

(Tokyo – 12th December, 2019)

Nomura Research Institute, Ltd.

Q & A from Small Meeting for sell-side analysts

Part1

- 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
 - D2C: An abbreviation for Direct to Consumer, which refers to a mechanism that bypasses distributors and sells company's products and services directly to consumers

(Questioner No.1)

Q: What kinds of questions did overseas investors frequently ask on your overseas roadshow following the first half financial results briefing?

A: We received questions covering a wide range of topics including our future policies in DX-related business, overseas business forecasts, and hiring activities to address shortages of manpower.

Q: What is the status of your hiring activities?

A: We normally hire around 300 new graduates per year, and currently we have offers out to nearly 400 new graduates for next fiscal year. Since we are also popular among students, we have successfully been able to hire high-quality human resources. As for mid-career hiring to bring aboard personnel who we can utilize more immediately than new graduates, this fiscal year we are planning to hire roughly double the 100 or so that we hired last fiscal year. We have already hired around 160 and are continuing to make steady progress.

Q: Across the industry as a whole it seems there are not many success stories of DX having improved business performance, so I am concerned about whether the DX trend will continue. Going forward, what sort of DX-related proposals will you be making?

A: Large numbers of companies are working on DX 1.0 which leads to more efficient business and reduced costs. One example is migrating systems developed on-premises to the cloud to reduce maintenance costs and keep from falling into a competitive disadvantage. The need for initiatives such as these is broadly recognized. At the same time, DX 2.0 initiatives that transform business and help boost sales are still developing and have not produced success stories as of yet. Going forward, we believe that we will be able to apply more success stories of DX-based business transformation in North America to our clients in Japan. Through our proposals, we want to give clients a deeper understanding of how DX can transform business.

Q: About when do you think we will see groundbreaking DX 2.0 success stories that lead to improved business performance?

A: These will likely emerge after the final year of our long-term management vision V2022 (FY 2022).

Q: Do you believe the DX trend will continue until then?

A: DX will be triggering investment demand on an ongoing basis. For example, companies that launch e-commerce and have information systems that were managing things like inventory and shipments through batch processing will need to manage them in real-time instead in order to be able to operate around the clock. Simply migrating existing systems to the cloud produces no effect. The systems themselves have to be overhauled, so we will see more projects like this in the future.

Q: Please tell us how much progress you have made in overseas projects for Nomura Holdings, and what is your future forecast for such projects?

A: In August last year we established a joint venture with them in India and transferred overseas operations there. We plan to conduct trial operations over the subsequent one and a half to two years, and then decide on full-scale business growth policies. As of now, this is proceeding on schedule.

Q: Are operations going well at the joint venture company in India?

A: Operations there are going well.

Q: What impact does the change in management at Nomura Holdings have on your overseas projects?

A: They have only just recently changed to new management and have not reached the point of being able to specifically address individual businesses. We will move forward with them once we hear what their approach will be.

Q: I hear that the market in Australia is in bad shape. What is your outlook for recovery in your business there over the second half of this year?

A: Business in Australia will remain slow in the near future. Amidst this unfavorable climate ASG changed its management during the first half of the year and the restructuring efforts they had been working on since last fiscal year have settled down. Currently we believe their sales have bottomed out and we expect to see an increase going forward. Thanks to the restructuring, ASG now has a structure that is conducive to profitability. Since they mainly operate in the public sector, they are less susceptible to the impact of market forces than the private sector, so we believe that a sales recovery is possible.

(Questioner No.2)

Q: Do you have dividend income in Australia? What are the benefits of investing there?

A: We do not have dividend income there yet, but we are investing with the goal of bringing in earnings contributions in a few years. From a long-term perspective the domestic market in Japan looks to have matured, so NRI will have to incorporate foreign markets in order to grow in the future. Australia has an increasing population and its market is expected to grow. In addition to Japan we want to be able to capture a certain portion of our earnings overseas.

(Questioner No.3)

Q: Are you doing more mid-career hiring in the financial IT segment or the industrial IT segment? And why is your hiring going well and according to plan despite fierce competition in mid-career hiring?

A: We are doing more mid-career hiring in industrial IT than in financial IT. Human resources mobility in IT is increasing, and with more people changing jobs, more of them are seeing our strategy at NRI and thinking it's something they want to be part of.

Q: Is employee turnover increasing too? Are your employee numbers increasing overall?

A: While we do have increasing turnover, mostly among younger employees, our turnover rate is 3% which is quite low. Our employee numbers are increasing overall.

Q: About when do the employees you hire mid-career begin helping to bring in more orders in industrial IT?

A: Those who adapt to their new environment and become deployable quickly are contributors within about a half-year after hiring. Normally I would say it takes around a year. Going forward, we will gradually build resources for industrial IT sales and development, and we expect them to help bring in more orders from next fiscal year onward.

Q: DX projects have increased over the past two years, mainly in industrial IT, but have you seen any specific change in what these projects involve?

A: Movements in direct-to-customer (D2C) have been accelerating, mainly in distribution and manufacturing, and we have begun seeing demand from businesses who have launched e-commerce and want to make the peripheral investments. For example, to provide services to their clients around the clock, they will now need to overhaul their existing operations and systems to be able to ascertain their inventory levels at any time, 24 hours a day. We have realized that through e-commerce, there are plenty of projects through which we can tap into additional investment demand that arises.

Q: Has the competitive environment changed in D2C over the past two years?

A: When making proposals, we are more often competing with companies that provide ERP packages. NRI differentiates itself by making proposals that assume development from scratch.

(Questioner No.4)

Q: What do you particularly look for in people that you hire?

A: When we are hiring for the IT department, we want people who have the skills needed for development on our current systems, and the relevant background.

For mid-career hires, they need to have fundamental technological skills in areas such as cloud and Java. We also want to hire outstanding people who have special skills, but since they are in short supply, we haven't been able to hire many of them.

Q: Do those outstanding people who have special skills often get jobs with business enterprises such as manufacturing companies?

A: Indeed, I think there are people who want to focus on specific fields within business enterprises. NRI has connections with a diverse array of clients and offers a wider range of work activities than commercial enterprises. For example, I think we are appealing for those who are interested in utilizing AI to solve problems for various clients.

Q: You are hiring larger numbers of people, but are you maintaining the quality of your human resources?

A: We rigorously evaluate applicants through multiple interviews for both new graduate and mid-career hires, thus maintaining the quality of our human resources. Our policy is to increase our headcount of high-quality people according to plan through this very same process.

Q: What is keeping Japan's IT market from growing at an even faster pace? Does the shortage of manpower need to be resolved? Do company managers need a new mentality?

A: At an event organized by another IT-related company there was a speech about how business will not change unless CEOs talk about IT. I think the shortage of manpower can be overcome by training human resources, but that alone will not generate business. Managers need to get actively involved in showing how they want business to be created, and how IT should be utilized for that purpose. Through our consulting services, NRI supports managers in their decision making on business challenges and the use of IT.

Q: Have client needs and the services NRI provides to meet them changed from what they were five years ago?

A: They have changed. Five years ago, our process was mainly to receive requirements from clients and develop systems accordingly, mainly for updates

and maintenance of core systems. Now we have more projects such as establishing D2C business, where we start by working together with consulting to create a vision of what type of system should be built to begin with.

For example, five years ago if we made a proposal to build a system that could ascertain inventory levels in real-time, they would fail to understand the purpose and it would be seen as just a cost increase. Now, there are more managers who would be receptive to the very same proposal as a necessary investment in business infrastructure because if they don't do it, they won't be able to establish new business and their competitors will overtake them. There should be an increasing number of such managers, and NRI needs to gain more of their trust as a business partner.

(Questioner No.5)

Q: Other companies have their selling points in cutting-edge technologies such as analytics and high-level data science. How does NRI take them on in these areas?

A: NRI's business approach is to use AI and data science as the means, and start by thinking about how to leverage them. We can supply elementary technologies and other such means whenever the need arises. Our approach is not simply to use the technologies and people we have on hand as a selling point.

Q: Do you have any effective methods for overcoming the tight IT labor market?

A: It would be difficult to completely overcome the tight labor market, but we think we can hire even more people overseas who are skilled in the elementary technologies that we need. Now we are mainly procuring human resources through business partners in China, but we might be able to procure them in other countries such as India if necessary.

(Questioner No.6)

Q: Regarding what you mentioned about applying successful examples of business transformation through DX in North America to clients in Japan, what type of example would be a match for the circumstances in Japan?

A: Examples from North America can serve as references for how IT can be deployed to improve productivity in Japan's distribution and services businesses. One particular example would be using smartphones to bring client contact

points into the digital medium, a solution that is viable worldwide which we could pursue in Japan. The move to digital in the finance field is progressing in North America, but it would not be so easy overall to apply such examples in Japan since the regulatory environment is not the same.

Q: How will the IT industry change structurally leading up to the year 2025?

A: In the current IT industry overall, supply side logic is at work. Rather than the demand-side perspective of how IT should be used in business, people try to sell the means to do things such as IT technologies. As long as this stance remains prevalent, companies will merely see us as a vendor rather than a business partner. In 2025 there will likely be more CEOs whose eyes are open to the importance of IT and will think about joining forces with an outstanding business partner for IT investments. NRI wants to break away from the existing IT industry which will become a red ocean, and be a business partner for our clients.

(Questioner No.7)

Q: What triggers CEOs to change their awareness of IT?

A: I think that changes in the competitive environment are the biggest triggers that give CEOs a sense of impending danger. Their awareness does not change due to something anyone tells them.

(Questioner No.8)

Q: The word *DX* was a focus of attention in the DX Report by the Ministry of Economy, Trade and Industry (METI), but I think there might also be people who see it negatively as a sort of fleeting buzzword. Do you think it would be better for NRI to create its own original expression to use as a strategic theme?

A: Thank you for that valuable advice. NRI was also involved in the studies for the DX Report, but METI was concerned that IT could be a drag on domestic industry and put it at a competitive disadvantage. The fact that the catchy expression *DX* got some attention was significant.

(Questioner No.9)

Q: Please tell us where NRI is focusing its attention in terms of your forecast for the IT market overall in 2020.

A: IT investment was impacted to a certain degree by the slowing business climate in global manufacturing during 2019, but we anticipate that this will take favorable turn in 2020 and that IT investment will gain traction. At NRI, we believe our favorable performance in finance will continue as an extension of what we are doing now, and we expect to dedicate large amounts of resources to this field. For example, the project to implement THE STAR at Mizuho Securities will continue, and if the business climate settles down, we can also expect a sizable recovery in projects for major life insurers that we continue to support. We would also like to focus attention on top-line growth in the industrial field.

Q: What impact will the Tokyo Olympics have?

A: At the moment we do not anticipate the Olympics having any effect on our performance.

(Questioner No.10)

Q: About what portion of NRI's clients have migrated to the cloud?

A: We do not have any clear numerical figures, but I believe that nearly all of our clients are using the cloud to some degree. On the other hand, we also have no clients who run 100% of their systems on the cloud. They use either the cloud or on-premises depending on the system. Whether or not the main system is on the cloud varies depending on the client.

Q: There is discussion on the issue of parent and subsidiary companies both being listed on the stock exchange, but what is your policy on subsidiary Daiko Clearing Services?

A: We will make the proper considerations for this at the appropriate time.

(Questioner No.11)

Q: What is your future forecast for the joint ventures you have already established with clients? And about how many joint ventures do you plan to add going forward?

A: All of these joint ventures have only recently been established, and they are still in the process of solidifying the foundations of their businesses to steadily increase sales. As for whether or not we will add more joint ventures up to a

certain number, we have not set any specific numerical targets. Through discussions with our clients, if we find that we have common goals then we will move forward on joint ventures, without deciding in advance which specific fields of business we aim to tackle. We are building a track record of joint ventures at NRI and disclosing information so that partners find us easier to talk to.

Q: Do you have any evidence to support what you said earlier about the business climate in global manufacturing taking a favorable turn next year?

A: I was expressing our forecast for the macro environment based on statistical data on the economic climate. There is no specific supporting evidence related to NRI's projects.

(Questioner No.12)

Q: Have you discussed offering better conditions than normal employees for human resources who have special skills?

A: We are always thinking about what we can do to keep our human resources system up to date, so this is open for discussion. However, we will be thinking about this in terms of having the right system for our company, rather than offering larger salaries to counter what other companies are doing.

(Questioner No.13)

Q: What strategy is needed to achieve future growth in Australia?

A: ASG's sphere of business is too limited to cover all of Australia's vast territory, so if there are good IT companies in each region, we would like ASG to acquire them to be able to cover the entire country. We will also expand our lineup of services there to be able to capture large projects related to government which is a main business focus there. Through M&A we also aim to expand into finance, where NRI has strength.

(Questioner No.14)

Q: What type of human resources must you develop to handle DX projects?

A: In addition to having knowledge in system engineering, they also have to acquire business analyst-type attributes such as business mentality and industry knowledge. Currently we do this mainly through on-the-job training.

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