Q&A in the Briefing on the Digital Solutions Business

NEC Networks & System Integration Corporation

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Questioner A

Q: Page 9 of the presentation material lists the factors for sales expansion. What will be the growth driver in the future?

A: We have been expanding workstyle innovation-related businesses using our expertise developed over more than 10 years. We will continue to expand these businesses while applying DX technology to them. We plan to broaden the businesses by combining workstyle innovation and DX.

Q: Page 21 shows a 15 billion yen target for orders received in the DX business in FY ending March 2022. Meanwhile, the Symphonict release issued last October stated that the size of the DX-related businesses in 2021 would be 30 billion yen. Explain this difference.

A: The level of orders received in the DX business in this presentation material is limited to the target for DX solutions. We estimated a business size of 30 billion yen as stated in the Symphonict release, expecting to develop related businesses of similar sizes developed along with DX solutions.

Q: Describe the current size of the Zoom business.

A. Zoom-related orders comprise slightly less than half of the 5 billion yen target for orders received in the DX business during the current fiscal year. Excluding Zoom licenses, this includes peripherals such as displays to receive all benefits of Zoom.

Questioner B

Q: I assume that demand for teleworking is rising partly related to efforts to cope with the COVID-19 coronavirus situation. What are the teleworking-related issues faced by customers and the keys to solving them?

A: Because teleworking involves working from home or other places such as satellite offices, ensuring security becomes very important. Our employees also work remotely, and we are using tools such as a CASB* to increase security when we use SaaS and cloud services.

  *CASB stands for a cloud access security broker.
  It places a single control point (CASB) between users and the cloud service to centrally control the use of the cloud service.

Q: Will you change the target or other plans for the DX business in response to recent changes in the business environment caused by factors such as the coronavirus?

A: While demand for teleworking is rising, there are concerns about an economic slowdown and we are uncertain at this point how such factors will affect our business. Rather than

changing our targets, we are still at a stage of carefully assessing the impact.

Questioner C

Q: In the case of Isetan Mitsukoshi, which is described on page 20, what was the key to successfully expanding the business from Step 1 to the new service using DX in Step 2?

A: The automation of the reception service is also the solution used at our Nihonbashi office, and we believe that the customer understood the convenience that it offered when they actually see it. We presume that Isetan Mitsukoshi also recognized the benefits, including solving customer needs, such as the reduction of working hours of operators to cope with the coronavirus pandemic and increased efficiency in the use of DX.

Questioner D

Q: Currently, the free version of Zoom with a limit on continuous usage time is becoming popular. After the expansion of Zoom, how will the NESIC's Zoom-related business grow?

A: Zoom-related businesses have been expanding and demand is growing in peripheral areas, such as signage and cameras. We hope to develop services using Zoom, including the automatic preparation of minutes and simultaneous translation of meetings. We also hope to develop multi-cloud services such as linking Slack (business chat app) to Zoom meetings by combining them.

Q: Currently, regarding DX, user companies are lacking a number of elements such as resources, hardware, and communication lines. While expanding service-based businesses, are you considering the provision of your services by charging fees for the use of hardware per user, including renting part of the satellite offices? In addition, do you provide services that are similar to consulting using your expertise in workstyle innovation?

A: We are currently examining the feasibility of providing hardware and communication lines as a service model. Although we do not rent satellite offices, we think that we can use them as places of co-creation with a variety of companies. As for consulting services, we are already providing consultations for approaches to workstyles and satellite offices.

Questioner E

Q: In the recurring model on page 13, what types of companies will be threats as competitors? Will overseas companies also be competitors? Will Japanese system integrators such as CTC and Net One Systems be competitors?

A: In this model, it is important to accurately understand customer demand and respond to the underlying issues. Japanese system integrators will be our competitors, not overseas ones. We are already partly in competition with Net One Systems and CTC, which you mentioned, and we expect to continue competing with them.

Q: In the case of Isetan Mitsukoshi, did the cost reduction effect on the side of the customer in Step 1 contribute to Step 2? How much of the reduction was achieved? Which department made the final decision in this case? Did executives' understanding play a key role?

A: While we are unable to disclose the specific amount of cost reduced, Isetan Mitsukoshi said that the benefit was significant, and we understand that this benefit and the ease of linking a variety of systems using our cloud-based voice service contributed to the next step. The system department was the liaison in this project, and we heard that the decision was made because of the executives' understanding.

Q: What is the current profitability level of the DX business?
A: The DX business boasts higher profitability than other areas. We hope to incorporate the DX elements in segments other than digital solutions, such as the network infrastructures and engineering and support services to actively grow these businesses.

Questioner F
Q: How are you securing resources to develop DX?
A: Although we must work hard to secure resources for DX, we are hiring both new graduates and mid-career employees with experience in DX, and are also providing internal education. We are developing human resources by periodically sending promising employees to North America. In addition, we are working to acquire resources that we lack by outsourcing them from various vendors and ventures.

Questioner G
Q: What are the bottlenecks in the operation of the recurring model from both sides of supply and demand? Is this demand growing as a result of the coronavirus? What are the changes in customer needs, if any?
A: Demand related to teleworking and satellite offices is strong and has been growing rapidly since the beginning of this year. Therefore, we must increase the resources to provide consulting services. Not limited to responding to customer demand, the key in the recurring business is to appropriately acquire and use information and data, and to develop them into the next business. We think that we need improvement in this aspect. Customer needs are shifting from physical infrastructure such as office efficiency to human factors such as the ways people work, as seen in growing demand for higher efficiency using RPA and other technologies, and visualization of operations to work remotely.

Q: You have said that you hope to expand the DX business three fold, but what are the market trends?
A: We expect that the market size in this area will rapidly increase and we are aiming for business expansion that will exceed the market growth. We plan to achieve such growth based on multi-cloud solutions, connectivity such as 5G communication and Wi-Fi 6, and the Symphonict platform.

Questioner H
Q: You have said that people are quite busy in response to demand for teleworking. Considering the need for individual customization, have there been changes such as an

increase in lead time for meeting customers' requests?

A: As you pointed out, the operation is at a high level; however, we have been able to respond flexibly to customers' requests and have not seen any significant increase in lead time. Also, unlike network system integration, our services, such as introduction of Zoom, do not require much time for installation. We plan to expand businesses that are not labor intensive in the development of services.

Q: Is the target for the DX business the same as for the digital solution business? Is it the target for the entire company?

A: It is the target for the entire company, including other segments, in which the digital solution business comprises 80%.

Questioner I

Q: The DX business must have a number of competitors. What are the strengths of NESIC?

A: We consider our unparalleled strengths to be the use of the DX technology mostly in the market of workstyle innovation, in which we have a record of accomplishment and expertise built over more than a decade, and our ability promptly accept sophisticated new services and technologies through our strong relationships with ventures. We also consider our ability to make proposals from our customers' perspectives by actively using our services as another strength. In addition, we have a strong customer base, particularly in the PBX area of the network market, and we think that our ability to make proposals for cloud computing in combination with such a customer base is also one of our strengths.

Q: Will DX help increase the opportunities to acquire new customers?

A: We are growing our customer base using strong services, such as Zoom, and receiving inquiries from new customers. From there, we are expanding the business to services, such as other workstyle innovation solutions and security. We will consider inside sales using websites in addition to the sales activities of our sales staff.

Questioner J

Q: Define the DX business. What are major businesses besides Zoom?

A: Besides Zoom-related businesses, voice-based services such as the cloud-based voice service are growing relatively quickly. In addition, services that contribute to business process automation, such as the OCR service using AI, have been increasing. Constituents considered the DX business include consulting and tools related to digital technologies, such as process automation, multi-cloud solutions, such as Zoom and Slack, platforms provided by DX, such as Symphonict, IoT and communication lines, as multi-connectivity, and displays and cameras as well as hardware associated with them.

Q: What will be extent of teleworking introduced by companies? If teleworking has already been adopted by many companies in response to, for instance, the Olympics, how will you expand your business?

A: We understand that many large companies have already introduced teleworking. However, we think that we will be able to expand the solutions to provide, such as security upgrades required for the introduction of teleconferences and distributed offices, and a shift to paperless operations and electronic approval to allow remote work. There is adequate room to develop businesses other than Zoom. We have grown from office innovation, teleworking, distributed offices, and more, and hope to progressively improve solutions to provide for workstyles that will promote active innovation.