Questioner 1

Q1

The Enterprise & Solutions Segment contributed to the overall results of the third quarter in terms of new orders received, net sales, and operating income as seen in the second quarter. Can you share with us your view on specific sectors that grew most as well as your outlook?

A1

The Enterprise & Solutions Segment used to be a strong growth driver up until two years ago, and we allocated more staff to the segment. In the previous fiscal year, however, the personnel utilization rate dropped, especially in Japan, because of the COVID-19 impact. In this fiscal year, as clients' businesses recovered faster than our expectation, the reinforced team of staff performed better, which contributed to the overall new orders received, net sales, and operating income.

Specifically, two sectors have grown fast. The first is the manufacturing sector. Particularly, the auto industry has increased IT investment in the growing fields, including CASE. In the food and beverage industry, we have seen an expansion of the healthcare field. Additionally, the business related to SAP, packaged ERP software, continues to grow significantly.

The second is the retail sector. It has dramatically increased investment in digital marketing to analyze and leverage data based on needs for enhancing customer contact points under the pandemic or end users' buying behaviors. We have seen the growth of strategic IT investment, which is much more than improving efficiency.

Regarding the payment business, CAFIS transaction volume rose from the previous fiscal year and recovered to the pre-pandemic level seen two years ago. However, we should pay close attention to it because of the potential impact of the omicron variant in and after the fourth quarter.

Q2

Please show me the direction and fundamentals of the Medium-term Management Plan, which will commence in the next fiscal year (hereinafter referred to as "next Medium-term Plan"), for each segment. Also, I would like to know how you expect IT demands and effects of the overseas Structural Transformation in the next fiscal year.

A2

We will announce targets under the next Medium-term Plan at the financial results announcement session scheduled in May. At least, our minimum target will be to outperform the market growth. The overall target will be to help clients' business transformation with our IT capabilities and become a partner company for their transformation by providing the combination of our consulting and technological capabilities. I will give you detailed explanations for each segment.

Regarding the Public & Social Infrastructure Segment, we expect progress resulting from the establishment of the Digital Agency in September 2021 and the Cabinet's decision on the "Priority Policy Program for Realizing the Digital Society" in December 2021. We see a great business opportunity from the society-wide digitalization, which will take several years.

For the Financial Segment, we think that clients have finally recovered from a trough and gradually resumed IT investment. In our view, they will make an IT investment in introducing open or cloud-based core systems, enhancing customer contact points, and digital fields. There will likely be a business opportunity from services that require collaboration with public institutions.

We believe that the Enterprise & Solutions Segment has the potential to grow most significantly. This is partly because of the great impacts of macroeconomics. In our view, client companies will continue to make IT investments vigorously unless the current economic situation changes substantially. NTT DATA will aim to expand business by accompanying them as a partner for transformation.

Concerning the North America Segment, we have closely watched whether we can see effects of 15 billion yen by the end of this fiscal year from the investment of approximately 16 billion yen in the Structural Transformation made in the previous fiscal year. As of the end of the third quarter, effects of approximately 11 billion yen have arisen. Through the Structural Transformation, we have added personnel having expertise in digital technologies and witnessed synergies after the integration of four companies having digital capabilities that were acquired during this and the previous fiscal years. We expect that the segment will take these advantages to expand businesses including digitalization and improve the profit margin.

For the EMEA & LATAM Segment, we invested approximately 10 billion yen two years ago and approximately 4 billion yen in the previous fiscal year for the Structural Transformation. In this fiscal year, we plan to invest 6 billion yen in additional measures under the Structural Transformation and 6 billion yen in the integration of operating companies including the unification of global brands. Besides these effects from the Structural Transformation, we have seen effects of approximately 7 billion yen partially resulting from the improved operation rate during the first nine months of this fiscal year.

In and after the next fiscal year, we will not spend as much money as we did for the Structural Transformation in Europe and the United States but will boost profitability by, for example, reinforcing the organizational structures as necessary to enhance digital capabilities.

Questioner 2

Q1

What impacts did the foreign exchange fluctuations have on the North America and EMEA & LATAM Segments during the third quarter (three-month period)?

A1

The foreign exchange fluctuations increased North America Segment's new orders received by approximately 9 billion yen and net sales by approximately 9.6 billion yen. They also increased EMEA & LATAM Segment's new orders received by approximately 6.7 billion yen and net sales by approximately 6.5 billion yen.

Q2

Were there any unprofitable projects?

A2

There were some minor unprofitable projects. As we had no major unprofitable projects as seen two years ago, I think that we control unprofitable projects to some extent.

Questioner 3

Q1

I have some questions about the revised financial forecast. You forecast that new orders received for the fourth quarter (three-month period) will decrease 12% from the corresponding period of the previous fiscal year. What risks do you factor in? Do you expect that the actual result will exceed the forecast if everything goes well? Also, you forecast that the North America Segment's new orders received excluding impacts of foreign exchange rates will decrease from the previous fiscal year. Is there any special factor?

A1

Regarding new orders received for the fourth quarter (three-month period), one of the segments that are expected to record a year-on-year decrease is the Public & Social Infrastructure Segment. We expect fewer orders for regional businesses and group companies' one-time hardware businesses than in the previous fiscal year.

The Financial Segment is also expected to record fewer orders for large-scale renewal projects than in the fourth quarter of the previous fiscal year, which means that the overall trend does not deteriorate.

Although the North America Segment had received a small number of orders for large-scale projects up until the previous fiscal year, it won contracts for projects worth tens of billions of yen in the second and third quarters of this fiscal year and recorded new orders received of more than one billion dollars for both of the two quarters. As there are projects worth tens of billions of yen in the pipeline for new orders as well as a growing number of midscale projects worth billions of yen, for which we would win a contract with high probability, we believe that the North America Segment's new orders received will remain robust.

Q2

You forecast that the EMEA & LATAM Segment will post operating loss for the fourth quarter (three-month period). Is there any temporary factor?

A2

As I explained before, in this fiscal year, the EMEA & LATAM Segment continues to work on additional measures under the Structural Transformation and the integration of operating companies including the unification of global brands. Out of 12 billion yen to be invested by the end of this fiscal year, it will spend approximately 4.5 billion yen in the fourth quarter. Please understand that the segment will record operating loss as expected for these reasons.

Q3

For the financial results of the third quarter, operating income of "elimination or corporate" increased by about 2 billion yen from the corresponding period of the previous fiscal year. Please tell me the reason why.

A3

The operating income of "Others" reflects the financial results of group companies that do not belong to any reporting segment as well as corporate expenses and costs of accounting treatment such as consolidated adjustments. One of the main reasons for the increased operating income is group companies in China & APAC, etc., recording better results than in the previous fiscal year.

Questioner 4

Q1

Regarding the EMEA & LATAM Segment's operating income for the third quarter (three-month period); please show me the amount of operating income from special factors and that from the main line of business.

A1

On an EBITA basis, for the third quarter (three-month period) of this fiscal year, the segment's operating income increased by approximately 0.8 billion yen to approximately 5.6 billion yen from approximately 4.8 billion yen of the corresponding period of the previous fiscal year. Specifically, the segment spent approximately 3.5 billion yen for additional measures in Germany and the integration of operating companies including the unification of global brands in this fiscal year, although approximately 0.5 billion yen spent for the Structural Transformation in the previous fiscal year did not cost this fiscal year. Concerning operating income from the main line of business, it recorded increases in operating income by approximately 1.5 billion yen due to sales growth and by approximately 2 billion yen because of the improved personnel utilization rate including effects from the Structural Transformation.

Q2

The EMEA & LATAM Segment's new orders received increased 22% during the first nine months of this fiscal year. Does the segment have sufficient capabilities to deliver?

A2

To stabilize the European business, we aim to win contracts for a large-scale projects in Europe without fail. We will demonstrate the combination of its original strengths in consulting and digital capabilities. Most large-scale projects are related to energy and public works. As it takes several years for these projects to translate into net sales, the increased new orders received do not lead immediately to an increase in workload. Nevertheless, as there are growing needs for expanding a talent pool, we are adding thousands of employees. Especially in the digital field where companies compete fiercely for talented professionals, we will attempt to secure them successfully to strengthen the service delivery capabilities and expand the business.

Questioner 5

Q1

Please show me the costs of the Structural Transformation carried out by the North America and EMEA & LATAM Segments and its effects during the third quarter (three-month period).

A1

The North America Segment saw a positive effect of approximately 4 billion yen from the Structural Transformation in this fiscal year. The EMEA & LATAM Segment witnessed a positive effect of approximately 2 billion yen, too. As I explained before, under the Structural Transformation, the segment spent approximately 3.5 billion yen for the additional measures in Germany and the integration of operating companies including the unification of global brands.

Q2

Concerning overseas segments, please tell me the situation of receiving new orders in the third quarter by industry and region. Did any of the segments receive a new order for a large-scale project worth tens of billions of yen or more?

A2

To explain the situation of each industry in North America, the financial and healthcare industries have performed very well in this fiscal year. The public industry has remained robust since the previous fiscal year. The manufacturing industry has recovered considerably and remained robust in this fiscal year. The so-called commercial field has been struggling somewhat.

To explain the situation of each country in EMEA & LATAM, all major countries have performed well. Specifically, in Spain, the public, healthcare, and utility industries have performed well. In Italy, the financial, utility, and telecommunication industries have gone strong. In Germany, the auto industry has been robust with an improved personnel utilization rate despite its weakness up until the previous fiscal year. In the United Kingdom, the media and telecommunication industries have performed well.

The North America Segment won contracts for projects worth tens of billions of yen both in the second and third quarters, thanks to the deployment of digital assets in the field where we continued strategic investment. Also, we see midscale projects in the pipeline.

Q3

The overseas segments' profit growth looks slower than the sales growth. Is there any structural factor such as an increase in fixed expenses including labor costs?

A3

Let me explain the background. The North America Segment acquired Dell Services a few years ago. Although its key businesses such as IT outsourcing and BPO largely relied on human labor, the segment is working on improving efficiency by introducing automation, AI, and digital technologies. Such effort remains in progress, but now, we can see a path toward a higher profit margin partially, thanks to a widespread push for digitalization.

The other reason for the slower growth of profit is higher costs for hiring human resources specialized in the digital field, especially. Costs for acquiring a highly skilled professional in a new digital field such as AI and cloud computing increased nearly 30%–50% per person in European countries. That said, since securing a sufficient talent pool will enable us to win a contract for a more profitable project, we will make steady investments in human resources without fear of bearing more costs. I think that such a situation will continue for some time, and the North America Segment is attempting to maintain the technological capabilities while reducing labor costs by adopting a new way of hiring new graduates and furnishing them with skills besides a traditional way of hiring experienced individuals.

Consequently, the profit margin of projects for which the North America Segment received orders has risen gradually over the past three years. We believe that the segment will become more competitive by adding higher value to projects with digital elements.

Questioner 6

Q1

The North America Segment recorded a decrease in revenue due to the sale of several businesses. Please show me the size of the businesses sold and how much new M&A deals will contribute to net sales.

A1

In the second quarter of this fiscal year, the North America Segment sold noncore businesses with lower profit margins and annual net sales of as much as 20 billion yen. This resulted in fewer net sales than in the previous fiscal year. Nevertheless, the decrease was offset by other increases, and the segment posted an increase in overall revenue. New M&A deals increased net sales by approximately 12 billion yen. We saw robust organic growth in the healthcare and financial sectors, too. Therefore, net sales grew not only through M&A but also organically.

Q2

You said that the sale of shares of Recruit Holdings Co., Ltd. (hereafter "Recruit Holdings") had no impact on the consolidated financial results. For what purpose will you use more than 90 billion yen? Do you plan to return profit to shareholders through dividend payment?

A2

We have not sold the shares yet. The sale is scheduled for the fourth quarter.

We will effectively use the cash to be acquired from the sale for business expansion. In the era of fierce competition, we think that aggressive investment will be necessary to obtain global digital capabilities and that such business investment will subsequently strengthen the earning power, which will lead to a long-term return to shareholders.

For nearly 20 years, Recruit Holdings, one of our clients with whom we have had a long-term relationship, has helped us expand our capabilities and develop our human resources through various challenging projects. Also, we have leveraged the results for other clients to expand our business. We will maintain the strong relationship with our clients and improve the corporate value of both companies.

Questioner 7

Q1

You revised the forecast of operating income to an increase by 35 billion yen. Was there any cost you added for a strategic purpose? If any, please show me the detail.

A1

Operating income for the first nine months of this fiscal year increased by approximately 60 billion yen from the corresponding period of the previous fiscal year. Of the increased amount, approximately 33 billion yen was attributable to sales growth. The remaining portion was attributable to special factors, which is almost in line with our expectations. We planned to increase the investment for growth by approximately 3 billion yen from the previous fiscal year and decided to watch closely at the business performance of this fiscal year before making the investment. As a result of consideration of the performance, we will make the investment as planned.

In terms of the technological category, we will make an investment in the fields of cloud computing, security, and data analytics regardless of segment. By segment, the Public & Social Infrastructure Segment, for example, makes upfront investment in services to connect public institutions to financial institutions, which are expected to grow because of a push for digitalization.

Q2

I think that the dividend payout will drop due to the sale of shares of Recruit Holdings. Please share with us your current view on dividend payment.

A2

Our policy remains unchanged. We will allocate cash generated from business to investment in business and technology development for sustainable growth and achieve mid- to long-term growth. Presently, we are examining the next Medium-term Plan. Thus, please understand that we have not had a conclusion regarding dividend payment yet.