CFO IR Briefing
(Notice Regarding Repurchase of Shares of Common Stock) Q&A

Date/Time: August 29, 2022 16:30-17:00 JST
Location: Livestream broadcast from NEC Headquarters
Presenter: Osamu Fujikawa, Executive Vice President, CFO (Chief Financial Officer)

Questioner A

Q: What kind of discussion took place in the Board of Directors' meetings with regard to this share repurchase? Were methods other than share repurchase also discussed?
Moreover, with IR Day planned to take place in early September, could you comment as CFO on what aspects the market should focus on? In particular, the market is focusing on whether or not there is any information that would indicate increased likelihood of achieving this fiscal year's guidance.

A: At the Board of Directors' meetings, there was discussion about whether or not our conventional approach to capital allocation would be changed with the repurchase. NEC has not changed its policy on capital allocation from what has been presented to the market. On the other hand, we have received feedback from many investors pointing out the importance of communicating to the capital markets that management is not satisfied with the current share price. As one option to respond to this, we decided to conduct the share repurchase after giving overall consideration to the Company's financial position and its share price level based on our earnings forecast from a management perspective. We discussed the notion that the Company should send a clear message. We also discussed the amount and timing of the repurchase. Taking all of these aspects into account, such as our approach to capital allocation, our financial position, and so forth, we settled on 30.0 billion yen as an amount that can send a message to the market while maintaining the Company's sound financial position.

We have made a firm commitment to achieving the Mid-Term Management Plan 2025. With regard to our full-year forecast for the current fiscal year, we have revised the forecast among segments, however, our commitment to achieving the forecast is unchanged. On our IR Day in September, each agenda leader and business unit head will explain what measures we will take to achieve the Mid-Term Management Plan 2025 based on the current status and answer questions.

Questioner B

Q: You mentioned not being satisfied with the current share price level. In the past, the Company's price-to-book ratio had fallen below one. Given this situation, did you decide to conduct the share repurchase because your cash position is strong enough and your financial structure is now stronger than in the past?

A: Our financial structure is sound, with three ratings agencies upgrading our rating by one notch in the previous fiscal year. We judged that a share repurchase of this scale will not cause any issues at all for us financially. In addition, I mentioned that we will achieve our earnings forecast for the current fiscal year as well as our final targets under the Mid-Term Management Plan 2025. In light of this, the current level of the Company's share price is lower than we think it should be, and we decided to conduct the share repurchase to send this message to the market.

Q: Although you haven't changed the capital allocation policy, does this mean that you will take a more flexible approach going forward by considering share repurchases as an option?

A: Our basic policy hasn't changed. Our first priority will go to investment opportunities for growth, and we will return capital gains by increasing corporate value. Our financial structure is currently sound, and we are confident that we can fulfill our commitment to the Mid-Term Management Plan 2025 and our forecast for the current fiscal year. However, market perception has turned somewhat negative, and in such a case, we would add it as an option. Please understand that we have added this option as a message to the market, not as part of our shareholder returns.

Questioner C

Q: The first quarter has only just finished, and while the Company's orders received may be higher than initially anticipated, there are also various unstable factors, such as component shortages and concerns about recession abroad. Nevertheless, you said that you made the decision based on the full-year forecast. Does this mean that management did not consider these unstable factors to be a problem in making the decision to go ahead with the repurchase?

A: The forecast of Network Services and Public Solutions segments for the current fiscal year has been revised using the most conservative scenarios, as we said in the first quarter earnings announcement, amid component shortages and delays in market recovery. On the other hand, we believe that the strong performance in Public Infrastructure, Enterprise, and Global segments has even further upside potential. For the issue of component shortages, I have personally been leading our efforts to manage the situation since autumn of the previous fiscal year. We have had some reports of an improving trend in mass market items such as for smartphones and PCs, but at present the situation is still patchy for our dedicated products. Overall, there is a modest recovery trend; however, the impact on business still needs to be monitored, and we need to sufficiently manage how strategic inventories and so forth will translate into sales. The entire Company is working cooperatively and has succeeded in responding promptly to issues that arise and minimizing their impacts by taking actions to deal with them. Furthermore, although we were a little slow to respond to sharp fluctuations in exchange rates in the first quarter, we are now taking countermeasures for exchange rates and inflation in the same manner as for components, and we expect to be able to minimize their impacts. Based on these points, we expect to achieve the initial plan for our companywide full-year forecast as presented in the first quarter earnings announcement.

Questioner D

Q: Could you explain your thinking about the 30.0-billion-yen share repurchase? Assuming the annual dividend for the current fiscal year is 110 yen as planned, then it will come to around 30.0 billion yen. This means that together with the share repurchase, shareholder returns amount to approximately 60.0 billion yen, approximately one third of this fiscal year's projected free cash flow of 180.0 billion yen. Isn't this capital allocation for shareholder returns a little higher than expected when compared with page 33 of the Mid-Term Management Plan 2025 presentation? Aren't you just conducting the share repurchase because you find the current share price level unacceptable, even though there are investments that need to be made, such as M&As?

A: Giving overall consideration to the level of cash on hand and the effect of the share repurchase, we arrived at the amount of 30.0 billion yen, which represents around 2% of the Company's issued shares. In terms of cash sources, it is within the range of what we can carry out, including improvement to our cash conversion cycle (CCC). Depending in part on the business situation going forward, we will conduct share repurchases to an extent that does not impact growth investment, balancing financial soundness with the effect of communicating a message to the market, and so forth.

Q: Do you plan to cancel the shares?

A: At this point we do not envisage cancelling them. We will decide appropriately based on our medium- to long-term business strategy. For example, we will also consider using them as share-based incentives for the management team or for strategic purposes in M&As.

Questioner E

Q: You have said that the share repurchase is intended as a message regarding the current share price level. Does this mean that since the share price has declined despite communicating the message that the full-year plan is achievable at the first quarter earnings announcement, you discussed the share repurchase after the announcement and decided to go ahead with it? If the share price had not declined after the first quarter earnings announcement, would you not have made that decision?

A: It is not that we suddenly started discussing the share repurchase because the share price declined after the first quarter earnings announcement. We have been receiving proposals since the previous fiscal year from many shareholders and investors about sending a message from the Company to the market. We have made an overall judgement including factors such as a share price level that appropriately reflects our maintaining financial soundness and our earnings forecasts, and we have been looking for the right timing to communicate a message to the market.