

July 16, 2019

NEC IR Day 2019 (System Platform Business) Q&A

Date/Time: July 16, 2019 14:00-14:40 JST

Location: NEC Headquarters, Tokyo

Presenters: Tomoyasu Nishimura, Executive Vice President

Questioner A

Q. If NEC successfully increases the efficiency of production and maintenance, are you thinking about externally selling the framework itself? Also, with overall sales on the decline, when do you expect sales to start increasing again?

A. In addition to external sales, we aim to eventually get involved in production at other companies. Regarding maintenance, I believe there is demand for increasing efficiency by using devices like smart eyeglasses, and would like to expand from this domain. We aim for top-line growth by developing an eco-system with partners for not only products, but also peripheral solutions, and also promoting the SX-TSUBASA Aurora accelerator for data analysis in AI and simulation applications. Although figures this fiscal year are not yet large, we intend to grow over the medium term by expanding into Asia while introducing it at research institutions and universities in Europe and Japan.

Questioner B

Q. What is your outlook for the mainframe business?

A. A large number of customers have deployed mainframes, and we are developing the business based on a long-term roadmap. Although it tends to decline, we expect to maintain the scale of business.

Q. Can NEC take market share from rival IT vendors while expanding maintenance services?

A. Growth in maintenance services is the outcome of applying our skilled personnel assets in IT domains. Instead of engaging in price competition in the domains of other companies,

we intend to take market share from companies hard-pressed to maintain a nationwide maintenance system and weaker firms that do not have a maintenance platform in Japan. While earnings may not be that high, we aim to expand without engaging in price competition.

Questioner C

Q. What impact will migration to the cloud have on NEC after demand settles down, for example in 10 years or so?

A. Migration does not account for a high percentage of the overall business. Customers tend to first deploy cloud-based services for new areas, and then migrate existing areas with less stringent security requirements to the cloud. From a cost and security perspective, we think some customers may shift back from hybrid cloud frameworks to their original systems.

Questioner D

Q. I understand that the mainframe business has a smaller customer base than rivals in Japan. Does continuing this business for another 10 years seem like a reasonable strategy? Are you thinking about a strategy of only supplying operating systems (OS) without developing enclosures?

A. The main reason customers use NEC's mainframes is because they are all white boxes (open systems), allowing engineers to address any problems that arise in a short period of time. Moreover, our mainframes rarely break down. NEC will maintain a support system for customers as long as they use mainframes, but some customers have changed and now want to develop new services while protecting core data. We will propose the best solutions combining open and legacy systems, and continue to recommend mainframe for core systems.