

# IT Services International (DGDF)

## (Digital Government / Digital Finance)

October 7, 2024

Corporate SVP (Executive Officer) and President of DGDF Business Unit

Tomoki Kubo

## IT Services International (DGDF)

1. Progress on Mid-Term Management Plan 2025
2. Revenue Growth Strategy
3. Profitability Improvement Strategy (Adjusted Operating Profit)

# 1. Progress on Mid-Term Management Plan 2025

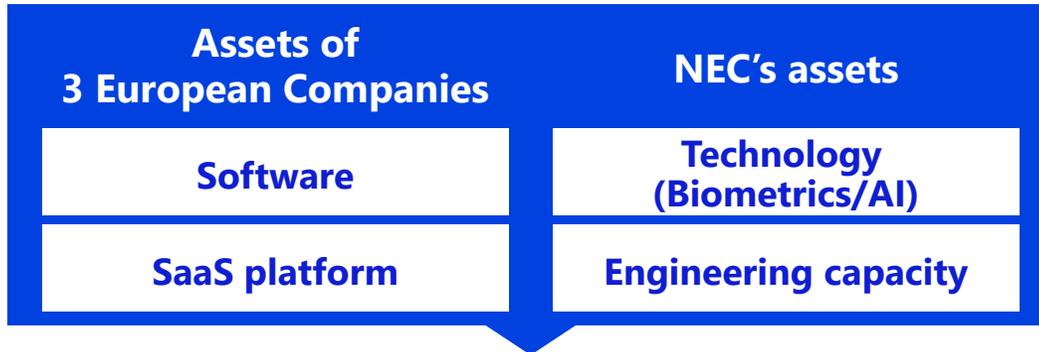
# DGDF Domains

## Develop various software and services business for international markets

	3 European Companies	12 Overseas Affiliates
Digital Government	<p><b>NEC Software Solutions UK (SWS, UK)</b></p> <ul style="list-style-type: none"> <li>• Various governmental service software (tax collection, etc.)</li> <li>• Police operations software</li> <li>• Public housing management software</li> <li>• National health service software</li> </ul> <p><b>Acquired in 2018</b></p>	<p><b>Digital ID/DX</b></p> <ul style="list-style-type: none"> <li>• Biometric software solutions               <ul style="list-style-type: none"> <li>• Police</li> <li>• National ID</li> <li>• Border control</li> <li>• Airports</li> </ul> </li> <li>• Government SI services</li> <li>• Surveillance solutions</li> <li>• Cyber centers</li> </ul>
	<p><b>KMD (Denmark)</b></p> <ul style="list-style-type: none"> <li>• Various local government software</li> <li>• Central government SI services</li> <li>• Government/public agency data management software</li> <li>• Digital retail banking/asset finance software</li> </ul> <p><b>Acquired in 2019</b></p>	
<p><b>Digital Finance</b></p>		
	<p><b>Avaloq (Switzerland)</b></p> <ul style="list-style-type: none"> <li>• For wealth management               <ul style="list-style-type: none"> <li>• Core banking software</li> <li>• Other various software and services</li> </ul> </li> </ul> <p><b>Acquired in 2020</b></p>	

# Progress on Mid-Term Management Plan 2025

## Basic Strategy (2021, Mid-Term Plan established)



### Stabilization by remodeling business foundations, including 3 acquired European companies

- Ensure organic growth in the European market  
+ Cross-selling / Bolt-on M&A
- Expand footprint in APAC market
- Optimize operations by leveraging offshore development in India, etc.

### Focused pursuit of business synergy and creation of new growth areas

- Deepening the integration of administration and finance sectors through utilization of digital ID
- Acquire new business opportunities from customers in different industries

## Progress to date

### Remodeling of business foundations

- Bolt-on M&A (10 cases), Acerated strategic alliance (BlackRock)
- Divestiture of non-core businesses (3 cases)

### Footprint expansion

- Develop overseas markets such as APAC
- Expansion of KMD solution to Japan
- Expansion of SWS solution to Commonwealth countries

### Streamlining operations

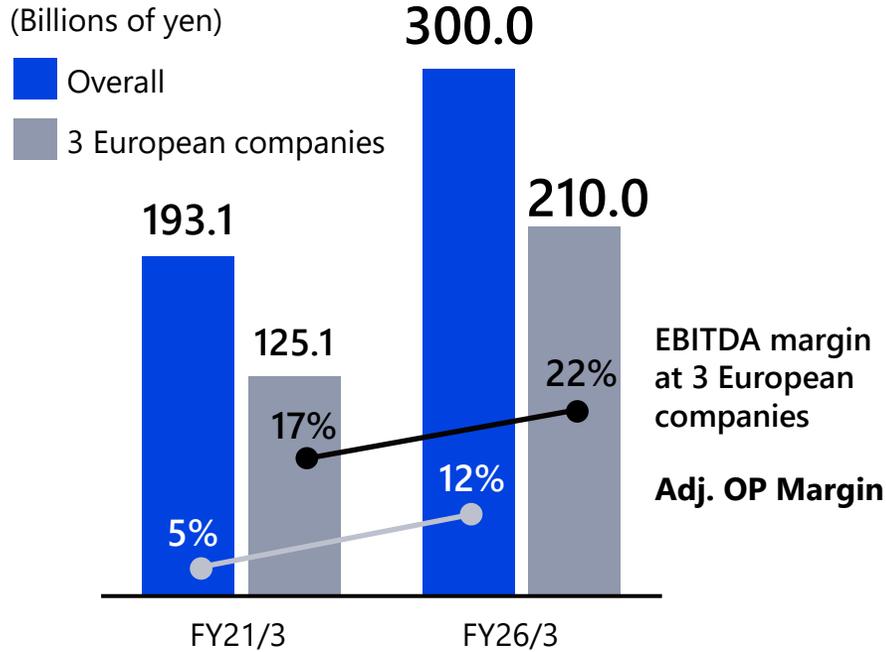
- Expansion of offshore ratio (26% in 2020 → 32% in 2023)
- Cost reductions of Avaloq SaaS

# Progress of Mid-term Management Plan

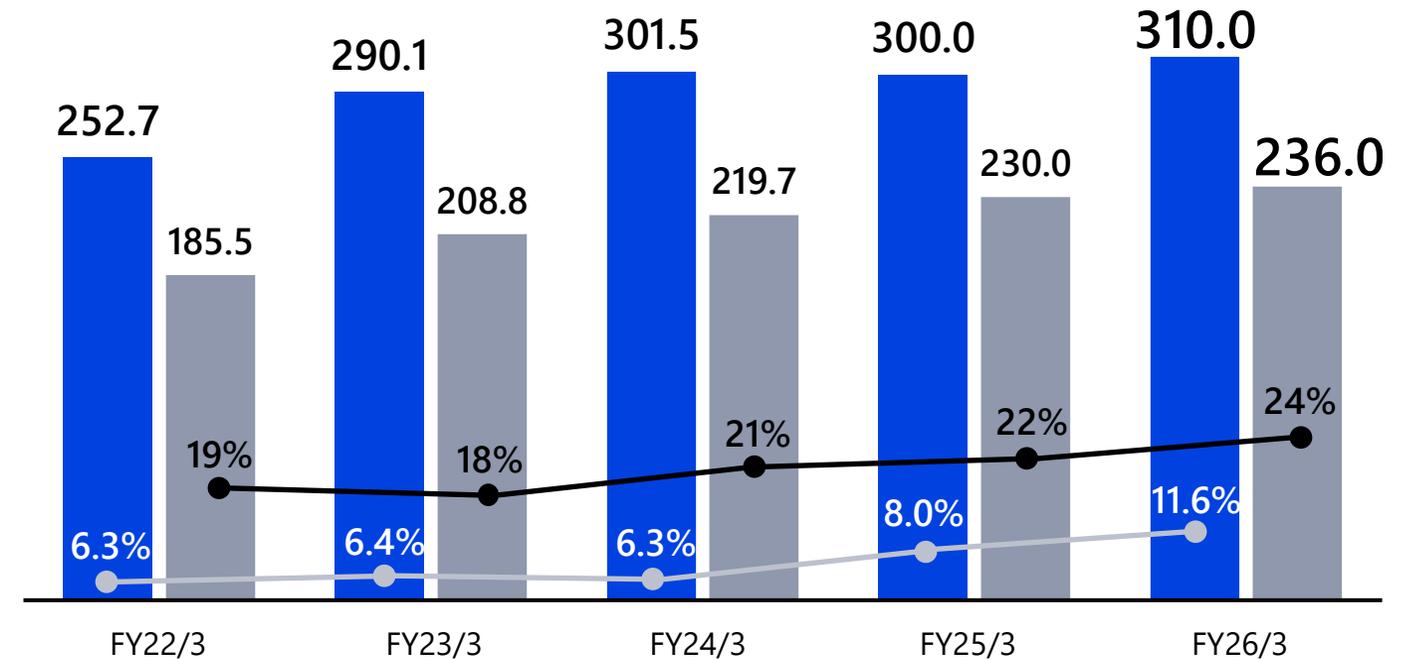
## Steady progress in FY2025/3

## Likely to achieve FY2026/3 targets (Revenue of ¥310 billion, Adj. OP of ¥36 billion)

### Mid-term Targets (established in 2021)



### Progress Status



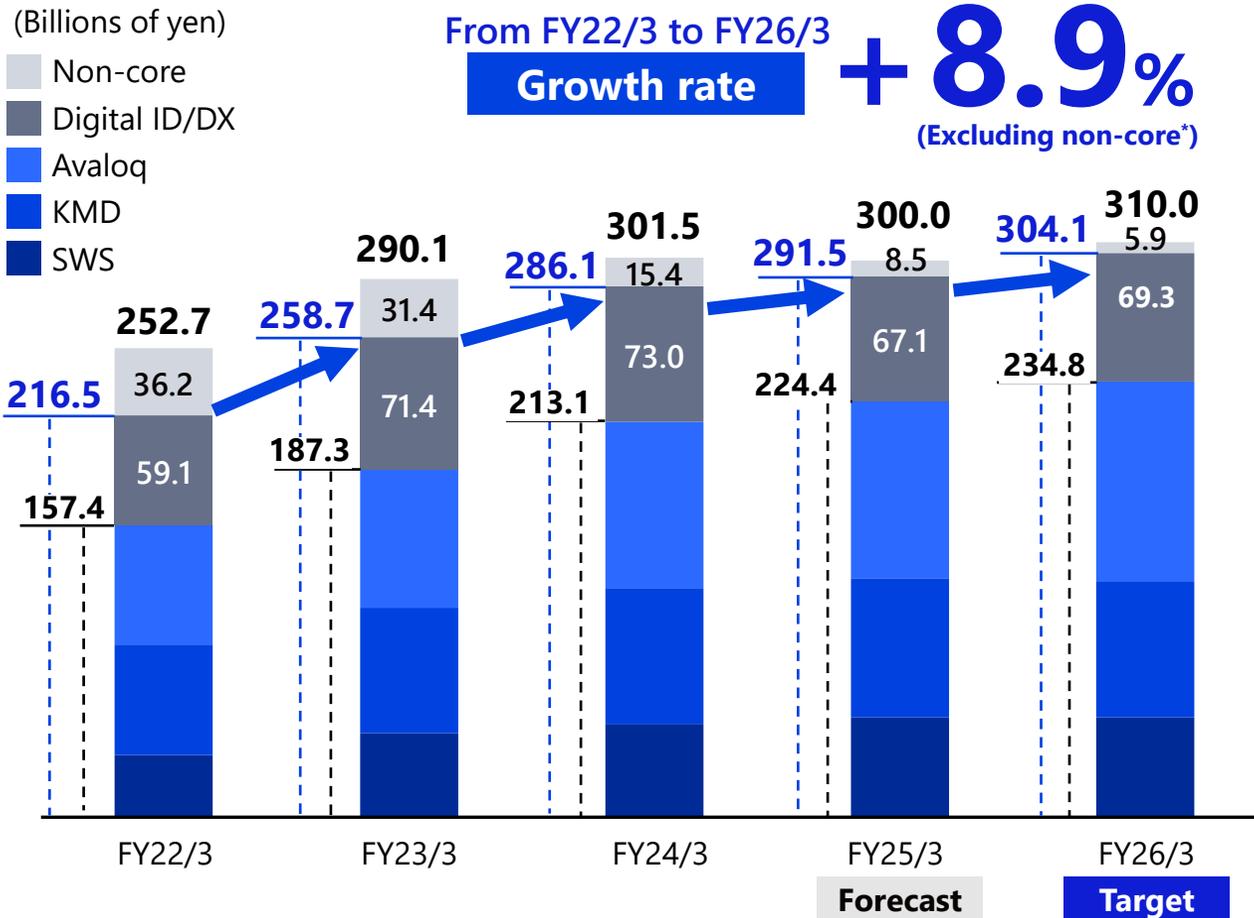
EBITDA margin of 3 European companies:  
 Prior years also revised due to change in accounting definition of Avaloq depreciation in FY25/3

**Forecast**      **Target**

## 2. Revenue Growth Strategy

# Revenue Plan

## Revenue growth as planned, supported by firm orders



### Revenue Expansion Strategy

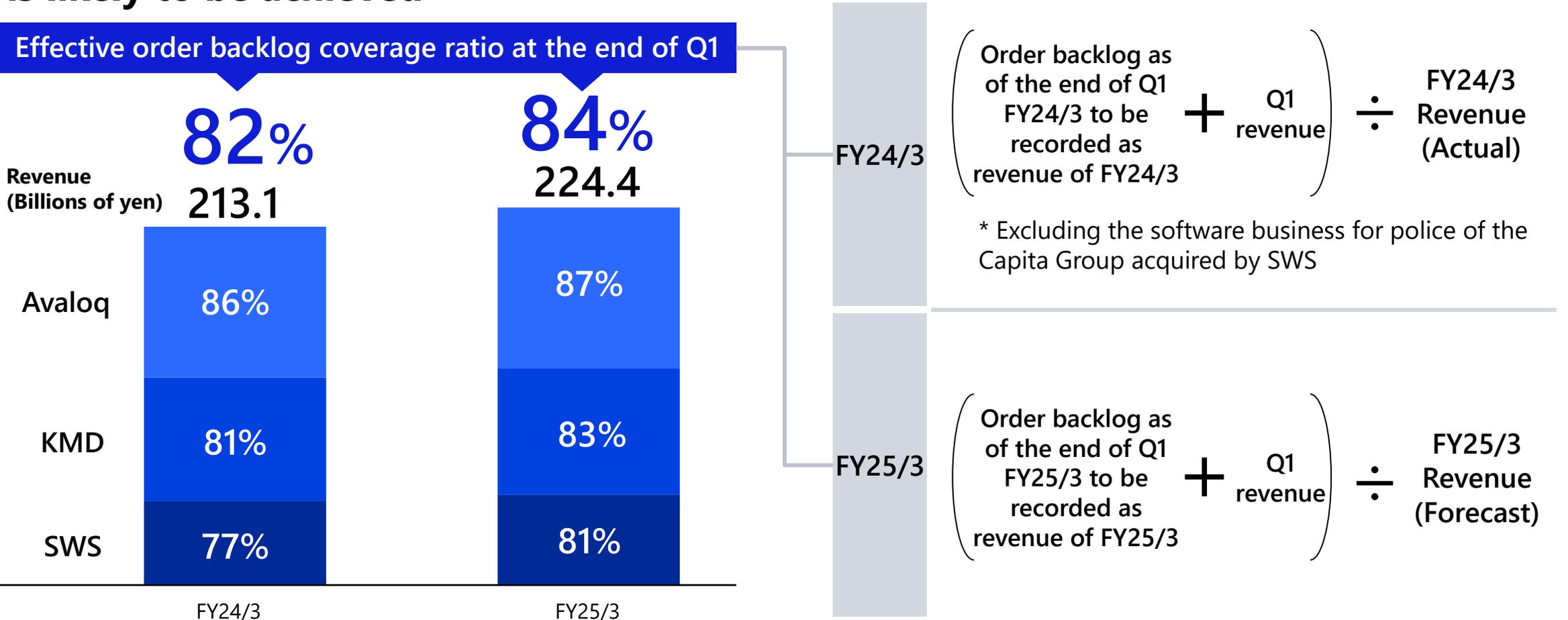
- SWS**
  - Expand cross-selling with acquired businesses
  - Sales expansion to Commonwealth countries
- KMD**
  - Reinforcement of central government projects
  - Expansion of financial leasing software business
- Avaloq**
  - Further expansion of SaaS business
  - Optimization of global sales structure
  - Realization of the effect of Blackrock partnership
- Common to 3 companies**
  - Strengthening of commercial products and market expansion through continued M&A strategy
- DID/DX**
  - Strengthening of Aviation business
  - Expansion of customer wallet share

\* KMD resale business (sold in FY23/3) and low-margin business in Digital ID/DX

# 3 European Companies: Effective order backlog coverage ratio at the end of Q1

Effective order backlog: Backlog of orders to be recorded as revenue within the same fiscal year

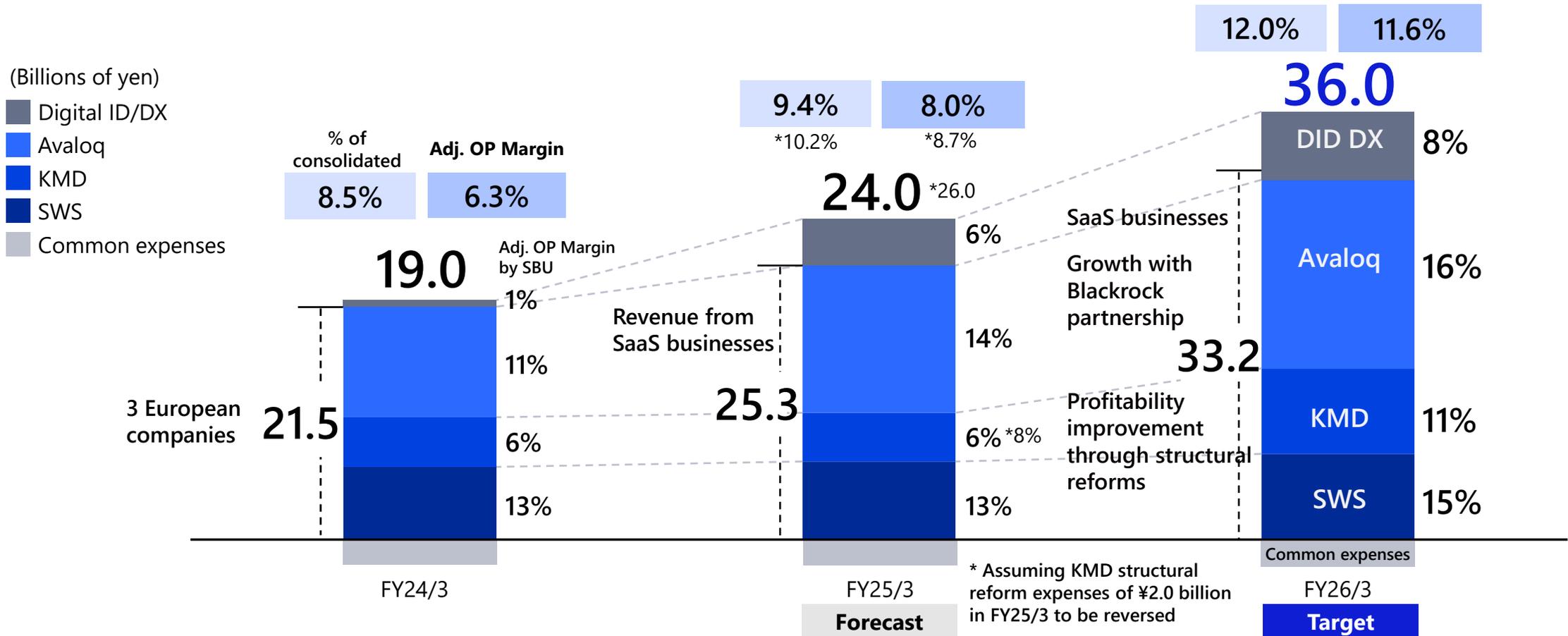
## Effective order backlog for FY2025/3 is steadily increasing, and the revenue target is likely to be achieved



# 3. Profitability Improvement Strategy (Adjusted Operating Profit)

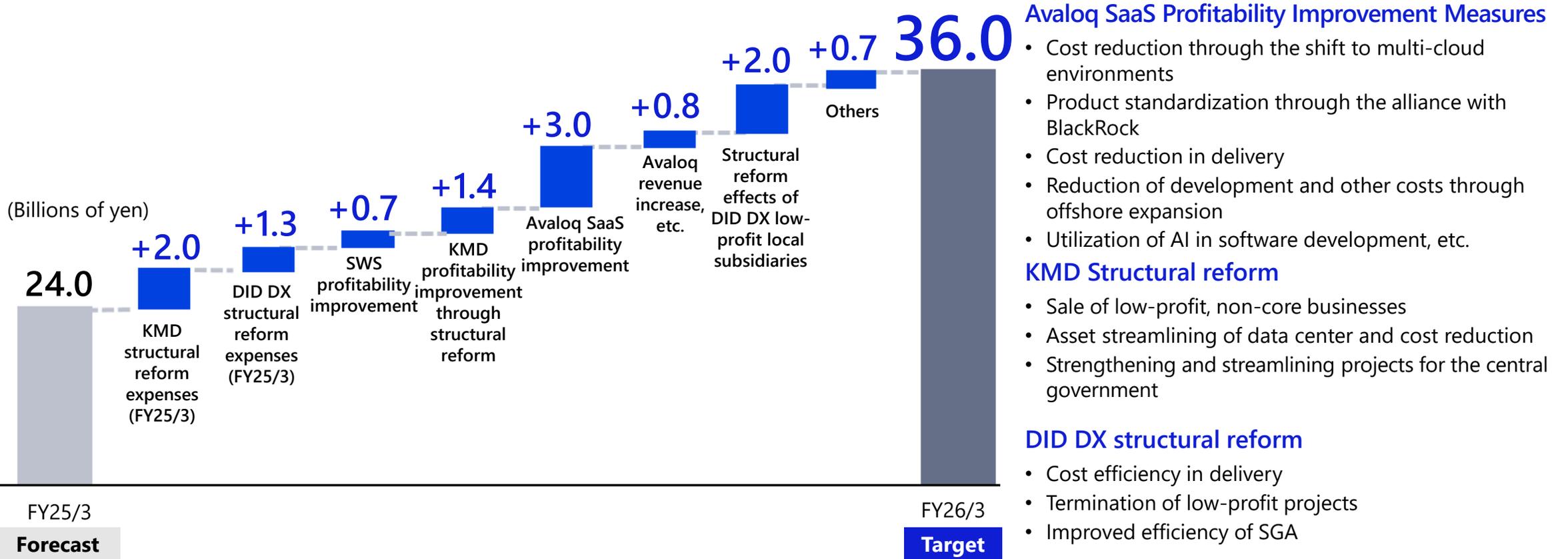
# Adjusted Operating Profit Plan

**Profit improvement measures formulated and deployed centering on 3 European companies  
Planning to achieve ¥36 billion in FY2026/3**



# Breakdown of profitability improvement from FY2025/3 to FY2026/3

## Aim to achieve FY26/3 target through SaaS profitability improvement of Avaloq and structural reform of KMD and DID DX



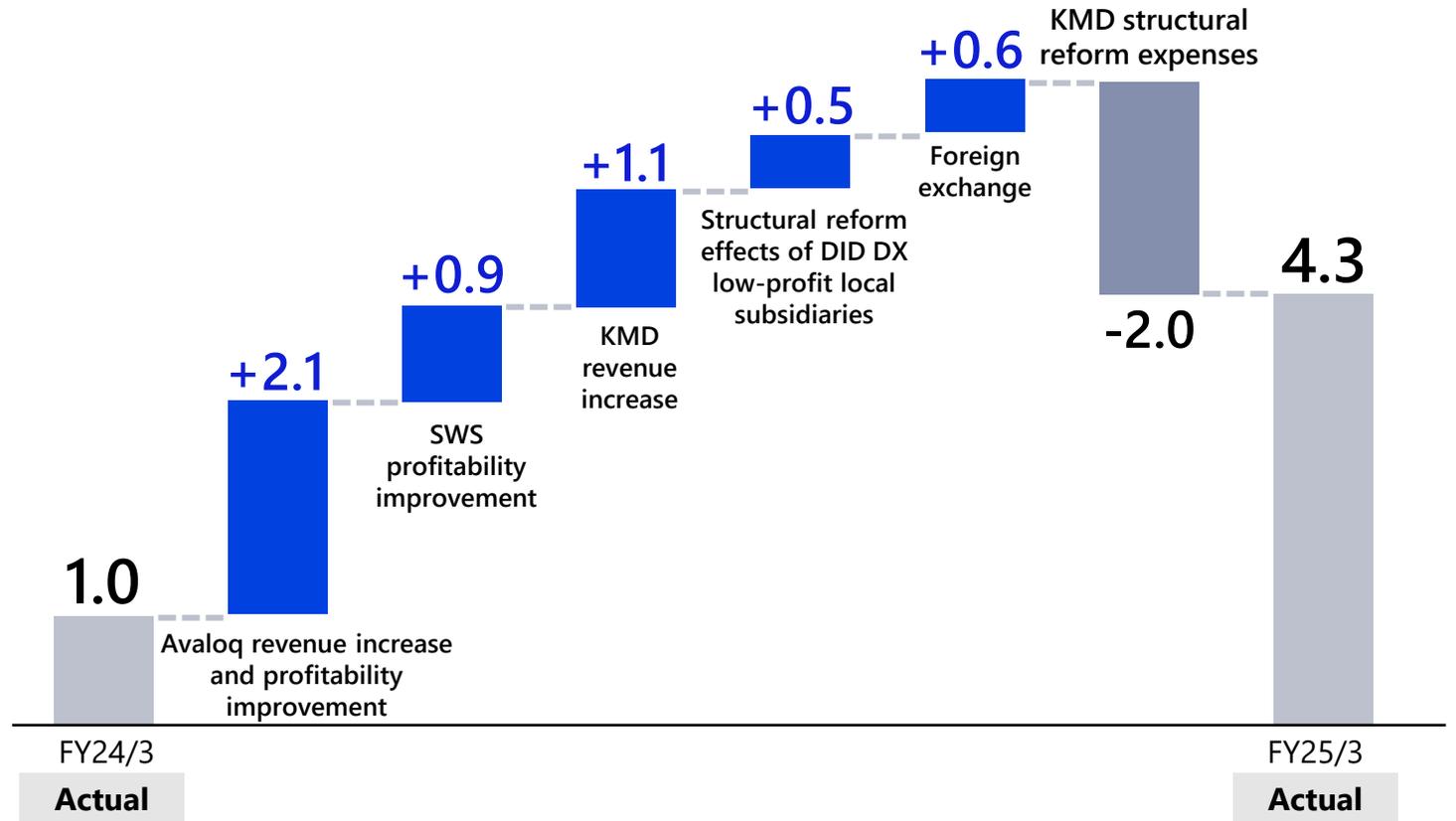
# Status of Q1 FY2025/3

**Significant year-on-year improvement primarily driven by revenue increase and profitability improvement of Avaloq**

Q1 FY2025/3 Results

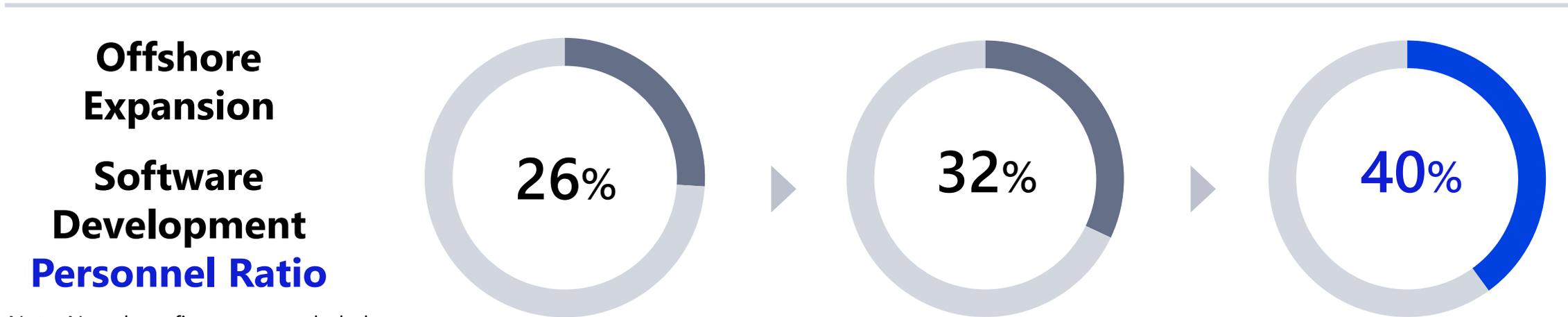
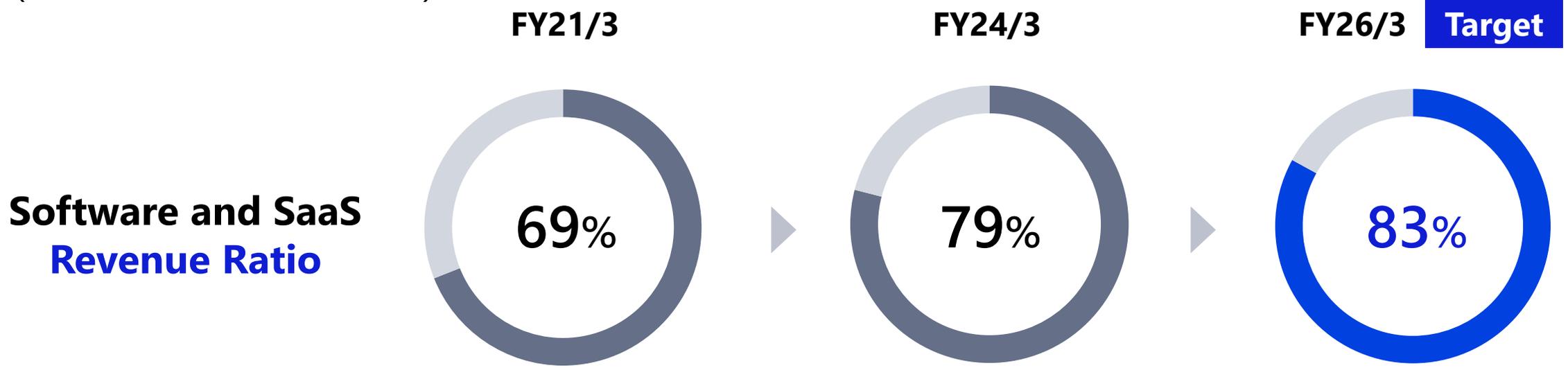
	FY24/3 results	FY25/3 results	YoY
Revenue	65.5	78.2	+19.3%
Adj. OP Margin	1.0	4.3	+3.3
% of Revenue	1.5%	5.5%	+4.0%

YoY Changes in Adjusted Operating Profit (Q1)



# KPIs of 3 European Companies for Profitability Improvement

(Current Status and Plans)



Note: Nearshore figures are excluded

**NEC**

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# 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;
- impact from the outbreak of infections;
- 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, 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 the Company possesses as of the date hereof. New risks and uncertainties come up from time to time, and it is impossible for the Company to predict these events or how they may affect the NEC Group. The Company 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 31,2023, 2024, and 2025 were referred as FY23/3, FY24/3, and FY25/3, respectively. Any other fiscal years would be referred similarly.