

## **IR Day 2023 Social Infrastructure Business Q&A**

Date/Time: Thursday, November 30, 2023 15:35-16:35 JST  
Format: Webcast via Zoom webinar  
Presenter: Masakazu Yamashina, Corporate Senior Executive Vice President and Co-COO (Executive Officer)

### **Questioner A**

Q:

Is there any possibility that the financial results of Aerospace and National Security (ANS) could surpass your forecasts?

A:

As stated on page 17 of the presentation materials, we believe that our financial results could surpass both our forecasts for FY24/3 and our Mid-Term Management Plan 2025 targets, mainly due to an increase in the defense budget and an improvement in the profitability of defense equipment.

Q:

In telecom services, what kinds of solutions will you provide for the high-value-added services that telecom operators are pursuing?

A:

In the field of digital services, which telecom operators are strengthening, we will provide the monetization solutions of Netcracker Technology Corporation, which is a subsidiary of NEC with strengths in software. To address the softwarization of mobile phone base stations, we will provide vRAN software that realizes virtualization and solutions that support advanced operation management utilizing AI. Furthermore, we will pursue synergies with the software in the Digital Government / Digital Finance (DGDF) business.

### **Questioner B**

Q:

How will you improve profitability in the global 5G business?

A:

As stated on pages 15 and 16 of the presentation materials, we will optimize the cost

structure mainly through further optimization of selling, general and administrative (SG&A) expenses and review of development costs, in addition to the benefits of structural reforms implemented in the previous fiscal year and the absence of one-time losses. Furthermore, we will implement a strategy with a stronger focus on profitability by shifting from hardware to software. For the global 5G business as a whole, we plan to improve profitability from a loss of approximately ¥10.0 billion in FY24/3 to profit of ¥2.0 billion in FY25/3 and profit of ¥16.0 billion in FY26/3.

#### **Questioner C**

Q:

What is your outlook for telecom operators' capital expenditures going forward? How will NEC develop its business?

A:

We expect the capital expenditures of telecom operators in Japan and abroad to remain mostly flat in the future. Orders for telecom services have increased at an 8.5% compound annual growth rate (CAGR) over the past 3 years, as shown on page 12 of the presentation materials, as a result of our efforts to meet demand from investments by domestic telecom operators to expand 5G coverage and improve their communications quality. We believe that domestic telecom operators will make investments in 3Q and 4Q of FY24/3, partly to address issues such as connectivity difficulties amid a standstill in the development of standalone 5G networks at this time. Looking ahead, we expect orders to increase at a 4.1% CAGR through FY26/3. We have started to successfully enter into business talks for major projects such as vRAN virtualization software, which has increased the probability of meeting the forecast.

Q:

What kinds of risks to future financial results does the Social Infrastructure business face?

A:

As previously mentioned, although ANS has the potential to surpass the Company's forecasts, we must closely monitor the risk of quality problems arising should our efforts to strengthen resources fall behind rapid order growth. Currently, we are thoroughly implementing measures to curtail the incidence of unprofitable projects, and there have been almost no losses due to quality problems. Meanwhile, in telecom services, NEC has a large share of the domestic mobile phone base station market, but we must consider risks such as entry by international vendors. We believe that it is crucial to strengthen high-value-added digital transformation (DX) solutions.

<b>Questioner D</b>
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Q.

In terms of its strategy for focusing on the field of software in telecom services, where do NEC's strengths lie? Has the Company's competitive landscape or positioning changed?

A:

Netcracker Technology Corp.'s software is our strength. Netcracker is one of the top three companies in the world in Operations Support Systems/Business Support Systems (OSS/BSS), which provides support in areas such as network operation and customer management. A major Middle Eastern telecom operator has placed an order with us for an AI-based business support system. In the future, we will seek to differentiate ourselves from our competitors by capturing synergies between NEC's vRAN virtualization software and AI solutions developed by Netcracker. Through these efforts, we will conduct proactive sales to more than 100 corporate clients worldwide. We will also work on global business development in cooperation with NTT DOCOMO, INC. and other partners.

Q:

What are your views on the impact of raising the upper limit for the margins of defense equipment?

A:

In the defense business, there are many projects that have lead times of more than two years, and NEC's projects contain many IT systems in addition to defense equipment. As a result, we are forecasting a gradual increase in future margins.