Q&A at IR Briefing for Financial Results for the Fiscal Year Ended March 31, 2021

Questioner A

Q: You mentioned that DX-related orders increased to approximately 13 billion yen. What is your target for the fiscal year ending March 31, 2022? Which items in particular do you intend to increase to achieve the target? How quickly do you expect up-selling and cross-selling to produce results and how much confidence do you have in terms of achieving the target?

A: For the fiscal year ending March 31, 2022, we aim to at least double DX-related orders to around 30 billion yen. Products and services that we seek to increase include DocuSign and Box which supports the introduction of DocuSign. The number of inquiries regarding these products and services are growing. Zoom continues to perform strongly. In addition, we are broadening the existing customer base by acquiring new customers, and trying to adopt a variety of sales approaches including inside sales and online marketing. We will be able to increase orders by facilitating up-selling through these approaches.
People tend to look at this business from the perspective of replacing traditional businesses with DX-based businesses. We don't. Instead, we will expand this business by leveraging the strengths of traditional businesses and create a hybrid business featuring the voice network system integration business and the DX business.

Q: You mentioned that the fiscal year ending March 31, 2022 is the final year of the current Medium-Term Management Plan focused on solidifying the company's foundation with an eye toward 2030. Am I correct in understanding that you will build on this during the next Medium-Term Management Plan and aim to increase profits significantly, starting from the first year, by positioning the term as a period of recovering growth expenses?

A: We are still discussing what specifically will be accomplished in the next medium-term plan. That said, following the current medium-term plan, we have been taking a range of measures pertaining to the "digital" and "5G and other high-speed infrastructure" categories, ensuring that we will be able to facilitate digital and 5G-based businesses in earnest. With these measures already producing results, we will create specific "digital x 5G" solutions in the next medium-term plan. From this perspective, we expect that our growth expenses will remain at least at the current level going forward. Some people may suggest that a large amount of money should be spent in the first year to achieve results

quickly. However, new solutions may be created in line with the expansion of business. We will take this possibility into consideration and take measures proactively.

Questioner B

Q: DX-related orders increased 2.2 times year on year in the fiscal year ended March 31, 2021, and you said that this was mainly due to the broadening of the customer base and the sale of multiple services. Which of these factors contributed more significantly to the increase?   Also, what are your thoughts on targets for the new fiscal year?

A: In our view, this great result was achieved through the broadening of the customer base in the fiscal year ended March 31, 2021. Looking at the fiscal year ending March 31, 2022 and beyond, we believe that facilitating the sale of multiple services to this customer base is important.
Educational customers are one of our targets. Taking advantage of the relationships we have established with them through GIGA school and online class projects, we have started working on new initiatives from a range of perspectives such as the improvement of communications among students and the on-demand distribution of lectures. Our business, which has basically been conducted with a focus on PBX-based network systems, is expanding into a variety of service areas today as a result of the progress in DX. We seek to increase our business by combining two factors, the broadening of the customer base and the expansion of business areas.

Q: Although I see the business of K&N System Integrations growing, I'd like to know your view regarding the growth of business after the construction of 5G base stations peaks, going forward.   Will the business stop growing after the construction of base stations peaks, or is further growth expected in the network business area? What insights do you have?

A: We don't project that 5G base station-related businesses will decrease any time soon. Our basic stance is to increase revenue from network design and maintenance, among other businesses.   Although we have not yet started working on numerical targets specifically, we are confident that sufficient growth will be achieved for the foreseeable future, given the current and future situations we are anticipating.

Questioner C

Q: In conjunction with the GIGA school projects, we hear that there will be demand for renovation in about five years. Even so, are you sure you no longer expect the size of orders to be equal to the fiscal year ended March 31, 2021? Meanwhile, I think that

software will be an important business area after hardware is introduced. In connection with this, what are your future views on software for educational customers that capitalizes on DX?

A: We received orders for the GIGA school projects of approximately 29 billion yen in the fiscal year ended March 31, 2021. Looking ahead, however, we don't expect to receive such a large amount of orders at one time. Even so, we don't envision a zero order situation because there will be many additional orders including maintenance orders, even though they may be small orders. So, we will take necessary steps. There are still unknown factors in the educational market.　We are not considering the in-house development of software. But it would be possible to provide new features through collaborations with partners that provide a variety of services.

Q: I imagine that NESIC's DX business is largely services that facilitate companies digitalization through cloud services such as Zoom and Box. That said, with other IT companies strengthening initiatives in the DX area, I feel that it will be difficult for you to maintain growth over the next five or ten years if you are relying only on up-selling and cross-selling. What is your medium- and long-term perspective on how the DX business should move forward?

A: In the current business environment, DX business operations are focused on excellent cloud services that we select carefully and apply to innovate workstyles.　In the cloud service area, in which new services are successively becoming available and quickly replacing older services, we have successfully accumulated a great deal of expertise on the selection of these services, as well as in consultation regarding reforming workstyles through the utilization of these services. Our platform service features the efficient utilization of multi-cloud services. Therefore, by effectively utilizing the information about workstyle that we have collected from the platform, we will be able to promote big data-oriented businesses to retain customers. In addition, with our strengths, including the ability to promote DX as a service bundled with high-speed infrastructure such as 5G, we will facilitate differentiation in this "digital x 5G" area from the perspectives of workstyle innovation and community development.

Questioner D

Q: You presented two use cases in conjunction with local 5G-based services. What are other use cases and purposes for the services?

A: Local 5G-based services cannot be introduced easily by anyone because a license is required to use the frequencies. Therefore, we don't think that local 5G services will be

started before the purpose of use is clarified. In addition, in our view, hardware prices and other factors appear to be preventing widespread adoption of the services for now. Having said that, we expect that local 5G will be utilized in a variety of situations, such as the complete conversion of corporate wired LAN to local 5G wireless networks, not to mention applications in, for example, the agricultural and medical areas.

We believe that it is important to improve carrier 5G and local 5G capabilities while simultaneously accumulating as much knowledge and expertise as much as possible to address a range of issues including those related to 5G and the effectiveness of services. We hope that this knowledge and expertise will be an asset as it can be applied in 5G business for carriers and utilized in the promotion of high-speed next-generation Wi-Fi.

Questioner E

Q: In my view, as teleworking quickly becomes common, people are becoming aware that the existing PBX-type telephones installed in offices do not work effectively in teleworking environments. Looking at the digital solutions segment, if traditional SI projects, such as the building of PBX systems whose sales are large in terms of monetary value, are replaced with service projects such as cloud-type PBX services, sales will decline in terms of the monetary value while margins will increase due to stock-type contracts, going forward. Am I correct in assuming this?

A: Your view is correct. To date, PBX has been synonymous with telephones and renovations have been done from this perspective. Going forward, this concept will change and telephones will be considered as a feature of a range of communication tools. Given this development, we intend to further increase the PBX business from its current level through efforts to expand business areas such as collaborations between existing telephone systems and Zoom and collaborations with cloud services related to other services. Through this expansion of business sizes and the increasing added value that we provide to customers, we will improve profitability. In addition, the business of utilizing data collected by the platform that I explained earlier will be an important factor that we will continue to focus on going forward.

Questioner F

Q: I felt that your measures to use staff members as consultants as part of the efforts to increase added value would increase your competitive advantages. Currently, what is the ratio of projects in which orders have been received in the consulting business area? Is the profitability of these projects is higher than other projects?

A: Our workstyle innovation-related business is not conducted in an environment in which customers, as in traditional business, attempt to get quotes from different competitors. On

the contrary, this business itself is being operated in a consulting style based on our own in-house experience. Currently, the services we provide include cloud services that utilize new digital technologies. Regarding these services, the number of projects in which our non-sales staff using our own services and experiencing the services from the customer's perspective contact and share their challenges with customers is increasing, and the reasonableness of proposals based on this experience has been praised by customers. These evaluations are one of our competitive edges, contributing to the creation of differentiating factors in the business area of workstyle innovation. As this indicates, these services do not create any tough competitive situations and we are able to provide significant value to customers, which in our view has led to high profitability and been one of the factors contributing to the recent rise in profitability.

Q: Regarding the business area of 5G, I hear a lot of information about collaborations from a number of companies with an eye toward 6G. If NESIC is engaged in local 5G-related businesses, will it seek to collaborate with NEC, or conduct them all itself in a self-contained style?

A: We believe that 5G is a business area in which we should steadily collaborate with NEC. With few engineers available in this field, if we operate as a member of the NEC group, we will be able to conduct business more efficiently while also increasing the size and quality of our business beyond what would be possible if we were to do everything ourselves. Even so, we will focus on reforming workstyles and building communities instead of providing the same products and services as those offered by NEC. In addition, some products and services that we use in these operations are produced or created by NEC while others are not. It is important for us to introduce them after carefully assessing them as we facilitate the creation of networks going forward. We will accelerate business while fully leveraging our position as a member of the NEC group.

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