FY2024/25 4Q Financial Results Conference Call Q&A

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Q1: Performance in Equities looks OK relative to your US-based peers, but Fixed Income looks weak. Could you let us know what the month-by-month net revenue in Fixed Income looked like during the quarter, and also how things look as of now in April, not just in absolute terms but also relative to peers?

A1: As you stated, our performance in Fixed Income does look a little weak relative to our US-based peers. Differing product mixes are one reason for this. Our competitors have done well in Commodities, but we have no such business. We are in some sense resigned to this, as we have no plans to get into the commodities business. Also, in our case, Structured Rates and Agency Mortgages account for a large percentage of revenue from Macro Products, and these areas of business were a bit on the weak side. A second reason is our different geographic mix. Japan accounts for a large slice of our Fixed Income business, and the rise in JGB yields this past quarter made for some persistently tough conditions.

In the month-by-month view, our Fixed Income business secured about 40% of its net revenue for the quarter in January, then a little less than 40% in February, and then just a little over 20% in March. In March especially, there was a drop in liquidity as Japanese investors went into wait-and-see mode. In April, performance has been roughly in line with the monthly average for 4Q.

Q2: On the basis of the Basel III finalization standards, your CET1 ratio came to 14.5% at the end of March 2025. Assuming that the acquisition of the asset management businesses from Macquarie lowers this by close to 1.5ppt, and that your latest share buyback program lowers it by another 0.3ppt, this leaves you at about 12.8%. Is this a target level for you? I expect that you will present a target range for the CET1 ratio at next month's Investor Day, but was the latest share buyback program decided on with an eye to getting this ratio down to a little below 13%?

A2: The Basel standards have rules not just for the CET1 ratio but also the broader Tier 1 capital ratio and the capital adequacy ratio. Most of our capital is CET1 capital, and this did factor into our decision to buy back up to Y60bn worth of our shares. But it is not necessarily the case that we are targeting a CET1 ratio of just under 13%. We do plan to present a target range at the Investor Day, so please bear with us until then.

Q3: Money that had been concentrated in the US has begun flowing over to Europe. You said that you have been doing well in the US while having a harder time in Europe, but have you begun noting any shifts in trading activity? And have you started talking about perhaps adjusting your geographic allocations of resources?

A3: The ECB rate cut may have created a tailwind for business in Europe. At this point, we see no need to reallocate our resources in any major way, but it may be something we will have to discuss if the trend continues.

Q4: How did you arrive at the figure of Y60bn for the share buyback program? How much of that amount is to cover grants of restricted stock units (RSUs)? You explained that you are treating the commemorative dividend as separate from your usual shareholder returns, and the difference between your dividend payout ratio target and your total payout ratio target works out to 10%, or Y34bn in this case. Any buybacks beyond that would be a pure giveback to shareholders, so can we assume that up to Y26bn of the buyback is to acquire the shares to be granted as RSUs?

A4: We settled on Y60bn with reference to a variety of ratios related to capital and other items. The stock units to be distributed as RSUs are included within this Y60bn, but even when these factored out, we are still meeting our total return payout ratio target of 50% or higher. The breakdown is more or less as you understand it to be.

Q5: There have been some changes in the business portfolio, including the sale of the Takanawa Training Center and the acquisition of the asset management businesses from the Macquarie Group. Will there also be a rethink of the company's equity holdings in group companies, including the stake in Nomura Research Institute (NRI)?

A5: We have been proceeding with a dynamic reshuffling of various portfolio assets, but as of now we are not considering a change in our stake in NRI. Apart from that, there are other assets that we will need to take a look at.

Q6: I see that IT expenditures rose quarter on quarter in 4Q; was this a one-off, or will IT spending continue at this level?

A6: Many things are included within IT expenses, and there were numerous year-end factors involved in the increase as well. There was also an element of IT spending springing back up in 4Q after being lower in 3Q, and we are not expecting IT expenditures to continue at the 4Q level.

Q7: M&A and financial consulting fees rose again in 4Q after also rising in 3Q. Given that the activity in major deals seems to be settling down now in year-on-year terms, should we expect these fees to also come down?

A7: Japanese companies are still quite keen on M&A amid the increased attention being given to corporate governance. There are other factors that also make M&A more interesting for Japanese companies. The dollar-yen exchange rate, for example, topped 160 yen at one point, but has recently been at around 143 yen. And the pipeline overseas looks good. Of course, markets are looking uncertain now, and I understand that many of our clients are waiting on the sidelines until they see what ultimately happens with the Trump tariffs.

Q8: Could you let us know why investment trust sales were weak in March?

A8: February saw the launch of a large investment trust that invests in private infrastructure, but there were no comparable new products launched in March. Also, many of our clients went into wait-and-see mode amid the increased market uncertainty. That said, it is difficult times like these that bring out the best in our Sales Partners, so while the numbers may look a little weak, we are not at all pessimistic about the situation.

Q9: You said a moment ago that performance in April has been roughly in line with the monthly average for 4Q; was that in reference to Global Markets as a whole?

A9: Performance in Global Markets as a whole has been fairly steady in April, following the pattern observed in 4Q, with Fixed Income a little on the weak side and Equities a little on the strong side.

Q10: Could you let us know how the market turbulence and heightened volatility in April has affected flows? For instance, how do things look in terms of the risk of counterparty loss or losses on loan positions? What about the impact on risk assets?

A10: Since March, we have been more tightly managing our risks by taking very risk-off positions. The widening credit spreads still need watching, but thus far there has not been much of an impact.

Q11: Over the past several quarters, the cost–to-income ratio in Wholesale seems to have been influenced by the topline trend. Looking ahead, are you going to try controlling the ratio to 80% level? Please let us know your thoughts on the movements in the cost–to-income ratio in 2Q, 3Q, and 4Q, and what you expect from here out.

A11: The cost–to-income ratio came to 79% in 3Q and then 86% in 4Q, so there is plainly some room for improvement in terms of controlling the cost–to-income ratio. The ratio in 4Q was pushed up by growth in Execution Services—an area of business in which growth in revenue tends to be accompanied by a considerable increase in costs.

We see some room for cost reductions in areas such as market data, and we have already launched a variety of cost-cutting initiatives, although it will probably take a little time for the effects to start showing up in our financial statements. The measures we adopted earlier in Wealth Management are already showing up on the P&L, and the multiple transformation efforts now under way in Wholesale will need to start bearing fruit in a similar way.

Q12: The end-March number for Value at Risk (VaR) on Slide 19 looks quite low. Is this the intentional result of you adopting risk-off positions? Or was this market-driven? What was the judgment behind the change?

A12: It was the end of the fiscal year for us, and we chose to control our business activities quite restrictively in view of the market climate.

Q13: You have announced the acquisition of some asset management businesses; could you let us know more about your plans for the use of risk assets, including what the current pipeline looks like?

A13: We are discussing a range of options concerning the use of risk assets. The asset management business acquisitions announced this week were the result of a long period of internal debate, and as of now nothing else has been decided. We have already introduced the concept of self-funding within Wholesale, so if Wholesale were to embark on some new business, it would entail some reshuffling of the portfolio.

The asset management business acquisitions that we just announced are operations that manage public assets. Our expectation is that if we build up a robust franchise, we will be able to add private business to that as we go. We intend to use our risk assets whenever appealing opportunities arise in the future.

Q14: Has flow revenue in Wealth Management in April been similar to what you saw in 4Q? Or has there been a slowdown?

A14: As of now, it looks similar to 4Q. Some clients have been buying when the market falls, but because of the high level of volatility, overall activity has come down somewhat. But this is actually a useful opportunity for us to make the case for the effects of asset diversification, and since our clients have plenty of concerns of their own, this is a good moment for us to spend more time in dialogue with our clients and give them our solid support with their portfolios. By spending more time interacting with our clients now, we put ourselves in a good position to benefit when the market recovers.

Q15: Will the asset management businesses being acquired from Macquarie show up under business revenue in Investment Management?

A15: That is correct.

Q16: What is the current situation at American Century Investments (ACI)? Am I correct in thinking that you are hedged enough that there will be no more major swings in the investment gain/loss associated with that?

A16: We have a hedge in place to minimize swings in the investment gain/loss associated with ACI in either direction. This had an effect in 4Q. The hedge is effective in limiting changes in the valuation gains/losses stemming from market movements, so we expect less volatility than before. However, we cannot hedge against movements in some parameters internal to ACI, so we cannot bring the volatility all the way down to zero.

Q17: Net inflows of recurring revenue assets came to nearly Y1,400bn, well above your KPI target of Y800bn. You have said that flow business did poorly in 4Q due to market conditions, but 3Q appears to be the low point for net inflows of recurring revenue assets. Based on actual performance in the fiscal year just ended, are you planning to hike this year's KPI target to something higher than the current Y800bn?

A17: Net inflows of recurring revenue assets were strong in both 1Q and 2Q, and were also unusually strong in 4Q when excluding the Corporate section. So on the whole it looks good. Even during the recent market plunge, we were able to secure net inflows of assets in Wealth Management and Private Wealth Management segments. We attribute this to the solid progress we have made in truly reaching our clients through attentive dialogue with them. We are also pursuing net inflows of assets in the mass affluent domain through the provision of services that leverage digital technologies. We aim to hit even higher numbers across the division in the current fiscal year.

Q18: Is it correct that the proceeds from the sale of the Nomura International Center (Takanawa) are not reflected in the share buybacks and other shareholder returns announced today?

A18: The proceeds from the sale of the Nomura International Center (Takanawa) are going to be recognized in FY2025/26 1Q, so yes, these proceeds are not part of the funding for the shareholder returns announced today.

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