FY2022/23 3Q Financial Results Conference Call Q&A

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Q1: Wholesale expenses increased but revenues didn't grow. Will you implement a large-scale headcount reduction program like Morgan Stanley did in order to reach your cost-to-income ratio target of 80 percent? In the past you made large cost reductions while maintaining market share and revenues. But with fewer unprofitable businesses now, is it harder to make impactful cost reductions?

A1: My understanding is that the US banks hired aggressively in 2021 to meet expected higher demand in primary and secondary markets, but the environment changed completely last year and they had to reduce headcount. We didn't take on so many new hires which means we didn't have to make drastic headcount adjustments. However, following the drop in investment banking fee pools last year, we made sizable cost reductions for our scale.

The higher CIR comes down to mostly revenue as we weren't able to fully monetize opportunities amid the elevated market volatility. The reforms we carried out in 2019 positioned us to build a franchise with top ranking market shares across core products. When pent-up demand for the structured and financing businesses comes through, we feel we can gain more upside. October was a tough month for Global Markets, but revenues improved each month and that trend has continued into January.

Q2: Revenue/modified RWA was 5.9 percent. Is that a decent level excluding the Americas Agency Mortgage business?

A2: Yes, it is an okay level.

Q3: Risk-weighted assets continue to climb. Is that due to new risk taking?

A3: Risk-weighted assets increased in the second quarter due mainly to yen depreciation. The third quarter rise is also not due to new risk taking, but rather mainly due to a technical factor in which Stressed VaR increased.

Q4: What was the ratio of Fixed Income client revenues versus trading revenues in the third quarter?

A4: Nine to one.

Q5: There was movement in interest rates and exchange rates during the quarter making it relatively easy to monetize. Why did Macro Products struggle in October and what is the outlook for that business?

A5: We couldn't monetize our inventory and positions as well as we would have liked, resulting in a higher ratio of client revenues than normal. When the market changed in October, we pulled back from risk taking and went into defensive mode. Activity slowed in Agency Mortgages, one of our core businesses. It was a very challenging market environment. Fixed Income slowed considerably in October and what we reported was the result when looking over the three months, but we have recently been seeing a solid recovery.

Q6: Investment Management investment gain/loss improved to 25.6 billion yen in the third quarter. Could you give us a rough breakdown? I believe you were hedging American Century Investments shares to mitigate volatility. Did that impact not arise in the third quarter?

A6: We don't disclose a breakdown of investment gain/loss. But the biggest factor was ACI related gain/loss followed by realized and unrealized gains at Nomura Capital Partners. ACI related gain/loss was partially hedged, but in the third quarter we booked an unrealized gain above that.

Q7: What was the monthly trend for Fixed Income revenues?

A7: It rose each month with October accounting for just under 30 percent, November around 30 percent and December mid-40 percent.

Q8: Can you give a regional breakdown of Fixed Income revenues?

A8: Japan mid-20 percent, EMEA mid-30 percent, Americas mid-10 percent and AEJ just under 30 percent.

Q9: The percentage of Fixed Income revenues accounted for by the Americas dropped by around half compared to last quarter. You said Americas Fixed Income slumped in October but is already recovering. Can you say such a slump won't happen again? Given the Americas Agency Mortgages business is expected to be slow for a while, do you see any issues in downsizing Americas Fixed Income?

A9: Agency Mortgages were particularly challenged in October as the market itself was virtually not functioning at all. When the market uncertainty clears, we expect to see a recovery in several Fixed Income businesses that struggled last year, including Agency Mortgages. Our US Agency Mortgages franchise is capable of winning top market share and although a rebound may be difficult in the short term, once it comes we will look to fully monetize the upside.

Q10: I expect your Americas Fixed Income business transacts a lot with Japanese and other Asian financial institutions. Given the changing market environment such as the rise in short-term interest rates in the US in the first half of 2022 and the sharp yen appreciation in October, are you concerned about a drop in revenue opportunities due to client's realigning their investment strategies?

A10: Indeed, there is more focus on the JGB market from both domestic and international investors from speculation on changes to the BOJ's policy. At the same time, if the US yield curve shifts, we feel interest in the US will grow and funds will start returning.

Q11: Japan Fixed Income revenues were roughly flat quarter on quarter. What is the outlook for the fourth quarter?

A11: Japan Fixed Income had a good month in January.

Q12: In relation to strategic shareholdings, why did you book an unrealized loss of 20.7 billion yen and a realized gain of 21.9 billion yen?

A12: You need to look at both the unrealized loss and realized gain together. For a while now we have been regularly monitoring the purpose of having strategic shareholdings and we have been working to reduce them. Our strategic shareholdings as a percentage of Tier 1 capital is notably lower than other financial institutions. When we sell shares, our segment data shows the difference between investment amount and sale amount as the sale gain or loss and we reverse the accumulated amount of unrealized gain/loss up to the most recent quarter. This quarter, we had a large sale which inflated both unrealized loss and realized gain.

Q13: You said JGB trading was robust. Do you expect to generate decent revenues even after yield curve control finishes? Will we see a situation where there is a lack of buyers and only a very small group of players exist?

A13: Generally speaking, higher volatility leads to an uptick in activity, which means opportunities for us to monetize. When an event occurs and there is a swing in market prices, our Rates business sees more trading opportunities.

Q14: Retail reported higher flow revenues, showing a stronger pace of recovery compared to your peers. Is that because of a difference in client franchises or because you switched from a slightly conservative approach to be more active in approaching clients? Please comment on the sustainability of flow revenues.

A14: I have previously said there has been some hesitancy to recommend products. Recently, client contact and proposals have been increasing after reflecting on the fact that recommending various products to clients actually creates more meaningful conversations. Of course, even if we make proposals it means nothing if clients do not act. So it’s a case of both strengthening our proposal capabilities and having a client franchise that can generate such an outcome.

Q15: You launched a large investment trust during the quarter. Is sentiment at the level where there’s demand for new products or is your current lineup sufficient? New products seem to be well received by corporate and individual clients. What are your thoughts on this?

A15: The Reopen Japan fund launched in January highlighted the need for investment and was matched to client needs. Recently, retail investors have been net purchasers of Japanese equities and on January 6 we welcomed over 1,000 people to a seminar about the investment environment for Japanese equities. Investors have been buying US stocks for the past few years and are now starting to relook at Japanese equities. Client portfolios are also underweight on Japanese equities so we made sales by making recommendations base on diversification. But that doesn’t mean we will actively launch and sell large investment trusts. We already have many financial products and will make proposals in line with client needs and the market environment.

Q16: Popular funds in the third quarter were US growth stock and US high yield funds, showing a tendency towards contrarian views. How do you see client needs and their attributes?

A16: The US stock fund is contrarian. It’s about adding US stocks, which have strong growth potential as the market adjusts, to portfolios from the viewpoint of build assets over the medium to long term. We have a long track record in high yield. The fund is diversified across 700 names and has good performance. The exchange rate has also settled down a bit and interest rates are up so clients wanted to buy.

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