In order to make it easier to understand, the contents of the question and answer are partially revised and modified.

(Questioner No.1)

Q: Have clients’ approaches and investment appetite concerning DX changed between before and after COVID-19? Please explain by industry.

A: Corporate activities slowed with the declaration of a state of emergency in April and May, and NRI’s business was also affected. After that, the paradigm shift caused by COVID-19 occurred, causing polarization into companies actively investing due to positively perceiving this as a business opportunity and those unable to make investments due to the severe impact suffered. Although some industries have fared better than others, there has also been polarization within industries.

Demand for IT service had contracted by around 10% according to statistics taken in around summer. The overall pie has shrunk, but we believe it is important to capture demand within that.

By industry, finance has been strong, and due to the heavy weight on this area within NRI, this has had a positive effect. Outside of finance, the global manufacturing industry has strictly contained IT investment due to deterioration of performance. Recently, demand in China has been recovering, and it is our view that investment may commence in the second half of the fiscal year. Outside manufacturing, there has been a trend of active investment in retail and e-commerce related to COVID-19, and conversely constraint on investment in areas performing poorly due to a high dependence on brick-and-mortar stores. NRI also has large clients in telecommunications and distribution, and they have been actively investing. On the other hand, travel and transportation have suffered severe damage, and are likely to limit investment this fiscal year.
Q: How has the way NRI employees work changed due to COVID-19? Also, what plans are there for the future?
A: When the state of emergency was declared, the attendance rate was lowered to around 20% and concerns about issues such as system quality emerged. This has currently returned to 50%, and we are able to proceed without any problems at that level. We intend to continue with this after the COVID-19 situation has subsided. Office consolidation, etc., has benefits for employees, and also provides cost benefits for management.

Q: You are reaching the halfway mark of the Medium-Term Management Plan, but do you intend to change the target of 100 billion yen in operating profit? Are your progressing smoothly in relation to the target?
A: This fiscal year, we expect to announce the same level as the previous fiscal year, but we are working to be able to exceed that. We believe that this momentum will continue into next fiscal year and that we will progress toward 100 billion yen as initially planned. In the FY March 2023, large projects will move forward such as major clients completely making the transition to THE STAR. This will have the effect of bolstering profit and we believe that the target is sufficiently achievable.

(Questioner No.2)

Q: I believe NRI was skilled at building on-premises systems in the past, but has there been a trend of clients shifting toward the implementation of packages and such?
A: Overall, the percentage of developing on-premises systems from scratch has decreased. Also, packages have already been implemented in cases where these can be used. However, scratch development remains for systems in competitive areas such as the front end of e-commerce systems. Outside of finance, the cloud is used for infrastructure, and it has become common practice to develop a variety of applications using AI, etc., on the cloud. There are control problems in the case of finance, which prevent everything being migrated to the public cloud. In order to respond to this, NRI has launched and is operating a Dedicated Cloud service. In the area of finance, we would like our strength to be the Dedicated Cloud, which is neither public nor on-premises.
* Dedicated Cloud: A dedicated public cloud environment installed within NRI’s data centers.

(Questioner No.3)
Q: Profit per employee is higher than that of your competitors, but why is this not the case for sales?
A: We have different business models. NRI has a business model of building and selling systems, which differs from other companies with a business model of purchasing and selling products, for example. Although we are in a competitive relationship, we are competing in a different way with different capabilities than those of other companies. I think major reasons for the high profit ratio are having consulting capabilities and also having SaaS-based shared online services that other companies do not have in financial IT.

(Questioner No.4)
Q: Is a large amount of capital investment in servers and data centers required for the transition to cloud-based systems?
A: Making infrastructure cloud-based reduces the need for one’s own data centers, but financial institutions need to use the NRI cloud or a Dedicated Cloud because a public cloud cannot undergo inspections from the perspective of control. We are proceeding with work to consolidate the current five data centers into three within the next few years, but will not make new investments in large data centers. We will continue to maintain the three consolidated data centers in future because demand for the use of the cloud will not go away.

Q: How sustainable is the current operating profit margin? What factors have led to improvement in the operating profit margin?
A: It is important not to have unprofitable projects in order to increase the operating profit margin. The profit margin was lower five or six years ago due to having unprofitable projects. Over the past few years, I think we have been able to create a system for not producing unprofitable projects by changing the way we conduct management. We were having trouble with industrial IT due to the low margins. However, in addition to costs being reduced through the utilization of the cloud, we have provided the necessary components for e-commerce and improved efficiency.
by combining these. We have increased the profitability of industrial IT by proceeding with unique manufacturing practices that other companies cannot provide.

Over the next several years, we are also going to obtain new clients in the securities sector, and believe that we may be able to further increase profitability.

(Questioner No.5)
Q:  What do you need to focus upon and what do you intend to focus upon this fiscal year and next?
A:  We face many challenges. In Japan, we don’t have any concerns because the current digitalization tailwind will continue to blow for some time. The problem is the overseas business. Overseas business was severely damaged by COVID-19. It appears that Australia will be profitable for the full year this fiscal year, but the issue is what to do with the growth strategy from next fiscal year. We do not intend to change our medium-term goals, so determining what steps to take is a major theme for the two remaining years of the Medium-Term Management Plan.

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