FY2023/24 1Q Financial Results Conference Call Q&A

Date: August 1, 2023
Speaker: Takumi Kitamura, Chief Financial Officer, Nomura Holdings, Inc.

Q1: I thought the severance-related expenses you booked when you reduced headcount last year would not be present this quarter. Please give some more details on why compensation and benefits increased this quarter.

A1: Yen depreciation had an impact. Base pay also increased due to inflation overseas and wage rises in Japan. We also increased bonus provisions in Retail in the first quarter in line with improved performance.

Q2: I have estimated that the unrealized loss related to investment in American Century Investments (ACI) was around 13 billion yen. This is quite different to what can be inferred from market data such as the multiples of listed asset managers and share price movements. Why was the loss so large?

A2: We hedge some of the parameters we use to calculate fair value of ACI. This time, some of those hedges didn't work. ACI's underlying valuation was not that bad. We recognize that it is difficult to understand the ACI related gain/loss and we will work to ensure we carry out more appropriate hedging.

Q3: Your ROE was only 2.9 percent even under this environment. Excluding the ACI loss, the Americas was in the red as was EMEA, dragging down Groupwide income before income taxes. What was different for you compared to your US and Japan peers?

A3: The biggest reason is that since last year when the US started raising interest rates sharply, our core businesses of Agency Mortgages and Securitized Products have been struggling. Performance of other core businesses has been broadly consistent. Our Americas Credit business is very small, putting us slightly behind our peers.

That said, US rate hikes are expected to peak out soon and we expect to see an improvement on our Agency Mortgages and other long-term bond businesses. Europe and the US are nearing the exit of their tightening cycle and investor risk appetite should improve. We don't think the current environment will continue and we are positioning ourselves to monetize when the market recovers.

Q4: At the Investor Day, you announced plans to increase Global Markets headcount by 5 percent over two years. Is that the right direction to take given the current earnings environment?

A4: We are enhancing part of our producer pool, including making replacements. We are carefully controlling our hiring while keeping an eye on revenues. We have made headcount adjustments based on this year's performance, and we are not just hiring for the sake of it.

Compared to Investment Banking, the Global Markets up-front investment timeline is relatively short and we expect new hires to start contributing to revenues quickly.

Q5: With the Retail reorganization completed in April, how do you rate first quarter revenues and client asset net inflows? As it was just after most people were reassigned, they probably didn't work fully up to speed from April. How has performance been through July?

A5: We are seeing the benefits of the reorganization both in Retail performance and areas that don't show up in financials. For example, flow revenues from clients directly contacted by Sales Partners in the high-net-worth segment increased by over 50 percent quarter on quarter. On the other hand, revenues from clients who weren't contacted declined. So we aim to increase client contact to boost revenues.

Through to early May, the 1,600 Sales Partners newly assigned to the high-net-worth segment were busy learning the business and building relationships with clients. The market started to rally in mid-May and we saw the benefits of the reorganization in the second half of the quarter. Moving forward, we will step up our efforts further.

Q6: You cut the number of Sales Partners in the mass affluent segment from 1,800 to 200. I am sure you were prepared for revenues to be impacted but how was it compared to your expectations?

A6: While market factors had a part to play, the impact wasn't as big as we thought it would be.

Q7: Why did Macro performance drop compared to last year and what was the monthly trend for Fixed Income revenues?

A7: The main reason is that FX/EM and Agency Mortgages had a good quarter last year but slowed this quarter. Client activity slowed and position management was down compared to last year.

Fixed Income revenues improved towards the end of the quarter with April and May accounting for nearly 30 percent each and June accounting for mid-40 percent.

Q8: Why haven't you started the share buyback you announced in April? Will you exclude ACI valuation losses when calculating the first half dividend?

A8: We set the period to be as long as possible and we plan to acquire during this period. We can't comment on acquisition timing or details for buybacks, but as you can tell from our track record we will get it all done.

For the first half dividend, we will wait until the second quarter has finished and decide taking into account various factors including ACI.

Q9: You said international Wholesale has gotten off to a slow start in July. Is that compared to June or the first quarter average?

A9: July has been stronger than April and May and roughly flat versus the first quarter.

Q10: Despite the Japan stock market reaching a post-bubble high, your Equities revenues grew by only 2 percent quarter on quarter. Why was your performance weaker than your domestic peers?

A10: There is strong interest in Japanese equities, and our Japan Execution Services and Equity Products business such as Derivatives had a strong quarter. Americas Equity Derivatives was also relatively solid.

On the other hand, trading volumes slumped in the US and Execution Services underperformed. However, because expenses are high as a proportion of revenues, income before income taxes didn't fall as much as revenues.

Q11: The Bank of Japan meeting last week set out a new policy. Will that be a tailwind for your Japan Fixed Income business?

A11: We think so. Many investors see this as a turning point from the many years of ultra-easy monetary policy. This should lead to a certain level of volatility and a recovery in client activity. We have a high market share in the JGB business so we will look to monetize business opportunities with carefully managing risks.

Q12: Progress on generating recurring revenue in Retail seems to be slower than set out in your medium-term plan. Why is that and have you seen any changes in the investment appetite of your clients following the recent market rally?

A12: We are not too worried about the pace of building up recurring revenue assets. Recurring revenue asset net inflows slowed as some investors sold out to take profits amid the rally.

As we provide solutions for our clients' entire asset portfolio, we expect transaction-based revenue to pick up along with investment trust purchases and discretionary investment contracts, both of which are sources of recurring revenue. While continuing this whole asset portfolio approach, we will stringently control costs to lift our recurring revenue cost coverage ratio.

In terms of client investment appetite, they generally continue to take a contrarian approach. But over the long term, as the market rises some clients actively buy when there is a slight dip. As Japan's macro environment changes with wage hikes and the end of deflation, we feel that investor sentiment is starting to warm up.

Q13: US regulators recently announced plans for strengthening capital requirements. Will this have any direct or indirect impact on your business?

A13: These requirements apply to banks, bank holding companies, and foreign banks with assets of over $100 billion that are supervised by the FRB, FDIC or OCC. We do not have any entities under their supervision so there is no direct impact. In terms of indirect effects, the new rules include a revision to the way credit risk is calculated so we will need to watch this closely.