

Question & Answer

Questioner 1

Q&A Session 1

Q: First, you mentioned earlier that orders in North America have turned positive in Q3. In local currency terms, I think orders increased by 12% to 13% in Q3, so I believe the large projects you were chasing were recorded, but is that correct? Also, in terms of continuity from Q4 onward, I don't think that there will be as many large projects as in Q3 with the same degree of certainty, so in terms of the cruising speed from Q4 onward, is it likely that there will be a slight increase or a mid-single digit increase, even if not a 12% to 13% increase like up to this point? Could you please explain the orders in North America, including the outlook for the future?

A: Regarding the orders in North America, we had been asking for your patience because the orders were long pushed back, but we were able to secure those orders in this Q3. And your question is about future plans and estimates?

Q: Yes, that's right. I would appreciate it if you could explain whether the contribution of large projects could explain the 12% to 13% increase in Q3 or these figures were reached by combination of large projects and other projects, as well as the outlook for Q4 and beyond.

A: First of all, in terms of large projects, the one I mentioned earlier of over JPY60 billion is a rather large project, but there also were several other large projects. It is true that the projects I have introduced as examples were quite large in value, but we also won other projects that are in the high figures. This is the situation in Q3.

The pipeline situation is as we have been reporting for some time, and the pipeline, as of the end of Q3, has increased by about 20% YoY.

Therefore, I cannot give you a detailed answer as to the percentage of YoY increase expected in Q4, but since the pipeline has increased that much, we will continue to make sales efforts and manage to achieve the amount of orders planned for the year, as a general guideline. That is our current situation.

Q: The pipeline has increased by 20%, so the feeling is not so bad for the next Q4 and FY2024. Is that your impression?

A: Yes, that is correct. Also, what we would like to focus very much on, especially in order to increase sales, is not only the extension of existing projects, but also how to add value to the projects we've won so far and expand them. In addition, how much we can increase sales by finding new clients. It is difficult to increase revenues unless we tackle these challenges concerning the content of orders, so we are now in the process of strengthening management to focus more on these areas.

Q&A Session 2

Q: Secondly, I would like to ask you again about the synergies from the overseas business combination. I think the data center itself is a business where it is difficult to find direct synergies with application development. You explained that you are investing JPY350 billion quite aggressively in FY2023, but in order to really catch

up with the competitors, I think it would be probably better for both your company and NTT Corporation to invest more seriously, not JPY350 billion but more like JPY500 billion, as a group.

With TSE demanding explanations for the various rationales for parent-subsidary listings and opaque transactions, and NTT Ltd.'s figures getting better, at least for the data center, I have a feeling that the stock market people are thinking that returning the data center to NTT Corporation would increase your company's ROE and be better for everyone.

Do you have any intention at this point to discuss such things? Is there any room at all for reconsidering the current formation in the future?

A: At this very moment, we are making a new business plan and discussing the amount of investment for the FY2024 and how it should be shaped in the future, and regarding the data center business, we will also have such discussion with the NTT Corporation, which is our joint venture partner. With regard to the level of investment you just mentioned, or other specifics about the investments for the year, we will discuss and decide on them every year while keeping a close eye on the situation.

At this point, it has been a little over a year since the business combination activities with NTT Ltd. started, and as we move forward, we will discuss with NTT Corporation as well to determine how best to proceed as a whole.

Q: I see, thank you very much.

Questioner 2

Q&A Session 1

Q: The first point is about North America, where you have large projects coming in this time, but first, let me confirm whether these are renewal projects for existing clients related to operation or new projects, as it will affect the subsequent sales.

Whether you are getting quite a few new projects, or whether existing clients are the main source of large projects, and also, although orders have recovered once this Q3, do you think we should understand that the order environment has bottomed out, or should we think that there may still be fluctuations by quarter?

A: First of all, the first question is whether the orders we received this Q3 are for continuing projects or not. Some of them are pure continuations, while others are what we call expansion projects, which are projects from existing clients. There are some expansion projects with increased sales amount. We also have one large new project.

About half of the projects are continuing projects, and the rest are new projects and expansion projects.

Q: Would it be correct to say that, in terms of the impact on the net sales, nearly half of it will lead to a small increase? Also, is it correct to say that the orders in North America have bottomed out?

A: Regarding your first question about whether net sales will grow or not, that is correct.

A: I don't think we can say the orders in North America have hit bottom yet. The North American market itself continues to experience a delay in customers' decision-making due to uncertainty, and I don't think the situation itself has changed yet. Therefore, there will be some fluctuations by quarter.

Q&A Session 2

Q: The second point is about NTT Ltd. I think the impact of the data center transfer has probably run its course this time, and even excluding the foreign exchange impact, the net sales have increased a little.

As the consolidation took place in H2 of FY2022, I think this is the first quarter in which we can easily compare the YoY results, but if we look at the profit and loss situation, I think the operating income has probably decreased, and the EBITDA is in a flat range. Once again, I would like to know the reason for the decrease in operating income despite the increase in net sales, and also, I think it will be quite difficult to achieve the full-year operating income plan if the current situation continues, but are you expecting any special factors or something in Q4?

A: The reason for the drop in operating income in Q3 is due to the drop in operating income of Telecommunications Terminal and Network Equipment. Although the data center business is progressing steadily, net sales from the Telecommunications Terminal and Network Equipment fluctuate by quarter, and that part is impacting the decrease in profits.

As for whether we will be able to achieve the full-year operating income plan under such circumstances, in terms of the Telecommunications Terminal and Network Equipment, the key will be whether we will be able to capture a sufficient sales volume while raising the profit level by adding maintenance services or other additional services, instead of just selling products alone.

In addition, the data center business is progressing steadily, and we expect to see an increase in profits in this area. Also, as an extraordinary factor in Q4, we expect to sell the data center, and the gain from the sales will positively boost the overall profit.

Furthermore, there are other factors such as the control of SG&A expenses, etc., and in Q4, the structural transformation costs are expected to decrease when compared to FY2022, so we are aiming to achieve the annual plan by thoroughly implementing these measures.

Q: I understand that you have some idea of the profit from the sale of the data center, but approximately how much should we expect to see?

A: I am sorry. We have a good idea of what to expect, but the other party has its own reasons, so I cannot give you an estimate of the transaction size. We are expecting a level of several billion yen compared to the previous fiscal year.

Q&A Session 3

Q: Lastly, I would like to ask about the progress of business combination costs. Until Q2, you did not spend much, and in Q3, this cost has increased a little bit, but can you use up the JPY19 billion by the end of the fiscal year?

Since progress is probably a little behind in terms of figures, I would like to know the background to this and the current projection for the JPY19 billion. If you are not able to use the full amount, is it correct to say that it will be shifted to FY2024, or have you changed your view so that it will not be necessary to spend that much in the first place due to a slight increase in efficiency? I would like to know your view for FY2024.

A: First of all, the business combination costs, as you pointed out, are JPY19 billion for the year and JPY7 billion was spent by Q3, so I think your question is whether we will be able to use up the JPY12 billion in Q4.

The shift to a new operating model will be implemented in April 2024. Therefore, as originally planned, the business combination costs will be quite high in Q4 and FY2024.

The business combination costs can be divided into several categories, but the costs for corporate functions, office integration, etc. will be substantial in Q4 since the actual physical integration will take place.

In addition, a large amount of costs will be spent in Q4 on financial matters and systems, etc. for business management in order to ensure smooth business operations after the business combination.

In the sales-related area, costs for building new customer management and progress management systems to carry out businesses under the new structure after business combination are also included in these business combination costs.

There may be some concern about whether all JPY12 billion will be spent, but as we have these factors, which we assumed at the stage of our planning and budget allocation, it is unsurprising at all that a reasonable amount of costs will be spent in Q4.

It may be possible that we may be short a billion or so due to some circumstances in budget execution. However, we see them necessary, so we will make sure that the unspent amount will be spent in FY2024.

Q: I see.

Questioner 3

Q&A Session 1

Q: The table at the bottom of page 7 of the Company Presentation material has been reclassified since Q2, so would you please tell us how it is trending now? Especially for the October-December period, overall, there was a slight decrease in profit, and in Japan, I would like to know if there was any impact of the Zengin System glitch on the Financial business in the October-December period, although it may be a detailed topic.

Also, in the cumulative Q3, the Others Segment spent JPY10 billion, which I assume is for various business investments, but I would like to know what it is being used for and what it will be used for in Q4 of this year. I would like to know that for the Financial business and for the Others Segment in this table.

A: First of all, as to whether the October-December result includes the impact of Zengin System glitch, my answer is, the impact itself is not included.

For this Q3, in order to make it easier to make year-on-year comparisons, we showed the total of the three businesses in Japan, and everything else is included in the Others Segment, and shown on the right side of the table on page 7.

Regarding what is included in the Others Segment, for example in Japan, the figures for the Technology Consulting & Solution Segment, companywide strategic investments, and the corporate-related expenses are included. Inter-segment accounting adjustments are also included in the Others Segment.

Regarding the YoY decrease of JPY10.8 billion in results, first of all, the companywide strategic investment has increased. This was JPY17 billion in Q3 of FY2022, but JPY20 billion was used in Q3 of FY2023, an increase of JPY3 billion. Also, there are expenses here for strengthening the functions of the corporate staff as a result of the reorganization. The other decreasing factor is the accounting adjustments, and all of these have resulted in a decrease of JPY10.8 billion YoY.

Q: The first point, just to confirm, I think that your company covers most of the costs to address the Zengin System glitch by fixed costs, but will there be any additional impact on the profit of the Financial business or will it have an impact on Q4? How should I understand that?

A: Are you asking if there will be expenses for compensation, for example, or something like that?

Q: I would like to know what the situation is.

A: There are various legal liability issues between Zengin-net regarding compensation, so I can't tell you in detail here.

For our part, if such compensation costs are incurred at the end of the fiscal year for example, we may have to make a reasonable estimate for accounting purposes. However, we understand that, even if such costs were to be incurred, there would be no problem in achieving the annual profit for the entire company, and it will remain well within a feasible range.

Q&A Session 2

Q: Secondly, the overall operating income progress is not very high. My understanding is that operating income has to increase quite a bit in Q4, but will there be the contribution from the considerable orders received in Japan in Q2? Are you expecting that the increase in Overseas orders will contribute slightly from

Q4? Will there be a gain on the sale of data centers? On the other hand, some factors may cause an increase in business combination costs, etc. You have not revised the full-year forecast, thinking that you can make it if you accumulate these factors, am I correct? I would like to know your view on this.

A: Our forecast for operating income is JPY292 billion. In order to achieve this, we need to boost profits by about JPY19 billion YoY in Q4 alone. I think you are asking about the probability of achieving this.

In conclusion, based on the discussions we are having internally, we believe that it is quite possible to achieve this goal.

The major point is that net sales have been strong in general, especially in Japan, so we believe that there will be an increase in net sales over the initial forecast, which should lead to an increase in net income to a reasonable extent. This is the basis of the projection.

Besides that, in terms of special factors, there will be an increase in profits due to the sale of data centers. Also, the structural transformation costs will decrease by about JPY5 billion for NTT Ltd. in Q4 alone in comparison with FY2022. Also, in Japan Segment, we recorded expenses of about JPY4 billion in FY2022 related to unprofitable projects, but as far as we can see, the probability of such expenses occurring in FY2023 is very low, so we expect profits to increase YoY.

Q: Thank you very much.

Questioner 4

Q&A Session 1

Q: Were there any unprofitable projects in Q3? If so, please tell us.

A: The unprofitability in Q3 was about JPY400 million.

Q: So, there was almost none. Thank you very much.

Questioner 5

Q&A Session 1

Q: If you look at the operating income trends for the three months on page 7 of the Company Presentation material, the movements are small. To understand trends by Segment, should we look at the new orders received on page 5 of the material? The new orders received in the Public & Social Infrastructure business increased by nearly 20%, and those in the Financial business increased by about 16%, while the Enterprise business faced a reactionary decline. So, in Japan Segment, for example, it seems that the new orders received have increased by 10% in general, driven by organic growth momentum. Is that correct?

A: There were orders for large projects, and their profits are recorded over multiple years, so there may be differences by quarter.

However, with regard to the Public & Infrastructure projects, etc., the Digital Agency has issued the Priority Policy Program for Realizing Digital Society and we are seeing a great increase in inquiries about the sophistication of public administration and the improvement of convenience at the point of contact with the public.

In the Financial business as well, inquiries about customer contact systems are increasing, as is the development of various open systems.

As for the Enterprise business, it should be understood that this is a reactionary decline from the large-scale projects we had in FY2022. Inquiries for consulting projects, especially in the context of sustainability management, etc. have been increasing.

Q: So, in the case of your company, would it be correct to say that there is a rather long-term continuity toward FY2024?

A: Yes, you can consider that there is continuity in the domestic businesses.

Q&A Session 2

Q: Regarding the structural transformation costs on page 12 of the Company Presentation material, if we subtract the portion of the costs already used, which are written in black, from the full-year plan to calculate the costs for Q4, the remainder is JPY6.5 billion. And I believe that in FY2022, about JPY15 billion was used in Q4 alone.

A: In FY2022, NTT Ltd. spent about JPY11 billion in Q4.

Q: If we add other regions, the total would be about JPY15 billion, am I correct?

A: In terms of regions other than NTT Ltd., there is EMEA/LATAM, which spent a little less than JPY1 billion, so in total it was about JPY12 billion.

Q: There is quite a wide range of structural transformation costs and business combination costs for FY2024, and this will considerably impact your business performance, so it would be very helpful if you could give us a little more detailed information, such as about the JPY10 billion to JPY20 billion range for the business combination costs, or about the structural transformation costs, which looks like all JPY26 billion for FY2023 will disappear. If you could provide just the direction, if not the numbers, that would be great.

A: We are still in the process of formulating the plan, so I cannot say anything definite about the costs for FY2024, but first of all, as you can see on page 12 of the Company Presentation material, the structural transformation will end in FY2023. So, in principle, we are considering the possibility of operating in such a way that this type of expense will no longer be incurred by each region.

The other question, regarding the FY2024 and FY2025 business combination costs of JPY10 billion to JPY20 billion per year, we expect to incur a considerable amount of costs in Q4 and in FY2024 as well, for switching to a new operation in April 2024. Depending on the way the costs are incurred, they may exceed JPY20 billion.

FY2025 is the year in which we have already announced that we will generate JPY30 billion in operating income from synergies across the entire group, and we need to generate the effects of the office integration. Therefore, for FY2025, our direction is to work toward a figure near the lower end of the range of between JPY10 billion and JPY20 billion, or even lower if possible.

Also, I think we will be able to present the FY2024 plan in May.

Q: It was very helpful as we could get a rough estimate in units of JPY10 billion. Thank you very much.

Questioner 6

Q&A Session 1

Q: I think the level of interest-bearing debt, including the impact of the sale of the data centers, and including current and non-current ones and leases, is now about JPY2.0 trillion. I would be grateful if you could share your view on how much this would be at the end of the fiscal year.

A: They are affected by the foreign exchange rate at the end of the fiscal year to some extent. For example, if we compare the figures at the end of Q2 and the end of Q3, there was an increase of about JPY2 billion, but in fact, this JPY2 billion includes the negative effect of the foreign exchange rate of about JPY70 billion. Therefore, if we exclude the foreign exchange effects, the increase will be about JPY70 billion.

Q: Is it correct to understand that the level assumes the sale of the data center you mentioned earlier?

A: There is the amount of investment in the data center, and in terms of capital expenditure, there will be a reasonable amount in Q4, so you can include that in your assumptions.

Q: I understand.

[END]