First inquirer (analyst, telephone attendee)

Q1: What effect does the difference between Japanese Accounting Standards and IFRS as shown on page 27 of your presentation materials have on your forecasted figures for this fiscal year? Can we assume that constant factors will account for roughly the same amount as last year?
A1: The increase of 1.1 billion yen in constant factors last year will be roughly the same amount again this year. The decrease of 6.8 billion yen from temporary factors is nothing more than a financial result from last year and is not directly linked to performance this year. However, this year’s forecast does include a certain level of temporary factors including sales of assets.

Q2: Which constant factors have a negative effect on operating profit?
A2: As shown on page 27 of the presentation materials, retirement benefits costs have a negative effect on operating profit in the switch from Japanese standards to IFRS. We expect to record roughly the same amount this year as last year.

Q3: In your results forecasts by segment, what is the background behind the increased sales you are forecasting in securities?
A3: While we expect a slowdown in THE STAR implementation projects for major securities brokerages which will result in less sales this year, we have also factored in the consolidation effect of AUSIEX as an increase. Our overall forecast is the result after balancing out these factors.

Q4: Have you factored increases attributable to overseas M&A into your orders by segment and sales forecast for the year? And if you have, how much did these
increases account for?
A4: As of the end of March 2021, neither AUSIEX nor Planit had been made into a subsidiary, so these companies are not reflected in order backlog or order volume. However, the consolidation of these two companies is factored into our sales forecast for the year. The upward effect on sales will be roughly 10 billion yen in the industrial IT segment and roughly 4 billion yen in the financial IT segment.

Q5: Can we assume that the increased operating profit margin in your forecast is mainly due to higher margin in your domestic business? Is overseas M&A having hardly any effect on operating profit margin?
A5: The two companies that will become subsidiaries this fiscal year will not have much impact either positively or negatively on profit this year. The main reason we are forecasting a higher operating profit margin this year is increased profitability from the effects of increased revenues in our domestic business, particularly the industrial IT segment.

Second inquirer (analyst, telephone attendee)

Q1: You have forecasted sales in consulting this fiscal year to increase 10% year-on-year, but with high growth in the first half and lower growth in the second half. Why is that?
A1: Significant order backlogs have already accumulated, so we can expect high sales growth in the first half. For the second half, of course we cannot be certain of the future, but since we achieved quite high sales last year, we have set the baseline to about the same level as last year. There is also potential upside, such as a possible recovery in overseas consulting projects in Asia for example.

Q2: Is the hiring of consultants putting a strain on growth?
A2: Hiring of human resources is not putting any strain on growth.

Q3: In the industrial IT segment, even excluding the effects of M&A it looks like there is a difference between the increases in sales in distribution and in manufacturing, service and other. What is the reason?
A3: In distribution, our major clients are at the stage of restructuring their businesses due to COVID-19, and orders have abated. Among overseas
projects with large clients, these companies have been doing more of their IT in-house locally, which leaves us little expectation for growth. However, there are also other fields in logistics such as e-commerce where business is strong, so our sales forecast for logistics this year reflects a combination of these positive and negative factors.

In manufacturing and services, we have been doing well with projects overall, and in more cases our existing customers for smaller-sized transactions have been turning into major clients. We expect high growth in this sector not only this year but for a while into the future.

Q4: Why did sales increase but operating profit decrease in the industrial IT segment in the fourth quarter? Will that have any effect on profit this year?
A4: Although there were no major unprofitable projects (projects resulting in operating loss of 1 billion yen or more), some projects were unprofitable. As a result, profit in the fourth quarter was less than the previous year. The risk of such projects has already been completely factored into the first half, and we do not anticipate it having any effect on profitability this year.

Q5: What was your profit or loss overseas last year, and what are you forecasting for this year?
A5: In Australia (not considering goodwill amortization) last year we generally broke even in the first half, then posted a significant recovery in the second half to an operating profit margin of over 5%. For the year overall, operating profit margin was 2-3%. This year, we are forecasting a significant year-on-year profit increase in the first half. Although growth will be more gradual in the second half, we forecast significant growth for the year overall.

Q6: This year, will your profit margin in Australia be around 4-5% for the year?
A6: Profit margin in the fourth quarter of last year was around 10%, so we expect a slightly higher profit margin than what you mentioned.

Third inquirer (analyst, telephone attendee)

Q1: Have you factored the sales increase in each segment from the sales figures of the two companies you acquired overseas into this year’s forecast evenly month by month, starting from the beginning of the consolidation?
A1: Yes, exactly.

Q2: What growth potential do you foresee in three to five years from the acquisitions of these two overseas companies?
A2: For AUSIEX we expect a high single digit percentage of annual organic growth along with the growth of the securities market in Australia. Additionally, we also want to implement NRI’s ASP CORE technology for finance in the back offices of securities brokerages. As for Planit, the company had restrictions on R&D investment since it had been owned by a fund, but we will beef up investment and aim for organic growth. Aside from these two companies, we are also reviewing other M&A in the security field.

Fourth inquirer (analyst, telephone attendee)

Q1: Why was there strong growth in consulting orders, and do you expect that to continue?
A1: Order backlog was already high at the end of March 2020, and although we ended up unable to engage in sales activities in April and May after that, sentiment was already strong. Last year, in addition to lots of DX-related orders in the private sector, we also had large public sector projects in consulting including social security “My Number” related business. We also expect more large public-sector projects in the future. The most promising topic going forward is carbon-neutral, for which we have already received a number of inquiries. We launched a project team to take on this serious problem in global manufacturing, and we have NRI consultants with a variety of specializations on the job. We expect business in carbon-neutral projects to be very active.

Q2: Your forecasted profit margin for this year is higher in the first half than in the second. Is there any special reason for that? Since your project with the major securities brokerage will enter the operations phase in the fourth quarter, shouldn’t profit margin in the second half be higher? What is your thinking behind profit margins in the first and second halves?
A2: There is a certain amount of gain from the sale of assets factored into our profit margin forecast for the first half, which makes it appear high. We are not currently disclosing the total amount of these gains. Our project with the major securities brokerage will indeed be contributing to profit margin in the second
half of this year as you mentioned.

Q3: You are anticipating large capital expenditures (intangible fixed assets), but what specifically for?
A3: As stated in a press release, we are moving forward with using Oracle Cloud Infrastructure (OCI) in shared online services for finance, and we plan to make investments there. This year we also want to invest in new platforms for financial institutions.

Fifth inquirer (analyst, telephone attendee)

Q1: What caused your unprofitable project in the industrial IT segment during the fourth quarter?
A1: It was an ambitious project using new technology, and in the actual development we ended up unable to achieve the productivity and performance we had anticipated. Costs were higher than initially expected, and although it did not run into the billions of yen, it did produce some loss. This was not a completely unexpected occurrence as we were aware there was some level of risk involved, but it was ultimately a very difficult challenge.

Q2: There could be even more technologically challenging projects going forward. Do you think it would be reasonable to expect a certain number of unprofitable projects to continue occurring?
A2: The question is to what degree, but yes, we must challenge ourselves at the things we should be doing even if the numbers do not add up. If the scale is too large, it could cause major problems with our overall earnings. However, if we keep avoiding such projects, our technical capabilities will stagnate, so I think we need to challenge ourselves to a certain degree while still achieving the profitability that we are targeting overall.

Q3: Since orders are strong in consulting, can we assume that DX sales ratio will continue trending upwards? And with DX sales ratio increasing, are resources turning into a bottleneck?
A3: Until now, we have been moving in the direction of focusing resources on clients who are DX first movers and increasing the scale of business from there. Additionally, the biggest change over the past year has been that increasing
numbers of clients want to take on DX, so our DX sales ratio will certainly keep increasing. We are not limited in terms of resources.

Q4: To what degree do you expect DX 3.0 to increase as a portion of sales ratio over the next 5 to 10 years?
A4: Currently we do not know how much business volume there will be in DX 3.0, but we would like to pursue platform-based business that consolidates our business or operational knowledge in one form or another. For example, we are in discussions about whether we can work together with a certain power company to jointly develop a mechanism that monitors power usage mix and CO2 emissions to optimize companies’ power usage, and to set it up as a system where we receive usage fees as revenue. Rather than simply handling individual projects separately, we will investigate where there might be business opportunities for platforms and in what kind of fields. This year we particularly want to work on carbon-neutral, with consulting playing a central role. We would like to put together several related projects and spin off the topics from these which could be made into mechanisms.

Sixth inquirer (analyst, telephone attendee)
Q1: Your forecast this year calls for profit effects from increased sales revenue domestically in industrial IT and improvements in profit margin, but could you explain this in more detail? And do you expect that DX first mover companies will continue contributing significantly to sales?
A1: Currently business with DX first mover clients is driving sales, and in some cases, we are also taking on everything from business consulting to system development, operation, and enhancement altogether. From the perspective of the client, this offers more benefit than contracting a vendor that only handles manufacturing or a firm that only offers consulting. When senior management on both sides trusts each other and the business relationship gets closer, work comes in at an accelerated pace which immediately contributes to sales growth. At the same time, we are also being frequently approached by clients who want to get serious about DX going forward, so in consulting we will first arrange projects that take a higher perspective on the whole. Then we want to make proposals for where NRI can deliver value.
Q2: Will the breaking down into components of IP and other assets that can be commonly used in system development also contribute to higher profit margin in industrial IT going forward?

A2: We are steadily investing in breaking down components for e-commerce and other digital IP. The results of these efforts are already evident in our improved profit margin in domestic industrial IT.

Seventh inquirer (analyst, telephone attendee)

Q1: What is your forecast for orders domestically and overseas this year?
A1: We are forecasting increased sales this year both domestically and overseas. I think we will record orders this year consistently with that forecast.

Q2: Could you possibly surpass the operating profit target of 100 billion yen in your medium-term plan? What is your outlook on that now, including the impact of the switch to IFRS?
A2: If we maintain our current pace, we believe that we will surpass 100 billion yen in operating profit. The switch to IFRS will not have much impact.

End