

NEC IR Day 2024 Dialogue with Independent Directors Q&A

Date/Time: Monday, October 7, 2024 16:00-17:00 JST
Format: Live online streaming from NEC Headquarters, Tokyo
Presenters: Harufumi Mochizuki, Member of the Board (Outside Director);
Yoshihito Yamada, Member of the Board (Outside Director)
Hajime Matsukura, Corporate Secretary (Executive Officer),
Member of the Board

Questioner A

Q:

You said that one of NEC's challenges is to speed up management. Could you please discuss the factors that should be changed and what kinds of actions should be taken to speed up management?

A:

Mr. Yamada (Member of the Board):

In recent years, NEC has achieved growth in both revenue and profits in line with market expectations. I believe that management has made appropriate decisions, execution speed has increased, and those factors have been reflected in NEC's financial results. However, although the ROIC indicator and total asset turnover, for example, are still behind our competitors, this shows that NEC has room to improve its management speed. NEC believes that its cost of capital is around 6.5%. ROIC is forecast to be around 6% for the current fiscal year, so it has not yet surpassed the cost of capital. I believe that NEC will successfully speed up management mainly through measures to address business portfolio issues and by decisively investing in high-priority businesses and driving their growth as part of its management strategy. At the beginning of this panel discussion, I mentioned that I felt that NEC has growth potential. I believe it has potential in this area as well.

Mr. Mochizuki (Member of the Board):

NEC has adopted a system that will speed up management by transitioning to a company with a Nominating Committee, etc. In addition, the basic management policy has been shared with executives, thereby clearly identifying the future direction of its efforts. This will enable the executive teams to make decisions and advance management in various situations. Meanwhile, the Board of Directors will continue to conduct monitoring and review, but it can now avoid the previous process of having each decision submitted to the Board of Directors for approval. In a fluid business environment, the system now enables business to be advanced responsibly through communication between the business unit leaders and the CEO. By developing responsible Executive Officers, this system will yield even more benefits. The Board of Directors seeks to monitor the successive decisions made by the executive teams. In the course of transforming management, many options will

emerge that must be either selected or eliminated. In this process, it is important to share the criteria used in making these decisions.

Questioner B

Q:

In terms of requests from investors, while executing growth investments of ¥500.0 billion by the mid-term management plan's final fiscal year is important, if M&As are not implemented, investors have strongly requested that shareholder returns be increased. Could you please share your thoughts on this request?

A:

Mr. Mochizuki (Member of the Board):

If NEC were unable to implement growth investments, its options for growth would be limited. Growth is constrained in the domestic market, where the population is declining, so NEC must succeed in the global market. In this process, one useful method is to save time by acquiring truly effective targets through M&As. However, it is unwise to aim for a specific target with the intent to acquire it. While M&As do not necessarily need to be financed solely with a company's own capital, it is essential to constantly consider diverse options and maintain a system that enables timely and appropriate investments.

As a basic principle, shareholder returns should be provided appropriately. However, I don't believe that funds should be allocated to shareholder returns simply because there are surplus funds left over from growth investments. In my view, NEC's future medium- to long-term growth is not achievable without a focus on growth investments, and I will approach discussions in the Board of Directors from this stance.

Mr. Yamada (Member of the Board):

I fully understand that NEC's investors have high expectations for shareholder returns. I also believe it's true that NEC can appear somewhat less appealing in terms of dividends and share buybacks when compared to its global competitors. In fact, this is probably why investors have such high expectations for NEC. There are two key points that I want investors to understand. First, NEC has reorganized its business portfolio by overcoming a long and challenging period. The company is now entering a phase of significant growth, with many businesses positioned in growth domains. The current period provides an opportunity to grow its businesses. Consequently, President Morita and the management team believe that growth should be the priority, and they have secured significant funding for growth investments. I would like investors to appreciate that the size of these growth investment funds reflects NEC's considerable potential. The second point is that while the management team has clearly stated its intent to prioritize growth, it fully understands the need for balanced capital allocation, including consideration of shareholder returns. Accordingly, the management team will not neglect shareholder returns. I want to emphasize that NEC will continue to practice well-balanced capital allocation.