

System Platform Business

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Overview of System Platform Business

Provide hardware, software and maintenance services as IT foundation to support Social Solution Business

* Key products / services

Hardware



Server/Storage



Business PC



ATM



Store computer



Secure data network product



HPC



POS terminal



Flat sorter, logistics sorter

Software

WebSAM

Integrated operation management

CLUSTERPRO

System platform

WebCTX

Service execution platform

Maintenance Services

- Hardware maintenance services
- Remote operating services
- Network integrated maintenance services
- Operation monitoring services

Business Breakdown / Characteristics of Each Business

- Specialty Product Business and Maintenance Service business, which can lead to differentiation and competitive advantage, account for 60%
- Commodity Product Business functions as a foundation of NEC's SI business

Commodity Product Business

- Highly competitive market with global vendors
- Foundation of NEC's SI business

Key Products

- Server
- Storage
- Business PC

40%

Specialty Product Business

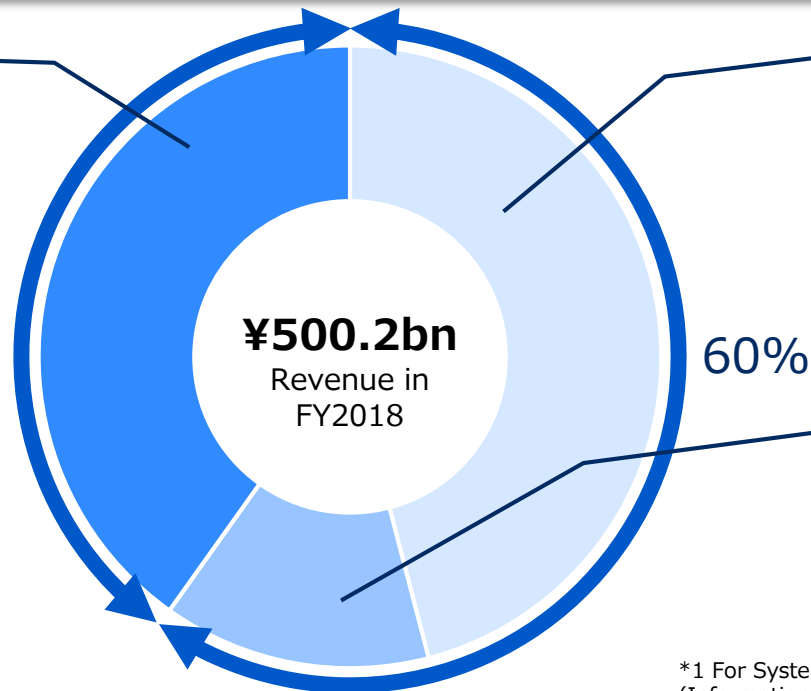
Key Products

- Store computer
- POS terminal
- ATM
- Edge device
- HPC

60%

Maintenance Service Business

Stable business ranked as No 1 in Customer Satisfaction Survey*¹



¥500.2bn

Revenue in
FY2018

*1 For System Management Related Services (Information Service companies), Customer Satisfaction Survey by Nikkei Computer (2018-2019)

Strengths and Challenges of Business

Common strength: Hold a series of value chain from planning to development, production and maintenance

	Strengths	Challenges
Specialty Product Business	<ul style="list-style-type: none">● <u>Unique technologies</u> such as AI (face recognition) and accelerator● Strong relationship of trust with customers and experience of supporting broad industries	<ul style="list-style-type: none">● Limited customer segment, mainly in domestic market
Commodity Product Business	<ul style="list-style-type: none">● <u>Reliability and high quality</u>, as well as high domestic market share● Knowledge of advanced technologies being continuously accumulated	<ul style="list-style-type: none">● <u>centering on standalone hardware revenue</u>● Shrinkage of traditional IT market
Maintenance Service Business	<ul style="list-style-type: none">● <u>On-site support capability taking advantage of nationwide office network</u>● Delivery of one-stop solution from introduction to maintenance	<ul style="list-style-type: none">● <u>Reduction of hardware maintenance business</u> in line with shrinkage of traditional IT market

Business Status (Specialty Product Business)

Sharing customers' lifecycle incl. investment plans backed by robust relationship of trust

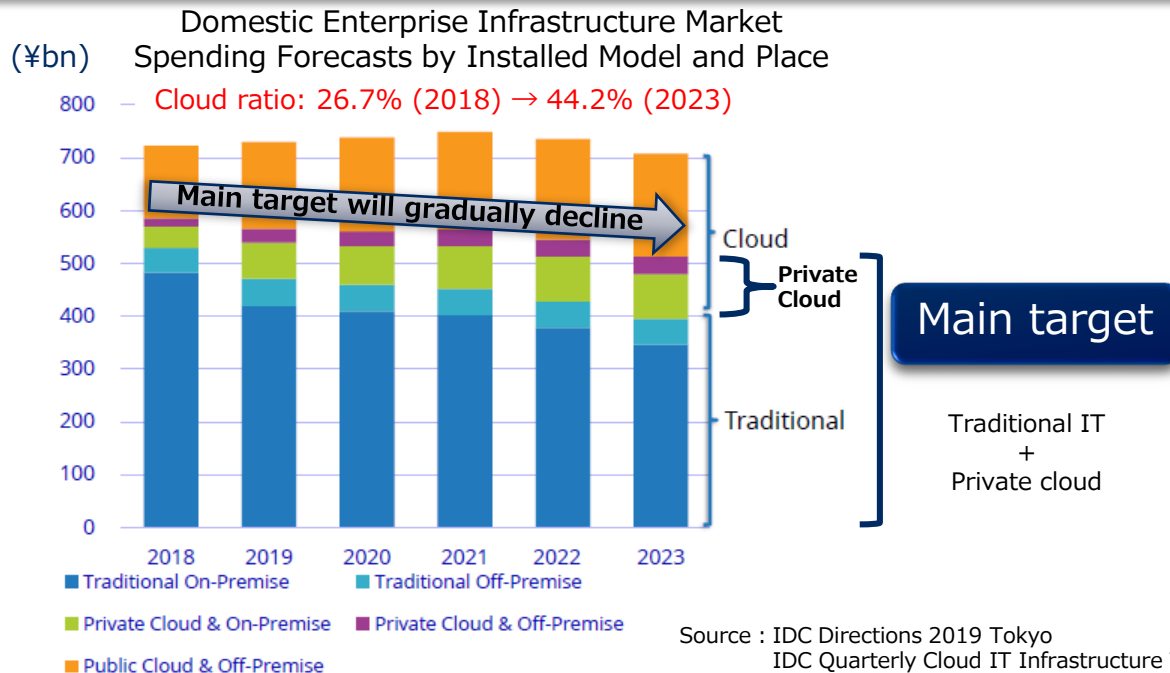
Examples of Large Orders

	2019	2020	2021	2022	2023
Financial	Financial terminal for Company A				
	Automated ticket dispenser for Company B				
	Old model (expansion, maintenance)			Financial terminal for Company C	
Distribution	Store computers for Company D (expansion, maintenance)				
	Old model (expansion, maintenance)				Store computers for Company E
Logistics	Sorter for Company F		maintenance		
	Sorter for Company G			maintenance	
HPC	Replacement of HPC of meteorological agencies in many countries				
	Replacement of HPC of academic institutions (labs, colleges)				

Market Environment (Commodity Product Business)

- Total of traditional IT + private cloud market, main target of commodity product business, will only gradually decline thanks to significant growth in private cloud
- Expanded needs for hybrid IT solutions taking advantage of cloud and traditional IT in integration

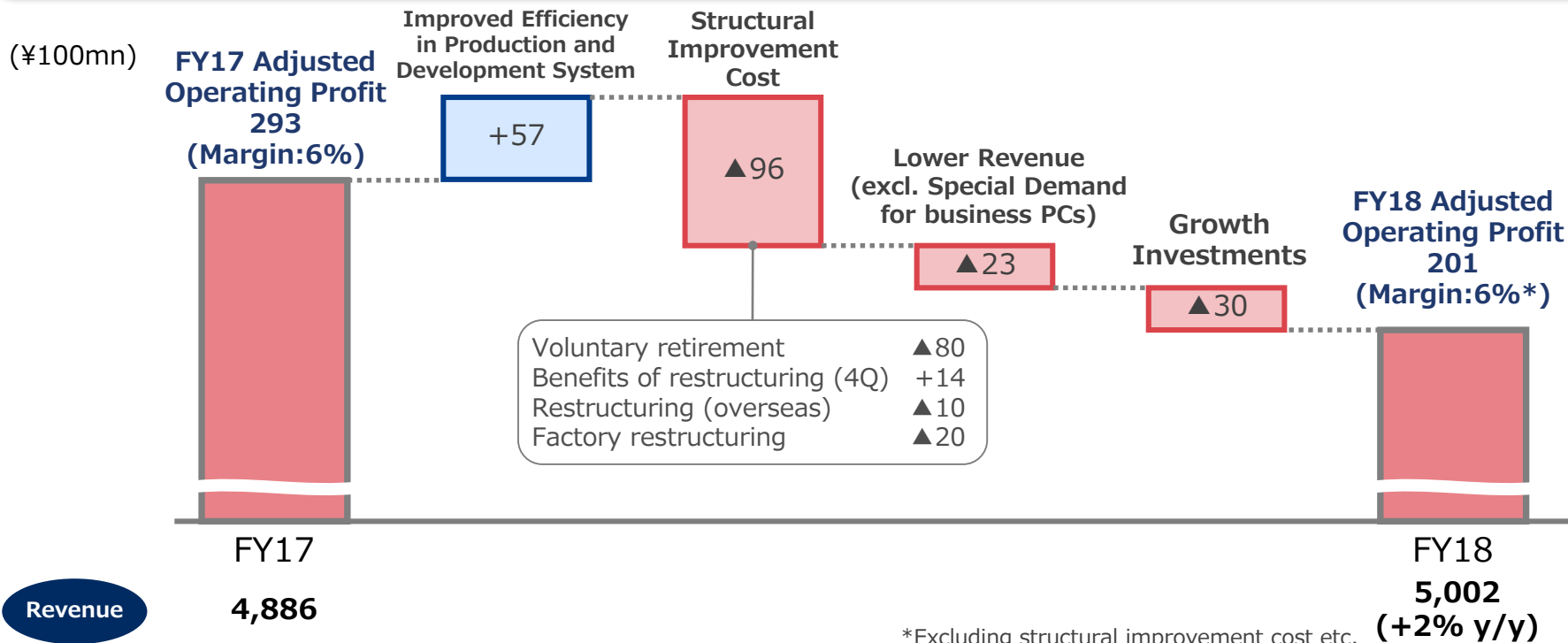
- Investments in traditional IT will decline but those in private cloud will significantly grow
- Public cloud will also continue to grow



Source : IDC Directions 2019 Tokyo
IDC Quarterly Cloud IT Infrastructure Tracker 2018Q4

FY2018 Results

- Improved efficiency in production and development system to develop robust business structure to deal with decreasing revenue
- Lower profit due to company-wide structural improvement cost



Summary of FY2018

Key Achievements

- **Improved efficiency in production and development system (+¥5.7bn impacts)**
 - Effects from restructuring and integration of subsidiaries*1 (slightly below +¥2.0bn)
 - Improved efficiency in production and development system in FY2018 (slightly below +¥4.0bn)
- **Execution of voluntary retirement program (▲¥8.0bn → +¥5.3bn impacts in FY2019*2)**
- **Factory restructuring (▲¥2.0bn → +¥2.0bn impacts in FY2019)**
 - Closed Ichinoseki and Ibaraki plants and transferred production to Fukushima plant

Challenges

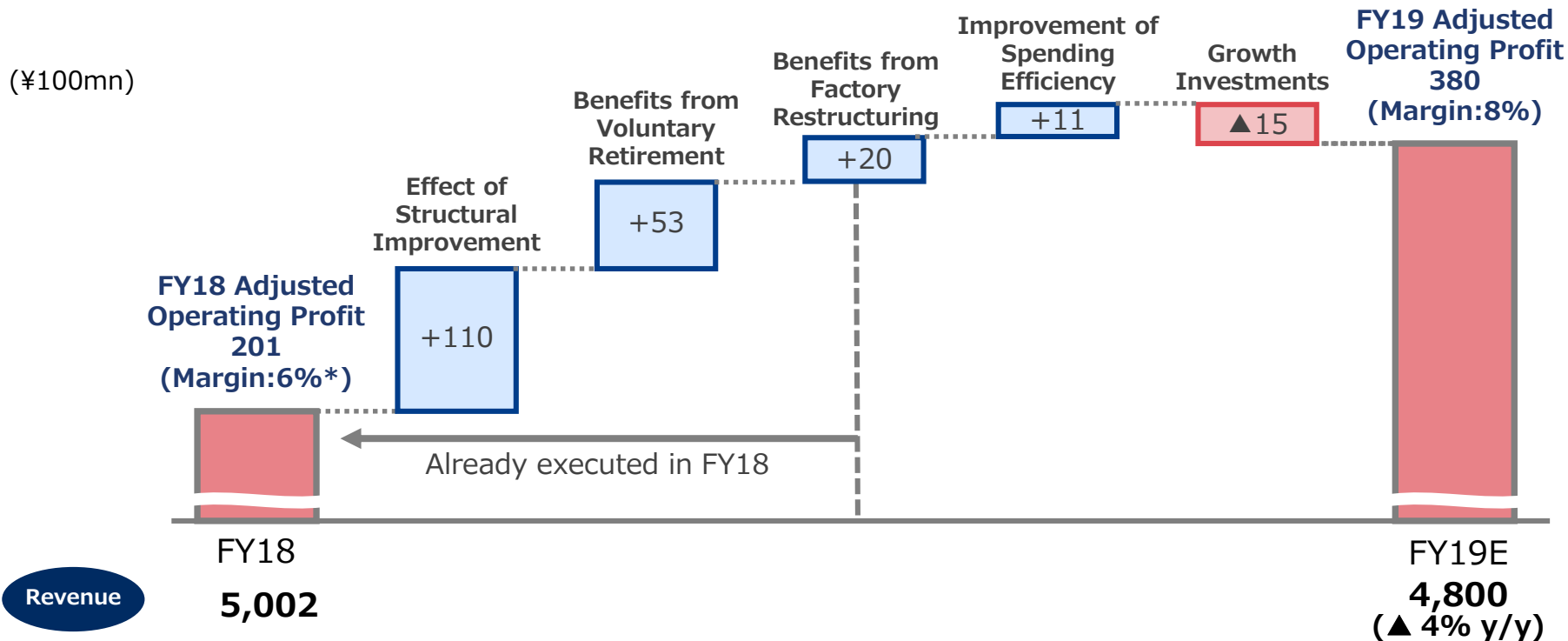
- **Decline in revenue of existing business**
(▲¥2.3bn excl. special demand for business PCs)

*1 In April FY2017, NEC established a hardware development and production company across the NEC group which is centrally in charge of development and production of IT and network products, by restructuring and integrating 5 companies and divisions.

*2 ¥1.4bn improvement in 4Q FY2018.

FY2019 Outlook

FY2019 is a year of reaping benefits of structural improvement



*Excluding structural improvement cost etc.

Business Strategy in FY2019

Business Strategies

- **Remain efficiency achieved through restructuring in FY2018 by further improving process**
- **Establish business structure to achieve FY2020 Mid-term Management plan**

Focus Initiatives

- **Improve efficiency in expenses (+¥1.1bn)**
 - Promote work-style reform (floor reform, etc.)
 - Further improve efficiency in production and development system
 - ✓ Promote resource optimization and interchange among factories
 - Improve outsourcing expenditure by promoting internal production
- **Shift from existing domains to growth domains (▲¥1.5bn)**

To Achieve Mid-term Management Plan

Numerical Targets (FY2020)

Revenue

¥470bn-¥480bn

**Adjusted
Operating
Margin**

8%

Strategies to Achieve Targets

- Shift of commodity products to be more customer-value centric
 - Expansion to new areas in maintenance services
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- Continuous improvement in expenses
 - On-site efficiency improvement through DX

To Achieve Mid-term Management Plan [Revenue]

Change commodity products to be customer-value centric (higher value added) and expand maintenance services in new domains to maintain current scale of revenue

A. Changing commodity products to be customer-value centric



Product Value to Customer Value

Shift from provision of goods to solution of customers' needs

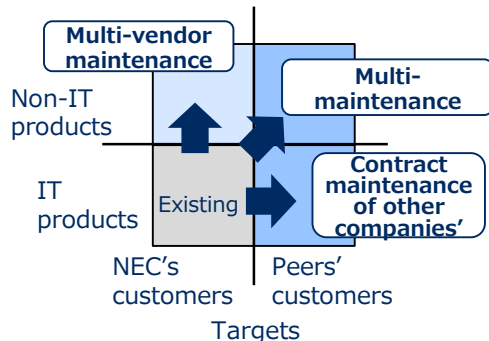
Leverage assets of specialty product business

Commodity Product Business

Specialty Product Business

Maintenance Service Business

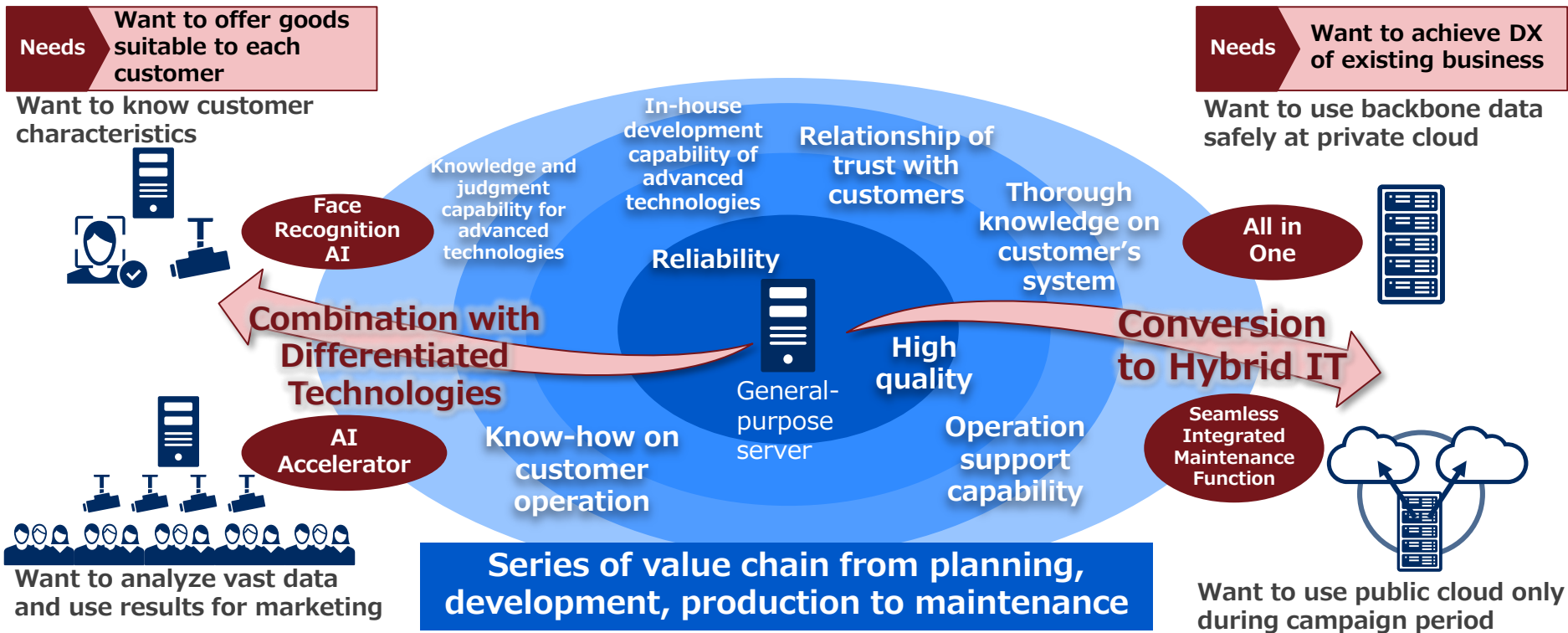
B. Expanding maintenance services



Expansion to New Domains

A. Changing Commodity Products to be Customer-value Centric (Example)

Offer commodity products with value as a solution to existing customers' needs

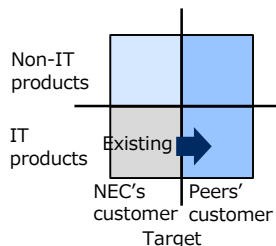


B. Expanding Maintenance Services

While maintenance needs of own hardware decline, aim to expand domains by leveraging existing resources

FY2019

Expansion of target domain



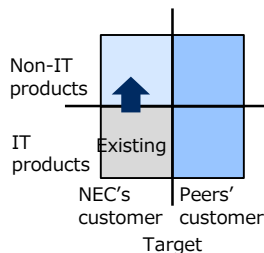
Contract Maintenance of Other Companies

Provide maintenance services instead of other makers

- Casio Computer (started in April 2019)

FY2020

Expansion of maintenance target products



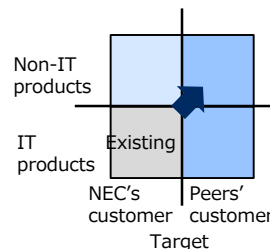
Multi-vendor Maintenance

Maintenance of entire shop

- not only for IT products, but also for non-IT products of makers other than NEC

After FY2021

Further expansion



Multi-Maintenance

Expand maintenance of entire shop

- Expand to medical field

Selling On-site DX Solutions

Sell know-how of efficient maintenance*

* See next page.

To Achieve Mid-term Management Plan [Operating Margin]

Continuously improve efficiency in line with revenue, and maintain 8% operating margin at FY2019

Efficiency Improvement in Production



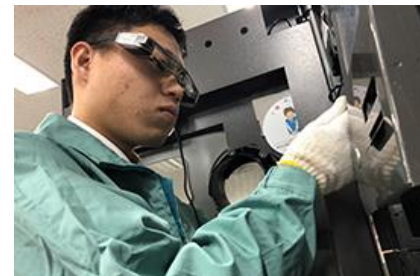
Introduction of IoT and Robot in Factory

- Visualization of factory and supply chain
- Cost down and stabilization of quality

Global One Factory

- Unification of production IT
- Unification of QMS
- Standardization of production technology
- Standardization of supply and demand management process

Efficiency Improvement in Maintenance



Enhancement of On-site Capability through DX

- Improve efficiency of maintenance jobs
 - Use of smart glasses (remote support system)
 - Introduction of AI to call center
 - Robotization of logistics inside warehouse

Achieve goals for **FY2019** by certainly **reaping benefits of restructuring**

Maintain 8% operating margin **in FY2020** by **improving efficiency in expenses**

Maintain business scale by **expansion of solution offerings and usage of digital**



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