FY2020/21 3Q Financial Results Conference Call Q&A

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Q1: Pretax income in the Americas for the nine months to December is around 100 billion yen (excluding American Century Investments related gain/loss). What is the breakdown in Wholesale by business line? Also, over the past two years your performance has improved while headcount has declined by nearly 10 percent. How sustainable is this?

A1: We don't disclose pretax income by business line. That said, Global Markets accounts for a large proportion of earnings. Fixed Income made a significant contribution in the first quarter, while the third quarter was driven by Equities. So the key drivers of earnings change depending on market conditions, giving us a well-balanced business mix.

At the start of the fiscal year, Investment Banking was severely impacted by the pandemic, but the situation gradually improved heading towards the third quarter. Last April we acquired Greentech, a sustainability focused M&A boutique and since then we have started to work on sustainability related transactions.

In July we announced a strategic alliance with Wolfe Research which has had a positive impact on our Investment Banking business and we have received encouraging feedback from issuers.

We maintain strong market shares in our core products so even if the market turns down we expect to be able to continue to deliver reasonable performance.

Q2: Net inflows of cash and securities in Retail was weak. What is the breakdown by age group?

A2: The trend has not changed much. Clients under 60 are generally inflows, while for clients over 70 we see larger outflows. Net inflows of cash and securities in the third quarter was negative 195 billion yen as the market rally led to unrealized gains for many clients who took advantage to lock in profits by selling stocks and investment trusts. Inflows and sales remain strong so aim to increase client assets by providing solid service to our clients to promote inflows.

Q3: What could affect Fixed Income revenues going forward?

A3: Although the probability is low, if the Fed starts tapering too early long-term rates could spike. In that case, our spread products like Credit and Securitized Products would be impacted, but we have already reduced significantly so we should be able to manage. On the other hand, our Rates business, which is one of our competitive strengths, could be positively impacted.

The most challenging situation would be a low volatility, low activity environment. Rates volatility was muted in the third quarter and client activity wasn't particularly high so our US rates business slowed. But activity picked up in the New Year and we are not concerned about current performance.

We are expecting three things. First, vaccines will bring the pandemic to an end and fiscal stimulus will lead to portfolio rebalancing by investors. Second, the asset management industry will continue to experience structural inflows and demand for yield amid the low rate environment will remain strong. Third, in the SSA sector, one of our areas of strength, there's strong demand for bond issuances to combat Covid and sustainability-related transactions are on the rise in both Japan and overseas.

Q4: Is there any change to your dividend payout ratio of 30 percent and your total payout ratio of at least 50 percent?

A4: There is no change to the commitments made under our shareholder return policy.

Q5: Please give a breakdown of Investment Banking revenues and the current pipeline.

A5: Please see page 23 of the presentation materials which gives a breakdown of fees from investment banking. In the third quarter, M&A/financial advisory fees grew sharply.

The M&A pipeline in Japan continues to grow. We are leveraging our close relationships with corporates to make high-quality proposals in a timely way as the operating environment changes.

In ECM we see the continuation of demand for fundraising to strengthen companies' financial positions, offerings by major shareholders cashing out, fundraising for strategic growth plans, and raising capital efficiency by unwinding cross-shareholdings.

In DCM, issuance demand for SDGs bonds is particularly strong and all businesses are seeing a build-up in the pipeline.

Q6: Is there a possibility you will start building up deferred tax assets in the US from next fiscal year?

A6: We have booked valuation allowances for deferred tax assets so as we have said before it would be net zero. We will discuss with our auditor to decide how much can be recovered and book appropriately if needed in accordance with accounting rules.

Q7: What is the view internally on third quarter pretax income? Why does there seem to be no much of a link between revenues and expenses?

A7: Internally we feel it was a good quarter with well-balanced earnings across each business line. But we won't become complacent. We will continue to carry out the measures underway to further grow our revenue base. There is a time lag between when cost cuts are carried out and when they take effect on a financial accounting basis. Some of the actions we took in the first half of the year appeared in the third quarter financial accounting, making it look like there's a weak link between revenues and expenses.

Q8: Could your CIR change if you make bonus provisions? What is the outlook for cost levels?

A8: We make bonus provisions each quarter in line with revenues.

Our cost reduction program is progressing extremely smoothly. Some of it was sped up by the pandemic and we expect to reach our target one year ahead of schedule. We hope to see the current initiatives show up from the following fiscal year. At the same time, we are looking to the future and investing in IT and digital transformation so we will strike the right balance between cost controls and investment.

Q9: What is management's thoughts on the current valuation of the stock price?

A9: We feel it's undervalued with ROE of 15.1 percent and PBR of approximately 0.6. We understand that reflects concerns over the sustainability of our performance. Our underlying profitability has improved by focusing on our competitive strengths and cost reductions have made it much easier for us to generate profits. It's important to properly communicate this to change the market's perception. Looking ahead, in addition to public markets, by showing results in private markets we expect to be able to change that view.

Q10: There has been a recent spike in volatility of some stocks in the US. Did this affect equity option business where you have a high market share?

A10: I can't comment on individual stocks. Given the massive market moves, as a liquidity provider we were affected, but not enough to make an overall impact.

Q11: What impact will the Biden administration have on your business?

A11: We are closely watching the regulatory impact for financial institutions. From a business standpoint, we're excited about the agenda for infrastructure and green investment. We see significant business opportunities on the back of growing demand for infrastructure financing and sustainable investments which Nomura Greentech is involved in.

Q12: Why aren't you launching a share buyback program not that your performance is good, balance sheet sound and share price undervalued?

A12: We will ensure solid performance in the fourth quarter and have a total payout ratio of at least 50 percent on a full year basis.

Q13: Underlying profits are growing, so is there a chance that you will revise your KPIs and ROE target?

A13: The FY2024/25 ROE target announced last year was set amid an environment where the market had crashed due to the spread of the pandemic and had yet to recover. At the time, we said we could revise depending on the environment. While there was some market tailwind in the third quarter, our pretax income grew steadily. The management team will discuss whether to revise our medium-term plan.

Q14: How much has your expansion into new areas contributed to recent performance?

A14: Although not a completely new area, our sustainability-related business are growing strongly and we believe this is a growth area that will continue to expand. Private and digital businesses are not contributing much yet, but for example Komainu, which offers custody services for digital assets, is receiving a lot of attention from the market and we are seeing an increasing number of inquiries. We also expect that the listed investment company for investments in unlisted equities announced recently will add to revenues.

Q15: If ROE is fairly high, is it possible to revise your total payout ratio of at least 50 percent and your targeted CET1 ratio of 11 percent? In other words, do you have room for more shareholder returns?

A15: In addition to our shareholder return policy, we will also discuss our future business portfolio and appropriate capital levels along with our ROE target.

Q16: Why did Other expenses decline by over 10 billion yen form the second quarter and what was the impact on each segment?

A16: Expenses related to legacy transactions were about 10 billion yen in the third quarter, but this was a bit higher in the second quarter. This is not included in any business line. Other than that, there are various items included such as fees for third-part experts and other sales and general administrative expenses, all of which declined slightly.

Q17: As you aim to maintain and grow your top line next fiscal year, will headcount bottom out and start growing again? Or can top line growth continue even if you continue to contain headcount?

A17: People are critical to our business. However, as the number of roles that can only be done by people declines, we believe we can continue to grow the top line while controlling headcount. Naturally, we will hire in those businesses where we need people, but overall we aim to increase quality over quantity.

Q18: When you announced your second quarter results, you said you were receiving more inquiries for transactions in Wholesale. How do you see that for next fiscal year?

A18: Client flows have remained strong since the start of this year. While we don't want to be overly optimistic, we think we will continue to see meaningful client flows.