

(July 27, 2023, Tokyo)

Nomura Research Institute, Ltd.

The First Quarter of FY March 2024 Financial Results

Briefings Q&A Session

First inquirer (analyst)

Q1: The situation overseas is harsher than you had planned for, but where are you falling short of expectations? You also conducted additional restructuring, but roughly how much in temporary expenses did you incur?

A1: The situation is harsher than our initial plan. Australia is suffering from the impacts of an economic recession. We overhauled the sales organization in North America, but it will take time for sales activities to get into full swing, and business is slumping as well due to economic recession effects. Expenses of around 100 million yen arose along with the layoffs of around 50 people at Core BTS, with around the same amount for a smaller number of layoffs in Australia. However, the impact (on P&L) is limited.

Q2: Is there any risk of earn-outs arising in the second quarter? And why has the overhaul of the sales organization at Core BTS taken longer than anticipated?

A2: The recent earn-out for Velrada was the last one. There will not be any more. As for strengthening Core BTS's sales organization, the CRO was just appointed and the organization put in place in January. They are now ready to get into full swing. The progress has just been a bit behind schedule.

Q3: Your domestic orders have been strong overall. In which particular industry types have orders been increasing within consulting, financial IT, and industrial IT?

A3: In consulting, we are seeing a recovery in orders from companies that had been holding back during the COVID pandemic. Demand from the public sector is huge in both management consulting and systems consulting. Orders are

increasing for topics related to decarbonization and DX. In financial IT, orders are increasing most in securities, then in banking, then other financial, in that order, and slightly decreasing in insurance. In securities, we had positive contributions from orders by major securities brokerages for infrastructure updates and other systems integration projects. In industrial IT, orders increased from retail, volume retailers, manufacturing, and inbound-related industry types (travel-related, etc.). In IT platform services, orders increased in information security. Orders are coming in from a broad range of industry types in each segment.

Q4: Are you getting more orders this year from telecom-related clients in industrial IT?

A4: Large orders had already come in from telecom-related clients by the end of last year, so we have already begun recording those sales as opposed to receiving large orders in the first quarter of this year.

Q5: Do you believe that domestic business will remain strong?

A5: Domestically, our inquiries for private-sector consulting and IT solutions are greater than they were at the start of the fiscal year.

Q6: It seems that generative AI could have positive revenue effects on two fronts, both by improving productivity through applications in internal processes and by driving sales of solutions. What does it mean to NRI for inquiries in generative AI to be strong?

A6: There are aspects of utilizing generative AI to improve clients' business efficiency, in addition to improving the productivity of the systems development that we perform, and for improving the efficiency of administrative work performed in corporate departments. For the first point about using generative AI for clients, we are considering and proposing ways to use generative AI, and although this has not yet reached the point of providing IT solutions, the topic is trending in consulting. If progress remains steady, we believe that we will be able to utilize generative AI for clients in the field of IT solutions starting either in the second half of this year or next year.

Q7: Is it that you are providing consulting services to clients for generative AI, and sales are increasing as a result?

A7: Yes, that is the situation.

Q8: Are you also starting to see results in terms of higher internal efficiency that positively impacts your margin as well?

A8: From the results of PoCs, there have been cases where productivity doubles. However, it will take a little more research before we can put it into general use. We have launched a task force that is proceeding with company-wide considerations on how it can be applied for clients and utilized internally. Usage cases are popping up in various places internally, and we are considering where it would be appropriate to funnel resources. We will likely reveal more details around the time of the next financial results presentation.

Second inquirer (analyst)

Q1: Around how much is your actual profit and loss overseas?

A1: In Australia we produced overall losses in the hundreds of millions of yen, but if the temporary expenses were excluded, we actually produced a profit. In the US, we produced a loss of around 1 billion yen. Structural reforms incurred expenses of around 100 million yen in each of these regions respectively.

Q2: Is recovery in North America proceeding slower than expected because sales activities have not recovered due to structural reforms still taking place? Or is it due to downturns in the external environment?

A2: The answer is both. The sales organization was finally formed and has begun engaging in proper sales activities, but now the economy is stalling. These two factors are conflicting.

Q3: Your top line continues to somewhat decelerate. Do you intend to secure profits by getting internal organizations squared away? And does it seem likely that you can secure top-line growth by stepping up sales activities even if the external environment heads in the wrong direction?

A3: We downsized workforce to raise capacity utilization. We plan to grow the top line with the bolstered sales organization, but the economy is also a factor

influencing whether or not clients order jobs. At this point in time, it would be difficult to say to what extent the current economic circumstances will continue in the second quarter, or how much positive effect will be gained from the bolstered sales organization.

Q4: Do you expect a favorable turn in profits if you can secure top-line growth?

A4: Yes, we do. Profits were positive in the first quarter last year, so we aim to get back to that.

Q5: Do you expect profit to turn positive in the second quarter?

A5: Full-scale recovery will likely happen from autumn onward.

Q6: Is your outlook that the domestic economy is strong, but business overseas is impacted by recession?

A6: There really is a black-and-white contrast between domestic and overseas business. When you look at other companies, you will also see that harsh circumstances are continuing in the IT industry overseas. On the other hand, business domestically is the complete opposite. It is even stronger than anticipated.

Q7: Might you be too busy domestically to compensate for diminished business overseas? Are you having any problems with resources?

A7: The situation is not that extreme. Our business partners are also cooperating, and order volume is increasing. We are allocating the right resources to the right places while making use of our partners, so we have no concerns in terms of resources.

Third inquirer (analyst)

Q1: To what extent did first quarter performance exceed expectations at Verlada which triggered the earn-out?

A1: Since their business was doing well as of the end of March, we were already forecasting a certain level of strong performance. Since the fiscal year began, they have also been thriving in terms of projects. As for the amount, they exceeded forecast by hundreds of millions of yen, but we set the earn-out

payment to a multiple of around 10 times the excess in EBITDA, so we recorded an expense of 970 million yen this first quarter.

Q2: Does that mean it was around 100 million yen above expectations?

A2: Yes, that was roughly the amount of the excess. Their growth was substantial considering that it is not a large company.

Q3: When NRI entered the Australian market, I believe there was speculation that the expected growth rate of IT investments there was larger than in Japan. Is the current downturn in the environment there temporary? I feel some anxiety about continuing to do business there, but what is NRI's take?

A3: We did not anticipate the reductions in IT budgets due to the change of government. Since Australia's population and industry are growing, we anticipate that government IT investment will also grow going forward. The same applies to the private sector.

Q4: What are the proportions of government and private-sector sales in NRI's Australian business?

A4: Roughly half of sales at NRI Australia (formerly ASG), our largest entity in Australia, are to central and local government, with sales to financial institutions second after that. These two sectors account for more than half.

Q5: Is the situation that business there will recover, but you still are unsure of when?

A5: First we need to lighten the load in terms of costs, then firmly capture the demand once it returns.

Fourth inquirer (analyst)

Q1: This question is about the growth with domestic clients that was mentioned in securities and industrial IT solutions. Will this mainly be from growth among existing clients or from acquiring new clients?

A1: Orders such as projects to update infrastructure in securities and telecom call center reconstruction were mainly attributable to growth in IT investment among existing clients. We did not acquire any new major clients in the first quarter. We are always trying to bring in larger clients.

Q2: It was explained that you expect to exceed your forecast for the first half. This gave the impression that performance was better than initially anticipated, but did you intentionally emphasize this for peace of mind since your first quarter P&L appeared rather uninspiring? It seems that the earn-out in Australia was not initially factored in, but is there any other factor compensating for that negative impact?

A2: We are fighting a tough battle overseas, but domestic business is better than anticipated. The background behind our expectation to exceed forecast for the first half is that systems development work is not something that ends after a short period of time. We have multiple large projects continuing in the second quarter and onward.

Q3: It seems like your overseas business is falling behind the curve. Rather than just holding an equity stake and attending board of directors meetings, should you be thinking about taking a more active role? Perhaps that could include sending management personnel from Japan and not allowing them back until the turnaround is complete.

A3: The Tokyo side is also making diligent efforts. We are fully committed to producing results.

Fifth inquirer (analyst)

Q1: Looking at profit and loss by segment, your domestic profit margin is improving. What is the background behind the improved margin in industrial IT solutions and IT platform services?

A1. In industrial IT solutions, large projects steadily arose starting at the beginning of the year, and capacity utilization rose. Proper profit margins are also easier to secure in large projects. You could add that no large unprofitable projects are arising and that we are doing well at controlling resources. Furthermore, we are making progress at utilizing digital IP. These efforts are leading to a high profit margin. In IT platform services, our high-added-value businesses such as cyber security are performing well.

Q2: Your domestic orders were strong. What was the background behind the increased order volume in the financial IT segment, including the large projects

that you mentioned earlier?

A2: Orders grew because we have multiple large projects in the single-digit billions of yen for infrastructure updates and BaaS/Core implementations for banking in securities.

Q3: Exchange rates are likely having a positive impact, but your overseas order volume is still decreasing year-on-year even when excluding the impact of last year's order volume (2 billion yen) at Brierley+Partners which was sold off. You explained about government-related clients in Australia decreasing, but are there any other factors?

A3: In addition to what you pointed out, orders are also not increasing at Core BTS in North America which I touched on earlier.

Sixth inquirer (analyst)

Q1: Around how much operating profit or loss do you expect overseas for the fiscal year? Last year it was 3-plus billion yen, but it seems likely that the first quarter was a loss, which was partially attributable to temporary factors. It also seems that the deficit will continue in the second quarter, primarily in North America, but what is your outlook in that regard?

A1: The first quarter has only just ended, and we are not yet at the point of retracting the target of increasing profit by 2 to 3 billion yen for the year which we announced at the start of the fiscal year. One-time expenses that we had not initially anticipated arose, and business progress has lagged. Thus, as you pointed out, it is becoming more difficult to achieve the targets we initially set even if we work hard to catch up.

Q2: Roughly how far short of expectations at the start of the year was your overseas operating profit and loss this first quarter?

A2: In addition to the temporary expenses, we were short by around one billion yen.

Q3: Can you expect sales and profits from ChatGPT (generative AI) in the second half? It may involve some commitments in terms of securing personnel and paying licensing fees, but does it seem like a business that can drive earnings?

A3: We cannot create high added value simply through the use of generative AI alone. For the data to train generative AI, we need to compile our own proprietary databases that understand our clients' operations. Mechanisms that search for this data are called "retrievers," and we believe the expertise about how to create retrievers is linked to added value.

Q4: Is it likely to take some time before it generates earnings? Could it contribute to profit next year?

A4: I cannot give any specific numbers at this point in time. This is something we would like to find the right time to report as we determine where the high-added-value fields are.

Q5: What is the progress of your treasury share buybacks for the employee stock incentive plan?

A5: We completed them on schedule.

Q6: This question is about your pipeline and approach for M&A in North America. Will you be conducting your M&A after getting the Core BTS organization turned around?

A6: We are not considering any large-scale M&A in North America at this time. There might be smaller-scale M&A when needing to add complementary functions, but even if so, that would likely happen sometime from the end of this year into next year.