

NEC IR Day 2022

Enterprise Business

September 7, 2022

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\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.

Provider of IT solutions to private enterprises in three main sectors

Key industries

Finance

- Banks
- JA
- Governmental financial institutions
- Credit unions/credit guarantee associations
- Securities
- Life insurance
- P&C insurance etc.

Manufacturing

- Electrical machinery/high-tech
- Electronic components
- Industrial equipment/business machine industry
- Automotive components
- Heavy industry
- Food products
- Pharmaceuticals/life sciences
- Materials
- Construction/home building etc.

Distribution/Services

- Convenience stores
- GMS
- Specialty stores
- Supermarkets
- Department stores
- Automotive industry
- Advanced mobility
- Railway
- Aviation
- Logistics
- Pharmaceutical wholesale
- Wholesale
- Government-controlled gambling
- Trading companies
- Energy
- Hotels
- Theme parks
- Railroads/logistics ICT etc.

Solutions

- Bank account systems
- Branch systems
- Insurance/securities ERP systems etc.

- Global SCM systems
- Production management systems
- Sales management systems etc.

- Retail HQ
- Outlet systems
- Public transport IC card systems
- Logistics management systems etc.

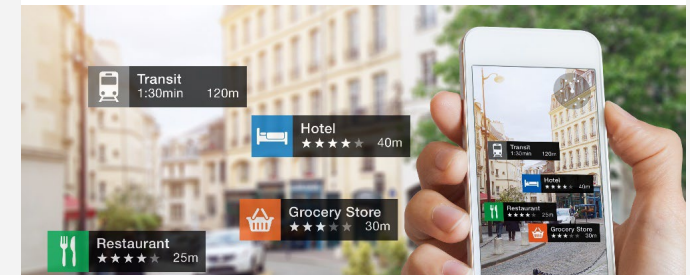


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01 **Revisiting the Mid-Term Management Plan**

02 FY2021 Results / FY2022 Business Plan

03 Roadmap to Achieve the Mid-Term Management Plan

IT market structured in three layers

Digital Services

Providing services that leverage leading digital technologies to grow the businesses of our clients

Customer Experience Management, Digital marketing

IoT

Digital commerce

Other...

Data storage, analysis and utilization

Modernization

Providing support in cloud migration and digitization of existing operations

Upgrading existing systems/apps

Implementing new systems and apps

Migrating existing systems and apps to the cloud

Developing and implementing systems and app optimized for the cloud

BPM and automation (RPA etc.)

Traditional IT

Providing services to clients with traditional IT infrastructures

Development and implementation of traditional systems and apps

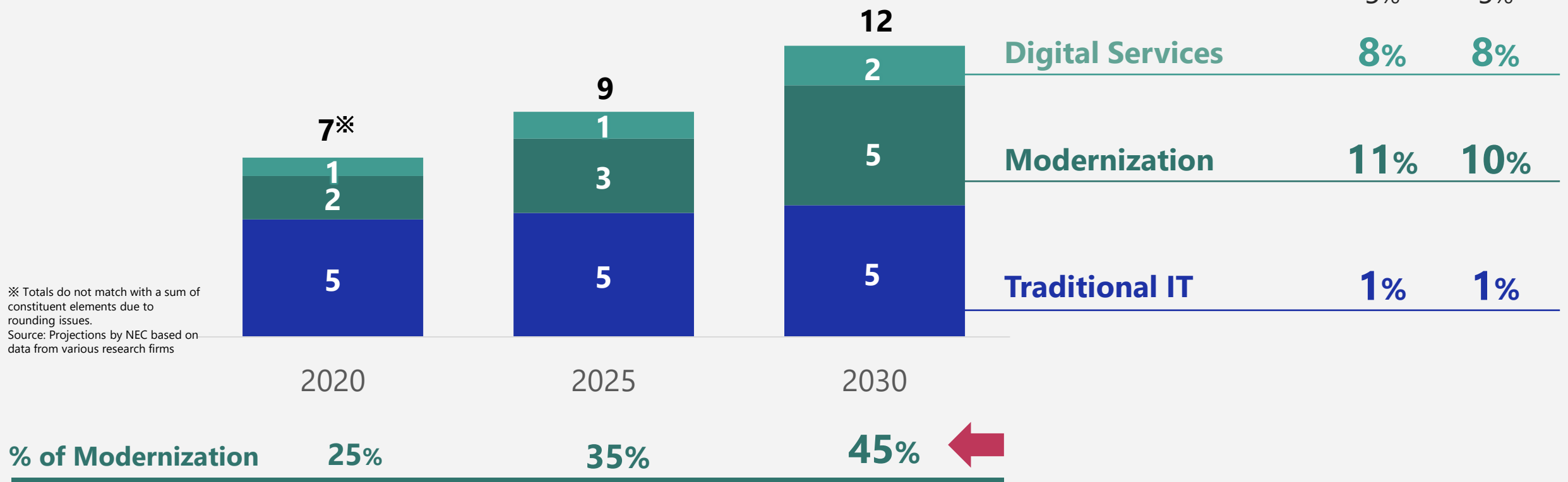
Maintenance and operation of existing systems and apps

Implementation, maintenance and operation of hardware

“Modernization” segment will see biggest growth over the next 10 years

IT expenditure of Japanese companies by type

(Unit: Trillion yen, limited to industries related to the Enterprise BU)



※ Totals do not match with a sum of constituent elements due to rounding issues.
Source: Projections by NEC based on data from various research firms

Transformation from the current “Traditional IT”-focused business structure

Strategic direction: Transformation from a “Traditional IT”-focused to “Modernization”-focused business structure



Traditional IT:

**Make leaner and
improve profitability**

Modernization:

**Expand sales in line with market
growth and realize margin
expansion**

Digital Services:

**Develop pipeline for
future growth**

Initiatives to realize the Mid-Term Management Plan

Digital Services

Modernization

Traditional IT

3
Management issue-based solution development

- Develop solutions addressing critical management issues as a trusted “partner”
- Fine tune existing DX offerings and develop new competitive offerings based on insights from these projects

2
SI model transformation

- Expand sales of DX offerings
- Standardized pricing based on value created (value-based pricing)
- Improve productivity and quality through SI process optimization (standardization, rationalization and automation of SI)

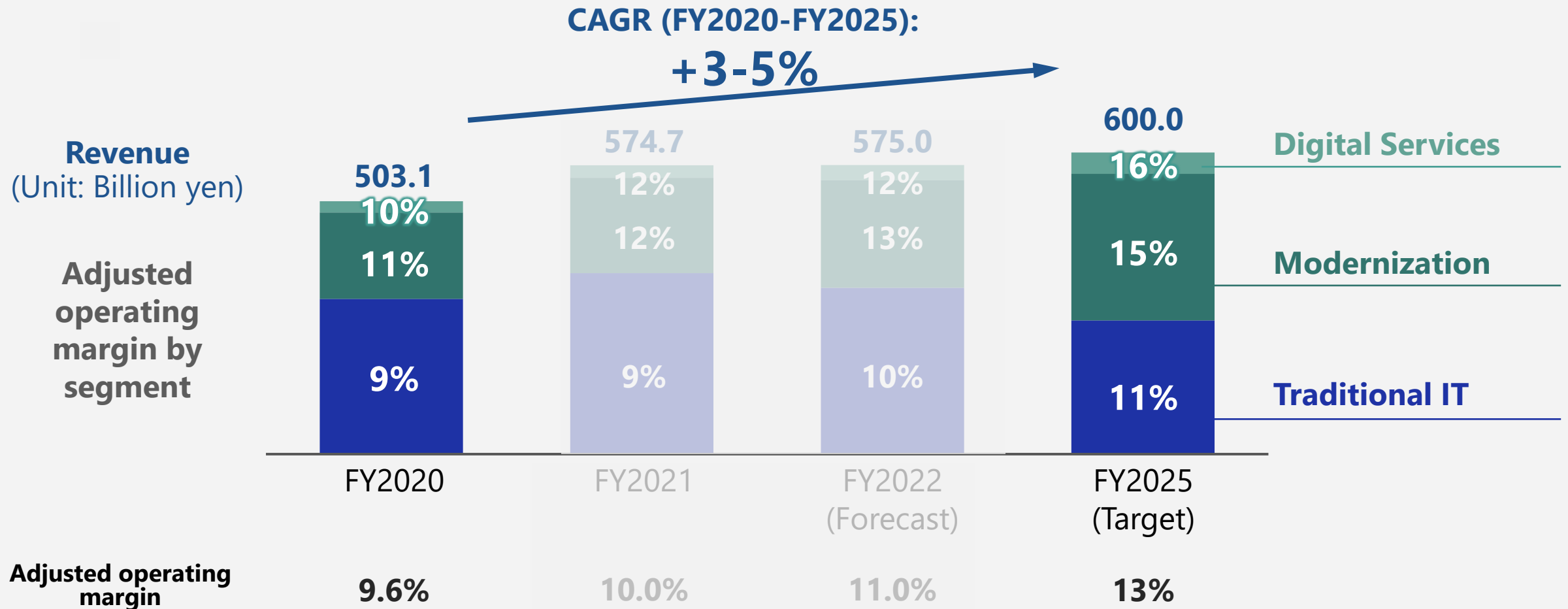
1
Low profit margin business turnaround

- Drastically improve profitability (including downsizing and business exits)

4
Talent development and allocation

Enhance talent development/recruitment, and re-allocate talent to growing business areas

Achieve ¥600bn in revenue with adjusted operating margin at 13% by FY2025 (Base-case scenario)

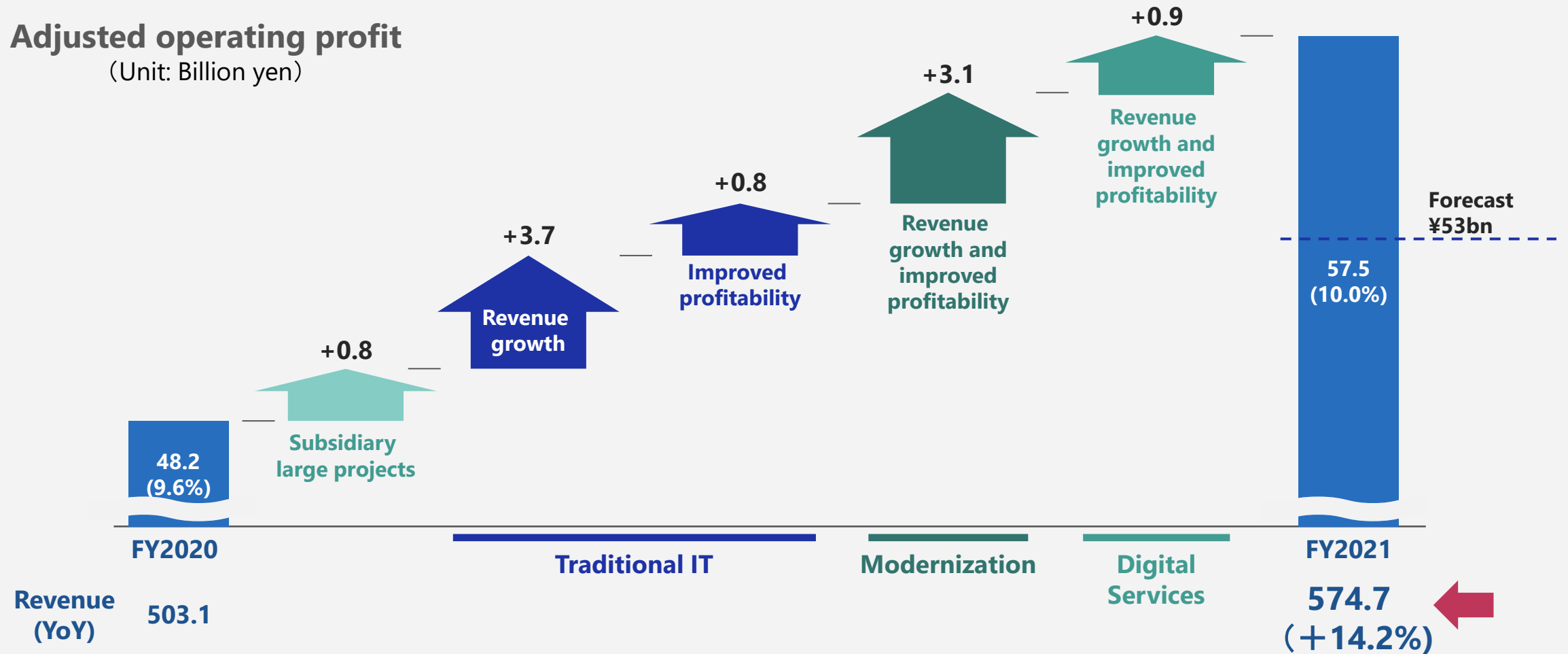


01 Revisiting the Mid-Term Management Plan

02 FY2021 Results / FY2022 Business Plan

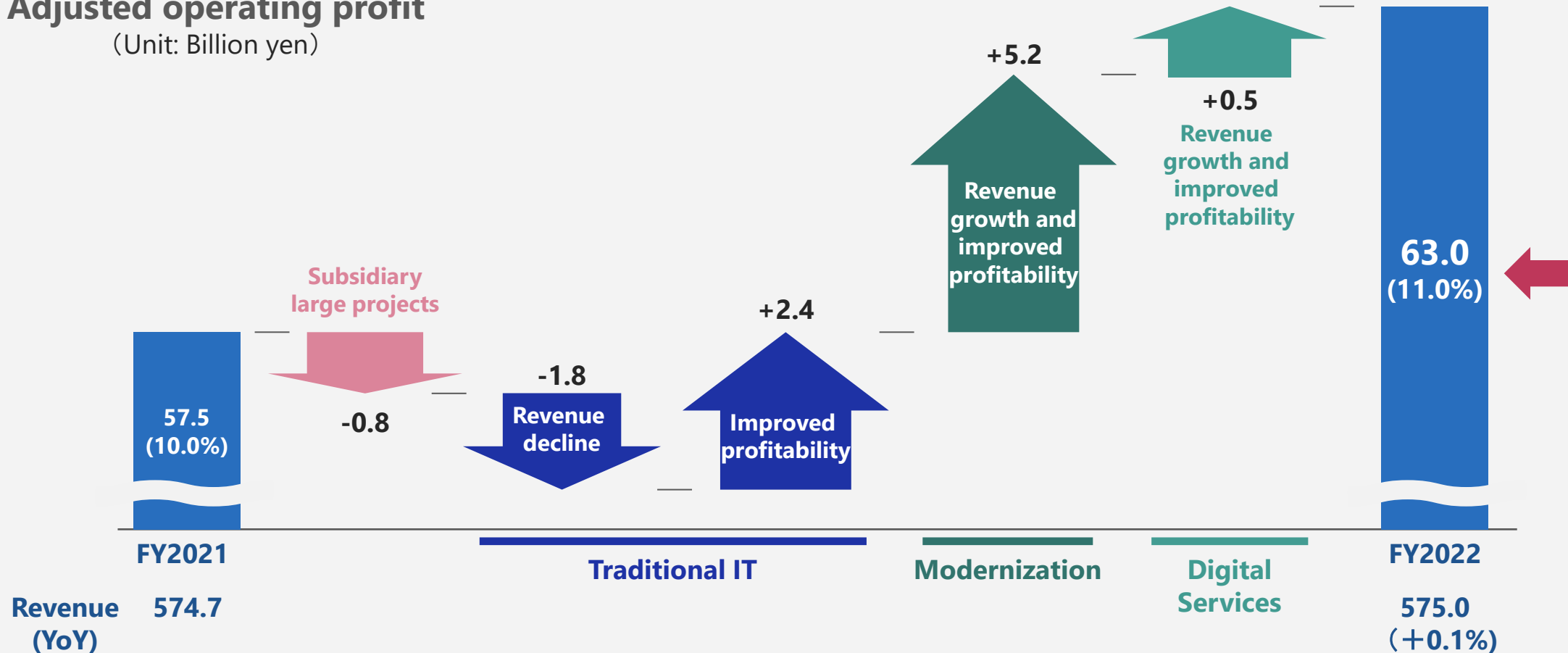
03 Roadmap to Achieve the Mid-Term Management Plan

Overachieved operating profit due to higher revenue growth than planned



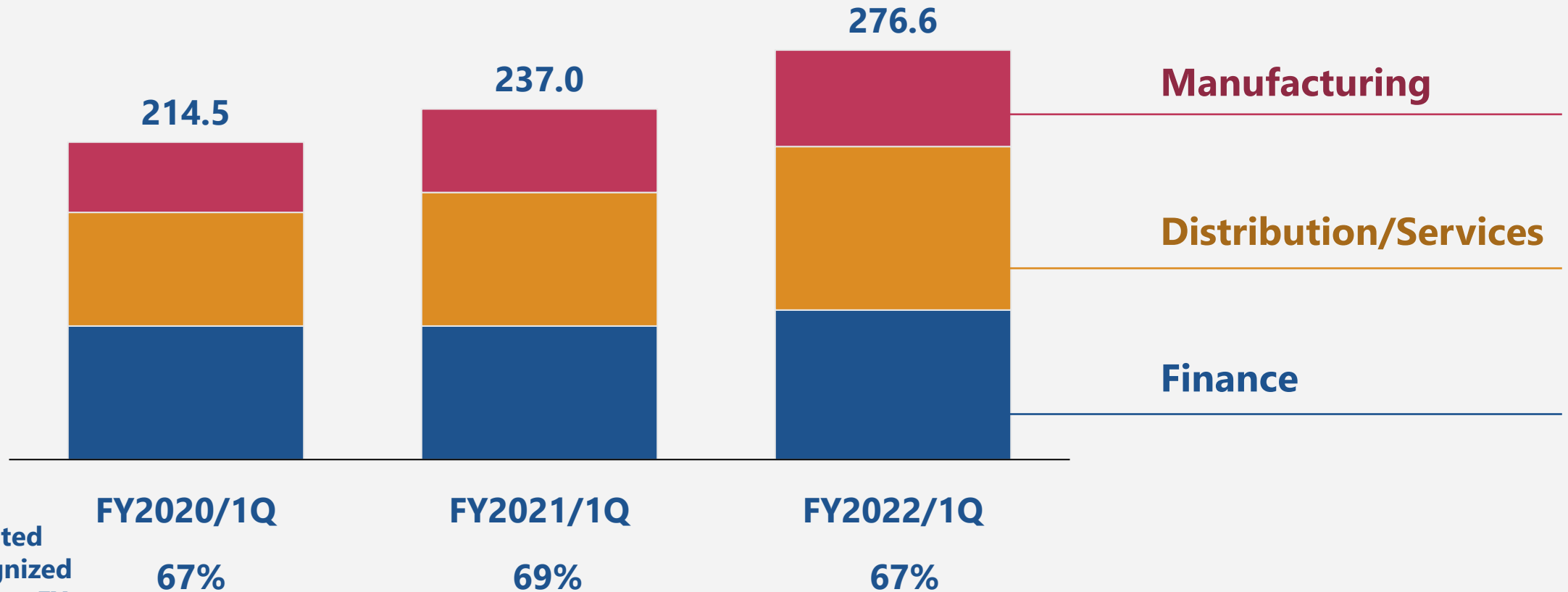
FY22 focus is profitability improvement, given outperformance of revenue in FY21

Adjusted operating profit (Unit: Billion yen)



Order backlog on an upward trend – potential for revenue upside in FY2022

Order backlog
(Unit: Billion yen)



% expected to be recognized during same FY

Note: excludes subsidiaries

01 Revisiting the Mid-Term Management Plan

02 FY2021 Results / FY2022 Business Plan

03 Roadmap to Achieve the Mid-Term Management Plan

Key initiatives

Digital Services

Modernization

Traditional IT

3

Management issue-based
solution development

2

SI model transformation

1

Low profit margin
business turnaround

4

Talent development
and allocation

1 Low profit margin business turnaround

Focus on improving profitability and reducing costs in Traditional IT

Current challenges

- While progress has been made in improving profitability, businesses that do not meet the company-wide **hurdle rate of 7% operating margin still exist**

Initiative overview

- Placed four businesses, with margins below the hurdle in FY2020, on the **CFO's monitoring** list to closely track progress towards profitability improvement
- Execute initiatives to **fundamentally improve the profitability** of businesses, while also considering **downsizing and exits**

Key activities

- FY2021: More disciplined pricing, strengthened governance over foreign subsidiaries, implemented '**quick-win**' initiatives
- FY2022: **Make decision on downsizing and/or exiting** low profit margin businesses
- FY2023-2025: **Reallocate resources to more profitable businesses** to improve gross margins



Profit improvement in FY2025: +¥3.5bn (vs. FY2020), +¥3.0bn (vs. FY2021)

Enhance SI and expand offering sales to accelerate shift to Modernization

Current challenges

- Further **SI productivity and profitability enhancement needed**, in order to improve profitability in Traditional IT and Modernization, and justify the reallocation of talent

Initiative overview

- Transition away from Man-hours SI[※] through **standardization to improve productivity / profitability, and value-based pricing to improve profitability**
- Provide and expand sales of competitive **DX offerings**, by combining essential functions required to address issues facing clients

Key activities

- FY2021: Started SI standardization and development of DX offerings (9% of total revenue)
- FY2022: Accelerate SI standardization and expansion of DX offerings (11% of total revenue)
- FY2023-2025: Target 30% of total revenue in FY2025



Profit improvement in FY2025: +¥18.5bn (vs. FY2020), +¥15.5bn (vs. FY2021)

※ SI that is priced based on the operating man-hours (man-months) (System Integration)

3 Management issue-based solution development

Work with leading companies to solve their critical issues and develop DX offerings suitable for mid-sized companies

Current challenges

- Need to be recognized as a partner in solving clients' management issues, to win DX deals
- Increase in uncompetitive DX offerings as a result of catering to needs of individual clients

Initiative overview

- Co-create a vision for **Digital Services** and simultaneously acquire **Modernization projects, through the Strategic Partner Program (SPP) with leading companies**
- **Leverage insights from SPP, to refine existing offerings and develop new killer solutions**
- Deploy DX offerings to mid-sized businesses, to achieve **both scale and profitability**

Key activities

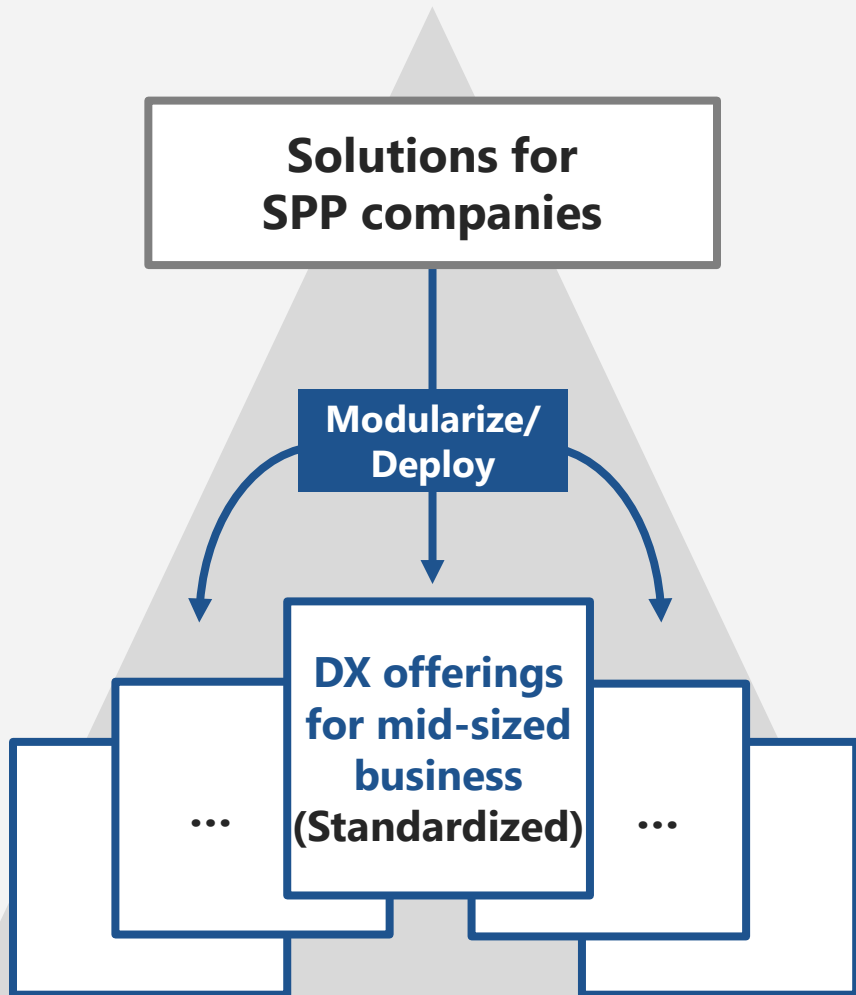
- -FY2022: Develop "Modernization" and "Digital Services" projects via SPP with 10 industry-leading companies and refine existing DX offerings
- FY2023-FY2025: Expand number of SPP companies, while developing and deploying DX offerings aimed at mid-sized companies



Profit improvement in FY2025: +¥14.0bn (vs. FY2020), +¥13.0bn (vs. FY2021)

3 Management issue-based solution development

Develop modularized DX offerings based on solutions provided to SPP companies and deploy them at scale to mid-sized businesses



- **Identify critical management issues** and **discuss potential solutions**
- Co-create with clients their vision of **“Digital Services”** and **simultaneously acquire “Modernization” projects**
- **Develop DX offerings for mid-sized companies** based on solutions developed with SPP companies
- **Propose the best-fit DX offering** based on clients’ industry and size
- **Keep customization to a minimum** to maximize sales productivity

NEC possesses the necessary strengths to win in the "Modernization" segment

NEC Strengths

Progress of the Multi-Cloud Strategy

Continued enhancement of alliances aimed to maintain competitiveness

Amazon Web Services (AWS)	Acquired a large number of AWS-certifications in Japan Achieved the target of "developing 3,000 staff in 3 years" set in November 2020 ahead of schedule <small>June 1, 2022 Press Release</small>
Microsoft	Opened a dedicated private network fiber for Microsoft Azure at the NEC Inzai Data Center <small>June 6, 2022 Press Release</small>
SCSK	Reinforced cooperation in data centers and networks, founded SCSK NEC Data Center Management, Ltd. <small>March 10, 2022 Press Release</small>

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(Excerpt from the Core DX presentation)



Enterprise BU Strengths



Solid customer base

- Transactions with over 80% of top 10 companies by market cap in all three sectors.※1
- Average number of years doing business with major clients: **25+ years**



Strong project management capabilities

- Losses from unprofitable projects: **Zero**※2

※1 Proportion of firms with which the Enterprise Business Unit have transacted with in FY2021.

※2 FY2021 results.

Accelerate investment in talent and optimize allocation in shift to Modernization

Foundation building

- **Communicate the need for change to the frontline**
 - FY2021: 23 Town Hall meetings (~2,000 participants)
 - FY2022 1Q: 4 Town Hall meetings (~1,200 participants)
- **Enterprise BU Engagement Score^{※1} improved to 33%**
(Average score of Japanese companies: 28%)

Execution

Talent investment

Develop

- **Development of DX talent^{※2} and reskilling**

- DX talent development
 - > FY2021: 670 staff
 - > FY2022 (Goal): 770 staff
- DX training program (~100 modules)
 - > Cumulative number of attendees since inception: ~5,700 staff (as end of July 2022)

Recruit

- **Expand mid-career recruiting**

- FY2021-2025: Recruit 100 staff/year
- Accelerate recruitment of senior specialists for new business dev.

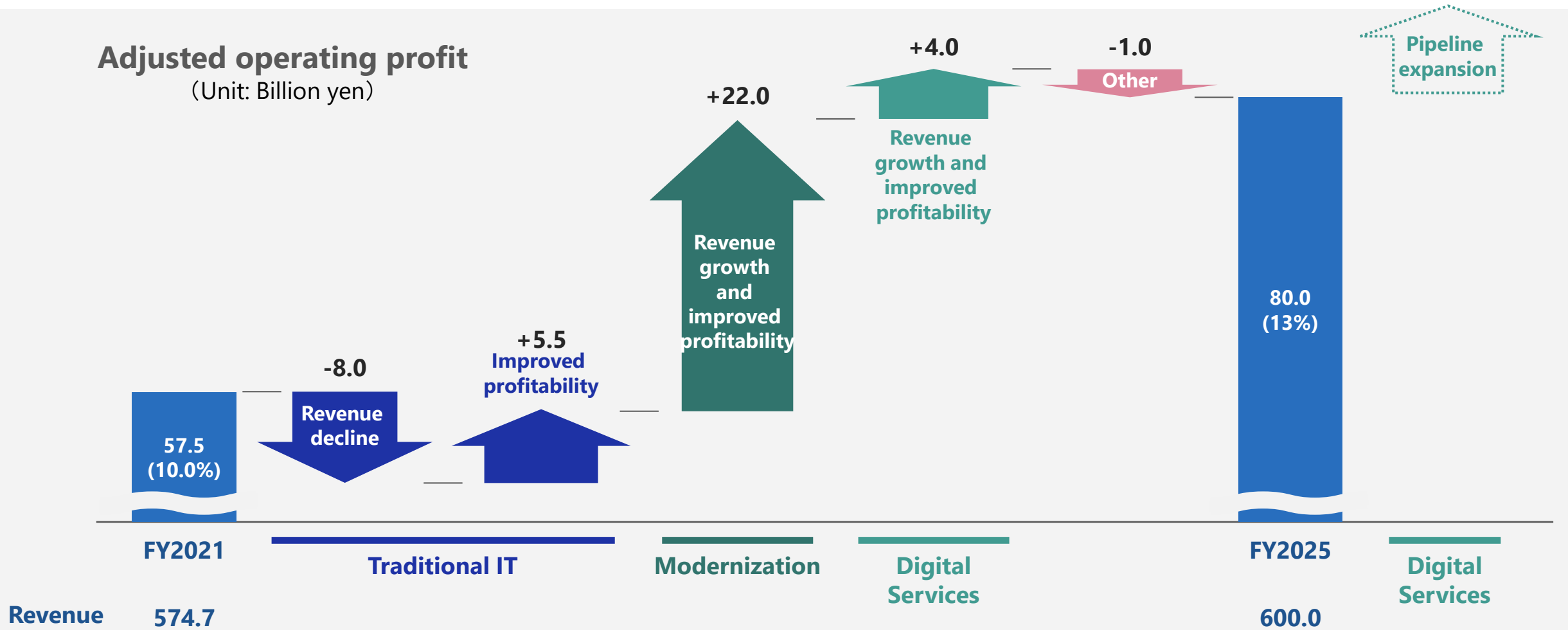
Optimal allocation

- **Reallocate talent to achieve growth in the “Modernization” segment**

※1 Indicating employee's empathy with the corporate philosophy and engagement. Survey by Kincentric, a global HR consulting firm; ※2 Definition same as specified by Core DX

Profit plan to achieve the FY2025 Mid-Term Management Plan

Adjusted operating profit
(Unit: Billion yen)



※ Repercussions from a major project from a subsidiary in FY2021

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Revenue and adjusted operating margin by segment

Revenue (Units: Billion yen) (Adjusted operating margin)	FY2020	FY2021	FY2022	FY2025	CAGR (FY2020-2025)
Digital Services	22.2 (9.6%)	25.0 (12.2%)	30.0 (12%)	40.0 (16%)	14%
Modernization	171.8 (11.0%)	189.6 (11.6%)	215.0 (13%)	290.0 (15%)	11%
Traditional IT	309.1 (8.8%)	360.1 (9.0%)	330.0 (10%)	270.0 (11%)	-3%
Total	503.1 (9.6%)	574.7 (10.0%)	575.0 (11%)	600.0 (13%)	4%

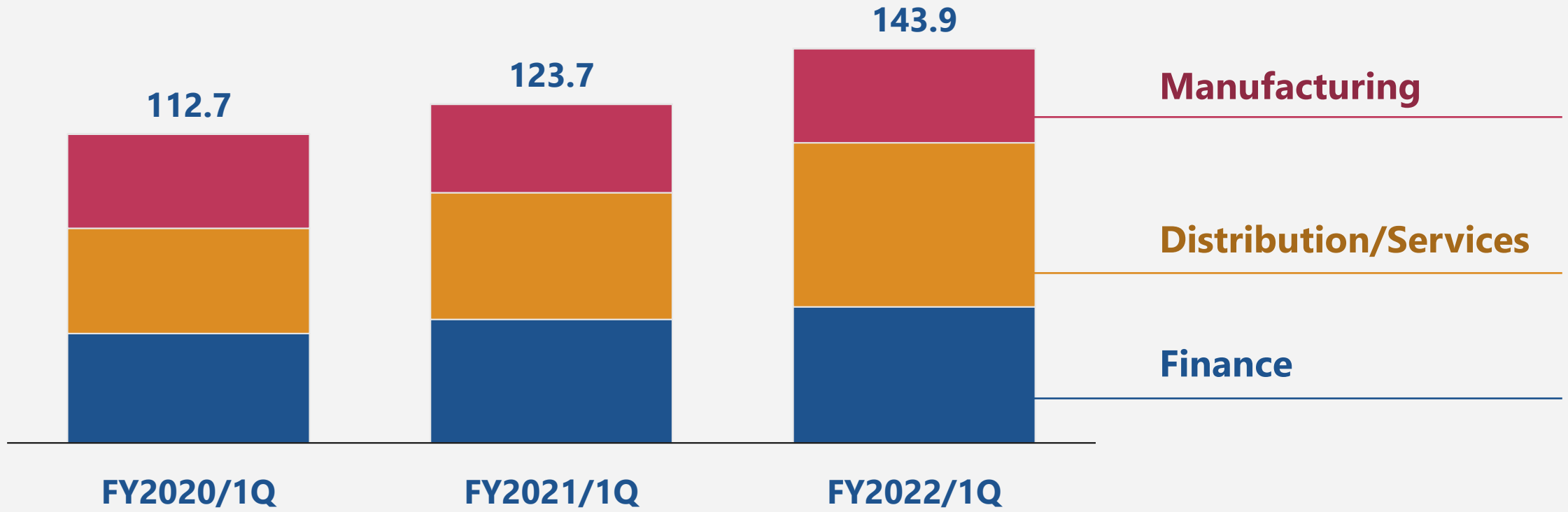
Improved profitability by taking key measures

(Units: Billion yen)

		Op. Profit improvement (vs. FY2020)		Op. Profit improvement (vs. FY2021)	
		FY2021	FY2025	FY2022	FY2025
Digital Services	Management issue-based solution development	0.9	4.5	0.5	4.0
	Modernization				
Traditional IT	Management issue-based solution development	0.2	9.5	4.1	9.0
	SI model transformation	2.9	15.5	1.1	13.0
	SI model transformation	0.1	3.0	0.7	2.5
	Low profit margin business turnaround	0.7	3.5	1.7	3.0

Order Volume by industry

Order Volume
(Unit: Billion yen)



Note: excludes subsidiaries

Cautionary Statement with Respect to Forward-Looking Statements

This material contains forward-looking statements regarding estimations, forecasts, targets and plans in relation to the results of operations, financial conditions and other overall management of the NEC Group (the "forward-looking statements"). The forward-looking statements are made based on information currently available to the Company and certain assumptions considered reasonable as of the date of this material. These determinations and assumptions are inherently subjective and uncertain. These forward-looking statements are not guarantees of future performance, and actual operating results may differ substantially due to a number of factors.

The factors that may influence the operating results include, but are not limited to, the following:

- adverse economic conditions in Japan or internationally;
- foreign currency exchange and interest rate risks;
- changes in the markets in which the NEC Group operates;
- the recent outbreak of the novel coronavirus;
- potential inability to achieve the goals in the NEC Group's medium-term management plan;
- fluctuations in the NEC Group's revenue and profitability from period to period;
- difficulty achieving the benefits expected from acquisitions, business combinations and reorganizations and business withdrawals;
- potential deterioration in the NEC Group's relationships with strategic partners or problems relating to their products or services;
- difficulty achieving the NEC Group's growth strategies outside Japan;
- potential inability to keep pace with rapid technological advancements in the NEC Group's industry and to commercialize new technologies;
- intense competition in the markets in which the NEC Group operates;
- risks relating to the NEC Group's concentrated customer base;
- difficulties with respect to new businesses;
- potential failures in the products and services the NEC Group provides;
- potential failure to procure components, equipment or other supplies;
- difficulties protecting the NEC Group's intellectual property rights;
- potential inability to obtain certain intellectual property licenses;
- the NEC Group's customers may encounter financial difficulties;
- difficulty attracting, hiring and retaining skilled personnel;
- difficulty obtaining additional financing to meet the NEC Group's funding needs;
- potential failure of internal controls;
- potentially costly and time-consuming legal proceedings;
- risks related to regulatory change and uncertainty;
- risks related to environmental laws and regulations;
- information security and data protection concerns and restrictions;
- potential changes in effective tax rates or deferred tax assets, or adverse tax examinations;
- risks related to corporate governance and social responsibility requirements;
- risks related to natural disasters, public health issues, armed hostilities and terrorism;
- risks related to the NEC Group's pension assets and defined benefit obligations; and
- risks related to impairment losses with regard to goodwill.

The forward-looking statements contained in this material are based on information that NEC possesses as of the date hereof. New risks and uncertainties come up from time to time, and it is impossible for NEC to predict these events or how they may affect the NEC Group. NEC does not intend to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Note: In this presentation, the accounting periods of the fiscal years for March 31, 2022 and 2023 were referred as FY2021 and FY2022 respectively. Any other fiscal years would be referred similarly.