, a kick-off conference of the Commission for Promotion of Cashless Settlement was held, and

the Japanese government wants to raise the percentage to 40% as early as possible and to 80% in the future. Amid the movement of raising the percentage of cashless settlements, it is necessary to find out mechanisms that enable member stores to handle small cashless payments. With the increased visitors to Japan ahead of the 2020 Tokyo Olympic and Paralympic Games, the biggest challenge is how to increase the number of small payments. We would like not only to expand the CAFIS business, but also to contribute to a higher percentage of cashless settlements in Japan in various ways.

Questioner 6

Q1

Concerning new orders received in the North America Segment, I understand that you will win contracts for projects, which were postponed from the previous quarter, by the end of this fiscal year. Is my understanding correct?

A1

Yes, it is.

Q2

On page 6 of the Company Presentation material, you explain new orders received in the North America Segment by describing the result "decreased in services provided to financial, which is temporary." I understand that this decrease was due mainly to less orders for large-scale projects compared to the previous fiscal year. Is my understanding correct?

A2

Yes, it is.

Q3

How much impact is there due to less orders for large-scale projects compared to the previous fiscal year in the North America Segment? Excluding the impact, did new orders received increase from the previous fiscal year?

A3

It is difficult for us to explain the business status of the North America Segment from one perspective because of the business scale and its diversified clients and business areas.

In the first half of the previous fiscal year, the segment won contracts for many renewal projects in the financial field, which resulted in less orders in this fiscal

year.

It is true that the segment received a large-scale order of about 20 billion yen in the first half of the previous fiscal year, but there were various positive and negative factors other than that. Therefore, we need to look at the whole picture rather than looking at one factor.

While new orders received in the first half decreased from the previous fiscal year, the scale and quality of pipelines have increased. We expect that performance will significantly recover within this fiscal year.

Q4

Given the profit margin of the North America Segment in the first half, you will hardly achieve the full-year forecast without significant improvement of the profit margin in the second half. Are the profit margins high for the projects for which the schedule of contract closing is delayed until the second half or later?

A4

In terms of the profit margin of the North America Segment, there is not much difference between the projects for which we won contracts and the projects for which we expect to win contracts. Basically, we receive orders for absolutely profitable projects.

Generally, the profit margins of infrastructure-related IT outsourcing projects tend to be slightly lower, and those of consulting-oriented projects tend to be higher. However, we cannot generalize the profitability of projects because each project is different and there is great variability among them. That being said, as we seldom receive an order for a project like one that is unprofitable when taking into account SG&A expenses, we believe that we can secure profit stably.

The full-year forecast of EBITA is 13 billion yen, and the margin is expected to be around 3%. We will aim to raise the EBITA margin, which was approximately 2% in the first half including expenses for PMI and restructuring, to around 3% on a full-year basis.