

Q&A at IR Briefing for Financial Results for the
First Half of Fiscal Year Ending March 31, 2020

October 30, 2019

NEC Networks & System Integration Corporation

Questioner A

Q : You explained that orders related to firefighting network systems grew in social public infrastructures in the first half, but there was special demand for the digitalization of firefighting and ambulance radio systems in the past. Is the reason for the strong results this time different from this? What are the factors for the growth in orders, including the background and supplement, if any, such as any special demand?

A : The growth in social public infrastructures comes out most prominently in the area of firefighting network systems. There was special demand for the digitalization of firefighting and ambulance radio systems, and along with this, demand for the renewal of commanding systems expanded from around 2014 to 2016. Subsequently, however, there was an off-crop season as a backlash to these developments. We regard the growth in social public infrastructures this time as the return of the renewal business to a routine pace. In addition to firefighting systems, other fields are growing in general, including businesses for cable television operators. Rather than saying that there was some significant special demand, I would say that each of the businesses we have been undertaking grew little by little.

As a new initiative, we are improving the quality of our proposals and increasing their range, including proposal activities incorporating new technologies, as a result of the reorganization in April by which staff in social infrastructures and those with skills for carriers got together. In fact, we have been receiving a lot of inquiries, and we would like this to lead to achievements in the second half and beyond.

Q : I suppose that some of the expenses for growth were carried over to the second half given the higher-than-expected results for the first half and the upward revision of the full-year results forecasts, but what is the current progress of the expenses for growth? Is there any change in your plan to spend 5 billion yen in the current fiscal year? In addition, what are your thoughts regarding the expenses for growth after the next fiscal year?

A : We spent 1.7 billion yen as expenses for growth in the first half, which is an increase of 0.9 billion yen from the same period of the previous fiscal year. About 0.5 billion yen of what we had planned to spend in the first half has been carried over to the second half, but we plan to spend 5 billion yen in the full year as planned. After the next fiscal year, an

office realignment cost of 2 billion yen for the current fiscal year will disappear as temporary expenses, and we will make a decision on the remaining basic expenses for growth of 3 billion yen when necessary in light of our medium- to long-term strategies and the circumstances.

Q : You said that you would decrease the floor area of the head office in Iidabashi associated with the office realignment, but will this result in the reduction of the rent as well?

A : The rent for the head office floor in Iidabashi will decrease as a result of dispersing it to the suburbs, but the total office rent will not change much because we will have a new epoch-making office (innovation base) incorporating advanced technologies in Nihonbashi and create a technical center including a 5G laboratory in Shin-Kawasaki.

Q : Looking at the final year of the medium-term management plan, I feel that your medium-term sales target of 310 billion yen has come close as your full year forecast of current fiscal year was revised to 300 billion yen, but I feel that you need to raise the level further to achieve your operating income target of 20 billion yen. As an approach for achieving the operating income target, which do you think you will place more emphasis on in terms of direction: whether you will grow the topline further or whether you will improve the operating income margin, although only six months have passed?

A : We want to improve both. While the expansion of the topline is important, we think that it is also possible to improve profitability by increasing the efficiency of resources through the reorganization that is in place. In fact, we have been bearing fruit in this area in the first half. In addition, we think that we will be able to improve profitability by increasing the service business utilizing digital technology. Accordingly, we would like to work to improve both the topline and profitability by placing emphasis on both.

Questioner B

Q : Do you obtain a benefit from the renewal demand for Windows10?

A : Demand for Windows10 has been generated since around the previous fiscal year. However, because our business is centered on network fields, the volume of the demand is not that high compared with other system integrators.

Q : Regarding local 5G, given that you are engaged in both ICT and construction, there appear to be a lot of business opportunities. Do you have anything to report in this regard?

A : Because we have a large number of radio engineers who will become increasingly important for 5G, we have sufficient capabilities to respond to networks in the 5G era.

We have also developed a framework in consideration of 5G, and we think that local 5G is promising as a core of our future business. We believe that it will take a little more time for local 5G to begin in earnest, but it is being talked about a lot at the moment. Because talks at the level of PoC (Proof of Concept) are also increasing, we will work on local 5G in order to be able to tell you about the concrete outcomes in the years to come.

Questioner C

Q : Your financial statements say that sales for telecom carriers were carried over to the second half, but some say that orders from carriers have been delayed, while others say that 5G orders will be frontloaded. What is the background for the carrying over?

A : As a means of expanding business for telecom carriers, we plan to increase the share of the construction of base stations through K&N System Integrations Corporation, a joint venture company with KDDI Corporation, but this plan has been carried over to the second half. Looking at the performance for the full year, we think that we will be able to aim for sales for telecom carriers as planned by catching up on the delay in the first half under the current circumstances. Various plans have also come out for 5G, and we will proceed with them actively while assessing the market movements.

Questioner D

Q : Could you explain the factors for improved profit in Network Infrastructures by dividing them into the impact of the higher sales and the impact of the reorganization?

A : Of the increased profit of 0.8 billion yen in Network Infrastructures, the impact of higher sales is an improvement in gross profit corresponding to an increase in sales of 1.2 billion yen from the previous year. Other than this, approximately 0.2 billion yen is the impact of eliminating unprofitable projects carried out in the previous year and the impact of improved efficiency through reorganization and others.

Q : Some other companies provide multi-cloud services. How will you differentiate your services compared with your competitors?

A : Regarding cloud services, we were among the first to discover Zoom, a globally competitive communication service, when it began operating in Japan, and we achieved a considerable share by entering into an exclusive contract covering the initial period. We believe that our capability of not only introducing Zoom, but also making proposals to customers by linking up and combining with various ICT tools around Zoom, is a factor that has led to our differentiation.

We also believe that our capability of making a linkage among clouds in terms of how to

combine them and how to use them is the point where we remain a step ahead of our competitors. In addition, we have verified the effect of our cloud services through our practice. Our ability to provide customers with cloud services by showing them the value in a proper manner based on the achievements of our practice like this is also the point of our differentiation. We will continue to promote the effect of the multi-cloud to customers through our own practice.

Questioner E

Q : In October, you released a platform service that will easily realize the multi-cloud as one of the Symphonict services. Have you not provided such a service in the past? Or have you already worked on it as part of your practice?

A : We have already taken actions for internal use since last year and provided it to customers at the PoC level starting about half a year ago, but we began providing the service officially this time in October.

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