NOMURA

Conference Call Q&A on the Acquisition of Macquarie's U.S. and European Public Asset Management Business

Date: Tuesday, April 22, 2025, 3:30 PM - 4:15 PM

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Q1: What is the expected contribution to income before income taxes of Investment Management from this investment? Additionally, based on disclosures from the target business, it seems that its public funds have witnessed asset outflows. Could you share hurdle rates such as IRR or ROI you applied to your investment decision?

A1: Due to confidentiality agreements, we are unable to disclose the degree of expected profit contribution from the target business. However, we are aware of the outflows from public funds through due diligence. While taking this into account, we have determined that the target business has a strong client base and that sufficient investment returns can be achieved by further strengthening products and distribution channels post-acquisition. In conducting M&A, we consider ROE, risks associated with the business and IRR, ROI, EBITDA and PER multiple, as well as DCF valuations of the target business from a medium to long-term perspective.

Q2: Will you hold your investments in American Century Investments (ACI), which appears to compete with the acquisition target? Also, while this acquisition targets public areas, are there any plans to invest in the private area, which has higher growth expectations?

A2: No specific decisions have been made regarding ACI investments. ACI is our business partner and we have strong relationship with them. Since onset of our investment, we have collaborated on initiatives such as developing high-yield bond management in the U.S. and expanding ACI's active equity funds outside the U.S., yielding positive results.

While this acquisition targets public areas, we will continue to explore investment opportunities in the private area.

Q3: What proportion of RWA does the investment in ACI account for?

A3: The investment in ACI is treated as non-listed equity and we calculate its RWA in accordance with Basel regulations.

Q4: How will this acquisition contribute to Investment Management's 2030 targets of 129 trillion yen in AUM and 100 billion yen in income before income taxes?

A4: The income before income taxes target of 100 billion yen has taken into account inorganic growth opportunities, and we aim to achieve this target through this acquisition. The 129 trillion yen in AUM has assumed organic growth only, and this acquisition will provide additional contributions.

Q5: The environment surrounding active management is challenging. What strengths of the acquisition target could serve as resistance to such challenges?

A5: We recognize outflows from public funds as an industry-wide trend. However, the target business has solid track records in performance, which we believe will contribute to expanding product lineups such as active ETFs. Additionally, the target business has strong distribution channels, with room for further strengthening RIA (Registered Investment Advisor) channels and its in-house channels. While the environment presents challenges, we see growth potential in the platform and decided to proceed with the acquisition.

Q6: Will amortization of intangible fixed assets continue for a certain period? Will one-time costs related to the acquisition affect profitability?

A6: Certain costs and investments will be necessary for post-merger integration (PMI) and other strategic initiatives. One-time costs related to the acquisition are under review but are expected to be in the tens of millions of dollars. Intangible fixed assets are typically amortized based on their economic useful life, but this is a strategic investment, and we expect medium- to long-term contributions to our ROE levels.

Q7: You mentioned that PMI costs are to be around tens of millions of dollars. Over what period will these costs spread out? What is split between goodwill and intangible fixed assets, and what is the amortization period for the intangibles?

A7: The tens of millions of dollars we mentioned primarily refer to one-time costs. Additionally, IT costs, investment in distribution channel, and product development may amount to 10-30 million dollars annually, pending further review. The allocation ratio of goodwill and intangible fixed assets is also under review, but generally, we envision a 50-50 split. The amortization period will be based on factors such as the economic useful life, and the value of the intangible fixed assets.

Q8: Will costs increase ahead of revenue growth due to this acquisition?

A8: Certain operational costs will be taken into account upfront as one-time expenses. While there will be some upfront costs, they are basically tied to revenue.

Q9: Regarding distribution channels of the target business, could you elaborate on its specific strengths?

A9: In the retail channel, it has relationships with nine of the top ten distributors that have strong distribution capabilities. Building long-term relationships with these top-tier distributors is challenging, and this is a key strength. In addition to these strengths, we are working to expand channels such as RIA, and we are considering investments in it from a PMI perspective. Even after accounting for these investments, as well as goodwill and amortization of intangible assets, we expect solid profitability.

Q10: How is the collaboration with Macquarie Group reflected in the valuation of this acquisition?

A10: The agreement for collaboration includes leveraging Macquarie Group's strengths in infrastructure and private products through the target business's distribution network. Macquarie has just begun strengthening collaboration between non-traditional and traditional assets, and through collaboration with us, aims to monetize these efforts. The U.S. market is expanding due to the democratization of alternative investments, and we have high expectations in this area. These synergies are viewed as potential upside opportunities.

Q11: Are there any governance changes when the Investment Management determines its strategy and direction?

A11: The head of Investment Management will continue to be led by Namura. And since April this year, Chris Willcox has been appointed as the Chairman of Investment Management. As we formulate global strategies, we intend to leverage Chris's expertise, who previously served as CEO of JP Morgan Asset Management and is currently an executive officer at Nomura Holdings, Inc.

Q12: Could you explain the strategic rationale behind investing in traditional U.S. asset management business despite the current turmoil in financial markets?

A12: We are aware of the current market environment. However, if we consider U.S. demographics and trend in AUM, we believe the U.S. asset management industry remains a growth sector. The U.S. holds approximately 50% of the global financial market share, and while recent disruptions are evident, we consider it unlikely that its presence will significantly weaken in the medium to long term.

Q13: Could you share the background of this transaction? Additionally, in terms of valuation, if I look at stock price of the U.S. asset management industry over the past two years, this investment appears to be inexpensive, however, it appears not so, when looking back over the past decade.

A13: We refrain from commenting on the negotiation process or detailed procedures of this investment. Since Okuda became CEO in 2020, we have aimed to strengthen investment management, focusing on both organic and inorganic growth. After thorough consideration of various options in collaboration with Wholesale and other relevant divisions, we have decided on this acquisition. While specific details are difficult to disclose, we believe Macquarie evaluated us not only as a buyer but as a partner capable of forming a partnership.