

Financial Results for the 1Q for the FY ending March 2023

July 28, 2022

NEC Networks & System Integration Corporation

(TSE: 1973, NESIC)

1Q FY2023/3 Summary

(¥ Bn.)

	1Q FY22/3	1Q FY23/3	Change
Orders received	83.7	80.8	-4%
Net sales	67.7	67.6	-0%
Gross profit	12.6	12.1	-0.5
(to sales)	18.7%	17.9%	-0.8pt
SG&A	9.7	10.6	-0.9
Operating income	3.0	1.5	-1.5
(to sales)	4.4%	2.2%	-2.2pt
Net income attributable to owners of the parent	1.7	0.5	-1.2
(to sales)	2.4%	0.7%	-1.7pt
Free cash flows	21.9	14.6	-7.3
Orders backlog	153.8	179.2	+16%

Profits decreased due to proactive cost increase and rapid change in exchange rate

Orders received:

- Large PJs of this FY are concentrated in 2Q and after ("Prospect PJs" for 2Q increased YoY)
- DX orders increased

Net sales:

- Flat with negative impact of S/C and materials shortage (-2) *including positive sales impact from shifted from the previous FY

Profits:

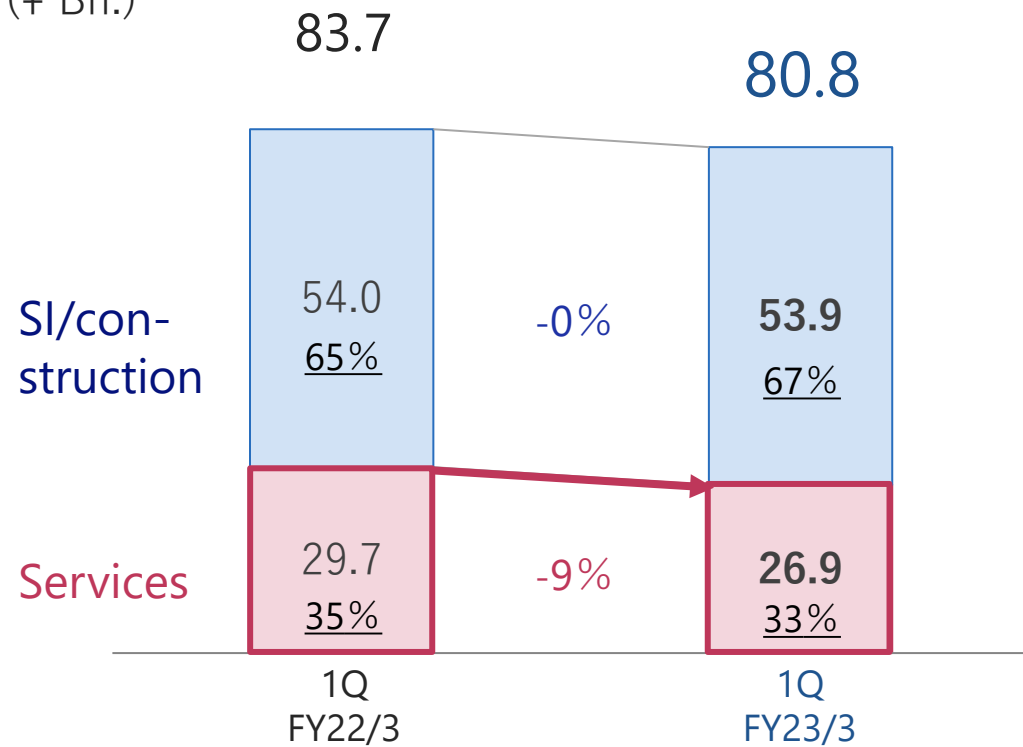
- Increased procurement cost due to yen depreciation more than expected (-0.7)
-GP margin improved excluding weak yen impact from high level of result of previous 1Q
- Cost for the future (SG&A) increased
- Enforce sales and business development sections

1Q FY2023/3 Orders Received/Net Sales by Business Model

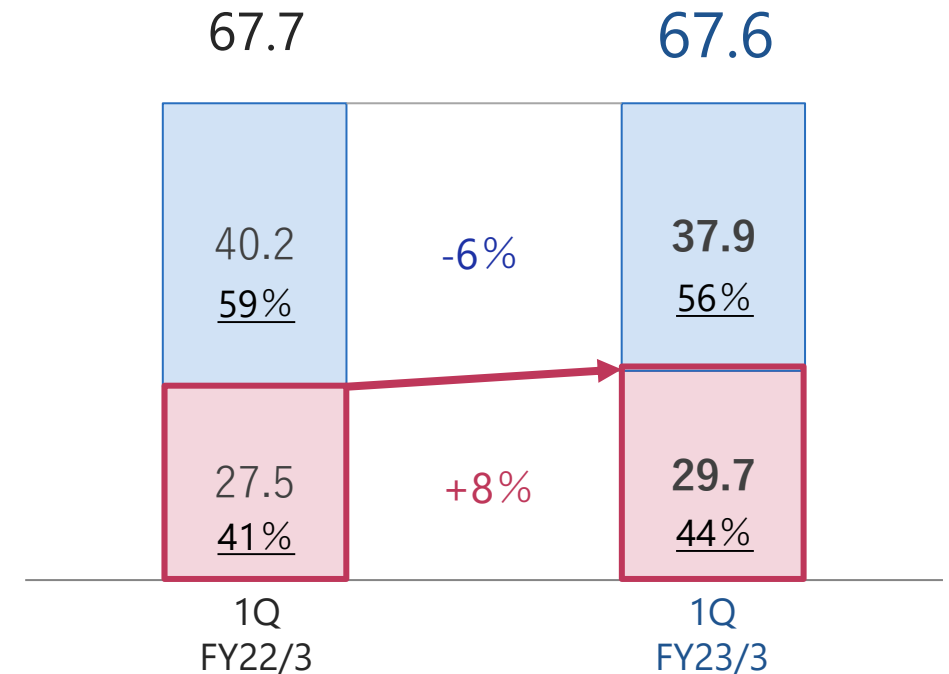
Although service orders fluctuate due to the timing of large contracts, sales is steadily expanding

Orders received

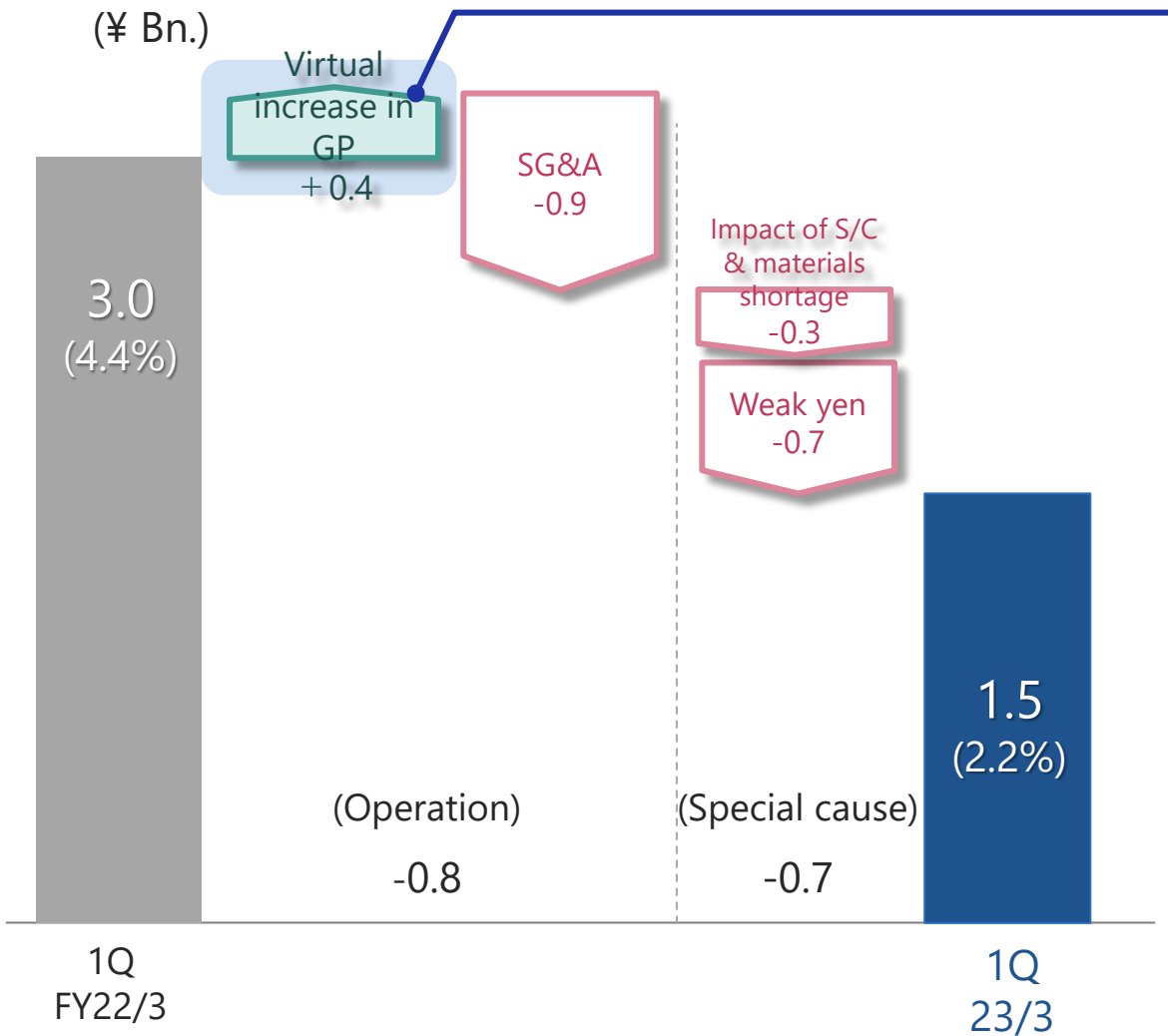
(¥ Bn.)



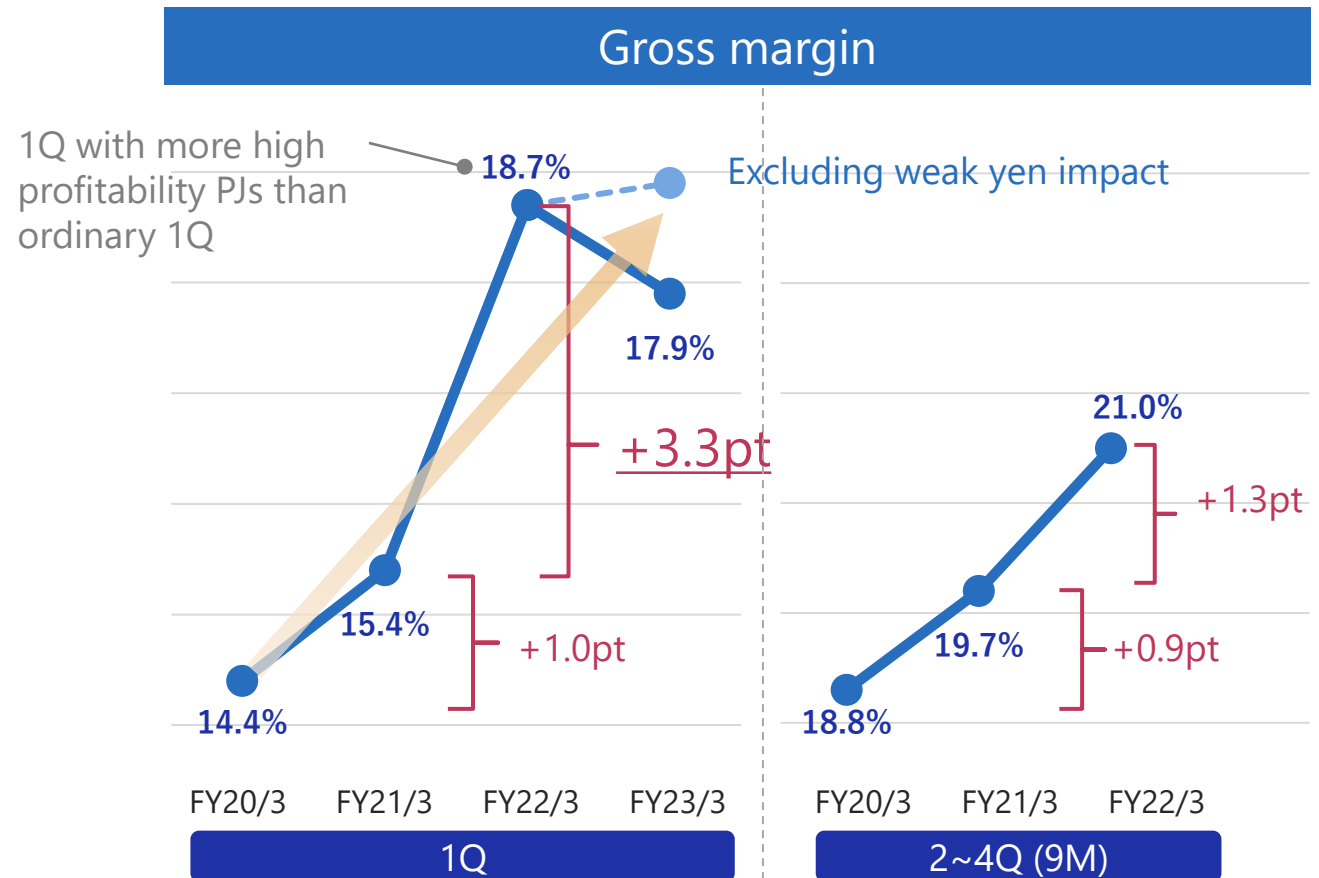
Net sales



Factor Analysis of Operating Income YoY Change

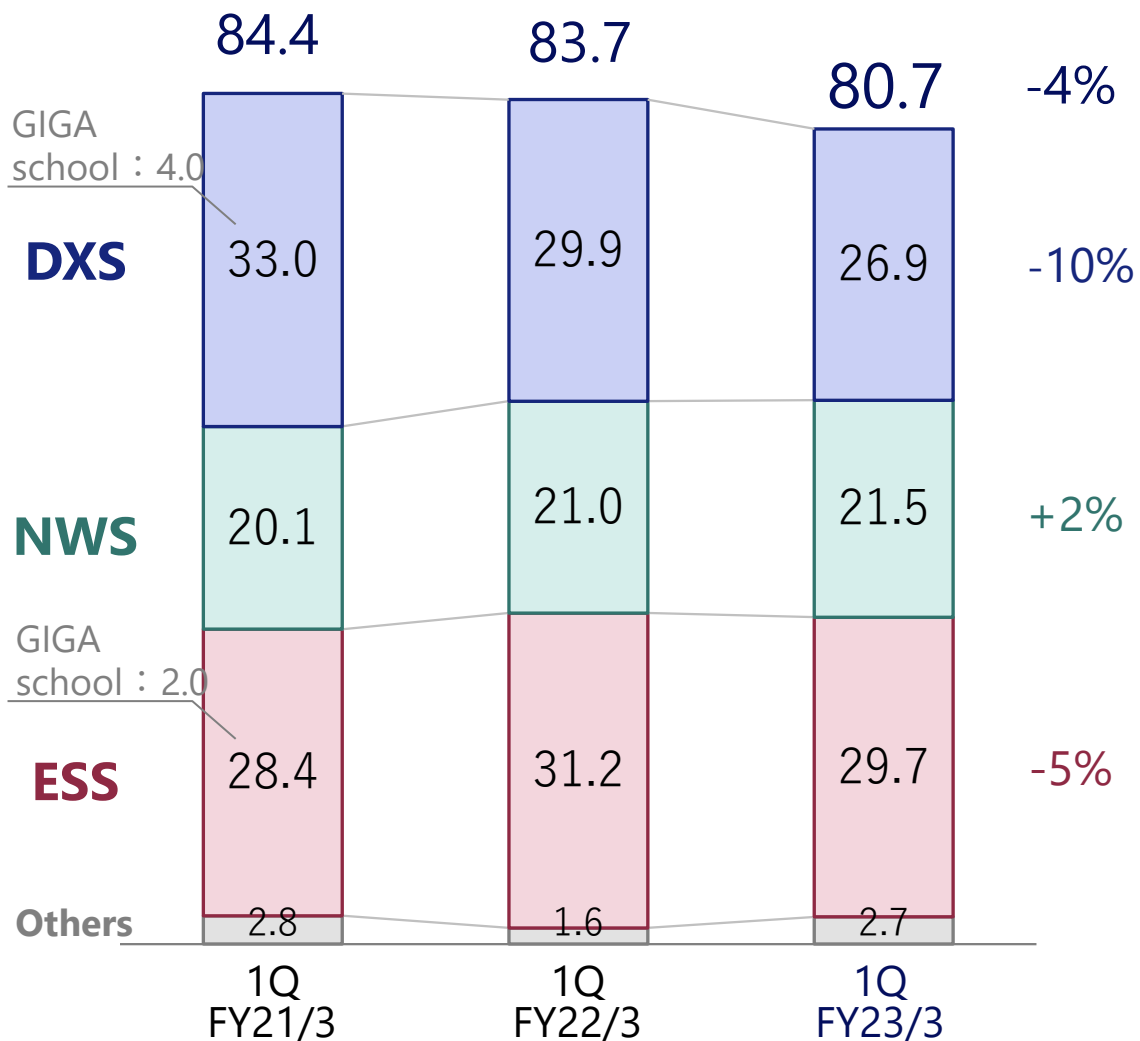


Gross margin is improving substantially excluding weak yen impact



1Q FY2023/3 Orders Received by Segment

(¥ Bn.)



DX Solutions (DXS)

- Decreased due to reactionary fall of large PJs of previous 1Q and postponement of PJs because of unclear business environment

Network Solutions (NWS)

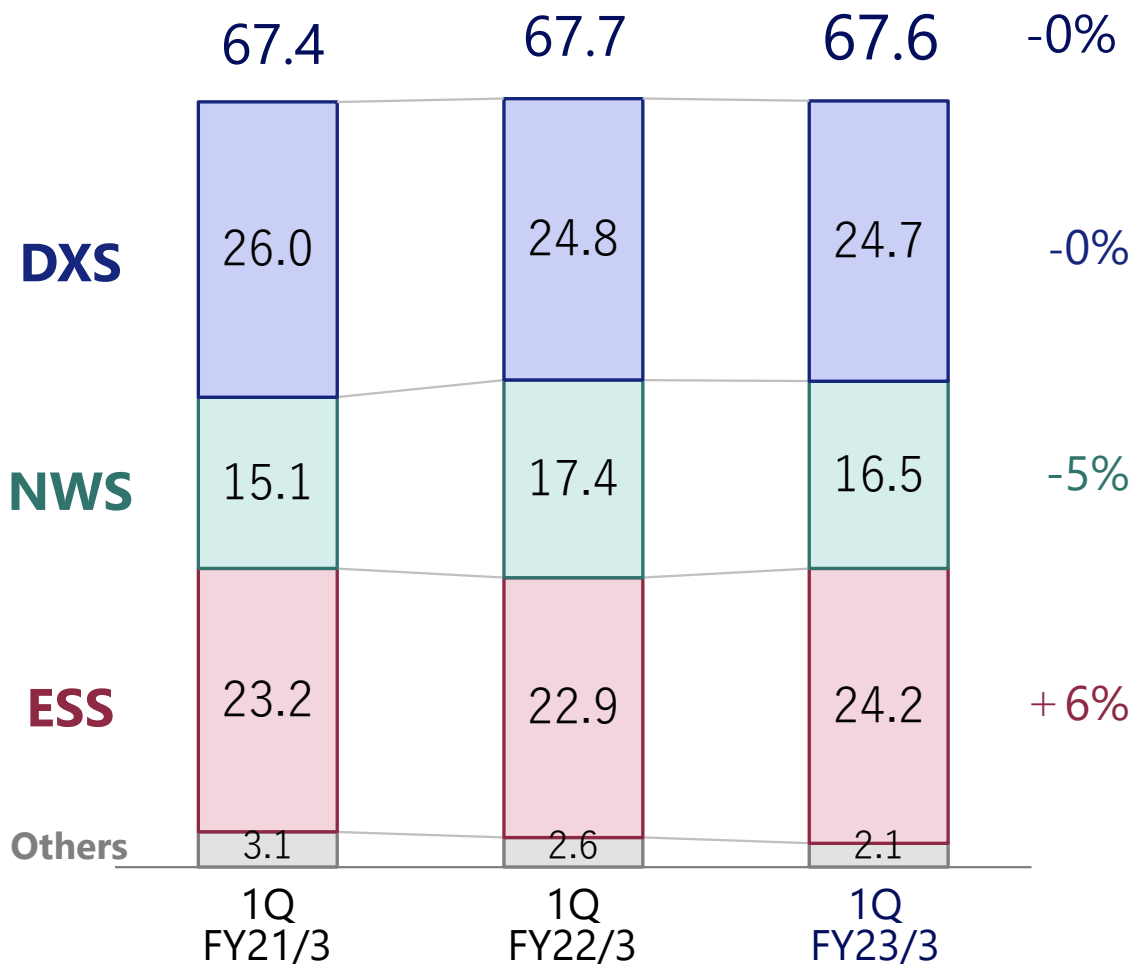
- Increased driven by local 5G, with reactionary fall of a large order of previous 1Q from a telecom carriers (-2.0), orders received

Environmental & Social Solutions(ESS)

- Decreased as large PJs of this FY are concentrated in 2Q and after

1Q FY2023/3 Net Sales by Segment

(¥ Bn.)



DX Solutions (DXS)

- Services sales increased (+11%)

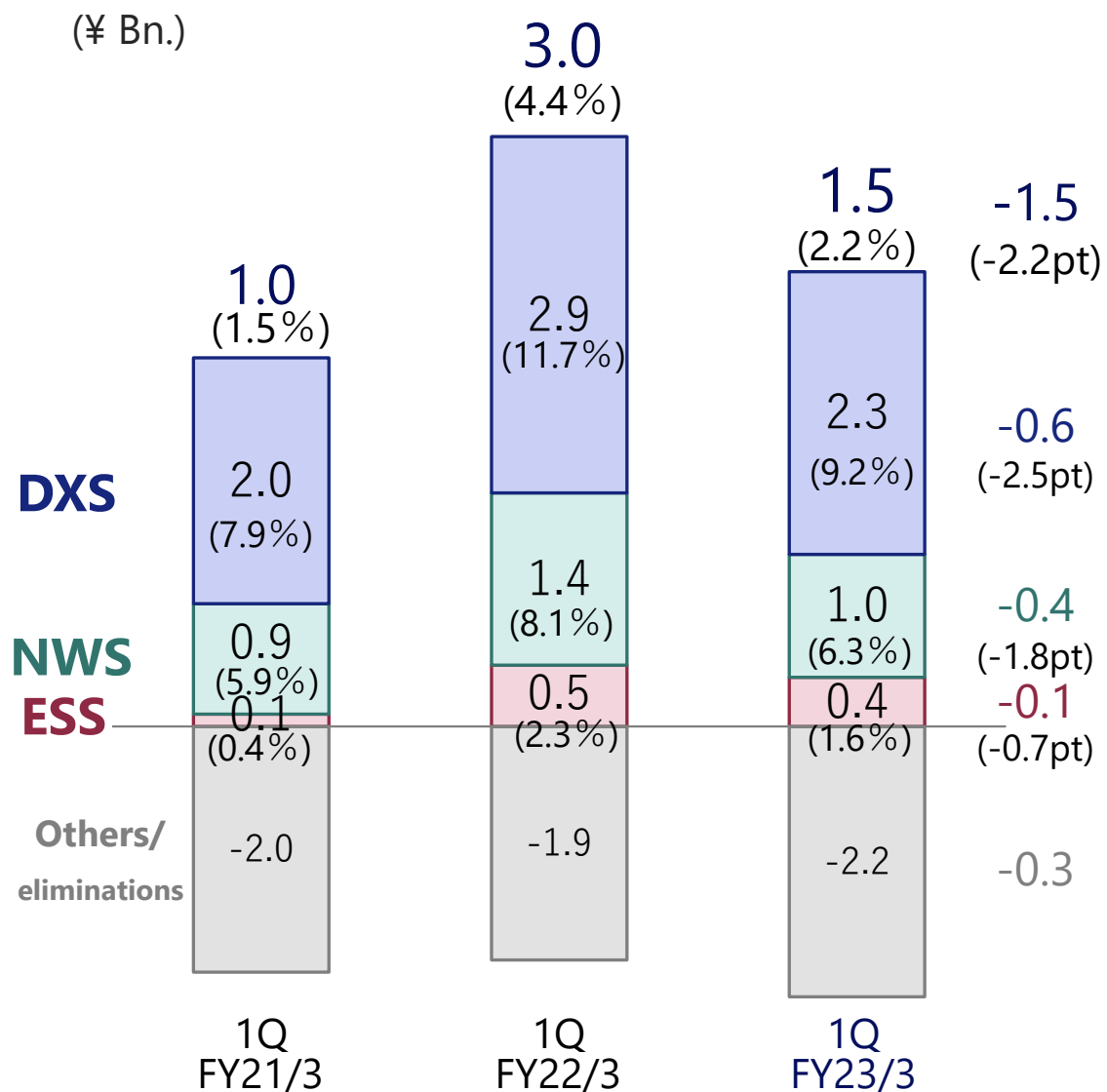
Network Solutions (NWS)

- There were impact of S/C and materials shortage

Environmental & Social Solutions(ESS)

- Increased by sales from abundant back logs with negative impact of S/C and materials shortage
 - Construction sales increased

1Q FY2023/3 Operating Income by Segment



DX Solutions (DXS)

- There were reactionary impact of concentrated high profitability PJs in previous 1Q and proactive cost increase

Network Solutions (NWS)

- Although sales decrease and proactive cost increase depressed operating income, gross margin improved

Environmental & Social Solutions(ESS)

- Rapid change in exchange rate pushed down the profit but gross margin without this impact improved

Others/elimination

- Cost for HQ relocation increased

1Q FY2023/3 Gross Margin by Segment

	1Q FY22/3	1Q FY23/3	Change
DX Solutions	※22.6%	※21.0%	-1.6pt
Network Solutions	20.7%	21.4%	+0.7pt
Environmental & Social Solutions	15.0%	※13.9%	-1.1pt
Company total	18.7%	17.9%	-0.8pt

※FY22/3: High profitability PJs concentrated in 1Q
FY23/3: Weak yen

※ FY23/3: Weak yen

FY2023/3 Forecasts

(¥ Bn.)

	1H FY23/3 forecast	Change	FY23/3 forecast	Change
Orders received	173	+4%	350	+4%
Net sales	147	+4%	330	+6%
Operating income	7.7	+0.1	26.0	+2.8
(to sales)	5.2%	-0.2pt	7.9%	+0.4pt
Net income	4.8	+0.1	15.3	+0.3
attributable to owners of the parent (to sales)	3.3%	0.0pt	4.6%	-0.2pt

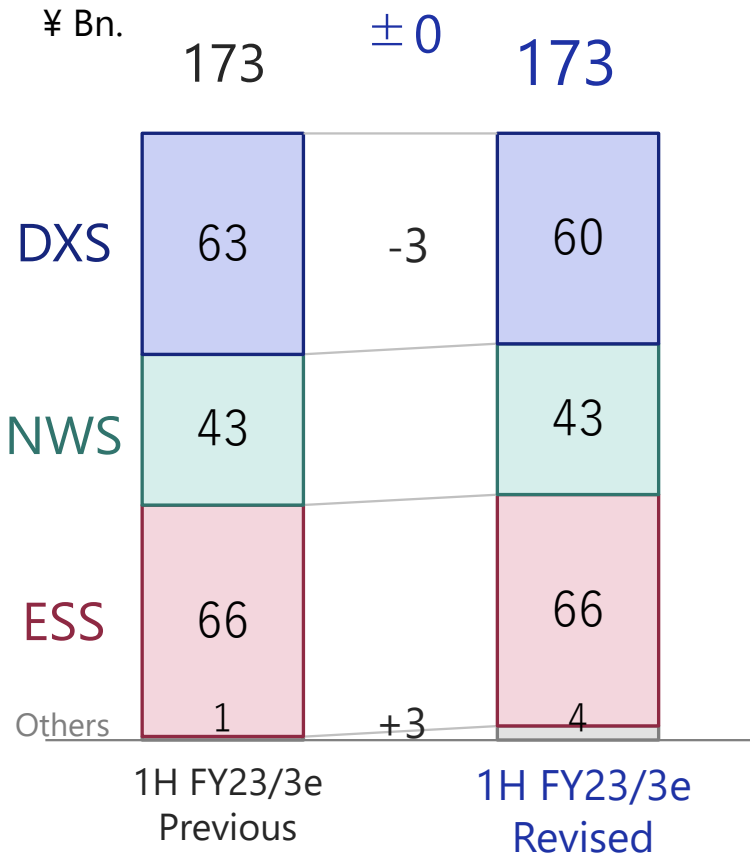
Although negative impact of weak yen exceed expectation, we aim at initial forecasts

- Certain acquisition of large PJs concentrated in 2Q and after
- Price pass-through of weak yen impact
- Profitability improvement through higher value-added service/more efficient operation with DX
- Reduction of nonurgent cost

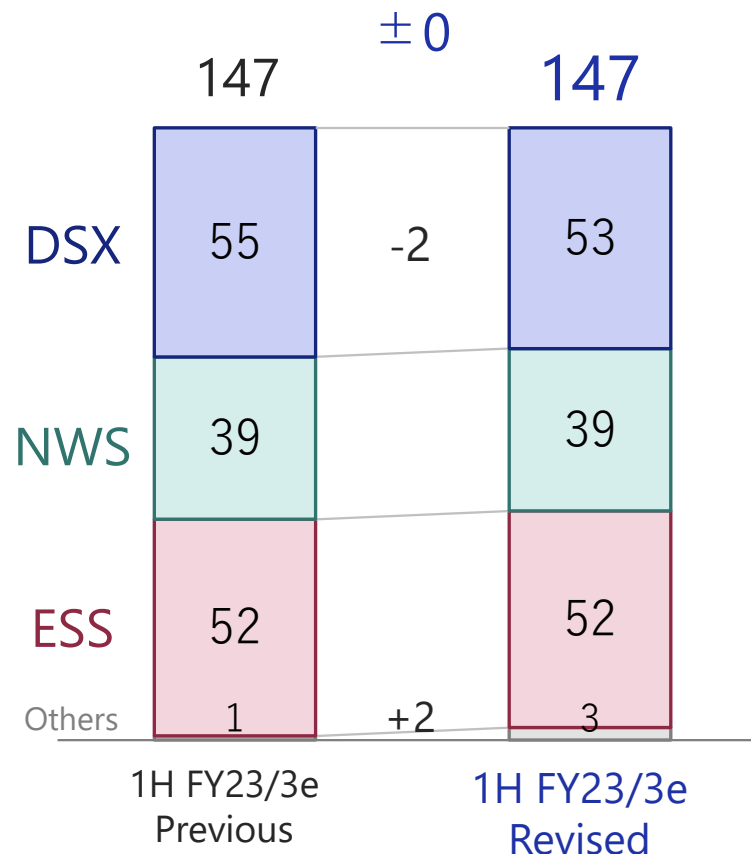
1H FY2023/3 Revised Forecasts by Segment

Revised segment forecasts considering the 1Q progress and impact of weak yen

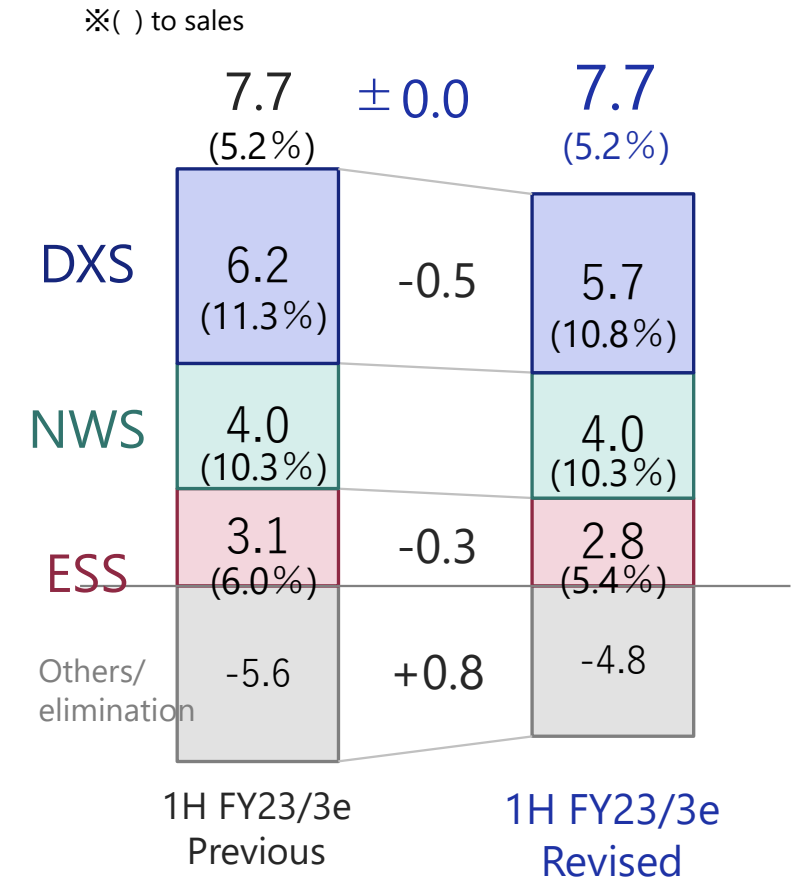
Orders received



Net sales



Operating income

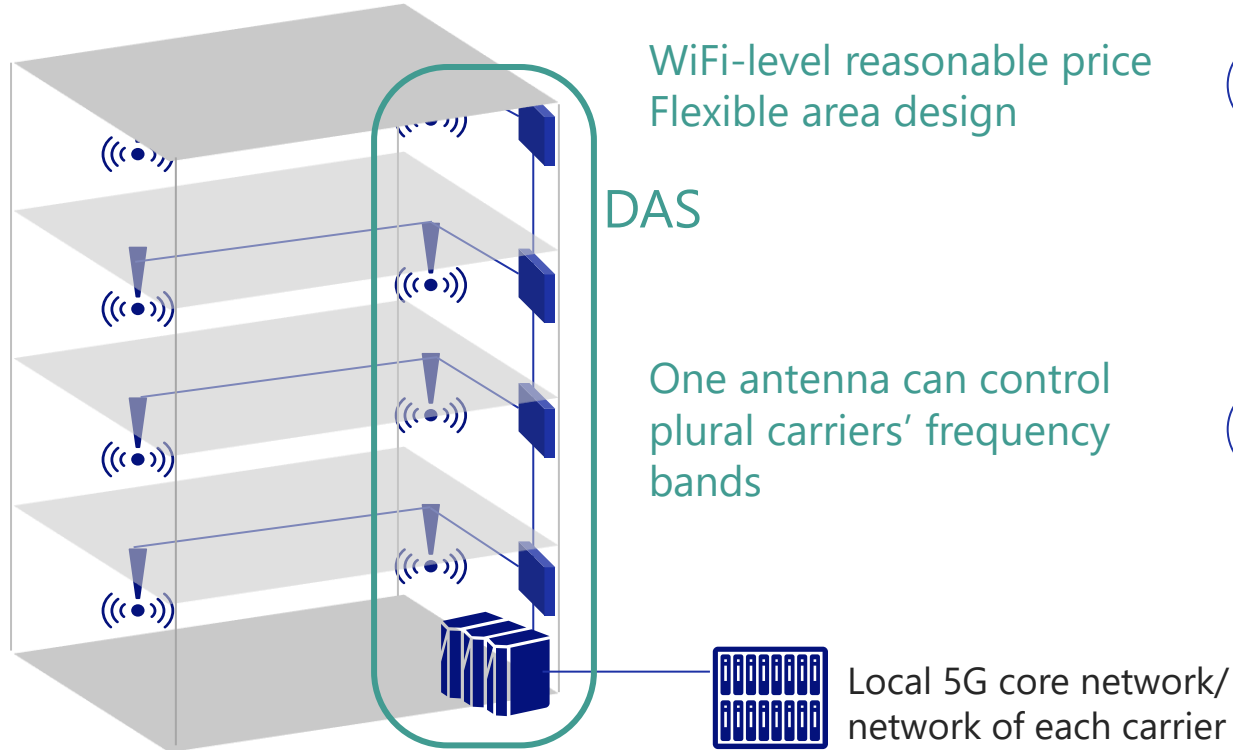


Topics 1: In-building Network Solution

In-building network by carrier/local 5G x DAS

-Collaboration with HFR, Inc. of South Korea
to support 5G area expansion with DAS technologies

<Image of infrastructure-sharing>



DAS : Distributed Antenna System

<NESIC business areas>

Smart building

- Integrated system provision from core networks to base stations using knowhow of carrier business
- Local 5G x DX services (Working-style innovation)

Infrastructure-sharing

- Acquiring increasing infrastructure-sharing demand supporting carrier 5G networks development for closed space

* Responding to cost reduction needs of mobile carriers

Topics 2: Adoption to Major ESG Indexes

– Global ESG Index –



FTSE4Good

– ESG Index of GPIF –

Newly adoption following FTSE Blossom Japan Sector Relative Index, MSCI Japan Empowering Women (WIN) Select Index, S&P/JPX Carbon Efficient Index



FTSE Blossom
Japan

FTSE ESG rating

Old
3.2 → New
3.9

Aiming at corporate value enhancement through sustainable management

Integration of financial and non-financial value

- New medium-term management plan incorporating non-financial targets

Enhancement of sustainability management system

- Sustainability Management Committee
- Carbon Neutral Promotion Div.

ESG disclosure

- Announced to support TCFD recommendations & started the info. disclosure based on TCFD frameworks
- Enhancing disclosure by web and integrated report

Reclassified quarterly data and other data

Please see our supplementary data sheet for

- Reclassified quarterly data for FY2021/3 & FY2022/3
- Sales by business type, sales by market etc.

<https://www.nesic.co.jp/english/ir/library/2022.html>

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.

Some information for reference such as impact of special factors is calculated and shown in round numbers.

There was segment change in April 2022. Segment information for the FY 2021/3 and FY 2022/3 have been recalculated to reflect the change in the content of business segments.



Re-designing your Communication

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

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