

Developing CSV management for a next-generation circular economy

The NEC Capital Solutions Group will further deepen the CSV management it has been promoting for the past 10 years and develop it towards a new era. Here, I would like to explain our efforts to take on the challenge of creating new value based on the keyword “next-generation circular economy,” as well as our efforts to create future capital solutions.



President
Masaaki Suganuma

Please explain the next-generation circular economy set forth in “Group Vision 2030.”

We envision contributing to an advanced society that adapts to change, and have adopted the keyword “next-generation circular economy.”

To date, we have advocated for “CSV management,” in which we resolve social issues through our business and contribute to society, which leads to profit. This approach and value are the basis of our business activities, and they will remain unchanged in our new Group Vision. However, in recent years, the world has been affected by unprecedented changes such as worsening climate change, pandemics of infectious diseases, rising geopolitical risks, and the spread of financial instability, making the future uncertain. In addition, major changes in the industry and social life are expected, including the development of cutting-edge technologies such as digital technology (IoT^{*1}, AI^{*2}, robots), new value creation through DX, and business model reforms. Under such circumstances, how should we go about developing our business, and what should we aim for in order to contribute to society? We need to respond to changes autonomously while deepening our thinking.

By its nature, the leasing business is a business that contributes to the reduction of environmental burden through the reuse of resources and improved efficiency, therefore it can be said that it directly contributes to the creation of a recycling-based society. Looking ahead, we recognize that we will need to implement initiatives that create new value while further developing “circulation,” with an eye towards the post-2030 society aimed for by the SDGs. Based on this idea, we set the goals of our Group Vision for 2030, the same year as the SDGs. Moreover, we envision contributing to an advanced society that adapts to the changing times, and have adopted the keyword “next-generation circular economy.”

We create services that lead to the cyclical use of products, a virtuous circle for local economies and societies, and a virtuous circle for corporate growth. Through the provision of these services, we will lead the next-generation circular economy.

Another keyword in our new Group Vision is “Solution Company.” To resolve our customers’ management issues, we will innovate solutions for vendor finance, ICT services, and financial products in order to expand our business domains and create “circular economy-oriented” services. We use the word “Company” to mean partners and a group of colleagues who work together to achieve their goals, aim in the same direction amid social change, and move forward together.

What strengths are you going to leverage in your efforts to realize the Group Vision?

Our strengths include expertise in ICT equipment, business relationships with the national and local governments, and the sales capabilities of RISA Partners.

One of our strengths is that we have specialized knowledge regarding the handling of ICT equipment and can provide financial solutions that utilize this knowledge. Up until now, we have mainly handled hardware leasing based on close relationships with vendors and developed a business with additional services. As many ICT equipment has begun transitioning to provision via subscription or SaaS^{*3} in recent years, vendors that make upfront investments in pay-as-you-go mechanisms and system building are required to manage their businesses with greater awareness of ROIC and cash conversion cycles, and supporting these financial aspects has become a new role for the Company. Within the NEC Group, we are involved in intellectual property and ownership issues faced by operating companies and we are involved in the resolution of these issues as well. We also receive inquiries regarding the transition to subscription models from other ICT vendors.

Another one of our strengths is that we do a lot of business with the national and local governments. Through customer sharing with the NEC Group, we have received business from over 1,800 national and local governments in Japan, and this has become a strong foundation for our sales activities. Thanks to our extensive track record, we can accurately handle bidding and contract procedures that differ by the national and local government. We are also able to quickly move forward with major projects, such as the simultaneous switching of installed equipment and the mass delivery of devices used in the GIGA School Program.^{*4} Based on these strengths, we are also focusing on the PFI business. For example, we have been involved in over 20 projects in the school meal center development business.

Our other strength is the network of approximately 180 regional financial institutions nationwide held by our subsidiary, RISA Partners that conducts Investment Business, as well as their knowledge in the real estate field. We provide financial solutions in collaboration with RISA Partners, where we implement initiatives by leveraging these strengths and the company’s quick decision-making capabilities.

We aim to develop businesses that leverage the strengths listed above and advance the innovation of capital solutions in order to realize a next-generation circular economy.

Looking back on the completed previous Medium-term Plan, can you tell us about your achievements and challenges?

I believe that the new solutions we sowed have borne fruit and that our profitability has steadily increased.

The recently concluded “Mid-Term Plan 2020” (plan period: FY2021/3-FY2023/3) had “expand core areas” and “harvest new businesses” as the pillars of its business strategy, and by promoting it alongside our strategy to strengthen the management foundation that supports this strategy, we concluded a decade of initiatives to realize CSV management.

As a result, the consolidated business results for FY2023/3 achieved both the planned targets for operating income of 11.0 billion yen and ordinary income of 12.0 billion yen, and profit attributable to owners of parent exceeded the three-year cumulative target. I believe that the efforts we have made over the past few years to create new solutions are bearing fruit, and that our profitability has steadily increased. However, our profitability is still low compared to industry standards, and we will strive for further improvement in this remaining issue.

Regarding new businesses, we focused on the four domains of healthcare, energy, tourism, and agriculture. In addition to aiming to generate revenue from financial and peripheral services, we also aimed to provide services unique to us that lead to local revitalization. In the healthcare domain, initiatives combined with real estate finance yielded results, while in the energy domain, we increased assets with the expansion of renewable energy such as solar power generation. As a result, both areas generated revenue. On the other hand, the tourism domain was negatively impacted significantly by the pandemic, and the agriculture domain was also unable to generate revenue.

Going forward, we will develop initiatives over the next three years by identifying areas in which we can further

advance as a business as well as areas to focus on while making use of what we have learned.

Please tell us what you are aiming for with the newly formulated “Medium-term Plan 2025.”

We have set financial and non-financial indicators. We have clarified our attitude toward resolving environmental and social issues through our business.

As a first step towards realizing our new group vision for 2030, we have formulated and launched the “Medium-term Plan 2025” (plan period: FY2024/3-FY2026/3). This plan promotes the business strategies of “expand service business and create new cyclical services,” “accelerate growth through strategic investment in core businesses,” and “strengthen vendor finance and expand customer base,” creating pillars for revenue to realize a next-generation circular economy.

In creating cyclical services, we are considering adding new things to existing initiatives, such as increasing the value of real estate and accelerating the response to aging infrastructure through PFI and PPP businesses, in order to significantly increase “circulation.” In our core businesses such as ICT-related services, we are expecting further improvements in revenue, and to that end, we intend to take proactive steps to accelerate future growth, such as considering the expansion of HR and strategic investments in M&A, etc. on merit.

In terms of the planned indicators, financial indicators are set along with non-financial indicators, and we have set forth to resolve environmental and social issues through business activities and promote the enhancement of human capital. Our financial indicators aim to achieve “profit attributable to owners of parent of 10.0 billion yen,” “ROA of 0.9%,” and “ROE of 8%” in the consolidated business results for FY2026/3, the third year of the plan. Our non-financial indicators include five items related to environmental and social issues including “a 20%



reduction in CO₂ emissions (Scope 1 + 2) compared to FY2023/3” and “a renewable energy power generation capacity of 100MW.” They also include two items related to human capital: “employee engagement score of 34%” and a “ratio of female managers of 10%.”

The financial indicators are a huge challenge for the Company, which is in the process of strengthening its profitability, but we hope to achieve them with the strength of the entire Group, and use the strength we have developed to take our next leap forward.

Over the next three years, the trend toward decarbonization and response to SDGs is expected to accelerate, and the funds needed by the national and local governments to address aging infrastructure are expected to increase. As I mentioned earlier, we aim to achieve our goals by creating services that add new things to existing initiatives and taking hold of the above opportunities.

employee engagement, ensure diversity, and realize health management, while actively investing in human capital for HR development and workstyle reforms, including the use of DX.

Next, I would like to share my thoughts on profit distribution. Regarding the three areas of investment in human capital, investment in growth strategies, and return of profits to shareholders and investors, we will always be conscious of and implement the optimal balance according to the situation.

In terms of return of profits, we set the annual dividend for FY2023/3 at 110 yen per share (interim: 37 yen, year-end: 73 yen, dividend payout ratio: 36.9%), an increase of 36 yen year on year. As we expect to achieve growth in both revenue and income in our consolidated business results in FY2024/3, we plan to further increase the annual dividend to 130 yen (interim: 65 yen, year-end: 65 yen, dividend payout ratio: 37.3%).

As a company listed on the Prime Market, we aim to achieve a PBR of 1x or above by incorporating human capital investment and business investment into our growth strategies in the long term, and we plan to expand the return of profits as a commitment to improving business results in the short term.

Through communication with our stakeholders, we will gain an understanding of the changing times, social demands, and what society needs in a timely manner, and by using the above knowledge in our management, we will contribute to “Helping Societies Advance,” as stated in our corporate philosophy. We appreciate your continued support of the NEC Capital Solutions Group over the long term.

Please tell us your message to stakeholders.

We will grasp the needs of society in a timely manner and promote management worthy of a company listed on the Prime Market of the Tokyo Stock Exchange.

In 2015, we identified material issues concerning our business activities and management foundation, and now, in line with the formulation of our Group Vision 2030, we have re-identified them and reworded them to demonstrate their direct link to contributing to the environment and society. Of the five material issues, “investment in human capital” is an issue that I personally place particular emphasis on, as one of my missions is to “create a company in which employees can take pride.” The source of value creation in CSV management is nothing other than HR. We will work to improve

● Road map to realizing our Group Vision 2030



*1 IoT: Internet of Things, meaning that all things have communication functions and are connected to a network.
 *2 AI: Artificial Intelligence. In general, it refers to technology that allows computers to perform intelligent actions such as understanding and recognizing human language and making inferences.
 *3 SaaS: Software as a Service, a form of using software via the Internet.
 *4 GIGA School Program: A program to equip elementary and junior high schools with ICT devices promoted by the Ministry of Education, Culture, Sports, Science and Technology.