

Financial Results for the 1H ending March 2020

October 30, 2019

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

Agenda

I. Results for 1H FY2020/3

II. Forecasts for FY2020/3

III. Progress of Measures

for “Beyond Borders 2021”
(Medium-Term Management Plan)



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II. Forecasts for FY2020/3

III. Progress of Measures
for “Beyond Borders 2021”

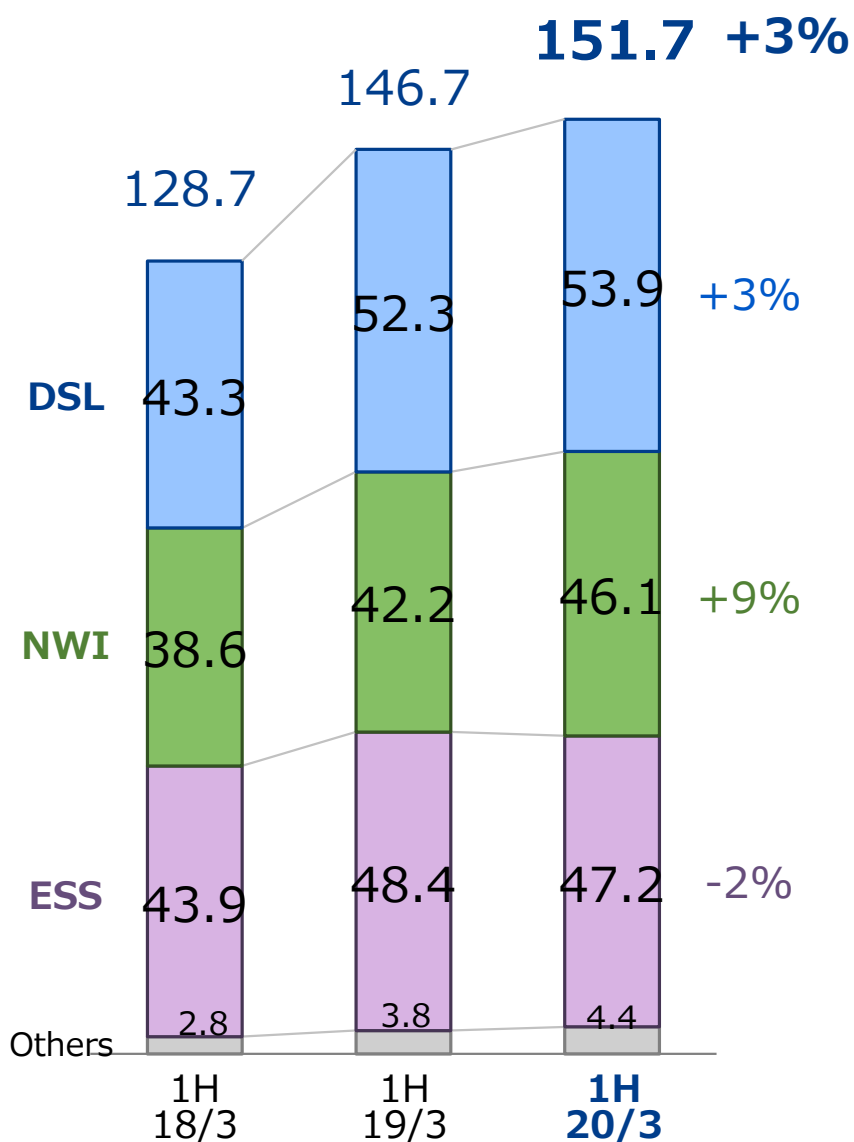
Achieved higher net sales and income Off to a good start for the achievement of “Beyond Borders2021” plan; exceeding forecasts

- Orders: Increased, offsetting a reactionary fall due to large overseas projects in the previous FY (-10). * Over 10% growth excluding impacts above
- Operating income: Increased due to profitability improvement despite increased growth expenditure (-0.9)

	1H FY2019/3	1H FY2020/3	Change	1H Forecasts as at Jul.31 (¥ Bn.)
Orders received	146.7	151.7	+3%	143
Sales	122.5	136.3	+11%	130
(Gross margin)	15.9%	16.5%	+0.6pt	-
Operating income	2.6	4.4	+1.7	2.7
(to sales)	(2.1%)	(3.2%)	+1.1pt	(2.1%)
Net income attributable to owners of the parent	1.9	2.9	+1.0	1.6
(to sales)	(1.6%)	(2.1%)	+0.5pt	(1.2%)
Free cash flows	11.5	10.8	-0.7	

1H/FY2020/3 Orders Received by Segment

(¥ Bn.)



Digital Solutions (DSL)

- Although orders from financial companies decreased due to PJ concentration in the previous FY, workstyle innovation orders increased

Network Infra. (NWI)

- Social/public orders* increased although orders from telecom carriers were carried over into 2H

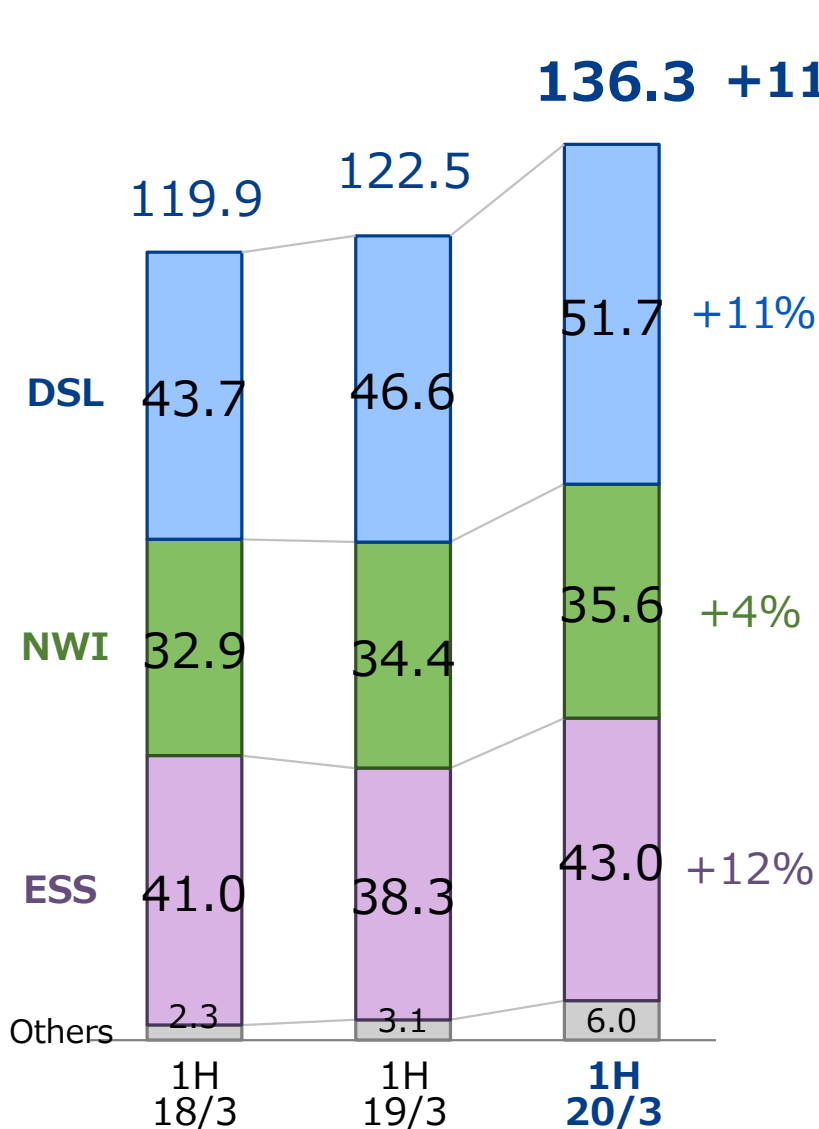
*Networks for firefighting, disaster prevention and traffic

Engineering & Support Services (ESS)

- Decreased slightly as a result of offsetting the reactionary drop in orders due to large overseas orders in the previous FY(-10) by increased domestic construction (firefighting), etc.

1H/FY2020/3 Net Sales by Segment

(¥ Bn.)



Digital Solutions (DSL)

- Workstyle innovation area and network for hotels increased
- Both of SI and services areas increased

Network Infra. (NWI)

- Sales for social/public* increased, although sales for telecom carriers were carried over into 2H

*Firefighting and space (terrestrial system), etc.

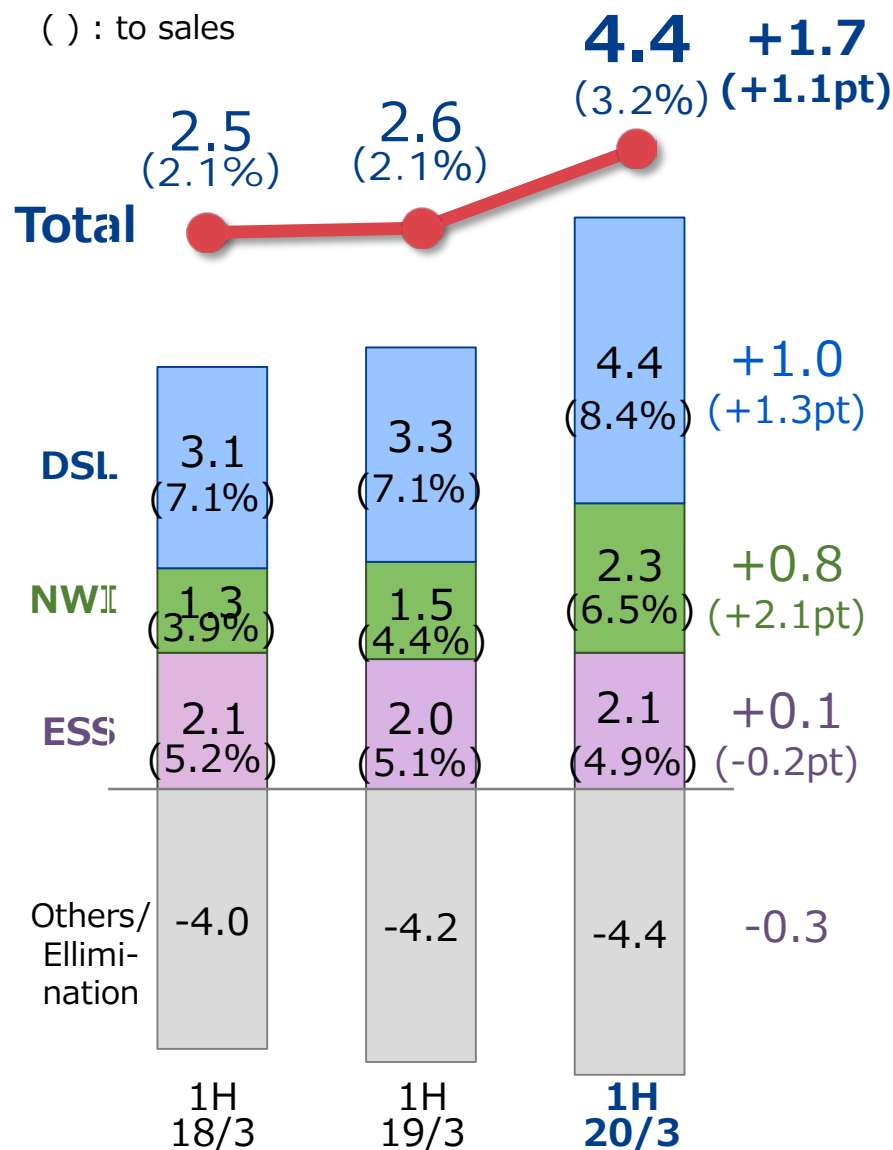
Engineering & Support Services (ESS)

- Both of domestic construction* and maintenance/operation businesses increased

*Office facilities, mega-solar, firefighting, etc.

1H/FY2020/3 Operating Income by Segment

(¥ Bn.)
() : to sales



Significant increase as a result of improvement in all segments

● Digital Solutions (DSL)

- Profit increased due to improved fixed cost efficiency as a result of higher net sales

● Network Infra. (NWI)

- Profit increased due to dissolving unprofitable projects in addition to higher net sales and the reorganization effect*

*Resource efficiency enhancement, enhanced PJ management etc.

● Engineering & Support Services (ESS)

- Profit increased due to higher net sales despite an increased impact from unprofitable projects.

● Others/Elimination

- Growth expenses increased
(Office realignment, etc.)



I. Results for 1H FY2020/3

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for “Beyond Borders 2021”

Upward revision of full-year forecasts in view of strong 1H progress

- For 2H, the uncertain macroeconomic environment, front-loaded net sales and the carryover of 1H growth expenditure were factored in.

	FY19.3 Actual	FY20.3 Forecast	Change	Forecast as at July 31	Diff.	(¥ Bn.)
Orders Received	284.7	295	+4%	295	—	
Net Sales	277.9	300	+8%	295	+5.0	
Operating Income	12.8	14.0	+1.2	13.0	+1.0	
(to Sales)	(4.6%)	(4.7%)	+0.1pt	(4.4%)	+0.3pt	
Net income attributable to owners of the parent	8.9	9.0	+0.1	8.9	+0.1	
(to Sales)	(3.2%)	(3.0%)	-0.2pt	(3.0%)	—	

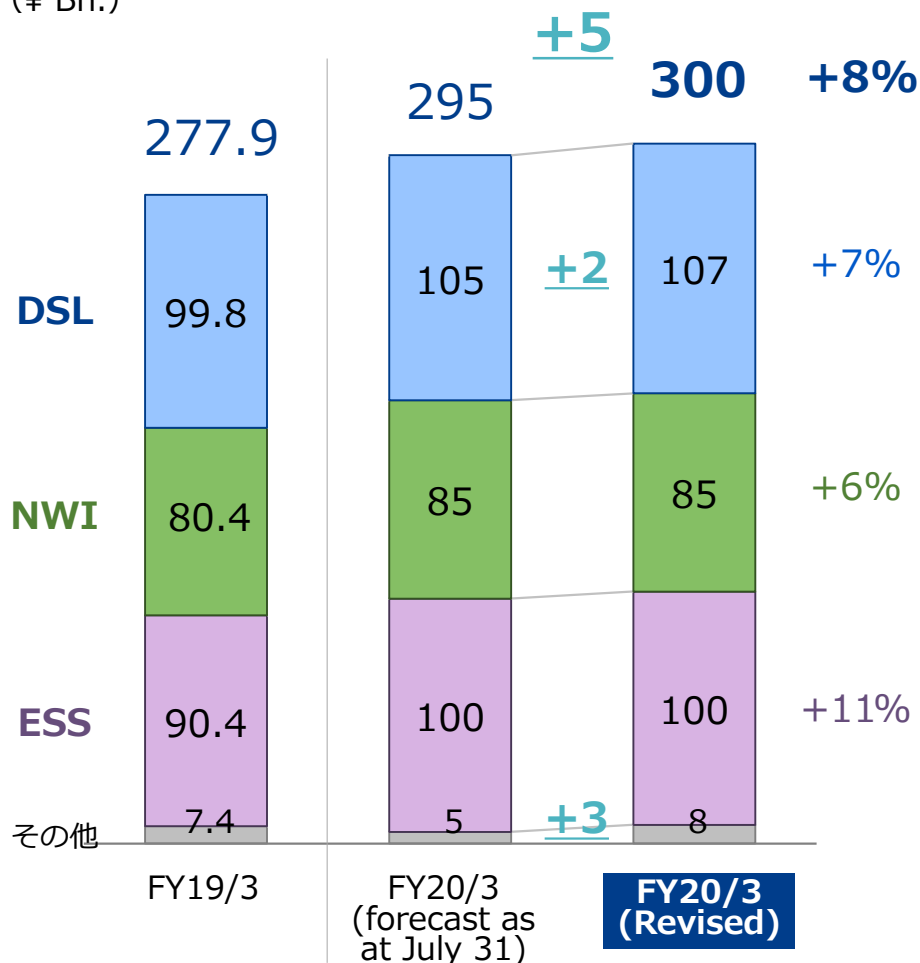
(*Forecasts as at October 29, 2019)

FY2020/3 Forecasts by Segment

Net sales

(¥ Bn.)

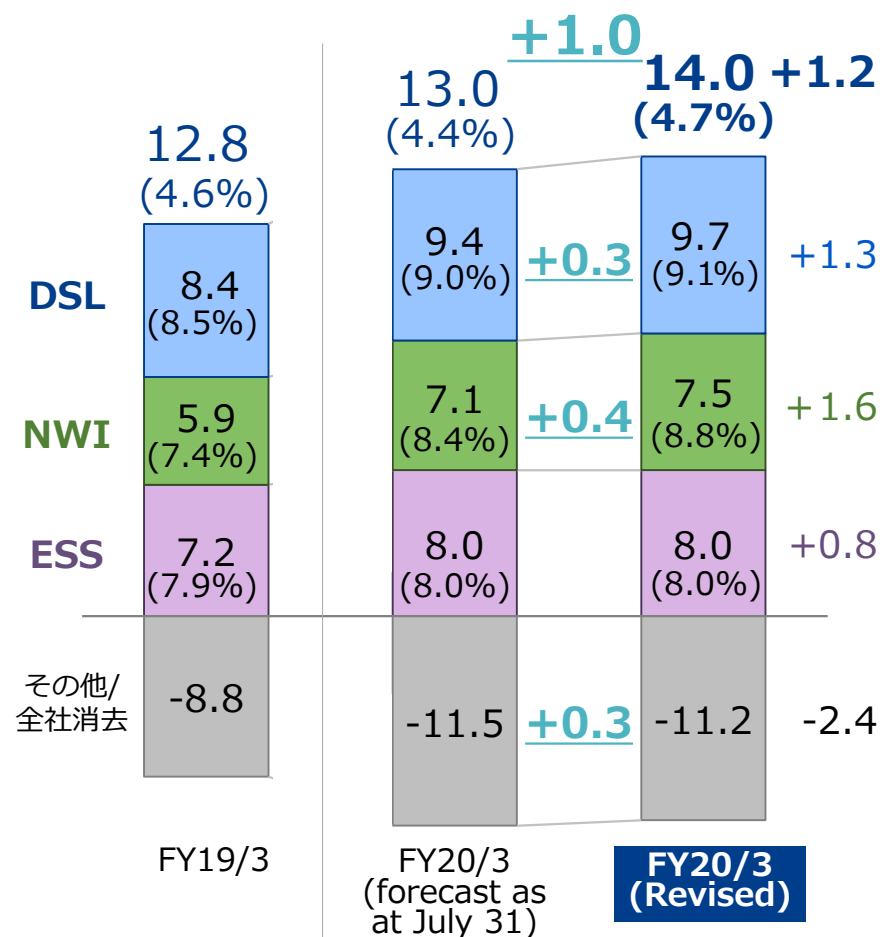
YOY



Operating Income

() to sales

YOY



*No change in orders forecasts

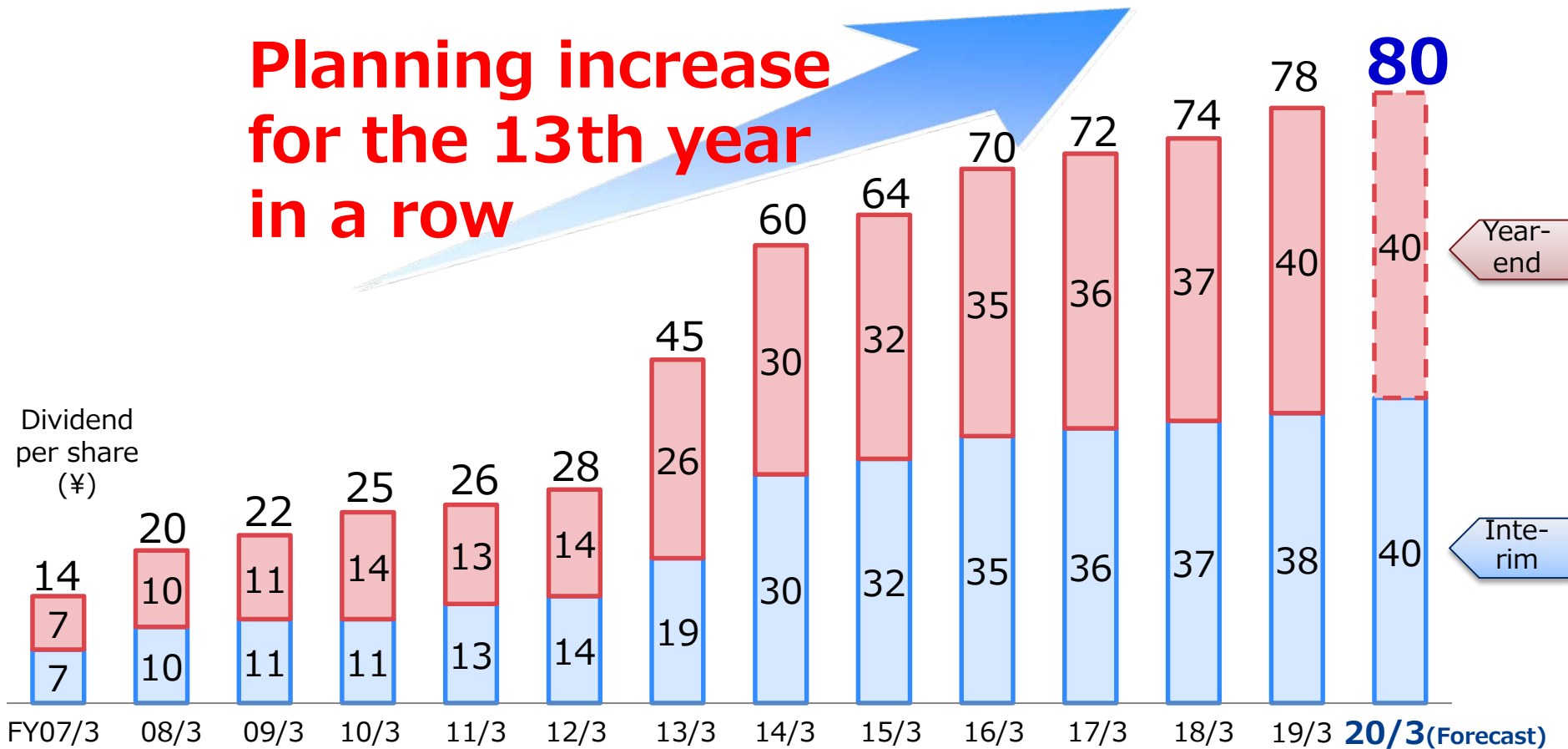
*Forecasts as at October 29, 2019

Dividend Plan

■ Pay an interim dividend of ¥40 per share, up ¥2 YoY

- Year-end dividend: According to the initial plan

Planning increase for the 13th year in a row





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Positioning of Medium-Term Plan toward Vision for 2030

Vision for 2030

Social
vision to
realize

**A more welcoming and convenient society
through communication**

Our
future
vision

Communication Services Orchestrator
to produce a new value chain leveraging the strengths, through
co-creation with partners



2030

Changes in
society
/technology

5G, digital, cloud first, SDGs, etc.

**Positioning of the medium-term management plan
“Beyond Borders 2021 (BB2021)” to the FY22/3**

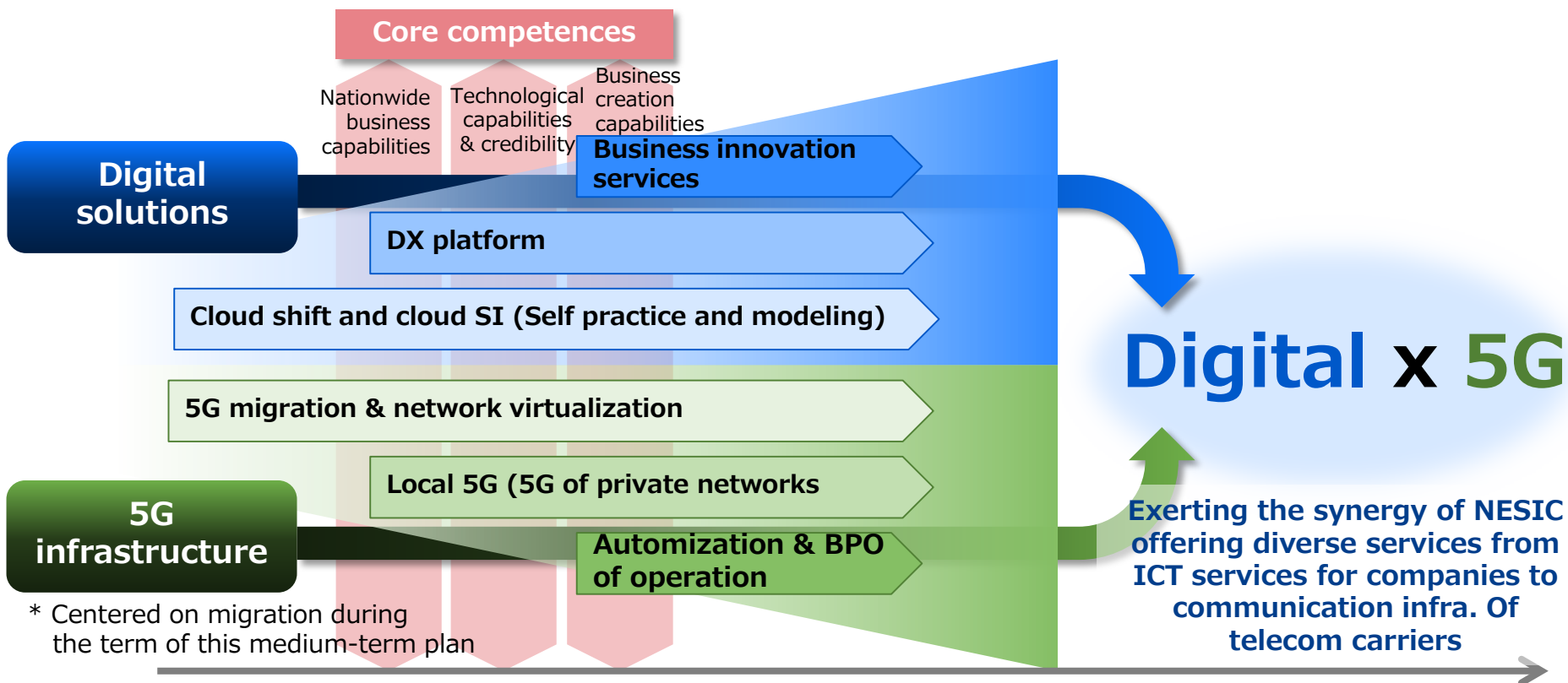
2019

Strengthen growth power and earnings power by strengthening the business structure and constitution in anticipation of environmental changes in five and ten years' time.

Growth Strategies with “NESIC × Digital × 5G”

Aiming to become the top player in the coming “digital × 5G” era

With a view toward the coming “digital × 5G” era when digital technologies are used on 5G infra. and the two technologies are amalgamated, NESIC will concentrate on both of these business fields.



- Strengthening of competitiveness and growth power for the **Digital** & 5G age
- **Acceleration of innovation** through All-NESIC
- Strengthening of the base, schemes and structure for advanced technologies and **new businesses creation**



Shifting to sustainable profit growth.

Accelerating the conversion of our business model to offering multi-cloud services

From the “product SI” model to the “**multi-cloud service**” model that links and integrates the most advanced cloud services

**Optimal use
of cloud services**

**Accelerating work-style
innovation-related
businesses**

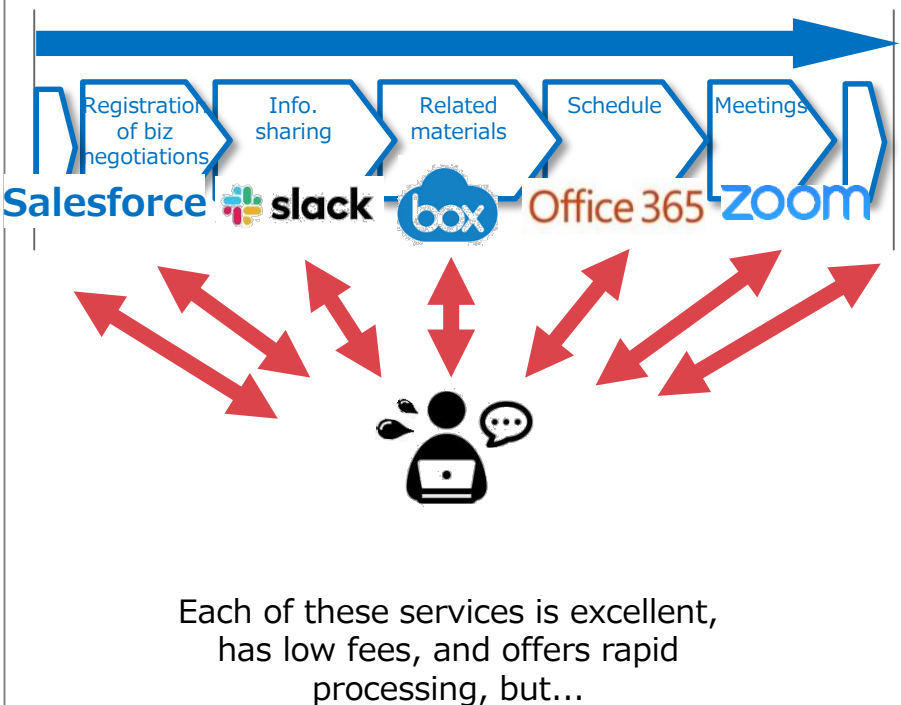
Expanding compatible cloud services



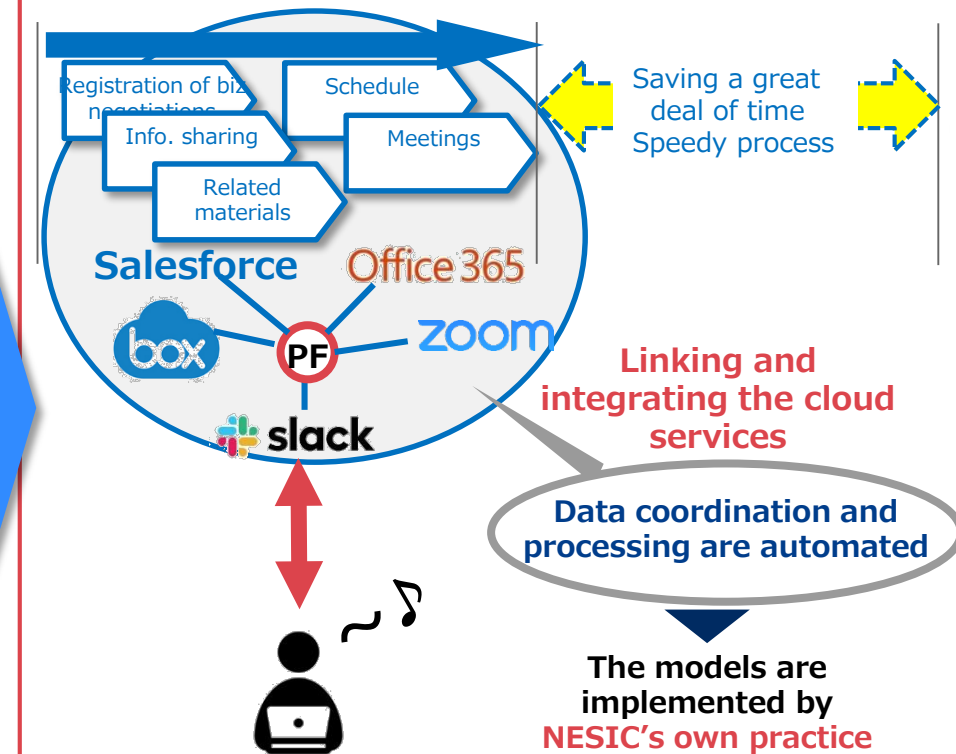
Multi-cloud service that extracts the true value of cloud networking

Using conventional cloud services, you will have to use data and implement processes in different ways...

Using conventional cloud services...

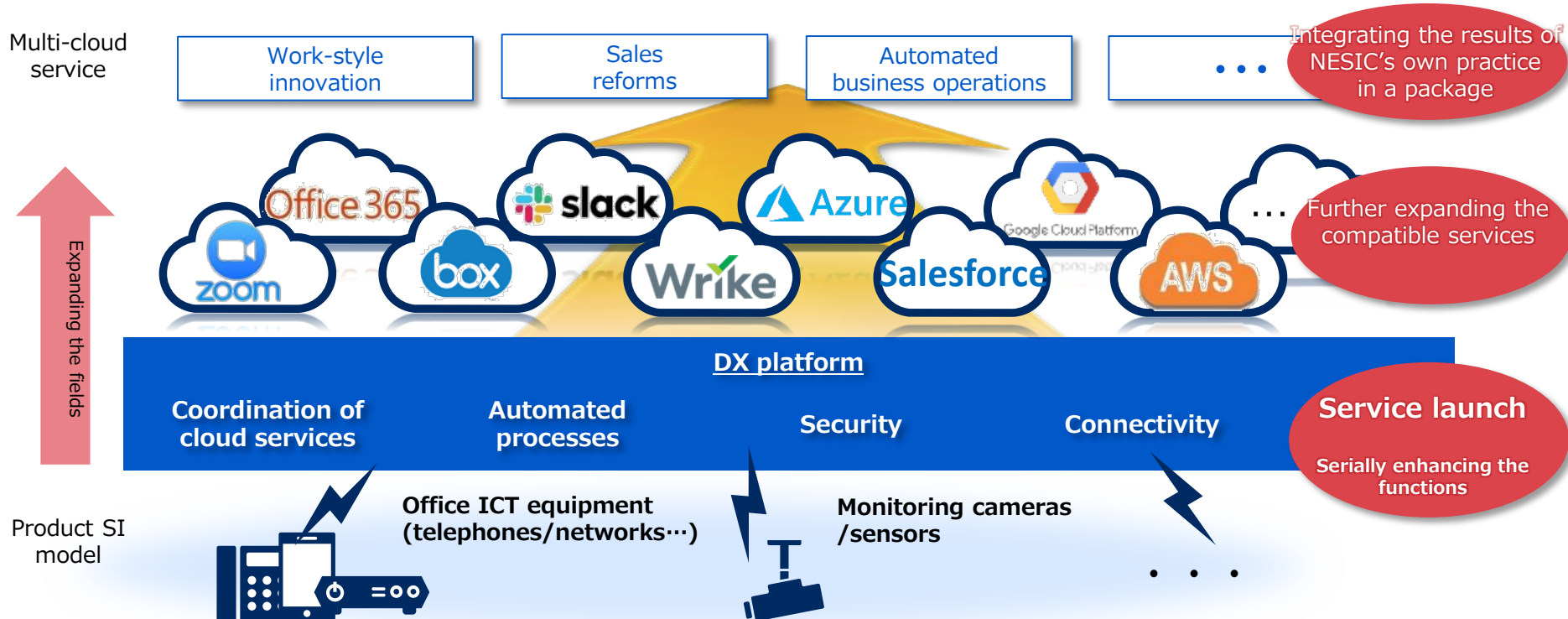


Shift to the true cloud service



Launching a new brand for the DX biz and a platform service

Readily, quickly, and securely realizing multi-cloud & connectivity services at low cost



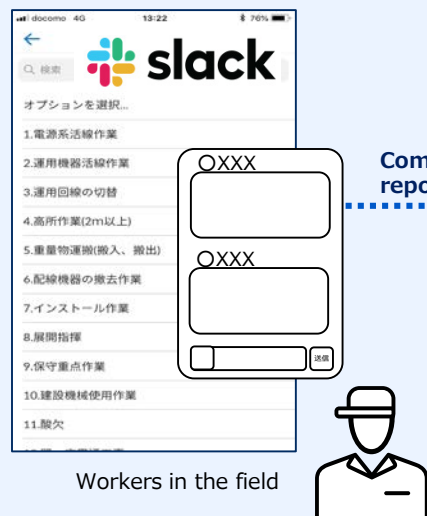
Progress of Measures for BB2021: Digital/Innovation

Example of NESIC'S own practice

Improving the efficiency of the operations for reporting and managing field work through coordination with various cloud services and process automation, with Slack as the entrance to the integrated service

More than 240 hours/month for reporting process
=> Reduced to 1/3

Business chat



Completion report



Sharing of information with the sales division

Compilation of the operation results

Completion notification



Sales support system



Quality control division



Reports of problems will be automatically notified to the superior



The red bar indicates problems

Superior

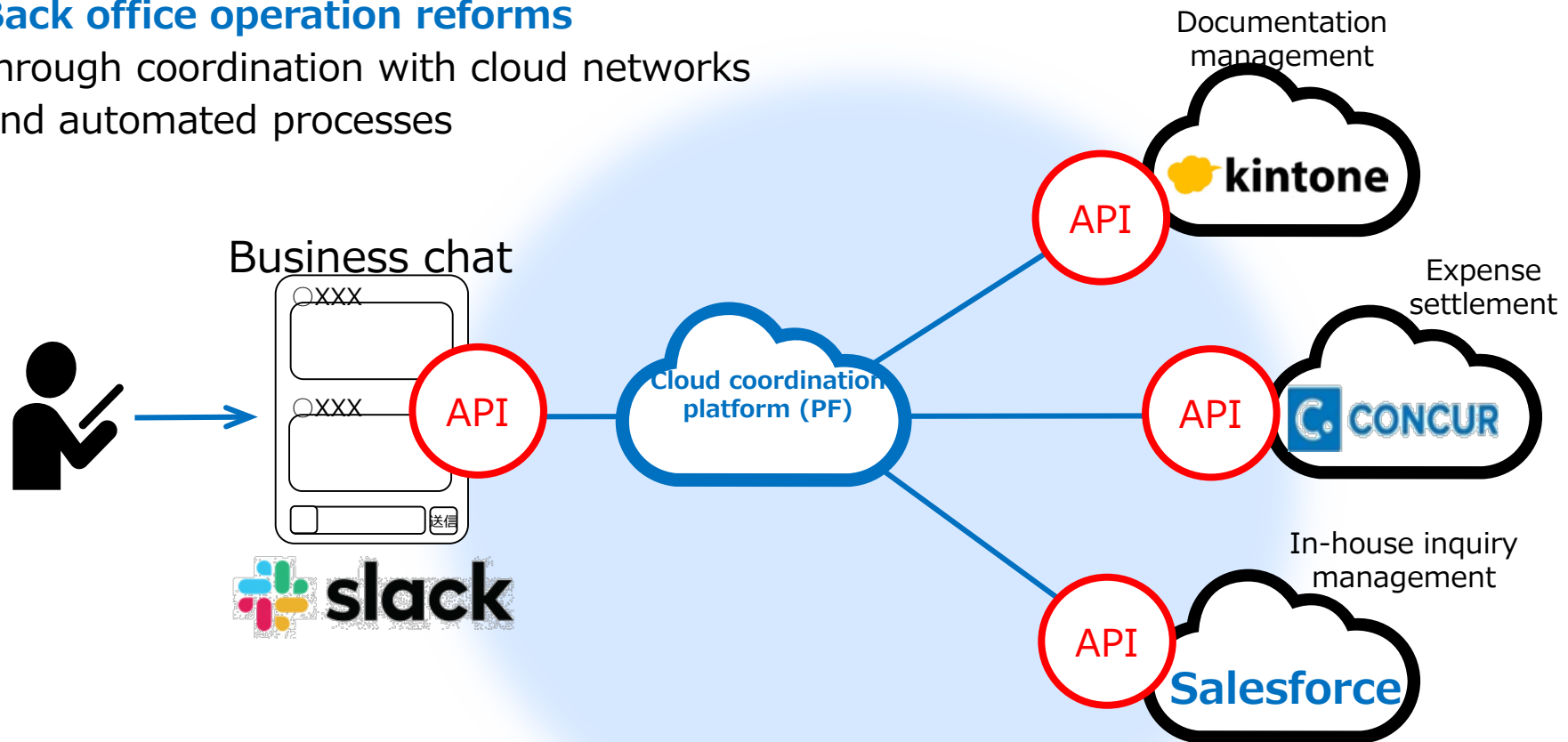
Progress of Measures for BB2021: Digital/Innovation

Customer's case: Mercari, Inc.



Back office operation reforms

through coordination with cloud networks
and automated processes



Various cloud services are coordinated and integrated with Slack
for the automation and optimization of approval processes
and the integration of inquiry response operations

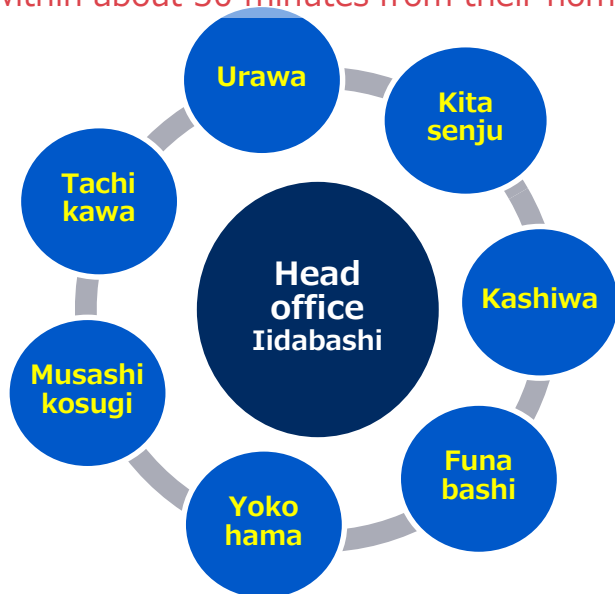
Accelerating our own practice toward the development of new services

- Distributed work by head office staff commenced -

Changing Japan through comprehensive use of cloud/advanced tech.

(Overconcentration in Tokyo, labor productivity, innovation, ...)

The staff are dispersed to satellite offices
within about 30 minutes from their homes



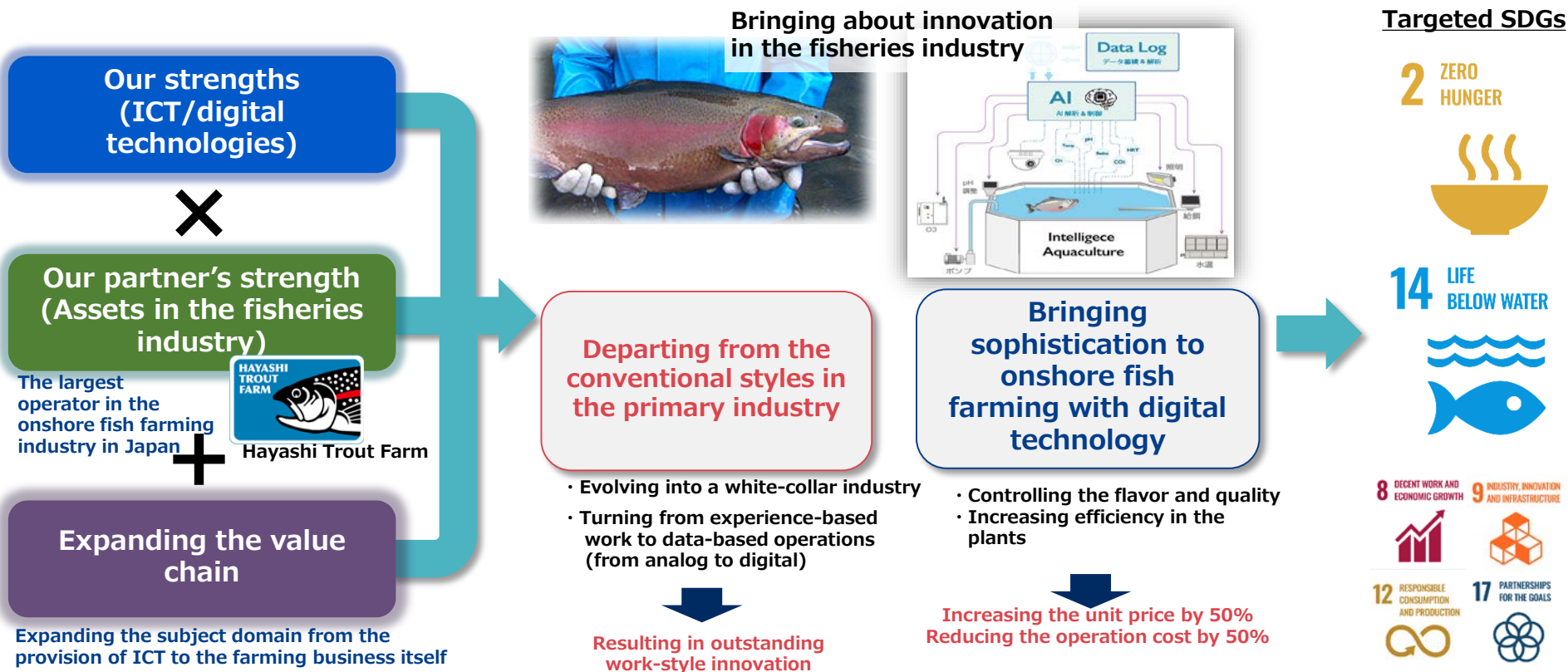
Note: Satellite offices are scheduled to be established one by one in other areas.



Progress of Measures for BB2021: New Business Creation

Participating in the onshore fish farming business using ICT/digital technologies

To realize the DX of the fish farming business and innovation in our business model, aiming to implement the solution of social issues and the growth of our business/the establishment of a highly profitable model at the same time



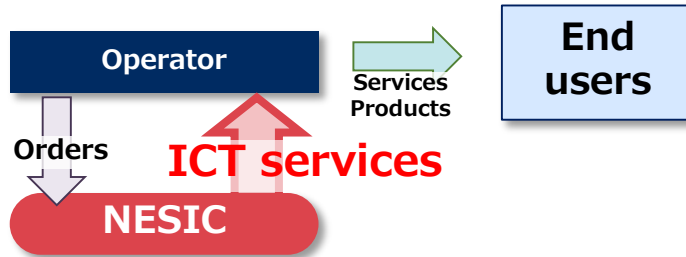
Progress of Measures for BB2021: New Business Creation

Winning new values

Digital tech + Business model innovations = High profitability

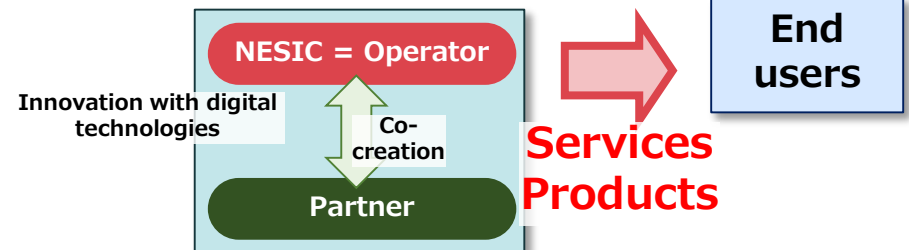
Conventional model

Supplying ICT to operators



New model

Providing services via co-creation



Business expansion through the franchising model

Practices + expertise in packages
= Nationwide and overseas development

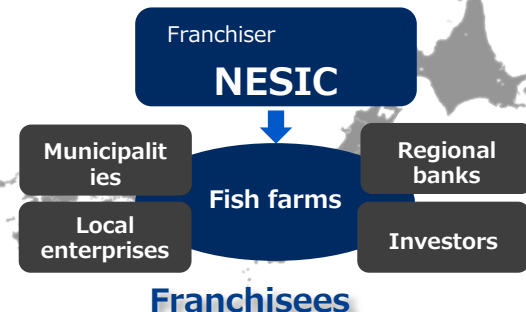
STEP 1

- Launching the business corporation



STEP 2

- Developing the business nationwide in multiple locations



STEP 3

- Becoming the No. 1 onshore fish farming operator



Beyond Borders

To go beyond every border and barrier such as market borders, technological barriers, competitive barriers, organizational borders, ability borders or performance borders.

**Move up to a next stage with
“Creation,” “Change” and “Challenge.”**

APPENDIX

1H FY2020/3 (End of Sep. 2018) Balance Sheet

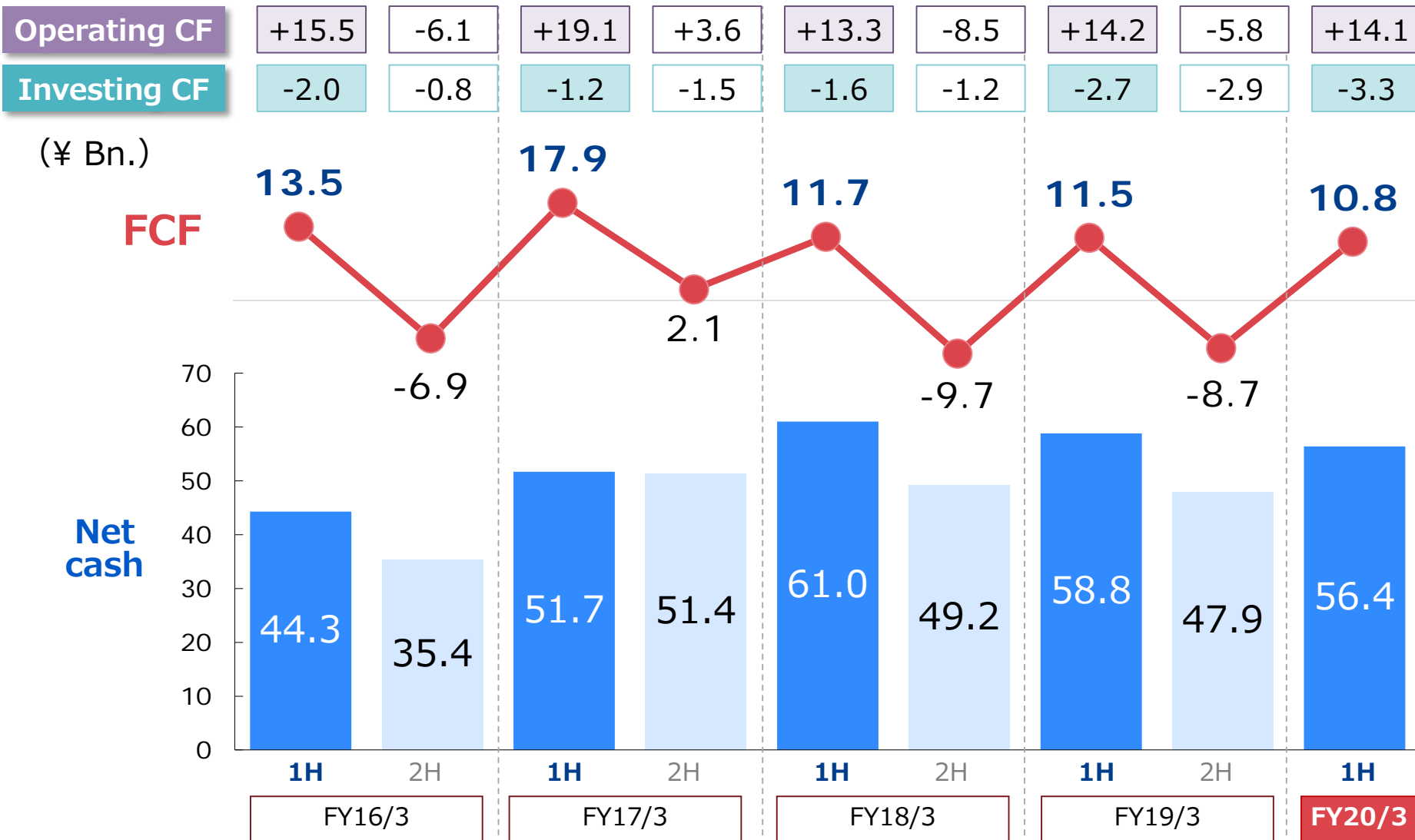
(¥ Bn.)

	End of 19/3	End of 19/9	Diff.
Cash and cash equivalents	54.4	64.0	9.6
Notes & accounts receivable	107.2	87.5	-19.6
Inventories	13.2	14.7	1.5
Others	6.3	6.9	0.6
Current Assets	181.0	173.1	-7.9
Noncurrent Assets	35.1	36.4	1.2
Assets	216.2	209.5	-6.7

Notes and accounts payable	41.1	36.3	-4.8
Loans	6.4	7.5	1.1
Others	61.1	56.8	-4.3
Liabilities	108.6	100.6	-8.0
Shareholders' equity	109.0	110.0	0.9
Accumulated other comprehensive income	-4.1	-3.8	0.3
Non-controlling interests	2.7	2.8	0.1
Net Assets	107.6	108.9	1.3
Liabilities & Net Assets	216.2	209.5	-6.7

Owner's Equity Ratio	48.5%	50.7%	+2.2pt
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1H FY2020/3 Dash Flows



*Net cash = Cash & cash equivalent - Debt

Cautionary Statement

Forecasts and targets of results mentioned in this document are future estimates and are thus inclusive of risks and uncertain factors since they are not based on definite facts. Please be aware that a variety of factors could cause actual results to differ significantly from those projected. The major factors affecting actual results include the economic climate and social trends surrounding the business of this Company's group, consumer trends vis-a-vis systems and services provided by this Company's group, as well as pressure to lower prices and ability to cope with the market in response to intensified competition.

Factors affecting results are not limited to the ones mentioned above.

* From FY2020/3 business segments are changed due to reorganization on April 1, 2019. The new segment figures for FY2019/3 & FY2018/3 are numbers by reclassification. (New segment figures for FY 2018/3 were not audited)



Re-designing your Communication

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





NEC Networks & System Integration Corporation

<https://www.nesic.co.jp/english/index.html>