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: The investment capacity of securities brokerage firms seems to be declining overall, so what is the background behind the increased sales forecast in securities for FY March 2020?

A: While our performance in securities may not have been good in our FY March 2019 financial results, reviews have been under way for multiple implementations of THE STAR at securities brokerage firms. These will reflect in terms of performance in the FY March 2020 financial results. The turnaround will not necessarily happen right away, but I believe this forecast is appropriate within the natural flow of how things are progressing.

Q: Your performance forecast in insurance is conservative compared to the previous year, but what is your medium to long-term forecast?

A: Orders have been piling up in insurance since two to three years ago, and FY March 2019 was our peak for systems development. There will still be high overall demand for systems development, but we do not believe that the increase we saw in FY March 2019 will continue in FY March 2020. However, it is possible that new projects in insurance could come together over the upcoming year and result in better performance figures the following year in FY March 2021. Systems development in insurance is focused on traditional development for each separate company and these can easily impact sales, so...
while it may be easier to anticipate what our performance will be over the next two to three years, it is much harder to forecast in the medium to long-term.

(Questioner No.2)
Q: In your conversations with management at client companies, have you recently heard any concerns about a worsening economic outlook stemming from US-China trade tensions?
A: My impression is that not many of our clients see the current business climate as worrisome. That may be because many NRI clients are in industries such as finance and distribution that are dependent on domestic demand.

Q: What type of projects are becoming more frequent in DX?
A: We began seeing DX consulting projects around the years 2009-2010. After that initial period, we started handling more and more of them and in 2017 multiple systems investment projects started up all at once. As for what type of projects they are, many of our DX projects are D2C-related for clients such as mass retailers. There are also lots of projects to enhance business processes and reduce labor. At the same time, while more efforts are being made toward DX, there are a lot of Japanese companies where the effects of DX are still not being felt. We believe there will be a second wave in DX, where efforts will be made with even greater level of momentum than before. For example, in D2C we believe there will be even more serious efforts to utilize accumulated data to make sales operations more advanced. In business process transformation, the recipe for success will be to build more multi-purpose pretrained models utilizing AI. One example that comes to mind is converting a model built for car sales to be used for the sale of residential real estate.

Q: Do have an edge over your competitors in the field of AI?
A: In AI, the key is the level at which you can produce multi-purpose pretrained models. Our competitors lean towards turning out as many models as possible with a quantity-over-quality approach. At NRI we want to produce efficient high-quality models that are selectively-targeted, but we also realize that we will need to pick up the pace. At any rate, we believe that the real competition lies ahead.

(Questioner No.3)
Q: Do you have a general policy of one client in each industry type in DX?
A: Our clients are not requesting that, and our contracts contain no such restrictions. However,
many DX projects are in competitive fields where companies want to differentiate themselves from others, so we cannot provide the exact same solution to another company in the same industry. In actuality we decide on the circumstances according to each individual project and handle them from there.

(Questioner No.4)
Q: In the Australian general election the incumbent party was able to stay in office. What effect do you expect that to have on your business in Australia, and what is your business forecast there?
A: Our Australian subsidiary ASG does a large portion of its business with government agencies and due to the general election, they had project orders on hold since the end of last year. However, since the results of the election have come in we are now seeing signs of movement, and the probability of ASG receiving orders has risen for some projects.
In addition to the government and industrial business we have been doing in Australia, we would also like to expand our business there in the financial field. We are already investigating where in the finance sector we should focus on, as well as potential acquisition targets. We hope to find a good acquisition target as quickly as possible.

(Questioner No.5)
Q: What are the characteristics of the engagements NRI has in FinTech? How would companies that are entering a new industry benefit from the support NRI provides?
A: As described on page 11 of our medium-term plan, FinTech at NRI involves providing companies entering new industries with the infrastructure to launch new services. NRI itself will not be a player in financial services. We aim to provide finance infrastructure to a select number of companies that will become players.
Many of the companies that are considering entering finance have good client-facing front office systems but lack expertise in back office operations and dealing with regulations, which is where they can benefit from using the infrastructure that NRI provides. These companies also do not have to build a full lineup of operations like existing traditional financial institutions. All they have to do is create mechanisms that match their business.

(Questioner No.6)
Q: Please tell us the background behind impairing all the goodwill of Brierley+Partners in the US in FY March 2019.
A: The intellectual property of Brierley+Partners offered synergy effects, such as leveraging it in the distribution sector in Japan to generate projects worth billions of yen each, but the competitive environment surrounding loyalty marketing in the US has changed dramatically, and we were unable to secure the profitability we anticipated. The founder of the company also recently retired and the management now in place has only recently taken over, which is one reason the company is behind in dealing with changes to the competitive environment. We will need to work on strengthening the governance system there, so they can make faster decisions and take more appropriate actions locally to deal with their changing environment. With local staff numbering around 300, it will take considerable investment to overhaul their system.

As for accounting, we discounted future cash flow at Brierley+Partners over the next seven years (the period of amortization of the goodwill) at a 10% discount rate (after tax) according to Japanese accounting standards, and since the resulting amount was insufficient as goodwill we impaired the entire amount. The business has not gotten worse, and we have even taken the initiative to increase our investment there. The pace of profitability improvements fell short of the plan, which was the reason for the impairment.

Q: How is the joint venture with KDDI progressing?
A: Overall its progress is on pace with the initial plan. KDDI was originally one of our main clients at NRI, and we continue to have a good business relationship. The joint venture between our two companies KDDI Digital Design has completed its preparation phase and has begun full business operation starting this year. KDDI has strength in telecom network engineering, and they also have on-site resources that can be utilized for system maintenance. This can be combined with the consulting and systems development capabilities of NRI in proposals to clients. KDDI Digital Design is already at the stage of finalizing a large project and is off to a promising start.

Q: What are you forecasting for IoT-related business?
A: It will take a little more time to generate effects from IoT. First off it takes around three years to collect sufficient data. Then the question becomes how to utilize the data collected through IoT, and how much we can cut down on costs. We expect it will be a business area with a lot of attempts and a lot of failures, where we hope for a success rate of about two or three out of every ten projects.

(Questioner No.7)
Q: Is that project being finalized at KDDI Digital Design something that was expected from the beginning?
A: They started by creating a list of potential clients. Based on that, they started making proposals last year. It looks like one of those proposals is now turning into a project.
Q: Was the initial year sales target of 15 billion yen achieved?
A: The numerical target of 15 billion yen includes the portion carried over from existing business.

(Questioner No.8)
Q: What is your forecast for sales to Nomura Holdings going forward?
A: Our sales of 60 billion yen to Nomura Holdings in FY March 2019 is the baseline for our FY March 2020 forecast, and we believe there is little risk of falling below that. Any separate new systems projects would then add to that total, but we cannot forecast many of those. I also think there is little possibility that our sales to Nomura Holdings will return to previous levels of 80 to 90 billion yen at any point in the medium-term plan.

Q: Is there any risk that the shift from current core business to DX could hurt overall profitability?
A: We are not intentionally trying to increase DX. Rather, we believe that business other than DX will gradually disappear. At some point, traditional large-scale on-premises systems development will vanish. One of the main types of projects, for example, will be to build e-commerce systems with agile development and connect them to old core systems through APIs. Through our experience over the last few years we are now able to produce sufficient profit from DX projects, so overall profitability will not decline.

(Questioner No.9)
Q: What is NRI's strength in the DX field compared to other vendors such as those that do manufacturing?
A: NRI exercises its strength when handling processes that happen before defining system requirements, such as deciding how the business model of the client should be. Conversely, the strength of NRI cannot be leveraged when only handling systems development after requirements have already been defined. Going forward we would like to create new strengths, such as creating components out of pretrained models that utilize AI.
(Questioner No.10)

Q: What is the status of the joint venture with Nomura Holdings in India?
A: Nomura Holdings and NRI have established the joint venture NVANTAGE in India, and it has started business in the field of international wholesale banking. It is currently in the marketing phase and already appears to have several projects in the works. We plan to work towards full-scale rollout there.

Q: Has company’s reputation been negatively affected by the case that the NRI researcher involved in information leaks related to the market segments of the Tokyo Stock Exchange?
A: Although there has been no specific impact in practice, NRI takes this case seriously and has taken steps to prevent such incidents.

(Questioner No.11)

Q: Do you have any plans to offer any new shared online services for the insurance industry?
A: There are increasing overall needs in the insurance industry for cost reductions, so we believe shared online services do have room for growth in that regard. However, even if we could achieve this, I would not anticipate it happening until after the current medium-term plan considering the significant amount of time it takes for systems migrations.

Q: In industrial, are you thinking about offering shared online solutions such as systems for placing and receiving orders for products?
A: We are working on individual projects, and it is definitely possible for NRI to handle the investment and operation for that on our own. However, without same regulations as there are in finance there will ultimately be a lot of company-specific customization, so there does not appear to be a lot of benefit in shared systems for placing and receiving orders.

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