

## Questioner 1

Q1

I understand that, overall, overseas businesses have been less affected by the impact of the COVID-19 pandemic, while the degree of the impacts varies among regions. Is my understanding correct? Is there any problem with operations in regions where lockdown measures are in place again? I would also like to know the specific effects brought by the structural transformation.

A1

COVID-19 impacts vary among countries and regions. The North America Segment, which was initially expected to be significantly damaged, resumed to receive new orders for large-scale projects one by one in the second quarter and successfully won contracts for two projects of tens of billions of yen. In the third quarter, the segment won contracts for multiple projects close to tens of billions yen.

For Europe, I will provide a detailed explanation because each country faces a different situation. In Italy, we won contracts for new digital projects with the enhanced digital capabilities as a result of the structural transformation carried out in the previous fiscal year. However, in Germany, where our businesses were damaged most significantly by COVID-19 impacts, there is no sign of recovery for the manufacturing industry, especially for auto manufacturers. In Spain, despite the capability of the unit to engage in a project from an upstream process, it has been affected very significantly by the repeated lockdown. If the unit can overcome the impact, it will recover with its potential. In the U.K., the unit won contracts for some consulting projects in the telecommunication and public fields in the third quarter. While the scales of these projects are not so large, the unit will expand its businesses based mainly on them.

Although we were concerned about operations, there was no case of delivery that could cause so much trouble for a client or no trouble of BPO or ITO that could reduce profits. This was because we developed a delivery system to avoid trouble for clients, thanks to the hard work of offshore and nearshore delivery teams in India and East Europe, among others. We also developed the environment in Japan, too.

Regarding the structural transformation in North America, we expected expenditures of about 16 billion yen and a return of about 5 billion yen in this fiscal year. We identified three focused areas of structural transformation. The first area is enhancing and reskilling digital talents, which have made stable progress. The second area is optimizing human resources to prepare for the forecasted sales decline. However, as the sales decline was smaller than expected, we do not have excessive number of personnel standing by. For this reason, we are working on to be a more efficient and profitable organization in the next fiscal year and onward by allocating the budget for the second area to the early retirement program to encourage employees for relatively less profitable projects and higher cost employees to retire earlier, which is related to enhancing digital talents, the first area of structural transformation. The third area is optimizing offices and data centers to increase operational efficiency as part of the work style reform. We initially announced the consolidation of 80 offices out of about 130; however, we reduced the number to 60 for the latest plan. We have already negotiated with building owners of about half of the offices and four data centers to be consolidated. Whether we can reach an agreement with all owners by the end of the fiscal year remains somewhat unclear; however, we expect to make an agreement with most of them by that time. We will

spend the entire budget of about 16 billion yen in this fiscal year; however, a return of the announced approximately 5 billion yen by the end of the fiscal year may not be obtained because the progress is rather behind schedule due to employee-related matters and negotiations with building owners. This will be offset by sales growth.

Q2

The next fiscal year marks the final year of the Medium-Term Management Plan. It seems difficult for you to achieve the goal of consolidated net sales of 2.5 trillion yen due partly to COVID-19 impacts. Regarding the goal of the consolidated operating income margin at 8%, I think that, in the next fiscal year, you will see effects from the structural transformation implemented in this fiscal year. What vision do you have for the achievement of the goals of the Medium-Term Management Plan?

A2

I think that the business performance in this fiscal year has been stronger than expected. On the other hand, the recent COVID-19 pandemic remains serious in Japan and overseas countries. Given such circumstances, it is unlikely that the economy and economic activities will return to or exceed pre-pandemic levels at the beginning of the next fiscal year. However, I feel that NTT DATA is gradually adapting to the digital reform and others. For this reason, we will shift our focus to the establishment of a new Medium-Term Management Plan based on a new world while maintaining profitable growth in the next fiscal year. I hope that, based on the recovery of the economy in Japan and overseas countries, we will disclose our forecast on the business performance for the next fiscal year and provide explanations about the direction of the next Medium-Term Management Plan at the briefing of the full-year financial results of the fiscal year ending on March 31, 2021.

## Questioner 2

Q1

Please let me know about the impact amount and timing of cutover for projects that became unprofitable in the third quarter. I understand that the Financial Segment's operating income for the third quarter (three-month period) remained almost unchanged from the previous fiscal year except the projects that generated sizable losses in the previous fiscal year. Is my understanding correct?

A1

No project generated sizable losses in the third quarter. All projects continued to be under control. The loss from unprofitable projects in the first nine months of this fiscal year is about 1 billion yen, which is much smaller than in previous years.

As you pointed out, the Financial Segment's operating income remained almost unchanged except the projects that generated sizable losses in the previous fiscal year. This was mainly because of higher-profit-margin projects group companies recorded in the previous fiscal year. The segment's business itself remains stable.

Q2

Has the inauguration of the new administration in the U.S. changed situations in and after January?

A2

We are judging impacts from the inauguration of the new administration. Some people say that the democratic administration will carry out a large-scale fiscal stimulus package. However, democratic governments tend to raise the corporate tax rate, and when the administration will propose a tax increase is unclear. We expect that the administration will try to lift the economy by implementing COVID-19 pandemic measures for a while, but we do not see any impact from the change of government at this point. The business performance in January remained almost unchanged from those until the end of the third quarter. If this trend continues, the business performance of this fiscal year will certainly exceed the forecast.

Q3

The business performance of the EMEA & LATAM Segment in this fiscal year has been buoyed by effects from structural transformation implemented in the previous fiscal year. Can I expect that the North America Segment's business performance will be buoyed in the next fiscal year, too?

A3

I hope that we will meet your expectation.

### Questioner 3

Q1

I would like to know how much NTT DATA has spent for the structural transformation in Europe and Americas so far. Will you use up the entire budget of this fiscal year as your original plan?

A1

For the North America Segment, we plan to spend 16 billion yen this fiscal year and did use about 6 billion yen by the end of the third quarter. The progress of the structural transformation is slightly behind schedule, but we will use up the remaining 10 billion yen by the end of this fiscal year. We initially expected a return of about 5 billion yen from the structural transformation. The delay in the progress may reduce the return, but I think that the negative impact will be fully offset by an increase in profit due to sales growth.

For the EMEA & LATAM Segment, we plan to spend about 4 billion yen this fiscal year and did use about 2.4 billion yen by the end of the third quarter. We spent about 14 billion yen for the structural transformation in the previous fiscal year, of which 6–7 billion yen was allocated to the digital-related reskilling and enhancement of digital talents, which will generate a return of 2.4–2.5 billion yen this fiscal year, in our view. We obtained a return of about 1.5 billion yen by the end of the third quarter.

Q2

I understand that you will use up the entire budget for the structural transformation of this fiscal year as your original plan, almost finish the overseas structural transformation, and pursue a return in the next fiscal year and onward. Is my understanding correct?

A2

For the next fiscal year and onward, we do not plan to implement structural transformation that is as large as that we have carried out so far. However, we will continue the digital-related reskilling and enhancement of digital talents.

Q3

I think that, overall, the North America Segment has been less affected by COVID-19 impacts and remains strong. However, its healthcare unit, an area where NTT DATA has an advantage, seems to face a difficult situation from a macro-perspective. Why is the performance better than the expectations? I think that the unit deals with a lot of outsourcing projects. Has it not faced cancellation or pressure of price reduction? Please tell me why the North America Segment, especially the healthcare unit, is stronger than expected.

A3

The North America Segment has advantages in four fields: healthcare, public, financial, and manufacturing. Among them, the healthcare and manufacturing fields have been more seriously affected by COVID-19 impacts and shown no sign of major recovery. Especially, hospital-related businesses will take some time to recover, in our view. On the other hand, as the U.S. government has taken aggressive fiscal actions to offset the negative COVID-19 impacts, the public unit has seen considerable increases in

new orders received and net sales. The financial unit has been less affected. As our effort over years to strengthen the consultancy field start to bear fruit, the unit successfully won contracts for new digital and consultancy projects.

The digital projects of the North America Segment can be largely divided into four categories: cloud computing, data intelligence and analytics, automation, and security. The segment works to differentiate its services by combining projects under four categories with large-scale BPO and ITO projects, increase efficiency for large-scale projects using digital technologies, and become more competitive. The companies NTT DATA acquired through M&A deals are associated with these four categories. For example, Flux7, which was acquired in the previous fiscal year, is associated with cloud computing, and Acorio, which was acquired in this fiscal year, is associated with automation. We are developing businesses by strengthening our focused fields through M&A.

Q4

Does the environment allow the North America Segment to increase net sales in the next fiscal year, or will it be difficult for the segment to grow due to the healthcare unit's failure to recover? Please share your vision on this.

A4

The North America Segment has steadily enhanced its competitiveness using digital technologies, but the healthcare unit will take some time to recover, in our view. The recovery will depend on how fast the vaccination program will progress in North America and how soon hospital operations will return to a stable level. As the healthcare field is important for NTT DATA, we will continue to closely watch it.

Q5

Although circumstances may differ for each business type of clients, please provide your view and outlook for COVID-19 impacts on the Enterprise & Solutions Segment. Also, please give us an update about the Public & Social Infrastructure Segment, which has seen an increase in new orders received mainly for projects for the central government and related agencies.

A5

The Enterprise & Solutions Segment has been a growth driver for NTT DATA for recent years, and its role and our expectation for it remain unchanged. COVID-19 impacts on clients vary by business type. Clients in the logistics and services industries, which continue to grow, are active in IT investments without losing their ambition for change. On the other hand, clients in the manufacturing and travel industries face severe business environments and are expected to take some time to recover. Regarding the payment business, EC-related demands from consumers staying at home have grown, which resulted in the growth of the digital marketing field. The payment business for inbound visitors, however, has been sluggish.

As expected, the Public & Social Infrastructure Segment has won contracts for projects due partly to the active measures of the government against the pandemic, as well as projects related to emergency responses to the new initiatives of the government, which has expanded its businesses. Looking ahead,

Digital Agency will be established in 2021, which has two purposes; the DX of the government to streamline administrative organizations, and the DX of the society. We predict it will promote a horizontal DX across the government, companies, and individuals. To respond to this, NTT DATA established the Social Design Office last fall and started company-wide activities involving not only the Public & Social Infrastructure Segment but also the Financial and Enterprise & Solutions Segments to propose developing new systems. I believe that this will create new business opportunities.

## Questioner 4

Q1

The operating income of the whole company for the third quarter (three-month period) increased much more significantly than net sales. Of the 13.3 billion yen for the whole company, a 6.5 billion yen increase was contributed by the Financial Segment. Is this mainly because the impacts of the projects that generated sizable losses in the previous fiscal year were eliminated?

A1

The Financial Segment reported a loss of 4.9 billion yen for the third quarter (three-month period) of the previous fiscal year, which resulted in the year-on-year growth in this fiscal year. Other profit increases were attributable to sales growth.

Q2

The North America Segment's EBITA for the third quarter (three-month period) decreased by 3.1 billion yen on a year-on-year basis. Please explain how the structural transformation and the core business of the segment affected the profitability.

A2

The decrease in operating income for the third quarter (three-month period) was mainly due to spending for the structural transformation for which we stepped up efforts in the third quarter. Except for the impacts of the structural transformation, operating income attributable to the core business of the segment increased. The increase in operating income from the core business was due partly to the expansion of consolidated subsidiaries acquired through M&A deals. However, even excluding impacts of M&A, net sales and operating income organically grew, although only slightly.

Q3

The EMEA & LATAM Segment's EBITA for the third quarter (three-month period) increased by 7.8 billion yen on a year-on-year basis. Please explain how the structural transformation and the core business of the segment affected the profitability.

A3

The structural transformation contributed to a year-on-year increase of about 5.0 billion yen. In addition, returns from the workforce reduction as part of the structural transformation carried out in the previous fiscal year have accumulated. These two factors are the key reason for the increase. The core business did not contribute to the increase so much due partly to COVID-19 impacts.

## Questioner 5

Q1

You said that the full-year performance would exceed the forecast. So, why did not you upwardly revise the forecast? Will you invest surplus funds in something?

A1

We certainly expect to report more new orders received, more net sales, and more operating income than the forecasted. However, as there are some uncertainties, it is too early to make an upward revision to the forecast. We will continue the effort to reduce the number of unprofitable projects and control costs to maintain net sales at the same level as the previous fiscal year or increase operating income.

There are some uncertainties. For example, in Japan, the plans of equipment renewal and network construction of financial institutions are uncertain, which were usually put in place in the fourth quarter, due to COVID-19 impacts or uncertainties about pay-per-use businesses as human mobility is curtailed. Also, the North America Segment will spend about 10 billion yen for the structural transformation in the fourth quarter out of the full-year budget of about 16 billion yen. It is unclear how much effect the spending will bring about by the end of this fiscal year. Moreover, the EMEA & LATAM Segment has businesses of which profitability and capital efficiency deteriorated compared to the initial plan due to COVID-19 impacts. We need to identify the impacts of these factors in the fourth quarter. We have no undisclosed plan of making an additional investment as you pointed out.

Q2

Please show me when and how much effect from the partnerships with Snowflake and ServiceNow will be visible.

A2

We have established different timelines for ServiceNow and Snowflake. ServiceNow, which has a function to automate the connection between a wide range of existing products, enjoys a certain expanded market share. We acquired Acorio, a pure-play ServiceNow consultancy in the U.S., through M&A deals, and there are certain needs for systems using ServiceNow in Japan and Europe, too. We have started to discuss with ServiceNow, Inc. how technology units of teams in Europe, the U.S., and Japan can work together to leverage ServiceNow and add value to it. I think that the business will expand if this effort creates products for each industry. However, please understand that it will take some time.

On the other hand, Snowflake is a cutting-edge analytics technology called cloud data warehouse software. As the first Japanese company to contact the Snowflake, NTT DATA could become the only Japanese company investing in the company when it went public through an IPO. This was very advantageous to us. As we acquired Hashmap in the U.S., which has knowhow in Snowflake, in December, we will start proposing new added value. We cannot mention the specific name, but a major Japanese client shows great interest in this technology, and we have commenced a validation test in an environment that is very similar to the environment where the technology will be practically used. If we get a good result, we may take the first-mover advantage to expand the business.



It is too early to say the scale of impacts on our performance in the next fiscal year. Also, these technologies will be incorporated into ITO and other services rather than solely contributing to net sales or operating income. So, they will help us acquire orders for large-scale projects.

## Questioner 6

Q1

NTT DATA established the IOWN Promotion Office. Please provide specific explanations about the role of NTT DATA in the IOWN initiative and how it will contribute to your business performance.

A1

IOWN is a large-scale initiative that involves the NTT Group. As described in the company presentation material for the financial results, IOWN consists of initiatives such as the realization of large-capacity telecommunication and digital twin computing. Digital twin computing, one of the technologies that NTT DATA is focusing on, is used, for example, to digitally reproduce urban space for processing. In Las Vegas, these technologies have been practically used for disaster preparedness and responses to an emergency. To apply these technologies to the smart-city field and others or for a change in a major social system as advocated under Society 5.0, we think that a concept of digital twin computing may be adopted. The Social Design Office will be responsible for such a conceptual part, and the IOWN Promotion Office will play a technological role. The whole NTT Group will engage in the initiative over the mid to long term, and NTT DATA will take charge of a layer close to applications, particularly. As an example of our responses to next-generation cars, NTT DATA has taken leadership in the joint development with Toyota for connected car platform, which will be put to practical use soon.

## Questioner 7

Q1

Please show the outlook for the overseas profit margin in the next fiscal year. Even without the structural transformation costs you spent this fiscal year, it seems difficult for you to achieve the goal of overseas EBITA margin at 7% under the Medium-Term Management Plan due partly to COVID-19 impacts. Will you improve the profit margin by developing digital talents or creating added value with solutions such as ServiceNow?

A1

Of course, we are developing human resources while creating digital offerings globally across regions, too. We believe that this is NTT DATA's effort to create our global strength. ServiceNow represents a good example of technology units around the world working together to create new products. As a model of offering products to clients in each country, we would like to win contracts for digital projects that provide a higher-profit-margin globally by building a close alliance with partners such as ServiceNow having cloud and automation technologies. For the North America Segment that started the digital shift earlier, projects that are related to digital in any way account for over 70%. With the increased number of digital projects, our added value for clients, competitive advantage, and profitability will improve. So, we would like to raise the profit margins not only in the U.S. but also in Europe by making investments in human resources and creating products globally across regions.