(Tokyo – 22th November, 2021)

Nomura Research Institute, Ltd.
Q & A from Small Meeting for sell-side analysts

● In order to make it easier to understand, the contents of the question and answer are partially revised and modified.

（Questioner No.1）

Q1: In your second quarter financial results presentation materials you mentioned examples of DX projects in industrial IT such as AI ordering in retail, and logistics information integration, but I also hear about these from other companies. Do you have any particular differentiation factor or strength compared to other companies? If so, what is it?

A1: I cannot really say how we compare to other companies at AI ordering in retail, but our accuracy is improving. If we continue making more progress, we can set it up as algorithms in other industry types and apply it, depending on the data used. Our approach is to build the engine, then horizontally deploy it.

Q2: Are you producing any effects that are readily visible to clients, such as reducing food loss?

A2: That is the aim, but we do not have anything tangible yet that we could show numerically. We believe that when we improve our accuracy, the effects will be sure to follow.

Q3: In AI, it seems that if you accumulate large amounts of data, it will lead to expertise. At NRI, do you have advantages in the way you accumulate data, or in deep learning and things of that nature?

A3: We do not create the AI algorithms ourselves. For us, it is all about how well we accumulate expertise using data with the provided algorithms. Please think of it in terms of how skillfully we can utilize algorithms that are provided for the public cloud.

（Questioner No.2）

Q1: Please share the background behind your decision to acquire Core BTS in North

America through M&A now.

A1: Our global strategy has been to start by working mainly in Australia, while always keeping a watchful eye on North America. In Australia we have accumulated expertise, while also adding functional capabilities in finance, consulting, managed services, and testing. Since we have no more major candidates for M&A left in Australia, our regional strategy there will be centered mainly on organic growth. Having accumulated expertise in Australia, we are now turning our attention to North America which we have been thinking about from the beginning. There is a story behind how we went about searching for M&A targets, but after doing the due diligence we decided that this target offered the most growth potential.

Q2: Does your M&A of Core BTS have any synergies with Japan? What developments do you think might begin with this acquisition?

A2: Core BTS originally handled networks as a key partner for Cisco. Starting in 2019 they targeted Microsoft and acquired companies that do office modernization on Microsoft Azure and Office 365. Recently they acquired a company that develops Azure applications. They now have a full lineup including network business infrastructure along with Azure and applications that run on it. In terms of synergies, since Core BTS started off in networks, they have a client base. We can expand while cross-selling to those clients who want to migrate to Microsoft cloud or who want to move forward with advanced DX development. We think that mixing in Azure business with network clients is within the realm of organic growth. Additionally, we would also like to consider cross-selling clients in NRI's North America business. Further in the future, we could further improve productivity by applying the testing function of Planit in Australia to Core BTS.

We would like to work on combining the assets that we own, first cross-selling within Core BTS, then cross-selling with NRI's North American clients, in addition to cross-selling testing functions such as those of Planit and on from there.

Q3 : Is there any information that you can disclose such as sales numbers?

A3: We are not disclosing anything until the deal is complete. We plan to disclose this information after the process is finished, which we expect to be sometime in December.

Q4: Recently I'm beginning to hear about hyperscalers providing network-as-a-service. Can we imagine this M&A of Core BTS falls under that category? And is this a means to be able to offer local 5G in Japan?

A4: We are not working on local 5G yet. We are also still yet to decide how we will bring know-how from Core BTS to Japan. The first step will be to think about the synergies they offer.

（Questioner No.3）

Q1: Since you are expecting to achieve your Medium-Term Plan one year early, could you please explain again how you plan to use your free cash flow? Will it be mainly for overseas acquisitions in the short run? Please explain in light of your increases in profit levels.

A1: There is no change in our thinking at this time. Our approach is still to divide free cash flow into equal thirds for shareholder returns, existing investments, and new investments. M&A is included in new investments. We are currently discussing our new Medium-Term Plan, and I would like to provide the report on how we will use cash while looking at our future cash flows.

Q2: Is this M&A of over 50 billion yen a one-off jump compared to the M&A you have been executing intermittently in the past?

A2: That is correct.

Q3: Are there any discussions about revising rate of shareholder returns in your next Medium-Term Plan? And will your M&A mainly be overseas? Also, is there a possibility of any M&A involving carved-out client assets in Japan?

A3: We have not conducted any major buyouts of client assets since 2009. Domestically there was the acquisition of NSTec which had been a development subsidiary of Mizuho Securities, but that M&A was part of Mizuho Securities adopting THE STAR. We do not have any clear domestic buyout targets at this time. Where we have to be thinking big right now is globally. We intend to grow Core BTS and add missing pieces in North America, while expanding our coverage there as we are doing in Australia.

Over the long term we are targeting a dividend payout ratio of 35%. Our share buybacks are for balance, and we prefer to decide on them according to the circumstances at the time without committing to buybacks every certain

number of years.

（Questioner No.4）

Q1: How is your overseas M&A pipeline coming along?

A1: North America has the impression of being expensive, but we were able to get the M&A done for Core BTS at a relatively reasonable cost. We were approached for this transaction; it did not come from our long list. Since Core BTS also has the background of having acquired three companies since 2019, we would like to discuss with their managers while deciding on our next targets. First, I think it is important that we ensure organic growth.

Q2: Did this transaction not happen through an auction?

A2: There were a number of other companies involved, but I am unable to go into details about the situation.

Q3: What type of goals will you have in your next Medium-Term Plan? And what do you expect to be the growth drivers that will help to achieve them?

A3: Our current Medium-Term Plan is focused on the three pillars of global strategy, DX strategy, and human resources strategy. Our global strategy will continue to target North America. In DX, next up is DX 3.0. For this, we are discussing how to incorporate topics arising from social issues such as carbon neutrality, circular economy, and food value chains into our next Medium-Term Plan. Carbon neutrality seems to be a particularly challenging topic in manufacturing. Taking our think tank function into consideration, we would like to grow new areas of business in which we work together with local governments linking companies together. After thoroughly handling our existing business, we believe that DX 3.0 will be the next main battleground.

Q4: How should we conceptualize your growth in terms of your top line, operating profit, and other factors?

A4: The current momentum in DX will continue to grow, and we need to thoroughly capture it. On top of that, we would like to simultaneously think about DX 3.0 and start making some degree of earnings from it. Since this is a major topic, it is not something we can launch right away, but we are holding discussions to be able to communicate about it at the financial results presentation next April.

Q5: How will your companywide performance and operating profit be in the future compared to the current Medium-Term Plan? Is it correct to assume that your profit margin will increase in the next Medium-Term Plan as a DX payback period?

A5: We would like to achieve growth that exceeds the current growth rate of the domestic IT industry. Growth in our existing business needs to exceed industry growth rate, and I would like to think of our future growth with DX 3.0 being added on as something extra. We will make sure to secure our current growth while at the same time accelerating.

We would like to raise our operating margin to around 20%, but we cannot commit to that while conducting M&A. Rather, we hope to gradually approach this figure while growing organically and conducting M&A. I am uncertain at this point whether our next Medium-Term Plan will mention 20%. We will need to discuss it a bit more.

（Questioner No.5）

Q1: You apparently have a lineup of functions in place from upstream to downstream in Australia. What is your medium-term growth potential there, and what are your targets? Also, what is your thinking about the top line there?

A1: We are targeting 100 billion yen in global sales in the current Medium-Term Plan, but as our next goal beyond that we would also like to aim for 100 billion yen in Australia on a standalone basis. If we can achieve that, we should be able to rise from our current position of around 15th in Australia's IT services market and enter the top ten. Continuing on with small-scale M&A to bolster organic growth and our regional strategy, we hope to shoot for 100 billion yen. As for the region itself, New Zealand will also become a target market. Since Australia is so large, we believe there is also ample opportunity to grow our business with state governments there.

Q2: About how much organic growth can you aim to achieve in terms of sales in Australia? How do you view the growth rate there compared to Japan where you can expect steady growth?

A2: There was a temporary slump due to COVID-19, but now profit there has recovered to pre-acquisition levels. We entered Australia because the country has a growing population and abundant natural resources, so its economic

growth is expected to continue, and IT investment is increasing along with it. We therefore believe that the growth rate in Australia will exceed that of Japan. We want to latch on to that organic growth and expand with it.

Q3: How are you thinking to utilize Planit's strength in testing processes in the intermediate term in Japan and Asia? Are there any differences between Japan and Australia in terms of business practices for testing processes?

A3: Companies are shifting in-house in Europe and North America, and this also applies to Australia. There is a clear division of duties, with upstream processes being performed in-house, and development and testing being performed externally. Where business practices differ is that in Japan the systems integrators handle everything from design to development and testing. Planit has its expertise in undertaking the testing for clients who do things in-house. First off, including Core BTS we believe we can capture business when clients that handle things in-house do their testing. Since the in-house and the systems integrator approaches involve different arrangements, we have just begun thinking about how we can apply this in Japan. The ratio of new projects with testing processes in development is around half, so if we can apply Planit's know-how in even a portion of these, it would contribute to improved productivity. First, we would like to repeatedly experiment in our own services rather than those of our clients, and then figure out how we can apply their capabilities based on that.

Q4: Is overseas expansion of Planit including to Japan being considered in the next Medium-Team Plan? Or are you thinking that will happen later?

A4: Improving productivity will probably be a major theme in the next Medium-Term Plan. I think we will need to work on ways to improve our productivity in the areas of testing and coding in the next Medium-Term Plan.

（Questioner No.6）

Q1: Regarding what you have said about productivity improving through commonly used components, what specific initiatives have shown results in terms of profit margin during the first half? Could it be that the good business environment is leading to a good gross margin? And is there any room for your gross margin to improve going forward?

A1 : In addition to the good business environment, we have moved to agile development methodology. In the past we handled repeated business system revisions and enhancements, so demand was cyclical. Recently we have had more application development linked directly to business. Since we are constantly deploying large numbers of human resources for system improvement activities, our operating capacity rate has increased along with our profit margin.

Breaking down digital IP into components has also helped our profit margin. In industrial, our usage of public cloud is increasing. The IaaS segment of public cloud is largely uniform, so breaking down components is big. E-commerce components can similarly be added as elements on top, and UX tailored to the characteristics of each company can be added on top of that. Many different platform and e-commerce based components are being used in industrial.

As a result, profit margin in industrial is increasing due to the combined effects of high operating capacity, improved productivity, and breaking down components.

Q2: Around what ratio does agile development comprise overall? And is there room for it to expand further?

A2: There used to be many core systems where it was clear what needed to be done. However, now there are more cases in which we create systems that contribute to business transformation. What we are to create has not been clearly decided, and we have to accommodate changes in the business of our clients, so agile development is suitable for that. While I cannot express it quantitatively, the ratio is certainly increasing.

Q3: I get the impression that usage fees and commissions are heavier when shifting to cloud, but is there a positive impact on productivity which compensates for that?

A3: According to regulations, the location of data in finance must be identified, so we are using OCI[*]. With OCI, the data is located within our data centers. We are working on a changeover from private cloud to OCI, mainly for ASP in finance. Previously we would create a private cloud and engineer it to reduce cost, but OCI is more efficient since people do not have to be assigned, and conversions are also possible. Finance will be shifting to OCI going forward. Meanwhile, we will mainly be working with AWS and Azure in industrial since

the location of data is not as strictly regulated as in finance. These clearly have low costs and are producing positive effects.

*Oracle Cloud Infrastructure: In 2020, NRI was the first company to adopt Oracle Cloud Infrastructure's Oracle Dedicated Region Cloud@Customer as its dedicated public cloud, implementing it in NRI's own data center.

Q4: I understand that your business performance is strong due to both the good business environment and your consulting capabilities. Are NRI's solution capabilities contributing to strong performance, or are you benefitting from changes in client attitudes?

A4: It seems that having a consulting function has become a strength once again. In our relationships with senior managers, our consultants listen to their problems and offer them consulting for how to make their business happen. Together we think of how this can be achieved through IT in our "Con-Solutions" framework. I believe that when managers think of something new in response to the COVID-19 pandemic, we have been able to gauge their outlook thanks to our long relationships over the years, and make it happen. It is likely the product of multiple factors.

（Questioner No.7）

Q1: In agile, would it be correct to assume that CI/CD is advancing?

A1: I think that works in combination with breaking down components. CI/CD is necessary when handling agile, so we work with it. We decide while discussing with managers how to create the system from upstream, then combine agile and CI/CD to create it. We have been handling agile successfully since early on.

Q2: Can agile also be utilized for legacy systems?

A2: Since it is clear from the beginning what to create for the core systems, waterfall methodology is more common. We create it using our project management capabilities established over the years. For overhauls, we also build the front-end in some cases. Since the requirements for front-end are often unclear, we use agile for them. We work in combinations.

Q3: Is my understanding correct that whether to use waterfall or agile depends on the usage application, but agile as part of a combination is increasing?

A3: Since the core systems at many companies are already built, that depends on how well they can be migrated to the public cloud and modernized. The approach will be to continue creating through waterwall as we have been. For front-end, it will be in combination with agile.

Q4: For testing processes also, I imagine that combinations of agile with CI/CD could enable testing to occur in real-time. Can we assume that Planit and Core BTS can handle that type of testing?

A4: We have to consider how the expertise of Planit can be applied in Japan. I do believe they have expertise that can be used. Since the move to in-house production is advancing in North America similarly to Australia, I believe there is greater affinity. We would like to apply these capabilities in North America first, and then move on to Japan.

Q5: What level of importance does NRI attach to technologies such as metaverse, blockchain, NFT, and digital twin in for industrial use?

A5: We have been working on blockchain for some time. Since we are in the process of accumulating technological capabilities, the next phase will be to think about where to apply them.

Q6: Are you getting work with clients in the areas of digital twin and AR/VR?

A6: We may have applications for these technologies in inspections in factories and infrastructure-related business, for example. I think dilapidated infrastructure is also a social issue, and a topic for DX 3.0. We believe that AR/VR can also be applied for that, but we do not have any such requirements from clients at this time.

（Questioner No.8）

Q1: How are you collaborating between consulting and solutions?

A1: For a while now, we have regularly held what we call PAR (Prime Account Representative) activities in which consulting and solutions staff come together to discuss what kind of contributions they can make to clients. Consulting does not simply delegate all the work for which they received orders to solutions. Instead, they work on it together all the way through to the end, so this is proceeding smoothly. I think this is a defining characteristic of our "Cons-Solutions" business model.

Q2: Is it proceeding smoothly because you have been working on it for so long, or have you implemented some sort of a mechanism?

A2: I believe it is because it's an organizational activity. We have been working on these PAR activities for over 10 years while collaborating with our clients for a long period of time. In recent years, the times have changed and now our clients are thinking of new things, so we deployed more of our consulting expertise which has enabled us to take action together.

Q3: How will DX contribute toward achieving a 20% operating margin?

A3: We intend to improve productivity to pursue 20%, but we are unlikely to achieve it simply by continuing with our current methods of development. We will need to increase productivity even more. For example, depending on how much we work on the automation of coding and testing, 20% might actually become realistic. We are currently discussing the idea of "innovating productivity" as one of the pillars of our next Medium-Term Plan.

Q4: Is it correct to assume that agile comprises a high proportion of your DX projects?

A4: There are various types of DX. In DX 1.0 there are projects for modernization, and projects to create new business formats. I believe that agile is frequently used for the latter. However, projects to migrate what had previously been on-premises or on a private cloud to public cloud are relatively frequent in core systems, and we use waterfall for these. Not all DX is in agile, and projects such as core systems overhauls and modernizations are done in combination with waterfall.

Q5: Am I correct in understanding that advancements in sophisticated DX lead to more agile?

A5: For overhauls of core systems, the work that must be done is already decided. I believe that we can leverage our project management capabilities in how steadily we get that done. On the other hand, when clients create new business there is no clearly defined goal. They think while they create. The term "POC" has previously been used to describe this approach. POC starts from the bottom up, and often it would end before finishing. Now projects start as POC, but since they are initiated by decision of the client company's management they don't

stop. They proceed determinedly toward completion, repeatedly considering what they can do to improve. It seems there are large numbers of projects where agile is deployed once senior managers have made a clear decision to proceed.

（Questioner No.9）

Q1: I understand that your main business in carbon neutrality right now is consulting. However, what are you currently envisioning about the kind of scalable business it will become in the future?

A1: We are not yet at the stage where I can say anything specific, but I believe many problems that clients have cannot be solved by one company alone. Since there are so many commonalities, we are discussing whether we could also link clients together in carbon neutrality. Aside from that, we will need to work with entire communities, including local governments. I cannot say anything specific, but we are discussing whether we can provide something for multiple clients rather than for one single company. Hopefully I will be able to share more about this in the near future.

（Questioner No.10）

Q1: How are you able to work on advanced solutions and methodologies not visible to senior management in a companywide manner from early on? Do you have some mechanism for that?

A1: I think this derives from both a bottom-up factor and an organizational factor. For example, we began our efforts in agile around 10 years ago. Staff members who began working in agile with certain clients became evangelists who taught others, and it spread from there. I think this spreading from the bottom up can be attributed to our company culture.

The other factor involves improving productivity. We have an organization that works on productivity improvement. There, we have frameworks and tools for that purpose.

I think these organizational and bottom-up efforts balance out quite well within NRI.

Q2: If the person who learns first becomes an evangelist, that person will not be

able to profit. Do you have some mechanism to make up for that?

A2: The initial handful of staff members have gone through five different projects over the past 10 years. As a result, it has become prevalent I industrial that the core members educate other staff members, and that knowledge gets propagated from there. Rather than just teach them, I think it is very significant that they also build the others' proficiency while working on projects, and the staff members around them remember it and gain that knowledge as well.

Q3: Often on-the-job training is for new hires and for younger staff members. Do you have top-level people share their expertise to raise the proficiency of project manager-class personnel in other teams?

A3: When I was in charge of telecom applications, there was also a staff member with experience in agile who came and taught me various things at the beginning. Since this person also joined the project and actually worked alongside us, our entire team gained the ability to work in agile. This is how we have been boosting our agile population in the past.

Q4: Why do these experts help others?

A4: There are two reasons. One is that we fully mobilize our experts. This is because the immediate supervisor will want to expand agile in subsequent projects. The other reason is that it's a grassroots activity. The experts may not move, but they repeatedly teach the general scheme and answer questions about whatever others need to clarify. They might not be in the project, but their knowledge is available. I think that knowledge is spreading through communication.

Q5: The rate charged for experts seems high. Do you have a company culture that would allow 20% of work hours to be dedicated to such an activity?

A5: Since IT work is performed in the organization, we conduct evaluations on the projects. Of course, we attach ratings to those who perform better and those who perform worse, but the experts are also evaluated as part of the projects since we evaluate the projects themselves. At the same time, in terms of a grassroots movement, we also have a system that pays additional bonuses when someone makes uncompensated contributions to other divisions. I think that is having some effect, but generally everyone is acting voluntarily.

Q6: Regarding organizational initiatives, is the creation of organizations something that happens due to actions by individuals that have increased in scale? Or is this decided on the management side?

A6: Long ago we had an organization called the Information Technology Division which researches upcoming technologies. It was subsequently absorbed into the DX Production Innovation Division which puts together agile templates, communication tools, and frameworks related to production innovation. We repeat the creation process in our organizations that endure over time.

Q7: In terms of organizational initiatives, are you saying that you have dealt with new developments with organizations that have endured over time, as opposed to launching new organizations whenever something new pops up?

A7: That is correct. For example, when things started moving to servers, we researched how to utilize them. Around 1995 we had our first major project to transition to servers. That was subsequently rolled out horizontally and then it became the norm. Web is the same type of thing, as is cloud. The DX Production Innovation Division is an organization that is always looking ahead and moving while thinking about what might appear next.

Q8: Now that you have gotten onto the right track with agile development, looking forward, will you continue having evangelists spreading it, create top-down organizations, and build a foundation for it in the DX Production Innovation Division over the next 30 years?

A8: I believe we will need to keep it going. Technology is always changing, so I think it is most important for us to be thinking about what technology to adopt and provide to our clients.

Q9: Do you have a mechanism for senior management to siphon bottom-up activities upward?

A9: We have written about improving productivity in internal processes, which is one of the four perspectives on our balanced scorecard, and we have a mechanism for details about the initiatives in each division to be diligently reported. Division managers report once per quarter and segment managers once per month to the Senior Management Committee, and they can learn about each other's productivity improvement efforts. I think they are then repeating the practice of adeptly picking out from among the efforts that come

to their attention.

Q10: Where did your mechanisms and corporate culture come from?

A10: We adopted balanced scorecard when Shingo Konomoto became President & CEO in 2016. At NRI, our in-house divisional reporting is based on balanced scorecard. Since we practice PDCA while sharing in the Senior Management Committee, other divisions can see what is being emphasized, what processes there are and what state these are in.

Many of us are into technology, so we have a culture in which we first try out new technologies ourselves. It was balanced scorecard that made this clearly visible, but we had this culture even before that. I think we are just really passionate about technology.

Q11: So, you have people who study on their own initiative without directions, their efforts are managed through balanced scorecard, and these are also shared throughout the company?

A11: That is correct. Additionally, as an educational initiative we have established the +DX training program. We have also made more online learning courses and other materials available for learning new DX technologies in addition to our existing technologies. Course enrollment was 1.5 times its normal level during the COVID-19 pandemic. I think everyone here is hungry for learning.

Q12: Do you consider your starting point to be your philosophies and original team at the time of founding?

A12: The founding charter of the former Nomura Research Institute listed "technology" in addition to "industry and economics." The original form of the Nomura Computer Systems was the first in Japan to install a commercial computer. Indeed, I think this DNA has been passed on.

（Questioner No.11）

Q1: Do you see profit margin as the most important point in your next Medium-Term Management Plan?

A1: We plan to have discussions about the numbers last. First, we are discussing what we can do for solving social issues with DX 3.0. Therefore, we will discuss how to draft the numbers after that. Of course we will run simulations, but the

idea is to have substance before numbers.

Q2: Did you feel that the current Medium-Term Plan put more of an emphasis on sales, such as DX sales?

A2: Of course, we want to increase both sales and profit. We will need to add something extra to our current linear growth in order to outperform the growth rate of Japan's IT market. Since we must continue to innovate productivity to make that happen, we are thinking about what our new productivity innovation will be, and what business will drive the top line. We are discussing both business and production. We want to decide what to do about the numbers last.

Q3: With carbon neutrality and DX, do you have the impression that the consulting segment will drive sales more than other segments over the next two or three years?

A3: Originally, consulting was focused on management consulting and strategy consulting. That era lasted a long time, and few cases were linked to systems. On the other hand, we have a Systems Consulting Division, and this has linked consulting to systems. Recently systems have been necessary in discussions we have had with senior managers about creating new business in strategy and management consulting, and we are working on these systems together with them in more cases. The role of consulting has changed drastically over the last few years. Instead of being finished after writing a report, often it now even involves handling implementation. The ratio of those projects will likely increase.

Q4: Are there any cases where something another company created in consulting is brought to NRI for implementation?

A4: Rarely if ever are we requested to implement something conceived by consulting elsewhere. Often, we provide consulting while working on development in tandem with a solution team.

（Questioner No.12）

Q1: How are you thinking to improve profitability through offshoring? Are you looking into offshoring anywhere other than China? And is there any change to the role your offshoring will play?

A1: Our offshoring partners in China are important development partners with

whom we have had relationships for over two decades. Currently around 6,000 people handle work for us there. Recently various topics such as economic security have arisen, but for us these are important partners. We are security-conscious and are taking strict measures such as limiting access to production environment data. In terms of improving productivity, we currently have our partners in China handle upstream processes in addition to coding. Advancements in automation will allow us to hand off even more upstream processes, so we would like to expand our utilization of their services.

Regarding "C + 1" partners outside of China, we are working with partners in Vietnam and the Philippines, but not on a very large scale yet. Since language barriers do indeed exist, we have to think carefully about how to proceed.

（Questioner No.13）

Q1: What do you think about the Tier 2 market for DX-related business? How much effort are you focusing there, and what is your approach?

A1: We see the first mover group as Tier 1, and the follower group as Tier 2. Recently our Tier 2 clients have sprung into motion, and activity is spreading into various industry types. Rather than seeing it as small-scale, I would encourage you to take the perspective that the next wave of clients has sprung into motion.

Q2: How is NRI approaching the follower group?

A2: We are accumulating expertise with the first mover group in how systems can make new businesses possible. Our consulting and solutions staff will work together with the next group in a similar way.

Q3: There are probably more potential clients in Tier 2, but will you prioritize groups of 10 client companies in Tier 2 as you have with Tier 1? Or will the expertise built with Tier 1 allow you to handle more clients in Tier 2?

A3: We prefer to prioritize 10 clients ordering 10 billion yen each rather than 100 clients ordering 1 billion yen each. We also considered clients who have long-term potential as targets for the use of prime accounts. First, we intend to focus on bringing in more large clients and growing this business with certainty.

Q4: Do you think that clients who tackled DX top-down have already produced results? And what do you see as the success criteria for Tier 2 clients?

A4: Our clients' business itself is changing. For example, our business with logistics clients has grown rapidly, from a few hundred million yen around five years ago to around 2 billion yen three years ago, and now approaching 10 billion yen this year. Clients understand that IT contributes significantly to their business, and projects are coming in one after another. Ultimately, I think if you do not produce results, more work will not come. When other clients are able to boost their top line in ways they hadn't before, it also bears fruit for us. We bring in more work by helping to boost the top line. We need to keep that cycle going.

Q5: For carbon neutrality in DX 3.0, will the trend for business to flow from consulting to solutions be the same as before? Will the establishment of the Digital Agency cause that trend to change? What type of business developments can you foresee?

A5: The establishment of the Digital Agency will likely be a springboard for something. We do not directly interact with government agencies like other large systems integrators. To address new regulations in carbon neutrality, for example, we would need to provide consulting while also implementing IT.
We intend to put together this business with a focus on private sector clients.

（Questioner No.14）

Q1: You have obtained significant knowledge and resources in Australia, but in what specific types of resources are you gaining more confidence? And how are you recognizing and addressing risks?

A1: The companies we acquired in Australia do not own products in specific industry types. They span IT services ranging from design to managed services and testing, with a focus on the public sector. IT services are inherently always able to accommodate changes in the world. What we need to be careful of is to not acquire companies that own products. Consequently, for our recent acquisition of Core BTS, we consider it important to apply the technological elements and business applications that the times require for their clients as well. Rather than companies that own solutions, we prefer to move forward by bringing aboard companies that are highly capable at dealing with changes, and harnessing synergies if we have any common expertise.

Q2: I have heard you will need to have business size to get called in for bids. Will you be conducting any large M&A going forward?

A2: Core BTS has mid to large-sized clients. Rather than simply having numerous large clients, they have clients in a broad range of industry types. We would like to get our foot in the door with mid-size clients and increase our capabilities while expanding our presence in North America.