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Nomura Stumbles in New Global Push

By ALISON TUDOR

(See Corrections & Amplifications item below.)

TOKYO -- Japanese brokerage firm Nomura Holdings Inc. kicked off a training session for new hires in April by separating the men and women. The women, including Harvard graduates hired by Lehman Brothers before it collapsed, were taught how to wear their hair, serve tea and choose their wardrobes according to the season, say executives who fielded a complaint about the session.

Sebastian Mayer for The Wall Street Journal

Ever since Nomura acquired Lehman's international operations last September, cultural and business differences between the two organizations have loomed large. There has been tension over executive compensation, how quickly decisions are made and treatment of women in the workplace.

Nomura has been laboring to integrate the two organizations, but it has been difficult, particularly in investment banking. A number of former Lehman bankers have jumped ship, and more departures are likely after the next round of bonus payments are made.

On Tuesday, Nomura informed executives that Jasjit "Jesse" Bhattal, former chief executive of Lehman's Asian arm, will step down as chairman of Nomura's Asian operations outside of Japan at year end. He will be the most senior former Lehman executive to leave his job since the acquisition. Mr. Bhattal couldn't be reached to comment.

Nomura Wednesday disclosed an 11.42 billion yen (about \$121 million) profit for its fiscal first quarter ended June 30, its first profit in six quarters, defying analyst expectations of a loss. The firm cited growth in commission revenue on more brokerage orders and increased demand for investment trusts. Revenue jumped 41% to 363.60 billion yen.

Nomura had been trying for decades to expand abroad, with limited success. Before the Lehman deal, its top executives were concerned about its vulnerability to takeover as an independent domestic brokerage firm.

"If we were a 100% domestic house, we would make a very good meal for either a Japanese megabank or, more importantly, anybody who counts in the

international arena," says Takumi Shibata, who became Nomura's chief operating officer in March 2008 with a mandate to transform the company.

In addition to acquiring Lehman's operations in Europe and Asia, Nomura has been beefing up its U.S. presence. Its previous forays into the U.S. market have been disappointing. In the 1990s, it got into the business of securitizing U.S. commercial-property loans, only to take a \$600 million hit a few years later. In 2007, it said it was closing its New York mortgage-backed-securities business.

In recent months, however, as many American investment banks retrench, Nomura has gained some traction. In the wake of the financial crisis, big U.S. money managers have been looking to build deeper relationships with commercial banks and non-U.S. firms, Nomura executives say.

On Monday, Nomura Securities International Inc. was named a primary dealer for Treasuries by the Federal Reserve Bank of New York. Earlier this month, Ciaran O'Kelly joined the firm from Bank of America Corp. to lead its push into U.S. equities. Nomura also is recruiting heavily for its U.S. fixed-income and investment-banking divisions. Its total U.S. head count is now 855, up from about 650 in September.

"Nomura is more international-minded than its Japanese banking peers, but there is still a gulf between it and Western investment banks," says Hiroyuki Ozaki, a professor of finance at the Tokyo University of Technology and a former Nomura banker.

Cross-border Challenge

Lehman's international operations went on the block after its parent company sought Chapter 11 bankruptcy protection on Sept. 15. For Nomura, the timing looked good. Wall Street firms were in trouble, and the Japanese economy appeared to be relatively insulated from the crisis. Nomura paid \$225 million for Lehman's Asian arm and just \$2 for its European one. It stood to gain an immediate leg up in the global investment-banking rankings, plus access to hedge-fund trading clients.

But cross-border acquisitions are difficult to manage, especially in finance, where the key assets are people. After Credit Suisse First Boston bought Donaldson Lufkin & Jenrette Inc. in 2000, for example, many of the U.S. firm's bankers quit.

What Nomura bought last fall, in large part, was 8,150 of Lehman's employees. Dozens of bankers left almost immediately, former Lehman executives say. Lehman's European co-head of investment banking, Alexis de Rosnay, for example, became vice chairman of Lazard International, where he has since advised companies on several big deals. Riccardo Banchetti, Lehman's co-CEO for Europe, and Brian O'Connor, who sat on Lehman's executive committee in

Asia, also left. Some Lehman bankers say they worried that, because Nomura hadn't also purchased Lehman's U.S. operations, it would be harder to do deals in the U.S.

In an effort to hang onto Lehman bankers, Nomura guaranteed their bonuses at top-of-the-market levels for up to two years, Nomura executives say. The pay packages diverged from Nomura's usual practices. At Nomura, a division head might be paid \$250,000 a year, while at Lehman, such a person might earn tens of millions of dollars, according to people familiar with the pay levels. A Nomura spokeswoman declined to comment on pay.

Nomura says staff compensation hit 161.8 billion yen for the three months ended Dec. 31, up from 80.1 billion yen in the prior quarter. This doubling of labor costs hit Nomura hard as financial markets fell.

The pay differentials stirred resentment. "We should renegotiate the Lehman bankers' pay," says one senior banker who has been with Nomura for more than two decades.

The financial crisis began eating into revenues at both operations, reducing investment banking fees at Lehman and brokerage commissions at Nomura. The Japanese economy slipped into recession.

Last fall, to reduce costs, Nomura started laying off people – something that Japanese firms, over the years, have been reluctant to do. Japanese bankers had come to expect lifelong job security and steady promotion in lock step with their age.

"As the business opportunities shrink, the appropriate size of the organization should also shrink," says Mr. Shibata, the chief operating officer. "We don't love it, but that is our only choice."

Between October and March, global head count fell by 2,100 to 25,626, Nomura says.

Lehman bankers encountered a different work culture at Nomura. One team of Nomura traders, for instance, sang a company song at morning meetings.

Asked about the training sessions for new hires, a Nomura spokeswoman said that both sexes were taught business etiquette, and the men and women were trained separately for logistical reasons.

Some Nomura managers interpreted strictly the company's dress code for women. They told women joining from Lehman to remove highlights from their hair, to wear sleeves no shorter than midbicep and to avoid brightly colored clothing, according to several people who joined from Lehman. Several women

were sent home from the trading floor for dressing "inappropriately," these people say.

"I was sent home for wearing a short-sleeve dress, even though I was wearing a jacket," says one woman who says she plans to leave as soon as she receives her final guaranteed bonus payment.

Nomura's human-resources department changed some women's email addresses to their married names, from their maiden names, without asking which names they used professionally, according to the people who joined from Lehman.

The Nomura spokeswoman says the dress code is displayed on the company's intranet and is intended to ensure that clients and colleagues don't feel uncomfortable. The email addresses were changed because of a problem during the transition process, she says, adding that she doesn't know whether the complaints about them have been addressed.

Integration Efforts

Nomura has been trying to meld the two cultures. In Europe and in Asia outside of Japan, Nomura's offices are filled with a mix of nationalities. The company has promoted a handful of non-Japanese employees to high-ranking positions, including Tarun Jotwani, who was appointed global head of fixed income. To reduce the Tokyo-centric nature of the company, Hiromi Yamaji, head of global investment banking, moved to London, and Naoki Matsuba, global head of equities, moved to New York.

"Heads of global lines were always Japanese and lived in Japan," says Sadeq Sayeed, Nomura's chief executive of Europe, Middle East and Africa. "Mr. Yamaji, Mr. Matsuba and Mr. Jotwani broke the mold." Nomura's executive committee, however, is still made up exclusively of Japanese men.

Nomura set up a transition team that fanned out around the globe to help with integration. Senior investment bankers from the Lehman side started to complain about their "shadows," bankers from the Nomura side who would accompany them to client meetings and report back to other executives, according to Lehman-side bankers. The Nomura spokeswoman says those bankers were helping with the integration.

Bankers from the Lehman side say they found the process of getting approval for deals in which Nomura put its capital at risk to service clients was slower and more difficult than it was at Lehman. When more than one investment-banking client surfaced at the same M&A auction, there were disagreements about which one to advise. Lehman used to categorize clients in large part according to the

fees they paid. Nomura places more emphasis on other factors, such as length of the relationship.

Bankers from the Nomura side, on the other hand, say their new colleagues were too willing to dump loyal clients for a quick profit.

Nomura concluded that it had to upgrade its back-office infrastructure and rebuild systems outside of Japan to handle the greater volume of trading generated by the Lehman operations. Former Lehman banker Rachid Bouzouba, the head of Nomura's equities division in Europe, Middle East and Africa, likens the challenge to being a cashier in a corner shop and suddenly having to handle the daily volume of U.S. retailing giant Costco.

Hundreds of traders idled away time waiting for the new systems to get up and running, according to bankers in both operations. As financial markets started to recover early this year, Nomura was still not fully ready to take advantage, these bankers say.

Nomura has said it aims to cut costs by 10% in the current fiscal year. Layoffs have continued, including 50 investment bankers in Asia in April, according to people familiar with the situation. So have defections. In Europe, about 100 former Lehman employees have left of their own accord since April, says the Nomura spokeswoman.

In recent months, Nomura's financial health has improved, boosted by a pickup of business in Japan and increasing contributions from Europe. Mr. Bouzouba's equities team was ranked third by the London Stock Exchange in terms of value of shares traded as of June 30, up from 82nd in December. Prior to its collapse, Lehman had the top spot.

Some ex-Lehman bankers say they are still nervous. The final installments of their guaranteed bonuses are due Oct. 1, and for a select few, again on March 1, 2010, they say. After that, they fear their bonuses will fall significantly.

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Corrections & Amplifications

One participant of an April training session for new women employees of Nomura Holdings Inc. was a graduate of Harvard University, according to a person familiar with the matter. This article about Nomura incorrectly said that more than one participant graduated from Harvard.