

Business Briefing

Current Situation and Future Outlook of North American Business

Nomura Research institute, Ltd.

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Senior Managing Director

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Professional Experience

2003 - Present Nomura Research Institute, Ltd.

2023 Head of Global Head Office (Returning to Tokyo)
Chairman of the Board of Directors of Nomura
Research Institute Holdings America, Inc. and NRI
Australia Limited
Independent Director of Core BTS

2022 Chairman of the Board of Directors of NRI Australia
subsidiary

2019 CEO of NRI Australia

2017 ASG Group Limited (Currently known as NRI-
ANZ)(Sydney) seconded form NRI
Director of ASG Group Limited
Country Manager

01

IT Market Trends in North America

02

Business Overview of Core BTS

03

Business Performance of Core BTS

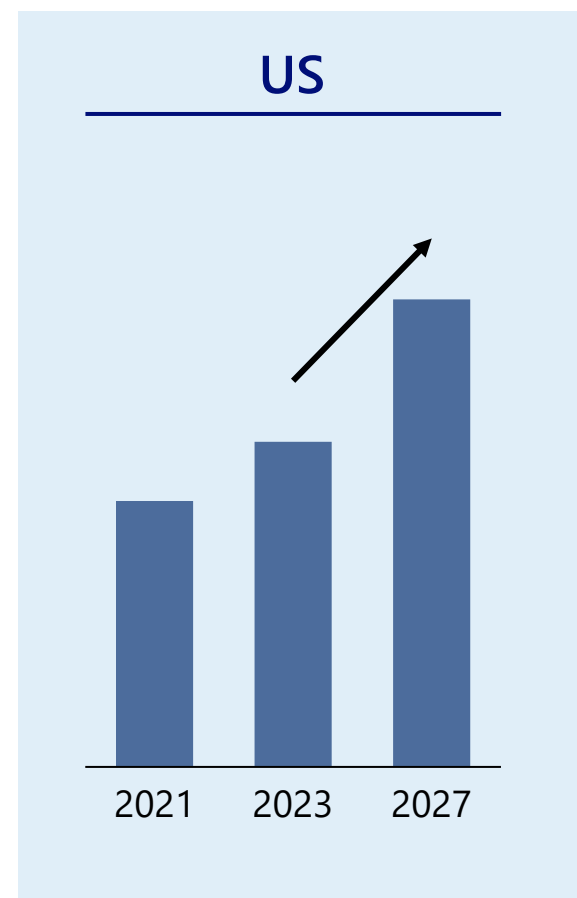
04

Introduction of initiatives for performance improvement

01. IT Market Trends in North America

Comparison of the IT Service Market

- The IT services market in the US is both larger and growing at a higher rate than in Japan



(The market size and growth rate are estimated by NRI.)

Size and Growth Rate of IT Services in the United States

- Continued high growth is expected particularly in fields such as consulting (1), application development and deployment (2), and cloud (3)

IT Services		2021 Results	2023 Estimates	2027 Estimates	CAGR (23-27)	Service Details
(1) Consulting	Business					Strategy, Finance, HR, Marketing, etc
	Technology					DX & IT Strategy, Design and Evaluation
Application	(2)Development & Implementation					Application Development, Introduction of Package and Customization
	Managed Services & Maintenance					Application and Software Maintenance
Infrastruacture	Development & Implementation					Infrastructure Implementation(Hardware & Software etc)
	Managed Services & Maintenance					Infrastructure Maintenance
Cloud	(3)Cloud(IaaS)*					Cloud Solution Provider
BPO						Business Process Outsourcing
Hardware Support						Technical Support(Monitoring, equipment replacement etc)
Total						

Revenue Share Ranking in the North American IT Services market

- Major IT consulting firms such as Accenture and the Big 4 have expanded their market share over the past three years. Competition is intense, as is the shuffling of market positions

2019

2022

#	Companies	Market Share	#	Companies	Market Share
1	Accenture		1	Accenture	
2	Deloitte		2	Deloitte	
3	IBM		3	ADP	
4	ADP		4	PwC	
5	Cognizant		5	IBM*	
6	TCS		6	TCS	
7	PwC		7	Cognizant	
8	Leidos		8	EY	
9	EY		9	Dell	
10	FIS		10	Leidos	

*IBM in 2022 include the newly spun-off division Kyndryl, which was separated in 2021.

Strengths and Weaknesses of Major IT Vendors

Strengths

Large-scale personnel deployment
& PM capabilities

Global Support

Full Line Services
(from business consulting to development & operation)

Standard process & methodology based

Weaknesses

Rising costs due to increasing
management overhead

Solutions are poorly suited to SMEs

Hard to specialize in expert fields

Poor at addressing client-specific needs

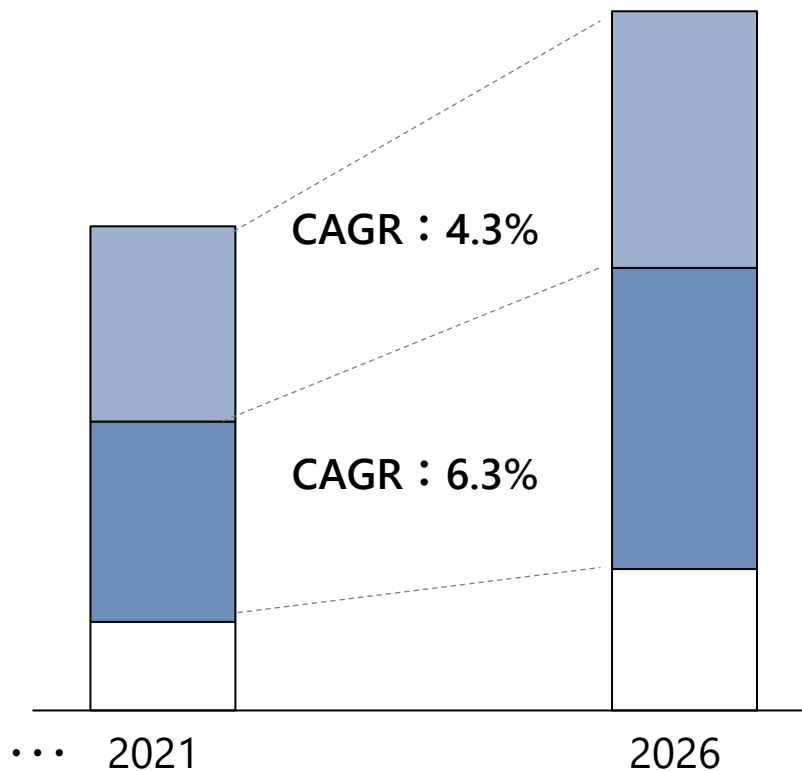
There are needs for community-based and tech-focused midsize vendors to complement the weaknesses of major IT vendors

* Categorizing the distinctive features from an interview with a CIO of an American company.

Market for Midsize Businesses

- Larger market size and higher growth rate than large companies

IT services investments by company size in North America



Large Enterprises (5000+ employees)

- High per-company IT investment
- Many companies have in-house development teams and outsource selectively

Midsize Enterprises (Over 300 employees)

- Low per-company IT investment
- Often lacking sufficient in-house IT personnel, outsourcing is inevitable

SME (~299 employees)

* CAGRs are estimated by NRI

Differences between sourcing for large and midsize enterprises

- Midsize companies lack sufficient in-house IT personnel and have strong tendency to depend on outsourcing

■ In-house

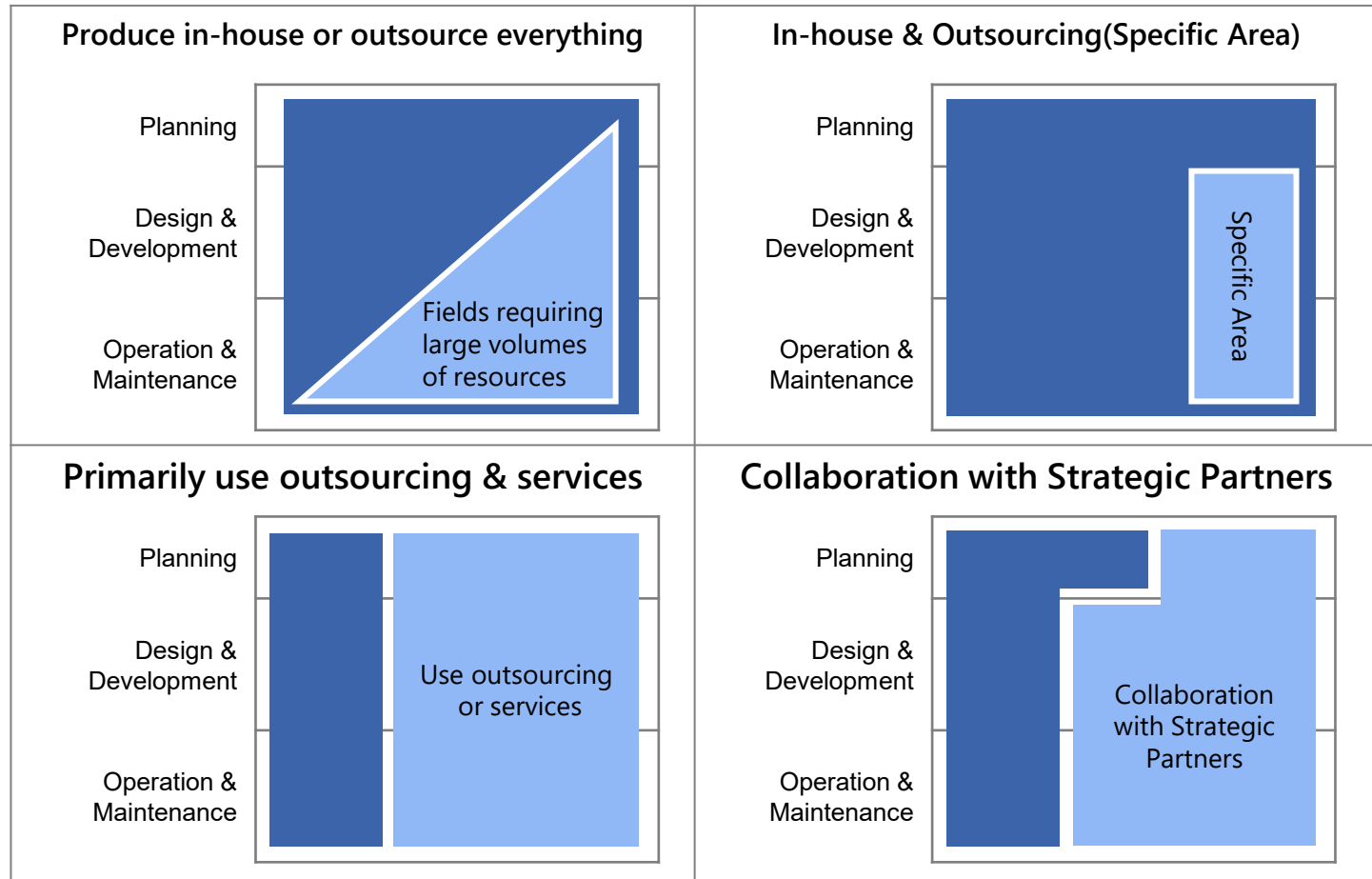
■ Outsourcing

Large Enterprises

Midsize Enterprises

Conventional IT field (ERP etc)

DX field



* Organizing the features from an interview with a CIO at a US company.

Market Characteristics of Australia and North America

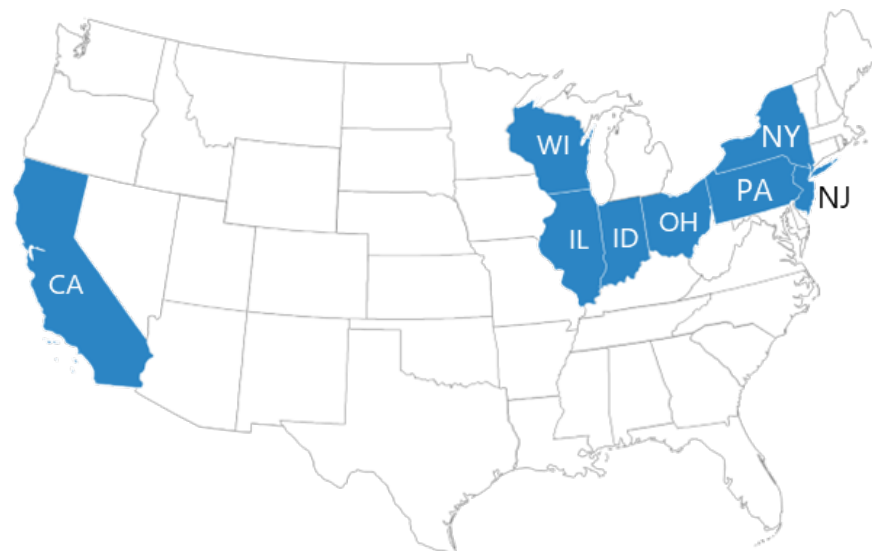
	Australia	North America
Market Size	Relatively small scale	Overwhelmingly large (approx. 40% of the global market)
Clients, IT Investment	Mainly large companies and government agencies in major cities Standard packages are preferred	Scattered throughout all American cities, market is broad and includes midsize companies Preferences include standard packages + original development
Competitors	Mainly foreign companies from the US, India, Japan, etc. Only a limited number of local Australian IT companies	From large global companies to midsize local American companies Diverse, numerous, competition is fierce
M&A Market	Opportunities are limited (many are small in scale) Little variation compared to North America	Numerous opportunities, including listed companies Relatively high variation
NRI's approach	Expand capabilities via M&A, etc., to establish a position on equal ground with major IT vendors	Enter by targeting midsize companies that cannot easily compete with large vendors, find ways to expand capabilities and client base in stages

02. Business Overview of Core BTS

Company Overview

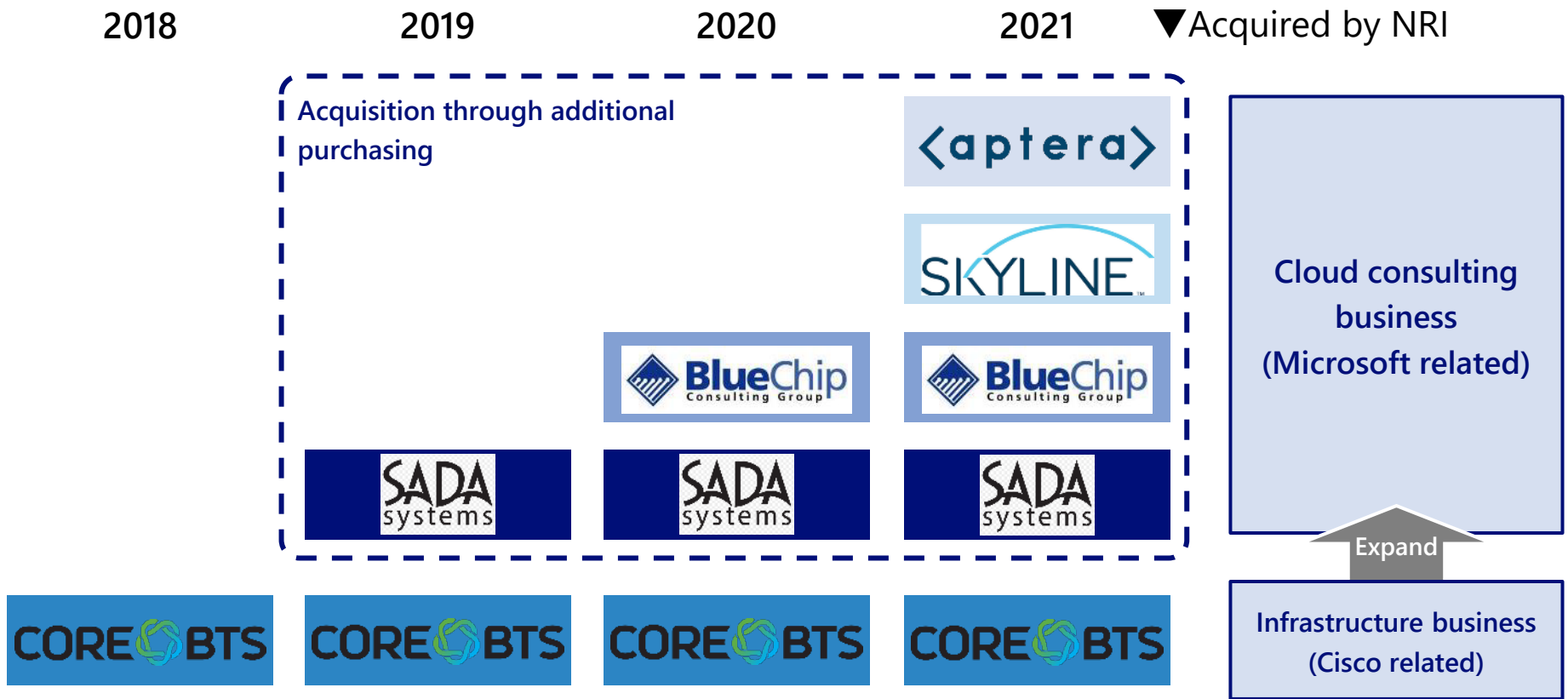
Office Locations	Indianapolis(HQ) 14 locations, mainly on the Midwest and Northeast
Established	2004 (Acquired by NRI in December 2021)
Business	Infrastructure Business Cloud Consulting Business
Employees	Approx. 600 (As of Jan. 2024)
Strengths	<ul style="list-style-type: none">• Stable infrastructure business with a history• DX track record in cloud & consulting• Total client base of 1,500 companies mainly in the Northeast (of which over 1,000 are infrastructure clients)

Locations



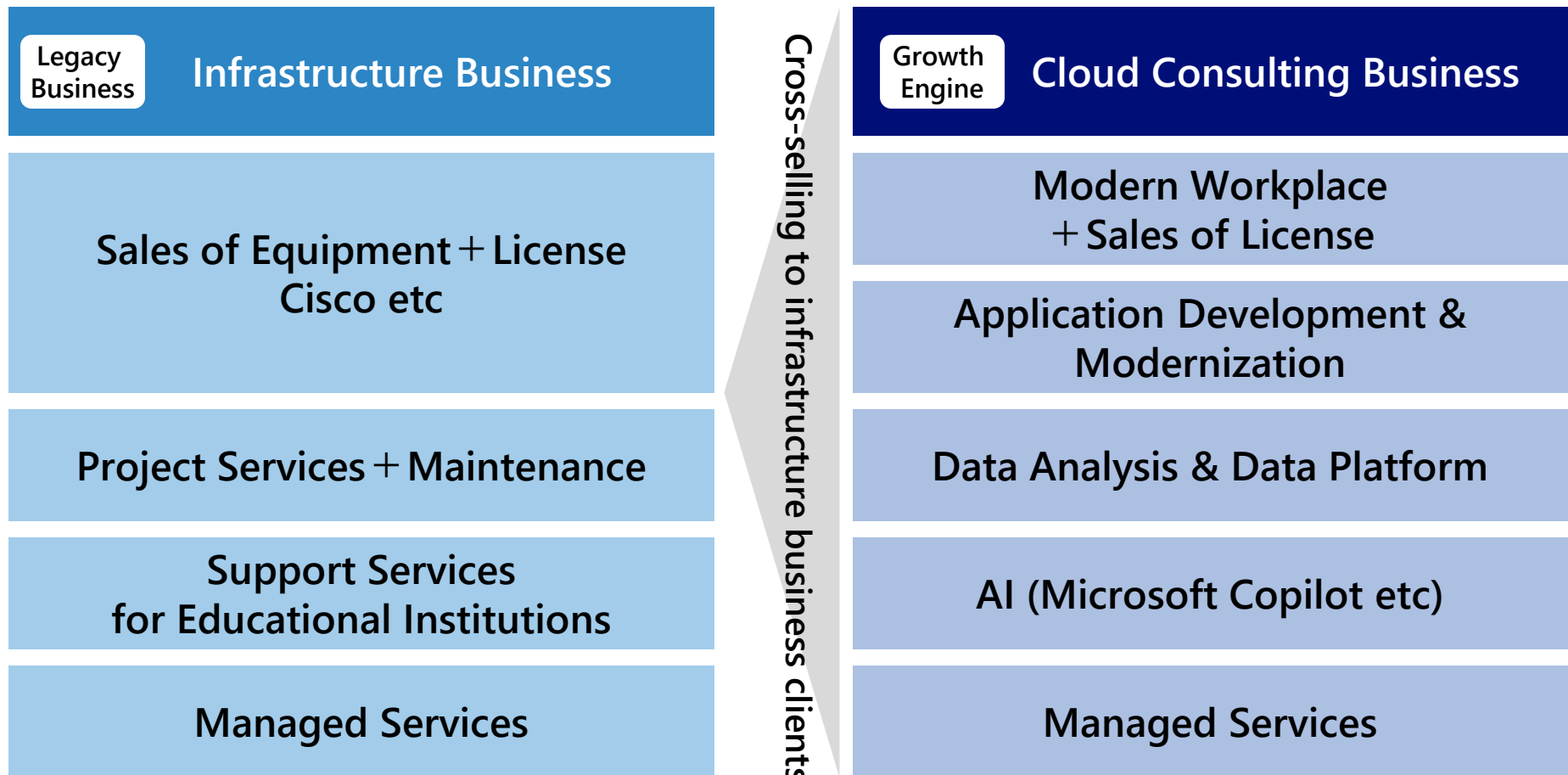
History

- Started off as an infrastructure solution provider with Cisco as a main partner about 20 years ago
- The company was acquired by a private equity fund in 2018, then it acquired four companies with Microsoft as a main partner over a three-year span and launched its cloud & consulting business (integration of those four companies was not complete at time of acquisition by NRI at end of 2021)

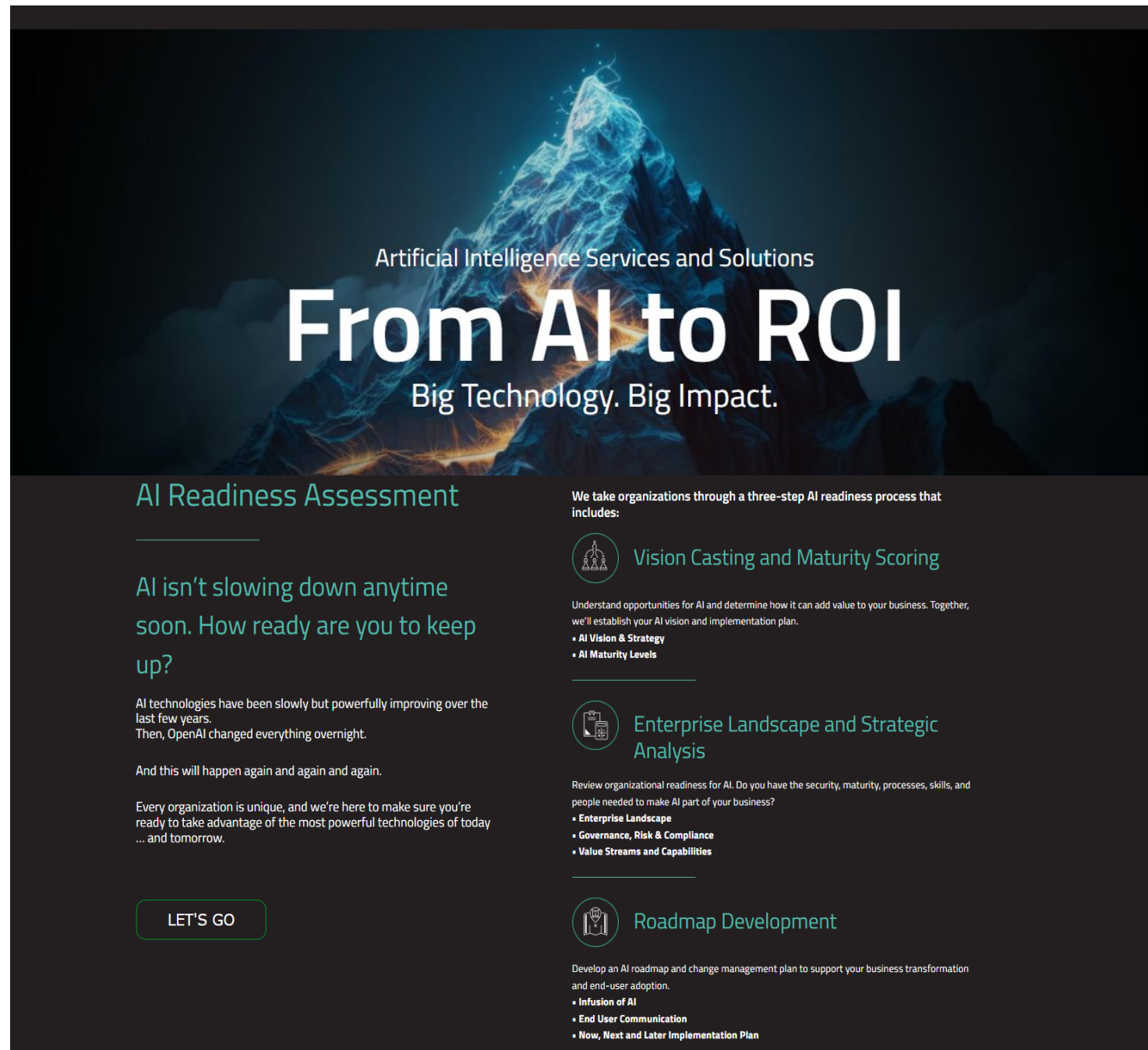


Services Provided

- Comprised of two businesses: Infrastructure (Cisco-related) and cloud consulting (Microsoft-related)
- Cloud consulting business is expected to be the growth engine as DX advances



(Reference) AI related service



Artificial Intelligence Services and Solutions

From AI to ROI

Big Technology. Big Impact.

AI Readiness Assessment

AI isn't slowing down anytime soon. How ready are you to keep up?




AI technologies have been slowly but powerfully improving over the last few years. Then, OpenAI changed everything overnight.

And this will happen again and again and again.

Every organization is unique, and we're here to make sure you're ready to take advantage of the most powerful technologies of today ... and tomorrow.

[LET'S GO](#)


We take organizations through a three-step AI readiness process that includes:

-  **Vision Casting and Maturity Scoring**
Understand opportunities for AI and determine how it can add value to your business. Together, we'll establish your AI vision and implementation plan.
 - AI Vision & Strategy
 - AI Maturity Levels
-  **Enterprise Landscape and Strategic Analysis**
Review organizational readiness for AI. Do you have the security, maturity, processes, skills, and people needed to make AI part of your business?
 - Enterprise Landscape
 - Governance, Risk & Compliance
 - Value Streams and Capabilities
-  **Roadmap Development**
Develop an AI roadmap and change management plan to support your business transformation and end-user adoption.
 - Infusion of AI
 - End User Communication
 - Now, Next and Later Implementation Plan

(Source) Website of Core BTS

Target Industry and Theme

- Particularly focused on the entertainment, healthcare, automotive, and manufacturing fields where their track record in projects is extensive

	Infrastructure Business	Cloud Consulting Business
Healthcare Industry	<ul style="list-style-type: none"> Building IT infrastructure for hospitals Implementing NetDisk, etc. 	<ul style="list-style-type: none"> Implementing public cloud (Azure) Developing or modernizing apps <div style="text-align: right;">Next page </div>
Entertainment Industry	<ul style="list-style-type: none"> Building IT infrastructure for casinos, bolstering security 	<ul style="list-style-type: none"> Designing & implementing data analysis platforms Supporting data analysis
Automobile & Manufacturing Industry	<ul style="list-style-type: none"> Eliminating & consolidating data centers dispersed on a per-plant basis 	<ul style="list-style-type: none"> Application development in the public cloud Cloud design & architecture Designing & implementing data analysis platforms

Capabilities of Core BTS (Case study in healthcare industry)

- Cloud migration & application development for the healthcare sections of major nationwide American supermarket chains, plus support to build networks for over 80 hospital operations companies

Clients:

Healthcare sections of major nationwide American supermarket chains

Background:

- Data & apps are in on-premises environments, where the challenges are to improve functionality and security
- Selected by the US government as a partner for their vaccine provision program during the pandemic, for which preparation was urgent

Core BTS's solutions:

- Creating roadmaps for migrations to Azure
- Supporting migrations of apps & data to Azure
- Building an appointment system covering 2,500 vaccination centers
- Building networks for over 80 hospital operations companies

Technology stack

Hybrid cloud migration

Application development & data migration

Security service implementation

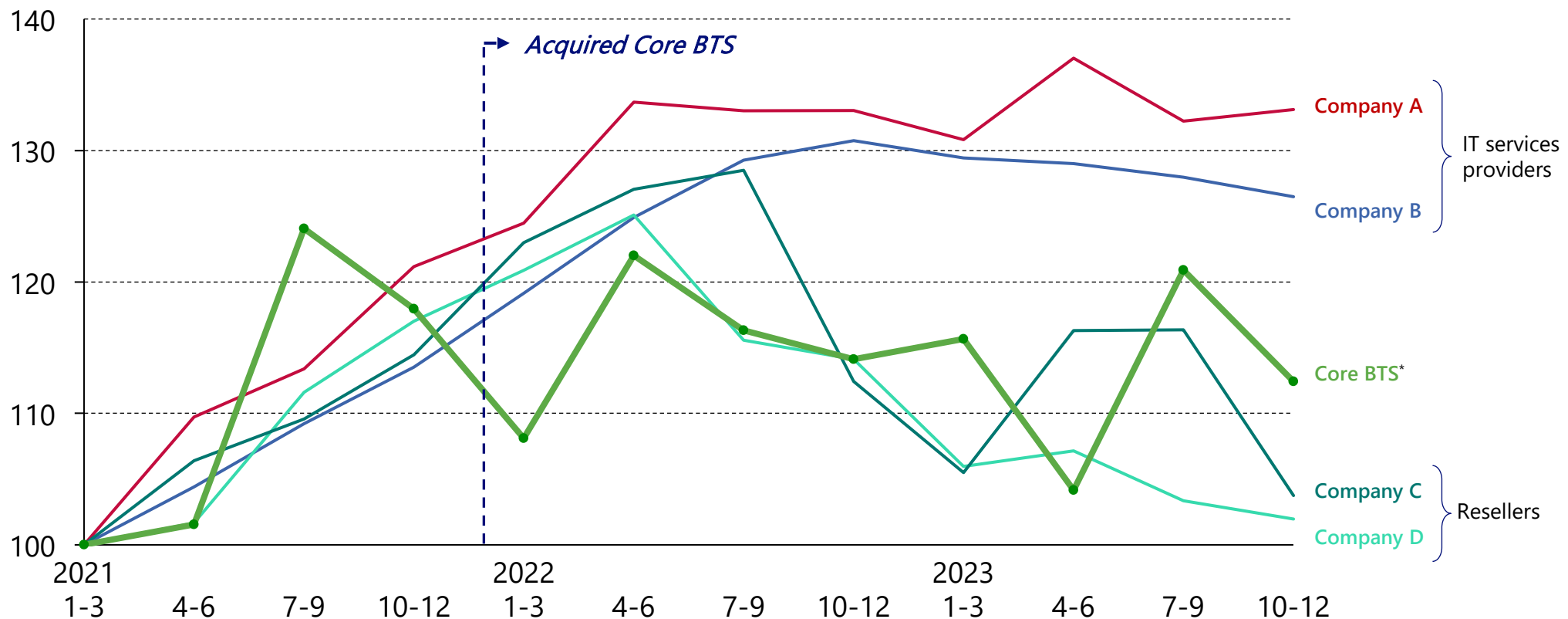
Building networks

03. Business Performance of Core BTS

Competitors' Performance

- As clients have continued to curtail expenditures, each company's business results have remained flat since mid-2022

Sales of IT service providers and resellers in North America
(using 100 as the base indicator for each company's Jan-Mar 2021 results)



* Acquired by NRI in December 2021. Sales of two companies acquired via M&A (Skyline acquired in Feb 2021 & Aptera acquired in June 2021) are reflected in the values for Core BTS's sales for all time periods

Competitor's Business

Comments from each company

Business sentiment

- The economic outlook remains uncertain
- Clients are still **reluctant to make IT investments, primarily for discretionary spending**
- **Delayed launches of large projects and reduced scope of projects in this trend** have significantly impacted performance

Trends

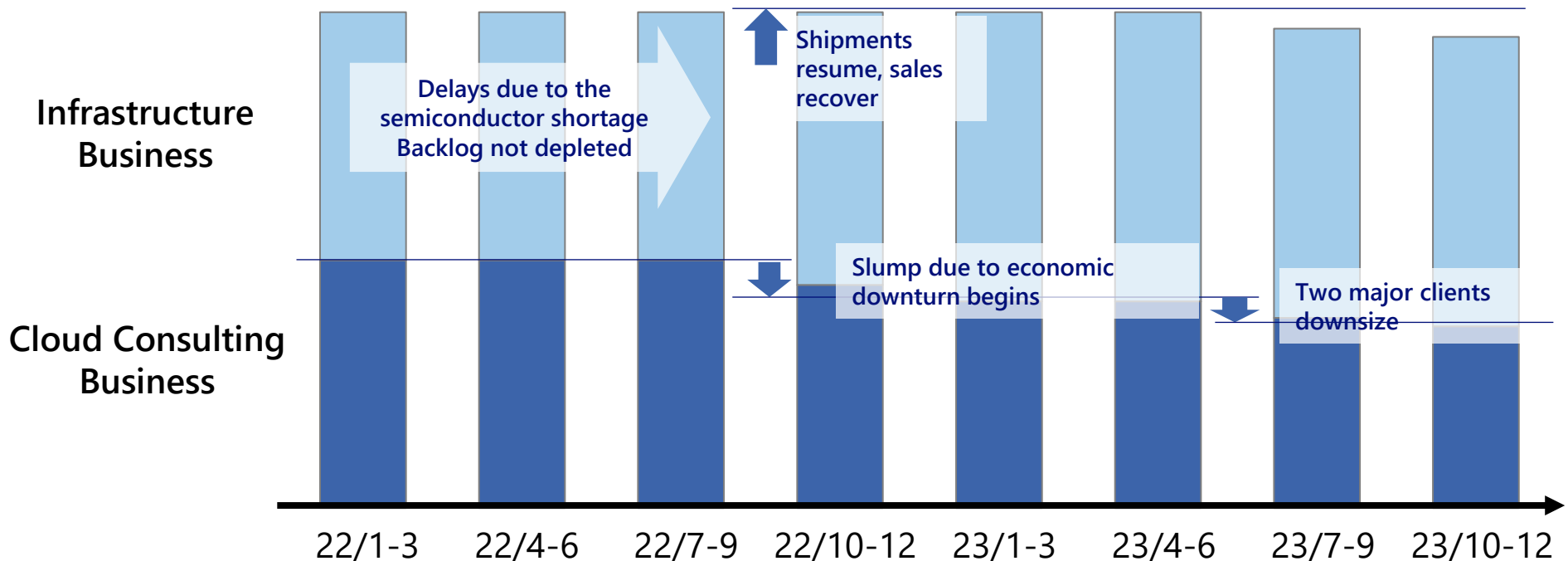
- **DX investment is relatively sluggish, and demand is strong for cost reductions and improving operational efficiency**
- Companies' usage of **offshoring** for cost optimization **will continue trending upward**
- Some clients are already narrowing down their priority IT expenditures & **curtailing infrastructure-related expenditures**

Outlook

- Sales of IT service provider competitors have mostly been flat over the past 4-5 quarters, and they are also reducing workforce
- **Full-scale recovery** for these companies' performance **is expected to begin in April-June 2024**

Revenue Trends by Business (After January 2021)

- Their infrastructure business suffered shipping delays due to the semiconductor shortage, but that was resolved from the second half of 2022 and business has been strong since
- Their cloud consulting business has slumped due to less willingness among clients to invest in IT due to an economic downturn
Last year two major clients significantly reduced their IT investments, resulting in a further decline in sales



Difference between expectation and reality at time of Core BTS acquisition

Expectation at acquisition	Assessment of reality
Stable growth of infrastructure business	<ul style="list-style-type: none">• Results fluctuated significantly during the semiconductor shortage, but progress has generally been as anticipated at the time of acquisition
Rapid growth of cloud consulting business	<ul style="list-style-type: none">• The four companies previously acquired were not integrated at the time of acquisition by NRI, and the integration took time (was handled simultaneously with action to address performance downturn)• Despite efforts in cross-sales to clients in the infrastructure business by overhauling their sales organization, it is taking time to produce results due to struggles from the economic downturn and in transferring skills to sales representatives• Orders from two major clients also decreased* when 2023 began, and they are now in an ongoing situation of having no choice but to focus on defending existing businesses and clients *Due to the clients' internal circumstances• Additional M&A that was originally anticipated is postponed for now due to the performance downturn

Growth Scenario in North American Business

Growth in Australia

- Acquired ASG (now NRI Australia) as a foothold in 2016
- Grow DX consulting & solutions capabilities via additional acquisitions
- Expand at once to a level on equal ground with major IT vendors in terms of full line services and also scale

Growth Scenario in North America

- Acquired Core BTS as a foothold at the end of 2021
- Expect to bolster & expand the cloud consulting business via additional acquisitions
- Additional acquisitions are currently halted due to the combination of the economic downturn, rising valuations, and weak yen. Focusing on improving Core BTS's performance
- Currently conducting market research to reaffirm the latest market trends in the North American market where changes are volatile. We will consider future growth scenarios based on the results of that research



04. Introduction of initiatives for performance improvement

Progress of efforts to improve Core BTS's performance

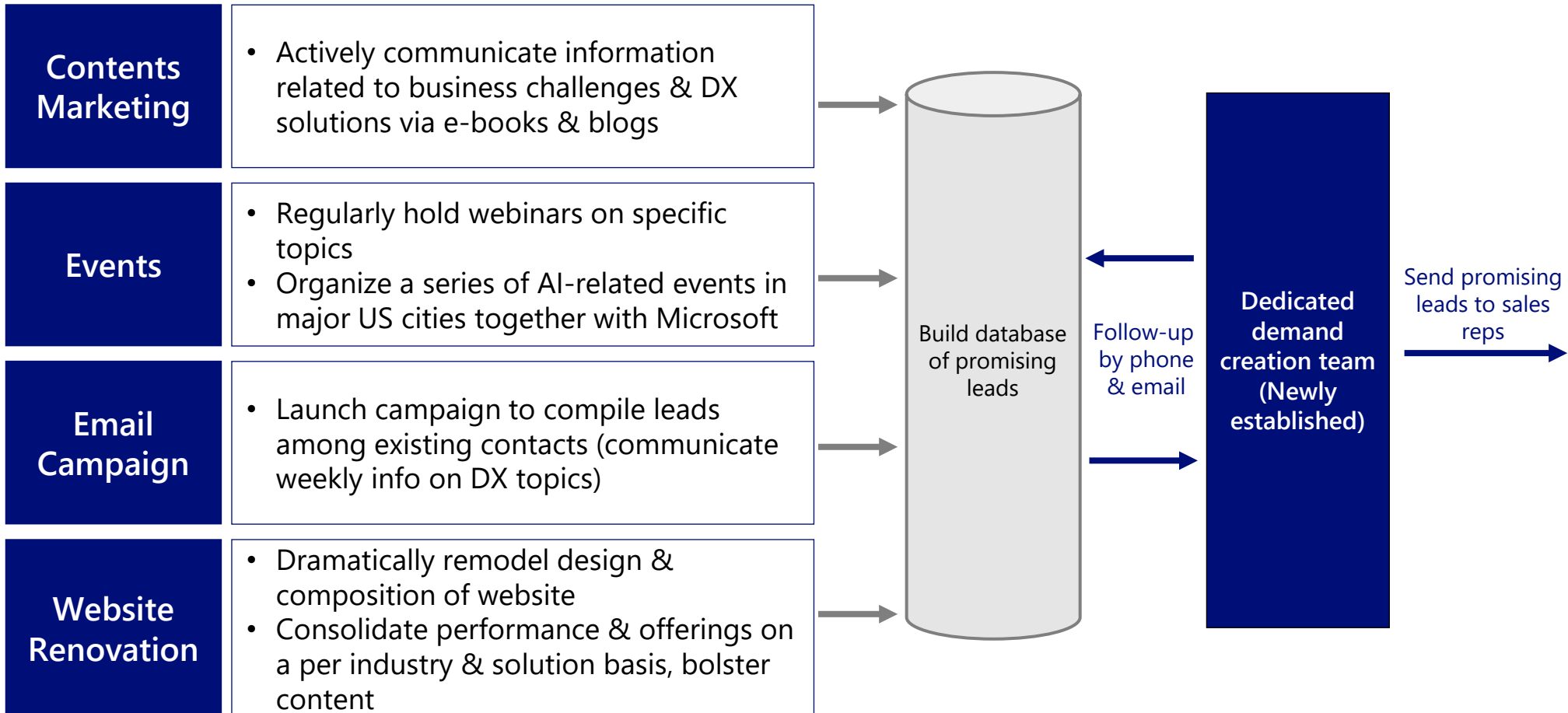
- The following measures are currently being implemented to improve performance mainly in the cloud consulting business

Challenges	Progress Status
Breaking away from reliance on the two major clients	<ul style="list-style-type: none"> ■ Develop & expand clients other than the two major clients In Progress
Completing post-merger integration (PMI) & promoting cross-sales between infrastructure & cloud consulting	<ul style="list-style-type: none"> ■ Integrate the delivery organizations Completed ■ Implement the following measures to integrate the sales teams Completed <ul style="list-style-type: none"> ● Overhaul commission systems (incentivize cross-sales) Completed ● Skills transfer & learning/development for salespeople In Progress ● Have a dedicated team implement GTM strategy In Progress
Bolstering service offerings (Mainly in cloud consulting business)	<ul style="list-style-type: none"> ■ Develop large-scale offerings that clients come to depend on, in combination with multiple services In Progress
Expanding capabilities (Capabilities beyond Cisco and Microsoft)	<ul style="list-style-type: none"> ■ Considerations for reinforcement measures via additional M&A are postponed for now On Hold

(Example of measures)

Bolstering demand creation performance of marketing points

- Starting in late 2023, a marketing team spearheaded an effort to significantly bolster demand creation performance

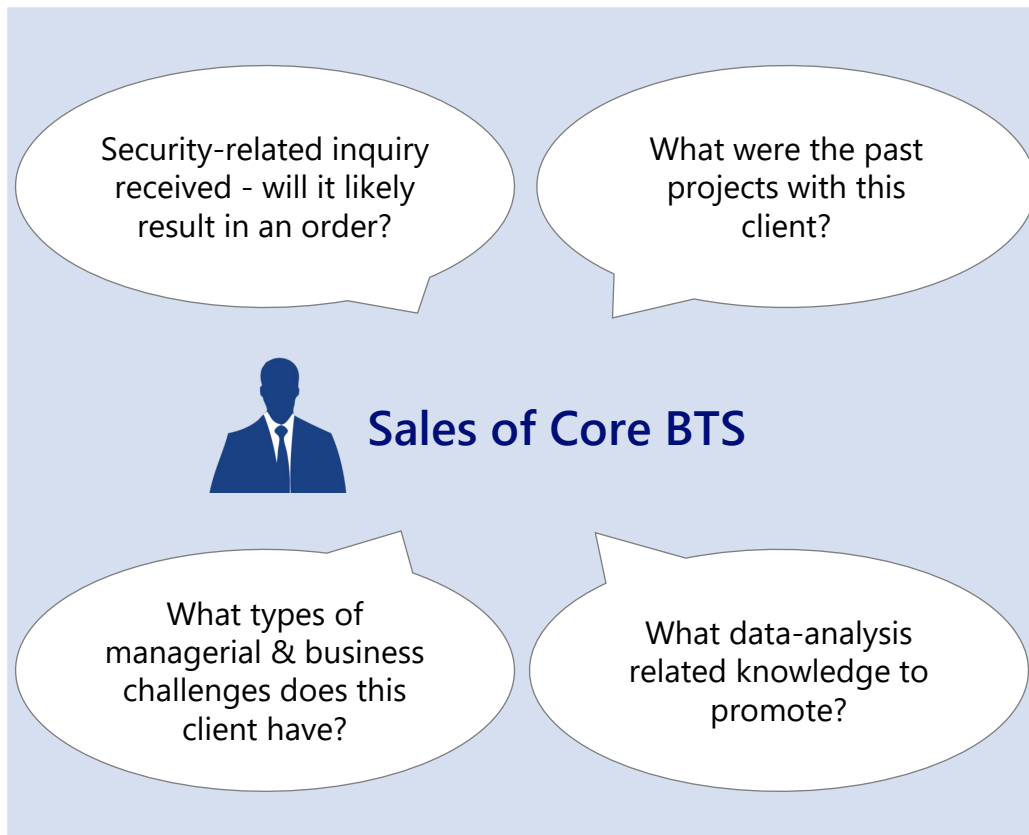


(Example of measures)

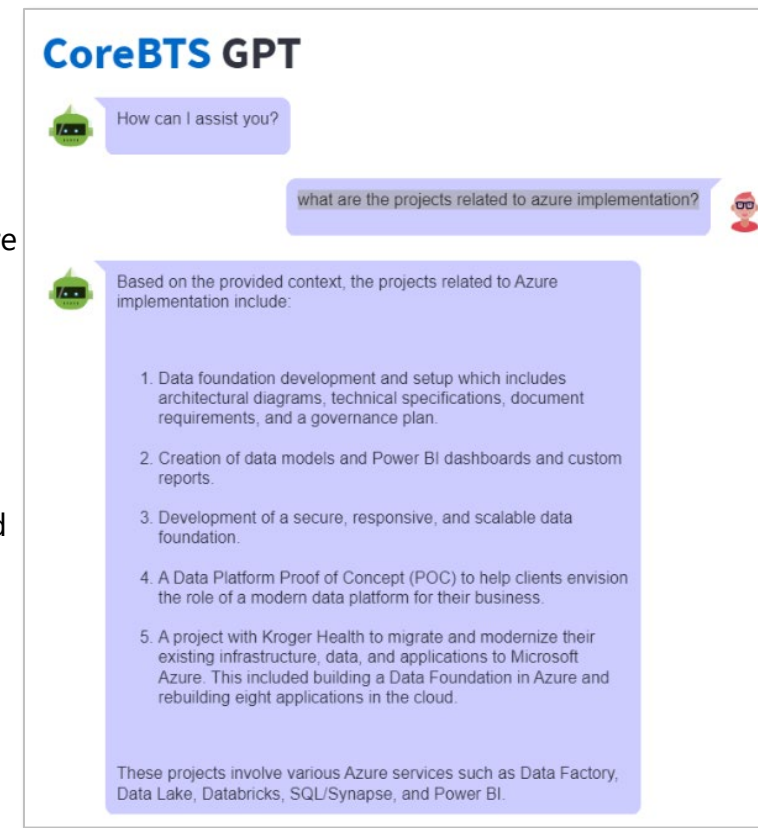
Bolster consulting sales capabilities utilizing AI assistance tools, etc.

- Begin developing sales tools that utilize AI, in an NRI Tokyo & NRI India joint project
- Currently developing a sales support chatbot with many types of in-house data (past proposals, etc.) as information sources based on the needs of sales reps

Examples of sales reps' needs to acquire information



Chatbot being developed (illustration)



Dialogue before
& after sales
visit



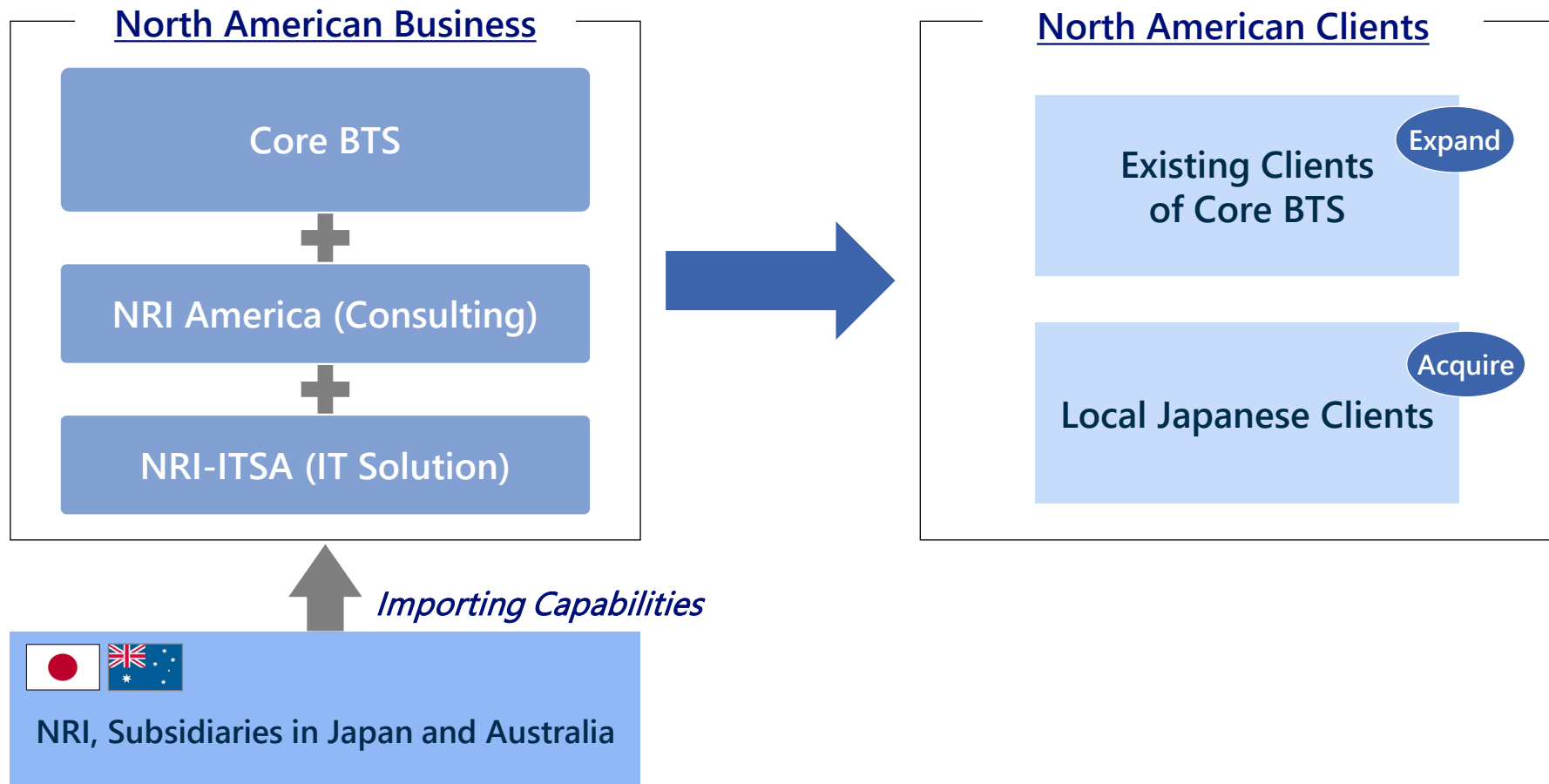
Propose based
on in-house
data



(Example of measures)

Strengthen collaboration among NRI groups

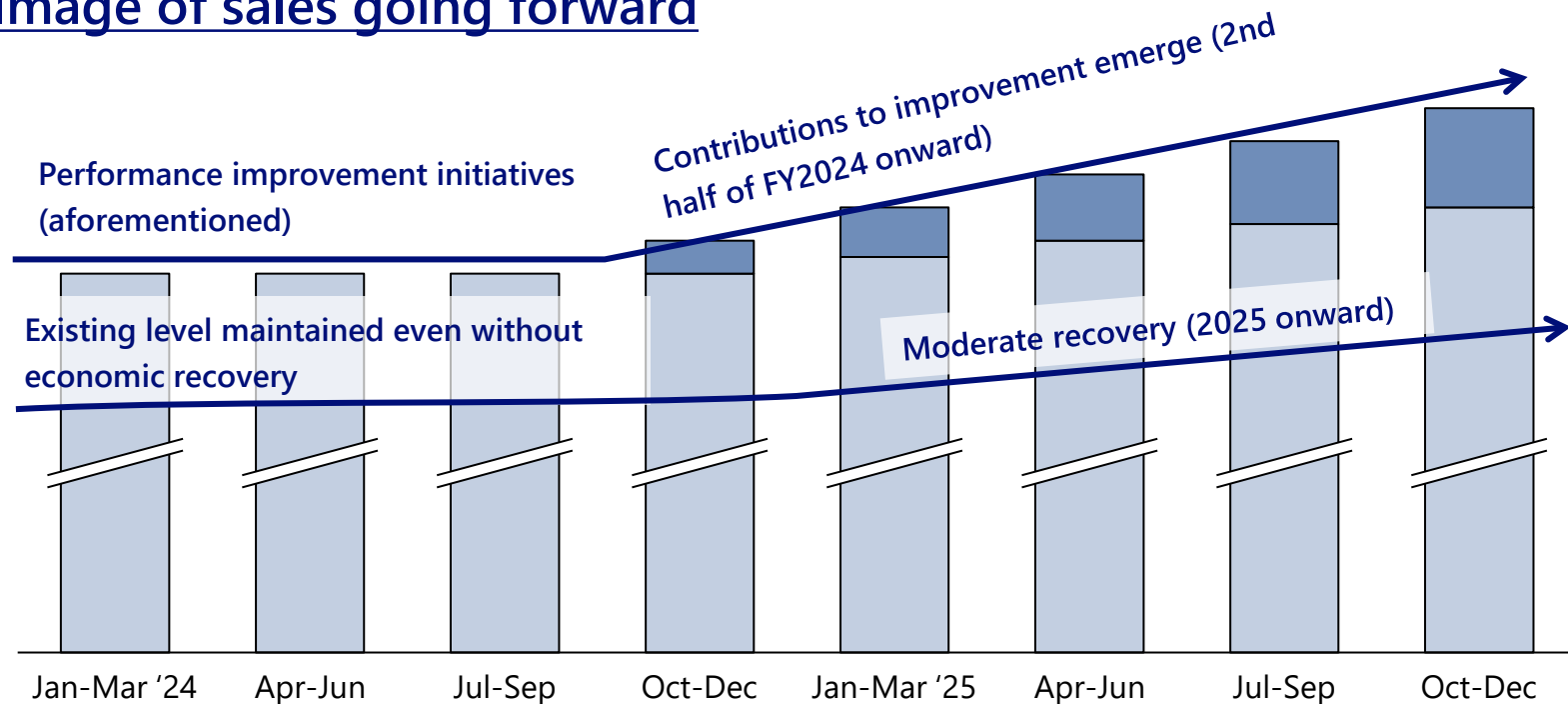
- Collaborate not only in North America but also including NRI in Japan and subsidiaries in Australia to strengthen capabilities and steer recovery toward stable growth



Expecting recovery starting in second half of FY2024

- No further worsening of performance is forecasted, even if current business sentiment continues (necessary allowances have been allocated)
- Effects from current measures are expected to emerge from second half of FY2024 onward

Image of sales going forward



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Such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and actual results may differ from those in the forward-looking statements as a result of various factors.

The Company does not undertake to revise forward-looking statements to reflect future events or circumstances.

Figures given in the reference data related to the financial results forecasts are figures which are only intended to convey the Company's current circumstances and outlook. The Company does not undertake to revise the forecasts to reflect new information or circumstances.



**Envision the value,
Empower the change**