System Platform Business

Tomoyasu Nishimura, Executive Vice President
Overview of System Platform Business

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

<table>
<thead>
<tr>
<th>Hardware Services</th>
<th>Software Services</th>
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<tbody>
<tr>
<td>Server/Storage</td>
<td>WebSAM</td>
</tr>
<tr>
<td>Business PC</td>
<td>Integrated operation management</td>
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<tr>
<td>HPC</td>
<td>CLUSTERPRO</td>
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<tr>
<td>POS terminal</td>
<td>System platform</td>
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<tr>
<td>ATM</td>
<td>WebOTX</td>
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<tr>
<td>Store computer</td>
<td>Service execution platform</td>
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<tr>
<td>Flat sorter, logistics sorter</td>
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</tbody>
</table>

- **Key products/services**
  - Flat sorter, logistics sorter

**Maintenance Services**
- Hardware maintenance services
- Network integrated maintenance services
- Remote operating 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

Specialty Product Business
- Key Products
  - Store computer
  - POS terminal
  - ATM
  - Edge device
  - HPC

Maintenance Service Business
- Stable business ranked as No 1 in Customer Satisfaction Survey*1

¥500.2bn
Revenue in FY2018

40%  60%

## Strengths and Challenges of Business

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

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Challenges</th>
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<tbody>
<tr>
<td><strong>Specialty Product Business</strong></td>
<td>Limited customer segment, mainly in domestic market</td>
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<tr>
<td>- Unique technologies such as AI (face recognition) and accelerator</td>
<td><strong>centering on standalone hardware revenue</strong></td>
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<tr>
<td>- Strong relationship of trust with customers and experience of supporting broad industries</td>
<td>- Shrinkage of traditional IT market</td>
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<tr>
<td><strong>Commodity Product Business</strong></td>
<td><strong>Reduction of hardware maintenance business in line with shrinkage of traditional IT market</strong></td>
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<tr>
<td>- Reliability and high quality, as well as high domestic market share</td>
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<tr>
<td>- Knowledge of advanced technologies being continuously accumulated</td>
<td><strong>Reduction of hardware maintenance business in line with shrinkage of traditional IT market</strong></td>
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<tr>
<td><strong>Maintenance Service Business</strong></td>
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<tr>
<td>- On-site support capability taking advantage of nationwide office network</td>
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<td>- Delivery of one-stop solution from introduction to maintenance</td>
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## Business Status (Specialty Product Business)

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

### Examples of Large Orders

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

Domestic Enterprise Infrastructure Market Spending Forecasts by Installed Model and Place

- Cloud ratio: 26.7% (2018) → 44.2% (2023)

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

FY17 Adjusted Operating Profit 293 (Margin:6%)

FY18 Adjusted Operating Profit 201 (Margin:6%*)

*(Excluding structural improvement cost etc.)
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)

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*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 is a year of reaping benefits of structural improvement

(¥100mn)

FY18 Adjusted Operating Profit 201 (Margin:6%*)

Effect of Structural Improvement +110

Benefits from Voluntary Retirement +53

Benefits from Factory Restructuring +20

Improvement of Spending Efficiency +11

Growth Investments ▲15

FY19 Adjusted Operating Profit 380 (Margin:8%)

Revenue 5,002

*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
- 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

B. Expanding maintenance services

Expansion to New Domains

Multi-vendor maintenance
Non-IT products
IT products
Existing

Multi-maintenance
Contract maintenance of other companies’

Existing

Targets

NEC’s customers
Peers’ customers
A. Changing Commodity Products to be Customer-value Centric (Example)

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

Needs

- Want to offer goods suitable to each customer
- Want to know customer characteristics
- Want to analyze vast data and use results for marketing

- Want to achieve DX of existing business
- Want to use backbone data safely at private cloud
- Want to use public cloud only during campaign period

- In-house development capability of advanced technologies
- Knowledge and judgment capability for advanced technologies
- Relationship of trust with customers
- Thorough knowledge on customer’s system
- Operation support capability
- Seamless Integrated Maintenance Function
- Conversion to Hybrid IT
- Series of value chain from planning, development, production to maintenance

Face Recognition AI

AI Accelerator

General-purpose server
B. Expanding Maintenance Services

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

**FY2019**

**Expansion of target domain**

- **Non-IT products**
  - Existing
  - NEC's customer
  - Peers' customer

- **IT products**
  - Existing
  - NEC's customer
  - Peers' customer

**Contract Maintenance of Other Companies**

Provide maintenance services instead of other makers
- Casio Computer
  - (started in April 2019)

**FY2020**

**Expansion of maintenance target products**

- **Non-IT products**
  - Existing
  - NEC's customer
  - Peers' customer

- **IT products**
  - Existing
  - NEC's customer
  - Peers' customer

**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**

- **Non-IT products**
  - Existing
  - NEC's customer
  - Peers' customer

- **IT products**
  - Existing
  - NEC's customer
  - Peers' customer

**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]

Continuousy 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**
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.