

NEC IR Day 2021 Core DX Business Q&A

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Questioner A

Q: In the Core DX business, you are forecasting revenue growth of around 430.0 billion yen in fiscal 2025 compared to fiscal 2020, and an increase in adjusted operating profit of around 78.0 billion. Which segments' businesses will drive this increase?

A: We explained the fiscal 2025 revenue target of 570.0 billion yen in three domains, but the shared platform will be an IT platform, and the revenue will be recorded in the Enterprise Business, the Public Solutions Business, and the Public Infrastructure Business. In the consulting and consulting-based businesses, the revenue of ABeam Consulting will increase first, and this will be reported under Other in the segment. Digital process innovation will be centered mainly in the Enterprise Business. In new business opportunities, part of the super city business will appear in the Public Solutions Business, and also business related to the Enterprise Business.

Q: What figures can we look at from the outside to check on the progress of the Core DX business?

A: We haven't disclosed the financial results of the domestic IT business presented today, but we will consider how to present figures so that they show our progress. At a minimum, we will present them at IR Day events going forward, but we will also look into presenting them with quarterly financial results.

Questioner B

Q: You mentioned using ABeam Consulting at the IR Day last year as well. Looking back over the past year, what kinds of results and challenges arose from collaboration with ABeam? Also, could you tell us how this collaboration will change going forward?

A: NEC and ABeam Consulting have each been responding to customers with their own individual strategies. As a result, there were some cases where the SAP business supplied

by NEC and ABeam Consulting's proposals were not aligned, resulting in lost opportunities. We have been working to remedy this point since last year, and NEC and ABeam Consulting have now decided on target customers and key customers and domains for strategic collaboration, and we are working on these. In terms of results from last year, we won SAP projects for two major companies.

In addition, as I explained regarding the organization, the newly established Digital Services & Engineering Unit is now able to collaborate with companies that have SI resources, mainly NEC Solutions Innovators, Ltd. Specifically, a specialized SAP team has been formed within NEC Solutions Innovators, and we are working to secure resources in this team and to increase resources through education by ABeam Consulting. This will enable us to coordinate our strategies and allocate resources appropriately, making it possible to expand our business further.

Q: Are we to understand that you are starting to see effects from collaboration with ABeam Consulting that you started last year, and that you are going to further strengthen this initiative including NEC Solutions Innovators going forward?

A: Yes, that's right. In addition to NEC Solutions Innovators, we are also strengthening our collaboration with the Enterprise Business, the Public Solutions Business, and the Public Infrastructure Business.

Q: Have any issues emerged over the past year?

A: Issues include a current surge in demand, which has resulted in a shortfall of resources. On top of that, we are expanding our business in three steps, as I explained today (Renew ERP domain, Renew LOB/Edge domain, Renew peripheral domains), and it will be a challenge for us to quickly make reference cases for these. Specifically, we will determine the customers' targets and start working on them.

Q: We recognize that ABeam Consulting has detailed understanding of SAP-related projects and is top in terms of the number of qualified consultants. However, they do not appear to have expanded into fields outside of SAP. While results of last year's efforts were in fact major SAP projects, there are concerns that with their current resources they would not be able to handle a project with a slightly broader scope, such as digital reforms, what are your thoughts about this?

A: As you know, SAP covers not only accounting but an extremely wide range of domains, including talent management and other ERP in general. First, in the core system domain

alone there is room for business expansion, and we think it is necessary to expand various service and application domains, including Salesforce. The NEC side has been promoting Salesforce and we think it will become possible to have mutual exchanges and collaboration. Furthermore, in digital process innovation, we aim to digitalize customers' business processes, and by adding the operation resources possessed by group companies such as NEC Fielding, Ltd., we believe we can offer value over a wider area. We are also thinking about expanding the domain of adaptive technology of ABeam Consulting itself, but the difference now is that we can now work to widen the scope of business for the Group overall.

Questioner C

Q: With other major vendors also establishing DX consulting companies, could you tell us how quickly NEC is moving? Will the business integration with ABeam Consulting take place gradually through to fiscal 2025? Or will it start to move rapidly during this fiscal year or next fiscal year? Please give an indication of your intended speed and schedule.

A: ABeam Consulting is nearly independent from NEC to begin with, and already has just under 100.0 billion yen worth of business with customers who do not deal with NEC. Just under 20% of its customers are global companies. Therefore, in some ways it is difficult to compare it with other companies that have started new consulting companies. How will we expand the domain in which it has already established itself? In its current status there is a shortage of resources that has prevented us from grasping some market opportunities. However, we recognized that in our current situation we must consider how to offer value over a wider area.

Q: In cases where ABeam Consulting has a project that leads to business for NEC, what kind of incentive are you offering them? Organizational integrations often tend to go badly if the personnel system design fails. What kinds of personnel systems and incentives are you considering to ensure a successful integration?

A: First of all, NEC makes a total evaluation for the entire domain for each organization, including ABeam Consulting. Also, ABeam Consulting's business potential will also expand if NEC Solutions Innovators conducts business under contract with it. For ABeam Consulting, we are already employing the approach of setting KPIs in relation to this domain and applying incentives. I think the issues you have highlighted are relevant in various ways, but there is also a value in having ABeam operate independently, and that is also an important point. We will also give due consideration to employee compensation in regard to this as we

operate the business.

Questioner D

Q: Regarding SI model transformation mentioned on page 23 of the presentation, you are working to reform the business that is currently based on workload provided by applying value-based pricing. However, I think this initiative was already underway. How much progress have you made on this currently?

A: One of the important points is to strengthen our lineup of DX offerings. Currently we have released a lineup of 33 DX offerings. This fiscal year, we will continue to strengthen the lineup, and including items currently under consideration or in preparation, it should come to just under 100 offerings. Currently we are engaged in increasing the number of offerings for which we have a track record. For certain DX offerings by industry type, there are progress updates from the Enterprise Business in Japan. In terms of common DX offerings for all industries, which I touched on in the presentation, we have seen strong growth, particularly for NEC Digital Workplace, driven by advances in remote working.

Q: Shared Platform revenue increased from 46.0 billion yen last year to 73.0 billion yen in the current fiscal year. Could you explain the background to this increase? Could you also talk about the outlook for growth from fiscal 2022 onward and whether it can be sustained?

A: The point to note is that while the shared platform grew significantly, some on-premises sales will decrease. The switch to cloud-based systems will see the common platform increase, so we see the overall increase from 46.0 billion yen last year to 73.0 billion yen for the current fiscal year as part of a natural trend. Looking ahead, with the advance of digital IDs and so forth, we expect to see the growth curve increase slightly from fiscal 2023, and we are currently expecting revenues of 280.0 billion yen in fiscal 2025 as planned.

Q: With regard to profitability improvement through the SI model transformation, should we be focusing on the effects to emerge in the future rather than the effects at the moment?

A: For example, automated construction of infrastructure and so forth will certainly produce effects in terms of improving profitability, but these require investment and we have not yet passed the investment stage. We will lift the gross margins of each organization one at a time. Through the accumulation of these efforts, we aim to cross the break-even point for profit contribution from fiscal 2022 to fiscal 2023.