<u>Symphonict Business Webinar Briefing Q&A</u>

December 4, 2023
NEC Networks & System Integration Corporation

Questioner A

Q: What is the price per project and profitability with Symphonict? To what extent will the project price increase?

A: It depends on the project. On average, it is about five million yen per project. In terms of profitability, the GP margin in the current first half is 22% throughout the DX solution business (hereinafter "DXS"). This is a consequence of the expansion of Symphonict-related domains, where existing businesses alone would not be able to expand to that extent. In the future, we will aim at a GP margin between 25% and 30% by combining our existing businesses with the Symphonict service.

No numerical targets have been set regarding the increase of the project price. Many customers start small. Offering a service for five million yen is not the end of the relationship. From there, we can try to upsell the customer, providing more and more to them. For example, advances in the linkage to IT systems have recently caused demand for the revision of the OT (Operational Technology) networks used in plants and other worksites and for the revision of network security to grow. We offer these as BPO services including the operation and supervision of security, thereby increasing project prices.

Q: You have explained some examples. Which ones of these are you currently receiving many inquiries about or is expected to expand in the future?

A: They are strongly associated with needs relating to workstyle innovation, which we have worked on for many years. Also, these are the domains where customers place the biggest expectations on us. Today, workstyles and offices at most companies are essentially as they were before the COVID pandemic. Workers going back to their offices is increasing the need to review their communication styles and the design of offices and meeting rooms in accordance with the hybridization of working in the office and telecommuting. Also, we are seeing great demand related to the DX of management by connecting the head office to existing on-site ICT systems designed for purposes such as video surveillance. To date, ICT systems have been built separately. Now we see many cases in which systems are proposed as integrated DX services that include network security, starting from customers' problems and goals. In addition, we have received many inquiries about digital twins, demand for which is actively growing, especially digital twins that will be used in public facilities, warehouses and plants.

Questioner B

Q: You said Symphonict is not about selling a platform, but offering a combination of different services that can consequently incorporate Symphonict's functions into it and that Symphonict can profit from. Is that correct?

A: As you see, this is not the business model of offering the Symphonict platform alone to customers to profit from it. This is connecting a group of services operating on a platform using APIs and a network to generate high added value—assembling them into a single service and offering it to customers. I consider this to be an integrated service.

Questioner C

Q: Could you explain your ability to negotiate with cloud service providers? After the success with Zoom, you are gaining a higher reputation among vendors. Please share your views from the two different perspectives of keeping existing vendors and acquiring new vendors.

A: Advancing this business requires relationships with many different vendors providing cloud computing services. I spent three years from 2019 in Silicon Valley discussing issues with many partners and startups. I feel the most important part of that experience was the networking. Person-to-person relationships, more than just the exchange of written agreements and socializing, are very important in Silicon Valley. I felt this while I was working there. Now, many of the top executives of startups and high-tech companies in Silicon Valley are of Indian ancestry. Entering the community and gathering information from there to predict future trends are important.

Personally, I went to India in this September and saw the startups there up close. Going forward, I will also stay up to date on trends in India and other countries and regions outside the United States to discover many different startups and discuss their commercialization.

Questioner D

Q: Concerning the expansion of profit from Symphonict, do you expect profitability will improve in ways other than increased revenue? Could you explain the initiatives or services that may contribute to the improvement of profitability, if there are any? Also, could you explain any factors that may compromise profitability, such as the strengthening of development systems?

A: Regarding profitability, the important thing is shifting to a "recurring -type business" (business based on a recurring relationship with customer). The services we are targeting include NaaS (network as a service), for example. Shifting to these services saves customers from having to shoulder initial costs, which is a huge advantage to them. It also benefits us in the form of stabilized profitability. As we provide these services in such a recurring way, we can expand our business more and more, proposing and adding other new services.

I can hardly think about any risks regarding factors that would lower profitability. Competitors' taking similar strategies pose a risk to us. However, being capable of serving customers on-site, including audio and visual technologies, will significantly help us differentiate ourselves from the rest. Contrarily, some competitors mainly operate on-site businesses. Our major advantage over these competitors is our ability to provide the most advanced cloud services and our relationships with vendors. Moreover, our strength lies in self-implementation, which gives us experience as a user which is invaluable because it enables us to make proposals for use from the customer's perspective. This is an

established advantaged and one that other companies cannot imitate easily.

Q: As customers' demands grow more sophisticated and complicated, they will require decisions to be made at the management level. Do you see any changes to NESIC's sales activities? What are your tactics, if any, for approaching higher layers of management?

A: As you said, it is increasingly important to comprehensively propose solutions starting upstream based on an understanding of what the customers truly need, not the detailed specifications of products. Our sales divisions are developing human resources capable of providing such consultation services while our operational divisions are developing highly skilled human resources such as DX specialists to facilitate the job of the sales staffs.

As for approaching higher layers of management, an average of about 100 customers a month visit our Nihonbashi Innovation Base. These are mainly management-level people. Our higher level individuals, including officers, actively interact with these visitors and engage in management-to-management discussion. This is a characteristic of our company.

Questioner E

Q: Your target involves sales in strategic areas for the DXS business, a KPI for Symphonict. To what extent do you think this fiscal year's target of 35 billion yen and the target for the next and final year of the Medium-term Management Plan, 50 billion yen, will be achievable? You said you are aiming for a GP margin between 25% and 30%. Could you explain the scenario toward your target? For example, by when do you envision the target GP margin to be achieved?

A: In PBX, for example, we receive many inquiries on topics such as the switch from the conventional on-premises businesses to cloud computing. If we unfailingly capitalize on these needs, both targets will be well within the achievable range, in my view.

I cannot clearly answer when the GP margin target will be achieved since we have no specific numerical targets after the current Medium-term Management Plan. The important thing is to connect. Whether it be a conventional service or a cloud service, increasing the profitability of a single service is not easy. But connecting services to each other and adding new services and new value should raise the GP margin.

Questioner F

Q: You explained a plan to expand recurring-type businesses. What are the current sales from recurring revenue businesses?

A: The recurring revenue businesses we aim to establish are a hybrid of the project-type businesses and service-type businesses that we offer as a customer's partner in DX. It will be based on the service businesses involving multi-cloud services such as Zoom and other service-type businesses. Currently, these service-type businesses are nearly half of the DXS segment. By adding Symphonict to this, we will increase our recurring revenue

businesses.

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