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

Speakers: ・ Kaga Yanagisawa
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Member of the Board, Representative Director
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First inquirer (Analyst)

Q1: You explained that your overseas recovery expected in the second half will be delayed, but for about how long? And what will compensate for it?

A1: Business is strong in financial IT and IT platforms services segment domestically, and I believe those can sufficiently compensate for the downturn overseas.
Breaking down the overseas revenue shortfall of around 10 billion yen into halves, around 3 billion yen is in the first half and roughly 7 billion yen in the second half.

Q2: You mentioned financial and platforms, but are you referring to the financial IT segment and IT platform services segment separately? Or are you talking about platform solutions for financial institutions?

A2: Business with financial institutions is strong overall, and (separately from that) business is also strong in IT platform services segment.

Q3: Is it that you now have a clearer picture of this year's orders in financial IT segment and they appear highly likely to compensate for overseas?

A3: Overall it appears safe to say that.

Q4: You seem to be moving faster than other companies at applying AI in development projects. You provided some examples, but how much do you expect these to contribute to business results? Can we expect profits from the hundreds of millions to single-digit billions of yen next fiscal year?

A4: I understand your question to be about increased profit effects accompanying higher revenues from system integration and similar projects with clients. Activity levels are currently high in AI consulting projects and PoCs. We explained that around 100 projects have accumulated just in the second half of FY March 2024 alone, and we are progressing at a pace that will exceed even that in the first half of FY March 2025. Clients have not reached the point of making large-scale investments in AI. Rather, they are considering where and how AI can be used in order to be effective. Additionally, we are now getting a number of data maintenance projects as prerequisites for AI usage. Even among the projects we are currently working on, we are finding potential for some of them to develop into AI usage. It might be hard to express numerically, but that is the current situation.

Q5: Are data maintenance projects contributing to the strength in your IT platforms business? Or are projects strong in information security and cloud?

A5: Projects in information security and cloud are the main contributors to solid business results in IT platform services. Data maintenance is in projects in (led by our) industrial IT and financial IT segment. There are also projects where they work together with IT platforms services segment (personnel), but no projects that IT platforms handle on their own (AI projects for clients).

Q6: In your application of AI to systems development internally, roughly how much cost reduction effect is there? How is it working out schedule-wise and monetarily?

A6: It would still be too early to express this monetarily, but we will have a clearer view of the timeline (for production innovation Step 3) in December of this year or January of next year, and we are planning on gradually working it into actual systems development starting next fiscal year.

Q7: Is your idea to reduce development personnel by 20% through AI usage over the next three to five years, as opposed to 20% next fiscal year?

A7: The progress will be gradual. It will not produce effects all at once. In our production innovation using AI, since the year before last we have also been implementing various improvement and efficiency-raising initiatives in parallel that are not limited to AI, such as standardizing platforms, and the effects are starting to show. The effects of AI usage will be additional to effects from existing initiatives.

Second inquirer (Analyst)

Q1: Is it correct that in the initial plan for the fiscal year you had not anticipated the impairment loss recorded for data center equipment? Did you impair all the equipment currently in use that will be migrated to OCI (Oracle Cloud Infrastructure)? Is there anything remaining to be impaired from next fiscal year onward?

A1: We had not anticipated the impairment in the initial plan for the fiscal year. Since the migration to OCI progressed faster than anticipated in the initial plan, we decided to account for that by recording an impairment loss. We impaired all the equipment involved in migrating to OCI. There is no equipment remaining to be impaired from next fiscal year onward. However, since some clients are still using the current equipment, expenses will continue to arise from that going forward.

Q2: When will the double costs of current equipment and OCI end?

A2: We expect it to take around two years.

Q3: Orders and profit margin were tight in industrial IT segment in both the first and second quarters of FY March 2025. Is this the continuation of the same trend that you explained in the first quarter as a transitional period? Do you expect this to improve in the second half, or will the trend in the first half continue?

A3: Since there is a reversion from the special demand that arose related to the introduction of Japan's invoice system in the first and second quarters of FY March 2024, that downward reversion was also reflected in the second quarter of FY March 2025. Although new large projects (upstream processes) have begun, these take a few months (to reach the development phase). We would like to boost results in the second half in conjunction, while orders received for new projects also accumulate.

Q4: Is my understanding correct that the trend in the first quarter continued in the second, and that nothing got worse and the situation did not change?

A4: That is correct.

Q5: In industrial IT segment, general trends in orders seem quite different from the situation at NRI. Will investments by main clients remain in a transitional period for the remainder of the year? Or do you see a recovery happening in the second half?

A5: Some of our existing clients in industrial IT will remain reluctant to invest for a while. At the same time, we have been working on acquiring new clients since FY March 2024, and we also have some unofficial offers for large projects. We believe that will compensate for existing clients' reluctance to invest.

Q6: Overseas, your second-quarter profit and loss has improved significantly year on year. What do the numbers and factors look like broken down by region, in North America, Australia, and other.

A6: Our overseas operating profit improved by around 1.2 billion yen year on year in the second quarter. Broken down by region, Core BTS in North America was in the high hundreds of millions of yen, and Australia and other were each in the low hundreds of millions of yen.

Q7: In Australia, profit seems to have improved both year on year and relative to the first quarter. What was behind that, and how likely is it to continue?

A7: The revenue situation remains rough compared to the first quarter. We have made continuous progress in cost efficiency since last year, and operating profit improved, albeit slightly.

Q8: So then, cost reductions have produced effects, but similarly to the first quarter the environment in terms of orders has not improved. Is that correct?

A8: That is correct.

Third inquirer (Analyst)

Q1: Around how much will costs decrease when the double-cost from the migration to OCI ends? My impression is that the effects of this impairment loss for data center equipment will appear next fiscal year, but how will OCI contribute to increased profit next fiscal year?

A1: Since infrastructure costs vary depending on how far along you are in using new OCI platforms, it would be hard to express the higher profit effects quantitatively. And although running costs will decline due to the impairment, the amount is relatively small.

Q2: Assuming you maintain the current level of sales, around how much cost reduction effect will there be?

A2: We are not making such estimates.

Q3: Domestic orders are strong in financial IT segment. Can we expect the same pace of growth next fiscal year as well? Or will you hold steady at this high level, or slightly increase? What is your feeling?

A3: Many financial institutions are in situations where they must proceed with legacy system modernization projects, and we believe that demand will remain strong. Also, a movement has begun among financial groups to meet various users' expectations through bank-trust-securities collaboration. We believe this will give rise to new IT demand. In addition, since industrial IT clients have also begun incorporating financial services such as banking and payments into their business models, we expect growth to remain robust next fiscal year and onward.

Q4: Personally, it seems like you have room for an upward revision. Is it that you could but didn't, or were you perhaps being cautious? What nuances are at play here?

A4: Since revenue is not growing as much as we normally anticipate in industrial IT and overseas, we believe that caution is necessary. We are achieving sufficient operating profit, and in some cases there is potential upside.

Fourth inquirer (Analyst)

Q1: You explained that an impairment of around 2 billion yen was recorded for data center equipment, but looking at your cash flow statement, you had around 2.7 billion yen in loss on sale or disposal of fixed assets. Could you then clarify the actual amount of the data center impairment?

A1: Aside from the aforementioned 2 billion yen, there are also regularly-occurring impairment losses recorded, which is where the difference is. The impairment for data center equipment was roughly 2 billion yen.

Q2: You mentioned a pipeline for new client acquisitions in industrial IT segment. In what industry types and other areas do you see potential?

A2: There are a few. Appetite for investment is particularly robust in global manufacturing, and we are receiving new projects there. We are also being consulted for new projects in real estate.

Q3: Can we assume it is a large-scale retailer who is holding back on investments?

A3: It is not one particular company. Multiple clients in distribution are holding back.

Q4: What is the background behind multiple major NRI clients holding back on investments?

A4: Our clients each have different circumstances. It would be hard to lump them together.

We could surmise that they are making decisions according to their companies' business results and investment capacities.

Fifth inquirer (Analyst)

Q1: You have made a downward revision of 10 billion yen to overseas revenue, but how will your full-year operating profit forecast change? And if the overseas recovery is behind schedule, could you share your outlook on next fiscal year's numbers and your approach to achieving them?

A1: We believe that operating profit overseas in the second half will remain at roughly the same level as the first half. Specifically, since profit in the first half was 1.4 billion yen, we believe that profit for the year will be just under 3 billion yen. On the other hand, at the start of the fiscal year we made a comment suggesting that overseas operating profit would be around 5 billion yen for the year. Looking at it now, we anticipate to fall short of that by a little more than 2 billion yen. We will thoroughly maintain our consolidated targets for revenue and operating profit in the final year of the medium-term management plan next year, but although we are not giving up on our target of 150 billion yen in overseas revenue, it might be somewhat difficult to achieve. We will fully compensate for that shortfall with domestic sales.

Q2: This question is about your current approach to capital allocation. Your results forecast is unchanged at this time, so can we assume the chances of an additional treasury share buyback are low?

A2: We have not changed our existing policy on capital allocation. We intend to move forward while maintaining a thorough emphasis on returns to shareholders. Since there are a number of uncertain elements pertaining to our results forecast, we want to look at the results in the third quarter and then make changes if necessary. If there is anything we can share at that time (also pertaining to returns to shareholders), we will do so.