

# NRI Medium-Term Management Plan (2019-2022)

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Nomura Research Institute, Ltd.

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President & CEO, Member of the Board

April 25, 2019



**1**

**Reflecting on the last three years**

**2**

**Growth strategies**

**3**

**Sustainability management initiatives**

**4**

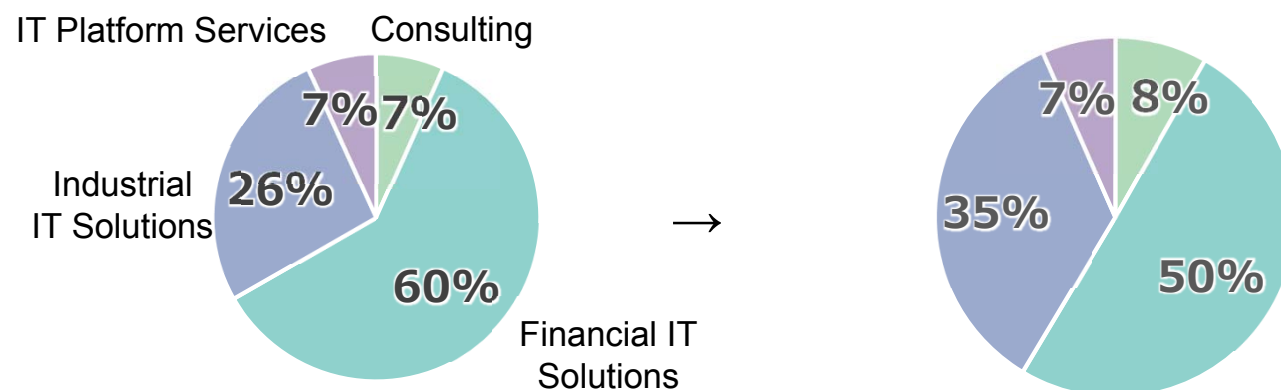
**Numerical targets**

# Medium-Term Plan (2016-2018) has been achieved

(Non-percentage numbers below are in units of billion yen)

	FY2015 Actual		FY2018 Actual	
<b>Sales</b>	421.4	→	<b>501.2</b>	+19%
Overseas sales	14.6	→	53.0	X 3.6
<b>Operating profit</b>	58.2	→	<b>71.4</b>	+23%
<b>Operating profit margin</b>	13.8%	→	<b>14.3%</b>	+0.4P
<b>ROE</b>	10.6%	→	<b>12.3%</b>	+1.6P

## Ratio of sales by segment



(Number of clients to whom sales was 1 billion yen or more)

64	→	86
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# DX made advancements, mainly in Industrial IT. Global expanded in Australia

## Medium-Term Plan (2016-2018) Pillars of strategy

## Conditions over three years

### (1) Improve productivity in specialty areas in Japan

- **Hardly any** unexpected large-scale unprofitable projects
- Improved productivity by integrating business platform development systems and implementing aslead (development management integration tool)

### (2) Expand industry-standard business platforms and develop large-scale clients

- In **Industrial IT**, major progress has been achieved in the context of **DX**, and great progress has been made in development of **large-scale clients**
- In **Financial IT**, worsening business conditions of clients had impact but **business platforms** grew, and **large-scale projects** were also acquired

### (3) Build foundations for global business

- Business in Australia is progressing smoothly, mainly with **ASG**
- Initiated more **governance improvements** in conjunction with global business expansion

### (4) Create business IT

- More projects involving **D2C**, **digital marketing**, and **analytics**
- Greater proficiency in **agile development** for BiT, and **productivity has improved** to the level of CiT
- **Collaborative models have been achieved** by establishing joint ventures (KDDI, DMG Mori, Denso, JAL)

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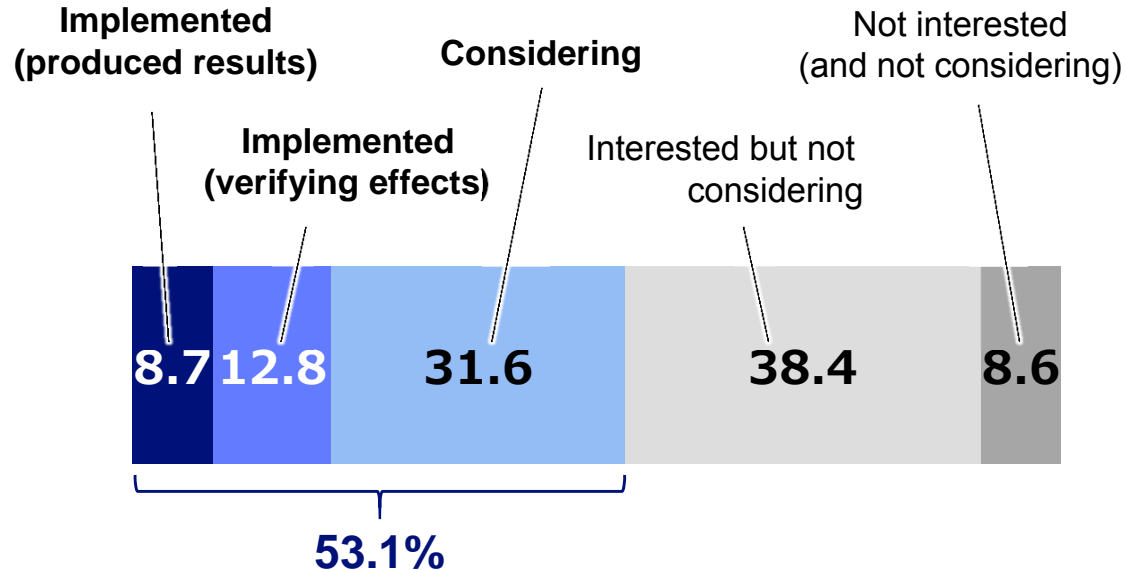
**Numerical targets**

# There are significant needs for NRI consulting and IT services

## Many companies are struggling with their own DX

- There are companies in Japan that have yet to produce results with their DX, due to **conflicts of interest** with their existing business, **and lack of IT personnel**
- Overall consulting and IT services capabilities are being tested

## Status of digitalization initiatives (N=1061)



Source) "Corporate IT Trends Survey 2018"  
by the Japan Users Association of Information Systems (JUAS)

## The "2025 Digital Cliff" impeding companies' DX

- Outdated, slow core systems in black box state **shackle the DX** of a company
- IT structure reforms cannot wait

Current

2025

2030

- System maintenance takes up 90% of company IT budget
- IT personnel shortage of 430,000
- Old OS, ERP, etc., no longer supported

**2025 Digital Cliff**

- Competitive stagnation
- Depleted human resources
- Lost business opportunities etc.

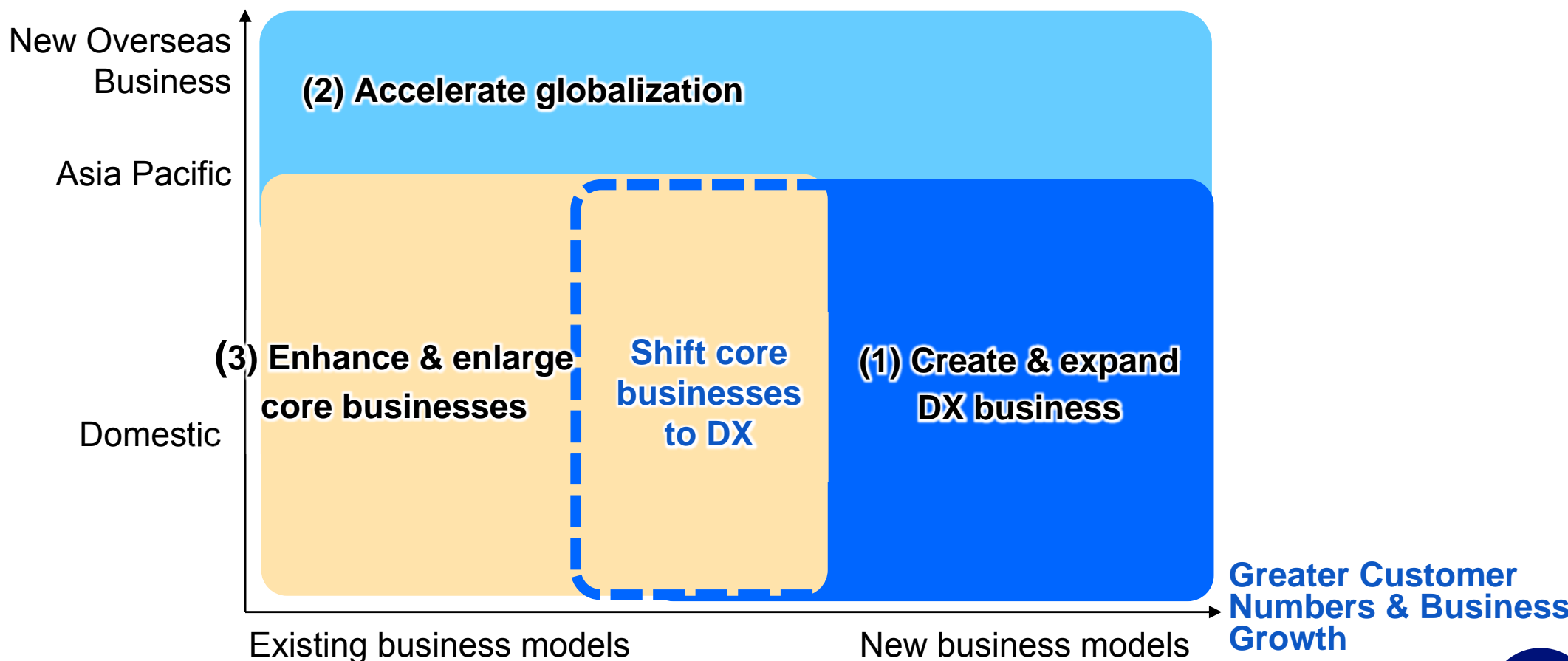
Source) Created based on "Overcoming of '2025 Digital Cliff' Involving IT Systems and Full-fledged Development of Efforts for DX" by METI

# Vision2022 Expansion Strategy

- (1) Create & expand DX business by co-creating value with our customers
- (2) Accelerate globalization by obtaining new customers & IP
- (3) Enhance & enlarge our core business by expanding business platforms & modernizing customer systems

## Illustration of business development

### Global expansion



# Growth Strategy

## Main Strategies

**DX**

**Use technology to transform customer business models and processes**

- Offer comprehensive support through DX from front-office to core systems to develop large-scale customers

**Business platform**

**Evolve business platforms (BPFs) in finance**

- Additional expansion of BPFs that cater to IT structure reform and new entry

**Cloud**

**Modernize legacy systems by using cloud**

- Comprehensive support from diversifying system platforms to application development

**Global**

**Achieve more global business growth, seeking sales of 100 billion yen**

- Expand business base, centered on external growth in Australia and North America

**Human resources**

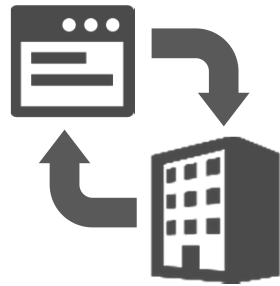
**Strategic recruiting, talent development and collaboration with partners to bolster NRI's competitiveness**

- Increase mid-career recruiting, offer diverse workstyles, etc.

# NRI strengths match recent trends in DX

### Main DX initiatives of customers

Integrate real  
and digital



New services  
in ecosystems



New business model  
“As a Service”



### NRI strengths

**Data analytics** mainly through  
consulting, and capability to build  
from front office to e-commerce core systems

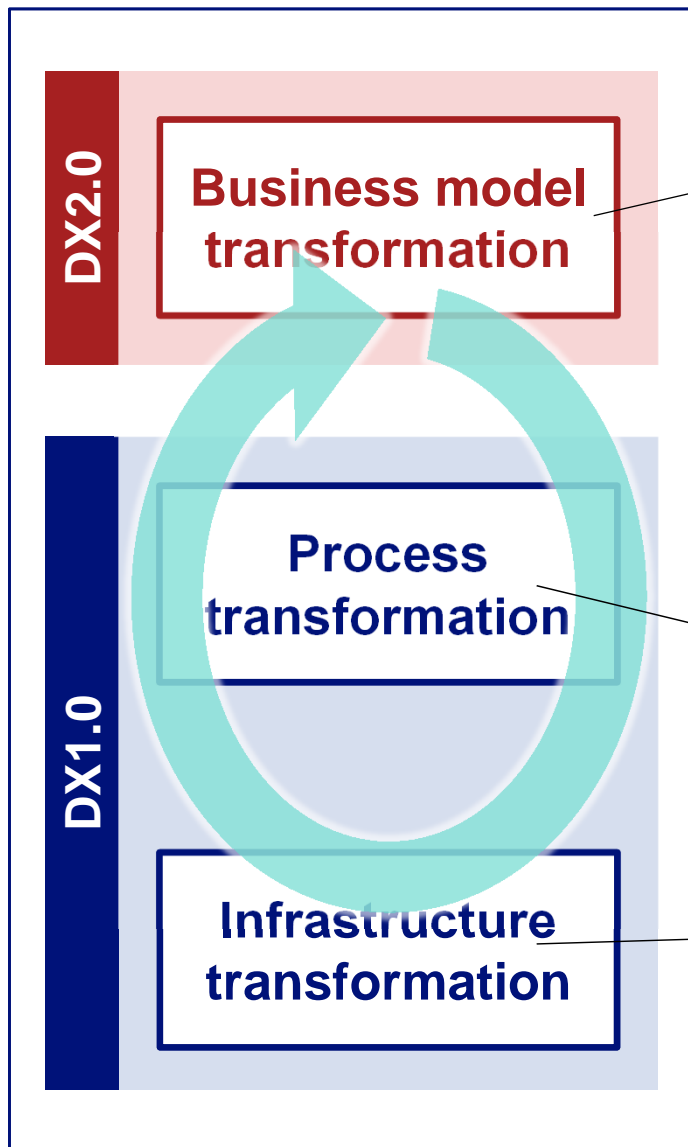
High quality **business platforms**  
to support customers entering new business  
types and offering new services

**Con-Solution<sup>®</sup>(\*)** to be a  
value co-creation partner  
for customers

\*Con-Solution: A business model in which consulting and solutions run side by side with customers from the planning and concept stages, creating business while repeating the process of hypothesis testing

## DX strategy

Be our customers' DX partner, and expand business continuously



### DX2.0: DX to transform business models themselves

Build cross-industry platforms that seek ecosystems

- Comprehensive support from **building business models to building systems**
- Commit to the business of customers, and share the risks and rewards

### DX1.0: DX that helps transform business processes (including business platforms and cloud)

Digitalize business models, make IT resources more efficient

- Deliver D2C (direct to customer) through the **optimal mix of packages and individual development**
- Achieve cost reductions and generate agility through **shared online services**

Enhance infrastructure such as cloud, security

- Optimize customer business infrastructure through better **modernization, managed services, security**, etc.

# DX Strategy (Reference) DX-related business

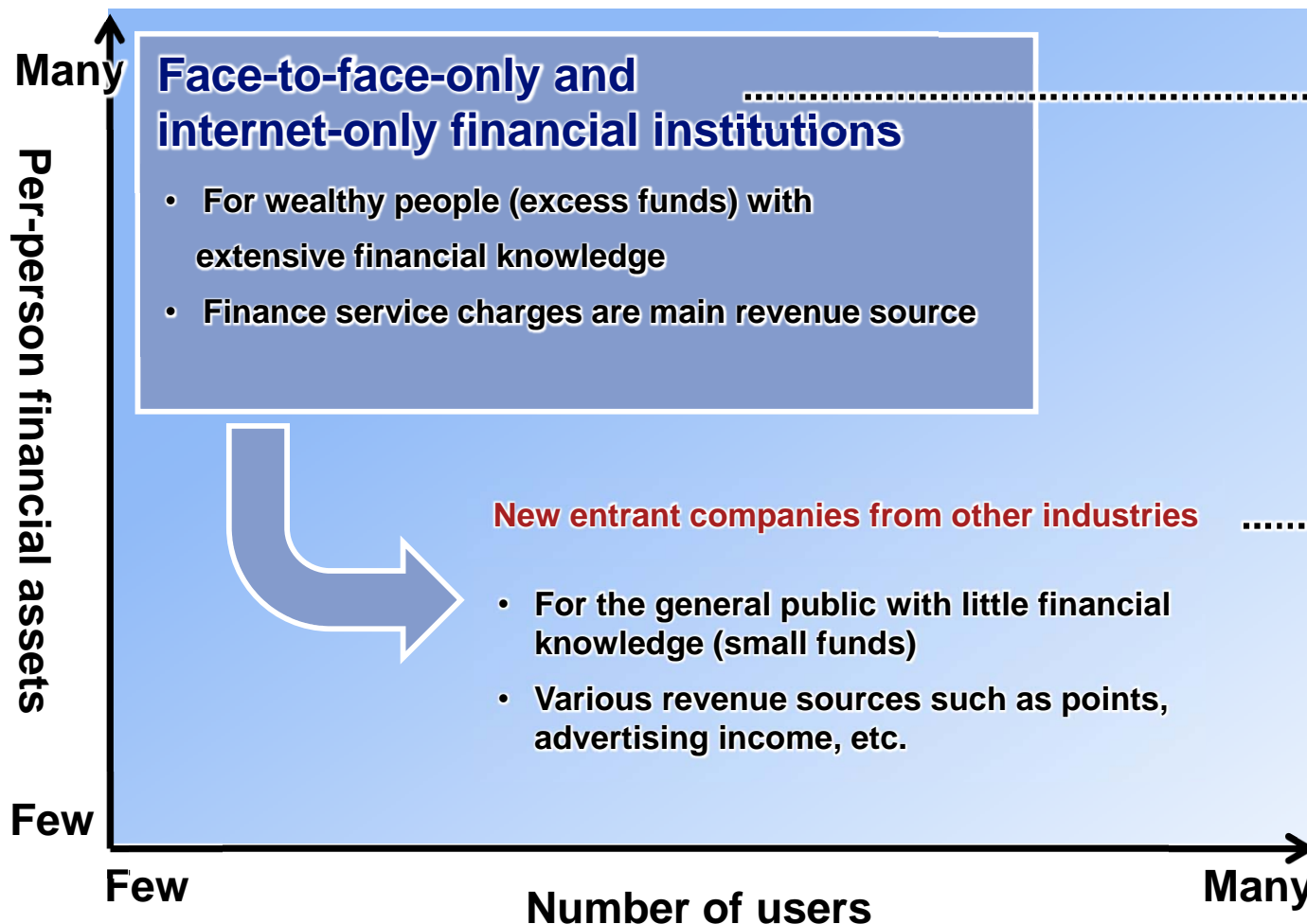
DX 2.0	Business model transformation	Build cross-industry platforms that seek ecosystems <ul style="list-style-type: none"><li>Establishing services and providing functionality in particular fields</li></ul>	
	Process transformation	Digital front office	Digitalize actions for end users <ul style="list-style-type: none"><li>Helping customers execute D2C strategies</li><li>CRM, digital marketing, etc.</li></ul>
		Digital back office	Digitalize actions within customer companies <ul style="list-style-type: none"><li>SCM reforms such as inventory optimization</li><li>Operational efficiency improvements using TRAINA(*), RPA, etc.</li><li>Industry standard business platforms, etc.</li></ul>
DX 1.0	Infrastructure transformation	Enhance infrastructure such as cloud, security <ul style="list-style-type: none"><li>Supporting migration from on-premises to cloud</li><li>Managed services for system platforms</li><li>Security business mainly focused on NRI Secure, etc.</li></ul>	

\*TRAINA: NRI's AI solution that reduces working hours in various operations through the utilization of voice recognition technology and AI. It includes query response operations, such as those of call centers and internal helpdesks, and even support operations for sales personnel.

# Business platform strategy Leverage strength in finance BPFs to expand clientele and services across industry types

- In addition to **expanding core businesses**, provide **new business platforms** for entering other industries

## Structure changes in Financial industry



## NRI's Strategy

### Expand core businesses

- High quality shared online services
- Outsourcing, mainly BPO (business process outsourcing)
- New services for digital assets

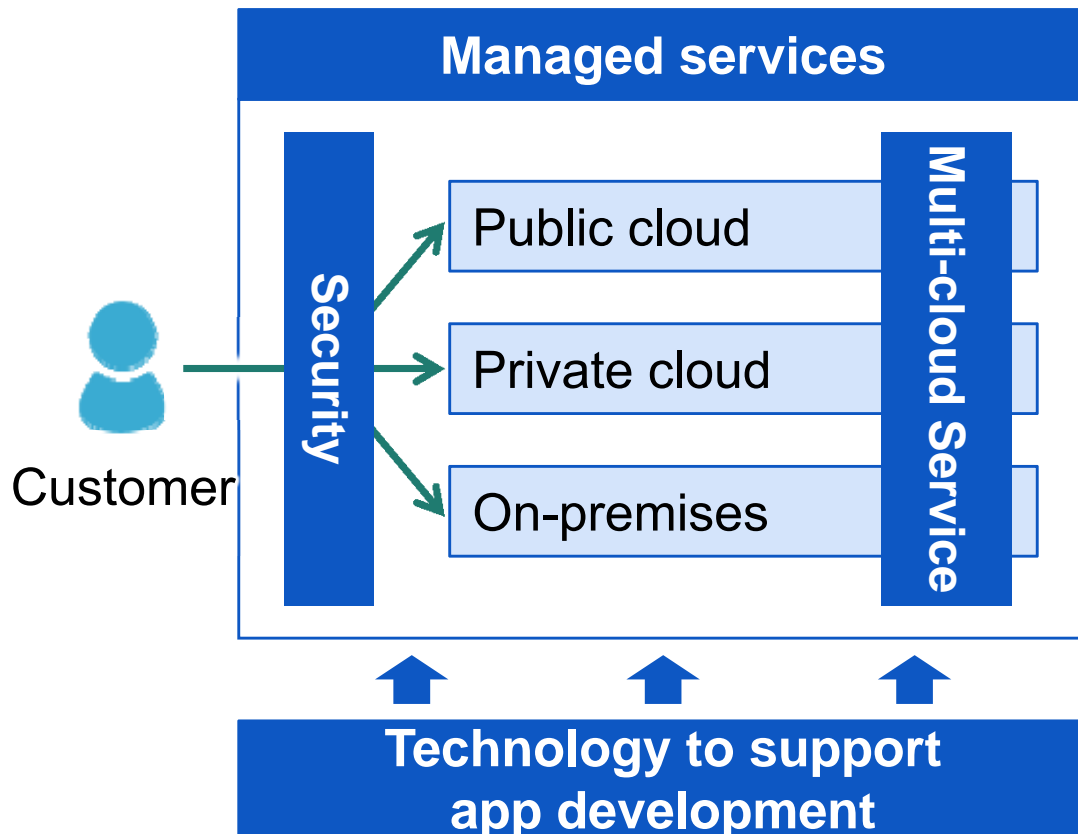


### Launch new services

- Lean services through APIs
- Services for small funds products
- Managed services for IT assets

## Cloud strategy

# Comprehensive support for the diversified system platforms that accompany the shift to cloud



- **Managed services:** Optimize and comprehensively support overall systems on behalf of customer IT departments
- **Enhanced security:** Deliver high levels of security catered to multiple system platforms
- **Multi-cloud services:** Offer integrated services to customers which use multiple cloud platforms
- **Technology to support app development:** Development and application of digital IP (common components of apps, digital development kits, etc.)

**Generate agility and optimize cost by modernizing legacy systems, developing cloud-native apps, etc.**

# Global strategy

## Expand business base, centered on external growth in Australia and North America

### [Australia]

- Seek to be a top-10 Australian IT services company by around FY2020
- Achieve additional external growth in fields where synergies can be anticipated

### [Asia, Europe]

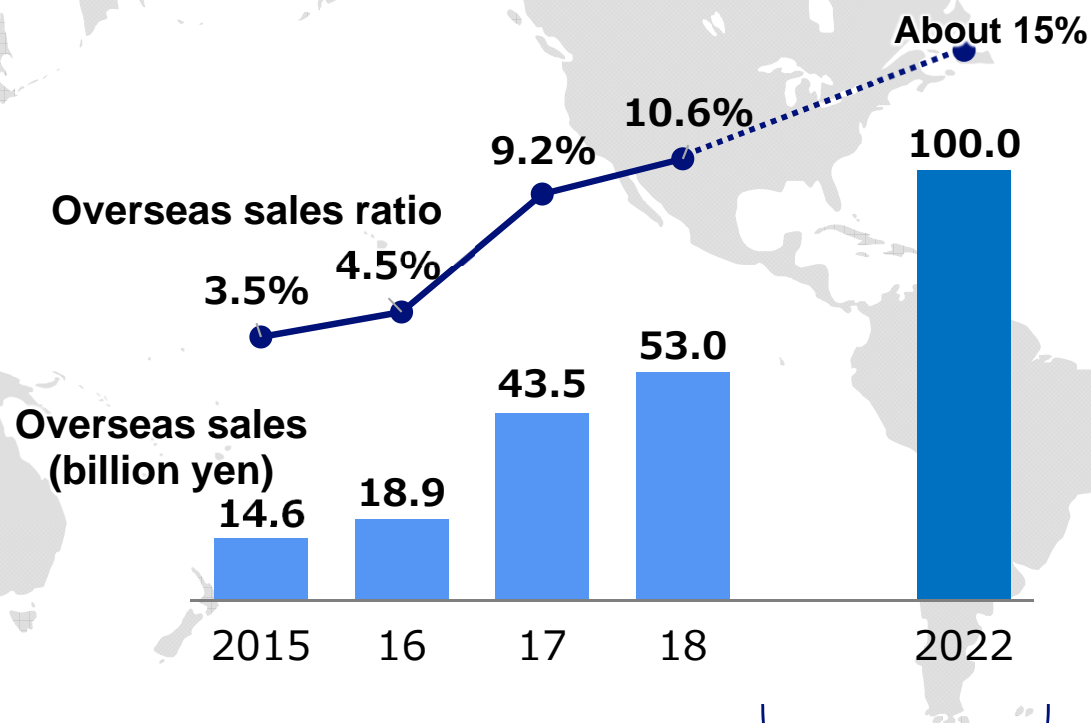
- Expand outsourcing business geared toward financial institutions, with **NVANTAGE** at the core
- Further expand consulting for Japanese and local companies in locations throughout Asia

### [Functions of global headquarters]

- Formulate global strategies and support their execution
- Work together with regional controlling companies such as NRI Australia, and strengthen governance of overseas subsidiaries

### [North America]

- Acquire **high added value IP** of companies with advanced technologies and expertise



Level of M&A investment (4 years): At least 50 billion yen

# Human resources strategy

## Increase and enhance human resources to support growth strategy

### Bolster hiring

- **Bolster new graduate hiring:** Bolster promotions, etc.
- **Bolster mid-career hiring:** Further improve systems of working conditions for the hiring of more specialists, etc.

	2018	2022
New graduate hires	About 300	Stable expansion
Mid-career hires	About 100	Double

**Increase of 1,000 staff or more (at NRI alone) over four years**

### Promote employee skills transfer and development

- Strategically develop **business designers, data scientists, and other such personnel**
- Skills transfer and development for **application/platform personnel** to support DX strategy

### Promote employee success

- **Promote diverse workstyles** (diversity, participation and advancement of women and senior personnel, etc.)

### More development partners

- **Get more development partners** which have technologies and expertise in areas such as DX

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**Numerical targets**

# NRI Group Sustainability Management Policy

NRI Group Growth

Building sustainable futures

Corporate Philosophy “Dream up the future”

## NRI Group Sustainability Management



### 【Vision2022 Numerical Targets】

Consolidated Operating Profit (JPY billion)	100
Consolidated Operating Profit Margin (%)	14 or more
Overseas Sales (JPY billions)	100
ROE (%)	14

### Solving social issues through value co-creation (CSV)

Co-create a thriving future society  
by driving new value.

Co-create an ideal society  
by effectively utilizing its resources.

Co-create a safe and secure society  
by advancing its infrastructure.



### Materiality for sustainable growth

Reduction of environmental impact for preserving global environment

Provision of opportunities for all kinds of professionals to take on challenge

Compliance with laws, regulations and risk management to increase trust from society

Management of the information systems that form social infrastructure

# Co-create Social Value with our Customers to Realize a Sustainable Future

## NRI Group's 3 Social Values

## Key NRI Group Initiatives



### Co-create a thriving future society

by driving new value.

Strive to create a future of continuous new value generation that leads to an abundant and safe society where all benefit.

- **Business Model Transformation**
  - DX consulting & analytics
  - D2C, DX for financial services
  - Cross-sector cooperation, new market entry support
- **Policy proposals for society & systems**, information & knowledge sharing to promote global discussion & action in all sectors



### Co-create an ideal society

by effectively utilizing its resources.

Strive to build a more livable society for all people by efficiently utilizing society's main resources of manpower, goods, capital and intellectual property to develop dynamic, strong industry.

- **Business Process Transformation**
  - Strategy/Operations/System Consulting
- **Resource Optimization with ASP**
  - "STAR", "BESTWAY" and other proprietary business platform solutions



### Co-create a safe and secure society

by advancing its infrastructure.

Strive to build a society safe and secure from accidents and disasters by strengthening cyber-security for information systems and other core social infrastructure.

- **IT Infrastructure Transformation**
  - Cybersecurity business
  - Cloud & Data Center managed services
- **Stable Service Operation**
- **Disaster Prevention & Reduction Policy & Disaster Recovery Support**

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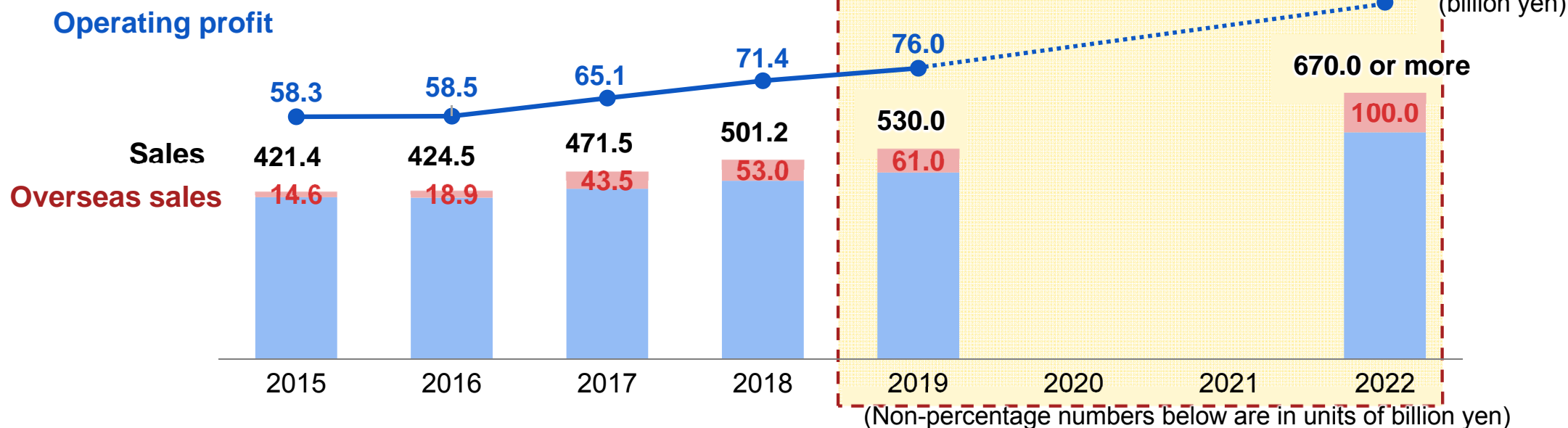
**Numerical targets**

# Numerical targets (consolidated)

Vision2022

Medium-Term Plan (2016-2018)

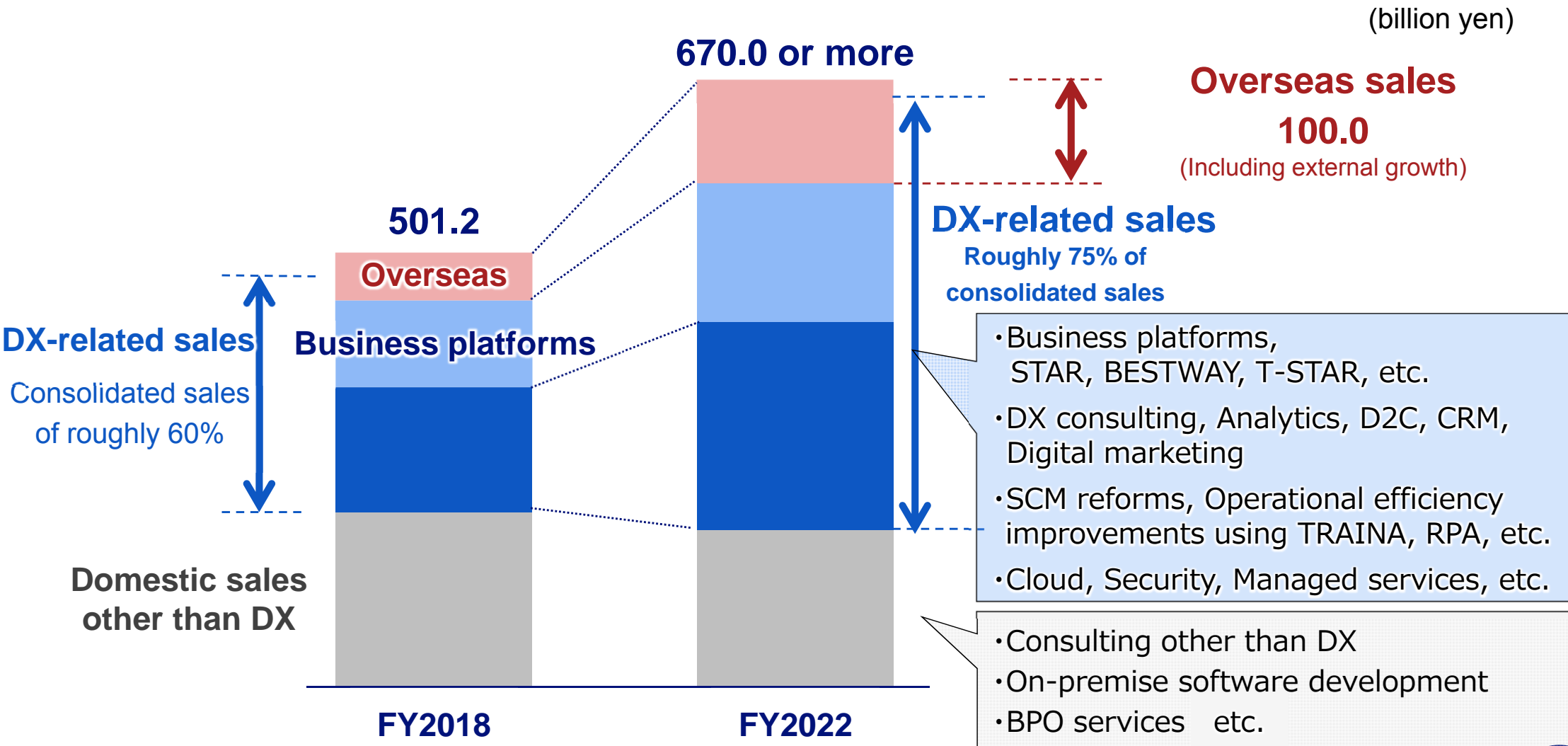
Medium-Term Plan (2019-2022)



	FY2018 actual	FY2022 target
Sales	501.2	670.0 or more
Operating profit	71.4	100.0
Operating profit margin	14.3%	14% or more
Overseas sales	53.0	100.0
EBITDA margin	21.7%	20% or more
ROE	12.3%	14%

# Numerical targets (sales by topic)

- **By growing DX business**, expand the ratio of DX-related sales:  
About 40% (2015, rough estimate) → 60% (2018) → **75% (2022)**



# Financial strategy

## ■ Establish a solid financial base, and aim for strong medium- to long-term growth

- Establish **financial soundness** befitting of a company that supports social infrastructure
- Establish the **ability to generate cash flows** to support growth investment. Distribute resources into growth areas such as **DX** and **global business**
  - EBITDA margin of **20% or more**
  - Diversify means of raising funds needed for investments such as M&A

## ■ Be strongly conscious of capital efficiency that successfully balances growth and returns

- Promote measures aimed at achieving **target ROE (14%)**
  - Asset securitization including acquisition and retirement of treasury shares, and cross-shareholding, etc.
- Ongoing efforts to **improve returns to shareholders**
  - Consider dividend payout ratios (including improvements to overall return) according to growth stage

## ■ Improve disclosures, with consciousness of global standards

- **Communicate more** with external stakeholders, and transmit information externally according to **global standards**
  - Shift to IFRS, be more engaged with ESG, emphasize EBITDA in management
- Enhance non-financial information, including highly transparent balance sheet policies and sustainability management



***Share the Next Values!***

