

NEC IR Day 2020 Q&A

Public Solutions Business

Date/Time: September 14, 2020 10:15-11:20 JST

Location: NEC Headquarters, Tokyo

Presenters: Chikara Nakamata, Executive Vice President

Questioner A

Q. Tell us your level of expectation for the second half with regards to this fiscal year's supplementary budget. There have been newspaper reports regarding digital government that say the government will be lucky to have something to share by 2030, given the scattered nature of the government's own formats across different ministries and agencies. In the short term, will this fiscal year's supplementary budget contribute to sales this fiscal year, and what is the schedule beyond that?

A. What we can expect to incorporate in this fiscal year's sales will mainly come from the primary and secondary supplementary budgets already executed. Budgets have already been activated in the areas we introduced here, including remote and touchless solutions for medical institutions and municipal governments, as well as for responding to the growth of teleworking, so we are working to offer proposals and capture business in those areas. If the Diet should deliberate on and pass additional supplementary budgets in the fall and beyond and those budgets are activated, while we can look forward to orders in the current fiscal year, their major contribution to sales will come in the following fiscal year and beyond.

Regarding the coordination of digital government across all ministries and agencies, as you pointed out there is a significant number of very major issues. That said, among the policy recommendations, there has been significant movement in areas where preparations and discussions have progressed. We believe concentrated investment will

extend from next fiscal year for a period of about five to 10 years, and we will continue to manage a PDCA cycle for policy recommendations and nationwide rollouts as we work to ensure we capture those deals.

Q. How much, for example, do you think it will cost to implement a full-scale shift of ministry and government agency paperwork to digital government.

A. Opinions vary depending on the scope of digital government being considered, but I think it will not be any less than 500 billion yen.

Questioner B

Q. We heard that under the current fiscal year plan, you expect IT investments by medical institutions to weaken somewhat as the demand up until last year comes full circle. When do you expect this to turn around again and begin contributing to results?

A. Our business for medical institutions primarily centers on electronic medical records, but as their business has worsened in the current fiscal year, about 20% of our customers have postponed their renewals. While it depends on how one views the future impact of COVID-19 infections, NEC believes that under the current circumstances, business will normalize next year. That said, while the electronic medical records field is important to advancing our business, it demands cost competitiveness, which means we will need to expand into the area of digital hospitals, including AI and other peripheral technologies. Concrete examples of these kinds of products will begin to appear next fiscal year and beyond, and we plan to combine them with digital medical records to improve profitability. While this fiscal year and next will be challenging, I think we can expect to see the business begin looking up starting in the second half of next fiscal year.

Q. What is your sense of the timing and scale of system upgrades for area disaster prevention projects?

A. Once a local government installs a disaster prevention system, it typically takes between 10 to 15 years before the next upgrade. When such opportunities arise, we can propose a system already equipped with functions such as those I explained earlier. In the case of Takamatsu city, however, we did not deal with their disaster prevention system. Rather, we are offering new value by extracting data from the system to run on urban infrastructure software. This makes it possible to assist in decision making and support wider regional collaboration without upgrading existing systems, simply by bringing in information from existing legacy systems. Since local governments use different vendors for their current systems, there will of course be cases where data collaboration across vendors becomes necessary, and we plan to create a mechanism for those collaborations as we move forward.

Questioner C

Q. You noted that COVID-19 has created an opportunity for local governments to shift to digital, something that has seen little progress in the past, but I think the scale involved is small compared to Tokyo. Can you tell us if you have some idea how this regional digital shift will occur, and the impetus will be for further progress?

A. As you point out, local governments have difficulty securing budgets for digitalization. For one, while governments have talked recently about “super cities,” the national government will be the one to lead the effort. The various ministries have begun establishing digital government policies and investments in a variety of forms, and NEC has also begun gradually building a track record. We will continue to bundle these efforts as we move forward. A second example: Say 3.0 billion yen is invested in a government system for the nursing care business. NEC could offer a proposal through a consortium for business process outsourcing (BPO), teaming up with the nursing care operator to streamline AI and other services and accomplish the business for 2.0 billion yen. What we need to do is to catch up on the government-led

framework and build a track record, while also engaging in efforts such as inter-industry collaboration with regards to regional scale.