(April 25, 2019, Tokyo)

Nomura Research Institute, Ltd.

FY March 2019 Financial Results and Medium-Term Management Plan Briefings

Q&A Session

First inquirer (analyst, attendee)

Q1: Apparently Nomura Holdings is planning to reduce costs in FY March 2020. What kind of impact would that have on sales to Nomura Holdings over the course of the year?

A1: Implementation of THE STAR has already successfully reduced costs in their retail operations, and I believe the next challenge will be to reduce costs overseas. Nomura Holdings and NRI established NVANTAGE in India as a joint venture and we also plan to enter the field of global wholesale together, but I think the 60 billion yen in sales during FY March 2019 will be the baseline for sales in FY March 2020. We expect growth in securities this fiscal year to come from securities companies other than Nomura Holdings.

Q2: Is there any progress in THE STAR implementations for securities companies other than Nomura Securities?

A2: Several securities companies are considering implementing THE STAR. We expect continued, steady growth.

Q3: What has been done up to now in the impairment of goodwill for Brierley+Partners, and what is the forecast going forward?

A3: Loyalty marketing is commanding a lot of attention in the US, and due to intensified competition from large numbers of new market entrants in the past three years Brierley+Partners has been unable to achieve the profitability we anticipated. However, NRI has been able to leverage the intellectual property of Brierley+Partners in Japan to create synergy effects and generate projects each worth billions of yen. We believe some investment will be necessary to raise our competitive strength in the U.S. to the next level, and we decided that we needed to impair some of the goodwill that was still on the books.

Q4: How is the joint venture with KDDI performing?

A4: It is performing well. We believe that DX business in the telecom field is promising.

Second inquirer (analyst, attendee)

Q1: You are forecasting higher revenues in securities going forward, and I understand there are several specific projects ongoing, but are these temporary or are they going to be part of the landscape?

A1: Since we have an increasing number of clients for THE STAR, we can forecast continuously higher revenue going forward. However, it takes years to make the necessary preparations such as changing clients' operations to make them compatible with THE STAR. Therefore, when a client decides to implement THE STAR, it does not translate into high-margin operations revenue right away. The idea is that it has a gradually increasing positive effect on sales and profit. We will carefully attend to each of the individual projects that are under way, and we intend to show results from these over the next four years.

Q2: While human resources at NRI alone are forecast to increase by 1,000 which is a rise of about 15% over the course of the Medium-Term Management Plan, sales are forecasted to increase by 30% and profit by 40%. What type of investment strategies are you considering for improving productivity? Will there be more collaboration with partners? Will you be investing in data centers?

A2: To add 1,000 people at NRI alone we need to hire around 100 more people each year than we had been. Between new graduate and mid-career hires, I believe this overall increase is well within the realm of possibility.

Since our sales and profits will grow at a higher rate than our staff numbers, we will not be able to achieve our targets based on the current level of productivity. Our biggest productivity increase over the last three years was in finance, as we shifted manpower away from securities and into areas such as insurance and industrial IT solutions which helped us achieve better productivity with no increase in headcount. As for the future, we are now running simulations to see what levels of productivity increases are possible and whether we can compensate for shortages of manpower, including possibilities such as integrating the infrastructures of each different business area to reduce maintenance costs. For the same purpose, we are also considering the possibility of expanding the ratio that our partners comprise of our overall manpower.

From a finance perspective, we anticipate cash flow of around 370 billion yen over the next four years. Conceptually, we anticipate being able to direct around one-third of that toward capital expenditures such as software, one-third toward shareholder returns, and the remainder toward overseas M&A and investments in growth with our DX strategy. In accordance with global standards and to clarify the returns on our growth investments, we are expressing our target in terms of EBITDA margin.

Q3: What specifically are you considering in terms of growth stage-based dividend payout ratio?

A3: Our current dividend payout ratio is 35% and we see this as a suitable level for balancing growth investments with shareholder returns, though we also anticipate being able to fine-tune this appropriately according to changes in the environment. We are running a variety of simulations that focus on the next four years.

Q4: Are you planning to adopt IFRS?

A4: In April 2017 we announced that we are considering adopting IFRS within roughly three to five years. Considerations since that point have progressed smoothly and it is highly likely that we will make the change over the course of the new Medium-Term Management Plan, but we have not yet decided on a specific time for that to occur. As other companies have also done, we expect to make the announcement that we are adopting IFRS immediately before we adopt it. Also, after implementing IFRS we will be required to calculate profit targets according to those accounting standards, but we anticipate the values will be conceptually close to operating profit (before amortization of goodwill) which we currently disclose.

Third inquirer (analyst, attendee)

Q1: You explained that the amount recorded for software amortization was larger than in previous years. How much was it exactly?

A1: This amortization is a regular accounting entry at the end of each fiscal year, so we have not announced any specific amount. However, it is the main reason why profitability decreased in financial IT solutions during Q4 of FY March 2019.

Q2: Profitability also decreased in Australia in Q4 of FY March 2019. You are forecasting 15% growth in overseas sales during FY March 2020, but how do you see the current situation?

A2: We believe Australia could have double-digit growth if there were no impact from exchange rates. The country also has a general election coming up and the government appears to be stalling on large-scale projects for now, but we expect to see some movement again starting in July.

Q3: Your target of 100 billion yen in operating profit in FY March 2022 seems to be quite a stretch. How much of a profit increase do you expect in each segment?

A3: Overall, we expect industrial to maintain its current trend of nearly double-digit growth. Performance in finance has remained flat over the past three years, but we expect it to shift toward growth, though likely not in the double digits.

Fourth inquirer (analyst, attendee)

Q1: The figure of about 60 billion yen in sales to Nomura Holdings is the lowest level we have seen over the years. Can we assume that the majority of this is fixed revenue such as THE STAR usage fees, and that there will not be any more major decreases next year and onward? It was also reported that the current number of stores will be reduced by 20%, but is there no decrease in revenue that would accompany that change?

A1: Sales to Nomura Holdings include not only Nomura Securities but also Nomura Asset Management, Nomura Trust and Banking, and other Nomura companies. Sales to Nomura Securities for THE STAR do not comprise the majority. If we focus on sales only to Nomura Securities, it is true that the majority is indeed usage fees for THE STAR. However, usage fees are based on the volume of traffic in the system, and we do not currently see any major decreased revenue effects from the reduced number of stores.

Q2: The Medium-Term Management Plan includes a target EBITDA margin of at least 20%. Taking into consideration what we have seen in the past three years with business expansion in industrial and increased profitability from DX projects, as well as planned future increases in DX-related sales revenue, couldn't you expect to surpass that target and reach even higher, even if expected overseas business growth actually turns negative?

A2: We will raise EBITDA margin in conjunction with operating profit margin, but I believe we will aim for 20 to 23% as we have had in the past. We have also made EBITDA margin an indicator in comparing our performance against that of global competitors. Even our current EBITDA margin indicates a competitive advantage over other global companies.

Fifth inquirer (analyst, attendee)

Q1: Operating profit (before amortization of goodwill) was 75.3 billion yen in FY March 2019. Can we assume that operating profit would be around the same level under IFRS standards?

A1: The largest variation factor is amortization of goodwill, but there are also other increase and decrease factors such as rent for office buildings and handling of pension liabilities.

Sixth inquirer (analyst, telephone attendee)

Q1: As far as your uses for cash, I understand you consider M&A and shareholder returns to be separate, but will this policy change?

A1: It will not. Currently we are maintaining a consolidated dividend payout ratio at around 35%. We will be working to improve shareholder returns while balancing growth with returns through activities such as M&A and treasury share acquisition, with a target of 14% ROE.

Q2: Profitability for ASG in Australia improved to break-even level after amortization of goodwill during FY March 2019. Do you forecast its profitability to improve again in FY March 2020?

A2: In the unified management post-merger integration (PMI) process for ASG and SMS, we shifted toward managed services, a business that is more profitable as opposed to being large in terms of size. In the immediate term, profit after amortization of goodwill is positive. In FY March 2020 we aim to continue maintaining profitability, while also adding more profitability by winning large-scale managed services projects for government agencies which expand the business.

Seventh inquirer (analyst, telephone attendee)

Q1: Could you tell us specifically what kind of projects that sales “other than” DX-related sales come from? Also, if you have any figures for DX-related sales in FY March 2018 could you share them?

A1: Projects “other” than those related to DX are development from scratch projects in conventional on-premises environments. There are also relatively large numbers of such projects in insurance and distribution. It would be safe to assume that DX-related sales comprise most of our sales increases in the industrial field in recent years.

Q2: Why did you impair all the goodwill of Brierley+Partners?

A2: According to Japanese accounting standards we discounted future cash flow at Brierley+Partners over the next seven years (the period of amortization of the goodwill) at a 10% discount rate (after tax), and since the resulting amount was insufficient as goodwill we impaired the entire amount. The business has not gotten worse, and we have even taken the initiative to increase our investment there. The pace of profitability improvements fell short of the plan, which is the reason for the impairment.

Eighth inquirer (analyst, telephone attendee)

Q1: Can you compare your DX-related sales to other global companies?

A1: Each company has a different definition of DX-related sales. Simple side-by-side comparison would not be possible.

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