

July 16, 2019

NEC IR Day 2019 (Enterprise Business) Q&A

Date/Time: July 16, 2019 10:40-11:20 JST

Location: NEC Headquarters, Tokyo

Presenters: Kazuhiro Sakai, Executive Vice President

Questioner A

Q. Why haven't you set your target for the adjusted operating margin for the fiscal 2020 at 10% or higher? What factors are hindering you from doing so? What kinds of issues must be solved in order to achieve an adjusted operating margin of 10% or more?

A. With our current base business, we believe that it would be difficult to improve the adjusted operating margin to 15% for the Enterprise business as a whole, even if we manage to deliver an adjusted operating margin of 10% in certain highly competitive industries. The adjusted operating margin will be improved by several percentage points through ongoing optimization. However, in order to make further improvements, we will need to transform our business model from the current model linked to man-hours to a service-type business model. In a service platform-type business model, profitability will not improve unless we increase the scale of business. As we make investments, we will transform our business model and achieve monetization.

Q. Does this mean that if you can generate a certain scale of business, you will be able to achieve an adjusted operating margin of 10% or more? What kind of time frame are you envisioning?

A. We would like to achieve this goal in the next mid-term management plan after Mid-Term Management Plan 2020. Knowing which fields customers will invest in will be crucial to achieving this goal. We will need to prepare for factors that we cannot fully control. For example, we will need to explore how to develop the supply and demand optimization platform, Fast Travel and other initiatives according to society's needs.

Questioner B

Q. What was the sales growth rate for the 3rd platform, such as cloud business, in the fiscal year 2018? Do you expect this growth to be sustainable?

A. Sales for the 3rd platform have grown by more than 20%, and we expect sustained growth. We anticipate that sales growth will exceed the growth of the market as a whole.

Q. What is the composition ratio and profitability of the service-type business like? Is business expanding?

A. The current composition ratio for the service-type business is just over 20% and profitability is slightly higher than traditional businesses. The market as a whole has been growing at a considerable pace due to progress with the adoption of cloud computing. The Enterprise business has also been expanding in step with this growth.

Questioner C

Q. In the fiscal year 2020, the Enterprise business aims to increase digital-oriented talent to triple the level of the fiscal year 2018. How many digital-oriented employees will you actually have? Also, around how many design and consulting personnel will you have?

A. We plan to increase the number of cloud personnel from around 300 to 1,000, AI personnel from several tens to 400, and design personnel from several tens to more than three times that level.