

Questions & Answers for 2023 IR Day

June 12, 2023

NEC Networks & System Integration Corporation

<DX Solutions (DXS) Business>

Q: You mentioned expanding strategic areas to 50 billion yen in FY2025.3. What in the five areas will be expanded? Is there a breakdown?

A: Data utilization and digital twins are still areas for the future so that are currently not big, and the expansion will mainly be in the area of workstyle DX. At companies, there is a growing need to revise how offices work in the post-COVID world. We have seen a strong trend of business inquiries related to networking, security and associated multi-cloud services and audio services triggered by office relocations and other factors, and we will focus on those opportunities. In other areas, we also expect to see demand for things like factory operational technologies (OT) for manufacturers.

Q: How should we think about each project in the strategic areas in terms of the scale of monetary amounts and profitability?

A: Compared with PBX SI and installations, the project sizes will be smaller, but we expect projects that have been on the rise recently such as multi-cloud services and cloud PBX to generate recurring business. There is also competition on a standalone project basis, but we believe that we can enhance profitability by providing compound services that integrate data utilization, digital twins and other technologies as Symphonict.

Q: Is having data utilization and digital twins contribute to profits still a long way off? Additionally, how is the competitive landscape in these areas and what are NESIC's strengths?

A: We've only just begun so the contribution to profit is minimal, but we feel there is a lot of potential, including the start of POCs for the manufacturing sector.

In the area of data utilization, there are many companies that merely perform data analysis, but there are few companies in Japan doing things such as combining Zoom and Salesforce to conduct analysis and propose solutions, and we believe that is where our strengths lie.

Additionally in the area of digital twins, the main players at present are equipment manufacturers, but their services tend to become massive and heavy, and we believe our points of differentiation are our ability to provide services with a sense of agility and at reasonable price points. Another of our strengths is in the area of communication. We don't stop at simply virtualizing operations and running analysis; we combine this with

mechanisms for communication that are linked with action when something happens. Our ability to provide services of that nature is a characteristic that sets us apart.

Q: How are Symphonict sales currently performing, and what differentiates it from other companies?

A: As it supports a wide range of services offered by NESIC, at this point we do not have specific data on Symphonict alone.

A characteristic of Symphonict is how it can freely tie together a wide range of services and easily handle complex and diverse issues. It will drive growth by supporting our differentiation in each field as the backbone underpinning the core businesses of NESIC as well as other NESIC's business segments such as NWS and ESS.

Q: I understand there are differences in profitability in each project due to hardware, licenses and so on, but what is your roadmap for improving profit margin as a segment in light of those factors?

A: When it comes to pursuing improved profitability, we believe that partnerships with vendors, in other words co-creation, is also an important factor. We are working to differentiate ourselves by adopting the latest and best services early on through closer co-creation. We are also trying to improve profitability and expand our business to create a win-win relationship for us and vendors by developing services that cater to unique Japanese needs that are difficult for overseas vendors to accommodate as part of the added value we offer.

Q: You mentioned your new head office and the new initiatives you are implementing at Nihonbashi. Could you provide some specific examples?

A: We are considering a range of initiatives. For example at the new head office, we are working on a demonstration of a digital BCP headquarters. The aim of this is to work out how we can maintain head office functions and continue to execute business including sales functions within a digital space in the event of an emergency, while at the same time supporting the businesses of our customers and ensuring the safety and security of employees.

Q: At the meeting for the previous fiscal year, you declared the FY2025.3 goals of generating 30 billion yen in sales in the data utilization and recurring businesses, and 10 billion yen in sales from the public and industry businesses through DX utilization. How is the progress on those fronts?

A: Our efforts have proceeded according to plan, but we have regrouped our priority themes and reestablished an overall target of 50 billion yen in sales for FY2025.3. We are currently working within this target. For data utilization, interest is picking up among companies, particularly in the manufacturing sector.

<Network Solutions (NWS) Business>

Q: Your plan is to expand the social infrastructure business. In what areas are you looking to grow? For example, it seems that offshore wind, which is a promising part of the marine business, is not yet in full swing. How is this going?

A: Mainly the aerospace and defense business and the marine business will be driving growth for the social infrastructure business. In fiscal 2025.3, we hope to roughly double the size of those two businesses compared with fiscal 2023.5. In the marine business, in addition to an expansion of the submarine cable network, full-scale power generation from offshore wind is still some way off, but since we have started working on cable landing stations for power lines and other aspects, we are putting effort into this area. In aerospace-related fields, private sector utilization is expected to pick up speed, and with a rush to set up infrastructure in anticipation of this, we believe operations will gradually expand in this field and hope to latch on to that growth.

Q: Regarding the expansion of the social infrastructure business, are we right to assume that there is a high degree of certainty, such as being able to see orders that lie ahead?

A: For things like submarine cable networks, to some degree we can see what lies ahead as these are long-term projects, including the project planning stages. For aerospace, it depends on the individual projects, but as the market is booming, we will try hard so that we can meet our goals.

Q: I understand that the situation is difficult with telecommunication carriers in terms of investment, and I understand that NESIC is moving forward with unique proposals. What is your read on the status of the business, taking those initiatives into account?

A: As a company operating a wide range of businesses, our strength with telecommunication carriers is our ability to propose cost reductions that consider the big picture, rather than handling each individual customer department. Particularly with K&N System Integration (KNSI), a joint venture with KDDI, we have made strides in the provision of services that contribute to cost reductions by utilizing AI and other DX technologies. On the infrastructure front, telecommunications carriers putting the brakes on investments has made things quite difficult, and we will try to maintain a flat level of performance as telecommunications carrier business by working in areas that

contribute to those cost reductions and covering businesses aimed at regional NCCs.

Q: You explained that with delays in the implementation of local 5G, it will gradually start to be launched in mission-critical areas, but to what extent do you think this will materialize during the period of the medium-term management plan?

A: In mission-critical areas such as power plants and railways, there are quite active initiatives to combine demonstration and commercial-level implementations, such as the surveillance and utilization of robots in large-scale facilities, and we believe the implementation of local 5G will materialize to some degree even during the current fiscal year. Regarding the full-scale social implementation of local 5G, since device prices will need to come down, we believe the market will get into full swing in around two or three years, which will correspond to our next medium-term management plan. We will continue to build a track record in these early-adoption areas in anticipation of these future prospects.

Q: Are we correct in understanding that investment from telecommunications carriers will not recover for the foreseeable future?

A: That's correct. Our plan incorporates the assumption that the curbing of investments by telecommunications carriers will continue for the duration of this medium-term management plan up to fiscal 2025.3.

Q: At the meeting for the previous fiscal year, your plan was to aim for 25 billion yen in sales from the social infrastructure business in fiscal 2025.3. How far do you currently plan to expand sales?

A: By expanding in the areas of marine, aerospace and defense as we mentioned earlier, we are targeting growth to around 35 billion yen.

<Environmental & Social Solutions (ESS) Business>

Q: You plan to achieve significant gains in community development and actions to a green society, which key areas for growth. Can you expand on this approach?

A: We are fielding a large number of inquiries in businesses related to the environment and have started to see positive effects on the sales front. At present, this mainly relates to the conventional building of facilities. To enhance profitability in the future, our challenges will be how to expand our performance in high value-added fields, including streamlining for power consumption (*refer to the slide on strategy to step up actions towards a green society), as well as tackling the processes elements before and after that, along with storage batteries.

In the area of community development, the reality is that local governments have

extensive needs but lack the budget, but we expect that subsidies and other measures will help to eliminate those issues. We will also cultivate businesses with greater profitability by developing proposals that combine digital technologies to coincide with the replacement of fire fighting systems and similar implementations. Although it varies depending on the budget for individual years, the business environment is moving in a positive direction.

Q: Regarding the gross profit margin in the ESS business, going by results from the previous fiscal year the segment has fallen short of other segments that exceeded 20%. What are the factors behind that and what are you doing to make improvements?

A: With the conventional system building business, it is difficult to differentiate as part of the competitive bidding process. Therefore, to improve profitability, it is important to add new value, such as through post-introduction services and the utilization of digital technologies. In addition, there is still room for streamlining through DX utilization in conventional business, we will try to combine these in an effort to make some degree of improvements on top of the previous year's results.

Q: In the past some unprofitable projects have emerged. What steps are you taking to prevent that from happening?

A: Regarding reviews when receiving orders for projects, I involve myself in checking those with potential risks, even for small projects. In addition, for our overseas subsidiaries, we conduct detailed checks of financial data on a monthly basis in an effort to identify any received orders showing signs of issues and prevent any major losses from being incurred.

Q: In what areas will you cooperate with other segments?

A: I mentioned that we will enhance the added value of our existing businesses with digital technologies, but the key to achieving this is how we can combine our offerings with DXS products. With the NWS segment we are proposing and delivering solutions that combine new networks such as local 5G and regional BWA. I believe we are leveraging companywide synergies on multiple fronts.

Q: Am I correct in understanding that the businesses you have been working on previously such as the building of fire-fighting and disaster prevention systems are separate from your new businesses such as community development?

A: Building fire-fighting and disaster prevention systems is in itself an existing business, but I also consider it an added value business, for example in areas where we can analyze past data using AI to offer benefits in the advanced prediction of disasters.