

(Tokyo – 21th May, 2021)

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: Looking back on last year as a whole, what is your overall assessment? And what is your position on this current year?

A: At our financial results briefing in April last year, we said that we considered the impact of the COVID-19 pandemic on financial IT solutions to be mitigated, but orders in consulting and industrial IT solutions could be significantly impacted. Looking back now on what actually happened last year, there were restrictions on sales activities in consulting during the first quarter, but orders recovered significantly after that—mainly in Japan. In industrial IT solutions, there were clients who restricted IT investment such as airline and travel-related companies, but IT investment grew significantly in sectors such as e-commerce. Overall, business was active in industrial IT domestically as the positive impact outweighed the negative impact.

Overseas, the situation was harsh in North America throughout the year. Australia was impacted by COVID-19, but gradually trended toward recovery and seems to have now returned mostly to normal operation. This fiscal year we are forecasting continued strong performance in consulting and industrial IT. Overseas, we also expect sales to increase significantly year-on-year, and we expect the stable growth last year in financial IT to continue this year.

(Questioner No.2)

Q: What is the status of your analytics initiatives? Are there any new developments, such as cases of contributing to sales increases for clients, or cases of these initiatives leading to new business?

A: We have more analytics projects in the industrial sector than in finance. There are cases where we help make more efficient use of resources by optimizing transport routes. In automotive, there are cases where we are considering whether we can utilize data obtained from in-car equipment and link it to services that we could provide or other possible uses. For AI-based ordering in the logistics industry, we are working on initiatives to level out orders between multiple store locations. Currently we are verifying the effects of data utilization with clients, while considering improvements to usage methods such as more sophisticated algorithms. This has not reached the point of tangible contributions such as increased sales revenue or new business creation, but the number of projects is increasing.

Q: You have set a goal to reduce your greenhouse gas emissions 100% by FY2050 though the move to renewable energy, but is there any chance this goal could be achieved earlier?

A: At the moment, our greenhouse gas emissions reduction goals are 72% by FY2030 and 100% by FY2050 compared to FY2013. However, decarbonization is an increasingly important issue worldwide, so our considerations for this are ongoing. That includes the possibility of accelerating these goals.

(Questioner No.3)

Q: What is the thinking behind your capital efficiency ratio on par with Europe and North America, with ROE at 20%?

A: In our current Medium-term Management Plan announced in April 2019, we set out the goal of having ROE of 14% or higher in FY2022. Now our ROE has already exceeded 20%, mainly due to a large buyback of treasury shares in FY2019. We intend to keep our ROE at around the 20% level going forward. Based on that presumption we intend to consider our capital policy, including treasury share buybacks, at the appropriate time.

Q: What are your thoughts on business opportunities for NRI in DX 3.0, particularly on the topic of carbon neutrality?

A: Currently we are discussing multiple ideas with other companies about what types of initiatives are possible. For example, we are discussing whether it might be feasible to build a platform for monitoring power usage patterns and CO2

emissions in a certain region and link it to measures that reduce energy consumption itself. At the same time, we are also discussing how we can address needs in the manufacturing industry for mechanisms to measure CO2 emissions at every step along the supply chain.

We have ideas such as for monitoring that leverages IT, but the issue is how to commercialize these ideas. We have to think of schemes for earning returns commensurate with the investments. If possible, we would like to identify topics among DX 3.0 to prioritize by around summer of next year.

(Questioner No.4)

Q: About what percentage of your projects in consulting are for the public sector such as government agencies?

A: Public sector projects normally compose about 10-15% of our revenues in the consulting segment. Last year this rose to around 20% due to large projects including the social security "My Number" card points project and Great East Japan Earthquake recovery-related projects. Some of these projects are continuing into this year, so we generally expect to maintain this high level.

Q: Do you anticipate that orders for DX 3.0 projects will mainly come from government agencies or from private companies?

A: We anticipate that these projects will mostly be initiatives for private companies, such as for infrastructure. In the public sector, we are supporting digitalization of government for the city of Tsuruoka for example, but there is a limit to how much of the service usage fees and other costs taxpayers will cover. It is easier to think up commercialization schemes for projects in the private sector.

Q: Is there a difference in profitability between projects for government and for the private sector?

A: There is not much difference.

Q: According to your ESG briefing materials, you will have additional decarbonization-related consulting business opportunities under the "2°C or below" scenario, but what is your forecast going forward?

A: Sustainability-related projects are already increasing, mainly in carbon neutrality, and starting this year we are establishing a dedicated consulting department for

these. Carbon neutrality issues have an enormous impact on industries such as manufacturing in particular. While corporations need to take drastic action for initiatives such as reducing their current power consumption levels on a company-wide level, often they are lacking the personnel to address these, and NRI is providing them with the support. We believe these projects will continue to increase.

(Questioner No.5)

Q: Is there any change to your Medium-term Plan target of 100 billion yen in overseas sales in FY2022? And if not, how will you go about achieving it?

A: We believe that we can achieve the target of 100 billion yen in overseas sales. AUSIEX and Planit will be consolidated starting in May of this year, and just with organic growth in Australia alone we can expect around one billion Australian dollars in sales in FY2022. In addition, we are also considering acquiring a company in Australia's security sector. Taking regions other than Australia into consideration as well, I believe that in FY2022 we will be able to achieve 100 billion yen in sales.

Q: If you are able to achieve roughly one billion Australian dollars in sales, about how much profit will that correspond to?

A: ASG's profit margin in a steady state is around 10% before goodwill amortization. AUSIEX operates ASPs for capital markets, and this company also has the capability to generate a profit margin around 10%. Also, Planit is Australia's largest testing company, and they can similarly be expected to produce a profit margin of 10% or higher. On the other hand, we must also account for expenses such as post-merger integration (PMI) costs this year. AUSIEX and Planit are also both considering growth-oriented investments this year. We would like to achieve a profit contribution of around 10% from Australia in FY2022, the last year of the current Medium-term Plan, after factoring in these costs and investments.

Q: Your business in North America does not appear to be contributing to profit. Are you considering any changes to your strategy there?

A: Brierley+Partners is a loyalty marketing company, and their main customers such as rental car and airline companies were severely impacted by COVID-19. They are breaking even now as a result of restructuring measures last year, but we

still expect their turnaround to take more time before they are able to recapture growth. On the other hand, our project to deploy Brierley+Partners' loyalty program in Japan is proceeding well, and this is covering a certain portion of our losses in North America. Cutter mainly does business in asset management-related information services, and they do not operate on a large scale, but they are contributing to profit. We intend to devise our future-oriented business strategy for North America sometime this year.

(Questioner No.6)

Q: What is the state of your business with KDDI, including your KDDI joint venture?

A: Overall it is going quite well, and our revenues on the NRI side have roughly doubled.

(Questioner No.7)

Q: Is your business with KDDI mainly handled by NRI Digital?

A: That is correct. The technologies and themes match NRI Digital's direction, including many projects involving agile-style development.

Q: Tell us about recent initiatives at NRI Digital.

A: They have a staff of around 400 and work mainly on types of projects that the main body of NRI does not deal with, such as DX utilizing advanced technologies, and working with external SaaS vendors to build e-commerce platforms over short timeframes. The scale of their business is still small, but they have high visibility, so they are often featured in the media. They also hire people who want to work for higher pay over short periods of time with fixed-term contracts, including people with experience launching new businesses for companies in e-commerce.

Q: Do you anticipate that NRI Digital could merge with the main body of NRI in the future?

A: Our principal arrangement in 10 years could be to have NRI Digital primarily responsible for clients, and the main body of NRI behind them handling core development. We believe the structure of the IT market in Japan could really change that much, so our aim is for NRI Digital to stand on its own. We want

NRI Digital to take on challenges that the main body of NRI is not capable of, so we do not expect to merge them with the main body of NRI.

(Questioner No.8)

Q: If the breadth of companies taking on DX expands and demand increases even more, do you foresee any struggles with supply of personnel and resources?

A: We are currently focused on deploying resources to DX first mover companies, and we believe there is sufficient growth potential this way for some time into the future. However, companies that decide they want to take on DX going forward could face many different problems, such as management wanting to proceed with DX but no related experience or expertise in their information systems departments. We would like to support these companies upstream through consulting, where we could help them prioritize their challenges and provide PMO (project management office) support.

(Questioner No.9)

Q: Do you expect the IT industry to gain even more popularity in the hiring market and the number of job applicants to increase?

A: There is more interest in the IT industry among students than ever before, and this is working to our advantage. However, the level of craftsmanship that clients demand is also substantially rising, and we are finding less people with the capability to meet these standards. If you look more carefully, you can actually see substantial gaps like these opening up between supply and demand.

(Questioner No.10)

Q: We are seeing Japanese IT vendors making moves such as beefing up their consulting functions. How does the competitive environment look right now?

A: Our competitors who have both consulting and IT delivery functions are focused on package implementations on the IT delivery side, and I believe that NRI has the upper hand at being able to develop IT systems from scratch. Major Japanese IT vendors have operated primarily in hardware, and they have strength in large development projects for the public sector. However, in project types such as DX where you think about the business upstream and build systems accordingly, I

think that our many years of experience in consulting at NRI give us the advantage.

Q: Since the areas where NRI can leverage its strengths are still vast, do you have sufficient potential for business growth?

A: We believe there is still plenty of room to utilize NRI's strengths. We want to deliver business transformations for our clients' top management, handling everything from business to IT. In doing so, we need to thoroughly seek out a limited number of clients who will consider us a strategic partner. This means we would rather have 10 clients who each spend 10 billion yen, as opposed to 100 clients who each spend 1 billion yen.