

(Tokyo – 18th November, 2021)

**Nomura Research Institute, Ltd.**

**Q&A from Small Meeting for Institutional Investors**

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

**(Questioner No.1)**

Q1 : Your clients were likely suffered significant impact from COVID-19 in FY March 2021. DX-related sales growth is accelerating in the first half of FY March 2022, but how are clients' attitudes toward IT and DX investments changing during the pandemic?

A1 : While we were impacted during the first quarter of FY March 2021, e-commerce and logistics-related business in industrial IT picked up in the second quarter as people shifted to stay-home lifestyles. In financial IT, there was new business demand in areas such as non-face-to-face and non-contact interactions. Notably, we began receiving business inquiries from managers with greater awareness of business transformation through IT. Changes in behavior resulting from the pandemic will likely continue for the time being, so we believe the business to accommodate this behavior will also be ongoing.

**(Questioner No.2)**

Q1 : You expect to achieve your targeted operating profit in the Medium-Term Plan one year early. You have been hiring in line with achieving the plan, but the pace of your business growth is faster than expected. Are you able to maintain or even increase the current pace? Or are you simply dealing with a temporary busy phase? And what efforts are you working on to bolster hiring and improve productivity?

A1 : Business is indeed strong, as you pointed out. Firstly, in terms of productivity improvements, we are working to break down components of things which can be made into patterns in the development process (digital IP) and apply them in combinations, mainly in industrial IT. Next in terms of hiring, we expect to hire around 400 new graduates as planned to join the company in April 2022. As for mid-career hires, we have currently already hired 180 compared to our

plan of 210 for the full year, so we expect to hire in excess of our target.

Q2 : You have achieved a high level of profit. Next year and onward, will you be further accelerating your new graduate and mid-career hiring, or will hiring continue along the current growth trajectory?

A2 : We want to accelerate our hiring. We want to aim for around 450 new graduate hires in April 2023 on a non-consolidated basis. As for mid-career hiring, our public relations activities have had some effect, and NRI's visibility is increasing. We are getting more introductions from staffing agencies.

### **(Questioner No.3)**

Q1 : Regarding your consulting business model, about what ratio of your projects is priced on a per-person per-month cost basis? And will your future growth and scaling up be proportional to headcount, or are there any other factors such as revenue sharing projects with clients?

A1 : We do not necessarily offer per-person per-month pricing to clients for added value. In terms of a business model, aside from providing management consulting on an individual basis we also handle Con-Solutions to support clients' reforms with consulting and systems in tandem. In other words, it has changed to projects in which we stay alongside clients and provide ongoing support. In the field that we refer to as DX 2.0, we create business together with clients. Examples include Earthbrain which we are engaged in together with construction machine manufacturer Komatsu. There is a revenue-sharing approach in the field of DX 2.0, and we want to keep creating business like this.

Q2 : Will your future growth depend on factors such as increased headcount of consultants, prices according to added value, unification of consulting and systems, and revenue sharing?

A2 : It will be a combination of those, and we believe that the monetization trend will increase.

### **(Questioner No.4)**

Q1 : What were the reasons and the deciding factor behind your acquisition of Core BTS? You seem to have established solid footing in Australia, so why did you

take this action in North America?

A1 : Core BTS is a company that began in the network business with Cisco Systems as a key partner and has a client base of approximately 1,500 companies. Having acquired companies handling cloud-related business using Microsoft Azure, as well as analytics and application development companies, Core BTS now offers everything from infrastructure to applications, and from consulting to operations. In North America, cloud implementation is not very widespread, and many systems are still operating on-premises. The reason behind the acquisition was our expectation for market growth in cloud implementations. This could also be considered an acquisition for purposes such as expanding to areas (regions) that Core BTS did not previously cover and strengthening our consulting function. In the US, Brierley+Partners operates loyalty marketing programs, but we had been searching for a company that could be a springboard for expanding through services as we have in Australia. Core BTS is a company that works closely with their clients to provide value, so we felt affinity with them.

Q2 : Was the acquisition amount the result of having carefully scrutinized factors such as intangible assets and risk?

A2 : According to antitrust law there is a 30-day waiting period, so we cannot provide any detailed explanation at this point in time. However, we evaluated their growth model, EBITDA multiple, and other characteristics, and determined that these were at reasonable levels for a company that provides sophisticated DX through IT services.

Q3 : I understand that you had been facing challenging circumstances in Australia. Factors such as synergies are the focus of attention at the time of acquisition, but non-cash expenses also increase, so I hope you will continue to be mindful of financial discipline.

A3 : In Australia there was some impact from COVID-19 after the acquisitions, but our profit level there has now returned to pre-pandemic levels (approximately 10%). In Australia we acquired multiple companies aiming for an expansion of our services. This has enabled our business there to turn profitable. NRI Australia ranks around 15th in Australia's IT services market, but we aim to enter the top 10 fueled mostly by organic growth. We would like to take the lessons we learned in Australia and utilize them in the US.

Q4 : Do you think your momentum here in the Japanese market can be sustained? If some turning point were to occur, what do you think it would be? Also, companies everywhere are struggling to secure human resources with high levels of expertise, but could that turn into a bottleneck for NRI?

A4 : E-commerce and logistics are leading areas of DX investments triggered by the COVID-19 pandemic, but after these we have seen more companies making top-down decisions on DX investments from the management level. The DX market in Japan is moving slower than in other countries, so the current conditions might continue for five years or so. We are discussing business in DX 3.0 which offers solutions to social issues, with the next Medium-Term Plan in mind. As for human resources, we will be hiring around 400 new graduates to start in April 2022, but our company is highly popular among students, and we have large numbers of applicants. Our focus is on securing high-quality human resources. I mentioned this earlier, but we are bringing aboard about 200 mid-career hires, as NRI's visibility has increased.

#### **(Questioner No.5)**

Q1 : Where in DX has the growth rate been particularly high in the first half of FY March 2022?

A1 : From a technological standpoint, we have seen growth in DX that uses AI and algorithms such as improving the efficiency of ordering in retail. When we establish templates for learning models, these can be rolled out to other clients.

Q2 : When you include the smaller companies as well, I believe there are many players in the market for ordering systems. Does NRI consider the market for ordering systems that use AI to be close to a greenfield?

A2 : I believe there are many startups working on AI ordering, but only a limited number of companies are around the same size as NRI and capable of building large-scale systems that ensure high-quality service, such as by minimizing defects.

Q3 : You explained that in logistics where e-commerce is growing, DX investment is also growing. Since advertising agencies are also working on DX, does NRI have any interest or approach in marketing domains such as CRM?

A3 : Data management is key in marketing. When looking for ways to utilize data,

such as for recommend functions, NRI's technology can be used to generate value. This is a domain that advertising agencies handle, but NRI's approach is different in that we utilize data processed by systems. We would like to leverage NRI's characteristics to offer services for CRM and marketing.

Q4 : Regarding the decarbonization and carbon neutrality consulting projects that you mentioned in the first half financial results presentation, about how large-scale do you think this business will be, and how do you expect it to develop in the future?

A4 : Carbon neutrality is a promising topic for future development. We are thinking about services mainly for the private sector and are currently discussing how we should proceed.

#### **(Questioner No.6)**

Q1 : Your operating margin is at a high level. If DX stabilizes on its current trajectory, could this level become normal? And could 20% become a realistic target?

A1 : We would like to aim for an operating margin of 20%. When capacity utilization in consulting is high, operating margin increases. In IT solutions, operating margin rises when productivity increases.

Q2 : Looking beyond your overseas sales target of 100 billion yen, in what countries and areas will you be focusing in the next Medium-Term Plan?

A2 : We aim to achieve the 100 billion yen in overseas sales mainly with sales in Australia. Currently there are fewer large companies to target for M&A, so although we will consider M&A of smaller companies that could supplement our area coverage, we would like to increase our profit margin by focusing on organic growth. After Australia is North America, which will be a key pillar of our next Medium-Term Plan.

Q3 : When looking at other companies' M&A, we can see they are struggling to establish a presence in North America. It's not very easy.

A3 : We understand that the North American market is a challenge, and we are researching M&A cases of other companies. I think that NRI's M&A has more or less taken shape in Australia. We consider Core BTS to be a company that matches up with ASG in Australia, and we are carefully examining acquisition

targets to spread out in terms of services as we search for the missing pieces. We will proceed while discussing with management at Core BTS.

**(Questioner No.7)**

Q1 : Core BTS is in a different business from Brierley+Partners and Cutter, but thanks to your explanation I understand the intention behind the acquisition. Relative to your matrix of client industry types and services in Australia, what industry types, areas, and other factors do you plan to target in North America?

A1 : In Australia we (ASG) have strength in public sector and government-related business, but Core BTS started in the network business and has an extensive client base (approximately 1,500 companies). Core BTS does approximately one-third of its sales with its top 20 clients and handles application development and other services mainly for these top clients.

Q2 : My impression was that Core BTS is a company that mainly operates in network technologies.

A2 : That may not be far off, since they began in the network business and develop applications on Microsoft Azure, but they are acquiring application development and data analytics companies. Their strategy for growth through digital development is similar to our approach at NRI. Going forward, we want Core BTS to grow even more.

Q3 : Was the decision to turn Core BTS into an NRI subsidiary made on the fund side? What was the background behind the decision on this deal?

A3 : The fund side was looking for a buyer. NRI also considered it an acquisition target, so the two sides came together.

Q4 : You established several joint ventures until about 2019 as part of DX 2.0 efforts, but what is their status recently and what are you planning in the future?

A4 : Our efforts in DX 2.0 are still in progress, and many of these take time. Earthbrain which I mentioned earlier is an example of DX 2.0.

**(Questioner No.8)**

Q1 : The types of clients with whom you can get started through consulting then

connect to IT solutions are probably limited. How are the types of these companies changing or growing?

A1 : We believe that relatively larger companies are the ones with needs in both consulting and IT solutions. NRI has many large companies among its client base. We want to maintain our relationships with these companies while aiming for larger clients. For example, rather than doing 1 billion yen in business with 100 clients each, we prefer to do 10 billion yen of business with 10 clients each.

Q2 : The potential of the market is growing. Is your focus broadening to also include smaller companies?

A2 : This is not about small companies but rather about the orders from large companies. For example, clients with whom we had previously only received orders in the hundreds of millions of yen upped the size of their orders to billions or tens of billions. At NRI, we build close relationships with management through consulting and handle projects that reflect the intentions of senior management.

Q3 : What are the differences between NRI and the competitors you are often compared to?

A3 : Compared to companies that do business globally with templates and packages, NRI achieves differentiation through production capability and practical execution capability that fulfill the complex requirements of our clients. Compared to companies with strength in their ability to mobilize personnel, we differentiate ourselves through high-level consulting and high added value DX.

#### **(Questioner No.9)**

Q1 : Do you often actually end up competing in the proposal stage against companies with strength in ability to mobilize personnel?

A1 : There are not many cases where we believe we face such competition in our proposals.

Q2 : When working with partner companies, is it common for NRI to handle the larger projects and the partner company to handle the smaller ones?

A2 : We have around 8,000 employees at partner companies in Japan, but we do not give projects to partners just because the projects are small. We handle

these projects through division of responsibilities between partner companies and NRI.

Q3 : Do you utilize partner companies in consulting? And can you increase your capacity by utilizing partner companies in greater proportion?

A3 : The capabilities of individual consultants directly impact the quality of the services, so we utilize outside contractors in consulting far less frequently than we do in IT solutions.

Q4 : Do you utilize partner companies to secure headcount at client locations where you have consultants regularly stationed?

A4 : The usage of partner companies which I mentioned earlier was with IT solutions in mind.

#### **(Questioner No.10)**

Q1 : Core BTS was an M&A acquisition of around 50 billion yen, but what scale are you envisioning for your future M&A?

A1 : The M&A for Core BTS was the largest we have ever conducted at NRI. If there is a company we need, we will make it a candidate for acquisition, but I do not yet foresee us going an extra digit higher.

Q2 : Would M&A acquisitions over 100 billion yen therefore be large by NRI standards?

A2 : Currently the largest M&A we have ever done is about 50 billion yen. We will consider the possibility of anything larger while keeping factors such as our financial circumstances in mind.

#### **(Questioner No.11)**

Q1 : You have disclosed performance metrics for your value co-creation initiatives, but business platform sales decreased in FY March 2021 compared to FY March 2020. What was the reason? Also, what is the status of your new financial business platforms for the affluent segment?

A1 : This was because sales figures for FY March 2020 included large projects in product sales related to shared online services, and there was a decrease in FY



March 2021 due to the reversion from these projects. As for financial business platforms, we are currently working with Nomura Securities. In addition to financial product introductions, we are also addressing front-office areas such as customer experience (CX) for the affluent segment.

Q2 : How large of a scale do you foresee in financial business platforms, and what is your timeline?

A2 : In financial product introductions, we are planning to launch services in FY March 2023. Nomura Securities is handling the sales activities targeting regional banks. Regarding front-office for the affluent segment, some parts are still in the planning stage, so our timeline is still undecided.

**(Questioner No.12)**

Q1 : I understand that your offshore partners in China have around 5,500 employees, but do you foresee any country risk there, such as from a regulatory or national security standpoint?

A1 : Our offshore partners in China are important to us. We have been doing business with them for over 20 years, during which time we have established trusting relationships. We can always figure out ways to continue working securely with them, such as having them provide environments other than the production environment.

Q2 : Will there be any changes to the size of your offshoring business in China going forward?

A2 : It is important that we improve productivity. Currently we are mainly contracting out detailed design and development to our offshore partners in China, but this could potentially become automated through technologies such as low-code and no-code. In that case we would need offshoring to play a broader role, such as handling more upstream processes or testing processes.

**(Questioner No.13)**

Q1 : Regarding Earthbrain, in addition to consulting at the time of startup, is your business model to capture revenue from usage fees for the system assets you built?

A1 : That is correct.

Q2 : Pricing is probably important in revenue sharing, but how many years would you plan it to take for revenue to exceed that expected from a typical development project that includes operations and maintenance?

A2 : We are plotting out multiple scenarios (optimistic, standard, pessimistic) to evaluate NRI's earnings plans, based on the business plan for Earthbrain.

Q3 : Is the profitability high relative to development projects?

A3 : In asset-based business models where systems bring in revenue, profit margin rises along with increases in usage volume.

Q4 : Could this also be rolled out to businesses such as general contractors?

A4 : We anticipate usage at various types of construction sites.