NEC IR Day 2021 Enterprise Business Q&A

Date/Time: September 15, 2021 14:00-14:30
Location: Livestream broadcast from NEC Headquarters
Presenter: Fumiaki Matsubara, Executive Vice President

Questioner A

Q: Page 6 of the presentation materials shows that while revenue for FY2021 is expected to increase by 47.0 billion, the increase in adjusted operating profit from this sales increase is only expected to be 9.0 billion. Could you explain why? In the lead up to FY2025, are increases in profits following sales increases expected to follow this trend? Or are they expected to increase more?

A: The SI service business of NEC itself, which is a core business for the Enterprise Business, is maintaining a steady profit margin. Recently, however, we have seen the effects of sharp growth in businesses with low profit margins at a consolidated company. Looking ahead, we plan to improve the profitability of the consolidated company and prepare them to contribute to increased profit margins throughout the period of our Mid-term Management Plan.

Q: Page 10 of the presentation materials, shows the operating margins for fiscal 2025 as 12% or more for the base business and 13% or more for growth businesses. Even if low-profit businesses were turned around, it seems likely that a level above 12% would be difficult to achieve. The profit margin of base businesses other than the low-profit businesses seems to be higher. The profit margins of the growth businesses and the base business seem to be approximately similar. What do the revenue structures for each business in fiscal 2025 look like?

A: In the base business, we plan to improve the operating margin in fiscal 2025 by 2 percentage points or more compared to fiscal 2020. We are targeting five businesses as low-profit businesses and will turn these around within three years. In our growth businesses, we are gradually improving the operating margin in our VCI (NEC Value Chain Innovation) business, and expect to achieve an operating margin of at least 13% by fiscal 2025, ideally higher. As an additional factor, we have also incorporated the consulting-based business. We are projecting CAGR of between 1 and 5% for revenue through to fiscal 2025, and targeting to exceed + 3% market growth, which is the figure projected by research companies.

Q: Dividing the businesses into base business and growth businesses, can we assume that the marginal profit ratio is higher in the growth businesses?

A: Yes, that's right. There are strong market needs in our growth businesses, and we are targeting businesses that will contribute to the Company's profit growth, with expectations of higher profit margins than our base business. Up to now, the Company's SI services business has been tied to labor hours, but we are taking steps to make the business more sophisticated using automation, creating models of best practices, and developing these into offerings that we can supply with speed. Through these initiatives, we will make the business more amenable to repeated use and lift its profitability. In addition, we will provide services using a common platform.

Questioner B

Q: You have set a CAGR target for revenue of between 1 and 5% up to fiscal 2025; isn't 1% quite a low figure? What kind of case would comprise a 1% scenario? Would it be a case were some of the low-profit businesses are eliminated? What are you thinking about organic growth?

A: We have set a range from 1% to 5% for revenue because this target has been set to allow for economic trends and uncertainties going forward. We will execute strategies to enable us to achieve a target that is higher than the forecast for the industry. Even if negative factors occur, we will secure growth by managing them within our strategic plan. We see the turnaround of low-profit businesses as important because it will not only improve profitability, but also have the effect of creating a growth cycle by shifting resources into the growth businesses. At a minimum, we aim to steadily achieve sales growth outpacing the industry average and top class operating profit growth.

Q: In terms of top-line growth, what kind of growth do you envisage in each of the three industries: manufacturing, distribution / services, and finance industries? Where are your growth businesses concentrated mainly within these three industries?

A: Our customers in all the three industries have strong ambitions regarding digital transformation (DX) initiatives, and they are all steadily advancing with DX. On page 18 of the presentation, we present five DX domains where we have set targets for VCI results in our growth businesses. We are planning to achieve positive growth in all of these. There is no difference between the industries in terms of the level of inquiries regarding digital solutions, and there is no variation between them in our plan going forward. These five businesses are our growth businesses.

Q: Are you currently receiving a level of inquiries that will support revenue CAGR above 3%?

A: We are receiving a higher-than-expected level of inquiries in all industries. In response to this situation, we are working at a rapid pace to prepare offerings.