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Highlights of Major Information Services Companies' Financial Results for Fiscal Year Ended March 2022

The following are Japan Credit Rating Agency, Ltd. (JCR)'s perception of the current status and highlights for rating concerning the financial results for the fiscal year ended March 2022 (FY2021) and earnings forecasts for FY2022 of Japan's five major information services companies (the "Companies"): NTT DATA CORPORATION ("NTT DATA"), Nomura Research Institute, Ltd. ("NRI"), ITOCHU Techno-Solutions Corporation ("CTC"), TIS Inc. ("TIS") and SCSK Corporation ("SCSK").

1. Industry Trend

According to the Survey of Selected Service Industries by the Ministry of Economy, Trade and Industry, aggregate net sales of Japan's information services companies for FY2021 increased 3.8% over the year to 15,254.5 billion yen. Placing greater focus on IT investments, corporates made large spending during the year, regardless of industry. They are expanding digital transformation (DX) investments, i.e. IT investments to ensure a competitive edge in business, to respond to rapid changes in the external environment like the COVID crisis. Because many have aging systems, needs for system reconstruction, etc. for the purpose of implementing DX investments were also strong.

According to the Bank of Japan's *TANKAN*, or the Short-Term Economic Survey of Enterprises in Japan, FY2022's software investment for all industries including financial institutions is projected to increase 8.4%, which suggests that the market will keep expanding. Given investment trends to date and growing significance of ESG, IT investments aimed at solving environmental and social issues, including climate changes, are projected to gain momentum going forward. From a medium-to-long-term perspective, the favorable business environment in recent years is hardly likely to change drastically.

2. Financial Results

Aggregate net sales and operating income of the Companies for FY2021 both increased 9.3% and 32.8% over the year to 4,582.5 billion yen and 471.5 billion yen, respectively. Orders remained strong as the Companies worked to steadily meet customers' demand for IT investments by leveraging industry/ operational knowledge, capabilities to mobilize human resources for development and technological capabilities. Moreover, thanks to a shift to value-added projects and also to the intensive efforts to improve productivity, including avoiding unprofitable projects, gross operating income ratio improved on the whole. Consequently, the Companies were able to absorb upfront expenditures to strengthen their business foundation or to make a structural shift and still achieve favorable results. Individually speaking, all of the Companies attained higher net sales and operating income, outstripping initial projections.

On the financial front, the Companies' aggregate shareholders' equity ratio as of March 31, 2022 rose 1.7 points from a year earlier to 46.2%, with D/E ratio falling 0.04 points to 0.32x. While many of the Companies are proactive towards growth investments, favorable performance helped build up equity capital and a generally sound financial structure was maintained for all five.

3. Highlights for Rating

For FY2022, the Companies' aggregate net sales and operating income are projected to grow 18.8% and 9.8% over the year to 5,443.0 billion yen and 517.5 billion yen, respectively. Higher net sales and operating income are expected on an individual basis, too. JCR looks at the following points in making rating decisions.

First is trends in orders. Given tendency in DX, etc., orders are most likely to remain robust. Moreover, thanks to large backlog of orders at the beginning of the year, the Companies' performance will probably be ensured to a certain extent with progress in these projects. That said, because uncertain economic conditions persist, including impacts from Russia-Ukraine-related issues, moves to reduce investments in specific industries and regions still require close attention.

Second is upfront investments and the status of their recovery. Recently, the Companies have been stepping up their response to service provision-type businesses, centering on a stock-type revenue model in which a company receives fees from its customers for the provision of services. While the Companies need to hold their own assets, price competition is hardly likely to occur, and profitability improvement can be expected with an increase in customers. Also, as an advantage, this move enables the Companies to break away from the labor-intensive business model. In addition, many of the Companies are focusing on expanding overseas operations. They are particularly aggressive about capital and business alliances and M&A deals so as to acquire technologies and cultivate new channels. Whether the Companies can absorb local IT demand by moving ahead with the development and expansion of new services will be closely watched. As some of them are entering the phase of recovering upfront investments, JCR will look at how such investment recovery will contribute to the overall performance. Workforce-related investment and its impact are also keys to rating decisions. While demand remain favorable, competition to acquire human resources is intensifying. The quantitative and qualitative expansion of human resources may have one-time negative impact on profits but is crucial for increasing competitiveness.

Avoiding unprofitable projects remains essential to maintaining profitability. Losses as a whole have been controlled at a certain level thanks to the sophistication of risk management. However, as customers' investment needs change, the Companies often engage in new areas different from existing businesses or technologies, requiring further structural enhancement. Moreover, given that the improvement of the development/operation environment is also a key, JCR is looking at whether the Companies can shorten construction periods and reduce burden on engineers.

On the financial front, there is little concern that the sound financial structure will be impaired. The Companies are expected to maintain solid performance and generate a reasonable amount of cash flow. Recurring capital expenditures are small, and cash on hand is ample on the whole. Therefore, the Companies have good financing capacities for growth investments. Moreover, large equity capital enables them to withstand temporary losses and expenditures.

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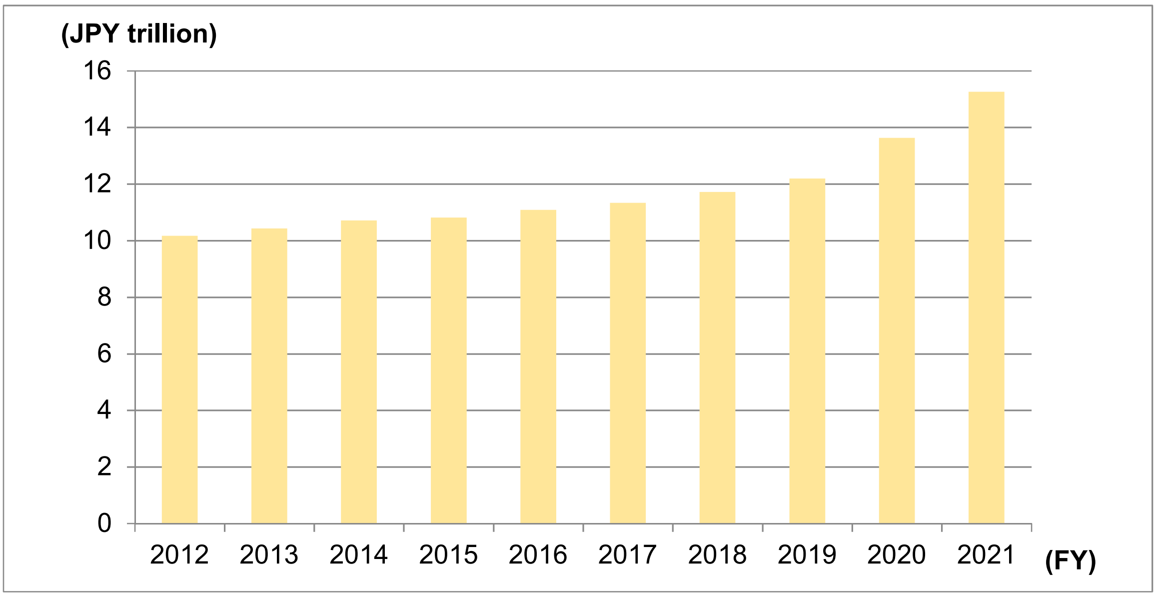
(Chart 1) Net Sales of Information Services Companies



Note: FY2020 figure is discontinuous from previous years' due to a change in the companies surveyed.
Source: Prepared by JCR based on the Survey of Selected Service Industries by the Ministry of Economy, Trade and Industry

(Chart 2) Consolidated Financial Results of Five Major Information Services Companies

(JPY 100 mn, %)

	FY	Accounting Standards	Net Sales	Gross Operating Income	Gross Operating Income Ratio	Operating Income	Operating Income Ratio	Net Income Attributable to Owners of Parent
NTT DATA (9613)	FY2020	IFRS	23,186	5,845	25.2	1,391	6.0	768
	FY2021	IFRS	25,519	6,760	26.5	2,125	8.3	1,429
	FY2022F	IFRS	32,700			2,360	7.2	1,360
NRI (4307)	FY2020	IFRS	5,503	1,857	33.8	807	14.7	528
	FY2021	IFRS	6,116	2,160	35.3	1,062	17.4	714
	FY2022F	IFRS	6,700			1,150	17.2	770
CTC (4739)	FY2020	IFRS	4,798	1,214	25.3	436	9.1	304
	FY2021	IFRS	5,223	1,346	25.8	504	9.7	353
	FY2022F	IFRS	5,530			555	10.0	380
TIS (3626)	FY2020	JGAAP	4,483	1,137	25.4	457	10.2	276
	FY2021	JGAAP	4,825	1,288	26.7	547	11.3	394
	FY2022F	JGAAP	5,000			570	11.4	375
SCSK (9719)	FY2020	IFRS	3,968	1,029	25.9	458	11.6	334
	FY2021	IFRS	4,141	1,081	26.1	475	11.5	334
	FY2022F	IFRS	4,500			540	12.0	380
Total	FY2020		41,941	11,085	26.4	3,551	8.5	2,213
	FY2021		45,825	12,637	27.6	4,715	10.3	3,227
	FY2022F		54,430			5,175	9.5	3,265

Source: Prepared by JCR based on IR materials of above companies

(Chart 3) Financial Indicators of Five Major Information Services Companies

(JPY 100 mn, times, %)

	FY	Accounting Standards	Interest-bearing Debt	Equity Capital	D/E Ratio	Shareholders' Equity Ratio	Net Interest-bearing Debt
NTT DATA (9613)	FY2020	IFRS	5,789	10,728	0.54	37.0	2,918
	FY2021	IFRS	4,964	12,708	0.39	41.2	2,495
NRI (4307)	FY2020	IFRS	1,174	3,304	0.36	50.3	▲ 356
	FY2021	IFRS	2,082	3,393	0.61	43.0	926
CTC (4739)	FY2020	IFRS	0	2,548	0.00	55.1	▲ 809
	FY2021	IFRS	0	2,811	0.00	55.4	▲ 940
TIS (3626)	FY2020	JGAAP	431	2,704	0.16	60.0	▲ 398
	FY2021	JGAAP	374	2,931	0.13	61.5	▲ 763
SCSK (9719)	FY2020	IFRS	450	2,268	0.20	59.6	▲ 637
	FY2021	IFRS	364	2,469	0.15	60.6	▲ 847
Total	FY2020		7,845	21,555	0.36	44.5	716
	FY2021		7,785	24,314	0.32	46.2	868

Note:

Interest-bearing Debt (JGAAP) = Short-term borrowings + Current portion of Corporate bonds + Current portion of Long-term borrowings + Corporate bonds + Long-term borrowings

Interest-bearing Debt (IFRS) = Corporate bonds + Borrowings

Net Interest-bearing Debt = Interest-bearing Debt - Cash and Cash Equivalents

Source: Prepared by JCR based on IR materials of above companies

<Reference>

Issuer: NTT DATA CORPORATION

Long-term Issuer Rating: AA+ Outlook: Stable

Issuer: TIS Inc.

Long-term Issuer Rating: A Outlook: Positive

Issuer: SCSK Corporation

Long-term Issuer Rating: A Outlook: Positive

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