NEC IR Day 2025 – BluStellar Q&A

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Presenters: Toshifumi Yoshizaki, Corporate Senior Executive Vice President and CDO (Executive Officer)
Norihiko Kimura, Corporate Executive Vice President (Executive Officer), President of Digital Platform Services Business Unit
Takahiro Yamada, President & CEO, ABeam Consulting

Questioner A

Q: What will be the specific method of service delivery in ABeam's business model transformation?

A: We will roll out ABeam's new business model across three businesses: Strategy Consulting, Solution Consulting, and Outsourcing. Notably, in the Solution Consulting business, we intend to turn a portion of the revenue recognized by ABeam into performance-based compensation, linked to KPIs after system deployment (e.g., profitability improvement, cost reduction, and revenue growth). In addition, for SaaS and product-type business models, we will provide a shared management infrastructure platform for specific industries such as railways, electric utilities, leasing, and real estate. In the future, we aim to shift the majority of ABeam's overall business from traditional fee-based businesses to this new approach.

Q: Of the 16 cross-industry sets in BluStellar Scenario, could you tell us which fields have particularly strong growth potential and which are likely to account for a large share in the future?

A: Demand is currently strong in areas such as modernization, data infrastructure, and AI and security, and we have built cross-industry scenarios focused on AI and security, where we have strengths.

The main IT investments toward 2030 will be made in the areas of modernization and use of data. Particular emphasis is placed on data sovereignty and creating value from data through AI. Modernization and use of data currently account for a large share of revenue from scenarios.

Questioner B

Q: In the field of AI, differentiating from international SaaS vendors is difficult. Can NEC build a unique position? Also, in connection with the development of large language models (LLMs), will you outsource for the computing equipment, or purchase graphics processing units (GPU) on your own?

A: Amid intensifying competition in the infrastructure field centered on LLMs, or so-called foundation models, NEC is targeting AI fields that are specialized for specific business operations

and industries, leveraging inference engines built on top of those models. It is crucial to utilize cutting-edge external foundation models from around the world as well, while ensuring a well-balanced combination of business operation- and industry-specific knowledge and the human workload of real people. At present, generative AI remains limited to basic tasks such as search, translation, and summarization. In the future, however, AI agents will take over many business operations, and the differentiating factor will be whether business operation- and industry-specific processes can be redesigned based on AI. NEC has developed an LLM in anticipation of these trends, and by specializing in business operations and industries based on this track record, it will compete with global companies. Furthermore, from the perspective of sovereignty, we will focus on building a safe and secure environment. For GPUs and chips, we will implement cutting-edge technologies from NVIDIA, AMD and others.

Q: Regarding security, could you please discuss NEC's competitive advantages, including its position and market share among domestic companies?

A: It is now difficult for a single company to provide complete security. It is important not only to defend against attacks, but also, following the zero-trust approach, to maintain resiliency in terms of how to ensure business continuity under the assumption that attacks will occur, and how to rapidly recover. Mindful of the need to protect industries throughout the world, NEC will upgrade and expand its global Security Operation Center (SOC) and provide robust infrastructure. NEC's strength lies in its extensive track record. Its competitive advantages lie in leveraging a wealth of past projects and established frameworks and systems as assets, covering not only system integration, but also managed services, including SOC, where future demand is expected.
In addition, we will provide AI and security together as an integrated service. One of NEC's strengths is its ability to provide architecture that reflects system-wide considerations, in addition to traditional software-centered solutions. This includes methods to secure the entire system when building virtualization platforms, as well as providing offerings for building infrastructure designed to ensure uninterrupted business operations.

Questioner C

Q: How will the number of BluStellar's 500 solutions, 150 sets, and 30 sets change in the future? In addition, how many third-party products and internally developed solutions are included in your solutions?

A: We have organized our previous lineup of around 10,000 products into 500 solutions. Rather than increasing the number of solutions, we will enhance the content of the 30 scenario sets in the future. For example, in face authentication, we own the image processing software, which is a solution, and this serves as our entry-exit offering. Moreover, at the scenario level, value improves as it enables the transformation of work styles themselves. We create sets by combining our solutions with existing solutions from other companies. Currently, roughly 40% of the products are from other companies. If we are able to increase the share of our own products, we believe we can improve profit margins.

Furthermore, scenarios may also emerge while addressing customer issues. Because we conduct product portfolio management (PPM), scenarios will not remain fixed. We will improve and expand them while implementing a process of selection and concentration.

Questioner D

Q: Regarding the profit structure, could you please explain the differences in current profit margins between Scenario/Offerings and Products & Services, and how they are expected to change in the future?

A: Because there is a difference of around 3-5% between the profit margins of scenarios and other solutions, expanding scenarios will lead to improved profit margins. Comparing the profit margins of BluStellar and the base business (non-BluStellar), BluStellar is about 2-3% higher. By combining cost reductions through PPM and scenario expansion, we aim to achieve a profit margin of 20%.

Questioner E

Q: Could you please tell us about the time frame for your future goals?

A: We would like to achieve our goals during the period of the next mid-term management plan, which begins next year. We expect to achieve those goals in the next 3 or 4 years.

Q: In addition to expanding by benefiting from strong demand for modernization and so forth, will BluStellar Scenario also enable you to raise demand itself or win projects on an even large scale?

A: In anticipation of technology 3 or 5 years from now, NEC aims to transform business models themselves and create new markets. Taking AI as an example, AI is currently being added on to existing processes. However, going forward, we should consider AI-native processes, which will give rise to entirely new markets. The current strong level of demand is driven by efforts to advance modernization as a means of transforming systems themselves. However, in the next phase, we expect modernization for AI-native processes to emerge, and we intend to approach this area through BluStellar.

Through my conversations with corporate executives, I have come to feel that one reason the use of AI, data, and digital technology has not progressed is that the aging of companies' management infrastructure has become a bottleneck. To address this, by modernizing the management infrastructure, NEC and ABeam will provide a framework that enables anyone to use data, digital technology, and AI in any situation. We believe that this will lead to a competitive advantage and contribute to revenue growth.

Previously, we responded in line with requirements received from customers. With BluStellar, however, we emphasize providing integrated services, from consulting to maintenance service and operations as managed services. By working together with customers to formulate strategies and develop a grand design, and by accompanying them as we make their information and communications technology (ICT) environments more efficient and effective, we strive to maximize Total Contract Value (TCV). BluStellar's approach is to encourage the transformation

of customers' mindset and behavior.

Q: How have customers responded to the change in your sales approach under BluStellar? By selling more efficiently under BluStellar, will you be able to capture demand that you had previously been unable to fully capture?

A: We believe that both sides can benefit and receive value. A major difference between international companies and Japanese companies lies in the degree to which IT is developed in-house. In the past, customers lacked sufficient IT knowledge, but they are now advancing their own in-house development. For NEC, this change is very welcome. Rather than NEC taking on everything, we would like to divide roles with our customers and ABeam's consultants as we move forward.

Meanwhile, when it comes to whether our customers' senior management teams have the same level of awareness or strategy, regrettably the current reality is that some do not. Starting with consulting, we will work together with our customers' senior management teams to formulate new transformation themes and scenarios.

Questioner F

Q: If BluStellar's revenue target of ¥1 trillion is to be achieved in roughly 5 years, this implies an average annual growth rate of about 10%. Meanwhile, it was stated that Japan's DX market is projected to grow at 14% annually. Within the DX market, are there areas that BluStellar intends to engage in and areas it does not intend to engage in? If there are any fields that BluStellar is better off not engaging in from the standpoint of value or competitive advantage, could you please specify them?

A: Revenue of ¥1 trillion and a profit margin of 20% are minimum targets. Considering progress in the first half of FY2025 and DX market growth, we will likely set new targets in the next mid-term management plan. Regarding the fields we will engage in and those we will not, we are focusing on fields where we can leverage NEC's strengths, such as AI and security, as well as those fields where we can leverage our customer base and track record.

In addition, there are issues with in-house IT human resource development at Japanese companies, and a shortage of engineers is expected to become more apparent going forward. BluStellar for Academies, an educational program and part of the BluStellar offering, is being used by 540 companies and 40,000 people, and was designed to provide NEC's expertise to customers whose in-house development has not yet progressed. Looking ahead, we will distinguish between areas where customers themselves can operate independently and areas where NEC will provide assets. We believe that we can support Japanese companies poised for future growth and contribute to energizing the entire Japanese market. Assuming that resources are not plentiful, it is important to possess the expertise needed to utilize technology.