

Questioner 1

Q1

Concerning the North America Segment's earnings forecast for the fiscal year ending March 31, 2021 ("earnings forecast"), please let me know the structural transformation expenses and potential quantitative impacts of the COVID-19 ("the corona impact").

A1

We forecast that the North America Segment's EBITA will decrease by 22.2 billion yen from the previous fiscal year. Almost half of the decrease will be attributable to a decrease in gross profit due to a year-on-year drop in net sales by 58 billion yen. The rest will be due to the structural transformation impact estimated at about 11 billion yen.

The North America Segment's efforts toward the structural transformation can be divided largely into three categories. The first is for efforts toward digital transformation aimed to enhance and reskill digital talent. The second is for efforts to optimize resources to address a decrease in net sales by 58 billion yen. The third is for efforts toward work style reform aiming to respond to a remote working style as a standard by reducing the number of offices by 80 from 130 to 50, approximately. The segment will improve efficiency by downsizing four data centers out of eight. Through these efforts toward the structural transformation, we aim to become a digital company with high profitability. Concerning business domains, we will focus on businesses concentrating on 15 digital offerings as well as advanced outsourcing and consulting services utilizing digital technologies.

Q2

While the North America Segment had received a lot of orders until the previous fiscal year, you forecast that its net sales in this fiscal year would be much fewer than those in the previous fiscal year. Is this due to the corona impact?

A2

The forecasted drop in net sales is largely attributable to the corona impact. In North America, NTT DATA has advantages in four fields: public, manufacturing, healthcare, and financial fields. While businesses for public clients have been strong, the businesses for clients in the manufacturing and healthcare fields, especially medical institutions, are expected to be extremely severe in the first half of this fiscal year because clients' IT investments are postponed, suspended, diminished, and so on.

Q3

Considering the earnings forecast for the EMEA & LATAM Segment, how large an impact does the structural transformation have on business performance in terms of value? You said that you would continue the structural transformation in this fiscal year but spend fewer costs than the previous year.

A3

We spent about 14 billion yen in total for the structural transformation of the EMEA & LATAM Segment in the previous fiscal year, including about 10 billion yen we estimated at the beginning of the fiscal year

and about 4 billion yen added as a result of a review of businesses with low profitability. In this fiscal year, we expect to spend 4 billion yen to continue to enhance digital talent, strengthen digital capabilities to deliver digital solutions/offerings, push automation forward for stronger development capabilities, improve operational efficiency, and optimize operations, as in the previous fiscal year.

Q4

This is a question about the earnings forecast for the domestic segments. While new orders received increased significantly in the first quarter, those segments seem to receive much fewer orders in and after the second quarter. Please tell me the reason why.

A4

The main reason is that the Public & Social Infrastructure Segment won a contract for a large-scale project in the previous fiscal year, and we expect fewer orders. In addition, domestic regional companies businesses for corporations and telecommunication are in tough situations due to the corona impact. For the Financial Segment, we also expect fewer orders after it won a contract for a large-scale project for cooperative financial institutions in the previous fiscal year. We expect that the Enterprise & Solutions Segment will witness a year-on-year drop in new orders received by 32.8 billion yen and net sales by 25.6 billion yen because domestic clients in the manufacturing, services, transportation, travel industries, and others are in an extremely tough situation.

Questioner 2

Q1

Please tell me what impact the revision of CAFIS fees has on the earnings forecast. Do you think that the increased number of transactions could absorb negative impacts caused by lower fees per transaction as a result of the fee revision?

A1

Concerning CAFIS, the number of transactions at brick-and-mortar stores significantly decreased partly because sales to foreign visitors to Japan, which had been strong until the previous fiscal year, reduced significantly due to the corona impact. On the other hand, we see a significant increase in the number of transactions at EC sites and others. Thus, we expected that the entire income from CAFIS fees in this fiscal year would be as much as the previous year's when we designed a business plan. Additionally, our decision to change the charged fee between QR code accounts to one yen per transaction in October was incorporated in this plan.

Q2

The next fiscal year is the final year of the medium-term management plan. If the corona impact diminishes, do you forecast that you could largely achieve the numbers of the medium-term management plan in the next fiscal year? If the corona impact is severe in the next fiscal year too, will you postpone the year of goal achievement by one year? If so, do you think that you could achieve the goals in the year after next?

A2

We have not changed KPIs for the medium-term management plan which started in the previous fiscal year: consolidated net sales of 2.5 trillion yen, consolidated operating income margin at 8%*, and overseas EBITA margin at 7%*. Also, the year of goal achievement remains unchanged. However, we will closely watch and assess the corona impact and actual business performance in the second and third quarters.

*Excluding temporary costs such as M&A and structural transformation

Q3

How is the progress of investments for growth and overseas structural transformation? Without the corona impact, do you think that these initiatives will prove effective both in Japan and overseas?

A3

We have implemented investments for growth and structural transformation as planned and checked achievements in a timely manner. The progress is good.

Questioner 3

Q1

Concerning the earnings forecast of the North America Segment, what does a significant drop in net sales mean? I thought that the segment had advantages in recurring businesses such as ITO and BPO, and net sales would remain stable. Please tell me the reason why you forecast a double-digit percent decline.

A1

First of all, net sales to be recorded in this fiscal year from the order backlog until the previous fiscal year account for about 70% of the forecasted net sales of the North America Segment. We expect to see about an 8% drop in the value we had planned to convert into net sales from the order backlog until the previous fiscal year because some of the projects for which we won contracts were canceled or downsized due to the corona impact. The ITO and BPO projects are generally stable as the volume such as scope of operations and other factors are fixed to a certain degree. Unlike in Japan, however, there are some fields for which details are determined in each fiscal year, which has led to cancellations and downsizing of projects for which we have already won a contract. In addition, as clients in the manufacturing and medical industries are in difficult situations, we expect a year-on-year decline by 22% in projects for which we will receive orders and record net sales in this fiscal year.

Q2

I have a question about your plan to downsize four data centers in North America out of eight. I understand that being able to downsize data centers despite the increased volume of data handled by systems means that there is room to improve the efficiency by using servers and others with advanced functions. Is my understanding correct?

A2

Yes, it is. We will downsize four data centers by improving the efficiency of devices and rearranging the layouts.

Q3

While I expected that selling, general & administrative expenses of the entire company would decrease due to the reduction of temporary expenses in this fiscal year, you forecast that it would be 440 billion yen, which is almost the same as the figure for the previous fiscal year. Please explain the expenses in detail.

A3

In the previous fiscal year, we recognized most part of about 14 billion yen for the structural transformation at the EMEA & LATAM Segment and 5 billion yen for Brazilian projects as selling, general & administrative expenses. In this fiscal year, we expect a decrease in these costs. On the other hand, in this fiscal year, we expect to record structural transformation costs of 11 billion yen for the North America Segment and 4 billion yen for the EMEA & LATAM Segment. In addition, for domestic investments for the entire company's growth, even in a harsh business environment, we will continue to implement various

measures toward digitalization for the post-COVID-19 to an extent seen in the previous fiscal year. We will aim to significantly reduce recurring expenses and continue forward-looking investments to expand businesses as much as possible.

While we will make domestic investments equivalent to the level of the previous fiscal year, some expenses for structural transformation in Europe and the Americas will decrease but not too significantly. Thus, selling, general & administrative expenses of the entire company will not decrease. However, we will check business performance and control costs over time.

Questioner 4

Q1

Please tell me when you will record structural transformation costs this fiscal year. When do you expect the transformation to prove effective?

A1

The EMEA & LATAM Segment has continued the structural transformation since the previous fiscal year and started to record the costs in this first quarter. We are gradually seeing the effect and believe that the transformation will contribute to the full-year performance successfully. The North America Segment, based on the experience in recent three to four months, judged that it could maintain a work style with remote working as a standard and took into consideration costs for structural transformation including measures to downsize, merge and abolish offices for its earnings forecast. The segment aims to start to speedily implement such measures around the end of August. The earlier it implements the measures, the earlier the effect emerges as it plans to review office-related costs and human resources. 11 billion yen as structural transformation costs we cited is the value equivalent to costs for measures in this fiscal year offset by the effect to be produced in this fiscal year. Thus, we expect the transformation to prove effective in this fiscal year. From the next fiscal year and beyond, the measures implemented in this fiscal year will produce the full effect at the beginning. Therefore, we expect the North America Segment to achieve a V-shaped recovery in the next fiscal year.

Q2

You said that 11 billion yen is the value equivalent to costs for measures offset by the effect to be produced in this fiscal year. Please show me the value of the costs and the effect, respectively.

A2

We roughly estimate the costs for measures to be about 16 billion yen and the effect to be about 5 billion yen. Please note that these figures are based on the assumption that the transformation will go smoothly as planned. So, we would like to implement measures promptly without fail.

Q3

In general, restructuring rarely produces more effect than money spent. Can I expect that the restructuring will produce the effect of reducing costs by about 5 billion yen in the next fiscal year, too?

A3

Even though we started the restructuring in the middle of this fiscal year, they have produced effect of about 5 billion yen through not only resource optimization but also reduction of real estate costs. In the next fiscal year, as the restructuring will produce roughly a double effect than that of this fiscal year through a full year, we expect to recover the costs in two years.

Q4

In order to achieve the goals of the medium-term management plan, you need to increase net sales to

a certain extent, but you forecast a decline in new orders received in this fiscal year. Please tell me to what degree the decline will affect net sales in this and next fiscal years.

A4

The reasons for a decline in new orders received can be largely classified into less orders compared to the previous fiscal year such as for large-scale projects and a decrease in projects for which orders are received and net sales is recorded in this fiscal year. A decline in new orders received by the Public & Social Infrastructure Segment (a decrease of 78 billion yen) is mostly due to fewer orders received compared to the previous fiscal year such as for large-scale projects. A decline of about 100 billion yen out of the North America Segment's total decline (a decrease of 150.6 billion yen) can be explained by fewer orders for large-scale projects compared to the previous fiscal year. Furthermore, a decline of approximately 40 billion yen out of the EMEA & LATAM Segment's total decline (a decrease of 89.7 billion yen) was attributable to fewer orders for large-scale projects compared to the previous fiscal year. The rest were due to a decrease in the projects for which orders are received and net sales is recorded in this fiscal year.

While it will be most necessary for us to watch closely how we will win contracts for large-scale projects in North America going forward, as there is uncertainty over whether clients will make a critical decision during the COVID-19 pandemic, we do not consider winning contracts for large-scale projects for the earnings forecast. If we can win a contract for a large-scale project in the fourth quarter, for instance, the North America Segment will see a recovery in new orders received, which will lead to an increase in net sales in the next fiscal year. On the other hand, for clients in the domestic public sector, as we already know to a certain extent when they will launch a large-scale project in the mid-term, we believe that new orders received from them will not change significantly.

Questioner 5

Q1

Concerning operating income in the first quarter, please explain additional costs incurred due to the COVID-19.

A1

Most of the additional costs were incurred overseas. The North America Segment bore costs of over 1 billion yen associated with unbillable personnel due to a sharp decline in new orders received. Moreover, the segment paid 300–400 million yen of hazard pay to employees who work at medical institutions such as hospitals and are exposed to infection risks. The EMEA & LATAM Segment provided an allowance for loss related to filing for protection under the bankruptcy act of a relatively large-scale client in LATAM. In total, overseas businesses recorded additional costs of about 2 billion yen, which was one of the reasons why we recorded increased net sales and decreased operating income in the first quarter.

Additional costs for a full-year will depend on the progression of the COVID-19 pandemic, but we do not think that they will be enormous. Rather, we believe that it is important to watch closely how we can win contracts and how new orders will contribute to net sales.

Q2

Please tell me the reason why there are unbillable personnel and additional costs incurred due to a decline in new orders received.

A2

The operational volume has decreased more than expected. As we secure personnel based on the expected operational volume, we have personnel standing by in proportion to a decrease in the operational volume. Thus, a lower operational ratio has led to reduced net sales and incurred costs. I said that the North America Segment had made efforts to optimize resources as part of its structural transformation. There is a distinct line between personnel who are standing by for a certain period and those who are in operation, and the optimization includes measures to reduce the number of standby personnel based on the operation volume. For this reason, we expect that costs associated with a lower operations ratio will be reduced on a full-year basis.

Q3

For the earnings forecast, you seemed to consider almost all negative factors of the corona impact but much fewer positive factors. Can I understand that you think that the forecast must be achieved?

A3

Looking at situations in North America and EMEA & LATAM, we expect to see a gradual recovery in business performance in these regions in the second half while experiencing alternating periods of relaxation and lockdown limited to specific cities rather than a larger area instead of a large-scale lockdown. In the short term, in our view, growing investments in automation, cashless payment, and paperless operations in Japan will be a positive factor. In the mid-to-long term, we expect domestic and overseas

companies to aim to develop a new social structure by utilizing digital and IT technologies and recover businesses by using digital technologies.

Questioner 6

Q1

Please show me the actual loss caused by unprofitable projects in the first quarter both in domestic and overseas segments. Also, I would like to know the outlook for loss from unprofitable projects on a full-year basis.

A1

In the previous fiscal year, we recorded a cumulative loss of 10.3 billion yen from unprofitable projects on a full-year basis, but little loss associated with unprofitable projects was incurred in this first quarter. We will try to curtail unprofitable projects for the full year by implementing preventive measures and, if a project becomes unprofitable, we will offset the loss with profit from other projects.