

(Tokyo-14th November, 2024)

Nomura Research Institute, Ltd.
Q&A from Small Meeting
for Domestic Institutional Investors

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(Questioner No.1)

Q1: Takeover bids by IT companies and system integrators have become a frequent occurrence. What is your opinion on that? Is it because clients' demand cannot be met without a full lineup of capabilities? Or is it because cloud capabilities are necessary for front- and middle-office?

A1: New technologies such as AI and cloud are necessary. With upwards of 1,000 engineers in the IT platforms segment for NRI on a non-consolidated basis along with over 500 engineers at NRI Secure, we are building systems with advanced technologies that are ahead of the game. There is little need for M&A to supplement NRI's capabilities. Infrastructure business is a key capability for any system integrator. Aside from infrastructure, more companies are working on bolstering their consulting functions. In DX projects, value that helps to meet management's requirements must be generated. Since we have consulting, financial IT, industrial IT, and IT platform segments, NRI already has a full lineup in place.

(Questioner No.2)

Q1: I understand that you work with a narrowed-down number of clients among each industry type in industrial IT. Even so, your slump in industrial IT was notable relative to other companies. What type of measures are you taking?

A1: Some clients are holding back on IT investments. Many of NRI's clients are leaders in their industries, and the impact is larger when those clients comprise a higher proportion of the whole. As announced in our financial results briefing in April, we believe that acquiring new clients is a measure we can take in industrial IT. We are supporting large

numbers of clients in consulting. From among them, we are already receiving requests for system architecture. In our sales pipeline in industrial IT, we have four manufacturing companies, two real estate firms, one transport company, and one energy company. We estimate the size of our individual projects to be in the medium to high single-digit billions on yen, and it is important to steadily receive the orders for projects that have entered our sales pipeline. Our policy is to achieve stability with a more flexible portfolio by expanding our client base.

Q2: Including your policy of relationships with industry leaders, what is your approach going forward? Are you planning on breaking down industry types within your pipeline?

A2: We are not only engaging with industry leaders. Through ingenuity such as tightly managing information through shared firewalls for commodified IP, we will meet demand from various different clients.

Q3: Have you been insistent on one client per industry type until now?

A3: Our quest until now has been to contribute to industry-leading companies such as Nomura Securities and Seven-Eleven Japan. The requirements are diversifying, so I do not believe there is any need to keep insisting on one company per industry type.

Q4: Has your direction become clearer since Ms. Yanagisawa took over as CEO? Will the projects in your pipeline be received as orders next fiscal year? What is the approximate timeline?

A4: We clarified the direction of expanding our client base. The aforementioned examples are atop the pipeline, and a number of projects will be starting this fiscal year as well. However, our projects in the early phases of general design and requirements definition are not that large.

Q5: Your recovery period overseas is being delayed little by little. In the first quarter, you explained that you anticipate recovery in the second half. Was there some major miscalculation? There may be some areas that you are considering carefully, but do you have any new measures to improve profitability?

A5: We have done what we needed to. To this point, we have enacted structural reforms to raise capacity utilization. In Australia we are acquiring multiple companies and have taken measures such as sharing corporate departments to control costs. However, profit will not grow if we cannot grow the top line. Currently, IT investment has not yet returned in Australia and the US, but I believe that other companies are also in the same situation.

To grow the top line in cloud business at Core BTS, we are attempting to bolster their capability to take on new projects by strengthening collaboration with NRI America which provides consulting for Japanese-owned clients and local companies, and with NRI-ITSA which handles tasks such as systems development in the distribution industry. We want them to be able to capture new projects right away when the economy improves and demand returns.

Q6: Since it seems that you have toned down your overseas M&A, are you focusing your efforts for the time being on turning things around?

A6: We have generally acquired the capabilities that we need in Australia. Once we acquired 10 companies over a six-year span, our capabilities were in place. If we were to hypothetically conduct M&A in Australia now, it would be for small companies. In North America we are prioritizing a turnaround for Core BTS's cloud business, and will not likely conduct M&A there for a while. After the turnaround, we will look for companies that can fill in the missing pieces.

(Questioner No.3)

Q1: This question is about changes to your human capital and management of human resources as a business. Based on trends in human resources systems such as job-based systems, Talent Marketplace as mentioned in your financial results briefing materials seems to have strong potential. What is its growth potential and how competitive will it be?

A1: Talent Marketplace is something we introduced as an example of AI usage and is at the stage where it will grow going forward. I believe that it has potential, but many other companies are also active in this field, so we need to add a variety of functions to maintain an advantage. We also introduced it as an example of where we applied AI in the field of optimizing the matching of human resources.

Q2: Are business companies the users of Talent Marketplace, or are consulting firms the users?

A2: Our targets are business companies that utilize a variety of internal data to optimize the matching of human resources.

Q3: In NRI's human capital disclosures, I am mainly looking at information about your hiring and human resources system. Could you comment on the competitiveness of your hiring

and the results produced from your engagement with the external labor market? Confidence levels would probably rise if NRI's name were to appear in places such as job satisfaction rankings. Are there any companies that NRI uses as benchmarks?

A3: For engagement, we use surveys from a company called Wevox. In our integrated report, we have been disclosing that our engagement score is high relative to the averages in the system integrator and contracted developer industries. Although there are no companies that we use as benchmarks in hiring, we have been perfectly able to secure our desired numbers of new graduate hires, and we have extended offers to around 500 new hires to join us in April 2025. There was a time in the mid-1990s when we cut down on hiring, but that ended up being a contributing factor to a business slump. Since then, we have maintained a policy to conduct new graduate hiring at scale, even when our business performance was not solid. Our advantage over other companies can be seen in our relatively large number of applicants. People are likely drawn to being able to handle many different types of work, and to our involvement in both IT and consulting. In mid-career hiring, it seems like good human resources were depleted during the COVID pandemic. During the pandemic we were hiring over 200 of them per year, but that has decreased now to around 150. We use mid-career hiring to replenish our ranks of those who have left, and to supplement our capabilities.

Q4: I understand that you are confident in your new graduate hiring and development. Have there been any specific episodes of things that CEO Ms. Yanagisawa worked on in the Human Resources Department, such as employees in their 20s being promoted to manager like we hear about at other companies?

A4: I worked together with Ms. Yanagisawa on the human resources system revision as the person in charge of the headquarters organization. NRI uses a mission grade system to decide an employee's job according to their capabilities. As opposed to seniority-based systems, this fast-track framework promotes highly skilled personnel at earlier stages. We actually have some managers in their early 30s. As you pointed out, we have confidence in our human resources development, and we place emphasis on having our new graduate hires contributing to business soon after they join us.

(Questioner No.4)

Q1: This question is about the relationship between hiring and the slump in industrial IT. I am concerned that your capacity utilization is declining in industrial IT, but is it safe to assume that the decrease in mid-career hiring was purely a fluke? Around what level is

your capacity utilization currently at?

A1: Since capacity utilization declines along with lower numbers of projects for distribution in industrial IT, we are shifting our resources. In shifting from industrial IT to financial IT, there are some things that cannot be done without understanding the complex operations in finance. Therefore, we are primarily shifting them to departments that require little knowledge of finance operations such as “My Number” individual number-related operations and client analyses. We are closely observing the situation after their transfers and many of them are actually telling us they are glad about their transfers. Our talented personnel are continuing to harness their skills in the environments they have transferred to. It was good to have verified that their motivation is increasing.

Q2: Going forward, will you expand mid-career hiring if you receive orders for new projects in industrial IT?

A2: Since there are also projects that are ending, in principle we make do with who we have in industrial IT. In mid-career hiring we are also working on referral-based hiring. We are paying reward compensation both to the person who joins the company and the employee who referred them.

(Questioner No.5)

Q1: Could you explain what comprises your profitability improvement in North America? Did you also reduce costs in areas that are not highly necessary, or in areas that should be increased when the market recovers?

A1: We prioritized raising capacity utilization. Hiring and releasing employees is done more flexibly in the US and Australian labor markets than in Japan. Since workload decreased, we reduced workforce while leaving a certain level of additional capacity. We will likely be competing over human resources when demand returns, but we must keep this controlled according to demand.

Q2: In your alliance with KDDI, you previously established KDDI Digital Design. That company's results have not been disclosed, but how are you assessing the efforts made through your alliance with KDDI?

A2: The purposes of KDDI Digital Design are to implement projects ordered by KDDI and to structure projects geared toward KDDI's corporate sector. It has achieved the two goals of improving the top line for KDDI and doing the same for NRI, so it is a win-win relationship.

Q3: Is your collaborative business in AI unrelated to KDDI Digital Design?

A3: It is unrelated. We have explained that NRI does not create LLMs (Large Language Models) on its own, but our collaborative business with KDDI has enabled us to acquire the capabilities of Japanese language-specific LLMs developed by Elyza.

(Questioner No.6)

Q1: Your explanation about developing new clients from consulting is easy to understand, but there are probably already vendors who have developed systems that are currently in use. Since NRI's prices are likely high, why do clients choose NRI and what are their comments?

A1: They do not place orders with NRI just for building simple IT frameworks. Lots of orders that NRI receives are for systems that handle large volumes of transactions and for systems that are critical to business strategy that help to grow the top line or transform business such as DX. We are also capturing demand for overhauls when existing frameworks can no longer keep up with new frameworks. As we explained in a previous financial results briefing, we want to create cycles such as getting involved through front-end DX where management wants to implement reforms, and connect that to overhauls of aging core systems.

(Questioner No.7)

Q1: You are planning to overhaul your finance business platforms next fiscal year. What impact will that have in the short term, and what will change over the medium to long term?

A1: When you enhance systems continuously over many years, there is the problem that dead logic increases and becomes bloated. We are deleting dead logic and reconstructing the systems to make them lean. We call these decluttering projects. Initiatives such as these are hard to implement on systems owned by clients, but they can be implemented on finance business platforms since these are company assets owned by NRI. From next fiscal year onward, we will be actively leveraging this for sequentially overhauling our finance business platforms. Doing so, we will reduce maintenance personnel and volumes of testing and coding. Although I cannot quantitatively express the effect in terms of reduced man-hours, we estimate that coding can be reduced by around 20%.

(Questioner No.8)

Q1: In situations where you build large-scale systems together with clients to transform their business models but their business does not perform well, what can NRI do to have the client make additional investments?

A1: We do want to contribute to structural reforms of industries, but we cannot do so until clients call on us. Having large numbers of consultants capable of engaging in discussions with top management is one of our strengths, and many of our proposals in those cases lead to the creation of systems. We aspire to grow together with our clients, understand the direction of their businesses, and work together with them. Currently, I think we should focus on how we can cooperate with clients to help them resolve their issues.

(Questioner No.9)

Q1: You are obviously in the phase of waiting for a market recovery in North America, but what are you thinking in terms of strategies and moves to make there going forward? There is also the perspective that M&A is a good move particularly when times are tough. Please share your current approach regarding your business in North America.

A1: Core BTS originally did business in Cisco's networks, but before their acquisition by NRI they had acquired four companies in the cloud business over a span of two years with an eye on the future. We also consider this cloud business to have sufficient growth potential. However, the post-merger integration between the four companies had not yet matured. For that reason, we launched collaborations with NRI-A and ITSA business to first establish business infrastructure in cloud. Before making any further acquisitions, we want to work on properly turning around the existing business.

(Questioner No.10)

Q1: How much potential for new client acquisition is there for THE STAR, and what would be the timeline?

A1: Without looking at timelines, there are multiple securities firms facing issues in their accounting systems. The scale of each potential client varies, but we believe there are further opportunities and are laying the groundwork for new acquisitions. The key is how well we can promote ourselves to companies that have legacy systems. Making good use of what we achieve from decluttering and other efforts, we are improving our service level and determining when to acquire new clients.

Q2: Do you revise prices for shared online services once per year? Is there any room to raise unit prices?

A2: We are reaching out to our clients when we can, while keeping our eyes on the overall trends. Along with increases in service level, we have also begun quoting unit prices in negotiations with clients. Our standard contract periods are either three years or five years, and we stick to negotiating prices along those timelines. We are explaining the rising labor and procurement costs as the reason for this round of price increases.

Also, aside from THE STAR itself, there is demand for improving the functionality of mechanisms surrounding it. For example, some things must still be created in mechanisms that offer more convenience for clients such as using My Number in procedures for opening new accounts. There is still potential to offer functionalities with competitive advantage in areas around THE STAR. While there may be a limit to how much we can increase our market share, there is still plenty of room to increase functionality.

(Questioner No.11)

Q1: Is there any room to improve your margin domestically? It seems like the business environment has changed since your medium-term plan was formulated, and that your margin in business such as AI-related projects is improving. What is your current progress in improvements through your own efforts, and how much improvement can we expect going forward?

A1: Profit contributions from AI will take a little while longer. We are constantly working on improving productivity. Profit margin is temporarily lower right now in industrial IT, but operating margin had been in the high single-digit percent in 2015 but improved to the current level of around 10%. This is attributable to efforts such as increasing the scale of clients, utilizing partners to improve efficiency, and integrating enhancement structures. Going forward, we will also improve productivity through AI usage. In NRI Group Vision V2030, we aim to further increase our domestic profit margin in order to ultimately raise our overall profit margin to over 20% from its current level of around 16%.

Q2: Is there growth potential in your domestic business? And if so, what will be the drivers?

A2: Shared online services primarily in finance are a source of profit for us, with a high profit margin. We get asked about whether we could create shared online services in industrial IT also, but unlike finance, the industrial field is a world of open competition. There are some things we have considered in the past, but it would be difficult to create shared

online services there. However, we can make shared services out of functional elements. One example is IaaS. Since AWS or Azure is used for the platform, we can build these in short periods of time. For applications also, we can improve efficiency through the use of shared functions. Our profit margin is rising as a result of utilizing partners and exercising ingenuity in how development is done, and there are still more things we can try to accomplish.

(Questioner No.12)

Q1: What will drive a recovery in demand overseas? Will the inauguration of President Trump have any impact on your business in North America?

A1: Clients will not regain their appetite for investment if interest rates do not improve. Interest rate developments are currently hard to anticipate. Our manufacturing clients could also potentially be impacted by trade protectionism, but that is still uncertain.

(Questioner No.13)

Q1: Recently it feels like there are less unprofitable projects in the industry as a whole. There could be various factors behind that. It could be that the environment surrounding the industry is favorable or that each company is handing projects in their respective areas of strength, but how are you looking at this trend in terms of NRI itself and the industry as a whole?

A1: Throughout the industry as a whole, the level of quality management is increasing at every company. We were ahead of other companies in building and operating our NRI-QMS (Quality Management System) quality control framework, and the fact that we have thoroughly maintained it is a strength. We had many unprofitable projects a decade ago, but there have not been any in recent years. Thorough quality control has been key. Unprofitable projects are indicated in version updates for QMS, and we are consistently creating mechanisms to prevent them from occurring again. We have a Quality Control Department as the specialized department and have a system in place that enables quick responses when emergencies occur. I think this is also a result of our Project Assessment Department which supervises projects in progress, as well as the Information Security Department and Partnership Administrative Department always responding according to the circumstances whenever something occurs.

Q2: GPUs that use AI are installed in your data centers, but GPUs are expensive. Will investments in system infrastructure pile up as more AI is used going forward?

A2: We do not handle housing for data centers. GPUs have been installed to be able to swiftly meet the needs of clients who have systems at our data centers and want to utilize AI in a secure environment. We do not just sell the capabilities of the GPUs.

Q3: Is housing not profitable?

A3: You need to operate at a certain scale to be profitable, which requires large investments. Since this business also does not require sophisticated housing, we always aim to provide added-value software services as opposed to just infrastructure.

(Questioner No.14)

Q1: For domestic clients outside of finance, investments are growing in global manufacturing at other system integrators, mainly in automotive. The focus is easy to understand—software in automotive and ERP everywhere else. NRI is probably not deeply involved with either of these, but choosing not to capture these volume zones might result in poor performance. What do you think about that from a management perspective?

A1: Originally, NRI was strong in finance and then branched out into industrial. Since we cannot be considered to have strength in plants and manufacturing lines, our relationships with manufacturing clients who own plants are not extensive. However, we do have relationships where we are involved in areas other than manufacturing lines, such as cars' CAN (Controller Area Network) data in car companies' systems and in frameworks for dealers. Rather than push ourselves to get out to the manufacturing lines, our approach is to think about where NRI can contribute and also interface with clients in manufacturing and services.

Q2: Do your target clients in consulting include those at the Tier 2 level in global manufacturing and automotive?

A2: We are targeting companies that have a certain level of budget for IT investments. We also began discussions with the four manufacturing companies in our pipeline through consulting, and they are giving us opportunities to make systems development proposals. We are not staying away from manufacturing.

Q3: I cannot envision AI being applied full-scale to clients' system integration. Another company in the same industry says that man-hours in coding processes decrease after

around five years. Development-related man-hours decline as the shift to AI progresses, but what are your thoughts on the balance (between productivity improving and prices declining)?

A3: We are currently working on Steps 1 through 3 of AI usage as Ms. Yanagisawa announced in April 2024. Effects are also being produced in applying AI to test processes in system integration on an individual basis. Man-hours may end up decreasing and clients might start asking for lower prices, but there is also an advantage in that it boosts the turnover rate of staff. We will leverage AI to diversify our portfolio of clients, increase task turnover rate, and take on as many work assignments as possible.

Q4: Will AI also increase work efficiency in consulting?

A4: In consulting, we cannot differentiate ourselves from competitors just by using what AI produces as-is. Achieving differentiation will require the expertise to utilize AI effectively through ingenuity.

Q5: Are you using ChatGPT o1? Although it takes longer, I hear that it can answer difficult discussion topics.

A5: We have not deployed it company-wide, but it is being used at our AI CoE (Center of Excellence). AI has two usage patterns—one for when you want quick answers, and one when more time should be spent deliberating. As more types of AI become available, the key will be choosing the right AI for the circumstances.

(Questioner No.15)

Q1: What is the timeline for a recovery in industrial IT? Could we feel any reassurance that growth from new clients will happen around the first half of next fiscal year?

A1: The contribution to revenue this year from our pipeline will not amount to much overall. In addition to the effort required in upstream processes, the monetary amounts are small and profit margin is low. Since this year is the launch phase immediately after receiving new clients' orders, revenue should gradually ramp up once these enter the development process next year.

(Questioner No.16)

Q1: There are discussions of business portfolio reshuffling and acquisitions among your main clients. How deeply should we be thinking about those risks?

A1: This is ultimately something that clients decide. Whatever happens, we want to continue performing the work they have entrusted us with.

(Questioner No.17)

Q1: It seems like the lead time from receiving an order to recording revenue has gotten longer. How should we be thinking about the characteristics and time periods of projects?

A1: Large projects are characterized by long lead time since it takes time to receive those orders. For new clients, it also takes time because we need to gain an understanding of the client's particular business practices.

At the time when projects get started, first only the upstream processes are added to order backlog. After that, accumulation in order backlog grows even larger in the development process. Since the requirements definition process is longer for large projects, it often takes longer for those to be recorded as revenue.