

# The NRI Group has insight into the prosperity that lies beyond DX, and is promoting efforts toward the year 2030 in order to become an entity that dynamically transforms the world through digital social capital.

## Looking back on the past

In the seven years since I became president in 2016, NRI has seen two major turning points.

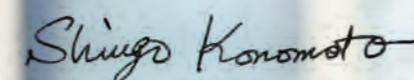
In the 2000s, I helped build a new business model for a certain client. In order to adopt online to offline (O2O) commerce ahead of the competition, our consultants discussed a business model to aim for together with the client, while our engineers attempted to build IT solutions in parallel with those discussions. At a time when it normally took about four or five years from the conceptualization to the development and operation of a system for making back-office work more efficient, this was an extraordinary approach. After this experience, I had a hunch that we had arrived at an era where the use of IT would transform business models, and that there will be a growing market where NRI could leverage its ability to facilitate collaboration between consultants and systems engineers. This hunch gradually turned into certainty and ultimately became part of our "Vision 2022" Long-Term Management Vision (V2022). This new direction gained steam from around 2017, two years after V2022 was announced, when we were able to demonstrate the true value of our "Con-Solution" business model, where our consulting and IT solutions work together to assist DX via repeated hypothesis testing in tandem with clients, from the stage of planning and conceptualization that we had a head start on. I call this turning point in 2017 the first year of DX.

The second turning point that we faced was the COVID-19 pandemic. Although we were unable to escape the impact of the pandemic at

first, the rapid spread of non-face-to-face and non-contact business models led to a rapid acceleration in DX, which was previously predicted to take as long as five to 10 years, and NRI jumped on that bandwagon. In V2022, we set a target of 100 billion yen in operating profit for FY March 2023. This was an extremely ambitious target of doubling profit from FY March 2015, but we were able to achieve it one year early. Honestly speaking, we were lucky to achieve it thanks to the exceptional circumstances.

On the other hand, we were able to achieve global business expansion, another pillar of V2022, thanks to our firm conviction, regardless of the external environment. In the long term, the total population of Japan is expected to continue decreasing and drop below 100 million around the year 2050. As domestic demand inevitably shrinks, business that is reliant on the Japanese market will obviously be exposed to risk. Because many new technologies are created overseas, we also cannot assist Japanese companies from a global perspective unless we have business infrastructure overseas. The reason that we included the strengthening of our global business in V2022 is because of the idea that we must retain a constant overseas presence in our business portfolio in order to ensure that we can continue to increase our corporate value. We set the lofty target of expanding overseas revenue to 100 billion yen despite it being less than 20 billion in FY March 2015, and were also able to exceed this goal in the final year.

I would like to add that as a result of focusing on sustainability management and aiming to



July 2023  
President & CEO  
Chairman, Member of the Board  
Representative Director



create both social and economic value through our Medium-Term Management Plan (2019–2022) in the latter four years of V2022, we have been highly praised by numerous external evaluation agencies, as exemplified by our inclusion in the Dow Jones Sustainability Indices (World Index), our MSCI rating of AAA for ESG, and our CDP A-list accreditation.

In V2022, we were able to achieve all of our financial targets, in addition to our non-financial efforts. I am proud to say that this was a result of our strategies that foresaw changes in the business environment, our successful securing of outstanding human resources including business partners, and the demonstration of our capability via the steady efforts of each and every one of our on-site employees.

## Virtuous cycle of human capital and competitive advantage

One day, I visited the president of a client company after the completion of a project. That person said something very pleasing to me, which was "I could really feel the high quality of your human resources." The project in question involved migration from a legacy system to shared online services from NRI. Because it was a large-scale system that supports lifestyles, any major trouble would be unacceptable. The president of that company also had concerns, but after we completed the project without incident, the president was surprised at the extreme detail seen in our calculations across the entire project and the fact that our staff members had eliminated risks that could lead to future problems.

For NRI to build long-term relationships with our clients, it goes without saying that it is

important to foster mutual relationships of trust among our companies. Such relationships are reliant on inter-site trust. The basis of this trust is the high quality of our projects, which we maintain in all of our solutions, services, and work, as mentioned with the previous project. Put another way, it is our meticulous ability to conduct business. NRI has honed such strengths via consistent corporate activities based on our corporate philosophy.

Since our merger in 1988, we have provided proposals that accurately identify changes in society and endeavor to achieve related projects with a high level of quality if they offer a high level of social usefulness, even if they are difficult, based on our two missions of “Discern new social paradigms and implement them” and “Build client trust and establish relationships for mutual growth” indicated in our corporate philosophy. This corporate culture of pursuing added value leads to high profitability, and this in turn enables us to continue hiring outstanding human resources with economic benefits that exceed the market average, then once again create high added value. As long as this virtuous cycle continues, I believe that we will maintain a competitive advantage and not be caught up in excessive competition.

In order to fulfill our missions at a higher level than ever before, we will continue to pass along this corporate philosophy and hone our strengths.

### A company that leads transformations

During the COVID-19 pandemic, there was a shift in various fields from providing physical objects to providing services on digital platforms, or so-called XaaS (everything as a service). There was also rapid expansion in the D2C (direct to consumer) business, where small business operators directly connect with customers. In recent times, new innovations utilizing generative AI have been launching one after another. Looking ahead to the year 2030, we are expecting to see digital twin technology where virtual spaces synchronize with real spaces, and the emergence of Web 3.0 with evolutions such as blockchain technology. It seems that the spread of diverse platforms that link various services will lead to a new industrial structure where the barriers between different industries are removed.

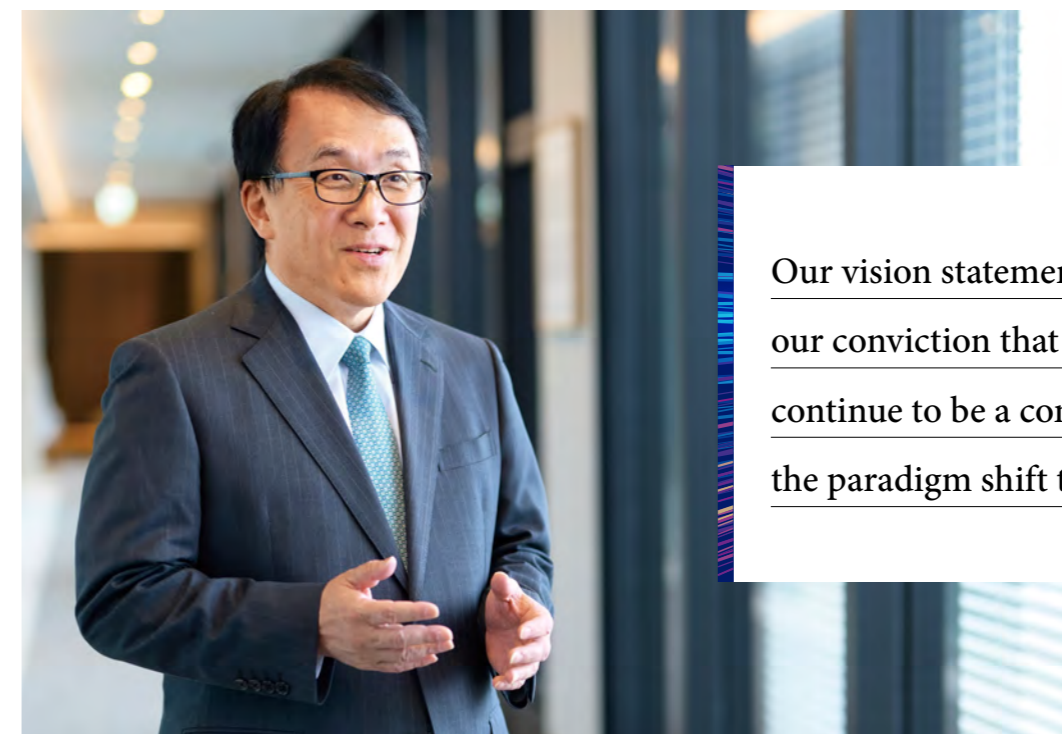
There is also an irreversible trend for tackling social issues at a global level. We must eliminate the negative legacy of escalated natural disasters, loss of biodiversity, and social inequality caused by climate change, and preserve an affluent society and beautiful planet for future generations. Digital technologies are the key to responding to such a paradigm shift.

Japan is one country where these changes are a pressing issue. Factors contributing to GDP growth include the working population, annual working hours, and labor productivity. I believe that Japan is unable to boost the first two of these three factors. In other words, in order for Japan to maintain a vibrant economy, it must resoundingly increase productivity. NRI can contribute to increasing productivity, and digital technologies are the key to doing so.

In April 2023, NRI released the NRI Group Vision 2030 Long-Term Management Vision (V2030) for the eight years from FY March 2024. The vision statement of V2030 is “Envision the value, Empower the change.” “Envision the value” expresses our existing stance of pursuing the provision of value. “Empower the change” embodies my strong conviction that NRI can be a company that leads transformations.

### Image of society and conviction of NRI

NRI has advocated a shift from industrial capitalism, which has continued since the industrial revolution, to digital capitalism. The former focuses on physical objects, while the latter is an economy that focuses on digital services. In terms of corporate management, a world that focuses on physical objects features depreciation, as value deteriorates over time. With digital capitalism, value instead accumulates over time through appreciation. As time goes by, data accumulates and algorithms evolve. In other words, data is the source of value. In order to build a highly productive society that generates high output with less labor, we must generate digital social capital that simultaneously accumulates economic value and social value by treating data as a shared asset that transcends the barriers between private and public and between different industries and fields. NRI will bring together its strengths in human capital and intellectual capital to lead the formation and



**Our vision statement encapsulates our conviction that we need to continue to be a company that leads the paradigm shift to a new society.**

accumulation of digital social capital and thereby contribute to achieving a society where everyone can lead an affluent life.

In order to make such a society sustainable, we must discover solutions for social issues, which are becoming ever more complicated. With visualization based on technologies such as digital platforms and digital twins, we will reduce external diseconomies such as environmental destruction, while also contributing to maintaining infrastructure resilient to natural disasters and cyber risks and mechanisms to encourage behavior beneficial for society and the environment, such as the optimal utilization of social resources.

Our aim in V2030 is to become an “indispensable presence” for achieving such a society. We plan on steadily preparing to achieve this in our Medium-Term Management Plan 2023–2025 for the three years from FY March 2024. However, this does not mean that we will be veering off into uncharted territory. I believe that by maintaining the course plotted in V2022 and thereby elevating our core business to a higher level, we can naturally accumulate digital social capital.

### Elevating our core business to a higher level

As we head toward the year 2030, our core business will be an important source of revenue. This includes DX, which focuses on business model transformation for client companies via Con-Solution, the migration of legacy IT assets, and business platforms such as shared online services. Our policy is to deepen and expand this business.

During V2022, Con-Solution took shape as a means of differentiating NRI from the competition and produced solid results. On the other hand, the push for DX has led to the emergence of competitors with similar business models. I am proud of our absolute dominance in terms of the quality of system development, but to maintain this superiority into the year 2030, I believe that we must further raise our competitiveness. In our Medium-Term Management Plan 2023–2025, we aim to cultivate individual consultants with the ability to make breakthroughs and promote enhanced links between consulting and IT solutions to improve the level of Con-Solution, cultivate clients, and expand our client base.



The operating margin of NRI remains the highest in the industry, but compared to before, competitors are catching up, and this has me concerned. This is because overwhelmingly high profitability is required to maintain our virtuous cycle of hiring outstanding human resources and generating high added value. With V2030, we will maintain an environment that continuously enhances profitability and enables each and every employee to feel improvement via drastic production innovation.

In the Medium-Term Management Plan 2023–2025, we will strengthen our foundations for doing so. We have already made efforts regarding production innovation in system development, including the sharing of ideas at development sites, the establishment of an award system, and the involvement of numerous business partners. Our business partners have praised our efforts as being more in-depth than our competitors. Improving productivity requires slow and steady efforts, which take time to achieve results, but on the other hand, it is difficult to obtain adequate return on investment without dividing up schedules and setting clear targets. We have shared a vision within the company, in which investment for

improving productivity during the Medium-Term Management Plan 2023–2025 will accumulate to one-quarter of our operating profit over three years, and then we will be able to reap the rewards of doing so in our next Medium-Term Management Plan. Relatively early results are expected in our attempts to utilize AI to reduce workloads in testing processes, which we have already achieved. We also foresee a ripple effect from testing processes to other upstream development processes. In the future, we aim to expand the scope of AI utilization to various development processes, while remaining mindful of maintaining quality. We also plan to shorten development periods and reduce maintenance costs by optimizing the scale of development, modernize our existing IT assets, and sharing digital IP (intellectual property) to contribute to improved productivity.

We will also promote the expansion of IP business models with high added value, such as financial business platforms, which are one of our core businesses. This evolution will ultimately lead to DX 3.0.

### Endeavoring to achieve DX 3.0 to impact society

While DX 1.0 transforms the business processes of clients via system development optimized for individual companies and the migration of legacy systems, DX 2.0 aims to transcend companies and business sectors and transform industry itself by utilizing digital technologies. The industry-spanning platform promoted by EARTHBRAIN Ltd. uses data to accumulate value via appreciation. DX 3.0 expands the scope of this DX 2.0 to society at large. In V2030, we will enhance our endeavors for DX 2.0 and DX 3.0, which will have a major impact on society. Of approximately 20 candidate themes, we will explore business where NRI can provide added value, and we have a vision for how we can realize this in the latter half of V2030.

We already have business prospects for government services, regional regeneration, and regional digitalization. As exemplified by our My Number services for the securities industry, which we achieved ahead of the competition, we will press forward with creating businesses that contribute to accumulating digital social capital and reducing social costs through the distinctive NRI approach that handles everything from conceptualization to realization. We have already launched several businesses, and I hope that they will be on track soon.

With the cabinet decision on the Basic Policy for Realizing GX in February 2023, companies must visualize their greenhouse gas emissions across the entire supply chain, and emissions trading is scheduled to start in earnest from FY2026. I believe this holds great opportunities for us to demonstrate the strengths of NRI on a platform that contributes to reducing greenhouse gas emissions.

In our Medium-Term Management Plan 2023–2025, we aim to expand DX 2.0 while accumulating digital social capital with Social DX, simultaneously achieve the coexistence of eco-friendliness and economic efficiency with Value Chain DX, and explore the possibilities of Infrastructure DX to achieve sustainable and resilient social infrastructure.

DX 3.0 will require complex coordination among various stakeholders. Because DX 3.0 is involved in social infrastructure, the difficulty of such

business is extremely high because it needs to be inexpensive in order to reduce the burden on both citizens and national finances. We will further enhance our strengths to endeavor to achieve this. As part of these efforts in the Medium-Term Management Plan 2023–2025, we will enhance our functionality as a think tank.

From the time that NRI was established, we have contributed to society via efforts such as the insight into and analysis of social issues and economic issues, government policy research, government policy recommendation, and system design. We are currently enhancing the functionality of our Center for Strategic Management & Innovation, and plan to transmit information on forming digital social capital and identifying social issues, and make rules for new markets by building relationships with policymakers. With a new organization that promotes DX 3.0, we will increase our functionality as an enabler to form an ecosystem that binds together diverse market participants with business opportunities. By achieving the implementation of this digital social capital designed with next-generation think-tank functionality via Con-Solution, I hope that we can expand the NRI approach of comprehensively providing everything from conceptualization to realization to society at large.

### Providing the added value of NRI globally

Since acquiring Core BTS in North America in December 2021, we have often heard concerns from our shareholders and investors about our overseas business. I would like to explain our basic concept of overseas expansion.

We have always invested in global business while appropriately controlling the risks of doing so. This is exemplified by our choice of Australia as our first region for full-scale expansion. Although Australia has a growing population and high market growth rate, it does not have a highly competitive environment like North America, and valuation is relatively low. We merged with or acquired 10 companies over seven years, and I believe that the reason that we were able to build business infrastructure there without any major failures is because the EV / EBITDA ratio is about

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10x to 20x, we targeted companies small enough for us to manage, and we were able to successfully apply a hands-on policy of increasing corporate value.

Our Australian business now has the foundations required for consulting, ASP services for financial institutions, application development, and managed services. In the future, we will transition to the next step where our business infrastructure will mature to achieve stable growth without being influenced by the external environment. With Australia positioned as our base camp, we can utilize our experience accumulated over these seven years as we expand to North America.

In the North American market, global vendors with enormous resources leverage their presence to reform the core systems of large companies. Our policy is to focus on added value instead of size, so that we can collaborate with regionally based vendors to comprehensively provide medium-sized companies with everything from conceptualization to implementation, and thereby achieve expansion from a different perspective to major vendors. Core BTS is our launching pad for doing so, and that is why we overhauled its sales structure in 2022. In the Medium-Term Management Plan 2023–2025, we will first focus on producing results for that overhaul and placing the Company on the track to stable growth. Upon ascertaining these results, we plan to reinforce our capability via additional M&A, and thereby build a business model with high profitability like that in Japan, from a long-term perspective.

M&A will be required to achieve overseas revenue of more than 250 billion yen by the year 2030, but we have no intention to unreasonably promote M&A in North America, which has higher valuation than Australia, simply to meet numeric targets. We also have no intention of expanding our overseas business to the extent that it harms the margins of our entire Company. We will instead carefully proceed with overseas M&A upon conducting proper valuation assessments and risk management. Because many new information technologies are created in North America, I believe that experience and knowledge gained by actually conducting business in the North American market is essential for providing appropriate IT solutions to clients in Japan. In V2030, we plan to achieve autonomous

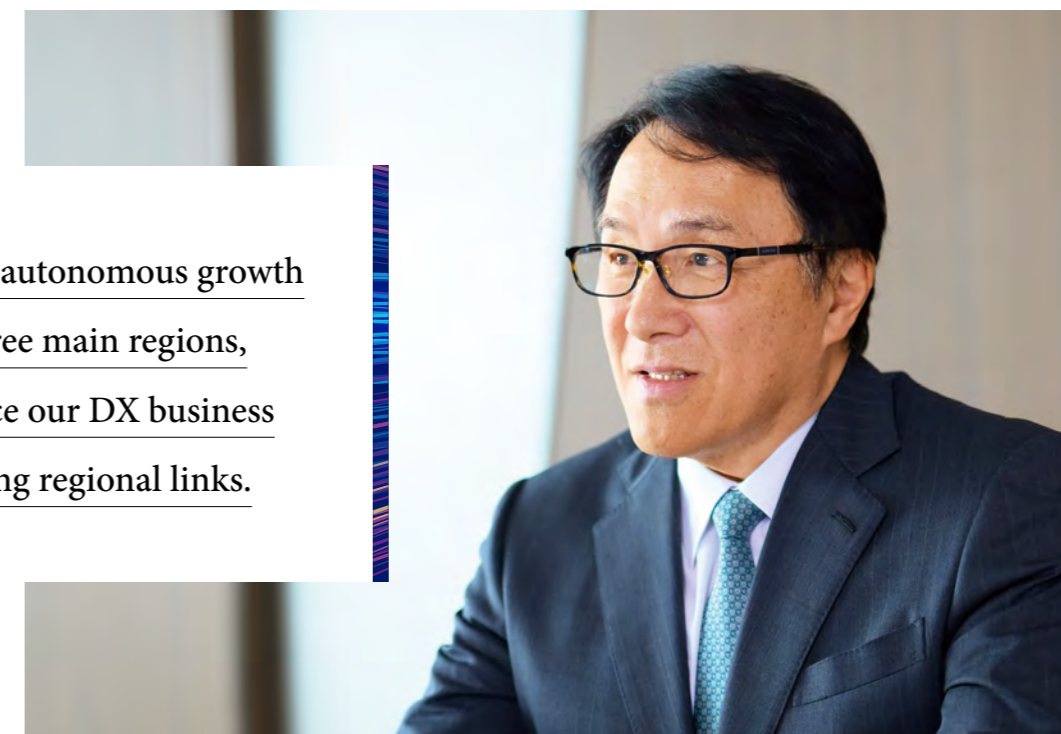
growth focused on three main regions, and advance our DX business while deepening regional links. In the future, we also plan to globalize our management by appointing overseas managers as NRI executives. I hope that everyone can understand that our global business is necessary for continuously improving our corporate value and see things from a long-term perspective.

#### NRI moving forward on a set course

Our organization is optimized for creating high-quality services without betraying client expectations. Although this quality has been a strength for NRI, I have been concerned that it has also made us excessively risk-adverse. As a whole, NRI must achieve the two somewhat contradictory ideas of quality that maintains social infrastructure and an endeavoring spirit that attempts to innovate. In the past, an outside Audit & Supervisory Board member who had conducted interviews at our various divisions once told me how surprised they were to find that all of our employees have the same method for building logical arguments. At the manufacturing company he is originally from, the various departments, such as R&D, production, and sales, all have different ways of thinking. Our top management and employees have experience accomplishing successful projects in Japan in a unique way that works for NRI. Although this has the benefit of enabling us to efficiently harden our resolve and translate ideas into action almost telepathically, it may not be so desirable from the perspective of diversity. In terms of diversity and inclusion, I believe that we must adopt more diverse ways of thinking, in addition to empowering women. That is why we are enhancing our mid-career hiring. In order to achieve this vision of the Company, we question the necessity of tackling such issues in the dialogue with our employees.

It was a great honor for NRI to be selected as a Winner company in the Corporate Governance of the Year 2022 awards held by the Japan Association of Corporate Directors. The originality of our management succession system was particularly praised. NRI research shows that if a strong leader holds the position of CEO for a long time, corporate value tends to be greatly damaged

As we achieve autonomous growth focused on three main regions, we will advance our DX business while deepening regional links.



several generations later. If the person at the top holds their position for too long, the difference in experience between the top and those below will become greater and delay the development of the next generation of managers. Our business environment is extremely volatile, and because there is a limit to the range of things that a single person can know, relying on one prominent CEO is dangerous for our business continuity. This is why we have adopted a management succession system that appoints a successor president from a next-generation management team systematically formed by selecting human resources that will comprise the next generation of core management. The previous CEO is replaced by the next-generation management team while still in office, and the team cultivates teamwork while working on things such as strategy design. Because the new CEO is eventually selected from within this team, the new management members are able to discuss things frankly amongst themselves. When the second half of the CEO's term begins, another next-generation management team is formed, and the cycle repeats.

NRI is set to take on some major challenges ahead, but I have no hesitation whatsoever. I believe that a new society is possible if all our officers and employees work together to achieve the society outlined in our corporate philosophy, and we are on track to do the course set in V2030. I hope for the continued support of our shareholders and investors as NRI endeavors to transform society via the creation of digital social capital.

*Shingo Konomoto*

President & CEO  
Chairman, Member of the Board  
Representative Director