

Questioner #1

Q1

Regarding the results of NTT Ltd., operating income was 6.4 billion yen in the first half before being consolidated to NTT DATA. However, EBITA grew to 16.1 billion yen in the third quarter (accounting period) after the consolidation. What were the factors behind this growth and the outlook for continuity in the fourth quarter and beyond?

A1

As you are aware, NTT Ltd.'s EBITA was 16.1 billion yen and operating income was 12.8 billion yen for the third quarter accounting period. There were two main factors. The first was the effect of structural reforms. Last fiscal year, we invested approximately 44 billion yen in restructuring costs. Of the approximately 38 billion yen annual investment amount planned for this fiscal year, we spent approximately 24 billion yen in the cumulative third quarter. We are already seeing the effect of this investment. The second factor was the growth in sales of IT infrastructure services, which are high-value-added services with relatively high profitability. In the cumulative third quarter, sales increased by about 20% year-on-year.

Profitability is improving due to these two factors, which are not temporary factors.

Q2

The operating income of the entire company was 183.5 billion yen for the cumulative third quarter, and 75.5 billion yen for the third quarter accounting period. Assuming that operating income in the fourth quarter accounting period is on par with the third quarter accounting period, we can estimate full-year earnings to be approximately 259 billion yen, which would exceed the earnings forecast. So why haven't you revised the earnings forecast? Could you please tell as if there are any factors such as restructuring expenses or PMI expenses for NTT Ltd. that you expect to be posted ahead of schedule?

A2

The main factor is the increase in strategic investment. We will increase strategic investment, which was about 17 billion yen in the previous fiscal year, by about 15 billion yen to about 32 billion yen this year. Of this amount, we plan to spend about 15 billion yen in the fourth quarter accounting period. This can be a factor to push down operating income.

Q3

Regarding NTT Ltd., due to the nature of the data center business, we recognize that financial costs are increasing, and that tax costs are increasing due to the fact that countries with surpluses and deficits cannot offset each other. Could you discuss the future outlook for the improvement schedule?

A3

Financial costs are attributable to long-term interest-bearing debt, and tax costs need to be reduced by reviewing businesses in low-profit countries. Neither of these factors can be addressed in the short term. For the time being, we expect financial expenses to be approximately 10 billion yen and tax expenses to be approximately 4 billion yen each quarter due to the effect of consolidation of NTT Ltd. We will attempt to cover some of the impact on profit in the fiscal year under review through increased sales and profit derived by expanding our main business.

Questioner #2

Q1

Financial expenses for the entire company increased by approximately 16 billion yen year-on-year. What was the financial effect of the business combination with NTT Ltd.? Also, could you please explain the effect on the fourth quarter accounting period and your outlook for the next fiscal year?

A1

NTT Ltd. will also have a positive effect on financial income, so the financial profit and loss after deducting financial expenses will result in a negative effect of over 10 billion yen. We also expect a similar level of effect for the fourth quarter accounting period. Assuming that there are no changes in conditions such as interest rates, the absolute amount of borrowings, and exchange rates, we expect an annual negative effect of about 45 billion yen.

Q2

I understand that you expect medium- to long-term growth in the data center business. However, I would like to ask about the factors behind the decrease in revenue compared to the most recent second quarter accounting period. Also, regarding the delay in procurement of Cisco products in the telecommunications equipment sales business, what is your outlook for improvement from the fourth quarter onwards?

A2

Regarding the data center business, we recognize that sales will not continuously increase; instead, sales will fluctuate, including seasonal factors. Moving forward, there is no change in our policy of continuing investment. Regarding the situation of procuring Cisco products, although there are signs of improvement in some regions, there are differences between regions, and we do not expect all delays to be resolved by the end of this fiscal year. We believe that the situation will gradually improve in the second half of fiscal 2023.

Q3

NTT Ltd. plans to spend approximately 38 billion in annual restructuring costs this fiscal year. What is the outlook for the restructuring costs in the next fiscal year?

A3

We plan to use up approximately 38 billion yen for this fiscal year, and we plan to complete initiatives that can be controlled within the Company, such as optimizing personnel and integrating IT systems. On the other hand, there are other parties involved in the sale or withdrawal of unprofitable businesses, so it is possible that the plans will be delayed until the next fiscal year depending on negotiations and arrangements. We will continue to implement the necessary structural reforms to achieve the medium-term management plan targeting the

2025 fiscal year, but we do not anticipate implementing reforms on the same scale as the previous fiscal year and the fiscal year currently under review.

Questioner #3

Q1

In regard to strategic investment, please explain the actual expenditure, expenditure breakdowns for the third quarter accounting period, the items of year-on-year increases, the effects of the investment, and when we will see the effects.

A1

Regarding the strategic investment, we spent 7 billion yen in the third quarter accounting period, which is a year-on-year increase of 3.2 billion yen. (For the cumulative third quarter, we spent 17 billion yen, which is a year-on-year increase of 7.4 billion yen.) The items of the investment are divided into three categories. The first is investment in technology areas in which global synergies can be easily achieved. The second category is investment in focus industries that are common globally. The third is cross-cutting investment aimed at realizing social change.

Of these, the first category of investment in technology areas is the one with the most obvious timing of effects. Specifically, this category consists of investment in a total of six critical technologies: the five conventional technologies of Cloud, Cyber Security, Data & Intelligence, Application Development Management, and Enterprise Application Services, and the Edge as a Service technology, which was added through the business combination with NTT Ltd. We set an investment amount for each technology and a target amount for impact on sales for each region, and have started tracking the results. In the each area, orders and sales have already been generated, and the investments have shown positive results.

On the other hand, since investments aimed at achieving social change will extend over the medium- to long-term, it will take time to generate results. For example, we are trying to create an infrastructure for distributing information on renewable energy. The infrastructure will enable stable power supply by monitoring the power generation status of renewable energy and matching supply and demand. However, building the infrastructure will take time.

In this way, it takes time to produce effects. Therefore, we would like to divide our medium- to long-term efforts from those that produce short-term effects, and to manage our efforts appropriately.

Q2

What are your current plans regarding the organizational form of overseas business in conjunction with the business combination with NTT Ltd.?

A2

We recognize the importance of firmly grasping the business structure of NTT Ltd. While NTT Ltd. has businesses in each region, it also has cross-regional businesses. We will proceed with integration of NTT DATA's existing businesses after understanding the growth scenario for each of NTT Ltd.'s businesses. It would be better to consolidate the businesses of each region into

one company for each region. On the other hand, cross-regional organization is possible for businesses that do not depend on countries or regions; for example, data centers and networks. We are conducting various simulations, and we would like to be able to provide more specific explanations next fiscal year.

Q3

I would like to ask about the current status of dealing with unprofitable projects that occurred in the public and social infrastructure segment in the second quarter.

A3

There were no additional loss provisions in the third quarter accounting period, and we are releasing the systems sequentially. There is no change in our plan to complete the release within this fiscal year. However, the situation remains unpredictable, so we will continue to respond through consistent efforts. We will carry out appropriate management to prevent additional measures from occurring in future processes.

Questioner #4

Q1

I see that overseas orders received during the third quarter accounting period only increased by about 5% year-on-year, excluding the impact of exchange rates. I believe this is due to the fact that you are selecting projects with an emphasis on profitability in North America. What is the current environment for orders in each region?

A1

In the cumulative third quarter, new orders received in North America increased by 36.8 billion yen year-on-year. However, after excluding the increase of 64.7 billion yen due to the impact of exchange rates, orders decreased by 27.9 billion yen year-on-year. In the third quarter accounting period, although we received orders for large-scale projects exceeding 1 billion dollars, in addition to a reactionary decline in the number of large-scale projects that we received last fiscal year, there was also the impact of selecting highly profitable projects, as you said. One characteristic of the order environment in North America is that while the pipeline has continued to increase since the fourth quarter of fiscal 2021, the sales development of orders has become shorter due to the effect of smaller projects associated with the increase in digital projects.

Orders received in Europe increased by 145.4 billion yen year-on-year, or 106.2 billion yen even after excluding the increase of 39.2 billion yen due to the impact of exchange rates. In terms of specific regions and countries, Spain, Germany, the United Kingdom, and Brazil are robust. In terms of industries, the finance, public, telecommunications, and automotive industries are strong.

Q2

NTT DATA's business in Europe involves many upstream processes such as consulting, so I believe that it is susceptible to economic trends. What are future prospects for orders and business environment overseas, mainly in Europe?

A2

We are also closely monitoring trends in Europe and are closely exchanging opinions with local top management. Even so, we have not observed any trends indicating that the order environment is slowly at present.

I would rather explain the positive aspects after the business combination with NTT Ltd. We have created a team to develop a marketing strategy called "Joint Go to Market" in the three bases of Europe, North America, and Asia. We are working to verify if we can develop a full-stack service business from applications to infrastructure, which is also the purpose of the business combination with NTT Ltd. Specifically, we are matching the clients of NTT DATA and NTT Ltd. by region. Fortunately, we found that there was not much overlap. This shows that

there is a lot of room for cross-selling; in other words, it will be possible to provide full-stack services. Currently, we are considering proposal strategies for clients with large sales in each region. One result of these efforts is the SAP migration project by a major home appliance manufacturer that was mentioned in the opening presentation. We deduce that there are many clients who have expectations for full-stack services.

Q3

I believe that the increase in profits relative to the increase in NTT DATA's sales is still small when excluding NTT Ltd. I surmise that this is due to factors such as soaring labor costs. Could you explain what the factors are? At the same time, I'd like to confirm if there are any temporary special factors such as the sale of assets that are contributing to increased profits at NTT Ltd.?

A3

In Europe, we are strengthening our digital capabilities by continuing the integration work from last year and upgrading our IT infrastructure. We spent about 6.4 billion yen by the third quarter against the planned annual spending of about 7.0 billion yen, which I believe to have impacted the small increase in profit.

As for North America, the gross profit margin improved by approximately 1.5% year-on-year in the third quarter as we proceeded with the selection of orders. The EBITA margin for the cumulative third quarter was 7.2% and profitability is improving.

At NTT Ltd., there was an increase of 7.1 billion yen year-on-year in the third quarter accounting period. Approximately 5.0 billion yen of this increase was due to the effects of structural reforms and increased profits in high-value-added services centered on the data center business. Additionally, reductions in restructuring costs compared to the previous fiscal year contributed to an increase in profit of approximately 2 billion yen. Therefore, temporary special factors have not contributed to boosting operating profit.

Q4

Your securities report states that the goodwill of NTT DATA Services may be impaired if WACC rises by 1.3% from the level in the fiscal year ended March 31, 2022. When considering the significant rise in interest rates over the last half year and the current business sentiment overseas, is the possibility of impairment losses increasing?

A4

As you are aware, WACC is rising in conjunction with increased interest rates. However, since the business itself in North America is performing well, we do not believe that the current situation will lead to losses.

Questioner #5

Q1

Liabilities on your balance sheet have increased by about 1 trillion yen due to the business combination with NTT Ltd. What is your composition ratio of floating and fixed interest rates for the current liabilities?

A1

As for liabilities, the majority of our borrowings are with floating interest rates, but we also have some borrowings with fixed interest rates.

Q2

Annual capital expenditures have increased by several tens of billions of yen. Will your borrowings increase due to continued investment in the data center business? What amount of borrowings do you expect for the next fiscal year?

A2

We are actively investing in the data center business, so we believe that borrowings will increase to a certain extent in the next fiscal year as well. On the other hand, we will also work on the utilization of third-party capital, and will manage to ensure that the net amount of borrowings do not continue to increase along with capital expenditures.

Q3

There is concern that ROE will drop significantly due to the increase in capital due to the business combination with NTT Ltd. Could you please discuss your thoughts on improving the balance sheet's capital structure and ROIC in the future.

A3

As you are aware, the business combination has changed our business significantly in terms of the need to pay more attention to our balance sheet. We will consider appropriate measures, including streamlining our assets.

Questioner #6

Q1

What was the amount of impact caused by exchange rates on operating profit in the third quarter, for both the cumulative period and the accounting period?

Also, is it correct to assume that the effect of the business combination with NTT Ltd. on NTT DATA's operating income will be 8.8 billion yen, which is the 12.8 billion in operating income of NTT Ltd. minus 4 billion yen for PMI expenses, etc.? Also, what is the impact of soaring electricity bills on the business of NTT Ltd.?

A1

The foreign exchange impact on operating income for the third quarter was +5.7 billion yen for the cumulative period, and +2.4 billion yen for the accounting period.

You are already aware of the operating income of NTT Ltd. and the amount of PMI expenses, etc., related to the business combination. As for the soaring electricity costs, there are many cases where the increase in energy prices is passed on directly to customers, especially in Europe and the United States, so the impact on operating income is not significant.

Questioner #7

Q1

The contribution to operating income in the full-year earnings forecasts by NTT Ltd. was expected to be +14.0 billion yen. It appears that profits exceeded expectations in the third quarter. I infer that the reason for this increase in profits is that expenditures for structural reforms remained at about 3 billion yen. In the fourth quarter, if the remaining 14 billion yen in restructuring expenses that we planned is used up, and if we assume that there is almost no operating income in the fourth quarter, what is your forecast for income and expenditures in the fourth quarter?

A1

Regarding structural reform expenses, we spent about 7 billion yen in the third quarter accounting period, and we have spent about 24 billion yen in cumulative total. We plan to use up the remaining amount of approximately 14 billion yen. On the other hand, in the fourth quarter, the effect of structural reforms that have been implemented so far will be a factor in increasing profits. Therefore, please understand that a decrease in profits due to expenses will not be the only effect.

NTT Ltd.'s operating income for the third quarter accounting period was 12.8 billion yen, which is approximately half of the second half target of 25 billion yen, so we believe that we are on schedule. We believe that the effects of structural reforms will continue to emerge, and we aim to achieve our goals through appropriate business operations.

Q2

Based on the figures disclosed by NTT Ltd., when assuming that NTT Ltd.'s gross profit margin is around 25%, NTT DATA's gross profit margin in the third quarter is in the high 27% range when calculated excluding NTT Ltd. Are there any temporary factors behind this high profitability?

A2

In the third quarter accounting period, there were no temporary factors that particularly boosted profitability. Instead, we believe that this is because our whole business has steadily grown.