

Nomura Research Institute (4307.T): Earnings in line, guidance above expectations; stable growth continues on strong domestic business

NRI reported 4Q (January-March) and full-year FY3/25 earnings after the April 24 close. FY3/25 operating profits of ¥134.9 bn (+12% yoy) and FY3/26 operating profit guidance of ¥150 bn (+11% yoy) were both in line with Bloomberg consensus forecasts (¥135.2 bn and ¥149 bn, respectively). However, the guidance for operating profits above the FY3/26 target of ¥145 bn under the medium-term plan came as a surprise given concerns about a potential deterioration in business sentiment due to reciprocal tariffs. According to NRI, the scale of development work on projects already acquired in the domestic industrial IT business is expanding, mainly in 2H, and the overseas business is also expected to recover gradually. Although the overseas business environment remains challenging, domestic business is strong overall (including the pipeline), and NRI said there are currently no signs of investment curbs due to worsening business sentiment. We think profit guidance is somewhat aggressive and remain cautious given order trends (up 3% yoy in 4Q3/25) and uncertainty about the overseas business outlook, but NRI stated at the results briefing that strength in the domestic business can offset uncertainty overseas. There was no new information on the application of generative AI to systems development, and we believe the impact on FY3/26 earnings will be limited. While strong profit growth looks set to continue, this is already reflected in valuations, with P/E of 29.4X (based on FY3/26 guidance) well above the sector average. We maintain our Neutral rating.

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- **4Q3/25 earnings:** 4Q operating profits continued to register double-digit (%) growth, rising 12%/+¥3.4 bn yoy to ¥32.6 bn. By segment, growth was driven by consulting (+28%/+¥1.2 bn yoy), where demand is strong, IT platform services (+24%/+¥1.5 bn yoy), and financial IT solutions (+16%/+¥2 bn yoy), where system integration projects for banks are expanding. On the other hand, industrial IT profits declined 26%/-¥1.46 bn yoy, with domestic profits down 2%/-¥0.1 bn yoy and overseas profits down ¥1.36 bn yoy. This reflected investment curbs at a convenience store customer in Japan, and weaker demand/restructuring costs (in the mid-single-digit billions of yen) in Australia. 4Q orders rose 3% yoy, with domestic orders (also up 3% overall) roughly flat to slightly higher in both financial IT solutions and industrial IT.
- **FY3/26 guidance:** FY3/26 operating profit guidance of ¥150 bn (+11% yoy) is higher than the medium-term plan target (¥145 bn) despite concerns about a

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potential deterioration in business sentiment due to reciprocal tariffs. This is mainly due to stronger-than-expected inquiries in domestic financial IT solutions and domestic industrial IT. According to NRI, although orders were only up slightly in 4Q3/25, the industrial IT pipeline is expanding, mainly among domestic-demand customers (reciprocal tariffs have a relatively small impact on domestic demand), and there is potential for large project wins with multiple customers in financial IT solutions. By region, guidance calls for 10%/+¥13.6 bn yoy operating profit growth in Japan and 68%/+¥1.45 bn yoy growth overseas. We see no issues with the growth assumptions, centered on the domestic business. We think NRI as a more defensive play than peers (high recurring revenue weighting) and expect stable growth in companywide earnings. However, we will closely monitor downside risks such as investment trends at a major convenience store customer in Japan (potential for investment cuts) and the demand environment in Australia and North America (potential for further deterioration in business sentiment).

Exhibit 1: 4Q3/25 OP strong, led by consulting, IT platform services, and financial IT solutions; FY3/26 OP guidance calls for continued double-digit (%) yoy growth

NRI: Earnings by business

| (in million yen) 4307 NRI | 24/3 | 25/3 | CoE 26/3 | 24/3 Q1 | Q2 | Q3 | Q4 | 25/3 Q1 | Q2 | Q3 | Q4 |
|--|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| <P/L> | | | | | | | | | | | |
| Order | 755,641 | 793,934 | | 133,238 | 118,805 | 101,099 | 402,499 | 141,600 | 122,939 | 114,114 | 415,281 |
| y-y | 6.1% | 5.1% | | 17.7% | 5.5% | -3.2% | 5.4% | 6.3% | 3.5% | 12.9% | 3.2% |
| Order backlog | 397,145 | 428,582 | | 332,473 | 266,882 | 180,695 | 397,145 | 354,377 | 287,945 | 210,333 | 428,582 |
| y-y | 5.6% | 7.9% | | 10.5% | 9.8% | 5.8% | 5.6% | 6.6% | 7.9% | 16.4% | 7.9% |
| Sales | 736,556 | 764,813 | 810,000 | 176,709 | 185,356 | 187,954 | 186,537 | 188,110 | 188,668 | 191,467 | 196,568 |
| y-y | 6.4% | 3.8% | 5.9% | 5.5% | 8.1% | 6.2% | 5.9% | 6.5% | 1.8% | 1.9% | 5.4% |
| Gross profits | 261,006 | 275,295 | 303,000 | 63,170 | 65,203 | 66,607 | 66,026 | 67,660 | 67,060 | 70,866 | 69,709 |
| y-y | 8.8% | 5.5% | 10.1% | 10.2% | 8.3% | 7.0% | 9.9% | 7.1% | 2.8% | 6.4% | 5.6% |
| % of sales | 35.4% | 36.0% | 37.4% | 35.7% | 35.2% | 35.4% | 35.4% | 36.0% | 35.5% | 37.0% | 35.5% |
| SG&A | 142,353 | 144,071 | 153,000 | 35,342 | 33,803 | 36,198 | 37,010 | 36,470 | 35,076 | 34,954 | 37,571 |
| y-y | 8.2% | 1.2% | 6.2% | 12.1% | 2.3% | 6.1% | 12.6% | 3.2% | 3.8% | -3.4% | 1.5% |
| % of sales | 19.3% | 18.8% | 18.9% | 20.0% | 18.2% | 19.3% | 19.8% | 19.4% | 18.6% | 18.3% | 19.1% |
| Equity in profit/loss in affiliates & other profit/loss | 1,757 | 3,683 | 0 | -802 | 438 | 1,965 | 156 | 1,453 | 1,008 | 806 | 416 |
| Operating profits | 120,411 | 134,907 | 150,000 | 27,027 | 31,838 | 32,374 | 29,172 | 32,643 | 32,992 | 36,718 | 32,554 |
| y-y | 7.7% | 12.0% | 11.2% | -3.7% | 17.1% | 13.2% | 4.3% | 20.8% | 3.6% | 13.4% | 11.6% |
| % of sales | 16.3% | 17.6% | 18.5% | 15.3% | 17.2% | 17.2% | 15.6% | 17.4% | 17.5% | 19.2% | 16.6% |
| <Business segment> | | | | | | | | | | | |
| I Consulting | | | | | | | | | | | |
| Order | 51,440 | 63,351 | | 20,361 | 10,664 | 10,803 | 9,612 | 28,276 | 11,026 | 12,526 | 11,523 |
| y-y | 4.6% | 23.2% | | 34.2% | -0.4% | 9.9% | -28.7% | 38.9% | 3.4% | 15.9% | 19.9% |
| Order Backlog | 11,457 | 14,520 | | 21,642 | 19,233 | 16,439 | 11,457 | 27,222 | 23,362 | 19,700 | 14,520 |
| y-y | -4.0% | 26.7% | | 48.0% | 32.9% | 40.4% | -4.0% | 25.8% | 21.5% | 19.8% | 26.7% |
| External Sales | 51,959 | 60,333 | 68,000 | 10,655 | 13,092 | 13,609 | 14,603 | 12,579 | 14,866 | 16,189 | 16,699 |
| y-y | 12.7% | 16.1% | 12.7% | 13.6% | 20.5% | 8.1% | 10.2% | 18.1% | 13.6% | 19.0% | 14.4% |
| % of sales | 7.1% | 7.9% | 8.4% | 6.0% | 7.1% | 7.2% | 7.8% | 6.7% | 7.9% | 8.5% | 8.5% |
| Operating profits | 13,929 | 18,398 | | 2,147 | 3,626 | 3,818 | 4,338 | 2,775 | 4,748 | 5,333 | 5,542 |
| y-y | 13.0% | 32.1% | | 15.5% | 18.8% | 11.6% | 8.5% | 29.3% | 30.9% | 39.7% | 27.8% |
| % of sales | 25.9% | 28.1% | | 19.1% | 26.8% | 27.1% | 28.7% | 20.4% | 29.5% | 30.6% | 30.3% |
| II Financial IT Solutions | | | | | | | | | | | |
| Order | 366,979 | 386,238 | | 47,027 | 48,039 | 44,415 | 227,498 | 48,570 | 57,051 | 51,146 | 229,471 |
| y-y | 7.2% | 5.2% | | 30.9% | 0.7% | -0.2% | 6.3% | 3.3% | 18.8% | 15.2% | 0.9% |
| Order Backlog | 229,988 | 249,908 | | 176,308 | 136,921 | 91,938 | 229,988 | 189,709 | 156,045 | 114,090 | 249,908 |
| y-y | 8.1% | 8.7% | | 13.8% | 13.2% | 13.8% | 8.1% | 7.6% | 14.0% | 24.1% | 8.7% |
| External Sales | 349,872 | 366,599 | | 83,408 | 87,511 | 89,458 | 89,495 | 89,312 | 90,635 | 93,065 | 93,587 |
| y-y | 6.5% | 4.8% | | 4.1% | 7.1% | 5.6% | 9.1% | 7.1% | 3.6% | 4.0% | 4.6% |
| % of sales | 47.5% | 47.9% | | 47.2% | 47.2% | 47.6% | 48.0% | 47.5% | 48.0% | 48.6% | 47.6% |
| Securities | 143,707 | 145,718 | | 34,160 | 35,939 | 36,203 | 37,405 | 35,035 | 36,340 | 36,759 | 37,584 |
| Insurance | 79,527 | 82,504 | | 18,760 | 19,427 | 20,727 | 20,613 | 20,016 | 20,079 | 20,863 | 21,546 |
| Banking | 67,726 | 76,884 | | 16,185 | 17,100 | 17,593 | 16,848 | 19,002 | 19,035 | 20,122 | 18,725 |
| Other Financials | 58,910 | 61,492 | | 14,301 | 15,046 | 14,934 | 14,629 | 15,258 | 15,180 | 15,322 | 15,732 |
| External Sales (New definition) | | 366,605 | 380,000 | | | | | | | | |
| y-y | | - | 3.7% | | | | | | | | |
| % of sales | | 47.9% | 46.9% | | | | | | | | |
| Operating profits | 54,651 | 61,493 | | 12,172 | 14,202 | 15,352 | 12,925 | 15,404 | 14,730 | 16,407 | 14,952 |
| y-y | 9.9% | 12.5% | | 4.2% | 22.4% | 7.8% | 6.1% | 26.6% | 3.7% | 6.9% | 15.7% |
| % of sales | 15.4% | 16.5% | | 14.4% | 16.0% | 16.9% | 14.2% | 17.0% | 16.0% | 17.3% | 15.7% |
| III Industrial IT Solutions | | | | | | | | | | | |
| Order | 272,482 | 267,696 | | 51,941 | 49,666 | 35,117 | 135,758 | 50,153 | 42,893 | 37,006 | 137,644 |
| y-y | 2.2% | -1.8% | | 3.1% | 8.5% | -12.0% | 4.1% | -3.4% | -13.6% | 5.4% | 1.4% |
| Order Backlog | 128,275 | 131,173 | | 112,349 | 92,238 | 58,657 | 128,275 | 111,213 | 86,509 | 58,797 | 131,173 |
| y-y | -1.3% | 2.3% | | -0.7% | -0.8% | -12.1% | -1.3% | -1.0% | -6.2% | 0.2% | 2.3% |
| External Sales | 275,923 | 266,787 | | 69,426 | 70,631 | 69,295 | 66,571 | 70,427 | 66,992 | 64,496 | 64,872 |
| y-y | 3.4% | -3.3% | | 4.2% | 5.6% | 4.3% | -0.3% | 1.4% | -5.2% | -6.9% | -2.6% |
| % of sales | 37.5% | 34.9% | | 39.3% | 38.1% | 36.9% | 35.7% | 37.4% | 35.5% | 33.7% | 33.0% |
| Distribution | 71,528 | 61,957 | | 18,346 | 18,781 | 17,348 | 17,053 | 16,513 | 15,774 | 14,975 | 14,695 |
| Manufacturing, service and other | 204,395 | 204,830 | | 51,080 | 51,850 | 51,947 | 49,518 | 53,913 | 51,219 | 49,520 | 50,178 |
| External Sales (New definition) | | 267,487 | 290,000 | | | | | | | | |
| y-y | | - | 8.4% | | | | | | | | |
| % of sales | | 35.0% | 35.8% | | | | | | | | |
| Operating profits | 23,405 | 24,247 | | 5,890 | 6,431 | 5,487 | 5,597 | 6,671 | 7,437 | 6,001 | 4,138 |
| y-y | -4.1% | 3.6% | | -11.7% | -4.4% | 10.0% | -6.9% | 13.3% | 15.6% | 9.4% | -26.1% |
| % of sales | 8.3% | 8.8% | | 8.3% | 8.9% | 7.8% | 8.2% | 9.3% | 10.8% | 9.0% | 6.2% |
| IV IT Platform Services | | | | | | | | | | | |
| Order | 61,367 | 73,293 | | 13,103 | 9,845 | 10,078 | 28,341 | 13,827 | 11,490 | 12,632 | 35,344 |
| y-y | 19.6% | 19.4% | | 17.9% | 25.7% | 8.2% | 22.9% | 5.5% | 16.7% | 25.3% | 24.7% |
| Order Backlog | 26,427 | 31,974 | | 21,302 | 17,808 | 13,081 | 26,427 | 25,337 | 21,491 | 17,219 | 31,974 |
| y-y | 27.7% | 21.0% | | 19.9% | 25.9% | 20.2% | 27.7% | 18.9% | 20.7% | 31.6% | 21.0% |
| External Sales | 55,628 | 67,746 | | 12,489 | 13,339 | 14,805 | 14,995 | 14,918 | 15,335 | 16,904 | 20,589 |
| y-y | 15.5% | 21.8% | | 14.9% | 16.4% | 17.7% | 13.2% | 19.4% | 15.0% | 14.2% | 37.3% |
| % of sales | 7.6% | 8.9% | | 7.1% | 7.2% | 7.9% | 8.0% | 7.9% | 8.1% | 8.8% | 10.5% |
| External Sales (New definition) | | 67,041 | 68,000 | | | | | | | | |
| y-y | | - | 1.4% | | | | | | | | |
| % of sales | | 8.8% | 8.4% | | | | | | | | |
| Operating profits | 28,167 | 30,470 | | 6,750 | 7,543 | 7,634 | 6,240 | 7,756 | 6,059 | 8,887 | 7,768 |
| y-y | 22.2% | 8.2% | | 20.6% | 29.3% | 28.2% | 10.2% | 14.9% | -19.7% | 16.4% | 24.5% |
| % of sales | 15.2% | 15.1% | | 15.4% | 16.5% | 16.0% | 12.9% | 16.3% | 12.4% | 17.7% | 14.2% |
| V Others and Elimination | | | | | | | | | | | |
| Others (Order) | 3,370 | 3,355 | | 804 | 592 | 685 | 1,289 | 773 | 480 | 802 | 1,300 |
| Others (Order Backlog) | 995 | 1,004 | | 870 | 680 | 578 | 995 | 895 | 535 | 525 | 1,004 |
| Others (Sales) | 3,172 | 3,346 | 4,000 | 730 | 782 | 787 | 873 | 873 | 839 | 813 | 821 |
| Elimination (OP) | 257 | 0 | | 67 | 35 | 83 | 72 | 0 | 0 | 0 | 0 |

Source: Company data, Data compiled by Goldman Sachs Global Investment Research

Investment Thesis, Price Target Risks and Methodology - Nomura Research Institute

Investment Thesis - Nomura Research Institute

Nomura Research Institute (Neutral) is a major system integrator with strengths in the development and operation of cloud services for financial services and consulting. In recent years, the company has expanded its market share in these fields on the back of know-how nurtured through systems development for industry. We expect NRI to continue posting record-high profits, leveraging its strengths to propose system-based strategies and provide development and operation services in an era of increasing utilization of IT systems to facilitate management strategies. However, we believe profit growth is likely to remain in line with the sector average for now given headwinds, including struggles in the overseas business and curbs on investment at major industrial customers. Based on these factors, the shares do not look undervalued, in our view.

Price Target Risks and Methodology - Nomura Research Institute

Our 12-month target price of ¥5,300 is based on a target P/E of 30X (derived from the historical 3-year average P/E range and premium to the sector average of 22.0X), and our FY3/26E EPS estimate of ¥178. Key risks include (1) investment at major customers, (2) overseas demand, and (3) unprofitable projects.

| | | | |
|---------------|---------------------------------|----------------------|-----------------------|
| 4307.T | 12m Price Target: ¥5,300 | Price: ¥5,347 | Downside: 0.9% |
|---------------|---------------------------------|----------------------|-----------------------|

| Neutral | GS Forecast | | | | |
|-------------------------------------|----------------------------|-------|-------|-------|-------|
| Market cap: ¥3.1tr / \$21.6bn | Revenue (¥ bn) | 3/24 | 3/25E | 3/26E | 3/27E |
| Enterprise value: ¥3.2tr / \$22.5bn | Op. profit (¥ bn) | 736.6 | 763.4 | 802.4 | 841.4 |
| 3m ADTV: ¥8.6bn / \$57.3mn | Op. profit CoE (¥ bn) | 120.4 | 135.0 | 149.0 | 163.0 |
| Japan | EPS (¥) | — | 134.0 | — | — |
| Japan IT Services & Telcos | P/E (X) | 136.9 | 159.3 | 178.0 | 197.1 |
| M&A Rank: 3 | P/B (X) | 28.9 | 33.6 | 30.0 | 27.1 |
| Leases incl. in net debt & EV?: | Dividend yield (%) | 5.7 | 7.1 | 6.6 | 6.0 |
| Yes | N debt/EBITDA (ex lease,X) | 1.3 | 1.2 | 1.3 | 1.5 |
| | CROCI (%) | 0.8 | 0.7 | 0.5 | 0.3 |
| | | 40.5 | 40.4 | 40.5 | 42.9 |
| | | 9/24 | 12/24 | 3/25E | -- |
| | EPS (¥) | 40.9 | 45.7 | 34.2 | — |

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 24 Apr 2025 close.

Disclosure Appendix

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We, Chikai Tanaka, CFA and Moriya Koketsu, hereby certify that all of the views expressed in this report accurately reflect our personal views about the subject company or companies and its or their securities. We also certify that no part of our compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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Growth is based on a stock's forward-looking sales growth, EBITDA growth and EPS growth (for financial stocks, only EPS and sales growth), with a higher percentile indicating a higher growth company. **Financial Returns** is based on a stock's forward-looking ROE, ROCE and CROCI (for financial stocks, only ROE), with a higher percentile indicating a company with higher financial returns. **Multiple** is based on a stock's forward-looking P/E, P/B, price/dividend (P/D), EV/EBITDA, EV/FCF and EV/Debt Adjusted Cash Flow (DACF) (for financial stocks, only P/E, P/B and P/D), with a higher percentile indicating a stock trading at a higher multiple. The **Integrated** percentile is calculated as the average of the Growth percentile, Financial Returns percentile and (100% - Multiple percentile).

Financial Returns and Multiple use the Goldman Sachs analyst forecasts at the fiscal year-end at least three quarters in the future. Growth uses inputs for the fiscal year at least seven quarters in the future compared with the year at least three quarters in the future (on a per-share basis for all metrics).

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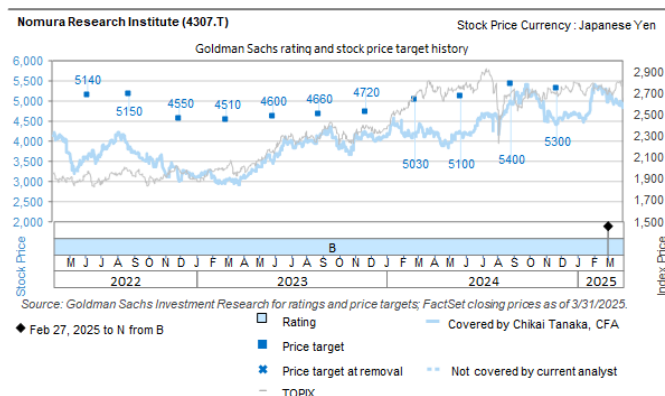
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| | Rating Distribution | | | | Investment Banking Relationships | | |
|--------|---------------------|------|------|--|----------------------------------|------|------|
| | Buy | Hold | Sell | | Buy | Hold | Sell |
| Global | 49% | 34% | 17% | | 63% | 57% | 42% |

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