(Tokyo - 18th May, 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: What is the current impact of the novel coronavirus on your business?

A: In consulting we tend to see lots of public sector projects popping up each year in April, but this year there are more projects related to the coronavirus in particular, and we have gotten off to a better start than we expected. As for the private sector, I cannot make any specific statements about the impact of the virus until we know our status through the end of May. In systems, production-related activities have begun on schedule for projects that were ordered in April. Tangible impact from the coronavirus could possibly appear from May onward.

Q: After the novel coronavirus has been contained, what do you expect to see in terms of new IT investment demand from the paradigm shift?

A: In our financial results briefing we presented the topics of business continuity and digital transformation of business models on page 23 of our presentation materials. As far as business continuity is concerned, we conducted a survey of more than 3,000 consumers over the Golden Week holiday to get a broader view of the impact of the coronavirus pandemic. The results showed that around 40% of all respondents and 60% of respondents who work at large companies with at least 1,000 employees are telecommuting. When we asked about workstyles after the coronavirus is contained, at least 90% of respondents said that they would like to switch to a workstyle that incorporates telecommuting. We also saw an impact in terms of increased needs for moving residences to different locations, including more people who want to live in the suburbs.

We expect this type of workstyle to bring about big changes, and we don't believe there will be any going back to the way things were. In the future, we foresee more business in addressing needs for operational optimization, figuring out which operations to incorporate and how to incorporate them while mitigating the obstructions caused by telecommuting. These projects will start with business operations consulting and lead toward systems architecture.

As for business model transformation, the switch from face-to-face to non-face-to-face is accelerating. For example, in the field of insurance there had not been much development in the shift to non-face-to-face among the channels that insurance agents use. Now these agents are unable to meet with their customers directly, so they need non-face-to-face tools instead. As for manufacturers, even those who had been operating their own e-commerce websites had previously been reluctant to make many forays into this area out of consideration to physical channels such as mass retail outlets. Now, with physical channels playing a diminished role, we are seeing clients go all-out at bolstering their e-commerce sites and shift significantly toward direct sales.

There is an emerging trend to create teams headed directly by the company president and reviewing their business operations with a use a zero-based approach. I get the feeling that these teams will soon be playing more bigger roles in the post-coronavirus market. NRI aims to establish a solid presence in addressing these needs starting in the upstream stages and provide both consulting and IT solutions that ultimately transform business models.

(Questioner No.2)

Q: In the telecommuting environment, what type of impact are you seeing on sales activities for new projects mainly in consulting?

A: The biggest surprise is that we now have even more meetings with clients' senior managers since the shift to telecommuting. It might be because our clients themselves are also having less internal meetings, but it has been easier than before to get appointments with them for 30-minute videoconferences. Our executive-level sales efforts have moved forward aggressively. Projects to significantly change business models with DX are often top-down, so this situation has the benefit of making it easier to gain commitment starting in the upstream stages, with NRI participating in committees and other meetings chaired by clients' senior management. Conversely, it seems like we are having

more delays than before in projects that proceed bottom-up while negotiating with clients' middle managers. It may be a result of slower internal communication on the client side, but in some cases it is taking longer than before to get the final OK on projects.

Q: What impact has the telecommuting environment had on production-related activities? Has the quality of communication declined?

A: Inevitably the quality of communication has declined to some extent compared to face-to-face conversations with clients. In some cases, matters that would take one hour to decide face-to-face for defining requirements or in the design process are taking several videoconferences split up into 30-minutes each to decide, which is ultimately taking more time than expected and slowing productivity. We have launched an initiative internally to obtain quantitative facts on how much productivity is decreasing. Also, we need to have clients on-hand for system releases, but many financial institutions and other similar clients have restrictions on physical commuting. As a result, we are unable to do system releases because clients cannot physically be there even though development is complete. If clients lift their restrictions on commuting from June onward, I think things will return to normal.

On the other hand, I don't think there will be any major impact on productivity in systems development work, especially offshore development which has been done mostly remotely from the beginning and has suffered no decrease in productivity even now. Some partners in Japan did not have an environment set up for telecommuting. We have been providing them a platform called Aslead Remote where they can develop in a telecommuting environment, and we've had this arrangement in place since the end of the Golden Week holiday.

Q: NRI Digital now has a stronger organization, but has it brought in enough human resources? And is communication within the company smooth and problem-free?

A: Compared to planned numbers, we have not reduced hiring due to the coronavirus at NRI Digital or in the company overall. We are continuing to hire increasing numbers of new graduates according to our original plan. As for mid-career hires, last year we hired nearly 200 people. This year we also plan to increase the number of highly skilled mid-career human resources that we hire.

Looking at the status of our orders through March we can see that client demand is robust. Even if we slow down this year due to the impact of the coronavirus, we can expect a rebound with increased demand from next year onward.

As for in-company communication, around 80% of our employees are telecommuting but we have not experienced any major obstructions to the completion of work. However, it has become particularly more difficult to provide on-the-job training to young employees. In some cases they are unable to receive advice on trivial matters in their work, and these end up taking them longer, extending their work hours and dragging down their productivity. We believe that we need to provide more one-on-one mentoring than ever to address this issue with younger employees.

Q: Is it your idea to work on initiatives that bolster future productivity while the business climate is bad, then hope those efforts bear fruit after the coronavirus is contained?

A: In a harsh business climate, orders that you push yourself to take on in order to make your sales figures can easily have the side effect of turning unprofitable. We have communicated that if there is spare capacity, we want it to be used to think about how to prepare for the future, and to act on these ideas. This would include preparations for productivity improvements that we could not implement when operating at high capacity and upgrading development environments. Our performance slumped for three years during the 2008 financial crisis, and then we bounced back dramatically. Demand will definitely come back, so we want to create the tools with which to equip ourselves when the future rebound comes.

Q: Your business overseas has stagnated for two years. Do you plan any policy changes such as reallocation of resources?

A: Including the worsening macro environment in Australia, last year was a tough year in business overseas. This year with the coronavirus complicating things further, we are prepared for even worse. Currently it is more important to work on the bottom-line numbers rather than the top line. As of the end of March we had already laid off about 100 employees. This year we plan to thoroughly adjust resources without stretching ourselves too thin.

(Questioner No.3)

Q: Overseas, what impact has the coronavirus had and what are your post-coronavirus policies?

A: Since its founding, the original ASG was focused on system management solutions, so its earnings were not significantly impacted by short-term economic fluctuations. The year before last it acquired SMS to bolster its consulting and applications capabilities, but these are vulnerable to the impact of economic fluctuations. Currently system management solutions at the original ASG which are its existing business are generating profit, but we cannot foresee a recovery in the performance of SMS which revolves around its consulting business, so we made some personnel cutbacks at the end of March. While our adjustments will minimize staff in lossmaking business areas, we will maintain the organization in the original ASG's system management solutions which are still generating profit.

As for large projects, these are in three main fields—government, finance, and telecom. While government is stable and not impacted by economic fluctuations, we cannot foresee any recovery in finance or telecom.

Q: There seem to be more opportunities for M&A. What M&A strategy do you expect to pursue?

A: We have not changed the role of M&A in our global strategy. As stated in our press release, we will acquire AUSIEX which handles the back office operations for securities at Commonwealth Bank of Australia (CBA). After the acquisition we aim to provide industry-standard platforms, including services offered by NRI. ASG will mainly operate in the industrial field while AUSIEX will mainly operate in finance, and they will establish a business infrastructure that resembles NRI.

As for future M&A, we are considering either small acquisitions to supplement the functions that AUSIEX lacks or acquiring small companies in regions where ASG does not have a presence. While valuations have dropped in North America and interest in M&A is strong, the business climate is turbulent and the current business circumstances are harsh, so we are taking a wait-and-see approach there for now.

(Questioner No.4)

Q: In the post-coronavirus paradigm shift mentioned on page 23 of your financial results presentation materials, will changes be happening faster than expected in the past, or will there be changes that you did not expect? And what changes do you expect, including to NRI itself, if zero-based reviews and reforms of business operations move forward?

A: In terms of workstyle reform, of course changes will be happening faster than we had previously expected. However, at least in Japan we believe workstyles will change tremendously, to a degree that shakes up the very way businesses are managed. In the past, the overall source of Japan's competitive strength was tacit knowledge, meaning knowledge that cannot simply be transferred through words or writing. The ingenuity that was built into the "obeya" all-hands-on-deck control room management approach became a characteristic of organizations, and an overall strength. This includes NRI and came to characterize the global manufacturing industry as well. The approach was supported by HR practices based on lifetime employment.

Telecommuting is the exact opposite of tacit knowledge, and even a refutation of its value. Are there really many managers who are prepared to part ways with operations that depend on tacit knowledge? If there are any managers who simplistically believe that telecommuting is unconditionally a good thing, and that it will improve efficiency, I would worry that they do not realize the risks.

In other words, when reforming workstyles for the sake of business continuity, as we comprehensively overhaul our work processes, we need to think hard about what we might lose by telecommuting. How can we compensate for the company's inherent competitive strength and DNA that will be compromised, or should we try to create entirely new strengths? If our business operations were cleanly divided as they are in German companies, we would function perfectly well with telecommuting. However, telecommuting has a massive impact on companies such as those from Japan which have leveraged tacit knowledge to create value, and it poses a challenge to the fundamental concepts of how these companies are managed.

NRI is in the same situation. We must find the best way to actively incorporate the benefits of telecommuting while also utilizing the strengths and operations of our organization as well as the skills and years of experience of our

employees. This includes how we might ease telecommuting restrictions for things that require tacit knowledge.

Q: This is a fascinating point, and one which I really think you should communicate more widely. Going forward, what does NRI intend to implement in order to be an appealing place for employees to work?

A: NRI conducted a consumer survey during the Golden Week holiday and we have also shared information about this survey externally. The results showed that around 60% of respondents who work at large companies with at least 1,000 employees are telecommuting. When we asked about workstyles after the coronavirus is contained, around 90% of respondents said that they see the benefits of telecommuting and would like to change their workstyle. The needs of people who have been working this way will not "go back to normal" so to speak, and as a company we must respect what they think.

Also, according the results of NRI's survey, around 60% of respondents said that they want to move to a large house in the suburbs. This makes us think employees will want different lifestyles from before, to accommodate new workstyles. At NRI we are contemplating what we can preemptively accomplish before these needs arise, such as possibly offering support as a company or taking a more in-depth approach. The specifics are yet to come, but right now we are formulating ideas.

(Questioner No.5)

Q: Is there any possibility that the 2025 Digital Cliff problem suggested in your DX report could change in nature due to the impact of the coronavirus?

A: In its DX Report, the Ministry of Economy, Trade and Industry (METI) sounded the alarm that if the existing core systems referred to as "legacy" systems are kept the way they are, 80% of costs will go toward maintenance and companies will not be able to make new investments. It also asserted that, through modernization, core business systems should be able to keep up with systems changes to business lines.

NRI is also taking consultations for projects such as migrating core systems to the cloud and modernization, but often this involves substantial cost, in the tens of billions of yen. For companies that are performing well but still cannot move forward with these projects, it becomes even more difficult when the future is

as difficult to predict as it is now. Furthermore, many of the people who built the legacy systems in the past and understand their workings are expected to resign or retire between now and 2025. We can say that the coronavirus struck at the worst time and further exacerbated these concerns by METI. On the other hand, IT vendors might see a surge of demand for core system overhauls if there is a rebound after the coronavirus is contained.

Q: In Industrial IT, why are shared online services for back office operations so difficult? Typically, this involves providing services for separate operations such as accounting and sales management, but how do NRI's services differ?

A: We have achieved a high profit margin in shared online services for back office operations in Financial IT. In the past we tried to offer the same type of services in Industrial IT, but we realized it would be too challenging in a sector not covered by industry regulations. For example, every supermarket company has its own completely different back office operations and they compete through differentiation. Of course, there are various packages of separate operations in non-competitive domains such accounting, HR, and CRM that can be used regardless of industry, but it is a low-margin high-volume type of business which is not what NRI does. At NRI we are geared toward high added-value services that provide unified back office operations and systems for industries and individual companies.

Q: I understand that you are putting together digital IP in Industrial IT, but what exactly are you working on?

A: As indicated on page 27 of our financial results presentation materials, we are working on two types of efforts. One is to combine clients' data with NRI's algorithms for use in actual business to boost added value for our clients. For example, NRI already has general-purpose algorithms for logistics optimization and other such objectives, and whenever a client has a request, we can quickly perform a simulation. Another is creating components, which aims to boost productivity of development at NRI as opposed to increasing added value. For example if we can incorporate the right components to deliver the functions needed for ordering systems when building an e-commerce system, there will be hardly any differences by business category so we can create common components.

(Questioner No.6)

Q: As far as harnessing DX demand, has the competitive environment in IT business changed? And will the competition change after the coronavirus crisis is over?

A: There are large foreign-owned companies which have globally-based knowledge, and strength in IT capabilities with a focus on consulting. They are likely trying to bolster their IT solutions but they mostly implement existing packages and I do not believe they are as skilled as NRI at putting together complex systems from scratch. Large foreign-owned companies that specialize in consulting are also competitors, but typically they do not have the significant IT capabilities required in the DX domain.

There are multiple Japanese IT vendors who are building up their consulting operations, but I think this is because they realized that they cannot generate any value by only working on the move to digital without being able to propose business models. However, building a consulting function is not easy for companies to do. In addition to bringing in talented human resources, a company also needs to build up a pool of knowledge (organizational knowledge) over time. That isn't easy. NRI has been building up expertise in each industry and providing business consulting services while generating organizational knowledge for nearly 50 years, and I don't think we will be easily caught.