

July 16, 2019

NEC IR Day 2019 (Network Services Business) Q&A

Date/Time: July 16, 2019 11:30-12:10 JST

Location: NEC Headquarters, Tokyo

Presenters: Atsuo Kawamura Executive Vice President

Questioner A

Q. How do you envision the scale of the domestic 5G market from fiscal 2025? Will there be a cyclical decline, or growth after fiscal 2025?

A. We estimate the total value of the domestic market for 5G base stations will be slightly smaller than for 4G. Base station investment basically follows 10-year cycles, and we anticipate spending on IoT and services in addition to 5G base stations. We envision investment in 5G base stations reaching its peak in 2025. We aim to increase the value we provide by tapping into stronger demand for services.

Q. As mentioned on page 5, NEC expects strong growth in the domestic network service market, but I doubt whether companies will invest so much in the domestic IoT market. What assumptions are you using?

A. We anticipate steady growth in the domestic IoT market. Digital transformation and digital inclusion will not be possible unless various devices are connected to networks. Currently, market scale reflects conventional networks, but in the future, various IoT devices will be connected to networks and facilitate digital transformation, so the network service market should expand considerably, in my opinion. NEC is not involved in every domain, and intends to grow business by focusing on domains where there are needs for 5G and other network services, such as railways, construction, distribution and public infrastructure.

Questioner B

Q. Will the 5G market launch so easily? 5G will bring many advantages, such as higher capacity, lower latency and multiple simultaneous connections. How do you envision 5G

services being used?

A. We look for sharp expansion in the domestic 5G market from fiscal 2021. Until fiscal 2020, we did not forecast sales would be that large, but the market is definitely a story about growth, and we aim to expand business. There are many benefits with 5G, especially low latency and multiple simultaneous connections that will be key to IoT, in my opinion. The main focus will be providing products like base stations to telecoms carriers. We will also provide integrated solutions that leverage our strengths in IT and networks for enterprise, public and other industrial networks.

Q. It states here that you forecast the market for 5G base stations will reach ¥250 billion by fiscal 2025. Given the characteristics of 5G, I understand this means there will be a rather large number of base stations deployed. If this is the case, are you worried that unit prices will fall and margins will be thin in this business? With so many changes in the market, will NEC be able to resist declines in unit prices? What business model are you envisioning that can stay above the fray? Does NEC intend to earn profits only on base stations?

A. Compared with 4G, sales of 5G base stations are likely to be smaller, but we plan to generate profits on each base station by working to improve efficiency and reduce costs. We aim to completely transform our business model, including recurring income streams, for the enterprise and public customer segments.

Questioner C

Q. Do you think base station radio units will become more important amid moves to open up and virtualize 5G services? Is this an opportunity for NEC to develop business overseas, leveraging its strengths in wireless components?

A. NEC has competitive advantages in radio units, including low power consumption and beam forming. As 5G services open up and virtualize, radio units and antennas will begin to have control functions built in. Due to diverse specifications, it is impossible for a single company to supply all 5G base stations in the world, and there is a movement to create a global standard called Open RAN. NEC is latching onto this movement with the aim of expanding business not only in Japan, but across the world, by leveraging its strengths in radio units and antennas.

Q. Will the 5G millimeter wave beamforming transceiver that NEC jointly developed with the Tokyo Institute of Technology become a breakthrough technology?

A. We are working together with the Tokyo Institute of Technology on a variety of wireless technologies. At this juncture, we cannot comment on whether it will become a breakthrough, but antenna technology is one of NEC's strengths that we will continue to improve.

Questioner D

Q. NEC targets sales of ¥50 billion to ¥70 billion for priority businesses in fiscal 2020. How much progress is being made toward these targets, though there may be some unknowns in the public and enterprise businesses? Why is there a ¥20 billion range in your target?

A. Sales for the enterprise and public businesses are booked under other business units, and not included in targets for the network service business. We expect sales in priority businesses to increase by about 30% from fiscal 2019 to fiscal 2020. We envision a 10% sales ratio in priority businesses in fiscal 2020, with sales of about ¥50 billion versus total sales of ¥450 billion, and we aim for 30% overall growth by fiscal 2025. The ¥20 billion range in our sales target reflects the possible upside and downside from the median value of our forecast.

Questioner E

Q. Please explain the business model for collaborating with Samsung in 5G.

A. The main reason for our collaboration with Samsung is to complement each other's business portfolios. NEC excels at making base stations more compact and power-saving, while Samsung has the track records in the North American market. NEC will provide its products to Samsung's customers, and Samsung will provide its products to NEC's customers. That is currently our business model for base stations.