

(July 29, 2020, Tokyo)

Nomura Research Institute, Ltd.

The First Quarter of FY March 2021 Financial Results

Briefings Q&A Session

First inquirer (analyst, telephone attendee)

Q1: Your order volume in consulting was negative in 1Q. Roughly when do you expect this to turn around?

A1: In consulting, sales activities have been highly restricted due to the novel coronavirus, so it has been a challenge to line up more orders, particularly in the private sector. Rather than the private sector, we have actually been making progress with orders and production activities in the public sector, mainly with long-term projects. However, corporate business activities have been returning to normal since June. Since sales activities have mostly restarted, we now expect orders from the private sector to begin increasing. NRI's main business style is to link private sector consulting projects with IT solutions, and we expect these efforts to gain steam. Going forward, we will keep very close watch on whether we are able to line up orders in consulting.

Q2: Order volume at overseas subsidiaries is significantly decreasing. What is your overseas sales forecast for the year? Will you have to change your financial results forecast for the year?

A2: We originally set an overseas sales target of 50 billion yen for the year, but it feels like there are major struggles ahead. If the overseas business climate recovers more slowly than we anticipated at the beginning of the fiscal year, it may cause us to change our financial results forecast for the year. However, we expect to be able to compensate for it with growth in Japan. In light of that, we are keeping our year forecast unchanged for now.

Second inquirer (analyst, telephone attendee)

Q1: Sales in consulting decreased in 1Q. How would you evaluate these

circumstances?

A1: In Q1 we did not make any progress lining up orders in consulting from the private sector. Long-duration projects from the public sector comprise a relatively large portion of our orders, and sales were also slow during 1Q. Sales activities have been gaining momentum since the beginning of June, so we would like to bring in more new orders from the private sector and find ways to boost sales going forward.

Q2: Sales have fallen but profit has risen in consulting. What caused the rise in profit?

A2: We did not implement any special cost cutting measures during 1Q, but we were able to control costs appropriately as sales fell. We will continue to control costs appropriately in line with sales in 2Q.

Q3: In industrial IT, the domestic portion of order volume is larger than the total of domestic order volume combined with overseas. Can we assume this was because overseas order volume is negative?

A3: That is correct. One big reason that orders turned negative overseas is that clients in North America suffered major downturns in business performance due to the coronavirus lockdowns, and they requested price reductions for projects that were already ordered. These are reflected in the negative numbers for orders.

Third inquirer (analyst, telephone attendee)

Q1: If lockdowns cause orders overseas to decrease again in 2Q we could likely expect sales to decrease even more, but what is your opinion? Your 2Q guidance calls for a slight increase in profit, but what do you expect overseas?

A1: In Australia, managed services have held strong, but consulting services have been severely impacted. We are implementing cost controls in response, and if these can produce results we will likely break even in terms of income and expenditures before goodwill amortization. We will take measures to curb costs throughout 2Q and expect earnings to recover starting in 3Q.

Q2: IT services typically tend to produce a delayed effect in terms of performance, but is the current state of decreasing orders in Australia foreshadowing an even

harsher second half?

A2: In Australia, the continuity from consulting to managed services is not particularly strong. Consulting will recover as consulting alone, without functioning as a sales connection for managed services. We do not expect to see the link to delayed effects which we see in Japan.

Q3: Are managed services recorded directly as sales without being recorded as orders?

A3: Our total sales for the year in managed services which we expected at the beginning of the year is included in order backlog as of the end of March.

Q4: Could you provide a simple breakdown of business in consulting? (public sector, management consulting, DX consulting, overseas, IT consulting, etc.)

A4: Projects in the public sector are decided by bidding and do not lead to business in solutions. Currently, inquiries are strong for DX-related projects. In these cases our consultations are with senior managers who want to address problems and go digital with their business, which generally involves a combination of management consulting and DX consulting. This is an area that is growing and in time it will lead to business in solutions. We expect this to grow as one big mass. Business development was difficult when sales activities were restricted but now people who want to address problems are contacting us. We cannot realistically send teams from Japan to provide support overseas as we had been doing before, so we are taking a wait-and-see approach at the moment. IT consulting as the upstream process for solutions is also serving a sales function, which is leading directly to business in solutions.

Q5: Would it be correct to say there is no decrease in consulting which leads to solutions (DX and IT consulting) in Japan?

A5: I believe there is little decrease if any.

Q6: What is the impact (financial amount) of the unprofitable project in financial IT, and the impact of expanded consolidation?

A6: In terms of unprofitable projects, we had a large-scale unprofitable project at NRI that exceeded a loss of one billion yen, so we are reporting it. NSTec has had a consolidated effect of around 3 billion yen in sales and around 2 billion yen in order volume over three months.

Q7: What kind of project was the unprofitable project at your financial IT subsidiary, and what impact will it have from 2Q onward? Also, what is the scale of the project?

A7: Overly optimistic project planning led to unprofitability. We provided another estimate that is more appropriate and took the necessary corrective measures. I do not believe there will be any additional impact in 2Q. The loss exceeded 1 billion yen, so as you can imagine it is a large project.

Fourth inquirer (analyst, telephone attendee)

Q1: Domestic orders in industrial IT are growing steadily, but do you believe they will maintain this positive trajectory and not turn negative going forward?

A1: If we can thoroughly meet the needs of our clients who are actively investing in IT, I do not believe that these orders will decrease.

Q2: You are still pursuing a regional strategy in Australia, but has the lockdown caused your valuation to decrease and left you vulnerable to acquisition there?

A2: Our valuation is vulnerable to acquisition. Unfortunately, due to the lockdown it is difficult to make progress with projects.

Fifth inquirer (analyst, telephone attendee)

Q1: Have you restarted sales activities and been receiving new inquiries? Or are you seeing any acceleration in projects that were stopped and have restarted? Also, what is your expectation for domestic IT investment?

A1: According to survey results it appears that currently hardly any companies are bearish on IT investment. I imagine that domestic IT investment will either stay at its current level or increase.

Q2: In IT Platform Services, inquiries for digital workplace have been brisk, but are these inquiries robust enough that the rate of growth could accelerate in the future?

A2: The larger projects in digital workplace are the various IT projects that arise along with office relocations, but office relocations themselves have been slowing down. I do not believe there will be significant growth in this area

going forward.

Sixth inquirer (analyst, telephone attendee)

Q1: Does the consolidation of NSTec have a negative effect on gross profit rate?

A1: Yes, it does have a negative effect, but the amount is not large enough to significantly impact our overall gross profit rate.

Q2: Did the operating capacity utilization of your domestic partners decrease during 1Q? Do you expect the telecommuting environments put in place during 1Q to improve their operating capacity utilization going into 2Q?

A2: We do not consider operating capacity utilization of our domestic partners to have decreased as there has been no significant impact to production activities during 1Q. Now that they have telecommuting environments in place, our domestic partners have better work environments than ever before and we believe they will be able to maintain the appropriate operating capacity utilization.

Q3: Was the sales growth in manufacturing & services during 1Q attributable to business such as large short-term projects? Why is your manufacturing & services sales forecast for the second half lower than the previous year?

A3: In the immediate term, clients with active IT investment demand want to transform their business models, so we have an increasing number of projects to handle their needs. This is definitely not the result of short-term demand. Currently our calculation for industrial IT in the second half simply subtracts first half numbers from our forecast for the year. Considering how strong our inquiries in industrial IT currently are, we expect to exceed our forecast for the second half.

Seventh inquirer (analyst, telephone attendee)

Q1: Were there any factors other than the consolidation of NSTec that caused the increase in order volume in financial IT during 1Q?

A1: Aside from the effect of consolidating NSTec, orders for banking and insurance were relatively strong.

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