

NEC Announces to Make NEC Networks & System Integration Corporation Wholly-Owned Subsidiary—Limited Impact on Rating

The following is Japan Credit Rating Agency, Ltd. (JCR)'s opinion on the commencement of a tender offer for shares of NEC Networks & System Integration Corporation (security code: 1973) by NEC Corporation (security code: 6701).

- (1) On October 29, NEC Corporation (the “Company”) announced that it would commence a tender offer for the shares of its consolidated subsidiary, NEC Networks & System Integration Corporation (NESIC), with the aim of making it a wholly-owned subsidiary. The purchase price is 235.4 billion yen, and the tender offer period is from October 30 to December 11. If the TOB is successful but the Company is unable to acquire all of the shares, it plans to implement procedures to acquire all of the shares through squeeze-out procedures. As of the 29th, the Company effectively holds 51.4% of the NESIC's shares.
- (2) After making NESIC a wholly owned subsidiary, the Company plans to reorganize its domestic business in order to strengthen its business for local governments and SMEs nationwide, where demand for DX is expected to grow. Specifically, it plans to have NESIC, which is positioned as the core company for network solutions, succeed to the Company's fire and disaster prevention business, and NEC Nexsolutions, Ltd., a wholly-owned subsidiary of the Company and responsible for the IT services business for local governments and SMEs, succeed to the Company's SME business, and to have both companies come under the umbrella of an intermediate holding company to be established in the future. Through this, the Company intends to build a business structure that can provide DX solutions that integrate IT and networks, from consulting to SI, construction, and maintenance.
- (3) The funds required for the tender offer are expected to be procured through a loan from Sumitomo Mitsui Banking Corporation (up to 236 billion yen), and there will be a certain financial burden. However, given the recent improvements in profitability and cash flow generation capability, as well as the Company's strong financial foundation, the impact of this deal on the rating is expected to be limited. Although the Company continues to place M&A at the core of its growth strategy, its financial strength has increased than before.

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<Reference>

Issuer: NEC Corporation

Long-term Issuer Rating: A+ Outlook: Stable

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