Enhancing Sustainable Corporate Value by Achieving Both Business Growth and Strengthening of Sustainability

Business Strategy and Sustainability

As society and the economy undergo significant transformations, NTT has been proactive in self-reforming and contributing to the achievement of a sustainable society by addressing various social issues via its business activities. For continued medium- to long-term growth, it has become important to comprehensively promote management strategy and sustainability.

In recent years, we have shifted our style to place importance not only on financial management but, non-financial management as well. On the financial side, we integrated ROIC into our medium-term goals alongside the traditional EPS goal, starting in fiscal 2018. By adopting a management strategy that prioritizes capital productivity within the Group, we have managed to instill a mindset that looks not just at the amount of returns, but also at the efficiency of invested capital. This has been instilled throughout the organization to a significant degree, and it has been particularly noticeable when discussing various performance indicators, and it has achieved EPS growth.

In May 2023, we announced a new medium-term management strategy that declared our new basic approach as follows: “Innovating a Sustainable Future for People and Planet.” We aim to deepen our existing initiatives and further improve corporate value by tackling the enhancement of business growth and sustainability simultaneously. To this end, we have set goals such as achieving carbon neutrality and promoting AI increase in the market, we recognize that increased investment in growth areas is essential for the NTT Group’s sustainable growth in the future.

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We aim to achieve net-zero emissions by fiscal 2040 and have set EBITDA as a key indicator and aim to expand it through increased investments in growth areas. At the same time, enhancing shareholder returns remains one of our most critical management issues, and we will work to accomplish this while simultaneously expanding investments in growth areas.

Investments in Growth Areas

As expectations for digitalization, cloud services, and AI increase in the market, we recognize that increased investment in growth areas is essential for the NTT Group’s sustainable growth in the future.

The main sectors where we will expand our investments include DX business, data centers, smart life, green solutions, and the IOWN sector.

Among these, the sectors where significant investment amounts are expected and short-term growth is likely are our DX business (approximately 3 trillion yen over 5 years) and data centers (approximately 1.5 trillion yen over 5 years). Given the robust market demand, we have already been investing, but will scale up our investment for further growth.

For our Smart Life business (approximately 1 trillion yen over 5 years), we plan to expand our business, mainly focusing on financial and payment services like “d payment” and credit cards. We aim to grow our revenue by leveraging our “d Point Club,” which has about 16 million members, and offering various services. Beyond financial and payment services, we will invest in video services and healthcare/medical sectors to further enrich our existing services.

In our Green Solutions business (approximately 1 trillion yen over 5 years), we will expand our renewable energy generation projects such as solar and wind power, and invest in storage batteries and energy management systems.

We aim to achieve net-zero emissions by fiscal 2040 and develop solution services that combine green energy with ICT. In August 2023, we acquired Green Power Investment Corporation, which has expertise and experience in wind power generation, with the goal being long-term, stable returns based on the FIT system, in addition to securing renewable energy sources for achieving net-zero by fiscal 2040. As for IOWN, which is a next-generation communications infrastructure initiative we are promoting, it has now transitioned from the conceptual phrase to the implementation phase. In March 2023, we launched APN IOWN 1.0, which leverages one of IOWN’s key features, low latency. In June 2023, we established NTT Innovative Devices Corporation to commercialize photonics-electronics convergence devices. We anticipate investing around 100 billion yen in fiscal 2023, including a 30-billion yen investment in NTT Innovative Devices Corporation, and will decide on further investment expansion based on the progress of photonics-electronics convergence devices.
Improving Return on Invested Capital

As previously mentioned, in our new medium-term management strategy, we plan to actively invest in growth areas. For existing areas, however, we aim to maintain service quality while promoting efficiency, thereby adequately controlling the total investment amount. Moreover, when executing investments in growth areas, we will hold discussions from various perspectives with the Directors and Audit & Supervisory Board Members, and make implementation decisions using hurdle rates such as ROIC in pursuit of appropriate returns. We have accumulated know-how and experience in line with the expansion of our business, such as DX business and data centers, and have begun to achieve steady growth. After carrying out investments, we will monitor them regularly to check for any deviations between initial plans and actual performance and promptly take corrective measures.

Enhancing Shareholder Returns

Our core philosophy regarding shareholder returns continues to prioritize steady dividend growth and aims to improve capital efficiency through flexible share buybacks. This stance remains unchanged in our new Medium-term management strategy.

Regarding dividends, we have planned for a 0.2 yen per share increase in fiscal 2023, marking our 13th consecutive term of increasing dividends.

For share buybacks, as of fiscal 2022, we have executed approximately 5.3 trillion yen’s worth and have set a cap of 200 billion yen for fiscal 2023.

The Company’s total shareholder return, which accounts for dividends and stock price fluctuations, was 464% over the past 10 years, outperforming the TOPIX/NET index, which is calculated post-tax and including dividends.

Interest-Bearing Debt

We believe that the stable cash flows generated by our business activities will be sufficient to cover the increased cash outflow arising from both expansion of investments into growth areas and enhancements in shareholder returns. While investments in growth areas may include projects that generate returns over the long term, causing them to be viewed as initial investments, we do anticipate that the interest-bearing debt/EBITDA ratio could temporarily rise. However, we will maintain our financial health. In the medium term, we plan to bring down the interest-bearing debt/EBITDA ratio to around two by fiscal 2027 by扩大ing EBITDA in growth areas through investments.

Key Issues in Sustainability

In fiscal 2022, we conducted regular reviews while checking the progress of activities and indicators set forth in the NTT Group Global Sustainability Charter, and we conducted a re-evaluation of our materiality. Discussions were held in the Sustainability Committee, which reports directly to the Board of Directors, and decisions were made regarding the selection of key issues, setting of key performance indicators, and establishment of KPIs for executive compensation.

The method for selecting material issues incorporates a variety of perspectives, including disclosure ordinances, corporate governance codes, opinions from investors obtained during dialogue concerning ESG, inquiries from sustainability research institutions, and exchanges of opinions with experts, all based on two axes: “Growth as a company” and “Solving social issues.” The Global Sustainability Charter stipulates that regular reviews will be conducted annually, and for fiscal 2022, four key sustainability categories have been selected.

The first category is addressing climate change. With the goal of achieving Scope 1 and 2 carbon neutrality by 2040, we have been promoting energy conservation, expanding the use of renewable energy, and implementing IOWN. Our greenhouse gas emissions for fiscal 2022 stood at 2.53 million tons, a 45% reduction compared to 2013, so we are making steady progress. We also aim to achieve net-zero emissions by 2040, including Scope 3, in our new medium-term management strategy. From upstream suppliers to downstream customers throughout our supply chain, we aim to expand decarbonization initiatives through dialogue and engagement. We intend to apply the expertise gained from being an early adopter in emerging markets such as emissions visualization and green solutions to convert business opportunities into reliable sources of revenue.

The second category is human capital. In fiscal 2022, we introduced the Remote Standard system and have developed diverse work styles and environments. In April 2023, we introduced a new personnel salary system focused on expertise, enrich mechanisms for employee growth, and create an environment where employees can fully utilize their capabilities. We believe that increasing employee engagement by enhancing job satisfaction and the desire for challenges will contribute to productivity and innovation. Although efforts are being made to introduce the system, various issues need to be addressed for the system’s operation and implementation, and it is important to better link management and human resource strategies in order to resolve issues in these operations.

The third category is creating new value. We hope to provide new experiences and emotional engagement that exceed our customers’ expectations. Under our new medium-term management strategy, in addition to global co-creation, NTT’s R&D will focus on enhancing customer experience (CX) more than ever thanks to the establishment of a new R&D organization that includes marketing functions.

The fourth category is resilience. As a company providing communication services, we see this materiality as our duty. In addition to dealing with large-scale outages caused by natural disasters, our response to cybersecurity is backed by specialists with advanced technology and expertise. We strive for further strengthening of our business foundation to continuously achieve NTT’s values of Connect, Trust, and Integrity in the future.

Strengthening Engagement and Dialogue with Stakeholders

To support the NTT Group’s business growth and sustainability enhancement, we are looking to enhance our information disclosures. We will also accelerate the PDCA cycle in order to incorporate feedback that has further enriched dialogue with all of our stakeholders into our business strategies and develop new initiatives as appropriate, which will lead to enhanced corporate value.

Specifically, regarding the goals and measures of our new Medium-term management strategy, we intend to keep everyone updated on our performance while also enriching our disclosures and providing comprehensive explanations.

Additionally, we will respect the perspectives of a diverse range of stakeholders—not just shareholders and investors, but also business partners across our supply chain and alliances, as we strive to transition toward an open and innovative corporate culture. We also intend to instill a culture that emphasizes trial and error among our employees through ongoing town meetings and similar forums.

As we continue to shoot for sustainable growth in the NTT Group, we look forward to engaging in meaningful dialogue with everyone as we strive to stay ahead in a rapidly changing society.