

NEC IR Day 2022

# Public Solutions Business

September 7, 2022

Executive Vice President

Kunikazu Amemiya

# \Orchestrating a brighter world

NEC creates the social values of safety, security, fairness and efficiency to promote a more sustainable world where everyone has the chance to reach their full potential.

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**01 Business Overview and FY2021 Results**

**02 FY2022 Business Strategy**

**03 Strategy to Achieve the Mid-Term Management Target**

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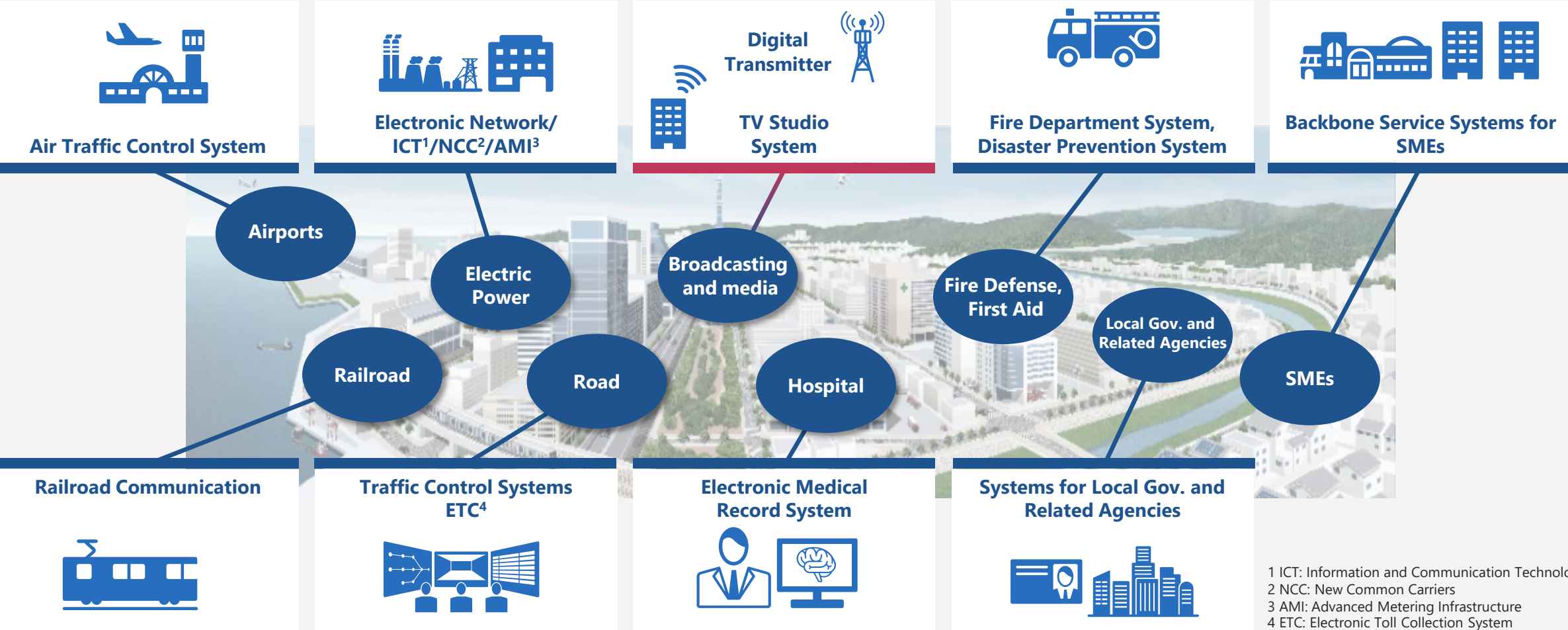
**01 Business Overview and FY2021 Results**

02 FY2022 Business Strategy

03 Strategy to Achieve the Mid-Term Management Target

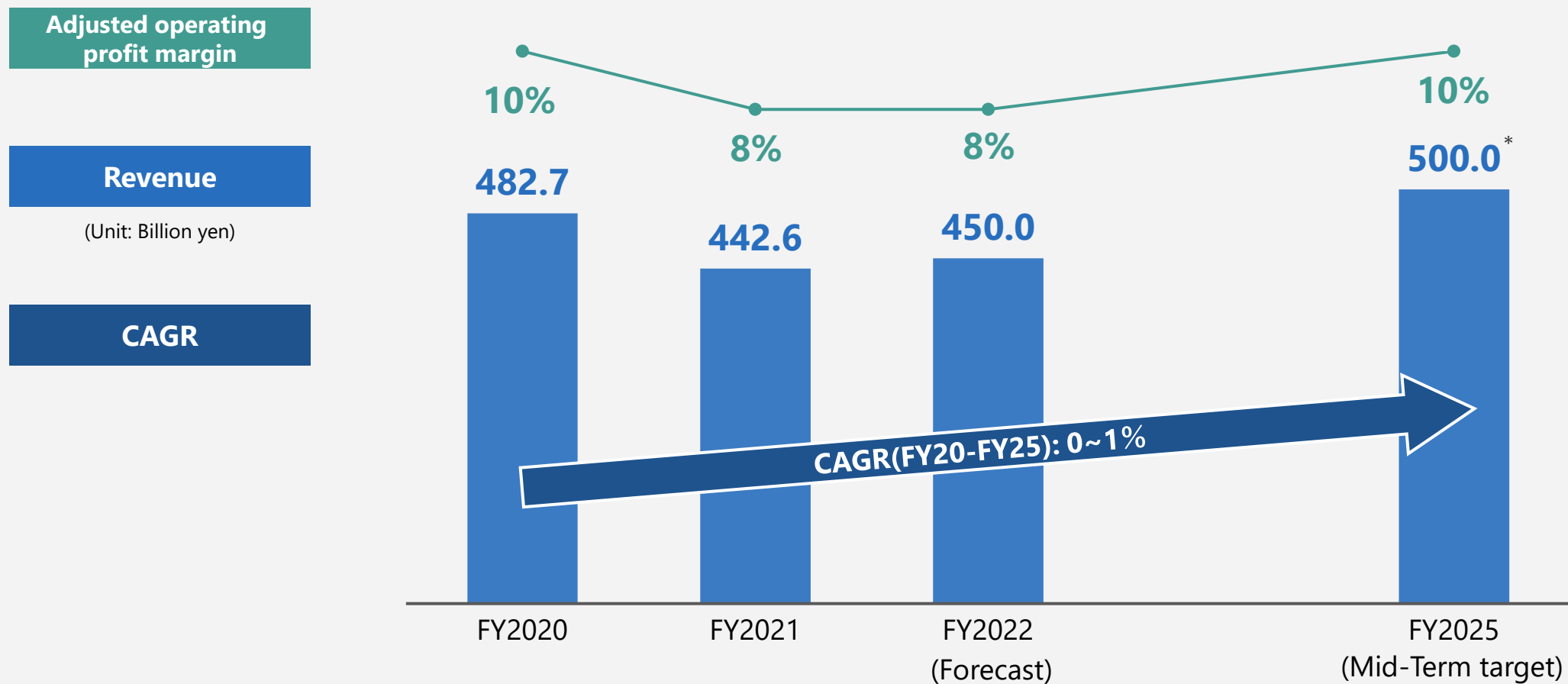
# Overview of Public Solutions Business

Responsible for businesses supporting local governments and related agencies, medical institutions, traffic agencies, energy operators and SMEs. Business support for broadcasting and media start from FY2022.



## Performance and the Mid-Term Management Targets

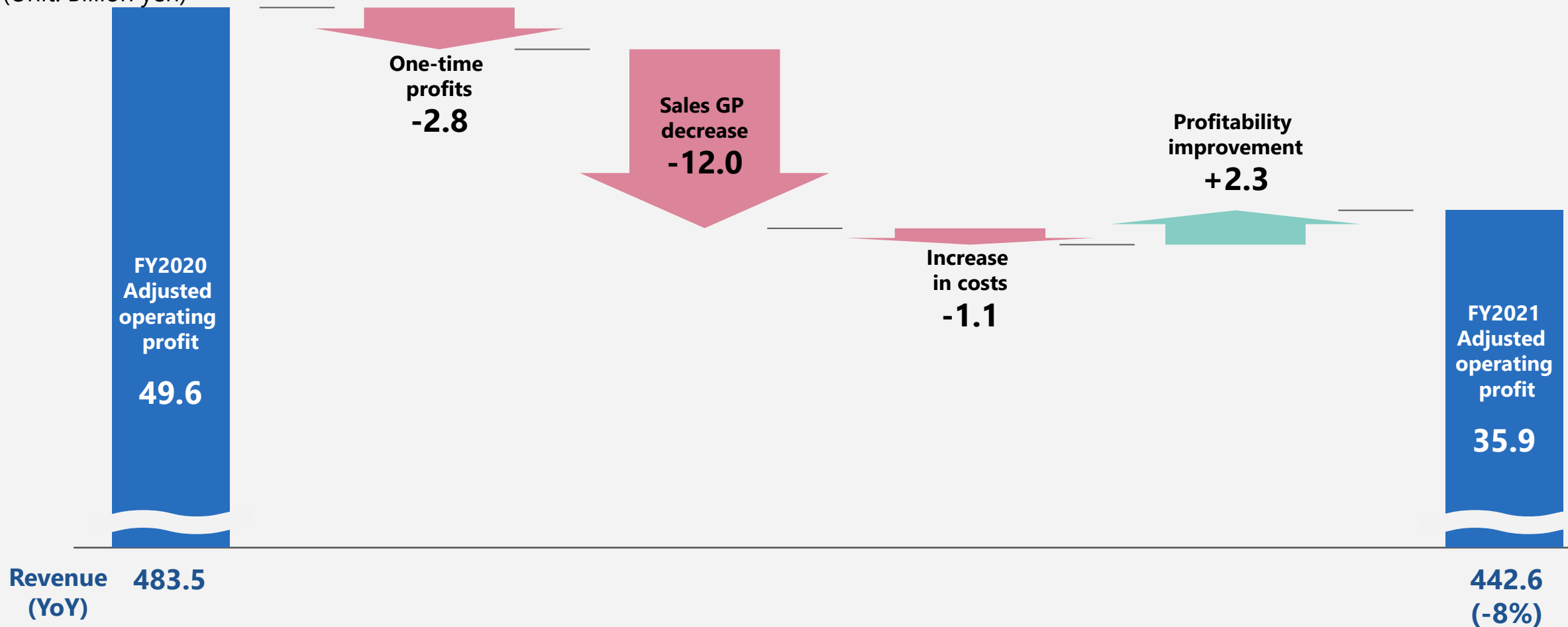
### Aiming at 10% of adjusted operating margin in FY2025



\*Base case

### Decreased adjusted operating profit due to sales decline for city infrastructure and SMEs

(Unit: Billion yen)



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01 Business Overview and FY2021 Results

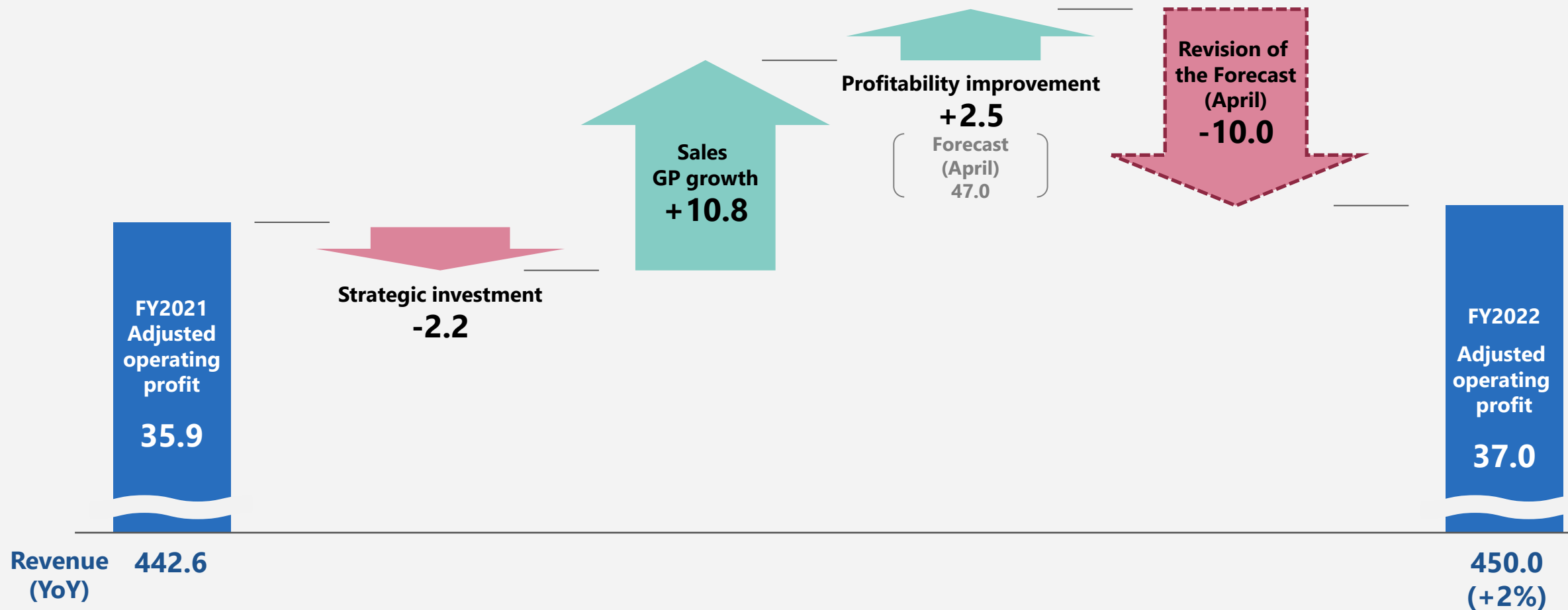
**02 FY2022 Business Strategy**

03 Strategy to Achieve the Mid-Term Management Target



## Revised plans due to delays of business timing

(Unit: Billion yen)



**Business  
Strategy**

**Key  
Measure**

- **Further profitability improvement**



- **Improvements of unprofitable businesses**
- **Continued efforts to improve quality management**
- **SGA/cost reduction**

- **Fundamental business structural reform**



- **Sales & marketing reform**
- **Business structural reform of City Infrastructure Business**
- **Reinforcing inter-organizational coordination**

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# “The Society We Are Aiming to Create through Digitalization” and Public Solutions Business

Created by NEC based on the Digital Agency's "Priority Policy Program for Realizing Digital Society"



**Vision for a digital society**

**Society where each citizen can choose services that meet his/her demand and achieve diverse well-being through digitalization**

**Growth strategy through digitization**

**Digitization in quasi-public sector**  
(e.g. medical, educational, disaster prevention and children's institutions)

**Regional revitalization through digitization**

**A digital society where no one is left behind**

**Education and retention of DX talents**

**International strategy**  
(e.g. the promotion of DFFT)



**NEC creates the social values of safety, security, fairness and efficiency to promote a more sustainable world where everyone has the chance to reach their full potential**

**Digitization of local government**

**Local Government**



**Digitization of quasi-public sector**

**Medical Institutions**



**City Infrastructure**





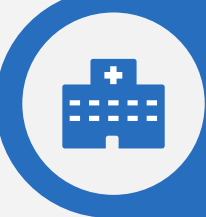
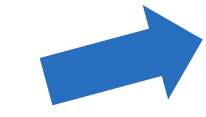



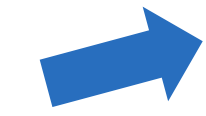
**Digitization of industry**

**SMEs**



# Market Environment and Growth Expectation of Each Business

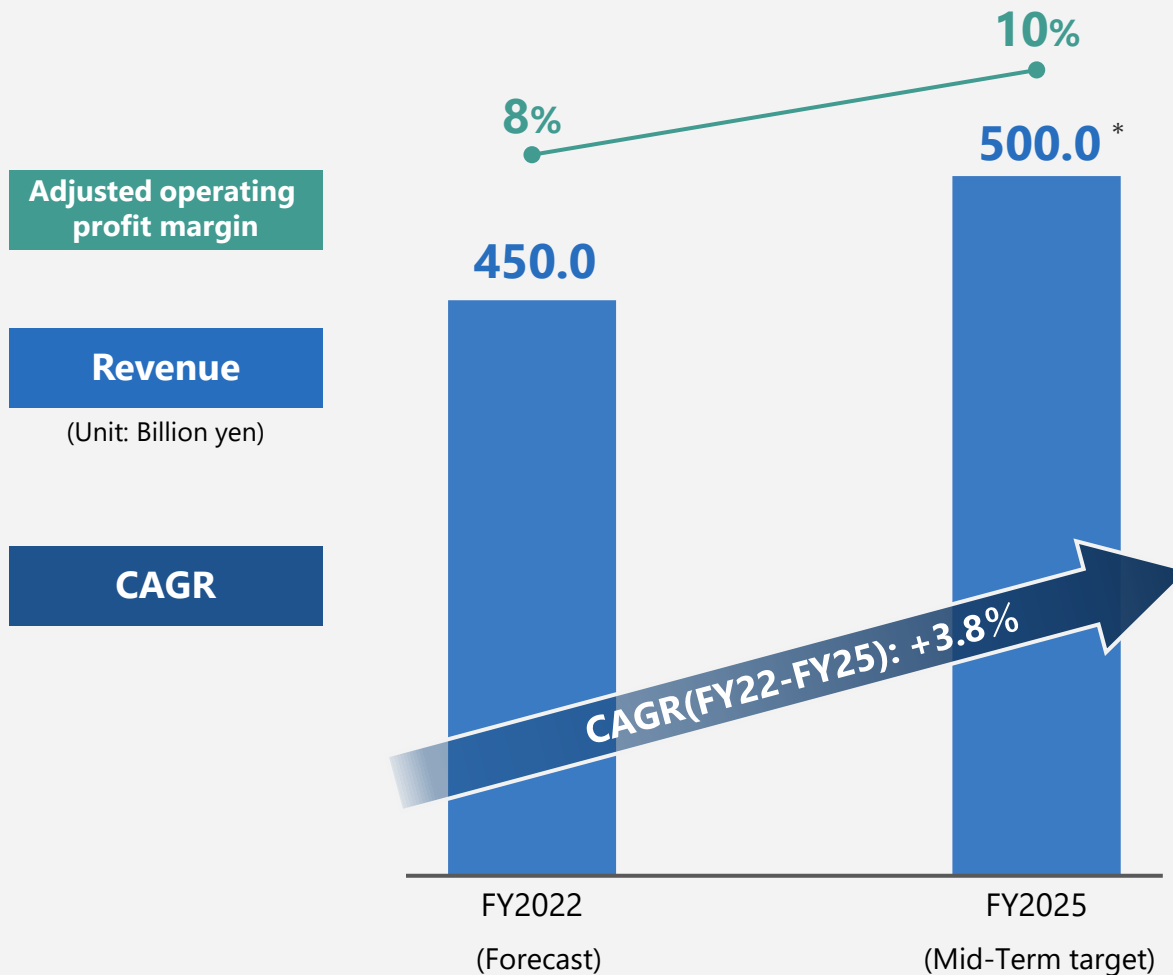
## Expect Local Government and City Infrastructure businesses to grow more than market expansion

	Market environment	2022	2025	Growth level	2022->2025 Adjusted operating profit
 <b>Local Government</b>	<ul style="list-style-type: none"> <li>Expand through accelerating standardization of local government information systems and promotion of DX</li> </ul>	<p>CAGR +0.8%</p>		 Grow more than market expansion	<b>+3.0</b>
 <b>Medical Institutions</b>	<ul style="list-style-type: none"> <li>Expansion backed by increasing IT implementation</li> <li>Slight growth in in-hospital core systems</li> <li>Wide-area and online medical treatments are expected to grow</li> </ul>	<p>CAGR +2.1%</p>			<b>+0.5</b>
 <b>City Infrastructure</b>	<ul style="list-style-type: none"> <li>Market to expand supported by increasing replacement of information systems and utilization of cutting-edge technology</li> <li>Recovery expected toward FY2025</li> </ul>	<p>CAGR +4.2%</p>		 Grow more than market expansion	<b>+7.5</b>
 <b>SMEs</b>	<ul style="list-style-type: none"> <li>Uncertainty around supply and demand issues, weak Japanese yen and high costs</li> <li>Increase expenses in new fields such as software and services</li> </ul>	<p>CAGR +4.2%</p>			<b>+2.0</b>
		2022	2025		

Created by NEC based on various reports

(Unit: Billion yen)

## Financial Targets for FY2025

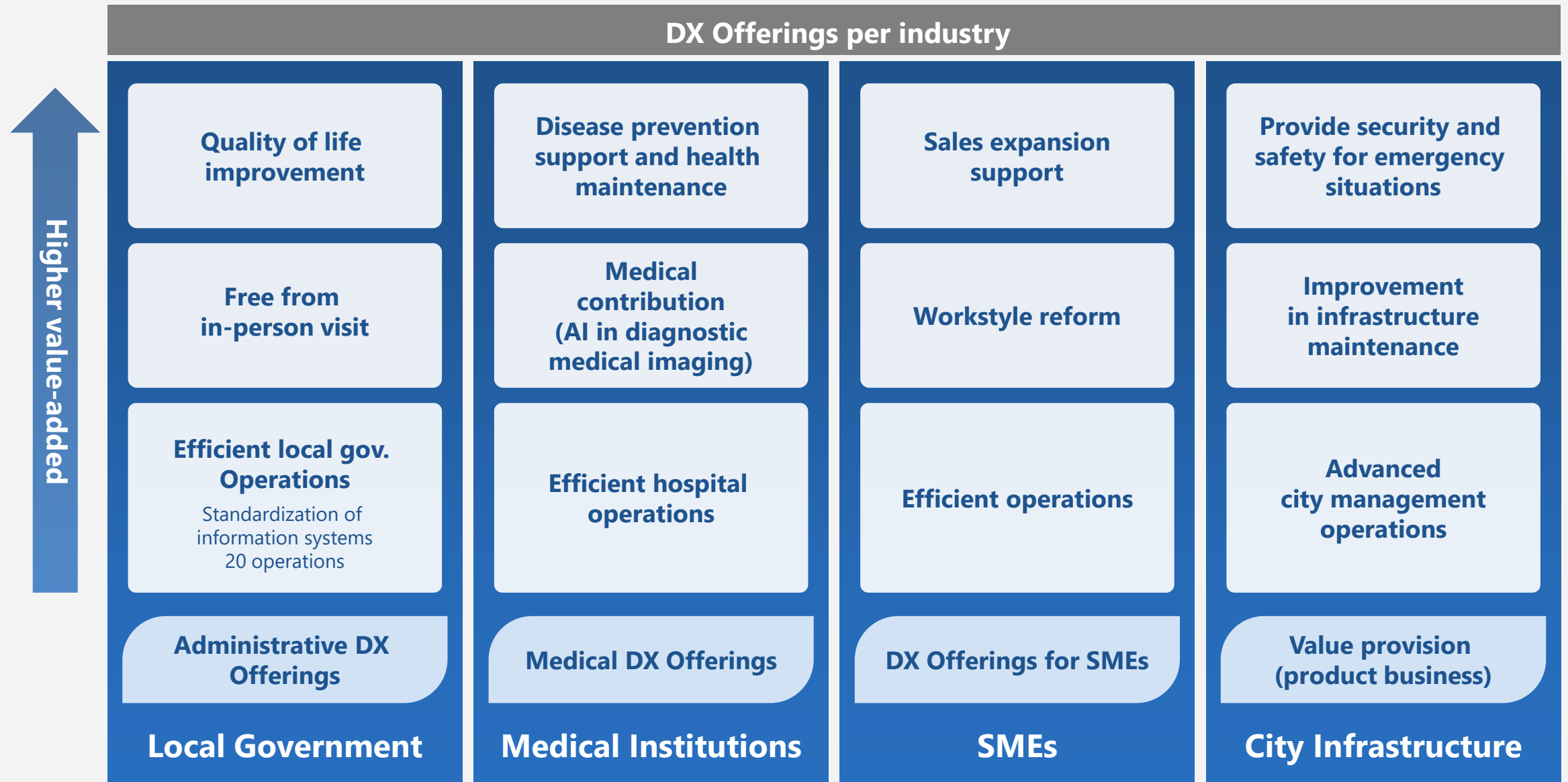


## Business Model Reform

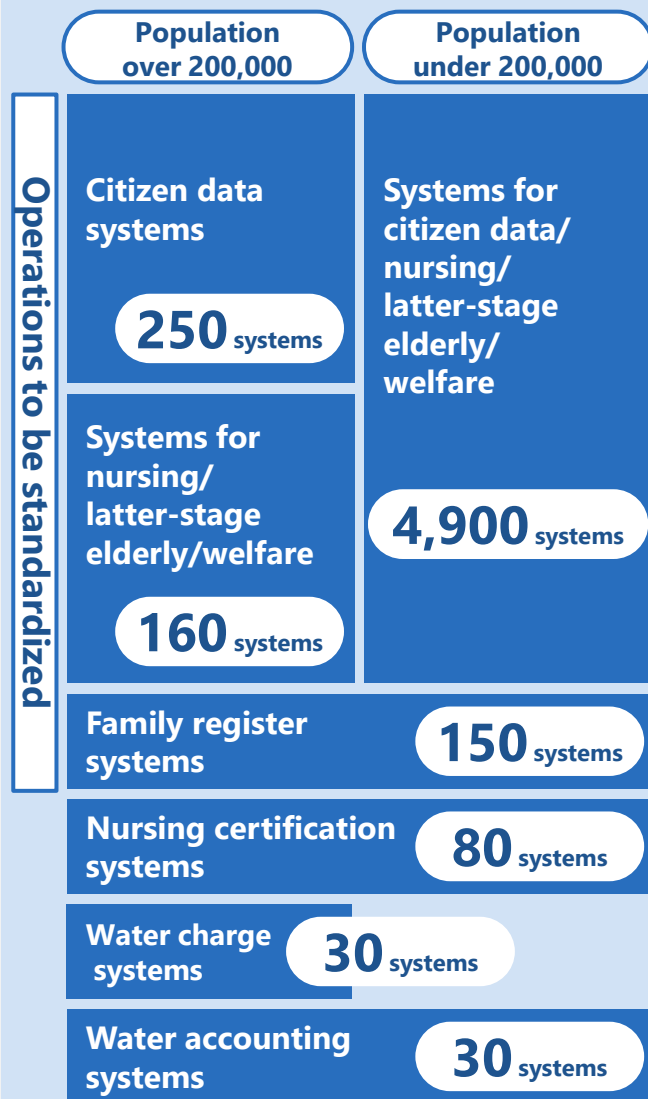
- Expand the value provision businesses (Deploy DX Offerings)
- Develop high value-added businesses through creation of social values

\*Base case

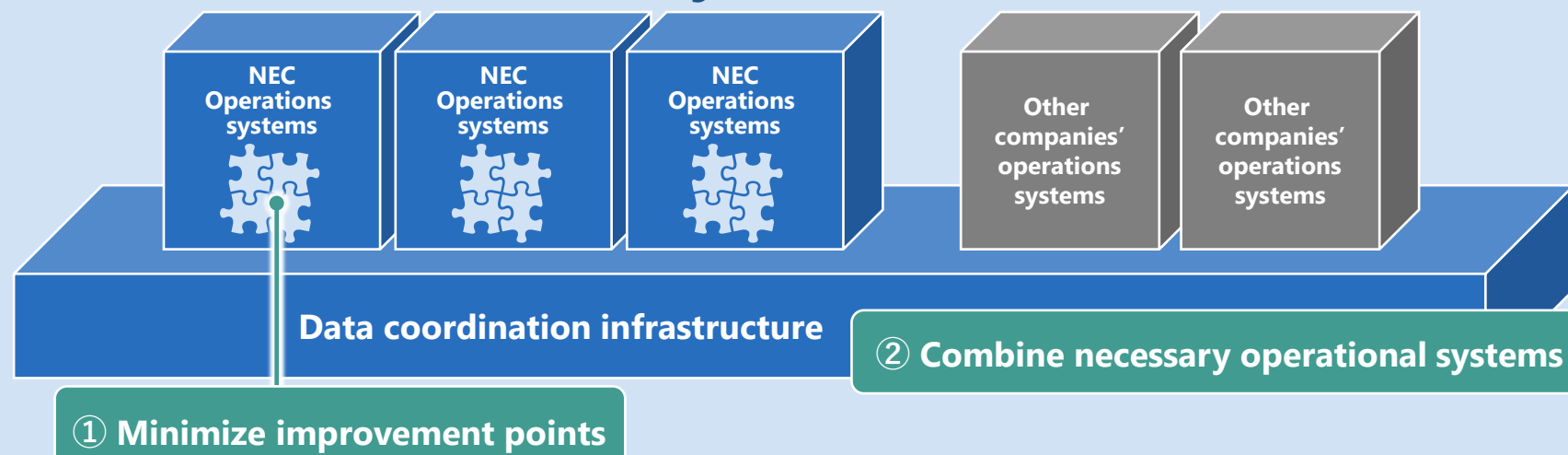
## DX Offerings per Industry



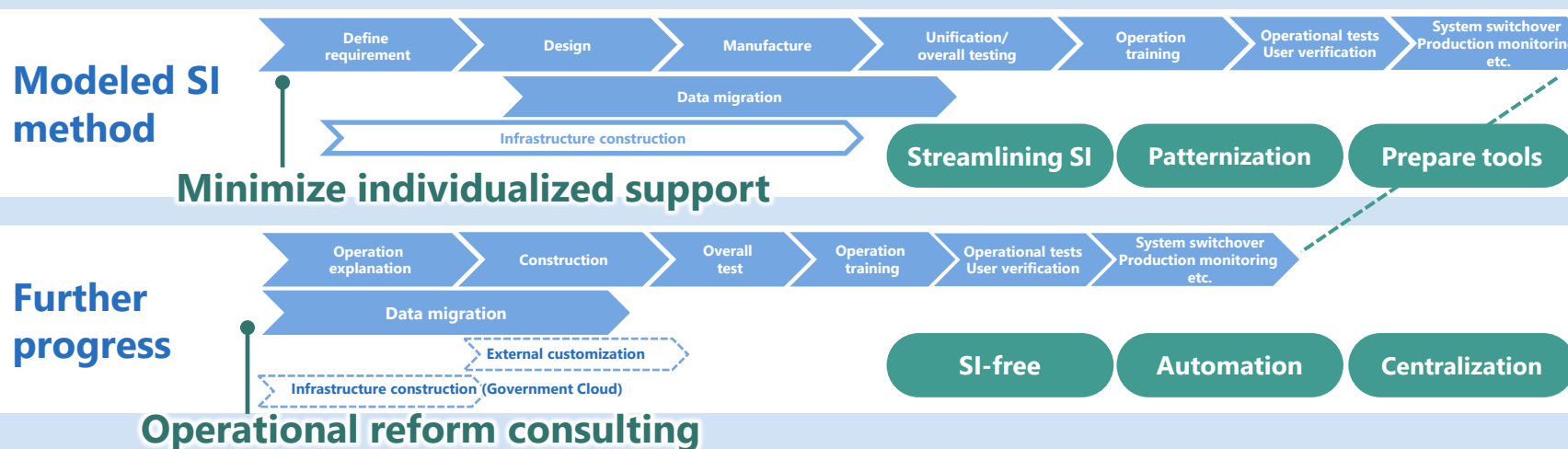
## 1 Customer Base




## 2 Advanced System Architecture



## 3 Modeled SI







**Large-scale Local Governments**  
(Population over 200 thousand)



**Small and Medium-sized Local Governments**  
(Population under 200 thousand)

Support for standardization		
<p><b>Citizen data Systems</b></p> <p>Approx. <b>250</b> systems</p>	<p><b>Systems for Nursing/ Latter-stage elderly/ Welfare</b></p> <p>Approx. <b>160</b> systems</p>	<p><b>Family registration systems</b></p>
<p><b>Systems for Citizen data/Nursing/ Latter-stage elderly/ Welfare</b></p> <p>Approx. <b>4,900</b> systems</p>		

Reform of Contact Points	
Smart administrative contact points (reception and screening)	Track record
Smart administrative contact points (application management)	Track record
Application filling support	Track record
MyNumber Card Certification	Track record
Citizen portals	
Business portals	
Contact points of water system	High added value / Track record

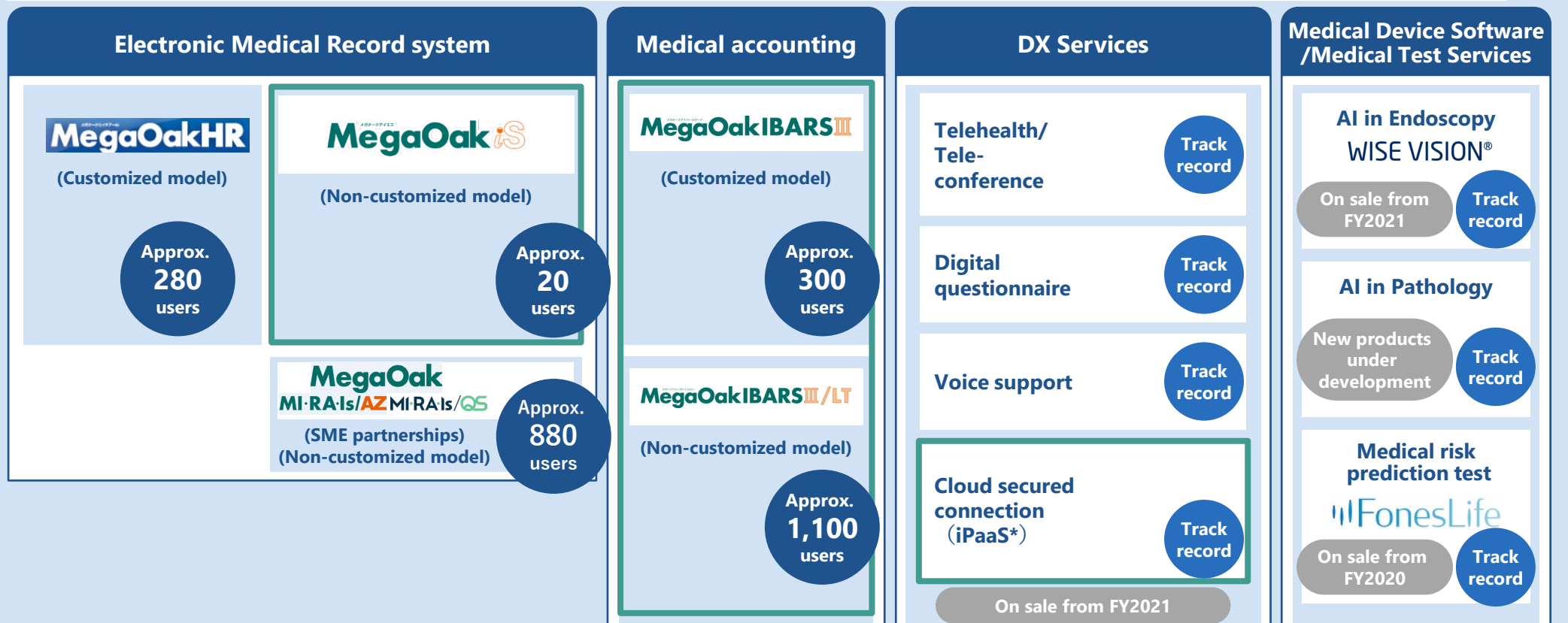
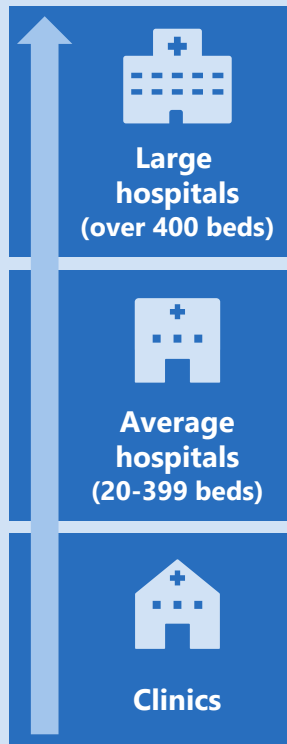
Improvements of citizen/business QoL		
Digital invoice (KMD Connect)	High added value	Scheduled (also due to be developed for SMEs)
Water leak prediction AI	High added value	Track record
Phone reminder AI	High added value	Track record
Tax payment rate improvement AI	High added value	Track record
Remote interview automation		
Inquiry Q&A (chat bots)	High added value	Track record
Citizen community (regional co-created platform)		Track record
Health (regional) points		
Digital membership certificates		
Support for lifestyle habit improvement	High added value	Track record

### Range-free Administrative DX

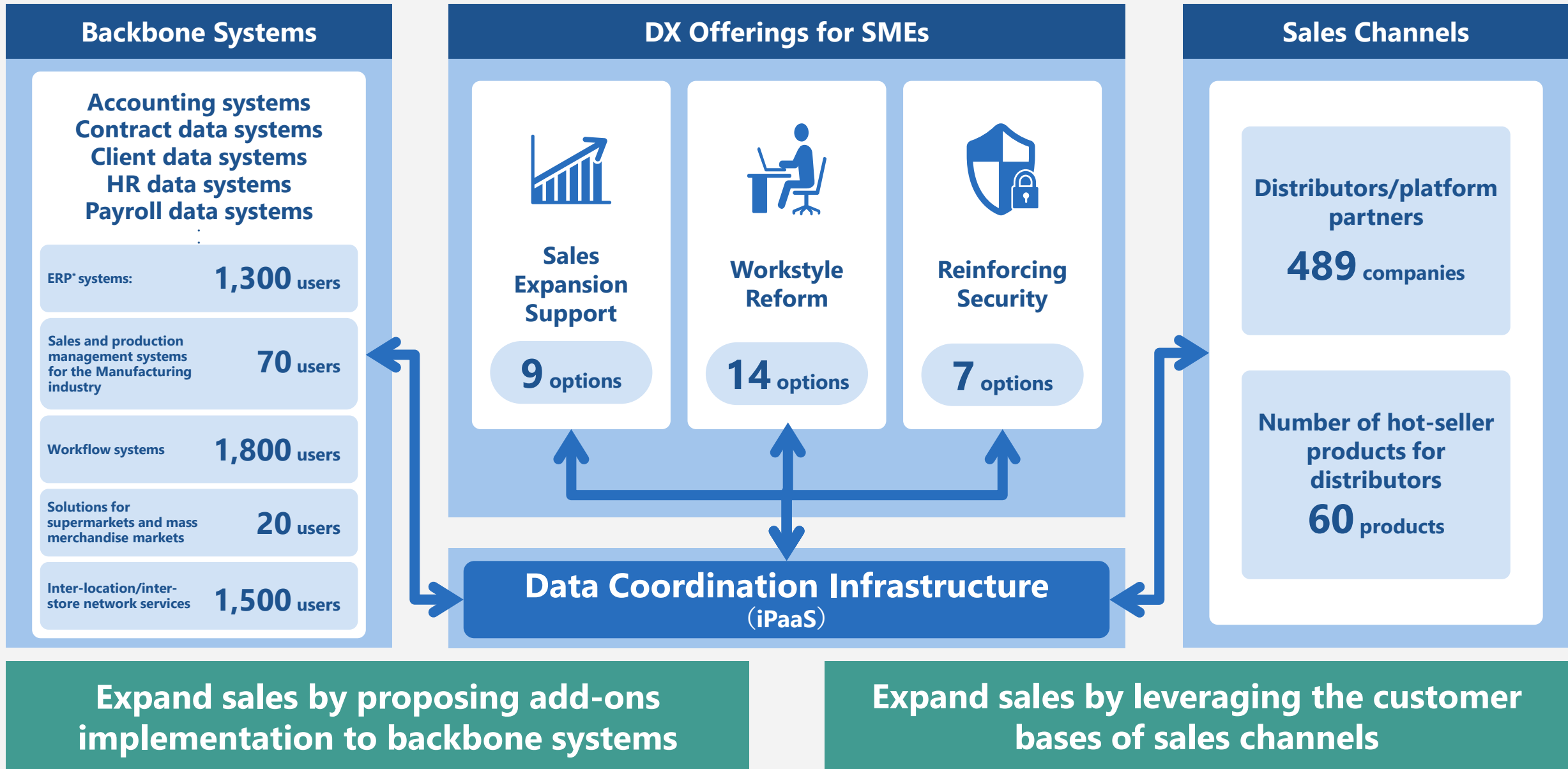
Expanded value



National policy: "Digitization for Quasi-public sector"



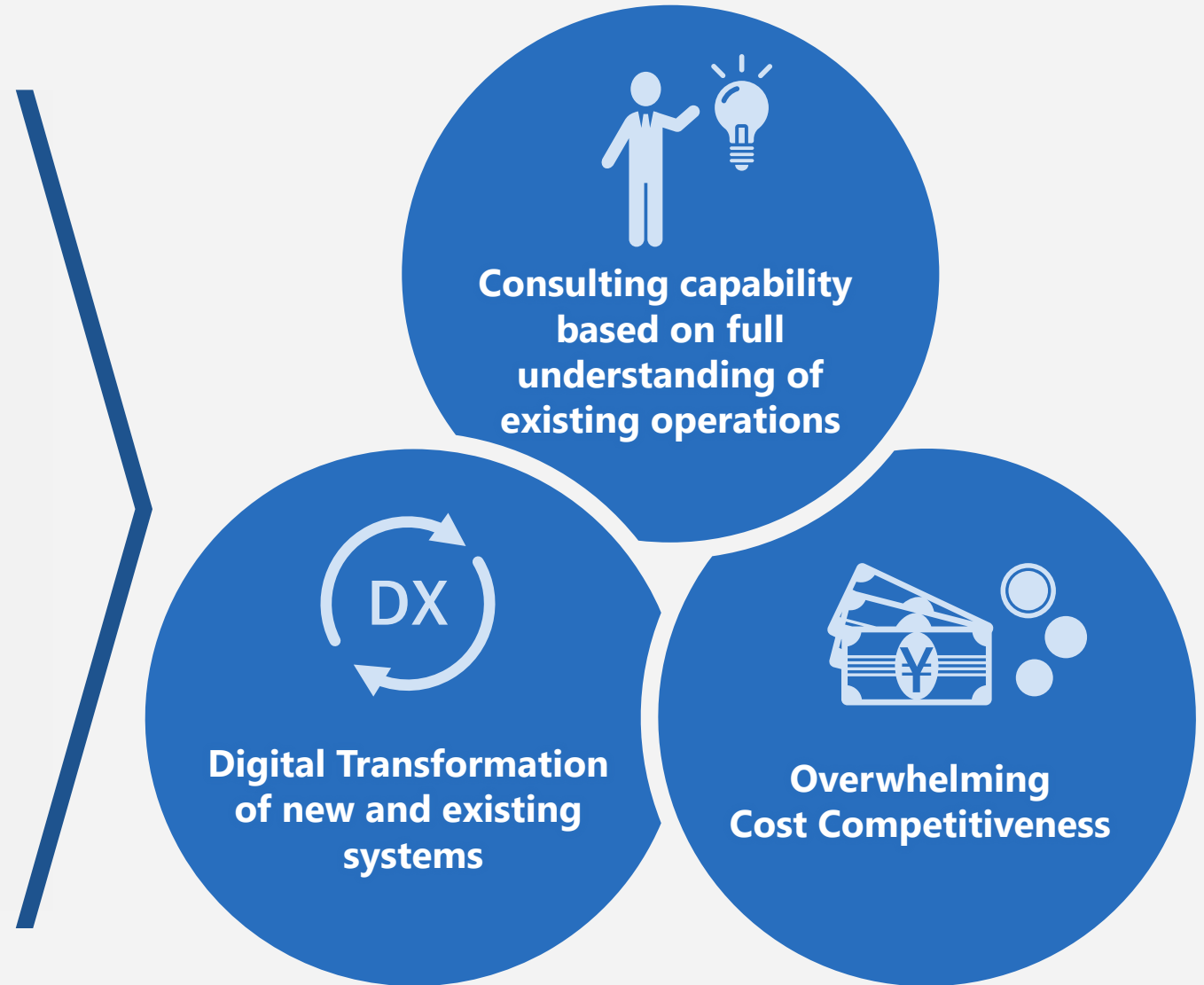
Available for all beds range



## 1 Customer Base

## 2 Advanced System Architecture

## 3 Modeled SI



2022                      2023                      2024                      2025                      2026 onwards

High Market Share —————> Further Expansion of Business Scale



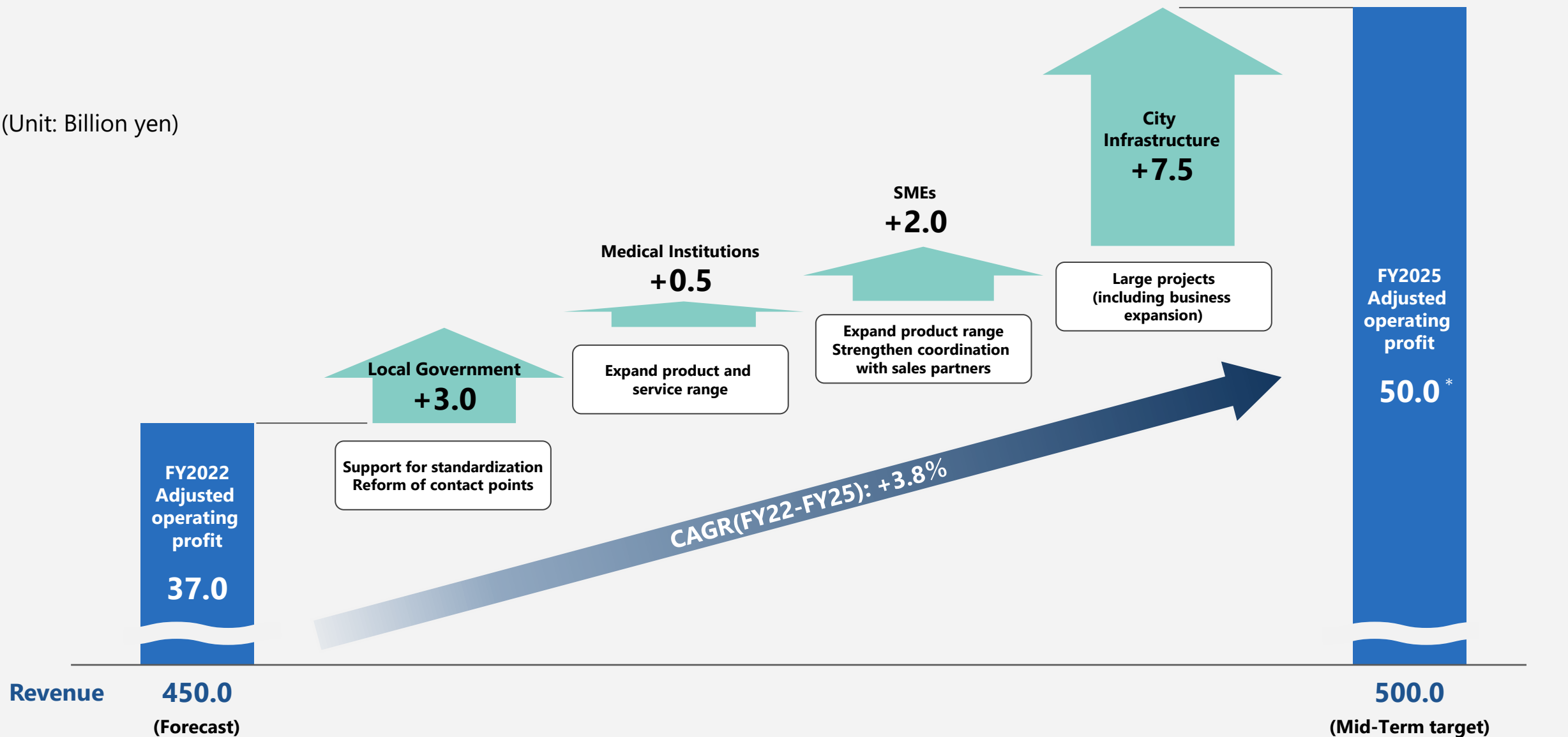
Vision for a Digital Garden City Nation

DX Offerings  
High Value-added Business

Synergies created  
by collaboration across sectors

# Strategy to Achieve the Mid-Term Management Target

(Unit: Billion yen)



\*Base case

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**NEC**

# Cautionary Statement with Respect to Forward-Looking Statements

This material contains forward-looking statements regarding estimations, forecasts, targets and plans in relation to the results of operations, financial conditions and other overall management of the NEC Group (the "forward-looking statements"). The forward-looking statements are made based on information currently available to the Company and certain assumptions considered reasonable as of the date of this material. These determinations and assumptions are inherently subjective and uncertain. These forward-looking statements are not guarantees of future performance, and actual operating results may differ substantially due to a number of factors.

The factors that may influence the operating results include, but are not limited to, the following:

- adverse economic conditions in Japan or internationally;
- foreign currency exchange and interest rate risks;
- changes in the markets in which the NEC Group operates;
- the recent outbreak of the novel coronavirus;
- potential inability to achieve the goals in the NEC Group's medium-term management plan;
- fluctuations in the NEC Group's revenue and profitability from period to period;
- difficulty achieving the benefits expected from acquisitions, business combinations and reorganizations and business withdrawals;
- potential deterioration in the NEC Group's relationships with strategic partners or problems relating to their products or services;
- difficulty achieving the NEC Group's growth strategies outside Japan;
- potential inability to keep pace with rapid technological advancements in the NEC Group's industry and to commercialize new technologies;
- intense competition in the markets in which the NEC Group operates;
- risks relating to the NEC Group's concentrated customer base;
- difficulties with respect to new businesses;
- potential failures in the products and services the NEC Group provides;
- potential failure to procure components, equipment or other supplies;
- difficulties protecting the NEC Group's intellectual property rights;
- potential inability to obtain certain intellectual property licenses;
- the NEC Group's customers may encounter financial difficulties;
- difficulty attracting, hiring and retaining skilled personnel;
- difficulty obtaining additional financing to meet the NEC Group's funding needs;
- potential failure of internal controls;
- potentially costly and time-consuming legal proceedings;
- risks related to regulatory change and uncertainty;
- risks related to environmental laws and regulations;
- information security and data protection concerns and restrictions;
- potential changes in effective tax rates or deferred tax assets, or adverse tax examinations;
- risks related to corporate governance and social responsibility requirements;
- risks related to natural disasters, public health issues, armed hostilities and terrorism;
- risks related to the NEC Group's pension assets and defined benefit obligations; and
- risks related to impairment losses with regard to goodwill.

The forward-looking statements contained in this material are based on information that NEC possesses as of the date hereof. New risks and uncertainties come up from time to time, and it is impossible for NEC to predict these events or how they may affect the NEC Group. NEC does not intend to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Note: In this presentation, the accounting periods of the fiscal years for March 31, 2022 and 2023 were referred as FY2022 and FY2023 respectively. Any other fiscal years would be referred similarly.