

## FY2019/20 2Q Financial Results Conference Call Q&A

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Speaker: Takumi Kitamura, Chief Financial Officer, Nomura Holdings, Inc.

**Q1: Costs in Wholesale fell sharply in 1Q followed by slight fall in 2Q. Please tell us about the time line that effect of the cost reduction becomes visible in P&L and the plan for cost reduction in 3Q and onward.**

A1: We took various actions in the first half of this fiscal year, but there is a slight lag before we see the full savings in P&L, and that will appear in the second half. The cost reduction plan announced in Investor Day assumes a very difficult business environment with revenues of \$5 billion. In 2Q, revenues were above this assumption at approximately \$5.8 billion, and if we take into account additional investments we have made as necessary, run rate cost was reduced to around \$4.8 billion. We will continue to work toward our target for the year ending March 2020 (about \$4.7 billion).

**Q2: You explained that Fixed Income earned revenue mainly from Rates products. Can you give us monthly colour to the activities?**

A2: Volatility rose in various part of the second quarter due partly to lack of market activities during the summer vacation season. Fixed Income revenue dropped markedly in August: 2Q revenues distributed across July, August and September at roughly 4:2:4. Equity revenue was slightly lower in July than in the other months like 3:4:4.

**Q3: Can you tell us more about status quo of your channel formation changes? In addition to traditional investment products, I believe that your strategy was to actively provide non-traditional products, such as alternatives, securitization, and derivatives, to corporations and the high net worth clients. Are you making such profits now?**

A3: By the end of August, we had completed the transfer of 1.25 million accounts, 45% of our customer accounts with reps, to new partners. I've heard that each partner now has a clear idea as to what they should do, and that this has helped motivate them. These are basically long-term initiatives, though. We believe that it will take some time before we can see the outcome, because we are aiming to be able to fully understand the needs of our customers and provide solutions that correctly respond to their concerns and needs.

**Q4: About Wholesale run-rate costs: is that number only incorporates effect of cost-cutting measures already being realized, or are they a cost that incorporates expected effect from measures that have been implemented but not yet appeared in P&L?**

A4: Run-rate is an estimate of what the annualized cost would be if, for example, the earnings structure at the end of September continue for one year. Some cost savings have already been reflected in P&L and others will be reflected in the second half of this fiscal year. In principle, the run-rate are based on what have already appeared on P&L up to the end of September.

We assumed level of revenue at approximately \$5 billion as the benchmark to gauge our cost reduction efforts. If there is a movement in revenue size, the variable costs will also move, so we adjust them with certain assumptions to show the progress of cost reduction. As for 2Q, revenue exceeded the assumption by \$800 million, so the provision for compensation increased by pay for performance. If revenues were \$5 billion, we estimate that the run-rate cost would be around \$4.8 billion.

**Q5: You said in July that progress rate of the firm-wide cost cutting was about 50%, but what about now?**

A5: It is just over 60%.

**Q6: Should we see a 4.6 billion yen loss as kind of norm for the “Corporate items” if there is no noise?**

A6: Corporate item number tends to be negative by nature. The 2Q loss was not that there was anything special but the result of various small items piled up.

**Q7: Can you approximate the one-time revenue impact from channel formation change in Retail division?**

A7: It's very hard to quantify. As we have reshuffled representatives of 1.25 million accounts, I think they spent a certain amount of time and effort.

**Q8: I would like to know if there is any impact on Nomura's strategy for the mass market given that there is a movement among the US online brokers to waive commissions for online trading.**

A8: As you mentioned, several American online brokers, including Charles Schwab, have announced the waiver of commissions. This time, we change the channel formation to meet the needs of the mass affluent clientele. However, we believe that there is a certain need for face-to-face services. In Japan, where the number of securities accounts is extremely small and culture of asset management has yet been rooted, we believe that there is a certain level of demand for face-to-face services and advice.

Of course, there are areas that cannot be covered by our human resources alone, so we will expand our services, including non-face-to-face services, using digital technology and IT.

**Q9: The time to achieve EPS of 100 yen has been put off. But is there any chance that I can see new targets in the near future as both Retail and Wholesale divisions are working to create their new business structure?**

A9: I believe that the new plan will be announced at an appropriate timing. But now, as various measures announced in April are gradually bearing fruits, I believe that it is vital to steadily implement these measures.

**Q10: Is it better to think that new targets are unlikely to be presented on the investment forum timeline?**

A10: I think it's going to be announced at big events like Investor Day or CEO Forum, but I don't think I can comment on the specific timing at this time.

**Q11: How much progress has Retail made in reducing costs in the first half of the year?**

A11: We have completed about 50% of our cost reduction target. This progress includes the cost reduction effect by consolidating 25 branches which was announced in June 2019. We are almost completing the reduction target for this fiscal year.

**Q12: How did you decide on a 15 yen dividend per share?**

A12: We decide dividends using a consolidated payout ratio of 30% of semi-annual consolidated earnings a key indicator. In calculating the dividend for the first half of this fiscal year, we took into account that the profit from the sale of Nomura Research Institute (NRI) shares, which would be returned in the form of share buyback, was included in the dividend resource.

**Q13: Should we consider the dividend payout ratio of 30% in the second half?**

A13: We decide dividends using a consolidated payout ratio of 30% of semi-annual consolidated earnings a key indicator.

**Q14: The dividend is 15 yen per share, so the total dividend amount should be 48.5 billion yen. Since the proceeds from the sale of NRI's shares amount to 160 billion yen, you seem to have paid dividends using 1/3 of the proceeds as source. How will you use the rest of proceeds? Can we expect a further dividend increase from the remaining amount, or was this the end of the dividend that is funded by the proceeds from the sale of NRI shares?**

A14: Current share buyback program has an upper limit of either 300 million shares or 150 billion yen, and the large part of the proceeds from the sale of NRI shares (160 billion yen) are used to fund share buyback program.

**Q15: One obvious reason for the significant drop of Retail pretax income in 2Q was the decline in revenue. Cost reduction are under way, but how soon can you return to a pretax income margin of 15%?**

A15: We had expected some negative impact in 2Q because of the important measures such as the changes in channel formation and consolidation of branches. Although we have taken steps to improve the pretax income margin, such measures are long-standing effort, and we do not have the optimistic view of returning the 15% pretax income margin in 3Q or 4Q.

**Q16: What KPIs should I follow for Retail? I understand that channel formation change is long-standing effort and it takes time to show results. I am checking recurring revenue, recurring revenue cost coverage ratio, net inflows of cash and securities and total sales, but such efforts would not be apparent in a short-term?**

A16: The purpose of the channel formation change is to match our partners' skill sets with customer attributes and needs in order to improve customer satisfaction and, as a result, to increase net inflow of cash and securities, total sales and then client assets.

As such, we have clarified the roles of our partners based on their customer attributes and we have established metrics within the company to fulfil their roles. For example, partners in charge of corporate clients need to provide advice that leads to improvement of clients' enterprise value, such as clients' main business support, investments, capital management, and shareholder composition, and also needs to provide the company owners with advice on B/S, inheritance and gifts, business succession, tax measures, real estate, and other services. Therefore, we set KPIs for these partners as consulting-related revenues, the number of new clients and the number of active clients. The current IR package does not cover all of them, so I would like to think about how to show them to you going forward.

**Q17: Regarding US Rates business, you explained that revenue level is high but slightly down QoQ. I think the market environment was not bad, so how did you compete with your peers in terms of market share?**

A17: 2Q was a little slow compared to the strong 1Q. In fact, our 1Q Fixed Income revenue increased 21% QoQ, while our peers declined.

In 2Q, on a YoY basis, I don't think there is a gap between our performances and peers. Our performance was robust mainly in Agency Mortgage business.

**Q18: Tax expense declined due to applying deemed dividend rules and the reversing deferred tax liabilities as a result of the sale of NRI shares. Will this reversal of deferred tax liabilities continue in and after 3Q?**

A18: The reversal of deferred tax liabilities was a one-off factor related to the sale of NRI shares. We have booked deferred tax liabilities when we consolidated NRI performance as an equity method. As we sold the shares, we reversed the corresponding amount of deferred tax liabilities.

**Q19: There has been talk about a shortage of liquidity in USD money market. If, for example, the central bank does not take a special response and the money market is thrown into confusion, what would be the impact?**

A19: I heard the short-term repo rate soared and the Fed supplied temporary liquidity in September. I am not sure if similar event would happen in a short-term, but we have 4.5 trillion yen of liquidity pool, which are tightly managed by currency.

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