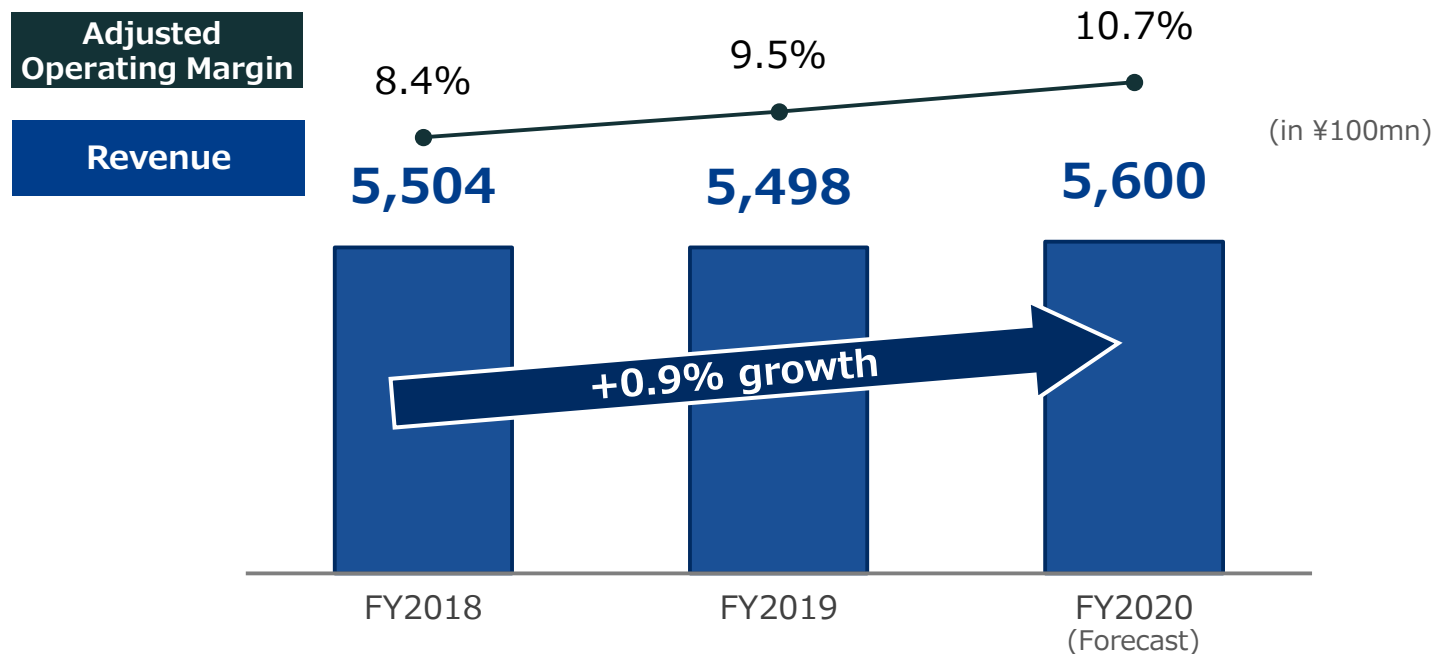**NEC**

Enterprise Business

Kazuhiro Sakai, Executive Vice President

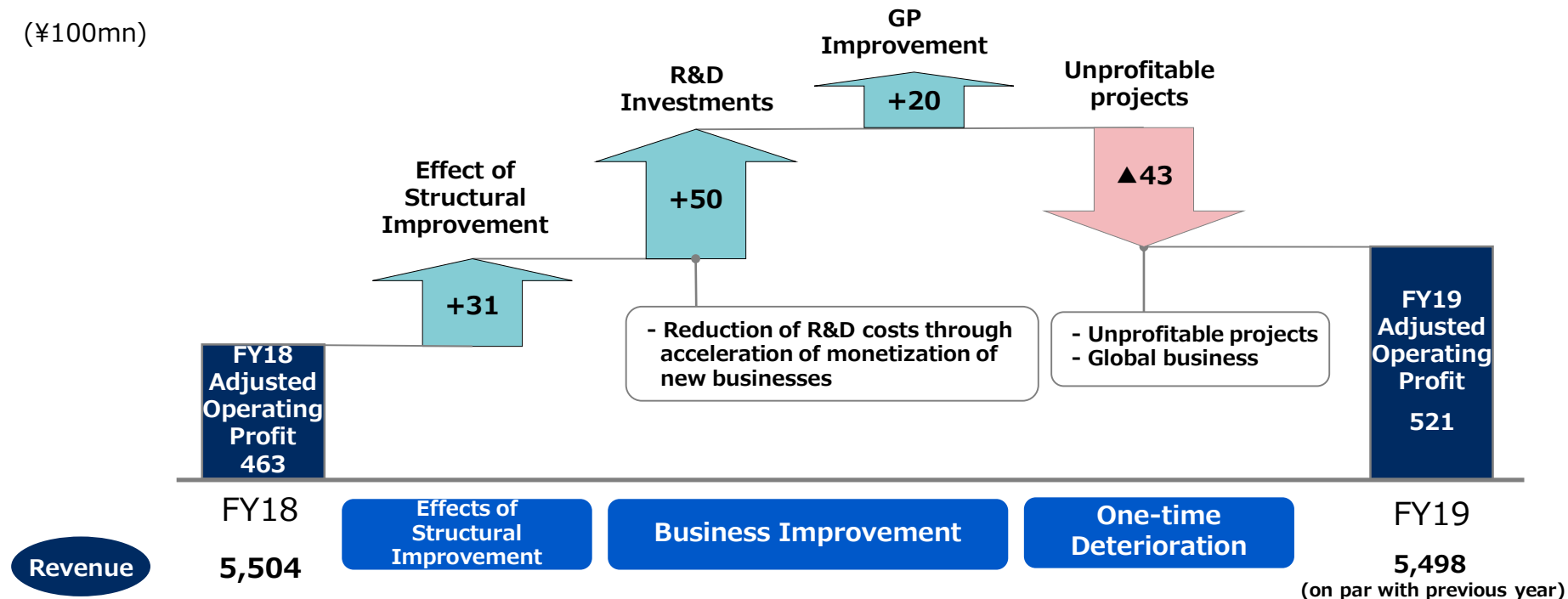# Business Performance from FY2018 to FY2020

- Revenue remained the same level
- Operating margin is improving. It is planned to exceed 10% in FY2020 due to the elimination of unprofitable projects

Adjusted Operating Margin

Revenue

8.4%　　　9.5%　　　10.7%

(in ¥100mn)

5,504　　　5,498　　　5,600

+0.9% growth

FY2018　　　FY2019　　　FY2020 (Forecast)

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FY2019 Results

▮ Revenue generally on par with previous year

▮ Operating profit increased due to the effects of structural improvement (+ ¥5.8 billion)

(¥100mn)

GP Improvement +20

R&D Investments +50

Unprofitable projects ▲43

Effect of Structural Improvement +31

FY18 Adjusted Operating Profit 463

- Reduction of R&D costs through acceleration of monetization of new businesses

- Unprofitable projects
- Global business

FY19 Adjusted Operating Profit 521

FY18	Effects of Structural Improvement	Business Improvement	One-time Deterioration	FY19
Revenue 5,504				5,498 (on par with previous year)

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Summary of Business in FY2019

Key Achievements

- **Achieved revenue slightly above the initial budget in the IT Services**
- **Progress of DX business (Modernization*, VCI**)**

Issues / Challenges

- **Exposure of unprofitable projects, deterioration of global business**
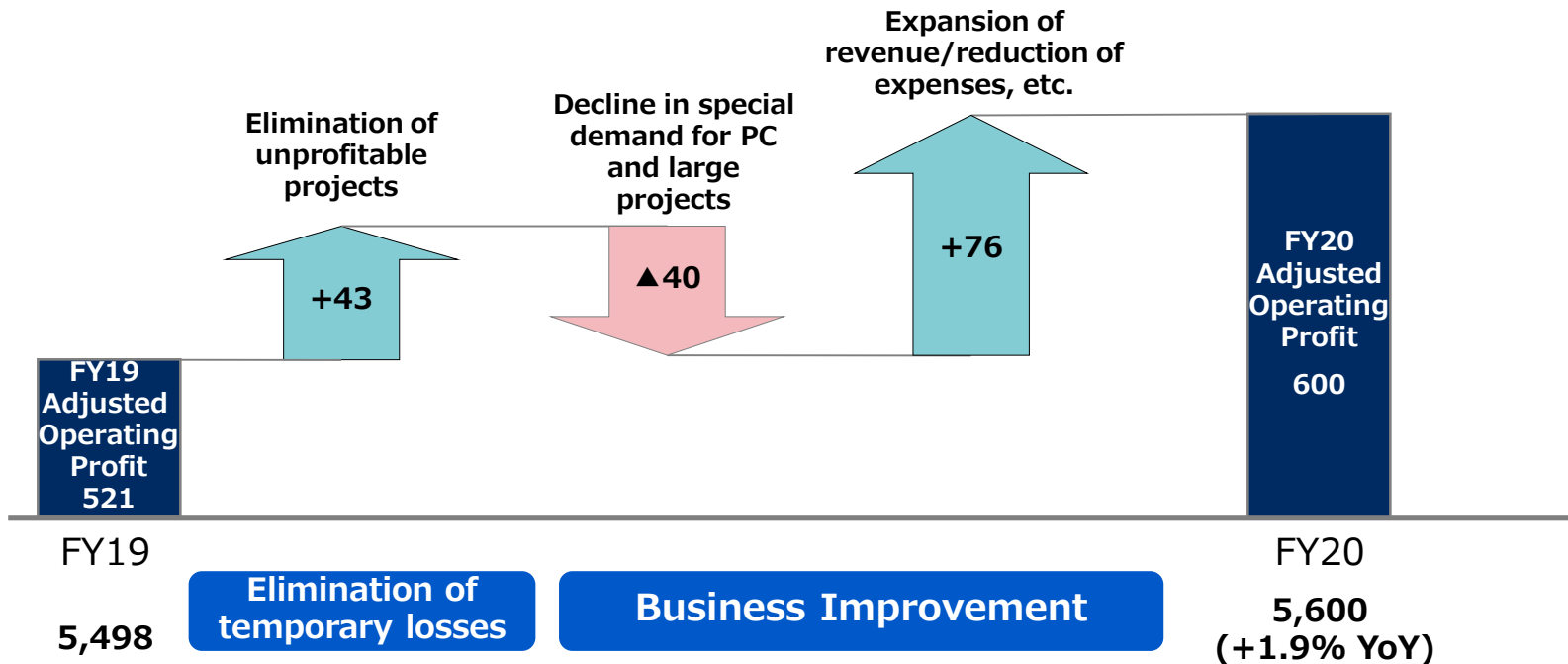- **Further acceleration of DX business expansion**

* Modernization: Cloud shift of legacy systems
** VCI:NEC Value Chain Innovation

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FY2020 Outlook

■ Revenue is planned to increase slightly to ¥560 billion (+1.9%) with market trends

■ Operating profit is planned to increase by ¥7.9 billion through the elimination of temporary losses and business improvements

(¥100mn)

Expansion of revenue/reduction of expenses, etc.

Elimination of unprofitable projects

Decline in special demand for PC and large projects

FY19 Adjusted Operating Profit 521

+43

▲40

+76

FY20 Adjusted Operating Profit 600

FY19

FY20

Elimination of temporary losses

Business Improvement

Revenue

5,498

5,600 (+1.9% YoY)

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Impact of COVID-19

Impact on Q1 Results	■ Impact of market deterioration caused by COVID-19 Large impact from manufacturing industry and retail services domain (especially transportation and services)
Outlook for this fiscal year	■ Impact of project discontinuation / extension throughout the year 2Q Revenue is expected to be the same level as 1Q The impact will be alleviated gradually from the second half
Countermeasures	■ Upside (VCI, New Normal) marketing ■ GP improvements ■ Cost reductions **Revenue increase in New Normal, cost reductions, and GP improvements will contribute to P/L of the whole company**

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Business Strategy for FY2020

Business Strategy

Response to the digital shift in IT Services investment

Maintain conventional SI business while strengthening digital business
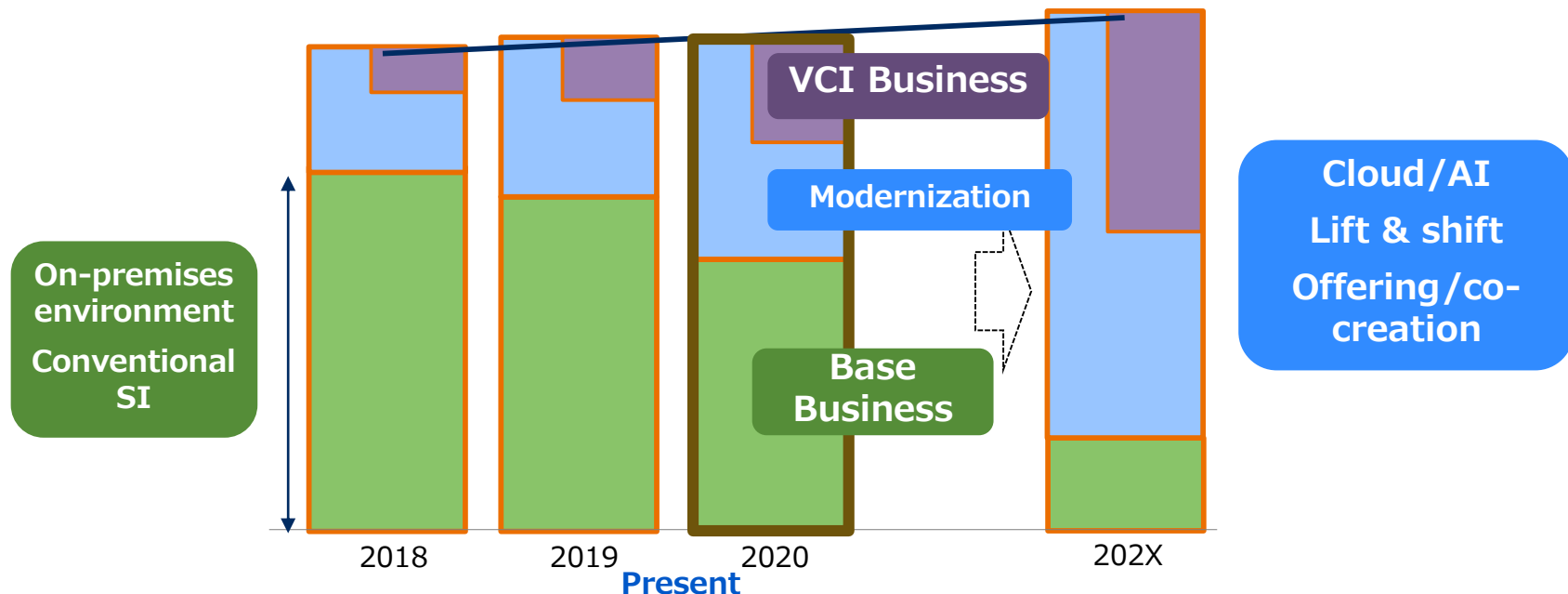
Focus Initiatives

1. **Establishment of DX offerings by industry → Strengthening of VCI**

2. **Strengthening of coordination with company-wide DX initiatives (DBPU*)**

   * Digital Business Platform Unit

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Business Structure (Base Business + DX Business)
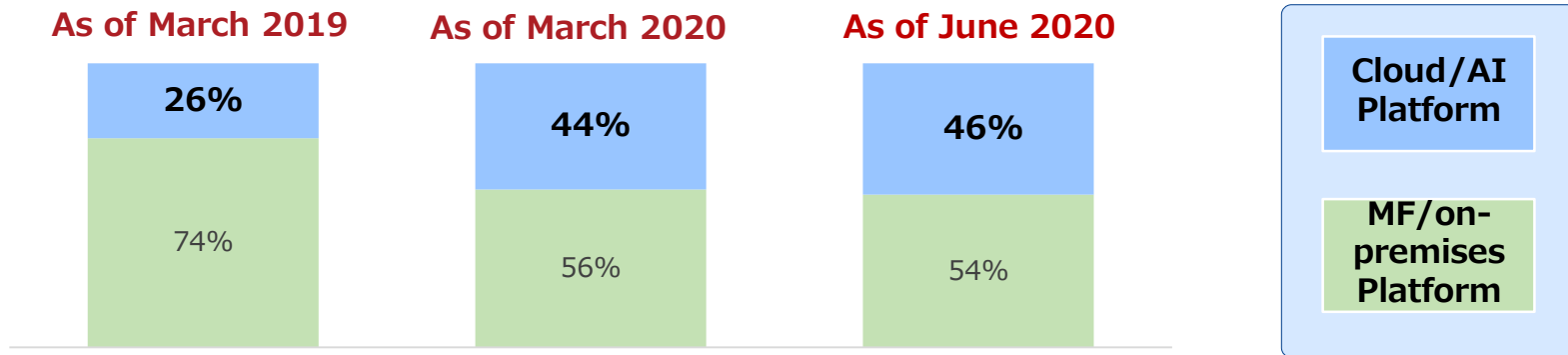
Base Business: Business based on conventional SI accounting for a majority of business at present

DX Business: (i)Modernization (ii)DX Offering (VCI Business)

On-premises environment

Conventional SI

VCI Business

Modernization

Base Business

Cloud/AI

Lift & shift

Offering/co-creation

2018   2019   2020   202X

Present

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Status of Digital Shift

Enterprise BU: Ratio of platforms of on-going SI service projects

As of March 2019	As of March 2020	As of June 2020
26%	**44%**	**46%**
74%	56%	54%

Cloud/AI Platform

MF/on-premises Platform
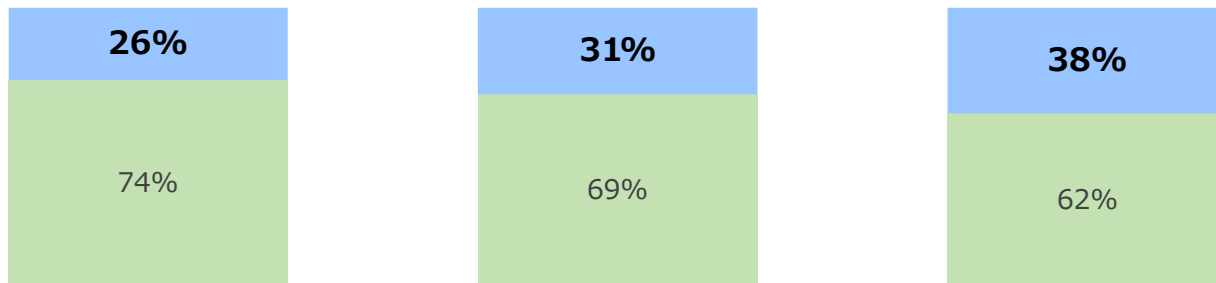
Ratio of Japan IT services spending by platform (based on IDC Japan materials*)

2018	2019	2020
26%	**31%**	**38%**
74%	69%	62%

* IDC Japan, April 2020
Domestic measures: Forecast for the IT service market for the 3rd platform, 2020-2024" (only 2018 data, using the version published in June 2019)

Definition of platforms (IDC): 1st: Mainframe, 2nd: Client-server
3rd: Cloud, business analytics, Enterprise mobility, social business
The 3rd platform is the simple aggregate of the four areas, and many areas overlap

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Strengthening of VCI Offering

NEC Digital | Search

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NEC's DX Offering Architecture * Announced on July 7

Purpose of DX	Value provided by DX (Customer issues)	DX Offering Themes (Solutions)							
Overall Strategy	Formulation of DX strategy	Formulation of DX strategy	Consulting on formulation of DX strategy/vision						
Business	Innovation Creation	Creation of new markets and business opportunities	Future Creation Design	Asset utilization Consulting	Transformation of customers' business models (Product Innovation)	Mobility service that supports the safe and secure movement of people (Mobility)	Clever shopping experience that pleases consumers	Realization of marketing with an understanding of customer behavior (Fan Marketing)	New digital links and customer experiences in financial services (Digital Customer Engagement)
	Customer contact reform	Transformation of customer experience	Creation of hospitality customer experiences	Creation of enhanced new customer experiences		Transportation services supporting the safe and comfortable movement of people (Transport)			
	Business reform	Reforming the supply chain / Automation of operations	Automation of operations through AI/RPA	Improvement of workplace and enhancement of productivity through IoT	Realization of smart factories (Process Innovation)	Supply chain transformation through coordination among companies/ Realization of a secure, safe and efficient workplace (Logistics)	Business assistance for working people	Touchless easy new customer experiences (Smart Hospitality)	Digital transformation of financial services (Business Process Transformation)
		Work style reform/ new work styles	Digital workplace						
		Creation of digital trust	Safety & security				Trusted and secure retail environment		Enhancement of responses to address increasingly complex Risks and regulations through utilization of digital technology Risk Tech
Common	Human resources/ infrastructure	DX human resource development	DX human resource development (DET)*						
		Strengthening of IT infrastructure	Optimization/ modernization of IT systems	Data utilization infrastructure					
			Common		Connected Manufacturing	Intelligent Logistics & Mobility	Smart Retail CX	Smart VenueCX	Digital Finance

※ Some of the offerings provided

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VCI Offering System

Purpose of DX

Overall Strategy	Formulation of DX strategy
Business	Creation of innovation
	Customer contact reform
	Business reform
Common	Human resources/ infrastructure

VCI Offering Themes

Consulting on formulation of DX strategy/vision

Transformation of customers' business models Business Model Transformation (Product Innovation)

Realization of smart factories (Process Innovation)

Mobility service that supports the safe and secure movement of people (Mobility)

Transportation services supporting the safe and comfortable movement of people (Transport)

Supply chain transformation through coordination among companies/ Realization of secure, safe and efficient workplace (Logistics)

Clever shopping experience that pleases consumers

Business assistance for working people

Trusted and secure retail environment

Realization of marketing with an understanding of customer behavior (Fan Marketing)

Touchless easy new customer experiences (Smart Hospitality)

New digital links and customer experiences in financial services (Digital Customer Engagement)

Digital transformation of financial services (Business Process Transformation)

Enhancement of responses to address increasingly complex risks and regulations through utilization of digital technology

Connected Manufacturing	Intelligent Logistics & Mobility	Smart Retail CX	Smart VenueCX	Digital Finance

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Intelligent Logistics
& Mobility

- Utilize AI for digitalization of operational know-how and accumulate in an information sharing platform in the cloud. With the accumulated data, develop supporting functions of decision making and technological skill transfer

- Enhance information sharing, decision-making support and technological skill transfer in accidents

Started operation on May 25, 2020
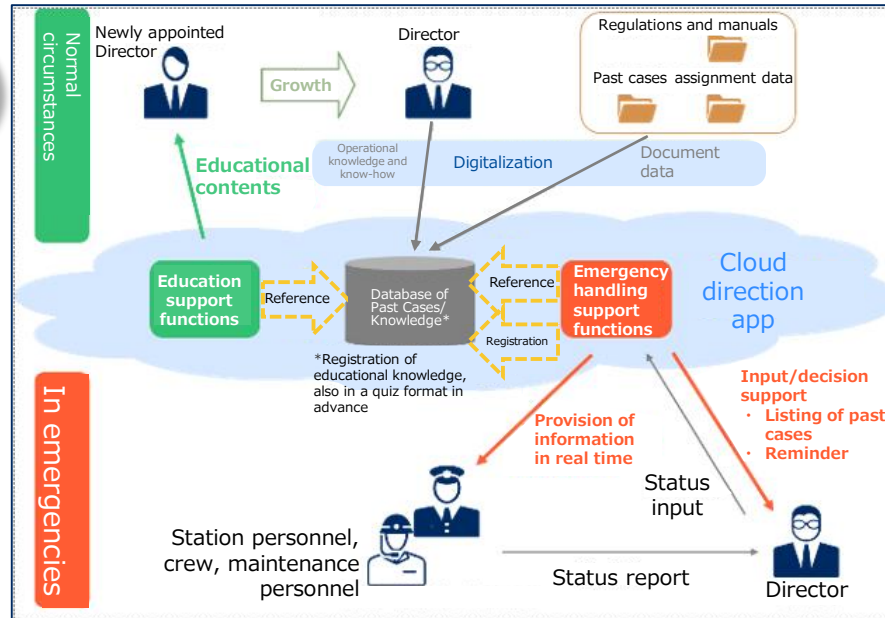
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▌At Takanawa Gateway Fest*, provided facial recognition based touchless gates, MaaS reservations/ride experiences etc.

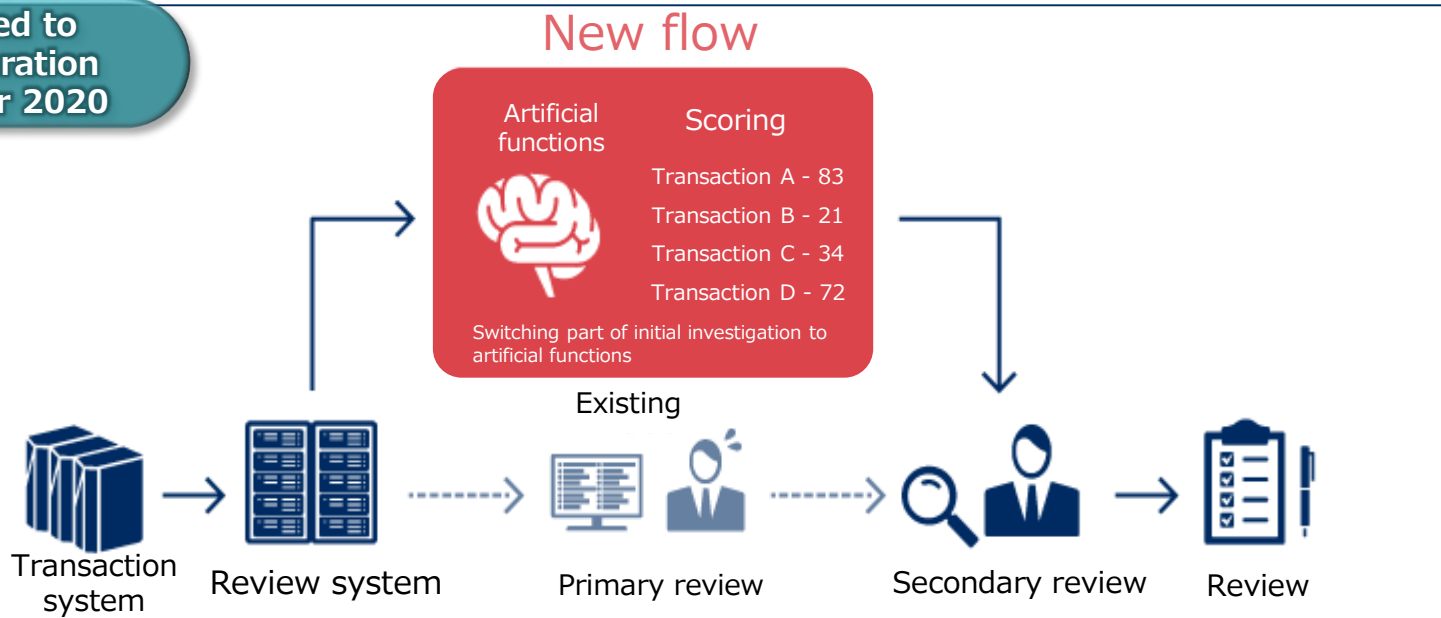▌Express the future world where various services can be used with a common biometrics ID

「Takanawa Gateway Fest」
from July 14, 2020
until September 6, 2020

＊Temporary event hosted at the special site in front of Takanawa Gateway station
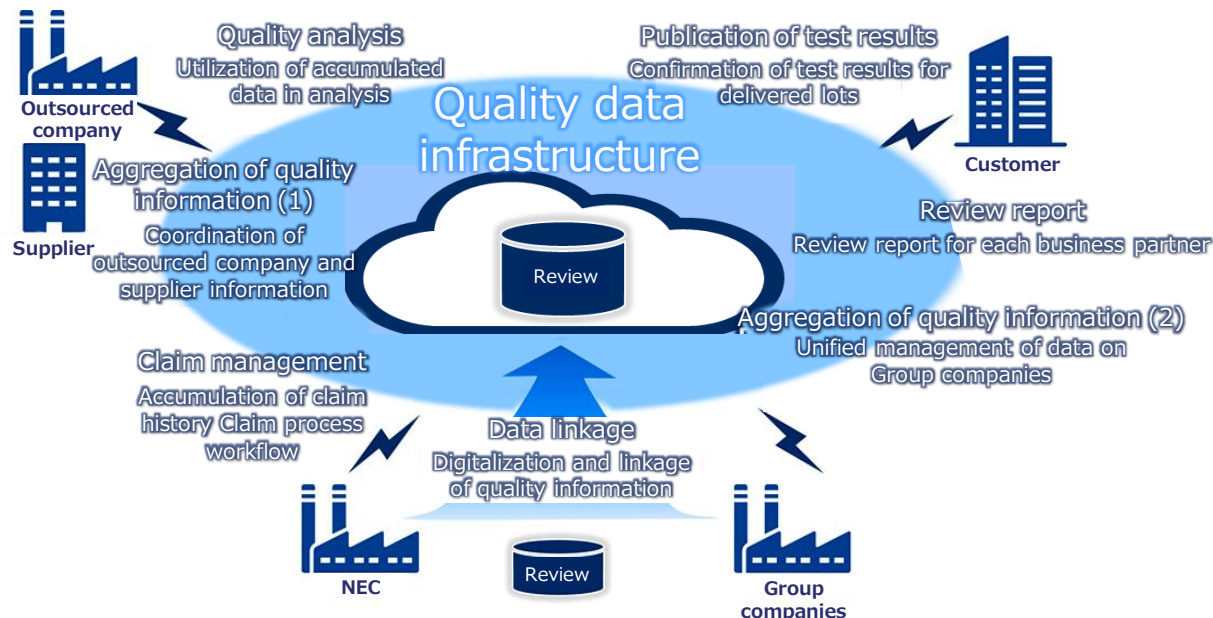
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- Scoring the risk level by using AI to conduct primary screening of accounts requiring detailed in detecting fraud

- Contributing to detecting and checking financial crime and fraud more efficiently and accurately

Scheduled to begin operation in October 2020

New flow

Artificial functions

Scoring

Transaction A - 83

Transaction B - 21

Transaction C - 34

Transaction D - 72

Switching part of initial investigation to artificial functions

Existing

Transaction system → Review system ⟶ Primary review ⟶ Secondary review → Review

Connected Manufacturing

- Digitalization of inspection data on finished items, raw materials and outsourced items
- Contribution to the improvement of quality through the supply chain by sharing and analyzing inspection data with business partners, etc.

Press release issued and operation commenced on July 29, 2020

Quality analysis
Utilization of accumulated data in analysis

Publication of test results
Confirmation of test results for delivered lots

Outsourced company

Quality data infrastructure

Customer

Aggregation of quality information (1)
Coordination of outsourced company and supplier information

Supplier

Review

Review report
Review report for each business partner

Aggregation of quality information (2)
Unified management of data on Group companies

Claim management
Accumulation of claim history Claim process workflow

Data linkage
Digitalization and linkage of quality information

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Review

Group companies

NEC Vision of quality data infrastructure

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▌Providing smart hospitality services utilizing facial recognition technology at "sequence"*

▌Non-face-to-face customer service and speedy check-in enable people to avoid staying at one place, which contributes to the safe and secure use of hotels in the New Normal
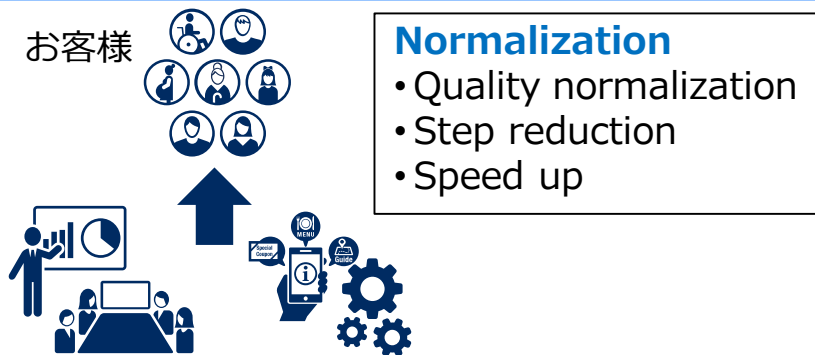
Start of operation in August 2020

Check-in and entry by facial recognition

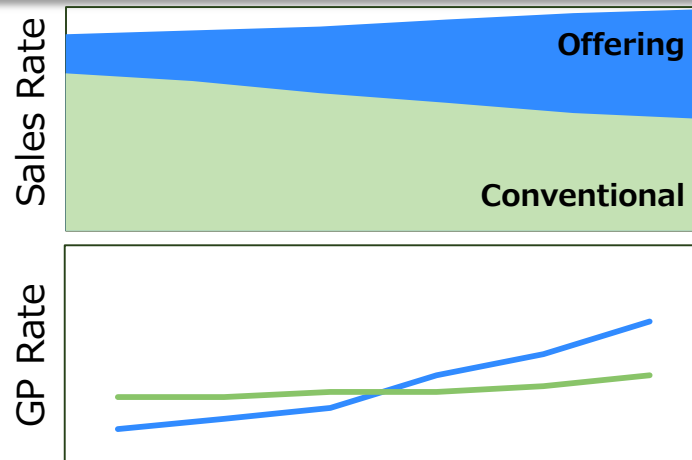＊Hotel brand operating by Mitsui Fudosan and Mitsui Fudosan Hotel Management

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Change in Income Model through DX Offering

Through the asset-based DX offerings, increase the value add to clients and realize higher profitability
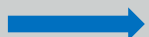
Asset-based Offering

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Normalization
- Quality normalization
- Step reduction
- Speed up

Proposals based on firmwide common asset

Sales Rate

Offering

Conventional

GP Rate
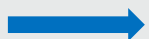
Change to asset-based approach

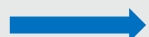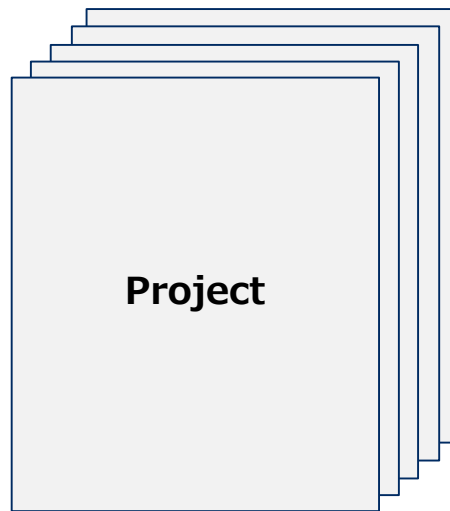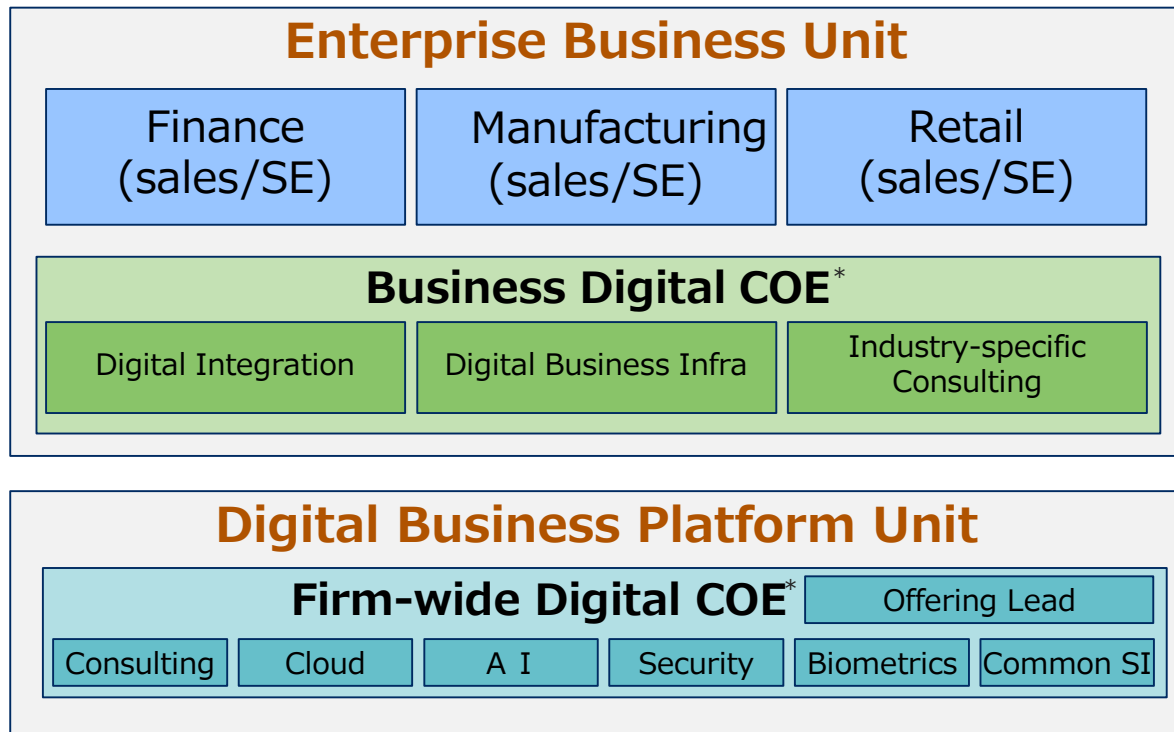|		
Meet customers' needs	➡	**Offer best solutions to customers**
Building	➡	**Reuse**
Prices based on the number of man-hours provided	➡	**Prices based on value provided**
Depending on individual experience, knowledge and skills	➡	**Sharing corporate asset**
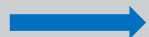
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Strengthening of DX Offering System

Support digitalization to realize a digital shift of sales/SE

Enterprise Business Unit

Finance (sales/SE)	Manufacturing (sales/SE)	Retail (sales/SE)

Business Digital COE*

Digital Integration	Digital Business Infra	Industry-specific Consulting

Digital Business Platform Unit

Firm-wide Digital COE* — Offering Lead

Consulting	Cloud	A I	Security	Biometrics	Common SI

Project

*Center of Excellence

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Mid-to-long-term Challenges

[Challenge 1] Further acceleration of the restructuring of the domestic IT market

[Challenge 2] Reform of revenue structure

[Challenge 3] Inorganic global growth

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NEC creates the social values of
safety, security, fairness and efficiency
to promote a more sustainable world
where everyone has the chance to reach
their full potential.