(Tokyo – 18th May, 2022)

Nomura Research Institute, Ltd.

Q＆A from Small Meeting for Institutional Investors

Part 1

(Questioner No.1)

Q1: Digital social capital created by DX 3.0 was mentioned in the framework of Group Vision 2030 (“V2030”) announced at the financial results presentation, and it seems to seize on positive momentum in the business environment. In Vision 2022 you seized on the DX era, in areas such as synergies between consulting and systems. How are you considering the allocation of your business portfolio and management resources, and what are you emphasizing in particular?

A1: This is the final fiscal year of Vision 2022, for which considerations began in 2015. At the time, the word “DX” did not exist. We used the phrase “business IT” in our discussions. This was not about back-office systems such as accounting or core systems. It was about investing in IT that transforms business models themselves. I was in charge of the Consulting Division at the time. From 2009 to 2010, topics related to e-commerce and other new business models utilizing IT were increasing, and we had a feeling that IT investment would increase. Since then, having a consulting function may have been advantageous in acquiring information that was ahead of the times.

(Questioner No.2)

Q1: The explanation provided by President & CEO Konomoto from his consulting background was thorough and easy to understand, and there has been a lot of positive response in the stock price since the financial results presentation. Your stock price has declined overall with the financial results this year, but what do you consider to be the cause?

A1: NRI is a stock with a rather high valuation, and we currently face the same harsh market environment as technology stocks in the US Nasdaq market. Analysts think that our stock price at the end of FY March 2022 was somewhat below the consensus and that our business forecast for this fiscal year is conservative. There has likely been some movement to lock in profits at this point in time. We had anticipated that our stock would experience a sell-off to a certain degree, but the scale at which it occurred exceeded our expectations. The supply and demand relationship from Nomura Holdings selling off NRI stock in March 2022 may have had some effect.

Q2: Is your business forecast this year your realistic expectation, or is it conservative? You estimate an increase of around 40 billion yen in sales revenue excluding sales by Core BTS which does not contribute to consolidated profit, but the profit growth does not correspond to a 35% gross profit margin. I realize there are business investments and factors such as macroeconomic uncertainties involved, but is it a conservative forecast because it takes these into account?

A2: NRI tends to produce conservative forecasts at the outset of the fiscal year. While they may not impact the first half, there are some uncertain factors in our clients' business climate including global supply chains and costs such as raw materials. Since consulting is susceptible to changes in the business climate, we are projecting a limited growth rate in the second half. Financial IT will probably not be significantly impacted, but IT investment could be a bit restrained in industrial IT due to the effects of global supply chain problems and other such issues.

Q3: Regarding your allocation of investments, you had explained an allocation of one-third each for M&A, shareholder returns, and existing systems such as THE STAR. However, if you also consider returns to employees, you could perceive the allocation as one-fourth each. Are you taking returns to employees into consideration?

A3: Average salary levels at NRI are roughly 20% higher than our industry peers. Our returns to employees are aligned with our profit growth.

Q4: I understand that you do not disclose the capacity utilization of your systems engineers, but around how much did it increase last year? And while you may also be utilizing outside partners, about how much of an increase in capacity utilization does your business forecast this year anticipate?

A4: Our capacity utilization did not suddenly spike upward last year. It has been trending high over these past few years. Demand and inquiries are robust, and we are also utilizing outside partners. Circumstances in the supply and demand climate are favorable to the seller, so we are able to make proposals at prices that earn reasonable profits. We do not manage operating capacity and profits as one-to-one equivalents, and we believe there is room for profit growth.

Q5: In discussions with other companies, I hear that profitability has improved because there are more projects that can be completed without eating into reserve funds allocated at the time of the proposal. Does setting an appropriate proposal price mean increasing the assumed profit margin, or being able to make a proposal without depleting the amount set out for discretionary expenses?

A5: At NRI, we set a standard profit margin which is our guideline when making proposals. Rather than how much of a profit buffer to estimate at the time of the proposal, we try to make proposals that let us earn as much profit above the standard margin as possible while keeping our relationship with the client in mind.

Q6: Has your standard profit margin been gradually increasing over these past few years? Did it increase significantly last year?

A6: Our standard profit margin is not something we improve on a yearly basis. It has been constant over the last few years. Recently we have been able to make proposals that exceed our standard margin in an increasing number of cases.

Q7: If the standard profit margin is becoming obsolete, why not raise it?

A7: We are discussing that internally.

(Questioner No.3)

Q1: I would like to ask about your growth strategy in North America. How do you intend to grow Brierley+Partners (“B+P”) and Core BTS? How are you thinking about M&A targets going forward? What kind of ecosystem do you want to create?

A1: At the time that we acquired B+P in 2015, the positioning of the North American business from NRI's perspective was not to capture the North American market, but rather to leverage North American IP in our business in Japan. B+P's loyalty programs are now being used in applications such as points for major distributor companies, for example, so the original objective has been achieved.

Then, in Australia, our aim was to capture the local market. In six years we conducted eight M&A transactions, with the centerpiece being ASG, and we established a business presence capable of providing end-to-end services. We are thinking about leveraging our successful experiences in Australia to take on North America. Companies such as major consultancies and India-based IT vendors are present in the North American market, so competition is fiercer there than in Australia. If we make mistakes in the way we enter the market there, it will not be worth our while.

We carefully examined which type of market segments to focus on. Fundamentally, North America is a market where IT is done in-house, and any insufficient manpower is procured from consultancies and IT vendors. NRI does not operate any business to staff large amounts of personnel in Japan and has no intention to do so in North America. Midsized companies do not have the capabilities to handle their IT in-house, and in many cases, they are using on-premises legacy systems. There is demand for migrating the IT assets of midsized companies to cloud native, but major IT vendors are not really getting involved in those projects since they are not large in scale. NRI is capable of utilizing manufacturing technology through the cloud and DX. When we searched for a company similar to NRI, Core BTS came up as a candidate.

Core BTS was originally a network integrator but has added cloud migration based on Microsoft Azure to its business portfolio. Currently the focus there is migrations to Office 365, but going forward we are thinking about additional M&A for more upstream development and downstream system management solutions with Core BTS and its client base as the foundation. We will focus on providing business similar to what NRI does in Japan to midsized companies in North America. We can expect this market to grow significantly in size. Having acquired Core BTS as a foothold in December 2021, we will be building the business infrastructure over the next three or four years. We also want to expand our regional coverage which is currently centered in the northeast.

Q2: Is modernization of old systems your business model in North America?

A2: Our current business scope is migration of office automation environments starting with migration of infrastructure, but going forward, in business applications we are considering modernizations using SaaS. Through M&A, we want to acquire a company with strength in business applications.

Q3: How large do you expect your North American business to be in the future?

A3 : We anticipate overseas sales of over 250 billion yen in 2030, but we will announce the financial targets for our Medium-Term Plan in April 2023. We are currently working out the numbers by region, but North America and Australia should comprise about half each.

(Questioner No.4)

Q1: I would like to ask about DX 3.0. Currently, I believe your projects are mainly in the public sector. There might be some areas that are not quite ready in terms of the frameworks, but about when do you anticipate launching from strategy formulation into systems consulting and IT development?

A1: Business in DX 3.0-related consulting is brisk. DX 3.0-related topics such as carbon neutrality comprise a rather large portion of our revenue increase in consulting. We are currently exploring topics that lead to building IT platforms. For example, it is difficult to generate profit from projects developing local government systems from scratch individually, so we must make these into platforms and build services that various entities can utilize.

We are working on a proof of concept (PoC) for the social DX topic of services that utilize “My Number” cards (Japan’s relatively new social security card-type numerical ID system). “My Number” individual numbers are already linked to brokerage accounts, but in the near future, they will also be linked to bank accounts and used for purposes such as accounts for receiving public funds. We need to create the mechanisms for coordinating with many different stakeholders, including government offices, but NRI has an established track record of being at the forefront of the securities industry. NRI currently provides a “My Number”-related service called e-Shishobako (PO Box). This plays the role of a gateway that connects the Individual Number Portal, which is a public service, to private companies. For example, we offer a service that utilizes e-Shishobako (PO Box) for insurance-related year-end tax adjustments.

NRI is currently looking into the possibility of business that moves government and local agency operations to digital using individual number-related services. We are currently considering the second and third business topics and would like to build the services that will be the focal point. The framework of V2030 sets out an operating margin of at least 20%, but we plan to generate around 10% of the increase in profit from new DX 3.0-related business.

Q2: There are also topics such as carbon neutrality and circular economy in DX 3.0, but do you anticipate topics related to "My Number" being mainstream in the next Medium-Term Plan?

A2: The topics that are highly deliverable at this point in time are related to "My Number." In carbon neutrality, we are providing a carbon tracing system data connectivity platform (NRI-CTS), but we are currently considering functions to differentiate it since other companies provide similar services.

Q3: NRI is doing well at horizontally deploying DX 2.0 and solving companies' problems. Do you anticipate a business model similar to platforms in DX 3.0? In other words, will it be a business model like THE STAR in which NRI owns assets?

A3: That is correct. We will need to establish platforms in order to achieve our expected profit margin.

(Questioner No.5)

Q1: While it is great that the business climate is favorable and performance has been strong, including for other companies, there is also concern as to whether it can continue. Also, the expression "vendor lock-in" is being used with a negative meaning. There is criticism about IT vendors trapping profits. What is your perspective on the current climate?

A1: At the beginning, I explained that our performance forecast for this year is somewhat conservative, but demand is robust – including for e-commerce. Tier 1 companies (first-movers) are driving DX investment, primarily in front-end. Going forward, demand for overhauling core systems will be generated in the process to innovate business models through IT. In other words, the first wave is front-end, and the second wave is demand for overhauling core systems. Tier

2 companies (followers) are investing in front-end DX, and transitioning away from mainframes is also a topic with financial institutions. However, there is concern that even if clients have needs, they will postpone investment if their business performance worsens. We are looking carefully at the effects of issues such as global supply chain problems, spikes in raw materials costs, and lockdowns in China on our clients' business performance. In the past, there was concern that we would encounter adversity somewhere only handling projects to update core systems alone, which we had referred to as "Corporate IT." Regarding vendor lock-in, clients have needs to handle front-end systems in-house, and we are meeting this demand through agile development and other means. We value the long-term trust we have established with our clients, and we are in a position to supplement the features and functions they lack.

Q2: Three telecom carriers have announced strategies focusing on solutions business for corporations. That starts with networks, but will it have an effect on NRI? And has there been any progress in your joint venture with KDDI?

A2: KDDI Digital Design has grown into around 20 billion yen business. The company is contributing as a supporter of KDDI's business expansion among corporate clients.

（Questioner No.6）

Q1: There are cases where other companies in the same industry have been struggling in their overseas business. Hitachi and Panasonic are also conducting large-scale M&A. NRI is starting small. If your management approach is to avoid failure while learning from other companies, could you explain more about it?

A1: NRI is not a company that competes in size and cost. We are plotting out an NRI-style growth story and competition strategy in advance. If we take on the powerful major players head-on, we have no chance. We are searching for market segments where we can leverage our strength of providing end-to-end services from consulting to development and operation in Japan. One thing we emphasize is to thoroughly share our ideas with managers of the companies we acquire. We have a face-to-face meeting planned with the CEO of Core BTS in June 2022, where we hope to establish a strong consensus on matters such as the business model and team organization to aim for.

Q2: Is the reason you have not expanded into Europe because you were unable to find anywhere to leverage NRI's strengths there?

A2: We target markets where the IT industry is domestic demand-based and the high added-value services that NRI provides are appreciated. Our focus is on Australia and North America because the countries are developed and have growing populations.

Q3: Among listed consulting companies, BayCurrent, Sigmaxyz, Future, and Simplex have bullish business forecasts. It seems that consulting specialists which are higher-risk than NRI are bullish, and low-risk NRI is somewhat conservative. Could you share the thinking behind your business forecast? Is there an inclination toward conservative forecasts among your international competitors?

A3: We have been involved in consulting for over 30 years, and consulting is impacted by economic fluctuations. If there is any forewarning of a change coming, those who take a defensive posture can limit the damage. We start out somewhat conservative at the outset of the fiscal year, and then we consider upward revisions based on circumstances in the first half.

Q4: Are you disclosing the proportion of your consulting that is in the public sector?

A4: We are not disclosing exact numbers, but the public sector comprises less than half.

Q5: Many companies have posted revenue increases of 20% or more in security-related business. How is business going at NRI SecureTechnologies?

A5: Sales figures from NRI SecureTechnologies are included in IT Platform Services in external revenue by segment. Revenue at NRI SecureTechnologies increased in the 10% range. At NRI we are geared toward security by design, and revenues are increasing for our services that build frameworks to protect against the causes of incidents starting in the design stages of upstream processes. New demand is being generated in addition to demand for protecting systems that are already built. We have an advantage over security specialists in that we handle systems development.

Q6: As you plan future M&A, what is the policy for the current state of your share buybacks, and what are your priorities?

A6: We have continued to buy back shares on the premise of keeping ROE at around the 20% level. We would like to announce new targets in April 2023 when V2030 and the new Medium-Term Plan begin. Keeping ROE at 20% will require us to maintain our current pace of profit growth and to continue buying back shares. While we are running financial simulations, we must be careful to keep sufficient funds for M&A. For financial discipline, we are aiming to keep our D/E ratio below 0.3, but we want to think about this flexibly going forward.

(Questioner No.7)

Q1: You had explained that profit growth and operating capacity increases are not necessarily one-to-one. This implies an increase in the per-person productivity of engineers, but what kind of KPIs are you managing for this in-house?

A1: Productivity improvement is a core element comprising 30% of the profit increase in our V2030 framework. Of that, one-third will be achieved through business portfolio transformation accompanying the expansion of high profit margin business platforms. The other two-thirds will be achieved with productivity improvements through the combined effects of efforts such as reducing man-hours in development by shifting to modules, utilizing SaaS in modernizing business applications, slimming down processes by automating test processes, and increasing utilization of our business partners. NRI uses the balanced scorecard for business management, and every division makes efforts to set strategic goals and KPIs for productivity improvements. Whether or not we can follow through on this will be the key to achieving a profit margin of 20% or more.

Q2: Does the establishment of the economic security promotion bill relate to NRI's business? For example, could it add strong momentum to public-private collaboration on AI?

A2: This has not yet become apparent in inquiries and other comments from our clients.

Q3: Patents are publicly disclosed one and a half years after the applications are filed, but disclosure is withheld when the patent involves technology with high significance for the public good. Will this be a springboard to NRI gaining an advantage in global competition?

A3: NRI has acquired an array of business model patents, but since our business does not rely on the patents themselves, this is not relevant to us.

Q4: In the framework of V2030, you explained that overseas sales revenue would exceed 250 billion yen, but do you have criteria for the operating margin of M&A candidate companies, such as a certain percentage or higher? And how much productivity improvement are you expecting in your existing overseas business?

A4: In Australia, we have end-to-end business infrastructure in place, and we will only engage in small-scale supplementary M&A going forward. Our current operating margin there is a bit under 10%, but we are considering aiming for a 15% operating margin in the Medium-Term Management Plan through organic growth. In North America, we will need M&A for establishing business infrastructure over the next three to four years. We will raise our margin after establishing business infrastructure that can mature organically.

（Questioner No.8）

Q1: Regarding your approach to share buybacks, I believe you have your own theoretical stock price after calculating the cost of capital, but what are your requirements for initiating a share buyback?

A1: Our current stock price is below our anticipated price. We have not decided on any share buyback at this point in time, but we have discussed the stock price level in Board of Directors meetings.

Q2: Are there any constraints in areas such as cash flow or M&A?

A2: There are not currently any major constraints to the pursuit of our growth strategy for 2030. We could possibly exceed short-term baselines for financial discipline, but we have already completed simulations showing that we can control these over the long term for five to ten years.

Q3: How do you anticipate domestic business momentum developing after demand related to COVID-19 cycles out? Will things continue this way? Will you be able to meet new needs while maintaining high growth?

A3: We perceive that demand will be robust for a few years. COVID-19 has galvanized demand for non-face-to-face and contactless.

In e-commerce, orders are received 24 hours a day 365 days a year, so back-office mechanisms must be transformed. We anticipate that this will yield large investments in core systems overhauls. Investments in core systems are larger in scale than investments in front-end. However, if our clients find themselves in a harsher earnings environment, we will need to determine the risk of investments getting postponed.

Q4: Regarding demand being robust, what is your approximate growth rate?

A4: Long-term, NRI has an average growth rate of around 8%. Leveraging the effects of productivity innovations could raise this to 10-12%. The degree to which we can revolutionize our productivity improvements will be key to continuously maintaining a high growth rate. Productivity improvements are unlikely to dramatically change over the next year or two, so it will be important to keep producing results.