

Questioner 1

Q1

Regarding the progress in achieving the goal of the entire company's operating income for the first quarter, how strong was it when compared with the company plan? How much contribution did the EMEA & LATAM and North America Segments make to the progress?

A1

I think that we could make a good start for both net sales and operating income. Although we closely watched the impacts from the spread of COVID-19 ("the impact of COVID-19") and the recovery of IT investments, both the EMEA & LATAM and North America Segments made a good start as expected. You can assume that our performance is in line with the full-year financial results forecast.

Q2

Are there any factors that might slow the growth of revenues of the EMEA & LATAM and North America Segments in the second to fourth quarters? How much did you spend for the integration of operating companies and additional measures of these segments?

A2

Presently, there is no major factor that might slow the growth of revenues of the segments in the second to fourth quarters. Let me give further details to my comment that we made a good start in the first quarter. Although our business performance was at the bottom because of the impact of COVID-19 in the first quarter of the previous fiscal year, the growth rate was recovering to normal in the first quarter of this fiscal year. This is why the increase in operating income looks significant.

As we explained when announcing the full-year financial results forecast, we will spend 6 billion yen each on the integration of operating companies and additional measures of the EMEA & LATAM Segment. In the first quarter, approximately 1 billion yen was spent on the additional measures including restructuring in Germany as planned. We also have started the integration of operating companies with the integration of logos and e-mail addresses and have given explanations to clients. Approximately 1 billion yen was spent on the integration as planned, too.

Questioner 2

Q1

NTT DATA acquired Nexient in May. Did this acquisition have impacts on business results including new orders received and order backlogs in the first quarter? Please tell me what impacts the acquisition will have on business results in the second quarter and beyond.

A1

Let me give you some explanation regarding Nexient, which newly joined the group in this fiscal year. NTT DATA has digitalized outsourcing services such as BPO and ITO and other services of the North America Segment. Nexient is a company that excels at developing systems by taking advantage of its expertise in cloud computing. The company has not only provided services utilizing the strength but also has a human resource development system for developing cloud-native applications as another corporate value. We would like to offer cloud and digital training to the existing employees in North America.

The acquisition will increase quarterly net sales of the second quarter and beyond by approximately 3 billion yen. New orders received are expected to increase to the same extent as net sales, whereas there will be a difference in the amount from quarter to quarter. Nexient is relatively profitable, and we aim at promoting digitalization in North America further by utilizing its capabilities.

Q2

You said that there was a new order for a large-scale project that was not recorded in the first quarter as originally scheduled in the North America Segment. Please tell me the scale of this project.

A2

The new order for a large-scale project that was not received in the first quarter as originally scheduled is worth more than 10 billion yen. If we received the order by the end of June, the North America Segment would record more new orders received in the first quarter than in the corresponding period of the previous fiscal year. As we closed a contract for the project on July 1, which was behind schedule, it will be recorded in the second quarter.

Q3

Please tell me your idea about how much effect the Structural Transformation of the North America Segment carried out in the previous fiscal year produced in the first quarter and will produce in the second quarter and beyond.

A3

We spent approximately 16 billion yen on the Structural Transformation in the previous fiscal year, which will produce an effect of approximately 15 billion yen in this fiscal year. We saw an effect of approximately 3 billion yen in the first quarter. Specifically, there was an effect of approximately 1 billion yen from terminating contracts for buildings and offices and another effect of approximately 2 billion yen from the Structural Transformation. The remaining effect will appear in the second quarter and beyond. Please understand that the effect will develop over time.

Q4

Was there any major unprofitable project?

A4

We had no major unprofitable project in the first quarter. There were some minor unprofitable projects in overseas countries but few in Japan.

Q5

The result of new orders received by the Financial Segment seems good despite the decrease from 170.7 billion yen recorded in the previous fiscal year. How should I view this?

A5

In the previous fiscal year, the Financial Segment received new orders for large-scale projects in the first, second, and fourth quarters. Especially, the one received in the first quarter was far larger in scale. I think that the result of new orders received in the first quarter of this fiscal year was somewhat better than expected. As these projects start to get underway, we are confident in winning more contracts for projects through which we will fully satisfy clients' expectations.

Questioner 3

Q1

In most years, NTT DATA tended to record less profit in the first quarter than in other quarters. In this fiscal year, I think that you made the greatest progress in achieving the goals of the company plan. Was there any special factor?

A1

We recorded an increase in operating income by 20.6 billion yen, out of which approximately 11 billion yen was attributable to an increase in net sales. Specifically, net sales in Japan increased by approximately 8 billion yen, and those in overseas countries increased by 2.5–3 billion yen. One of the special temporary factors is that in the previous fiscal year, the company incurred approximately 2.5 billion yen in expenses related to benefits for healthcare workers in North America and the allowance for a South American client's filing for bankruptcy, but this did not occur this fiscal year. The remaining approximately 7 billion yen can be classified into approximately 4 billion yen of the combined effect from the improvement of the employee utilization rate, which dropped in the previous fiscal year, especially in Germany, and the Structural Transformation of the EMEA & LATAM Segment and approximately 3 billion yen of the effect from the Structural Transformation of the North America Segment as explained before. The effect of approximately 4 billion yen seen by the EMEA & LATAM Segment was attributable more to the higher employee utilization rate than the Structural Transformation.

Let me give a supplementary explanation regarding the great progress made in the first quarter. In the previous fiscal year when the impact of COVID-19 was bigger than in any other time, we posted a year-on-year decrease in operating income by 3.2 billion yen. This is why the increase in this fiscal year seems significant.

Q2

Concerning the North America Segment, its order backlogs decreased in proportion to the decrease in new orders received in the previous fiscal year. How will the segment recover? Is there any impact of the sale of businesses?

A2

We are closely watching the trend of new orders received in North America and find that the segment still struggles to receive orders for large-scale projects partly because of the impact of COVID-19. Conversely, the segment has received orders for projects worth billions to tens of billions of yen. As it is expected to receive some projects worth tens of billions of yen in the second quarter, we believe that the situation is getting better. Anyway, we will continue to pay careful attention to it.

The sale of businesses was completed in July. Three quarters of the expected full-year effect from a decrease in net sales as much as approximately 22 billion yen will arise in the second quarter and beyond.

Q3

Concerning operating income of the Public & Social Infrastructure Segment, you said that costs for proposal activities aimed at expanding new business fields increased. Please tell me specific targets of the activities, if any. Also, I would like to know the expected effect of the activities.

A3

The Public & Social Infrastructure Segment had a large-scale unprofitable project in the fiscal year preceding the previous fiscal year and was unable to take proactive action such as increasing the number of employees in the previous fiscal year partly because of the impact of COVID-19. In this fiscal year, the launch of the Digital Agency and other factors are expected to promote digitalization in society, and the segment has enhanced the talent pool, which resulted in a decrease in operating income. In the second quarter, the segment has successfully received new orders from the existing clients by intensifying the activities.

Questioner 4

Q1

The new orders received by the EMEA & LATAM Segment increased. I would like to know the situation of each country. Please tell me the future outlook, too.

A1

To explain the situation of each country, Italy, whose performance was robust in the previous fiscal year, continues to perform as well as it did in the previous fiscal year. Spain is the greatest contributor to the success. In the country where NTT DATA has a strong presence, the public and financial sectors have recovered from the dip in the previous fiscal year. For Germany, which saw a significant decrease in the previous fiscal year, we are confirming the situation carefully. NTT DATA having strength in the automobile field recognizes its important mission to fully respond to clients' move toward digitalization. The German business recovered somewhat in the first quarter, and we must assess carefully whether the recovery was based on the needs for digitalization. Finally, in the United Kingdom, we started to receive new orders for consulting services, on which we have focused since the previous fiscal year, from clients in the telecommunication and media industries. We aim to sustain our strength in this field.

Conversely, we have a little concern regarding LATAM and closely watch the impact of COVID-19 there as the region still suffers from the pandemic. We also must pay careful attention to the impact of fluctuations of the Euro and currencies of LATAM countries.

Q2

Concerning the Enterprise & Solutions Segment, please tell me the situation of receiving new orders by industry, for example, situations of the manufacturing, distribution, and services industries. I also would like to know why the increase in operating income was more significant than that in net sales.

A2

Clients in the manufacturing industry faced difficulty in the previous fiscal year, but they have recovered somewhat, in our view. Some companies, especially those in the automobile field, reported good financial results, and we are making investments in the future together with such companies. The situation of clients in the distribution industry remains unchanged from the previous fiscal year, but they continue to make IT investments in fields including the sophistication of client contacts. Conversely, clients in the services, travel, and railway industries have struggled to recover from the impact of COVID-19, and their investment does not exceed a certain level.

In the first quarter, the success of SAP projects for clients, especially those in the manufacturing industry, contributed to net sales and operating income. Conversely, the payment business was still affected by the impact of COVID-19, and the volume of CAFIS transactions especially at brick-and-mortar stores varied from industry to industry. Although the number of transactions in the first quarter increased on a year-on-year basis, it was lower than planned. We must watch closely how the impact of COVID-19 will appear.

Regarding the increase in operating income was relatively significant comparing to the increase in net sales in this fiscal year, as the operating income in FY20 decreased by 1.7 billion yen compared to FY19,

so comparing this fiscal year to FY20, the operating income in this fiscal year appears to have increased.

Questioner 5

Q1

When do you think impacts of a project associated with the launch of the Digital Agency will appear? I think that NTT DATA has a high share in the market for the central government and ministries and has closed a lot of discretionary contracts with them. Please tell me the impacts including negative impacts and risks.

A1

Along with moves to establish the Digital Agency, I believe that society will become more digitalized. I think that preparations have been underway for the scheduled launch on September 1, and there have been minor related projects. We aim to win contracts for these projects without fail. Full-scale nationwide digitalization projects that cut across ministries and agencies or link between ministries and agencies, companies, and financial institutions are expected to be proposed in or after September, and I think that major positive impacts on NTT DATA's financial results will appear in or after the next fiscal year. In last fall, NTT DATA launched the Social Design Office, an organization that is independent of any segment and directly under the Head Office, to create projects cutting across the Public & Social Infrastructure Segment and the Financial Segment. The cashless service for payments to the central government announced in June is a fruit of this activity to promote cashless transactions worldwide by utilizing our know-how in doing business with both public and financial institutions. We aim to create more projects like these in the future.

Concerning impacts on existing businesses of the Public & Social Infrastructure Segment, we aim to respond to the government's new procurement activities by fully utilizing our expertise in ministries' and agencies' businesses and avoid impacts of sudden major negative events.

Q2

I think that NTT DATA will redevelop a system including data linkage between ministries and agencies sometime in the future. As the redeveloping will be based on the know-how you have accumulated, I believe that existing players including NTT DATA will not be replaced by new ones, which will have few negative impacts on your business results. What do you think about this?

A2

I cannot say anything about this topic with certainty. I have heard that the government may have a plan to create a platform to share data across ministries and agencies. A new attempt like this will present a business opportunity for us. However, if these moves change administrative and operation flows at each ministry and agency or across ministries and agencies, our know-how in businesses in the past may be insufficient. We will make an effort to win contracts for projects by fully utilizing our capabilities even if new movements appear.

Questioner 6

Q1

The EMEA & LATAM Segment made fairly good progress in operating income with 4 billion yen compared with the full-year forecast of 8 billion yen. Was this due to the increased net sales or the Structural Transformation? Please give me a supplementary explanation.

A1

The segment's operating income increased by 5.7 billion yen from the previous fiscal year. There were temporary positive factors of approximately 2 billion yen in total: in the previous fiscal year, the company incurred approximately 1 billion yen in expenses related to the Structural Transformation and approximately 0.5 billion yen of impacts from the allowance for filing for bankruptcy by clients in LATAM as a temporary cost incurred because of the impact of COVID-19, but these did not occur this fiscal year, and hundreds of millions of yen of effect from the Structural Transformation. As I said before, there were temporary negative factors as much as approximately 2 billion yen in total, including costs for additional measures and the integration of operating companies. Please understand that such temporary negative factors were almost offset by the temporary positive factors. Also, the segment saw an increase in operating income by approximately 2 billion yen because of the increased net sales as well as a combined effect, although it is difficult to be broken down, of approximately 4 billion yen from the improved employee utilization rate in operation in Europe, especially in Germany, and the Structural Transformation that have been carried out since the previous fiscal year. In terms of the contribution rate, I believe that the higher employee utilization rate contributed more to the increase.

Except for the temporary factors offset, there was an effect of 3–3.5 billion yen in total from the increased operating income because of the growth of net sales and the Structural Transformation. Also, there was an effect of 2–2.5 billion yen from the improved employee utilization rate, especially in Germany, although this was a somewhat temporary factor. These resulted in an increase in operating income by less than 6 billion yen.

Q2

Will there be any factor that puts downward pressure on operating income in the second quarter and beyond other than costs for additional measures and the integration of operating companies?

A2

We still plan to spend approximately 12 billion yen on additional measures and the integration of operating companies during this fiscal year. As the operation rate improved steadily in and after the second quarter of the previous fiscal year, in my view, the year-on-year growth rate of operating income due to the higher utilization rate will gradually slow in the second quarter and beyond. Although we have identified no special factor, as COVID-19 spreads again in Europe, there is a possibility that we will be affected by the pandemic as we were in the previous fiscal year, if not lockdown measures. So, we will closely watch the development.

Questioner 7

Q1

Net sales from the consulting business increased by approximately 16 billion yen from the corresponding period of the previous fiscal year. Please tell me the driving factors for the growth of net sales and how you expect demands to change in the second half of this fiscal year.

A1

I think that among NTT DATA's businesses, the consulting business becomes more important than ever before, and we are enhancing the business both in Japan and overseas countries. The net sales growth steadily resulted from the great effort we have made since the previous fiscal year.

Q2

All competitors have focused on the consulting business. Please tell me about NTT DATA's strength and a differentiating factor.

A2

What we want to differentiate from competitors is our capabilities to complete implementation works and solve clients' issues instead of doing consulting just for consulting. We would like to do technology consulting for realistic system implementation and beyond. We seek a business opportunity with everis in the EMEA & LATAM Segment, which has strength especially in consulting, as a starting point. We aim to differentiate our capabilities to provide consulting services on clients' businesses and markets and do implementation works, which we will continue to enhance.

Questioner 8

Q1

Concerning operating income in the first quarter, please tell me the reason why you recorded an increase in “Other” by 2.2 billion yen.

A1

The reasons for the year-on-year increase in “Other” by 2.2 billion yen were the increase in the operating income of group companies in China & APAC and others that are not included in any segment, the decrease in investments for growth, and consolidation adjustment accounts.