

# Mid-term Management Plan 2020

January 30, 2018

NEC Corporation

<http://www.nec.com/en/global/ir>



# **Orchestrating** a brighter world

NEC brings together and integrates technology and expertise to create the ICT-enabled society of tomorrow.

We collaborate closely with partners and customers around the world, orchestrating each project to ensure all its parts are fine-tuned to local needs.

Every day, our innovative solutions for society contribute to greater safety, security, efficiency and equality, and enable people to live brighter lives.

# Mid-term Management Plan 2020

- 1. Looking back at the “Mid-term Management Plan 2018” and new Mid-term Management Directions
- 2. Reform of Profit Structure
- 3. Achievement of Growth
- 4. Restructuring of Execution Capabilities
- 5. Summary

Supplement: Mid-term Plan by Segment

\* Net profit refers to net profit attributable to owners of the parent for the same period.

# 1 . Looking Back at the “Mid-term Management Plan 2018” and New Mid-term Management Directions

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# Transformation into a Social Value Innovator

The “Mid-term Management Plan 2018” aimed for the “Reorganization of Profit Structure” and “Getting Back on the Track to Growth” in order to realize the **transformation into a Social Value Innovator**

\Orchestrating a brighter world



# Transforming into a Social Value Innovator

## Technology Development



**Cyber Security**  
Established Security Operation Center(SOC)  
est. June 2016



**NEC the WISE AI**  
Established AI technology brand  
est. July 2016



**Bio-IDiom**  
Established biometric product brand  
est. November 2017



**FIWARE**  
NEC the WISE IoT-Platform  
**IoT & Network**  
Announced IoT strategy  
est. July 2015

## ■ Case studies on social value creation



**Safer Cities & Public Services**

South Wales Police



**A safe and Secure event experience**



**Lifeline Infrastructure**

Tokyo  
Stock Exchange, Inc.



**Efficient and secure AI trade review service**



**Industry Eco-System**

Sumitomo Electric Industries, Ltd.



**Efficient and fair inspection support with AI**

## ■ Co-Creation, and Collaborative research

**NEC Future Creation Forum**

**International Sports Events**

**Collaborative research such as AI**

Osaka University, AIST,  
The University of Tokyo

**Blockchain mounting**

Collaboration by SBI Holdings,  
SBI BITS, NEC

**International standardization activities**

FIWARE Foundation as  
a platinum member

# Achievements and Challenges from the “Mid-term Management Plan 2018”

**Cost reduction efforts have progressed mostly on track, while existing businesses underperformed significantly**

## Mid-term Management Plan 2018

### Reorganization of profit structure

Establish profit structure for generating 5% operating profit ratio

**Status**

**Mostly on track for cost reduction targets**

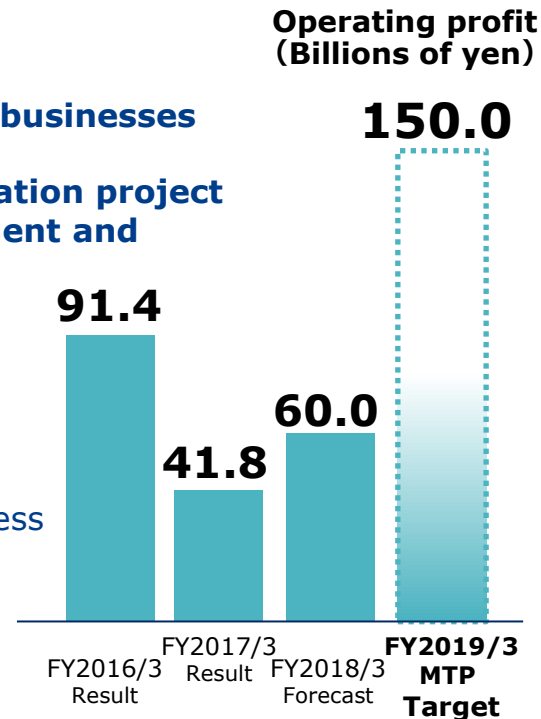
Getting back on the track to growth

**Status**

**Evidently underperformed in existing businesses**

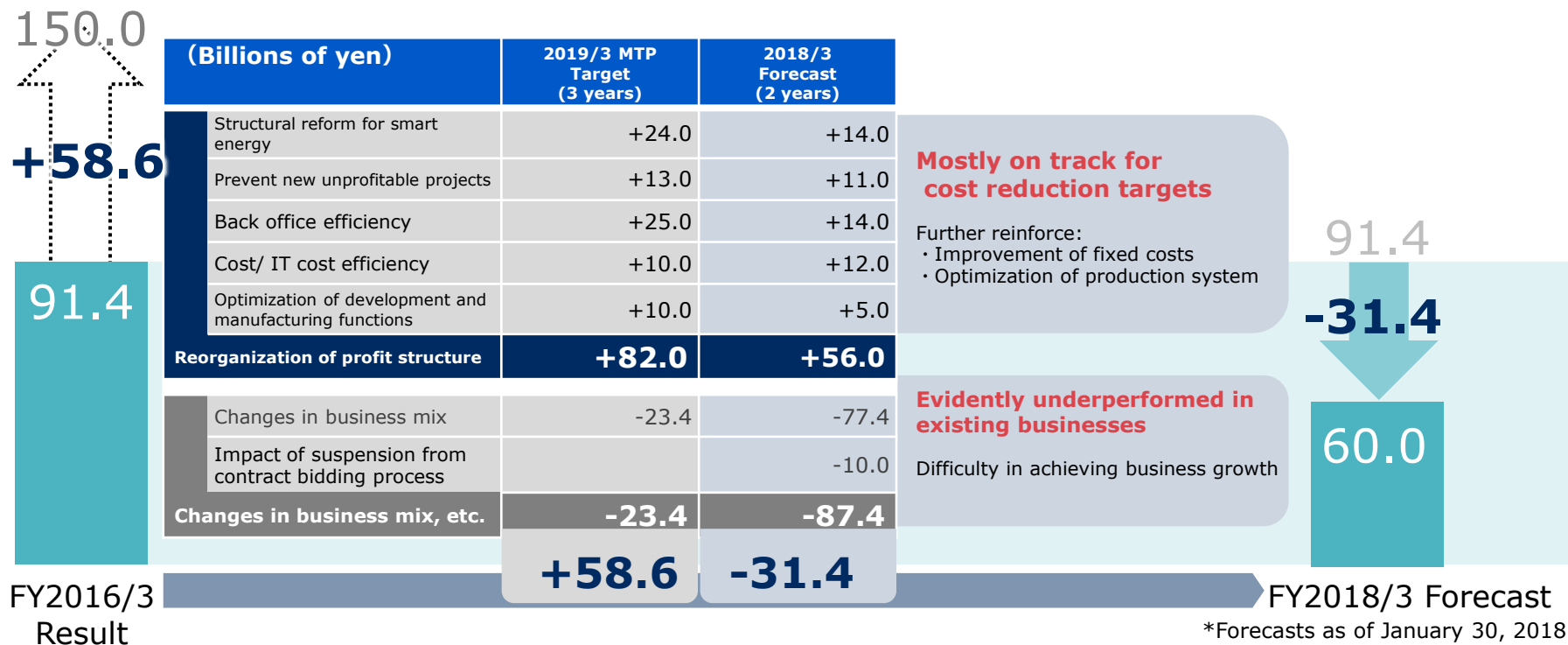
- Reform underperforming businesses and unprofitable projects
- Business process optimization project
- Optimization of development and manufacturing functions

- Focus on key businesses
  - Safety business
  - Global carrier network business
  - Retail IT service business



\* Forecasts and targets as of January 30, 2018

## Cost reduction efforts have progressed mostly on track, while existing businesses underperformed significantly





# Mid-term Management Policies

**Implement fundamental reform of profit structure**, including reduction of fixed costs, to be able to carry out **investments needed to get back on the track to growth**

## Reform of profit structure

- **SGA** (Personnel expense reduction/cost cutting)
- **Business structure** (Telecom carrier business/ Energy business)
- **Production system**

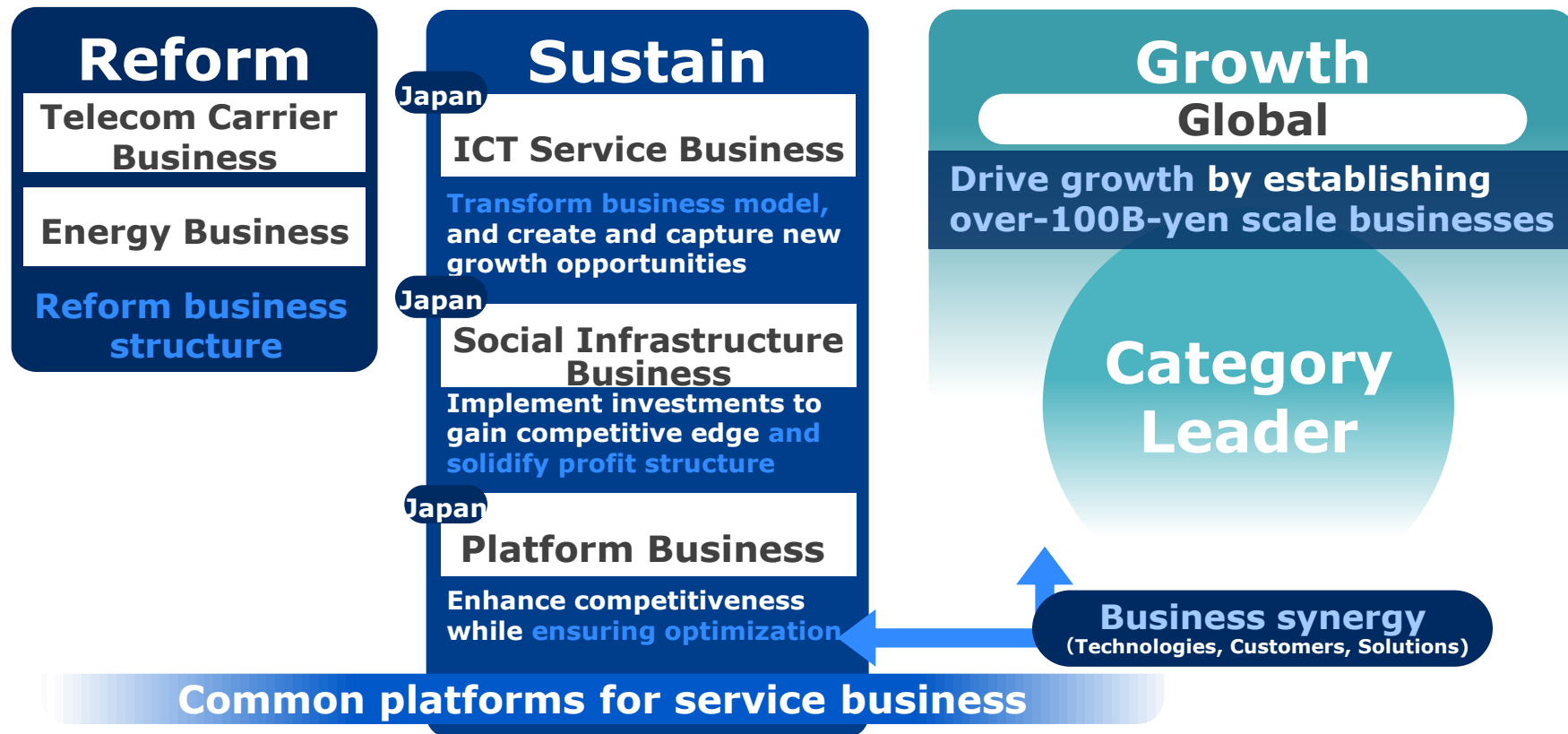
## Achievement of growth

- |                 |   |
|-----------------|---|
| ● <b>Japan</b>  | <ul style="list-style-type: none"><li>• Securely capture growth opportunities in Japan market</li><li>• Shift to service business</li></ul>             |
| ● <b>Global</b> | <ul style="list-style-type: none"><li>• Focus on safety business as the growth engine</li><li>• Reorganize global structure supporting growth</li></ul> |

## Restructuring of execution capabilities

- **Pursuing the creation of customer value by leveraging the latest technologies**
- **Restructuring of personnel system to enable employees to maximize their capabilities**

# Business Portfolio Directions



# Mid-term Management Targets

Achieve 5% profit ratio to be a sustainable company

(Billions of yen)	FY2017/3 Results	FY2018/3 Forecasts	<b>FY2021/3 Targets</b>
Revenue	2,665.0	2,830.0	<b>3,000.0</b>
Operating profit	41.8	60.0	<b>150.0</b>
(Operating profit ratio)	1.6%	1.8%	<b>5.0%</b>
Net profit	27.3	40.0	<b>90.0</b>
Free cash flows *	99.0	100.0 *	<b>100.0</b>
Return on Equity (ROE)	3%	5%	<b>10%</b>

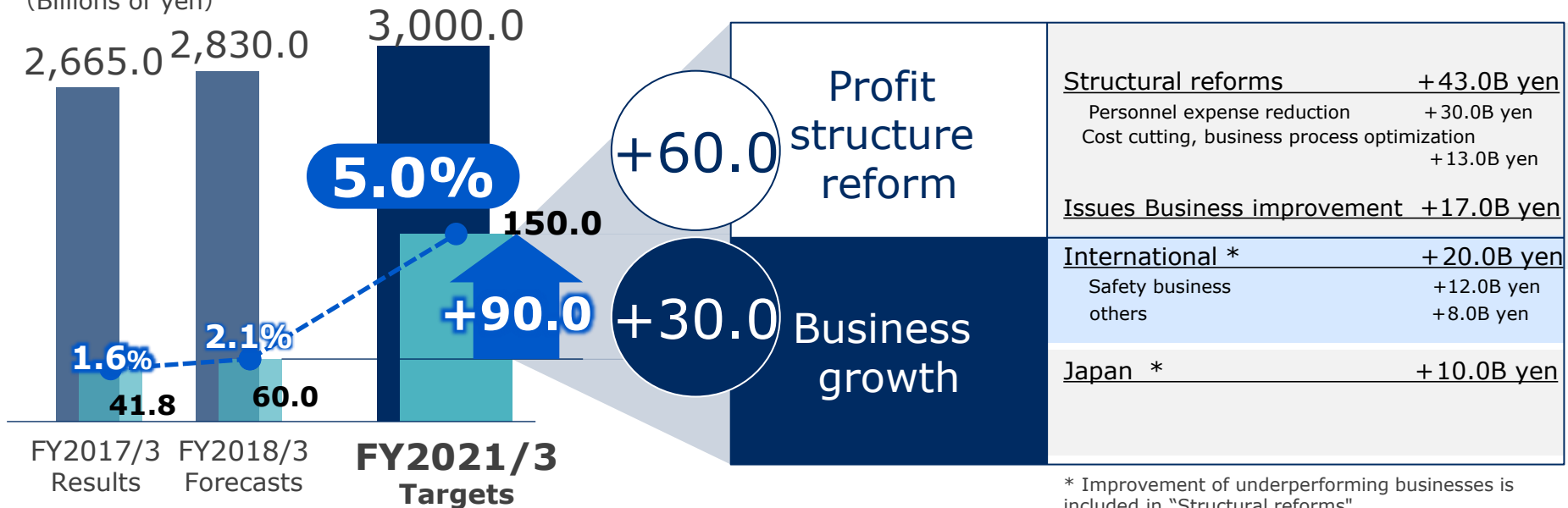
\* M&A excluded

\* Forecasts and targets as of January 30, 2018

# Mid-term Management Targets

Establish a structure to generate 5% operating profit ratio sustainably

(Billions of yen)



\* Improvement of underperforming businesses is included in "Structural reforms"

\* Forecasts and targets as of January 30, 2018

## 2 . Reform of Profit Structure

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## 2. Reform of Profit Structure

Enforce **reforms in 3 areas**, and establish a “**globally competitive profit structure.**”

### SGA

- Personnel expense reduction/cost-cutting

### Business structure

- Telecom carrier business, Energy business

### Production

- Reorganization of factories in Japan

Reduce fixed costs, including personnel expenses, **and realize a profit structure that enables continuous investments** for transformation into a service business

Personnel  
expenses

-30.0B yen

- **Personnel reduction by 3,000 through structural reforms**

Back office functions, hardware business area

Costs

-13.0B yen

- **Fixed property costs**  
Optimize office floors through flexible work styles, etc.
- **IT costs**  
Accelerate standardization of company-wide IT systems and in-house digital transformation
- **Marketing costs**  
Review budget use and reinforce digital marketing

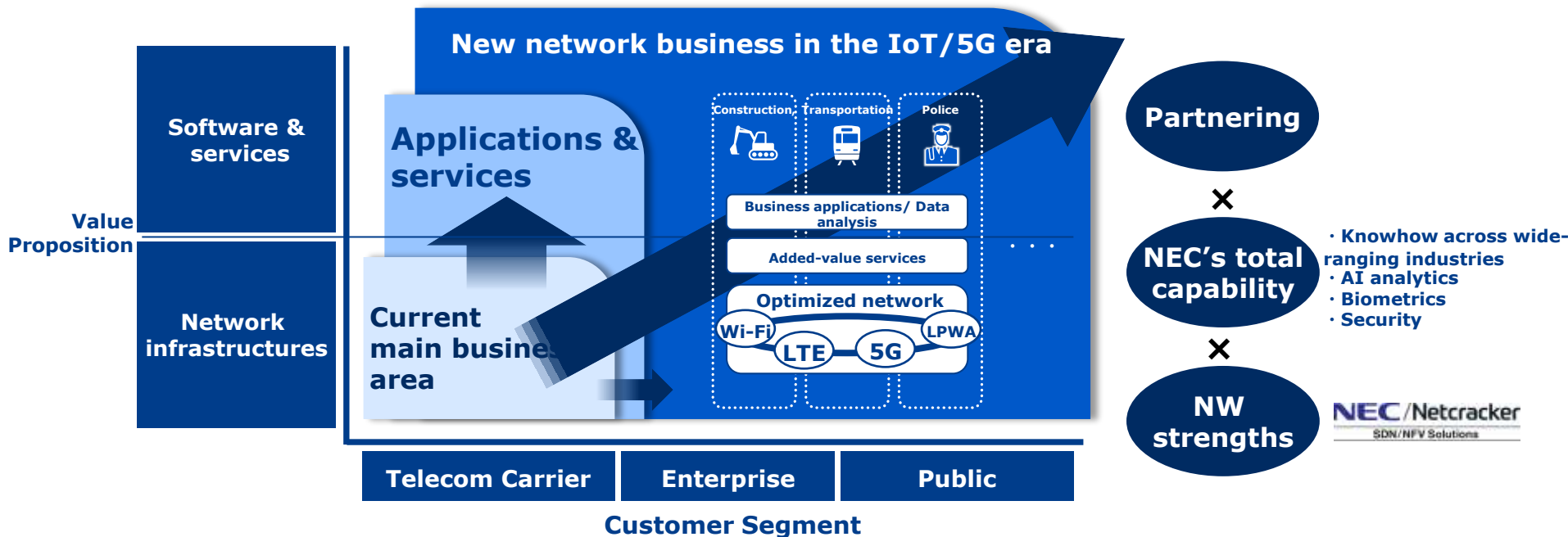
Strengthen software & services to match market changes

		Japan	International
Growth	Software and services	Accelerate shift in skills and partnering to adapt to changes in customer investments	Position as key area while revising strategy and business structure, setting TOMS business as a core driver
Improve profitability	Network infrastructures	Optimize resources in accordance with revenue scale	Withdraw from/ scale-down low-profit businesses



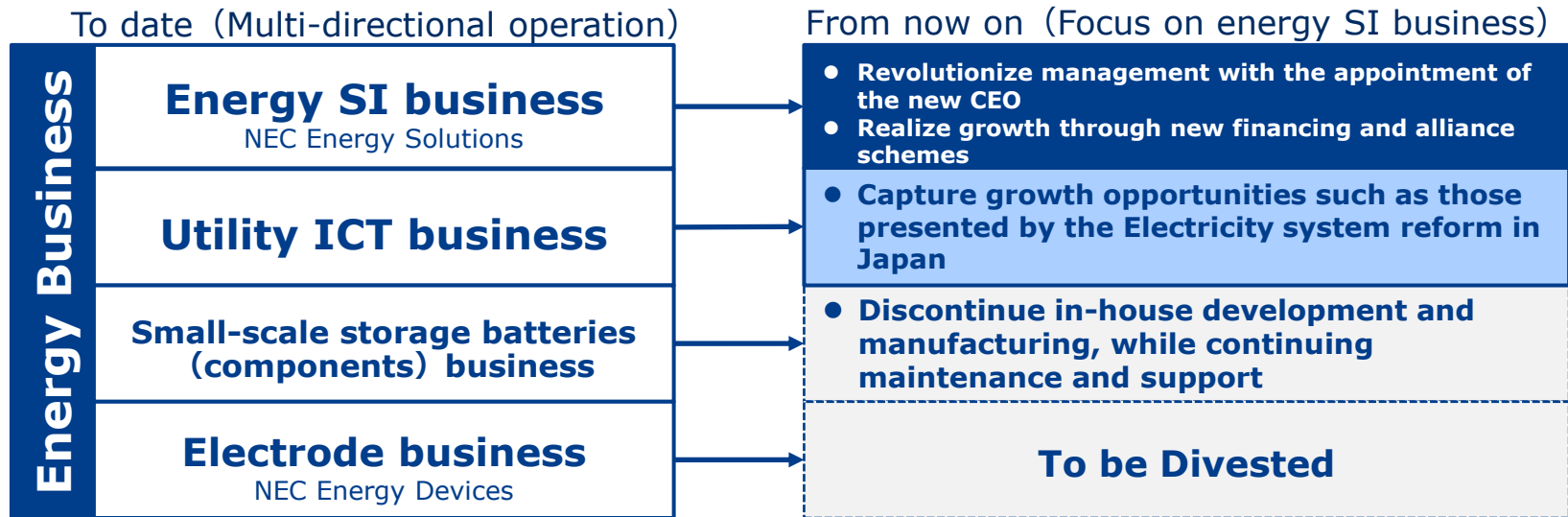
Deploy the **network strengths** cultivated in the telecom market to other areas

Respond to the diversifying network needs and offer integrated services that cover products from devices and applications



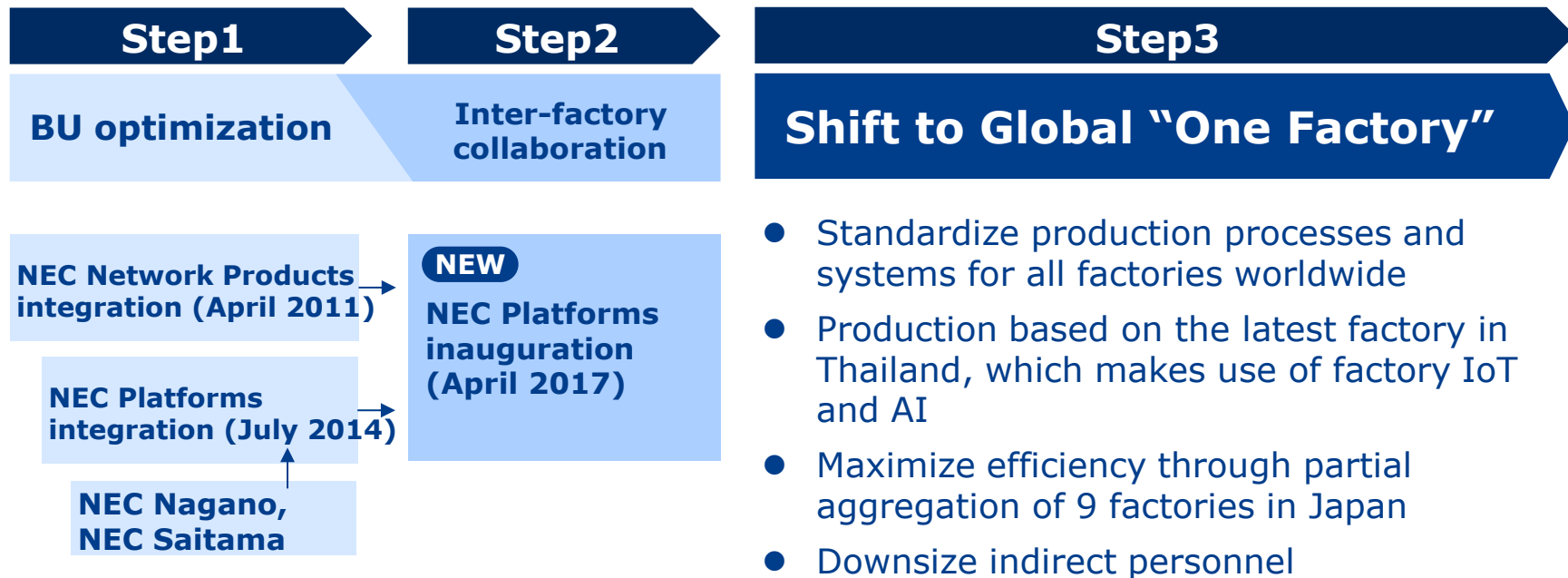
From a multi-directional operation approach, focus on energy SI business  
Aim for growth under a new management structure

Aim for break-even in FY2019/3 for NEC Energy Solutions



## Reorganization of production in Japan (NEC Platforms)

Reorganize the global value chain and reorganize factories in Japan



### 3 . Achievement of Growth

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### 3. Achievement of Growth

Japan: Pursue various growth opportunities towards 2020.

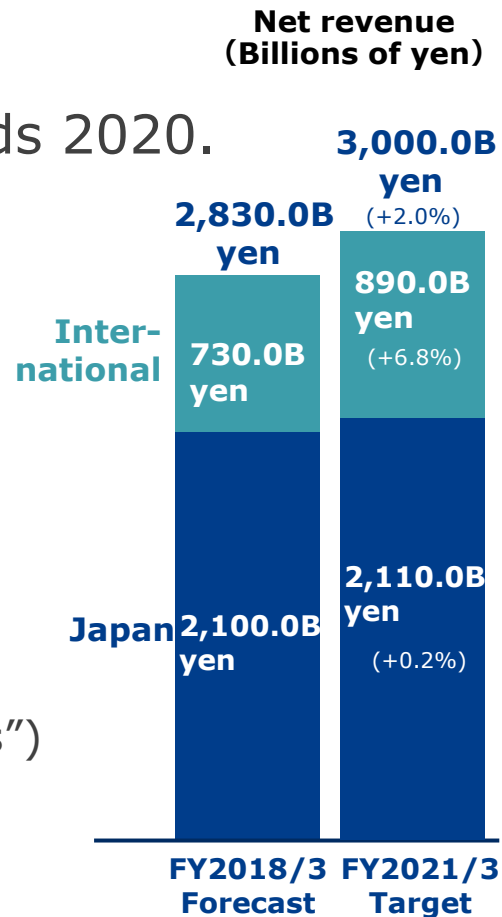
**Global: Aim to become a category leader in the safety business**

Japan

- Business growth seizing on market inflection points
- Business model transformation

Global

- Focus on to expand the safety business (aim to realize "NEC Safer Cities")
- Shift to dedicated operating structure for global business
- Accelerate M&A



\* Forecasts and targets as of January 30, 2018    \*(CAGR)

# Realize growth mainly in three areas based on NEC's "global-best" technologies

Japan growth areas **+85.0**B yen FY18/3-FY21/3

Society 5.0

Main growth areas

International Sports Events

## Build safe, secure, and abundant "Safer Cities"

Build public safety, digital government, healthcare, work style transformation, and other platforms that enable people to live abundantly



### Formation of a sustainable, smart supply chain



Food supply and demand optimization, traffic alleviation, cashless transactions, non-stop factories and plants

### Safe and comfortable connected cars



Provision of NEC's technologies and resources in AI, IoT, and networks to increasingly sophisticated onboard systems

NEC the WISE IoT Platform



NEC the WISE

AI

Bio-IDiom

Biometrics



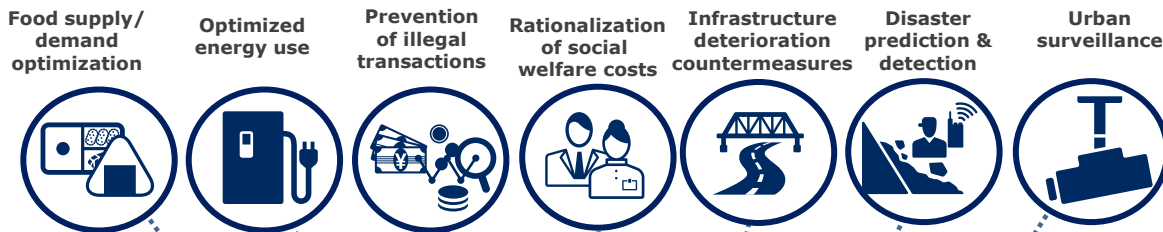
Security



Network services

Network

**Offer** solutions for solving social issues **as services** through partnering with customers



Co-creation  
program

Service business

2,000\* DX specialists

Common business platforms



\*Increase from current 1,000  
members by FY2021/3



**Safety**

## Set Safety as a core growth engine, while gradually expanding business domain

**Public Safety**

Criminal investigation, immigration control, airports, etc.

**Continue**

**Digital Government**

Administrative platforms, citizen services, etc.

**Focus**

⋮



**Global Carrier Networks**

## Accelerate growth by reviewing strategy and business structure

- ▶ Focus on the software and service area with high market growth rate with TOMS competitiveness and ecosystem
- ▶ Shift to business structure centered on Netcracker



**Retail IT Service**

## Continue reinforcement of solutions

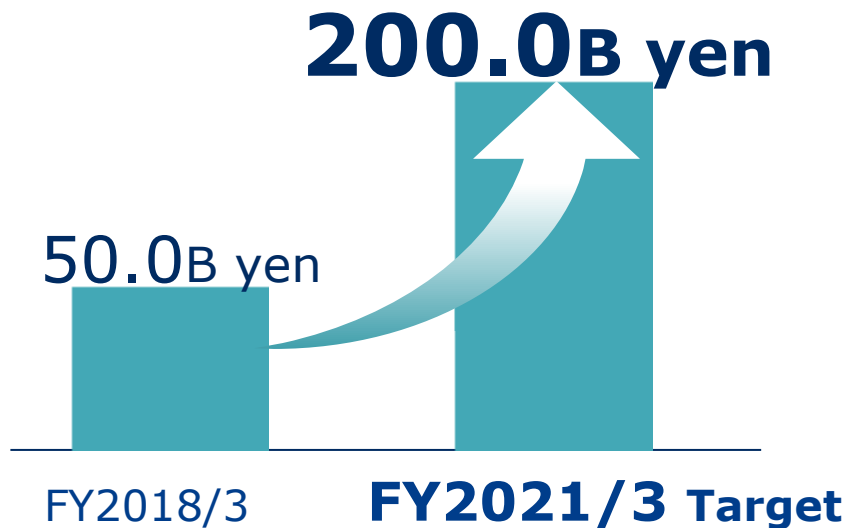
- ▶ Reinforce IT service lifecycle management solutions
- ▶ Reinforce solutions that provide new value  
(1)Omni-channel, (2)Recognition-based payment, (3)Operational efficiency, (4)Facility and equipment management



# Set Safety Business as an engine for global growth, and aim to become the global category leader

Shift to a business model with high profit margin while realizing growth, and achieve operating profit ratio of over 5% and EBITDA ratio of over 20%.

### Revenue outside Japan



### Measures to realize growth

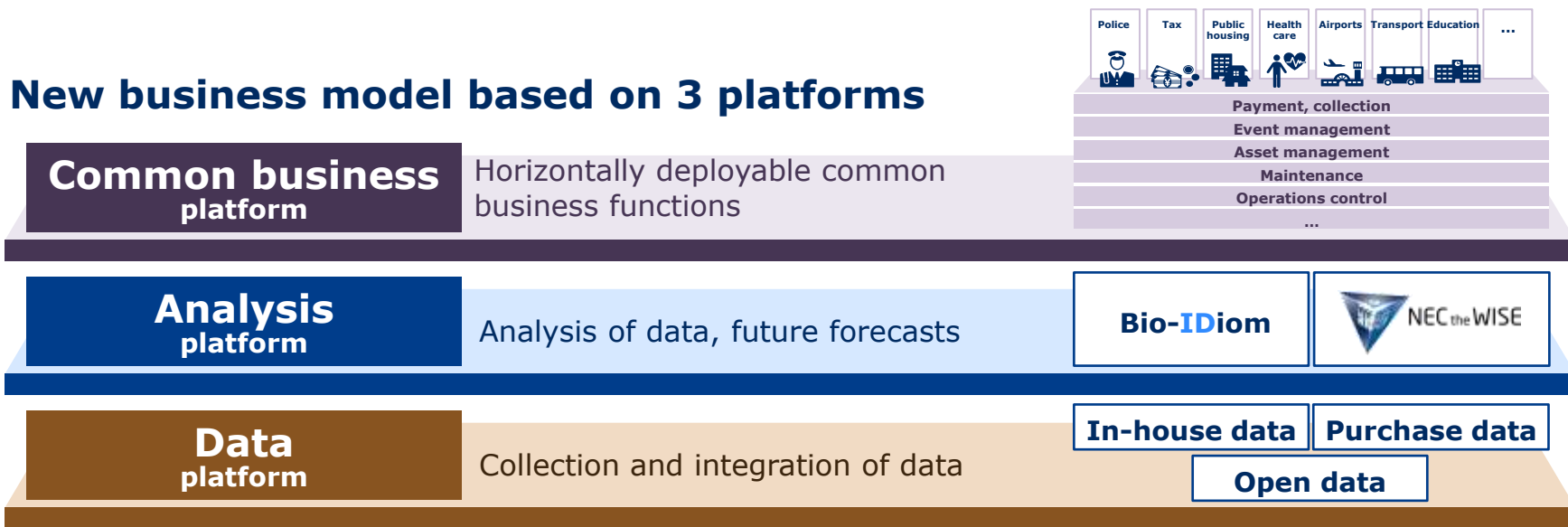
- Shift to new business model based on 3 platforms
- Expand business domain through advanced safety solutions
- Accelerate M&A

\* Targets as of January 30, 2018

# New business model and business areas based on 3 platforms

Shift from an individual SI sales business,  
to a **business model based on platforms**  
Expand business area through advanced safety solutions

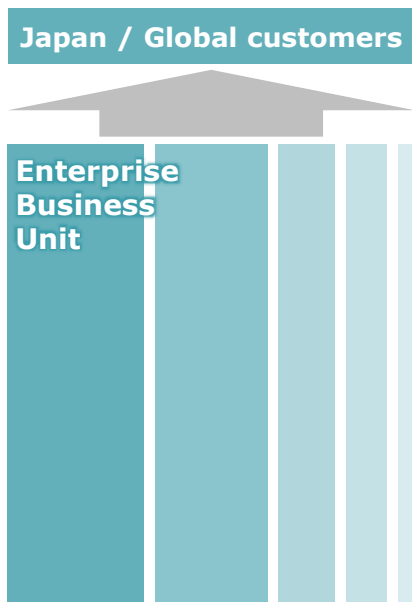
## New business model based on 3 platforms



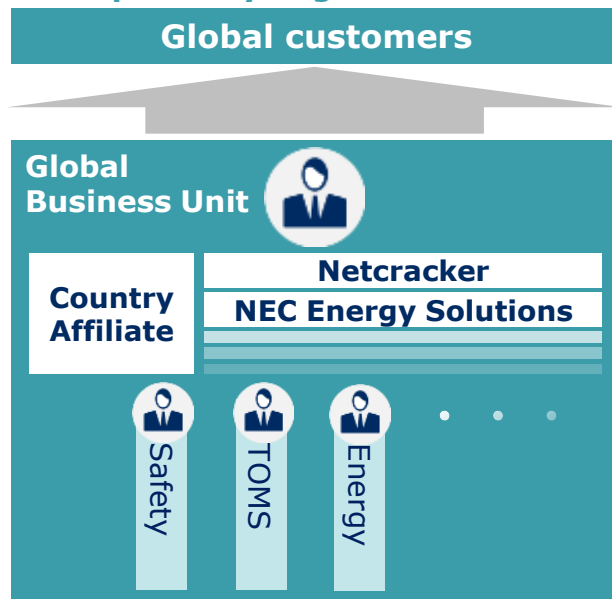
# Shift to dedicated operating structure for global business

To accelerate growth of global business, centralize business responsibilities and authorities, **and improve management speed and reduce costs.**

Business to expand globally from Japan



Business to expand primarily in global market



- Rapid decision-making through "One Management" scheme for global business
- Intensified investments on core businesses
- Elimination of layered cost structure
- Accelerating profitability of global business through selection of business

Continue to pursue M&A opportunities to fast-track global growth

● **Continue to set 200B-yen\* allotment for inorganic strategies.**

(\* includes 70.0B yen allotted for acquisition of NPS in January 2018)

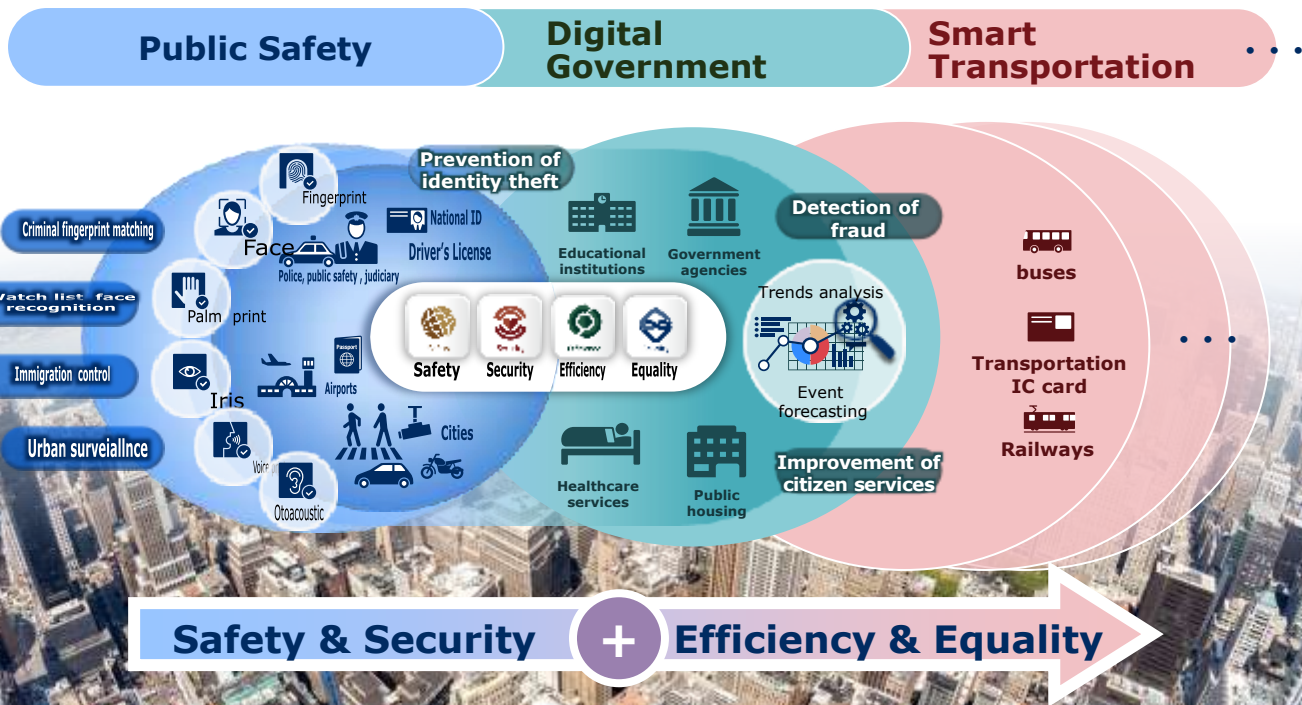


- High profitability in business catering to UK public sector
- No. 7 in local government IT market in UK

● Further investments will be pursued within a scope that will not undermine the financial structure, based on the cash flow for the next 3 years.

● Investments will be directed at a growth engine centered on safety business.

# Aim to realize **NEC Safer Cities:** leveraging biometrics and AI technologies



## 4 . Restructuring of Execution Capabilities

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# Create a business foundation for ensuring true growth

### Strengthening of business development capabilities

- Pursue the creation of customer value by leveraging the latest technologies

### Organization with the capacity to carry out actions to completion

- Restructuring to enable employees to maximize their capabilities

## Pursuing the creation of customer value by leveraging the latest technologies

### Anticipate customer needs and accelerate monetization of competitive technologies

#### Break away from the self-sufficiency mindset

- **Open research and solution development** that incorporate academic collaboration, venture companies, OSS, and other company technologies

##### AI-based [Digital Hospitality]

Co-creation with  
Kitahara Neurosurgical Institute

##### Endoscopic image analysis

Joint research with  
National Cancer Research

- **Incubation through diverse schemes**, such as venture capital investment, spin-out, carve-out, etc.

##### Drug discovery

Establishment of CYTLIMIC, inc.

##### Smartphone-based convenience store payment service

Joint investment with SMBC

- **Software product delivery service** in collaboration with global vendors outside NEC channels

##### Object fingerprint authentication technology

Services on GE Predix

##### Advanced Analytics

Inspection solution services

#### Promotion of solutions development via co-creation

In market-oriented collaboration with government, enterprises, and other partners:

- **Promotion of co-creation/PoC of Solutions for Society**

- Value Co-creation Center (Japan)

\*For successive  
expansion

- Advanced Center for Experimentation (Singapore)



In collaboration with external innovation ecosystem:

- **Accelerate commercialization of core technology**

- Establish a new company responsible for incubation in North America

#### Creation of new social value beyond existing frameworks

In collaboration with various stakeholders:

- **Strengthening of public relations functions**  
(Government, international institutions, standardization bodies, NGOs/NPOs, etc.)



## Restructuring to enable employees to maximize their capabilities

Introduce schemes to enable carrying out actions to completion, **and enhance “execution capability”**

Define the management’s responsibilities and authorities more clearly

Introduce mechanism to strengthen management’s commitment to results

Encourage innovative actions and challenges

Introduce an evaluation and compensation system for rewarding those who take action

Accelerate diversification of the NEC Group

Actively hire and appoint human resources with diverse talents into executive and other positions

## 5. Summary



# Mid-term Management Policies

**Implement fundamental reform of profit structure**, including reduction of fixed costs, to be able to carry out **investments needed to get back on the track to growth**

## Reform of profit structure

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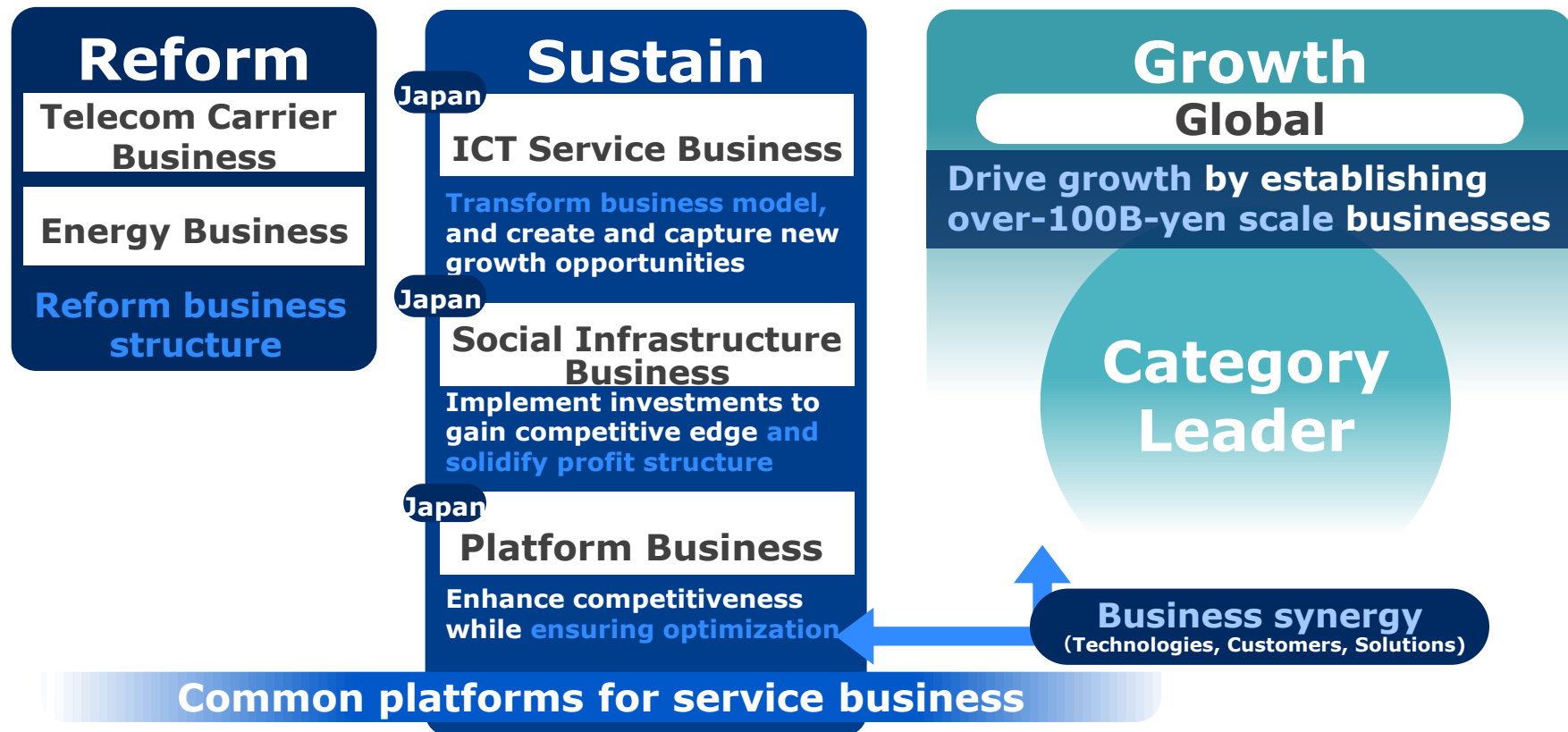
## Achievement of growth

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## Restructuring of execution capabilities

- **Pursuing the creation of customer value by leveraging the latest technologies**
- **Restructuring of personnel system to enable employees to maximize their capabilities**

# Business transformation towards an operating profit ratio of 5%



## \Orchestrating a brighter world

### Social Issues

Extract from global megatrends

### Mid-term Management Directions

Reform of profit structure

Realization of growth

- Japan [Transformation of business]
- Global [Focus on safety business]

Restructuring of execution capability

- Getting a head start on the latest technologies and pursuing the creation of customer value
- Restructuring to enable employees to maximize their capabilities

### Priority themes from an ESG perspective

AI technologies  
NEC the WISE

Biometrics technologies  
**Bio-IDiom**

Technology

Human resource

Co-creation

Privacy

Security

### Value to be realized:

Economic value

Operating profit ratio 5.0%

Social value

**Contribute to SDGs**

Formulate priority theme and KPI from ESG viewpoint (FY2019/3 1H)



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**NEC**

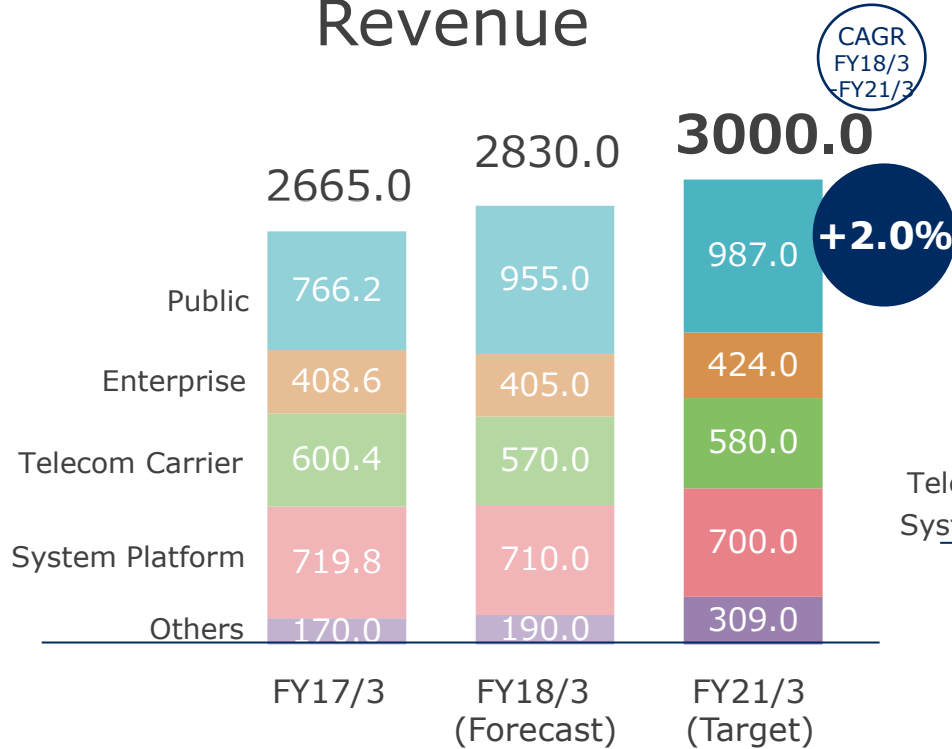
# Supplement: Mid-term Plan by Segment

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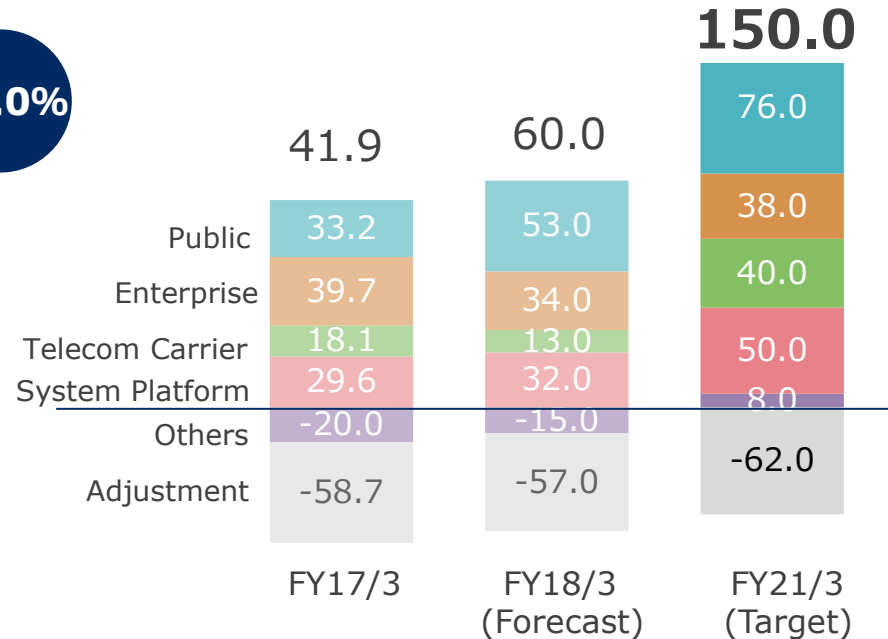
# Mid-term Management Plan by Segment

(Billions of yen)

## Revenue

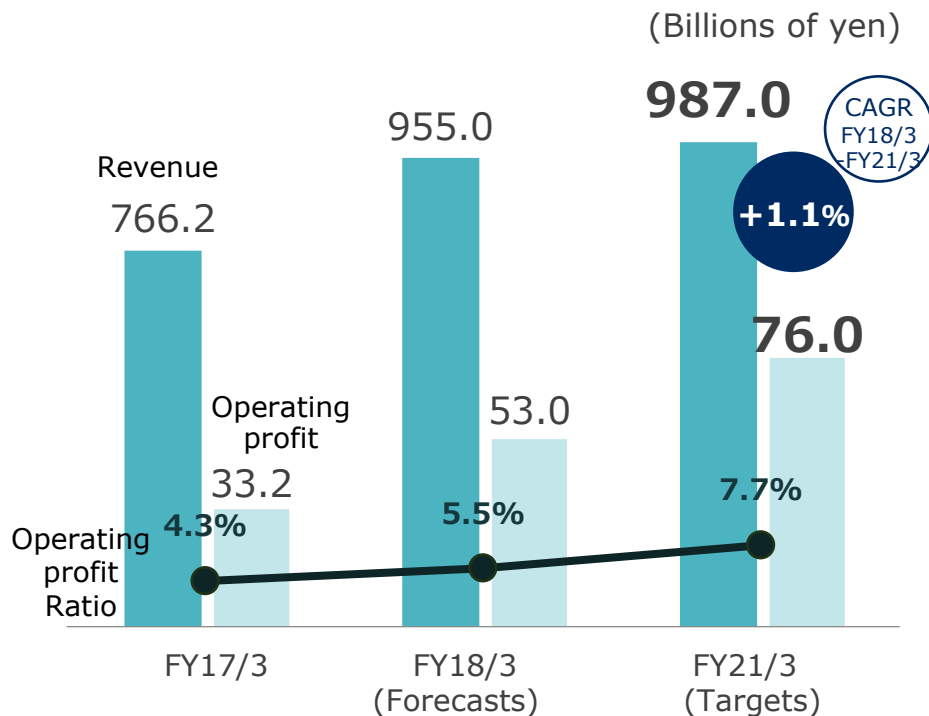


## Operating profit/loss



\* Forecasts and targets as of January 30, 2018





## Revenue

- Increase by securing opportunities for solving social issues, despite contraction of existing ICT market
  - Healthcare
  - City management
  - Public safety

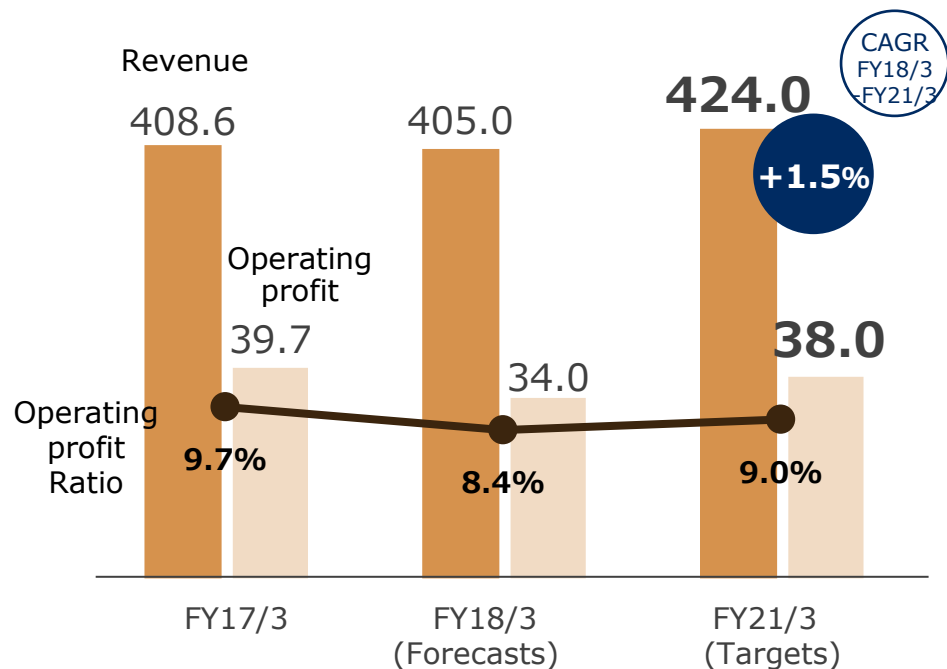
## Operating profit

- Improve due to a sales increase and minimizing unprofitable projects



\* Forecasts and targets as of January 30, 2018

(Billions of yen)



## Revenue

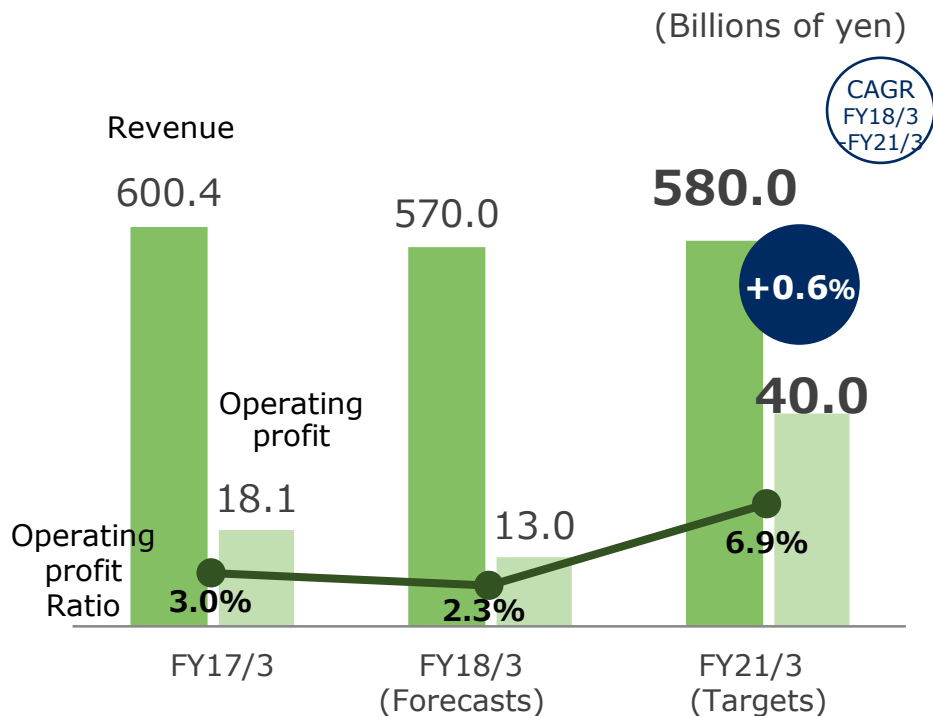
- Growth in key areas
  - Automotive
  - Manufacturing
  - Retail
  - Transportation IC card

## Operating profit

- Improve profitability while continuing investments in new areas



\* Forecasts and targets as of January 30, 2018



## Revenue

- Expand business in software & services area with high market growth
  - Revise strategies and business structure and accelerate growth centering on TOMS business

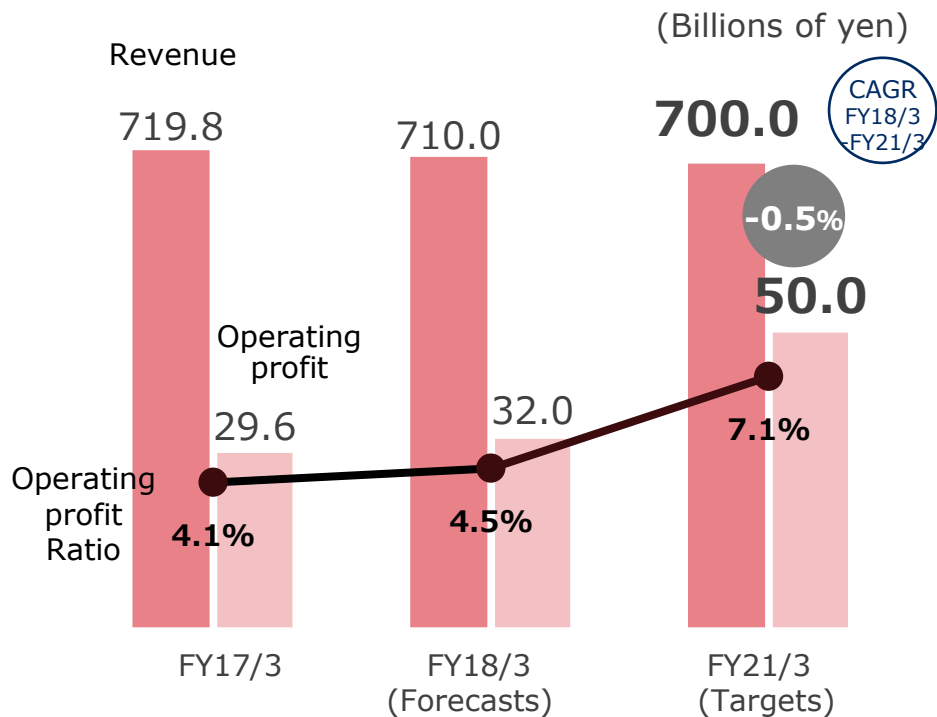
## Operating profit

- Optimize resources in accordance with revenue volume
- Turn to black in Mobile Backhaul business



\* Forecasts and targets as of January 30, 2018

# System Platform



## Revenue

- Shift to offering platforms that support business transformation from the offering of conventional ICT products
  - AI
  - IoT × Image analysis
  - Cyber security

## Operating profit

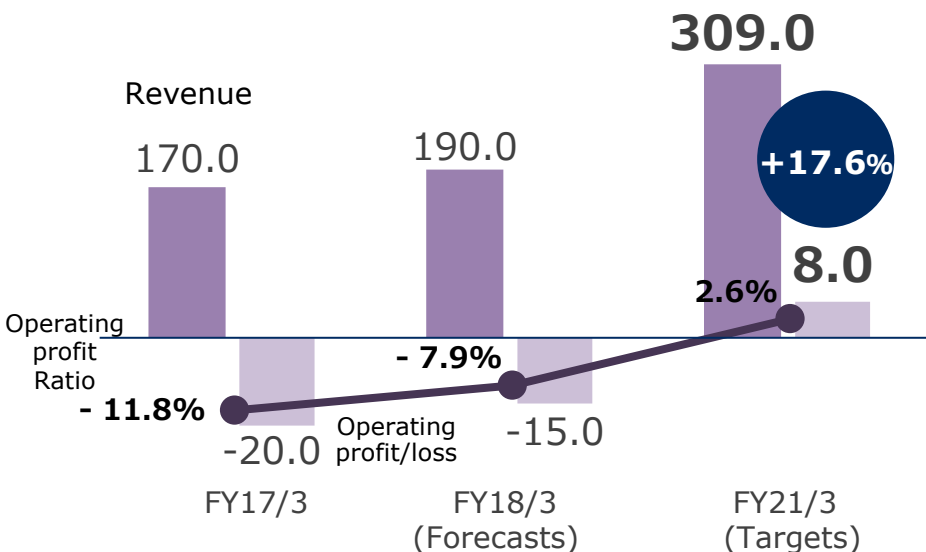
- Structural reform of production in Japan
- Improve profitability through business model transformation



\* Forecasts and targets as of January 30, 2018

(Billions of yen)

CAGR  
FY18/3  
FY21/3



# Revenue

- Expand safety business
  - Accelerate M&A
  - Expand business area
- Focus on global energy SI business
  - Divest from the electrodes business, and discontinue development and production of small energy storage system

## Operating profit/loss

- Profit contribution of safety business and energy business



\* Forecasts and targets as of January 30, 2018

# Cautionary Statement with Respect to Forward-Looking Statements

This material contains forward-looking statements regarding estimations, forecasts, targets and plans in relation to the results of operations, financial conditions and other overall management of the NEC Group (the “forward-looking statements”). The forward-looking statements are made based on information currently available to NEC and certain assumptions considered reasonable as of the date of this material. These determinations and assumptions are inherently subjective and uncertain. These forward-looking statements are not guarantees of future performance, and actual operating results may differ substantially due to a number of factors.

The factors that may influence the operating results include, but are not limited to, the following:

- Effects of economic conditions, volatility in the markets generally, and fluctuations in foreign currency exchange and interest rate
- Trends and factors beyond the NEC Group’s control and fluctuations in financial conditions and profits of the NEC Group that are caused by external factors
- Risks arising from acquisitions, business combinations and reorganizations, including the possibility that the expected benefits cannot be realized or that the transactions may result in unanticipated adverse consequences
- Developments in the NEC Group’s alliances with strategic partners
- Effects of expanding the NEC Group’s global business
- Risk that the NEC Group may fail to keep pace with rapid technological developments and changes in customer preferences
- Risk that the NEC Group may lose revenue due to problems with the production process or due to its failure to adapt to demand fluctuations
- Defects in products and services
- Shortcomings in material procurement and increases in delivery cost
- Acquisition and protection of intellectual property rights necessary for the operation of business
- Risk that intellectual property licenses owned by third parties cannot be obtained and/or are discontinued
- Risk that the NEC Group may be exposed to unfavorable pricing environment due to intensified competition
- Risk that a major customer changes investment targets, reduces capital investment and/or reduces the value of transactions with the NEC Group
- Risk that the NEC Group may be unable to provide or facilitate payment arrangements (such as vendor financing) to its customers on terms acceptable to them or at all, or risk that the NEC Group’s customers are unable to make payments on time, due to the customers’ financial difficulties or otherwise
- Risk that the NEC Group may experience a substantial loss of, or an inability to attract, talented personnel
- Risk that the NEC Group’s ability to access the commercial paper market or other debt markets are adversely affected due to a downgrade in its credit rating
- Risk that the NEC Group may incur large costs and/or liabilities in relation to internal control, legal proceedings, laws and governmental policies, environmental laws and regulations, tax practice, information management, and human rights and working environment
- Consequences of natural and fire disasters
- Changes in methods, estimates and judgments that the NEC Group uses in applying its accounting policies
- Risk that the NEC Group may incur liabilities and losses in relation to its retirement benefit obligations

The forward-looking statements contained in this material are based on information that NEC possesses as of the date hereof. New risks and uncertainties come up from time to time, and it is impossible for NEC to predict these events or how they may affect the NEC Group. NEC does not intend to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Note: In this presentation, the accounting periods of the fiscal years for March 31, 2017 and 18 were referred as FY17/3 and FY18/3 respectively. Any other fiscal years would be referred similarly.