Nomura Research Institute, Ltd.

The Third Quarter of FY March 2020 Financial Results

Briefings Q&A Session

First inquirer (analyst, attendee)

Q1: Improved development productivity in industrial IT is likely to be more attributable to improved productivity in distribution where sales are increasing, rather than manufacturing & services. Is productivity also improving in manufacturing & services?

A1: Improved productivity from our use of offshoring and sharing IP is not limited only to distribution. These efforts span the entire industrial IT segment including manufacturing & services, and the effects are also reaching the entire segment.

Q2: I hear that e-commerce projects in distribution are brisk, but wouldn’t it be difficult to maintain the effects of improved productivity in the industrial IT segment if orders and sales do not increase in other fields as well? Or will there not be any large decreases in profit margin if sales can be maintained?

A2: That is correct. Currently industrial IT is in a slow season for large projects, but operations are pretty much fully occupied with projects for our existing client base which can be completed with existing methods. As a result, the profit margin is quite high. Hopefully we can free up our resources a little and bring in some projects that let them tackle new themes.

Q3: You have revised your financial results forecast and reached a new record operating profit margin for the fiscal year, but can you maintain that level over the medium term? Or is the current level too high, and might we see this number decline in the next fiscal year and onward?

A3: We believe the current operating profit margin is too high. However, this number is nothing more than a result, we are not making moves to
intentionally control our profit margin. In any event, we must turn our sights toward new challenges such as bringing in projects that lead to future growth and developing new clients.

**Second inquirer (analyst, telephone attendee)**

Q1: Order volume in financial IT spiked significantly in 3Q. In what industry types was there growth? On the other hand, I understand you had forecasted order volume with major life insurers to decrease, but please tell us what you expect.

A1: Order volume increased significantly in securities, slightly in banking, and decreased slightly with large life insurers in 2Q. Sales decreased in 3Q, but order volume remained mostly flat.

Q2: Is the implementation of THE STAR at Mizuho Securities the reason why orders in securities increased?

A2: That is correct. New THE STAR implementation projects for multiple securities brokerages including Mizuho Securities account for the majority of the 3Q order volume increase in securities.

Q3: What is your forecast for business with major life insurers going forward?

A3: Our forecast for next year is currently unclear, so I cannot provide any such forecast at this time.

Q4: Domestically, order volume in industrial IT is continuously decreasing. You have explained that this is due to a shortage of resources, and because effort is going toward bringing in orders for projects for next year, but what is the status of your activities to being in orders that will expand sales next year? And at about what point next year do you expect to see a recovery?

A4: Over the medium to long-term we believe more effort will have to go into sales activities. Even so, it takes time to build relationships with clients, and many relationships involve smaller projects at first. We are still working to secure orders for large projects from various clients, but I cannot uniformly say when these efforts will generate results.

Q5: Is the domestic business climate in industrial IT still favorable?

A5: Yes, it is.
Q6: Is it possible that the increased profitability in industrial IT is due to a bounce back from strategic unprofitable projects in 3Q last year, and that profitability is decreasing in real terms?
A6: Industrial IT is still trending toward higher profitability, even when considering the bounce back from strategic unprofitable projects in 3Q last year.

Q7: In your 2Q financial results announcement, you mentioned a change in management in Australia, and that orders had bottomed out. However, it seems that the situation there remains unfavorable. Please tell us how the business climate is there now and what your outlook is for the future.
A7: Under the new management we are pursuing small and medium-scale projects in addition to large-scale projects, we are working on regional strategies to cover every part of Australia. These efforts are producing results little by little. We are starting to see improvement, as orders have also recovered to the same level as 3Q last year.

Q8: In terms of profit and loss, your operating profit in Australia was at break-even in 2Q after goodwill amortization. What is the situation in 3Q?
A8: In 3Q operating profit is still at around break-even after goodwill amortization.

Q9: You have revised your operating profit upward in your performance forecast revision, but your 4Q operating profit forecast is at around the same level as 4Q last year despite last year having roughly one billion yen more than usual in short-term software impairment cost. Does this suggest there are any special factors in 4Q?
A9: Currently we foresee no special factors such as short-term costs that would detract from operating profit in 4Q. If no such circumstances arise our results will be a step up. For now, we see ourselves as having some leeway that can balance out any uncertain risks that might arise.

Third inquirer (analyst, telephone attendee)

Q1: In terms of sales for each type of consulting service, about what ratio of sales is for upstream projects in system development, and about what ratio leads to future development projects?
A1: I could not give you any exact figures, but in terms of sales from consulting services if you exclude sales from our consulting segment you are left with consulting services that belong to the IT solutions segment. Roughly half of the 4.6 billion-yen sales increase in consulting services was from the consulting segment. The other half was an increase in sales for consulting services in upstream processes for IT solutions and other such consulting services, much of which lead to future development projects.

Q2: Performance in IT platform services has remained strong since Q2, but do you expect to maintain strong performance in security projects heading into next year?
A2: The Olympics and Paralympics are happening next year, so we expect to continue seeing robust demand for security projects. With demand also expected to be strong in digital workplace business that accompanies workplace reform, we believe performance will remain strong next year.

Q3: About how much special demand is there for handling migrations to Windows 10?
A3: Since we have hardly any projects that only involve migration to Windows 10, we would not be able to identify that impact.

Q4: This question is about the impact of the new coronavirus outbreak happening now in China. Are the employees of your partner companies in China able to work from home? And if so, is there any risk that their productivity could decline? Also, will the extended seasonal vacation require you to switch systems development work to other locations?
A4: None of NRI’s contracted offshore partner companies in China are in Hubei Province where the city of Wuhan is located. If any lockdowns, movement restrictions, or additional extensions of the Chinese New Year break are announced in any other regions in China, we will have to take measures accordingly. Since our offshore partner companies in China do not allow employees to work from home, we will need to take measures such as shifting work to partners in other locations if lockdowns or movement restrictions are announced where our China partner companies are located.
Q5: Which segment performs a higher proportion of development offshore in China?
A5: All development for the IT solutions segment outside the consulting segment is performed in China, so it is not weighted toward any one segment.

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