

Outlook for FY16–17 corporate earnings

Quarterly Update

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Summary and major assumptions

Overview of FY16 corporate earnings outlook

In this report, we collate and analyze earnings forecast data issued by our analysts. For FY16, our analysts forecast a sales decline of 3.7% y-y and recurring profit growth of 0.9% for companies in the Russell/Nomura Large Cap Index (ex financials). These forecasts represent downward revisions versus our previous forecasts issued in June 2016 (based on data collated on 24 May 2016) of 1.9ppt for sales and 2.0ppt for recurring profits. Our forex assumptions for FY16 are USD/JPY of 105.7 (previously 108.0) and EUR/JPY of 117.5 (previously 123.0). Our WTI assumption is \$45.1/bbl (\$40.0/bbl). Assuming that the yen will be ¥14 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. We concede, however, that it has become more difficult to rule out the possibility that corporate profits could turn downward under the current forex environment and bring the uptrend in profits to an end after four fiscal years. The revision index for recurring profit forecasts stands at -21.5%. This fourth consecutive quarter of negative readings for the revision index marks the longest since the seven straight quarters in negative territory marked from FY07 Q2 through FY08 Q4.

At the same time, combined downward revisions to our FY16 recurring profits came to only ¥708.8bn, shrinking to only slightly above 30% our previous revisions. The revision index also improved from -36.4% in our previous forecasts, and we think it would be reasonable to conclude that the worst is over for earnings.

In FY16 Q1, recurring profits at companies in the Russell/Nomura Large Cap Index (ex financials) fell 16.7% y-y on a 6.6% decrease in sales. While this is a milder recurring profit decline than the 26.5% y-y drop in FY15 Q4, this is mainly attributable to impairment at trading companies winding down, and actual earnings momentum in most sectors deteriorated further. As the profit declines also coincided with steeper sales declines in many cases, we think the inhospitable macroeconomic environment may have led directly to profit deterioration. We revise down our H1 recurring profit forecast only slightly, from a 14.9% y-y decline previously to a 15.8% y-y decline. This may reflect that Q1 earnings were not far from our forecasts. We expect the decline in profits to narrow further from Q3 onward as the drop in sales hits bottom.

Overview of the FY17 corporate earnings outlook

For FY17, our analysts look for sales growth of 3.1% y-y and recurring profit growth of 10.3% for companies in the Russell/Nomura Large Cap Index (ex financials). The current forecasts represent downward revisions of 0.1ppt for sales growth and 1.1ppt for recurring profit growth. As we are not far into FY16 yet, there have been no major revisions to FY17 forecasts at this point. Our forex assumptions for FY17 are USD/JPY of 105.0 (previously 108.0) and EUR/JPY of 116.0 (previously 123.0). Our WTI assumption is \$45.0/bbl (\$40.0/bbl).

The average ROE for Russell/Nomura Large Cap Index stocks was 7.7% in FY15, and we now forecast 8.2% in FY16 (breaking above the "bare minimum" of 8%) and 8.5% in FY17.

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	FY16E	FY17E
Sales	Russell/Nomura Large Cap (ex financials)	298	12.5	4.6	-0.4	-3.7	3.1	-1.8	3.2
	Manufacturing	174	12.3	4.3	0.2	-4.5	3.5	-2.6	3.8
	Basic materials	44	13.2	0.6	-9.0	-6.2	2.4	-3.4	3.7
	Processing	79	13.2	5.7	3.1	-4.7	3.9	-2.8	4.0
	Nonmanufacturing (ex financials)	124	12.7	5.0	-1.2	-2.5	2.5	-0.6	2.3
	Russell/Nomura Small Cap (ex financials)	950	9.3	3.6	1.8	1.2	3.1	2.1	2.8
Operating profits	Russell/Nomura Large Cap (ex financials)	298	34.3	5.2	8.7	-2.6	9.8	-0.5	10.9
	Manufacturing	174	37.1	5.8	2.9	-2.1	11.1	-0.8	13.2
	Basic materials	44	35.6	-14.0	8.6	2.8	7.2	1.1	16.3
	Processing	79	44.4	14.7	-2.0	-3.8	13.8	-1.4	14.4
	Nonmanufacturing (ex financials)	124	29.6	4.2	18.6	-3.3	8.0	-0.0	7.9
	Russell/Nomura Small Cap (ex financials)	950	28.4	4.3	10.5	4.8	9.2	8.0	6.4
Recurring profits	Russell/Nomura Large Cap	335	37.4	6.9	-0.6	0.3	8.5	3.7	9.7
	Russell/Nomura Large Cap (ex financials)	298	39.7	7.0	1.5	0.9	10.3	2.9	11.4
	Manufacturing	174	43.3	7.2	-1.9	-1.8	13.0	0.7	13.7
	Basic materials	44	33.5	-8.9	-7.4	5.3	10.4	5.4	18.1
	Processing	79	58.2	15.3	-4.2	-3.8	15.2	-0.4	14.6
	Nonmanufacturing	161	31.9	6.5	0.6	2.2	4.4	6.5	6.2
	Nonmanufacturing (ex financials)	124	34.0	6.6	7.1	4.8	6.7	6.2	8.2
	Russell/Nomura Small Cap	1,037	29.7	3.1	3.7	3.6	9.4	7.7	6.1
	Russell/Nomura Small Cap (ex financials)	950	27.3	5.0	4.1	5.9	10.2	9.9	6.7
Net profits	Russell/Nomura Large Cap	335	62.7	7.4	-3.9	9.6	7.7	11.6	10.2
	Russell/Nomura Large Cap (ex financials)	298	79.8	8.0	-4.7	12.1	10.0	12.7	12.1
	Manufacturing	174	80.9	10.2	-4.8	3.3	15.7	6.1	14.9
	Basic materials	44	85.9	-11.0	-27.1	45.7	17.8	57.6	14.9
	Processing	79	116.1	15.7	-3.0	-3.3	18.1	-0.7	17.4
	Nonmanufacturing	161	48.2	4.6	-3.0	15.7	0.8	16.9	6.1
	Nonmanufacturing (ex financials)	124	78.1	4.2	-4.6	26.4	2.4	23.3	8.1
	Russell/Nomura Small Cap	1,037	74.2	2.2	1.9	16.6	10.5	20.6	7.4
	Russell/Nomura Small Cap (ex financials)	950	80.6	3.9	0.0	20.5	12.4	25.6	8.2

Note: Latest estimates as of 23 August 2016. Previous estimates as of 24 May 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	FY15		-1.0	-0.10	45.0	120.0	132.5
	FY16E	New	-0.2	-0.30	45.1	105.7	117.5
		Old	1.3	-0.10	40.0	108.0	123.0
	FY17E		1.0	-0.70	45.0	105.0	116.0
Half year	FY15	H1	-0.4	0-0.10	52.2	121.7	135.1
		H2	-2.2	-0.10	37.8	118.4	129.9
	FY16E	H1 New	-0.7	-0.20	45.3	106.5	119.0
		H1 Old	0.0	-0.10	40.0	108.0	123.0
	FY16E	H2 New	0.9	-0.30	45.0	105.0	116.0
		H2 Old	2.6	-0.10	40.0	108.0	123.0
	FY17E	H1 New	1.2	-0.50	45.0	105.0	116.0
		H1 Old	-0.1	-0.10	40.0	108.0	123.0
	FY17E	H2 New	0.9	-0.70	45.0	105.0	116.0
		H2 Old	-1.9	-0.10	40.0	108.0	123.0

Note: Macroeconomic assumptions as of 15 July 2016. Previous assumptions as of 11 April 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. Call rate is the overnight uncollateralized call rate target, WTI is term-average WTI crude oil futures price (near-term delivery). 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 the FY16 corporate earnings outlook

For FY16, we project that recurring profits will increase in 10 of the 19 sectors and decline in nine.

Sectors from which we expect large contributions to overall profit growth include trading companies, electrical machinery & precision equipment, housing & real estate, and telecommunications. At this point we project substantial profit growth (over 20%) in the trading company, electrical machinery & precision equipment, and software sectors, although this is to a large extent in reaction to weakness the previous year. In the housing & real estate sector, commercial facility rental businesses have been doing well and condo selling prices have been firm. While there are some slight discrepancies between companies, monthly orders for the major house builders suggest that housing demand is in an overall recovery phase. There are signs that the Japanese telecom carriers are streamlining sales promotion expenses and normal overheads. 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 over the medium term.

Sectors that we expect to make large negative contributions to profit growth include automobiles, utilities, and transportation. We assume USD/JPY of 105.7 for FY16 versus 120.0 for FY15, which would pose a severe headwind for external demand-oriented sectors. For the automobile sector, we expect some degree of 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. We believe that concerns of a slowdown in Europe due to Brexit could be another negative factor at play. In the utilities sector, we expect to see delays in restarting nuclear power stations and electricity rate cuts triggered by the full deregulation of the electricity retail market in April 2016. In the transportation sector, we expect the marine transport subsector to swing to losses as we expect containership rates to deteriorate further due to excess supply. We believe that a more substantial reduction in supply across the industry will be needed for shipping rates to improve.

Overview of the FY17 corporate earnings outlook

For FY17, we project that recurring profits will increase in 18 of the 19 sectors and decrease in one.

Sectors from which we expect particularly large contributions to overall profit growth include automobiles, electrical machinery & precision equipment, telecommunications, machinery, and steel & nonferrous metal. We expect the rapid appreciation of the yen to quiet down in FY17, and assume that macroeconomic conditions will be relatively stable. The government has already decided to put off an additional consumption tax hike, and we expect a positive boost to the economy from the government's large-scale economic stimulus package. Against this backdrop, we expect earnings contributions to mainly come from processing industries, given their scale and latent growth potential.

While we expect recurring profits to fall in the financials sector, we believe that profits will basically remain in flat territory. We expect profits to continue to fall in the megabank, trust bank, and regional bank subsectors. These subsectors face a severe business environment due to the BOJ's adoption of negative interest rates, and it is becoming even tougher to grow lending profits. We expect increased focus on initiatives to improve efficiency and restructure operations in the negative interest rate environment.

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

FY16E				FY17E			
Increase in profits		Contribution (%)		Increase in profits		Contribution (%)	
	Growth	Contribution	Contribution (ex financials)		Growth	Contribution	Contribution (ex financials)
10 sectors				18 sectors			
Trading companies	187.2	1,020.1	392.9	Automobiles	13.2	24.8	24.8
Electrical machinery, precision equipment	22.7	586.6	225.9	Electrical machinery, precision equipment	21.1	23.3	23.3
Housing, real estate	12.7	159.0	61.2	Telecommunications	7.8	8.0	8.0
Telecommunications	5.0	140.6	54.1	Machinery	10.8	6.4	6.4
Chemicals	6.4	138.9	53.5	Steel, nonferrous metals	36.8	6.2	6.2
Software	20.9	48.7	18.8	Retailing	14.2	5.9	5.9
Food	4.1	47.2	18.2	Transportation	6.9	4.2	4.2
Construction	4.6	18.1	7.0	Chemicals	4.9	3.9	3.9
Household goods	3.8	18.1	7.0	Housing, real estate	7.1	3.5	3.5
Steel, nonferrous metals	0.1	0.7	0.3	Pharmaceuticals, healthcare	7.4	3.1	3.1
				Food	5.4	2.3	2.3
				Household goods	13.3	2.3	2.3
				Software	22.9	2.3	2.2
				Trading companies	3.7	2.0	2.0
				Construction	5.1	0.7	0.7
				Services	1.3	0.6	0.6
				Media	3.5	0.3	0.3
				Utilities	1.0	0.3	0.3
Decrease in profits		Contribution (%)		Decrease in profits		Contribution (%)	
	Growth	Contribution	Contribution (ex financials)		Growth	Contribution	Contribution (ex financials)
9 sectors				1 sector			
Retailing	-1.0	-11.7	-4.5	Financials	-0.1	-0.1	
Media	-5.9	-15.6	-6.0				
Services	-5.4	-71.2	-27.4				
Pharmaceuticals, healthcare	-6.5	-84.4	-32.5				
Machinery	-6.8	-124.4	-47.9				
Financials	-2.5	-159.6	-				
Transportation	-8.7	-167.2	-64.4				
Utilities	-42.7	-575.8	-221.8				
Automobiles	-13.8	-868.0	-334.3				

Source: Nomura

Revisions to recurring profit estimates (versus old estimates)

Overview of the FY16 corporate earnings outlook

We have raised our FY16 recurring profit forecasts for 5 of 19 sectors and lowered them for 14. The major revisions to our forex assumptions toward a stronger yen imply tougher conditions for external demand-oriented sectors.

The largest upward revisions were to our estimates for the trading companies and chemicals sectors. We raise our WTI assumption from \$40.0/bbl to \$45.1/bbl. We revised up our forecasts for trading companies and oil companies, which look likely to benefit from a rise in commodity prices for the first time in a long while. Upward revisions in the chemicals sector centered mainly on the oil subsector. Trading companies have been working to reduce costs in response to previous sharp deterioration in earnings, and the positive effects of these cost-cutting efforts were evident in the Q1 results of several of these companies.

Sectors for which we have made large downward revisions include financials, transportation, automobiles, services, electrical machinery & precision equipment, and machinery. The downward revisions to forecasts for the financials and services sectors were in part attributable to the deterioration in the earnings environment for financial business following the BOJ's introduction of negative interest rates in January. Forecasts for the transportation sector were adversely affected by downward revisions to our forecasts for containership market rates stemming from oversupply in the marine transport subsector. The downward revisions in the automobiles, electrical machinery & precision equipment, and machinery sectors reflect the stronger yen. Downward revisions in the automobiles and electrical machinery & precision equipment sectors also reflect the impact of the Kumamoto earthquakes. We lowered our forecasts for all sectors in the processing industry, but of these, the downward revisions to our forecasts for the automobiles sector were comparatively minimal. While constraints on production in Japan and Brexit-related concerns could hold down earnings, automakers have seen improvement in both volume and product mix in core markets such as North America and India, and should also see earnings support from real progress in reducing costs, including via lower raw material prices.

Overview of the FY17 corporate earnings outlook

We have raised our FY17 recurring profit forecasts for seven of the 19 sectors and lowered them for 12.

The largest upward revisions have been to our estimates for sectors such as trading companies, while our largest downward revisions were to our estimates for sectors such as financials, services, telecommunications, automobiles, transportation, and chemicals. As FY16 has effectively only just begun, many of the factors behind the revisions to our FY17 forecasts are in step with changes to our FY16 estimates.

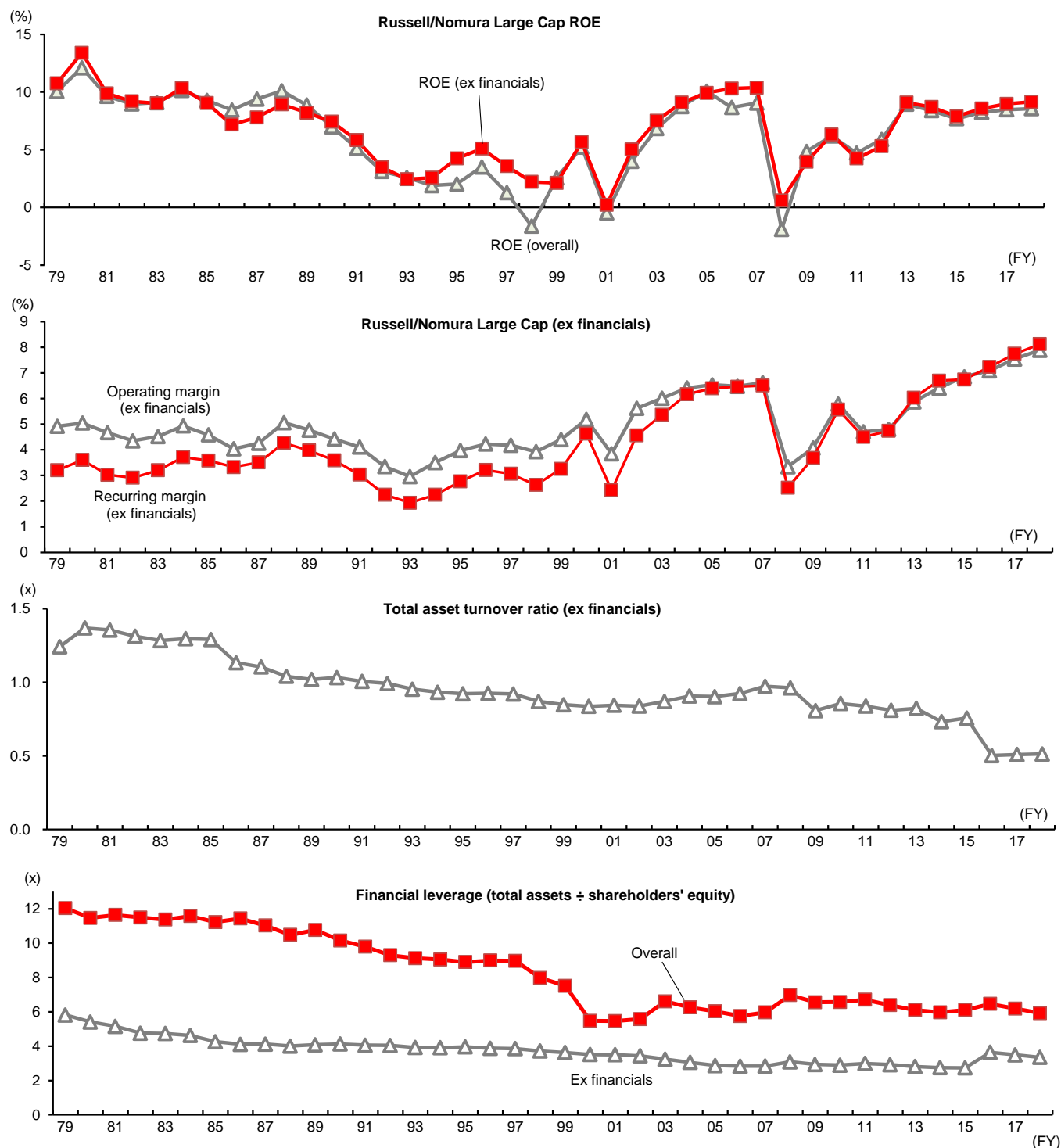
Fig. 4: Revisions to recurring profit estimates (versus old estimates) for the Russell/Nomura Large Cap Index

FY16E					FY17E				
[Upward revisions] 5 sectors					[Upward revisions] 7 sectors				
	New ¥bn	Old ¥bn	Revision ¥bn	Change %		New ¥bn	Old ¥bn	Revision ¥bn	Change %
Trading companies	1,888	1,738	150	8.6	Trading companies	1,958	1,790	168	9.4
Chemicals	2,771	2,665	106	4.0	Pharmaceuticals, healthcare	1,560	1,535	26	1.7
Telecommunications	3,556	3,518	39	1.1	Housing, real estate	1,819	1,801	17	1.0
Media	303	296	7	2.3	Retailing	1,645	1,633	12	0.7
Housing, real estate	1,699	1,698	1	0.0	Media	313	305	8	2.6
					Software	418	414	5	1.2
					Construction	520	520	1	0.1
[Downward revisions] 14 sectors					[Downward revisions] 12 sectors				
	New ¥bn	Old ¥bn	Revision ¥bn	Change %		New ¥bn	Old ¥bn	Revision ¥bn	Change %
Construction	495	496	-1	-0.2	Household goods	676	677	-1	-0.1
Food	1,459	1,460	-1	-0.1	Food	1,538	1,549	-11	-0.7
Software	340	348	-8	-2.2	Utilities	942	973	-32	-3.3
Household goods	596	608	-12	-1.9	Steel, nonferrous metals	796	869	-73	-8.4
Pharmaceuticals, healthcare	1,453	1,470	-17	-1.1	Electrical machinery, precision equipment	4,629	4,725	-96	-2.0
Utilities	933	949	-17	-1.8	Machinery	2,282	2,422	-141	-5.8
Retailing	1,441	1,462	-21	-1.4	Chemicals	2,906	3,096	-190	-6.2
Steel, nonferrous metals	582	692	-110	-15.9	Transportation	2,269	2,461	-192	-7.8
Machinery	2,059	2,200	-142	-6.4	Automobiles	7,388	7,589	-201	-2.6
Electrical machinery, precision equipment	3,822	3,964	-142	-3.6	Telecommunications	3,835	4,057	-223	-5.5
Services	1,503	1,659	-156	-9.4	Services	1,523	1,753	-231	-13.2
Automobiles	6,529	6,691	-162	-2.4	Financials	7,362	8,308	-946	-11.4
Transportation	2,123	2,348	-224	-9.6					
Financials	7,367	8,104	-737	-9.1					

Note: Latest estimates as of 23 August 2016, previous estimates as of 24 May 2016.

Source: Nomura

Fig. 5: Breakdown of factors affecting ROE

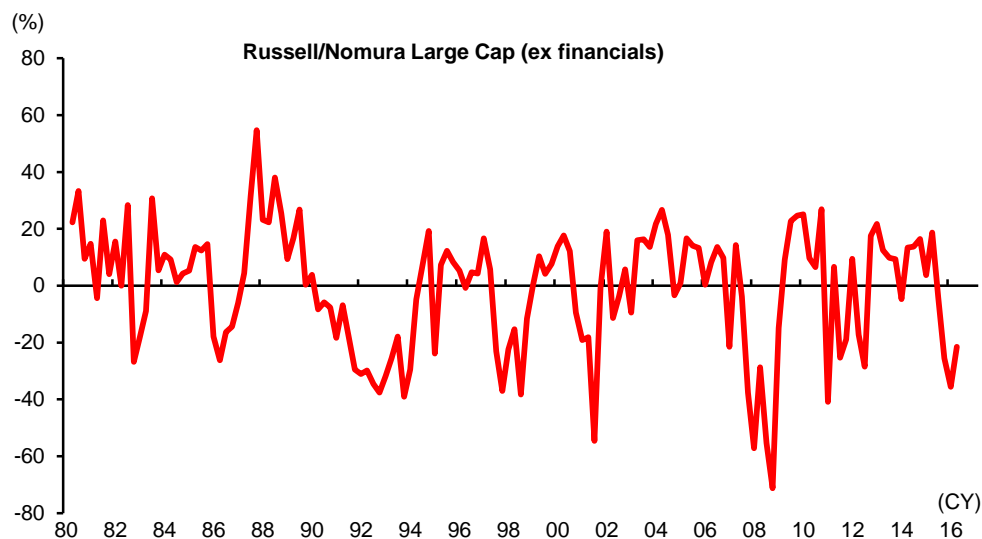


Note: Figures for FY16 onward are estimates. As of 23 August 2016.

Source: Nomura

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

	(yy/m)	14/12	15/3	15/6	15/9	15/12	16/3	16/6	16/9
Russell/Nomura Large Cap		13.2	20.4	4.2	21.8	-3.6	-24.0	-36.4	-22.1
Russell/Nomura Large Cap (ex financials)		13.8	16.4	3.7	18.7	-4.3	-25.6	-35.6	-21.5
Manufacturing		18.3	22.2	0.0	19.4	-19.4	-38.5	-41.4	-33.9
Basic materials		7.9	28.3	28.3	19.6	-17.4	-27.3	-29.5	-20.5
Processing		33.3	33.3	-12.6	-1.1	-35.6	-75.9	-73.4	-59.5
Nonmanufacturing (ex financials)		6.9	7.6	9.2	17.5	18.3	-7.3	-27.4	-4.0



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	FY16E	FY16E	FY17E	FY17E
							Old	New	Old	New	
Industrial groups	Russell/Nomura Large Cap (ex financials)	298	1.4	2.7	12.5	4.6	-0.4	-1.8	-3.7	3.2	3.1
	Manufacturing	174	0.2	3.0	12.3	4.3	0.2	-2.6	-4.5	3.8	3.5
	Basic materials	44	4.8	-0.5	13.2	0.6	-9.0	-3.4	-6.2	3.7	2.4
	Processing	79	-2.0	4.8	13.2	5.7	3.1	-2.8	-4.7	4.0	3.9
	Nonmanufacturing (ex financials)	124	3.0	2.2	12.7	5.0	-1.2	-0.6	-2.5	2.3	2.5
Broad sectors	Materials	44	4.8	-0.5	13.2	0.6	-9.0	-3.4	-6.2	3.7	2.4
	Machinery, autos	46	-0.1	10.0	15.4	7.8	5.7	-2.2	-4.4	4.5	4.4
	Electronics	33	-4.3	-1.6	10.1	2.7	-0.9	-3.7	-5.2	3.2	3.0
	Consumer, distribution	93	3.3	0.8	11.2	3.7	-1.4	-1.0	-3.1	2.7	2.9
	Information	22	1.5	3.4	20.1	9.6	5.7	1.9	0.4	4.0	4.7
	Utilities, infrastructure	60	2.2	5.3	10.0	5.2	-1.3	-1.0	-2.0	1.4	1.2
Sectors	Chemicals	36	6.5	0.8	12.5	-1.1	-9.9	-2.2	-5.6	3.4	1.8
	Steel, nonferrous metals	8	0.7	-4.3	15.1	4.7	-6.8	-6.5	-7.5	4.3	3.8
	Machinery	24	5.0	2.2	15.4	11.1	3.3	0.3	-1.4	4.1	4.8
	Autos	22	-1.6	12.5	15.5	6.9	6.5	-2.9	-5.3	4.6	4.3
	Electrical machinery, precision equipment	33	-4.3	-1.6	10.1	2.7	-0.9	-3.7	-5.2	3.2	3.0
	Pharmaceuticals, healthcare	22	3.0	2.0	7.8	0.6	5.2	-1.1	-1.8	2.8	3.1
	Food products	16	-0.9	3.3	5.4	6.7	1.6	0.7	0.1	3.1	2.8
	Household goods	13	2.9	4.4	9.9	11.5	6.0	-1.7	-3.9	4.1	4.5
	Trading companies	7	6.1	-1.0	14.0	2.7	-9.7	-3.2	-9.0	1.9	2.6
	Retailing	22	-2.5	3.7	10.0	5.7	7.3	2.6	1.9	3.8	4.2
	Services	13	-2.4	1.5	3.5	-0.4	4.1	-1.5	-0.6	1.8	1.3
	Software	9	-14.9	-4.0	3.6	1.4	-0.1	6.5	2.4	8.8	10.1
	Media	5	1.9	4.8	10.5	5.1	12.0	-3.4	-0.1	1.7	2.0
	Telecommunications	8	3.5	3.8	24.4	10.9	5.5	2.1	0.3	3.8	4.4
	Construction, engineering	5	7.7	7.5	6.8	7.2	1.7	3.9	3.6	1.4	1.5
	Housing, real estate	17	2.7	6.1	14.5	7.9	4.3	5.0	4.7	2.6	2.8
	Transportation	25	-0.7	3.4	7.2	3.4	0.3	0.3	-2.2	1.6	1.5
	Utilities	13	3.4	5.9	11.0	4.7	-7.7	-8.4	-8.6	0.4	-0.5

Note: Figures exclude listed consolidated subsidiaries. Latest estimates as of 23 August 2016, previous estimates as of 24 May 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	FY16E Old	FY16E New	FY17E Old	FY17E New
Industrial groups	Russell/Nomura Large Cap (ex financials)	298	-18.6	4.5	34.3	5.2	8.7	-0.5	-2.6	10.9	9.8
	Manufacturing	174	-14.2	7.5	37.1	5.8	2.9	-0.8	-2.1	13.2	11.1
	Basic materials	44	-9.8	-22.6	35.6	-14.0	8.6	1.1	2.8	16.3	7.2
	Processing	79	-20.6	29.1	44.4	14.7	-2.0	-1.4	-3.8	14.4	13.8
	Nonmanufacturing (ex financials)	124	-24.6	-0.4	29.6	4.2	18.6	-0.0	-3.3	7.9	8.0
Broad sectors	Materials	44	-9.8	-22.6	35.6	-14.0	8.6	1.1	2.8	16.3	7.2
	Machinery, autos	46	-10.9	42.9	46.2	14.0	4.2	-11.2	-13.5	12.9	11.6
	Electronics	33	-32.7	6.7	40.3	16.3	-16.4	26.6	23.6	17.5	18.0
	Consumer, distribution	93	0.8	-6.4	14.7	-9.0	9.3	1.7	0.1	7.3	6.7
	Information	22	-3.7	4.3	15.2	-2.1	14.8	9.2	6.4	12.2	12.3
	Utilities, infrastructure	60	-57.7	10.4	69.1	22.9	32.3	-7.9	-11.4	4.3	5.0
Sectors	Chemicals	36	-1.1	-21.3	16.7	-26.6	36.1	1.3	7.2	14.7	2.7
	Steel, nonferrous metals	8	-37.1	-30.2	151.9	21.4	-37.3	0.4	-14.3	22.3	28.8
	Machinery	24	6.1	-7.9	30.4	22.8	-1.6	-3.8	-9.1	8.8	9.4
	Autos	22	-19.8	77.2	51.7	11.3	6.2	-13.6	-14.9	14.3	12.4
	Electrical machinery, precision equipment	33	-32.7	6.7	40.3	16.3	-16.4	26.6	23.6	17.5	18.0
	Pharmaceuticals, healthcare	22	-7.6	-6.9	20.5	-18.2	48.7	-6.6	-5.9	3.7	3.8
	Food products	16	4.1	9.0	11.6	4.1	-0.3	3.9	4.0	6.0	5.4
	Household goods	13	0.5	-2.3	23.3	7.8	8.5	5.6	5.2	9.9	10.4
	Trading companies	7	6.3	-24.8	18.7	-23.6	-16.3	1.0	6.0	11.5	12.2
	Retailing	22	7.5	-3.5	6.0	-3.6	15.1	4.1	3.1	10.1	11.7
	Services	13	-15.9	15.3	14.6	-5.3	-5.4	4.6	-5.4	5.6	1.0
	Software	9	-53.3	-32.9	13.2	33.9	1.3	18.8	16.8	19.7	23.2
	Media	5	3.6	19.4	9.6	9.3	13.9	-8.0	-4.6	3.3	3.6
	Telecommunications	8	3.1	5.9	15.7	-5.3	16.5	9.9	6.5	12.3	12.1
	Construction, engineering	5	18.3	-10.8	30.0	34.6	116.8	3.7	3.4	4.9	5.2
	Housing, real estate	17	0.6	12.6	26.0	3.4	14.4	8.4	8.9	5.6	6.5
	Transportation	25	-17.3	20.4	8.4	6.7	11.0	1.4	-7.0	4.7	6.2
	Utilities	13	SL	LI	SP	192.2	87.6	-37.6	-38.8	1.2	-0.1

Note: (1) Figures exclude listed consolidated subsidiaries. Latest estimates as of 23 August 2016, previous estimates as of 24 May 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	FY16E	FY16E	FY17E	FY17E
							Old	New	Old	New	
Industrial groups	Russell/Nomura Large Cap	335	-12.1	12.8	37.4	6.9	-0.6	3.7	0.3	9.7	8.5
	Russell/Nomura Large Cap (ex financials)	298	-19.5	7.7	39.7	7.0	1.5	2.9	0.9	11.4	10.3
	Manufacturing	174	-17.9	10.3	43.3	7.2	-1.9	0.7	-1.8	13.7	13.0
	Basic materials	44	-7.1	-19.2	33.5	-8.9	-7.4	5.4	5.3	18.1	10.4
	Processing	79	-29.3	36.4	58.2	15.3	-4.2	-0.4	-3.8	14.6	15.2
	Nonmanufacturing	161	-5.9	15.2	31.9	6.5	0.6	6.5	2.2	6.2	4.4
	Nonmanufacturing (ex financials)	124	-21.7	3.5	34.0	6.6	7.1	6.2	4.8	8.2	6.7
Broad sectors	Materials	44	-7.1	-19.2	33.5	-8.9	-7.4	5.4	5.3	18.1	10.4
	Machinery, autos	46	-11.5	42.5	47.6	16.2	1.9	-9.2	-12.2	12.6	12.6
	Electronics	33	-54.9	19.7	92.9	13.0	-19.7	27.3	22.7	19.2	21.1
	Consumer, distribution	93	5.9	-4.1	15.7	-9.0	-7.6	16.1	15.3	6.4	6.7
	Information	22	0.0	7.3	16.2	8.0	4.3	4.3	5.2	14.8	8.7
	Utilities, infrastructure	60	-70.2	30.2	102.6	28.3	37.3	-8.1	-11.5	4.8	5.7
	Financials	37	33.7	34.8	29.3	6.5	-8.6	7.2	-2.5	2.5	-0.1
Sectors	Chemicals	36	1.8	-19.2	16.3	-21.7	21.6	2.4	6.4	16.2	4.9
	Steel, nonferrous metals	8	-34.3	-18.9	119.5	24.0	-54.6	19.1	0.1	25.6	36.8
	Machinery	24	7.9	-5.1	31.9	23.7	-6.6	-0.7	-6.8	10.1	10.8
	Autos	22	-20.8	72.8	53.0	13.9	4.7	-11.7	-13.8	13.4	13.2
	Electrical machinery, precision equipment	33	-54.9	19.7	92.9	13.0	-19.7	27.3	22.7	19.2	21.1
	Pharmaceuticals, healthcare	22	-9.0	-4.9	14.0	-15.3	39.2	-5.5	-6.5	4.4	7.4
	Food products	16	5.2	9.1	13.0	4.9	-0.5	4.1	4.1	6.1	5.4
	Household goods	13	1.9	0.1	20.3	11.0	3.3	5.9	3.8	11.3	13.3
	Trading companies	7	22.6	-15.1	25.9	-20.6	-62.2	164.3	187.2	3.0	3.7
	Retailing	22	7.9	-2.5	5.6	-4.8	13.4	0.4	-1.0	11.7	14.2
	Services	13	-14.7	16.6	12.8	-2.4	-5.6	4.4	-5.4	5.7	1.3
	Software	9	-53.5	8.4	14.9	22.6	-11.4	23.6	20.9	18.8	22.9
	Media	5	14.5	7.6	10.8	11.0	10.4	-7.9	-5.9	3.1	3.5
	Telecommunications	8	6.2	7.2	16.8	6.5	5.6	3.9	5.0	15.3	7.8
	Construction, engineering	5	49.0	-1.0	25.3	38.4	92.4	4.8	4.6	4.7	5.1
	Housing, real estate	17	-0.9	20.8	29.5	4.6	11.3	9.3	12.7	6.1	7.1
	Transportation	25	-18.9	30.9	15.1	10.4	13.3	1.0	-8.7	4.8	6.9
	Utilities	13	SL	LI	SP	1,682.0	146.7	-41.7	-42.7	2.5	1.0
	Financials	37	33.7	34.8	29.3	6.5	-8.6	7.2	-2.5	2.5	-0.1

Note: (1) Figures exclude listed consolidated subsidiaries. Latest estimates as 23 August 2016, previous estimates as of 24 May 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	FY16E Old	FY16E New	FY17E Old	FY17E New
Industrial groups	Russell/Nomura Large Cap	335	-25.3	36.3	62.7	7.4	-3.9	11.6	9.6	10.2	7.7
	Russell/Nomura Large Cap (ex financials)	298	-35.2	26.7	79.8	8.0	-4.7	12.7	12.1	12.1	10.0
	Manufacturing	174	-42.9	30.8	80.9	10.2	-4.8	6.1	3.3	14.9	15.7
	Basic materials	44	-34.6	-30.8	85.9	-11.0	-27.1	57.6	45.7	14.9	17.8
	Processing	79	-57.2	77.5	116.1	15.7	-3.0	-0.7	-3.3	17.4	18.1
	Nonmanufacturing	161	-2.6	41.0	48.2	4.6	-3.0	16.9	15.7	6.1	0.8
	Nonmanufacturing (ex financials)	124	-19.2	20.4	78.1	4.2	-4.6	23.3	26.4	8.1	2.4
Broad sectors	Materials	44	-34.6	-30.8	85.9	-11.0	-27.1	57.6	45.7	14.9	17.8
	Machinery, autos	46	-16.9	58.6	56.2	14.8	1.5	-10.9	-13.0	15.3	15.4
	Electronics	33	SL	LS	SP	18.4	-17.1	36.5	32.1	22.4	24.4
	Consumer, distribution	93	5.9	9.3	14.3	-6.2	-20.2	30.7	29.7	7.6	8.8
	Information	22	-2.0	9.9	16.5	14.8	7.2	6.7	29.3	16.4	-7.9
	Utilities, infrastructure	60	SL	LS	SP	19.2	16.9	12.1	5.5	2.5	4.1
	Financials	37	24.7	66.7	18.9	5.2	-0.9	7.4	-0.1	2.8	-2.1
Sectors	Chemicals	36	-21.7	-30.5	34.1	-24.6	-1.1	69.4	65.1	12.8	10.6
	Steel, nonferrous metals	8	-78.5	-33.1	590.0	13.1	-56.7	26.5	-5.7	22.2	51.2
	Machinery	24	4.9	-0.0	38.9	17.9	-2.8	-0.3	-6.7	10.4	11.9
	Autos	22	-26.5	94.6	61.7	14.0	2.8	-13.9	-14.7	16.8	16.4
	Electrical machinery, precision equipment	33	SL	LS	SP	18.4	-17.1	36.5	32.1	22.4	24.4
	Pharmaceuticals, healthcare	22	-29.4	45.6	-2.7	7.8	14.6	-3.5	-3.5	4.8	7.1
	Food products	16	18.7	20.0	21.7	4.9	0.0	5.5	7.0	7.2	4.4
	Household goods	13	-20.8	32.9	32.9	32.5	-5.9	14.8	17.1	7.5	7.4
	Trading companies	7	25.8	-11.9	22.6	-23.5	-88.0	772.5	825.0	2.8	6.4
	Retailing	22	24.9	2.0	4.9	-7.8	5.7	4.1	-1.9	19.3	25.4
	Services	13	-38.2	103.2	13.9	-19.6	4.9	5.3	-5.8	8.1	5.8
	Software	9	-61.2	51.8	-14.3	35.8	-6.9	31.4	27.8	20.2	25.6
	Media	5	57.8	-7.7	-1.5	16.5	22.2	-13.3	-8.5	3.4	3.6
	Telecommunications	8	3.2	9.2	22.0	12.7	7.5	6.6	33.8	17.2	-11.9
	Construction, engineering	5	-81.6	440.1	38.5	30.2	117.6	11.9	11.9	4.7	5.0
	Housing, real estate	17	-16.3	54.1	41.2	18.4	0.6	23.2	22.8	6.1	7.1
	Transportation	25	-37.9	59.5	44.4	1.8	-4.9	35.8	19.2	1.8	5.4
	Utilities	13	LI	LS	SP	79.6	63.7	-27.4	-29.2	-2.7	-3.6
	Financials	37	24.7	66.7	18.9	5.2	-0.9	7.4	-0.1	2.8	-2.1

Note: (1) Figures exclude listed consolidated subsidiaries. Latest estimates as 23 August 2016, previous estimates as of 24 May 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	FY16E Old	FY16E New	FY17E Old	FY17E New
Industrial groups	Russell/Nomura Large Cap	335	23,168	26,521	36,708	38,488	39,670	42,364	40,919	46,477	44,378
	Russell/Nomura Large Cap (ex financials)	298	18,302	20,556	28,994	30,350	32,151	34,261	33,552	38,169	37,016
	Manufacturing	174	11,132	12,917	18,323	19,085	19,524	19,750	19,271	22,462	21,775
	Basic materials	44	3,588	3,101	3,931	3,325	3,177	3,357	3,353	3,965	3,702
	Processing	79	5,052	7,167	11,295	12,834	12,880	12,855	12,409	14,736	14,299
	Nonmanufacturing	161	12,037	13,604	18,385	19,403	20,146	22,615	21,648	24,015	22,603
	Nonmanufacturing (ex financials)	124	7,170	7,639	10,671	11,265	12,627	14,511	14,281	15,707	15,241
Broad sectors	Materials	44	3,588	3,101	3,931	3,325	3,177	3,357	3,353	3,965	3,702
	Machinery, autos	46	3,731	5,480	8,052	9,213	9,835	8,891	8,588	10,011	9,670
	Electronics	33	1,321	1,687	3,243	3,621	3,045	3,964	3,822	4,725	4,629
	Consumer, distribution	93	5,869	5,829	6,841	6,151	6,048	8,396	8,340	8,936	8,899
	Information	22	2,783	3,039	3,645	3,841	4,087	4,162	4,200	4,776	4,566
	Utilities, infrastructure	60	1,010	1,419	3,281	4,198	5,959	5,491	5,250	5,755	5,550
	Financials	37	4,867	5,965	7,714	8,138	7,519	8,104	7,367	8,308	7,362
Sectors	Chemicals	36	2,959	2,606	2,851	2,059	2,583	2,665	2,771	3,096	2,906
	Steel, nonferrous metals	8	629	495	1,080	1,266	594	692	582	869	796
	Machinery	24	1,472	1,416	1,855	2,306	2,264	2,200	2,059	2,422	2,282
	Autos	22	2,260	4,064	6,197	6,908	7,571	6,691	6,529	7,589	7,388
	Electrical machinery, precision equipment	33	1,321	1,687	3,243	3,621	3,045	3,964	3,822	4,725	4,629
	Pharmaceuticals, healthcare	22	1,215	1,170	1,314	1,113	1,578	1,470	1,453	1,535	1,560
	Food products	16	938	1,107	1,306	1,341	1,383	1,460	1,459	1,549	1,538
	Household goods	13	338	371	477	471	507	608	596	677	676
	Trading companies	7	1,993	1,706	2,026	1,740	657	1,738	1,888	1,790	1,958
	Retailing	22	1,071	1,110	1,277	1,087	1,386	1,462	1,441	1,633	1,645
	Services	13	313	364	441	399	538	1,659	1,503	1,753	1,523
	Software	9	148	173	245	324	352	348	340	414	418
	Media	5	239	227	251	271	322	296	303	305	313
	Telecommunications	8	2,396	2,639	3,150	3,246	3,414	3,518	3,556	4,057	3,835
	Construction, engineering	5	123	122	181	212	462	496	495	520	520
	Housing, real estate	17	737	956	1,264	1,363	1,604	1,698	1,699	1,801	1,819
	Transportation	25	1,049	1,406	1,799	1,963	2,267	2,348	2,123	2,461	2,269
	Utilities	13	-898	-1,065	37	660	1,627	949	933	973	942
	Financials	37	4,867	5,965	7,714	8,138	7,519	8,104	7,367	8,308	7,362

Note: Figures exclude listed consolidated subsidiaries. Latest estimates as 23 August 2016, previous estimates as of 24 May 2016.

Source: Nomura

Fig. 12: Percentage change in quarterly sales and profits (FY15 Q2–FY16 Q1)

		% y-y															
		Sales				Operating profits				Recurring profits				Net profits			
		Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Industrial groups	Russell/Nomura Large Cap	-	-	-	-	-	-	-	-	-4.6	-4.3	-23.6	-18.9	-7.7	-12.7	-40.1	-20.5
	Russell/Nomura Large Cap (ex financials)	2.1	-2.7	-5.3	-6.6	15.3	5.0	-16.3	-8.8	0.9	-1.5	-26.5	-16.7	-3.8	-14.2	-51.0	-19.8
	Manufacturing	3.0	-2.2	-5.3	-7.9	9.4	-0.3	-12.3	-10.6	0.5	-9.5	-18.4	-21.5	3.7	-28.2	-11.8	-22.5
	Basic materials	-8.0	-12.5	-12.2	-14.4	-18.8	57.3	-11.1	-28.1	-31.4	2.1	-30.2	-43.4	-41.0	-60.7	SL	-47.5
	Processing	7.0	1.5	-4.2	-7.1	14.6	-7.3	-26.0	-13.4	6.5	-12.3	-29.0	-23.3	9.8	-23.5	-10.9	-24.8
	Nonmanufacturing	-	-	-	-	-	-	-	-	-9.0	1.8	-28.7	-16.7	-16.6	7.9	-69.8	-18.8
	Nonmanufacturing (ex financials)	0.9	-3.6	-5.2	-4.9	24.4	14.9	-22.8	-6.6	1.5	15.5	-39.6	-10.3	-13.0	22.6	SL	-16.1
Broad sectors	Basic materials	-8.0	-12.5	-12.2	-14.4	-18.8	57.3	-11.1	-28.1	-31.4	2.1	-30.2	-43.4	-41.0	-60.7	SL	-47.5
	Machinery, autos	9.7	3.6	-1.4	-6.0	15.8	-1.1	-11.7	-12.0	4.7	-4.8	-11.5	-20.5	6.7	1.1	-21.6	-26.0
	Electronics	3.0	-1.7	-8.4	-8.9	12.0	-19.3	-58.4	-17.7	11.3	-27.8	-82.1	-31.3	19.4	-76.6	55.0	-20.9
	Consumption, distribution	-0.0	-4.3	-5.2	-5.1	20.4	-4.1	-27.1	-1.0	4.8	-2.9	-63.3	-5.7	14.3	-19.6	SL	-8.1
	Information	7.9	1.8	5.3	2.1	25.4	2.2	17.3	17.3	-19.4	-2.8	18.7	4.6	-24.2	-0.4	39.5	17.0
	Utilities, infrastructure	1.8	-2.9	-6.1	-5.6	25.6	42.2	-2.0	-14.2	28.0	48.5	-2.7	-13.9	-10.1	97.7	-95.9	-26.9
	Financials	-	-	-	-	-	-	-	-	-26.2	-15.0	-11.3	-27.5	-23.3	-7.2	15.4	-23.4
Sectors	Chemicals	-9.1	-13.6	-12.4	-14.5	-15.8	234.9	22.3	-19.3	-26.2	130.3	-2.0	-32.7	-39.2	-33.5	LS	-31.3
	Steel, nonferrous metals	-5.1	-9.4	-11.6	-14.2	-26.2	-46.7	-59.1	-65.8	-42.9	-81.8	-75.2	-84.2	-43.4	-98.5	SL	-95.9
	Machinery	6.2	3.1	-4.5	-6.3	-1.6	-3.6	-5.6	-19.6	-17.5	-11.6	-9.3	-39.7	-9.6	-13.5	0.0	-34.6
	Automobiles	10.7	3.7	-0.4	-5.9	22.1	-0.4	-14.2	-9.8	12.7	-2.7	-12.4	-15.1	11.8	5.6	-28.0	-23.7
	Electrical machinery, precision equipment	3.0	-1.7	-8.4	-8.9	12.0	-19.3	-58.4	-17.7	11.3	-27.8	-82.1	-31.3	19.4	-76.6	55.0	-20.9
	Pharmaceuticals, healthcare	5.1	2.4	4.7	0.4	28.8	4.5	SP	42.0	20.3	0.1	SP	31.2	30.7	-5.2	34.3	38.4
	Food products	3.4	-6.6	1.1	-2.8	14.6	-18.5	24.8	2.2	13.5	-17.5	11.6	0.6	43.7	-57.8	7.1	-8.3
	Household goods	9.5	10.0	-1.8	-2.7	14.2	4.8	16.9	4.5	1.6	1.6	12.1	-5.9	-23.1	27.8	45.3	19.3
	Trading companies	-7.5	-12.8	-14.9	-14.3	42.3	-13.9	SL	-23.4	-10.5	8.6	SL	-23.3	-1.7	-26.7	SL	-28.5
	Retailing	9.0	6.9	3.3	1.4	13.1	5.9	-3.6	5.8	6.6	-0.7	-10.3	-0.4	-3.7	-18.0	-21.4	-7.8
	Services	5.9	4.4	5.1	0.3	-5.0	-1.5	13.3	-25.9	-9.1	-1.5	20.3	-26.3	10.9	9.5	57.0	-31.0
	Software	13.7	-6.4	0.4	1.4	32.9	-11.0	-0.7	21.0	-6.1	-29.6	-7.7	-64.5	-13.3	-24.8	49.0	-48.3
	Media	9.2	-0.6	7.0	5.2	14.7	-14.1	51.0	44.2	0.6	-15.3	51.1	46.5	4.8	-4.0	90.9	63.5
	Telecommunications	7.2	3.2	5.5	1.8	25.6	6.8	16.4	15.8	-21.4	5.5	18.5	7.1	-26.8	7.0	33.1	19.2
	Construction, engineering	4.4	0.4	-4.6	-2.0	154.7	64.6	144.3	44.6	94.9	46.4	130.9	23.7	87.5	59.9	287.2	25.9
	Housing, real estate	11.1	4.2	-1.1	4.1	34.8	19.3	-9.1	11.1	35.2	16.4	-18.9	25.3	41.5	12.0	-30.7	25.3
	Transportation	3.5	-1.4	-3.7	-4.8	18.1	2.9	-3.4	-11.6	17.1	2.5	2.9	-14.5	11.9	1.1	SL	-19.0
	Utilities	-7.0	-10.5	-12.4	-13.8	17.6	SP	-19.1	-31.5	30.2	SP	-14.7	-31.9	-48.8	SP	SL	-53.4
	Financials	-	-	-	-	-	-	-	-	-26.2	-15.0	-11.3	-27.5	-23.3	-7.2	15.4	-23.4

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 23 August 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			
		FY16			FY16E	FY17E	FY18E	FY15	FY16E	FY16E	FY17E	FY18E	FY15	FY16E	FY17E	FY18E
		x	x	x	x	x	x	x	x	%	%	%	%	%	%	%
Industrial groups	Russell/Nomura Large Cap	14.3	13.3	12.4	-	-	-	1.23	1.16	2.29	2.45	2.59	7.7	8.2	8.5	8.6
	Russell/Nomura Large Cap (ex loss-making cos)	14.0	13.2	12.3	-	-	-	1.29	1.16	2.30	2.46	2.60	8.8	8.4	8.5	8.6
	Russell/Nomura Large Cap (ex financials)	15.7	14.3	13.2	7.7	7.2	6.9	1.42	1.32	2.19	2.35	2.49	7.9	8.6	9.0	9.2
	Manufacturing	16.5	14.3	13.1	8.5	7.8	7.4	1.41	1.38	2.33	2.50	2.69	8.1	8.5	9.4	9.6
	Basic materials	15.2	12.9	11.8	5.9	5.4	5.1	0.93	0.91	2.09	2.36	2.49	3.8	6.0	6.9	7.1
	Processing	14.5	12.3	11.2	7.7	6.9	6.5	1.33	1.28	2.55	2.74	2.97	9.3	9.0	10.1	10.4
	Nonmanufacturing	12.3	12.2	11.7	-	-	-	1.06	0.97	2.25	2.38	2.47	7.3	8.0	7.7	7.7
	Nonmanufacturing (ex financials)	14.5	14.2	13.4	6.7	6.5	6.3	1.42	1.24	1.98	2.11	2.20	7.6	8.7	8.5	8.5
Broad sectors	Basic materials	15.2	12.9	11.8	5.9	5.4	5.1	0.93	0.91	2.09	2.36	2.49	3.8	6.0	6.9	7.1
	Machinery, autos	12.7	11.0	10.1	7.3	6.6	6.1	1.24	1.18	2.90	3.04	3.32	11.0	9.5	10.4	10.6
	Electronics	18.9	15.2	13.5	8.6	7.7	7.2	1.52	1.49	1.99	2.24	2.41	5.8	8.1	9.5	10.0
	Consumption, distribution	20.6	18.9	17.6	11.8	11.2	10.7	1.81	1.51	2.14	2.25	2.36	6.2	7.4	7.8	8.0
	Information	13.7	14.9	13.9	5.9	6.1	5.8	1.85	1.73	1.76	1.96	2.08	10.8	12.9	11.2	11.2
	Utilities, infrastructure	13.1	12.6	12.2	5.6	5.5	5.3	1.21	1.14	1.82	1.89	1.94	8.9	8.9	8.7	8.5
	Financials	8.2	8.4	8.3	-	-	-	0.58	0.58	3.13	3.26	3.36	7.0	7.1	6.7	6.4
Sectors	Chemicals	14.5	13.1	12.1	6.2	5.9	5.6	1.04	1.00	2.26	2.37	2.44	4.0	7.1	7.5	7.7
	Steel, nonferrous metals	18.7	12.3	10.9	4.9	4.1	3.9	0.67	0.68	1.50	2.35	2.67	3.4	3.6	5.4	5.8
	Machinery	17.0	15.2	14.1	9.6	8.9	8.4	1.46	1.43	2.09	2.22	2.34	9.0	8.6	9.1	9.2
	Automobiles	11.4	9.8	8.9	6.6	5.9	5.4	1.16	1.10	3.26	3.41	3.76	11.7	9.9	10.8	11.1
	Electrical machinery, precision equipment	18.9	15.2	13.5	8.6	7.7	7.2	1.52	1.49	1.99	2.24	2.41	5.8	8.1	9.5	10.0
	Pharmaceuticals, healthcare	27.2	25.4	24.8	16.6	16.3	16.3	2.17	2.16	2.06	2.13	2.17	8.4	8.1	8.4	8.3
	Food products	22.1	21.1	19.7	13.5	13.2	12.6	2.50	2.38	2.12	2.33	2.51	10.3	11.0	11.0	11.3
	Household goods	23.1	21.5	20.0	14.8	13.9	13.5	2.65	2.51	1.45	1.54	1.66	9.8	11.3	11.3	11.2
	Trading companies	8.7	8.2	7.5	5.0	4.8	4.5	0.73	0.74	3.68	3.89	4.08	0.8	8.4	8.8	9.0
	Retailing	26.9	21.4	19.0	12.8	11.2	10.2	2.00	1.98	1.62	1.69	1.84	7.7	7.4	9.0	9.6
	Services	22.8	21.6	20.7	13.1	12.4	11.9	2.18	0.89	2.24	2.31	2.35	6.1	3.9	4.1	4.1
	Software	30.9	24.6	22.8	20.6	17.6	16.6	2.67	2.28	1.54	1.97	2.16	7.8	7.5	9.0	9.2
	Media	16.7	16.1	15.6	11.6	11.2	11.0	1.13	1.08	1.73	1.73	1.73	7.4	6.6	6.5	6.4
	Telecommunications	11.9	13.5	12.6	4.9	5.1	4.8	1.84	1.74	1.82	1.99	2.10	11.9	15.0	12.4	12.3
	Construction	10.1	9.7	9.3	8.6	8.3	8.0	1.55	1.29	2.16	2.39	2.46	13.4	13.3	12.7	12.0
	Housing, real estate	14.1	13.2	12.8	9.8	9.3	9.0	1.43	1.34	2.05	2.15	2.23	8.4	9.8	9.8	9.5
	Transportation	14.2	13.5	13.0	6.2	6.0	5.9	1.37	1.28	1.50	1.51	1.52	8.0	9.3	9.2	8.8
	Utilities	10.8	11.2	10.7	2.4	2.4	2.4	0.71	0.68	2.03	2.19	2.23	9.5	6.4	5.9	5.9
	Financials	8.2	8.4	8.3	-	-	-	0.58	0.58	3.13	3.26	3.36	7.0	7.1	6.7	6.4
Russell/Nomura Small Cap		14.5	13.1	12.7	-	-	-	1.07	1.01	2.07	2.10	2.13	6.5	7.1	7.5	7.3
Russell/Nomura Small Cap (ex financials)		15.2	13.5	13.0	8.0	7.5	7.3	1.17	1.11	2.02	2.04	2.08	6.5	7.5	8.0	7.8

Note: Estimates and share prices as of 23 August 2016 close.

Source: Nomura

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- 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.

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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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