

# Financial Forecasts for the Fiscal Year Ending March 31, 2022

May 12, 2021

NEC Corporation

(<https://www.nec.com/en/global/ir/>)

# \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.

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# I. Financial Forecasts for FY22/3

# Financial Forecasts Summary

(Billions of Yen)

	Full year		
	FY21/3 Actual	FY22/3 Forecasts	YoY
Revenue	2,994.0	3,000.0	+ 0.2%
Operating Profit	153.8	120.0	- 33.8
% to Revenue	5.1%	4.0%	
Adjusted Operating Profit	178.2	155.0	- 23.2
% to Revenue	6.0%	5.2%	
Net Profit	149.6	67.0	- 82.6
% to Revenue	5.0%	2.2%	
Adjusted Net Profit	165.4	90.0	- 75.4
% to Revenue	5.5%	3.0%	
EBITDA*	295.8	300.0	+ 4.2
% to Revenue	9.9%	10.0%	
Free Cash Flows	152.4	130.0	- 22.4
Note: Average Exchange Rates (Yen)	USD / JPY	105.96	105.00
	EUR /JPY	122.84	125.00
Dividend per Share (Yen)	90	100	+ 10

## Revenue

- Expansion of 5G and new consolidation of "Avaloq"
- Decrease due to the special demand from "GIGA school project" in FY21/3 and the deconsolidation of the display business

## Adjusted Operating Profit

- Invest strategic expenses to maximize long term profit

## Adjusted Net Profit

- Decrease due to decrease in adjusted operating profit

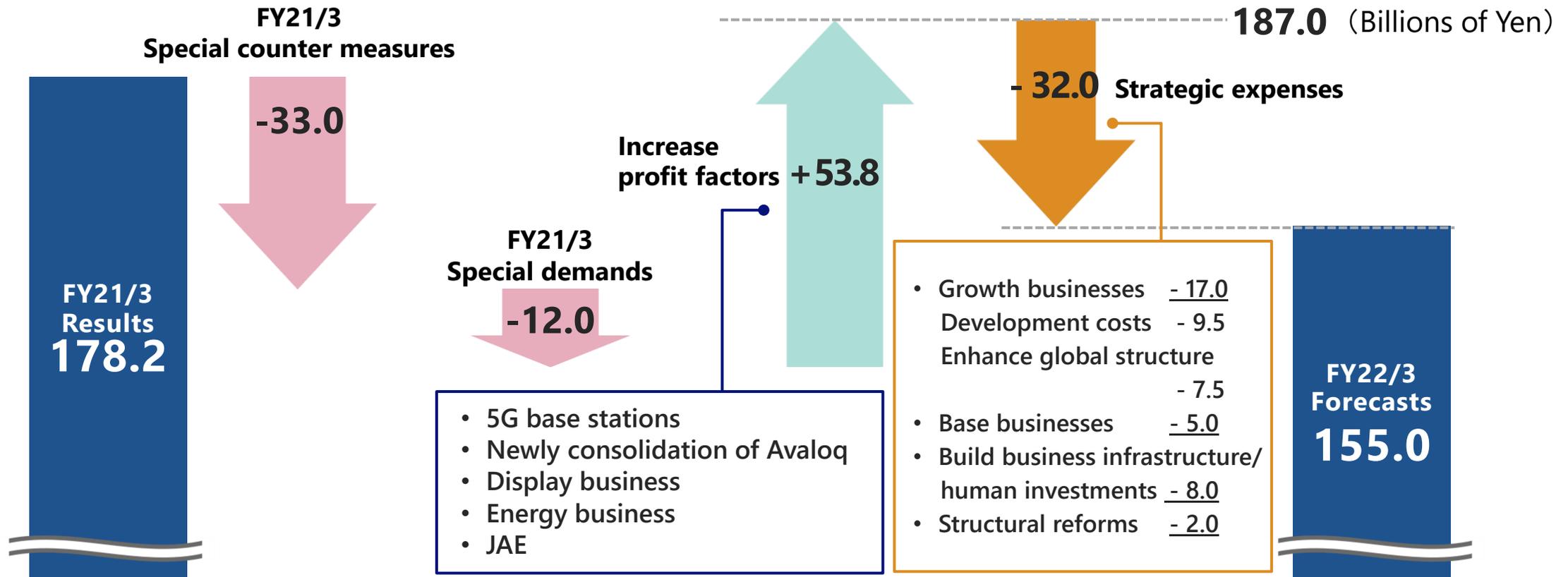
## Free Cash Flows

- Decrease due to the investment in strategic expenses and stabilizing CCC improvement activities

\* EBITDA = Gross Profit – SG&A + Depreciation

# Adjusted Operating Profit Change (Year on Year)

- ◆ Plan to be 187.0 billion Yen level due to improvement in operations despite decrease in special countermeasures in FY21/3
- ◆ Forecast 155.0 billion Yen by aggressively investing strategic expenses to maximize long term profit



# Reform profit structure by aggressively investing strategic expenses

Measure and manage cost-effectiveness of proactive investments of strategic funds in growth strategies and management foundation reforms to achieve substantial progress in FY2025

Strategic expenses and expected effects (Compared to FY2020)		Strategic expense increase FY2021 (Billions of Yen)	Quantitative effects FY2025 (Billions of Yen)	Expected effects
<b>Growth business</b>	Development expenses	9.5	Net Adjusted OP 120.0 increase	<b>DG/DF</b> : Restructuring of business foundation including 3 acquired companies <b>5G</b> : Service domain expansion/Open-RAN market formation <b>Core DX</b> : Business model transformation/ Common ICT platform development
	Global structure reinforcement	7.5		
<b>Base business</b>		5.0	-	Capturing of replacement demand from existing customers
<b>Business infrastructure development/ Human resource investment</b>		8.0	Net Adjusted OP 20.0 increase	<b>Infrastructure</b> : Business process/IT establishment <b>Human resources</b> : DX personnel reinforcement, training of next-generation leaders
<b>Structural reforms</b>		2.0	SGA reduction 1.5 /year	Selection and concentration of overseas base functions
		<b>32.0</b>	Also, additional CapEx investments of 12.5 billion Yen for the above	



# Financial Forecasts by Segment

(Billions of Yen)

		Full Year				
		FY20/3 Actual	FY21/3 Actual	FY22/3 Forecasts	YoY	Strategic expenses
Public Solutions	Revenue	478.4	425.1	415.0	- 2.4%	
	Adjusted Operating Profit	34.2	39.4	31.0	- 8.4	-2.5
	% to Revenue	7.1%	9.3%	7.5%		
Public Infrastructure	Revenue	678.8	692.9	660.0	- 4.7%	
	Adjusted Operating Profit	64.2	59.4	62.0	+ 2.6	-1.0
	% to Revenue	9.5%	8.6%	9.4%		
Enterprise	Revenue	549.8	503.1	550.0	+ 9.3%	
	Adjusted Operating Profit	52.1	48.2	53.0	+ 4.8	-1.0
	% to Revenue	9.5%	9.6%	9.6%		
Network Services	Revenue	482.7	538.8	555.0	+ 3.0%	
	Adjusted Operating Profit	30.6	41.2	35.0	- 6.2	-13.5
	% to Revenue	6.3%	7.6%	6.3%		
Global	Revenue	493.1	450.0	460.0	+ 2.2%	
	Adjusted Operating Profit	- 3.2	7.5	22.0	+ 14.5	-1.5
	% to Revenue	-0.6%	1.7%	4.8%		
Others	Revenue	412.6	384.2	360.0	- 6.3%	
	Adjusted Operating Profit	24.4	7.7	0.0	- 7.7	-3.0
	% to Revenue	5.9%	2.0%	0.0%		
Adjustment	Adjusted Operating Profit/Loss	-56.5	- 25.1	-48.0	- 22.9	-9.5
Total	Revenue	3,095.2	2,994.0	3,000.0	+ 0.2%	
	Adjusted Operating Profit	145.8	178.2	155.0	- 23.2	-32.0
	% to Revenue	4.7%	6.0%	5.2%		

# Growth businesses: Initiatives in FY22/3

(Billions of Yen)

## Digital Government / Digital Finance

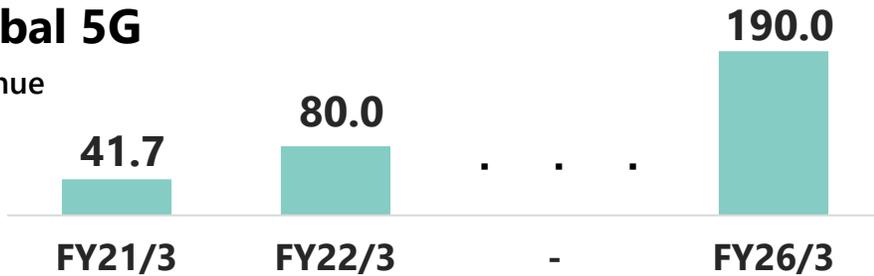
Revenue



- Generate synergies in sales including APAC
- Generate cost synergies by utilizing off-shore resources
- Implement small sized bolt-on M&A

## Global 5G

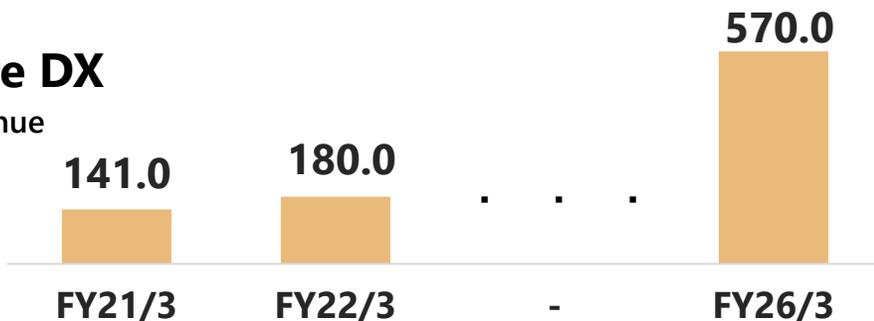
Revenue



- Expand share in Japanese market
- Secure commercialized projects. Enhance manufacturing and sales structure.
- Enhance development of base stations, core networks, and operation managing software

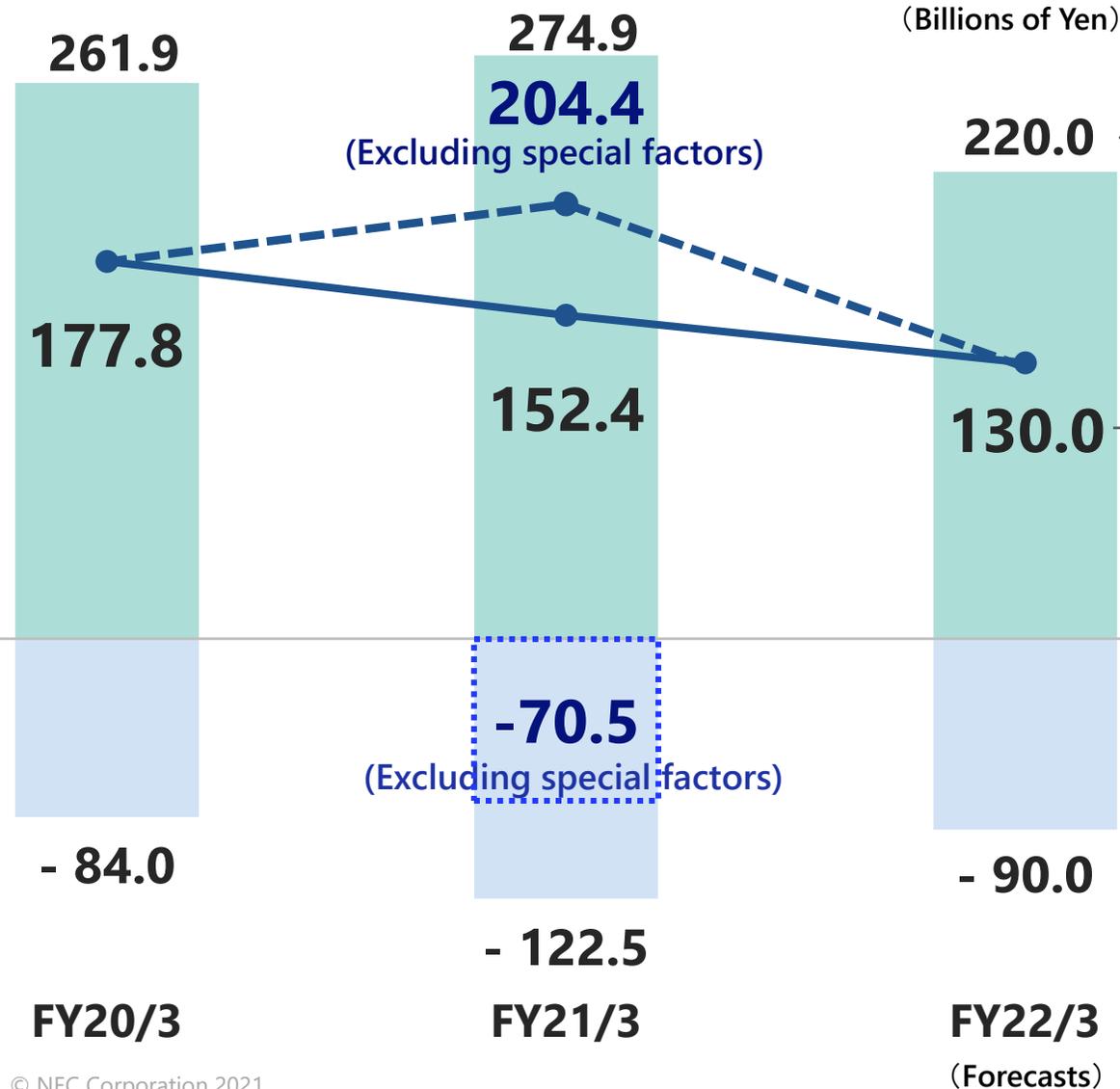
## Core DX

Revenue



- Collaborate with ABeam to strengthen resource utilization and increase acquisition of projects
- Accelerate strategic proposals and promotion of DX in government agencies
- Enhance collaboration with "Hyper scalers"

# Free Cash Flows



• **Cash flow from operating activities**  
**YoY – 54.9**

- Decrease in adjusted operating profit as aggressively investing strategic expenses: - 23.2
- Shrink improvement range of CCC days as CCC activities are taking root, etc.  
(6 days to 2 days) : - Approx. 32.0

• **Free cash flows**

**YoY – 22.4** (Excluding special factors -74.4)

• **Cash flow from investing activities**

**YoY +32.5** (Excluding special factors -19.5)

- Capital expenditure to realize “mid-term management plan, etc. : - Approx. 19.5
- Portfolio optimization : - Approx. 14.0
- Fixed assets optimization : - Approx. 35.0
- Sales of investment securities : - Approx. 97.0
- Avaloq acquisition: + Approx. 198.0

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## II. Financial Forecasts for FY22/3 (Appendix)

# Financial Forecasts by Segment

(Billions of Yen)		Full year			Comments	
		FY21/3 Actual	FY22/3 Forecasts	YoY	Revenue	Adjusted Operating Profit
Public Solutions	Revenue	425.1	415.0	- 2.4%	- : Decrease due to special demand in fire-prevention systems in FY21/3	- : Decrease due to decrease in revenue - : Increase in strategic expenses
	Adjusted Operating Profit	39.4	31.0	- 8.4		
	% to Revenue	9.3%	7.5%			
Public Infrastructure	Revenue	692.9	660.0	- 4.7%	- : Decrease due to decrease in special demand (GIGA school project, defense projects)	+ : Improvement in a consolidated subsidiary by market recovery + : Improvement in profitability by reducing unprofitable projects - : Decrease in decrease in revenue
	Adjusted Operating Profit	59.4	62.0	+ 2.6		
	% to Revenue	8.6%	9.4%			
Enterprise	Revenue	503.1	550.0	+ 9.3%	+ : Increase in response to market environment improvement	+ : Increase due to increase in revenue
	Adjusted Operating Profit	48.2	53.0	+ 4.8		
	% to Revenue	9.6%	9.6%			
Network Services	Revenue	538.8	555.0	+ 3.0%	+ : Expansion in shipment for 5G base stations in Japan - : Decrease due to decrease in special demand (GIGA school project) in FY21/3	+ : Increase due to increase in revenue - : Increase in investment for global 5G development
	Adjusted Operating Profit	41.2	35.0	- 6.2		
	% to Revenue	7.6%	6.3%			
Global	Revenue	450.0	460.0	+ 2.2%	+ : Contribution of new consolidation of "Avaloq" - : Deconsolidation of Display business - : Hold new orders for Energy business	+ : Contribution of new consolidation of "Avaloq" + : Improvement by portfolio optimization
	Adjusted Operating Profit	7.5	22.0	+ 14.5		
	% to Revenue	1.7%	4.8%			
Others	Revenue	384.2	360.0	- 6.3%		- : Increase in strategic expenses - : Decrease due to the sale of stocks of consolidated subsidiary in FY21/3
	Adjusted Operating Profit	7.7	0.0	- 7.7		
	% to Revenue	2.0%	0.0%			
Adjustment	Adjusted Operating Profit/Loss	- 25.1	- 48.0	- 22.9		- : Decrease due to asset sales in FY21/3
Total	Revenue	2,994.0	3,000.0	+ 0.2%		
	Adjusted Operating Profit	178.2	155.0	- 23.2		
	% to Revenue	6.0%	5.2%			

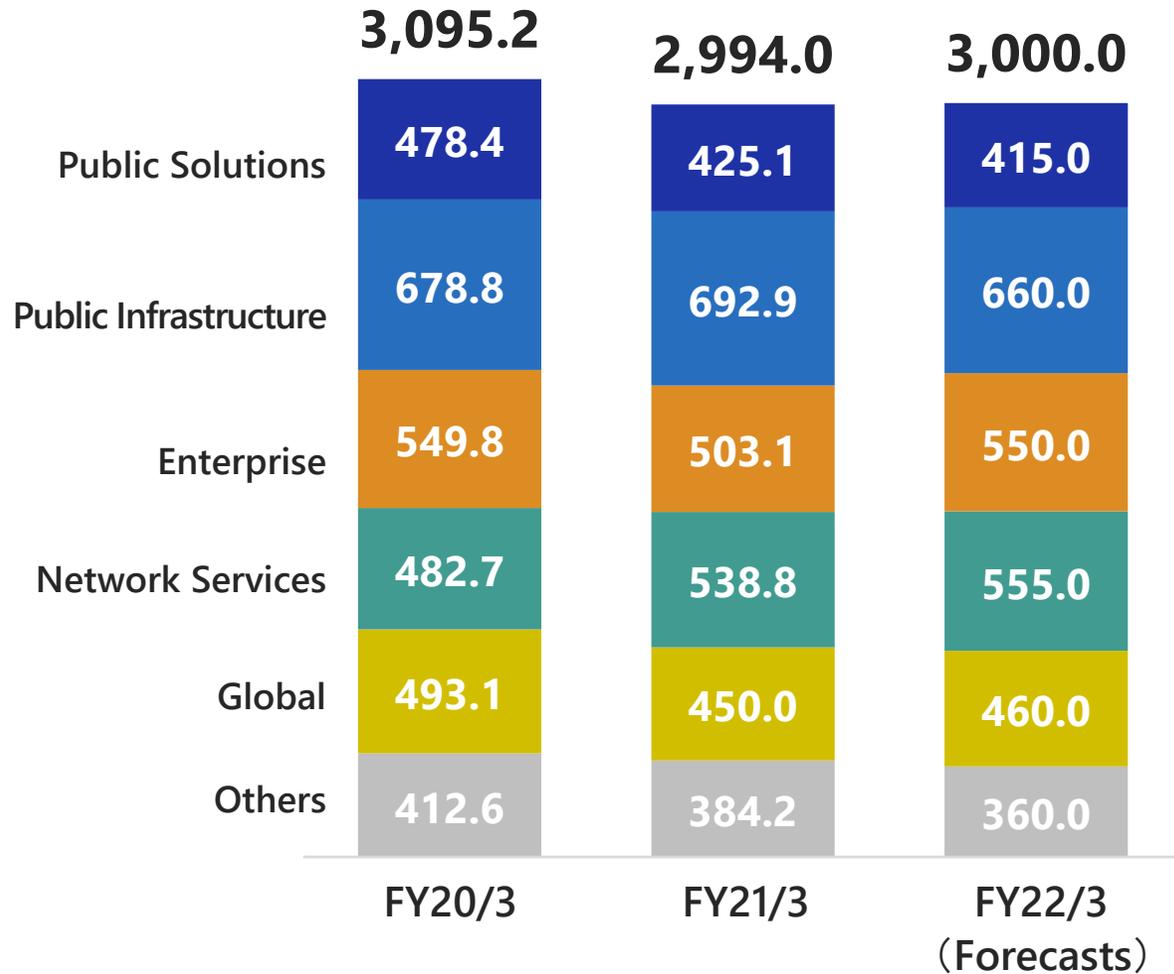
# Adjustments to Operating Profit

(Billions of Yen)

	FY20/3 Actual	FY21/3 Actual	FY22/3 Forecasts	YoY
<b>Operating Profit</b>	<b>127.6</b>	<b>153.8</b>	<b>120.0</b>	<b>- 33.8</b>
<b>Adjusted items</b>	<b>18.2</b>	<b>24.5</b>	<b>35.0</b>	<b>+10.5</b>
Amortization of intangible asset through acquisition	17.0	22.8	N.A.	N.A.
M&A related expenses	1.2	1.7		
<b>Adjusted Operating Profit</b>	<b>145.8</b>	<b>178.2</b>	<b>155.0</b>	<b>- 23.2</b>

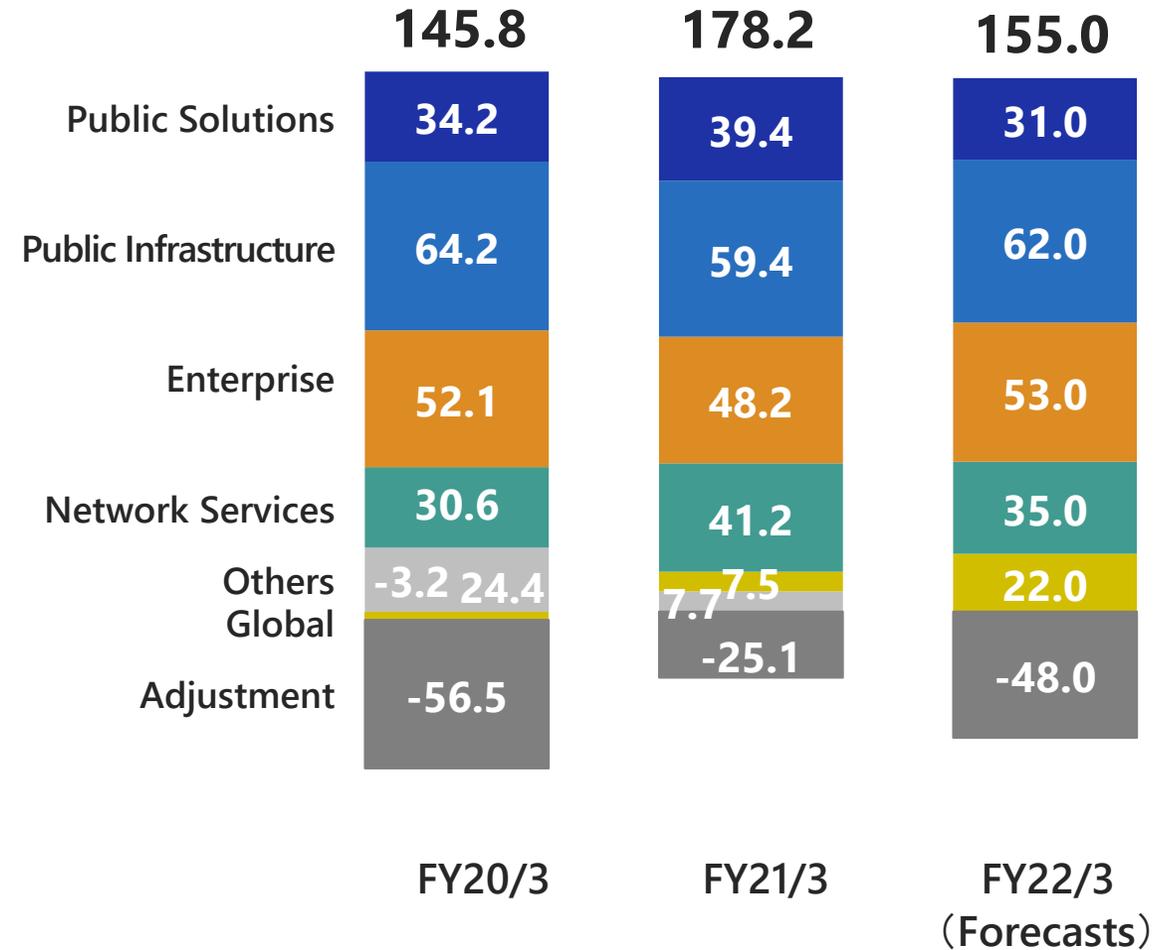
# Financial Results / Forecasts by Segment (three-year transition)

## Revenue



## Adjusted Operating Profit

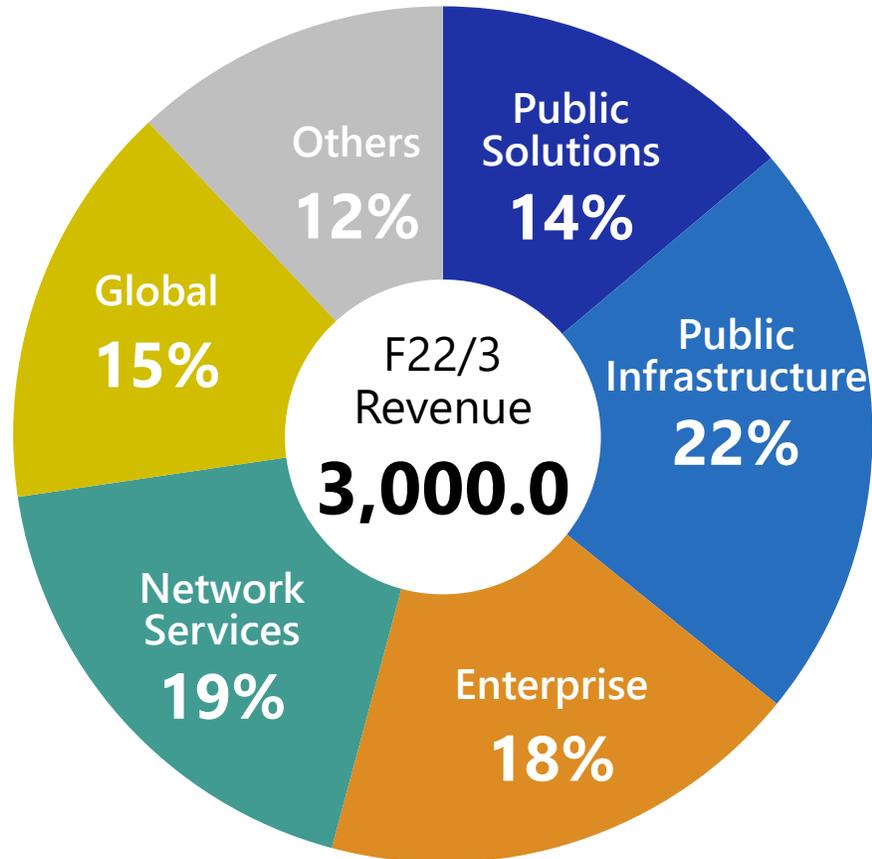
(Billions of Yen)



# Financial Forecasts by Segment in FY22/3

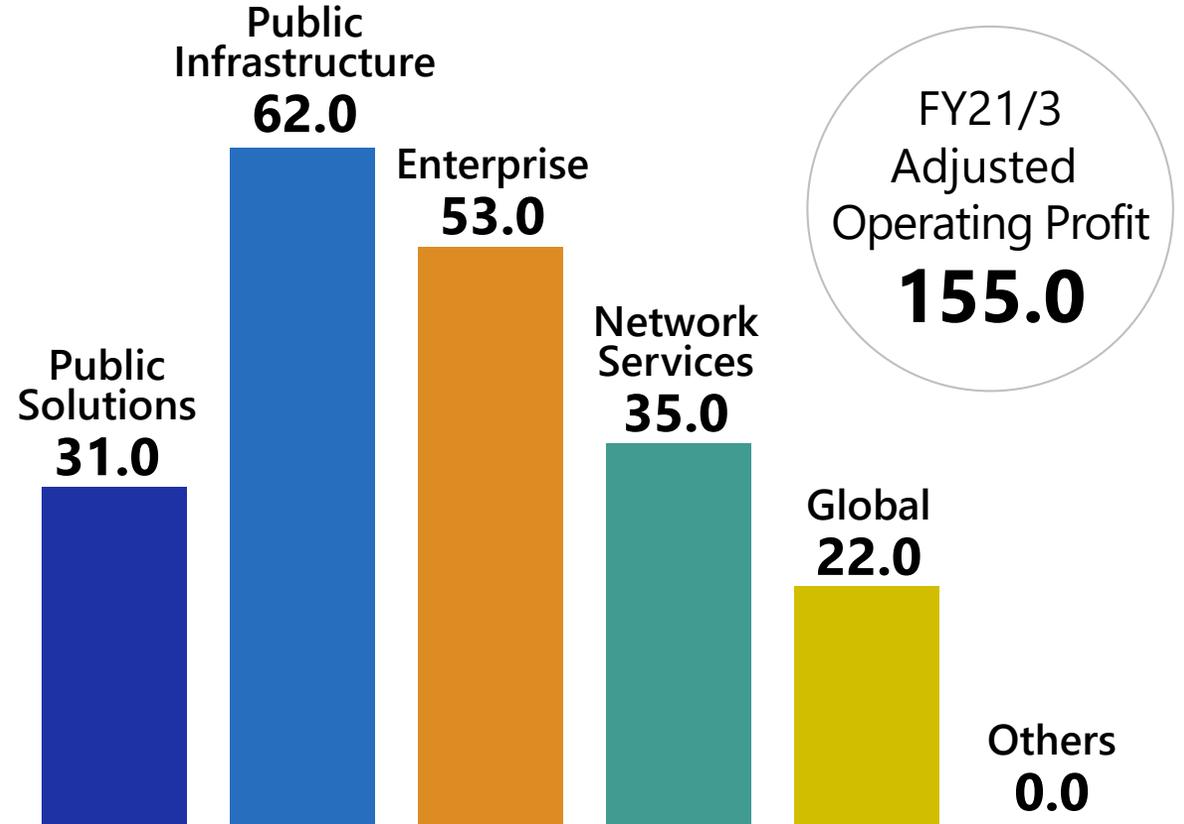
## Revenue

(Billions of Yen)



## Adjusted Operating Profit

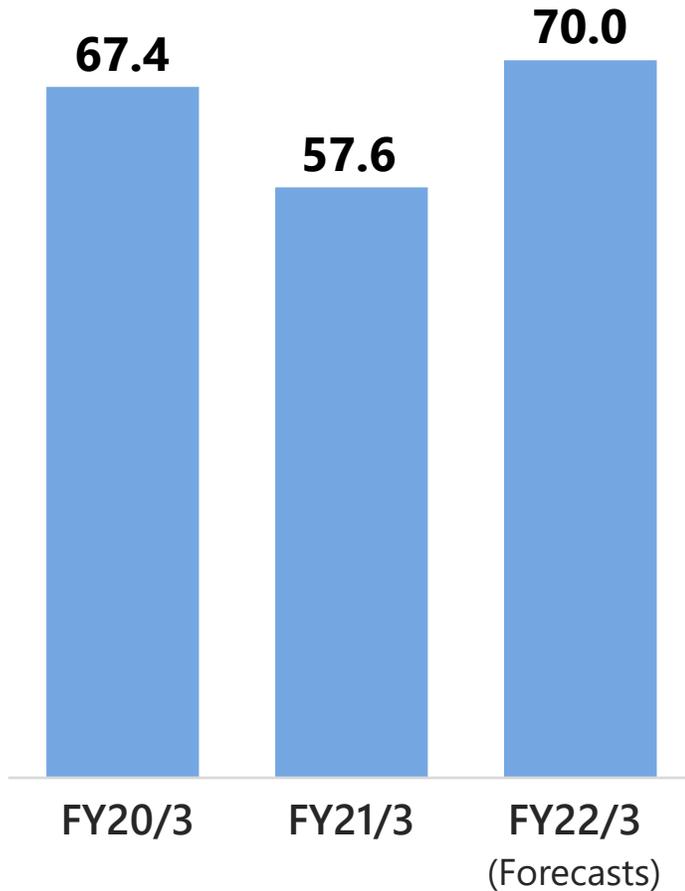
(Billions of Yen)



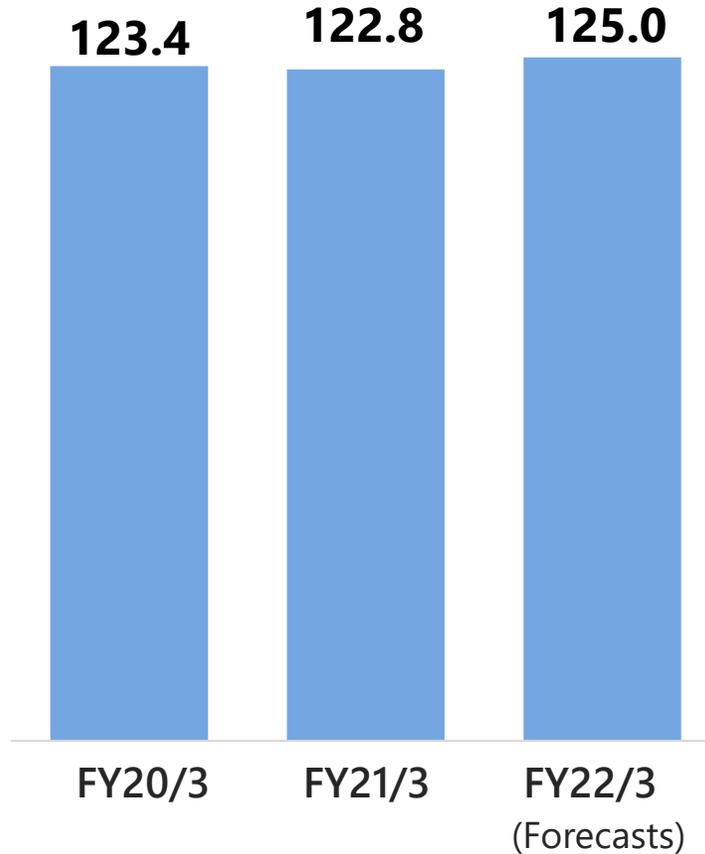
# Capital Expenditure, Depreciation and R&D Expenses

(Billions of Yen)

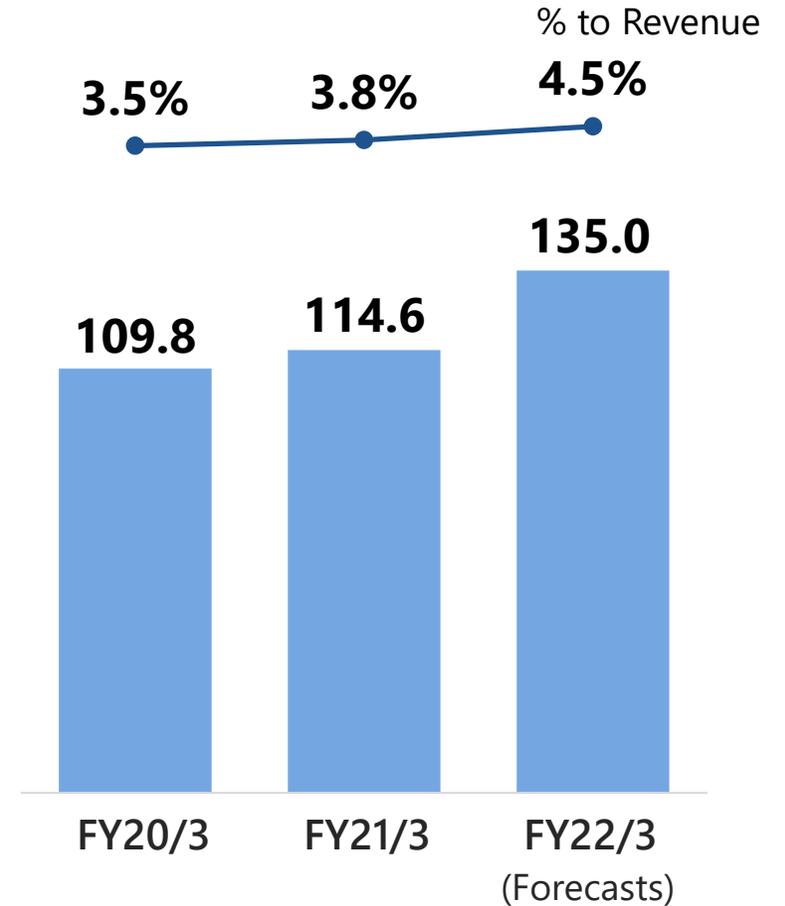
**Capital Expenditure**  
(Property, Plant, and Equipment)



**Depreciation**



**R&D Expenses**



# 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 the Company 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:

- adverse economic conditions in Japan or internationally;
- foreign currency exchange and interest rate risks;
- changes in the markets in which the NEC Group operates;
- the recent outbreak of the novel coronavirus;
- potential inability to achieve the goals in the NEC Group's medium-term management plan;
- fluctuations in the NEC Group's revenue and profitability from period to period;
- difficulty achieving the benefits expected from acquisitions, business combinations and reorganizations;
- potential deterioration in the NEC Group's relationships with strategic partners or problems relating to their products or services;
- difficulty achieving the NEC Group's growth strategies outside Japan;
- potential inability to keep pace with rapid technological advancements in the NEC Group's industry and to commercialize new technologies;
- intense competition in the markets in which the NEC Group operates;
- risks relating to the NEC Group's concentrated customer base;
- difficulties with respect to new businesses;
- potential failures in the products and services the NEC Group provides;
- potential failure to procure components, equipment or other supplies;
- difficulties protecting the NEC Group's intellectual property rights;
- potential inability to obtain certain intellectual property licenses;
- the NEC Group's customers may encounter financial difficulties;
- difficulty attracting, hiring and retaining skilled personnel;
- difficulty obtaining additional financing to meet the NEC Group's funding needs;
- potential failure of internal controls;
- potentially costly and time-consuming legal proceedings;
- risks related to regulatory change and uncertainty;
- risks related to environmental laws and regulations;
- information security and data protection concerns and restrictions;
- potential changes in effective tax rates or deferred tax assets, or adverse tax examinations;
- risks related to corporate governance and social responsibility requirements;
- risks related to natural disasters, public health issues, armed hostilities and terrorism;
- risks related to the NEC Group's pension assets and defined benefit obligations; and
- risks related to impairment losses with regard to goodwill.

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, 2020, 2021 and 2022 were referred as FY20/3, FY21/3 and FY22/3 respectively.

Any other fiscal years would be referred similarly.