

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

Question & Answer

Questioner 1

Q&A Session 1

Q: With the rise of DeepSeek, I believe the market's perspective on AI investments is shifting. I'd like to hear your thoughts on how this might affect future demand for data centers.

A: Regarding the impact of DeepSeek, although we have not been able to fully confirm the actual situation with DeepSeek, we view the fact that AI model development can be achieved at low cost as a positive thing from the perspective of the IT business, as it expands the range of options available to customers and expands business opportunities using AI models.

As for the data center business, there are some concerns that the demand for data centers will decline due to a decrease in power consumption as a result of a reduction in computing resources, but we thought that the market would grow at an annual rate of more than 10% over the next several years without the rise of AI.

If the use of AI can increase demand in this area as well. We do not think that DeepSeek will have a negative impact on our medium- to long-term plans or our current situation.

Q: Regarding the data center sales for the third quarter, it appears that the growth rate quarter on quarter has stagnated, so please confirm whether this is a temporary factor.

A: The data center business itself is progressing smoothly, so we do not think that the results for the third quarter will have a significant impact on the overall situation.

Q: Thank you. Should we not be too concerned about pricing pressure from hyperscalers in the medium term? Is there a possibility that your company will also be affected in terms of cost efficiency?

A: At this point, we haven't heard anything specific regarding cost optimization leading to such pricing pressure. The need to use data centers remains very strong, so there isn't any pricing pressure and the current pricing structure properly reflects those factors and is well-established.

Q: I understand.

Q&A Session 2

Q: In the third quarter, I think there has been a slight slowdown in overseas business performance in general. Was there any temporary factor behind this? Regarding the regional status, has there been any change since the second quarter?

A: In North America, there was a one-time project, etc. in the third quarter of the previous year, and both sales and EBITA have been impacted by roughly 7 billion yen each. We'd appreciate it if you could factor a reactionary decline out when looking at the trend.

Excluding the transitory factors, we believe that the trend in North America has bottomed out, especially in terms of orders, which have been increasing for the past three months. We had a large renewal order in the third quarter of FY2023, and there was a reaction to that, but we have been able to get another large order, that will make up for the negative impact of the reactionary decline and make it even more positive.

In terms of EMEAL and APAC, it is difficult to say that the bottom has yet been reached for both. While there aren't any additional factors causing further deterioration, in Australia, the impact from contracts that were terminated last year is still ongoing, and the results have yet to translate into sales performance. The pace of recovery varies slightly by region, but we are prioritizing areas with larger issues, such as the UK, Germany, and Australia. We're also incorporating North American strategies to drive top-line growth in these regions.

It is difficult to make an upward turn during FY2024, so we are in the process of working to achieve such results as soon as possible.

Q: I understand.

Q&A Session 3

Q: I would like to confirm your view of the tax rate on page 22. You have been able to achieve a higher level than FY2023 through the third quarter, and you plan to drop it to the same level as the previous year for the full year, but I think that these figures will be difficult to achieve unless you lower the tax rate in the fourth quarter quite a bit.

In FY2023, there was a bit of a special element in the fourth quarter, so I think it will improve, though. The question is whether you can realistically see the tax rate improving to the planned level, and whether the tax rate for FY2025 can be reduced well with this trend.

A: As to whether or not we will be able to reduce the rate to 42%, I can't make any promises because it is in the future, but we are currently taking action to lower the rate.

I believe you're aware, but there was a one-time reversal of deferred tax assets in FY2023, which is having an impact of around 2%. We will not have such one-time impact in FY2024, and there will be an improvement from that perspective.

Also, taxation is an important point of contention in the structural transformation of overseas group companies. We are also considering technical issues, such as whether we can make better use of loss carryforwards. However, it takes time for quantitative effects to appear. We are now working to achieve this plan while incorporating measures to reduce the burden.

Q: Regarding FY2025, will the tax rate steadily decline?

A: Although the figures are still being discussed, we will continue our activities to lower the burden rate since there is a gap between the statutory tax rate and the effective tax rate.

Q: Thank you very much.

Questioner 2

Q&A Session 1

Q: I think there was a gain on sale of data centers in the fourth quarter of FY2023. Is there any such special factor in FY2024? Please tell me if there are any events that we should expect compared to FY2023.

A: As indicated in the presentation material on page nine, we don't have the gain from the sale of the data center as in FY2023, and there are currently no plans for a new gain from the sale in the fourth quarter of FY2024.

Q: I think you have to make a reasonable profit, but even without special factors in the current business situation, you can achieve your plan, is that correct?

A: Yes. I don't think I wrote the figures on the current slide, but about the increase in profit due to the increase in sales is that for the full 12-month period, if we add 37 billion yen, we will reach the target of 336 billion yen. We have come to 30.3 billion yen out of 37 billion yen, so I do not think it is impossible, and at this point, we are trying to work toward achieving this goal without transitory factors.

Q&A Session 2

Q: I think you are coming on strong in FY2024. The focus is on FY2025, but considering the mid-term plan was revised upward in May 2024, it doesn't seem like there's any intention to give up on it,

but I would like to know how you achieve an operating profit increase of more than 100 billion yen in FY2025.

Also, regarding the bottom line, whether we can expect the bottom line to grow at the same rate as operating profit. I would like to know.

A: Regarding operating profit, we have revised our net sales upward to 4.7 trillion yen in the final year of the medium-term plan, and we have not changed our target of 10% of operating margin, which is approximately 470 billion yen of operating profit. Since this is an adjusted value, it is roughly between 440 billion yen to 450 billion yen, which means that the target for FY2024 is 336 billion yen, so we need to raise the operating profit by about 100 billion yen.

We are first aiming for increased revenue and profit, targeting an additional profit of around 30 billion yen. On top of that, we are planning to generate about 30 billion yen in synergies from the structural transformation of our overseas businesses, which we have been working on for several years. Regarding the one-time costs, we can strip off a little more from 10 billion yen, so that will be about 70 billion yen.

We will of course consider various measures, such as reducing SG&A expenses and improving productivity. We are also considering options like asset sales, similar to what was implemented in FY2023. By combining these approaches, we aim to achieve the targets set for the next year, the final year of the mid-term plan.

Q: I understand. Consensus expectations have also been rising, so we're looking forward to seeing the results.

A: With regard to the bottom line for FY2025, while financial expenses will naturally increase as investments increase and liabilities increase, we also expect operating profit from the data center business to increase, and we are not planning to make a plan that would eat up all of the growth in operating profit. To that end, we are continuing to work on measures such as strategically replacing the content of liabilities.

With regard to the tax burden ratio, we will continue to work on reducing the gap with the effective tax rate as much as possible, especially overseas, so we will aim to improve the situation.

Q&A Session 3

Q: With regard to the data center REIT, since everyone is very interested, please tell us about your progress so far.

A: As we have previously reported on the REIT, we would like to set it up in the fiscal year 2025. But at this point, we have not yet decided on the scale or the specifics of how it will be implemented.

There are various patterns of doing it privately or publicly. Even if we proceed with a public offering, the actual scale will depend on market conditions at that time. Therefore, at this stage, we don't have any new information to share.

However, on page 12 of this term's financial report, you'll see that we have recorded 93.8 billion yen as assets held for sale under current assets. By selling data centers, including REITs, we are considering obtaining future cash flow early and reinvesting it, and as a result of making preparations for this, we have made this asset entry.

Q: Should we understand this as merely being recorded for now, without implying that the REIT will be around this size, or is this meant to give us a general idea or image of the expected scale?

A: As I explained, when actually structuring a REIT, there are various factors that affect the figures depending on how we proceed marketing activities at that time. Also, I think market conditions will have an impact, so This amount does not necessarily indicate that all of this money will go to REIT, but is simply the book value of the data center scheduled for sale.

Q: I understand. Also, as for the article that appeared in the Nikkei newspaper in September 2024, can you comment on whether or not that is correct?

A: What we are communicating to you is the same message. We have not yet decided on things like a scale of the amount, and we do not have an answer to that question. We understand that the figures in the article were based on what the news media were assuming.

Q: I understand.

Questioner 3

Q&A Session 1

Q: Could you share the situation overseas, particularly in North America? The briefing materials also mention the fact that investment is being held back, but now that President Trump has taken office, is there a risk that the situation will become serious in the fourth quarter?

A: We have heard that they are expecting to receive orders of a large scale in the fourth quarter in North America. Certainly, there may be some wait-and-see attitude, but I believe that the trend of digital transformation and the use of AI-based data in the US is continuing. We have been in contact with the local members, but I haven't heard that the change of government has affected the overall pipeline.

Q&A Session 2

Q: On the domestic side, the profit margin of the financial sector has begun to improve. Looking ahead to the fourth quarter, and then to FY2025, what should we be thinking about? We are asking because finance is a segment that has been a little slow in profit improvement.

A: As you are aware, we have also turned profitable in the third quarter. Although still slightly below the third quarter of FY2023 level in terms of margins, we are gradually recovering due to the factor that the rebound from that one-time event last year has eased. On the other hand, there are capital investments in services for regional financial institutions and the depreciation burden for these investments will not decrease suddenly, so we will try to achieve a gradual recovery.

Q&A Session 3

Q: I understand. Regarding Stargate, would you consider them a competitor? How does this move to create an AI infrastructure and data center for open AI affect your company's performance?

A: It is a bit difficult for us to judge the impact of the Stargate project based on what is currently being reported in the media. However, I believe that there is a demand in the US. As for us, I think that the key to our ability to provide data center services is how we secure land, so I think that if we get that right, the results will naturally follow.

Questioner 4

Q&A Session 1

Q: At the beginning of January, there was an executive order called the “Framework for Artificial Intelligence Diffusion,” which included export restrictions, especially on semiconductors, as well as regulations on the use of data centers in countries with strained relations with the US. Could you give us some comments about the impact on your company?

A: I have not heard anything about such impact.

Q&A Session 2

Q: Thank you. Please tell us about the risk of import tariffs associated with President Trump's inauguration. It seems like your company might be importing equipment like cooling systems for data centers under construction in the US. If import tariffs were to be applied, how do you foresee this impacting your business operations?

A: Of the Trump administration's campaign promises, I think that the one that will have the greatest economic impact on the world as a whole is the increase in tariffs, but the majority of our business is carried out locally, so our supply chain across countries is overwhelmingly smaller than that of manufacturers. My general impression is that we are unlikely to be directly affected.

As for the point of whether there will be an impact when materials for building data centers across national borders, there are specific tariff measures and other factors involved, such as the availability of alternative means, so at present we have not heard of any problems in the data center business in the short term or any medium-term impact.

Q: I understand very well.

Questioner 5

Q&A Session 1

Q: I remember that around 2019, you won a contract worth about 200 million USD with USAID, the US federal government, but this time, a notice has been issued to all USAID employees to take leave of absence under the Trump administration, so will there be any impact on the contract at that time?

A: We do not have any information that we can use to respond to your inquiry about the status of individual cases. There is a possibility that changes in policy under the Trump administration may have an impact on things like orders, but at this point it is unclear.

Q: In your case, the model is to build the system after signing the contract and then collect the money over the long term, but is there any possibility that the contract will be reneged on?

A: The content of existing individual contracts varies, so we cannot comment on them. Regarding future orders, there is a possibility that the outlook for projects with the federal government may change.

Q&A Session 2

Q: Overseas, for October - December, you are seeing a decline in both revenue and profit. However, in areas like Spain, where you're involved in DX consulting, business is going exceptionally well. Regardless of the economic climate, the more advanced areas are growing. On the other hand, in North America and Europe, particularly in Germany, there is a shift in technology needs, so will there be further restructuring and other expenses in the future?

A: North America has changed the way of work quite a bit since the beginning of FY2024. We are also working on expansion projects, and we have established the Client Growth Office. We've created a specialized team that focuses deeply on consulting-type sales, such as how to enhance the corporate value of clients or how to proceed with the translation of systems during transitions. This team is tasked with securing large-scale deals from key clients.

This approach has started to show results in North America. It seems likely that we will secure significant deals in the fourth quarter. We will continue to work hard on this.

The problem is, the ailing UK or Germany. Now in the UK, we are trying to proceed with initiatives for turnaround with a model similar to what we are doing in the US. However, the recruitment of people who will actually implement this is still in progress, so the effects will likely become visible in FY2025 or beyond.

In Germany, as around 40% of our net sales are from the automobile industry, which is currently facing a difficult situation, there is increasing pressure to reduce prices. Naturally, even in Germany, we are moving towards a consulting-based business model, but due to the impact of the macro economy, it is expected that measures including restructuring will be prioritized to determine how to optimize standby personnel.

Q: Of the 30 billion yen in expenses for overseas business transformation, about half has been spent so far, so will there be no more expenses in FY2025, including the expenses for optimizing personnel in Germany in the fourth quarter?

A: We are considering streamlining personnel across all overseas operations due to the costs of overseas business transformation this term, but we think this will be more of a concern for the administrative departments.

We have already started taking action in Germany, but it is likely that the implementation period will be delayed slightly.

Q&A Session 3

Q: Please tell us about the future career of Vice President Mr. Nakayama. The careers of executives, along with the possibility of NTT making them wholly owned subsidiaries, are of great interest to investors. **A:** I cannot answer about my personal personnel schedule, but I will continue to work hard to improve the corporate value of the NTT DATA Group, just as I have done in my previous positions at NTT DOCOMO, NTT East, and NTT Communications. I understand. Thank you very much.

Questioner 6

Q&A Session 1

Q: In Europe, particularly in Southern Europe and Latin America, how has the demand trend changed compared to three months ago? Also, regarding the integration with NTT Ltd., you've been combining equipment sales and infrastructure, correct? Any updates in this area would be appreciated.

A: About Southern Europe and Latin America, in terms of the business environment, there hasn't been a significant change in the past three months. As it's a region where we have the capability to enter with a consulting approach, so we are maintaining a trend of increased revenue and profit.

As for the tech solution business of the original NTT Ltd., as you understand, we are doing front-end sales in each region but sales have generally decreased, not just in Southern Europe. In terms of resale, there are hardware and software components, and the customer's needs are gradually shifting more towards the software side. Since software sales are recognized on a net basis, as the market's demand shifts from hardware to software, it will structurally lead to a decrease in revenue. However, in terms of margins, margins vary from country to country, and there are some countries where they have turned negative, but overall, the decline hasn't been significant, and there are also areas where margins have improved. We recognize that the effects of the business combination with NTT Ltd. and working together have started to show.