(Tokyo-30th May, 2024)

Nomura Research Institute, Ltd.
Q&A from Small Meeting for Analysts
Part 1

Speakers:　・Kaga Yanagisawa
　　　　　　　President & CEO
　　　　　・Hidenori Anzai
　　　　　　　Senior Executive Managing Director
　　　　　　　Memberof the Board, Representative Director
　　　　　・Masaaki Yamazaki
　　　　　　　Senior Corporate Managing Director

（Questioner No. 1 ）

Q1: Could we reaffirm the positioning of your North American business? In the Q&A session at the business briefing in March 2024, you gave a response that you are placing emphasis on your North American business. While you have frozen new M&A for the duration of Medium-Term Plan 2025, what is your level of seriousness about business in North America after that?

A1: Within Japan demand is strong, and demand for projects such as modernizations and DX could remain for another decade or longer. However, from the perspective of our employees, clients, business partners, and other stakeholders, we must fulfill our responsibility to further grow our business over the next 30 to 50 years or longer. Relying on the Japanese market alone is risky with Japan's population in decline. There might be another train of thought to wait a little longer before expanding overseas instead of doing it now while the domestic market in Japan is strong. However, establishing the capabilities that NRI had envisioned in Australia took us around six years in total. We preferred to make our foray into the North American market during a time when strong performance in the domestic market affords us the leeway. The North American market is also where IT services and consulting originated. New technologies and business models are born there. As opposed to just looking over from Japan or gathering information through business partners, we want to do business there hands-on. We may struggle in various ways, but we need to thoroughly understand the competitive

environment and clients' needs to be able to maintain our competitiveness in dealing with Japanese clients who operate worldwide. In other words, the North American market is critical from the standpoints of addressing risk and being more competitive. We are undoubtedly making serious efforts and emphasizing our business there, but I think speed and size of investments are the points of concern in terms of how actively we are proceeding. We have frozen large-scale M&A for the duration of Medium-Term Plan 2025 to prioritize getting Core BTS on track to be able to achieve autonomous growth. We expect that to take until about the end of FY March 2026. Once Core BTS is able to grow autonomously and we can have confidence in our post-merger integration after M&A, we will then make additional investments. We are researching the competitive landscape and potential acquisition targets. The capabilities that we need are clear, but we have not decided the size or timing of the investments.

Q2: Your medium-term trajectory is now clear. This question is about turning around Core BTS by FY March 2026. You have already finished shuffling personnel. While there is an element of waiting for a macroeconomic recovery, could you share your growth potential and strategies for individual companies?

A2: Core BTS's target clients are midsize companies. They utilize customized applications, in other words packages, but there is also a market for adding customized functions in the US. We expect this market to have high growth potential. Although a larger proportion of companies handle IT in-house in the US compared to Japan, midsize companies do not have as many highly-skilled engineers as large companies, so they utilize outside companies that have technological capabilities. One effort we made was to downsize Core BTS's development and sales departments appropriately according to the drop in demand. For sales departments, we switched policies from skills transfer for network sales personnel which we initially tried, to shuffling in personnel with skills in consulting sales. Through the efforts of a dedicated team, we are starting to see the results we had initially sought in cross-selling applications to network business clients, albeit gradually. Their activity level is currently increasing, but demand has not yet returned, so it is taking time to close orders and projects are also being broken down into phases. Another is that we are bolstering our cooperation with Microsoft. Microsoft selected Core BTS as one of the first partner companies for the deployment of its Copilot feature. Technology-related information and leads are being shared with them before other companies, so they are also organizing joint seminars and events with Microsoft in application development not limited to AI, which is galvanizing lead generation. Though small in scale, a number of projects have already been acquired, and clients

have been highly satisfied with those that are already complete. We are gaining a certain level of Microsoft's trust. Third is collaboration between Core BTS and our organically-established affiliates NRI-ITSA and NRI America. As announced in November 2023, we are working toward flexibility of resources and mutual understanding by unifying the development departments of NRI-ITSA and Core BTS. NRI America which has Japanese-owned companies as clients is also introducing systems projects to Core BTS. As of April 2024, they had leads for two projects. We are doing what we have the momentum to do, as I have just described. The top line will gradually grow once demand returns. We are testing out whether the Con-Solution model modified for the way things are done in North America will have a competitive advantage there. First, we are verifying it with Japanese-owned companies.

（Questioner No. 2）

Q1: What is your leadership agenda as president? Based on your consulting experience in corporate identity and company culture, what will you leave behind in NRI's culture and what will you change?

A1: Medium-Term Plan 2025 is positioned as the preparation period for V2030. Amid those preparations, there may be production innovations or situational changes for example, but we are working toward establishing business infrastructure in North America. What I am concerned about is whether these efforts alone are actually enough. "Client co-creation" which we discussed at the financial results briefing is the evolution of Con-Solution. Particularly in industrial IT, we made further scale-ups of clients that were already somewhat large into a growth driver over these past 10 years or so. For our growth between now and 2030, we will aim to scale-up new clients—in other words, clients with whom we are building relationships in consulting but have few contact points in our IT solutions departments. During this preparation period, we should get ahead on efforts tackling new topics such as generative AI. Aside from that, there are a number of things we are considering but cannot currently disclose. We see our aforementioned overseas expansion as a major challenge. Since the management team has also been shuffled, we are taking a neutral perspective in discussing matters such as whether we absolutely must assume the presence of Core BTS, and whether we have no choice but to devotedly push forward with the original strategy. Though we are not pinpointing a change in strategy, the possibility that we actually could is on the discussion table. It is just hypothetical at this point, but we might be able to unveil something in a financial results briefing in 2025.

NRI's culture can be expressed in various forms, from client-oriented to high added-value, high quality, and proposals that deliver significant impact. Involvement in major transformations and improved business value for our clients is the raison d'etre for both our consulting and our solutions. One great thing about our culture is that instead of being a vendor that panders to clients' needs, each and every one of us has the mindset of being a strategic partner capable of communicating hard truths to our clients. Something we have been working on but need to further improve is horizontal collaboration. We want to bolster our efforts that span multiple fields. Clients are doing various types of business across industry boundaries, and we have entered an age in which individual companies or industries cannot create solutions to social issues and other problems on their own. NRI is good at making fully committed efforts for the sake of each individual client, but we will not be able to continue providing high added-value without advancements in cross-department collaboration and combining knowledge. AI is a great opportunity to take innovation to the next level. We are forming a cross-functional task force and linking initiatives originating in individual departments with company-wide strategy. While respecting the freedom of activities at our worksites, we are also sharing ways to deal with similar issues and finding other ways to eliminate redundancy. Communication between corporate officers has become more in-depth over these past few years, and we are having more casual conversations. We will advance horizontal collaborations while maintaining our client-oriented culture.

（Questioner No. 3 ）

Q1: What risks do you face in your Japanese business? Could price increases that accompany shortages of engineers and technological advancements cause appetite for investment to decline? Are you keeping client satisfaction levels high?

A1: It is important to maintain a healthy sense of urgency. We are working on utilization of AI, but there is also a possible scenario in which AI disrupts the IT services industry. Labor shortages and inability to hire enough people are risks that must be prepared for. While client satisfaction level and appetite for investment differ by client, appetite for investment in DX remains robust even after the end of the pandemic. This is a sign of the crisis mentality toward labor shortages. Clients whose businesses are maturing are seeking a breakthrough to drive growth. Activities such as partnering with other companies to take on new businesses while bouncing ideas off each other have been gaining traction. From this, we anticipate that new demand for IT utilization will arise. We think the Japanese market will hold firm for the time being, and there are no signs

of clients' appetite for investment changing. We will fully follow through on what NRI has committed to. As opposed to just earning profits for NRI, our approach is to prosper together with our clients and share the benefits with them.

（Questioner No. 4）

Q1: NRI previously had strength in finance and securities, then strengthened its standing by using consulting as a weapon to tackle DX demand. Growth rate and profitability from DX have plateaued. What will bring about an additional growth stage?

A1: AI will likely be one trigger. We see it as having a similar structure to DX. AI utilization starts from front-end, but is not large in scale at that point. Once AI is utilized in front-end, databases, core systems, and back-end must be updated. Even companies that have implemented DX without moving to the cloud will likely need to move to the cloud as they proceed in utilizing AI. This is similar to the story of how demand for corporate IT will arise next after business IT, which we communicated before DX demand arose. In DX, we anticipate that IT demand will arise in the interactions between front-end and core systems, as desired additions and new needs arise in front-end when working on core systems. Consulting and PoCs in front-end are currently the main focus in AI utilization, but the scale will grow when the focus spreads to core systems.

Q2: Generative AI will probably not actually generate much revenue, will it? Even in the US which is a developed market, only Copilot is really generating revenue. Even if generative AI powers up, only its learning speed will increase, and my concern is that it will not generate significant revenue. Generative AI has powerful communication abilities such as interpretation and translation, but can it generate revenue in other fields? Or could it be limited to uses like call centers?

A2: This was discussed in the financial results briefing for FY March 2024, but many usage cases of generative AI are currently in the field of communication and in contact points with consumers, as well as with store staff with little IT skill. Going forward, we anticipate that AI utilization in consumer contact points will catalyze the generation of transactions to connect data from core systems in real-time, and demand for systems development will arise. Even when limited to only a certain extent of front-end, in terms of overhauling the operating mechanisms behind the scenes, AI utilization will not be too different in scale from the way DX is now once entering the full-scale development phase.

Q3: Being able to use IT without a keyboard is great, but you can't make profit through AI

utilization alone. What is NRI able to propose?

A3: Generative AI is a good springboard to other things. E-commerce sites are where consumers use their computers and smartphones to search out products, and in some cases, consumers who are unable to perform the right searches are unable to find the products they want. Through the use of generative AI, consumers who are unable to perform the right searches can get the appropriate recommendations from AI. It can even do the job of sales representatives with deep specialized knowledge. Generative AI can be seen as something that expands DX needs. Chatbots that handle inquiries can also be enhanced by generative AI that combines and uses various data.

Q4: Systems integrators other than NRI can also use AI deployment in testing and development processes. Does generative AI usage for productivity improvement directly lead to better profit margins?

A4: The entries titled "applied individually" in the FY March 2024 financial results presentation materials indicate what companies are doing. AI-related tools are available all around the world. Differences arise according to the discretion of each company in terms of what AI is applied to and where fine-tuning is needed, but differences are fundamentally unlikely in the "applied individually" areas. "Applied individually" is only application to a single part of the whole from requirements definition through release. We also work on "applied individually," but NRI focuses on "applied overall." "Applied overall" re-examines everything including development frameworks and types of documents, to improve productivity with the assumption of AI usage in all processes. NRI is able to handle "applied overall" because we have our own finance business platforms among our in-house software assets. Other companies who only handle contracted development cannot imitate this. This fiscal year we will accelerate the schedule and implement updates that thoroughly utilize AI for some of the business platforms for which we are planning cloud migrations next fiscal year. We will visualize the productivity improvements by comparing updates through conventional methods with updates via AI usage. If man-hours are reduced, human resources can be allocated to activities that grow the top line. The same method can also be applied to modernizations for major insurance companies. If the margins improve, we intend to share that with our clients in some way.

Q5: Can generative AI automate the fit gap analysis, configuration, and fine-tuning when applying software owned by NRI at clients?

A5: Those types of things are included, but it reconstructs the development methods and

processes. We will be leveraging the expertise we have accumulated within NRI.

All of the processes including requirements definition, basic design, development, and reviews are performed by system engineers. For example, we are considering introducing reviews by the "AI Department Manager" in upstream processes. Generative AI will have learned what was in the reviews up to now, and the person in charge can experience a "listening exercise" from it before the actual review. AI is relatively easy to use in test processes and detailed design, but we will also find ways to utilize AI in upstream processes. High quality is our added value, and we can harness NRI's strengths by training AI with what we have accumulated until now.

（Questioner No. 5）

Q1: What are your short-term issues, moves to address them, and their impact on P&L?

A1: As opposed to the perspective of whether a problem is occurring, we think from the perspective of what can grow NRI SecureTechnologies even more, or what can increase its added value, to name a couple examples. Information security is growing steadily and generating more interest, but we are having upbeat discussions about whether it could grow even more. Aside from that, the field of consulting also has our attention. Our competitors are also growing in this field. NRI's IT consulting is growing faster than the average of all related companies, but we are thinking about whether we can actually grow even more. Our points of discussion also include disciplined goal setting, more sophisticated goal management and business management, and conditions offered to employees. Harnessing even more potential is an issue.

Q2: Are staff shortages turning into bottlenecks in information security and IT consulting?

A2: We do not have bottlenecks to the point that we have to refuse work, but we could achieve more growth if our staff numbers in IT consulting were to increase. However, the premise is that we maintain the quality of our human resources. Information security must change business models. The Japanese market has a background in which information security had been provided in an incidental service-type arrangement at low prices, and we have not been able to promote added value. We are considering schemes to increase added value, such as through combinations with other services.

（Questioner No. 6）

Q1: In your conversations with overseas investors, is there anything you think they fail to

understand, or are there any disagreements or other issues with NRI's approach?

A1: They have a different perception of time lines for overseas business, but that is likely inevitable. Also, it is not a difference in opinion, but I get the feeling it is difficult to show them how highly skilled NRI's personnel are. Although our high pay scale relative to competitors and high level of engagement are reflected in our low turnover rate, the message is still not fully getting across. I will need to think harder about how to explain it.

（Questioner No. 7）

Q1: Your strategies in industrial IT were explained at the business briefing. Could you leverage your sales by turning to solutions as you have in financial IT? What is the long-term potential?

A1: If you think in terms of four quadrants along the two axes of whether systems are complex or simple and whether or not the field is competitive, the more competitive fields tend to have more complex systems while the non-competitive fields have more simple ones. Leveraging their size, major platform providers dominate the market for systems in non-competitive fields. NRI harnesses its strengths in complex and high added-value systems. In financial IT, there is a market for complex but non-competitive field systems—the market for back-office business platforms that must facilitate compliance with systems. We had presumed there was no such market in industrial IT, but the increasing severity of social issues could cause a market to develop. Companies struggling with labor shortages have also launched cooperative efforts with each other, such as copy machine manufacturers creating joint delivery companies, although that has not reached the systemization stage yet. That could become an opportunity for implementing platforms. The scale will not likely become as large as financial IT, but we are paying attention to fields that require complex systems to address the same social issues. We are initiating considerations with the hypothesis that business could be established in customers jointly using software assets developed through investment by NRI.

（Questioner No. 8）

Q1: Competitors are already active in that field.

A1: We know about efforts in the public sector, but NRI is geared toward high added-value business for clients in the private sector. In addition to needs for cost reductions, we also

want to support clients who are tackling social issues such as eliminating labor shortages.

（Questioner No. 9 ）

Q1: Do you need the ability to maneuver conflicts of interest between companies?

A1: That is correct. This might be somewhat of a different perspective, but for non-finance clients we are about to roll out our "My Number" related business that mainly has financial institutions as clients. For existing services, we would like to add applications in non-competitive fields for various usages.