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Nomura Research Institute, Ltd.

Q & A from Small Meeting for sell-side analysts (1st)

Speaker :

Yoshio Usumi, Representative Director, Member of the Board,
Senior Executive Managing Director

Kenji Yokoyama, Group CFO, Senior Corporate Managing Director

Kuniaki Fujioka, General Manager, Investor Relations Department

- In order to make it easier to understand, the contents of the question and answer are partially revised and modified.
- Glossary :
 - DX : An abbreviation meaning Digital Transformation, which refers to initiatives that utilize digital technologies to reform business models and processes
 - CiT (Corporate IT) : IT that helps enhance the quality and efficiency of clients' internal operations, including core information systems
 - BiT (Business IT) : IT that contributes directly to the expansion of client businesses

(Questioner No.1)

Q : Please tell us what impact there was on NRI, such as damage claims, from the connection failure at the Tokyo Stock Exchange in October.

A : This connection failure was caused by a massive data transfer from Merrill Lynch Japan Securities, and NRI was not directly involved. The Tokyo Stock Exchange is currently working on cause analysis and recurrence prevention measures, and we support the formulation of these measures. This incident has had no impact on the performance of NRI.

Q : When recurrence prevention measures involve system-related work, does it have any financial impact on NRI?

A : I think that work on recurrence prevention measures mainly geared toward the Tokyo Stock Exchange can be absorbed as regular repair costs for shared online services.

Q : Are dealings finished between NRI and client securities companies pertaining to this connection failure?

A : For our part, we have provided explanations individually to each securities company. The Tokyo Stock Exchange also held a briefing for securities companies which are its participants. As stock market participants ourselves, we are also supporting the development of recurrence prevention measures.

Q : Please tell us the current business trends with NRI and Nomura Holdings joint venture company Nvantage, and how much of a profitability contribution you are forecasting it to make in the next Medium-Term Management Plan.

A : The plan is for Nvantage to provide services not only to Nomura Holdings but also to other global financial institutions, and we will determine the forecast for its business expansion over a timeline of about two years.

(Questioner No.2)

Q : In terms of overseas sales, V2022 sets a target of 100 billion yen, but please tell us why growth was weak in the first half, and what organic growth you are forecasting including subsidiaries acquired through M&A.

A : Looking at the overall total over the three years of the current Medium-Term Management Plan, there may be some deviation from the 100 billion yen in overseas sales targeted in V2022, but we still believe that we are making steady progress overall.

In Australia we intentionally restricted the number of less profitable projects in the first half, with the goal of shifting toward large managed services projects, so growth in terms of sales was weak. We are now settled in to this rearrangement of projects, have obtained overseas ratings, and have generally readied a system for making bids to government institutions, so I expect to see growth going forward. I also explained this in the 2Q financial results briefing, but the scale of our bidding is raising our success rate at winning orders when making bids for government institution projects.

Q : Do you think the exchange rate will cause business in Australia to contribute negatively to profitability in the second half?

A : The Australian dollar is significantly cheaper now than it was when making the business plan, so I do believe it will have a certain level of impact.

(Questioner No.3)

Q : Through your discussions with investors, what do you think is behind the recent correction in your stock price?

A : First off, the status of the entire Japanese stock market is having an effect. As for our stock in particular, it appears that value investors sold shares to lock in profits to achieve their goals while the valuation was high. At the same time, there are investors who have been watching NRI and are using this correction as an opportunity to buy.

Q : What is your thinking on new systems development for financial institutions?

A : I think new systems development in securities is at a low point this year. We will likely have further increases in both securities and insurance in the next Medium-Term Management Plan.

(Questioner No.4)

Q : For the acquisition of human resources, how are you proceeding with new graduate and mid-career hiring?

Also, how much labor cost do you forecast for bolstered hiring efforts?

A : For new graduate hires, we have many more applicants than positions for system engineers, and I think we will be able to handle increased staff numbers. For mid-career hires, we are currently hiring for around 100 positions but hope to double that next year. This does not mean lowering the quality of people we hire. Also, the increase in labor cost will be within a range that can be absorbed by increased revenue.

(Questioner No.5)

Q : Are business partners acquiring human resources?

A : I have heard from business partners that the hiring environment is harsh, but we are building closer relationships with them to enable them to be able to take on resources preferentially, at the necessary timing.

Q : Do you forecast rising costs related to partner personnel needs?

A : While we are shifting Chinese offshore resources from coastal to inland areas to keep costs down, we do anticipate a certain level of cost increases. However, this will be within a range that can be absorbed by increased revenue.

(Questioner No.6)

Q : The sales growth rate in the next Medium-Term Management Plan is much higher than the average growth of the IT services market. Immediate demand may be favorable but in your current state of having to select orders to accept, how will you achieve this plan?

A : We are finalizing policies to ramp up our hiring of human resources, who are key to achieving this. In addition to increasing staff numbers through hiring, we are also working on optimizing our resources through internal relocations and reassignments.

Q : In fields such as DX there are more projects that only a limited number of human resources are able to handle. Is there a chance that the lack of such human resources will become a more severe problem?

A : We are proceeding with policies to shift NRI employees toward more upstream processes and strategic fields such as DX. We are also redefining the roles of our partners to have them handle a broader scope than before.

(Questioner No.7)

Q : Are there a lot of clients with whom you never had any business for CiT but have started doing business for BiT?

A : Among information that we have disclosed, DMG Mori is a case where we had only done consulting business with the client, but have expanded business with them through BiT. New clients are indeed increasing through BiT, but since sales for BiT-only projects are not high we are focusing on expanding our range of support to include CiT.

Q : In the field of DX2.0 (business model reforms through digital), on what sort of a timeline will there be profit contributions from initiatives to establish joint ventures with clients in the next Medium-Term Management Plan?

A : We are only working on DX2.0 initiatives with clients that are making serious efforts to invest in IT. We believe these initiatives will contribute to profitability in the next Medium-Term Management Plan.

(Questioner No.8)

Q : In recent years companies with subscription-based revenue models (charging for periods of time to use for software and services) have been gaining recognition. While NRI has made some shift toward the subscription-based model, though it may be high-end the majority of business is still the contracted development model.

As the working population decreases and it becomes harder to acquire human resources for contracted development, will there not be a need for NRI to make additional changes to its earnings structure?

A : NRI has been making continuous efforts to make contracted development account for a smaller portion of our sales. This includes having made continued investments in shared online services, and having focused on projects that do not stop at development of individual systems but also lead to long-term subcontracting for managing them.

Q : In the field of DX, are you able to package the expertise accumulated through client support in consulting, and offer it in subscription-based form?

A : It is possible to create packages in the field of head office operations such as human resources and accounting and the field of back-office in finance, but operations systems in industrial are differentiated for each client and cannot be packaged.

Also, mainly in industrial there are also more projects where we provide total support utilizing public cloud and packages, and on-premises from-scratch development.

Q : Do you think the ban on Huawei products will have any impact on NRI offshore development in China?

A : I currently do not believe there will be any impact.