

NEC IR Day 2021 DG/DF Business Q&A

Date/Time: September 16, 2021 14:10-14:40 JST

Location: Livestream broadcast from NEC Headquarters, Tokyo

Presenter: Masakazu Yamashina, Executive Vice President

Questioner A

Q: I would like to know about the scale and details of the terminated business at KMD, as well as the outlook.

A: The terminated business was something we had been aware of prior to acquisition of the company. This business, which is called Case & Benefit, provides services that calculate things such as pension benefits in the public sector. Up until ten years ago, KMD was a state-owned company with a monopoly on this business field. However, based on Denmark's trend toward the dissolution of monopolies, it was decided that the business would be terminated, and is scheduled to be almost entirely gone by fiscal 2022. Revenue in fiscal 2018 prior to the acquisition was under ¥20.0 billion, while the EBITDA margin was high at around 40%. Despite being a business with high margin, its termination was taken into consideration in the purchasing price during the acquisition of KMD. Revenue of the terminated business was approximately ¥13.0 billion in fiscal 2020. It is anticipated that the total will be several billion yen in the current fiscal year, and then completely zero in the fiscal year after that.

Questioner B

Q: I think that the collaboration with Star Alliance was anticipated to be a growth driver prior to the COVID-19 pandemic. I understand that the aviation industry was hit hard amid stringent conditions due to the pandemic, but I would like to know about the situation. Have projects completely vanished, or is it that they have simply been postponed and will return?

A: The collaboration has already been launched at several airports such as Frankfurt Airport and Munich Airport, and is scheduled to spread to various airports in the future. As I explained today, SITA, Star Alliance and NEC have formed an alliance, and we expect that cross-selling by each of the three companies will lead to an upside through the adoption of our company's facial recognition system.

Due to the pandemic, projects were delayed anywhere from approximately half a year to one year, depending on the country, but are currently moving forward once again. We have

also initiated the collaboration with SITA, which means that our value chain has expanded even further.

Q: If you carry out M&A during the period of the mid-term management plan, which regions or domains do you plan to target?

A: It is written on page five of the presentation material that we will achieve a good reputation in developed countries. In line with this, we have so far advanced M&A with a primary focus on Europe. We have set our sights on developed countries in the Asia-Pacific region that similar to Australia and the US., and we are continually checking and constantly evaluating a long list featuring tens of thousands of companies.

Questioner C

Q: You explained that through the collaboration with SITA, the facial recognition system has been adopted at five airports, and there are more than 50 business discussions underway, but I am curious about roughly how big the scale of business is at a single airport. It is my understanding that the collaboration with Star Alliance is a recurring business model in which money is charged depending on the number of users, but I would like to know what kind of fee charge system there is in place.

A: Your understanding is correct. In the collaboration with SITA, we conceived a pricing system that varies according to factors such as the size of the airport, and whether the number of passengers exceeds 100,000 per day. This is an arrangement in which we receive a lump sum during implementation as well as a fee every year after that. We will refrain from disclosing the specific amounts.

Q: You explained that Avaloq is more than capable of reaching the planned 11% compound annual growth rate in earnings by fiscal 2025, but what is your sense? Are there still challenging aspects remaining or is the goal becoming visible to a certain extent?

A: Avaloq is a Swiss company, and is the leader of the industry in Europe. For several years, it has been making inroads into Germany and England and arranging business discussions. Recently, it has spent three years making inroads into Taiwan and arranging business discussions, and is doing the same in the Asia-Pacific region. It has completed development of new products for wealth management using analytics, and business discussions are increasing, so it believes that further growth can be expected. On the other hand, because there are issues with resources, Avaloq views partner strategies as being critical. For

example, strategies concerning partners and service delivery, such as those to figure out what kind of partners it will work with in the Asia-Pacific region and how it will utilize its own resources or NEC's resources to deliver services, are issues for which it is currently working out a plan.

Q: Am I correct in my understanding that Avaloq's global expansion has proceeded according to the plan at the time of its acquisition?

A: Out of the three companies we have acquired, Avaloq has achieved the most global expansion, and is already extending into 34 countries. It is discussing various items, such as strengthening development further, enlarging its footprint in each country one by one, and for instance how it can move from its position as #2 in the Asia-Pacific region to #1.