

(Tokyo-25<sup>th</sup> July, 2024)

**Nomura Research Institute, Ltd.**  
**The First Quarter of FY March 2025 Financial Results**  
**Briefings Q&A Session**

Speakers: · Hidenori Anzai  
Senior Executive Managing Director  
Member of the Board, Representative Director  
· Masaaki Yamazaki  
Senior Corporate Managing Director

**First inquirer (Analyst)**

Q1: Please provide an explanation of the transitory profit (that arose in the first quarter).

A1: Combining gain on the revision of the subsidiary's retirement benefit plan with gain on valuation from office subleases, it was around 1 billion yen. Both of these were recorded as domestic business profit.

Q2: At the beginning of the fiscal year, you explained that you expect a recovery in North America during the second half, but now the North American economy seems to be slowing down, and consulting also seems to be slowing down in other companies' results. Is there any change to your forecast?

A2: Looking at another company's financial results, you can see they may have moved into slightly positive growth but did not improve significantly. The cost reduction measures that Core BTS worked on through last year are producing effects, and profit is gradually improving after bottoming out in the third quarter of FY March 2024. Subsequently, we expect their sales to recover in the second half.

Q3: It seems that revenue linked with transactions in financial IT contributes significantly to profit when markets are in active phases. If possible, could you break down those numbers? Will they follow along with movements in the markets?

A3: Usage fees for financial platform services are comprised of basic charges, charges linked to number of accounts, and charges based on transaction volume and asset balance. It would be difficult to break those numbers down to explain them separately.

## **Second inquirer (Analyst)**

Q1: You explained that orders in industrial IT are in a transitional period and you are focusing on new large orders. Do you expect these to be recorded as received orders and sales from the second quarter (of FY March 2025) onward?

A1: In addition to orders for new projects received from existing clients, we are also proposing IT solutions to clients with whom we do business in consulting as explained in the financial results briefing for the end of FY March 2024. We already have multiple such projects. However, since these projects are in the initial launch stages, they are not contributing significantly to performance. We expect performance contributions from these starting in the second quarter of FY March 2025.

Q2: What are the characteristics of your new clients? What industries are they in?

A2: One example is global manufacturing. We have projects getting started with such clients.

Q3: Your first quarter profit margin in industrial IT (domestic) is declining between FY March 2024 and FY March 2025, but how are you looking at that? Is it because profitability is declining due to new client acquisitions, or is it within the scope of quarterly fluctuations?

A3: There are some situations where profitability is declining in the process of new client acquisitions, but the decline is also attributable to the 15.3% operating margin we had in the first quarter of FY March 2024, which was a high level. To put that in perspective, in the first quarter of FY March 2023 it was 12.0%. Fluctuations on profit margin are larger in industrial IT than in financial IT where we have business platforms, thus we do not consider the profit margin in the first quarter of FY March 2025 to be a low level.

Q4: Thus, can we say that profit margin in industrial IT set a high bar in the first quarter of FY March 2024, and that it will not continue to decline?

A4: We are constantly working on productivity improvements with the aim of improving profit margin.

Q5: Regarding overseas performance, my understanding is that revenues and profit declined in practical terms when considering exchange rate impact and the reversion from earn-out expenses in FY March 2024 (970 million yen). How was your performance by region?

A5: Although profit is gradually improving at Core BTS in the US since bottoming out in the third quarter of FY March 2024, they are still producing a loss in the low hundreds of

millions of yen. In Australia, we broke even since there were less projects with government agencies than we expected, despite June being the end of their fiscal year.

Q6: It seems that your profit in Australia is worsening year-on-year. Is that a trend with continuity?

A6: Whether it has continuity is currently unclear. Our profit in Australia had been improving since bottoming out in the first quarter of FY March 2024, so we intend to pay close attention to this situation going forward.

Q7: Looking at other companies' financial results, my belief is that the IT services market in the US has bottomed out across the board. Many of Core BTS's clients are midsize companies, so their situation might differ from large IT services companies, but is their recovery from the second half of FY March 2025 onward becoming any more certain?

A7: Sales at Core BTS have slightly increased compared to the fourth quarter of FY March 2024. However, since many of their clients are midsize companies, we anticipate their performance recovery to lag behind large IT services companies. We have expressed that we expect recovery to occur in the second half.

### **Third inquirer (Analyst)**

Q1: Orders in domestic consulting seem to have increased by 13% even excluding those that missed the cutoff for the fourth quarter of FY March 2024 (approximately 4 billion yen). Your numbers in the first quarter of FY March 2024 were strong due to projects spanning multiple years. Are there also projects in FY March 2025 that span multiple years? What is your sentiment about that?

A1: In domestic consulting, our business with both the public and private sectors is strong. In the public sector, we are working on topics such as green transformation (GX) and reskilling. In the private sector we have ESG-related topics as well as DX, and improving customer experience (CX). We have projects with long durations in the public sector, and projects that missed the cutoff for last fiscal year are also multiple-year contracts. Many of our projects in the private sector are three to six months in duration.

Q2: You explained making 10 billion yen in generative AI-related investments in FY March 2025. What progress did you make on those investments in the first quarter?

A2: It may not be precisely 2.5 billion yen in the quarter, but investments are proceeding as planned.

Q3: Is your profit margin based on the assumption of steady investments?

A3: That is correct. Our investments in generative AI are proceeding in areas such as self operated business, improving development productivity, and purchasing equipment including GPUs.

#### **Fourth inquirer (Analyst)**

Q1: You explained having acquired new clients for Baas/CORE, but how much is that contributing? Have sales from the two companies with orders until now peaked out, and will they be declining?

A1: Sales do decline after development has peaked out, but that is then replaced by operations revenue. This was the case of an order from one new client company received when sales from two existing ones were at the point of declining.

Q2: Your presentation had a cheerful tone. It gave the impression that you'll have an upward revision. What has gone well overall?

A2: Order volume declined year-on-year in industrial IT but is generally progressing as we anticipated, despite being in a preparation stage. Business in financial IT also remains stable. In consulting, we have many projects that are leading to business in IT solutions. We believe that trend will also continue going forward.

Q3: Is your overseas performance worsening?

A3: Currently it is breaking even. We implemented (FY March 2024) measures to address costs. The sales organization has also been strengthened to be ready for higher sales accompanying an economic recovery. This was already explained before, but NRI-A's consulting and NRI-ITSA's IT solutions are working on a new initiative collaborating with Core BTS.

#### **Fifth inquirer (Analyst)**

Q1: Roughly how positive were your operating profit results in the first quarter compared to your internal plan?

A1: The 1 billion yen profit that arose in the first quarter was a temporary profit. Excluding transitory profits, our profit margin from our own practical efforts was 16.8%. Our plan for the first half is 16.8%, so we did not substantially exceed that.

Q2: Was the transitory profit not included in your plan at the outset of the year?

A2: It was not.

Q3: Are you forecasting a decrease in profit for the second quarter because of how you structured your forecast (subtracting the first quarter results from the first half profit forecast at the outset of the year)?

A3: There was discussion about an upward revision again this time, but we decided to wait to observe the situation at the end of the first half and decide then.

Q4: Do you expect to record sales and receive earnings contributions heading into the second half as results of your investments in generative AI? And if your acquisitions of large projects are targeting new clients, could that negatively affect profitability?

A4: Our investments in generative AI are proceeding steadily, but we will not see the effects right away. We are working on automating test processes called Step 1 and Step 2 and also development processes, but the processes to which this can be applied are limited when looking at projects as a whole. Thus, the effects that can be produced for overall projects are not very large. What will be truly significant will be the application of AI to the overall development process called Step 3. We are planning to conduct a trial this year. With the knowledge we gain from that, we believe that we can apply it full-scale in business platform overhauls next year. As for the effects of investments, we will not see the effects right away, but we will reap the benefits in the future.

When acquiring new clients, we do not record large profits right away. Profits build as relationships with the clients get stronger. Even if profitability dips slightly when we get started, it will increase soundly as time goes on. That is our approach.

### **Sixth inquirer (Analyst)**

Q1: Did you have unprofitable projects in the first quarter?

A1: There was nothing major. Projects are progressing well.

Q2: Are there any risks or concerns of impacts from exchange rates, price increases, or other variables in the second quarter and onward?

A2: When the yen is weak, we have the problem of rising costs of procurement from overseas, including from our business partners in China. In North America, it is also difficult to predict what the impact of the presidential election will be.

Q3: Do you have public sector and healthcare clients in North America?

A3: We have few in the public sector. Since Core BTS was originally in the network business, they have a broad-ranging portfolio of clients which is not weighted much toward any particular industry type. In the cloud business, their big clients are in retail and global manufacturing. Going forward, we expect investment to recover when interest rates fall.

### **Seventh inquirer (Analyst)**

Q1: What is driving your strong performance in IT platform services? I imagine that NRI SecureTechnologies is doing well, but what kind of demand is there? Recently, damage from ransomware has been highly visible, but is there rising demand for security such as Zero Trust?

A1: In IT platform services, business has been strong in information security. Clients are becoming more conscious of it, and NRI SecureTechnologies is indeed fielding large numbers of inquiries. Demand for digital workplace is also strong. These two are driving performance.

### **Eighth inquirer (Institutional investor)**

Q1: Looking at your sales by service, system management solutions rose 3.7% year-on-year which is not much growth compared to past levels. Among the factors impacting increased profit in financial IT solutions, could you explain the contributions from increases in operating fees for shared online services and from higher sales in system development and system application? And could you also explain whether there were sales of any high-profitability products?

A1: This might not be very clear since we only disclose sales by service and not profit, but the contribution from increases in operating fees is significant in terms of profit yet has a small impact in terms of sales. For that reason, growth in system management solutions appears small among sales by service.

In product sales, we had nothing in particular with high profitability.

Q2: Is the slow business in the public sector in Australia limited only to the first quarter, or does it also include July and onward?

A2: At the end of Australia's fiscal year (April-June quarter) we anticipated growth in public sector business, but demand for public sector consulting declined, so growth fell short of our expectations. We will keep a close eye on the situation from July onward as the

new fiscal year in Australia gets under way.

**Ninth inquirer (Analyst)**

Q1: You did not expect profit margin in industrial IT to increase at the start of the year, but is there any room for it to increase from the second quarter onward? In your efforts to increase projects with existing clients while also acquiring new clients, do you have the outlook that profitability will be higher than anticipated in projects with new clients, or are you getting a stronger response than at the outset of the year from the effects of productivity improvements in projects with existing clients?

A1: In the first quarter, profitability declined as the proportion of projects with new clients increased. We will continue making efforts to improve productivity and gain deeper penetration with existing clients.

Q2: The profit margin has been rising and the favorable environment has continued in domestic industrial IT over the past few years. It seems like the best combination for sustainable growth is to skillfully manage your proportions of highly profitable projects, normal projects, and new challenge projects. However, I get the impression that profit margin has been rising because there have not been many “new challenge” projects over these last few years. Can we interpret that the reason you are not planning to raise your profit margin in domestic industrial IT this year is because you will be taking on more “new challenge” projects?

A2: We are always thinking about improving our profit margins, but dips in profit margin arise due to quarterly fluctuations. Large projects are also not highly profitable from the outset. In the past we have experienced getting through low profitability stages early on, then earning solidly afterward, and we believe that happen in the future as well. The fruits of our efforts to scale-up clients do not generally appear in three-month increments. Looking at the longer-term trend, our profit margin in industrial IT had been low, but is now at the point of rivaling financial IT. We see that as the culmination of our dedicated efforts over the years.