Enterprise Business

Kazuhiro Sakai, Executive Vice President
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

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue (in ¥100mn)</th>
<th>Adjusted Operating Margin</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY2018</td>
<td>5,504</td>
<td>8.4%</td>
</tr>
<tr>
<td>FY2019</td>
<td>5,498</td>
<td>9.5%</td>
</tr>
<tr>
<td>FY2020</td>
<td>5,600</td>
<td>10.7%</td>
</tr>
</tbody>
</table>

+0.9% growth
FY2019 Results

- Revenue generally on par with previous year
- Operating profit increased due to the effects of structural improvement (+ ¥5.8 billion)

(¥100mn)

Revenue generally on par with previous year
Operating profit increased due to the effects of structural improvement (+ ¥5.8 billion)
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
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)

Revenue: 5,498

<table>
<thead>
<tr>
<th>FY19 Adjusted Operating Profit</th>
<th>FY20 Adjusted Operating Profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>521</td>
<td>600</td>
</tr>
</tbody>
</table>

- Elimination of unprofitable projects: +43
- Decline in special demand for PC and large projects: ▲40
- Expansion of revenue/reduction of expenses, etc.: +76

- Business Improvement
- Decline in special demand for PC and large projects: ▲40
- Expansion of revenue/reduction of expenses, etc.: +76

Revenue: 5,600 (+1.9% YoY)

FY20

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Orchestrating a brighter world
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
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
**Base Business:** Business based on conventional SI accounting for a majority of business at present

**DX Business:** (i) **Modernization**  (ii) **DX Offering (VCI Business)**
Status of Digital Shift

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

<table>
<thead>
<tr>
<th></th>
<th>As of March 2019</th>
<th>As of March 2020</th>
<th>As of June 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cloud/AI Platform</td>
<td>26%</td>
<td>44%</td>
<td>46%</td>
</tr>
<tr>
<td>MF/on-premises</td>
<td>74%</td>
<td>56%</td>
<td>54%</td>
</tr>
</tbody>
</table>

Ratio of Japan IT services spending by platform (based on IDC Japan materials*)

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<tr>
<th>Year</th>
<th>Cloud/AI Platform</th>
<th>MF/on-premises</th>
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</thead>
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<tr>
<td>2018</td>
<td>26%</td>
<td>74%</td>
</tr>
<tr>
<td>2019</td>
<td>31%</td>
<td>69%</td>
</tr>
<tr>
<td>2020</td>
<td>38%</td>
<td>62%</td>
</tr>
</tbody>
</table>

* 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
Strengthening of VCI Offering

企業と産業のDX

NEC Value Chain Innovation

やまくすする未来を創りたい。
人やモノのデータは産業の根を超えることで、社会課題を解決し、
新しい世界、日常を創り出します。企業と産業の枠にとらわれない共
創でデジタルトランスフォーメーション（DX）を実現し、人が豊かに
生きる社会を支えます。

NEC Digital Search
# NEC's DX Offering Architecture

*Announced on July 7*

## Purpose of DX

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

* Some of the offerings provided
## VCI Offering System

### Purpose of DX

#### Overall Strategy
- **Formulation of DX strategy**

#### Business
- **Creation of innovation**
  - Transformation of customers’ business models
    - Business Model Transformation (Product Innovation)
- **Customer contact reform**
  - Business assistance for working people
  - Trust and safe retail environment
- **Business reform**
  - Realization of smart factories
    - Business Model Transformation (Process Innovation)
  - Business assistance for working people
  - Supply chain transformation through coordination among companies
  - Realization of secure, safe and efficient workplace
  - Transportation services supporting the safe and comfortable movement of people
  - Realization of marketing with an understanding of customer behavior
- **Common**
  - Human resources/infrastructure

### VCI Offering Themes

- **Consulting on formulation of DX strategy/vision**
  - **Transformation of customers’ business models**
    - Mobility service that supports the safe and secure movement of people
    - Transportation service supporting the safe and comfortable movement of people
  - **Realization of smart factories**
    - Supply chain transformation through coordination among companies
    - Realization of secure, safe and efficient workplace
  - **Clever shopping experience that pleases consumers**
    - Business assistance for working people
    - Trusted and secure retail environment
  - **Touchless easy new customer experiences**
    - Transportation services supporting the safe and comfortable movement of people
  - **New digital links and customer experiences in financial services**
    - Digital transformation of financial services
    - 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
Case 1) JR East: Railway Operation Support Utilizing Cloud and AI Technology

- 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**
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

* Temporary event hosted at the special site in front of Takanawa Gateway station from July 14, 2020 until September 6, 2020.
Case 3) The Bank of Yokohama: AI-based Fraud and Risk Detection Service

- 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

New flow

Artificial functions

Review system

Primary review

Secondary review

Review

Scheduled to begin operation in October 2020

Existing

Transaction system

Scoring

Transaction A - 83
Transaction B - 21
Transaction C - 34
Transaction D - 72

Switching part of initial investigation to artificial functions

Transaction A - 83
Transaction B - 21
Transaction C - 34
Transaction D - 72
Case 4) Toray: Quality data infrastructure shared through the supply chain

- 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
Case 5 ）Mitsui Fudosan：Hotel Check-in/out by facial recognition

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
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**

- **Normalization**
  - Quality normalization
  - Step reduction
  - Speed up

Proposals based on firmwide common asset

**Change to asset-based approach**

<table>
<thead>
<tr>
<th>Meet customers’ needs</th>
<th>Offer best solutions to customers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Building</td>
<td>Reuse</td>
</tr>
<tr>
<td>Prices based on the number of man-hours provided</td>
<td>Prices based on value provided</td>
</tr>
<tr>
<td>Depending on individual experience, knowledge and skills</td>
<td>Sharing corporate asset</td>
</tr>
</tbody>
</table>
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
  - Consulting
  - Cloud
  - AI
  - Security
  - Biometrics
  - Common SI

**Project**

*Center of Excellence*
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
Orchestrating a brighter world

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.