

Q&A at IR Briefing for Financial Results for the  
Fiscal Year Ended March 31, 2020

NEC Networks & System Integration Corporation

Date and Time: Wednesday, May 8, 2020 from 10:30-11:40

Questioner A

Q: I imagine that the Company is experiencing difficulties such as a worsening economic environment and challenges with sales activities because of the COVID-19 pandemic (hereinafter, "Corona"). However, it seems that the telecommunication infrastructure businesses are not seriously affected. Looking at the construction industry, there are even signs of resuming previously suspended construction work. How do you assess the impact of Corona on projects, orders and sales?

A: We do not see a major impact on projects, with respect to telecommunication carriers. Having said that, we have reduced the level of our on-site operation to one third with customers' consent to prevent the spread of infection. There are no serious impacts at this point at large. However, if this situation continues for a long time, sales from some projects may have to be postponed. We do not foresee any material impacts on orders, because we have successfully conducted operations through a range of measures, such as Zoom, even in a situation where we rely on teleworking. If the pandemic is unlikely to be under control in the foreseeable future, customers may hesitate to continue to make investments because their businesses will also be significantly affected. If the pandemic is under control by the end of May, we do not consider such impacts to be significant. Given this unprecedented situation amid constant changes, we will continue to navigate businesses carefully.

Q: You have been using the expenses for growth to raise operating profit ratio to the 6.5% level set out in the medium-term management plan. Looking ahead, what are your thoughts regarding profitability improvement and expenses for growth?

A: Excluding the mega-solar project, whose unprofitability further deteriorated, we evaluate that actual profitability has been rising significantly thanks to a range of measures, including the improvement of productivity through digital technologies. However, there is still room for improvement. We will thoroughly examine the content of each business and improve profitability by enhancing highly profitable service-oriented business models as well. We will continue to use the expenses for growth as planned, because they are needed for the development of new businesses.

Q: It is expected that there will be growing needs for digital services as well as workstyle innovation in post-Corona society. What are your thoughts on the future development, going forward.

A: Distributed work is an initiative that we are promoting ahead of other companies, which offers an advantage from the perspective of acting as a frontrunner. We expect that such demand will grow significantly in post-Corona society. We want to be in an even better position by making the most

of our advantages.

Questioner B

Q: It appears that workstyle reform-related solutions that NESIC provides are strong enough to offset a decrease in sales resulting from lower corporate IT investments attributable to a decline in business confidence. Even so, do you consider that downward pressure on IT investments is stronger at this point?

A: Workstyle innovation-related businesses may not be seriously affected, partly due to some positive factors. However, looking at other businesses, given the information that IT investments may be postponed in some industries, such as manufacturing companies and hotels, we are in the midst of examining how the situation will develop as a whole.

Q: You said that you will expand sales to governmental and educational institutions. What are your thoughts on the scale of such sales? Am I correct in understanding that they will grow significantly during the period covered by the next medium-term management plan?

A: We do not currently have a large customer base for sales for government and educational institutions. Currently, we are providing assistance for remote classes, etc., using Zoom. Given the strong interest we have been receiving, we will work to build good business connections using this opportunity and gain a foothold for further expansion. We started to see such a sudden rise in demand around March, to which we will respond promptly instead of working on it seriously in the next medium-term management plan.

Questioner C

Q: I understand that many people use Zoom with free IDs. Am I correct in assuming that the number of users with paid IDs is increasing? In addition, I suppose that demand associated with peripheral products and security, among other technologies, are rising. What is the level of contribution to your business results as a whole?

A: Users with a free ID are subject to restrictions, which include time limits. We provide Zoom-related services to users with paid IDs, because demand for paid ID-based services is stronger in business use. Zoom-related sales, including those from peripheral areas, amount to 2 to 3 billion yen. Due to the Corona crisis, many customers are interested in obtaining licenses for starters. Looking ahead, we can understand their needs while cultivating business relations and expand business by providing new solutions. With frontline members busy responding to customer inquiries at the present time, we will start to work on initiatives for the full-scale development of customers, such as an analysis of their needs, at a later stage.

Questioner D

Q: How large are 5G-related orders? What are your thoughts about future development?

A: Since we are a provider of SI services, not a hardware supplier, our current status for received orders is not particularly large in size. So far, orders that have been received in relation to

migration come to a few billion yen. Even so, we are still at the stage of tapping into preliminary demand for 5G before it is popularized in earnest. We will work on projects reflecting such demand during the period covered by the current medium-term management plan.

Q: It is expected that teleworking will be carried out broadly in post-Corona society. As a person who has started to work from home, however, I feel that it is difficult to work on new assignments. What are the insights of NESIC, as a company that engages in advanced initiatives for workstyle innovation, with respect to the evolution of workstyles, going forward?

A: We have been promoting teleworking from the start. We have been noticing the difficulties in the implementation of teleworking, due to factors such as the existence of other family members and facility constraints while teleworking provides advantages for long-term care and child bearing. Given such a background, in 2019, we started to promote a distributed work system in which satellite offices are established at locations convenient for commuting from home. We expect that it will change the way we communicate. With the system launched several months ago, we are still in the process of accumulating knowledge through in-house implementation. We will leverage this knowledge as expertise and provide consultations to customers, going forward.

Questioner E

Q: I think you were expecting to increase your market share in the base station business, which was one of the targets set out by K&N System Integration, a joint venture established with KDDI. What is the current status?

A: We are unable to provide you with a specific market share. We can say that it is increasing as projected.

Q: Looking at efforts to strengthen the business capability, you are making progress on improvements in profitability and productivity thanks to the effect of reorganization. What are your thoughts regarding room for future improvements and the timing at which the effects of such improvements will be generated on a large scale?

A: We implemented a large-scale reorganization in April 2019. As a result, we are beginning to see the effect of consolidation; for example, the efficient redeployment of resources to navigate a variety of situations, such as busy seasons and business fluctuations. There is still room for improvement, but the speed of improvement will be moderate, because we have to work on other challenges, such as efforts to increase the number of qualified staff members in the construction business.

Questioner F

Q: What impact has Corona had on the mega-solar project?

A: It has not yet been impacted by Corona. We are carefully taking a number of measures. For example, if it is necessary to send construction staff from Tokyo to construction sites, we will

establish a quarantine period, which should be observed after arrival at the respective sites.

Questioner G

Q: You said that demand for teleworking is increasing. As a company that has been supporting workstyle innovation for more than 10 years, what recent demand do you recognize due to the impact of Corona?

A: In recent months, we have seen growth in demand for instruction about Zoom and Slack or communication tools that enable people to work from distant places. We have been undertaking workstyle innovation since 2007 and teleworking since 2017. Now, we are taking on challenges to spotlight advanced style, namely, distributed work, while also providing customers with relevant information, such as issues and expertise that we have experienced and gained through the implementation of the work. We are trying to develop this process into a recurring business by providing consultation on such questions regarding how offices should be improved and what measures should be taken to maintain security from the perspective of teleworking.

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