Acquisition of a leading financial software company in Switzerland, Avaloq
- Powerful entry into the global digital finance market –

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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.
Outline of today’s announcement

1. Powerful entry into digital finance market
   - Digital finance market trends
   - Entering global financial asset management market

2. Acquisition of a leading financial software company in Switzerland, Avaloq
   - Overview and strengths of Avaloq
   - Strategic rationale of Avaloq acquisition

3. Becoming a top player in software businesses for the public sector
   - Synergies with Avaloq
   - Growth driven by both digital government and digital finance
1. Powerful entry into digital finance market
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.

NEC’s focus on digital finance for its significant contributions to the society and business
Digital finance market trends

Acquire new revenue sources by creating new services

Prolonged low-interest rate policy
- Slowing growth in conventional services

Progress of regulatory reforms
- Shift to open banking (API)

Development of digital technologies
- eKYC, AI, Blockchain, etc.

Prompt delivery of new services

Software utilization (SaaS)

Data utilization and external collaboration

Asset tokenization

API : Application Programming Interface
eKYC : electronic Know Your Customer
SaaS : Software as a Service
Powerful entry into digital finance through Avaloq

Promoting a safe, secure, fair, and efficient society
Entering global financial asset management market

Fields for strengthening the profitability of financial services in the future

- Potential for growth in the flow from cash to operations

Digital fields

- Advisory, tokenization, etc.
- Compatibility with AI, blockchain, etc.

Market growth by expanding asset wealth management consultation and asset trading
Accelerating collaboration between government and finance through digitalization

New innovations through digital IDs and digital tokens

**Collaboration between government and finance through digital IDs**

- **Personal identification** based on government-issued national identity individual numbers, driver’s licenses, passports
- **Eligibility evaluation** for financial risks based on tax and liability information

**Digital ID platform**

- Citizen data
- Taxation data
- Administrative systems
- Financial institutions
- Bank account, card liability information
- Digital ID platform
- Personal authentication using ID/PASS
- Financing application
- Citizens

**Collaboration between government and finance through digital tokens**

- **Real estate transactions and registration management through digital assets**
  - Monitoring of transaction status
  - Registration of assets (Pricing)
  - Asset transactions
  - Loan/Asset management

**Digital token platform**

- Government (Regulatory Body)
- Owner
- Investor (Purchaser)
- Financial institution

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Business development utilizing software platforms

Deliver digital technology such as biometrics, AI, and blockchain to global market with acquired software and domain knowledge in digital finance

Establish reference cases in developed countries as springboard for global development

Common Business platforms
- Horizontal deployment of common business functions

Analysis platforms
- Analysis of data, future forecasts
  - NEC the WISE
  - Bio-IDiom
  - Blockchain

Data platforms
- Collection and integration of data
- Data Utilization Platforms
2. Acquisition of a leading financial software company in Switzerland, Avaloq
Overview of Avaloq and acquisition amount

Avaloq
Switzerland
Approx. 2,300
Providing software and services for core banking systems/financial asset management

Jürg Hunziker

- Sales: Approx. 540 million Swiss francs (Approx. 61.5 billion yen; July 2020)
- EBITDA margin: 16%*
- 2.05 billion Swiss francs (Approx. 236 billion yen)

* EBITDA (excluding non-recurring items) 1 Swiss franc = 115 yen

Sales by offering
- SaaS
- Professional services
- License (On-premise)
- Maintenance (On-premise)

Sales by region
- APAC
- Europe
- Others

70% Europe
FY2019

70% Recurring rate
Key strengths of Avaloq

Value-added digital products and core banking systems

Core banking systems underpinning bank services
- Used by more than 150 financial institutions in 30 countries
- Strength in financial asset management
- Highly regarded for stable operations, high quality, cloud support, multi-countries support and scalability

Personalized advisory
- Asset management advice optimized for each user
- Recommendations based on data analysis in collaboration with external institutions
- Excellent UX that also supports autonomous operations

Communication in response to customer needs
- Mobile chat with experts
- Real-time information notification through collaboration with messaging app
- Supports auditing

Proactive incorporation of the latest technologies

Technology introduction through strategic partnerships
- Digital identity verification (eKYC)
- Blockchain
- Cybersecurity
- Biometrics

UX : User Experience
Strategic rational for the Acquisition

Acquire a platform in Europe, advanced regions for digital finance.
Lead digital government × digital finance sector in Europe, Japan, and around the globe.

Advanced solutions, global deployment capability

Robust customer base
Platform for Digital finance
Data analytics solutions

Reinforced by acquisition

Biometrics
Analytics
Blockchain
Global deployment capability
3. Becoming a top player in software businesses for the public sector
NEC biometrics technologies help create solutions with the added value of enhanced safety and security for financial institutions requiring robust security.
Offer new added value to customers by combining Avaloq’s sophisticated advisory offerings and NEC the WISE

- Market forecast
- Portfolio optimization
- Personalized recommendations
- Simulation
- Anti-money laundering
- Fraud detection

Synergy ②: Big Data & Analytics
Synergy ③: Government-financial collaboration services through blockchain

Develop administrative and financial data as digital assets using NEC’s blockchain technologies to offer safe, secure, and convenient services in real time.

Blockchain

Effects

- Guarantee of security
- Real-time transactions
- Simplified procedures (no need for over-the-counter transactions)

Secure and real-time government-financial collaboration services
Synergy ④: Upsell opportunities for Avaloq software through NEC and KMD

Expand business in Japan, APAC and the US by leveraging NEC’s customer base, and acquire customers in Northern Europe through KMD (Banqsoft).

Leverage NEC’s global deployment capability
Global development through SaaS business

Focus on scalable businesses with high customer value and aim for improvement in profitability.

- Global deployment with SaaS model as the core business
- Shift from IT services to SaaS model
  - Leverage NPS*, KMD and Avaloq assets
  - Offer new customer experience using biometrics and other in-house IP (Aviation, etc.)

※: Northgate Public Services
SI : System Integration
**Progress on the previous cross-border acquisitions**

Smooth progress of PMI contributing to company-wide profits. Further expansion of business through bolt-on acquisitions.

<table>
<thead>
<tr>
<th>Acquired companies</th>
<th>Business domain</th>
<th>Post-acquisition synergy</th>
<th>Adjusted OP Margin FY2019 results*</th>
</tr>
</thead>
<tbody>
<tr>
<td><em>northgate</em></td>
<td>UK, Commonwealth</td>
<td>● Gained majority of market for criminal case management systems in UK (Metropolitan Police Service, etc.)&lt;br&gt;● Expansion of business in judiciary and healthcare, in addition to police domain through M&amp;A&lt;br&gt;● Joint utilization of NPS development resources in India</td>
<td>13%</td>
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<tr>
<td>An NEC Company</td>
<td></td>
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<tr>
<td>(UK: Jan 2018)</td>
<td>Digital government market</td>
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<td></td>
<td>Public safety market</td>
<td></td>
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<tr>
<td><em>KMD</em></td>
<td>Europe</td>
<td>● Expansion of business through M&amp;A in finance domain, and deployment to Northern European countries&lt;br&gt;● Targeting business for administrative and financial software market in APAC region</td>
<td>7%</td>
</tr>
<tr>
<td>An NEC Company</td>
<td>Digital government market</td>
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<td></td>
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<tr>
<td>(Denmark: Feb 2019)</td>
<td>Digital finance market</td>
<td></td>
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</tbody>
</table>

*Excluding special factors
Becoming a top player in software businesses for the public sector

Promote growth driven by both digital government and digital finance
Continue to create synergies with acquired companies

Revenue outside Japan
200 billion yen (FY2020)
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