

NEC IR Day 2026 – IT Services Q&A

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Questioner A

Q: Could you explain, in quantitative terms, the time frame for the positive effects of AI-driven development to appear as improvement in profit margins?

A: We have announced our partnership with Anthropic and will progressively apply it across the entire company and incorporate it into development. We expect improvement in profit margins to materialize primarily in the NEC BluStellar area, and we are targeting an improvement of 10.5 percentage points from 2025 to 2030. We believe that the full effects will emerge from FY2029/3 onward.

Q: How will you change the pricing model to a value-based approach?

A: At present, there is still a certain volume of traditional man-hour-based business, such as highly mission-critical contracted system integration (SI), operations, and legacy maintenance. There is also a possibility that unit prices will decline due to man-hour-based pricing. However, in our future business, we will create value in both upstream and downstream operations, and as the business becomes cyclical and recurring, we will advance toward a service-based model. Over the past two years, we have worked to turn our previous man-hour-based offerings into models that we provide as repeatable, preset offering scenarios. Through this, we have established a track record and gained confidence, including in our methodology. We believe that value-based pricing will expand and that NEC BluStellar's profit margin will also improve as a result.

Questioner B

Q: ABeam's Non-GAAP operating profit margin is around 12% in FY2026/3, and you have set a target of raising it to 20% in FY2031/3. Could you comment on the path toward this goal and your level of confidence in achieving it?

A: Over the past several years, ABeam has achieved steady growth in both its operating profit margin and its top line. While there are projects such as SAP implementations where profit margins are constrained by man-hour-based pricing, we are seeing an expansion in strategic consulting projects accompanying customers' DX, which carry high profit margins and will drive growth. We have also secured the necessary human resources, and amid the AI transformation (AX) trend, upstream projects are expected to increase further. In addition, last year we established a joint venture with BearingPoint to strengthen services in the U.S. market. There is also ample scope for improving performance by contributing to the growth of customers operating their businesses globally.

In addition, anticipating that we will also apply AI to consulting, we plan to have ABeam consultants participate in a high-level education program through our partnership with Anthropic. AI will handle research and the simulation of hypotheses, while the work of human resources will shift toward conception, verification, and governance, which require human judgment. Furthermore, by incorporating AI agents and the like, we plan to enhance the value we provide and make this an even more highly profitable business.

Q: Regarding the medium-term outlook for the public sector, demand peaked temporarily in FY2026/3. Will it grow significantly over the next five years?

A: For the fire and disaster-prevention area, demand fluctuates significantly in roughly ten-year cycles, so we think it will take time until the next upswing. Apart from that, although municipal government standardization is losing momentum, the next wave of demand is expected to emerge region by region, so there is still room for expansion. We therefore expect to expand toward the latter half of the Mid-term Management Plan 2030, building on the customer base we acquire up to FY2026/3.

Q: Is the outlook for the public sector lower than that of the enterprise sector and other domains?

A: Looking at the five-year horizon, although growth rates will vary by segment, we expect each market to grow at a rate higher than the market average, although there will be some variation. Within the public sector, demand from government agencies has expanded steadily over the past several years, so we will continue to strengthen initiatives in this area. For local municipalities, we aim to achieve significant growth in the latter half of the Mid-term Management Plan 2030 by introducing new strategies.

Questioner C

Q: How much margin improvement do you expect from the use of AI at Netcracker and CSG? Also, what about the use of AI in development?

A: Netcracker is already using AI in various ways and is advancing the application of AI to services. It will also deploy its advanced technologies and know-how into CSG's market. On the development side, we will also use Netcracker's overseas resources centered in India at CSG, thereby generating cost synergies. Upstream, we will expand our service offerings through the use of AI, adding services previously provided through CSG to the Netcracker side, or switching them over to Netcracker.

Q: There is talk that token costs for AI use will surge. How will you optimize this, including whether you will use premium services or general ones, and combinations with models developed in-house at NEC? Also, how is this factored into the Mid-term Management Plan 2030?

A: We anticipate cost reductions from the productivity and operational efficiency gained by applying AI to system development and product development. As for token costs, we have run simulations while also taking our development volume into account, and have factored them into our cost assumptions.

In addition, our use of AI in the services we provide follows a multi-model strategy. Each model

has its own strengths, so we will use them selectively. Naturally, in-house-developed models allow us to keep token costs low, so we will utilize them to the maximum extent.

Questioner D

Q: Will there be changes in the business model, including the operation of AI platform services for enterprises?

A: Demand for work entrusted to us by customers, such as platform development, remains high. Going forward, we will continue to see ample demand in areas from data preparation to operations, as well as consulting demand generated by these activities. In addition, demand for mission-critical operational domains will continue as these often come with various constraints, and customers cannot easily build environments they can use simply and safely themselves.

In the AI era, we believe that there will be cases where NEC provides the platform and customers implement it themselves, as well as cases where NEC provides a platform that it has implemented as a service. The strength of NEC's AI platform is that, beyond merely providing AI itself, we can provide an integrated suite of services that includes the overall design based on operational know-how and knowledge, security and governance, and guardrails. While we believe there will be a certain volume of demand in the traditional SI business, in the AI era we intend to transition to a service business that uses this AI platform service. In addition, there will also be a need for designs to transform customers' operations, organizations, and processes, and this will drive accompanying demand for services such as BPO.

Q: The growth rates for international IT companies such as SWS-UK and KMD are set at a CAGR of 3–5%. Could you tell us about the growth opportunities and investment plans to achieve this?

A: At KMD, structural reforms such as business carve-outs took longer than initially planned. After the change of president in January last year, we significantly revised the strategy and organizational structure. The growth plan in the Mid-term Management Plan 2030 is highly reasonable, and we will also make investments and aim to expand earnings. For Avaloq, we will leverage its stable customer base and platform to pursue growth through geographic expansion and expansion of functionality. In the international IT domain, we will actively consider any opportunities for large-scale M&A, and we expect significant growth.

Questioner E

Q: Could you tell us if there are any matters in the Mid-term Management Plan 2030, such as AI, that you feel have become less predictable? It would be helpful if you could comment on how customers view moving development in-house and to what extent they are considering it.

A: Over the past two years, we have continually stayed updated on advances in AI as we pursued our initiatives. However, because the market environment changed significantly, especially since the beginning of this year, just before announcing the Mid-term Management Plan 2030 we incorporated AI into the plan with an even stronger emphasis. However, many customers are in a situation where their foundation is not yet in place, the data platforms necessary for data-driven management are not ready, or utilization has not progressed. In other words, there is much to be done before introducing AI.

On the other hand, customers appear to be grappling with how to introduce AI agents and new physical services. There will be parts that change and parts that do not, but it will be difficult to suddenly change back-office systems while a customer's operations are running stably. While

there are areas where customers can easily move development in-house, because providing services entails responsibility, they will work with us to build mechanisms such as guardrails. Views on moving development in-house differ greatly by industry and by level of maturity. We believe there is movement toward in-house development, but since it is difficult to foresee what lies ahead, customers will likely make careful judgments.

Q: At the outset there was mention of investment in an AI supercomputer. What is the differentiating factor or purpose of developing AI hardware infrastructure yourselves?

A: First, especially when operating large-scale training clusters using GPUs, it is currently difficult to secure substantial resources for a set period of time. Since we consider trend-leading, operation-specialized compact models to be one of our business pillars, we believe there are significant benefits to owning an AI supercomputer in-house.

Second, the time from R&D to business deployment has been dramatically shortened. Having R&D capabilities in-house provides a significant advantage in delivering the latest services to customers as quickly as possible. Investment in an AI supercomputer is also necessary to enhance this R&D capability.

Questioner F

Q: Over the past three or four months, major systems integrators have all entered into partnerships with Anthropic. How will NEC differentiate itself? Also, will the partnership with Anthropic produce a business with a higher contribution margin ratio than NEC's average?

A: We are not in a position to know what kinds of contracts other companies have, but we are the first Japanese company that Anthropic's U.S. head office has partnered with. While it is not an exclusive contract, becoming a global partner involves various conditions, and multiple companies cannot become global partners simultaneously, so we consider it an advantage to be able to receive support ahead of others. Our international IT businesses and overseas group companies such as Netcracker are also under the agreement.

We are considering jointly developing industry-specialized AI services with Anthropic in areas such as finance, manufacturing, and local government. The services we provide also incorporate security and guardrails, which are among NEC's strengths, and we can offer them on a vertically integrated as well as a partial basis.

As for profit margins, we will be able to create high added value, and we believe margins will improve through cost efficiencies, including productivity improvements.

Q: As shown on page 10 of the Mid-term Management Plan 2030 materials, I understand that the value-added structure will change. At present, I believe you have a large number of personnel in system integration, where automation and efficiency are advancing. How quickly can you carry out reskilling? Now that the age-pyramid structure is changing with the retirement of the bubble generation, could you tell us about your efforts to shift personnel and assemble highly profitable talent while keeping SG&A in check, and any targets you may have over the five years?

A: Mainly through NEC Life Career, we have established a system that enables workforce mobility through human resource reskilling and outplacement of around 500 people, and we are working to double this. In addition, we will reskill people toward areas that create value through BPO and AI, thereby optimizing SG&A. In sales, we have been shifting toward consolidating bases and developing the NEC BluStellar Scenario, which leverages operational know-how, and we will switch over to a sales structure that is based on this. For systems engineering resources, in

addition to reskilling, we can also shift personnel to IT services in areas such as the telecom and defense domains. By leveraging our accumulated know-how and track record in effectively mobilizing personnel, we believe we can expand the top line and contribute to profit.

Questioner G

Q: Now that the Mid-term Management Plan 2030 has started, could you tell us what is changing in the behavior of front line personnel and management, particularly regarding the current use of AI?

A: As management, we have always embraced change. While there are aspects whose impact on performance is hard to foresee, there is a great deal to be done toward utilizing agentic AI and physical AI. NEC itself, as “Client Zero,” is steadily advancing the application of AI across various areas such as corporate functions, sales, and factory lines, where we are gaining firsthand experience, including failures. This experience is important. We will use incidents that could also happen to our customers as data for platform development and AI utilization, and for our discussions with customers. As with conventional DX, this will become a large-scale business, and we believe it will grow even larger as agentic AI becomes widespread around 2028. All of our AI strategy is incorporated into NEC BluStellar, so we will produce results and demonstrate progress. In addition, partly because of its strong performance, the Company is full of energy, and everyone is united in seeking to deliver even better results.

Questioner H

Q: There was mention of incorporating governance and security into the AI platform. Focusing specifically on security, how much impact will it have on improving the operating profit margin? If that is difficult to answer, please tell us, to the extent possible, about dialogue with customers and changes in capacity and resource allocation within NEC.

A: Our initiatives on cybersecurity are being led by Social Infrastructure, but we also plan to address it in NEC BluStellar, and cybersecurity is incorporated into all of our businesses. We regard Security for AI (security to protect AI) as the greatest differentiating point in our AI business, and we are implementing a variety of measures. We are collaborating with Cisco on global standards; however, that alone cannot cover the diverse needs within Japan. We are aiming to differentiate NEC’s AI by broadly incorporating measures such as the implementation of our own guardrails and functions to suppress hallucinations.