

(Tokyo - 20th November, 2020)

Nomura Research Institute, Ltd.

Q & A from Small Meeting for Institutional Investors

Part 2

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

(Questioner No.1)

Q: I would like you to tell me the current situation concerning customers' IT investment appetite.

A: According to the Ministry of Finance's Corporate Statistics, there is an overall market trend of decreasing software investment. Amid this trend, there is a large gap in IT investment appetite between industries due to the different impact of COVID-19 depending on the industry. Furthermore, there is also a gap between leading companies and other companies within the same industry. It is important to be able to approach companies that are performing well and have a strong investment appetite.

Q: Tell me about the status of working from home and the impact it has had.

A: When the state of emergency declaration was made at the start of the fiscal year, all employees were generally required to work from home except in unavoidable cases. There were some obstacles in production activities and sales activities such as a decline in the quality of communication with clients. At present, around 50% of employees are working from home, and we have been able to maintain conditions that do not impede business.

Q: What is the current level of progress and the outlook for the achievement of targets in the Medium-Term Management Plan?

A: The impact of COVID-19 has generally been small in the finance sector, and there are no concerns about base demand. Looking ahead, we can expect an increase in profit due to major securities firms starting to operate THE STAR. In the industrial sector, we have been able to precisely capture IT investment demand such as that related to telecommunications and e-commerce, and it is

our view that this trend will continue.

(Questioner No.2)

Q: Can you continue to improve profitability in the domestic business within the industrial IT segment?

A: One of the reasons for the increase in profitability is that there is active investment demand centered on clients with strong performance and utilization rates have increased. In addition, the reduction of the cost of building infrastructure on the cloud has also contributed. Using components to build cloud infrastructure has enabled us to build systems more efficiently than in the past. It can be assumed that the effect of improved efficiency will remain because demand for infrastructure transformation will continue.

Q: Will you aim to increase industries and the number of clients in the industrial IT segment in future?

A: It will be necessary for clients in areas such as airlines and travel that suffered negative effects of the spread of COVID-19 to limit their investment. Meanwhile, IT investment demand is increasing in specific areas such as e-commerce. It is our view that it will be better to concentrate resources on clients in specific areas with high demand than to expand the scope of business to other industries for some time.

(Questioner No.3)

Q: Have there been any changes in future overseas strategy based on the impact of the spread of COVID-19?

A: We had been aiming for 50 billion yen in overseas sales this fiscal year, but it will be difficult to achieve this. In the first half of the fiscal year, delays in public tenders for Australian government projects due to the spread of COVID-19 had an impact. Overseas orders have recently been increasing at a double-digit rate and are recovering. Moreover, we have finished establishing a system enabling us to ensure profitability through the streamlining of personnel.

The procedures for purchasing AUSIEX shares announced this April have been progressing smoothly and have not been changed. We would like to build our business base aimed at growth from V2022 through NRI-AU, which is the local holding company in Australia.

Q: I think it is generally difficult for Japanese companies to appropriately control

overseas companies, but are there any issues in terms of human resources?

A: The Japanese IT industry has a unique structure, and it is difficult to generate synergies by applying the Japanese way of management locally. In terms of technology, I think we could implement good aspects from Japan (such as locally applying the I-STAR shared online services system), but management should match the local characteristics of each region. One officer has currently been dispatched to NRI-AU in Australia, but we would eventually like to establish a system completely run by local personnel.

(Questioner No.4)

Q: How high will you be able to raise operating profit? In particular, what is the impact of improved efficiency through the use of common components?

A: While we are focusing on investment in new areas aimed at the future, profitability will not decrease because orders for both consulting and IT solutions have been strong recently and we anticipate multiple projects to migrate to THE STAR including major clients. With the use of common components, the utilization of components for building cloud infrastructure is contributing to increased profitability in industrial IT in Japan. I do not have specific data on hand, but there are also cases where migration to AWS has led to cost reductions of tens of percent. Looking ahead, it is our view that the target of 100 billion yen in operating profit in the Medium-Term Management Plan is achievable.

Q: How does the structure of the Australian IT industry differ from that of Japan?

A: Compared to the Japanese market, competition for acquiring clients in Australia is more intense because large clients are limited to areas such as government, telecommunications, finance and mining. Therefore, it is vital to establish, maintain and motivate an elite sales force. We have devised a remuneration system combining short-term and long-term incentives.

(Questioner No.5)

Q: What are the possibilities for future expansion related to e-commerce, such as analysis of purchasing data?

A: We are interested in considering how to link current e-commerce projects to system management solutions. When performing data analysis and building algorithms for stocking of e-commerce sites, NRI engineers write patches for

clients on the spot. This is more efficient and can produce value. In this way, we think there are ways to conduct business that are suitable for DX such as revising algorithms daily and handling operation as a team.

Q: Tell me about your policy on future efforts in the area of advertising and marketing.

A: Competition in digital advertising is fierce, so NRI will not run its own advertising business. It is better to isolate and work on specific operations and functions such as the provision of digital advertising evaluation tools and algorithms. However, it is unclear whether this will be a significant business opportunity, and we do not think it will become a core business domain.

(Questioner No.6)

Q: What will happen with your business relationship with Nomura Holdings including the outlook for overseas projects?

A: Nomura Holdings currently accounts for around 10% of net sales, and we would like to maintain this level. I think the general image is that we will mainly provide THE STAR system management solutions and also support several other projects. It is anticipated that the business model and business style will change with the replacement of top management, but it will not be large-scale system development as seen in the past. We have considered outsourcing back office operations of the overseas business, but we have the impression that there are few business opportunities in light of Nomura Holdings' cost reduction policy.

Q: Tell me about your policy on human resources such as the hiring and handling of switching jobs.

A: We will continue to hire several hundred new graduates every year. We are not concerned about this because we have established a brand image. Mid-career hires have fallen short of plans this fiscal year due to the impact of COVID-19, but we will hire over 200 during the year and would like to make an effort to increase this number. Overseas partner companies are also important human resources, and there are around the same as the number of consolidated employees. The rate of switching jobs has always been high among consultants. There is also an increasing number of engineers switching jobs. When choosing a workplace, there is a tendency to focus more on how interesting the work is

than the amount of pay. NRI is making an effort to make workplaces more active and increase retention by starting a system of internal recruitment for personnel transfers.

(Questioner No.7)

Q: What shape would you like the relationship with Nomura Holdings to take?

A: We would like to continue our ongoing business relationship with them as a stable client.

Q: What steps are you taking to deal with the digitalization of the Japanese government and the Digital Agency?

A: We will continue consulting and policy recommendation activities. (Although I cannot comment whether it relates to the Digital Agency) We have received a request for assistance from the government, and would like to continue to respond in future. With regard to the IT business we have not worked much in the public sector in the past with some exceptions. NRI has the leading track record in public certification solutions using My Number cards (e-NINSHO and e-Post Office Box), and we expect to expand in future.

(Questioner No.8)

Q: Con-Solution seems to be close to its final form, but are there any issues?

A: The Con-Solution method is adequate for DX centered on replacement of existing operations equivalent to DX1.0. It will not be easy to provide the same level as other companies. Meanwhile, we have limited experience with the creation of new DX2.0 business models, and would like to quickly implement these. We are conducting trial and error centered on NRI digital. Although we do not have experience at present, we would like to reach the level where we have a reputation of people choosing NRI when they want to launch a new DX business. Launching a business with a client requires up-front investment such as the assignment of a large number of consultants. How to do this presents challenges including how to determine how much investment to tolerate.

(Questioner No.9)

Q: How many engineers are working on DX2.0?

A: This is mainly being handled by NRI digital.

Q: DX-related business accounts for 60% of sales. What is the breakdown of the ratio of DX2.0 and DX1.0?

A: DX2.0 accounts for less than 10%. Infrastructure transformation makes up a large part of DX1.0 business. In process transformation, front-end projects such as those related to e-commerce appear to be growing more than back-end projects.

Q: Will DX increase in infrastructure transformation in future?

A: We expect financial institutions to migrate to the cloud. Many financial institutions use Oracle, and NRI has partnered with Oracle to establish an environment facilitating migration to a public cloud within our data centers.

End