(Tokyo – 4th June, 2021)

Nomura Research Institute, Ltd.

Q & A from Small Meeting for sell-side analysts

Part 1

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

(Questioner No.1)

Q: You announced a new services platform for financial institutions in your financial results briefing. Roughly how large are business and the market?

A: The platform is for front office, and different from THE STAR which is for middle and back office. There are front office services and components out there that support sales, but these had not been assembled into an overall platform. Now is the time to change sales styles in retail at financial institutions, and we are building a new front-office platform for asset management-based sales. We expect it to reach a high level of completeness in around two years. Therefore, we do not have any concrete figures for the future size of this business. We expect it to produce sales in the double-digit billions of yen in the future. We are also considering mechanisms for how to charge, such as possibly metered charging according to asset balance. I cannot discuss the details at this time, but I believe we will be able to describe the business plan around next fiscal year.

Q: Asset management-based sales at financial institutions is advancing rather quickly. Do you think NRI might be lagging behind in this area? And is there anything you are concerned about in the movements of other companies?

A: There are various products offered by international companies, but I do not believe there is anything fully assembled as a platform for front office. For example, we have our Advisor Platform framework which integrates various tools that support client-oriented proposal-based sales activities. We would also like a platform that incorporates an integrated client management framework for digital marketing, combining face-to-face with remote interaction through both online and offline.

In analytics services, we have algorithms to make proposals tailored to the investment style of the client, so we are considering incorporating these into a platform. We are also thinking about making shared online services from the separate actions we have been taking in response to requests by individual financial institutions and incorporating these into a platform. Front office is an area of competition, so even if companies are using the same thing as a platform, there is work to be done to reconcile their individual expertise on the operations side. Currently we are supporting the IT side of asset management-based sales in the regional bank alliance that was announced in a press release by Nomura Holdings.

（Questioner No.2）

Q: In Australia you can now comprehensively handle everything from consulting to testing as a result of your M&A, but is there any benefit to being able to handle both the upstream and downstream there? Will it bring about any change in orders?

A: Our largest field of business in Australia is the public sector. The second largest is finance and third is industrial including communication and resources, but the main source of revenue for ASG is shared online services in the public sector. We believe it is important to have an upstream consulting function in order to capture more orders in system management solutions for the public sector, and we are considering enhancing our consulting function there.

Having the combination of consulting and system management solutions is an advantage. Planit handles not only testing but also provides quality engineering, a service which brings testing earlier into the development lifecycle to inject quality throughout projects. We also acquired SMS* to enhance development, and we believe synergies will emerge between the development of what had been SMS and the client base of Planit which is Australia’s number one testing company.

On the other hand, ASG and Planit are not strong in finance, so we will operate them separately from AUSIEX which provides ASPs for back office at financial institutions. We believe that operating ASG and Planit in an integrated manner can yield synergies, and we consider it meaningful to have a full range of functions from consulting to development, system management solutions, and quality engineering.

Q: There may be synergies between Planit and SMS, but what efforts are you making to improve the development capabilities of SMS?

A: Australia is unlike Japan in that development is performed by the clients themselves, so we do not expect orders for development there like in Japan. What SMS does is close to what we call systems consulting in Japan. For example, they formulate systemization plans and operate PMO services for overall development. We would like to beef up their services offerings by adding DevSecOps which we are working on in Japan.

Q: Your overseas strategy in the Medium-term Plan anticipates a higher margin in the second half, but what are you thinking and targeting in terms of profit margin over the range of the plan?

A: Competition in the US is fierce and the business is large-scale, so we do not expect the same margins as in Japan. In Australia our profit margin is around 10% before goodwill amortization. Planit has profit margin over 10% and AUSIEX is around 10%, so in terms of actual values we do have capability for double-digit profit margins. Our strategy over the next four to five years emphasizes further expansion and growth through M&A. At the same time, we will exercise proper control over risk in our M&A. Before we can lift profit margins to the levels we have in Japan, we must first work on growth strategy.

（Questioner No.3）

Q: Including Oceania, about what scale of business do you aim to establish with your overseas business strategy in the next four or five years?

A: We are considering adding another two companies through M&A. We expect sales of over 1 billion Australian dollars in 2022. Factoring in sales from other regions, our plan is close to 100 billion yen in sales. Keep in mind that the current Medium-term Plan is until fiscal 2022, and the plan from 2023 onward is under consideration. We plan to explain the framework and approach of the new plan at our financial results briefing in April 2022, and to explain a specific business plan at our results briefing in April 2023.

Currently we are discussing the companies we have acquired and ideas for subsequent M&A, and we do have room to consider additional M&A. Planit is considering new M&A and plans to actively push forward with acquisitions. We believe that North America will be the focus of our growth strategy from 2023 onward. Since our M&A there has stalled with the individual acquisitions of Brierley+Partners and Cutter, we are considering M&A on a considerable scale in North America.

Q: Can you tell us about synergies between your businesses in Australia and Japan?

A: In Australia we were able to implement I-STAR/GV, the overseas version of THE STAR, at securities brokerage Openmarkets. If we can roll out I-STAR/GV at other securities brokerages, we can expect the synergy effects of leveraging our products and services from the Japan side in Australia, while also earning licensing revenues on the Japan side. Aside from that, we are examining the possibilities of incorporating development frameworks and security-related products from Japan into Planit's quality engineering.

Q: Do you expect this to produce results in around two to three years?

A: That is correct.

Q: Is there any difference between DX-related consulting and conventional consulting in terms of profitability and factors such as connection to systems projects?

A: There are various types of DX-related consulting, but we have a certain proportion of implementation projects that include PoCs. Overall program management is handled in consulting, but clients often use startup companies and other outside resources to create prototypes for their PoCs. Creating protypes does not usually result in earnings from the cost of consultants but using SaaS and low-code development technologies such as Oracle APEX should make it possible to run PoCs with less labor cost. We should be able to exercise leverage if we can run PoCs at our NRI price levels, but other than that there is no difference in profitability between DX-related consulting and conventional consulting.

（Questioner No.4）

Q: Since NRI is not getting involved with operations in your business in Australia, I consider it an investment. Do you plan to label your foray in Australia as a step toward entering North America and ultimately sell it off? And I believe that you are not paying dividends in Australia, so is this investment having detrimental effects?

A: Four years have passed since we invested in ASG, and we have not yet fully recovered the investment. Additionally, each company currently has its own distinct brand. Going forward, we plan to consider these further as we figure out what the benefits and drawbacks would be of unifying the brands, getting listed on the stock exchange, or other steps. At the moment we are not considering selling any of these off. Every year we review our corporate value and there is nothing detrimental to our corporate value. As you pointed out, there is currently no return on cash in our Australia business since we are not paying dividends there.

Q: Are you planning to unify the brands as NRI and get involved with the operations?

A: Even providing the same IT services, the structures are different in Japan and in Australia. We can carry products over from Japan like DevSecOps, but management in the IT industry cannot be done the same way as in Japan.

Q: Performance was strong with your DX strategy last year, but you only secured a limited number of large projects, and it seems uncertain that you will be able to secure significantly more going forward. Does your DX strategy therefore need to shift toward platforms and mechanisms?

A: As an example, our projects with a certain industrial client totaled one billion yen two to three years ago but have grown to more than 5 billion yen last year and over 10 billion yen this year. The beauty of our DX strategy is that NRI's business grows by being a strategic partner for first mover companies that dynamically change their businesses. This is fundamentally different from the business of systems integrators to compete for work such as core systems overhauls through submission of RFPs. Our preference to acquire 10 clients who each spend 10 billion yen rather than 100 clients who each spend 1 billion yen is an approach that leverages NRI's capabilities.

Rather than transitioning to platforms, it is more important for us to build increasingly more trust with the management of our clients. We also need to break down components in order to improve productivity. For example, we have been working hard to create and utilize analytical algorithms for optimization and e-commerce-related modules. With these, we are improving our profit margins in industrial IT. Currently we do not anticipate any major metered-charging type platforms in industrial like we are working on in finance.

(Questioner No.5)

Q: Is it an agenda item for you to decide just how much of the robust demand to capture — in order words, are you dealing with resource problems? Is it challenging to generate sales by providing new business platforms?

A: In financial IT we are heading in the direction of platform-based business. We are still working on systems integration on an individual basis, but we are considering platforms we could build for front-office that are adapted to new sales styles. Front office is an area of competition, so we had been working on an individual basis with each client, but then the possibility to be an ASP arose. Demand for DX that combines face-to-face with remote interaction is also robust in finance, and this will grow organically.

In industrial IT, our policy is to focus on clients that see NRI as a strategic partner rather than dealing with every inquiry on an individual basis. We want to continue building more trust with clients over the long-term like we have with major convenience store projects, for example, and I believe these circumstances will continue for the next two or three years.

Q: Your resources were stretched in fiscal 2019. Is that an issue you need to deal with in order to capture robust demand?

A : If we were to try handling all the inquiries that come in, we would indeed be shorthanded. However, our policy is to focus on clients with whom we secure solid earnings and build long-term relationships, so we are not losing business opportunities due to lack of resources.

(Questioner No.6)

Q: If low-code development becomes prevalent, is there a risk that time until cutover could be reduced and prices could fall due to commodification, or any other potential problems?

A: For low-code, we have been evaluating technologies and have found Oracle APEX to be the best. There are various products out there, but they have limitations as to what they can do. Few can handle the systems development that we do at NRI. Some can also be used for simple PoCs in consulting and in the front office systems that NRI Digital provides. Low-code is likely to evolve, so we will continue evaluating technologies. Looking ten years into the future, we believe low-code will be a key technological element. If it goes mainstream, that could reduce the added value of production (development) to the point that only the upstream processes would remain. We are also unsure of whether low-code in its current form can handle the requirements of normal systems development if system failures or security problems arise.

Q: Various new technologies such as DX and low-code will likely require re-education and in-house investment. Will you be increasing investment in human resources development?

A: We are actively investing in human resources development, and we have established various DX-related courses over the past few years. More employees are also undergoing training during the COVID-19 pandemic. Our Human Resources Development Department is working as an organization to develop curriculum, and we believe that we have a more complete structure in place than other systems integrator companies.

Q: Regarding your offshore development in China, in light of cost increases and concerns about protecting IP among other issues, are you considering a move to another region?

A: Since costs are increasing in China's coastal cities, we are cooperating with our partner companies to reduce labor costs by utilizing the services of engineers located more inland. Costs are not suddenly skyrocketing. Over the next ten years, we believe cost increases will be limited through the use of inland areas. To be prepared for the geopolitical risk of confrontations between the US and China among other potential threats, we have considered adding another country other than China. Having tried both Vietnam and India, we are currently focusing on Vietnam. Business practices in India are different, and it is not high priority.

* Company acquired by ASG in 2017 whose management has already been integrated into ASG