Enterprise Business

September 15, 2021
Fumiaki Matsubara, Executive Vice President
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.
**FY2018-FY2021 Results**

- Amid the lingering impacts of COVID-19, revenue recovered to the level of FY2018-2019 when there was special demand for PCs etc.
- Regarding operating profit, a stable business foundation to maintain 10% level profitability has been established.

### Adjusted operating margin

- FY2018: 8.4%
- FY2019: 9.5%
- FY2020: 9.6%
- FY2021: 9.6%

### Revenue

(Billions of Yen)

- **FY2018**: 550.4 (Planned)
- **FY2019**: 549.8
- **FY2020**: 503.1
- **FY2021**: 550.0

PC excl. PC

- FY2018: ≈
- FY2019: ≈
- FY2020: ≈
- FY2021: ≈

- Revenue (Planned)
  - FY2018: 550.4
  - FY2019: 549.8
  - FY2020: 503.1
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  - FY2021: 9.6%
FY2020 Results

- Revenue: In addition to the decrease in one-time special demand in the previous fiscal year, COVID-19 had a severe impact. Although increasing New Normal revenue such as demand under work from home environment was a supporting factor, revenue fell by 8.5%.
- Operating profit: While unprofitable projects were controlled and cost reductions were carried out, profit also fell by 3.9 billion JPY.

(Billions of Yen)

<table>
<thead>
<tr>
<th>FY2019 Adjusted Operating Profit</th>
<th>FY2020 Adjusted Operating Profit</th>
</tr>
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<tbody>
<tr>
<td>52.1</td>
<td>48.2</td>
</tr>
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</table>

Revenue (YoY)

- 549.8
- 503.1 (▲8.5%)
FY2020 Summary

Key Achievements

- Despite the large impact from deteriorating market conditions due to COVID-19, there was recovery in the second half

<table>
<thead>
<tr>
<th></th>
<th>(YoY)</th>
<th>1Q FY2020</th>
<th>2Q FY2020</th>
<th>3Q FY2020</th>
<th>4Q FY2020</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Orders trend</strong></td>
<td>△21%</td>
<td>△3%</td>
<td>+5%</td>
<td>+22%</td>
<td></td>
</tr>
<tr>
<td><strong>Revenue trend</strong></td>
<td>△16%</td>
<td>△18%</td>
<td>△4%</td>
<td>+6%</td>
<td></td>
</tr>
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</table>

- Sales promotions and expansion of New Normal products (related to work from home)
- Control of project risk costs and cost management

Challenges

- Expand growth businesses that are not affected by macro environment fluctuations
- Enhance profitability
FY2021 Outlook

- **Revenue:** +9.3% increase in revenue is planned due to the steady recovery of market conditions
- **Operating profit:** +10% increase in profit, +4.8 billion JPY due to profit enhancement measures while making growth investments

(Billions of Yen)

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**Revenue (YoY):**

- **Revenue:** 503.1
- **Revenue Increase:** 550.0 (+9.3%)
FY2021 Business Strategy

- **Steady Execution of the Business Plan for FY2021**
  - Revenue increase through capturing the recovery of domestic IT demand
    - Fiscal year plan will be executed steadily, despite lingering uncertainties
  - Secure operating margin of 9.6%
    - Steady implementation of profitability enhancement measures

- **Initiatives as the First Fiscal Year of the Mid-term Plan**
  - Realize revenue growth which exceeds industry standards, and industry-leading profitability
    - Enhance efforts in growth businesses
    - Strengthen the SI service business profitability
    - Improve operational efficiency
FY2021: Status by Industry

- **YoY 1Q revenue growth exceeded industry peers (+19%), including affiliated companies which had been achieving steady performance**
- **The core SI service business drove performance and also improved gross margins**

(1Q status and annual plan by industry)

**Manufacturing**
- 1Q: Steady YoY recovery (with some variance depending on the industry)
- Annual: Forecasting increase in revenue and profits due to workstyle reforms and capturing demand for higher on-site productivity

**Distribution Services**
- 1Q: Significant YoY increase, but fell short of FY2019 when demand increased in response to the change in consumption tax
- Annual: Forecasting increase in revenue and profits through increased demand for non-contact and reduced staffing services

**Finance**
- 1Q: Significant YoY increase; recovering to FY2019 level
- Annual: Forecasting increase in revenue and profits through dependable execution of large projects and financial DX
To Achieve Mid-term Management Plan

Realize revenue growth which exceeds industry standards, and industry-leading profitability

Mid-term Management Plan

<table>
<thead>
<tr>
<th>Revenue CAGR (FY20-25)</th>
<th>Approx. +1~5%</th>
</tr>
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<tbody>
<tr>
<td>Adjusted Operating Margin (FY25)</td>
<td>Approx. 13%</td>
</tr>
<tr>
<td>FY20: 9.6%</td>
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</tr>
</tbody>
</table>

Strategy to Achieve Targets

1) Enhance efforts in growth businesses
2) Strengthen the SI service business profitability
3) Improve operational efficiency
Mid-term Strategy for the Enterprise Business

Realize expand revenue, improve profitability and profit growth cycle in growth business

Revenue (Billions of Yen)

- Base Business
  - Adjusted Operating Margin 9.6%

- Revenue CAGR+1~5%

- Operating margin Approx.13%

- Growth Businesses Operating margin 13% or more
  - SI model transformation
  - SI automation +2% or more

- Consulting-based businesses (Strategic partner program)
  - DX Offerings by Industry leveraging Shared platform (NEC Value Chain Innovation)

- Improve operational efficiency (Turnaround of low profit business)

- FY2020: 503.1
- FY2021: 550.0
- FY2025: 12%~
Enhance Efforts in Growth Businesses based on consulting services

Create and deploy “strategic partner program” with leading customers

co-creation program for the realization of the management agenda

Consulting-Totally design-Digitalization area setting ➔ Technology Design-Implementation-Operation

Consulting

About 5,000 ABeam Consultants
About 200 DX strategic / industry consultants

Large-scale SI

About 400 Data Scientists
About 20,000 IT consultants / SEs

Technology

About 25,000 domestic partners

Maintenance・BPO

About 2,600 maintenance / facilities personnel

Shared platform (NEC Digital Platform)

Existing core technology

Bio-metrics  AI  Data  Cloud  Network  Security

Future emerging technology

Quantum technology  Healthcare/ Life science  Beyond 5G/6G

NEC Group Digital human resources

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Shared Platform Core Technology

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Shared Platform Core Technology

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Enhance efforts in growth businesses

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/Personnel to Support Digital Shift

**DX Strategy/Concept Formulation Consulting**

- 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**

- Public Safety
- Digital Healthcare

- Connected Manufacturing
- Smart Retail CX
- Intelligent Logistics & Mobility

- Digital Government
- Smart City
- Digital Healthcare

- Hotel/Leisure/Real Estate
- Finance
- Digital Finance

- Smart Transportation
- City Management
- Public Safety

- Establishing Digital Trust
- Creating Societal Value

- Creating New Market and Business Opportunities
- Creating Innovation

Revised Sep 2021
DX offerings by Industry

Connected Manufacturing

Through integration of factories and digitalization, industrial innovation will occur from manufacturing.

Utilizing digital technology, we realize "smart supply chain" and "customer business model transformation".
DX offerings by Industry

Intelligent Logistics & Mobility

With intelligent ICT, transportation becomes more comfortable and the flow of goods becomes more optimal.

By fusing “movement of people” and “movement of goods”, we support companies and industries that meet diversifying social issues and customer needs, and realize prosperous society.
DX offerings by Industry

Smart Retail CX

Innovation in operations and customer experience are the next steps in the digital shift.

We contribute to store operations that creates comfortable and pleasant customer experience by responding to intensifying competition due to the entry of new players, changes in consumer behavior, and the rapidly advancing labor shortage.
DX offerings by Industry

Smart VenueCX

Connection of emotional spaces created from the integration of sensitivity and digital technologies will deepen bonds between people, communities, and society.

Focusing on “Venue (attraction)” to enjoy extraordinary, we create the best customer experience with the power of people and digital technologies, and further revitalize the local economy beyond.
DX offerings by Industry

Digital Finance

With the power of digital technologies, financial services will be provided to all people and industries.

We make our lives and industries more interesting by digitizing financial functions that value people’s feelings and empathy.
Examples of NEC Value Chain Innovation

Providing repeatable and high value-added services toward 5 DX domains

<table>
<thead>
<tr>
<th>Creating Innovation</th>
<th>Evolution of Contact with Clients</th>
<th>Operational Reforms</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Creating new business opportunities aimed at tackling social challenges together with clients</strong></td>
<td><strong>Business DX</strong></td>
<td><strong>Connected Manufacturing</strong></td>
</tr>
<tr>
<td>Nippon Express: “Business alliance toward value creation via DX”</td>
<td>Daiwa House Industry: Remote management of construction sites</td>
<td>Lawson in Indonesia: Digital technology application practical experiment</td>
</tr>
<tr>
<td>ENEOS: “Considering cooperation toward expanding the recharging network for electronic vehicles”</td>
<td>Konica Minolta: Use of local 5G</td>
<td>Next-generation stores operated directly by NEC</td>
</tr>
<tr>
<td>Boarding procedures using face authentication technology</td>
<td><strong>Increased digitalization of Indian logistics infrastructure</strong></td>
<td><strong>Intelligent Logistics &amp; Mobility</strong></td>
</tr>
<tr>
<td>• Narita/Haneda Airports: Face Express</td>
<td>• Logistics Data Bank Services</td>
<td><strong>Smart Retail CX</strong></td>
</tr>
<tr>
<td><strong>Digitalization of store with reduced staffing</strong></td>
<td><strong>Digital ID business development, adapting to the New Normal</strong></td>
<td><strong>Smart Venue CX</strong></td>
</tr>
<tr>
<td>• Lawson in Indonesia: Digital technology application practical experiment</td>
<td>(use of masks; face authentication for building access, non-contact customer service, etc.)</td>
<td><strong>Digital Finance</strong></td>
</tr>
<tr>
<td>• Next-generation stores operated directly by NEC</td>
<td></td>
<td><strong>eKYC+ development</strong></td>
</tr>
<tr>
<td><strong>Shared platform (NEC Digital Platform)</strong></td>
<td></td>
<td>• Face authentication</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Linking with My Number Card</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Multi-bank (3 megabanks/regional banks) coordinated personal verification data services</td>
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</table>

*electronic Know Your Customer: Online identity proofing for onboarding to services such as banking*
Case: Logistics Data Bank Services

Logistics Data Bank Services for EXIM containers were expanded to all 17 ports in India (November 2020), and all EXIM containers of India will be covered.

NEC’s logistics solution to visualize the container location provided as the “National Project”.

Project over the PAN India, With the new addition of Gujarat’s major private port, Pipavav, 15 5% transport cost reduction achieved, and Reduced the overall lead time of the container movement.

Advancement of logistics services by NEC’s logistics Solution, Improving international competitiveness of India.

World Bank “Ease of Doing Business
131 → 77(2019)”
“Logistics Performance Index
54 → 44(2018)”

LDB (Logistics Data Bank) service launched in July 2016.
Case: Next-generation store operated by NEC

Cashier-less store is now in operation in NEC headquarters building, allowing customers to make payments without passing items through a cash register.

Cashier-less store where customers can make payment by simply leaving the store without going through the cash register after picking up items.
Case: Total eKYC service

End-to-end services related to identity verification and authentication using My Number Card and biometric authentication.

End-user
Safe and secure use of services, from identity verification at the time of application for administrative procedures and private services to identity verification at the time of start of use

Businesses that require identity verification and authentication
Provide various values that customers seek during life events

Consulting services
Consultation on the use of the my number card and the establishment of an identity management system
- Extinction
- Registration
- Change
- Approval

Services related to identity verification and authentication
- Identity verification and authentication services using various confirmatory information
- My number card authentication service
- Digital KYC identity verification SDK/WEB
- Digital KYC multi-bank identity verification platform

BPO service
* Digital KYC identity verification SDK/WEB only
Service to perform identity verification collation work on behalf of customers under high security

*SDK: Software Development Kit
Package that combines the programs and documentation necessary to develop software for a system.

*BPO: Business Process Outsourcing
Outsource company's business processes to external professional companies on a continuous basis, in large units.
Strengthen SI service profitability

SI model transformation, service-type business model by consulting lead

Total support for reliable DX realization through consulting and speedy problem resolution

Consulting
Issue extraction
overall strategy/detail plan/
realization plan

High value-added support
Consulting
Agile / Data Scientist / Security / Architect

Value provision
DX offering
Application PF ※1
(SaaS ※2/PKG ※3)
Modeled SI ※4

Man-hours provided
Man-hours ※5 SI

※1 Platform
※2 Software as a Service
※3 Package
※4 Modeled SI : Explicit knowledge of SI know-how
(SI performed by combining templates, tools, etc.)
※5 SI that is priced based on the operating man-hours (man-months) (System Integration)
Strengthen SI service profitability

SI automation, productivity improvement and quality enhancement by SI process optimization

SI model transformation

<table>
<thead>
<tr>
<th>Requirements definition (RD)</th>
<th>Design</th>
<th>Development</th>
<th>Test</th>
</tr>
</thead>
<tbody>
<tr>
<td>* Real-time development</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>* Template/asset maintenance, no code, low code</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>* CI/CD* (Continuous Integration/Continuous Deployment)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>* IaC* (Infrastructure as Code)</td>
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Goal

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<th>Design</th>
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**Standardization/ Commonization / Automation**

**Explicit knowledge (process, asset, human resources)**

<table>
<thead>
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<th>Standardization/ Commonization / Automation</th>
<th>Platform construction automation</th>
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<tbody>
<tr>
<td>CI/CD (configuration management, build, deliverable creation, deployment automation)</td>
<td>Platform construction automation (building code / IaC, configuration management, orchestration)</td>
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<table>
<thead>
<tr>
<th>Test automation</th>
<th>Platform construction automation</th>
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<td>(static and dynamic testing automation)</td>
<td>Platform construction automation (building code / IaC, configuration management, orchestration)</td>
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<thead>
<tr>
<th>Explicit knowledge process</th>
<th>things</th>
<th>people</th>
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<tr>
<td>(fitting-type SI process maintenance)</td>
<td>(template / asset maintenance)</td>
<td>(consulting / DX human resources)</td>
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Improve operational efficiency

Realize profit growth cycle

**Turnaround of low profit business**
- Complete targeting by setting hurdle rate
- Implement turnaround plan and start monitoring progress
- Resource allocation to growth segments

**Increase returns on invested capital**
- Reinforce management of invested capital such as inventory assets, hardware equipment, service assets, etc
  (Cash conversion cycle (days): 30 days in FY2020 → 28 days in FY2021)
- Reduce cross-shareholdings, enhance asset efficiency
## Summary

Realize expand revenue, improve profitability and Profit growth cycle in growth business

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### Business Strategy

- Revenue increase through capturing the recovery of domestic IT demand
- Secure operating margin of 9.6%
Orchestrating a brighter world

NEC