

NEC IR Day 2022 Network Services Business / Global 5G Business Q&A

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Format: Webcast via Zoom webinar
Presenter: Atsuo Kawamura, Executive Vice President
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Questioner A

Q: With regard to the Global 5G pipelines mentioned on page 17 of the presentation, what is the expected level of revenue?

A: To give a broad indication, we envisage annual revenue from small-scale telecom operators of somewhere in high single digit billion yen, and somewhere in the lower half of double digit billion yen from large-scale operators. However, this will likely vary between individual telecom operators depending on their approach to capital investment. If overall capital investment is concentrated at particular times, then the timing of recording revenue may also be uneven.

Q: What are your thoughts regarding support and software services after the implementation of Open RAN? How much recurring revenue are you expecting?

A: The introduced equipment and services need to be upgraded every year, but we will provide continuous services and software, etc., to provide high value to our customers. We also have a service model where we undertake all aspects of operations, including maintenance, such as a managed services solution. We are already providing services in this kind of format for telecom operators in Japan, and it is possible that we will expand this model to operators abroad as well. As to how much recurring revenue we expect with regard to the amount for implementation of the equipment, while it varies depending on the services and software provided, it will help us to realize a continuous stable business.

Questioner B

Q: Looking at the 5G portfolio on page 21 of the presentation, are the products and services currently in commercial operation mainly inside Japan? Have you completed development for international markets?

A: The products and services currently in commercial operation are mainly for the Japanese market. We have some trial projects up and running for the international market, but they are not yet operating on networks as large as those in Japan. Going forward, we will move ahead with deployment for projects that are already ordered or projects that are conducting further verification. We are also making progress with in-house development, but we are thinking to provide the value of Open RAN to customers in a total package, including integration with partners' products.

Q: Will the profitability of Global 5G improve in the next fiscal year towards achieving the Mid-term Management Plan?

A: The Mid-term Management Plan for Global 5G has not changed. We will improve its profitability from FY2023 towards an operating margin target of 10% in FY2025.

Questioner C

Q: On page 17 of the presentation, you have presented the number of prospects in the pipeline for Open RAN. Does this number include the French telecom operator Orange that was announced in a press release today? Are all of the telecom operators abroad listed commercial customers? Or are some of them still just trials?

A: Orange was included among the 23 companies that were previously presented as trial projects. Now that the trial has produced a solid result, we have issued a press release. Telefonica is at the trial stage assuming commercial implementation. However, since Open RAN is being verified using commercial network data, we might say it is virtually in commercial use. Vodafone UK is conducting a trial at 2,500 sites, and we can say that it has basically entered the commercial phase. Deutsche Telekom is also conducting a large-scale trial in which one district is built entirely with Open RAN. Orange is still at the trial stage, but plans to implement Open RAN in commercial services from 2023, 2025 at the latest, and we think it is taking steps towards commercial use.

Questioner D

Q: The pie chart on page 14 of the presentation showing telecom operators' intention to implement Open RAN has not changed much from the materials presented at IR Day last year. What kind of technical issues have been resolved over the past year to assist the promotion of Open RAN? Some observers are saying that Open RAN faces challenges due to the performance of generally used hardware and the complexity of combining products; how do you think about this? Could you tell us about any technical issues with Open RAN at this point in time?

A: The overall ratio of telecom operators that have either implemented Open RAN or intend to do so is 85%. Telecom operators have an extremely high interest in Open RAN, and the progress on their commercial operation, technology verification, and discussion toward implementation is reflected in the numbers. Regarding the level of technological progress of Open RAN over the past year, I can point not only to the increase in pipeline numbers, but also the many telecom operators that have conducted interoperability tests. Looking ahead, building up a track record in interoperability testing will become a major point for us in promoting Open RAN. The move to multivendorization and virtualization are two extremely important factors for the promotion of Open RAN. The virtualization of 5G networks is almost achieved in technological terms. However, looking to the future, high performance is required, such as Massive MIMO, multiple access, and so forth, and we therefore need to further strengthen our competitiveness. To this end, we are strengthening our collaboration on chip development with Intel Corporation

and Qualcomm Technologies, Inc. We are also conducting interoperability testing with various vendors with a view to multivendorization for the Open RAN interface. We are also steadily strengthening and expanding our engagement with telecom operators who are promoting Open RAN in Japan and abroad. Building up a track record as a system integrator is also extremely important as it helps to shorten the lead times for building commercial networks.