

July 16, 2019

**NEC IR Day 2019 (Cross-Industry Unit, Digital Business Platform Unit,  
Central Research Laboratories, Business Innovation Unit) Q&A**

Date/Time: July 16, 2019 12:50-13:50 JST

Location: NEC Headquarters, Tokyo

Presenters: Yutaka Ukegawa, Senior Vice President in charge of the  
Cross-Industry Unit

Hiroshi Kodama, Executive Vice President, CIO (Chief Information  
Officer) and CISO (Chief Information Security Officer) in charge of  
the Digital Business Platform Unit

Motoo Nishihara, Executive Vice President and CTO (Chief  
Technology Officer) head of the Central Research Laboratories

Osamu Fujikawa, Senior Vice President head of the Business  
Innovation Unit

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**Questioner A**

*Q. Could you please explain the drastic changes are happening in the U.S. fast travel business? What are your perspectives on those changes?*

A. Fast Travel is still only a small business when considering only airports. Going forward, in addition to expanding into consumer fields on off-airport sites, we seek to link our business activities to data essential to digital marketing by employing such means as cashless payments. When considering these sorts of broader business expansion initiatives, we believe the Fast Travel business will encompass a much more expansive range of fields. Previously, we mainly focused on the introduction of individual systems. Looking ahead, we seek to create platforms that comprehensively support the needs of users ranging from individuals to national governments by extending the breadth of our business initiatives in forms such as authentication and security. As we work to establish trust in a borderless cyberspace environment through lifecycle management, we will strive to coordinate biometric authentication, security, AI, cloud and other platforms as a means of unlocking digital value. When these elements are integrated and working together, we believe that they will demonstrate considerable strength. We are currently putting together sales

estimates to see how much revenue can be generated by combining this broad array of elements.

## **Questioner B**

*Q. I believe that holding this joint session of the four units is an outstanding initiative. It's a good undertaking, so please keep it going. My question is as follows. Could you please share your perspectives on the differences between NEC's Smart City initiatives and those of other companies? Is the business model different? Or do you share the same business model, but deal with different fields and technologies?*

A. Smart City platforms require a certain degree of openness when they are used by local governments. Therefore, NEC employs FIWARE, a relatively open architecture based on European standards. Its business model can be described as a service business in the Smart City domain. We believe that our competitors are probably targeting the same business model. There are two main themes that differentiate NEC from its competitors. The first theme is that NEC has the ability to support computing power, networking power and digital data through software. The second theme is that NEC brings social infrastructure and industry together, and it has capabilities in both of these areas. NEC seeks to create comprehensive business models in cross-industry domains, i.e., the areas where social infrastructure and industry are brought together, and to develop platforms that connect the whole system together primarily through FIWARE.

*Q. I see that NEC has an outstanding ability to create technologies. However, with regard to monetization, I have the impression that NEC limits its definition of technology to science only. Don't you think that the research laboratories should also consider priorities such as business models and monetization? Today's presentation suggested that the Business Innovation Unit specializes in monetization, while the research laboratories specialize in developing technologies. Is my understanding correct? Is this set-up truly the best way to move forward?*

A. In today's presentation, we may have put a strong emphasis on our scientific performance by, for example, highlighting benchmarks related to academic conferences. NEC companies have embraced AI, and we wanted to clearly show that NEC has strengths in AI. We believed that presenting our performance at academic conferences would be the easiest way for our audience to understand NEC's strengths in AI. We do not necessarily believe that participation in academic conferences means that we are better at

commercializing technology. Rather, we see our participation in academic conferences as one benchmark of the outstanding personnel we have at NEC. In practice, the research laboratories and business units advance projects through teamwork to a considerable extent, including projects that involve the handling of customer data using AI. The R&D ecosystem is also designed to facilitate this teamwork. Meanwhile, in terms of our approach to unit management, we believe that we must take appropriate steps to separately nurture units with strengths in technology, and business professionals. The research laboratories, Business Innovation Unit, Digital Business Platform Unit, and Cross-Industry Unit will work closely together. However, our approach is to manage each of the business units separately.

From the perspective of monetization, we have strengthened our system since 2016. The Business Innovation Unit visits research laboratories around the world to carefully assess early stage technologies, and it sometimes changes the direction of development so that technologies become more conducive to business at an earlier stage. Although the Business Innovation Unit is separated from the research laboratories as a business unit, the two units work fairly closely with one another. We would like to hone our technologies in a technology-focused unit. At the same time, a variety of approaches can be taken to businesses, including cases where they are carved out. That is why we believe that each area requires its own unique professional capabilities.

### **Questioner C**

*Q. NEC has targeted an enterprise value of ¥50.0 billion for dotData, Inc. in fiscal 2022. Don't you think this target is too low? I assume this monetary amount was set as your initial target. Could you please comment on dotData's subsequent progress and the company's current enterprise value?*

A. Looking at its progress, dotData has won 20 corporate users earlier than initially planned. dotData has continually incorporated new functions as part of product upgrades in comparison to competitors. Despite its short history relative to rival companies, these efforts have led to the recognition of dotData as a member of the Leader Class by Forrester. We would like to report on corporate value when things become a little clearer.

### **Questioner D**

*Q. I have listened closely to your discussion on your measures to promote digitalization and R&D at a highly internationally competitive level. However, sales in Japan actually*

*represent almost all of NEC's consolidated operating results. Therefore, I have the impression that something is out of balance. Considering the totality of factors such as your recent new initiatives and shifting demand, what kind of scenario do you envision for NEC in the three-year period after the current Mid-term Management Plan and the next three-year period after that? In this period, what amount of sales do you expect NEC to generate and how far do you expect overseas business expansion to have proceeded?*

A. In our view, unless we have globally competitive technology, we will be unable to drive the penetration of technology in Japan. Based on this belief, we are striving to undertake all initiatives from a global perspective. That said, NEC currently has many businesses that are based on relationships in Japan, and there is a large amount of demand in Japan. Therefore, we need to ensure that we properly capture this demand. We would like to create growth for NEC as a whole in a well-balanced manner. In a few years, we aspire to increase the ratio of international business considerably. With this ambition in mind, the business units are working closely together.