Q&A Regarding Financial Results for the First Quarter of the Fiscal Year Ending March 31, 2027

Date/Time: Wednesday, July 29, 2026, 16:00-17:00 JST
Format: Live online streaming from NEC Headquarters, Tokyo
Presenters: Kunikazu Amemiya, Corporate Senior Executive Vice President and CFO (Representative Executive Officer)

Questioner A

Q: Despite headwinds such as a rebound decline in public sector projects, component supply issues, and the consolidation of CSG Systems International, Inc., both Domestic and Overseas IT Services recorded significant increases in revenue and profit year-on-year in Q1. Please explain the main drivers and factors behind this result. Additionally, please describe the progress over the past three months regarding risks related to procuring components, including memory, and how procurement lead times have affected the business.

A: Domestic IT Services saw an 8.8 billion yen year-on-year increase in revenue and a 13.4 billion yen increase in operating profit. Excluding operational factors, profit improvement was about 3.5 billion yen, made up of around 1.0 billion yen from the elimination of low-margin businesses and just over 2.0 billion yen from retrieving provisions for unprofitable projects. The fundamental improvement effect was around 10.0 billion yen, with about 5.0 billion yen coming from higher revenue, and another 5.0 billion yen from favorable changes in the business mix toward projects with higher profitability. Our measures to improve profitability continued to deliver results in Q1. The rebound decline in public sector revenue was offset by new orders.

Overseas IT Services posted a 3.6 billion yen increase in profit, mainly attributable to the new consolidation of CSG.

Regarding component supply, the impact was minimal as we were able to largely offset costs through price pass-throughs and product mix adjustments. Procurement lead times temporarily extended to about six months, but we managed through delivery schedule adjustments; a stable outlook is expected to continue in Q2.

Q: What were the main factors behind the improvement in Q1 operating profit for Submarine Systems year-on-year? Also, could you explain why the upward revision to the full-year forecast was relatively modest, and whether there were any one-off factors?

A: Q1 operating profit improved by 4.0 billion yen year-on-year, and there were no one-off factors in this result. Regarding the full-year outlook, some legacy contracts that previously included risk factors have been completed, but residual risks remain. As a result, we have cautiously raised our operating profit forecast by 1.0 billion yen.

Questioner B

Q: Aerospace/National Security saw a significant increase in profit for Q1. Were there any one-off factors such as earlier recognition timing? Also, with 110.0 billion yen in sales already posted versus the full-year target of 545.0 billion yen, do you believe the plan is feasible, and is there room for an upside surprise?

A: We are working to level revenue by improving our contracting process. In the past, Q1 was a contract negotiation period, but this fiscal year, project work started from Q1 and revenue was recorded from the start of the term. As for the full-year plan, we believe it is reasonable at present, although there is some upside potential.

Q: What contributed to the +2.7pt improvement in the operating margin for Domestic IT Services, and do you think this improvement will continue?

A: This is the result of actions from the end of last fiscal year, such as price negotiations and measures to improve unprofitable projects. We are promoting "model-based SI" without heavy customization, which is leading to productivity gains. Reflecting the strong Q1 performance, we have revised our full-year forecast upward; all allowances remain in place, and we will continue initiatives in and after Q2 to further improve certainty of achieving the plan.

Q: How do you view the decline and outlook for the “base business” in Domestic IT Services?

A: Excluding the business PC/hardware divestiture (about 10.0 billion yen reduction), rebound declines in fire/disaster prevention (about 10.0 billion yen), and effects from NESIC and related group subsidiaries shifting their solutions to NEC BluStellar (about 14.0 billion yen), the underlying trend is slightly positive compared to last year. We will continue to promote migration to NEC BluStellar. For the full year, since the shift to NEC BluStellar, the rebound decline in special public sector demand, and the focus on more profitable business will continue, the overall trend is for lower revenue.

Questioner C

Q: What is driving NEC BluStellar's order growth in the government and finance sectors?

A: Modernization is the biggest growth driver and is resulting in growth across nearly all sectors, with the pace particularly strong in government and finance. Also, in finance, we are starting to see increased demand for security-related solutions.

Q: Q1 results appear to have far exceeded the revised plan. Could you provide more detail on the magnitude by which the upward revision exceeded the original plan, and your assessment of that outperformance??

A: Q1 performance exceeded expectations, thanks to the accumulation of improvement measures. Compared to the original plan, revenue was ¥70.0 billion higher and Non-GAAP OP was ¥25.0 billion higher.

By segment, IT Services revenue was ¥50.0 billion above plan and Non-GAAP OP was ¥14.0 billion higher. Domestic IT contributed ¥20.0 billion in increased revenue and ¥10.0 billion in additional profit—split evenly between revenue growth and a more favorable business mix. Overseas IT contributed an additional ¥30.0 billion in revenue and ¥4.0 billion in profit, mainly due to the consolidation of CSG.

Social Infrastructure revenue was ¥20.0 billion above plan, and profit was ¥5.0 billion higher. Of this, Aerospace/National Security revenue rose by ¥20.0 billion and profit by ¥4.0 billion, while Submarine Systems contributed an additional ¥1.0 billion in profit. There was also an additional ¥6.0 billion upside from expenses being recognized in a different quarter. Momentum remains strong and we intend to maintain this going forward.

Questioner D

Q: Please share your outlook on demand for the use of AI in customers' enterprise systems, including both adoption challenges and cost factors.

A: Many companies are actively exploring the use of AI, and at present, demand for modernization to build proper IT environments is driving performance. As companies complete their IT modernization, we expect them to begin full-scale AI implementation sequentially. NEC is also utilizing AI in development and internal operations to promote efficiency and business reform, and we are expanding our "client zero" approach in partnership with Anthropic and for security solutions provided to our customers.

Q: Could you comment on the timeline for the impact of AI demand on results?

A: AI is evolving rapidly, and if results begin to emerge, significant market expansion could happen quickly—even within one to two months—so we are preparing for such scenarios.

Questioner E

Q: Please explain the impact and outlook for Overseas IT business performance from the new consolidation of CSG, and how intangible asset amortization is reflected.

A: CSG's Q1 revenue was slightly above 30.0 billion yen, which was roughly flat year-on-year. Amortization of intangible assets is excluded from Non-GAAP, and in Q1 it was not recognized under GAAP. Amortization is scheduled to begin after reviews of the relevant assets are finalized. We will provide a detailed business plan in October.

Q: Regarding the impact of the decline in public sector orders due to municipal standardization and fire and disaster prevention projects reaching their peak in Q1, please explain your expectations for both the timing and scale of these impacts in subsequent quarters. Furthermore, how are efforts to acquire new large-scale orders progressing in order to offset these declines?

A: Of the roughly 100.0 billion yen in annual drop-off impact, about 10.0 billion yen was recorded as negative in Q1. The impact in and after Q2 is expected to be spread relatively evenly across quarters rather than being concentrated, and we are accelerating our focus on acquiring large orders in public businesses to offset the decline. Signs of progress are already emerging.

Questioner F

Q: Please compare Public orders at the end of March with Q1 results, and explain order figures without adjustment for special demand as well as how you evaluate sales progress.

A: Q1 was better than expected, and while not fully offsetting the special demand drop-off, the backlog is steadily rebuilding and we will continue to win new business in Q2 onward. Excluding special demand, orders were up 3% year-on-year; including the special demand, orders were flat. From this year, we have disclosed "order backlog cover ratio*" as a key metric, which was +2% versus the same period last year at the end of Q1. If the ratio is positive, there is adequate progress towards the annual plan.

* (Q1 revenue + the portion of order backlog scheduled for recognition within the fiscal year) / annual sales

Questioner G

Q: Please explain the new FDE (AI-native digital engineer) development policy and your targets for hiring and upskilling.

A: Through our alliance with Anthropic, we are promoting development of 30,000 AI-native engineers across the NEC Group. The integration with NEC Solution Innovators, Ltd. also supports this initiative. We are consolidating resources and reallocating them to growth areas for the future.

Q: Please clarify the definition of the "base business" and the possibility of shifting existing customer projects to NEC BluStellar.

A: The base business involves customized system integration, while NEC BluStellar is a repeatable, horizontally deployable model. The NEC BluStellar approach leverages domain knowledge and know-how to increase profitability, and existing customer projects are sometimes migrated to NEC BluStellar.

Questioner H

Q: What are the factors behind the recent performance in public-sector orders, and could you provide an update on contracts for local government security and AI projects, and ABeam Consulting PoC projects?

A: We completed around 400 local government standardization projects by the end of last fiscal year, and orders in this area have exceeded expectations again this term. In addition, increased orders for central government agencies and telecom carrier projects have also contributed to growth. Performance at ABeam Consulting has also been strong. Modernization is a major growth driver, and our focus on targeted areas such as electric power and transportation is supporting expansion.

Q: What is your outlook for security demand from Q2 onward?

A: Security is one of the most critical domains under NEC BluStellar. We have started initiatives with eight regional banks under our partnership with Anthropic, and the security services center for these activities is already operational. We have a robust pipeline and expect sharp expansion going forward.

Questioner I

Q: Please explain the factors and risks behind the initially planned ¥25.0 billion positive variance in Q1 Non-GAAP OP compared to the ¥10.0 billion full-year upward revision—a gap of ¥15.0 billion.

A: We do not foresee any significant negative factors in the second half. The difference reflects, in part, some revenue and profit being recognized in advance during Q1 and our cautious approach relative to roughly ¥30.0 billion in full-year allowances.

Q: Please provide details on the timing, scope, and scale of the new projects with the eight regional banks, and on the expected profit margins for the collaboration projects with Anthropic.

A: Due to agreements with our customers, we cannot disclose specific terms or figures at this stage, but we will provide updates in due course. Also, the joint projects with Anthropic are being rolled out under our profitable NEC BluStellar model, which is expected to deliver high profit margins.