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FY2021/22 1Q Financial Results Conference Call Q&A

Date: July 30, 2021
Speaker: Takumi Kitamura, Chief Financial Officer, Nomura Holdings, Inc.

Q1: Fixed Income was roughly in line with your US peers YoY, while Equities seems to be slightly weaker. How do you rate 1Q performance and what is the outlook from August onwards?

A1: Excluding the loss arising from transactions with a US client, Wholesale income before income taxes was 37 billion yen, or 150 billion yen on an annualized basis, which is above the level we were at before the pandemic in the year ended March 2020. While the environment remained challenging, we continued to gain momentum and delivered reasonable performance.

More recently, market views have been mixed and interest rate movements unstable so we have been conservative on risk taking. That said, the outlook is not bad. We see plenty of ongoing factors that could encourage investors to rebalance their portfolios such as idle funds without investment opportunities due to monetary easing, economic reopening, progress in the Biden Administration's infrastructure package, expectations of inflation and discussions around central bank tapering.

Risk factors include heightened geopolitical tensions and a potential slowdown again in the economy due to virus variants. Market consensus centers on rising rates and widening yield spreads due to economic recovery, but we continue to watch whether the virus variants could lead to a risk-off mode.

Q2: In regards to strengthening your risk management, what steps have you put in place in case market, liquidity, or credit risk exceeds limits?

A2: Limits are set based on policies and procedures. If limits are exceeded, this is escalated in the second line of defense (Risk Management and Finance) based on predetermined rules. The first line of defense (front office) sets out a plan to reduce exposure and take the appropriate action within a certain timeframe to ensure limits are observed.

We can respond swiftly to market risk through hedging, but credit risk takes more time and because limits are set strictly we take immediate actions if they are exceeded.

Q3: What is the impact of the China regulatory risks to your Wholesale or onshore retail businesses?

A3: Mainland China and Hong Kong stocks have been volatile over the past few days and we are watching closely, but as of now there has been no impact to our business.

Q4: Your CET1 ratio has increased to 17.7 percent and you took in approximately 50 billion yen from the sale of part of your stake in Nomura Research Institute. Why did you not do a share buyback and what are your thoughts on future buybacks?

A4: After considering various factors, we decided not to do a share buyback this time, but we are looking to do so at some point.

Q5: Your year-end dividend last fiscal year was determined taking into account the loss arising from transactions with a US client. What about your interim dividend? Will you exclude the additional 65 billion yen loss booked in 1Q? Or will you use reported income because you also realized a gain on the sale of part of your Nomura Research Institute stake?

A5: For our year-end dividend, we excluded some of the loss arising from transactions with a US client so taking a different approach for the interim dividend will be difficult from a consistency perspective.

Q6: So does that mean even with the realized gain from the sale of part of your Nomura Research Institute stake, you will give some consideration in regards to the US loss?

A6: We may not be able to do the full amount but we will give some consideration.

Q7: Is it true to say that if there wasn't the 24 billion yen profit booked from the IPO of a Nomura Capital Partners investee company, then Investment Management net revenue would have declined from the fourth quarter?

A7: Investment gain/loss in the fourth quarter of 24.2 billion yen included a markup in the former Merchant Banking division. As such, deducting 24 billion from first quarter investment gain/loss of 35.5 billion yen and comparing to the fourth quarter 24.2 billion yen is not an apple-to-apple comparison.

Q8: Compensation and benefits are up QoQ, but three segment income before income taxes excluding the loss arising from transactions with a US client declined. What is compensation and benefits linked to?

A8: Results can fluctuate due to technical factors so it is hard to look at compensation and benefits on a quarterly basis. For example, the fourth quarter includes an impact from changes to our bonus modeling. We are working hard to minimize earnings volatility but some impact does occur. In determining bonuses, net revenue is a key factor, but other factors are also taken into account. Yen depreciation was another factor.

Q9: Wholesale cost to income ratio was 121 percent, or 80 percent excluding the US client transactions, which is slightly high. Is this linked to factors you just mentioned and hence slightly irregular?

A9: It's best to look at this on a full year basis rather than quarter. As a KPI, we are targeting Wholesale CIR of 80 percent, which is exactly where the first quarter was at.

Q10: What products contributed to the QoQ decline in Fixed Income? Can you make that up in the second quarter or will this trend continue?

A10: Global Markets revenues consist of client flow revenues from client orders and trading revenues from our positions. Compared to last quarter, trading volumes declined. Client revenues declined as client activity stopped amid uncertainty around the direction of the yield curve. Further, lower volatility led to narrower ask/bid spreads, making it challenging to generate revenues. Looking ahead, our main scenario for the macro environment is for inflation and a steepening yield curve. This is favorable for Fixed Income and we believe the biggest catalyst will be tapering.

Q11: Fixed Income could have been a bit stronger compared to the US banks. What are your thoughts on this?

A11: We were in line with the US banks YoY. Rates is our strongest area and this posted biggest slowdown in the overall market. Given this, personally I think we delivered a fairly resilient performance compared to our peers.

Q12: What was the driver behind strong American Century Investments (ACI) -related gain/loss? Performance aside from investment gain/loss also moves significantly, resulting in volatile dividends. What is your policy on dividends?

A12: ACI is not a listed company so it is not easy to determine fair value, but we value conservatively taking into account performance and business conditions.

As long as we are conducting business in the markets, our results will be subject to fluctuations but we continue to focus on initiatives to ensure more consistent revenues. Dividends are linked to performance, but we aim to deliver consistent dividends and we take that into account when determining dividends.

Q13: How has Retail performed in July? First quarter total sales were around the same level as last year when sales activities stopped because of the pandemic. What are your thoughts on this?

A13: In July, uncertainty grew over the economic outlook because of concerns over a new wave of the virus and Retail got off to a slow start. However, investment trusts and discretionary investments continued to report net inflows in July as we focus on our segment approaches and growing client assets. Total sales were pushed down in the first quarter due mainly to a slump in equities and we expect that to improve with market tailwinds.

Q14: There are discussions around regulatory tightening for family offices. Will you change your approach?

A14: Our family office clients have a large scale of assets and diverse needs and we have a global platform capable of providing comprehensive services to meet those needs. We will strengthen our risk management framework and continue to provide a certain level of services, while keeping a close eye on the regulatory environment.

Q15: What is the impact on revenues from shrinking your prime brokerage business?

A15: Our prime brokerage business is there to support our overall Equities business so the impact on earnings is limited. We will continue to provide services in our areas of competitive strength centered on Japan and AEJ equities and US equity derivatives, while enhancing our risk management.

Q16: Of the 630 billion yen in alternative assets under management, how much includes unrealized gains? Are you now in a phase where you can consistently book realized gains as in the first quarter?

A16: Alternative AuM shows how much of our clients assets are invested in alternative assets.

This quarter’s realized and unrealized gains came from investments in the former Merchant Banking division and so are completely different. If market value increases during the quarter we will mark up and as in this case if we exit we sometimes book the gains at once. It’s hard to say how these gains will be in the future.

Q17: I would like to ask about controlling compensation and benefits and retaining talent. Particularly overseas there is upward cost pressure for relatively junior staff. At the same time many companies are struggling with how to provide attractive workplaces. How open are you to cost increase and what are you doing to retain talent?

A17: To retain valued talent it is first important to conduct fair performance reviews. To meet individual needs for growth we offer various learning opportunities for our people to build their career. We ensure a diverse and inclusive work environment where people of various backgrounds can shine and we conduct surveys to improve employee engagement.

The roles of our people have changed significantly over the past several years. Our people remain as important as ever. There has been rapid change recently in defining the tasks that people should do and tasks that can be done without people and we believe these changes will continue. We will follow this closely and ensure we have the people we need and in turn we think we can control compensation and benefits to a degree.

Q18: Is there no need to change your 25 percent profit margin target (75 percent cost to income ratio)?

A18: We don’t intend to change.