(January 30, 2019 Tokyo)

Nomura Research Institute, Ltd.

The Third Quarter of FY March 2019

Financial Results Briefings Q&A Session

First inquirer (analyst, attendee)

Q1：In your external sales forecast by segment for FY March 2019, please tell us the reason for the downward revision for securities.

A1：There was a large product sales for Nomura Holdings recorded in 4Q of the previous year, and the decrease forecast for this year is a fallback from that.

Q2：Did that large product sales project for Nomura Holdings contribute to profit?

A2：It was a sale of software products that we developed, and it contributed to profit.

Q3：Are you forecasting sales to Nomura Holdings to recover next year?
Please also tell us why you are forecasting increased revenues in securities.

A3：This year our forecast for sales to Nomura Holdings ended up at around 60 billion yen and we do not think there will be any further revenue decrease, but we are also not forecasting this revenue to significantly increase next year. At the same time, several proposals to other securities companies are bearing fruit, and we forecast that revenues will increase in securities overall.

Q4：Sales in financial IT solutions are forecast to end up at around the same level as the previous year, but can we assume that you are forecasting securities to decrease, and insurance and other financial to increase?

A4：In securities, the goal of the Nomura Securities THE STAR implementation was to reduce cost, so we initially forecasted a sales decrease. However, due to increases in insurance and other financial, we expect to attain the same level of sales as the previous year in financial IT solutions overall.

Q5：Please tell us why you revised your forecast for overseas sales.

A5：The reasons for the revision were the exchange rate effect from appreciation of the yen, and that we did not execute the M&A that we had anticipated. At the same time, we improved profitability in Australia enough to break even after the goodwill amortization, and we have built a stronger foundation for our overseas business by acquiring ratings and through other initiatives, so in the medium-term, overseas sales are proceeding according to plan.

Q6：Can we assume that in Australia, the decrease in sales during Q3 was due to exchange rate effect, and that in terms of Australian dollars revenue actually increased?

A6：Exchange rate effect was responsible for about one third of the revenue decrease, while the rest was due to the effect of a temporary sales restriction in order to shift toward projects with higher profitability, and the effect of sales for government projects not being recorded during the fiscal year.

Second inquirer (analyst, attendee)

Q1：Cost increases at domestic subsidiaries may have been responsible for lower profit in industrial IT solutions during 3Q, but could you provide more specific details?
And will this also cause lower profits from 4Q onward?

A1：The cost increases that will last until those projects are completed have been recorded as provisions for loss on orders received. We believe there will be no impact on future performance.

Q2：Does all of the increase in provisions for loss on orders received come from these projects?

A2：The majority of it comes from these projects.

Q3：Order volume and order backlog seem a bit sluggish. Can you really achieve your forecast for the year during Q4?

A3：In terms of sales, we do not currently forecast any new orders for large projects, but in years past sales have tended to increase in 4Q and I believe it is possible to achieve our forecast. In terms of profit, we are currently doing well enough to achieve forecast even if we just continue working on our current projects.

Third inquirer (analyst, attendee)

Q1：Please tell us your overseas performance forecast for next year.

A1：In Australia we would like to grow our continuing business by pushing forward with orders for managed services projects for government agencies. In terms of profit we are currently breaking even after the amortization of goodwill, but we would like to improve this by increasing continuous business.

Q2：Can we expect organic growth in Australia from next year onward?

A2：We would like to achieve organic growth by securing large projects for government agencies. Simultaneously, we intend to push forward with M&A considerations.

Q3：Gross profit margin declined during 3Q, but will it be trending downward in the future?

A3：Over the last few years our gross profit margin has normally been around 34%, and if there are situations such as strategic projects with higher costs as we had this year, we expect a margin of around 32.5% to 33%. This level will not change.

Fourth inquirer (analyst, telephone attendee)

Q1：In the next medium-term plan you need to increase operating profit by around 10 billion yen per year to achieve the V2022 target of 100 billion yen. Calculated roughly according to the NRI standard for profit margin, this means you will need to boost sales by an additional 50 billion yen each year. The basis may have changed from the past, but in terms of management are you prepared for this?

A1：We will be systematically increasing the staff numbers needed for our anticipated speed of growth, while keeping an eye on trends in demand. The various measures we will implement to achieve this target will be explained in our announcement of the next medium-term plan this April.

Overseas, we will need to add 45 billion yen in sales for our target of 100 billion yen in overseas sales, but we will also employ M&A to increase our numbers. Domestically, if we think about the potential of IT investments for things such as improving operational efficiency in the area of securities where we have been struggling, and that as strong performance in DX projects continues, the next medium-term plan will be the time to reap the rewards of the seeds we planted during the current plan, I do not think that this plan is impossible.

Q2：In the next medium-term plan will you be putting the balance sheet to even greater use and accelerating M&A?

A2：We need to add 45 billion yen in overseas sales to reach the target of 100 billion yen, but just as we had M&A in the forecast for this year before the revision, I am not sure when we will execute it but we will continue working on M&A.

Just as we issued Kabuki bonds last year, we also generally have methods for raising funds during normal times whenever we anticipate ways that funds can be applied in the future.

Fifth inquirer (analyst, telephone attendee)

Q1：At the time of the large sale of products that was recorded as an order in Q3 and as sales in Q4 of last year, it was explained as being several billions of yen. Was that actually correct?

Also, you have explained that there will be a recovery trend with other (than Nomura Securities) securities companies, but more specifically can we assume this comes from demand for shared online services?

A1：That is correct, the sale was for several billion yen.

As for other securities companies, this is mainly demand for shared online services.

Q2：In what industry were the unprofitable projects in industrial IT?

Also, were these accepted as strategic projects after recognizing they would produce little profit, or did they just end up being ultimately unprofitable?

A2：Domestic subsidiaries accepted these as strategic projects in new fields.

Q3：Please tell us what your operating profit or loss was in Australia during Q3 of this year.

A3：We generally broke even after the amortization of goodwill, and profitability recovered compared to the previous year.

Q4：Please tell us your order forecast for Q4 in Australia. Is your target of 55 billion yen in overseas sales conservative, or is it ambitious?

A4：Even though we receive orders from bids for government projects, there generally tends to be a gap of several months before these can be recorded as sales.

In terms of profit, we are focused on generally breaking even after amortization of goodwill. In terms of sales, there may be some deviation but the target of 55 billion yen is achievable.

Sixth inquirer (analyst, telephone attendee)

Q1：Please tell us why order volume was strong in Industrial IT during Q3.

A1：Normally we do not make distinctions between quarters about whether things are doing well or poorly, but as for why performance was strong on a cumulative basis, there has been continued DX-related demand in a variety of industries.

Q2：Were the sales of investment securities during Q3 for listed shares?
Also, can we assume that the reason for the sale of these shares was to reduce cross-shareholdings?

A2：We were following our own policy to sell cross-shareholdings when we decide that there is little reason for holding them. While I cannot specifically comment on which companies they were for, the shares we sold were listed shares.

Q3：Do you consider sales of cross-shareholdings to be one method achieving your ROE target?
Also, after the recent stock market decline have you considered purchasing your own shares as an option for improving ROE?

A3：We are maintaining a policy to achieve our ROE target without forecasting any gain from the sale of cross-shareholdings.
The target of around 12% at the end of this year is achievable even without taking gain from the sale of shares into consideration. When the time is right we will consider the purchase of our own shares as a possibility in pursuing our V2022 target of 14%.