

(Tokyo - 30th May, 2018)

Nomura Research Institute, Ltd.

Q & A from FY March 2018 Small Meeting with the President for Analysts

- In order to make it easier to understand, the contents of the question and answer are partially revised and modified.
- Glossary :
 - CiT(=Corporate IT) : IT that helps enhance the quality and efficiency of clients' internal operations, including core information systems
 - BiT(=Business IT) : IT that contributes directly to the expansion of client businesses
 - IP (=Intellectual Property) : Industry knowledge and industry standard services held by the Company that serve as a source of provided value.

(Growth strategy for Vision 2022)

Q. We have experienced an extended period of gradual economic growth, and there may be fluctuations at some point over the next four years. How do you plan to grow the top line leading up to Vision 2022?

A. Looking at the recent trends in orders we receive in Industrial IT Solutions, there are lots of clients who say "We want to use IT to change our business model." It seems that demand will continue on into the future.

At the same time, in Financial IT Solutions we have not had any major growth in the top line over the past three to four years, but we would like to pursue profitability improvements through better productivity in shared online services, which underpin our current profitability. We believe that banking and insurance will be growth areas in Financial IT Solutions this year. In banking we have high expectations for online banking, and in insurance we have found that there are heavy appetites for IT investment, mainly with non-life insurance companies. We are receiving lots of orders for systems consulting projects in these areas. Internally we are discussing various ways to achieve additional growth. One

example is that we are considering platforms in new areas such as cryptocurrencies and Initial Coin Offerings (ICOs).

Q. For the growth strategy toward Vision 2022, are you thinking along the same lines as the strategy in the current Medium-term Management Plan?

A. We are currently formulating the next Medium-term Management Plan. I cannot share the details, but we have experienced steady growth in Financial IT Solutions for four years now, and we believe that investments will be needed for creation of next-generation business assets.

In Consulting and Industrial IT Solutions, it is important to boost profitability while also steadily growing the top line in DX. In IT Platform Services, as the transition towards cloud progresses we need to differentiate our own data center business operations from public cloud operators. For human resources, I believe the way we utilize senior personnel is a topic requiring more discussion.

Q. Please tell us your expectations for future M&A.

A. For our domestic business, due to a lack of resources we are picking and choosing which orders to accept, particularly in Industrial IT Solutions. While we would like to acquire more resources through M&A, we could not count on synergy effects by acquiring other companies in the same industry. However, we do believe we could expand our business in BiT by acquiring companies that own IP which we do not have. This would include companies with IP related to analytics.

Globally, we expanded our operating base through the acquisitions of ASG and SMS in Australia. If we can achieve another level of growth by also acquiring companies that own new IP, we would like to consider it.

(Advanced technology initiatives)

Q. What kind of initiatives is NRI pursuing for advanced technology?

A. At NRI we are partnering with universities such as MIT and Stanford and also dispatching our own employees to get the latest intelligence on advanced technologies. For example, we are vigorously exploring technology such as the Lightning Network to boost our cryptocurrency capabilities and blockchain throughput.

Q. Do you intend to provide your own financial services the way others in the

industry are?

A. We have entered an age in which IT determines the superiority of the services financial institutions provide. It is getting harder to see the borderline between financial institutions and IT service providers. I think it is really good for IT services companies to be inclined toward launching their own services. In our case, we are good at creating services together with our clients, and our success model is to take this experience and turn it into our own original shared online services.

Q. What is your view on FinTech startups?

A. In the United States we do not see IPOs for FinTech startups anymore. Legacy players are still the dominant force in core financial business in the US as well, and FinTech startups are woven into ecosystems that revolve around the legacy players.

Q. Can we assume that you still do not have any new businesses on the horizon which can deliver 10 billion yen in sales toward Vision 2022?

A. In finance we do not yet have a specific business plan, but we believe there are business opportunities surrounding ICOs so we are exploring these. At the same time we have a number of promising initiatives that could turn into something bigger, such as starting up joint ventures utilizing IoT in the industrial field.

Q. Are you interested in blockchain and ICOs because in addition to the cryptocurrency function, you think the smart contract function is promising?

A. Currently, most smart contracts do not even need to use blockchain technology. We think that smart contracts are even better suited to be linked with supply chain platform companies in the industrial field than they are for finance. Dutch maritime shipping company Maersk is pushing forward with just such an initiative. Rather than linking with financial institutions, we are more interested in developments to incorporate smart contract mechanisms in tandem with business operators such as trading companies who control existing supply chains. Recovering our investment would be hard if we only link with one company, so we need to build platforms that involve multiple business operators.

Q. Please share some examples of DX projects.

A. For DX1.0 there are many projects that upgrade business models. In digital back-office (digitalizing the internal operations of a company) there are many projects such as RPA which improve operational efficiency by deploying software robots.

In digital front-office (digitalizing the client-facing operations of a company) there are projects to improve points of contact with customers such as digital marketing. Compared to advertising in mass media, digital marketing is cheaper and more accurate. It also offers quicker analysis of advertising effects. These DX1.0 projects make it easy to see the effects of IT investments, and comprise the majority of our DX cases.

On the other hand, there have still been few DX2.0 projects, which are to create new business models. New DX2.0 business will become profitable once network effects start to appear, and I think it will take about three to four years to reach that level. One applicable example would be Shiseido “watashi+” which began service in 2010.

Q. Which companies are your competitors in the field of DX?

A. In digital back-office for DX1.0 there are many competitors who have cost advantages when only implementing RPA. However, we believe we can put our advantages at NRI to work when the projects are for client business operation reforms, and RPA is implemented as the reforms proceed.

DX2.0 and digital front-office in DX1.0 require personnel capable in analytics, and consulting personnel who can construct hypotheses. We can utilize the strength of NRI in these areas. Our competitors in this case would be Accenture, etc.

Q. It has been explained that DX2.0 builds multi-industry platforms that seek to create ecosystems, but in the case of Shiseido have you been able to expand the service across industries?

A. It is difficult to establish industry-standard platforms the way we have in shared online services for finance. In industrial, we believe there will be many cases in which we are providing only to singular companies. There are also cases where NRI owns business model patents, but cannot realistically take the patents for specific clients and expand them to other companies.

Q. When will DX2.0 get into full swing?

A. It will take time for network effects to develop. We believe it will take three to four years to earn industry trust and establish our brand.

Q. For the growth of DX2.0 it may take time for network effects to appear, but is there anything that can be done to speed up this process?

A. In B to C there are already several massive platform companies such as Amazon. It would be hard to enter the market at this point, and doing so would result in competition between platform companies.

On the other hand, there are no specialized platform companies for each industry in B to B, so this is where NRI would like to be. As for accelerating the growth process, this may depend on technological advancements such as the possibility of replacing text input and output on devices with voice input.

Q. Business model transformation, the field that DX2.0 handles, is moving forward in industrial. In the future will we see cases of DX2.0 in finance?

A. This will be made more specific in the next Medium-term Management Plan. We are currently discussing investments in DX2.0 for finance to address issues including, for example, how to create next generation business assets such as cryptocurrency.

Q. Please tell us about the profitability of DX2.0.

A. Since DX2.0 projects are smaller in scale than CiT projects, profitability is also lower than CiT for maintenance operations. As a measure to address this, NRI will work to increase orders and improve profitability by building deeper relationships of trust with clients, while also developing algorithms and providing services that put their data to work.

Q. Can you accelerate the growth of DX1.0?

A. FY2017 was the first year of DX. Before that we did have DX-related consulting projects and PoC projects, but IT investments for FY2017 DX projects increased dramatically.

In our communications with management at other companies, there are also many topics that relate to business model reform through digital technology. For that reason we believe that growth in the future will be faster than before.

Q. Please tell us about the partial provision of STAR and the data analysis platform mentioned at the briefing.

A. We believe there will be more non-finance companies newly entering the finance field, and we would like to cater to their needs by offering partial versions of STAR that allow them to use some of its functions.

For the data analysis platform, and for new financial services and technologies including cryptocurrencies and ICOs, we believe that highly trusted platform companies will support these in the near future, and we are also exploring the business opportunities.

(Global Business)

Q. For global business, please tell us your goals in Australia, and where you think you currently stand in relation to those goals.

A. If we break down the size of the global IT services market by region, the ratios work out to North America : Europe : APAC : Other = 5:3:1:1. Even if we take into consideration the growth in China over the past few years, it still likely works out to around 5:3:1.5:0.5.

If we want to gain presence in North America, the largest of these markets, our only choice would be to engage in large-scale M&A. However, prices for acquisitions are overwhelmingly high and therefore not appropriate for our M&A. At the same time, we are interested in companies that possess intriguing IP such as Brierley+Partners, which we acquired in 2015.

The size of the IT services market in Australia is one-fourth that of Japan, but it has reached a turning point. Cloud services there are now growing at a faster pace than in the US. ASG, which we acquired, owns cloud managed services IP and currently ranks between 10th and 15th in sales in the Australian market. However, we would like to work towards the goal of building it up to a top five company in sales by adding on a number of features such as SaaS and digital marketing capabilities, in addition to the front-office application-building skills of SMS.

It is difficult to attack the European market since it is segmented into individual countries. Other markets are logistically quite far away, so we would indeed prefer to focus on APAC and turn it into a source of earnings.

Q. Is it still not the time to make large investments in business in North America?

A. We have a concept of entering the market there through consulting and developing our business in stages, with our existing North American bases as a starting point. We do not have any plans to go after all of North America at once.

Q. Please tell us about the progress of global projects for Nomura Holdings.

A. We are currently in negotiations, and there is nothing to report at this time.

Q. I would like to know about your future plans for M&A.

A. In Japan, we are looking into M&A of companies that can help bolster our BiT capabilities, including analytics.

Overseas, we would like to grow ASG in Australia to have a greater presence and be one of the top five companies in the Australian market in terms of sales. We believe there is good promise for synergy effects there as well; for example, we would like to look into M&A of companies that own BiT IP, etc.

In the North America region we are considering whether or not we can build a business platform centered on our existing North American bases. We are also looking with interest at using cross-selling to bring services to the Japanese market based on intriguing IP owned by companies like Brierley+Partners which we can acquire through M&A.

(Training Data Scientists)

Q. How do you establish competitive advantage for data scientists?

A. We have an internal certification system for data scientists. We classify employees by rank, and are aware of how many employees there are at each rank. In order to broaden our possibilities we are currently making improvements to our training, workshops, and other developmental activities.

There are also quite a few specialized analytics vendor companies in Japan. However, without the ability to create business hypotheses, those analytics do not generate any value. NRI possesses industry and operations expertise, and a wealth of personnel capable of creating business hypotheses. For that reason, we are considering a business model of partnering with specialized analytics vendors to provide services to clients. In the United States it is normal for analytics teams to be stationed within a company, and those team members either come from internal sources or from third parties. We believe that there is

very significant potential demand in Japan.

(Implementation of IFRS)

Q. Vision 2022 specifies a numerical target of 100 billion yen in operating profit. Is this before the amortization of goodwill?

A. We follow the accounting standards employed at the time. We have not yet decided if we will implement IFRS, and are also currently unclear about when that would start.

(Future Vision in the IT Sector)

Q. What type of a presence does NRI expect to have in the IT services sector?

A. We value the work for which our clients think “Only NRI can do this,” and “The only way to deal with this is to call NRI.” For example, the NRI organization is not separated out per sector, but rather is composed of separate arrangements to serve each individual client. It is most important to us to gain the reputation of “Only NRI can do this” by building solid relationships of trust with each individual client (and not lumping them into classifications of industry type).

(Medium-term Management Plan)

Q. Which of the four measures in the current Medium-term Management Plan are progressing smoothly, and conversely, which are not progressing smoothly?

A. Internally we are managing business by setting KPIs according to the levels of the measures in each division, based on the balanced scorecard. Our strategy for this year has not changed from before, and we believe that if we continue making the steady progress we are making now, we will achieve the final objectives of the Medium-term Management Plan. What we did not anticipate when we initially made the plan was an unexpectedly large number of BiT projects. We have accumulated expertise in areas other than management and development methods for CiT projects.

Q. Please give us specific examples of KPIs from the balanced scorecard being used for management.

A. The balanced scorecard includes short-term measures and medium- to long-term measures. It covers a variety of areas including clients, human resources development, and systems internal processes.

Q. Will business continue to be stable in the future for shared online services in Financial IT Solutions?

A. We believe that shared online services will continue to be a stable business. As the trend to reduce costs continues, we believe we can bring in even more clients.

(Initiatives to Stave Off Unprofitable Projects)

Q. Unprofitable projects have arisen in the past, but there have not been any recently. Please tell us about relevant measures that have been successful.

A. The common element of our large-scale unprofitable projects in the past was that these had been already doomed to unprofitability in the order stage, including problems in the details of estimates produced, and the details of client requirements. For that reason we have beefed up our internal reviews when we produce the estimates. Thanks to these efforts, we have been able to avoid large-scale unprofitable projects.

Q. What is the difference between what NRI does about unexpected unprofitable projects, and what other companies do?

A. We see the possibility of unexpected, unprofitable projects as a task requiring action, and take measures in response. If our reviews of an estimate determine that strategically, the engagement involves a client or technology that we want even though it will not be very profitable, we may accept the order as a planned unprofitable project. However, this is an investment toward future growth.

(Initiatives to Improve Productivity)

Q. What specific initiatives are you pursuing to improve productivity?

A. We are working on initiatives with a variety of different approaches. One example is how we are improving efficiency by standardizing systems development testing processes, building offshore testing bases, and transferring control to them. For the maintenance process we are also considering the possibility of switching from the maintenance arrangements we had created individually for each client, to an arrangement where one team handles multiple clients, and the possibility of sharing a common maintenance process between multiple shared online services.

(GDPR)

Q. Is GDPR (General Data Protection Regulation for the European Union) a business opportunity for NRI?

A. NRI has prominent consultants in this field, and we have received a number of inquiries for consulting engagements. We do not think there are any big business opportunities for IT services engagements.