

(January 31, 2024, Tokyo)

Nomura Research Institute, Ltd.

The Third Quarter of FY March 2024 Financial Results

Briefings Q&A Session

First inquirer (analyst)

Q1: Overseas profit and loss improved significantly to 600 million yen in the third quarter (p. 35). Can we assume that overseas business is stable?

A1: As a result of the sale of subsidiaries in regions other than North America and Australia, where the company is strategically aiming for expansion, an operating profit of ¥600 million was generated, but the actual situation still indicates a decrease (compared to the previous quarter).

Q2: How much of that is profit from the sale of overseas subsidiaries?

A2: Just over 1.0 billion yen.

Q3: There was talk earlier about being able to utilize AI in the testing process from April onward, but is it still too early to expect a cost reduction effect? Can further improvement of profitability through the use of AI be expected?

A3: We are currently working on about 130 themes, including those for utilization in our own production. We believe that the results will lead to improved productivity, but we cannot provide specific figures yet.

Q4: Is it certain that introduction into the testing process is at a practical level?

A4: Starting with the testing process is definitely the right approach. We want to apply it solidly where applicable and contribute to improving productivity.

Q5: Does this mean using it at a commercial level for orders received from clients, not just at the PoC level?

A5: First, we will use it for aspects that contribute to improving our own productivity.

Second inquirer (analyst)

Q1: In comparison to market expectations, domestic business in the third quarter does not seem to be as strong as in the first and second quarters. Is it deliberate restriction of

production activities while using funds for the next fiscal year due to the accumulation of order backlogs? Has there been a slowdown in business?

A1: There has been no slowdown in orders. In the financial IT solutions segment, there was a decrease of 640 million yen due to the decline of large projects in the third quarter of the previous fiscal year. Despite the impact of the decline in large projects, we have judged that it has been limited to this range of decrease. Additionally, in the industrial IT solutions segment, there was a decrease of approximately 700 million yen due to the shift in timing of about 2.0 billion yen of maintenance contracts received in the third quarter of the previous fiscal year for the global manufacturing industry to the second quarter of this fiscal year. The order environment is not bad, and performance continues to be strong.

Q2: It seems that the momentum growth of profit is slowing down. Is this because funds are being used in anticipation of the next fiscal year?

A2: We do not believe that there has been a slowdown. We expect the fourth quarter to exceed the cumulative amount in the annual forecast for the period up to the third quarter. The reason we did not revise upward is that an order backlog for the next fiscal year and onward is accumulating, which also means that preparations will be made this fiscal year.

Q3: It is often the case that temporary expenses are recorded in the fourth quarter of each year. Is that also included in the assessment?

A3: This fiscal year, we revaluated a number of assets in the second quarter, but we do not anticipate significant processing in the fourth quarter, so we believe that operating profit for the fourth quarter will exceed expectations. On the other hand, we will implement preparatory measures as well, keeping an eye on the balance.

Q4: If efficiency in the production process is achieved through generative AI, what are your thoughts on subsequent steps? With reduction of outsourcing costs alone, it will be limited to an increase in profit margin. However, if in addition to that talented human resources at the subcontractor are redirected to the side making proposals, it is likely to create a positive cycle of improving supply capabilities and increasing revenue. Is it still too early to consider this?

A4: The thinking is as you say. First, we will utilize AI in the testing process. Currently, testing processes are outsourced to partners domestically and internationally, but we plan to shift this responsibility to AI and focus on more upstream design processes. Additionally, we want to redirect more NRI employees toward proposal activities and work creation.

We are currently employing around 500 people and aim to balance business expansion with improvement of productivity while controlling this.

Third inquirer (analyst)

Q1: How much impact did the delay in enhancement project orders have in the global manufacturing industry of the industrial IT solutions segment? Could you tell us about the status of the pipeline in the fourth quarter and next fiscal year?

A1: There were maintenance contracts worth approximately 2.0 billion yen in the global manufacturing industry of the industrial IT solutions segment. Last fiscal year, they were ordered in the third quarter, but this fiscal year, they were ordered in the second quarter. The impact has been covered, with the decrease limited to 700 million yen. There is also a significant backlog of orders, and performance continues to be strong domestically.

Q2: What was the extent of incentive payments in North America as a special factor overseas? In addition, could you comment on the sales outlook, expectations for improvement, and goals for overseas next year?

A2: Expenses for retaining Core BTS employees amounted to several hundred million yen in the early stages, alongside structural reforms. We are also restructuring our operations, including renovating our sales structure and reducing staff by 70 to 80 people, aiming to turn the company profitable. We are also working on collaboration with NRI-ITSA for business expansion. Interest rates remain high, and the demand environment of clients is severe. Our goal is first to reduce costs while generating profits. While we cannot clearly state the sales target for next year yet, although the profit level is currently in the red, we aim to break even next fiscal year.

Q3: Although Core BTS will benefit from the reduction in intangible asset depreciation, is the idea to break even, taking that into account?

A3: Intangible asset depreciation will be halved from the fourth quarter onward. We aim to break even by including improvements in the demand environment, decreases in restructuring expenses of a few hundred million yen, and reduction of intangible asset depreciation expenses by several hundred million yen per quarter.

Q4: Australia has been experiencing decreases in both yen and local currency terms. How do you perceive the current situation?

A4: Due to the change in administration in 2022 and the situation with interest rates, there

has been a decrease in work from the government and financial institutions, leading to structural reforms in Australia as well. Currently, managed services are showing gradual improvement, and the profit margin for the third quarter has improved to the level of the previous fiscal year. We expect further improvement in the fourth quarter, and aim to achieve a profit margin of 5% to 10% next fiscal year.

Fourth inquirer (analyst)

Q1: We have high expectations for domestic business growth. What are the prospects and plans for the fiscal year ending March 2025? For FY March 2024, we focused on expanding existing client bases, and in the second quarter financial results presentation, we explained that sustainable growth could be achieved through the expansion of existing clients domestically. For FY March 2025, even if overseas business does not recover, can we expect performance that achieves the goals of the Medium-Term Management Plan through growth in domestic business?

A1: The domestic business environment is favorable. In the industrial IT solutions segment, we continue to focus on expanding our client base. Additionally, in preparation for the limits of client expansion, we are diligently strengthening relations with clients who are potential candidates for expansion in each segment.

Q2: Will FY March 2025 also see momentum similar to FY March 2024 due to the expansion of existing clients? Will the telecommunications clients who have already expanded further increase in size, or will other existing clients (who have not yet expanded significantly) undergo expansion? If there are any insights available at this time, we would like to hear them.

A2: We aim for 10 billion yen in sales revenue per major client. While we have not reached the ¥10 billion mark yet, there are several potential clients. Anticipating the possibility of spreading orders to other companies considering the balance of order recipients for clients reaching 10 billion yen in revenue (for NRI), we will solidly prepare for the next major clients. This direction remains unchanged.

Q3: The outlook for FY March 2025 is scheduled to be announced at the beginning of the period, but is there any change in the direction toward restraining M&A and investments and allocating cash to shareholder returns at this point?

A3: Cash will be distributed evenly, but there is no change in the policy of not conducting large-scale M&A in the current Medium-Term Management Plan. In North America,

although the business scale is still small, we will rebuild Core BTS solidly. In Australia, since we have established a business base, we will expand the business in line with economic recovery.

Q4: At this point, I assume that you cannot comment on the scale, but can we expect the use of cash for shareholder returns in FY March 2025 as well?

A4: I cannot comment on whether share buybacks will be conducted in FY March 2025, but we conducted share buybacks and increased dividends, totaling 50 billion yen, in FY March 2024.

Fifth inquirer (analyst)

Q1: Regarding the order backlog for the third quarter on presentation materials p. 41, overseas orders decreased by 17.9% even with the tailwind of exchange rates. Can you talk about the situation and outlook for the order reception environment in North America and Australia?

A1: Both North America and Australia have unfavorable order reception environments. Core BTS has a challenging outlook for revenue. The decline in the global manufacturing and distribution sectors, which are the two major clients of Core BTS, has had a significant impact. In Australia, there has been no decline in orders from major clients, but stagnation in government and private sector projects has persisted.

Q2: Core BTS's profit and loss is projected to improve gradually, but the recovery of investments from specific clients is the key for order reception. Do you anticipate recovery of order reception?

A2: In Australia, managed services are gradually recovering, but Core BTS has not seen significant growth in orders, and it is focusing on rebuilding through cost control, etc., measures.

Q3: While operating profit improved in the third quarter by approximately 500 million yen compared to the previous fiscal year overseas overall, if profit from subsidiary sales is taken into consideration, it calculates to a decrease of approximately 500 million yen. Could you tell us about changes in North America and Australia compared to the previous fiscal year, in quantitative terms?

A3: In the financial IT solutions segment, excluding profit from the sale of overseas subsidiaries, profit and loss are similar to the previous fiscal year. In the industrial IT

solutions segment, although Core BTS experienced a decrease in profit and loss by several hundred million yen (high single-digit), there was a partial increase in profit in Australia, resulting in a decrease of approximately 400 million yen compared to the previous fiscal year.

Q4: Please tell us about the regions and business sectors of the overseas subsidiaries that were sold.

A4: Due to our relationship with the buyers, we cannot provide detailed information. The companies sold were acquired before full-scale expansion in North America and Australia and are not in these regions. While we cannot disclose the business sectors of the sold companies, they do not significantly impact our global growth strategy. The impact on revenue is also minor.

Q5: Are there any remaining potential candidates for sale among the overseas subsidiaries that are not major contributors to revenue? Is this sale something irregular?

A5: This sale was not based on regional considerations. It was a result of special circumstances, and there are no other candidates for sale at this time.