


# NESIC: Gear for Growth

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NEC Networks & System Integration Corporation  
(TSE 1973 / NESIC)



Good morning! I'm Tokuo Yamamoto, CFO of NEC Networks & System Integration Corporation, which we call NESIC.

Thank you for joining us today for this briefing.

# Agenda

**I. What's NESIC ?**

**II. Gear for Growth !**



Here is our agenda.

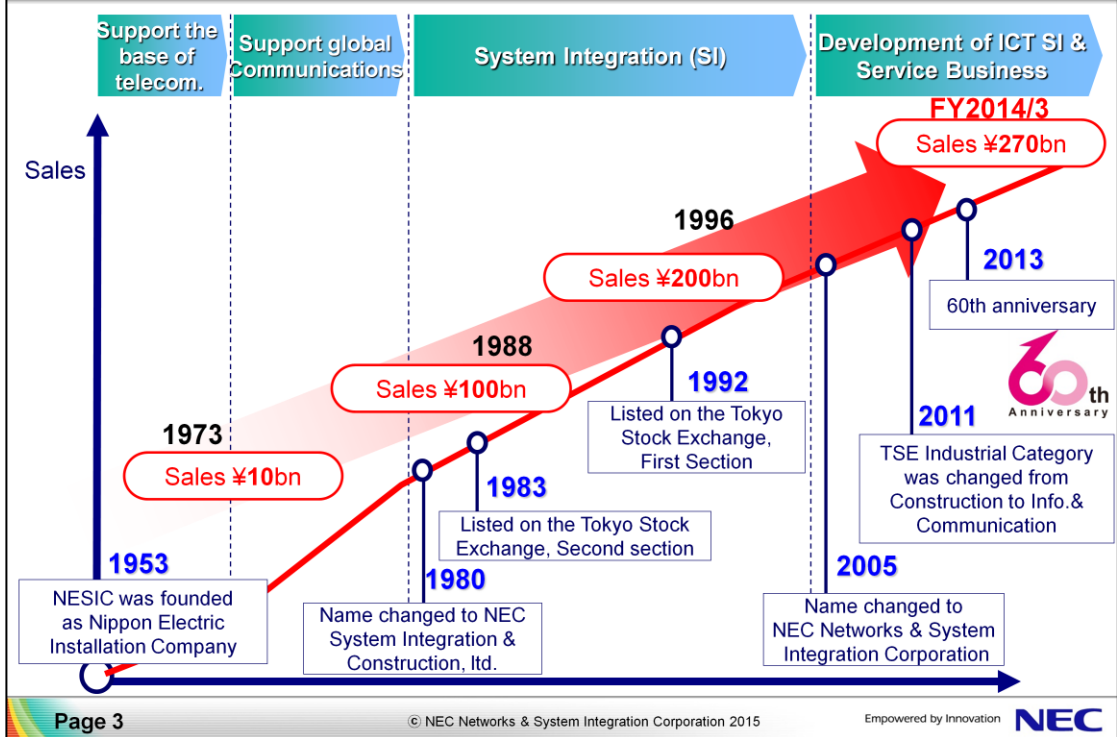
First, I will provide a summary of our company, then talk about the gear for growth.

# I. What's NESIC ?

- History
- Business Model
- Financial Performance

What's NESIC?

# Corporate History



This chart shows our history.

NESIC was born as a telecom engineering company about 60 years ago.

According to the development of technologies, our business have been gradually expanded into systems integration and related services such as system operation and outsourcing services.

## Support the Base of Telecommunications (1953–)

### Construction of domestic broadcasting and telecommunications infrastructure



Installation of Japanese first television broadcasting equipment



The world's first automated broadcasting equipment for NHK



Telephone switchboard

I will explain the history of NESIC in a little more detail.

1953, our birth year, was the year when NHK started Japan's first television broadcasts, and current KDDI was established.

In other words, NESIC was born at the dawn of communication in Japan.

We started out developing Japan's broadcast and telecom infrastructure, such as the installation of television broadcasting equipment and the installation of telephone switchboards, as shown in the pictures.

## Support Global Communications (1960s–1980s)

### Construction of telecommunications infrastructure around the world



Satellite broadcasting on Mt. Everest



Oil plant telecom system in the Middle East



Construction of network for an offshore oil field plant



Construction of satellite telecom system in Switzerland



Construction of satellite telecommunications system in Iran

In sixties, our business expanded to the worldwide telecom infrastructure.

As shown in this slide, we have installed satellite earth station on Mt. Everest and have contributed to live TV coverage from the top of Mountain.

## System Integration (SI) (1990s-)

Expansion corresponding to diversified communications way including mobile-phones and the Internet



Construction of base stations for mobile phones



Construction of intra-company voice communication network

Alongside the dramatic development of telecom technology in the 1990s, we also contributed to the start-up of new telecom services, including mobile phones and the Internet, and also expanded system integration business for office communication network.

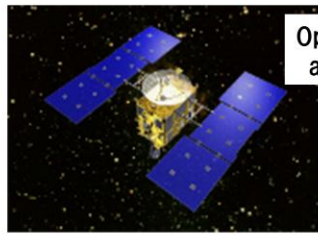
We can say that it is the era when we became a system integrator.

## And Today...

### SI and operation of various social infrastructure



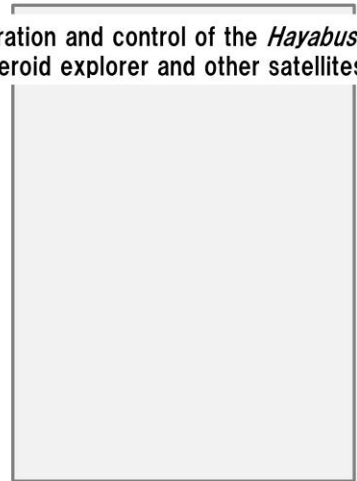
Installation of digital terrestrial broadcasting equipment on Tokyo Skytree



Operation and control of the *Hayabusa* asteroid explorer and other satellites



Submarine cables and Submarine seismometer system



\*It is one of our staff members that discovered the *Hayabusa*.

And today....., we have also been involved in the construction of social infrastructure, including the installation of digital terrestrial broadcasting equipment on Tokyo Skytree and the development of a submarine seismometer system.

Moreover, our stage has spread as far as space. We have been involved in the operation and control of numerous satellites.

It was one of our staff members who re-discovered the *Hayabusa*, that collected samples of asteroid Itokawa, first in the world, when its whereabouts were unknown. We are working for the operation of newly launched Hayabusa-2, but I hope we do not have an opportunity to re-discover it this time.



# And Today...

## Work style reform integrating office design and ICT

EmpoweredOffice



For offices, not only integration of ICT systems, we also focus on the work style innovation solution, including office facilities and design to enhance the productivity of employees.

## What is NESIC?

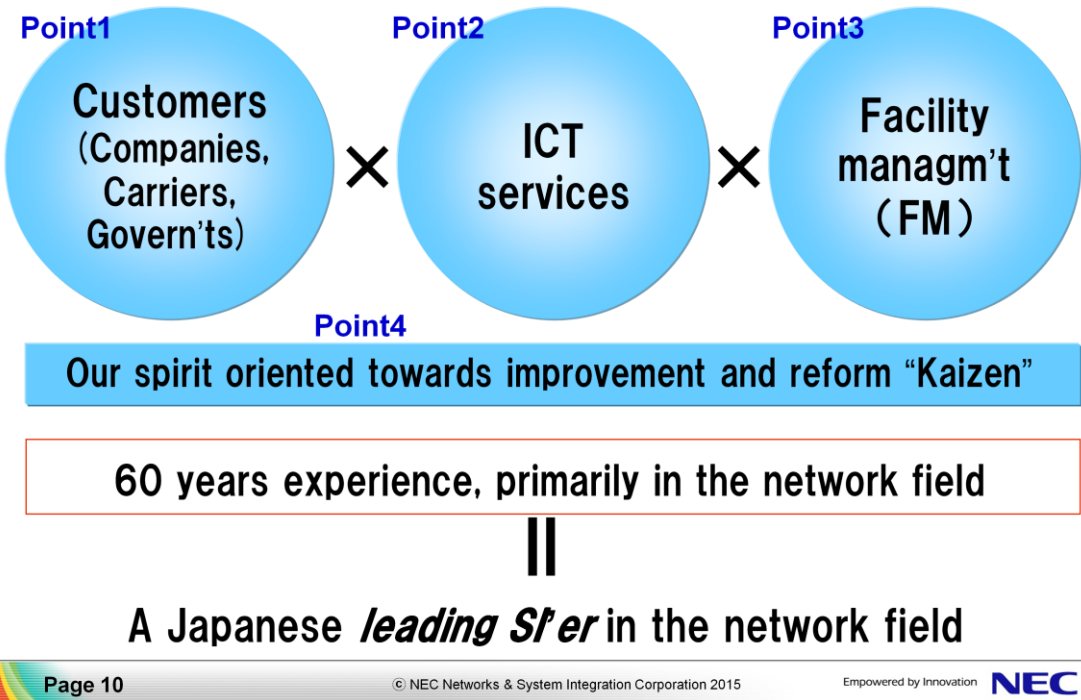
We are  
**a company that supports all kinds of communications,**  
ranging from space and submarine communications  
to communications in everyday life  
and corporate activities.

Corporate message

Re-designing your Communication

It is, therefore, fair to say that NESIC is a company which has achieved growth by continually supporting all kinds of communications across a wide range of fields.

# NESIC Business Model



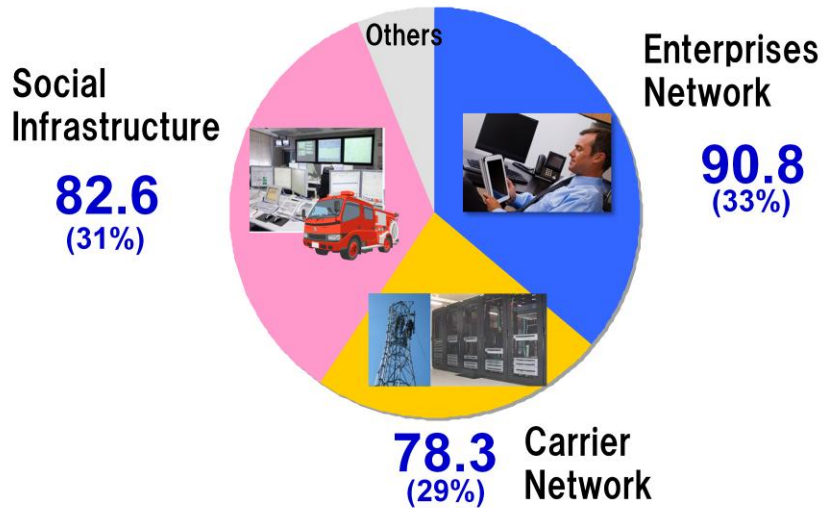
Our business model has 4 points:

- (1) We do business for various customers, private companies, telecom carriers and governments.
- (2) We can provide them variety of services related to ICT, such as consulting, system integrations, maintenance-operation, and outsourcing services, utilizing our strong service & support bases.
- (3) We also have total facility management knowhow through telecom construction experience, including office facilities and design.
- (4) In addition, we have spirit oriented towards "Kaizen."

We are proud of leading position in the Japanese network market, based on the trust, earned through our sixty years experience and know-how.

## Point 1: A Wide Range of Customers

**Sales: ¥270.3bn** (FY 2014/3)



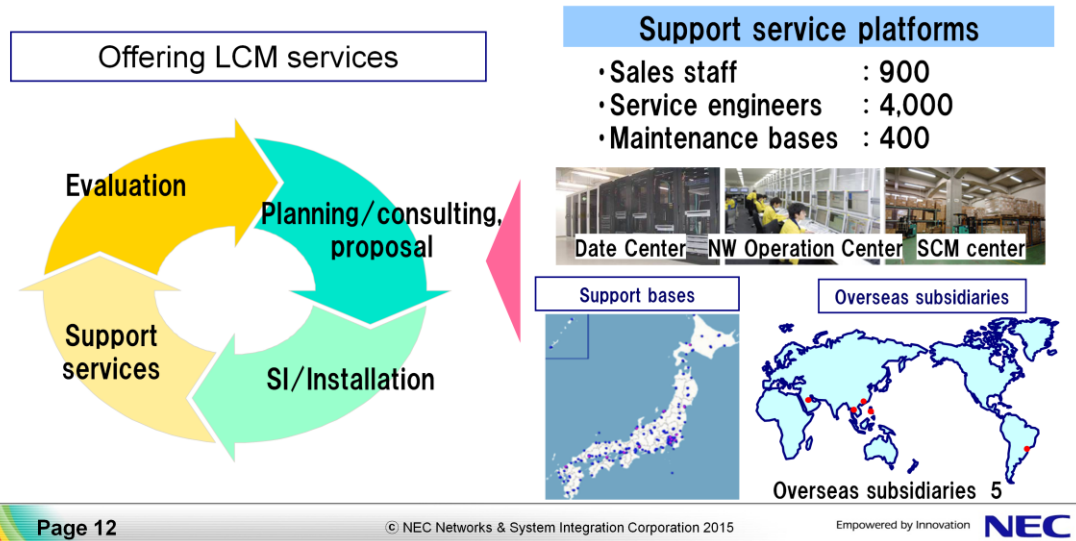
\* Segment figures have been changed in accordance with the current content of business segments

Our sales are well balanced by these 3 segments, as a results of our broad customer base.

## Point 2: Infrastructure for Extensive ICT Services

### Offering all services from the standpoint of customers

- Business infrastructure for offering all kinds of services, including consulting, construction, maintenance and operations



We are able to provide ICT services as a management cycle, from consulting, integration, maintenance and outsourcing services.

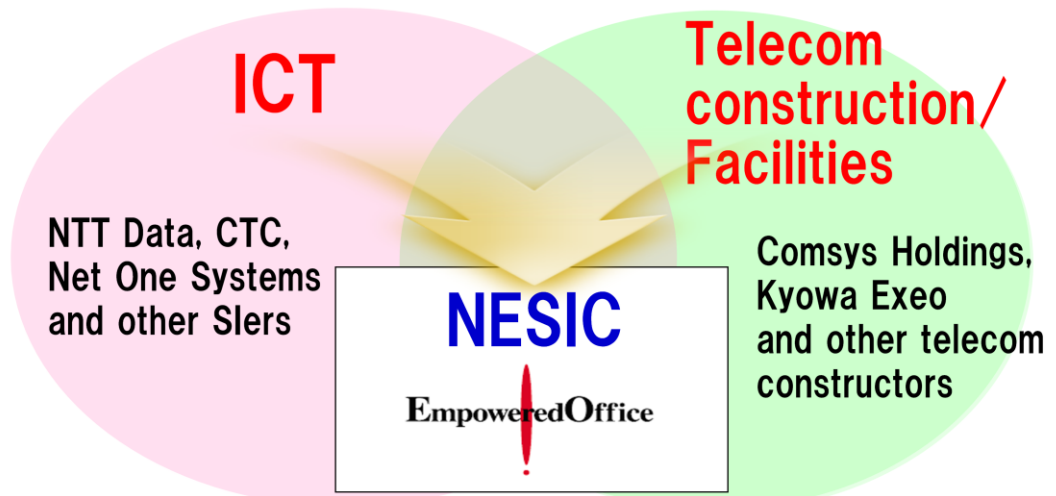
To support our business model, we have about 400 service and support bases and 4,000 engineers working nation-wide.

As a result, for an example, we can send support staff and necessary parts to our customers in 2 hours wherever they are in Japan. It is the service quality NESIC are proud of, through the experience of mission critical public network business.

## Point 3: FM Capability Based on Construction Know-how

### Facility management (FM) + ICT capabilities

- Creating new business using synergy between expertise in facility management & ICT



The clear differentiation compared to other system integrators, lies in our know-how and installation capabilities for office, electrical and other facilities.

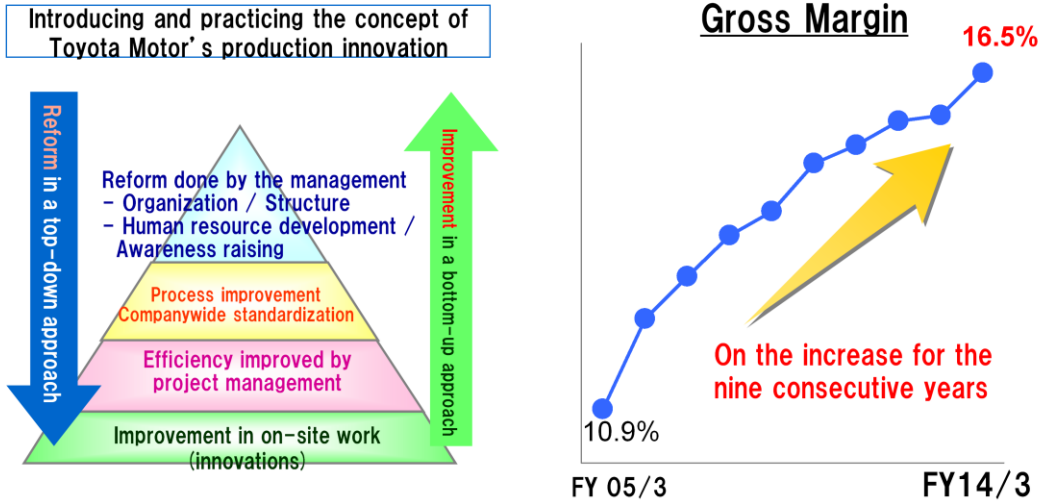
These skills have been built through our infrastructure construction business, leading to the creation of new business.

One of such examples is our solution named EmpoweredOffice, which improves total office productivity by combining ICT with office design, supplies and other facilities.

I will explain this in detail later.

## Point 4: Spirit towards Improvement and Reform “Kaizen”

Profitability improvement by applying “Kaizen” spirit to whole company including sales person, SEs and administrative Staff



All employees conduct variety of “Kaizen” activities in all areas from the construction work to sales activities and administrative staffs, and this has become part of our DNA.

I believe our 9 consecutive years of profitability improvement is a results of this “Kaizen” spirit.

## Position in the ICT Service Industry

### Holding a top-class position in networking in Japan

- Competitors engage mainly in product sales and software and systems development.

(Bn ¥)

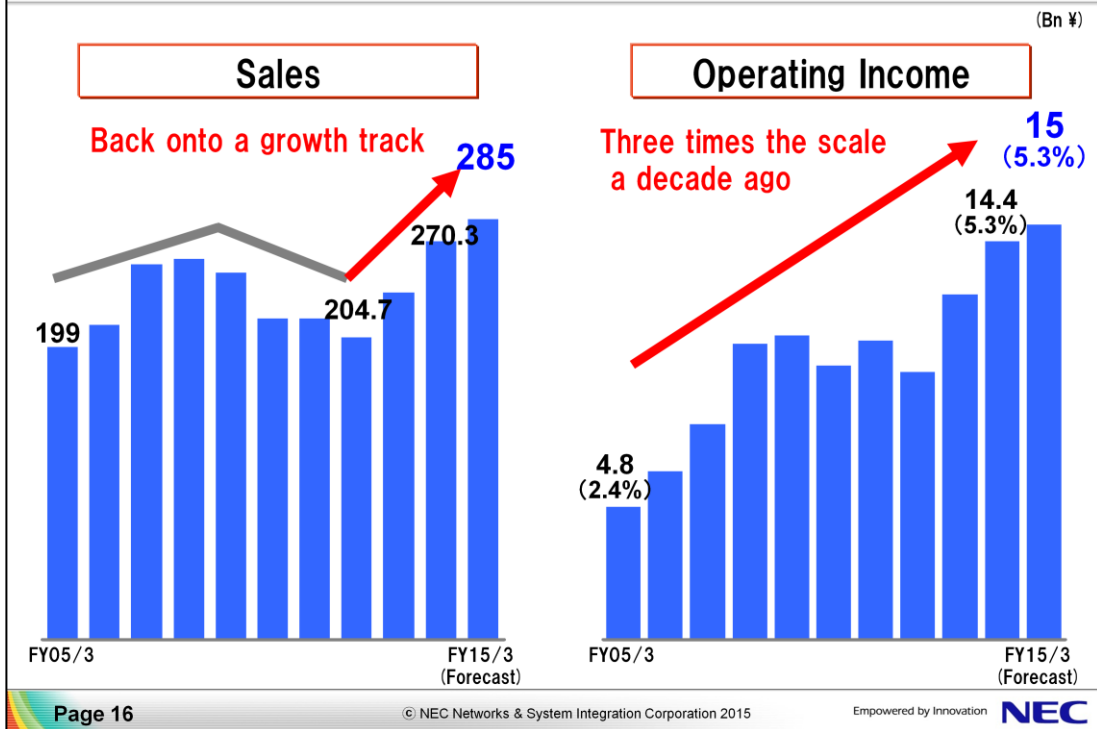
	FY2013 Sales	YoY	Network Business
1 NTT data	1,343.8	3.2%	80.0
2 Canon Marketing Japan	657.2	-0.3%	14.4
3 OTSUKA	564.6	9.5%	84.7
4 NRI	385.9	6.1%	-
5 CTC	349.5	8.4%	102.7
6 IT Holdings	346.6	2.6%	31.7
7 SCSK	288.2	3.4%	46.5
8 Nihon Unisys	282.7	5.0%	40.8
<b>9 NESIC</b>	<b>270.3</b>	<b>14.7%</b>	<b>158.2</b>
11 Transcosmos	186.5	12.1%	-
12 NS Solutions	180.0	4.6%	12.3
13 Net One Systems	142.4	-8.0%	106.9

※ Source : The Company based on "Study of New Business Strategies by SI/NI Vendors of Japan 2014" from Fuji Chimera Research Institute

By demonstrating the features and strengths explained so far, NESIC holds the position of a top system integrator in networking in Japanese ICT service industry.



## 10 Years Record (1/2)



Here, I explain our financial performance.

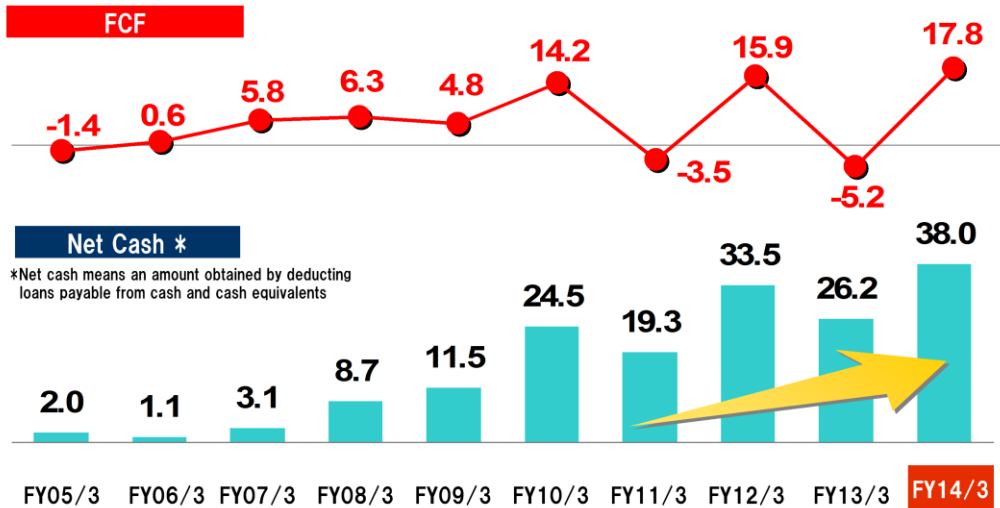
For past decade, we have been improved our profitability.

On the other hand, top-line growth has stagnated, and we are now returned to a growth track.

# 10 Years Record (2/2)

## Financial strength for growth!

(Bn ¥)



Through increased profitability, we have built solid financial strength. We are ready to use it for growth.

## II. Gear for Growth !

Next, I will explain how we gear for growth.

# Business Opportunities Summary

## Enterprises

- **ICT investment became active following the economic recovery.**

## Telecom Carriers

- **Capex is weak compared with the high level in the previous years.**
  - Support for global systems is an opportunity.

## Governments

- **Needs for the disaster prevention (DP)**
  - Digitalization of firefighting (FF) radio system is peaking.
- **Preparation for the Olympic 2020 in Tokyo**

First, our business environments, In the enterprises market, an appetite for ICT investment became active following the economic recovery, and we will actively propose a range of ICT services.

On the other hand, the capex of telecom carriers is expected to be weak for a couple of years following the strong years leading up to the last fiscal year. But as a cost cutting measure, telecom carriers are adopting systems from global vendors. We have an opportunity to provide support services for these.

As for governments, the need for disaster prevention information systems is strong.

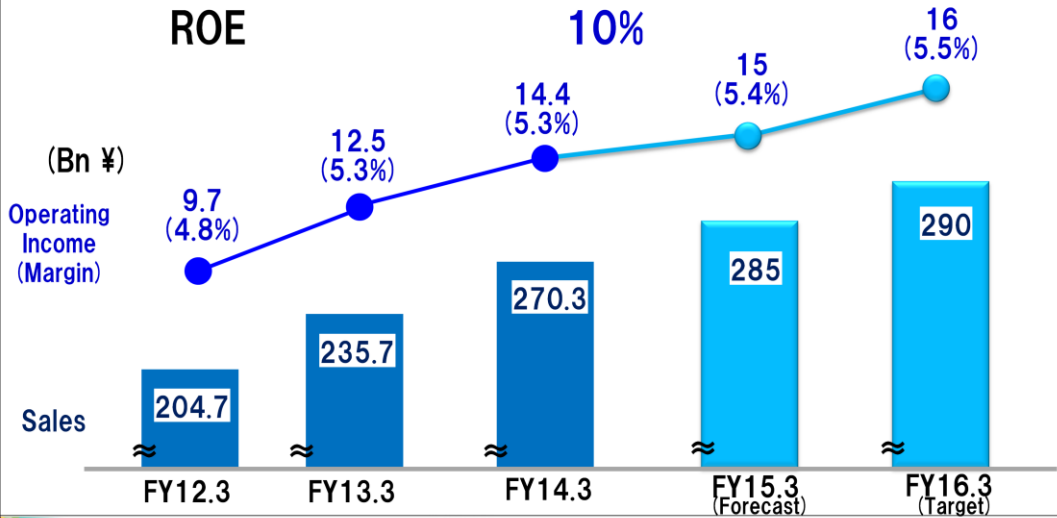
Currently, investment in the digitalization of firefighting and ambulance radio systems is peaking.

We expect demands for infrastructure enhancement toward Olympic 2020 in Tokyo are another opportunity.

# Mid-Term Business Target <FY2016/3>

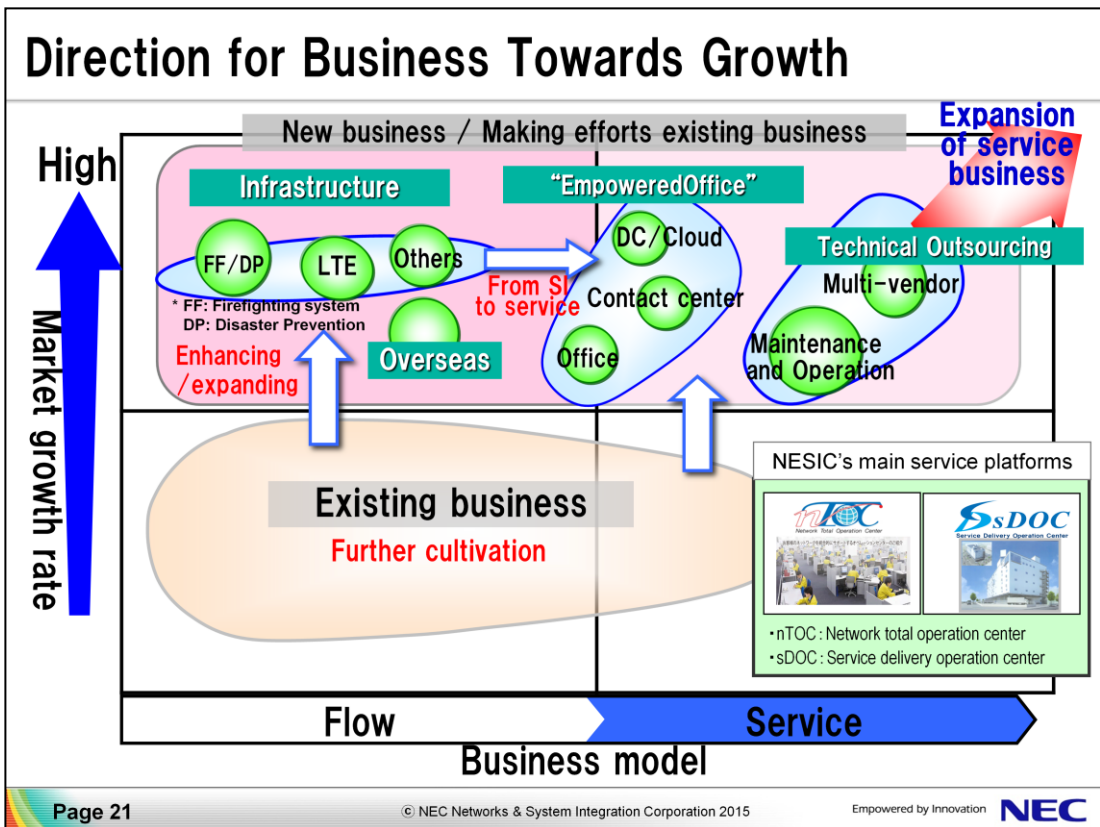
\*Targets as of May 8, 2014

Net Sales                   ¥ 290 bn  
 Operating Income       ¥ 16 bn  
 Operating Margin       5.5%  
 ROE                       10%



This is our mid-term business target.

We are now targeting sales of 290 billion yen, operating income of 16 billion yen and double-digit ROE for the fiscal year ending March 2016.



This chart shows key growth areas.

First, in terms of the infrastructure business, the investment areas of focus change from time to time, and we will be flexible in our concentration on these areas. As I explained, firefighting digitalization is a current area of focus, and we consider next generation broadcasting and Tokyo 2020 to be next areas.

We also target to expand new service businesses as stably expanding fields.

Enforcing our service platforms, we will expand new ICT services integrating with BPO services not only for companies but also for telecom carriers and governments.

I will explain in more detail for some focusing business areas.

# 1 - "EmpoweredOffice"

## Office innovation concept

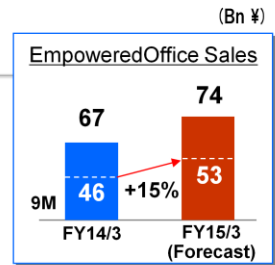
- Proposal of innovated Working-style
  - ICT + Facility management(FM) + Consultation
  - To improve productivity, cost-efficiency, environmental responsiveness
- From SI to providing services
  - Cloud and BPO services

"Empower"

"Economy"

"Ecology"

- Further absorbing new technologies



First, "EmpoweredOffice".

White workers productivity is a critical issue for Japanese senior management to survive in matured market condition.

By combining the strength of ICT and our facilities management, we provide the 3E effects to enhance the corporate value of our customers: That is: Empowering creativity of each worker, and realizing Economical and Ecological work style.

We have implemented the solution for ourselves and Enjoying it... that may be the 4<sup>th</sup> "E".

In our case, it is effective in reducing floor space by 40%, and the power consumption by half, as well as in speeding up management decision and information sharing.

We have invited customers, especially senior management, to feel the effectiveness for themselves by watching around our offices. As a result, the EmpoweredOffice brand has gradually been penetrating to our customers.

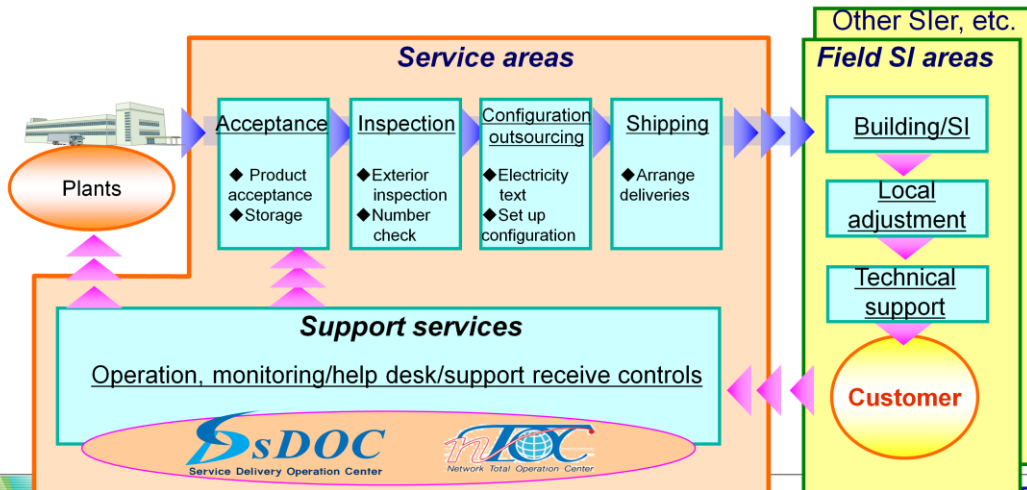
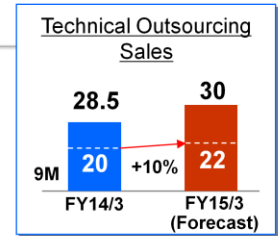
Recently we launched a new solution to virtually locate distant offices adjacent to our offices, adopting projection-mapping technology for casual, natural and creative communication.

## 2- Technical Outsourcing (1/2)

(Bn ¥)

### Services for Overseas Vendors

Support customers without domestic service network or SI resources, by NESIC's advanced technical services/platforms



Page 23

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Empowered by innovation

Technical outsourcing is another focusing service business.

Through the experience for years, we have already established a quality service system and service infrastructure to meet even telecom carriers' high-level demand.

By using these platform, we are expanding total services for global vendors who don't have enough service systems in Japan.

These services include product acceptance inspections, equipment adjustments/customization, and support service after installation.

These services also help carriers to achieve efficient total cost of ownership.

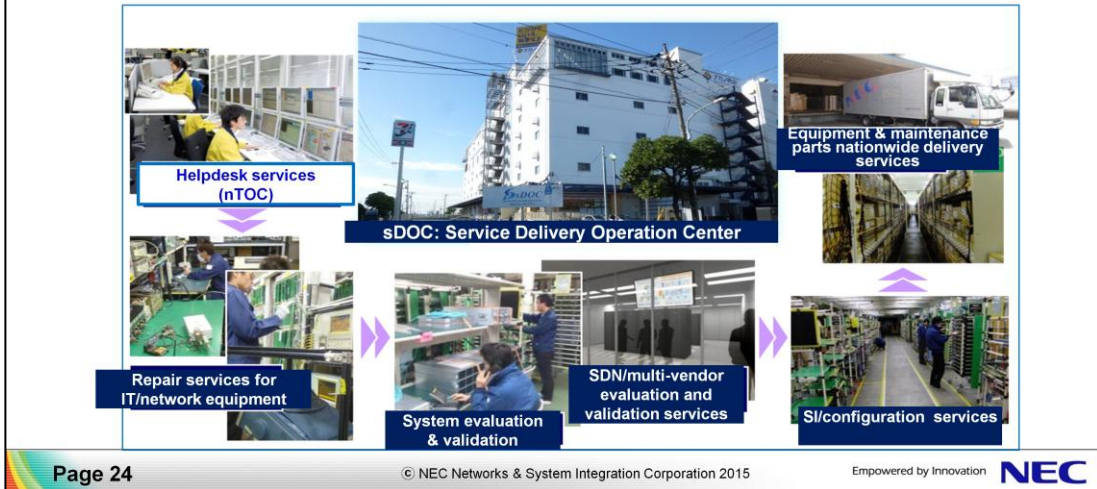


## 2- Technical Outsourcing (2/2)

### Launched Service Delivery Operation Center (sDOC)

- SCM + technical service
- Promoting to overseas vendors and SI sales companies

<July, 2014>



Last July, for the core of this technical outsourcing, we launched the Service Delivery Operation Center: sDOC.

Here, we integrated all the SCM functions as well as technical service features, including system evaluation & validation, repair, configuration, etc.

We consider this to be a unique service center, and through its use we are expanding service provision not only to global vendors but also to other customers such as system sales companies without nationwide service infrastructures.

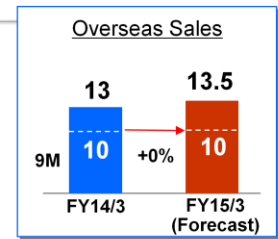
## 3- Overseas Business

(Bn ¥)

### Expanding infrastructure business

#### ◆ Further penetrating to local leading customers

- Thailand (AIS): 3G network  
→ Cumulative total of volume of orders in two years: ¥10 bn
- Saudi Arabia (Aramco): Network system for oil plants  
→ Project in the west coast region: ¥4 bn  
→ Targeting the next large-scale project



### JOC\* business

\*JOC: Japan Originated Company

#### ◆ Targeting Southeast Asia and China

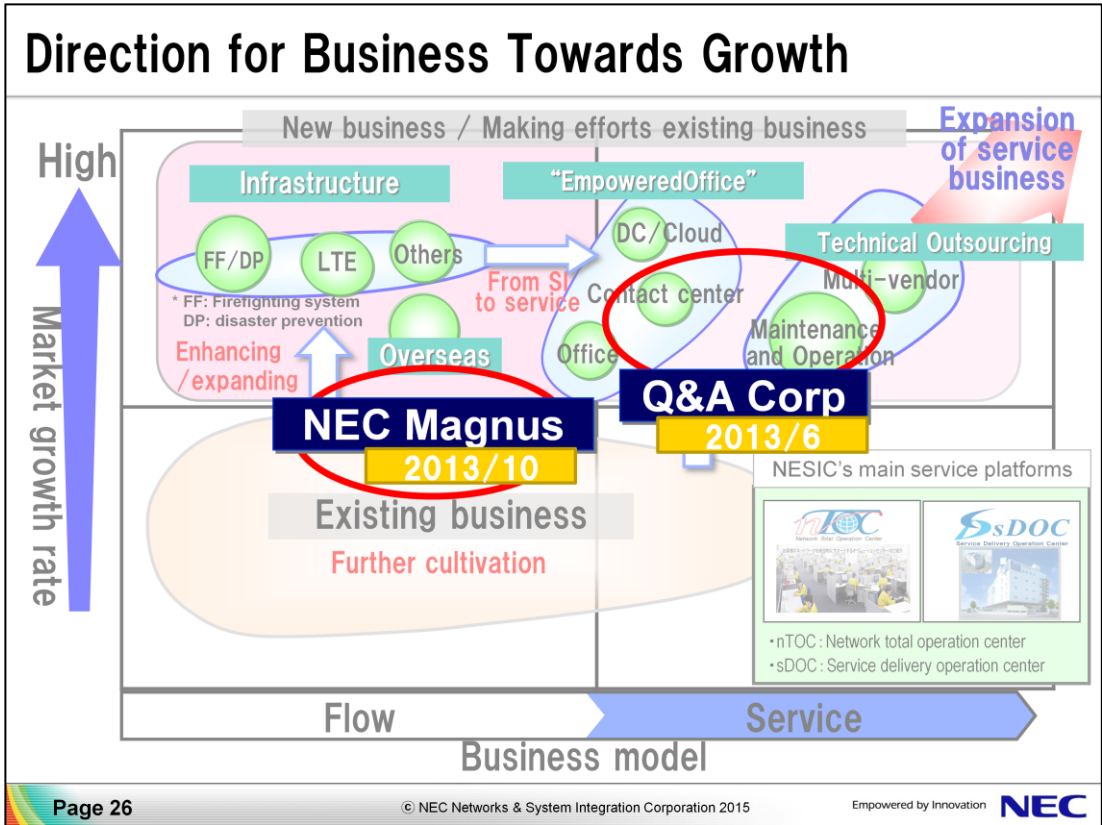
Next, overseas business.

Our overseas sales comprise only 5%, but each of our overseas subsidiaries has strong relationships with local leading customers, and we will develop these further.

In Thailand, we are now implementing a 3G mobile network for AIS, the top local mobile carrier.

In Saudi Arabia, we are handling a network system for the oil plants of Aramco. Following the west coast project, we are now aiming to obtain the next project.

In addition, we wish to grow the overseas support business for our Japanese customers, or the JOC business, targeting Southeast Asian countries and China.

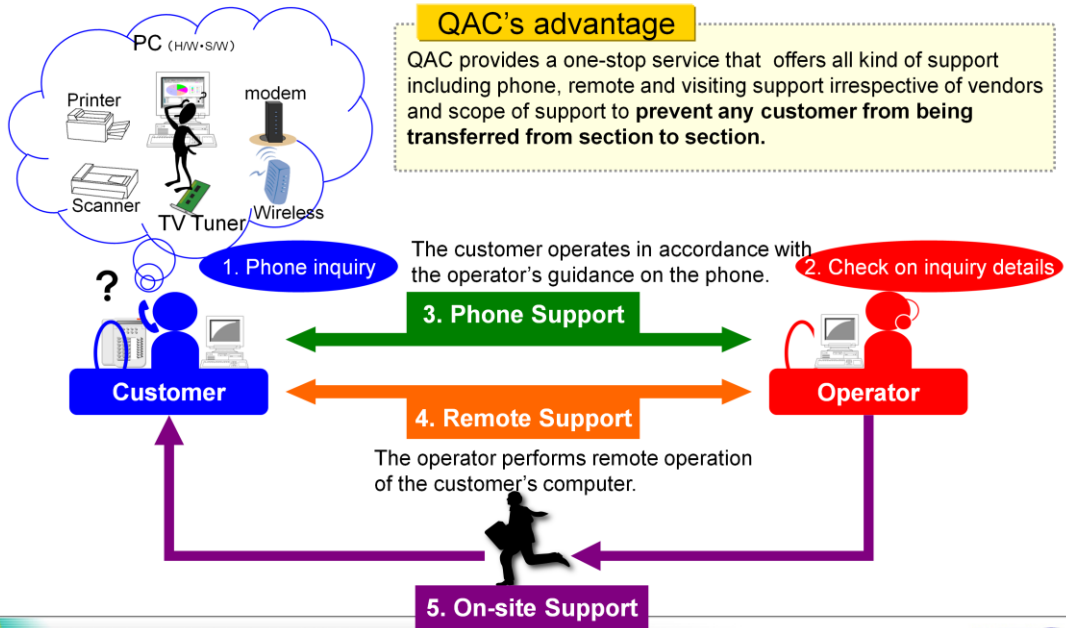


Regarding M&A, last fiscal, we bought two companies for the purpose of strengthening our priority areas, as shown in the figure.

NEC Magnus Communications has strength in Cable TV network, and we think it is promising business area for coming 4K, 8K broadcast distribution.

# M&A Strategy Accelerates Growth

## Q&A Corporation (QAC)



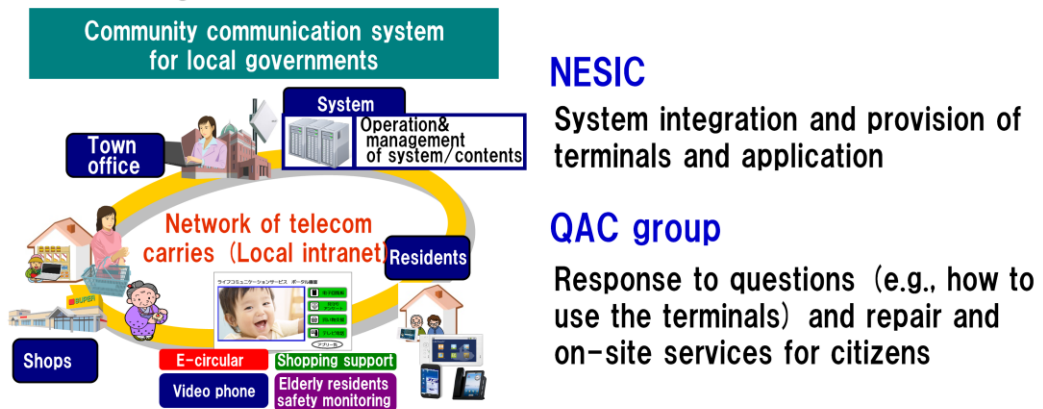
Another acquisition is Q&A Corporation, or QAC. It is a contact center operator, but its main strength is that it can offer all kinds of technical support, from responding to technical inquiries to consumers concerning ICT products, broadband environments, etc. to onsite support through home visits.

# M&A Strategy Accelerates Growth

■ New services utilizing the technical support capability of QAC

- New services combined with ICT solution of NESIC ( B2B => B2B2C)

<Services Image>



Page 28

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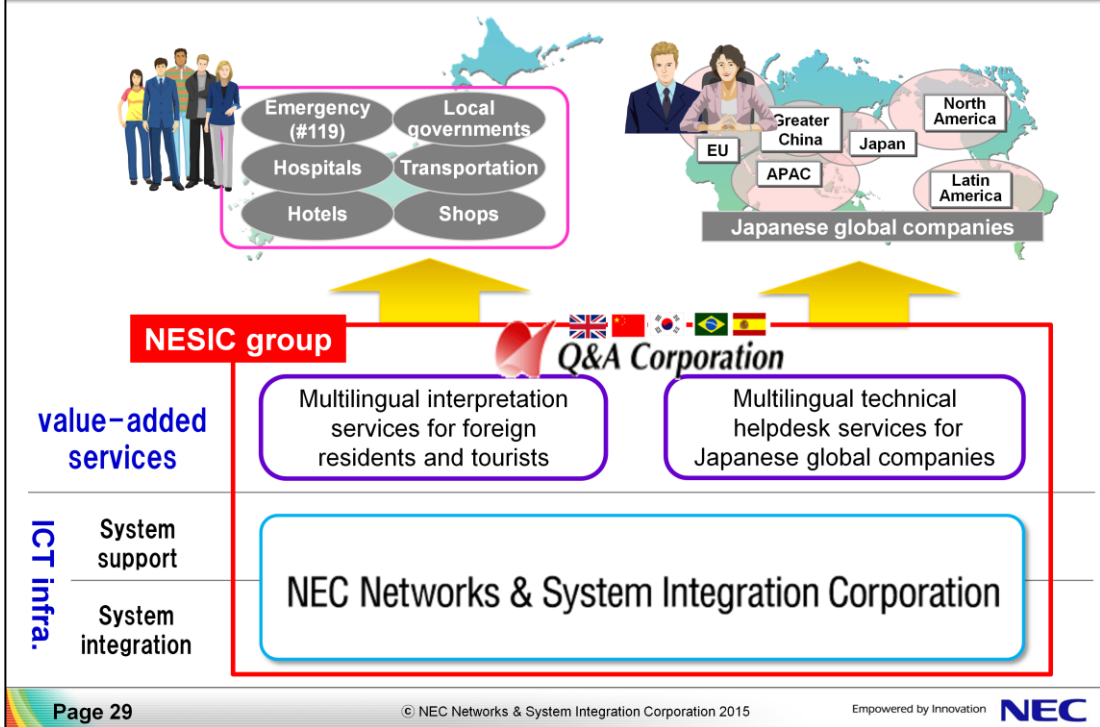
Empowered by Innovation **NEC**

NESIC provides BtoB, ICT business in relation to a wide range of customer groups, as explained earlier.

Meanwhile, QAC's excels in BtoBtoC and BtoC support services for ICT-related products, as mentioned just now.

Through its alliance with QAC, we are now able to provide not only its previous ICT systems and services but also new all-in-one services including meticulous technical support services to our customers' users.

# M&A Strategy Accelerates Growth



One of promising areas is multi-lingual services.

Based on the Cool-Japan strategy of the government, services for tourists from overseas are becoming increasingly important. For example, imagine that you discover a fire, and you call the fire department and say, “¡Hay fuego aqui! (I found a fire here!)” in Spanish, but the operator is unable to understand it. Accordingly, the fire and emergency departments require not only a network, but also multilingual translation support for calls. Hotels also demand both a Wi-Fi network and language support for technical inquiries.

The JOC business is another target. As part of the provision of state-of-the-art ICT systems to companies on a global basis, technical support for global employees is critical, and QAC’s multilingual technical helpdesk will be our strength.

So we will be creating synergies with our acquired resources to expand into the provision of new services.

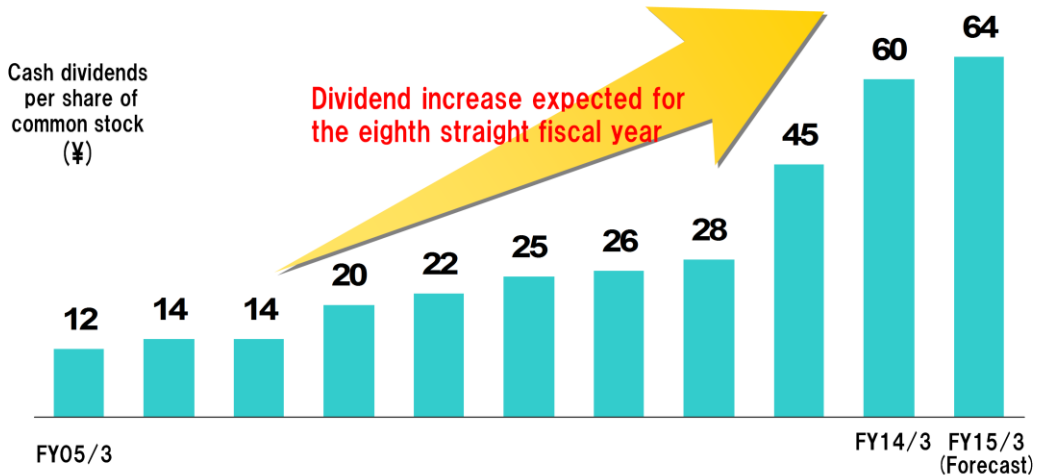
# Expanding Shareholder Value

Finally, I will explain our basic idea to expand shareholders value.

# Dividends

## Increasing returns to shareholders by strengthening earnings power

- We will continue to invest in future growth as well as offering stable dividends expansion following earnings growth.



We have gradually increased dividends in step with our improved profitability, while focusing on stable dividends.

By balancing returns to shareholders with investment, we aim to generate an overall return that satisfies all shareholders.





As I have explained today, we will achieve our mid-term target for further growth.

Thank you for your attention.

## Cautionary Statement

Forecasts 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.

The logo for NEC, consisting of the letters 'NEC' in a bold, blue, sans-serif font.

NEC Networks & System Integration Corporation

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