

# **Outlook for FY16–17 corporate earnings**

## Quarterly Update

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# Summary and major assumptions

## Overview of FY15 corporate earnings

In this report, we collate and analyze earnings forecast data issued by our analysts. In FY15, sales at companies in the Russell/Nomura Large Cap Index (ex financials) fell 0.4% y-y, while recurring profits rose 1.5%. Compared with our previous estimates issued in March 2016 (based on data collated on 21 February 2016), these growth rates are 0.8ppt lower for sales and 5.7ppt lower for recurring profits. The absolute value of FY15 recurring profits undershot our previous estimate by ¥1.9trn, a large undershoot but roughly the same as the downward revision made at the time of our previous estimate. Over full FY15, USD/JPY was 120.0 and EUR/JPY was 132.5, versus our previous assumptions of 120.5 and 132.5 respectively, and the WTI price was \$45.0/bbl, versus our previous assumption of \$44.1/bbl.

In FY15 Q4, sales at companies in the Russell/Nomura Large Cap Index (ex financials) fell 5.2% y-y as recurring profits decreased 26.5%. In FY15 Q1, the most recent peak, recurring profits rose 28.2%. Since then, within the space of only three quarters, y-y growth in recurring profits has dropped sharply, by as much as 54.7ppt. FY14 Q4 earnings were weak, partly reflecting settlement-related payouts at some pharmaceutical companies and resource-related losses, but earnings were much weaker in FY15 Q4. After-tax profits fell 50.5% in Q4 and accounted for a mere 8.7% of full-year after-tax profits.

The rate of decline in sales also accelerated further in FY15 Q4. The impact of declines in corporate goods prices, which partly reflected the fall in crude oil prices, eased slightly, but the yen switched from a weakening trend to a strengthening trend versus the US dollar. Nevertheless, the substantial decline in profits was to a large extent due to impairment losses at trading companies and if we exclude financials and trading companies the y-y decline in recurring profits in FY15 Q4 was only 11.1%. The revision index for FY15 forecasts is -10.1%. FY15 earnings came in lower than our forecasts for more than half of all companies, but not for an overwhelming majority. We think this indicates that a relatively small number of companies dragged down the overall figures in FY15 Q4.

## Overview of the FY16 corporate earnings outlook

For FY16, our analysts are expecting sales to fall 1.8% y-y but recurring profits to rise 2.9% at Russell/Nomura Large Cap Index (ex financials) companies. These latest forecasts represent downward revisions of 2.4ppt for sales growth and 4.3ppt for recurring profit growth versus our previous forecasts. For the absolute value of recurring profits, the downward revision is ¥2.3trn, or 6.4%. Our forex assumptions for FY16 are USD/JPY of 108.0 (previously 117.0) and EUR/JPY of 123.0 (previously 127.0). Our WTI assumption is \$40.0/bbl (\$30.0/bbl). Assuming that the yen will be ¥12 stronger versus the US dollar in FY16 than in FY15, we expect sales to fall for the second consecutive fiscal year. Nevertheless, we still expect recurring profits to rise y-y in FY16 because we think the increase in profits at domestic demand-related companies and the rebound in profits at companies that saw their earnings fall sharply in FY15 will exceed the fall in profits at external demand-related companies.

The average ROE for Russell/Nomura Large Cap Index stocks was 8.4% in FY14 and fell to 7.7% in FY15 (versus our previous forecast of 8.2%) and we now forecast 8.3% in FY16 (previous estimate: 8.9%). FY15 after-tax profits fell 3.9% y-y, but shareholders' equity fell 2.1%, thus limiting the deterioration in ROE, but even so ROE at Japanese companies as a whole came in below the 8% level regarded as the "bare minimum." This is bound to be seen as a negative, but ROE of 7.7% is still high compared with the historical average level of around 5%. In the current phase of falling earnings, we expect attention to focus on whether ROE can recover to at least the "bare minimum" of 8%. If we break ROE down into profit margins, asset turnover, and financial leverage, our current forecasts indicate a relatively large increase in financial leverage in FY16, but this is due to "extraordinary factors."

Fig. 1: Overview of consolidated earnings forecasts for the Russell/Nomura Large Cap Index

(% y-y, except where noted)

		No. of cos	New					Old	
			FY13	FY14	FY15	FY16E	FY17E	FY15E	FY16E
Sales	Russell/Nomura Large Cap (ex financials)	298	12.5	4.6	-0.4	-1.8	3.2	0.4	0.6
	Manufacturing	174	12.3	4.3	0.2	-2.6	3.8	1.1	0.6
	Basic materials	44	13.2	0.6	-9.0	-3.4	3.7	-7.8	-2.9
	Processing	79	13.2	5.7	3.1	-2.8	4.0	4.1	1.6
	Nonmanufacturing (ex financials)	124	12.7	5.0	-1.2	-0.6	2.3	-0.8	0.8
	Russell/Nomura Small Cap (ex financials)	950	9.3	3.6	1.8	2.1	2.8	3.1	3.1
Operating profits	Russell/Nomura Large Cap (ex financials)	298	34.3	5.2	8.7	-0.5	10.9	10.9	6.9
	Manufacturing	174	37.1	5.8	2.9	-0.8	13.2	6.7	8.8
	Basic materials	44	35.6	-14.0	8.6	1.1	16.3	7.3	7.9
	Processing	79	44.4	14.7	-2.0	-1.4	14.4	3.9	11.2
	Nonmanufacturing (ex financials)	124	29.6	4.2	18.6	-0.0	7.9	18.0	4.0
	Russell/Nomura Small Cap (ex financials)	950	28.4	4.3	10.5	8.0	6.4	11.7	11.3
Recurring profits	Russell/Nomura Large Cap	335	37.4	6.9	-0.6	3.7	9.7	5.5	6.3
	Russell/Nomura Large Cap (ex financials)	298	39.7	7.0	1.5	2.9	11.4	7.2	7.2
	Manufacturing	174	43.3	7.2	-1.9	0.7	13.7	3.2	9.7
	Basic materials	44	33.5	-8.9	-7.4	5.4	18.1	-6.1	11.9
	Processing	79	58.2	15.3	-4.2	-0.4	14.6	2.9	11.4
	Nonmanufacturing	161	31.9	6.5	0.6	6.5	6.2	7.9	3.1
	Nonmanufacturing (ex financials)	124	34.0	6.6	7.1	6.2	8.2	13.9	3.3
	Russell/Nomura Small Cap	1,037	29.7	3.1	3.7	7.7	6.1	6.6	10.1
	Russell/Nomura Small Cap (ex financials)	950	27.3	5.0	4.1	9.9	6.7	6.7	11.4
Net profits	Russell/Nomura Large Cap	335	62.7	7.4	-3.9	11.6	10.2	5.0	13.1
	Russell/Nomura Large Cap (ex financials)	298	79.8	8.0	-4.7	12.7	12.1	4.7	15.7
	Manufacturing	174	80.9	10.2	-4.8	6.1	14.9	-1.8	20.7
	Basic materials	44	85.9	-11.0	-27.1	57.6	14.9	-22.4	64.6
	Processing	79	116.1	15.7	-3.0	-0.7	17.4	0.5	18.9
	Nonmanufacturing	161	48.2	4.6	-3.0	16.9	6.1	12.0	6.3
	Nonmanufacturing (ex financials)	124	78.1	4.2	-4.6	23.3	8.1	15.9	8.4
	Russell/Nomura Small Cap	1,037	74.2	2.2	1.9	20.6	7.4	10.4	16.1
	Russell/Nomura Small Cap (ex financials)	950	80.6	3.9	0.0	25.6	8.2	9.0	18.9

Note: Latest estimates as of 24 May 2016. Previous estimates as of 21 February 2016.

Source: Nomura

Fig. 2: Major assumptions

			Industrial production 2010 base year % y-y	Call rate / policy rate (as of term-end) %	WTI \$/bbl	Exchange rate (avg) USD/JPY EUR/JPY	
Annual	FY14		-0.4	0-0.10	80.5	110.0	138.7
	FY15	Includes some estimates	-1.2 (est)	-0.10	45.0	120.0	132.5
		Old	-0.6	0-0.10	44.1	120.5	132.5
	FY16E	New	1.3	-0.10	40.0	108.0	123.0
		Old	2.8	-	30.0	117.0	127.0
Half year	FY17E	New	-1.0	-0.10	40.0	108.0	123.0
	FY15	H1	-0.4	0-0.10	52.2	121.7	135.1
	FY15	H2	-2.0 (est)	-0.10	37.8	118.4	129.9
		Old	-0.8	0-0.10	36.1	119.2	130.0
	FY16E	H1	0.0	-0.10	40.0	108.0	123.0
		Old	2.1	-	30.0	117.0	127.0
	FY16E	H2	2.6	-0.10	40.0	108.0	123.0
		Old	3.4	-	30.0	117.0	127.0
	FY17E	H1	-0.1	-0.10	40.0	108.0	123.0
	FY17E	H2	-1.9	-0.10	40.0	108.0	123.0

Note: Macroeconomic assumptions as of 11 April 2016. Previous assumptions as of 14 January 2016. We use the call rate for interest rate data through FY15 H1 and the policy rate for FY15 H2 and beyond since the BOJ introduced a negative interest rate component in its policy on 29 January 2016. The above assumptions are not Nomura estimates but the assumptions on which Nomura analysts base their earnings estimates.

Source: Nomura

# Contributions to recurring profit growth by sector

## Overview of FY15 corporate earnings

In FY15, recurring profits increased in 11 of the 19 sectors and declined in eight. The largest contributions to growth were from the utilities, chemical, pharmaceuticals & healthcare, and automobile sectors. USD/JPY was 120.0 for FY15, versus 110.0 for FY14, with benefits for earnings growth at external demand-oriented sectors with high forex sensitivity.

For the utilities sector, there were large positive contributions from (1) an increase in gains under the fuel cost adjustment system accompanying lower crude oil prices and (2) a sharp decline in replacement fuel costs incurred owing to nuclear plant stoppages. For the chemical sector, there were large positive contributions from the diversified chemical and fine chemical subsectors on benefits from lower costs. With the pharmaceuticals & healthcare sector, there was an impact from the disappearance of settlement-related costs at some companies and the dropping out of the adverse reaction from rush demand ahead of the April 2014 consumption tax hike. In the auto sector, profits were boosted by 1.9% y-y growth in global demand in 2015, to 89.4mn vehicles, as well as by strong sales particularly in Europe and the US.

Forex movements had an essentially neutral impact because even though the yen depreciated against the US dollar, it strengthened against other currencies. Earnings growth was kept low partly by the booking of recall-related expenses at some companies.

Sectors that made large negative contributions to profit growth include trading companies, electrical machinery & precision equipment, steel & nonferrous metals, and financials. A number of trading companies booked asset impairment losses in response to declines in resource prices. As a result, pretax profits in the trading company sector fell to the lowest level since FY04. In the electrical machinery & precision equipment sector, there was a large impact from Toshiba and Sharp falling into the red in FY15 as the result of structural reforms stemming at Toshiba from accounting irregularities and at Sharp from a harsh earnings environment particularly in the display device business. The steel & nonferrous metal sector was hit hard by falling steel prices in Asia (triggered by oversupply in China), falling demand in emerging economies, and declines in metal prices. The financial sector was affected by the high level of earnings through to the previous year and by the adverse impact of the BOJ's adoption of its negative interest rate policy.

## Overview of the FY16 corporate earnings outlook

For FY16, we project that recurring profits will increase in 14 of the 19 sectors and decrease in five.

Sectors from which we expect large contributions to overall profit growth include trading companies, electrical machinery & precision equipment, financials, housing & real estate, and telecommunications. At this point we project at least double-digit profit growth in the trading company, electrical machinery & precision equipment, steel & nonferrous metal, and software sectors, although this is to a large extent in reaction to weakness the previous year. With the electrical machinery & precision equipment sector, for example, we would forecast a slight decline in profits if the earnings of the two above-noted companies that fell into the red in FY15 were eliminated. In the housing & real estate sector, commercial facility rental businesses have been doing well and condo selling prices have been firm. In the telecommunications sector, we look for growing use of smartphones and an ongoing structural shift toward FTTH wholesaling at telecom operations, expanding profit contributions from nontelecom businesses such as finance/payments, commerce, and content, and an upturn in profits in overseas businesses.

Sectors that we expect to make large negative contributions to profit growth include automobiles and utilities. We assume USD/JPY of 108.0 for FY16 versus 120.0 for FY15, representing a severe headwind for external demand-oriented sectors. With the auto sector, we expect some profit boost from cost savings and increased selling volumes in Europe and the US, but we do not think these will be sufficient to offset the negative impact from yen appreciation. In the utilities sector, we expect fallout from delays in restarting nuclear power stations and electricity rate cuts triggered by the full deregulation of the electricity retail market in April 2016.

Fig. 3: Contributions to recurring profit growth by sector for the Russell/Nomura Large Cap Index

FY15				FY16E			
Increase in profits				Increase in profits			
	Growth	Contribution	Contribution (ex financials)		Growth	Contribution	Contribution (ex financials)
11 sectors				14 sectors			
Utilities	146.7	399.0	207.9	Trading companies	164.3	71.4	111.5
Chemicals	21.6	189.2	98.5	Electrical machinery, precision equipment	27.3	56.2	87.7
Pharmaceuticals, healthcare	39.2	183.5	95.6	Financials	7.2	36.0	-
Automobiles	4.7	139.6	72.7	Housing, real estate	9.3	9.6	15.0
Transportation	13.3	110.1	57.3	Telecommunications	3.9	8.6	13.5
Construction	92.4	91.5	47.7	Steel, nonferrous metals	19.1	7.3	11.4
Telecommunications	5.6	75.3	39.2	Services	4.4	4.6	7.2
Retailing	13.4	67.5	35.2	Software	23.6	4.4	6.9
Housing, real estate	11.3	67.4	35.1	Chemicals	2.4	4.0	6.3
Media	10.4	12.5	6.5	Food	4.1	3.8	6.0
Household goods	3.3	6.7	3.5	Household goods	5.9	2.2	3.5
				Construction	4.8	1.5	2.4
				Transportation	1.0	1.5	2.3
				Retailing	0.4	0.4	0.7
Decrease in profits (%)				Decrease in profits (%)			
	Growth	Contribution	Contribution (ex financials)		Growth	Contribution	Contribution (ex financials)
8 sectors				5 sectors			
Food	-0.5	-2.9	-1.5	Machinery	-0.7	-1.0	-1.6
Services	-5.6	-13.2	-6.9	Media	-7.9	-1.7	-2.6
Software	-11.4	-18.7	-9.8	Pharmaceuticals, healthcare	-5.5	-5.6	-8.8
Machinery	-6.6	-65.8	-34.3	Utilities	-41.7	-44.8	-69.9
Financials	-8.6	-292.0	-	Automobiles	-11.7	-58.5	-91.3
Steel, nonferrous metals	-54.6	-294.5	-153.4				
Electrical machinery, precision equipment	-19.7	-308.7	-160.8				
Trading companies	-62.2	-446.6	-232.6				
FY17E							
Increase in profits							
	Growth	Contribution	Contribution (ex financials)				
19 sectors							
Automobiles	13.4	21.8	23.0				
Electrical machinery, precision equipment	19.2	18.5	19.5				
Telecommunications	15.3	13.1	13.8				
Chemicals	16.2	10.5	11.0				
Machinery	10.1	5.4	5.7				
Financials	2.5	5.0	-				
Steel, nonferrous metals	25.6	4.3	4.5				
Retailing	11.7	4.2	4.4				
Transportation	4.8	2.8	2.9				
Housing, real estate	6.1	2.5	2.6				
Services	5.7	2.3	2.4				
Food	6.1	2.2	2.3				
Household goods	11.3	1.7	1.8				
Software	18.8	1.6	1.7				
Pharmaceuticals, healthcare	4.4	1.6	1.7				
Trading companies	3.0	1.3	1.3				
Utilities	2.5	0.6	0.6				
Construction	4.7	0.6	0.6				
Media	3.1	0.2	0.2				

Source: Nomura

# Revisions to recurring profit estimates (versus old estimates)

## Overview of FY15 corporate earnings

Recurring profits in FY15 came in ahead of our estimates at seven of 19 sectors and below them at 12.

Results exceeded our forecasts the most for construction and transportation. In the construction sector, results came in ahead of expectations at a wide range of companies. Gross margins on building construction held at high levels and there was no major change in a generally favorable business environment. In the transportation sector, there was large upside for earnings at railway companies, which benefited greatly from the boost to sales from the Hokuriku Shinkansen and inbound demand as well as from power cost savings and moves to rein in maintenance expenses.

Sectors for which earnings came in well below our forecasts include trading companies, financials, electrical machinery & precision equipment, and automobiles. Trading companies had to book large impairment losses on past resource investment projects owing to deterioration in the business environment amid declines in resource prices and waning demand in emerging economies. In the financial sector, net fees and commissions were buoyant despite market deterioration, but net interest income was weak owing to narrowing loan-deposit spreads in Japan resulting from the BOJ's adoption of negative interest rates. The downside for electrical machinery & precision equipment reflected largely the impact of some companies being forced to implement structural reforms. Although there were one-time forex translation losses and increased pension funding shortfalls, these were no major surprise. Our impression is that an increasing number of companies have recently stepped up strategic moves in response to major changes in the business environment brought about by economic slowing. In the automobile sector, an accident at a supplier's plant caused the temporary suspension of some production in Japan and product quality-related costs also rose.

## Overview of the FY16 corporate earnings outlook

We have raised our FY16 recurring profit forecasts for five of the 19 sectors and lowered them for 13. The major revisions to our forex assumptions this time toward a stronger yen imply tougher conditions for external demand-oriented sectors.

The largest upward revisions have been for the services, construction, and housing & real estate sectors. With the construction sector, we expect sustained growth in sales supported by orders for major projects and we also expect gross margins on building construction to hold at high levels. In the housing & real estate sector, rental housing, commercial facilities, logistics facilities, and hotel businesses have been doing well. We also expect earnings contributions from property sales to REITs.

Sectors for which we have made large downward revisions include automobiles, electrical machinery & precision equipment, financials, and utilities. The automobile and electrical machinery & precision equipment sectors are being affected by the strengthening of the yen as well as by the temporary halt of some production in Japan stemming from the Kumamoto earthquakes. The electrical machinery & precision equipment sector is also being affected by the deconsolidation of subsidiaries and higher business development expenses at some companies as the result of the above-mentioned strategic moves. In the financial sector, earnings have deteriorated sharply recently against a backdrop of yen appreciation and steep declines in Japanese share prices since the start of the year. Fallout has surfaced from risk-averse moves in such areas as lower equity market turnover and weak investment trust sales. The utilities sector has been affected by lower gains under the fuel cost adjustment system stemming from a higher assumption for the crude oil price, heavier alternative energy costs, and increased amortization of pension fund actuarial differences. Companies also face higher subcontracting costs for compliance with the electric power system reforms.



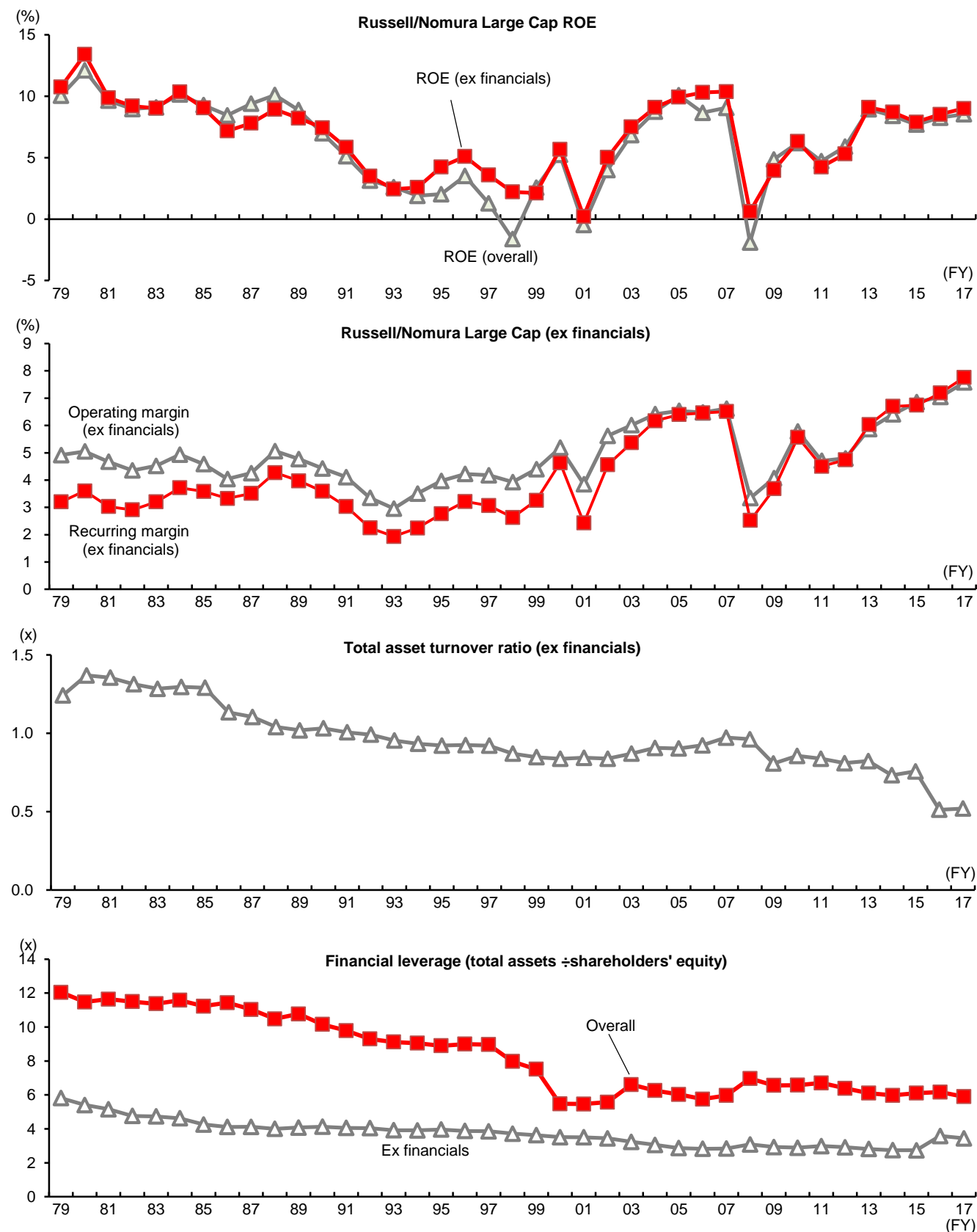
Fig. 4: Revisions to recurring profit estimates (versus old estimates) for the Russell/Nomura Large Cap Index

FY15					FY16E				
[Upward revisions] 7 sectors					[Upward revisions] 5 sectors				
	Actual ¥bn	Old ¥bn	Revision ¥bn	Change %		New ¥bn	Old ¥bn	Revision ¥bn	Change %
Construction	462	363	100	27.5	Services	1,659	729	930	127.7
Transportation	2,267	2,193	74	3.4	Construction	496	407	89	21.9
Chemicals	2,583	2,559	23	0.9	Housing, real estate	1,698	1,657	41	2.5
Pharmaceuticals, healthcare	1,578	1,558	20	1.3	Food	1,460	1,430	30	2.1
Housing, real estate	1,604	1,585	18	1.1	Trading companies	1,738	1,717	21	1.2
Media	322	304	18	5.9					
Retailing	1,386	1,377	8	0.6					
[Downward revisions] 12 sectors					[Downward revisions] 13 sectors				
	Actual ¥bn	Old ¥bn	Revision ¥bn	Change %		New ¥bn	Old ¥bn	Revision ¥bn	Change %
Household goods	507	511	-4	-0.9	Transportation	2,348	2,355	-7	-0.3
Telecommunications	3,414	3,420	-6	-0.2	Software	348	368	-20	-5.5
Utilities	1,627	1,640	-13	-0.8	Household goods	608	631	-22	-3.6
Services	538	551	-13	-2.3	Pharmaceuticals, healthcare	1,470	1,511	-41	-2.7
Food	1,383	1,396	-13	-1.0	Chemicals	2,665	2,756	-91	-3.3
Machinery	2,264	2,309	-45	-1.9	Steel, nonferrous metals	692	812	-120	-14.7
Software	352	411	-59	-14.4	Retailing	1,462	1,586	-124	-7.8
Steel, nonferrous metals	594	665	-71	-10.6	Machinery	2,200	2,388	-188	-7.9
Automobiles	7,571	7,868	-298	-3.8	Telecommunications	3,518	3,731	-213	-5.7
Electrical machinery, precision equipment	3,045	3,657	-612	-16.7	Utilities	949	1,214	-264	-21.8
Financials	7,519	8,142	-623	-7.7	Financials	8,104	8,460	-357	-4.2
Trading companies	657	1,690	-1,033	-61.1	Electrical machinery, precision equipment	3,964	4,764	-800	-16.8
					Automobiles	6,691	8,239	-1,549	-18.8

Note: Latest estimates as of 24 May 2016, previous estimates as of 21 February 2016. There is no revision for the media sector for FY16.

Source: Nomura

Fig. 5: Breakdown of factors affecting ROE

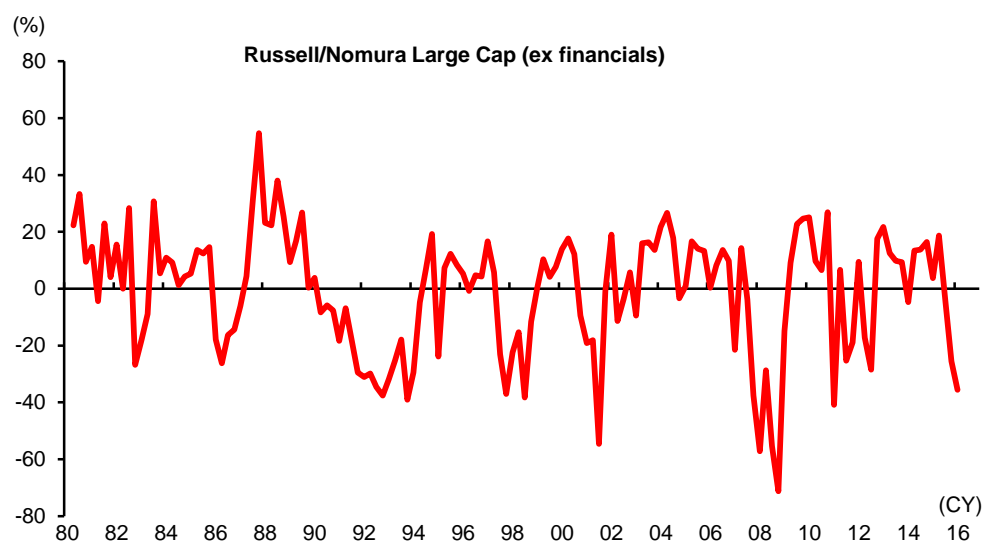


Note: Figures for FY16 onward are estimates. As of 24 May 2016.

Source: Nomura

**Fig. 6: Revision index for the Russell/Nomura Large Cap Index**

	(yy/m)	14/9	14/12	15/3	15/6	15/9	15/12	16/3	16/6
Russell/Nomura Large Cap		15.7	13.2	20.4	4.2	21.8	-3.6	-24.0	-36.4
Russell/Nomura Large Cap (ex financials)		13.4	13.8	16.4	3.7	18.7	-4.3	-25.6	-35.6
Manufacturing		15.7	18.3	22.2	0.0	19.4	-19.4	-38.5	-41.4
Basic materials		-7.9	7.9	28.3	28.3	19.6	-17.4	-27.3	-29.5
Processing		30.6	33.3	33.3	-12.6	-1.1	-35.6	-75.9	-73.4
Nonmanufacturing (ex financials)		9.9	6.9	7.6	9.2	17.5	18.3	-7.3	-27.4



Note: (1) Calculated by Nomura based on revisions to recurring profit forecasts. Excludes consolidated subsidiaries. (2) Revision index = (number of upward revisions – number of downward revisions) ÷ number of constituent companies.

Source: Nomura

# Russell/Nomura Large Cap Index: earnings indicators

Fig. 7: Percentage change in sales by sector

(% y-y, except where noted)

		No. of cos	FY11	FY12	FY13	FY14	FY15	FY15	FY16E	FY16E	FY17E
							Old	Actual	Old	New	New
Industrial groups	Russell/Nomura Large Cap (ex financials)	298	1.4	2.7	12.5	4.6	0.4	-0.4	0.6	-1.8	3.2
	Manufacturing	174	0.2	3.0	12.3	4.3	1.1	0.2	0.6	-2.6	3.8
	Basic materials	44	4.8	-0.5	13.2	0.6	-7.8	-9.0	-2.9	-3.4	3.7
	Processing	79	-2.0	4.8	13.2	5.7	4.1	3.1	1.6	-2.8	4.0
	Nonmanufacturing (ex financials)	124	3.0	2.2	12.7	5.0	-0.8	-1.2	0.8	-0.6	2.3
Broad sectors	Materials	44	4.8	-0.5	13.2	0.6	-7.8	-9.0	-2.9	-3.4	3.7
	Machinery, autos	46	-0.1	10.0	15.4	7.8	6.3	5.7	1.8	-2.2	4.5
	Electronics	33	-4.3	-1.6	10.1	2.7	0.7	-0.9	1.4	-3.7	3.2
	Consumer, distribution	93	3.3	0.8	11.2	3.7	-0.9	-1.4	1.2	-1.0	2.7
	Information	22	1.5	3.4	20.1	9.6	5.1	5.7	4.2	1.9	4.0
	Utilities, infrastructure	60	2.2	5.3	10.0	5.2	-0.7	-1.3	-1.3	-1.0	1.4
Sectors	Chemicals	36	6.5	0.8	12.5	-1.1	-8.2	-9.9	-2.4	-2.2	3.4
	Steel, nonferrous metals	8	0.7	-4.3	15.1	4.7	-6.7	-6.8	-4.2	-6.5	4.3
	Machinery	24	5.0	2.2	15.4	11.1	3.9	3.3	2.3	0.3	4.1
	Autos	22	-1.6	12.5	15.5	6.9	7.1	6.5	1.7	-2.9	4.6
	Electrical machinery, precision equipment	33	-4.3	-1.6	10.1	2.7	0.7	-0.9	1.4	-3.7	3.2
	Pharmaceuticals, healthcare	22	3.0	2.0	7.8	0.6	5.5	5.2	0.3	-1.1	2.8
	Food products	16	-0.9	3.3	5.4	6.7	0.9	1.6	1.6	0.7	3.1
	Household goods	13	2.9	4.4	9.9	11.5	6.7	6.0	1.2	-1.7	4.1
	Trading companies	7	6.1	-1.0	14.0	2.7	-8.3	-9.7	-1.1	-3.2	1.9
	Retailing	22	-2.5	3.7	10.0	5.7	6.1	7.3	3.9	2.6	3.8
	Services	13	-2.4	1.5	3.5	-0.4	5.5	4.1	7.5	-1.5	1.8
	Software	9	-14.9	-4.0	3.6	1.4	2.7	-0.1	9.3	6.5	8.8
	Media	5	1.9	4.8	10.5	5.1	10.2	12.0	-1.7	-3.4	1.7
	Telecommunications	8	3.5	3.8	24.4	10.9	4.8	5.5	4.3	2.1	3.8
	Construction, engineering	5	7.7	7.5	6.8	7.2	3.1	1.7	1.1	3.9	1.4
	Housing, real estate	17	2.7	6.1	14.5	7.9	5.6	4.3	3.5	5.0	2.6
	Transportation	25	-0.7	3.4	7.2	3.4	0.9	0.3	-0.1	0.3	1.6
	Utilities	13	3.4	5.9	11.0	4.7	-7.8	-7.7	-7.0	-8.4	0.4

Note: Figures exclude listed consolidated subsidiaries. Latest estimates as of 24 May 2016, previous estimates as of 21 February 2016.

Source: Nomura

Fig. 8: Percentage change in operating profits by sector

(% y-y, except where noted)

		No. of cos	FY11	FY12	FY13	FY14	FY15 Old	FY15 Actual	FY16E Old	FY16E New	FY17E New
Industrial groups	Russell/Nomura Large Cap (ex financials)	298	-18.6	4.5	34.3	5.2	10.9	8.7	6.9	-0.5	10.9
	Manufacturing	174	-14.2	7.5	37.1	5.8	6.7	2.9	8.8	-0.8	13.2
	Basic materials	44	-9.8	-22.6	35.6	-14.0	7.3	8.6	7.9	1.1	16.3
	Processing	79	-20.6	29.1	44.4	14.7	3.9	-2.0	11.2	-1.4	14.4
	Nonmanufacturing (ex financials)	124	-24.6	-0.4	29.6	4.2	18.0	18.6	4.0	-0.0	7.9
Broad sectors	Materials	44	-9.8	-22.6	35.6	-14.0	7.3	8.6	7.9	1.1	16.3
	Machinery, autos	46	-10.9	42.9	46.2	14.0	6.5	4.2	4.2	-11.2	12.9
	Electronics	33	-32.7	6.7	40.3	16.3	-2.1	-16.4	28.7	26.6	17.5
	Consumer, distribution	93	0.8	-6.4	14.7	-9.0	11.4	9.3	3.6	1.7	7.3
	Information	22	-3.7	4.3	15.2	-2.1	11.8	14.8	12.8	9.2	12.2
	Utilities, infrastructure	60	-57.7	10.4	69.1	22.9	30.6	32.3	-3.2	-7.9	4.3
Sectors	Chemicals	36	-1.1	-21.3	16.7	-26.6	31.7	36.1	7.4	1.3	14.7
	Steel, nonferrous metals	8	-37.1	-30.2	151.9	21.4	-33.4	-37.3	9.8	0.4	22.3
	Machinery	24	6.1	-7.9	30.4	22.8	-2.1	-1.6	4.3	-3.8	8.8
	Autos	22	-19.8	77.2	51.7	11.3	9.4	6.2	4.2	-13.6	14.3
	Electrical machinery, precision equipment	33	-32.7	6.7	40.3	16.3	-2.1	-16.4	28.7	26.6	17.5
	Pharmaceuticals, healthcare	22	-7.6	-6.9	20.5	-18.2	47.8	48.7	-4.4	-6.6	3.7
	Food products	16	4.1	9.0	11.6	4.1	-0.3	-0.3	2.3	3.9	6.0
	Household goods	13	0.5	-2.3	23.3	7.8	9.5	8.5	6.8	5.6	9.9
	Trading companies	7	6.3	-24.8	18.7	-23.6	-5.8	-16.3	-2.9	1.0	11.5
	Retailing	22	7.5	-3.5	6.0	-3.6	14.9	15.1	11.5	4.1	10.1
	Services	13	-15.9	15.3	14.6	-5.3	-1.9	-5.4	14.8	4.6	5.6
	Software	9	-53.3	-32.9	13.2	33.9	5.3	1.3	18.8	18.8	19.7
	Media	5	3.6	19.4	9.6	9.3	7.6	13.9	-2.5	-8.0	3.3
	Telecommunications	8	3.1	5.9	15.7	-5.3	12.9	16.5	13.6	9.9	12.3
	Construction, engineering	5	18.3	-10.8	30.0	34.6	66.4	116.8	9.2	3.7	4.9
	Housing, real estate	17	0.6	12.6	26.0	3.4	15.6	14.4	6.4	8.4	5.6
	Transportation	25	-17.3	20.4	8.4	6.7	9.1	11.0	4.1	1.4	4.7
	Utilities	13	SL	LI	SP	192.2	92.2	87.6	-23.1	-37.6	1.2

Note: (1) Figures exclude listed consolidated subsidiaries. Latest estimates as of 24 May 2016, previous estimates as of 21 February 2016. (2) LI = losses increasing; LS = losses shrinking; SL = switch to losses; SP = switch to profits.

Source: Nomura

Fig. 9: Percentage change in recurring profits by sector

(% y-y, except where noted)

		No. of cos	FY11	FY12	FY13	FY14	FY15	FY15	FY16E	FY16E	FY17E
							Old	Actual	Old	New	New
Industrial groups	Russell/Nomura Large Cap	335	-12.1	12.8	37.4	6.9	5.5	-0.6	6.3	3.7	9.7
	Russell/Nomura Large Cap (ex financials)	298	-19.5	7.7	39.7	7.0	7.2	1.5	7.2	2.9	11.4
	Manufacturing	174	-17.9	10.3	43.3	7.2	3.2	-1.9	9.7	0.7	13.7
	Basic materials	44	-7.1	-19.2	33.5	-8.9	-6.1	-7.4	11.9	5.4	18.1
	Processing	79	-29.3	36.4	58.2	15.3	2.9	-4.2	11.4	-0.4	14.6
	Nonmanufacturing	161	-5.9	15.2	31.9	6.5	7.9	0.6	3.1	6.5	6.2
	Nonmanufacturing (ex financials)	124	-21.7	3.5	34.0	6.6	13.9	7.1	3.3	6.2	8.2
Broad sectors	Materials	44	-7.1	-19.2	33.5	-8.9	-6.1	-7.4	11.9	5.4	18.1
	Machinery, autos	46	-11.5	42.5	47.6	16.2	5.4	1.9	5.0	-9.2	12.6
	Electronics	33	-54.9	19.7	92.9	13.0	-3.6	-19.7	29.0	27.3	19.2
	Consumer, distribution	93	5.9	-4.1	15.7	-9.0	8.2	-7.6	4.1	16.1	6.4
	Information	22	0.0	7.3	16.2	8.0	3.1	4.3	8.6	4.3	14.8
	Utilities, infrastructure	60	-70.2	30.2	102.6	28.3	33.2	37.3	-2.7	-8.1	4.8
	Financials	37	33.7	34.8	29.3	6.5	-0.9	-8.6	2.7	7.2	2.5
Sectors	Chemicals	36	1.8	-19.2	16.3	-21.7	20.5	21.6	7.4	2.4	16.2
	Steel, nonferrous metals	8	-34.3	-18.9	119.5	24.0	-49.2	-54.6	30.7	19.1	25.6
	Machinery	24	7.9	-5.1	31.9	23.7	-4.8	-6.6	6.0	-0.7	10.1
	Autos	22	-20.8	72.8	53.0	13.9	8.8	4.7	4.7	-11.7	13.4
	Electrical machinery, precision equipment	33	-54.9	19.7	92.9	13.0	-3.6	-19.7	29.0	27.3	19.2
	Pharmaceuticals, healthcare	22	-9.0	-4.9	14.0	-15.3	37.5	39.2	-1.5	-5.5	4.4
	Food products	16	5.2	9.1	13.0	4.9	0.5	-0.5	1.0	4.1	6.1
	Household goods	13	1.9	0.1	20.3	11.0	4.2	3.3	8.6	5.9	11.3
	Trading companies	7	22.6	-15.1	25.9	-20.6	-2.9	-62.2	1.6	164.3	3.0
	Retailing	22	7.9	-2.5	5.6	-4.8	12.7	13.4	9.8	0.4	11.7
	Services	13	-14.7	16.6	12.8	-2.4	-3.4	-5.6	14.4	4.4	5.7
	Software	9	-53.5	8.4	14.9	22.6	3.5	-11.4	7.2	23.6	18.8
	Media	5	14.5	7.6	10.8	11.0	4.3	10.4	-2.5	-7.9	3.1
	Telecommunications	8	6.2	7.2	16.8	6.5	3.0	5.6	9.8	3.9	15.3
	Construction, engineering	5	49.0	-1.0	25.3	38.4	51.0	92.4	8.8	4.8	4.7
	Housing, real estate	17	-0.9	20.8	29.5	4.6	10.1	11.3	8.7	9.3	6.1
	Transportation	25	-18.9	30.9	15.1	10.4	9.6	13.3	4.7	1.0	4.8
	Utilities	13	SL	LI	SP	1,682.0	148.6	146.7	-26.0	-41.7	2.5
	Financials	37	33.7	34.8	29.3	6.5	-0.9	-8.6	2.7	7.2	2.5

Note: (1) Figures exclude listed consolidated subsidiaries. Latest estimates as 24 May 2016, previous estimates as of 21 February 2016. (2) LI = losses increasing; LS = losses shrinking; SL = switch to losses; SP = switch to profits.

Source: Nomura

Fig. 10: Percentage change in net profits by sector

(% y-y, except where noted)

		No. of cos	FY11	FY12	FY13	FY14	FY15 Old	FY15 Actual	FY16E Old	FY1E New	FY17E New
Industrial groups	Russell/Nomura Large Cap	335	-25.3	36.3	62.7	7.4	5.0	-3.9	13.1	11.6	10.2
	Russell/Nomura Large Cap (ex financials)	298	-35.2	26.7	79.8	8.0	4.7	-4.7	15.7	12.7	12.1
	Manufacturing	174	-42.9	30.8	80.9	10.2	-1.8	-4.8	20.7	6.1	14.9
	Basic materials	44	-34.6	-30.8	85.9	-11.0	-22.4	-27.1	64.6	57.6	14.9
	Processing	79	-57.2	77.5	116.1	15.7	0.5	-3.0	18.9	-0.7	17.4
	Nonmanufacturing	161	-2.6	41.0	48.2	4.6	12.0	-3.0	6.3	16.9	6.1
	Nonmanufacturing (ex financials)	124	-19.2	20.4	78.1	4.2	15.9	-4.6	8.4	23.3	8.1
Broad sectors	Materials	44	-34.6	-30.8	85.9	-11.0	-22.4	-27.1	64.6	57.6	14.9
	Machinery, autos	46	-16.9	58.6	56.2	14.8	5.9	1.5	5.9	-10.9	15.3
	Electronics	33	SL	LS	SP	18.4	-16.2	-17.1	68.7	36.5	22.4
	Consumer, distribution	93	5.9	9.3	14.3	-6.2	5.1	-20.2	7.4	30.7	7.6
	Information	22	-2.0	9.9	16.5	14.8	9.3	7.2	11.0	6.7	16.4
	Utilities, infrastructure	60	SL	LS	SP	19.2	28.5	16.9	4.6	12.1	2.5
	Financials	37	24.7	66.7	18.9	5.2	6.4	-0.9	2.9	7.4	2.8
Sectors	Chemicals	36	-21.7	-30.5	34.1	-24.6	2.0	-1.1	75.8	69.4	12.8
	Steel, nonferrous metals	8	-78.5	-33.1	590.0	13.1	-50.0	-56.7	36.0	26.5	22.2
	Machinery	24	4.9	-0.0	38.9	17.9	-4.7	-2.8	12.7	-0.3	10.4
	Autos	22	-26.5	94.6	61.7	14.0	9.1	2.8	4.1	-13.9	16.8
	Electrical machinery, precision equipment	33	SL	LS	SP	18.4	-16.2	-17.1	68.7	36.5	22.4
	Pharmaceuticals, healthcare	22	-29.4	45.6	-2.7	7.8	11.3	14.6	-0.3	-3.5	4.8
	Food products	16	18.7	20.0	21.7	4.9	1.6	0.0	2.2	5.5	7.2
	Household goods	13	-20.8	32.9	32.9	32.5	-4.4	-5.9	11.9	14.8	7.5
	Trading companies	7	25.8	-11.9	22.6	-23.5	2.7	-88.0	7.2	772.5	2.8
	Retailing	22	24.9	2.0	4.9	-7.8	8.3	5.7	16.6	4.1	19.3
	Services	13	-38.2	103.2	13.9	-19.6	8.6	4.9	18.6	5.3	8.1
	Software	9	-61.2	51.8	-14.3	35.8	14.3	-6.9	8.8	31.4	20.2
	Media	5	57.8	-7.7	-1.5	16.5	13.4	22.2	-6.5	-13.3	3.4
	Telecommunications	8	3.2	9.2	22.0	12.7	8.3	7.5	13.1	6.6	17.2
	Construction, engineering	5	-81.6	440.1	38.5	30.2	73.6	117.6	9.5	11.9	4.7
	Housing, real estate	17	-16.3	54.1	41.2	18.4	9.2	0.6	10.4	23.2	6.1
	Transportation	25	-37.9	59.5	44.4	1.8	2.6	-4.9	22.2	35.8	1.8
	Utilities	13	LI	LS	SP	79.6	100.3	63.7	-20.2	-27.4	-2.7
	Financials	37	24.7	66.7	18.9	5.2	6.4	-0.9	2.9	7.4	2.8

Note: (1) Figures exclude listed consolidated subsidiaries. Latest estimates as of 24 May 2016, previous estimates as of 21 February 2016. (2) LI = losses increasing; LS = losses shrinking; SL = switch to losses; SP = switch to profits.

Source: Nomura

Fig. 11: Recurring profits by sector

(¥bn, except where noted)

		No. of cos	FY11	FY12	FY13	FY14	FY15 Old	FY15 Actual	FY16E Old	FY16E New	FY17E New
Industrial groups	Russell/Nomura Large Cap	335	23,168	26,521	36,708	38,488	42,198	39,670	45,049	42,364	46,477
	Russell/Nomura Large Cap (ex financials)	298	18,302	20,556	28,994	30,350	34,056	32,151	36,589	34,261	38,169
	Manufacturing	174	11,132	12,917	18,323	19,085	20,523	19,524	22,530	19,750	22,462
	Basic materials	44	3,588	3,101	3,931	3,325	3,224	3,177	3,568	3,357	3,965
	Processing	79	5,052	7,167	11,295	12,834	13,834	12,880	15,391	12,855	14,736
	Nonmanufacturing	161	12,037	13,604	18,385	19,403	21,674	20,146	22,519	22,615	24,015
	Nonmanufacturing (ex financials)	124	7,170	7,639	10,671	11,265	13,533	12,627	14,059	14,511	15,707
Broad sectors	Materials	44	3,588	3,101	3,931	3,325	3,224	3,177	3,568	3,357	3,965
	Machinery, autos	46	3,731	5,480	8,052	9,213	10,177	9,835	10,627	8,891	10,011
	Electronics	33	1,321	1,687	3,243	3,621	3,657	3,045	4,764	3,964	4,725
	Consumer, distribution	93	5,869	5,829	6,841	6,151	7,083	6,048	7,602	8,396	8,936
	Information	22	2,783	3,039	3,645	3,841	4,135	4,087	4,395	4,162	4,776
	Utilities, infrastructure	60	1,010	1,419	3,281	4,198	5,780	5,959	5,633	5,491	5,755
	Financials	37	4,867	5,965	7,714	8,138	8,142	7,519	8,460	8,104	8,308
Sectors	Chemicals	36	2,959	2,606	2,851	2,059	2,559	2,583	2,756	2,665	3,096
	Steel, nonferrous metals	8	629	495	1,080	1,266	665	594	812	692	869
	Machinery	24	1,472	1,416	1,855	2,306	2,309	2,264	2,388	2,200	2,422
	Autos	22	2,260	4,064	6,197	6,908	7,868	7,571	8,239	6,691	7,589
	Electrical machinery, precision equipment	33	1,321	1,687	3,243	3,621	3,657	3,045	4,764	3,964	4,725
	Pharmaceuticals, healthcare	22	1,215	1,170	1,314	1,113	1,558	1,578	1,511	1,470	1,535
	Food products	16	938	1,107	1,306	1,341	1,396	1,383	1,430	1,460	1,549
	Household goods	13	338	371	477	471	511	507	631	608	677
	Trading companies	7	1,993	1,706	2,026	1,740	1,690	657	1,717	1,738	1,790
	Retailing	22	1,071	1,110	1,277	1,087	1,377	1,386	1,586	1,462	1,633
	Services	13	313	364	441	399	551	538	729	1,659	1,753
	Software	9	148	173	245	324	411	352	368	348	414
	Media	5	239	227	251	271	304	322	296	296	305
	Telecommunications	8	2,396	2,639	3,150	3,246	3,420	3,414	3,731	3,518	4,057
	Construction, engineering	5	123	122	181	212	363	462	407	496	520
	Housing, real estate	17	737	956	1,264	1,363	1,585	1,604	1,657	1,698	1,801
	Transportation	25	1,049	1,406	1,799	1,963	2,193	2,267	2,355	2,348	2,461
	Utilities	13	-898	-1,065	37	660	1,640	1,627	1,214	949	973
	Financials	37	4,867	5,965	7,714	8,138	8,142	7,519	8,460	8,104	8,308

Note: Figures exclude listed consolidated subsidiaries. Latest estimates as 24 May 2016, previous estimates as of 21 February 2016.

Source: Nomura



Fig. 12: Percentage change in quarterly sales and profits (FY15 Q1–FY15 Q4)

		% y-y															
		Sales				Operating profits				Recurring profits				Net profits			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Industrial groups	Russell/Nomura Large Cap	-	-	-	-	-	-	-	-	26.4	-4.6	-4.3	-23.6	35.5	-7.7	-12.7	-39.6
	Russell/Nomura Large Cap (ex financials)	4.1	2.1	-2.7	-5.2	21.4	15.3	5.0	-16.3	28.2	0.9	-1.5	-26.5	39.1	-3.8	-14.2	-50.5
	Manufacturing	5.6	3.0	-2.2	-5.3	14.2	9.4	-0.3	-12.3	20.7	0.5	-9.5	-18.4	23.8	3.7	-28.2	-11.0
	Basic materials	-3.6	-8.0	-12.5	-12.2	33.5	-18.8	57.3	-11.1	41.6	-31.4	2.1	-30.2	72.8	-41.0	-60.7	SL
	Processing	8.9	7.0	1.5	-4.2	8.4	14.6	-7.3	-26.0	15.2	6.5	-12.3	-29.0	13.5	9.8	-23.5	-9.9
	Nonmanufacturing	-	-	-	-	-	-	-	-	31.8	-9.0	1.8	-28.7	47.9	-16.6	7.9	-69.8
	Nonmanufacturing (ex financials)	1.9	0.9	-3.6	-5.2	32.6	24.4	14.9	-22.8	40.6	1.5	15.5	-39.6	68.8	-13.0	22.6	SL
Broad sectors	Basic materials	-3.6	-8.0	-12.5	-12.2	33.5	-18.8	57.3	-11.1	41.6	-31.4	2.1	-30.2	72.8	-41.0	-60.7	SL
	Machinery, autos	11.7	9.7	3.6	-1.4	14.0	15.8	-1.1	-11.7	16.3	4.7	-4.8	-11.5	13.7	6.7	1.1	-20.4
	Electronics	4.4	3.0	-1.7	-8.4	-6.1	12.0	-19.3	-58.4	12.1	11.3	-27.8	-82.1	12.9	19.4	-76.6	55.0
	Consumption, distribution	2.2	-0.0	-4.3	-5.2	10.7	20.4	-4.1	-27.1	9.3	4.8	-2.9	-63.3	12.1	14.3	-19.6	SL
	Information	5.5	7.9	1.8	5.3	13.0	25.4	2.2	17.3	40.0	-19.4	-2.8	18.7	57.2	-24.2	-0.4	39.5
	Utilities, infrastructure	3.1	1.8	-2.9	-6.1	72.1	25.6	42.2	-2.0	84.1	28.0	48.5	-2.7	177.6	-10.1	97.7	-95.9
	Financials	-	-	-	-	-	-	-	-	19.6	-26.2	-15.0	-11.3	23.0	-23.3	-7.2	15.4
Sectors	Chemicals	-4.8	-9.1	-13.6	-12.4	46.0	-15.8	234.9	22.3	54.7	-26.2	130.3	-2.0	103.0	-39.2	-33.5	LS
	Steel, nonferrous metals	-0.4	-5.1	-9.4	-11.6	-0.8	-26.2	-46.7	-59.1	8.2	-42.9	-81.8	-75.2	20.4	-43.4	-98.5	SL
	Machinery	10.3	6.2	3.1	-4.5	6.3	-1.6	-3.6	-5.6	15.1	-17.5	-11.6	-9.3	14.8	-9.6	-13.5	0.0
	Automobiles	12.1	10.7	3.7	-0.4	16.4	22.1	-0.4	-14.2	16.6	12.7	-2.7	-12.4	13.4	11.8	5.6	-26.5
	Electrical machinery, precision equipment	4.4	3.0	-1.7	-8.4	-6.1	12.0	-19.3	-58.4	12.1	11.3	-27.8	-82.1	12.9	19.4	-76.6	55.0
	Pharmaceuticals, healthcare	7.5	5.1	2.4	4.7	13.8	28.8	4.5	SP	16.6	20.3	0.1	SP	18.8	30.7	-5.2	34.3
	Food products	9.5	3.4	-6.6	1.1	17.0	14.6	-18.5	24.8	18.0	13.5	-17.5	11.6	38.2	43.7	-57.8	7.1
	Household goods	4.8	9.5	10.0	-1.8	35.7	14.2	4.8	16.9	42.2	1.6	1.6	12.1	2.8	-23.1	27.8	45.3
	Trading companies	-3.7	-7.5	-12.8	-14.9	0.6	42.3	-13.9	SL	-3.4	-10.5	8.6	SL	-0.1	-1.7	-26.7	SL
	Retailing	8.1	9.0	6.9	3.3	15.9	13.1	5.9	-3.6	18.4	6.6	-0.7	-10.3	12.8	-3.7	-18.0	-21.4
	Services	2.9	5.9	4.4	5.1	-9.9	-5.0	-1.5	13.3	-10.2	-9.1	-1.5	20.3	7.7	10.9	9.5	57.0
	Software	-2.2	13.7	-6.4	0.4	-6.2	32.9	-11.0	-0.7	14.3	-6.1	-29.6	-7.7	17.7	-13.3	-24.8	49.0
	Media	6.0	9.2	-0.6	7.0	11.3	14.7	-14.1	51.0	17.4	0.6	-15.3	51.1	10.8	4.8	-4.0	90.9
	Telecommunications	6.3	7.2	3.2	5.5	14.7	25.6	6.8	16.4	44.0	-21.4	5.5	18.5	65.6	-26.8	7.0	33.1
	Construction, engineering	9.5	4.4	0.4	-4.6	137.6	154.7	64.6	144.3	138.5	94.9	46.4	130.9	153.8	87.5	59.9	287.2
	Housing, real estate	5.4	11.1	4.2	-1.0	19.9	34.8	19.3	-9.1	25.6	35.2	16.4	-18.9	5.4	41.5	12.0	-30.7
	Transportation	3.1	3.5	-1.4	-3.7	22.5	18.1	2.9	-3.4	30.0	17.1	2.5	2.9	36.2	11.9	1.1	SL
	Utilities	0.0	-7.0	-10.5	-12.4	216.2	17.6	SP	-19.1	260.7	30.2	SP	-14.7	SP	-48.8	SP	SL
	Financials	-	-	-	-	-	-	-	-	19.6	-26.2	-15.0	-11.3	23.0	-23.3	-7.2	15.4

Note: (1) Q1 = Feb–Apr, Mar–May, or Apr–Jun; Q2 = May–Jul, Jun–Aug, or Jul–Sep; Q3 = Aug–Oct, Sep–Nov, or Oct–Dec; Q4 = Nov–Jan, Dec–Feb, or Jan–Mar. (2) Figures are for companies that had announced results (either full year, Q1, Q2, or Q3) by 24 May 2016. (3) Excludes consolidated subsidiaries. (4) LI = losses increasing; LS = losses shrinking; SL = switch to losses; SP = switch to profits.

Source: Nomura

Fig. 13: Valuation indicators

		P/E			P/CF			P/B		Dividend yield			ROE			
		FY15	FY16E	FY17E	FY15	FY16E	FY17E	FY15	FY16E	FY15	FY16E	FY17E	FY14	FY15	FY16E	FY17E
		x	x	x	x	x	x	x	x	%	%	%	%	%	%	%
Industrial groups	Russell/Nomura Large Cap	16.0	14.3	13.0	-	-	-	1.25	1.14	2.14	2.28	2.46	8.4	7.7	8.3	8.5
	Russell/Nomura Large Cap (ex loss-making cos)	14.8	14.2	12.9	-	-	-	1.31	1.14	2.04	2.28	2.47	9.4	8.8	8.3	8.5
	Russell/Nomura Large Cap (ex financials)	18.0	15.9	14.2	7.7	7.8	7.3	1.44	1.31	1.99	2.15	2.34	8.7	7.9	8.5	9.0
	Manufacturing	17.3	16.2	14.1	7.8	8.4	7.7	1.42	1.36	2.18	2.33	2.53	8.9	8.1	8.7	9.4
	Basic materials	23.3	13.8	12.1	6.7	5.6	5.2	0.91	0.86	2.19	2.26	2.45	5.8	3.8	6.4	7.0
	Processing	13.7	13.7	11.7	6.3	7.3	6.6	1.29	1.22	2.44	2.63	2.87	10.0	9.3	9.2	10.1
	Nonmanufacturing	14.7	12.6	11.9	-	-	-	1.08	0.96	2.09	2.22	2.39	8.0	7.3	7.9	7.9
	Nonmanufacturing (ex financials)	19.3	15.5	14.3	7.5	7.0	6.7	1.46	1.25	1.70	1.90	2.07	8.2	7.6	8.3	8.5
Broad sectors	Basic materials	23.3	13.8	12.1	6.7	5.6	5.2	0.91	0.86	2.19	2.26	2.45	5.8	3.8	6.4	7.0
	Machinery, autos	10.8	12.1	10.5	5.6	7.0	6.3	1.21	1.14	2.81	2.97	3.20	11.5	11.0	9.7	10.5
	Electronics	24.8	17.5	14.3	8.2	8.1	7.3	1.47	1.40	1.82	2.06	2.33	7.0	5.8	8.2	9.4
	Consumption, distribution	30.0	21.5	20.0	14.8	12.4	11.8	1.90	1.54	1.82	2.02	2.15	7.7	6.2	7.3	7.5
	Information	17.2	16.5	14.1	6.3	6.3	6.0	1.82	1.72	1.63	1.78	1.98	10.5	10.8	10.7	11.7
	Utilities, infrastructure	15.5	13.7	13.4	6.4	6.0	6.0	1.34	1.25	1.51	1.63	1.80	8.1	8.8	9.4	9.0
	Financials	8.3	7.8	7.6	-	-	-	0.59	0.54	3.35	3.28	3.49	7.7	7.0	7.3	7.0
Sectors	Chemicals	24.7	13.7	12.1	7.4	6.0	5.7	1.01	0.94	2.22	2.36	2.44	4.6	4.0	7.1	7.6
	Steel, nonferrous metals	19.7	14.4	11.8	5.2	4.6	4.2	0.70	0.67	2.11	1.95	2.46	8.2	3.4	4.7	5.6
	Machinery	15.7	15.6	14.1	9.3	9.1	8.4	1.44	1.36	2.20	2.19	2.34	9.7	9.0	9.0	9.3
	Automobiles	9.5	11.0	9.4	4.7	6.3	5.6	1.12	1.06	3.09	3.32	3.59	12.2	11.8	9.9	10.9
	Electrical machinery, precision equipment	24.8	17.5	14.3	8.2	8.1	7.3	1.47	1.40	1.82	2.06	2.33	7.0	5.8	8.2	9.4
	Pharmaceuticals, healthcare	28.7	30.7	29.2	18.2	18.8	18.7	2.44	2.41	1.76	1.83	1.90	7.5	8.4	8.0	8.1
	Food products	25.4	24.1	22.5	14.9	14.6	14.0	2.70	2.54	1.72	1.97	2.17	10.6	10.3	10.8	11.0
	Household goods	27.3	24.2	22.5	15.7	15.4	14.4	2.73	2.58	1.34	1.42	1.54	10.9	9.8	11.0	11.1
	Trading companies	79.9	9.2	8.9	10.0	5.1	5.0	0.72	0.69	3.68	3.72	3.90	6.7	0.8	7.7	7.5
	Retailing	25.5	24.5	20.5	12.4	12.0	10.7	1.92	1.87	1.48	1.64	1.76	7.4	7.7	7.8	8.9
	Services	37.7	21.7	20.1	18.2	13.0	12.0	2.30	0.88	1.24	2.11	2.22	5.1	6.1	4.2	4.3
	Software	31.4	27.9	23.2	20.9	18.7	16.5	2.46	2.10	1.42	1.68	2.12	7.6	7.8	7.7	8.8
	Media	16.4	18.9	18.3	11.1	13.1	12.9	1.21	1.16	1.70	1.51	1.54	6.7	7.4	6.3	6.2
	Telecommunications	15.6	14.9	12.7	5.1	5.2	5.0	1.82	1.75	1.67	1.83	2.00	11.6	11.9	12.0	13.2
	Construction	12.4	10.8	10.3	10.4	9.2	8.9	1.63	1.37	1.70	2.02	2.23	6.7	13.4	13.3	12.6
	Housing, real estate	19.5	16.0	15.1	12.8	11.0	10.5	1.61	1.51	1.65	1.82	1.90	9.1	8.4	9.8	9.7
	Transportation	19.1	13.8	13.5	7.3	6.4	6.3	1.51	1.38	1.27	1.33	1.57	9.0	8.0	10.5	9.8
	Utilities	8.3	11.5	11.8	2.4	2.6	2.7	0.78	0.74	1.77	1.87	2.02	6.2	9.5	6.6	6.1
	Financials	8.3	7.8	7.6	-	-	-	0.59	0.54	3.35	3.28	3.49	7.7	7.0	7.3	7.0
Russell/Nomura Small Cap		17.5	14.7	13.7	-	-	-	1.13	1.05	1.72	1.89	1.97	6.9	6.5	7.3	7.4
Russell/Nomura Small Cap (ex financials)		19.1	15.3	14.2	9.4	8.2	7.8	1.24	1.15	1.67	1.84	1.91	7.0	6.5	7.8	7.9

Note: (1) Estimates as of 24 May 2016. (2) Share prices as of 24 May 2016 close.

Source: Nomura

# What are the Russell/Nomura Japan Equity Indexes?

The Russell/Nomura Japan Equity Indexes are Japanese equity indexes developed jointly by Frank Russell Company and the Global Research Division, Financial Engineering & Technology Research Center, Nomura Securities Co., Ltd.

Russell/Nomura Japan Equity Indexes should be useful in:

- Determining investment strategies (strategic asset allocation)
- Determining manager structures
- Devising asset management benchmarks
- Supporting portfolio management activities
- Evaluating the performance of various investment styles
- Managing risk

Russell/Nomura Japan Equity Indexes have the following characteristics:

- They are share price indexes that are weighted by free-float adjusted market capitalization and cover the top 98% of all listed stocks in terms of float-adjusted market capitalization, thereby offering broad market coverage
- In addition to stocks listed on the First Section of the Tokyo Stock Exchange (TSE-1), they include stocks listed on other exchanges
- Because the indexes take into consideration the stable shareholding ratio, they reflect the stocks that are actually available for investment
- There are style indexes for large and small companies and for value and growth stocks
- The Prime Index consists of the top 1,000 stocks in the Total Market Index by market cap excluding stable shareholdings
- Stocks are selected quantitatively based on clearly defined criteria
- The composition of each index is reviewed once a year.

Complete details of rules for the Russell/Nomura Japan Equity Index can be found in the Russell/Nomura Japan Equity Index Rulebook.

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When bonds are purchased via public offerings, secondary distributions, or other OTC transactions with Nomura Securities, only the purchase price shall be paid, with no sales commission charged. Bonds carry the risk of losses, as prices fluctuate in line with changes in market interest rates. Bond prices may also fall below the invested principal as a result of such factors as changes in the management and financial circumstances of the issuer, or changes in third-party valuations of the bond in question. In addition, foreign currency-denominated bonds also carry the risk of losses owing to factors such as foreign exchange rate fluctuations.

When Japanese government bonds (JGBs) for individual investors are purchased via public offerings, only the purchase price shall be paid, with no sales commission charged. As a rule, JGBs for individual investors may not be sold in the first 12 months after issuance. When JGBs for individual investors are sold before maturity, an amount calculated via the following formula will be subtracted from the par value of the bond plus accrued interest: (1) for 10-year variable rate bonds, an amount equal to the two preceding coupon payments (before tax) x 0.79685 will be used, (2) for 5-year and 3-year fixed rate bonds, an amount equal to the two preceding coupon payments (before tax) x 0.79685 will be used.

When inflation-indexed JGBs are purchased via public offerings, secondary distributions (uridashi deals), or other OTC transactions with Nomura Securities, only the purchase price shall be paid, with no sales commission charged. Inflation-indexed JGBs carry the risk of losses, as prices fluctuate in line with changes in market interest rates and fluctuations in the nationwide consumer price index. The notional principal of inflation-indexed JGBs changes in line with the rate of change in nationwide CPI inflation from the time of its issuance. The amount of the coupon payment is calculated by multiplying the coupon rate by the notional principal at the time of payment. The maturity value is the amount of the notional principal when the issue becomes due. For J17 and subsequent issues, the maturity value shall not undercut the face amount. Purchases of investment trusts (and sales of some investment trusts) are subject to a purchase or sales fee of up to 5.4% of the transaction amount. Also, a direct cost that may be incurred when selling investment trusts is a fee of up to 2.0% of the unit price at the time of redemption. Indirect costs that may be incurred during the course of holding investment trusts include, for domestic investment trusts, an asset management fee (trust fee) of up to 5.4% (annualized basis) of the net assets in trust, as well as fees based on investment performance. Other indirect costs may also be incurred. For foreign investment trusts, indirect fees may be incurred during the course of holding such as investment company compensation.

Investment trusts invest mainly in securities such as Japanese and foreign equities and bonds, whose prices fluctuate. Investment trust unit prices fluctuate owing to price fluctuations in the underlying assets and to foreign exchange rate fluctuations. As such, investment trusts carry the risk of losses. Fees and risks vary by investment trust. Maximum applicable fees are subject to change; please thoroughly read the written materials provided, such as prospectuses or documents delivered before making a contract.

In interest rate swap transactions and USD/JPY basis swap transactions ("interest rate swap transactions, etc."), only the agreed transaction payments shall be made on the settlement dates. Some interest rate swap transactions, etc. may require pledging of margin collateral. In some of these cases, transaction payments may exceed the amount of collateral. There shall be no advance notification of required collateral value or collateral ratios as they vary depending on the transaction. Interest rate swap transactions, etc. carry the risk of losses owing to fluctuations in market prices in the interest rate, currency and other markets, as well as reference indices. Losses incurred as such may exceed the value of margin collateral, in which case margin calls may be triggered. In the event that both parties agree to enter a replacement (or termination) transaction, the interest rates received (paid) under the new arrangement may differ from those in the original arrangement, even if terms other than the interest rates are identical to those in the original transaction. Risks vary by transaction. Please thoroughly read the written materials provided, such as documents delivered before making a contract and disclosure statements.

In OTC transactions of credit default swaps (CDS), no sales commission will be charged. When entering into CDS transactions, the protection buyer will be required to pledge or entrust an agreed amount of margin collateral. In some of these cases, the transaction payments may exceed the amount of margin collateral. There shall be no advance notification of required collateral value or collateral ratios as they vary depending on the financial position of the protection buyer. CDS transactions carry the risk of losses owing to changes in the credit position of some or all of the referenced entities, and/or fluctuations of the interest rate market. The amount the protection buyer receives in the event that the CDS is triggered by a credit event may undercut the total amount of premiums that he/she has paid in the course of the transaction. Similarly, the amount the protection seller pays in the event of a credit event may exceed the total amount of premiums that he/she has received in the transaction. All other conditions being equal, the amount of premiums that the protection buyer pays and that received by the protection seller shall differ. In principle, CDS transactions will be limited to financial instruments business operators and qualified institutional investors. No account fee will be charged for marketable securities or monies deposited. Transfers of equities to another securities company via the Japan Securities Depository Center are subject to a transfer fee of up to ¥10,800 per issue transferred depending on volume.

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