FY2024/25 2Q Financial Results Conference Call Q&A

Date: November 1, 2024
Speaker: Takumi Kitamura, Chief Financial Officer, Nomura Holdings, Inc.

Q1: Japan ECM deals lifted revenues not only in Wholesale but also investment banking fees in Wealth Management. How sustainable is this? Wholesale also reported very strong revenues in AEJ partly due to the spike in volatility in China. What is your outlook for this?

A1: The ECM business in Japan has a solid pipeline, including high-profile deals. We have also been working to develop euroyen convertible bond issuances as rates rise. While competition is intensifying, we are closely communicating with clients to ensure there is no impact from the recent incident on us being selected as lead manager and we aim to execute our pipeline of deals. Demand to sell cross shareholdings remains strong.

Our AEJ business has traditionally centered on FX/EM and Credit. More recently, Equity Derivatives and International Wealth Management have helped diversify our revenue mix. In the second quarter, FX/EM improved from its previously challenging performance, while Equity Derivatives had a solid quarter. I wouldn't say there was no tailwind from the China stock market rally, but AEJ's strong performance comes down more to gaining the benefits of having a broader product coverage.

Q2: What internal discussions did you have around not doing a share buyback? Also, where are you at in terms of considering your CET1 ratio target range upper limit?

A2: Finalization of Basel III is next March and we are starting to see the impact of FRTB, etc., but we are also considering various opportunities so we decided not to do a share buyback this time. That doesn't mean we are excluding share buybacks as an option and we have committed to a total payout ratio of 50 percent or more so we will consider whether to do a buyback in the second half.

We will assess the impact of Basel III finalization and aim to set the upper limit of our CET1 ratio target range early next fiscal year.

Q3: By "considering various opportunities" do you mean investments?

A3: Wholesale performance is improving and we are considering allocating capital to Wholesale over the short-term. As mentioned previously, we will also pursue inorganic opportunities.

Q4: The US banks reported a 2 percent drop year on year in Fixed Income revenues, but you had a notably strong quarter with revenues rising 32 percent. What was behind your outperformance compared to your US peers?

A4: The main driver for us was revenue diversification. Securitized Products revenue remained elevated and we were able to monetize opportunities in FX/EM amid higher volatility in the second quarter. Client activity is also gradually returning to Rates, which had a challenging time last year, and we were able to monetize higher client flows in the Americas. This resulted in a marked improvement year on year allowing us to outperform our peers.

Q5: Could you please comment on the monthly revenue trends and the breakdown for Wealth Management? Also, how did the market shift in August affect you and how did you deal with it?

A5: July was the strongest month. August and September slowed due to market conditions.

We executed primary stock transactions in July, giving the strong results. While we saw some buying on the dip when the market dropped in early August, activity slowed after that. We spent time explaining to our clients so there's not much we could do about it.

In September markets remained directionless and trading volumes declined across markets including the Tokyo Stock Exchange.

Q6: How were Wealth Management revenues in October compared to July to September?

A6: Overall trading volumes were down in October so that has affected us, but we don't think revenues will decline too much.

Q7: Both Equities and Fixed Income had a strong second quarter. Have you seen any changes in October? If so, where?

A7: Rates and FX/EM in Macro Products were slow in October, while Securitized Products and Equities were robust. Investors are increasingly sitting on the sidelines with the US election coming up next week. But we think investor activity will pick up towards the end of the quarter.

Q8: Why did unrealized gains at American Century Investments (ACI) increase even though you are hedging? I assume it's due to interest rates and AuM growth, but if rates return to the previous level in the third quarter, could the opposite happen?

A8: One reason is that ACI's business is strong with solid inflows lifting assets under management. This is difficult to hedge, resulting in a gap. We are not 100 percent hedged for interest rate declines and this is another reason for the unrealized gain. Of course, if rates go back up the opposite could happen. But we are hedged and we will keep a close watch on how effective it is.

Q9: Which had more of an impact on the ACI unrealized gain—higher AuM or lower interest rates?

A9: We can't comment on the breakdown, but both factors had a meaningful impact.

Q10: Wholesale cost-to-income ratio declined to 83 percent. You said the quarter didn't include severance-related expenses, but could you discuss other operational efficiencies and progress in core cost reductions?

A10: Of the initiatives led by the Structural Reform Committee, 50 billion yen of cost reductions have been implemented and we are starting to see the benefits of this. For larger reductions such as transforming our operating model and upgrading our IT architecture, we are moving into the execution phase. Inflation, particularly in international markets, is putting upward pressure on costs and we will continue to stringently control our cost base.

Q11: You said Wealth Management contained costs, particularly non-personnel expenses. What specific cost reductions did you make and is there room for further cuts?

A11: Wealth Management is ahead of Wholesale in terms of cost control. We did a stock take of all our systems and expenses and got rid of what we no longer need. We have finished identifying items to cut to reach our 20-billion-yen cost reduction target and we are starting to reap the benefits.

We will now enter the next phase to review our overall cost structure. We are checking procedures and manhours for front and back-office operations and have started work on initiatives to transform our cost structure.

Q12: Can you maintain the Wholesale cost-to-income ratio at this level?

A12: Our cost-to-income ratio in the second quarter came in at 83 percent as we controlled costs and grew revenues. We will continue to control costs by transforming our operations and if we can maintain our revenue level, we believe we can achieve this cost-to-income ratio and lower it even further.

Q13: Why was net inflows of cash and securities strong again in the second quarter following the robust first quarter?

A13: The transformation of our Wealth Management business model contributed to it. We are also onboarding new clients, but in terms of volume inflows, the impact from existing clients was larger. We have reduced the number of clients handled by each Sales Partner, allowing us to provide a deeper level of service to each client. These clients hold significant assets and they are bringing in new funds as their satisfaction increases.

In addition, in the Workplace business we are working towards common KPIs for Wealth Management and Investment Banking. As interest in investing in human capital increase, our proposals match the needs of corporate clients, leading to new inflows. We are also expanding our alliances with regional banks where we are seeing steady inflows.

Q14: Why did the number of accounts with a balance and equity holding accounts increase so much quarter on quarter?

A14: Because accounts were transferred to Nomura Securities as part of the business succession of LINE Securities.

Q15: The rate of return when you divide recurring revenue by recurring revenue assets, seems to be trending up, even in last quarter. Why is that?

A15: Our product mix also has some impact. For example, when we book inflows into private assets and alternatives, our overall rate of return goes up.

Q16: Does recurring revenue increase in the second and fourth quarters due to seasonal factors?

A16: We receive some fees on a half-yearly basis, and this contributed to second quarter performance.

Q17: What is the driver needed to further accelerate the pace of recurring revenue asset growth?

A17: We want to further enhance our advisory services. We are shifting our business away from pursuing transactions to advising clients and managing their asset portfolio. By enhancing client satisfaction and increasing the trust clients place in us, we believe they will transfer more assets to us.

Q18: Am I right to say that your M&A strategy is focused on asset management? What is your missing piece? Large financial institutions are showing interest in alternatives and this space seems a bit overheated. What is your stance on this?

A18: Asset management remains one area. Nomura Asset Management is Japan's largest asset manager with a track record in managing foreign stocks, but it's focus areas are limited and there are many missing pieces.

Although we are interested in the alternative space, we are closely watching the fact that valuations are high. We will consider what opportunities are available in what areas and take that into account together with capital capacity.

Q19: Previously you mentioned that Wealth Management was winning more new clients, including from introductions by existing clients. That seems to have slowed recently. Is that just a temporary slowdown or have you come full circle on this?

A19: When it comes to winning new clients we are not needlessly focused on client numbers. We are looking for clients that want to work with us and that we can provide services to. By decreasing the number of clients handled by each Sales Partner, the amount of time they can spend with each client has increased, enabling us to provide more appropriate services. As our Sales Partners now have slightly more time, we have fostered a culture of going after new clients. This has resulted in significant growth in new accounts in the first half.

Q20: Does an industry leader like you have room to go after new clients? Can you substantially increase client numbers?

A20: While we have a certain level of client coverage, there is still potential for more. For instance, there are clients who just have an account and haven't moved any funds into it and clients who don't transact much. There is also the emerging wealth segment. We aim to increase our approach to clients who will build up their asset base going forward. The Workplace business is a market that holds a lot of potential.

6. The consolidated financial information in this document is unaudited.