FY2024/25 1Q Financial Results Conference Call Q&A

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Q1: Fixed Income Spread Products had a good quarter in Americas Securitized Products and Japan Credit. What are the main regions and transactions driving Spread Products revenues? Also, market risk and Level 3 assets are on the rise. What risk are you taking in Securitized Products that is leading to these revenues?

A1: The main driver of revenues is Securitized Products where we have a competitive advantage. In the past, we focused on RMBS-related secondary trading, but over the last 10 years we have shifted focus to origination, which is less impacted by market conditions. In terms of revenue contribution of origination versus secondary, the ratio is roughly 2 to 1.

Our product lineup used to be mostly RMBS, but now we offer a wide range of products such as asset financing, renewable energy-related infrastructure financing and insurance solutions, which has contributed to diversifying our revenue sources and building out our platform.

Risk-weighted assets have increased due to yen depreciation and stronger trading demand from Global Markets clients, and in particular due to a slight increase in warehousing for the Securitization business. So risk-weighted assets have increased because business is strong.

Q2: Has capital efficiency of Securitized Products improved to a comfortable level? You said July Wholesale revenues are trending well above the first quarter. Does that mean Securitized Products performance is even stronger?

A2: We are keeping an eye on how much we increase Securitized Products. The recent market environment has been very strong and there are many business opportunities, including the fact that Credit Suisse is no longer in the US market. Securitized Products has been robust throughout July. As Securitized Products risk-weighted assets will decline under the Basel 3 finalization rule, we are keeping that in mind when we look at the capital efficiency of Securitized Products.

Q3: Net inflows into investment trusts and discretionary investments in Wealth Management was much higher than the fourth quarter. Was that due to market factors or sales efforts?

A3: The Nikkei Average rallied over 40,000 yen, boosting unrealized gains in investment trusts held by our clients. In the past, that normally prompted profit-taking sales, but now we are seeing a virtuous cycle where the increase in unrealized gains is leading to improved client sentiment, resulting in new inflows. For discretionary investments as well, SMA contracts are growing rapidly in the high-net-worth and above segments.

Q4: Several large offerings have been announced. How much has the Investment Banking pipeline increased compared to a year ago? Issuers have many options when unwinding cross shareholdings such as offerings, share buybacks, and block trades. Which of these generates the most revenue for you?

A4: Our Investment Banking pipeline is very solid. We are also seeing movement in the insurance sector so we expect the Japan fee pool to grow even more. Most transactions are welcomed by the market as they boost capital efficiency and we expect deal flow to remain elevated. We can demonstrate our capabilities the most in public offerings.

Q5: Your CET1 ratio declined, but will your Basel 3 finalization level still be 14 percent? At the Investor Day in May, you said you will set a CET1 target range. Do you have a timeline for disclosure of this?

A5: While our CET1 ratio has declined recently, there is no change to our estimated level after Basel 3 finalization. We hope to disclose our target range by the end of the fiscal year.

Q6: You said you are gaining traction towards consistently achieving ROE of 8 to 10 percent or more. Could you tell us again how you are progressing towards your target? You need to consistently generate net income of over 300 billion yen. What does that mean for each division?

A6: Wealth Management and Investment Management are stable businesses with ongoing high inflows propelled by the medium to long-term shift from savings to investment. By moving forward with asset management businesses, we are stabilizing our revenue mix and the path to ROE growth is in sight.

Although Wholesale income before income taxes increased slightly, we still have issues to address. Notably, our cost-income ratio remains high at 91 percent. We aim to grow revenues and contain costs to lower our cost-income ratio and achieve groupwide net income of over 300 billion yen.

Q7: In Wealth Management, why was recurring revenue growth much stronger than the growth of recurring revenue assets? How is your product strategy aligned to client needs and what is your thinking around margins?

A7: The breakdown of recurring revenue assets by product hasn't changed much from last quarter. Recurring revenue assets shown in the slide is quarter-end basis, while recurring revenue is for the quarter. So there can be some difference in how you look at it. For example, recurring revenue increases if recurring revenue assets remain high throughout the quarter or the proportion of high-fee products increases during the quarter. This quarter we didn't see any highly irregular movement.

Q8: Why did EMEA book a loss again in the first quarter? What is management's thoughts on the level of international income before income taxes at 17 billion yen?

A8: Last year EMEA booked a significant loss which included one-off factors and underwent a headcount realignment. Business was slow in April and May but started picking up in June. Although the April-June quarter was a loss, things are trending up.

As you know, our overseas operations have tax loss carried forwards and once profits increase a bit more we will be able to lower our effective tax rate. We are not satisfied with the current level and will aim for income before income taxes higher than 17 billion yen.

Q9: The Nikkei Average dropped in July. How is Wealth Management doing? How are sales of investment trusts, discretionary investments and insurance which were strong in the first quarter and what changes have you seen in clients' investment mindset?

A9: July has been stronger than April to June, partly due to a contribution from primary transactions. Clients are being slightly cautious, but there is some buying on the dip and the overall trend remains strong.

In times of a market correction, we can differentiate ourselves by Sales Partners working closely with clients and understanding their concerns including the market outlook.

Q10: Why were you able to acquire 100 billion yen of your own shares so quickly? Did you discuss a new share buyback program ahead of the first quarter announcement?

A10: It is the result of properly considering how to acquire the shares given that our share price was low and we expected performance to recover from January. ROE for the first quarter was above our cost of capital. Share buybacks are an important part of our capital management policies and we will seriously consider the timing and scale of any buybacks.

Q11: I think you could revise upward your target for recurring revenue assets in Wealth Management. What do you think is a realistic level? What progress are you making in tapping into the emerging wealth client segment?

A11: While recurring revenue assets are trending above target, it doesn't mean the target has taken on a life of its own. We aim to expand recurring revenue assets as a result of providing services to our clients. We will discuss numerical targets with division management.

In terms of onboarding emerging wealth clients, we are steadily increasing Workplace business services and progressing smoothly towards our target. With the heightened focus on human capital management, corporate managers are increasingly interested in retaining talented people and enhancing employee engagement to boost corporate value.

We are seeing progress as Investment Banking and Wealth Management work together under the same KPI. In addition to the Workplace business, Wealth Management is steadily growing its client base in other areas too. In FY2023/24, new account openings by high-net-worth clients grew 50 percent year on year and this was up a further 30 percent in the first quarter. We are gaining momentum through a good cycle that includes existing clients introducing new clients to us.

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