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Nomura Research Institute, Ltd.
FY March 2018 Financial Results Briefings
Q&A Session

*Supplemental. Original presentation given in Japanese

First inquirer (analyst, attendee)

Q1: So, for the fourth quarter of FY March 2018, can we assume that if we factor out the M&A in Australia, Industrial IT Solutions recorded increased revenues?

A1: The Australian business accounts for around 5 billion yen of an increase of roughly 7.1 billion yen, so even if we subtract it we still have increased revenue.

Q2: Why did sales to Nomura Holdings increase, and what is the sales forecast for FY March 2019?

A2: There was an extraordinary factor in the fourth quarter of FY March 2018, which was that some features of THE STAR were sold as products (sales of several billion yen). We are forecasting sales in the low 70 billion yen range for FY March 2019.

Q3: Amortization of intangible fixed assets in the fourth quarter of FY March 2018 increased roughly 1.6 billion yen year-on-year. There should be an upswing from the impairment on software (around 1 billion yen) recorded in the fourth quarter of FY March 2017, so were there also any impairments in the fourth quarter of FY March 2018?

A3: There were no special circumstances as there were in FY March 2017. Total amortization increased due to M&A in Australia and other such factors.

Q4: For sales in Financial IT Solutions to securities companies, why did revenue decrease from securities companies other than Nomura Holdings in FY March 2018? What is your forecast for revenue in this category in FY March 2019?

A4: We forecast 119 billion yen (a year-on-year increase of around 600 million yen) in sales to securities companies in FY March 2019. Factoring out the effects of selling off the subsidiary of DSB, we forecast a revenue increase of several billion yen. We believe the business environment will not deviate much from what it was in FY March 2018.

The number of companies using shared online services is steadily increasing. However, some financial institutions are holding back on immediate IT investments.

For this and other reasons, the number of systems development has been decreasing. On the other hand, companies have been actively considering IT investments such as RPA (Robotic Process Automation), which has bottom-line effects (net profit in the current year). The monetary sums for these projects may not be large, but we want to bring in more of these orders.

Q5: NRI presented its overseas sales numbers at this financial results briefing. What is the profit forecast for overseas business in FY March 2019?

A5: If we talk about Australia, which is the largest of our overseas businesses, after amortization of goodwill operating profit was negative for the year. However, if we look only at the fourth quarter the numbers are better, with neither a gain nor a loss.

In Australia the accounts close at the end of June, and since orders for government-related projects tend to be received near the end of the fiscal year, we believe there could be positive contribution to operating profit after amortization of goodwill in FY March 2019 just by maintaining the momentum we have now.

Q6: The overseas part of business plan for FY March 2019 also indicates stronger business in Australia, but why are you focusing on Australia and not North America or Europe?

A6: We focus on these policies for global business: (1) Support the entry of Japanese companies into other countries, (2) Bring companies in other countries that employ globally-viable next generation business models into the NRI group, and (3) Bring companies that operate in growth markets into the NRI Group. The ASG Group in Australia has an appealing business model of lifting out client IT assets into a public cloud environment and providing system management and operation services. This company matched up well with NRI policies for overseas business, and they just happened to be located in Australia. If we find other strong candidates for M&A in places other than Australia, we will actively try to bring them in as well.

Q7: How are considerations progressing for the implementation of IFRS (International Financial Reporting Standards)?

A7: In October 2017 we established a dedicated organization geared toward implementation of IFRS. It may take a bit more time, but considerations toward implementation are progressing.

Second inquirer (analyst, attendee)

Q1: Page 43 of the financial results briefing materials indicates that Financial IT solutions

has a decrease of about 6.2 billion yen in order volume in the fourth quarter of FY March 2018. What caused this fall?

A1: While there were backlog increases for other financial and for insurance, which increased significantly, DSB had a major decrease. Product sales orders for Nomura Holdings was also recorded in the third quarter and there were not any in the fourth quarter.

Q2: NRI is involved in the securities consortium that was launched in April 2018, and back office is becoming more efficient, and the surplus generated seems to be going toward active investment in digital. Could this be considered an effort to bolster business for NRI industry-standard business platforms (shared online services)?

A2: Whether it involves taking certain current functions of THE STAR and providing them in unbundled form rather than full-spec, or providing the analytical platform for data accumulated in THE STAR, we feel that there will be new types of demand. We also believe there is demand for utility services that combine contracted ITO and BPO, including operations associated with THE STAR. For example, we might consider a type of business in which startups pay to connect to THE STAR and use its ecosystem. We would like to consider topics like these for the new medium-term management plan.

Q3: Page 43 of the financial results briefing materials indicates that Industrial IT solutions had an increase of roughly 19 billion yen in orders received during the fourth quarter of FY March 2018. What caused this jump?

A3: Around 17 billion yen of that is from business in Australia. Around 2 billion of the increase was achieved organically, and growth is gradual partly because as order backlog builds up, we are selecting the projects we prefer.

Q4: This time you announced a 30 billion yen repurchase of treasury stock, and rather than 12% you announced an ROE target for the year ending March 2019 of “around” 12%. What is the significance of this?

A4: At the time the medium-term management plan was created we chose the words “around 12%” to express the target, so we are continuing to express it this way. However, we are making dedicated efforts to achieve this 12%. In conjunction, we are considering the need for additional future capital policy as we aim to achieve the 14% called for in V2022.

Third inquirer (analyst, visitor)

Q1: A simple calculation of free cash flows for FY March 2019 would indicate as much as 50 billion yen in excess cash, even when excluding dividends and repurchases of treasury shares. If you have a list of priorities for how to allocate business resources such as for M&A or more repurchases of treasury stock, could you please share it?

A1: We are continuously aware of the capital requirements involved in advancing our business, and most notably the capital requirements for M&A. At the same time, returns to shareholders represent another dimension of commitment we have to our shareholders. We believe that these are both important. We would like to think about M&A this year if we have the chance.

Q2: Have there been any developments in global IT support for Nomura Securities?

A2: We do not make comments related to this.

Fourth inquirer (analyst, attendee)

Q1: The sales forecast on page 47 of the financial results briefing materials indicated a plan for weak sales in the securities segment for the first half of FY March 2019, followed by strong sales planned for the second half. Why is that?

A1: The plan is based on our forecast that more projects with high potential will arise in the second half of the year than in the first from the pipeline (projects in the pre-order stages) in the securities segment. This has no relation to effects from DSB.

Q2: In the section about reacquisition of treasury shares on page 30 of the financial results briefing materials, it says that the acquisition period will be until February 2019. If net income takes off, is there a possibility you will not use all of the roughly 30 billion yen?

A2: We think we will use all of the 30 billion yen.

Fifth inquirer (analyst, telephone attendee)

Q1: For performance in FY March 2019, why are both gross margin and operating margin forecasted to decline?

A1: We are not forecasting a decline in margin for business in Japan or overseas, but we are increasing the size of overseas businesses that have low margins. This makes the overall forecasted margins lower.

Q2: Page 20 of the financial results briefing materials mentions "Con-Solution," but is there any progress in building the framework for collaborative management consulting and systems engineering services?

A2: As an example, when negotiations with clients on the IT solutions side make it apparent what the required consulting resources and skillsets will be, we can pinpoint the optimal consultants and assign them to a team.