

(April 28, 2020, Tokyo)

Nomura Research Institute, Ltd.

FY March 2020 Financial Results Briefings

Q&A Session

First inquirer (analyst, telephone attendee)

Q1: With most of your employees telecommuting, what is your current status in terms of orders and production-related activities, and what effect has this situation had?

A1: In terms of production, work is generally being done by telecommuting. Around 80% of our head office staff are working from home. Our business partners in China have been back to normal levels of operation since the beginning of March and their productivity is now at full capacity. As for our partners in Japan, some of them did not have the work environments in place for telecommuting, so they are moving quickly to set these up. At the beginning of May, we plan to be able to provide telecommuting environments to business partners who want them. By customer request, we are also sending NRI and partner company staff to client sites in some cases to perform development and maintenance work.

Thanks to arrangements such as these, we are currently not suffering any major impact to production-related activities in systems. In the future we may suffer some setbacks in cases such as releases being delayed because clients are not coming to the office in cases where we need to perform on-site checks for the releases of new systems. These delayed releases will not pose much of a problem if the spread of the coronavirus can be contained by summer, but the impact will grow larger if the disease cannot be contained and the current situation drags on. Quality issues in areas such as defining system requirements are also more likely to occur if the quality of our communication with clients suffers because our meetings are done by telecommuting rather than in person. We are instructing our staff to thoroughly manage quality-related risks to prevent any problems that could result from deterioration in

the quality of communication.

As for sales activities, new clients generally account for 10 to 20% of our orders in consulting, and it is hard to secure orders from new clients while telecommuting, so orders will inevitably lag until summer. Most system development projects are for existing clients, and telecommuting has little effect on sales activities for these projects. However, we are now starting to see delays in clients' decision making, and it is taking increasingly longer to receive orders. If the spread of the coronavirus drags on, we may also see an impact to system development orders. If the virus can be contained by summer there will not be a problem.

Q2: What do you expect to see in terms of earnings from 2Q onward?

A2: There will not be much overall impact to earnings in 1Q since production during this quarter mainly came from existing orders. Earnings in consulting will be impacted starting in 2Q but we expect to trend toward recovery from 3Q onward. Earnings in system development and system management solutions will also not be impacted much if the spread of the coronavirus can be contained by summer. Ultimately, earnings will recover for the company overall this year and we will trend toward growth from next year onward. If the impact of the coronavirus drags on longer than expected, sales activities for systems development will lag this year and earnings will also be impacted next year.

Second inquirer (analyst, telephone attendee)

Q1: What sort of demand might arise in the medium to long-term from the paradigm shift caused by the effects of the coronavirus? And how do you think NRI's position in the industry will change?

A1: We are telecommuting and there are more opportunities to communicate with managers of our clients by teleconference and other means. We learned that through this type of communication, managers of our clients are coming up with lots of new ideas on the periphery of their respective business domains, ideas that can ultimately transform business models. I want NRI to take as much initiative as possible and discuss these ideas with clients starting at the conceptual level to generate new types of IT business.

Business continuity is also a pressing issue. We are starting to see needs for large companies to establish network infrastructure enabling work in the same

type of environment when accessing externally as would be available internally. At NRI we are also working on establishing remote development environments for our business partners. We expect this demand for new IT investments to grow over the next two to three years.

Q2: When will managers' ideas come to light and become commercialized? And when this happens, could NRI then exceed the performance targets in your Medium-Term Plan?

A2: We need to improve productivity in order to pursue any upside in excess of the targets set out in our Medium-Term Plan. There will certainly be a large wave of demand for IT investment, but I would prefer that we perceive this as additional opportunity as opposed to regular business. For example, as indicated on page 27 of the financial results briefing materials, we can greatly reduce development cost by standardizing and utilizing components for e-commerce. If we can equip ourselves with lots of this type of digital IP and cater to growing demand, we can grow our upside as we increase productivity. We can then develop our DX business into something that combines profitability with growth potential.

Third inquirer (analyst, telephone attendee)

Q1: If summer passes, the spread of the coronavirus is still not contained, and your earnings continue to slump, will you make any changes to your cost structure? Will there be any need to make changes?

A1: Our current outlook is that business will start returning to normal around September and will be fully back to normal around New Year's, pending the development of vaccines and medical treatments. Consequently, if this takes a half-year longer than expected, business will return to normal around June of next year and we might be impacted to about the same degree that we were in the 2008 financial crisis. However, even in the financial crisis our overall profit margin only declined by around 1.5 points when excluding a certain number of unprofitable projects from the calculation. The impact on earnings began to appear in 2009 and the largest impact was felt in the first half of 2010, but those effects lingered due to projects we pushed ourselves to take on which ultimately turned unprofitable.

The most important thing for us in crisis situations like these is to not take on

projects that show the potential to turn unprofitable, even if our earnings are slumping. If we end up with some downtime, we can use it to create assets such as digital IP that will support productivity several years into the future. In our line of business labor cost is significant but we cannot reduce employee numbers. Even if we cut all non-essential expenses, it would still be a proportionally small reduction that would hardly contribute anything to profit.

Q2: If earnings go into a slump, what will you do about your dividends? Do you have the means to consider a share buyback?

A2: We plan to maintain our dividend. Last year we executed a large-scale share buyback, so there is little chance of another this year.

Fourth inquirer (analyst, telephone attendee)

Q1: In what sectors is sentiment worsening for IT investments?

A1: Travel and tourism-related clients have suspended investments in IT, but these do not account for a large portion of NRI'S business and have little impact on our earnings. Supply chain problems and declining global demand are also putting a squeeze on IT investments in globally operated manufacturing business in sectors such as automotive and machinery. These also do not comprise a large portion of our business, but effects are starting to show. Clients who are having problems with cash flow are postponing investments in new services and business endeavors.

Q2: Are postponed investments really postponed, or are they cancelled?

A2: I believe that some investments will return and some will not. Earnings in travel and tourism are likely to stagnate long-term. Among our project inquiries in these sectors, some will almost certainly not come back. In global manufacturing some clients say they are suspending investments for now but will resume them at some point because the investments directly contribute to their competitiveness. These types of investments are likely to return.

Q3: In IT platform services where performance is strong, has there been any immediate impact in materials procurement due to the coronavirus?

A3: Yes there has been an impact. As you can see in the news reports, hardware procurement turns into a bottleneck if there are not enough VPN devices. We

have not been able to respond to all our clients' inquiries.

Q4: Do you think these constraints (prioritizing existing clients) will be resolved sooner or later?

A4: Many of these constraints depend on the supply of components from China. For the most part production in China has begun to return, so we believe the constraints will be resolved at some point. However, the procurement climate in Japan is also harsh, so we are working with clients who have absolute need.

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