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.
Business Results from FY18 to FY21

2020 Mid-term Management Plan targets were mostly achieved

Adjusted Operating Margin

(Billion JPY)

Revenue

FY2018: 409.3
FY2019: 478.4
FY2020: 425.1
FY2021 (Planned): 415.0

CAGR: 0.5% Growth
## FY20 Results

**FY20 results were mostly aligned with initial targets**

<table>
<thead>
<tr>
<th>FY2019 Adjusted Operating Profit</th>
<th>FY2020 Adjusted Operating Profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>34.2</td>
<td>39.4</td>
</tr>
</tbody>
</table>

Revenues (YoY) 478.4

<table>
<thead>
<tr>
<th>Factor</th>
<th>Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales GP decrease</td>
<td>▲8.5</td>
</tr>
<tr>
<td>FY2019 Typhoon disaster</td>
<td>+1.0</td>
</tr>
<tr>
<td>FY2019 SW asset depreciation</td>
<td>+3.6</td>
</tr>
<tr>
<td>FY2020 Profitability</td>
<td>+2.3</td>
</tr>
<tr>
<td>Covid-19 emergency measures</td>
<td>+3.3</td>
</tr>
<tr>
<td>One-time profit</td>
<td>+3.5</td>
</tr>
</tbody>
</table>

(△11%)
**Key Achievements**

- **Achievement of 2020 Mid-term Management Plan targets**
  - Execute initiatives to improve profitability
    - Reduction of unprofitable transactions and cost of goods

- **Challenges**
  - Further improvement in profitability
  - Executive initiatives to improve profitability
  - Reevaluate strategy to adapt to external environment changes
    - Taking Cost Reduction Measures
    - Cost-cuts and New Normal solutions

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**FY20 Overview**

- **New Normal Solution Case Study**
  - Remote and Touchless Solutions for Medical Institution
  - Leveraging "Remote and Touchless" technology to provide safety and protect healthcare organizations from COVID-19

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**Orchestrating a brighter world**

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FY21 Outlook

Maintain same level of performance as FY20

<table>
<thead>
<tr>
<th>FY2020 Adjusted Operating Profit</th>
<th>Revenues (YoY)</th>
<th>425.1</th>
</tr>
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<tbody>
<tr>
<td>39.4</td>
<td></td>
<td></td>
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</table>

- ▲3.5 FY2020 One-time profit
- ▲3.3 Cost increase (resumption of sales activities)
- ▲1.6 Sales GP decrease
- ▲2.5 Strategic investment
- +2.5 Profitability improvement

FY2021 Adjusted Operating Profit (Estimate)

<table>
<thead>
<tr>
<th>31.0</th>
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</thead>
</table>

415.0 (△2%)
FY21 Business Strategy

- **Enhance Profitability**
  - Business structure reforms

- **Expand Growth Business**
  - Mid-term Management Plan 2025 execution (Initial year activity)
Reform of Business Structure

Reinforce profitability improvement activities
Quality improvement / Cost reduction / Profit management

Improvement at the transaction level

Increase profitability
Fundamental reforms

FY20
- Multi-tiered Strengthening of Quality Measures
- Dedicated quality team performs:
  (1) Check of entire processes
  (2) Expansion of processes to small-sized projects
- Executives across BU perform:
  (3) Mutual check of key projects
- Dedicated technical team performs:
  (4) Cross-sectional architecture control
  (5) Streamlining of processes focusing on new projects (preparation)

FY21
- Reevaluate business structure
- Tech/Investment management
- Business process transformation
- Resource allocation
- SGA expense reduction
- Improve Productivity
Mid-term Management Plan 2025 execution

**FY25 Targets**

- **Revenue CAGR (FY20-25)**
  - About 0~1%

- **Adjusted Operating Margin**
  - About 10%

- **Business model transformation**
  - DX Offerings (NEC Safer Cities)
  - DX solutions for SME*s

- **High value-added business development to create new social values**

* SME: Small and Medium Enterprises
# Menu of DX Offerings

## DX Goals

<table>
<thead>
<tr>
<th>Business</th>
</tr>
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<tbody>
<tr>
<td>Creating Innovation</td>
</tr>
<tr>
<td>Client Contact Reforms</td>
</tr>
<tr>
<td>Operational Reform</td>
</tr>
</tbody>
</table>

<table>
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<th>Human Capital/Organization</th>
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<table>
<thead>
<tr>
<th>Technology</th>
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<tbody>
<tr>
<td>Strengthen DX Foundation</td>
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## DX Offerings for All Industries

<table>
<thead>
<tr>
<th>DX Strategy/Concept Formulation Consulting</th>
</tr>
</thead>
<tbody>
<tr>
<td>Creating New Market and Business Opportunities</td>
</tr>
<tr>
<td>Client Experience Reform</td>
</tr>
<tr>
<td>Supply Chain Reforms</td>
</tr>
<tr>
<td>Operational Automation</td>
</tr>
<tr>
<td>Lifestyle Reform/ New Workstyle</td>
</tr>
<tr>
<td>Establishing Digital Trust</td>
</tr>
<tr>
<td>Organization/Personnel to Support Digital Shift</td>
</tr>
</tbody>
</table>

## DX Offerings by Industry

**NEC Value Chain Innovation**
- Corporate and Industrial DX
- Logistics & Mobility
- Connected Manufacturing
- Smart Retail CX
- Smart Venue CX
- Digital Finance
- Intelligent Logistics & Mobility

**NEC Safer Cities**
- Digital Government
- Smart City
- City Management
- Public Safety
- Digital Healthcare
- Transportation
- Public Safety
- Digital Healthcare

- Manufacturing
- Retail
- Logistics & Mobility

**NEC Safer Cities**
- Digital Government
- Smart City
- City Management
- Public Safety
- Digital Healthcare
- Transportation
- Public Safety
- Digital Healthcare

**Creating Societal Value**
- High value-added business development
- Business transformation
- NEC Safer Cities
- SMEs

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Revised Sep 2021
Expand domestic Digital Government businesses

- **Value Proposition**
  - Provide better lifestyle
  - New Business opportunity
  - Promote digitalization of administration

**Central Government**
- Public Infrastructure BU
- Digital infrastructure
- Cloud-shift
- Legacy systems renovation

**Local Government**
- Public Solutions BU
- Administrative DX
- One-stop public services

**Quasi-public / Private**
- Data driven Services
  - Smart Cities
- DX in Quasi-public sector
- My Number card(*)
- DX in Private sector

**Enterprise BU**
- Business transformation
- NEC Safer Cities
- SMEs

- High value-added business development

(*) Individual Number Card
## DX Offerings (NEC Safer Cities)

### DX Objectives

| Business | Operational Reform | Human Capital/Organization | Technology

#### Creating Innovation
- Quality of Life improvement
- Free from in-person visit
- User authentication w/ MyNumber card
- Smart administrative contact window SL
- Medical contribution (AI in diagnostic medical imaging)
- Efficiency in hospital operations
- Efficient local gov. operations
- Large size government Citizen info SL
- Mid-small size government Citizen info SL
- Convince store issuance SL
- Disease prevention support and health maintenance
- Advanced city management operations
- Provide security and safety for emergency situations
- Improve prediction and precursors
- Provide next-generation networks
- Provide comfortable daily life
- Provide security and safety for emergency situations
- Advanced city management operations
- Improved prediction and precursors
- Provide next-generation networks
- Provide comfortable daily life

#### Client Contact Reforms
- Efficiency in hospital operations
- Disease prevention support and health maintenance
- Advanced city management operations
- Improved prediction and precursors
- Provide next-generation networks
- Provide comfortable daily life

#### Operational Reform
- Quality of Life improvement
- Free from in-person visit
- User authentication w/ MyNumber card
- Standardization of information system 17 operations
- Disease prevention support and health maintenance
- Advanced city management operations
- Provide security and safety for emergency situations
- Provide next-generation networks
- Provide comfortable daily life

#### Human Capital/Organization
- Quality of Life improvement
- Free from in-person visit
- User authentication w/ MyNumber card
- Standardization of information system 17 operations
- Disease prevention support and health maintenance
- Advanced city management operations
- Provide security and safety for emergency situations
- Provide next-generation networks
- Provide comfortable daily life

#### Technology
- AI & Use of Data
- Security
- Network
- Technology Supporting DX

### NEC Value Chain Innovation

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<td>City Management</td>
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**DX Objectives**
- Creating Innovation
- Client Contact Reforms
- Operational Reform

**DX Offerings by Industry**
- NEC Value Chain Innovation
- NEC Safer Cities

**FY21 Begin from Digital Government**
- Expand to rest of NEC Safer Cities
- Cooperate with NEC Value Chain Innovation
Business model transformation (DX offerings)

Evolution of Business Model

**Conventional SI**
- Customize
  - Accommodates clients' requests to the extent possible
- Standard packages based on user needs
- SI/Sales methodologies utilizing packages
- **Stacking man-hour**
- **Profit through optimization**

**Modeled SI**
- **Menu-driven**
  - Upstream proposals with minimum customization
- **Upstream proposal**
- **Target cost structure**

**Evolution**
- **Specification**
- **Sales tools**
- **Agreement**
- **DX offering document**
  - for Gov-Cloud

**DX Offerings**
- **Asset-based**
  - Reflect social challenges, standardize process from service to delivery & provide best practices
- **Value-based pricing**
- **Subscription model**

**Strength of Public Solutions business**

**Future**

- Modeled SI: SI which formalizes SI know-how (into templates, tools, etc.) and uses them in combination
Business model transformation
(DX solutions for SMEs)

Horizontal expansion of business processes to SME

Modeled SI
- Menu-driven
  - Upstream proposals w/ minimum customization

Package product
- Package-based
  - Apply know-hows of SI model reforms to SME business

DX offerings
- Asset-based
  - Expand functional requirement
  - Use of test / data patterns
  - Apply changes in law/regulations

Service Flow
- Consultation service for SME

Document
- DX offering document
  - DX offering document for SME
  - DX offering document for Gov-Cloud

DX solutions for SME

Public Solutions Business Strength

Future
Established SaaSpresto in 2020

Strategic partnership for domestic SaaS operations

Entered into strategic collaboration with US investment fund Vista Equity Partners* to engage in domestic SaaS* operations in Japan

* Startup using IT; US investment company focused on business fundraising and transfer

*SaaS: Software as a Service
Summary: Business Model Transformation

DX Offerings (NEC Safer Cities)  DX Solutions for SMEs

Sales ratio
- 2020: 4%
- 2025: 42%

Profit ratio
- 2020: Flat
- 2025: Rising

DX 
High value-added business development
Business growth through creating Social Values

DX

Point of Contact Transformation
Management Support
Clinical Support
Enhanced Operations
Enhanced Maintenance

Firefighting/Service and Disaster Prevention Collaboration

Consumer

Existing Business

Medical Institution
National Government and Local Government
Power and Transportation
Private Enterprise

Electronic medical record system
Administrative systems
Traffic control
Sales management

Medical accounting system
Firefighting command system
Power network
Production inventory management

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Cases for creating Social Values

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<tr>
<td>AI Chat-bot</td>
<td>Electronic medical records system “MegaOak”</td>
<td>Resource Aggregation Service</td>
<td>Disaster Prevention Information System</td>
<td>New boarding procedure utilizing face recognition technology</td>
</tr>
</tbody>
</table>

*The name and logo of “Face Express” are registered trademarks of NAA
CASE

Digital Government

Smart administrative contact window solution

- Shortening the waiting time at the window to reduce burden on staff
- Track record in establishing and supporting systems for local gov.
- Track record of co-creation projects with clients

Before

Create 2D code through WEB

Receipt of Filing (at ward office)

Read 2D code to read/receive the data

Match with resident info. Check the requests and make necessary changes

After

Data link to the resident record system

TO-BE

Apply/request

Individual

Operators/City

Local Gov. A

Local Gov. B

One-stop Services

AS-IS

 Civilians

Operators/City

Local Gov. A

Receipt of Filing (at ward office)

High value-added business development

Local Gov. B

NEC Safer Cities

SMEs

Business transformation
CASE Digital Healthcare

Nurse Recording Support

- Supports nurse recording work by using hearable device to analyze and convert voice to texts with AI assist
  
  Proof of Concept at 3 medical institutions, working towards full scale deployment

The voice recognition engine converts nurse’s voice into text

Nurse’s voice records are clearly transcribed through Web application

High value-added business development

Business transformation

NEC Safer Cities

SMEs
City Management

**Smart Street Lights**

- Analyzing the correlation between consumer’s spending information and people’s flow information
- Visualize congestion status on a map in real time using signage

**Lighting design** MOTOKO ISHII & AKARI-LIZA ISHII
Resource aggregation (RA) service for de-carbonization era

NEC will enter the market for services relating to efficient management of corporate-owned distributed energy resources (service launched in Nov 2019)

① RA Cloud Service
- Deploy features to start VPP*
- Provides functions required to create a new energy business in the de-carbonization era

② Resource Aggregator (facility support)
- NEC itself will act as an RA operator to support clients’ energy resource control
- Achieve effective use of facilities

* VPP: Virtual Power Plant
CASE

Public Safety

Disaster Prevention Information System

- Support for accurate and prompt disaster information transmission to residents
- Disaster response business support

Real-time Disaster Prevention Map Simulation based on Human Flow/SNS Analyses in Storms/Floods

- Displays transportation routes and/or evacuation routes in the event of a storm or flood
Smart Transportation

Onboard Track Patrol Support System

- Apply train image analysis to images taken with commercial vehicles
- Automatically detect obstacles on railway

New boarding procedure utilizing face recognition technology

- By registering your face photos, you can by-pass the procedures at the airport with your “face pass”

* Practical use of "Onboard Track Patrol Support System" that supports railway line inspection work based on the line area image analysis engine developed by the Railway Technical Research Institute and NEC’s image analysis technology.

* Some of track periphery image analysis engine include the results developed by the Railway Technical Research Institute with a subsidy from the Ministry of Land, Infrastructure, Transport and Tourism for railway technology development.

- A new boarding procedure utilizing face recognition technology started operation at Narita Airport and Haneda Airport in July 2021.

- This new procedure will enable smooth boarding, reducing the risk from unnecessary contact.

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Enhance Execution Capability to Achieve Mid-term Plan

**Initiative 1**
Enhance cross-organization function to drive DX

- Customers
- Partners

DX business driving function

Cross-industry / Corporate function

**Initiative 2**
Talent development for Digital Shift

Actively increase DX talent to 1/3 of the BU’s personnel

Companywide Training of DX Personnel
- DX Personnel Training Services
- DX Practice Program
- DX Training program

Business transformation
NEC Safer Cities
SMEs

High value-added business development
The Future Image of the Public Solutions Business

SDGs

NEC Safer Cities

Issues to concentrate on
- Control social security costs
- Response to labour shortage
- Measures for community revitalisation

Digital Healthcare

Digital Government

Public Safety

Smart Transportation

Digitalization

NEC Safer Cities

Digital Government

Public Safety

Smart Transportation

Digitalization

Hospitals
- Electronic medical records systems, medical accounting systems, etc.

Central, Local Gov.
- Resident information, Administrative information

Roads / Airports
- Electric Power / Railways

Traffic Control
- ETC

Private Sector
- Sales management, manufacturing inventory management
- Total staff salaries, etc.

Sensing

Computing

Network

Electronic medical records systems, medical accounting systems, etc.
Resident information, Administrative information
Fire defence command/radio
Disaster prevention radio/information, etc.
Traffic Control
ETC
Electric power NW, AMI, etc.
Sales management, manufacturing inventory management
Total staff salaries, etc.

*1 AMI: Advance Metering Infrastructure  *2 ETC: Electronic Toll Collection system

Good health and well-being for all
Quality education for all
Clean energy for all
Economic growth and decent work for all
Reduce inequality of people and countries
Making communities sustainable
Specific action to combat climate change
Orchestrating a brighter world

NEC