Briefing Session for Sell-Side Analysts on the Financial Results for the First Quarter of the Fiscal Year Ending March 31, 2026

Question & Answer Session

Questioner 1

Q&A 1

Q: I have three questions. First, I would like to ask you about the environment for receiving orders. I understand that at your company, orders have increased when exchange rate fluctuations and orders for the Data Center business (DC business) are excluded. However, it seems that the situations differ significantly in each region, and I would like to hear your outlook on the order situations in North America, Europe, and Asia, respectively.

A: I will explain each of the order situations in North America, EMEAL, and APAC. First, in North America, new orders received increased by 20.9 billion yen year on year, excluding the effects of exchange rates. In the first quarter of the fiscal year ending March 31, 2026, we won a large-scale order from a major logistics company, assumingly as a result of our enhancement of the Client Growth Office (CGO) initiative. It appears that the initiative has begun to show results, but its full-scale deployment will likely take some time. There were also some projects on which clients shelved at the last minute following the inauguration of the Trump administration. Some of them, for which we were scheduled to receive orders during the first quarter of FY2025, have been postponed to the second quarter (July-September) of FY2025. The key is whether we can boost orders and sales through the measures we have implemented in North America. In the overall market, demand for advanced technologies such as AI remains strong and we will ensure that the orders we have secured will be translated into sales.

Next, in EMEAL, the situations differ in each country and we are struggling in Germany in particular. As you can see in GDP growth rates, the economies in Germany and U.K. are growing slowly, while those in Spain and Latin America are relatively solid. In terms of demand for IT services, digital transformation-related demand remains steady [in EMEAL]. However, the automotive industry in Germany has been sluggish, affecting our German footings that have a substantial number of clients from the industry. In the meantime, Spain and Latin America are not so bad, in general. Certainly, our company's results largely depend on clients' decisions, but for the first quarter of FY2025, we achieved almost the same level of results as the first quarter of FY2024.

Finally, in the APAC region, the situation is also different in each country. I will explain our primary markets of Australia, Singapore, and India. In Australia, we are facing difficult challenges due in part to slower economic growth there. In Singapore and India, the markets are showing strong momentum with demand for cloud and security services remaining strong. We started to utilize a company providing Google Cloud services we had acquired and are steadily building up orders.

Q: Let me ask you a follow-up question. Your financial figures indicate that your company is performing quite well under the present economic conditions. As for the projects you have won in North America, as far as I see the financial results of local SIers, it seems that discretionary investments are extremely weak and that only IT outsourcing-related projects are active. Are the orders you have received also related to IT outsourcing? In addition, there seem to be no macroeconomic developments that will likely help the order environment make a quick recovery. Do you think that the current trends will continue in the second quarter of FY2025? Could you share with us your thoughts and outlook on this matter?

A: Regarding North America, we have seen some large-scale orders mainly related to IT outsourcing. Our next challenge is to figure out how we can increase orders for AI and other digital technologies. We have begun acquiring new clients and aim to win more projects for digital technologies. The number of public-sector projects is expected to decline in the years to come. However, it is our view that corporate investments in digital-related projects, especially AI technologies, will likely gain momentum and that securing such projects will be the key to our success.

Q&A 2

Q: My second question concerns the GTSS unit in the Overseas Segment. The unit posted a sharp increase in profit in the first quarter. Was the profit increase mostly attributable to the success in the DC business or did the SAP business, not just the DC business, also contribute to the growth? Although I am aware that the DC business experiences quarter-to-quarter fluctuations in orders, you won hardly any orders in the first quarter of FY2025. I would like to know if the competitive environment and order situation have or have not changed in the DC business.

A: The profit increase in the GTSS unit is largely attributable to the DC business. In the first quarter of FY2025, the ratio of sales from low-profitability initial construction projects substantially declined from FY2024, indicating that the profitability has improved. EBITDA margin in the DC business is usually slightly below 40% and the margin in the first quarter of FY2025 recovered to the level in the past periods. Also, we have a program under which we receive incentive income in data centers that have been off the balance sheet if the data centers acquire new clients, and that program helped boost the profit base.

Regarding the outlook for the DC business, demand, especially from hyperscalers, remains strong and most of the data center buildings we are currently constructing are the ones for which we have already secured orders. We may need to examine how to collect funds in response to changes in medium- to long-term trends, but the overall demand trend has shown no substantial changes and remains steady. In FY2025, we plan to make the same level of investments as the previous fiscal year and will remain flexible in responding to changes in the order environment.

Q: As a follow-up question, I would like to hear more about the incentive income program. May I ask you what kind of scheme it is, if the income occurred only in the first quarter of FY2025, and to what extent that affected the overall results? Please explain to the extent possible.

A: The incentive income program is a scheme under which if we obtain new clients for data centers that have already been off the balance sheet, we can receive part of the income. The income will only be recorded when received. So, this is not a recurring item recorded every quarter. I will refrain from making comments on the size of the program, but you may understand that the program actually contributed to the first quarter's profit growth.

Q: So, it's not that your company posted a profit increase because of a one-time gain, but that the incentive income constituted a part of the increase and that your fundamental profit growth can be attributable to organic demand growth?

A: That's right. Our profit base has been pushed up. We can say that the incentive income I just explained was one of the factors contributing to the year-on-year growth in both net sales and operating profit in the first quarter of FY2025. Organic demand growth was the main driver for the profit growth.

Q&A 3

Q: My third question is about the Public and Social Infrastructure business in the Japan Segment. Net sales for the central government showed a slight decrease [in the first quarter of FY2025], and that represents the first decline in quite a long period of time. Please tell us if the decline stemmed from the absence of large-scale projects, which has been explained as a factor that pushed down the overall profit, and if you think this downward trend would remain in place for a while. The pension system will likely hit a peak in or after FY2025. Could you also explain if the trend is specific to the first quarter of FY2025 and if you expect that net sales from the central government will not increase throughout the year. Also, in your full-year forecast for FY2025, your company projects a mild increase in net sales in the entire segment, and I would like to know if you expect this trend to continue.

A: Compared to the strength of the Public and Social Infrastructure business up to FY2024, you may find the growth in the first quarter of FY2025 way slower. In the entire market, however, demand remains robust, with large-scale system overhauls in the public sector, cross-ministry/agency system developments, and public-private projects on system development and service provision being promoted mainly by the Digital Agency.

In FY2024, we had large-scale, multi-year projects, and deliveries and sales were concentrated in that year. In the first quarter of FY2025, we thus saw a decline due to the absence of such projects. We expect some year-to-year fluctuations. However, we are not so pessimistic as CAGR is expected to come to around 8% overall.

Q: According to your plan for FY2025, you project an increase in net sales for the central government, and increases in net sales and operating profit in the entire Public and Social Infrastructure business. So, is it OK to think that the business will turn around in the second half of FY2025 and that the trend of higher sales/lower profit seen in the first quarter will unlikely continue?

A: Exactly. Net sales from the central government usually pick up pace in the fourth quarter, and based on the current outlook, we believe we can achieve our target for FY2025.

Questioner 2

Q&A 1

Q: Please let me ask you about the results of the GTSS unit in the first quarter of FY2025 and the progress toward achieving your annual plan. According to page 11 on “Company Presentation for the First Quarter of the Fiscal Year Ending March 31, 2026,” EBITA for the first quarter of FY2025 in the unit came to 24.7 billion yen and is forecast to total 263 billion yen in the whole year. Does this indicate that you expect EBITA to rise from 24.7 billion yen gradually quarter by quarter to achieve your annual plan by adding the 144.3-billion-yen gain on transfer of data centers?

A: Yes, you understand it correctly. Our full-year EBITA target of 263 billion yen includes the gain on sale of data centers to a REIT. Excluding the gain, EBITA is expected to slightly exceed 100 billion yen. The progress is as you pointed out.

Q: So, is it fine to see the transfer gain of 144.3 billion yen shown in the lower left of page 13 of the presentation material as the finalized amount that will not be affected by exchange rate fluctuations and other factors?

A: The amount has been finalized in U.S. dollars, but may be slightly different when expressed in yen depending on the conversion method.

Q: Will the transfer gain be directly reflected in EBITA and operating profit without being adjusted?

A: The transfer gain will be recorded in net sales and the same amount will be reflected in EBITDA, EBITA, and operating profit.

Q: EBITA for the first quarter of FY2025 was 24.7 billion yen. If you aim to meet your annual plan excluding the transfer gain, you will need to achieve roughly 29.7 billion yen in EBITA on average in each of the remaining three quarters. Given the level of the first quarter, it seems that you made a slow start. Do you expect EBITA to increase in the second, third, and fourth quarters by a quarterly average of roughly 30.0 billion yen? Also, do you have a specific idea of when clients will move into data centers and when they start operations? You have no uncertainty about that?

A: Yes, that’s right. Instead of a sharp rise, we expect a gradual increase in line with the progress of clients’ moving in. The progress at present is as we have projected. Generally, it is relatively easy to make financial projections of the data center business, and compared to IT services, the results also tend to be less volatile.

Q: Are you saying that the data center business is more transparent than the IT services business and that there is usually a more notable discrepancy between expectations and actual results in IT services than in data centers?

A: Our view is that the accuracy of projections differs depending on whether the business is based on a recurring revenue model, which is taken for the data center business, or a flow-type model for other businesses.

Q&A 2

Q: With your company's stock set to be delisted, I would like to know if there have been any changes in engagement, motivation, etc. among employees of NTT DATA Group.

A: The tender offer has pushed up NTT's ownership ratio to 100% from the previous 57%. However, NTT DATA Group's overall management policies, etc. will basically remain unchanged. We rather recognize that the tender offer will bring considerable benefits to our company as it would be possible for us to make more sizable investments in data centers and IT-related M&As, leveraging the NTT Group's overall financial foundation. We also believe that this would help drive our business growth within the NTT Group's Global Solutions Business.