NEC IR Day 2020 Q&A

Global Business

Questioner A

Q. I have heard that overseas, 5G is undergoing proof-of-concept testing. Normally, carriers will be very careful in conducting testing, both inside and outside the country, so it seems to me that it will take considerable time before 5G is actually adopted overseas. Can you comment on a timeline for and possible scale of international expansion?

A. NEC is conducting several demonstrations this year, which we assume will result in orders next year and lead to revenue in fiscal 2022. As you point out, these major investments by the carriers require a considerable amount of time. NEC will focus its efforts on overseas carriers with which it has particularly deep relationships, and with a strong partner in NTT, will conduct its demonstrations with its support, leveraging the reputation that comes with recognition from Japan’s largest carrier. In terms of scale, our goal is to have a 20% share of global base stations compatible with open architecture by fiscal 2030.

Q. NEC was described as a market disruptor. In the area of telecommunications infrastructure, to what extent do you think the arrival of open architecture will enable you to compete with existing players? Other companies can naturally be expected to follow suit, so how much of an advantage do you think being in the lead will provide?

A. The biggest point to being a disruptor is being open, and NEC will work for disruption that puts an architecture completely new to the market at the forefront. Traditional base stations were vertically
integrated, and that had its advantages, but in an age that demands diversity, customers of the carriers need to have as many options as possible. Use of conventional 4G was limited to the telecoms, but with the application of 5G, we will begin to see a need for thinking about strategy in domains outside of the telecoms. NEC will create an ecosystem capable of responding to diverse needs, becoming a front-runner in integration, which as a true part of DX will enable us to respond to customer needs that differ from what we have seen in the past. In that respect, NEC hopes to become a major disruptor.

**Questioner B**

**Q.** How do you expect to recover under your plan for this fiscal year? In other words, there seems to be a downside risk of about 10.0 billion yen against your assumptions centered on the display and safety businesses. How much do you think you will be able to reduce costs? What level of cost reductions did you implement in Q1, and what level of cuts will you be able to make in Q2 and beyond?

**A.** The effect of SG&A cuts in Q1 amounted to several billion yen. We expect the same level of cuts in Q2. We believe the full-year risk, given the impact of COVID-19 and other factors, will be about 10.0 billion yen, but we will move forward with further reductions in expenses to offset that, and we think that for the full year, the effect will be in the range of several billion yen. In the area of new demand, we have the example of our project at Hawaii’s airports, and by proactively going after these kinds of deals and securing government subsidies, NEC hopes to minimize this 10.0 billion risk and achieve its target of adjusted operating profit of 22.0 billion yen.

**Q.** Regarding 5G base stations, in the event your goal is for net sales of 400.0 billion yen by 2030, can you comment on the approximate scale of costs or the chronology you plan for that spending? I think that considering your plans involve not only domestic but also overseas business, this will require a considerable level of capital investment.
A. Product development conducted in Japan will be utilized as is, and therefore the costs will be borne by the Network Services business. The cost of investment for Global Business will include the personnel required for global rollout and the building of other capabilities. Methods for doing that will be considered depending on the degree of progress and the countries involved, and we will be working on specific strategies going forward.

**Questioner C**

*Q. I think in developing the overseas business in 5G base stations, one notable issue will be NEC’s ability to reduce costs. Can you comment on your current level of cost competitiveness, and what level of cost reductions will be needed to achieve your long-term targets?*

A. Because NEC currently has almost no base station business overseas, we have no way of comparing cost reductions. The 5G open architecture we will be working on going forward is completely different from the vertically integrated model, which I think will make direct cost comparisons difficult. What is important is the extent to which customers recognize the alignment between the value NEC provides and their own needs. There is value that cannot be provided through the vertically integrated model, so our starting point will be not costs but the effort to respond to the issue of customer value, and we thus hope to focus on providing solutions for doing that.

**Questioner D**

*Q. Regarding development of your global telecommunications equipment business, your base station rollout involves a variety of collaborative relationships, including NTT, Rakuten Mobile, Samsung and others, which I think gives you a number of options. Outside of base stations, we can expect that the core network domain, PASOLINK, Netcracker and others will be important solutions as networks become more advanced. Can you describe how inquiries in these areas are*
doing and your level of expectation going forward?

A. Strategically, NEC believes its collaborations with NTT, Rakuten Mobile and Samsung need to be handled separately. NTT’s support will be important as we move ahead in working with the major carriers. Meanwhile, for customers representing new market entrants, Rakuten Mobile is probably a better fit, and NEC will be collaborating with them as we participate in those projects. We see Samsung as part of expanding our base station portfolio, so that partnership will involve using Samsung products, where suitable, rather than open architecture when we lack products of our own for existing customers upgrading from 4G to 5G. We believe each of these partnerships has its respective advantages. We also believe that other businesses have ample potential for growth by taking advantage of the opportunities 5G presents in their respective domains. In the wireless business, demand for mobile backhaul is shrinking globally, but demand for fronthaul may increase with 5G, presenting new opportunities, and NEC is shifting in the direction of meeting customer DX needs by moving OSS/BSS to the cloud. That demand can grow with 5G, and as a front runner in open architecture, we will continue working with Netcracker to lead that market. Core networks are another area with similar potential for growth, and we will be considering the appropriate portfolio and partnerships in preparation for 5G.