(April 27, 2023, Tokyo)

Nomura Research Institute, Ltd.

FY March 2023 Financial Results

Briefings Q&A Session

First inquirer (analyst)

Q1: This question is about your forecast for overseas operating profit. Roughly how much year-on-year improvement in profit margin and profit amount are you expecting relative to the 130 billion yen in overseas revenue forecasted for the year?

A1: We are forecasting a year-on-year profit increase of 5.1 billion yen this year, of which roughly half is domestic and half overseas.

Q2: Could you explain the breakdown between Australia and North America of the roughly 2.5 billion yen overseas portion of that profit increase, and any other factors such as when you expect the improvements to occur?

A2: While it would be difficult to express quantitative profit figures by region overseas, we have set targets for year-on-year improvement in both Australia and North America.

Q3: You are currently producing a loss in North America, so are you expecting to turn profitable there this year?

A3: Your question seems to be referring to operating profit after amortization of intangible assets. We did produce a loss in North America in FY March 2023. We are targeting a break-even level of operating profit in North America in FY March 2024.

Q4: For what reason do you expect a recovery in North America starting in the second quarter? Is it because you expect supply issues in the procurement of devices to be resolved, or will demand-side issues be resolved?

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A4: Our expectation for issues with the supply of devices to be resolved around the summer is based on having confirmed with those on the supply side. The status of orders at Core BTS is that order backlog at the start of the year is less than the previous year, but this is mainly due to delayed procurement of network-related devices. In cloud services and application development, we are not impacted by declining IT demand sentiment in North America. Having actually visited Core BTS and verified this personally in early April 2023, scheduled orders are not being canceled. Since we can see that some clients are putting off their decision-making as well as cases where the project in its entirety is large but the scope of the contracts entered into is small, circumstances might be somewhat harsh in the first quarter (April-June). Their organization was reinforced in January, which included hiring a Head of Sales (Chief Revenue Officer) in addition to replacing regional sales representatives and sales managers. Since personnel hired from other companies are restricted from approaching their previous clients for a set period of time, we are anticipating that period of time will end in the summer, and that they will be then able to fully engage in sales for Core BTS's lineup of services. Thus, we concurred with local management that this recovery will get on track starting in the second quarter.

Q5: Regarding shareholder returns, could you clarify the background behind this treasury stock acquisition that you have announced? Is there any factor other than keeping ROE at a level of around 20%? With the turnaround happening now at Core BTS, is there any change to your thinking about medium-term cash allocation to M&A in North America?

A5: The background behind the treasury stock acquisition was that we made a holistic decision on our ROE level, cash usage, and stock price level. There are some companies that we are continuously monitoring for M&A in North America, but the private equity funds that own those companies are not inclined to sell them in this market climate. There is also some difficulty to the two-pronged strategy alongside the turnaround of Core BTS, but since the cases are moving slowly, we will likely continue to monitor the pipeline.

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Second inquirer (analyst)

Q1: If a major shareholder were to sell off its holdings of NRI stock, it would be interesting whether NRI would respond to that with a treasury stock acquisition. When taking stock price level into consideration, are you oriented toward treasury stock purchases?

A1: In 2019 we conducted a treasury stock acquisition worth approximately 160 billion yen. It also depends on the scale, but based on our financial position and ability to generate cash flow it seems possible that we would respond to a selloff of a certain scale by buying back treasury shares.

Q2: There were two selloffs of NRI shares in 2022, but aside from the portion of the over-allotment you did not conduct a share buyback for the selloff in November. Was there any change in your policy or approach toward share buybacks?

A2: We arrived at this current share buyback announcement after forecasting future growth, evaluating our current share price, and making other considerations. The situation is not the same as when the selloff happened last fiscal year.

Q3: Overseas, your fixed costs and sales are both small in scale, so your risk is likely to be limited. At the same time, domestic growth in your forecast for FY March 2024 is lower than anticipated. Is it that you grew too much in FY March 2022 and also grew in FY March 2023, so this year will be an adjustment stage for the excess growth? Why are you taking a conservative approach to domestic growth?

A3: It is difficult to project. Order backlog is accumulating. Once order backlog starts accumulating in consulting, we can expect ripple effects on IT services. On the other hand, the Bank of Japan Tankan (short-term economic survey of enterprises in Japan) and other macro indicators are showing a more cautious outlook. Around the end of the second quarter, I think we will begin to see whether or not this cautious outlook should change. As for our revenue forecast, it does not reflect the current orders situation as-is.

Q4: Which are you looking at more cautiously, financial IT or industrial IT?

A4: Between those two, we are looking more cautiously at financial IT. We are seeing harsh circumstances in the financial results produced by financial

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institutions. The economic outlook is uncertain, but projects to migrate away from host systems at major non-life insurers are currently progressing regardless of business sentiment. For banking, two banks have gotten started on overhauling their core systems to BaaS/Core. These projects are over 10 billion yen per bank. Since there are also projects like these being executed according to plan, and DX projects have not halted due to the business sentiment of managers at financial institutions, there may be reason to be a bit more optimistic.

Third inquirer (analyst)

Q1: You set an overseas sales target according to organic growth in the medium-term management plan that begins this year, but what are your rules for the 250 billion yen in M&A targeted in your long-term vision? Have there been any changes to these rules based on lessons learned from the Core BTS acquisition, including post-merger integration?

A1: Roughly six years have passed since we began our full-scale M&A activities overseas. In Australia, we experienced some shuffling of management personnel and struggles with post-merger integration at first, but business is operating stably there now under a controlling company. It takes a considerable amount of time to really figure things out. Truthfully, it feels like the level of risk is higher in North America than in Australia. On the other hand, managers in North America enact bold management reforms at lightning speed. Over the past year, we have been learning a lot about the differences between Australia and North America in terms of both the opportunities and the risks. Now, we will likely rethink our approach of starting from numerical values, without thinking about setting any quotas for M&A. First, we will work on getting Core BTS's business on the right track, strengthening governance, and building a local organization capable of operating business with confidence in North America.

Q2: For usage of cash, your policy has been to allocate one-third to existing investments, one-third to new investments, and one-third to shareholder returns. If you make no new investments (M&A), would you consider allocating that portion to shareholder returns?

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A2: We do not think about redirecting unused portions toward other uses on a single-year basis. Our current working capital is around two months' works of revenue, and NRI has strong cash-generation capabilities. As for treasury share buybacks, we prefer to make those decisions at the respective times. We keep our dividend payout ratio increasing steadily.

Q3: This question is about the effect of passing on cost increases which is included in your increased revenue effects. Is it relatively easy for NRI, which conducts high-added-value business, to pass on cost increases to clients?

A3: If our clients trust us, they will accept the increases in cost which we pass on. For example, they generally accepted the increases in electric power costs at data centers which we passed on to them. Some clients insisted on not accepting price increases in the middle of the fiscal year since their budgets were set at the start of the fiscal year, but we got them on board by providing well-thought-out explanations. The cost of offshore development increased due to the weakening yen, but our clients have also been accepting of that. It should be noted that we have no desire to engage in price competitions that do not take value into consideration. We make appropriate proposals to clients who recognize our added value.

Fourth inquirer (analyst)

Q1: Your operating profit last year fell short of forecast. Could you explain the causes, also including the relevant monetary amounts?

A1: Along with the sale of Brierley+Partners at the end of March, we bore expenses in the hundreds of millions of yen. Negative business factors in North America including this comprised the majority of the 3.1 billion yen by which we fell short.

Q2: Your operating profit overseas improved in the fourth quarter compared to the third. Can we assume that you were able to confirm a bottoming out in the fourth quarter? Are there still any uncertainties?

A2: What was mentioned about the first quarter of FY March 2024 being the bottom and recovery taking hold from summer onward was with regards to North America. AUSIEX recorded restructuring expenses in the second quarter due to

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a market downturn in Australia but is already trending toward recovery. Subsequently, contributions from Australia were the main driver for overseas operating profit turning positive in the fourth quarter. Economic sentiment in Australia is not strong since the country also has rising labor costs and inflation, but our business there has stabilized, and we do not expect any major declines. AUSIEX also seems to have overcome a time of difficulty.

Q3: You produced less of a loss in the fourth quarter in North America than in the third, but are you taking the view that you cannot be certain about turning profitable and increasing profitability until you see what happens in the first quarter?

A3: We spoke with Core BTS management at the beginning of April, and the overall economic sentiment is not positive. At the same time, there are no major problems emerging such as existing clients no longer placing orders. However, some decision-making is being postponed, and we do not expect a rapid recovery to occur in the first quarter. We sense that a recovery trend will take hold starting in the second quarter.

Q4: In your forecast for FY March 2024, why is sales growth relatively smaller than the increase in order backlog at the end of the year? If there were no financial instability or other such factors, could we expect about the same increase as the portion scheduled to be recorded as sales?

A4: That is hard to determine in the current circumstances. Inquiries are robust in consulting, and orders are accumulating. This is a favorable narrative if we think about consulting feeding into IT services the way it has in the past. However, our clients' financial results and forecasts are conservative, and they need a little more time to make decisions. Even with uncertainty as part of the landscape, we still believe that we can achieve a 4% increase in sales.

Fifth inquirer (analyst)

Q1: The large-scale projects for major non-life insurers to migrate away from host systems have been progressing for over one year, but could the projects be completed during the term of the medium-term plan and result in a negative reversion? Is NRI handling these projects alone?

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A1: The projects to migrate away from host systems are extremely long in duration. In terms of a timeline, it feels like it will take until about 2030 to modernize everything. The scale is large enough that we are not the only company involved, but we are handling the main parts.

Q2: How much demand do you see accumulating for BANKSTAR?

A2: When launching a new financial business, we can assume that functions are used selectively rather than using the entire range of functions. BaaS/Core is a good match for those companies, and it can build core systems that are lightweight. At the two banks we are moving forward with, they are switching to BaaS/Core which we invested in up-front, since it fits the timing of their core system overhauls. For existing banks, we must engage them with sales according to the timing of their existing core system's EOSL. However, for new entrant banks, we can engage them with sales beforehand. The extent to which we can acquire clients depends on our sales capabilities. This year we will be focusing efforts on the big jobs with these two banks.

Sixth inquirer (analyst)

Q1: More of the profit increase in the medium-term plan is set for the second half of the plan than for the first. Are you anticipating greater profit increases over the second half? Or does the plan appear back-weighted since you are cautious about the external environment in FY March 2024? What is your line of thinking about this?

A1: Increased revenue effect is the factor behind this year's forecast looking somewhat conservative. Also, as a productivity improvement, we are compressing financial ASP source code, which could in turn reduce maintenance costs. This effect would materialize in the second half of the medium-term plan. Globally, amortization of intangible assets will also fall to roughly less than half of the current level in FY March 2026, contributing to higher profitability in the second half of the plan. As a result, profit increases will be larger in the second half of the medium-term plan.

Q2: What is causing orders to increase in the fourth quarter?

A2: Orders are increasing in a broad range of industry types. In financial IT, we are

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getting a lot more work in insurance and banking. In industrial IT, there are relatively more orders from distribution-related clients. In IT platform services, security and cloud-related clients are contributing to increases in orders.

Seventh inquirer (analyst)

Q1: Do you view the large orders in consulting as the last large projects of the economic correction phase? Or do you think that demand will also remain strong going forward?

A1: That is hard to predict. Consulting services that substitute for clients' employees are impacted by the economy, but we are not operating that type of business. We offer the type of projects in which clients buy our expertise, and in many cases they team up with us when they are at turning points, such as when they need to drastically change their business models. At this time, we are not seeing any type of slowdown in consultations due to clients curbing their expenditures.

Q2: What types of opportunities and threats does AI present in terms of the rise in demand?

A2: From the perspective of increasing productivity, there are expectations for AI to contribute by replacing downstream portions of development processes that are labor-reliant, including automatic script generation and creating test cases. This is already being applied in a number of projects, and the effects of reduced man-hours are being verified.

In terms of the top line, when AI is used for entering orders inside convenience stores, it enables demand forecasting and improves the accuracy of vendors' order placement. We can foresee investments to boost the efficiency of entire supply chains in conjunction with this. AI will likely contribute to raising the added value of systems integration.

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