

# Financial Results for the Fiscal Year ended March 2024

April 26, 2024

Yushi Ushijima, President & CEO

NEC Networks & System Integration Corporation

(TSE: 1973, NESIC)

# Agenda

- I. Results for the FY2024/3
- II. Forecasts for the FY2025/3

# I. Results for the FY2024/3

# FY2024/3 Summary

(¥ Bn.)

	FY23.3	FY24.3	Change	Forecast as at Jan. 2024
Orders received	356.0	377.2	+6%	370
Net sales	320.8	359.5	+12%	350
Gross margin	66.5	71.2	+4.7	—
(to Sales)	(20.7%)	(19.8%)	-0.9pt	—
SG&A	43.8	46.1	-2.3	—
Operating income	22.8	25.1	+2.4	24.0
(to sales)	(7.1%)	(7.0%)	Δ0.1pt	(6.9%)
Net income	13.8	15.3	+1.5	14.0
attributable to owners of the parent				
(to sales)	(4.3%)	(4.3%)	±0.0pt	(4.0%)
R O E	10.0%	10.4%	+0.4pt	
Free cash flows	-2.1	15.4	+17.5	
Orders backlog	201.2	219.0	+9%	

Both sales and profits substantially increased despite of severe capex control by telecom. Carriers

Updated record-high orders, sales and GP

## Orders received:

- Increased orders from enterprises and governments

## Net sales :

- Two digits growth with tail wind of sales from backlogs  
(+ A large product PJ for a government agency received in 1Q: ¥7.5 Bn.)

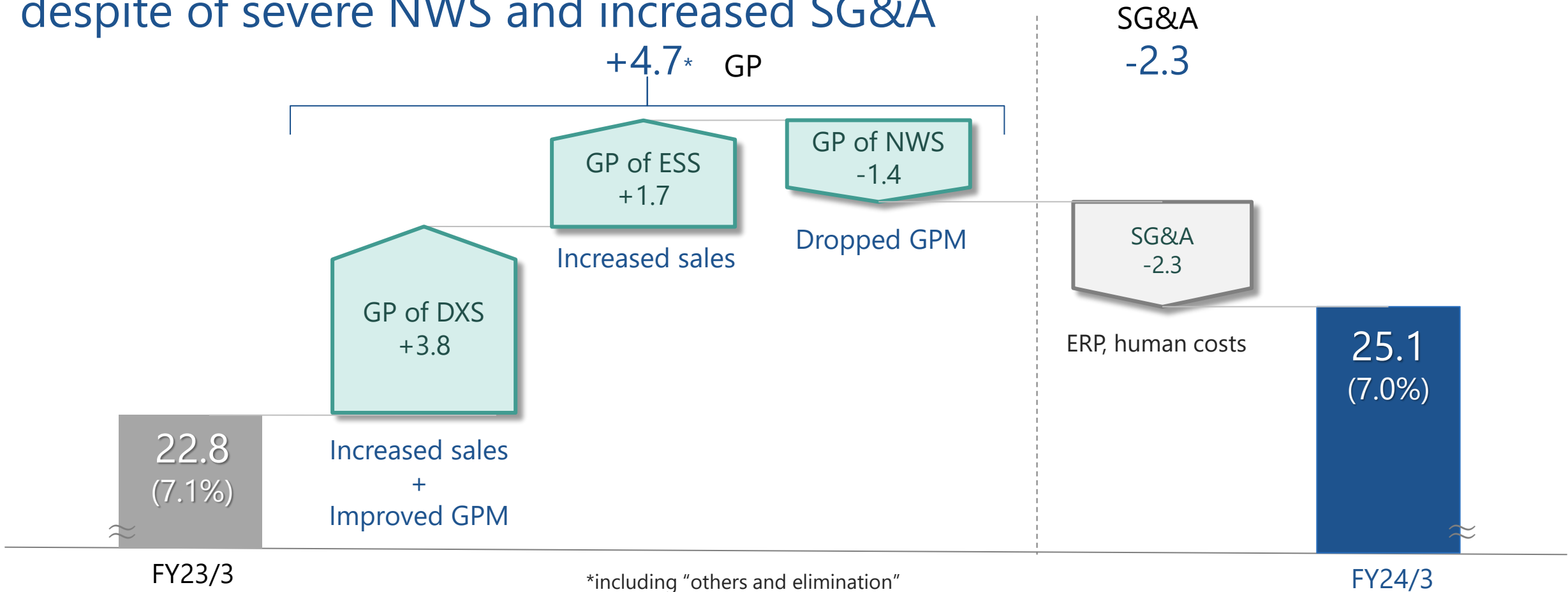
## Profits :

- Incomes expanded with aggressive SG&A for growth\*
- ✓ Though worsened NWS biz and product PJs impacted GPM, DXS biz is on an improvement track

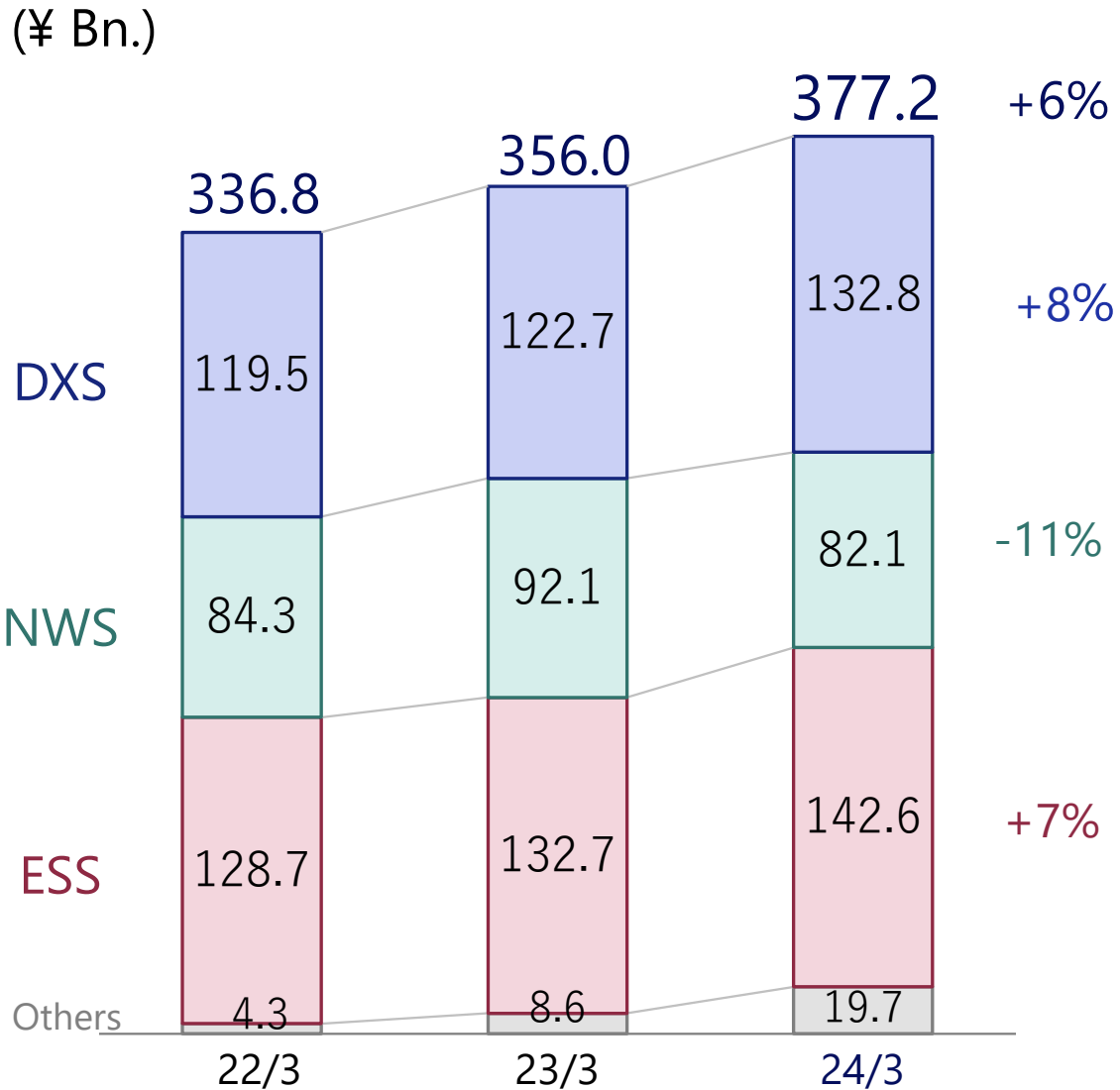
\*Cost for a new ERP for the enforcement of Data management, human resource cost etc.

# FY2024/3 Operating Income Analysis

Operating income increased by the growth of DXS and ESS despite of severe NWS and increased SG&A



# FY2024/3 Orders Received by Segment



## DX Solutions (DXS)

- Strategic areas such as workstyle DX and securities expanded
  - A subsidiary decreased due to absence of Covid-19 related demand (-2.5)
  - +18% high growth in 2H thanks to strong demand

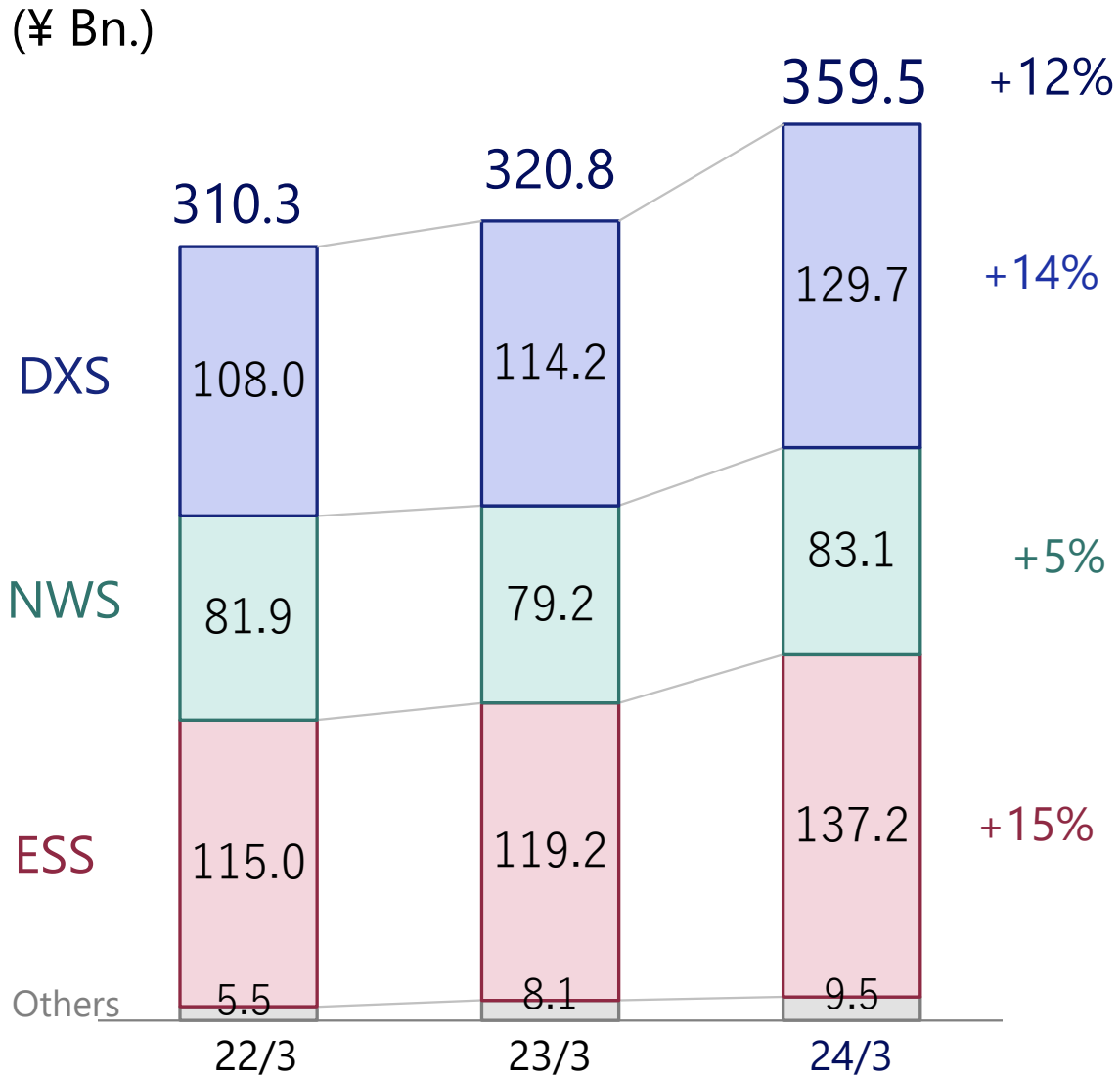
## Network Solutions (NWS)

- Telecom carrier related biz dropped
    - Social infra\* dropped due to rebound of a large order in 23/3 (-3.5)  
(increased excluding the rebound impact)
- \*Space/national security, submarine and broadcast biz

## Environmental & Social Solutions (ESS)

- Domestic construction biz such as road ICT and overseas biz increased
- Acquired a large product order for a government agency in 1Q (7.5)

# FY2024/3 Net Sales by Segment



## DX Solutions (DXS)

- Both of strategic areas and existing areas increased
  - A subsidiary decreased due to absence of Covid-19 related demand (-2.5)

## Network Solutions (NWS)

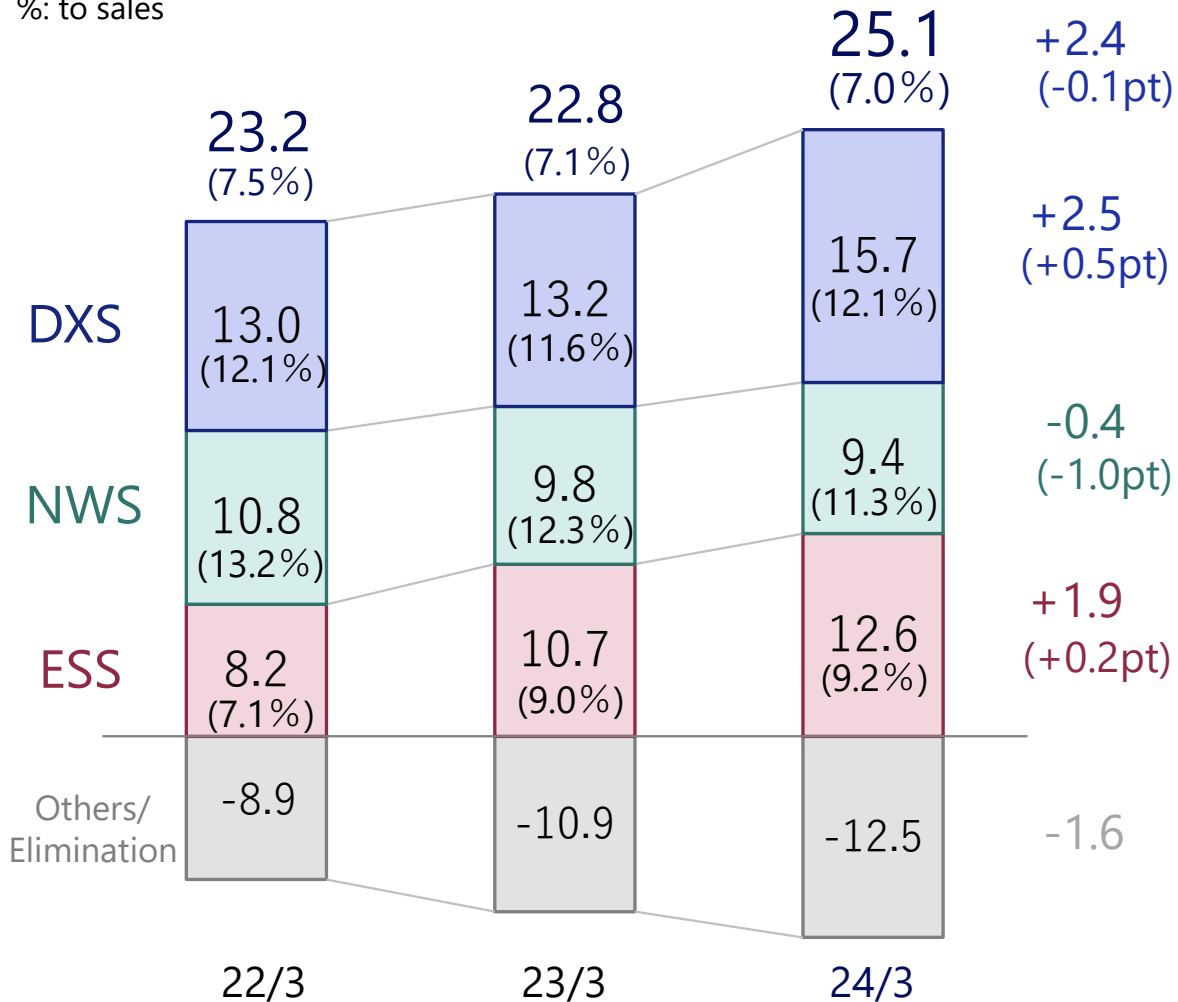
- Telecom carrier related biz decreased but social infra biz and new banknote related biz of a manufacturing subsidiary increased

## Environmental & Social Solutions (ESS)

- Domestic construction biz such as road ICT increased
- A large product PJ for a government agency was recorded as sales in 3Q (7.5)

# FY2024/3 Operating Income by Segment

(¥ Bn.)  
%: to sales



## DX Solutions (DXS)

- Operating income substantially increased thanks to increased sales and improved GPM
  - Growth in strategic areas such as workstyle DX drove the improvement

## Network Solutions (NWS)

- Despite of increased sales and efficient SG&A, operating income decreased due to dropped GPM

## Environmental & Social Solutions (ESS)

- Sales expansion lead the income increase

## Others/Elimination

- ERP renewal and personnel costs increased



# FY2024/3 Gross Profit Margin by Segment

## Company total

19.8%

YOY : -0.9pt

┌ 1H : +0.6pt  
└ 2H : -2.2pt

## DXS

22.0%

YOY : +0.4pt

┌ 1H : +0.7pt  
└ 2H : +0.1pt

## NWS

21.5%

YOY : -2.8pt

┌ 1H : -2.8pt  
└ 2H : -2.8pt

## ESS

17.7%

YOY : -1.3pt

┌ 1H : +2.3pt  
└ 2H : -4.1pt

### excluding one-shot factors

YOY : -0.4pt

┌ 1H : -0.6pt  
└ 2H : -0.2pt



- Dropped NWS GPM

<One-shot factors>

- Overseas factors in FY23/3(ESS)
- Product biz(DXS/ESS)

YOY : +0.8pt

┌ 1H : +0.7pt  
└ 2H : +0.9pt



- Expanded high value-added biz. (Improved mix)

<One-shot factors>

- Strategic product biz (4Q)

YOY : -2.8pt

┌ 1H : -2.8pt  
└ 2H : -2.8pt



- Decreased highly-profitable biz with telecom. carriers
- Increased product area in social infra. preceding SI area.

YOY : -0.3pt

┌ 1H : -1.0pt  
└ 2H : +0.1pt



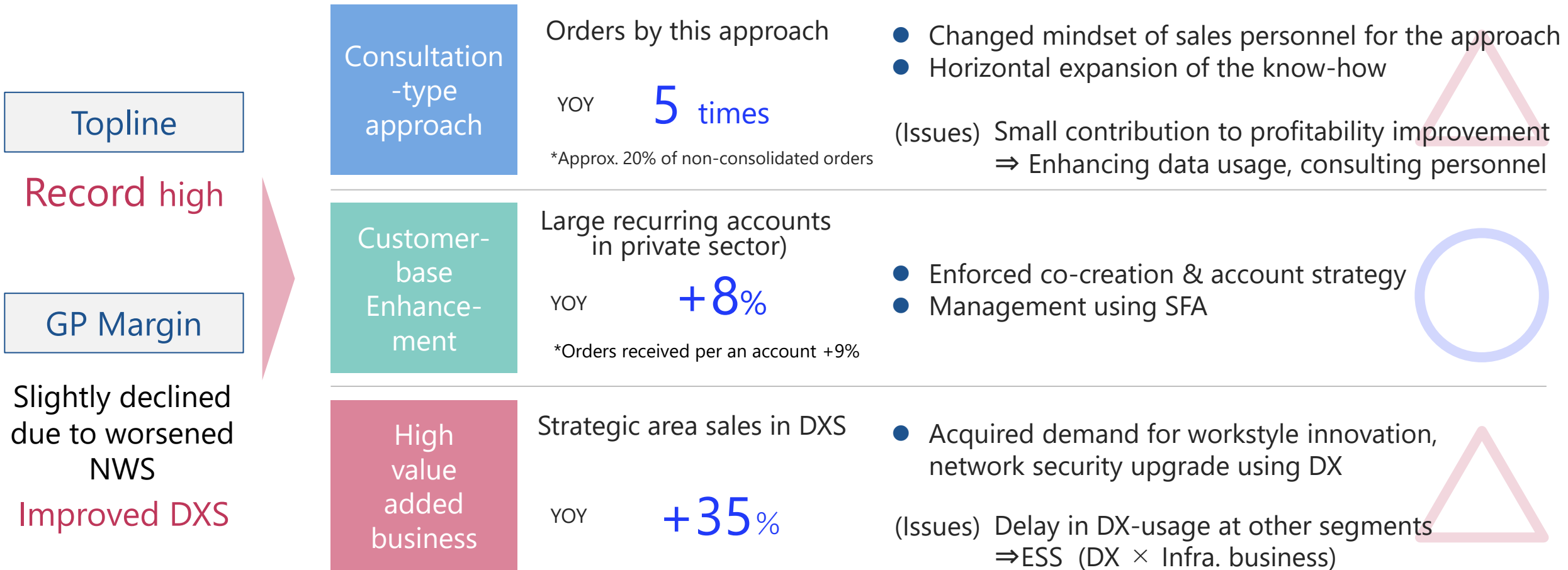
- Impact of super profitable PJs in 1H FY23/3

<One-shot factors>

- Overseas factors in FY23/3 (Myanmar/Thailand)
- Large product PJ for govt (3Q)

# Progress of "Shift up 2024": Spiral-type Business Model

## Topline growth + profitability improvement in DXS leading other areas



# Case: DX Introduction to a Factory

Consulting-type approach




High value added business

Expanding business by solving the customer's complex needs by Digital x Infra + One-stop solution

Grow

On-site workstyle innovation by DX

On-site workstyle  Instruction & report by voice

Solving resource shortage by AI supporting human knowhow

Transform




Data usage platform

Platform for IoT data  Data analysis 

Data usage

Connect

IoT infra

IoT/Beacon, WiFi  Robot in factory  Camera watching product lines 

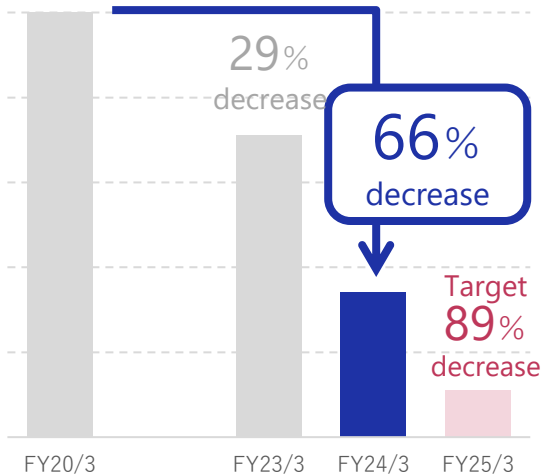
Visualization

Network (existing business)



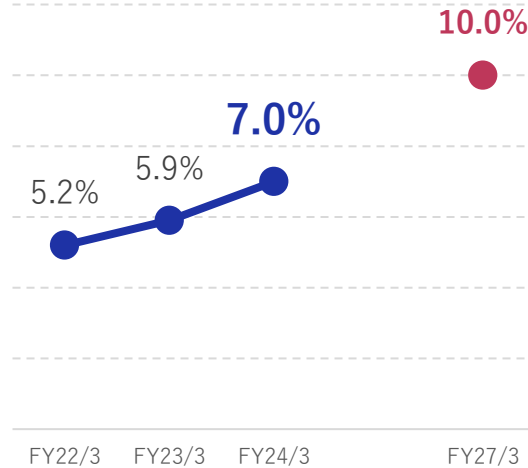
# Progress of "Shift up 2024": Non-financial Targets

## GHG emission (scope 1 & 2)



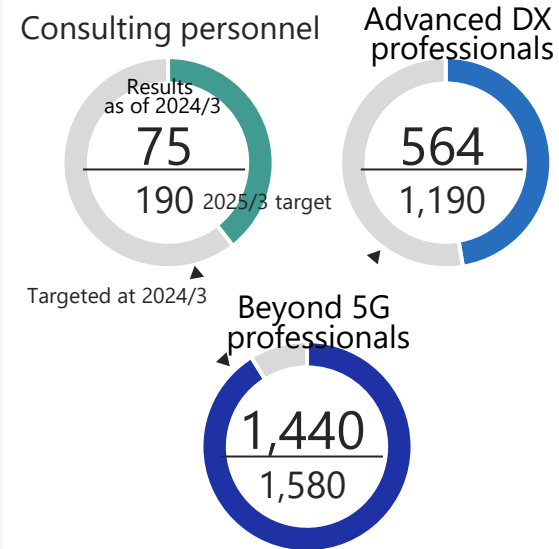
- Scope2: faster than plan
- Scope1: as planned

## Woman manager ratio



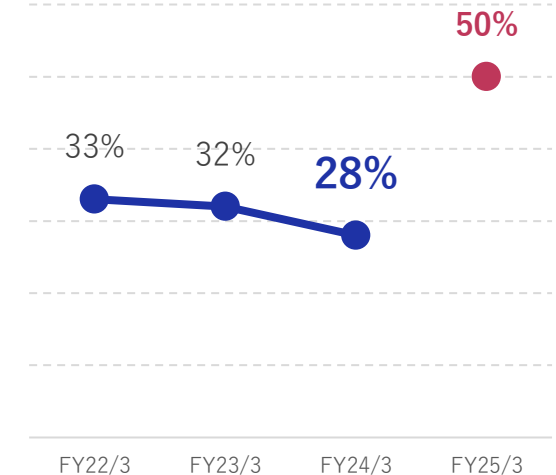
- As planned
- Further meticulous support for carrier development

## Human resources



- Tanking longer time to foster consulting personnel than plan
- Issues: More opportunities for training and practice

## Engagement score



- Score-down in each layer
- Issues: More opportunities to challenge via authority transfer

## II. Forecasts for the FY2025/3

# FY2025/3 Forecasts Summary

(¥ Bn.)

	FY24/3	FY25/3 Forecasts	Change	Shift up 2024 target*
Orders received	377.2	380	**+1%	—
Net sales	359.5	365	**+2%	370
Operating income	25.1	29.0	+3.9	34.0
(to sales)	(7.0%)	(7.9%)	+0.9pt	(9.2%)
Net income attributable to owners of the parent	15.3	18.0	+2.7	—
(to sales)	(4.3%)	(4.9%)	+0.6pt	

\*FY2025/3 target of medium-term management plan "Shift-up 2024" announced at May 2022

\*\* Growth rate excluding product business in "Other" segment and a large product PJ for a government agency:  
Orders +5%: Sales +4%

FY2025/3 forecast is less than medium-term target but profit growth speed returned to the plan

- Accelerating our strategy execution and improve sales mix
  - More highly valued added business
  - Less product PJs



Toward record high performances

# Current Position toward the Medium-Term Target

## Operating income

(¥ Bn.)



## A year behind the target

but profit growth speed returned to the plan

FY23/3  
(1<sup>st</sup> year)

Failed to increase the growth speed dealing with issues such as yen depreciation and s/c & components shortages

➡ Profit decreased due to inability to absorb cost increases

FY24/3  
(2<sup>nd</sup> year)

Strategy started working with severe capex control by telecom carriers and wage hike

➡ Appeared results in DXS leading other areas

FY25/3e  
(3<sup>rd</sup> year)

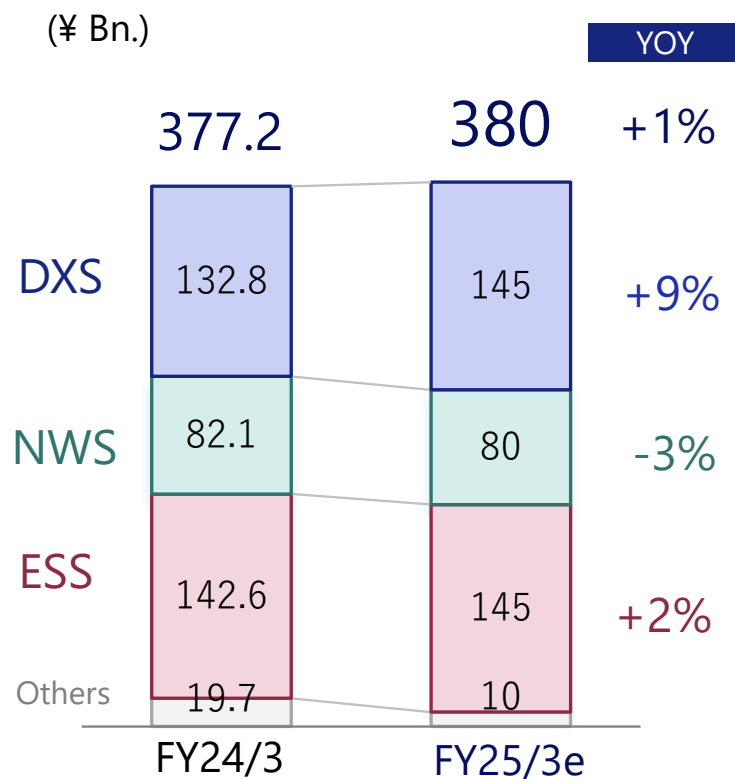
Accelerating strategy in DXS and expanding DX utilization to ESS. Hitting bottom in NWS and focusing future growth

➡ Accelerating profitability improvement

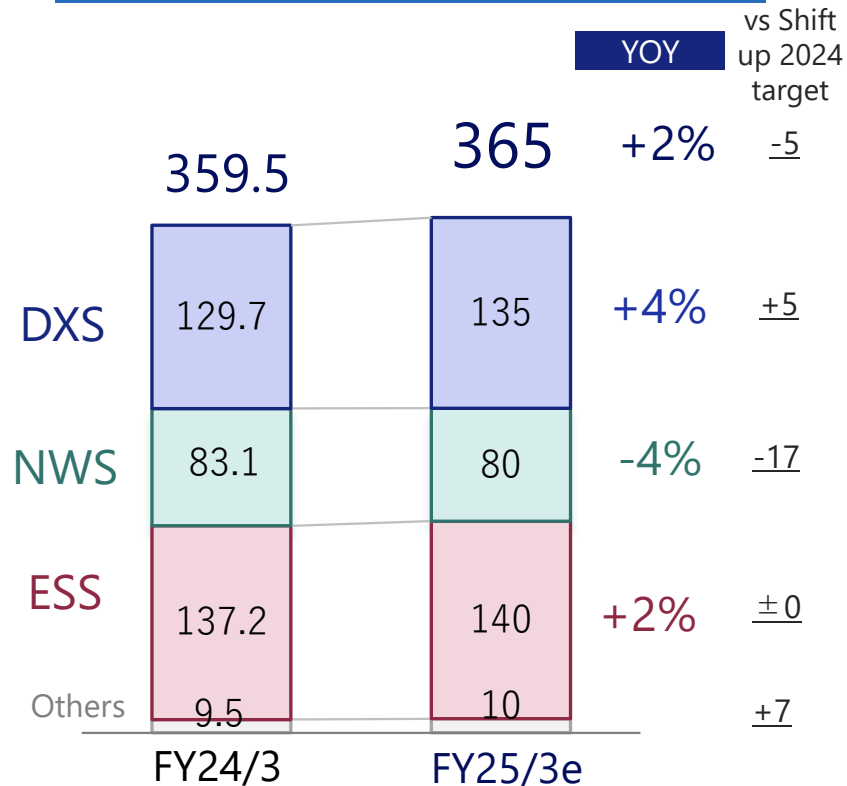
# FY2025/3 Forecasts by Segment

DXS & ESS: Profit to grow by improving sales mix. NWS: Profit to stay flat under severe market condition

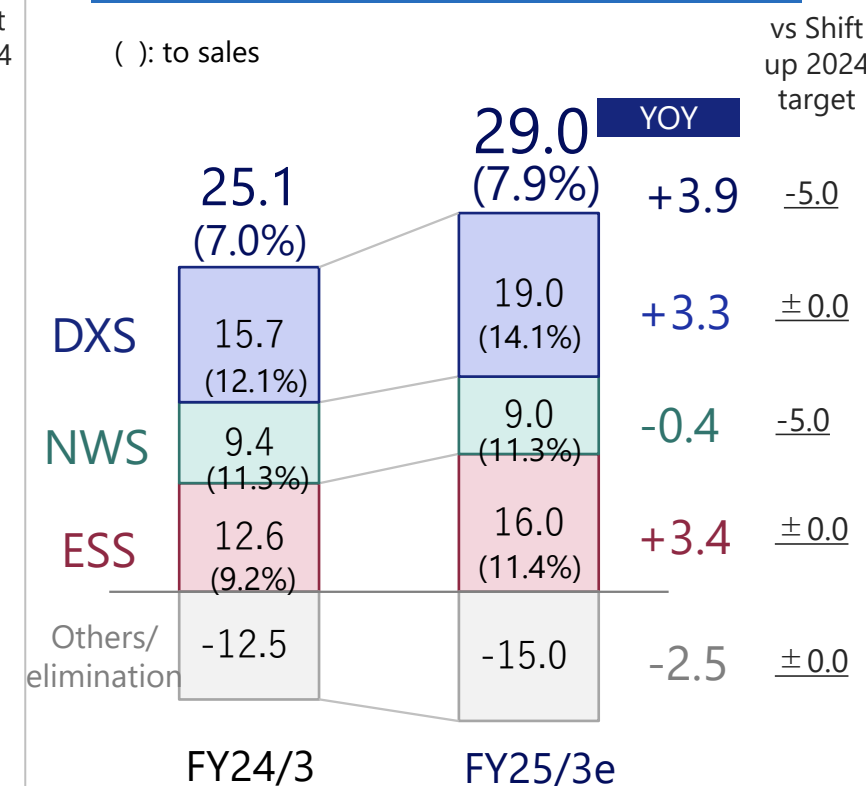
## Orders received



## Net sales



## Operating income



(There was a business transfer between segments. We will disclose adjusted figures according to this in July 2024)



## Accelerating the measures to enforce profit creation capability

DXS

Promoting “recurring” business model  
Further expanding highly value-added biz areas such as  
workstyle DX and network security

NWS

Expanding SI areas of social infra.(space, national securities, etc.) biz  
Creating self-directed business utilizing beyond 5G network  
technologies (to be independent from the capex of telecom carriers)

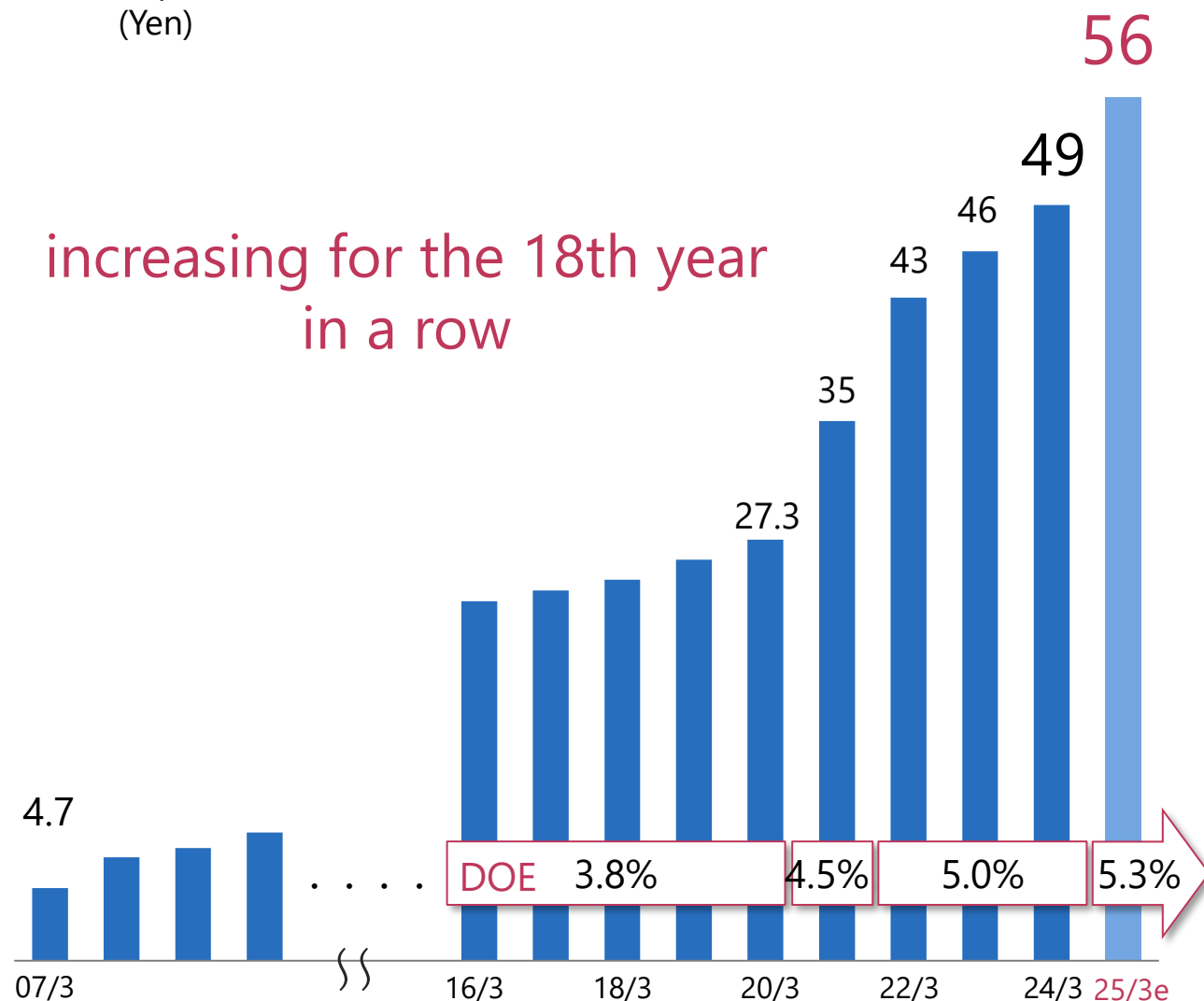
ESS

Focusing on active biz areas with our competitive edge  
such as fire-fighting network  
Developing highly value-added biz  
such as infra with DX, next-generation support services, etc.

# Dividend Plan

Dividend per share  
(Yen)

increasing for the 18th year  
in a row



Raising dividend scale  
according to the improvement  
of profit creation capability

DOE 5.0% => 5.3% (FY25/3- )

- FY24/3 : ¥49/share as planned
- FY25/3 : ¥56/share (+¥7)

\* The results for the fiscal years ended March 2020 and prior thereto presented here reflect the three-for-one stock split conducted on June 1, 2020.

# Notice

## NESIC IR Day 2024

We will have "IR Day 2024" as follows:

The presentation slides and minutes in English will be posted at our IR website after the event. (\*Please understand that it would have some delay for translation.)

■ June 12, 2024 (@Zoom webinar, Japanese only)

DXS Business

Osamu Kikuchi, Executive General Manager, DX Solutions BU

NWS Business

Yukinobu Noguchi, Executive General Manager, Network Solutions BU

ESS Business

Yuichi Nishida, Executive General Manager, Environmental and Social Solutions BU

Improvement of Corp. Value

Hiroyuki Sekizawa, CFO



# 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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# Appendix: FY2024/3 Orders Received/Net Sales by Biz Model

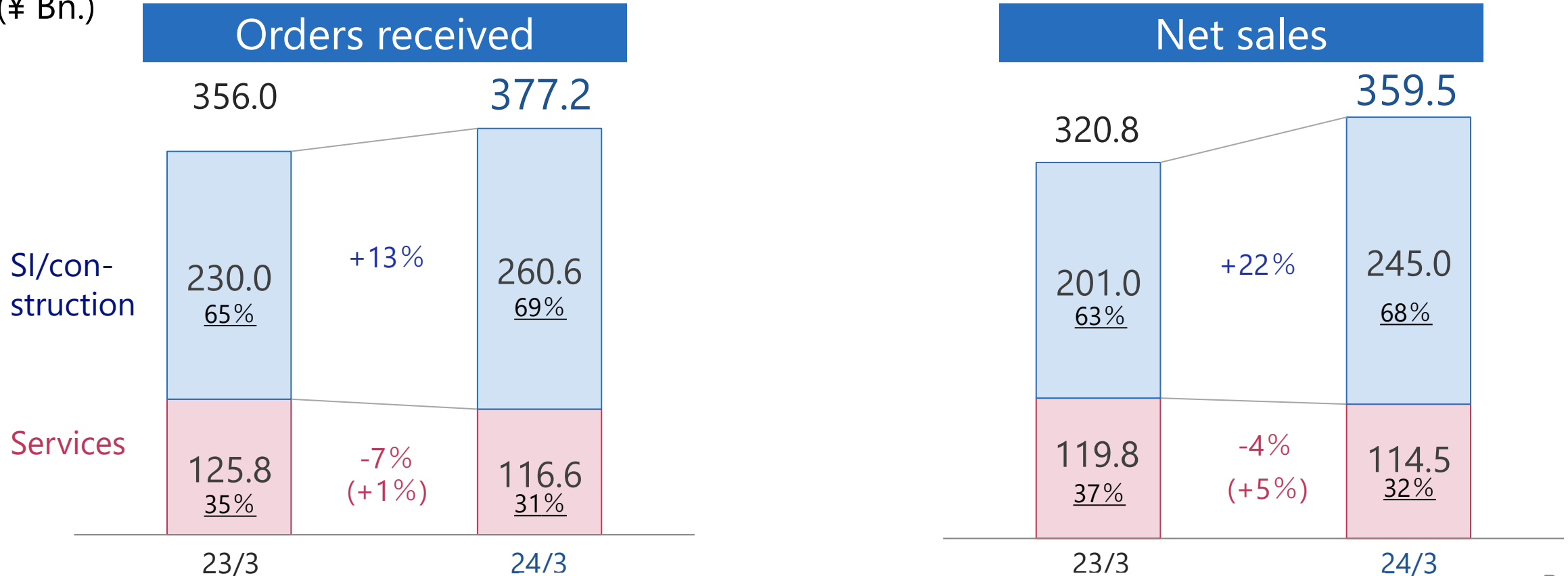
\*Contact center business of a subsidiary (Q&A Corp.)

Orders: Service orders suffered from decreased Covid-19 special orders\* and telecom carrier biz.  
SI/Construction orders highly

Sales: Full-swing contribution of backlog sales.

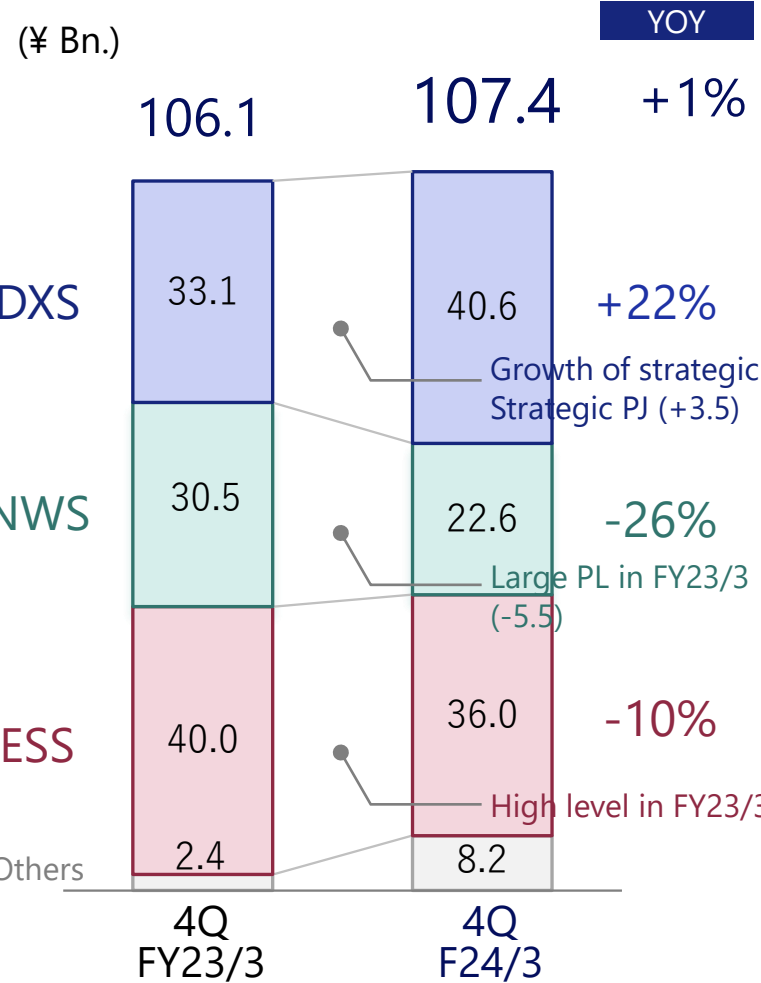
Service sales excluding above impacts (Covid 19 & telecom carriers) steadily increasing

(¥ Bn.)

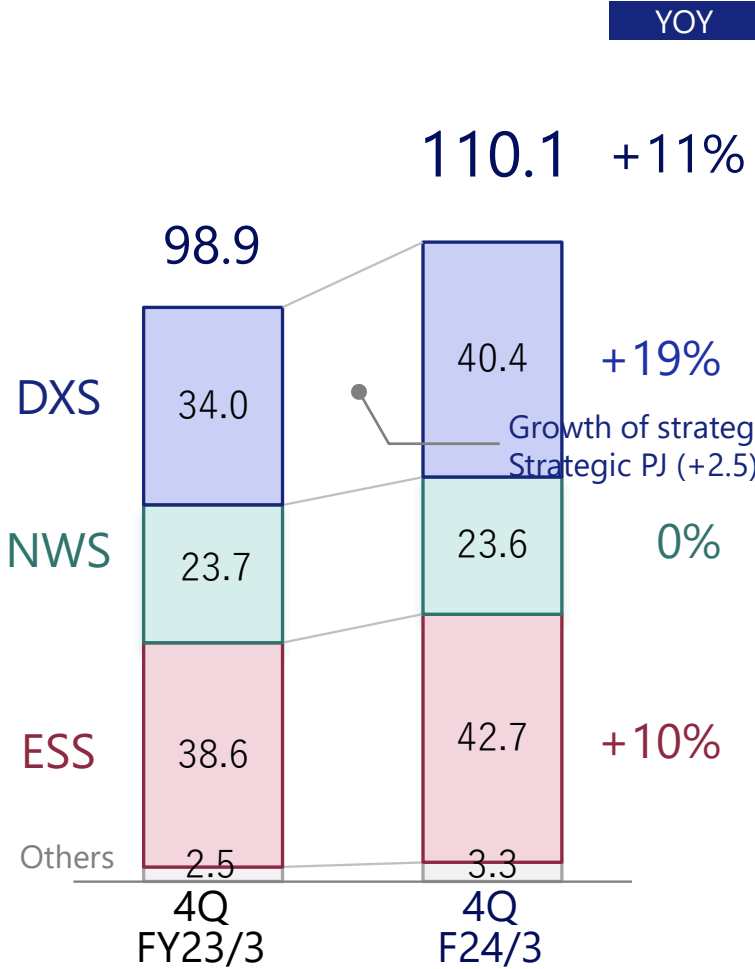


# Appendix: 4Q/FY2024/3 performances by Segment

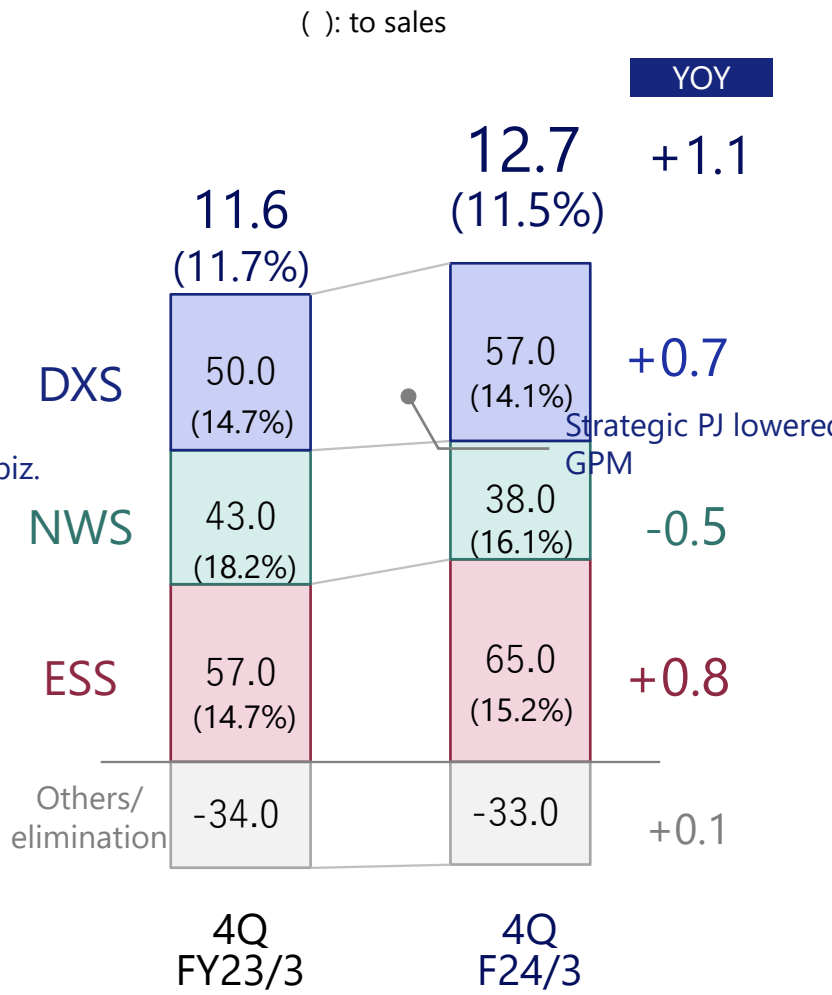
## Orders received



## Net sales



## Operating income



# Reclassified quarterly data and other data

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Please see our supplementary data sheet for

- Orders backlog by segment
  - Sales by business type
  - Sales by market
- etc.

<https://www.nesic.co.jp/english/ir/library/2024.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.

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



# NEC

NEC Networks & System Integration Corporation

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