

From Strength to Strength

By Shozo Hochi

Nikko Securities Co. Chairman Shoji Umemura outlines some of the moves the giant company is making to stay competitive in an increasingly globalized market. Hiring engineering graduates, establishing an on-line system worldwide and acquiring banking licenses are among the methods Nikko has adopted.

Question: *Would you please give us a general outline of Nikko Securities Co., and how your company is positioned in the Japanese securities market?*

Umemura: Nikko was established in 1918, so next year will be our 70th anniversary. The company is capitalized at ¥72.9 billion; our net worth including the assessed value of our stockholdings is ¥565.8 billion. We have 10,382 employees in all—3,968 men and 6,414 women. We have 106 branches in Japan, as well as five offices in North America—in New York, Los Angeles, San Francisco, Chicago and Toronto. In Europe we have seven—in London, Hamburg, Zurich, Geneva, Paris, Luxembourg and Copenhagen. We'll shortly open offices in Milan and Madrid. There are four more offices in Asia and Oceania—one each in Hong Kong, Beijing, Qingdao and Sydney. We also have an office in Bahrain, giving us 125 offices at home and abroad. In the business term ending in September 1986 we had operating profits of ¥457.1 billion (about \$2.95 billion at the rate of ¥155/\$) and pretax current profits of ¥195.8 billion (\$1.26 billion). We rank third among Japanese securities firms in capitalization, second in net worth and third in earnings.

Q: *Internationalization and liberalization are proceeding at a high pitch in the financial and capital markets of the industrialized countries. What are Nikko's goals?*

A: In 1986, 14 foreign securities companies entered the Japanese market. That makes a total of 36 foreign firms doing business in this country. The number

should reach 50 in the near future. Naturally, that means fund flows between Japan and other major financial and capital markets will expand. Eventually they will be integrated into one vast world market. This trend toward the globalization of financial and capital transactions will likely strengthen as a result of the 24-hour trading that operations in Tokyo, London and New York make possible. Our aim in all of this is to develop Nikko Securities as an integrated international financial corporation.

To achieve this aim we maintain our extensive network of branches and offices at home and abroad. They enable us to meet the fund management and procurement needs of our customers—both residents and nonresidents—not only in Japan but in the financial and capital markets of other major countries. The base of our operations in North America is in New York, and in Europe, London.

Q: *How many of your employees are assigned abroad?*

A: Our international division has 165 employees in overseas offices, and another 128 in Japan. There are also 548 people whom we have hired overseas. In all, a total of 841 employees is engaged in international operations.

Q: *What are these operations exactly?*

A: The first is brokering for overseas customers, nonresidents, who wish to invest in Japanese stocks and bonds. Second, we handle outward securities investments by Japanese customers, or residents. Third, we help Japanese corporations, or corporate residents, raise funds both at home and abroad. And finally, we handle international fund raising by nonresident overseas customers, as well as assisting their international fund management using securities.

We also provide international investment consultant services, assist in listing foreign companies on the Tokyo Stock Exchange (TSE) and facilitate mergers and acquisitions.

Q: *What do you emphasize most in Nikko's globalization strategy?*

A: One of our aims in New York is to strengthen the foundations of our bond business in the U.S., and to expand our U.S. treasury bond underwriting and dealing business in cooperation with our offices in Tokyo and London. To do so, we need to be licensed as a primary dealer in the U.S.

Second, we need to obtain a banking business license in London. This is essential if the Nikko group is to get into the banking business there. We also need this license to expand the underwriting, dealing and related secondary services offered by Nikko, Europe, based in London. I hope we will be granted the license in the near future.

Third, we are trying to expand our operations in undeveloped regions that have great potential for growth, such as Oceania, Hong Kong and ASEAN.

In short, we need to strengthen our position worldwide. In addition to New York, London and Hong Kong, where we are already strong, we need to become first-rate securities dealers in other areas. We must be no less competitive than the foreign dealers who are now expanding into Japan. With that in mind, we are trying to strengthen our overall fund position, improve our network of branches and offices at home and overseas and expand our telecommunications facilities.

Q: *Last year Nikko was the lead manager for a number of foreign companies who had their stocks listed on the TSE. Can you tell us about those companies?*

A: We acted as lead manager for six firms in all last year—Barclays Bank of Britain, RJR Nabisco, U.S. West Management, Exxon and Eli Lilly of the U.S. and Royal Trust Bank of Canada. Their stock prices have been doing well. Japanese stockholders are increasingly interested in foreign stocks these days, and institutional investors are also starting to include foreign stocks in their portfolios. Our sales people have been making comprehensive studies of this growing demand for the globalization of financial instruments.

Q: How is Nikko doing in foreign bond underwriting?

A: About \$130 billion worth of capital flows out of Japan each year. Much of this capital is going into U.S. government bonds and securities investments. Of course, a lot is being used for corporate finance. Bidding for U.S. treasury bonds is done in units up to several billions of dollars at a time. In some cases, each of Japan's four largest securities companies has made successful bids of \$1 billion. Recently Nikko won a bid for \$700 million to \$800 million. Japan's big four firms are too important for the U.S. federal reserve banks to make light of. Moves by these firms now often directly affect bond quotations.

Q: Which foreign securities exchanges does Nikko belong to?

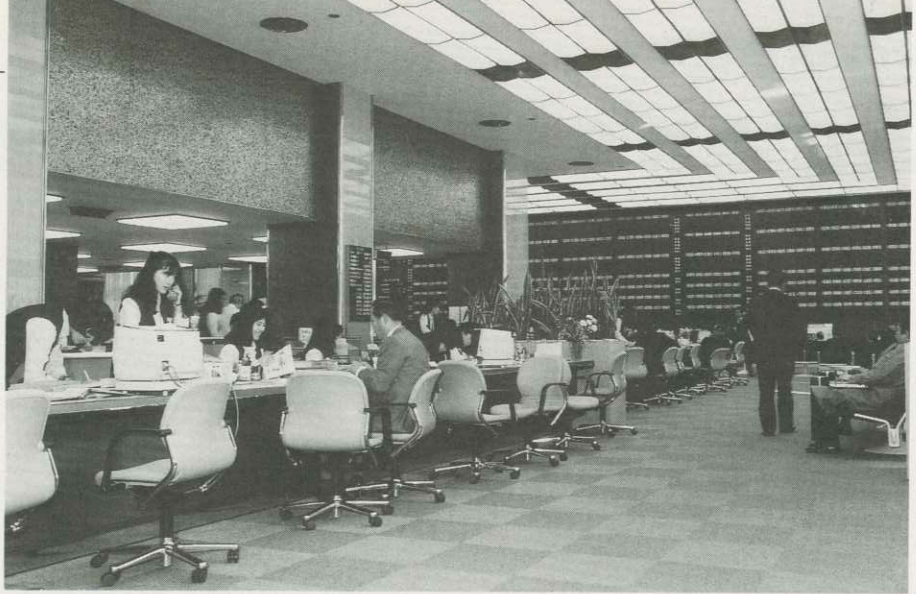
A: In North America we are already members of the exchanges in Boston, on the Pacific coast, in New York, Chicago and Toronto. In Europe we have memberships on the London, Frankfurt and Luxembourg exchanges. In addition, we also have obtained memberships on the Hong Kong and Singapore exchanges.

Q: You mentioned that Nikko has applied for a license to be a primary dealer on the New York Stock Exchange. When do you expect it to come through?

A: Our application was accepted last April. Since then we have met the requirements for a so-called aspiring dealer every month by clearing the required level of securities dealings in the U.S. market. However, this also involves the question of reciprocity, which is linked to foreign membership on the TSE. It's our impression that approval has been delayed somewhat because of the political ramifications involved, but we will be approved around June this year.

Q: Nikko has many foreign customers investing in Japanese stocks. Can you tell us more about this investment?

A: Foreign investors in Japanese stocks often account for as much as 20% of total turnover. Normally, though, their share is around 10%, for an average of 15% overall. Through the first half of the 1970s oil dollars were behind most of the investment. Now institutional investors from America and Europe are the main players. Last year foreign purchases of Japanese stocks exceeded sales by about ¥1 trillion. The main reason was that foreign investors changed their holdings of convertible bonds issued by Japanese corporations on the Euromarket into equities. And they made huge profits in the stock markets thanks to the sharp rise of stock prices and the 40% to 50% appreciation of



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the yen. The scale of trading by foreign investors was up sharply last year from 1985 levels.

Q: When do you expect to get a British banking license?

A: We obtained our membership on the London exchange in November 1986. I think we'll get our banking license in the not-so-distant future. The London market is expected to be liberalized quite rapidly after the "Big Bang."

Q: The Big Bang has ushered in an age of global trading centering on the three largest markets, London, Tokyo and New York. How is Nikko trying to cope?

A: We're already moving ahead in personnel assignment and training within our existing system of operations. We're also scheduled to spend ¥20 billion to expand our communications network over the next few years. With our existing network we can send information directly from the head office to London, Frankfurt, Geneva and Bahrain. Now we'll concentrate on building a network that will allow us to digest immediately in London and Tokyo what we take in in New York.

Q: Your head office has hired large numbers of university graduates with degrees in engineering. Why is that?

A: Engineering graduates are strong in computer software. So they're good at work that involves precise calculations, such as developing new financial instruments, or swaps and interest rate fluctuations. We hire about 300 to 350 university graduates each year, and of these newcomers, 40 to 50 are engineers. They certainly have a large role to play.

Q: Nikko is also very aggressive about developing an on-line system. What are your plans for that?

A: We're working to improve and expand our new sales and administrative organizations at home, and to integrate

clerical work in our branches and offices. In addition, we plan to commit a large amount of capital and software to global trading operations.

Q: In April 1986 a law concerning investment consultant services took effect in Japan. Beginning in April this year, full-dress consulting services are due to start for both domestic and overseas customers. What is Nikko doing in this area?

A: We already have an independent international consulting firm that has about ¥1 trillion worth of assets in its custody. The company has a staff of about 100, and is ready to cast off its status as a registered consultant and make a new start as a full-fledged consultancy capable of managing assets for foreign investors. There is a serious need for such services both at home and abroad. So this is a new field of business in which we anticipate high growth. The firm has tied up with Barra Corp. in the U.S. and is in a position to provide the best possible services by means of the Modern Portfolio Theory, patented by Barra, which uses the average stock price index of 1,000 companies listed on the TSE.

We at Nikko are trying to meet the comprehensive and diversified needs of our customers in every field as an integrated international financial corporation. Our moves in the American market are aimed in part at funneling abundant Japanese funds into investments in U.S. stocks. They are also an integral part of our efforts to make full use of the 24-hour system in global trading. That trading will enable us not only to divert more funds to the American market but also to defuse risk through investment diversification and to promote sales of American and European equities in Japan. We're prepared to do even more to play a positive role in this expanding field. ●