

NEC IR Day 2021 Public Solutions Business Q&A

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Location: Livestream broadcast from NEC Headquarters

Presenter: Kunikazu Amemiya, Executive Vice President

Questioner A

Q: This segment has a high operating margin on an annual basis, but looking at 1Q it tends to be negative. I understand that the public solutions business has its own special characteristics, but I think that a quarterly loss will not look good from the perspective of the global capital markets. Is there an accounting issue at play here? Or do you have an idea for achieving double-digit margins for 1Q?

A: As you have pointed out, our profits are weighted towards the second half of the fiscal year, and for many of our businesses, they tend to be concentrated particularly in March. However, we are implementing countermeasures together with CCC improvement activities, such as contract negotiations with customers. Furthermore, we will continue with the service creation project, standardization based on a subscription model and offerings, which I described today.

Questioner B

Q: I understand your policy regarding strengthening offerings; but I think that strengthening them will incur development expenses. Could you tell us how development expenses will be increased?

A: Over the past few years our investment ratio for development expenses to generate profits has been about 1% of total sales. We are currently planning to expand this to around 1.6%. In addition to this technology investment, we are also seeing an increase in SG&A expenses due to necessary expenditures such as consulting fees for putting together businesses. In this way, we will increase the DX sales ratio to 42%. Since our existing business will contract, we plan to develop them into high-value added businesses as an assumption for creating this medium-term management plan.

Q: Regarding synergies with KMD, what progress have you made, and have any issues emerged?

A: We are working in collaboration with KMD, including consulting and shared use of its architecture.

Questioner C

Q: The Digital Agency has said that it will create standards for standardizing local government, and rather than having local governments create individual systems, it will develop applications on a common cloud platform. This is expected to cause a decrease in sales. In the future, I expect you will compensate for this through business opportunities such as new services, but looking at a growth rate of +1%, for the near future the risk seems significant. Is this understanding correct?

A: Since the policy for standardization has not been decided, there are some renewal projects that are now pending. We recognize that the goal of standardization is to reduce system operation expenses by 30%, and that this represents a risk of falling revenues for our business. On the other hand, as I mentioned when talking about the package business today, we also expect that standardization will increase labor efficiency for the Company. This means that it is possible we can maintain revenue in high value added domains while improving the operating margin. We aim to establish an ideal cycle where the efficiency gains are used to contribute to customers costs while also being returned to us.

Questioner D

Q: In the area of firefighting and disaster prevention, you mentioned renewal demand starting in fiscal 2023. I imagine the picture is not completely clear, but can we understand that in the medium- to long-term you expect solid performance, and that this domain will grow from fiscal 2022 onward? What is your medium- to long-term outlook?

A: Looking ahead, we will certainly have to address domains such as firefighting and disaster prevention. As we saw in the example I presented, we will respond fully in this area by preparing systems for coordination between national and local governments and systems connecting ordinary citizens.