

[Q&A Session] – Business presentation session (held on December 10, 2019)-

Questioner 1

Q1

I think that DSO's efforts are extensive, and it would be great if everything goes well. Now, I would like to know the DSO's current structure. Have there been any changes in its efforts since the establishment 2 years ago? For example, has any effort been accelerated? Has DSO simply organized efforts in the past? Or, has there been a structural change due to the organizational change? For example, did the DSO establishment accelerate business and lead to an achievement?

A1

As an organization to develop strategies and create mechanisms for business promotion, DSO is not a large team but consists of a small number of talents having technical expertise and taking charge of business strategies on a double-hatting basis. One of its major achievements is the emergence of global synergy. It has increased the number of dialogs on digital between group companies around the world, which has promoted global discussions on how to explore a new market together. Under the slogan "Co-investments with advanced customer," we can make a new effort with advanced customers around the world; for example, if there is an advanced case in the USA, we refine the technologies in the country before planning to expand them into other markets. We will see one result after another. I think that the acceleration of global cross-border efforts is what DSO has achieved so far.

Q2

You could share information well without collaboration between offices 5 years ago, but I think that you will need to focus on the enhancement of collaboration. I wonder if you will require about 100 talented employees to achieve this. I admit that DSO's efforts are great, but analysts and investors want you to govern global businesses effectively with a more forceful management structure. Do you expect that the current efforts will lead to the reform of the management structure?

A2

During our presentation, we said that there are focused industries in six fields for global marketing. Out of eight focused fields of DSO, six fields that it works hard on for each industry are the same as six fields for global marketing. This means that not only DSO members but also six teams of global marketing try to deepen global collaboration together. Although it was unusual to make joint investments globally, with the newly offered investment capacity, the global one team can work under one budget, which has generated synergy. This is what we did not see 3 or 4 years ago. If I am asked whether the current organizational structure is sufficient to exert global synergy, I will say that there is still room for enhancement. As we set the goal of Strategy 3, we will strengthen the organizational capability by going through the PDCA cycle. I think that another issue is how we will exercise global leadership. We are fully aware of the importance of strengthening synergy continually to meet your expectations.

Questioner 2

Q1

You explained your focused fields of the digital strategy. However, I cannot have a specific idea of services of each business type. Please give me a supplementary explanation about what technologies and service fields you will focus on, for example, digital marketing.

A1

Of course, we are working on digital marketing. As a new business emerges within an industry basically, we discuss to decide a field of an industry where we could win against competitors. For example, we set goals of building a technological advantage in the field of the connected platform in the auto industry or having an advantage in the cloud service of the insurance industry. We identified six technological fields as DFAs (Digital Focus Areas) and determined focused areas of each industry.

Q2

From the perspective of engineers, the percentage of agile development projects has increased, in my view. How many talents do you have for agile development? How will you increase the number?

A2

I do not have any material that shows the actual number of talents for agile development on hand right now. I guess that you may want to know how many digital talents we will add. Take CoE for instance. There are approximately 1,000 staff for four themes in total. We aim to increase the number to several thousand in the mid- to long term.

Q3

Your main business has shifted to ITO, especially in North America. What is your prospect for the ITO market? What differentiates you from your competitors?

A3

The North America's business looks very promising. As we told you at the presentation of financial results on the second quarter, the segment is currently in good shape and won orders for large-scale projects. It has received orders for projects involving digital-related factors, which are different from traditional and conventional ITO projects, and increasingly won orders by promoting additional RPA-based automation functions. NTT DATA Services in North America, which used to receive orders for conventional ITO projects, appointed a digital supervisor about 2 years ago. Under the leadership of the supervisor, the team succeeded in enhancing technologies, such as automation, which resulted in winning orders for large-scale projects.

Q4

DXC Technology Company, an ITO focused company having a larger scale than NTT DATA on a global basis, said that it has to change the business strategy significantly because the ITO market has faced challenges and has seen a decline in scale by high single-digit percentage annually. Under such circumstances, will NTT DATA be able to increase net sales and the market share in the ITO market?

A4

NTT DATA has adopted a strategy of adding digital factors to ITO as mere ITO business is likely to stagnate. Naturally, as there are demands for upgrading ITO, demands for ITO have not shrunk. However, clients in North America put emphasis on how providers add new value or how they reduce costs by utilizing digital technologies rather than how they continue to order the existing ITO services. For such clients, how to involve digital factors is the keyword. Strategies 1 and 2 will help us meet clients' needs. Our capabilities to involve digital factors and provide deeper value for clients differentiate us from competitors.

Q5

I think that you basically talked about how you would increase the top line today. You set the goal of raising the overseas EBITA margin to 7% for the mid-term management plan. How will the efforts you explained today improve the profit margin? Why did efforts fail in the past? Please tell me how the current efforts to improve the margin are different from previous ones.

A5

In order to increase the overseas EBITA margin to 7%, we need to execute several strategies. Among them, the digital strategy will significantly contribute to the improvement of profitability as a matter of course. When developing a business model using digital technologies, we will consider how we can effectively utilize digital technologies to create a profitable business with ROI in mind. That said, it is not sufficient to achieve the goal. In Europe, we invest for structural transformation, which is not completely unrelated to the digital strategy, and we consider the reskilling of employees in Europe as one of the key pillars of measures. Specifically, we will reskill employees, and make them capable of dealing with digital technologies as well as existing businesses. The structural transformation will help us achieve the goal, too.

Q6

NTT DATA has acquired some consulting firms in recent years. Is there any possibility that the shift from an ITO-oriented company to a company having more upstream consulting businesses will improve the profit margin during the term of the current mid-term management plan?

A6

Of course, the shift will raise the profit margin. However, we acquire companies that excel in upstream processes because we want to become an organization that can provide value-added upstream and downstream services for clients in a comprehensive manner. Please understand that the purpose of the acquisitions is to increase end-to-end areas of our specialty and expand the business volume, rather than to raise the profit margin partially.

Questioner 3

Q1

I understand that the global platform for insurance businesses shown as an example is a common platform for overseas insurance companies. Is my understanding correct?

A1

Yes, it is correct. We provide a packaged service related to insurance billing operations, including customer management, product management, billing management, and so on. Especially in the USA and the UK, insurance companies pay a lot of costs for continuing to service discontinued products, or so-called “closed book”, and seek to outsource such operations. We aim to grab the business opportunity by promoting this platform.

Q2

What do you think is the approximate size of the potential market for “closed book”?

A2

We have provided existing services using a legacy platform, and the business has grown to a certain size. We aim to provide such services using a new cloud-native, flexible platform with microservices architecture. Moreover, we seek to capture needs for outsourcing related to operations in “closed book” and expect to grab an extra business opportunity.

Q3

You mean that you will not aim to acquire core businesses in the insurance industry.

A3

While it will depend on how many clients wish to outsource all operations, we will provide the cloud-based service to meet clients' needs.

Q4

Companies including CTC and SCSK have established a corporate venture capital fund to invest in start-ups having seeds. I am afraid that excessive commitment offers risks. How can you be advantageous over other IT services companies in the competition for seeds and in terms of how to raise funds? Is there a structure in place to manage start-ups you invest in?

A4

NTT DATA has not established a corporate venture capital fund but has developed a model of collaboration with venture capital funds. Rather than merely pursuing ROI from investments, we aim to work with investees based on KPIs jointly set in expectation of synergy to expand the digital business. Teams with expertise in each industry and technology will look for potential investees in a cooperative manner.

Questioner 4

Q1

Did you acquire partners and clients for “Direct Investment” through the existing domestic relationships or presence? Or did you newly acquire global partners and clients?

A1

I refrain from answering for each case. Global partners and clients account for 60%, and domestic partners and clients account for 40%. We place the high priority on projects for clients who are actively engaged in digital businesses in overseas countries. In many cases, we aim to utilize know-how and technologies acquired from the projects in Japan.

Questioner 5

Q1

Please show me the quantitative scale of your digital investment. How do you plan to grow net sales with investments in eight fields? I will appreciate even a rough idea.

A1

This fiscal year, NTT DATA has increased the investment for growth by ten billion yen from the previous fiscal year. It has invested as much as billions of yen in DSO.

The investment is not allocated evenly across eight fields; three fields of healthcare, finance/insurance, and automotive, which have good track records globally, have received more investment. Each project manages ROI so that the investment does not lose substance. We expect that returns will be gained from the investment 2 or 3 years later.

Q2

Is there any DSO-related collaboration within the NTT Group?

A2

The NTT Group has promoted group collaborations from three perspectives: business collaboration, research and development, and global procurement. A project directly related to DSO has not been launched yet. However, as we will try new things in various technological fields for the smart city solution for Las Vegas, for instance, there is a possibility that DSO will be involved in the connected car project or others. We will positively collaborate with the NTT Group to expand the business. The group companies have worked together for research and development, and our activities are shared with them. A collaboration business may be generated from the efforts.

Questioner 6

Q1

What percentage do net sales related to DFAs (Digital Focus Areas) represent? Please show me your prospect for growth in the future.

A1

As NTT DATA has provided not only services using just digital technologies but also services using the combination of the existing and digital technologies, it is difficult for us to separate one from another strictly. However, if we separate net sales of DFAs-related businesses based on a certain standard for your reference, they accounted for about 20% of the total in the previous fiscal year. Please understand that we will aim to increase the overall business volume with synergy generated from digital technologies.

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