

Q&A at IR Briefing for Financial Results  
for the First Half of Fiscal Year Ending March 31, 2021

October 30, 2020

NEC Networks & System Integration Corporation

Questioner A

Q: Regarding the impact of the COVID-19 Coronavirus (“COVID-19,” hereafter), there must be both positive and negative effects. What was the situation in the first half of the year, and what is your outlook for the full year in this respect? In the first half of the year did COVID-19 primarily impact domestic operations?

A: The impact due to COVID-19 has manifest in various ways, both large and small, but particularly in the service industry and in relation to airports, customers have been postponing their investments. There has been some impact overseas but for us the effects have mainly been seen in Japan. In terms of the impact on the profit front from postponed investment or project delays resulting from COVID-19, there was a decline of roughly one billion yen in the first half of the year. On the other hand, investment in the areas of GIGA schools and digital transformation (DX) has been strong in response to COVID-19, and particularly with regard to DX, while the monetary effects will be realized down the road, we are seeing results in terms of new customer development.

As for how we see the second half of the year, even compared with last year the immediate situation is on par in terms of the large number of prospective projects. However, our corporate customers have been hit hard by COVID-19, and although there is a possibility this will end up having little impact, right now we are taking a hard look at the likelihood of this. In terms of profit, our forecast for the second half of the year is a fall of about one billion yen, reflecting the risk of the COVID-19 situation worsening again due to a re-declaration of a state of emergency or other developments.

Q: GIGA School performed strongly in the first half of the year, and in the future we will see advancement such as the digitization of government. How will this kind of digitization in the public sector impact NESIC?

A: It is hard to envision NESIC going in as the main supplier of large governmental systems, but providing services to companies and residents relative to the digitization of government is conceivable. Although the details are still forthcoming, we believe there is a lot of potential in providing services without

the need for signature stamps, and services to residents by utilizing cable TV connections. As for GIGA School, we received significant orders for the service itself primarily in the first half of this year, but this is a market that NESIC had not previously been working on, and we expect there is room for expansion through cross-selling and up-selling beyond these projects, such as in relation to workstyle innovation for teaching staff.

#### Questioner B

Q: What is the status of business inquiries regarding distributed work? And around when do you think distributed work will manifest as business in a big way?

A: We have received a lot of attention from customers related to distributed work in connection with the spread of COVID-19. At this stage we deal with more projects that support for remote work with a focus on enabling work from home, but we have already received orders for and delivered on some distributed work projects. Prospective projects are on the rise and we expect them to expand moving forward. At NESIC, our initiatives have been based around the concept of employee well-being, but many customers are also focused on distributed work from the perspective of business continuity planning (BCP), and there has been talk of things like decentralized data centers, for example.

On the timing of actual implementation, the effects of COVID-19 are still very apparent, making it difficult to actually select office space, and we believe projects will emerge when the effects of COVID-19 have subsided somewhat. For the meantime we are mainly dealing with customers with urgent concerns such as BCP.

Q: What kinds of solutions are you thinking of rolling out for cross-selling and up-selling targeting the recently expanded educational market?

A: One of the things we have already started working on is the development of an online streaming studio utilizing Zoom and the operational services that go along with it. We also expect there are a lot of new things we can do in the educational sphere through co-creation initiatives with customers, such as initiatives to utilize the education-related information gained through this kind of support as big data.

#### Questioner C

Q: GIGA School projects drove orders in the first half of the year, but how did these projects perform in terms of profitability? In the revised full-year forecast that

was announced this time, forecast operating income margins in both the Digital Solutions (DSL) and Engineering & Support Services (ESS) segments are down from previous forecasts. Is this due to GIGA school projects, and what are your thoughts on future solutions to be implemented following GIGA school?

A: The area of GIGA School comprises projects focused on client equipment and devices such as PCs, and projects that involve the development of networks. The client equipment and device-focused projects mainly involve arranging physical goods, which lowers profitability. Projects that involve network development are more profitable than those, but they are won through a competitive bidding process, and these tend to be slightly lower than the company-wide average. Those projects are what is putting downward pressure on profitability in both segments.

For the customers we have developed relationships with through GIGA School, future prospects include projects that involve studio equipment such as the projectors as mentioned earlier, and moving forward we hope to offer support for things like online lessons.

Q: Regarding the DX business, you have rolled out solutions such as a multi-cloud service that utilizes Symphonict, but what kinds of cloud services do you think are growing? Is there any change compared with the situation in the first quarter where Zoom was on the rise?

A: In terms of customer development, Zoom has contributed a great deal, primarily with new customers. On a monetary basis, Zoom has accounted for 30 to 40 percent of DX-related orders. That ratio has fallen slightly, and other services like IoT-related solutions and Nets-Voice (voice cloud service) are also on the rise.

Q: On expanding a service provision-type model, how do you plan to work on this in the medium and long term?

A: Utilizing cloud services is essential in achieving distributed work and workcations, and we believe that multi-cloud services that integrate multiple cloud services will increase. We are looking at expansion through Symphonict, which achieves that in a fast and easy way. By increasing the number of high value-added services we offer, we also aim to grow the system integration (SI) business by integrating those services and building the mechanisms and environments to get the most out of them. We believe we will be able to achieve differentiation from other companies through these types of initiatives.

#### Questioner D

Q: You received some major orders for GIGA School during this year, but there are concerns over a recoil from this in the next year. How do you see the prospects for order in the next year? Do you think you can cover any downturn through things like cross-selling to the new customers developed during this year?

A: Although we think there will be a decline in GIGA School orders, as the impact of COVID-19 is mitigated we also think corporate investment will return and we expect continued growth in the area of DX. On top of that we will begin earnest efforts to cross-sell and up-sell to those new customers, and we also expect 5G investment to start getting into full swing. We therefore believe there are ample possibilities to take advantage of the impact of GIGA School from the first half of the year

Q: When do you think the effects of cross-selling and up-selling to these new customers will become apparent?

A: We are already moving forward with inside sales, and we expect some of the effects to become apparent from the second half of the year. Projects for DX are also on the rise through our sales channels, and we will continue to take advantage of those opportunities as well.

Q: Regarding KNSI (joint venture with KDDI Corporation), will it be possible to continue expanding the business through increased market share? Additionally, do you think falling mobile phone rates will have any impact?

A: KNSI has gotten on track and 5G investment will be appearing in the future. Also, the areas handled by KNSI have expanded beyond just base stations to core networks, and we believe there are prospects of continued growth. We don't see any immediate impact from lower mobile phone rates, but there is a possibility of changes to the revenue structures of telecom carriers and this is an area we will watch closely.

#### Questioner E

Q: What is the status of your mega-solar projects?

A: The problematic project has proceeded to the final stage and has already begun selling electricity. We don't foresee any major issues cropping up in the future. We have encountered an issue with another project, but the size of the project is smaller than the aforementioned one, and we don't think it will have a major

impact.

Questioner F

Q: Regarding the impact of COVID-19 on construction work, has the pace of indoor and outdoor work returned to previous levels?

A: For construction work, there are some customers that impose entry restrictions or other requirements, but we are taking all the measures available to us and proceeding properly.