

Financial Results for FY2020/3

May 8, 2020

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NEC Networks & System Integration Corporation

(TSE : 1973, NESIC)

Agenda

- 1 . Financial Results
- 2 . Progress of
“Beyond Borders 2021” Plan



1 . Financial Results

2 . Progress of

“Beyond Borders 2021” Plan

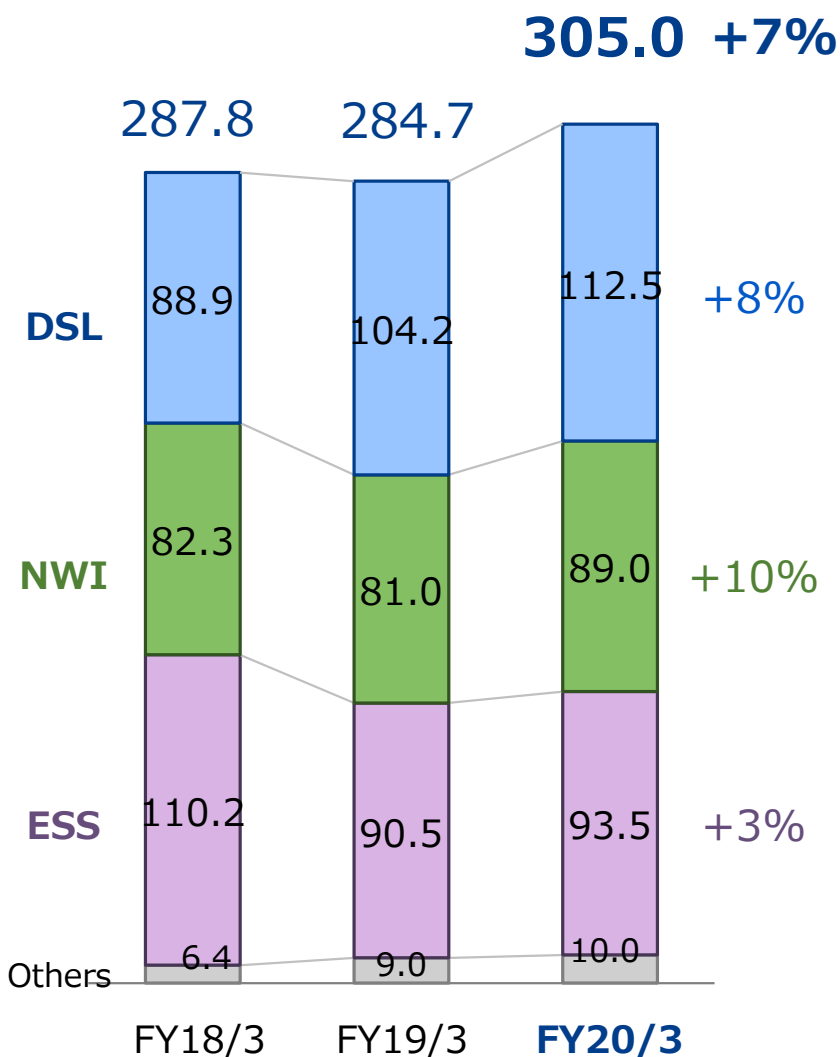
Record high in all of O/R, sales & profits

- Profitability was improved by enforced business capability in addition to increased sales (¥ Bn.)

	FY2019/3	FY2020/3	Change	Forecasts as at Jan 29, 2020	Old record
Orders received	284.7	305.0	+7%	295	299.1 _{15/3}
Sales	277.9	303.6	+9%	300	292.2 _{15/3}
Gross margin	17.2%	17.9%	+0.7pt	—	—
Operating income	12.8	16.25	+3.5	15.0	16.16 _{15/3}
(to sales)	(4.6%)	(5.4%)	+0.8pt	(5.0%)	—
Extraordinary loss	0.0	3.4	-3.4	—	—
Net income attributable to owners of the parent	8.9	9.4	+0.5	9.0	8.9 _{19/3}
(to sales)	(3.2%)	(3.1%)	-0.1pt	(3.0%)	—
ROE	8.7%	8.8%	+0.1pt		
Free cash flows	2.8	6.2	+3.4		

FY2020/3 Orders Received by Segment

¥ Bn.



Digital Solutions(DSL)

- Orders from almost all industries were strong with a focus on workstyle innovation area
—DX business proceeded beyond the plan

Network Infra.(NWI)

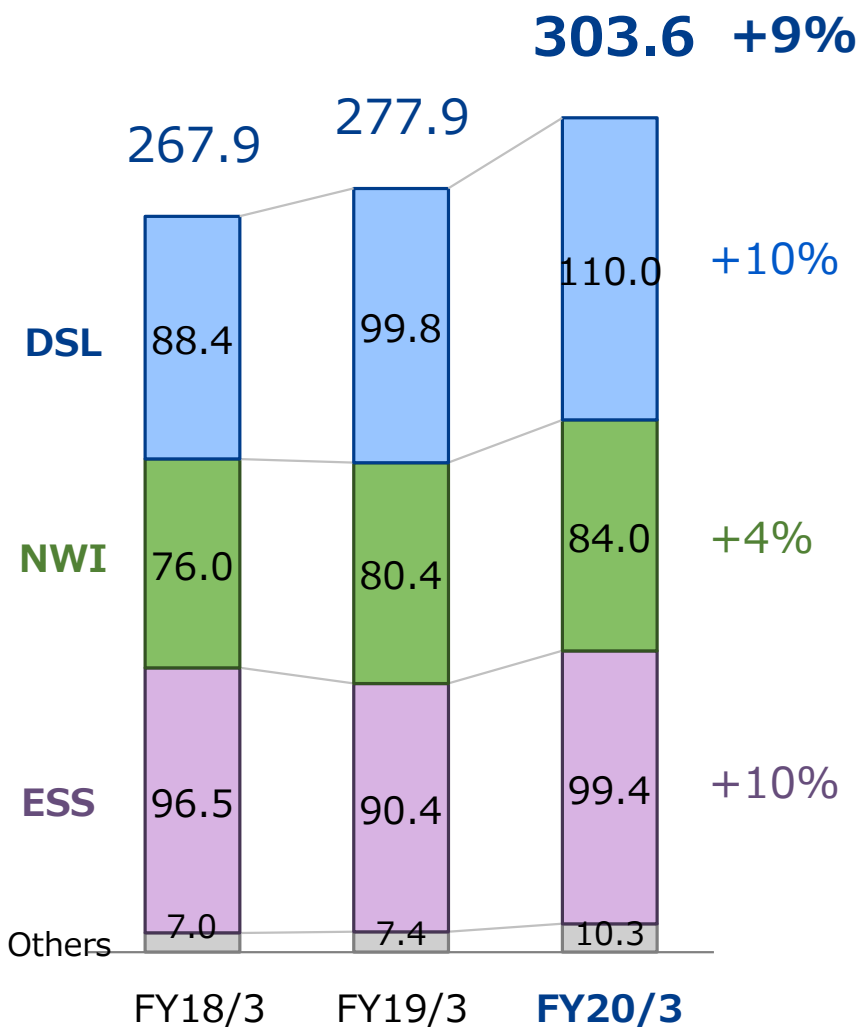
- Both of telecom. carriers business and social/public infra. * increased
*Firefighting/disaster prevention systems, video/CATV, transportation, etc.

Engineering & Support Services (ESS)

- Domestic construction* increased
*Firefighting/disaster prevention systems, etc.

FY2020/3 Net Sales by Segment

¥ Bn.



Digital Solutions(DSL)

- Workstyle innovation area and network for hotels increased

Network Infra.(NWI)

- Sales for social/public infra. increased
 - Sales for telecom. carriers was flat as a result of recovery in 2H

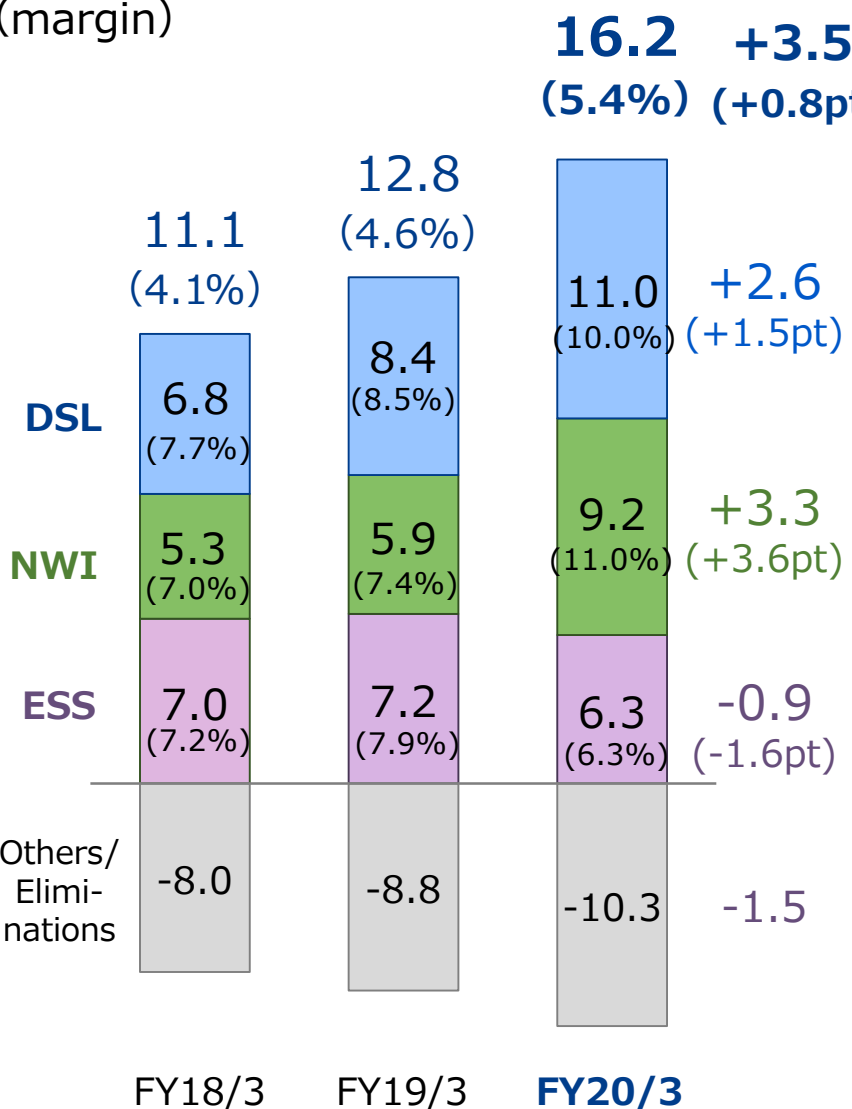
Engineering & Support Services (ESS)

- All of domestic construction*, overseas business and maintenance/operation business increased

*Mega-solar and networks for firefighting, etc.

FY2020/3 Operating Income by Segment

¥ Bn.
(margin)



● 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 loss projects in addition to higher net sales and the reorganization effect*

*Resource efficiency enhancement, enhanced PJ management etc.

● Engineering & Support Services (ESS)

- Profit decreased due to increased loss-project cost
- Profitability improved excluding impacts above

● Others/Elimination

- Growth expenses increased
(Office realignment, etc.)

The spread of the COVID-19 coronavirus may affect our short-term performance. Due to the significant level of uncertain factors, we are currently examining our business forecasts.

Meanwhile, we have decided to leave the forecasts undecided. They will be announced promptly as soon as we are ready to present reasonable forecasts.

General

- **Businesses are expected to deteriorate significantly due to the COVID-19 coronavirus.**
- **There is the delay in projects due to confusion in the supply chains and the restricted access to workplaces.**

Enterprise s/Public

- There is concern about client companies reducing ICT investments because of the deterioration of business.
- Demand related to teleworking and work-style reform is increasing sharply.
 - Signs of adopting remote lecturing in the education area.

Telecom carriers

- There is gradual progress in the migration to 5G.
- Communication traffic is increasing because of teleworking.

Govern- ments

- There is concern about delay in bidding items
- Investments remain steady with respect to measures to prevent/reduce disasters.

Focus on solutions for social challenges
Cost control

Dividends

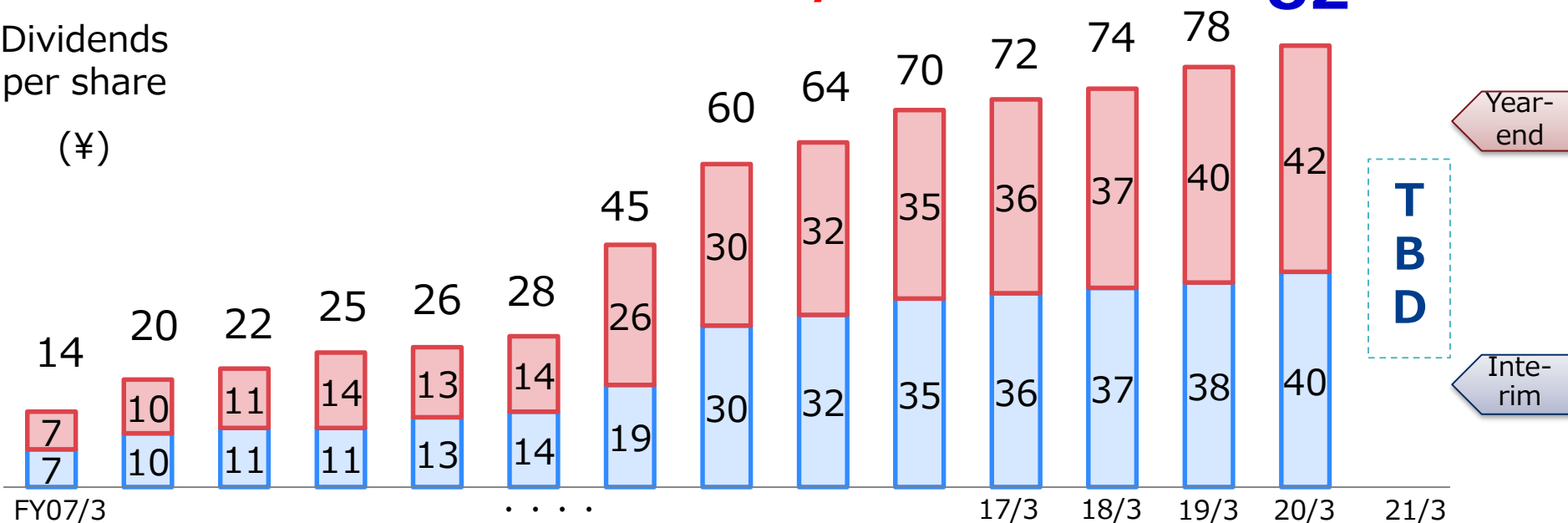
Increasing the corporate value through growth investment and continuing to increase shareholder return based on stable dividend at the same time.

- Taking DOE (dividend on equity ratio) into account.
- FY20/3 Year-end dividend of ¥42 per share, an increase of ¥2 from the plan (annual dividend of ¥82)
- FY21/3: TBD. Planning to disclose with financial forecasts

Increase for the 13th year in a row

82

Dividends
per share
(¥)



Resolution to conduct a three-for-one stock split, with the record date set for May 31, 2020*

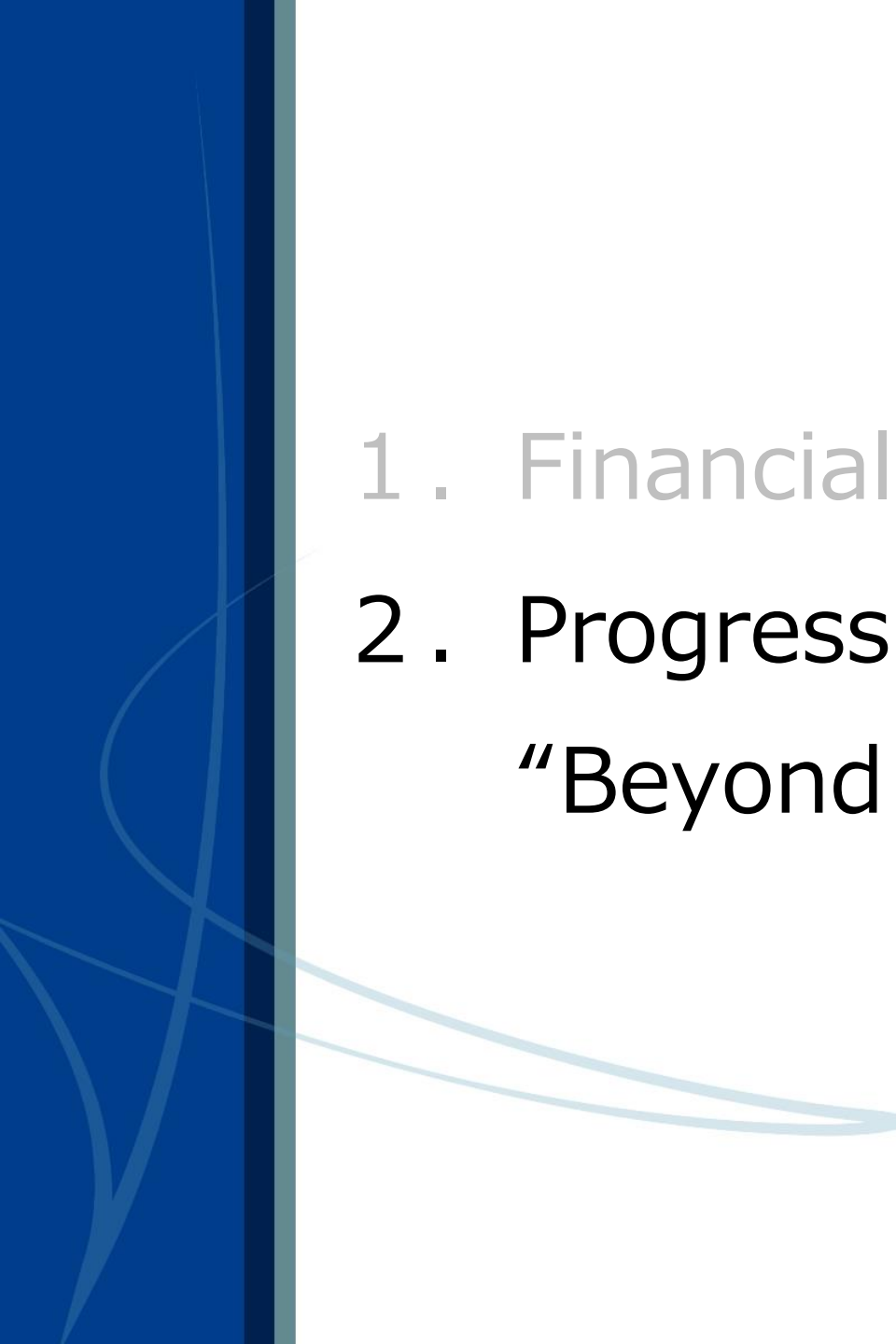
Purpose

To establish an environment where investors can invest more easily and seek to improve the liquidity of the Company's shares and expand the investor base through the reduction of the price per investment unit.

Outline

Method of the stock split	One common share will be split into three shares.
Total number of outstanding shares before the stock split	49,773,807 shares
Total number of outstanding shares after the stock split (Increase in the number of shares)	149,321,421 shares (99,547,614 shares)
Record date	May 31, 2020*
Effective date	June 1, 2020

*The record date will be May 29, 2020, because the shareholder registry administrator has a day off on May 31.

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Social Value Creation Model

Vision for society

An inclusive and sustainable society created through communications



Value to society

- Create environments in which everyone can work more vigorously
- Develop pleasant and plentiful communities with cutting-edge technologies
- Provide robust services that underpin safety and security in evolving society

Focusing areas

Digital

×

5G

Value creation model

Co-creation with partners

NESIC



The current Mid-Term Management Plan is being implemented in preparation for the “Digital x 5G” era.

Digital

Made achievements in workstyle innovation and DX.

5G

Making steady progress in preparation for a full-scale start.

Business capability

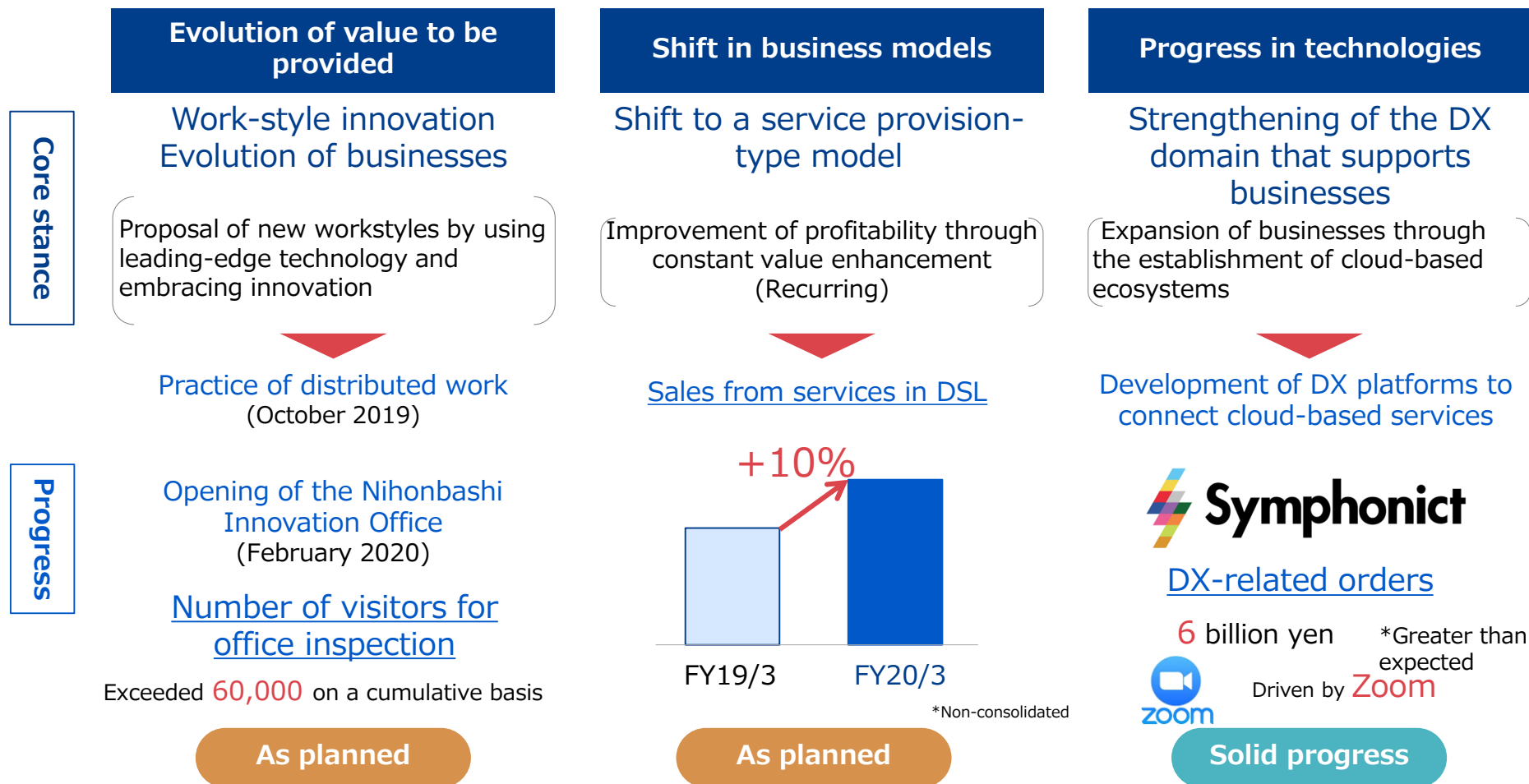
Making better-than-expected progress on the improvement of ability as an organization and efficiency.

Results

Making progress ahead of schedule on improvements in actual results despite the negative factor of the loss-making mega-solar plant project.

Progress in Growth Strategy: Digital Domain

Enhancing efforts to address social challenges such as over-concentration in Tokyo and the facilitation of innovations by leveraging DX.



Progress in Growth Strategy: Digital Domain (Topics)

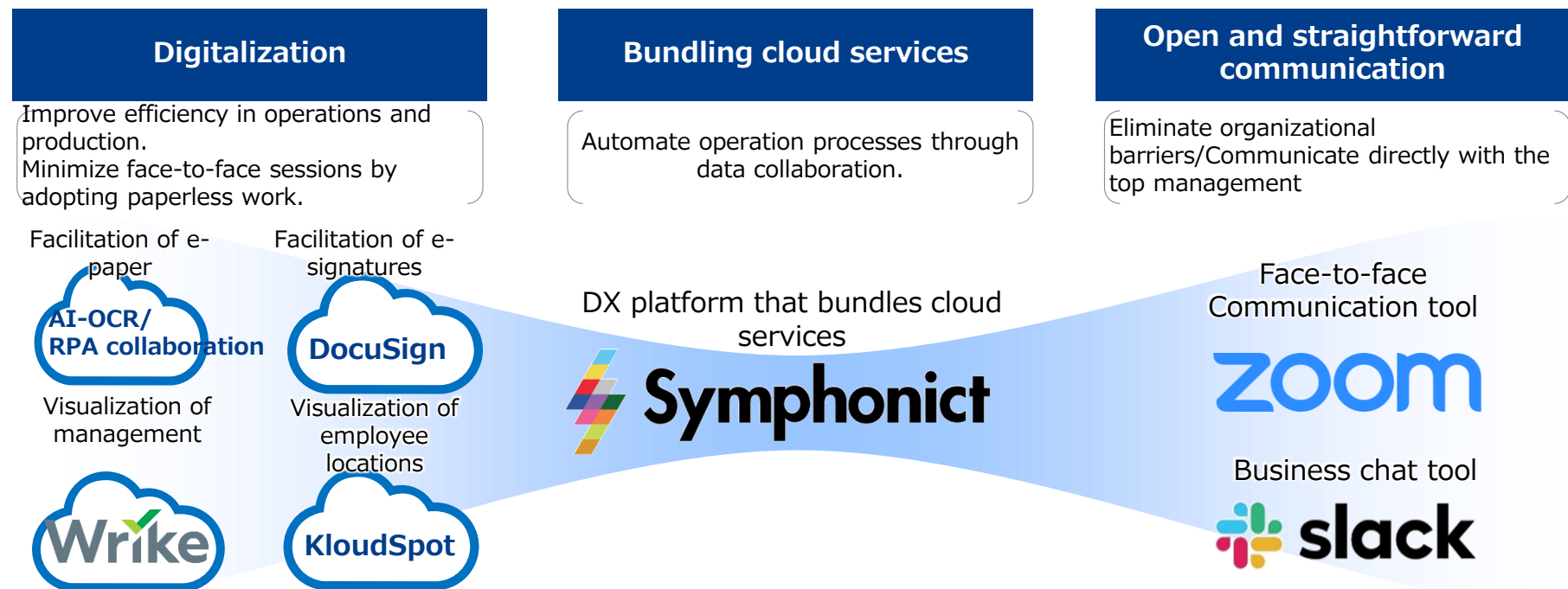
High-level business continuity through distributed work

Maintain the balance of business continuity and productivity through full-scale implementation of digital/cloud technologies

(The impact of the state of emergency on companies' internal operations remained immaterial even after the announcement.)

Create a standard for workstyles in Japan.

Mechanism that supports distributed work:



Progress in Growth Strategy: Digital Domain (Topics)

Vacant HQ Office



Open & flat communication



Communication with new recruits

Progress in Growth Strategy: Digital Domain (Topics)

Response to teleworking demand

3 GOOD HEALTH AND WELL-BEING



4 QUALITY EDUCATION



8 DECENT WORK AND ECONOMIC GROWTH



11 SUSTAINABLE CITIES AND COMMUNITIES



Recent demand trend

Teleworking related inquiries sharply increased in March



(Increases from levels in February)

Online-based inquiries

5 times

Orders*

6 times

The number of new customers also **increased**.

*Zoom related orders

Future initiatives

- **Provision of the Company's expertise to support teleworking**
 - ▶ Acquisition of more new customers through Zoom
- **Deepen businesses with companies that adopt Zoom**
 - ▶ Enhancement of peripheral products, security and network
- **Expansion of sales to governments and educational institutions**
 - ▶ A fallback plan for a decline in ICT investment by general companies

Progress in Growth Strategy: 5G Domain

Making steady progress in preparation for full-scale investments in 5G

Core stance

Deepen businesses with telecom carriers

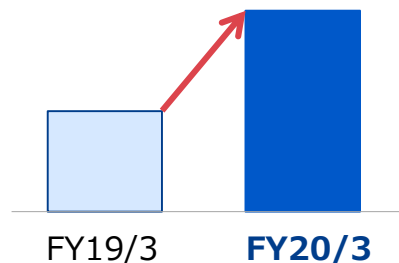
Increase market share in the base station business

Deepen businesses through KNSI, a joint venture established with KDDI

*K&N System Integrations

KNSI's sales

Doubled



Signs of recovery since the second half of FY2020/3.

The market share has been rising steadily.

Adjusting Plan

Local 5G

Enhance efforts because it is an area in which full-layer system integration capabilities are utilized.

Overall strength to deal with a range of undertakings including the building of infrastructure (from core network to base stations) and provision of services.

Strengthen demonstration experiment and proposal-making initiatives.

·Regional BWA

*BWA: Broadband Wireless Access

·Cable operators

·ICT related to disaster prevention and reduction

As planned

Progress

Progress in Growth Strategy: 5G Domain (Topics)

5G Laboratory: Construction of a new facility to develop 5G-focused personnel and validate technologies.
(Scheduled for completion in the summer of 2020)



- **Implementation of technical training by using actual equipment**
 - Base stations and core networks (virtual networks)
 - The number of wireless technology engineers will be increased fourfold by 2023.
- **Provision of 5G validation/BPO services**
 - Services for the whole process including consulting, license application, systems integration and system operation.
 - Validation/BPO services for telecom carriers and vendors
- **Creation of solutions**

Strengthening Business Capability to Support Growth Strategies

Making better-than-expected progress in efforts to strengthen business capacity on an all NESIC basis

Core stance

Improvement of resource efficiency

Optimization of the effect of organizational realignment

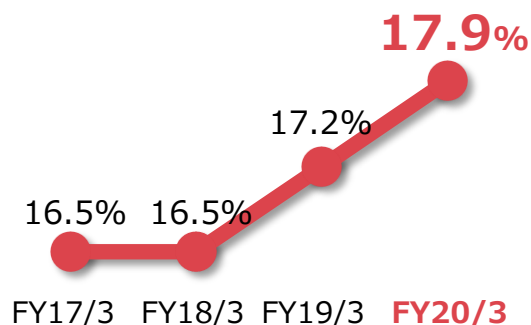
Work-style innovation

Improvement of productivity by using DX

Increased the levels of resource efficiency and project quality.

Improved the efficiency of fixed costs.

Gross margin



Sales per person

(YoY change)

Up **8%**

Net sales: up 9%
Number of employees
(consolidated): up 1%

Solid progress

Progress

Progress in Growth Strategy: Financials

Topline **Make a shift to the top line over the ¥300 bn.**

▶ Solid progress exceeding the plan



Profit **Shift profitability to the industry level** (FY22/3 is a check point)

▶ Making progress ahead of schedule on improvements in actual results despite the loss by mega-solar plant project.



This is a year of preparation to make a leap.

Ready to Jump

We will build a foundation for further growth while prioritizing our response to social challenges.

APPENDIX

2020/3 Balance Sheet

(¥ Bn.)

	End of Mar/19	End of Mar/20	Diff.
Cash and cash equivalents	54.4	58.3	4.0
Notes & accounts receivable	107.2	113.1	5.9
Inventories	13.2	13.2	0.0
Others	6.3	7.3	0.9
Current Assets	181.0	191.8	10.8
Noncurrent Assets	35.1	38.4	3.3
Assets	216.2	230.2	14.1

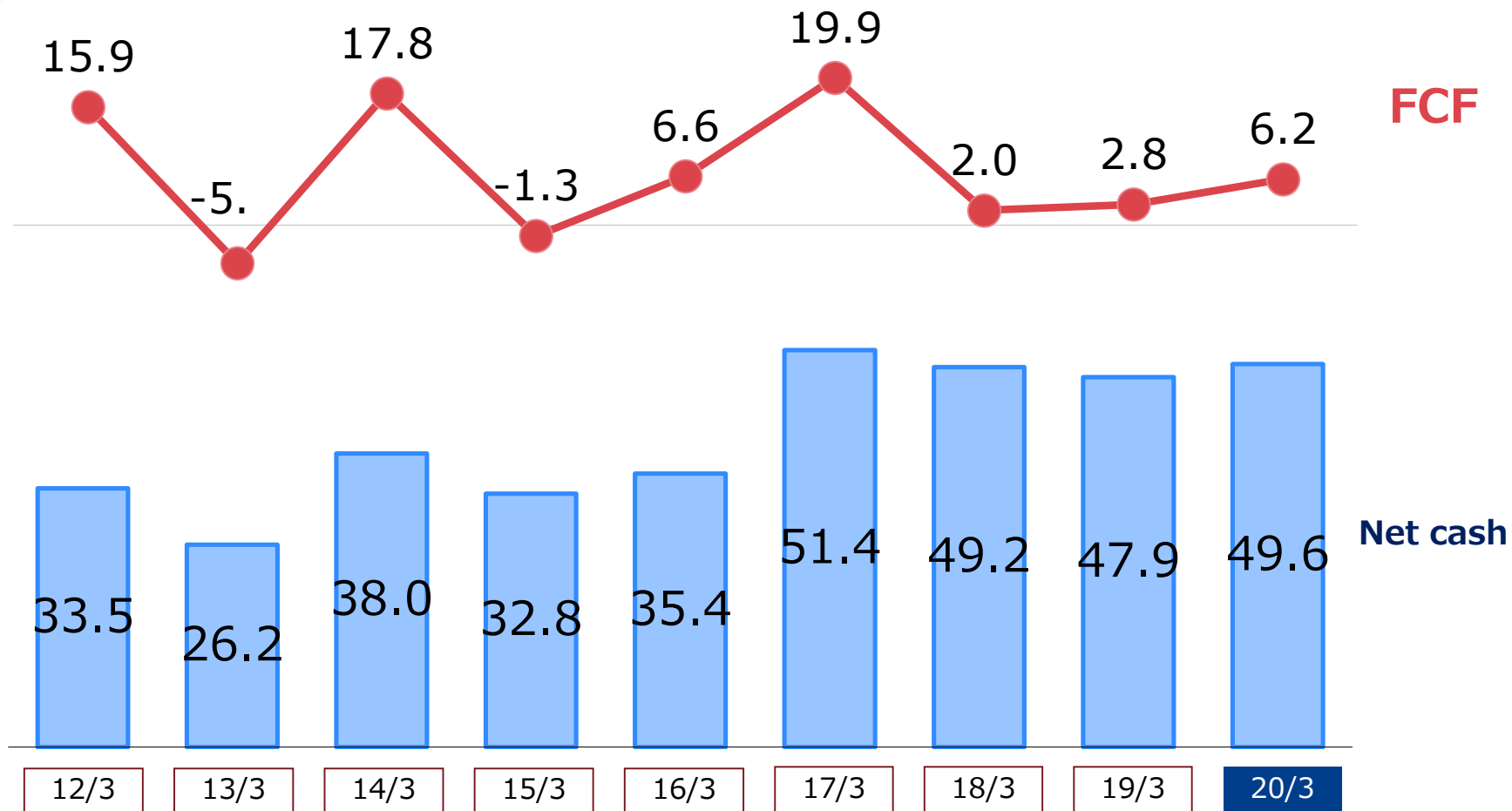
Notes and accounts payable	41.1	43.1	2.0
Loans	6.4	8.7	2.3
Others	61.1	64.9	3.9
Liabilities	108.6	116.7	8.2
Shareholders' equity	109.0	114.5	5.5
Accumulated other comprehensive income	-4.1	-4.1	0.0
Non-controlling interests	2.7	3.1	0.4
Net Assets	107.6	113.5	5.9
Liabilities & Net Assets	216.2	230.2	14.1

Owner's Equity Ratio	48.5%	47.9%	-0.6pt
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FY2020/3 Cash Flows

(¥ Bn.)

Opr.CF	+18.6	-1.7	+23.3	+2.5	+9.4	+22.6	+4.8	+8.4	+12.9
Inv.CF	-2.6	-3.4	-5.5	-3.9	-2.8	-2.7	-2.8	-5.6	-6.7



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.

NESIC has changed the reportable segments from the FY March 2020 according to the reorganization at April 2019. The segment figures for the FY March 2018 and FY March 2019 in these slides were reclassified for disclosure to reflect the changes in this event.



Re-designing your Communication

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





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