NEC IR Day 2022 Enterprise Business Q&A

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Questioner A

Q: *On page 7 of the presentation, you see an estimated growth rate for the domestic IT market of +5% CAGR, which appears somewhat high considering the shift from traditional IT to modernization. What are your thoughts on the risk of an economic slowdown going forward? Do you believe that market growth will continue even if the economy slows down because—as opposed to during the 2008 global financial crisis—private enterprises are hoarding cash and demand for DX is growing? Also, the Mid-term Management Plan targets for the Enterprise Business seem low in comparison to market growth. What is your outlook for results exceeding the targets in this fiscal year?*

A: The figure for a CAGR of +5% in the domestic IT market going forward is based on a variety of data and a review incorporating expert opinion. While traditional IT is expected to see demand from small and medium-sized enterprises, large companies are advancing a shift to the cloud and modernization, so overall this sector is expected to remain flat at about 5 trillion yen. Our current order backlog is strong across all industries, and going forward, we do not expect DX investment to be affected much by an economic slowdown. Many companies are taking the stance that investment in IT and DX will be an engine of growth in a slowing economy, and are increasing their investments in those transitions.

With regards to the targets for the Enterprise Business under the Mid-term Management Plan, while current orders and order backlog are strong, we need to keep a close watch over uncertainties in the external environment, including an economic slowdown, foreign exchange and geopolitical risks, price hikes and delivery delays due to problems with parts and materials. First, we will work to ensure we achieve the targets of the Mid-term Management Plan and then outperform them as we monitor business progress.

Questioner B

Q: Do you anticipate achieving those Mid-term Management Plan targets either in this or the next fiscal year? To what degree can you expect to outperform those targets heading into FY2025?

A: At last year's IR Day, we set a target for revenue CAGR from FY2020 to FY2025 of between +1~5%, while this time, we have put forth a target of +3~5%, or 600 billion yen in revenue for FY2025, and plan to reach an operating margin of 13%. Although we have indicated our order backlog in our results forecast for the current fiscal year, it does not directly translate into revenue on a single fiscal year basis because of the large proportion of long-term contracts, including large projects and service projects. In addition, there has been a reactionary decline this fiscal year in response to large projects at NEC Facilities in the previous fiscal year. Since semiconductor shortages still persist, we must also consider the risk of delivery delays. Despite these factors, we continue to build a solid, strong base of orders as we work toward achieving and outperforming the Mid-term Management Plan. Going forward, we will make updates accordingly based on our progress.

Questioner C

Q: On page 18 of the presentation, you state a goal of further improving productivity and profitability through transformation of your SI model. Operating profit improved by about 3 billion yen between FY2020 and FY2021. What specific efforts were behind this improvement? Also, looking at page 27, you project a fairly large improvement impact going into FY2025. What measures do you plan to implement to achieve that?

A: We have presented a variety of detailed data for your reference. On page 26, we offer a summary of actual and planned revenue and operating margins by segment, including traditional IT, modernization and digital services. Transformation of our SI model will contribute to improving profitability in both the traditional IT and modernization businesses. The approximately 3 billion yen in improvements from FY2020 to FY2021 resulting from the SI model transformation on page 27 is largely due to the fact that while to date, SI has responded to individual customer requests by providing separate estimates, solutions and SI can now be packaged and used on a repeatable basis. These efforts are also paying off in our Strategic Partner Program. We can work to improve profitability by modeling what were individual SI solutions provided in the past as assets, making them faster, more repeatable and more scalable. Since this eliminates the need to develop new solutions for each customer, both quality and profitability will rise. We can look forward to further improvements in both revenue and profit margins going forward.