Public Infrastructure Business

September 15, 2021
Noritaka Taguma, 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

~FY2020 : Exceeded the figures in the FY2020 mid-term management plan for both revenue and adjusted operating profit

FY2021 : Revenue and profit are expected to decrease, due to the incorporation of supplemental budget in FY2020 (details to be explained later)

### Revenues (Billions of Yen)

<table>
<thead>
<tr>
<th>Year</th>
<th>Public Infrastructure BU</th>
<th>Consolidated Subsidiaries</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY2018</td>
<td>425.3</td>
<td>233.5</td>
</tr>
<tr>
<td>FY2019</td>
<td>463.3</td>
<td>215.5</td>
</tr>
<tr>
<td>FY2020</td>
<td>484.6</td>
<td>208.3</td>
</tr>
</tbody>
</table>

### Adjusted Operating Margin

- FY2018: 8%
- FY2019: 9%
- FY2020 (Plan): 9%
- FY2021: 9%  

* Figures shown in the following pages exclude consolidated subsidiaries

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*CAGR: 2.6% growth*
**FY2020 Results**

Adjusted operating profit exceeded the original plan by 4.5 billion JPY (up 2.8 billion JPY from the previous year), due to revenue increase from the supplemental budget, etc.

Revenue Increase / Decrease (Product mix) ▲11.0

Inventory Write-down in the Previous Year +7.5

Improvement in Profitability +3.5

Improvement in Unprofitable Projects +2.0

Enhanced IT Security, Other ▲1.7

Space & Defence ▲0.6
Gov. & Public ▲+2.2
Media ▲+0.7
Others ▲+1.0

Revenue Increase, Other ▲+4.5

FY2020 Adjusted Operating Profit (Planned) 46.0

Revenue (YoY) 463.3

FY2020 Adjusted Operating Profit 50.5

(Billions of Yen) 484.6 (+5%)
FY2020 Results -Sector Summary-

**Gov. & Public**
- **Revenue drastically increased** due to the supplemental budget including GIGA School etc., in addition to strong demand for IT system
- Maintained **high profitability**

**Space & Defence**
- **Revenue increased** in the space domain, due to obtaining large projects
  - Unprofitable projects reduced, which led to **improved profitability**
- **Revenue and profit declined** in the defence domain, between the next large projects

**Media**
- **Revenue declined** due to the completion in large projects regarding facility renovation for broadcasting stations
- **Profitability improved** due to continued improvements in quality control, etc.
FY2020 Summary

Key Achievements

- Achieved targets and contributed to overall company results
  - Public Infrastructure BU
    - Revenue: ¥2,994.0bn
    - Adjusted Operating Profit: ¥178.2bn

- Acquisition of important projects
  - Obtained special demand of GIGA School
  - Minimized impact of COVID-19 due to acquisition of air traffic control project
  - Acquired an IP transformation project of broadcasting systems

Challenges

- While unprofitable projects are reduced, further efforts are required
- Although high profitability is maintained, there is room to improve capital efficiency
FY2021 Outlook

Revenue and profit are expected to decrease, due to the supplemental budget in FY2020 and declining revenue in the defence domain, etc. However, revenue and profit are expected to exceed the original plan by an additional improvement in revenue and an increase of sales in practice.

<table>
<thead>
<tr>
<th></th>
<th>FY2020 Adjusted Operating Profit</th>
<th>FY2021 Adjusted Operating Profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY2019 Adjusted Operating Profit</td>
<td>47.7</td>
<td>47.0</td>
</tr>
<tr>
<td>Revenue (YoY)</td>
<td>463.3 (+5%)</td>
<td>440.0 (▲9%) (Plan)</td>
</tr>
</tbody>
</table>

Revenue Increase / Decrease (Product mix)

Increase in Profitability +1.3

Increase in Strategic Expenses ▲1.0

Space & Defence ▲5.1
Gov. & Public +2.6
Media ▲1.4

(Items to further improve profitability)
✓ Obtaining supplementary budget
✓ Further improvement in profitability
✓ Cost optimization

Revenue and profit outlook:
- FY2020 Adjusted Operating Profit: 50.5
- Improvement in Profitability: +1.3
- Increase in Strategic Expenses: ▲1.0
- Space & Defence: ▲5.1
- Gov. & Public: +2.6
- Media: ▲1.4
- FY2021 Adjusted Operating Profit: 47.0
- Revenue (YoY): 463.3 (+5%)
- Revenue (Plan): 440.0 (▲9%)
### FY2021 Outlook -Sector Summary-  

<table>
<thead>
<tr>
<th>Sector</th>
<th>Description</th>
</tr>
</thead>
</table>
| **Gov. & Public** | - Due to stable demand for IT system upgrades, **revenue and profit are planned to increase**, excluding impact from the supplemental budget of the previous year.  
                   - Acceleration of initiatives to further strengthen capabilities for Digital Government.                                                                                                         |
| **Space & Defence** | - In the space domain, revenue is trending upward due to the acquisition of new projects. In addition, profit is expected to increase, due to the decrease in unprofitable projects.  
                    - In the defence domain, **revenue and profit are expected to decrease**, due to the stagnation of large projects. On the other hand, **profitability is expected to be maintained**, while capital efficiency is planned to be improved. |
| **Media**     | - **Decline in revenue and profit** is planned, due to the completion of large projects.  
                   - Strengthen the initiatives to obtain large projects in the next fiscal year or ahead, to integrate broadcasting and media, and to standardize existing systems. |
FY2021 Business Strategy

Business Strategy
- Aim to maintain operating profit in the FY2019 levels, and challenge for profit increase through further profitability improvement
- Enhance the quality of management (ROIC management / expansion of recurring business, etc.)

Key Initiatives
- Promote transformation of social systems
- Incorporation of supplementary budget
- Implementation of ROIC management ahead of the efforts of the entire company
- Continue further control to decrease unprofitable projects
Measures to Decrease Unprofitable Projects

Continue further efforts to decrease unprofitable projects by implementing risk management measures depending on the characteristics of the project.

**Total amount of Unprofitable Projects (FY2019 - FY2021)**

- **FY2021 Planned amount will decline 50% from FY2019**

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>FY2019</th>
<th>FY2020</th>
<th>FY21 (Plan)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Billions of Yen)</td>
<td>5.0</td>
<td>10.0</td>
<td>5.0</td>
</tr>
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</table>

**FY2021 Measures**

<table>
<thead>
<tr>
<th>Risk management depending on the characteristics of the project</th>
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</thead>
<tbody>
<tr>
<td>Measures for the world-first / industry-first projects (continued)</td>
</tr>
<tr>
<td>Commercialization of R&amp;D projects Proposal for client business practices Strengthening risk assessment at the proposal stage</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Measures for the other general projects (enhanced)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Promote education and improve processes to enhance engineering capabilities</td>
</tr>
</tbody>
</table>
To Achieve the Mid-term Management Plan

FY2025 Numerical Targets

- **Revenue CAGR (FY20 - FY25)**: Approx. 0-1%
- **Adjusted Operating Margin**: Approx. 10%
- **ROIC Targets**: Approx. 9%

Strategies to Achieve Targets

- Business Expansion into New ICT Domains
- Implement ROIC management
Business Expansion into New ICT Domains

- Integration of Broadcast and Media
- Digitalization of Education
- Promotion of Digital Government
- Utilization of My Number Card (*) Database
- Transformation of the Aviation Industry
- Online Shift in License Renewals
- Cross-domain Strategy in Space & Defence

(*) Individual Number Card
Adjustment Offerings to Achieve Digital Government

Co-creation of digital administrative service with customers and partners from citizens’ perspectives

Establish Government Cloud Promotion HQ
"Use it without development – Try it quickly"

Offerings for government and government agencies

Administrative DX
One-stop Public Services

Digital Infrastructure
Cloud-shift

Legacy systems
renovation

Operation optimization

Data driven Services
Smart Cities

DX in Quasi-public sector

My Number Card(*)
DX in Private sector

(* )Individual Number Card

Central Government
Local Government
Quasi-public/ Private

Applications
Cloud infrastructure

Operations
Security

Track-record of system implementation
Operational know-how
Partnering

Value proposition

Expand businesses in Digital Government (Japan)

Central Government
Local Government
Quasi-public/ Private

Legacy systems renovation

Digital Infrastructure Cloud-shift

Administrative DX One-stop Public Services

Data driven Services Smart Cities

DX in Quasi-public sector

My Number Card(*)
DX in Private sector

(* )Individual Number Card

Value proposition

Expand businesses in Digital Government (Japan)
Contribution to the Transformation of the Aviation Industry

Changes for the globally competitive aviation industry

- **Innovation in aerospace mobility**
- **Green innovation in airport infrastructure**
- **Pursuit of traveller experience value**

Realising orbital base operations

World’s best class in FAST TRAVEL

Mobility data linking across all airspace

Achievements and Future Actions

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<tr>
<th>Achievements and Future Actions</th>
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</thead>
<tbody>
<tr>
<td>Airspace traffic control &amp; radar technology</td>
</tr>
<tr>
<td>Airports &amp; airline systems</td>
</tr>
<tr>
<td>Assets &amp; advanced technology</td>
</tr>
<tr>
<td>DX offerings</td>
</tr>
</tbody>
</table>

Accelerate policy proposals, strengthen partnerships, and promote solutions for social issues

**FY2021**

Obtain orders to develop platforms for data connectivity

Aviation Companies

Air Traffic Control

Regional Activation

Secondary Transportation

Aviation DX

Data Driven

NEC

Airports

Airline systems

Asset & advanced technology

DX offerings

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NEC Group
Generation of Recurring Business in OPE (Smart School Business)

Promotion of educational digital-transformation and realization of fulfilling learning experiences with the NEC Education Cloud "OPE"

- Employed in approx. 5,000 schools throughout Japan
- 1.5 million IDs issued for students (FY2021 target: 3.0 million IDs)
- Establish a new business model with OPE at its core
- Through collaboration with KMD, also consider the Northern European model of advanced digital learning

**OPE**: Open Platform for Education
Introduction of ROIC Management

FY2025 Mid-term Management Plan*

Change to management that focuses not only on profit/loss but also capital efficiency

- Improvement
  - Maintaining profitability and improving capital efficiency
    - Enhancing “the quality of management”

- Enhancement
  - Enhancing our entity and enterprise value
  - To become a sustainable entity

- Contribution
  - Contributing to entire company as leading BU
  - Sharing management know-how

Three reasons why Public Infrastructure BU implement ROIC management ahead of other BUs

* Plan with the entire company
Analysis of Current Situation

While maintaining a high level of profitability, capital efficiency was at a low level compared to the other companies.

Issues

- NEC: Average Results FY2018 - FY2020
- Other Companies: Average Results FY2017 - FY2019

<table>
<thead>
<tr>
<th>ROIC (%)</th>
<th>NOPAT Operating Margin (%)</th>
<th>Working capital turnover ratio (times)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(OP less corporate taxes / invested capital)</td>
<td></td>
</tr>
<tr>
<td>NEC</td>
<td>7.2</td>
<td>7.8</td>
</tr>
<tr>
<td></td>
<td>48.8</td>
<td>4.7</td>
</tr>
<tr>
<td>Reference (USA)</td>
<td>13.5</td>
<td>12.7</td>
</tr>
</tbody>
</table>

Capital turnover ratio (efficiency)

Invested capital turnover ratio (times)

Operating fixed assets turnover ratio (times)

By FY2025 to approx. 9% level

Mid-term Plan Targets

- ROIC 5%
- ROIC 10%

Entire Company

Public Infrastructure

NOPAT * Operating Margin (profitability)

(Calculated as adjusted operating profit - standard tax rate (30.5%))

1 Invested capital excludes non-operating items (goodwill, funds for investment) and includes an amount corresponding to the share of the BU in the shared assets of the entire company.
2 Effective tax rate is calculated uniformly at 30.62%.
3 Operating profit after deducting the share of the BU in the shared expenses of the entire company.

Source: Annual Securities Report of each company, Annual Report
Implement capital efficiency measures in recurring businesses that are expected to expand, and maintain high ROIC.

As focusing on improvement of capital efficiency, accelerating to obtain earlier deposits and improving SCM efficiency.

Enhancement in profitability is prioritized. Capital efficiency is improved by earlier deposits.

Implement measures for both profitability and capital efficiency through SCM optimization, including manufacturing subsidiaries.

**ROIC Improvement Measures by Business Domain**

**Perform the PDCA Process**

**PLAN**
- Analyse current situation for each business domain Comparison to competitors
- Formulate 2025 target figures / 2021 projected figures
- Formulate guidelines Implement CCC improvement activities

**DO**
- Implementation measures for ROIC management in the BU
- Monthly check Individual follow-up

**CHECK**
- Improvement of the supply chain

**ACTION**
- Finished
Creating the society we can proudly present for the future

By providing values in creating safe, secure, fair, and efficient public infrastructure, we aim to contribute to realizing a society where all people can enjoy fulfilled lives.
Orchestrating a brighter world

NEC