Core DX

September 15, 2021
Senior Executive Vice President and CDO (Chief Digital Officer)
Kazuhiro Sakai
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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   - Shared Platform
   - New Business Opportunities
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   - DX Talents Reinforcement and Recruiting

3. Summary
Organization Structure Aimed at Achieving the NEC 2025 Mid-term Management Plan

Placed Core DX / Internal DX / Societal DX at the core of operations
Strengthened the DX implementation organization in April 2021

Core DX (Client DX)

Flagship Project (Societal DX)

Corporate Transformation (Internal DX)

CEO

[CDO(Chief Digital Officer)]

Oversee ICT business transformation

Product / Service Division

System PF

Network Services

Enterprise

Public Solutions

Public Infrastructure

Cross Industry

Accounts Division

※1 Digital Business Platform Unit
※2 Digital Services & Engineering Unit
※3 System Platform Unit

[Consulting-based businesses] [Shared platform] [New business opportunities]

Transformation Office

CDO (Chief Digital Officer)

CFO/CTO

CHRO

CSCO

CMO

CLCO

CIO/CISO

Implement internal restructuring projects

※1 ※2 ※3

Transformation Office

Internal Restructuring Projects

[Systems] [Processes/organization] [IT] + [Data/talents] restructuring

CEO

DBP

DSE

System PF

※1 ※2 ※3

DBP

DSE

System PF
2025 Mid-term Management Plan (Core DX)

From Customized Vertical to Cross Industry solutions: Transform Base Business by leveraging Core DX Business (¥141.0bn→¥570.0bn). Improve Japan IT business OP ratio from 8% to 13% (FY2020→FY2025)

1. Expand our value proposition through a comprehensive approach encompassing consulting to delivery

2. Price strategy and gross profit improvement through common ICT platform technologies and offerings ※1

3. Strengthen competitiveness through hybrid IT (Cloud / DC / On Premises) alliances and in house optimization ※2 ※3

4. New business opportunities (Social, enterprise transformation) 
   Expand the DX domain by leveraging the implementation capabilities of technology / policy linkage / E2E ※4

※1 Standardize the product and service configuration, overall price, contract, delivery, operation and maintenance services, proposal methods, etc. necessary to solve customer’s issues
※2 Data Center ※3 on-premises ※4 End to End
1. Numerical Targets
Domestic IT Business Revenue and Profit Margins (current)

### Domestic IT Business as a Percentage of NEC’s Total Revenue

<table>
<thead>
<tr>
<th>(Billions of Yen)</th>
<th>FY2020 Actual</th>
<th>FY2021 Forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Revenue</strong></td>
<td>2,994.0</td>
<td>3,000.0</td>
</tr>
<tr>
<td><strong>Domestic IT Business Revenue</strong></td>
<td>1,330.0</td>
<td>1,350.0</td>
</tr>
<tr>
<td><strong>Adjusted Operating Margin</strong></td>
<td>8%</td>
<td>9%</td>
</tr>
</tbody>
</table>

### FY2020 Revenue Breakdown by Domestic IT Business Unit

- **Public Solutions**
- **Enterprise**
- **Public Infrastructure**
- **Network Services**
- **DSE/DBP**

### FY2020 Revenue Breakdown by Model

- **SI**
- **Products, etc.**
- **Services**
- **Maintenance**
Goals of the Core DX Business

Achieve over four-fold growth through the 3 new earning sources

Core DX Revenue Targets
(announced in the mid-term management plan)

<table>
<thead>
<tr>
<th>(Billions of Yen)</th>
<th>Revenue</th>
<th>Adjusted Operating Margin</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY2020</td>
<td>141.0</td>
<td>-3%</td>
</tr>
<tr>
<td>FY2021</td>
<td>180.0</td>
<td>-2%</td>
</tr>
<tr>
<td>FY2025</td>
<td>280.0</td>
<td></td>
</tr>
</tbody>
</table>

New business opportunities

- Improve urban transportation to provide a foundation for mobility services and expand into the super city business

Consulting-based business

- Business reforms and shift to service-based businesses from a consulting perspective (SAP Collaboration with ABeam Consulting)
- Plan / develop consulting / SI / BPO services
  Digitalization and data-driven value creation

Shared platform (Hybrid IT)

- Cloud, AI, bio, cybersecurity (establish foundation for DX product / service business as an organization-wide function)
- Leverage digital ID to develop the Enabler and Service PF businesses
Goals for Transforming the Domestic IT Business

Aim at revenue and profit expansion in growth business with a focus on Core DX

### Target Revenue for the Domestic IT Business

<table>
<thead>
<tr>
<th>(Billions of Yen)</th>
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<th>FY2021</th>
<th>FY2025</th>
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<tbody>
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<td>Total Revenue</td>
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<tr>
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<td>9%</td>
<td>12.5%</td>
<td>13%</td>
</tr>
<tr>
<td>Domestic IT Business</td>
<td>2,994.0</td>
<td>3,000.0</td>
<td>3,500.0</td>
</tr>
<tr>
<td>Adjusted Operating Margin</td>
<td>6.0%</td>
<td>5.2%</td>
<td>8.6%</td>
</tr>
</tbody>
</table>

### Growth and Base Business in the Domestic IT Business

#### Domestic IT Business

- **Revenue**: 1,330.0 (FY2025), 1,350.0 (FY2025)
- **Adjusted Operating Margin**:
  - Growth Business: -3% (FY2020), -2% (FY2021)
  - Base Business: 9.7% (FY2020), 10.4% (FY2021)

#### Base Business

- **Revenue**: 1,189.0 (FY2020), 1,170.0 (FY2021), 1,030.0 (FY2025)
- **Adjusted Operating Margin**:
  - Growth Business: -3% (FY2020), -2% (FY2021)
  - Base Business: 9.7% (FY2020), 10.4% (FY2021)
2. Initiatives
Consulting-based Businesses
Mid-term Targets 1: Integrated Approach from Consulting to Delivery

Shared Platform
Mid-term Targets 2: ICT Shared Platform Technologies and Offerings
Mid-term Targets 3: Hybrid IT (cloud / DC / on-premises)

New Business Opportunities
Mid-term Targets 4: New Business Opportunities (Social, enterprise transformation)

SI Model Reforms to Improve Profitability at Base Business

DX Talents Reinforcement and Recruiting
Initiatives relating to Consulting-based Businesses

Newly established the Digital Services & Engineering Unit to promote evolution towards a consulting-based IT services business

Digital Services & Engineering Unit

Coordination and maximization of leverage toward value creation

ABeam Consulting
Upstream DX assets

NEC Solution Innovators
NEC Communication Systems ...

Technological, large-scale SI, and maintenance / BPO capabilities

examples of specific initiatives

• Joint proposals from the upstream phase
• Launch of expert team focused on developing the SAP domain
Capabilities of Consulting-based Businesses

Pursue further business expansion by linking and coordinating ABeam and NEC’s end-to-end execution capabilities and resources

ABeam’s Consulting Capabilities (Strategy, Industry, Process, Technology)

- Domestic: about 5,000 professionals
- Overseas: about 1,000 professionals

Rich pool of talents to support NEC Group’s end-to-end execution capabilities

- About 200 DX strategic / industry consultants
- About 20,000 IT consultants / SEs
- About 25,000 domestic partners
- About 2,600 maintenance / facilities personnel

Consulting - Overall Design - Selecting Areas for Digitalization

- Strategic Consultants (Organizers)
- Designers
- Data Scientists
- Technologists
- Engineers

Technology Design - Implementation - Operation

Consulting capabilities

Consultant training capabilities

Technological capabilities

Large-scale SI capabilities

Maintenance/ BPO capabilities
Business Expansion Plan

Aim to achieve planned goals through domain expansion mainly in mission-critical systems and Digital Process Innovation

<table>
<thead>
<tr>
<th>Renew / Expand Mission-critical Systems</th>
<th>Renew ERP Domain</th>
<th>Renew LOB/Edge Domain</th>
<th>Renew Peripheral Domains</th>
</tr>
</thead>
<tbody>
<tr>
<td>Digital Process Innovation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Optimize flow of people (business process reforms)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Optimize flow and condition of things (promote digitalization)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Optimization and increase in efficiency based on new data (leverage data)</td>
<td></td>
<td></td>
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</tbody>
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SI Model Reforms to Improve Profitability at Base Business

DX talents Reinforcement and Recruiting
NEC Digital Platform

Aggregating / expanding IT and network core assets at the global shared digital platform
Reinforcing efforts to expand into global markets through partnerships

SaaS
- Offering Suite / Offering
  - API / App Framework / Service Compose
  - ID Management / Authentication / Identification
    - NIST No.1※

Platform (PaaS)
- Data Processing
  - Actuation
  - DataStore Platform
  - Data Analytics

Infrastructure (IaaS)
- Cloud
  - NEC Cloud IaaS, AWS, Azure, Oracle Cloud, ...

Network
- Connectivity
  - Wi-Fi, LPWA, 5G, ...

Edge
- Edge
  - AI Edge, MEC, IoT, Devoted terminals (POS / ATM etc.), ...

※ National Institute of Standards and Technology (NIST), Face recognition technology benchmarking test (FRVT2021 Ongoing)
Results shown from NIST do not constitute an endorsement of any particular system, product, service, or company by NIST
NEC Digital Workplace

Provide NEC Digital Workplace as a shared DX offering which leverages the NEC Digital Platform

- Users
  - Workstyle
    - Personal Terminals
      - Home PC
      - Thin Client
    - Company-owned Terminals
      - Remote Access
      - Mobile Device Management
  - Connecting Software

- Remote Access
  - Internet
  - DNS
  - Internal Network
    - VPN for Remote Work
    - External VPN
    - Mobile Terminal VPN
  - Virtual Desktop
  - NEC Cloud DaaS

- Cloud Services
  - SD-WAN / SDP
    - Cloud Authentication Platform
    - Cloud Proxy
    - Cloud Service Access Control
  - Collaboration Platform
    - Cloud Services
      - Box
      - Slack
      - Zoom
      - Concur
      - Microsoft 365

- Direct Access to Cloud Services
  - Monitoring of Connected Devices
  - Security Information / Event Management
    - Security Operations Center
    - Log monitoring
    - Survey analysis
    - Response to threats

※1 Virtual Private Network
※2 Software-Defined WAN
Prepare ERP-related efforts of the Transformation Office as a shared DX offering
Increasing Competitiveness of Hybrid IT

Accelerate collaboration with hyper-scalers

Pursue further business expansion by developing and significantly strengthening NEC’s Azure and AWS technicians and the delivery framework as well as by leveraging coordination between both companies.

<table>
<thead>
<tr>
<th>Amazon Web Services (AWS)</th>
<th>Microsoft</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Concluded and leveraging strategic collaboration agreement at the corporate level with AWS for the first time as a Japanese corporate</td>
<td>• Expand strategic partnerships based on 40 years of collaboration</td>
</tr>
<tr>
<td>• Provide world-highest-class quality in an optimal way for Japanese clients (such as for government agencies)</td>
<td>• Provide strong support for client DX implementation based on NEC’s DX practice and knowledge</td>
</tr>
<tr>
<td>September 8, Press release</td>
<td>July 13, Press release</td>
</tr>
</tbody>
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SI Model Reforms to Improve Profitability at Base Business

DX Talents Reinforcement and Recruiting
## Efforts toward the Super City Concept

Implementing 3 initiatives aimed at evolving “characteristic” cities which stand out in the world

### DX Offering [examples]

#### Efforts toward the City’s DX

Data utilization with global standard urban OS infrastructure (FIWARE) that supports the evolution of "characteristic" cities that we can be proud of to the world

<table>
<thead>
<tr>
<th>Enhancing the economic foundation</th>
<th>Enhancing QOL of residents and visitors</th>
<th>Resolving region-specific challenges</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 City management services based on impact validation</td>
<td>2 Resident-centered co-creation process</td>
<td>3 Data use across different fields to support lifestyles</td>
</tr>
</tbody>
</table>

### Supporting DX in

- **13** Smart City municipalities
- **17** Super City municipalities

*July 12, Super city business online press conference
September 9, Core DX online press conference*
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SI Model Reforms to Improve Profitability at Base Business

DX Talents Reinforcement and Recruiting
## Vision for SI Model Transformation

Reform business based on workload provided (compensation per man-month)

### Providing value: Value-based pricing

High value-added support: User IT support with high value-added skills

### Past

<table>
<thead>
<tr>
<th>High value-added support</th>
<th>Consulting</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provide work</td>
<td>Workload SI</td>
</tr>
</tbody>
</table>

### Future

<table>
<thead>
<tr>
<th>Consulting</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agile / Data scientist / Security / Architect</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Provide value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Application PF (SaaS / PKG)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Modeled SI</th>
</tr>
</thead>
<tbody>
<tr>
<td>※5</td>
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### Resource Shift

※1 Workload SI: SI (System Integration) which is compensated based on SE x workload (man-months)

※5 Modeled SI: SI which formalizes SI know-how (into templates, tools, etc.) and uses them in combination

Increase in Revenue profitability
DX Offerings and SI Model Transformation

Implement DX offerings to achieve rapid resolution of issues identified through consulting

Phase 1: Issues identified through consulting
Phase 2: Support high value-added in parallel with implementation of DX offerings
Menu of DX Offerings

**DX Goals**

- Creating Innovation
- Client Contact Reforms
- Operational Reform
- Human Capital/Organization
- Strengthen DX Foundation

**DX Offerings for All Industries**

- Creating New Market and Business Opportunities
- Client Experience Reform
- Supply Chain Reforms
- Operational Automation
- Lifestyle Reform/New Workstyle
- Establishing Digital Trust
- Organization/Talents to Support Digital Shift
- AI & Use of Data
- Cloud Services
- Security
- Biometrics/Video Analysis
- Network
- Modernization

**DX Offerings by Industry**

- Corporate and Industrial DX
- Societal and Lifestyle DX

- NEC Value Chain Innovation
  - Manufacturing
  - Retail
  - Logistics & Mobility

- NEC Safer Cities
  - Digital Government
  - Smart City

- Creating Societal Value
  - Public Safety
  - Digital Healthcare

Revised Sep 2021

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Consulting-based Businesses
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Mid-term Targets 4: New Business Opportunities (Social, enterprise transformation)

SI Model Reforms to Improve Profitability at Base Business

DX Talents Reinforcement and Recruiting
DX Talents Reinforcement Program (Mindset / Behavior / Digital Technology)

Continue technological skill reinforcement initiatives to allow talents to shift skill sets in line with project progress. Also planning to introduce mindset/behavior programs to the sales force.

**DX Organizer Program**
Have talents learn strategic consultants’ mindsets / behaviors in identifying issues by learning / experiencing DX conceptual planning and formulation processes

**Project Based Learning by STARS**
Have talents learn new value realization methods based on one’s own motivations and passion in order to develop talents who continue to create and implement social value.

- **Cloud**
  - Training
  - Self-learning environment (sandbox)
  - Container platform
  - OJT
  - Cloud SE development program

- **AI (NEC Academy for AI)**
  - Training
  - Self-learning environment (sandbox)
  - OJT
  - Contest: NEC Analytics Challenge Cup
  - Ideathon
  - Community

- **Security**
  - Training
  - Self-learning environment (sandbox)
  - Practice at NEC Cybersecurity Training Site
  - OJT
  - Contest: NEC Cybersecurity Competition

- **Biometrics / Video Analysis**
  - Training
  - Biometrics / video analysis technology: basics and applications
  - Self-learning environment (sandbox)
  - OJT

- **SI · Service Frame Work**
  - Training
  - Agile development, etc.
  - Self-learning environment (sandbox) DevOps etc.
  - OJT (support)
  - Practice laboratory

- **OSS (Open Source Software)**
  - Training
  - Linux / Kubernetes etc.
  - Self-learning environment (sandbox)

- **Design Mindset (NEC Academy for FCD)**
  - Training
  - Service design training using NEC’s design mindset framework
  - OJT (support)

※1 Customer Experience / User Experience
※2 Self Transformation And Reform based on System Design and Management
※3 Future Creation Design

Target trainees in FY2021: **18,000 people** (NEC group)
Continue to Reinforce and Recruit DX Talents

We will continue to strengthen initiatives to enhance the skills of consultants, data scientists, cybersecurity experts, etc. in line with expansion of the DX business.

Digital Talents

Consultants  
Service designers  
Architects  
Business designers  
Agile engineers  
Data scientists  
Cloud professionals  
Biometrics/video analysts  
Cybersecurity professionals

FY2020  
5,000 people

FY2025  
10,000 people
3. Summary
## Summary

Improve profitability in Base Business by leveraging Core DX Business, which leads to achieving Domestic IT Business growth.

### Core DX Business

<table>
<thead>
<tr>
<th></th>
<th>FY2020</th>
<th>FY2025</th>
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<tbody>
<tr>
<td>Revenue (Adjusted Operating Margin)</td>
<td>¥141.0 bn (-3%)</td>
<td>¥570.0 bn (13%)</td>
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### Domestic IT Business

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<tr>
<td>Revenue (Adjusted Operating Margin)</td>
<td>¥1.33 tn (8%)</td>
<td>¥1.6 tn (12.5%)</td>
</tr>
</tbody>
</table>

### Total Revenue Breakdown

#### Consulting-based Businesses
- FY2020: ¥95.0bn
- FY2025: ¥200.0bn

#### Shared Platform (Hybrid IT)
- FY2020: ¥46.0bn
- FY2025: ¥280.0bn

#### New Business Opportunities
- FY2020: -
- FY2025: ¥90.0bn

### DX Talents Reinforcement

**SI Model Transformation to Improve Profitability at Base Business**

- FY2020: ¥1,189.0 bn (10%)
- FY2025: ¥1,030.0 bn (12%)

Integrated Approach from Consulting to Delivery / ICT Shared Platform Technologies and Offerings
Hybrid IT (cloud / DC / on-premises) / New Business Opportunities (Social, enterprise transformation)