

Q&A at IR Briefing for Financial Results
for the First Half of Fiscal Year Ending March 31, 2022

November 1, 2021

NEC Networks & System Integration Corporation

Questioner A

Q: Profit margin in the Digital Solutions (DSL) segment is lower in the second quarter (Q2: Jul. - Sept.) than in Q1 (Apr. - Jun.). Apart from the impact of the semiconductor shortage, what else caused this?

A: When you look at this on a quarterly basis there will always be some fluctuations given the varying profitability of individual projects, so that has an impact on profit margin, but in comparison to the same period in the previous fiscal year, we managed to firmly improve profitability in Q2 as well, and view this as an ongoing trend of improvement.

Q: You were impacted by the semiconductor shortage in the first half of the year. How long do you expect this to continue in the second half of the year and beyond?

A: We see the current severe situation continuing until around Q3, and forecast a similar impact in the second half as the first half. Aside from semiconductor issues, in the second half of the year we also expect to be impacted by issues such as difficulties procuring components produced in Southeast Asia and elsewhere due to COVID-19 lockdowns, and we also think that some projects may be postponed to the next fiscal year.

Q: With the decrease in COVID-19 infections, we are seeing a trend of workers returning to offices. Are there any strategic changes in response to this changing environment?

A: There is a trend of workers returning to offices in the near term, but we do not believe this will be a complete return to pre-pandemic levels. It is necessary to make smart use of the respective advantages of working from home and working in the office to product results, and we will continue to promote that kind of hybrid work. The key to that will be digital technologies, and as service-oriented DX businesses expand in response to COVID-19, our business model itself has also shifted to a so-called hybrid-type business model that leverages service-oriented business to enhance SI business. Our perception is that things are heading in a positive direction, and we will accelerate those trends.

Questioner B

Q: Please summarize the impact of the semiconductor shortage in the first and second

halves of the year on a per-segment basis. Would it be correct to assume that you have already incorporated in impact on the second half in your forecast figures? Additionally, in what ways will you response to the semiconductor shortage?

A: In the first half, there was a negative impact of a little more than 5 billion yen on net sales, mainly in the Engineering & Support Services (ESS) segment. We calculate that the negative impact on profit was just under 1 billion yen. We have incorporated a similar impact on net sales and profit into our forecasts for the second half of the year. There are still some uncertainties, but we expect each segment to be impacted to roughly the same degree as the first half.

In response to the semiconductor shortage, we are thinking of ways to cover the products we cannot procure with other products. At the same time, we are considering making revisions to our work processes so that we can proceed first with those tasks that do not involve products that take a long time to procure.

Q: Regarding the results from the first half of the year, you revised your forecasts upwards but failed to meet them. Additionally, in the Network Infrastructures (NWI) segment, the full-year forecast was revised upward despite not meeting the forecast in the first half. What is the thinking behind this kind of disconnect? In the first half of the year, were there factors other than the semiconductor shortage warranting a downward revision?

A: The impact of the semiconductor shortage was the main factor in failing to meet the revised forecasts in the first half of the year, but apart from that, in the DSL segment the speed of service development increased, and in some cases the time from order receipt to when those sales were recorded took longer than expected.

For the NWI segment, we have performed strongly with telecom carriers, and since the order backlog has also increased, we made an upward revision in light of those circumstances.

Q: On the local 5G front, is there any quantitative progress in terms of results, plans or otherwise?

A: Regarding local 5G, at this stage demonstrating testing is picking up speed and we are still aiming for more than a billion yen per year. We intend to expand this over the course of the next medium-term management plan, and that plan is currently being prepared.

Questioner C

Q: There is a sense that your business will benefit from Japan's new Digital Agency. What areas are you thinking of targeting?

A: While it won't be directly from the Digital Agency, we think it will be a boost. For example, areas such as safety and security, disaster prevention and community development, as well as workstyle innovation, which is one of our strengths, are two fields where we think this will apply.

Questioner D

Q: The semiconductor shortage and component procurement risks are issues that all industries are grappling with, but within those circumstances, where to NESIC's strengths and challenges lie?

A: It is difficult to make comparisons with other companies, but speaking for ourselves, under the conventional product SI model, almost all of our businesses would have been impacted, but since we have successfully shifted to a solution service model, we could say that has reduced the impact.

Questioner E

Q: You are doing well on orders, but won't the semiconductor shortage require you to hold off on accepting orders.

A: We had to give up on winning some projects expected in the first half of the year, but in our forecasts for the second half, we have reconsidered project feasibility and incorporated those findings into our plans for accepting orders.

Q: For the DSL segment, you mentioned strong performance with DX for government offices and local governments, but what is the situation with private sector demand?

A: Overall demand is rebounding, but there is a year-on-year decline as a recoil from strong performance in the previous period with many projects for the financial sector. For the service industry, performance has been flat since the first half of the previous year, while in terms of other companies, including those in the manufacturing sector, orders are on the rise.

For government offices and local governments, the amounts involved with the orders have dropped significantly, but this is a reactionary decline from the large amounts related to the GIGA School program in the previous year, and if those factors are excluded, performance has expanded as you noted.

Questioner F

Q: We have heard that the Digital Agency will also be taking the lead on digital projects for local governments, but how do you perceive the intentions of prefectural governments

that already have projects in motion?

A: For our part, since the effects from digitization are promising, we want to help our customers move forward on those endeavors as quickly as possible.

Questioner G

Q: In your Q1 financial results briefing we heard that the semiconductor shortage had not yet become apparent. From around when did it become apparent?

A: It became apparent from around August. At first, it was at the level where we could cover the shortage through other options, but we gradually saw the impact increase.

Q: You mentioned that you carefully examined ordered projects in the second half of the year in response to the semiconductor shortage, but will it be possible to continue without compromising operations by shifting resources, etc.?

A: In terms of orders, we saw continued strong performance in the second quarter. We have incorporated some factors such as being unable to handle projects due to the semiconductor shortage, but in the second half of the year we believe we can maintain the same strong performance from orders.