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Nomura Research Institute, Ltd.

Q & A from Small Meeting for Institutional Investors

Speaker :

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- 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 : Do you forecast sales to securities companies to be more difficult in the second half of this year, and next year?

A : There is not much happening now with Nomura Holdings as far as the transition to THE STAR and large projects, so we believe the level of sales to Nomura Holdings is at a low point this year. For other securities companies we can be optimistic about demand for THE STAR implementations for cost reductions, entries into other industries, and larger investments in DX. I think this year is a low point for sales to securities companies, and we hope to bring about a recovery next year and thereafter.

Q : In the pre-order inquiry stage and other interactions, do you sense things picking back up with Nomura Holdings in the immediate future?

A : Not in a way that we can immediately see. However, looking at past performance the second half is more promising than the first in terms of orders. We also do not reducing IT investment below what it was this year from next year onward.

(Questioner No.2)

Q : Why has operating profit margin in the financial IT solutions segment increased despite the decrease in sales to Nomura Holdings?

A : Human resources for securities are gradually being shifted toward the insurance and industrial IT solutions segments where performance is strong, and we are seeing the effects of having an appropriate cost structure. Improved productivity in shared online services such as THE STAR is also a contributing factor.

Q : Can the shifted human resources be pulled back in the future if orders from Nomura Holdings pick up again?

In that case, how would you address the long-term issue of insufficient human resources?

A : Some human resources can be pulled back as needed. We see human resources as an issue, and we are already bolstering new graduate and mid-career hiring this year. We plan to increase these even more next year, with double our current level of around 100 mid-career hires.

(Questioner No.3)

Q : How much progress have you made with productivity improvements in the industrial IT solutions segment?

A : Making our operations enhancement system more efficient than before has been one factor behind increased operating profit margin in the industrial IT solutions segment. Being able to select which orders to accept amidst strong demand is also contributing to better profit margin.

Q : In selecting projects, are you achieving a higher profit margin on orders than before?

A : We have not changed our baseline 15% standard profit margin. In the past there were times when we tended to take certain orders below the standard when demand was low even though there was risk involved, but we have now been able to distance ourselves from such projects.

(Questioner No.4)

Q : In terms of human resources, would it be possible to increase sales by increasing your subcontracting ratio?

A : Having leverage through the use of outside resources is important for growth, and we are always considering the possibility of expanding our partners domestically as well as in countries like China, India, and Vietnam.

Now, to compare our current subcontracting ratio (the ratio of personnel required from business partners compared to the number of our Group employees) to the past, the effect of having made a Chinese business partner into a group company needs to be subtracted. Additionally, there were cases when our subcontracting ratio was high in the past due to taking on unprofitable projects, so increasing this ratio does not necessarily lead to growth.

(Questioner No.5)

Q : There are lots of firms in the finance industry that are entering other industries. Does this represent an earnings opportunity for NRI?

A : I think entry into other industries in the securities and banking industries is a promising business opportunity. When entering into a new industry there are a lot of cases that would be a good fit for our shared online services, where companies need to reduce costs while lacking expertise in the business operations.

(Questioner No.6)

Q : Could the number of companies that use THE STAR still increase?

A : Yes, we believe this is possible, and contributions from an increase in companies using THE STAR will also be forecasted in the next Medium-Term Management Plan.

Q : There was a newspaper report saying that the system build for Line Securities is behind schedule due to problems with NRI. Is this report true?

A : I cannot provide any details, but I am not aware of any problems occurring.

Q : What kind of projects are there involving entry to new industries, and are these contributing to sales at NRI?

A : There are projects ongoing and some still in the sales stage, but I will have to refrain from providing any specifics.

(Questioner No.7)

Q : This year it seems the progress rate of Sales + Order Backlog (planned sales this year) was sluggish in 2Q. Do you expect to be able to rectify this for the full year?

A : In addition to the forecast for domestic business, our forecast for the year of 510 billion yen was also set with M&A in mind for our overseas business. I believe orders and projects in the pre-order sales stage appear particularly strong domestically, mainly in consulting and industrial IT solutions.

(Questioner No.8)

Q : I heard that overseas you had some unprofitable projects in the US, and are thus now selecting which orders to accept, but what type of policy are you employing for accepting orders?

A : In the US we limited the number of orders we would accept in the first half because we were handling unprofitable projects. We have now finished dealing with these, and are at a stage where we are looking to get restarted there. What you mentioned in your question about selecting orders is actually a different matter; this is happening in Australia. As unified management of ASG and SMS gets into full swing in Australia, we are curtailing lower profitability projects there, and shifting toward managed services projects for which we can forecast long-term profitability.

(Questioner No.9)

Q : What is your thinking on your decreased ratio of sales to Nomura Holdings?

A : With earnings stability in mind, we would like to diversify our clientele over the long-term. From that standpoint there is no problem with our ratio of sales to Nomura Holdings decreasing. However, we would like to increase our sales in terms of absolute amount by broadening the range of support we provide to Nomura Holdings.

Q : If a global economic downturn were to occur, with stock prices falling and the yen rising, will NRI accelerate overseas M&A or will greater emphasis be placed on domestic business?

A : We emphasize boosting recurring revenue from shared online services and system management services in order to be prepared for economic changes. Our stance toward carefully conducting M&A will not change, regardless of the economic situation.

Q : Please tell us your policy for dealing with the TCFD (Task Force on Climate-related Financial Disclosures).

Also, having just begun issuing green bonds domestically, what do you think is necessary for expansion in green bonds?

A : In consulting, our clients are increasingly approaching us about TCFD. On our part, we are considering TCFD-related disclosures, and we plan to introduce our policy for handling these in an ESG briefing session to be held in February of next year.

For green bonds we are currently increasing issuances. In particular, we have established the practice of issuing green bonds as long-term industrial bonds for acquiring buildings, and we expect to utilize them more broadly in the future.

(Questioner No.10)

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.

(Questioner No.11)

Q : I understand that you have a standard profit margin of 15% for accepting orders for systems development projects, but is this margin different than it was in the past? Also, is there a possibility that you could raise it in the future?

A : We have not changed our standard of 15%. There are cases where we lower the standard to accept orders strategically for projects involving new clients or topics which could lead to future business growth.

Q : In the financial IT solutions segment you currently have a lot of sales in the back-office field, but is it possible that DX could be a core business field in the future?

A : There are also a lot of front-office-only projects for DX, but also many that can lead to back-office. However, I think that in the future there will no longer be projects which do not include the element of DX, and therefore there will be no line of separation between projects that include DX and those that do not. By bolstering DX we would like to grow total overall sales for front and back office.

(Questioner No.12)

Q : In the IT platform services segment, how much sales and operating profit margin are you forecasting in the next Medium-Term Management Plan?

A : We will grow security business solutions geared toward external clients independently. However, around 80% of the sales in this segment are internal sales for financial and industrial IT solutions, and sales will grow in proportion to the growth of both segments.

Q : How will you go about achieving the target of 100 billion yen in overseas sales in next Medium-Term Management Plan?

Also, we are seeing some sales for use of shared online services overseas, but do you think you have potential there for even more growth?

A : Organic growth alone will not be enough to achieve 100 billion yen in overseas sales, so we will utilize M&A. However, we do not go about M&A with the goal of buying sales.

In North America and Australia, we have indeed started to bring in sales for usage of I-STAR, our shared online service for wholesale securities companies. However, it is still at a stage where it contributes little to profitability.

(Questioner No.13)

Q : Will DX go beyond being just a transient boom? Will clients work with it and produce results?

A : We receive a lot of consultations about DX from managers, and it is something that leads to transformations of entire systems, not simply localized topics. I do not think that DX will just turn into a buzzword and end up disappearing.

(Questioner No.14)

Q : About what ratio does DX comprise of sales in industrial IT solutions?

A : We are making preparations to be able to disclose definitions for DX and how much sales it generates as we gear up for the next Medium-Term Management Plan.

(Questioner No.15)

Q : Please tell us the status of your hiring for consultants, including developments in competition with foreign-owned companies and such.

A : Generally, our policy is to create a human resources foundation with new graduate hires, and utilize mid-career hiring to acquire the expertise that we need. We are highly competitive in our hiring for new graduates, and we are not having any difficulty. For mid-career hiring, we are already offering preferential conditions to acquire the people we need when we find them. Going forward we will further bolster our hiring.