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Nomura Holdings, Inc.

Company Profile

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ABOUT DATAMONITOR

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COMPANY OVERVIEW

Nomura Holdings (Nomura) is a holding company, providing financial services such as security brokerage, investment banking, asset management and merchant banking services through its various subsidiaries. The company has operations in 30 countries including Japan, the US, the UK, Singapore and Hong Kong. It is headquartered in Tokyo, Japan and employs 26,374 people.

The company recorded revenues of JPY1,150,822 million ($12,417.4 million) in the financial year ended March 2010 (FY2010), compared to JPY312,627 million ($3,373.2 million) 2009 (FY2009). The operating profit of the company was JPY105,247 million ($1,135.6) million) in FY2010, compared to an operating loss of JPY780,265 million ($8,419.1) million) in FY2009. The net profit was JPY67,798 million ($731.5) million) in FY2010, compared to a net loss of JPY708,192 million ($7,641.4 million) in FY2009.

KEY FACTS

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Web Address	http://www.nomura.com
Revenue / turnover (JPY Mn)	1,150,822.0
Financial Year End	March
Employees	26,374
New York Ticker	NMR
Tokyo Ticker	8604

SWOT ANALYSIS

Nomura Holdings, through its subsidiaries, provides financial services such as security brokerage, investment banking, asset management and merchant banking services. The company has utilized its dominant position to offer high value added products and services. However, increasing competition and economic slowdown in Japan are likely to affect the company's revenues and market share.

Strengths	**Weaknesses**
Enhanced platform and dominant position in the Japanese securities market Reduced exposure to illiquid assets helped turnaround at global markets division Strong capital levels and robust liquidity profile help withstand adverse market developments	Although improving, risk management structure is still weak Continued negative cash flows from operating activities
Opportunities	**Threats**
Acquisitions and alliances could help arrest the decline in revenues and profits Entry into new markets may offset declining growth in matured markets Positive prospects for asset management industry	Intense competition in Japanese financial industry could reduce market share of the company Economic slowdown in Japan likely to affect business volumes Increasing regulatory challenges and cost of compliance

Strengths

Enhanced platform and dominant position in the Japanese securities market

Nomura is Japan's largest securities company. As of end March 2010, it had JPY73.5 trillion or $0.8 trillion (JPY59.3 trillion or $0.8 trillion at end March 2009) retail client assets. At end March 2009, the company's market share in Japanese retail client assets was 35.7% and its market share is estimated to be around 36% at end March 2010. Nomura has a strong market position in many of its market segments in Japan. Nomura is consistently one of the top companies in Japan in wholesale securities brokerage, underwriting, and advisory, with a strong track record, especially in IPOs and financial advisory services. At the end March 2010, the company had a market share of 9% in Japanese Government bond auctions; and 11% market share in secondary bond trading in Japan. Nomura's market share in Japanese IPOs was 39% at end March 2010. Since 2009, the company's new platform allowed it to expand decisively from its historic Japan focus to a market that includes all of Europe and Asia-Pacific, which is over four times larger. Enhanced platform and dominant position in the Japanese securities market enables the company to be a price leader.

Reduced exposure to illiquid assets helped turnaround at global markets division

Nomura's global markets division achieved turnaround in its performance in FY2010. In FY2010, the global markets division recorded revenues of JPY658,441 million ($7,104.6 million), compared to net revenue expense of JPY157,254 million ($1,696.8 million) in FY2009. Nomura turned around global markets division's performance by reducing its exposure to illiquid assets that primarily caused losses in FY2009. Moreover, in FY2010, Nomura saw positive results from its expanded business platform following the acquisition of certain Lehman Brothers operations in October 2008. In addition to growth in client equity and fixed income trading in Japan, the company also saw an increase in such businesses in both Europe and Asia. In the equity business, Nomura expanded its client franchise by enhancing services related to European and Asian equities in addition to its existing Japanese equity-related business. Moreover, in FY2010 Nomura became a Primary Dealer in the US. Reduced exposure to illiquid assets should sustain profitability of Nomura's global markets division in FY2011 and beyond.

Strong capital levels and robust liquidity profile help withstand adverse market developments

Nomura's capital levels and liquidity profile improved in FY2010 when compared with FY2009. In October 2009, Nomura raised JPY435.5 billion ($4.7 billion) through issuance of common shares in a global offering. As a result, total equity as of March 31, 2010 was JPY2.1 trillion ($22.7 billion), an increase of JPY581.5 billion ($6.2 billion) compared to March 31, 2009. Total qualifying capital as per Financial Conglomerate Guidelines in Japan increased from JPY2,257 billion ($24.4 billion) at end FY2009 to JPY2,805.9 billion ($30.3 billion) at end FY2010. Tier 1 ratio rose from 11.7% at end FY2009 to 17.3% at end FY2010. The company's liquid assets rose from JPY1,203.9 billion ($13 billion) at end FY2009 to JPY3,908.8 billion ($42.2 billion) at end FY2010. Strong capital levels and robust liquidity profile help the company withstand adverse market developments.

Weaknesses

Although improving, risk management structure is still weak

Nomura's risk management structure, although improving, is still weak when compared to global peers present in Japan. A majority of Nomura's executives, who are directly or indirectly responsible for risk management activities, lack sufficient experience in risk management activities. A case in point is the company's losses due to its exposure to illiquid assets during subprime crisis and the management's inability to unwind such portfolios even after coordinated capital infusing actions by governments across the globe. Since the company's business is becoming increasingly international as the company is expanding its global footprint, the need to tighten risk management structure is all the more pressing.

Continued negative cash flows from operating activities

Nomura cash flows have been negative for the last six years (2005-2010). Net cash used by operating activities rose from JPY360,780 million ($3.9 billion) in 2005 to JPY1,500,770 million ($16.2 billion) in 2010. Continued negative cash flows from operations has constrained the company to depend more on financing activities and also cut back its investments in order to generate cash and cash equivalent assets. For instance, cash raised through financing activities rose from JPY198,017 million ($2.1 billion) in 2005 to JPY2,176,530 million ($23.5 billion) in 2010. Continued negative operating cash flows accentuate the need to increase long term borrowing which could become costlier as the need for global corporate refinancing is increasing at a rapid pace.

Opportunities

Acquisitions and alliances could help expand revenues and profits

Nomura has been expanding its geographic reach and strengthening its business division through acquisitions and divestitures. Major recent acquisitions include Instinet (2007), a stake in Calliva Group (2007), Lehman Brothers' Asia Pacific franchise, equities and investment banking businesses in Europe and the Middle East, and its specialized service companies in India (2008), and NikkoCiti Trust and Banking Corporation (2009). In December 2009, Nomura Holdings, an investment bank, announced that it is acquiring Tricorn Partners, a UK-based corporate finance advisory firm. The acquisitions have strengthened Nomura’s wholesale and investment banking businesses and expanded its global capabilities. Acquisitions and alliances could help Nomura expand revenues and profits.

Entry into new markets and new license wins may offset declining growth in matured markets

In the last two to three years, Nomura has increased the pace of its entry into new markets. In March 2007, Nomura opened an office in Moscow, Russia. With the launch of Nomura (CIS) Ltd, Nomura expanded its reach in the EMEA region to 14 offices in 13 countries. Nomura announced that it will provide a full range of investment banking products and services to its clients in Russia. The company's unique positioning as both the leading Asian investment bank and one of the largest global investment banks is expected to help the company gain quick traction in Russia. Entry into Russia is expected to drive up the business in CIS countries. In May 2008, Nomura received Saudi Arabian securities business licence. The licence will enable Nomura to conduct capital markets, corporate finance and wealth management activities, as well as deal as an agent for overseas securities. This is the first time an Asian securities firm has been authorized in the Kingdom of Saudi Arabia. Nomura has numerous long-standing client relationships with Saudi government bodies, financial institutions, corporates and private investors. Entry into Saudi Arabia will enable the company to capitalize on opportunities in corporate finance advisory and capital markets activities in that country. In February 2009, Nomura was granted a banking license by the Dubai Financial Services Authority to provide investment banking and capital markets services from the Dubai International Financial Centre. In FY2010 Nomura became a Primary Dealer in the US. Entry into new regions and new license wins could help the company offset the decline or stagnant conditions in developed markets.

Positive prospects for asset management industry

The global asset management industry has been growing at a fast pace driven by the increasing demand for fund management services for private individuals. The global asset management and custody banks sector grew by 19% in 2007 to reach a value of $72,470 billion representing a compound annual growth rate (CAGR) of 13.3% for 2003-2007. The compound annual growth rate of the industry during the period 2007-2012 is expected to remain at 9.9%. This growth is expected to drive the sector to a value of $116.1 trillion by the end of 2012. The main factors driving this growth would include the need for private individuals to make provision for their pension requirements. The asset management of the company is carried out through its subsidiary, Nomura Asset Management. In addition to Nomura Asset Management, the company also conducts its asset management business through Nomura Corporate Research and Asset Management (which manages bonds and loans in the US); Nomura Funds Research and Technologies in Japan; Maintrust KAG in Germany; Nomura Funds Research and Technologies America in the US; and Private Equity Funds Research and Investments. TPositive prospects for asset management industry props up Nomura's prospects for revenue expansion.

Threats

Intense competition in Japanese financial industry could reduce market share of the company

The Japanese financial industry is highly competitive. The company encounters significant competition from commercial banks, commercial bank- owned securities subsidiaries and non-Japanese firms. Nomura faces intense competition in terms of price, particularly in brokerage, underwriting and other business, in terms of delivery of value-added services to customers, such as corporate advisory services. The company competes with competitors having larger volumes of business and greater financial resources than those of the company. The company competes with players such as Citigroup, Deutsche Bank, Mitsubishi UFJ Financial Group and Mizuho Financial Group. High level of competition in the market place could erode the market share of the company.

Economic slowdown in Japan likely to affect business volumes

The group generates majority of its revenues from the Japanese market. In the FY2009, IMF has indicated that the world GDP will grow by 3.9% in 2010 and 4.3% in 2011. IMF has indicated upward revisions to US and BRIC nations, but the growth rate of Japan in 2010 was left unchanged and the 2011 forecast was actually trimmed by 0.2% points. In 2010, Japan's economy is expected to recover only one-third as fast as the global economy, and half as fast as the world economy in 2011. The Bank of Japan (BOJ) most recent medium-term outlook is even more cautious than the IMF's growth forecast. The BOJ is looking for 2010 Japan GDP growth of 1.3%. Economic slowdown in the region could affect business volume and financing facilities of the group.

Increasing regulatory challenges and cost of compliance

Reform of financial services industry remained a high priority for many governments 2009 through first half of 2010. Meetings of the G20 formed the backbone of inter-governmental discussions to ensure a coordinated and consistent response. Targets and benchmarks for national authorities have been set by the G20, while the revitalised Financial Stability Board has been given responsibility for overseeing their implementation. The directions of financial services industry regulatory reforms suggest that cost of compliance is likely to increase in 2010 and beyond. Moreover management's time spent on regulatory issues is likely to be higher than it had been so far. As a result, profit margins for banks are likely to be suppressed.