Orchestrating a brighter world

NEC

Outline & Update of NESIC

November 2018

NEC Networks & System Integration Corporation
(TSE: NESIC, 1973)

Japan.
Committed
to SDGs

Yushi USHIJIMA

1984: Joined NESIC
⇒Mainly involved in sales & marketing strategy
Joined the EmpoweredOffice business launch

2014: Member of Board of Directors of NESIC
Managed Q&A Corporation,
a newly acquired subsidiary
as EVP, then as President & CEO

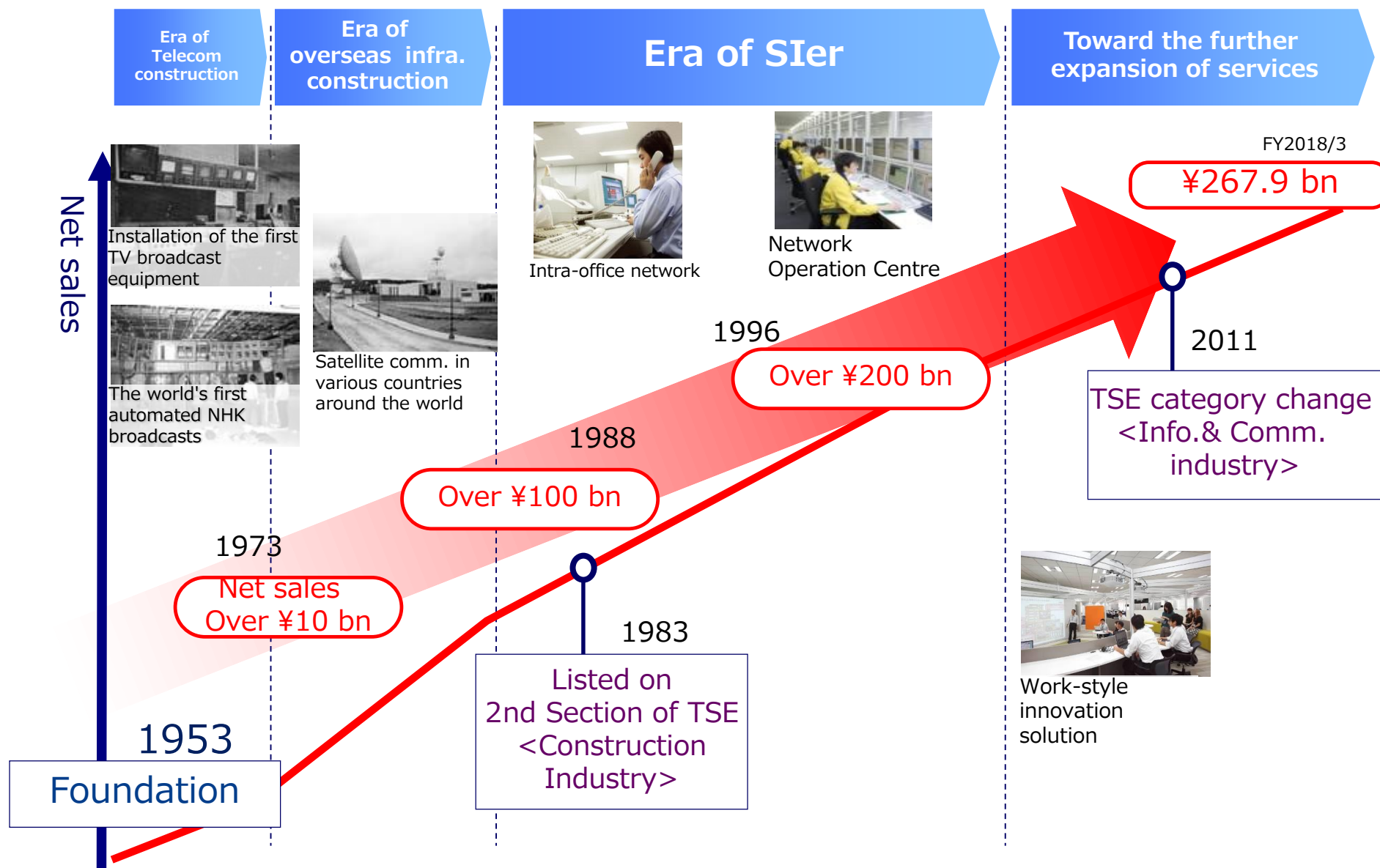**2017: President of NESIC**

My Mission

**Change the Group
for Further Growth**

～ "Strength appears as profit"

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■Company Outline

NESIC History

| Era of Telecom construction | Era of overseas infra. construction | Era of SIer | Toward the further expansion of services |

Net sales

Installation of the first TV broadcast equipment

The world's first automated NHK broadcasts

Satellite comm. in various countries around the world

Intra-office network

Network Operation Centre

FY2018/3

¥267.9 bn

1996

Over ¥200 bn

2011

TSE category change <Info.& Comm. industry>

1988

Over ¥100 bn

1973

Net sales Over ¥10 bn

1983

Listed on 2nd Section of TSE <Construction Industry>

Work-style innovation solution

1953

Foundation

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Business Model

Coordinate equipment and network in accordance with customer needs and provide total services to customers from construction to operation/maintenance

Companies

Telecom. carriers

Governments
Social infra. operators

NESIC

(Integration, installation/maintenance services)

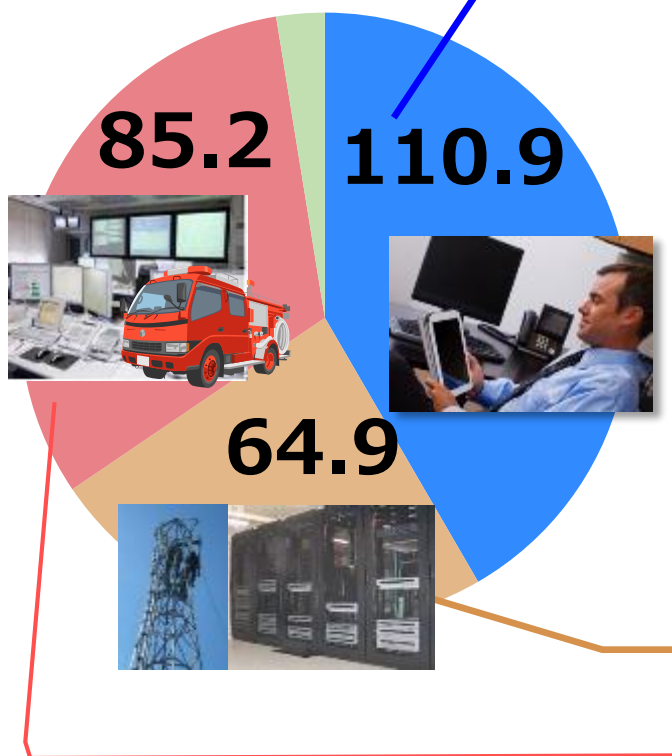**Hardware**

Software

Communication lines

Multi-vendors capability

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Business Segments

Net sales: ¥267.9 bn.
(FY 2018/3)

85.2

110.9

64.9

Enterprise Networks business

Provision of ICT solutions for offices, centered on intra-company network
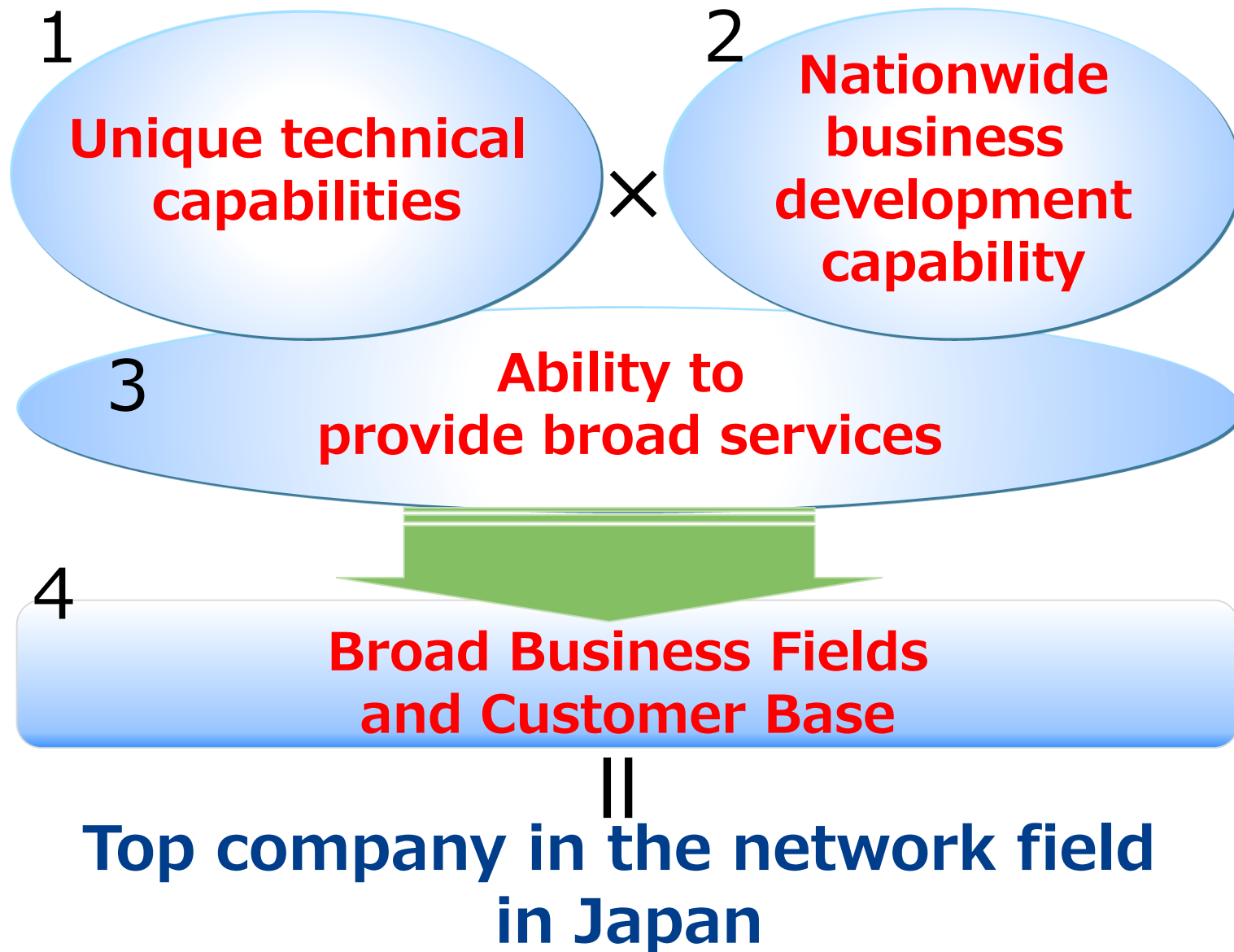- PBX, PC network, security, office tools such as teleconference system, cloud computing…

Carrier Networks business

● Construction and maintenance of the system for telecom. carriers (mobile/fixed)

● Service using the assets for carriers
- Construction of Wi-Fi network, IoT/MVNO service

Social Infrastructures business

● Construction of ICT infra. for governments and public utility companies

● Overseas subsidiaries

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Strengths

1 Unique technical capabilities

×

2 Nationwide business development capability

3 Ability to provide broad services

4 Broad Business Fields and Customer Base

=

Top company in the network field in Japan

SIer with Construction Capabilities

- To achieve the provision of new services that take advantage of the strengths of the ICT business and the telecom construction business and total services

ICT
(Information and communications technology)

Telecom construction /facility management
(Office furniture, electricity and air conditioners…)

SIers such as

SCSK
CTC
Net One Systems

Telecom construction companies such as

COMSYS Holdings
KYOWA EXEO

NESIC

EmpoweredOffice

Started work-style innovation over ten years ago

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Nationwide Business Development Capability

Nationwide sales network & diversified quality service bases

- Sales network throughout Japan and platform for 24/7 service
  => Applying highly reliable system for the public infra.
  to private companies

Nationwide sales/maintenance system	Network total operation centre	Service delivery operation centre	Data centre
Nationwide sales and maintenance network of 400 bases and 4,000 engineers for 24/7 service	Inquiry acceptance, 24/7 security monitoring and network operation	Logistics function with technical services such as evaluations and repairs.	Highly reliable urban-type data centre to keep important ICT assets of customers

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Ability to Provide Broad Services

Offering a wide range of services through high-quality technical capabilities and the string service platform

ICT Introduction Process

Outsourcing

- Consulting
- Arrangement of equipment
- Design/ integration/ installation
- Operation/ maintenance

ICT related all supply chains are available

Multi-vendor services with NEC quality
=High-level service for a wide range of customer needs

Providing supply chains to vendors and startups in Japan and overseas that do not have service bases

➡ Creating new services through collaboration

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▍With broad customer bases from governments to private companies, NESIC supports safe, secure and fulfilling lives in all realms of society, from the ocean floor to space

SUSTAINABLE DEVELOPMENT GⓄALS

2030年に向けて
世界が合意した
「持続可能な開発目標」です

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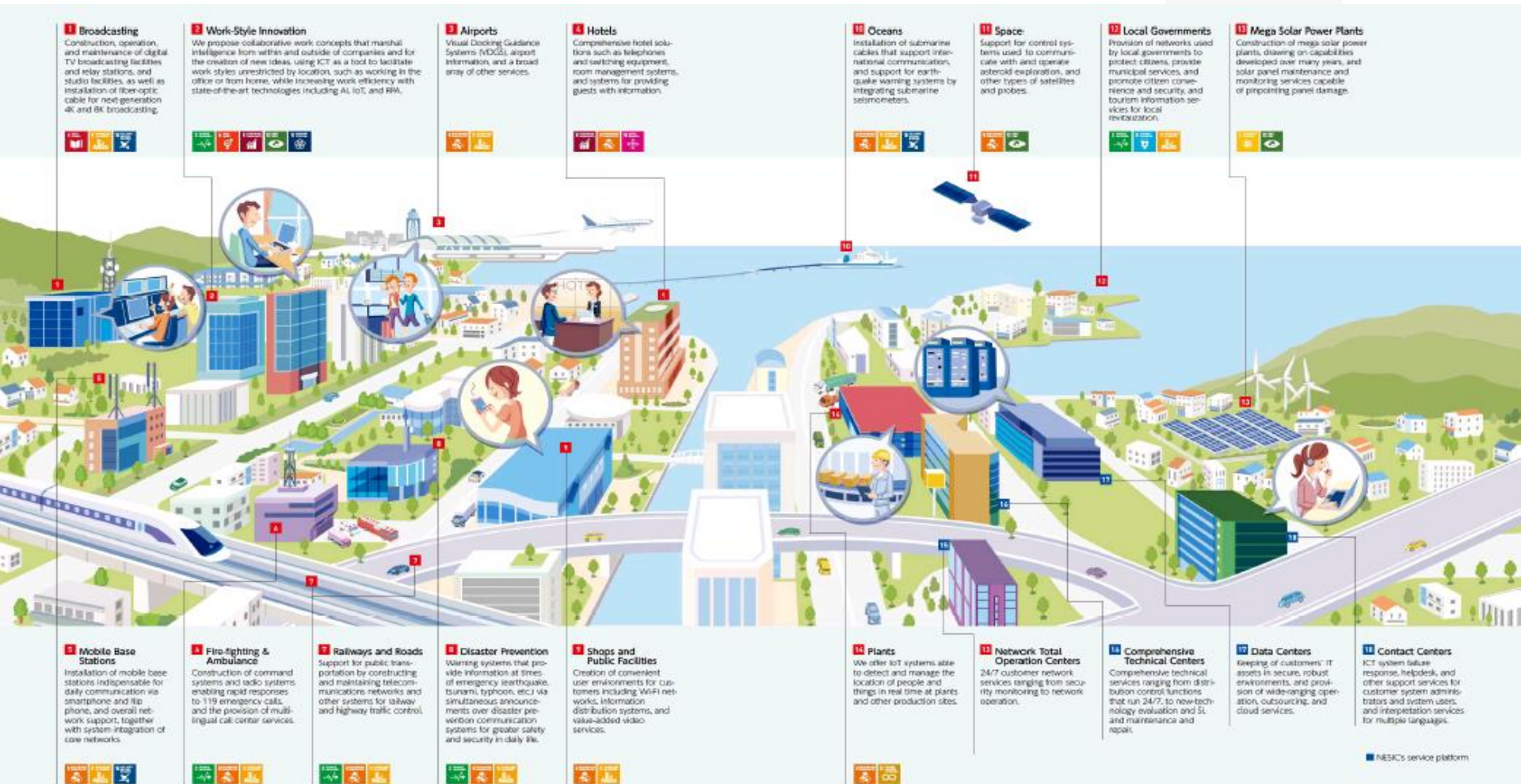
Leading position in the network field in Japan

- Differ from other companies centred on equipment sales or software development.

(¥ bn.)

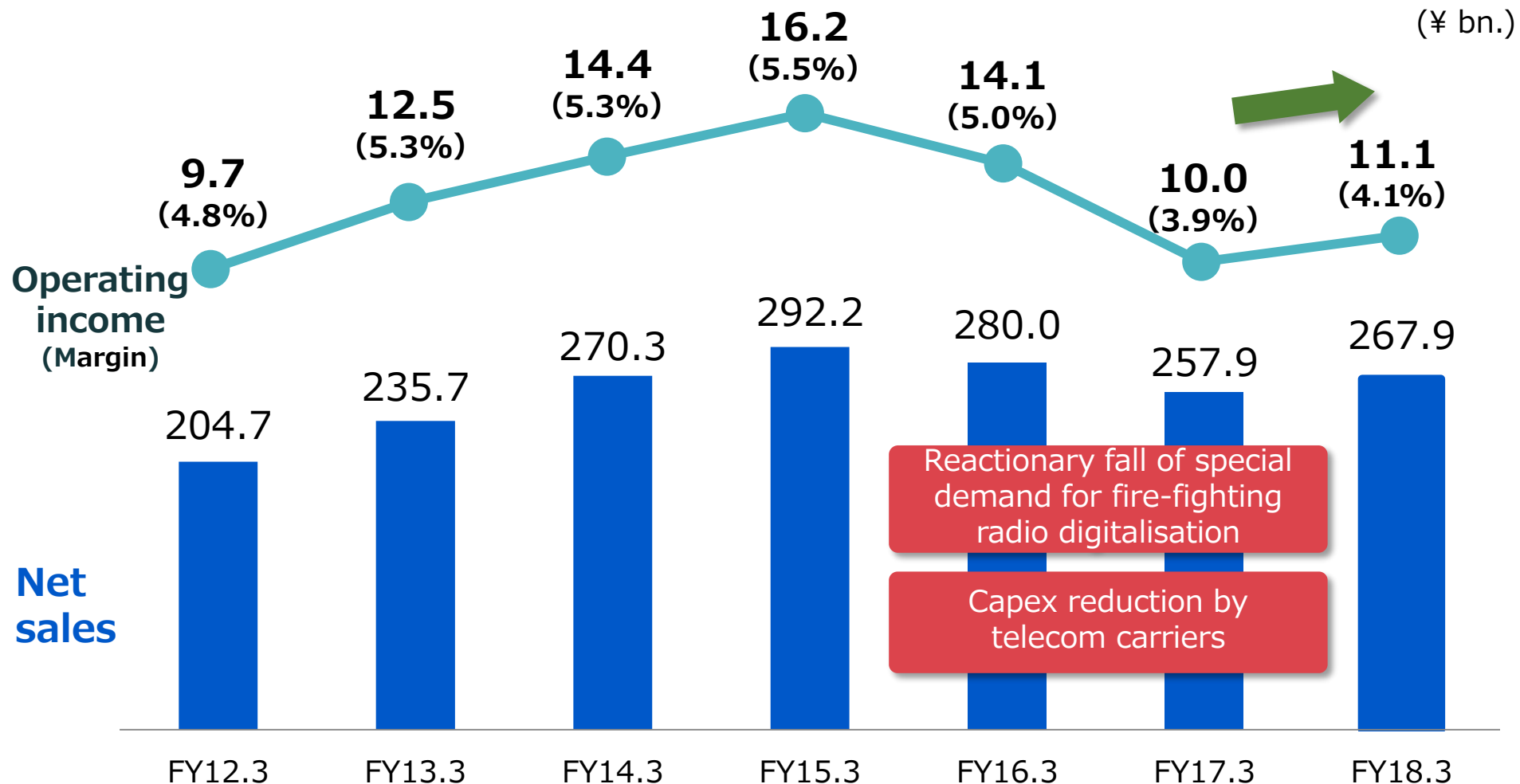|		Net sales relating to network(*)	Net sales for FY2017/3
1	**NESIC**	145.2	257.9
2	ITOCHU Techno-Solutions	129.0	407.8
3	Net One Systems	83.1	157.2
4	OTSUKA CORPORATION	79.0	643.4
5	Nihon Unisys	71.0	282.2
6	NTT DATA	70.3	1732.5
7	SCSK	48.5	329.3
8	TIS Inc.	35.1	393.4
9	Canon Marketing Japan	16.9	629.3
10	NS Solutions Corporation	12.6	232.5

*(Source) Edited by NESIC based on the results of the survey on new business strategies of SI/NI vendors in Japan for 2017, Fuji Chimera Research Institute, Inc.

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The major factors in the sales decrease ceased, and the re-growth trend started in FY18.3.

(¥ bn.)

Operating income (Margin)

9.7 (4.8%)　**12.5** (5.3%)　**14.4** (5.3%)　**16.2** (5.5%)　**14.1** (5.0%)　**10.0** (3.9%)　**11.1** (4.1%)

Net sales

204.7　235.7　270.3　292.2　280.0　257.9　267.9

Reactionary fall of special demand for fire-fighting radio digitalisation

Capex reduction by telecom carriers

FY12.3　FY13.3　FY14.3　FY15.3　FY16.3　FY17.3　FY18.3

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Favourable as a whole with differences by field

- **Enterprise Networks**

  - Expanding work-style innovation demand in Japan

    - The point is shifting to productivity and creativity
      by using DX technologies (AI/IoT/RPA, etc.)

- **Carrier Networks**

  - Recovering CAPEX of telecom carriers
    mainly in base stations

- **Social Infrastructures**

  - Japan: Stable conditions with up & down
    by investment theme
    - Favourable areas are broadcast/CATV, disaster prevention..
  - Overseas: Active infra. investment in ASEAN

*DX: digital transformation

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A year of solidifying the foundations for evolution into a strong and attractive company

Creation of "No.1," "Only 1" businesses

- **Leading-edge technological fields**
  - ・Aggressive use of DX technologies (i.e. AI, IoT, RPA, etc.)
  - ・Speedy creation of new businesses with the use of CVC

- **Expansion of carrier networks business via collaboration with partners**
  (Mobile base station, LPWA)

- **Growth investments to sprint from the start in the next medium-term management plan**

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FY2019/3 Financial Forecasts & 1H Progress

Forecast OP increase
offsetting a rise in growth cost (¥2bn).

- Forecast +10% orders expansion except for huge orders of mega-solar plants construction in FY18/3 (¥24bn.)
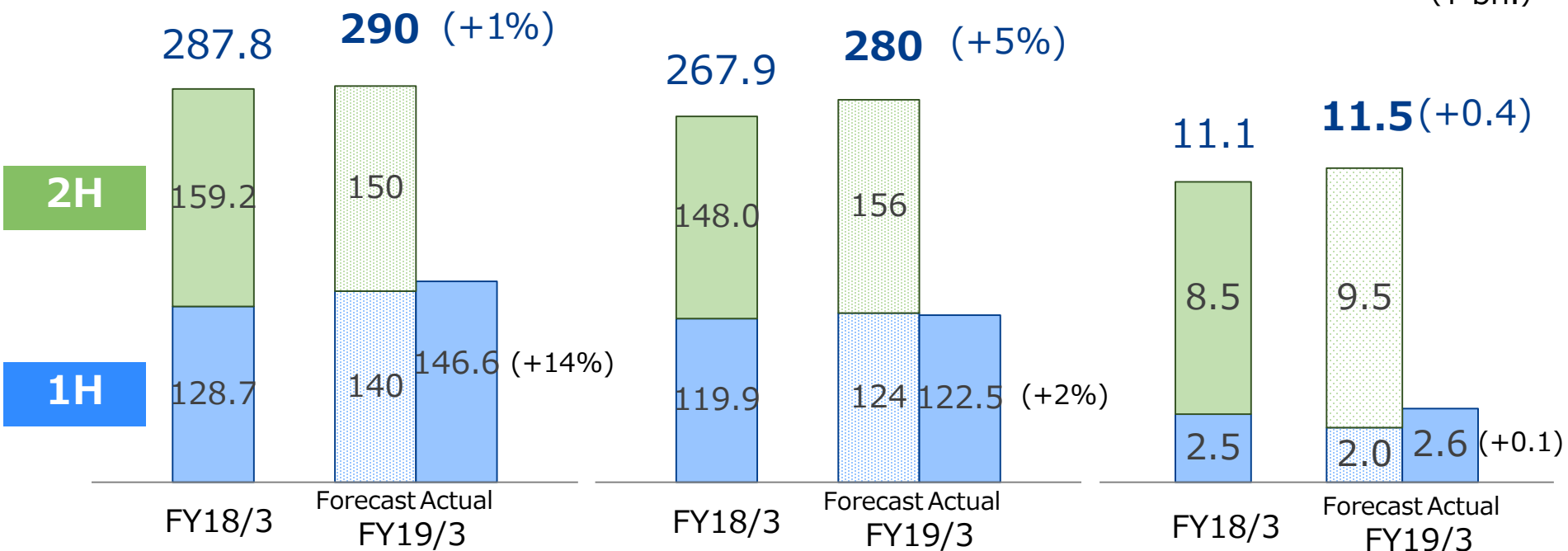
Robust results in 1H

Orders

Sales

OP

(¥ bn.)

Orders

287.8 → **290** (+1%)

| 2H | 159.2 | 150 |
| 1H | 128.7 | 140 | 146.6 (+14%) |

Sales

267.9 → **280** (+5%)

| 2H | 148.0 | 156 |
| 1H | 119.9 | 124 | 122.5 (+2%) |

OP

11.1 → **11.5** (+0.4)

| 2H | 8.5 | 9.5 |
| 1H | 2.5 | 2.0 | 2.6 (+0.1) |

FY18/3 — Forecast Actual FY19/3 (Orders)

FY18/3 — Forecast Actual FY19/3 (Sales)

FY18/3 — Forecast Actual FY19/3 (OP)

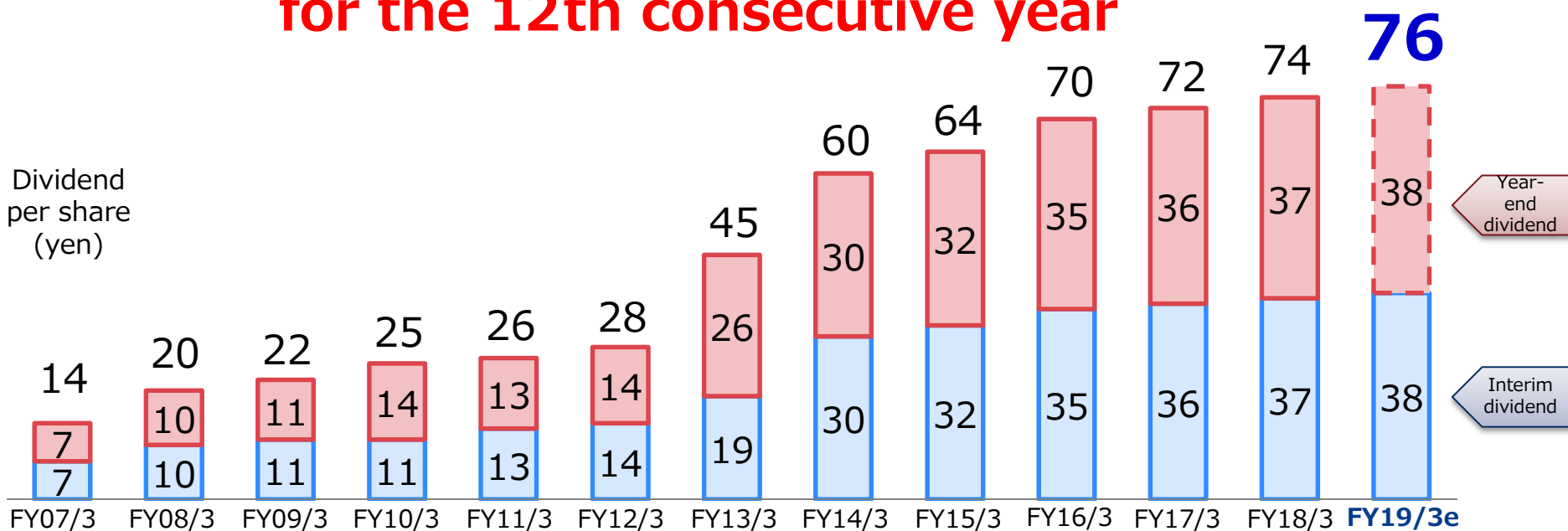Orchestrating a brighter world **NEC**

*Forecast as at 30th October, 2018

Increase in shareholder return with improvement of the profit level based on the basic policy for stable dividends
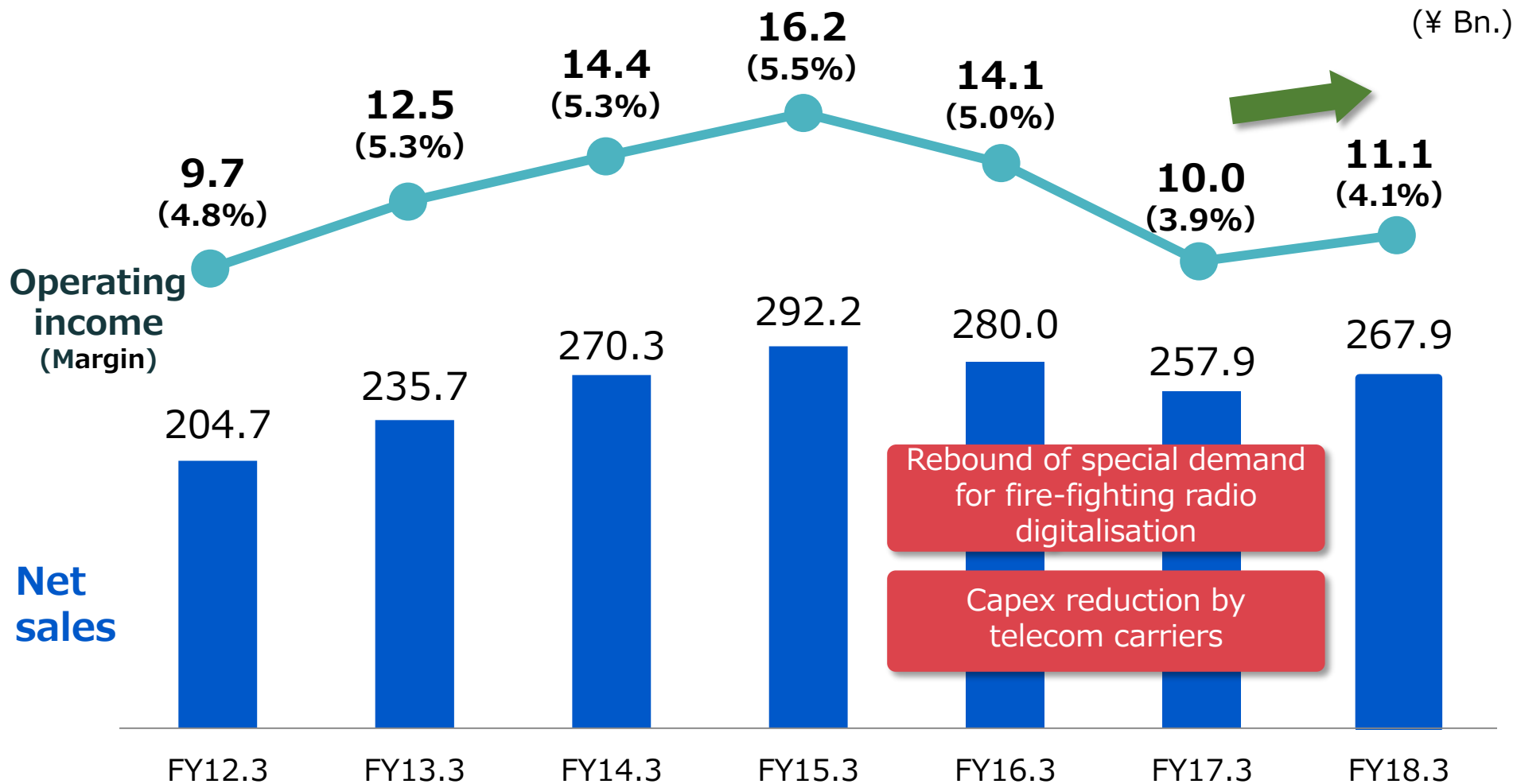
● Consideration of DOE

**Planning for dividend increase
for the 12th consecutive year**

Dividend per share (yen)

	FY07/3	FY08/3	FY09/3	FY10/3	FY11/3	FY12/3	FY13/3	FY14/3	FY15/3	FY16/3	FY17/3	FY18/3	FY19/3e
Total	14	20	22	25	26	28	45	60	64	70	72	74	76
Year-end dividend	7	10	11	14	13	14	26	30	32	35	36	37	38
Interim dividend	7	10	11	11	13	14	19	30	32	35	36	37	38

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■Update of

Financial Results

Recent Financial Results

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(¥ Bn.)

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Net sales

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Rebound of special demand for fire-fighting radio digitalisation

Capex reduction by telecom carriers

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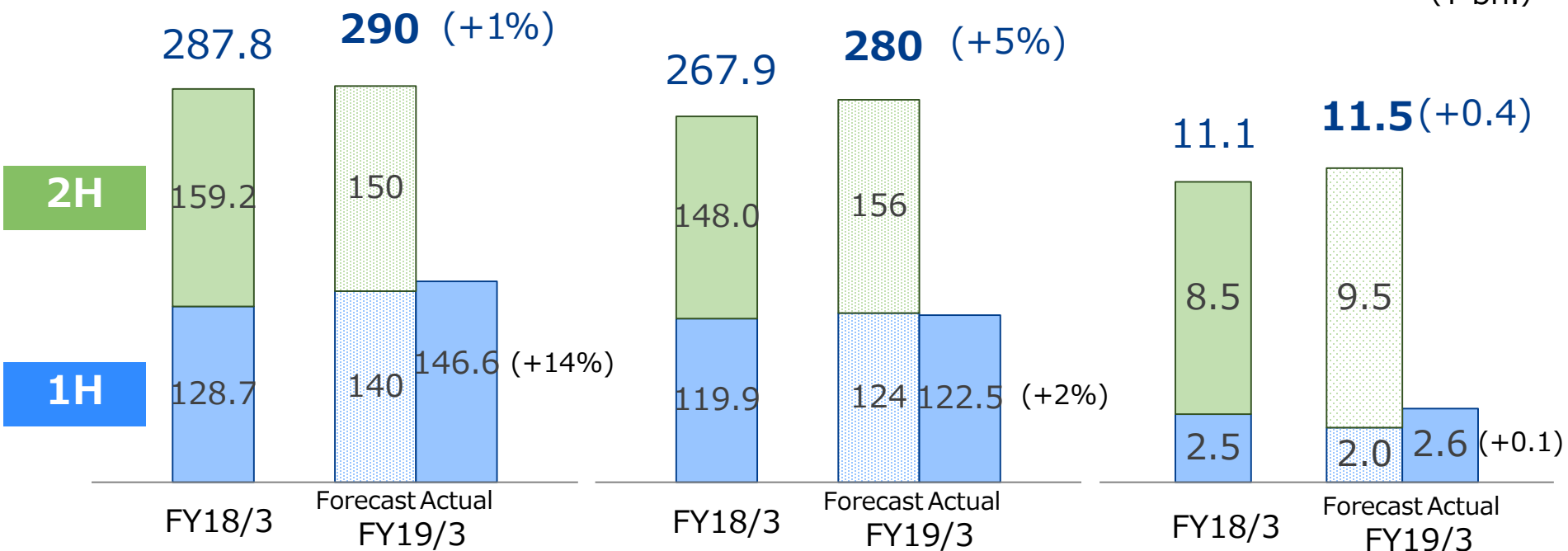- Forecast +10% orders expansion except for huge orders of mega-solar plants construction in FY18/3 (¥24bn.)
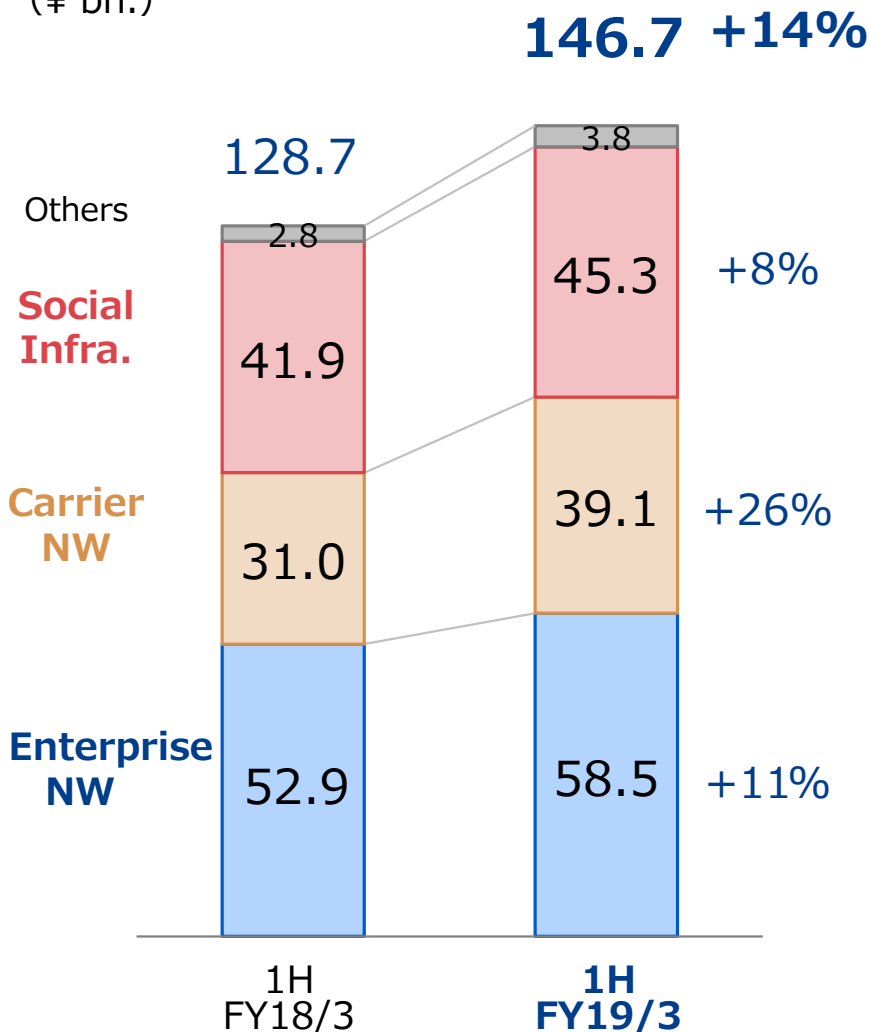
Robust results in 1H

Orders

Sales

OP

(¥ bn.)

	Orders		Sales		OP	
	FY18/3	Forecast Actual FY19/3	FY18/3	Forecast Actual FY19/3	FY18/3	Forecast Actual FY19/3

2H

1H

Orders: 287.8 → **290** (+1%)
- 2H: 159.2 / 150
- 1H: 128.7 / 140 / 146.6 (+14%)

Sales: 267.9 → **280** (+5%)
- 2H: 148.0 / 156
- 1H: 119.9 / 124 / 122.5 (+2%)

OP: 11.1 → **11.5** (+0.4)
- 2H: 8.5 / 9.5
- 1H: 2.5 / 2.0 / 2.6 (+0.1)

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(¥ bn.)

146.7 **+14%**

128.7

Others

2.8 → 3.8

Social Infra.

41.9 → 45.3 +8%

Carrier NW

31.0 → 39.1 +26%

Enterprise NW

52.9 → 58.5 +11%

1H FY18/3 → **1H FY19/3**

Enterprise Networks
- Work-style innovation fields was robust

  ～Office visitors increased by 79%
- PJs for financial customers were concentrated in 1H
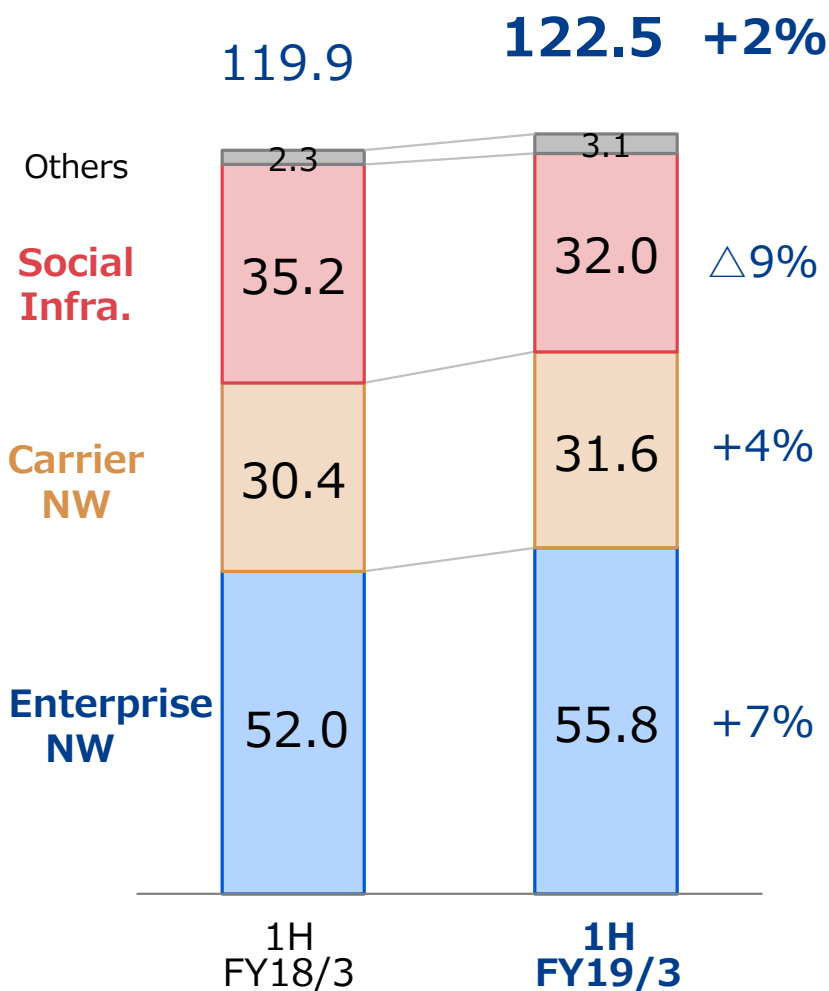
Carrier Networks
- Non-carriers business expanded due to large PJs for hotels
- Orders from telecom carriers increased

Social Infrastructures
- Overseas business increased ～Acquired 2 large PJs (¥10bn.)
- Part of domestic PJs were shifted to 2H
- Firefighting commander system was in the off-season

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1H FY2019/3 Sales by Segment

(¥ bn.)

119.9 **122.5 +2%**

Others

	1H FY18/3	1H FY19/3	
Others	2.3	3.1	
Social Infra.	35.2	32.0	△9%
Carrier NW	30.4	31.6	+4%
Enterprise NW	52.0	55.8	+7%

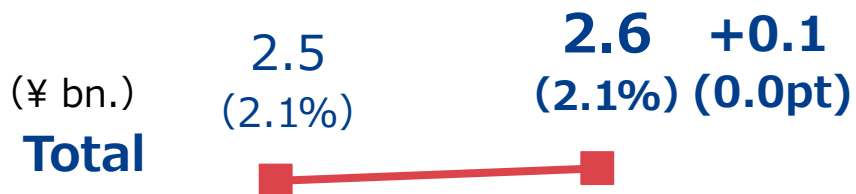## Enterprise Networks
- Work-style innovation fields increased EmpoweredOffice sales +9%

Carrier Networks
- Overall sales steadily increased centered on non-carriers area

Social Infrastructures
- Sales of mega-solar plant construction (for civil engineering) and overseas declined
- Sales increased in the broadcasting/cable TV area

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1H FY2019/3 Operating Income by Segment

(¥ bn.)
Total

	1H FY18/3	1H FY19/3	
Total	2.5 (2.1%)	**2.6 (2.1%)**	**+0.1 (0.0pt)**
Enterprise NW	4.3 (8.4%)	5.1 (9.1%)	+0.8 (+0.7pt)
Carrier NW	2.1 (6.9%)	1.8 (5.8%)	-0.3 (-1.1pt)
Social Infra.	0.1 (0.3%)	-0.1 (—%)	-0.2 (-pt)
Others/Elimination	-4.1	-4.2	-0.1

Enterprise Networks
- Income increased due to higher sales, improved sales mix and cost reduction
- Growth investment in the DX area

Carrier Networks
- Income declined due to lower COS ratio and growth expenses (for J/V with KDDI)

Social Infrastructures
- Income decreased due to an increase in unprofitable projects impacts

Others/elimination
- Income remained flat yoy due to the stream-lined administration cost, despite growth expenses (IT system)

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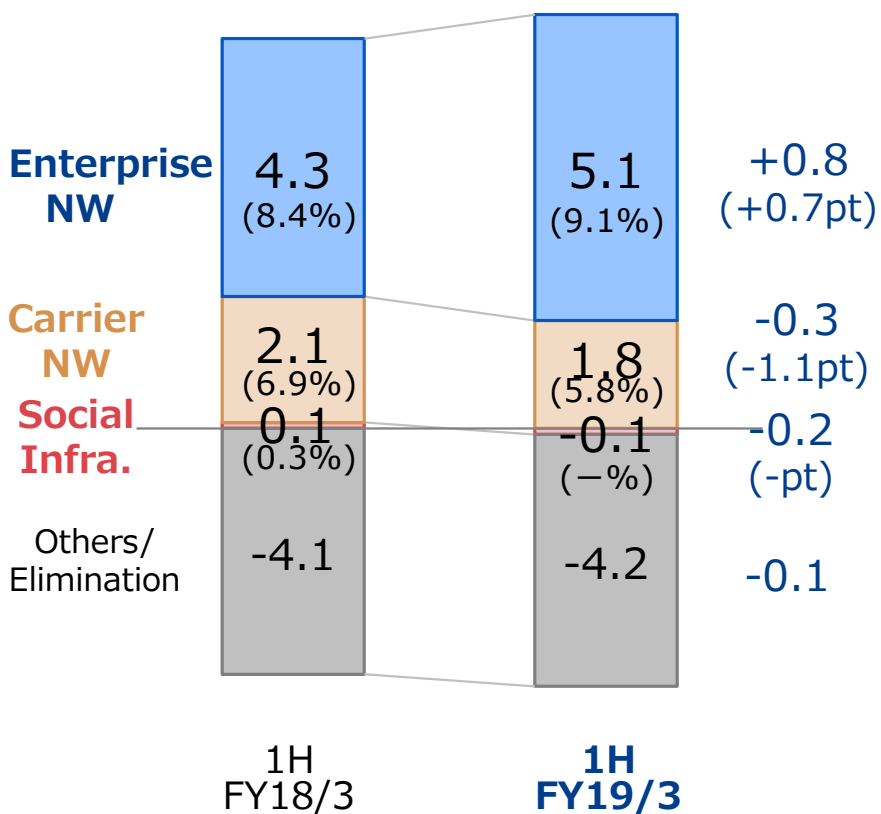
Experience of work-style innovation since 2007 EmpoweredOffice

Through practice and verification at NESIC, improving solutions to make proposals

About 50,000 customers came to see our work-styles.

EmpoweredOffice is:

| **ICT** | + | **Space design** | + | **Rule** | = | **Productivity improvement** |

To the next stage — **from the improvement of the work-place to the improvement of the work-styles**

utilizing the latest technologies

2007

2015

Office reform → **Telework from home and satellite offices**

Paper & paper

Closed meetings

Paperless

Visualization of meeting

Meeting among HQ/branches/home

Management meeting with teleworkers

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Work-style **to create innovations** with leading edge technologies

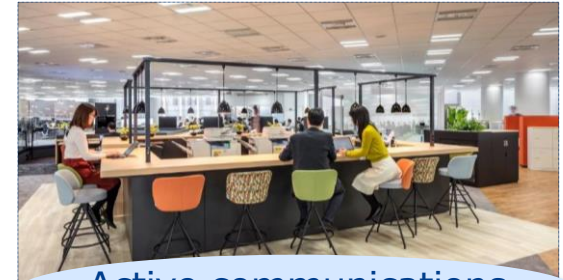**Location-free, time-free comm.**

Quick decision

Virtual contact

Sharing knowhow & idea

Real contact

Active communications

Practice of "collaborative work" beyond the boundaries of locations, time and organisation/corporations

[Creating new services]

| **Collaboration Platform** | **Info./knowledge sharing** | **Automation of routines** |

Automated helpdesk   Overtime management system   ・・・

DX technologies

Collaboration with partners

AI   IoT   Mobility   Cloud   ・・・

zoom   Microsoft Azure   box   ・・・

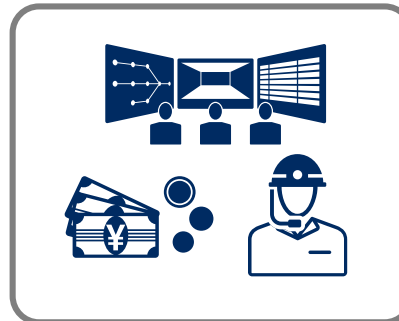\Orchestrating a brighter world   **NEC**

Established CVC fund for creation of new business through open innovation with startups

(January, 2018)

Open innovation

"Game changing ideas of venture companies × **NESIC assets = New businesses"**

CVC Fund

<Seeds of new business>
Game changing ideas of startups

<NESIC assets>
・ICT capabilities
・Construction capabilities
・Support service platform

=

"No.1" "Only 1" new businesses

Investments through CVC

2018

April: Boomtown Network, Inc. `USA`

A company to provide the next-generation support service business combining the omni-channels contact center and the onsite support network with the sharing economy concept

⇒**Aiming innovation of our support service business**

July: Savioke, Inc. `USA`

A company to provide self-controlled robots for transport to hotels and medical settings

⇒**Aiming acceleration of development of new markets such as medical setting**

September: InterMedia Laboratory Inc. `Japan`

A company to develop the technologies for capacitance codes that can be read with the touch panel of a smartphone

⇒**Aiming new authentication service creation using high level electrostatic capacity technology**

October: ALE Co., Ltd. `Japan`

A company to develop satellites that realise artificial shooting stars for the first time in the world

⇒**Aiming private satellite operation service area**

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Alliance with partners

KDDI

Established a joint company for mobile infrastructure

KNSI

K&N System Integration Corporation

Base station construction & area design, fixed comm., etc.

Enhancing business for KDDI providing total services from area design to installation of base stations

Sony Network Communications + ORIX

Joined LPWA business that SONY starts as a business partner

Handling sales of communication services & provision of support services to users and partners in individual area

ELTRES™

Sony's LPWA

Expanding IoT related SI & service as well as line sales as an operator of promising LPWA service

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Business with local subsidiaries & Proactive response to investment in ASEAN

- **Acquired big projects growing ties with customers**
  - ・ **Monitoring control and communications system for petro plant**
  - ・ **Singapore railway communication system**

Ocean business

- **Expanding into new market: marine resources development**
  - ・ **Using expertise of submarine cable/seismometer business**
  - ・ **POC of submarine hub device for electricity/signal supply in the North Sea**

    Adopted for a subsidized project for the Japan-Scotland collaborative technology development for the ocean development project of the Nippon Foundation

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(Ref.) Mega Solar Plant Business Impact by Segment

Approx. ¥ bn.

Orders	17.3			18.3			19.3		
	1H	2H	Yr	1H	2H	Yr	1H*	2H(e)	Yr(e)
Enterprise	5.0	1.0	6.0	-	14.5	14.5	-0.5	-	-0.5
Carrier	3.5	-	3.5	-	5.5	5.5	-1.0	-	-1.0
Social Infra	4.5	1.5	6.0	-	3.5	3.5	-1.0	-	-1.0
Total	13.0	2.5	15.5	-	23.5	23.5	-2.5	-	-2.5

*Cancellation of orders for maintenance received in 2H/17.3 due to the change of the operator

Sales	17.3			18.3			19.3		
	1H	2H	Yr	1H	2H	Yr	1H	2H(e)	Yr(e)
Enterprise	-	-	-	0.5	3.5	4.0	1.0	3.0	4.0
Carrier	-	-	-	a bit	1.5	1.5	1.0	2.5	3.5
Social Infra	-	1.0	1.0	2.0	1.0	3.5	0.5	1.5	2.0
Total	-	1.0	1.0	3.0	6.0	9.0	2.5	7.0	9.5

*Profit impact is negligibly small

<Mega solar business>
Construction of plant and maintenance
As large-scale projects, tasks are allocated to the sections of the entire company.
Accordingly, the results were posted in all segments by area in charge.

<Area in charge>

(1) Enterprise Networks: Construction of electrical equipment and project management

(2) Carrier Networks: Construction of panels/monitoring network

(3) Social Infrastructures: Development of land on the site

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Re-designing your Communication

NEC Networks & System Integration Corporation is committed to increasing customer value by redesigning future communications from the user's perspective.

nesic | **Search**

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http://www.nesic.co.jp/english/index.html

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