23-D-0166
May 24, 2023

Highlights of Major Information Services Companies' Financial Results for Fiscal Year Ended March 2023

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 2023 (FY2022) and earnings forecasts for FY2023 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 FY2022 increased 5.7% over the year to 16,254.6 billion yen. Placing greater focus on IT investments, corporates made large spending during the year, regardless of industry. They are expanding so-called digital transformation (DX) investments to ensure a competitive edge in business responding to changes in the external environment. Because many have aging systems, needs for system reconstruction, etc. toward implementing DX are also strong.

According to the Bank of Japan's *TANKAN*, or the Short-Term Economic Survey of Enterprises in Japan, software investment for all industries including financial institutions for FY2023 is projected to increase 4.6%, which suggests that the market will keep expanding. Given investment trends to date and also growing significance of ESG, IT investments aimed at solving environmental and social issues, including climate changes, are assumed to gain momentum going forward. From a medium-term perspective, the favorable business environment in recent years will unlikely change drastically.

2. Financial Results

Aggregate net sales and operating income of the Companies for FY2022, both increased 24.5% and 12.6% over the year to 5,707.5 billion yen and 531.1 billion yen, respectively. By company, the four companies excluding CTC, increased both revenue and profits. Particularly, NTT DATA made a substantial increase in revenue through integration with NTT's overseas operating company. As a general trend, orders remained strong as the Companies worked to steadily acquire customers' demand for IT investments by leveraging industry / operational expertise, capabilities to mobilize human resources for development and technological capabilities. In addition to a shift to value-added projects, outcome of initiatives for improving productivities including avoiding unprofitable projects also supported the performance. The Companies managed to maintain favorable results after absorbing upfront expenditures to strengthen their business foundation or to make a structural shift through these efforts.

On the financial front, the Companies' aggregate shareholders' equity ratio as at the end of FY2022 declined 13.9 points from the end of the previous fiscal year to 32.3%, with D/E ratio of 0.73x, rose 0.41 points from the end of the previous fiscal year. This was largely attributable to an impact of change in financial structure of NTT DATA, which substantially increased assets and liabilities through integration with NTT's overseas operating company. On the other hand, there were no notable changes in financial structure of other 4 companies. Indicating active stances toward growth investments, in general, the Companies managed to cover such spending by their own funds as their cash flows were positive. In addition, they also built up equity capital on the back of favorable performance.

3. Highlights for Rating

For FY2023, the Companies' aggregate net sales and operating income are projected to grow 12.9% and 10.1% over the year to 6,445.0 billion yen and 584.5 billion yen, respectively. Higher net sales and operating income are also expected on an individual company basis. JCR pays attention to the following points in making rating decisions.

Firstly, JCR looks at trends in orders intake. Given tendency in DX, etc., future orders intake will highly likely remain robust. Moreover, thanks to large backlog of orders at the beginning of the fiscal year, the Companies' performance will likely be ensured to a certain extent with progress in these projects. That said, uncertain economic conditions have been continuing due to inflation, etc.; therefore, moves to hold down investments in specific regions and industries still require close attention.

Secondly, upfront investments and the status of their recovery are also key factors. Recently, the Companies have been strengthening 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 are required to make upfront investments in developing businesses, price competition is hardly likely to occur, and profitability improvement can be expected as the number of customers increases. 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 overseas business expansion. They actively take advantage of capital and business alliances, and M&A deals so as to acquire technologies, cultivate new channels and expand services. Therefore, whether the Companies can acquire local IT demand will be closely watched. As some of them are entering the phase of recovering upfront investments, JCR will look at how the investment recovery will contribute to the overall performance.

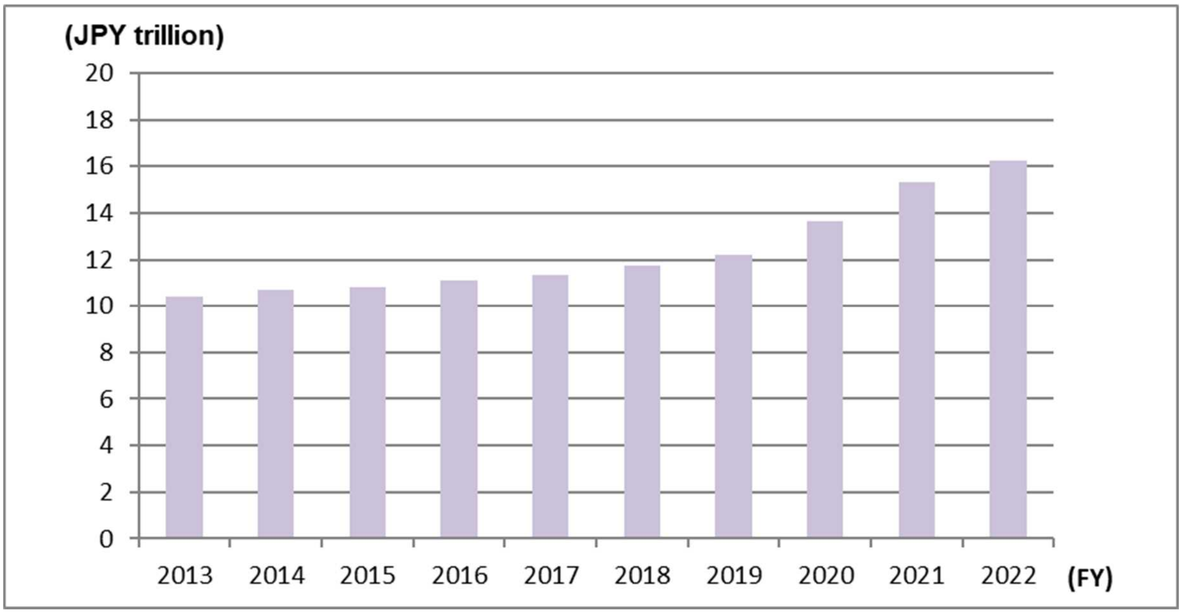
Workforce-related investment and its impact are also keys to rating decisions. Not only information service providers but also their customers are increasing hiring the number of IT professionals, and competition for acquiring employees with such talent is intensifying. The quantitative and qualitative expansion of human resources may have one-time negative impact on profits but is crucial for increasing competitiveness.

Avoiding unprofitable projects remains important for 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 work periods and reduce burden on engineers.

On the financial front, there is little concern over impairment of the sound financial structure. The Companies are expected to maintain solid performance and can generate a reasonable amount of cash flow. The Companies, in general, have ample cash on hand. Therefore, they have good financing capacities for growth investments. Large equity capital enables them to withstand temporary losses and investment burden.

Yosuke Sato, Masaki Abe

(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	Operating Income	Operating Income Ratio	Net Income Attributable to Owners of Parent
NTT DATA (9613)	FY2021	IFRS	25,519	2,125	8.3	1,429
	FY2022	IFRS	34,901	2,591	7.4	1,499
	FY2023F	IFRS	41,000	2,920	7.1	1,440
NRI (4307)	FY2021	IFRS	6,116	1,062	17.4	714
	FY2022	IFRS	6,921	1,118	16.2	763
	FY2023F	IFRS	7,200	1,170	16.3	780
CTC (4739)	FY2021	IFRS	5,223	504	9.7	353
	FY2022	IFRS	5,709	464	8.1	342
	FY2023F	IFRS	6,250	580	9.3	400
TIS (3626)	FY2021	JGAAP	4,825	547	11.3	394
	FY2022	JGAAP	5,084	623	12.3	554
	FY2023F	JGAAP	5,300	635	12.0	420
SCSK (9719)	FY2021	IFRS	4,141	475	11.5	334
	FY2022	IFRS	4,459	513	11.5	373
	FY2023F	IFRS	4,700	540	11.5	380
Total	FY2021		45,825	4,715	10.3	3,227
	FY2022		57,075	5,311	9.3	3,532
	FY2023F		64,450	5,845	9.1	3,420

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)	FY2021	IFRS	4,964	12,708	0.39	41.2	2,495
	FY2022	IFRS	17,318	14,523	1.19	23.6	13,165
NRI (4307)	FY2021	IFRS	2,082	3,393	0.61	43.0	926
	FY2022	IFRS	2,029	3,990	0.51	47.6	737
CTC (4739)	FY2021	IFRS	0	2,811	0.00	55.4	(940)
	FY2022	IFRS	0	2,986	0.00	56.6	(925)
TIS (3626)	FY2021	JGAAP	374	2,931	0.13	61.5	(763)
	FY2022	JGAAP	160	2,970	0.05	64.2	(782)
SCSK (9719)	FY2021	IFRS	364	2,469	0.15	60.6	(847)
	FY2022	IFRS	317	2,719	0.12	62.4	(896)
Total	FY2021		7,785	24,314	0.32	46.2	868
	FY2022		19,825	27,189	0.73	32.3	11,297

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 – Balance of Cash and Cash Equivalents at the end of the fiscal year

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

<Reference>

Issuer: NTT DATA CORPORATION

Long-term Issuer Rating: AAA Outlook: Stable

Issuer: TIS Inc.

Long-term Issuer Rating: A+ Outlook: Stable

Issuer: SCSK Corporation

Long-term Issuer Rating: A+ Outlook: Stable

Japan Credit Rating Agency, Ltd.
Jiji Press Building, 5-15-8 Ginza, Chuo-ku, Tokyo 104-0061, Japan
Tel. +81 3 3544 7013, Fax. +81 3 3544 7026