Company Presentation for the First Quarter of the Fiscal Year Ending March 31, 2025

Question & Answer

Questioner 1

Q&A Session 1

Q: Firstly, please tell us about the progress of operating profits in Japan. In Q1, the internal system is up and running, and amortization costs are increasing, which probably is the cause of the lower profits. Is there any other factor?

If amortization and other expenses are the main factors, it will be tough for Japan Segment to turn profitable until Q4, when sales volume will increase. How do you envision the timing of the turnaround to the increase in profit?

A: As you understand, in Japan, a new internal system was launched in April, which increased the expenses in Q1 by approximately just over JPY2 billion. About half of this increase is the amortization costs, and the other half is operating expenses. This will continue in the same manner until Q4, so the annual increase in expenses will be about a little less than JPY10 billion.

As another factor, in Q1 of last year in the Financial business, we had projects with a slightly higher-than-usual profit margin. Due to absence of these projects, the profit is slightly lower, but this is a phenomenon peculiar to Q1.

Also, since this is Q1, the overall sales portion is small, so variations in profitability of individual projects affect the operating profit. As the overall volume increases in Q2 onward, we expect the impact of individual projects like this to become smaller.

In addition, we are strengthening sales in Japan within our SG&A budget. Also, we have incurred about JPY700 million in M&A expenses, as we explained in the briefing.

The operating profit looks weak due to these reasons, but we believe we will see more increase in profit from Q2 onward as the top line grows as planned.

Q&A Session 2

Q: I have one follow-up question. I think the worsening of the deal mix in the Financial business is factored into the annual plan, but will this continue in Q2 and beyond? Or is it something unique to Q1?

A: As you understand, this has already been factored into the earnings forecast, and we believe that it is unique to Q1.

Q&A Session 3

Q: The second question is about business sentiment in North America, EMEAL, and APAC. In the coming few weeks, overseas market movements are likely to change dramatically. So, again, could you comment on the current order environment, including how it's been so far and what you anticipate in the future, with one key point for each region?

A: As for North America, we have received large orders from the public sector, and so far we are on track with our forecast. Although sales are down year on year, this has already been factored in, so in that sense, I think the order situation is favorable for Q1.

As for Q2 and beyond, we have not yet factored in the business sentiment of the past few weeks. However, we have pipelines, including large ones, and from this fiscal year we have been strengthening our sales force in particular, so if we can secure the large projects as planned in Q2 onward, we believe we will be able to show you the results.

As for EMEAL, the situation varies by region. UK and Germany are struggling not only in equipment sales, but also in the SIer business. In Germany in particular, the overall economy is not doing so well, and our standby operations and such are increasing accordingly. We see the need for some measures here.

Spain is performing well, partly due to its inherently high degree of business maturity compared to the rest of the world. EMEAL as a whole appears to be doing well led by Spain and South America, but there are characteristics by region.

Regarding APAC, the major countries are Australia, Singapore, and India. The network equipment sales, etc. accounts for about half of their business. Australia is the biggest of them all, and they are struggling. While there continues to be uncertainties regarding the economy, there are signs that recovery is expected from 2Q onward. However, for the equipment sales, we are now working on portfolio transformation and enhancing our software and solution sales as well, instead of selling hardware alone as we did previously. APAC as a whole has pretty high goals, but we are working to achieve them.

Q&A Session 4

Q: Is there any negative development in North America due to the current deterioration in business sentiment? Is it correct to understand that the overseas as a whole is in line with the full year plan based on the Q1 results?

A: So far, we are not aware of any negative developments in business sentiment at this time. When business sentiment deteriorates, businesses that are not competitive or do not add much value will be affected, so we are working to strengthen our sales force in order to break through such situation. Regarding North America, the YoY sales decline is part of our original plan. In this sense, we are making progress as planned, although the YoY comparison is weak.

Q&A Session 5

Q: I would like to ask you about the top line of the Global Technology and Solution Services (GTSS). You said data center business for hyperscalers are growing, and I think the trend continues to be good. Could you provide information on which businesses, other than the data center business, are growing?

Also, as for EBITA, if the structural transformation costs of the NTT Ltd. have been reduced to some extent, I think the Company should have seen a bit stronger increase in profit. In other words, EBITA appears to be a figure that shows little or no increase in profits, excluding the effect of absence of the cost. Are there any situations that are not profitable? Please let me confirm that before I finish.

A: To answer your first point, GTSS conducts SAP business mainly in Europe, besides data center business. I mentioned earlier that Germany's economy is not doing so well, but SAP business, which targets small and medium-sized companies, is strong, and that is a positive factor.

In addition, through M&As conducted in the last fiscal year in GTSS, we bought companies with capabilities in SAP, ServiceNow and such, and we are seeing a positive impact in that area as well.

Regarding profit, the EBITA ratio of GTSS deteriorated by about 0.5 percentage points from 8% in the Q1 of FY2023 to 7.5% in the Q1 of FY2024. This time we had a large amount of contract work to install equipment like cooling systems and racks for clients who are moving into our data centers. As the margins for these services are a bit lower than the subsequent usage fees, the overall margin appears to have decreased. However, in other words, the steady flow of new tenants is progressing, so we view this as a temporary decrease in profit margin.

Q: I see.

Questioner 2

Q&A Session 1

Q: As you have again explained about the JPY4.7 trillion target for the next fiscal year, I would like to ask if it is really achievable.

Also, what are you doing now to achieve an operating profit margin of 10% and JPY470 billion, and how close are you to achieving this goal? How much motivation and energy has been put into achieving it?

A: First, the JPY470 billion operating profit for FY2025 includes adjustments. After subtracting the adjustments, we are aiming for a profit level of between JPY440 billion and JPY450 billion. So, we are talking about a gain of about JPY100 billion from the FY2024 full-year figure.

As for how to make up this JPY100 billion, the one-time costs such as overseas business combination costs, will be eliminated from FY24 through FY25 to generate JPY30 billion. Also, there is an estimated profit increase of just under JPY30 billion due to the increase in sales. On top of that, integration synergies will exceed JPY20 billion-level. Adding these together will take us to a level of roughly JPY75 billion.

Regarding the confidence of achieving the remaining JPY20 billion to JPY30 billion, to be honest, I think this is challenging. But first of all, in addition to what we have done so far in terms of productivity improvement, we are trying to reduce costs through utilization of generative AI.

In overseas business, we believe it is necessary to further tighten up our administrative costs in particular, compared to our current plan.

And including the effect of increased profits through M&A, we will make sure to fill up the remaining part.

Q: Then your plan for FY2025 is that there will be an increase in profit of about JPY30 billion from sales growth, JPY30 billion from PMI cost reductions, and another JPY20 billion or so from synergy effects, and some extra. Would it be safe for us to make such estimates now? Are you already in the stage where they are expected to be built up without problems?

A: There is a high probability that it could actually happen, as you understand.

In May, we issued a figure of JPY4.7 trillion for FY2025. In addition to seeing how far we can stretch ourselves based on the resources we have, we have also incorporated a management intention to outperform the growth of the domestic market and to make every effort to improve the overall performance.

As we still have time, we believe there is room for further growth if we push forward with our initiatives. Please understand that we are presenting these figures with those intentions in mind.

Q&A Session 2

Q: I think in FY2024 and FY2025, your company is probably the only one in the NTT Group that can expect to increase profits. I am definitely looking forward to it.

Secondly, please share with us the impact of sale of Recruit shares and progress of REIT. I'd like to know whether the REIT will be privately place or publicly offered, its scale, and the profit outlook.

A: First of all, we sold Recruit shares in early July. We sold all the shares we had. In terms of financial impact, the sale is not expected to have any impact on the consolidated profit and loss. We book our shares at market value each and every period as they are listed shares, adjusting increases or decreases directly in net assets rather than through the P&L. In this sense, we do not anticipate any positive impact on the consolidated profit and loss.

However, in terms of cash flow, since there are taxes on the gains from the sale, the total cash inflow is the remaining amount after taxes, but the cash inflow still exceeds JPY50 billion. We have been proceeding with the sale of these Recruit shares whenever the opportunity arises, believing that this will contribute to controlling the increase in interest-bearing debt and financial costs.

Regarding your second question about REIT, it has been decided that we plan to start this in FY2025. However, a specific amount has not yet been determined. We have not yet decided whether we will go with private placement or public offering.

In our view, REITs are not to be implemented just to achieve profits in FY2025. Rather, we consider it as a tool to smoothly proceed with the liquidation of assets. We have sold our data center assets twice, but a simple sale requires a lot of negotiation and time and effort. We believe that the amount for FY2025 will be determined considering the need to facilitate the smooth circulation of assets not only in FY2025 but also in FY2026 and FY2027 continuously.

Q: Thank you.

Questioner 3

Q&A Session 1

Q: Out of the structural transformation costs of JPY30 billion planned for the full year, the Company has only spent JPY1.6 billion in Q1. Does this simply mean that the schedule has been delayed? Or is it actually not going to cost JPY30 billion this fiscal year?

A: As you can see in the image of the quarterly plan shown in the material, we are planning to use more expenses toward H2. Therefore, it is within our plan that we use only JPY1.6 billion in Q1.

The optimization of corporate functions, office integration, etc. that account for 35% in this graph, are highly weighed and will take time until actual spending, so we plan to allocate much of their spending to H2, especially in Q4.

On the other hand, our stance is to implement any initiatives that will yield results as soon as possible, and we are monitoring the situation. So there is a possibility that those budgets will be spent earlier than planned.

Q: I see. So, the amount to be spent in the full year will remain the same.

A: Yes, the amount of JPY30 billion will not change.

Q&A Session 2

Q: I see. The second question is regarding the interest-bearing debt and financial costs. Am I correct to understand that your official message for now is not that the absolute amount will go down for FY2025, but that the range of increase will be controlled?

A: Yes, your understanding is correct. We intend to go ahead aggressively with the data center investment, so the incremental amount from that will be significant. We think it will be difficult to lower the overall amount.

Q: Would it be correct to say that the Company is now considering how much the increase in financial costs and interest-bearing debt will be reduced?

A: That is correct. It is a balance between how much we increase EBITDA and cash in the future and financial soundness. As we have to make a comprehensive decision, we do not put the reduction of debt as a first priority.

Q: If it is not a transient demand like generative AI or such, but a situation where the actual demand from hyperscalers is increasing, is there a possibility that you might rather invest aggressively?

A: I think there is a good chance of that.

Q: However, with regard to the interest-bearing debt and financial costs targeting the next year's plan of JPY440 billion to JPY450 billion operating profit before adjustments, will you be controlling them to some degree?

A: The level of net profit has been stagnant, or rather, has not been growing for the past several years, to be honest. We want to do something here, of course. To this end, we intend to take all possible measures to control debt and financial costs, but there is no magic that will allow us to change so drastically.

However, I think there should be a balance between the way operating profit grows and the way financial costs increase. Our highest net profit to date is JPY150 billion, and we would like to exceed that level in FY2025.

Therefore, if we can achieve a good operating profit figure and control financial costs well by taking all possible measures, we will be able to limit the annual increase in financial costs to about JPY20 billion for FY2024. We are hoping to generate good figures on the bottom line as well in FY2025.

Q: I see. I have some trust in the operating profit target of the medium-term management plan. However, since we often calculate stock prices by EPS, it would be very helpful if we could get suggestions in this way.

Questioner 4

Q&A Session 1

Q: My first question is regarding the large order in the Public & Social Infrastructure business on page 14 of the company presentation material. Could you please provide insight into the expected sales and profitability?

A: The contract term is approximately five years for a JPY50 billion order. Some will be recognized as sales initially, and others will be recognized as sales over time. Unfortunately, we are unable to disclose further details beyond this information.

Q: I see.

Q&A Session 2

Q: My second question is regarding the use of business combination costs. Could you please elaborate a little more about how you will concentrate your spending in Q4? Also, regarding the business portfolio transformation you mentioned, could you please provide more details about it?

A: First, regarding the expenditure for business portfolio transformation, we will use it for measures to expand strategic customer business; for example, to strengthen our sales force. In addition, we will promote the transformation of our business portfolio into a competitive one by expanding our offerings.

As for the large amount of expenditure especially in Q4, when we formulated the budget in FY2023, we defined offensive and defensive items to be implemented. And with the start of the new structure, we once again underwent a close examination on items so that we can start working on the most effective one. We believe the defensive items will be implemented first. Spending for areas like IT system optimization is scheduled to start in Q2 and will then be evenly distributed. On the other hand, the optimization of corporate functions and office integration are scheduled to be implemented in H2, especially in Q4, after implementing the integration of operations, as they involve optimal allocation of personnel.

Q&A Session 3

Q: Thank you. My last question is about the data center. The stock price adjustment over the past week or so may have been due to concerns about business sentiment in the US, as well as the impact of the appreciation of the yen. However, I think there was also a correction to the view for generative AI, which was a little too far.

Are there any changes or worrisome signs in the current data center inquiries, the pipeline, or things like that?

A: The straight answer is that so far, there has been no drop in demand or no negative signs at all. Rather, with regard to this data center, the biggest bottleneck right now is securing power source.

It is important to find a way to secure the land where power source can be properly secured. If a hyperscaler constructs a data center on its own, it would take as long as seven or ten years, so, we do not feel that demand is falling in any way.

Thus, we continue to plan to invest more than JPY1.5 trillion until 2027. We will decide which areas to focus on and select areas where we can properly secure power source and make investments.

Q: Is there any risk that things like securing power source, or delays in the development of the AI chip, for example, could postpone the timing of the construction project?

A: Not at the moment. As our pipeline is growing steadily, we are purchasing the land upfront and then constructing the building.

As for GPUs, as you understand, we are in a situation where delivery cannot proceed as expected due to product shortage, etc., but there are cases where we secure GPUs to offer GPU-as-a-Service, and also cases where customers procure their own GPUs. Thus, we will keep a close eye on the situation.

Q: Understood.