FY2024/25 3Q Financial Results Conference Call Q&A

Date: February 5, 2025
Speaker: Takumi Kitamura, Chief Financial Officer, Nomura Holdings, Inc.

Q1: In Fixed Income, your peers have also reported strong performance in Securitized Products. What is your take on the sustainability of that strength? This business has to bear considerable regulatory capital and liquidity burdens; are you satisfied with the current level of profitability in your Fixed Income business?

A1: Securitized Products includes both origination and secondary trading. With the former, we work to limit our own holdings and recycle our resources, for instance by quickly selling off the products we have originated, and we are happy with the ROE on our Securitized Products. We have also diversified our portfolio beyond mortgage products to include CLOs, private credit products, and others as well.

On the other hand, we think that Rates Products is not yet living up its full potential, although its performance is clearly improving. We think there is room for us to deliver more upside going forward.

Q2: You have announced the sale of a real estate asset. From the standpoint of improving asset efficiency, what does your process look like for reassessing asset holdings like real estate or the stake in Nomura Research Institute that you sold off previously, and how often does this happen?

A2: On December 25, 2025, we will celebrate the 100th anniversary of our founding, and in 2026 we will complete the construction of our new corporate headquarters. The new site has space where we can conduct training, and based on current conditions in the real estate market and our aim of making effective use of our assets, we decided that the time was right to conclude an agreement to sell the property. As for our equity holdings in Nomura Research Institute and other affiliates, we have no plans at this time to adjust our holdings.

Q3: You explained previously that the geographic breakdown of income before income taxes on Slide 22 of the financial results presentation differs from the geographic breakdown of revenues in Wholesale, and you said that while Wholesale ROE was reasonably solid in the Americas, Europe has more to do. I'm assuming that the profit contribution from Laser Digital is included in the income before income taxes in Europe for 3Q, but I would like to know whether Wholesale ROE in Europe and the Americas has reached the division-wide pre-tax ROE target of 6% to 8%.

A3: The geographic breakdown of income before income taxes is presented on the basis of legal entities, and therefore differs from the measures of business performance that we normally go by. Income before income taxes in Europe came to 16.2 billion yen, which—as you suggest—includes a certain profit contribution from Laser Digital. There is still room for improvement in the Fixed Income business in Europe, but we are better positioned to generate revenues in that business now, in part because we have reshuffled our team there and in part thanks to relief from inverted yields. So the earning power of that business is trending up. In the Americas, the earning power of Wholesale looks quite solid.

Q4: I presume that the gain on the sale of real estate will be included in the source of shareholder returns, but it has not yet been determined whether the sale will go through in March or in April, and my understanding is that this is why the decision was made to announce only a commemorative dividend at this time. Can we expect to see share buybacks or some other form of additional shareholder returns when full-year results are announced, in keeping with the company's target of a total payout ratio of at least 50%? If the gain on the sale of real estate were to be booked in April, I suspect that the value of share buybacks for the current fiscal year might end up being lower than in the past, but might you consider taking the anticipated gain in April into account when making decisions about shareholder returns for this year?

A4: The commemorative dividend of 10 yen that we just announced is entirely separate from our normal shareholder returns, and there has been no change in our policy of targeting a total payout ratio of at least 50%. Although the timing at which the gain on the sale of real estate will be recognized is not yet certain, that gain will add to the pool for shareholder returns. We still have two months to go before the end of the fourth quarter, and we will be considering a range of options, including that of share buybacks.

Q5: The establishment of a new private credit investment trust was a reason for the growth in investment trust sales in Wealth Management in November. Can we assume that there will be some change in the volume of investment trust sales going forward as a result of a steady supply of private products, which differ in key profiles from the products offered to date?

A5: It is true that we are putting a lot of work into strengthening our private product offerings, and our clients seem to have become more familiar with them. However, it is not at all the case that we will offer more or less anything simply by virtue of it being a private product; we think that good product governance is essential. We select products carefully and then recommend them to individual clients in a manner tailored to their ability to invest and their risk appetite.

Q6: In Wealth Management, have your Sales Partners' sales activities been impacted by the tightened rules on client visits? Going solely by the flow revenue numbers, it looks as though there hasn't been an impact.

A6: As far as we can tell, there hasn't been that much of an impact on the business. Naturally, we have received some harsh feedback from some clients, but we have managed to maintain smooth communications with clients with whom we have developed relationships of trust, and it is thanks to the many clients who have stuck with us that we were able to produce the numbers you are referring to.

However, my understanding is that the tightened rules on client visits have had a slight impact on new client acquisition. We are committing ourselves totally to regaining the trust of our clients so that they may do business through us with full peace of mind.

Q7: Will you be able to maintain the cost-to-income ratio you have achieved in Wealth Management? Also, I see that the ratio in Wholesale has improved to 79%, but might the actual costs in yen terms increase going forward?

A7: In Wealth Management, the cost reductions we implemented early on are having a sustained effect now, and costs are being consistently controlled. We do need to overhaul our IT architecture, and that change will entail investments that could push up costs in the near term. However, these are to be initial investments made with an eye to future cost-cutting. Our aim is to keep overall costs in check as we work towards further cost reductions in the future.

In Wholesale as well, the cost-to-income ratio has come down to 79% through a combination of topline growth and cost controls. We intend to continue with cost controls that hopefully keep having a visible effect. However, our operations overseas are facing even more inflationary pressure than we are seeing in Japan, and while this may negate some of the effects of our cost containment efforts, we intend to keep at it.

Q8: About that overhaul of your IT architecture in Wealth Management—what time span are you looking at, and what sort of scale of investment?

A8: We plan to engage in some investment on a small scale in the coming fiscal year, but it should not show up on our P/L immediately, as we anticipate a timing discrepancy. At this time we are not making any public comments on the specific scale of the investment, but we will be paying attention to the bottom line as we proceed.

Q9: Revenue growth in the Americas in Wholesale looks exceptionally strong, but the geographic breakdown on Slide 22 shows a profit decline in the Americas. How should we interpret this?

A9: The geographic breakdown on Slide 22 is on the basis of legal entities; these are not the numbers for Wholesale. Also, valuation gains/losses related to American Century Investments (ACI) are included here. Those gains/losses made a positive contribution in 3Q, but the contribution was much smaller than in the previous quarter. When ACI is factored out, income before income taxes in the Americas increased significantly.

Q10: Could you explain the state of Investment Banking pipeline and the outlook for revenue in 4Q and in the coming fiscal year?

A10: The pipeline is still well stocked, particularly in Japan. The situation looks especially good for M&A and ECM. In Advisory business, recent changes in the environment have led to an increase in client activity, so the M&A pipeline in Japan is still robust, and we are seeing a steady build-up in the pipeline overseas as well. For as long as deregulation and tax reductions continue under the new Trump administration, we would expect there to be a positive impact on M&A activity. Our Investment Banking operations outside of Japan do not offer the full lineup of services, which means that our situation may not precisely track with the trend in the industry as a whole. That said, we intend to continue working to keep the pipeline filled. In ECM as well, the PO and IPO pipeline looks strong. The number of unwinding of cross-shareholdings has increased substantially this fiscal year, and we expect the trend to continue for some time.

Q11: How much of a contribution did Laser Digital make to profit growth in Europe?

A11: We are not disclosing specific numbers for Laser Digital, but the company took only a little over two years to turn profitable after first going into business in 2022, and we see it as a business with a lot of promise. We see the arrival of the second Trump administration as a tailwind for the business, and over the longer term we expect digital assets to become recognized as just one more conventional asset class.

While Laser Digital did contribute to profit growth in Europe, other businesses did as well, including Rates Products and other businesses in Wholesale.

Q12: The "Wealth Management total" number for net inflows of cash and securities is negative; does the recent incident have something to do with this? I also wonder if you could tell us why the number for "Retail only" declined.

A12: The "Wealth Management total" number for net inflows of cash and securities includes figures for corporate clients, which are somewhat erratic. The numbers for "Retail only" are the relevant ones here. At the "Retail only" level, the net inflows of cash and securities was positive in 3Q, and actually positive for the ninth quarter in a row. The quarter on quarter decline in the net inflows were partly the result of many clients choosing to wait on the sidelines in October ahead of the US presidential election and several other major events.

Q13: Could you discuss your present thinking on your plans for your own company's strategic shareholdings?

A13: We have been moving quickly to sell off our strategic shareholdings, and have already reduced them to the point that they only account for about 3% of our Tier 1 capital. Although we have set a reduction target for the number of names to cut from our list of equity holdings, and have been working our way towards achieving that target, selling off holdings of unlisted stocks for which there is no liquid market is a challenge, and getting to zero from here is no simple task.

Looking ahead, our intention remains to sell off equity holdings that are not strictly necessary.

Q14: Given how things are currently going, the 2030 ROE target of 8–10%+ looks a little low. Is there some reason why you have not raised the target? Or is there some precondition that needs to be met before you would raise the target?

A14: The 2030 ROE target of 8–10%+ is something we announced last May, and the thinking behind it is that we will strive to achieve an ROE of at least 8% even when conditions are unforgiving, by securing stable profitability. The top priority is to shore up baseline ROE through the accumulation of stable revenues and beef up businesses that generate recurring revenue, and in that way drive ROE higher. When conditions are more favorable, we aim to achieve even higher ROE—like this quarter's result in excess of 11%, or even higher than that.

Q15: Where do Laser Digital's profits show up in the segment data, and which headings do they fall under on your income statement?

A15: In the segment data they are counted at the "Others" line in the segment "Other", while on the income statement they are counted within "Other" under "Revenue" (*statement retracted and corrected*).