Questioner 1

Q&A Session 1

Q: I would like to simply ask three questions. The first one's just a check on the numbers. In the presentation, Mr. Nakayama explained the increase in Q1 results for integration expenses and restructuring expenses in the full-year plan for FY2023, which are found on page 18 of the financial results briefing document, but can you tell us again the actual numbers, more or less? Integration expenses started to rise in Q2 of FY2022, so should we understand that in Q1 of FY2023 the amount of integration expenses was ¥3 billion? Restructuring expenses increased by ¥6 billion. Can you confirm these figures and provide the actual numbers?

A: First, business integration expenses were ¥3 billion in Q1, as you noted. Of that ¥3 billion, ¥2.5 billion was spent in EMEA and LATAM, while the rest was spent at NTT Ltd.

Next, in terms of business restructuring expenses, we expect to spend ¥7 billion in EMEA and LATAM over the full fiscal year, but expenditures in Q1 had already reached ¥2.3 billion. In Q1 of FY2022, it was ¥1.7 billion, so we increased the figure for FY2023 by ¥600 million.

Also, in Q1, NTT Ltd. has already spent ¥5.4 billion out of the ¥19 billion allocated to it for restructuring expenses for the fiscal year. The ¥6 billion I referred to earlier comprises an increase of ¥5.4 billion for NTT Ltd. on a consolidated basis plus the added ¥600 million for EMEA and LATAM.

Company-wide investment offers a similar picture. This isn't mentioned in the financial results briefing document, but while we had planned to spend ¥32 billion in this area during the fiscal year, investment in Q1 FY2023 was about ¥6 billion, as compared with ¥4 billion in Q1 FY2022. So that's a ¥2 billion YoY increase. These expenses emerged relatively early.

So these figures are proceeding according to plan. Operating income, however, is overall at about the same level as in the previous fiscal year.

Q&A Session 2

Q: Second, could you explain about conditions overseas, including what you've already touched on to some extent? On a local-currency basis, new orders received in North America suffered a double-digit decline, resulting in decreasing sales and decreasing income. New orders received also dropped in EMEA and LATAM, while sales grew though. Taking into account the expenses you mentioned, earnings were not good, nor was progress. Taking a larger view, the slowdown in IT-service and cloud companies overseas is pronounced, and with changes in the environment, your plans seem to have gone awry. You spoke of “slippage” earlier, but that explanation doesn’t seem adequate for this level of weakness. So please tell us your evaluation of progress in overseas operations, including the change in environment.

A: Let me start with the business environment. According to reports from several major survey firms, the growth rate of the whole North American market, or increase of customer expenditures, is expected to be about 8% in FY2023. While this figure marks a decline against the 12% increase witnessed in the previous fiscal year, it’s still growth of 8% and growth at this level or a little higher is expected to persist over the near term. So we don’t believe that the market environment has deteriorated as compared with our original assessment.

Macroeconomic conditions in Europe are similar in some ways. In FY2023, the overall growth is expected to be about 6.5%, and it was about 12% in FY2022, so while the market has softened in some areas, the demand for IT investment is strong amid the push toward digital transformation (DX). The market will grow 6.5% in FY2023 and continue at roughly this pace in FY2024 and later.

In North America, as I mentioned earlier, some of the projects that were originally expected in Q1 have been delayed to Q2 or later. Among these, for example, we already received new orders in July valued at around ¥10 billion, and our pipeline in North America is quite strong. When we consider upcoming moves, the current market environment, the state of orders received and our pipeline, our overall macro view is that there is not so much cause for concern.

Q: So there was no real change in the environment, the competition environment, to speak of. Rather, as a result of focusing on profitability, rather than on winning orders, some project deliveries were delayed, so the earnings for them are expected in and after Q2. Is my understanding correct?

A: Yes. Until now we’ve been focused on margins in North America, and they’ve been rising gradually but steadily, so your understanding about North America is right. In EMEA and LATAM, on the other hand, margins are a bit low, and while we're doing our best to expand new orders received and sales, here too we want to work to enhance the quality of our earnings.

Q&A Session 3

Q: Third and last question. Qualitatively, when you look back at the past few years in North America and in EMEA and LATAM, including existing businesses, despite your focus on earnings, orders received have grown briskly in EMEA and LATAM but margins have not risen. So in terms of what can be forecast, I think the scale is too large and it's difficult to control or grasp from Tokyo. With the move to a three-company organization, that may change somewhat. Right now it seems you don't have the transparency to see where the bottlenecks and problems are, and it would be great if that changes dramatically in FY2023, but do you think you will be able to precisely analyze the change of figures although you are in Tokyo? If you have some awareness of what the problems are, please let us know.

A: The answer I can give you might sound extremely qualitative, but we adopted this organizational system in October 2022, and NTT DATA, Inc. has jurisdiction over overseas operating companies.

In that respect, we're strengthening and increasing our business-management workforce, so we expect to be able to strengthen our control over overseas operations. The new company structure is operating as NTT DATA Group. As I explained today, global business accounts for 60% of total sales, and we would like to make our progress in overseas operations more stable and assured. So we, including the members assembled here today, will be increasing our focus on that progress.

Questioner 2

Q&A Session 1

Q: I have two questions for you. The first is about integration and restructuring expenses, which you touched on earlier. In Q2 and going forward, how do these expenses occur? Do they happen at the end of the fiscal year or during the first half?

A: In terms of timeline, they began in Q1 as I mentioned, so some expenses started to be incurred steadily then. Activities related to integration expenses began in October 2022. We expect to make a number of moves in FY2024 to switch over to the new organization, and that's when a great deal of expenses will be incurred. We are now moving concertedly forward with the preparatory phase for those activities, so expenses will be appropriated evenly across Q2, Q3 and Q4.

Q&A Session 2

Q: My second question regards generative AI. This topic, which especially includes hyperscaler data centers overseas, is currently a hot topic of conversation. Another issue for discussion that may arise is the degree to which the GPU cloud will become necessary. Looking at the GPU cloud in the age of generative AI, including the momentous changes expected in power generation equipment and so on, do you have any thoughts on how demand for this technology has increased in the last three to six months?

A: Looking at inquiries about generative AI, including power supplies for data centers, we've had various inquiries in just the past six months or so from a variety of hyperscalers. Many inquiries concern whether they meet the conditions for building their own large language models (LLMs).

To answer your question, we think demand in this field is going to expand enormously. We think the data centers we prepare can meet these needs, and we look forward to conducting vigorous sales of them. If I can broaden the scope of my answer a bit, we also anticipate growing demand for corporate LLMs and LLMs tailored to specific companies. That means that companies all over the world will want to hold data centers in their own countries. We believe that, for hyperscalers, having a data center in close physical proximity to their premises, thereby reducing latency, will hold enormous value. We're confident that enterprise demand will multiply in this area.

Q: On that point, can you provide a little more detail? There are data centers for hyperscalers and similar enterprises, located adjacent to their businesses. The Inzai area is an example in Japan. Is it correct to say that arrangements like these are popping up all over the world and you expect to attract a considerable share of that business?

A: They are and we do. Worldwide there are a number of data centers built on spacious plots called campuses. Others are built to operate on a stand-alone basis. We are moving forward with the expectation that we can cater to both of these applications.

Q: Understood.

Questioner 3

Q&A Session 1

Q: I have three quick questions about overseas operations.

I'd like to ask this question on a region-by-region basis. In EMEA and LATAM, specifically in Europe, you say that the market is still growing but is expected to slow down. With the current orders, growth has slipped into the negative on a local-currency basis. Until now this market has been accustomed to double-digit growth, but the numbers seem to be pointing to a change in trend.

As the market slows down, how do you expect to continue to grow? Once again taking a regional perspective, what specifically is going wrong in EMEA and LATAM? And do you expect those problems to continue? That's my first question.

A: I'll start by answering your regional question. The situation of new orders received is really solid in Germany, the United Kingdom, and Spain. Italy was a little slow on the uptake in Q1. As I explained earlier, some projects we originally expected to begin in Q1 were postponed to Q2 and later, and that's one reason for the decrease of new orders received YoY, excluding the impact of foreign exchange rates.

Q: I'd like to confirm something. If you hadn't suffered the effects of those delays, do you think results would have been in line with preceding trends? I'm not sure how accurate some of the figures are, but some numbers seem to have exhibited a change in trend. Can you add any comments as to whether there is a change in trend based on actual figures?

A: I don't have the detailed figures on hand, so I can't provide them to you right away, but demand for IT investment, which is the overall trend you're concerned about, doesn't seem likely to be waning.

Q: I see, thank you.

Q&A Session 2

Q: My second question concerns North America. Though orders have declined, you've managed to keep income steady, and that trend is continuing for the past two quarters. But orders received in North America declined YoY for the fourth consecutive quarter on a local-currency basis. Keeping the focus on profitability, is there still room to somehow continue to raise profit margins, thereby supporting earnings? Looking in from the outside, it’s hard for us to analyze the overall declining orders. As you forecast future earnings, can you expect to continue to move sideways? Do you have something on tap that could increase earnings? You’ve managed to hold earnings steady even in this bearish earnings environment, but what’s your forecast going forward?

A: As I spoke earlier about our pipeline, we have quite an extensive pipeline of products coming in and after Q2, so at this point, we don’t foresee the difficulties you mentioned as concerning. We have a sufficient pipeline to support earnings going forward and will fully harvest its products, so we’re moving ahead on that basis.

Q: Understood.

Q&A Session 3

Q: I’d like to ask about the top line of NTT Ltd. This figure also appears to have declined slightly, even the results of data centers, if we exclude the impact of foreign exchange rates.

The demand environment for NTT Ltd. is different from that of IT services, so can you tell us about that environment, focusing on data centers? If we look at financial results overseas, they seem to be faltering across the board. What is your forecast for this top line, including your company’s pipeline and especially in view of high-value-added services?

A: Let’s deal with data centers’ net sales first. Certainly, when you factor in exchange rates, these figures present a difficult picture. But one special factor is the transfer of Hong Kong data centers from consolidation under NTT Ltd. Group to consolidation under the NTT Communications Group in the reorganization of October 2022. The impact of this transfer was ¥6.3 billion in Q1. If we strip out the effects of this transfer, data-center operations remain in the black. So that’s my first point.

Secondly, I’d like to shift focus to the difference in figures between Q1 FY2022 and Q1 FY2023. Sales in networks and managed services rose significantly from FY2022. The large negative number you see, in “Other (Cloud communications, etc.)” is the result of the shift from telephone conferencing services to Web-based conferencing services. That factor was a drag on net sales. Next, we are winding down, or scaling back, the proprietary cloud service that NTT Communications had been offering. So in fact this move is proceeding according to plan.

Q&A Session 4

Q: Do you have figures for the boost your company's financial results received from exchange rates? I realize that comparisons are difficult, since NTT Ltd. wasn't part of the scope of consolidation in Q1 FY2022, but I believe the quarterly boost in net sales from exchange rates was in the ¥20–30 billion range up to Q4 FY2022.

A: The impact of foreign exchange rates on IT infrastructure services and high-value-added services alone was ¥7.4 billion. For NTT Ltd. as a whole, the impact of forex was ¥16 billion.

Q: I understood.

Questioner 4

Q&A Session 1

Q: I have two questions. The first question is one I'd also like to ask at tomorrow's session with NTT Corporation. You explained that financial expenses have been rising significantly and are on track to hit ¥80 billion [for the full fiscal year]. Financial expenses are a fixed cost, which you can presumably pass on to clients by raising prices, but the existing increase in these expenses is already quite high. It seems like you really need to address this issue.

At the same time, NTT Corporation, and specifically NTT Finance, is in the top tier when it comes to fundraising, and interest rates are still low in Japan. So I don't understand why you borrow at fixed rates in the United States or somewhere else overseas instead of at a low fixed rate in Japan. Is it some kind of emotional reason, like it would look bad on your income statement? Or is there some economically rational explanation for this decision?

Currently the yen is trading at about ¥140 to the dollar. Do you think there's a risk it could worsen to ¥160 or ¥180? If so, why not do a carry trade? Raise funds in Japan and use them overseas? You could use the money to refund other loans or invest in new places. What's your reason for not doing that?

A: Our main thought process is that we want to match the currencies in which assets and liabilities are denominated. It's an issue of asset liability management, so it's not as straightforward as you make it sound.

Currently, as you indicated in your question, if we change that approach, exchange-rate fluctuations could generate exchange-rate profit or loss on our income statement.

Q: But by raising funds in Japan, you could slash your financing costs by ¥50 billion or so. ¥50 billion a year is a lot of money. Are you really foregoing such a huge saving just because of the risk of poor income-statement optics? Or is there some other reason why you can't do it? If you have the will, shouldn't you do it?

A: True enough, nothing systematic or anything like that is stopping us from such a carry trade. But as I said, it's a question of matching assets with liabilities. The problem is not interest-rate risk but exchange-rate risk.

Q: I see. So in view of future possibilities, exchange-rate risks exist and there's an upside and a downside. But probability favors the upside, offering the possibility of profit. Is it just that you dislike volatility? Are you concerned about volatility from yen depreciation?

A: It's never been our policy to go out of our way to take on exchange-rate risk in the way you're suggesting. Our policy is based on a comprehensive judgement of a whole range of factors.

Q&A Session 2

Q: Now, my second question: In your new organization, the holding company, NTT Corporation, has another holding company below it, NTT DATA Group Corporation. An intermediate holding company. It's hard to see the purpose of this structure. For example, there had been a global intermediate holding company within NTT since 2018. It's now five years later and I still can't see the point of this arrangement. Is this really the best way to organize your group? Are there advantages in terms of governance?

A: NTT DATA Group Corporation is indeed a holding company, but we also view it as an operating company. It manages operations for the entire NTT DATA Group, so our holding company, NTT DATA Group Corporation, is distinct from the NTT holding company, NTT Corporation.

As you can see on this slide (financial results briefing document, Page 4), Yutaka Sasaki, a Senior Executive Vice President of NTT DATA Group Corporation, is also President of the domestic operating company, NTT DATA JAPAN CORPORATION, while another Senior Executive Vice President of NTT DATA Group Corporation, Kazuhiro Nishihata, is also President of NTT DATA, Inc. This means that each of these two senior executives holds two positions. In terms of how the NTT DATA Group functions as a whole, these two participate in ordinary management discussions and also manage the operations of the Group as a whole. We launched this structure because we see this as a beneficial arrangement.

Q: I don't see a problem with both Mr. Nishihata and Mr. Sasaki being both executives of NTT DATA Group Corporation, the Holding Company. Are you saying this is the arrangement now?

A: Yes. Yo Honma, the President and CEO, is on the same floor, and Mr. Sasaki, Mr. Nishihata and I work shoulder-to-shoulder, so we are always available to talk to one another.

Questioner 5

Q&A Session 1

Q: The income statement is listed on page 5 of the attached documents for the accounts-summary (Tanshin) briefing. Net sales rose 50%, and so did gross margin, so the connection is pretty clear thus far. Selling, general and administrative expenses (SGA) rose 73%, so the connection with gross margin is weaker, but if we look at the Group as a whole, we see that net sales, cost and gross margin all rose 50%, while SGA alone grew 70%. Reconciling with the financial results briefing document, it seems that income in Q1 was minimal while SGA increased, or, of course, restructuring expenses are included in SGA, so it seems like restructuring expenses account for most of SGA in Q1. I'd appreciate an explanation on this point, including the amounts.

A: It's just as you say. Restructuring expenses, business integration expenses, and strategic investments have all increased. All of these are included in SGA, so that's why the SGA rate has risen.

Q: So assuming that SGA would only have risen by about 50% if you had not incurred those expenses, in line with cost of sales and gross margin, the remaining 20% or so of the 73% increase in SGA and the other expenses, excluding the old SGA expenses that account for 50%, would be accounted for restructuring expenses when we break it down on the income statement basis. Is my understanding correct?

A: Actually the rise in SGA would be a little more than that. That's because NTT Ltd. is part of the scope of consolidation and its SGA rose a little. This slight increase has an effect on SGA for the Group as a whole.

Q: I don't mean to say that the product mix has worsened, but something similar to that has occurred.

A: That's right.

Q&A Session 2

Q: Final question. This one makes it really difficult to calculate share price, and we need to do our homework, but other companies in the data-center field, such as Equinix Inc. and Digital Realty Trust Inc., are listed in North America as real-estate investment trusts (REITs).

Their price-earnings ratios (PER) are off the charts: 83:1 for Equinix, 123:1 for Digital Realty. So I don't think this is a useful measure. Usually the value of a REIT is calculated using net asset value, providing a market-value assessment based on fixed assets held. But it's completely impossible to calculate the value of your data centers overseas. Can you tell us how NTT DATA Group Corporation calculated value when it acquired NTT Ltd.? What indexes did you use, for example?

A: Certainly it's not easy to provide an answer, as you say. The crux of the problem may be that we don't disclose enough information about our data-center business. We're currently working on exploring ways to provide you with better information about the financial condition of data centers. Many people have expressed a desire for us to release measures that enable comparisons with competitors, such as funds from operations (FFO), for example. We will be taking a close look at that question so we can do our best to answer your concerns and provide you with as much clarity as possible.

Q: If you could break down NTT Ltd.'s data-center business to reveal the scale of its assets and the income they generate, we could compare the yield with that of other REITs. That value is quite different from the value normally generated by IT service operators. I think that disclosure alone would be a real boost to the share price, so I urge you to do so.

Questioner 6

Q&A Session 1

Q: I'd like to ask about your operations in Japan. Basically I have two questions.

First, asking about orders received, the Public and Social Infrastructure Segment has really grown. So has orders in the Financial Segment, partly due to rebound from FY2022. Can you tell us what kinds of projects you've received to garner these results? In the Enterprise Segment, orders have declined slightly YoY, but the business environment is good, so it seems to be a problem of timing. So could you please tell us about your results in domestic orders received and your forecast including the Enterprise Segment? That's my first question, thank you.

A: First, in terms of new orders received in the Public and Social Infrastructure Segment, we've seen tremendous growth from the central government ministries and agencies and from telecoms and utilities. I can't disclose specific projects, but one factor in the current growth is securing of upgrading projects for large-scale systems, an area we've long been engaged in.

Regarding the Finance Segment, one major factor is projects we've acquired at regional financial institutions. Expanding the scale of services we offer to financial institutions is one way we are striving to reach our business-result forecast for the full fiscal year.

In the Enterprise Segment, we received some large orders from the retail sector in FY2022, so we've incorporated the rebound from that effect in our full-year forecast. Q1 orders received were down ¥2.9 billion YoY.

Q: Just to confirm, are you saying you anticipate no problems in terms of orders in the Enterprise Segment?

A: That's right. Because of the rebound from FY2022, we are forecasting a slight decline in FY2023 from the previous fiscal year. Nonetheless we are continuing to manage operations to achieve our target for FY2023.

Q&A Session 2

Q: My second question concerns the profitability in the Public and Social Infrastructure Segment. Your operating income ratio in Q1 was 10.6%, which is two points above the rate for the same period of FY2022 and FY2021. Is this because the profit margins on the projects were good??

A: That was the business results in Q1. Looking at the full fiscal year, earnings in the Public and Social Infrastructure Segment dropped significantly in FY2022 due to the large unprofitable projects at that time. The positive results in the current fiscal year weren't due to any conspicuously profitable projects, but rather to steady accumulation of earnings through careful scrutiny of costs, project-by-project.

Q: Understood. In Q1 FY2022 you didn't have any unprofitable projects, but you did in Q2 FY2022. So the strong result in Q1 FY2023 was not due to any special factors in Q1 but to a good business environment and some highly profitable projects. Is that correct?

A: Yes. We posted some unprofitable projects in Q2 and Q4 of FY2022. Results in Q1 didn't break trend in any major way. We just steadily built up profitable projects.

Q: I understand.

Questioner 7

Q&A Session 1

Q: I have two questions. Firstly, you started your new organization on July 1, which suggests that your overseas business integration expenses may begin in earnest in the near future. What activities do you expect to do in Q2 to integrate operations? If possible, can you put a number on the cost that will involve, for example comparing Q2 to Q1?

A: As I explained earlier, at this stage there are still some rough patches in our plans for overseas business integration expenses, so I can't give you a definite time-frame. In terms of timeline, we currently hope to complete the move to the new organization in April 2024 or so at the earliest.

The new organization was launched in July. In the second week of July we held our global conference, the first in four years, in India. Our global leaders, including our team in Tokyo, congregated there. We launched projects at the end of June aimed at reorganizing our overseas operations generally. So we are moving ahead steadily, with a view to completing the transition next year.

Q: What was the intention behind your decision to reorganize again in April 2024? In what way are you hoping to change the Group?

A: One intention was to accelerate the generation of synergies by transforming our overseas operating structure. As this slide (financial results briefing document, Page 19) illustrates, and as we explained in the fiscal-year-end briefing, we want to change our overseas operating model to the one shown here. As you can see here under "Regions," centralizing the offering process for each region enables us to integrate our organization. The main issue we are examining now is changing the Group and overseas organizations in this way by April 2024 at the earliest.

Q: I see.

Q&A Session 2

Q: I have two questions concerning the improvement of your financial constitution. The first is: You are switching to a fixed interest rate. Generally speaking, at what pace and level are you looking to fix interest rates, at a time when interest rates are exceptionally high in the

United States and other overseas countries? Can you provide a somewhat more reasonable explanation?

My second question is: You've stated or suggested that, as investment progresses, your reduction of debt may be delayed. Can you explain what you mean by that? For example, you stated in the previous quarter that you planned to reduce debt by between ¥150 billion and ¥200 billion over three years. How much progress do you expect to make on that plan during the current fiscal year?

A: The first point concerns converting existing variable-interest debt to fixed-interest debt. As you point out, the yield curve on US-dollar-denominated debit is currently inverted. Short-term interest rates are higher than long-term rates, and the longer the term is, the lower the rate becomes.

So the question is: How do we refinance, and with what timing? The answer is that we have to proceed cautiously, keeping a watchful eye on interest rates. If we convert all of the debt at once, we risk losing an opportunity to borrow at lower rates if US interest-rate policy changes next year or the year after. We're proceeding on the view that it is better to convert the debt over several years rather than make sudden, drastic moves.

As for the number of years, we have some properties we intend to hold for the long term and others we might sell. Naturally we're looking at those. Even for properties we intend to hold long-term, if they are under construction and will take two years or so to complete, there may be advantages to converting from variable-rate to fixed-rate financing, in which case we'll make the switch. We're examining each project according to its characteristics—we aren't thinking of making any drastic moves. Our approach at this point is to carry out the refinancing over multiple years.

Q: I understand. And on the second question?

A: The reason why we said the debt-reduction program might be delayed is that, as we have stated previously, we looked at financing expenses and financial revenues and expenditures for the full fiscal year and found that financing expenses may increase slightly in comparison with our original expectations. For example, in FY2023 we want to proceed with sales of data centers to a degree, and those plans have not changed. So on the question of moving data centers off-balance-sheet, we are looking at the issue in FY2023 and may propose several candidates next year or the year after that. We're keeping an eye on the situation and will respond effectively as appropriate. Currently that stance has not changed.