Questions & Answers at the Financial Results Briefing for the FY Ended March 31, 2023

April 28, 2023
NEC Networks & System Integration Corporation

* New fiscal year: FY 2024/3
  Previous Fiscal Year: FY 2023/3
  Previous Fourth Quarter: FY 2023/3 Q4 (January to March 2023)

Questioner A

Q: Regarding your forecast figures for the new fiscal year, looking at the operating margin you project improvements in the Network Solutions (NWS) segment and Environmental & Social Solutions (ESS) segment, but expect the DX Solutions (DXS) segment to be on par with the previous year. What explains these differences across segments, and what is your approach for each?

A: For DXS, in addition to growth in DX/workstyle innovation, we expand increased revenue as we work through our order backlog, and we will make steady improvements to gross profit, including the gross margin. However, our strategies have also progressed, and to further accelerate toward the targets of our medium-term management plan, we have incorporated an increased in SG&A expenses as growth costs. As a result, the operating margin will remain flat in the new fiscal year.

In the NWS segment, we expect the tough conditions for the business of telecommunications carriers to continue, but social infrastructure-related business is strong. In addition, as orders received in FY 2023/3 Q4 were strong, we can expect sales from those orders to be realized in the new fiscal year. We think OP will expand from the effects of increased sales and due to improved profitability.

For the ESS segment, shortages of semiconductor, and various materials are on track for recovery and in response we will work through our order backlog while improving profitability with the aim of earning increased profit.

Questioner B

Q: What is the business environment like in each segment? In particular, how is the recent situation compared with what you expected in the medium-term management plan?

A: In the DXS segment, recently our existing businesses and the DX service business continue to be in a transition period, but we understand that progress is being made in replacement with DX services and we are moving in a positive albeit gradual direction.

Under these circumstances, we recognize the need to maintain a smart balance between growth and investment as we determine how fast we can accelerate to strengthen our structure.

In the NWS segment, we had expected 5G to grow, but telecommunications carriers have put the brakes on clear investment plans have obviously put the brakes on investment plans and we expect that stance to continue in the current fiscal year. In addition, we have also made gradual steps in launching local 5G for special uses that take advantage of its characteristics, but full-scale investments in this area are around two years behind our initial expectations. At the same time, we have greater than expected action in social infrastructure-related activities such as submarine and space-related business. We will continue to use this to cover the decline in business among telecommunications carriers, while making preparation for the coming full-scale expansion in the field of next-generation networks.

In the ESS segment, investment in digitalization among local governments under community development themes has picked up, and this has also coincided with upgrade investments in the firefighting sector and similar areas. We are looking to take full advantage of these opportunities.

Q: The operating profit of 24 billion yen you projected for the new fiscal year appears lower than what you expected for the second year of the medium-term management plan. What is your strategy for achieving the target of 34 billion yen?

A: Environmental changes such as FX fluctuations and shortages of semiconductors and various materials have bottomed out, and we started to see signs of improvement during FY 2023/3 Q4. In the new fiscal year, we will continue to invest aggressively. While we don't intent to increase investment at this same pace up to the final year of the medium-term management plan, we will start to see the effects of that investment. In addition, we will use our forecasts this fiscal year as a base from which to build on, and we hope to gain momentum in the final year of the plan.

Q: It looks like your forecast for the first half of the year is no longer disclosed. What is the reason for this? Additionally, how should we look at the balance between profit in the first and second halves?

A: In the case of NESIC, since our results always tend to be weighted toward the end of the fiscal year and results in the first half of the year are highly variable, more than anything this is a reflection that sharing a first-half forecast could mislead investors. However, we think there will be no change to the trends seen in the balance between the first and second halves of the year, and our desire is to improve upon the previous year's results even in the first half.

Questioner C

Q: The situation with the COVID-19 pandemic has calmed down and we have started to see changes such as workers returning to offices. Have there been any changes in terms of business inquiries from customers or proposals delivered by NESIC?

A: The COVID-19 situation may have eased, but we have no returned to a pre-pandemic state of events. The importance of DX utilization has been recognized, and the demand for working styles that reflect that new normal have changed in response. In addition to the way people work, we also sense that what companies require in terms of working styles, including corporate structure and culture, has become more sophisticated. NESIC is itself also utilizing technologies such as digital twins to switch to service provision models that will meet those needs. We mentioned that our large recurring accounts increased by 5%, and this customer segment is at the heart of those needs.

Q: You mentioned aggressive spending on growth. What exactly will the spending be used for?

A: In the previous year, roughly 40%* of the 3.5 billion yen increase in SG&A expenses was allocated to the HQ relocation, and the remainder was mainly for the development of solutions and investment in businesses to strengthen resources and so on. In the new fiscal year, we intend to increase spending for similar purposes, but expenses from the HQ relocation will no longer apply, and in its place we plan to significantly increase mission-critical system-related IT investments to enhance data utilization.
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Questioner D

Q: In last year's results for the NWS segment, you mentioned submarine and space-related growth. What kinds of businesses does this refer to? Additionally, do you expect a continued expansion of this social infrastructure domain in the future?

A: In the submarine business, we are mainly engaged in cable laying operations including the design of submarine communication network routes and cable landing. This is a business we work on in coordination with NEC. As this business enables us to repurpose or apply technologies to other businesses such as offshore wind, it holds promise for the future. In addition, submarine communication networks themselves are a specialized field that other companies are not working on, and we use special technologies including excavation techniques associated with the cable landing, so this is not the kind of work that any company can carry out.
In terms of space-related business, we have seen customers make solid investments in communications equipment designed for use in space, and this is a business we are

directly contracted to perform. While conditions in the NWS segment are challenging with respect to telecommunications carriers, social infrastructure-related businesses are performing strongly and we believe they will provide the cover needed to whether the difficult situation regarding telecom carriers.

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