21-D-0161
May 21, 2021

Highlights of Major Information Services Companies' Financial Results for Fiscal Year Ended March 2021

The following is 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 2021 (FY2020) and earnings forecasts for FY2021 of Japan's five major information services companies (collectively, 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 FY2020 fell 1.3% over the year to 13,345.3 billion yen. Investment trends varied among industries and business categories due to the COVID crisis, and the market somewhat shrank. Yet, as corporates remain focused on IT investments, fairly large spending was made. On the back of growing demand for so-called digital transformation (DX) investments, i.e. IT investments to ensure a competitive edge in business, demand for the replacement of aging systems with an eye to such trends, etc. was also brisk.

According to the Bank of Japan's *TANKAN*, or the Short-Term Economic Survey of Enterprises in Japan, FY2021's software investment for all industries including financial institutions is projected to increase 7.3%, which suggests that the market will expand again. In order to respond to rapid changes in people's life styles and ways of working amid the COVID crisis, corporates are becoming more proactive towards DX investments. In addition, as there are still many enterprises with aging systems, needs for system reconstruction will likely persist. Also, as ESG is becoming increasingly important, investments aimed at solving social issues could possibly accelerate going forward. From a medium-to-long-term perspective, the favorable business environment in recent years is unlikely to change significantly.

2. Financial Results

Both net sales and operating income of the Companies in aggregate increased 2.0% and 6.0% over the year in FY2020 to 4,194.2 billion yen and 360.9 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 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 make a structural shift and still achieved favorable results. By company, net sales improved for four companies excluding CTC, while operating income grew for all five. The Companies' forecast was conservative on the whole because of the COVID crisis, but actual results were better than initial projections.

On the financial front, the Companies' aggregate shareholders' equity ratio as of March 31, 2021 rose 2.4 points from a year earlier to 45.2%, with DER falling 0.05 points to 0.36x, indicating that the Companies' favorable performance helped build up equity capital. Meanwhile, interest-bearing debt decreased as growth investments were covered by the operating cash flow. Overall, a sound financial structure was maintained for all of the Companies.

3. Highlights for Rating

For FY2021, the Companies' aggregate net sales and operating income are projected to grow 4.0% and 16.7% over the year to 4,360.0 billion yen and 421.0 billion yen, respectively. All of the Companies expect higher net sales and operating income individually, too. JCR looks at the following points in making rating decisions.

First is trends in orders. In FY2020, sales activities stagnated, investment projects were postponed and so forth especially in the first half, but impacts on orders have since been insignificant despite the repeated declaration of the state of emergency. Given also other factors including tendency in DX, orders are more likely to be robust than the previous year. Moreover, thanks to large backlog of orders at the beginning of the year, the Companies' performance will probably be underpinned to a certain extent with progress in these projects. Yet, because there are customers who are facing tough time, continued attention should be paid to their moves to reduce investment.

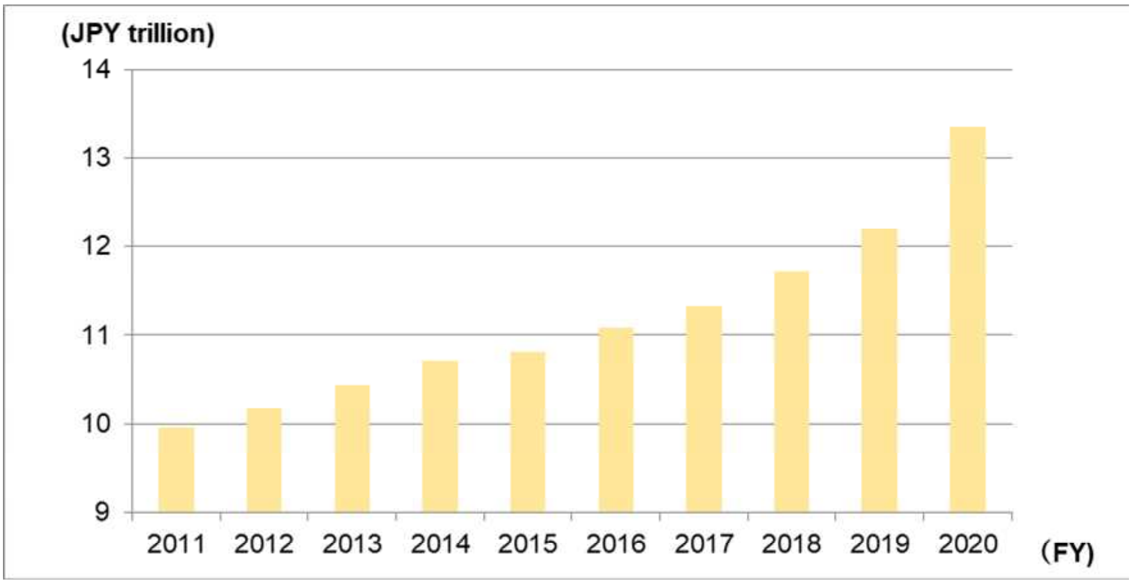
Second is upfront investments and status of their recovery. In recent years, the Companies have been stepping up their response to service provision-type businesses, which center on a stock-type revenue model in which a company receives fees from its customers for the provision of services. Although the Companies need to own assets, price competition is hardly likely 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 at a time when the shortage of engineers continues. 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.

Avoiding unprofitable projects remains essential to maintain 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 will likely maintain solid performance, thus generating a reasonable amount of cash flow. The current investment burden is light, and cash on hand is ample on the whole. Therefore, the Companies have good capacities for growth investments. Moreover, large equity capital gives them strength to withstand temporary losses.

Akihisa Motonishi, Masaki Abe

(Chart 1) Net Sales of Information Services Companies



Source: Prepared by JCR based on Survey of Selected Service Industries by the Ministry of Economy, Trade and Industry
Note: FY2020 figure is discontinuous from previous years' due to a change in the companies surveyed. Adjusted rate of growth from the previous year was negative 1.3%.

(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)	FY2019	IFRS	22,668	5,722	25.2	1,309	5.8	751
	FY2020	IFRS	23,186	5,845	25.2	1,391	6.0	768
	FY2021F	IFRS	23,600			1,800	7.6	1,060
NRI (4307)	FY2019	JGAAP	5,288	1,808	34.2	831	15.7	692
	FY2020	JGAAP	5,504	1,853	33.7	865	15.7	681
	FY2021F	JGAAP	5,900			960	16.3	660
CTC (4739)	FY2019	IFRS	4,870	1,180	24.2	416	8.6	284
	FY2020	IFRS	4,798	1,214	25.3	436	9.1	304
	FY2021F	IFRS	5,200			485	9.3	330
TIS (3626)	FY2019	JGAAP	4,437	1,058	23.9	448	10.1	294
	FY2020	JGAAP	4,483	1,137	25.4	457	10.2	276
	FY2021F	JGAAP	4,700			485	10.3	322
SCSK (9719)	FY2019	IFRS	3,852	971	25.2	400	10.4	287
	FY2020	IFRS	3,968	1,029	25.9	458	11.6	334
	FY2021F	IFRS	4,200			480	11.4	340
Total	FY2019		41,117	10,742	26.1	3,406	8.3	2,310
	FY2020		41,942	11,080	26.4	3,609	8.6	2,365
	FY2021F		43,600			4,210	9.7	2,712

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	DER	Shareholders' Equity Ratio	Net Interest-bearing Debt
NTT DATA (9613)	FY2019	IFRS	5,979	9,396	0.64	35.0	3,925
	FY2020	IFRS	5,789	10,728	0.54	37.0	2,918
NRI (4307)	FY2019	JGAAP	1,029	2,713	0.38	50.9	22
	FY2020	JGAAP	1,174	3,531	0.33	56.0	▲ 356
CTC (4739)	FY2019	IFRS	0	2,316	0.00	52.8	▲ 746
	FY2020	IFRS	0	2,547	0.00	55.1	▲ 809
TIS (3626)	FY2019	JGAAP	209	2,423	0.09	63.3	▲ 337
	FY2020	JGAAP	431	2,704	0.16	60.0	▲ 398
SCSK (9719)	FY2019	IFRS	553	2,000	0.28	55.3	▲ 563
	FY2020	IFRS	450	2,268	0.20	59.8	▲ 637
Total	FY2019		7,772	18,850	0.41	42.8	2,301
	FY2020		7,845	21,781	0.36	45.2	716

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: 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