FY2023/24 2Q Financial Results Conference Call Q&A

Date: October 27, 2023
Speaker: Takumi Kitamura, Chief Financial Officer, Nomura Holdings, Inc.

Q1: You mentioned that you booked severance-related expenses overseas. How much was that and what impact do you expect there to be on compensation and benefits from the third quarter onwards?

A1: While I cannot go into specifics, it was in the billions of yen. These severance-related expenses were the main cause for the higher compensation and benefits in the second quarter, and we expect to see benefits of cost reductions from the third quarter.

Q2: Occupancy and related depreciation and information processing and communications both edged up, which I expect is related to inflation and yen depreciation, but what is the outlook for these expenses?

A2: Excluding the impact from yen depreciation, they didn't increase much. In regards to information processing and communications, we are reviewing our systems and applications, and for occupancy we are currently discussing how our offices should be in the future. I can't say this will result in immediate cost reductions, but we aim to keep costs down.

Q3: It has been reported that you plan to rightsize your China business. How will that affect your business and are there any one-off related costs?

A3: We have had a presence in Mainland China for over four decades since 1982 and we have serviced the evolving needs of our clients. That strategy remains unchanged.

The pandemic was a factor in our China joint venture not progressing as planned, but we are now working constructively with our joint venture partners to determine the most viable path for our onshore business to achieve this long-term objective.

Q4: What was the trend for Global Markets revenues from July to October and what is the outlook (upside and downside)?

A4: July was very weak with August and September becoming progressively stronger. October is in line with July. The third quarter is generally strong due to seasonal factors so we are expecting performance to pick up in November and December.

In terms of upside, I would point to central bank monetary policy. Yesterday, the ECB left rates unchanged and the US seems to be changing, so we expect performance in Macro Products to pick up from its recent sluggishness. We have a high market share in Securitized Products, but that business has also been very slow, but that is starting to move again slowly. Downside risk I would say is the current environment continuing.

Q5: Net inflows of recurring revenue assets was strong as a result of the reformation of Retail channels. Were there any specific characteristics of clients that contributed to net inflows such as age group or size of assets?

A5: We booked steady net inflows across all products and services (investment trusts, discretionary investments, insurance, loans, etc.). All client segments also contributed to net inflows, but the biggest growth came from high-net-worth clients because they make up the majority of client assets.

Q6: The number of flow business clients continues to grow, but in what client segments and what types of transactions are most active?

A6: Flow business client numbers are up 16 percent over last year and transactions have increased across all products. The high-net-worth segment is the largest driver of revenues. Compared to before the channel reformation, flow revenue from accounts in the high-net-worth space with contact from Sales Partners grew by over 30 percent. Revenues from clients we haven't been able to connect with were roughly flat over the same period, underscoring how we are gaining upside by Sales Partners connecting with clients.

Q7: Is there any possibility that you will reallocate resources away from EMEA, Americas and China to Japan while also relocating from Wholesale to Retail and Investment Management?

A7: In terms of our portfolio mix, Retail has recovered so we want to grow Investment Management a bit more. As we have said before, we won't rule out inorganic growth opportunities. We constantly consider areas of potential growth.

In allocating resources over the short term, we take a flexible approach to review based on the environment to generate revenues. If there are no promising opportunities to use resources for business purposes, then as we have said in the past, we will return to shareholders.

Q8: Last quarter you said that the 1,600 Sales Partners reassigned in Retail in April were not fully up and running. What about the second quarter? Were they fully operational and what was the monthly revenue trend? Also why did recurring revenue increase so much even though recurring revenue assets were down slightly?

A8: In the first quarter they weren't fully active because they had to undergo training, etc. following the reallocation. They were fully operational in the second quarter. Revenues remained high in July, August and September.

Although recurring revenue assets dipped slightly at the end of the quarter, when you look at it on a monthly average, the second quarter was clearly higher at 20.3 trillion yen versus 19.5 trillion yen for the first quarter, leading to strong growth in recurring revenue. In addition to investment trusts and discretionary investments, we steadily grew our loan and insurance businesses.

Q9: Is it safe to say that there were no one-off factors in recurring revenue in the second quarter and that we can expect to see a similar level from the third quarter onwards?

A9: There will be some variation due to the timing of recognizing revenues, but recurring revenue assets are increasing smoothly and we expect to deliver solid numbers.

Q10: Wholesale cost-to-income ratio remains high at 96 percent versus KPI target of 86 percent. Previously, you said that Global Markets hiring would depend on revenues. Is hiring progressing as planned?

A10: Hiring and enhancing our Global Markets platform continues as planned. Specifically, by strengthening our sales teams we aim to increase touchpoints with clients and we are making steady progress in that. In terms of regions and products, we are strengthening our Derivatives business in the Americas, which boasts a high market share, and our Equity Products business in AEJ. In EMEA, although the current environment is challenging, we are planning to strengthen our Equity Products and FX/EM businesses.

While our cost-to-income ratio remains high at 96 percent, second quarter expenses included severance-related expenses that will reduce costs in the future. We are working hard to reduce our elevated cost-to-income ratio.

Q11: Sales of stocks were very strong, even compared to your peers. Why was that? Did that resulting from increased client contact following the reassignment of Sales Partners combined with the tailwind from the market?

A11: In the first quarter, April and May lacked momentum, but we saw strong business growth in June as the market rallied. The second quarter was very strong throughout as the market continued to reach for new highs while also undergoing corrections. Looking ahead, there was room for further rises and Sales Partners made proposals on Japanese stocks tailored to client needs and market conditions. Although client preferences are varied, there is strong appetite to invest in Japanese stocks and the proposals by Sales Partners to clients gave a boost, creating synergies and giving the results we have reported.

Q12: Why were Retail stock brokerage commissions roughly flat quarter on quarter?

A12: Mainly because the market rose sharply in the first quarter and many investors sold to lock in profits.

Q13: Of the 5.4 million accounts with balance, flow business clients account for over 20 percent at 1.24 million accounts. Given the current market environment and benefits from reassigning Sales Partners, do you think there is room to further grow flow business client numbers?

A13: We don't expect all accounts with balance to become active, but we believe there is room to further grow flow business client numbers. That is why we reassigned Sales Partners. By interacting closely with our clients we aim to grow flow business client numbers.

Q14: You said your management targets are 8 to 10 percent for ROE and cost of capital is 8 percent. I feel this will be difficult given under the current environment ROE is just over 4 percent. With calls from the TSE as well, what is the timeline for you to achieve 8 percent? What do you plan to do if you can't reach that target?

A14: We are not satisfied at all with second quarter ROE of 4.3 percent. Retail and Investment Management initiatives are starting to bear fruit and we see progress to reaching our management targets. In Japan Wholesale, Investment Banking and Global Markets are both performing well and we can expect further results. But in international Wholesale, the recovery of our core business, especially Macro products in Fixed Income, has been slower than expected, due partly to market conditions.

Recently, uncertainty around inflation and interest rates has started to clear a bit. That said, we are doing what we can, including reducing our cost base. We do not think we will miss our March 2025 ROE target. In terms of an alternative plan, for example it would be difficult to reach the ROE target simply by buying back shares. We have to keep costs down, move forward with growth plans to boost our top line and achieve our targets.

Q15: In Wholesale, Revenue/modified RWA remains high but the profit margin is not growing. Does this mean risk-weighted assets are not being used enough? Wholesale's allocation of risk-weighted assets is 64 percent. If that is not being used enough, which regions or products are the cause?

A15: Given the current challenging environment, we are stringently controlling costs and not fully using risk-weighted assets. International Wholesale faces challenging conditions in each region. Although Securitized Products in Fixed Income is showing signs of recovery, it is not as strong as it was previously. The same goes for Rates. We are taking a prudent stance to managing risks across all products.

Q16: As the uncertainty continues, how are you setting any time limit? Is March 2025 the main date you are looking at?

A16: There hasn't been a situation in the past where all Global Markets businesses were not performing well. While we did have times when performance slumped for two consecutive quarters, it is the first time where we have had a slowdown for a full year. At this stage, I can't give a definitive timeline, but can say we will continue to work hard to address the situation with a focus on March 2025.

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