

Outlook for FY17–18 corporate earnings

Quarterly Update

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Summary and major assumptions

Overview of FY16 corporate earnings

In this report, we collate and analyze earnings forecast data issued by our analysts. For FY16, sales for companies in the Russell/Nomura Large Cap Index (ex financials) declined 3.3% y-y and recurring profits grew 3.6% y-y. Net profits rose a high 10.8% y-y. Compared with our previous estimates issued in March 2017 (based on data collated on 20 February 2017), these growth rates are 0.4ppt higher for sales and 2.0ppt higher for recurring profits. Sales fell for a second consecutive fiscal year. Recurring profits declined sharply in H1, and it was unclear whether the streak of profit growth could be maintained, but in the end a downturn was avoided. Recurring profits thus rose for five consecutive fiscal years beginning in FY12. Looking back over the data since FY70, profits also rose for five consecutive years in FY76-80. The longest stretch of profit growth was the six consecutive fiscal years in FY02-07, and this record could be matched if profits rise in FY17 as well.

In FY16 Q4, recurring profits at companies in the Russell/Nomura Large Cap Index (ex financials) rose 71.7% y-y on a 3.8% increase in sales. While profits rose despite a sales decline in Q3, with sales down 2.7% and recurring profits up 5.9%, Q4 returned to growth in both sales and profits for the first time in six quarters, since FY15 Q2. This also marks the sharpest profit growth in the economic expansion phase since 2012. When excluding Toshiba, trading companies, and consumer electronics companies, however, profits rose by only slightly over 10%, suggesting that the high profit growth rate was largely the result of a rebound from low figures a year earlier and other special factors.

Overview of the FY17 corporate earnings outlook

For FY17, our analysts look for sales growth of 4.6% y-y and recurring profit growth of 11.1% for companies in the Russell/Nomura Large Cap Index (ex financials). The current forecasts represent downward revisions of 0.8ppt for sales growth and 3.5ppt for recurring profit growth.

Our forex assumptions for FY17 are USD/JPY of 108.0 (previously 114.0) and EUR/JPY of 115.0 (previously 120.0). Our WTI assumption is \$50.0/bbl (\$50.0/bbl). As our USD/JPY assumption is roughly flat y-y, our forecasts assume a roughly neutral impact from forex.

The average ROE for Russell/Nomura Large Cap Index stocks was 8.2% in FY16, up 0.5% from 7.7% in FY15. ROE had declined for two consecutive fiscal years from the peak of 8.9% in FY13, but has now finally begun to bounce back. We now forecast 9.0% in FY17 and 9.1% in FY18. If these forecasts prove accurate, not only profits but also capital productivity will have returned to the levels seen prior to the collapse of Lehman Brothers.

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

(% y-y, except where noted)

| | | No. of cos | New | | | | | Old | |
|-------------------|--|---------------|-------|-------|-------|-------|-------|-------|-------|
| | | | FY14 | FY15 | FY16 | FY17E | FY18E | FY16E | FY17E |
| Sales | Russell/Nomura Large Cap (ex financials) | 302 | 4.6 | -0.4 | -3.3 | 4.6 | 2.3 | -3.7 | 5.4 |
| | Manufacturing | 176 | 4.3 | 0.2 | -4.3 | 4.9 | 2.7 | -4.5 | 6.6 |
| | Basic materials | 39 | 0.6 | -9.0 | -5.6 | 10.7 | 0.8 | -6.3 | 11.4 |
| | Processing | 80 | 5.7 | 3.1 | -4.4 | 3.4 | 3.2 | -4.4 | 5.4 |
| | Nonmanufacturing (ex financials) | 126 | 5.0 | -1.2 | -1.8 | 4.1 | 1.9 | -2.6 | 3.7 |
| | Russell/Nomura Small Cap (ex financials) | 1,038 | 3.6 | 1.8 | -0.5 | 4.2 | 2.1 | -0.6 | 4.1 |
| Operating profits | Russell/Nomura Large Cap (ex financials) | 302 | 5.2 | 8.7 | 2.9 | 10.2 | 8.0 | -2.8 | 14.7 |
| | Manufacturing | 176 | 5.8 | 2.9 | -0.5 | 11.6 | 10.0 | -5.0 | 20.0 |
| | Basic materials | 39 | -14.0 | 8.6 | 9.4 | 18.9 | 7.9 | 8.8 | 18.7 |
| | Processing | 80 | 14.7 | -2.0 | -3.6 | 11.1 | 11.9 | -10.4 | 25.5 |
| | Nonmanufacturing (ex financials) | 126 | 4.2 | 18.6 | 7.5 | 8.3 | 5.4 | 0.1 | 7.8 |
| | Russell/Nomura Small Cap (ex financials) | 1,038 | 4.3 | 10.5 | 7.2 | 7.2 | 6.0 | 4.4 | 10.8 |
| Recurring profits | Russell/Nomura Large Cap | 334 | 6.9 | -0.6 | 1.4 | 10.6 | 7.5 | 0.8 | 12.7 |
| | Russell/Nomura Large Cap (ex financials) | 302 | 7.0 | 1.5 | 3.6 | 11.1 | 8.1 | 1.6 | 14.6 |
| | Manufacturing | 176 | 7.2 | -1.9 | 0.2 | 12.8 | 9.8 | -3.5 | 21.0 |
| | Basic materials | 39 | -8.9 | -7.4 | 12.1 | 22.3 | 7.8 | 10.7 | 24.2 |
| | Processing | 80 | 15.3 | -4.2 | -3.1 | 11.7 | 11.7 | -8.5 | 25.0 |
| | Nonmanufacturing | 158 | 6.5 | 0.6 | 2.5 | 8.7 | 5.4 | 4.8 | 5.6 |
| | Nonmanufacturing (ex financials) | 126 | 6.6 | 7.1 | 8.4 | 8.9 | 5.9 | 9.0 | 6.6 |
| | Russell/Nomura Small Cap | 1,132 | 3.1 | 3.7 | 5.8 | 8.2 | 5.6 | 1.8 | 11.9 |
| | Russell/Nomura Small Cap (ex financials) | 1,038 | 5.0 | 4.1 | 8.8 | 8.0 | 6.1 | 4.1 | 13.4 |
| Net profits | Russell/Nomura Large Cap | 334 | 7.4 | -3.9 | 8.5 | 13.2 | 7.5 | 9.8 | 11.6 |
| | Russell/Nomura Large Cap (ex financials) | 302 | 8.0 | -4.7 | 10.8 | 16.2 | 8.3 | 11.1 | 15.2 |
| | Manufacturing | 176 | 10.2 | -4.8 | -1.5 | 22.7 | 10.5 | 0.7 | 22.1 |
| | Basic materials | 39 | -11.0 | -27.1 | 58.4 | 18.6 | 9.8 | 53.3 | 25.0 |
| | Processing | 80 | 15.7 | -3.0 | -14.0 | 31.5 | 12.1 | -9.2 | 28.5 |
| | Nonmanufacturing | 158 | 4.6 | -3.0 | 18.2 | 5.4 | 4.6 | 18.5 | 2.8 |
| | Nonmanufacturing (ex financials) | 126 | 4.2 | -4.6 | 30.9 | 8.3 | 5.2 | 28.0 | 6.2 |
| | Russell/Nomura Small Cap | 1,132 | 2.2 | 1.9 | 17.3 | 15.9 | 4.9 | 11.7 | 18.9 |
| | Russell/Nomura Small Cap (ex financials) | 1,038 | 3.9 | 0.0 | 21.7 | 16.3 | 5.5 | 15.1 | 21.8 |

Note: Latest estimates as of 24 May 2017. Previous estimates as of 20 February 2017.

Source: Nomura

Fig. 2: Major assumptions

| As of 14 April 2017 | | | | | | As of 17 January 2017 | | | | | |
|---------------------|-----------------------|-----------------------------------|--------|---------------------|---------|-----------------------|-----------------------|-----------------------------------|--------|---------------------|---------|
| | Industrial production | Overnight call rate / Policy rate | WTI | Exchange rate (avg) | | | Industrial production | Overnight call rate / Policy rate | WTI | Exchange rate (avg) | |
| | 2010 base year | (FY-end) | | USD/JPY | EUR/JPY | | 2010 base year | (FY-end) | | USD/JPY | EUR/JPY |
| | % y-y | % | \$/bbl | | | | % y-y | % | \$/bbl | | |
| FY16 | Estimate 1.3 | -0.10 | 47.9 | 108.3 | 118.8 | | 0.8 | -0.10 | 47.5 | 108.4 | 118.5 |
| FY17 | 3.0 | -0.10 | 50.0 | 108.0 | 115.0 | | 2.2 | -0.10 | 50.0 | 114.0 | 120.0 |
| FY18 | 0.7 | -0.10 | 50.0 | 108.0 | 115.0 | | | | | | |
| FY16 H1 | -0.7 | -0.10 | 45.3 | 105.2 | 118.1 | | -0.7 | -0.20 | 45.3 | 105.2 | 118.1 |
| FY16 H2 | Estimate 3.2 | -0.10 | 50.5 | 111.5 | 119.5 | | 2.3 | -0.10 | 49.6 | 111.7 | 119.0 |
| FY17 H1 | 4.3 | -0.10 | 50.0 | 108.0 | 115.0 | | 2.9 | -0.10 | 50.0 | 114.0 | 120.0 |
| FY17 H2 | 1.8 | -0.10 | 50.0 | 108.0 | 115.0 | | 1.6 | -0.10 | 50.0 | 114.0 | 120.0 |
| FY18 H1 | 0.9 | -0.10 | 50.0 | 108.0 | 115.0 | | | | | | |
| FY18 H2 | 0.5 | -0.10 | 50.0 | 108.0 | 115.0 | | | | | | |

Note: WTI is term-average WTI crude oil futures price. The above assumptions are not Nomura forecasts but assumptions on which Nomura analysts base their earnings forecasts.

Source: Nomura

Contributions to recurring profit growth by sector

Overview of FY16 corporate earnings

In FY16, recurring profits increased in eight of the 19 sectors and declined in 11.

The largest contributions to growth were from the trading companies, electrical machinery & precision equipment, chemical, housing & real estate, and construction sectors. Trading companies benefited from a rebound from major impairment in FY15 and a recovery in commodity prices. In electrical machinery & precision equipment, earnings were roughly flat when excluding Toshiba. Toshiba's pretax profits were substantially affected by the removal of the US Westinghouse Group from consolidation after being classified as a discontinued operation following its filing for Chapter 11 bankruptcy protection. Results for the chemicals sector were pushed up by a recovery in the oil subsector, which had recorded weak earnings the previous two fiscal years. For housing and real estate, while office vacancies reached the lowest level since July 2008, demand has been slow to recover for detached housing and apartments. Construction sector earnings were driven by improvement in gross margins at general contractors.

Sectors that made large negative contributions to profit growth include autos, financials, utilities, machinery, services, and transportation. While automakers saw a positive profit impact from cost reductions, this was not sufficient to cancel out the adverse impact of the stronger yen. The financials and services sectors were unable to avoid an impact from negative interest rates. The utilities sector faced fallout from delays in restarting nuclear power stations and electricity rate cuts triggered by the full deregulation of the electricity retail market. In the machinery sector, in addition to the strong yen impact, shipbuilding and heavy machinery companies were affected by reduced production and delays in reducing costs in commercial aircraft businesses, and ship & offshore structure businesses were burdened by additional expenses. In transportation, containership rates deteriorated as a result of excess supply, and the shipping subsector fell into losses.

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 large contributions to overall profit growth include electrical machinery & precision equipment, financials, chemicals, automobiles, and machinery. In electrical machinery & precision equipment, the demand base is widening for semiconductors and parts, and we think the business environment is likely to remain firm for some time. We look to an ongoing recovery for cyclical operations (businesses that track economic cycles) as well as growth in demand from structural factors such as cloud computing, the shift to electric powertrains in autos, and increased use of FA, and from restructuring benefits. In financials, while FY16 earnings were weak, earnings in customer facing operations at the major banks are recovering. We expect focus on management attitudes towards business restructuring, such as overhead ratio improvements. We expect a large contribution to profit growth in the chemicals sector from the oil subsector. In autos, sales in the US market appear to be hitting a ceiling. While many companies are taking a more cautious stance toward auto loans, we expect little change in automakers' generally strong profitability in the US. In Asia we see polarization in the market environment between China and ex-China, with ex-China showing favorable trends overall. In machinery, the global machinery cycle remains in an upward phase. Order recovery has been particularly strong in China, in part due to initial strength seen in a recovery phase following sustained sluggishness. We expect growth to fall to a sustainable level, but think that underlying upward momentum will continue.

We forecast a profit decline for the construction sector. However, we do not currently expect any major change in earnings momentum for the sector, and our forecast for a decline stems largely from FY16 earnings coming in well above our forecasts. Gross margins are already high, and we think the boost from sales growth will become more important when considering future profit growth. In FY17, we think the boost from the increase in public works spending included in the FY16 supplementary budget should at least be fully reflected in companies' earnings.

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

| FY16 | | | | FY17E | | | |
|---|--------|--------------|------------------------------|---|--------|--------------|------------------------------|
| Increase in profits (%) | | | | Increase in profits (%) | | | |
| | Growth | Contribution | Contribution (ex financials) | | Growth | Contribution | Contribution (ex financials) |
| 8 sectors | | | | 18 sectors | | | |
| Trading companies | 233.4 | 266.5 | 129.3 | Electrical machinery, precision equipment | 14.6 | 13.4 | 15.4 |
| Electrical machinery, precision equipment | 27.8 | 151.1 | 73.3 | Financials | 8.2 | 12.7 | - |
| Chemicals | 16.1 | 72.2 | 35.0 | Chemicals | 14.2 | 9.8 | 11.2 |
| Housing, real estate | 22.4 | 58.6 | 28.5 | Automobiles | 6.6 | 9.8 | 11.2 |
| Construction | 30.5 | 25.0 | 12.2 | Machinery | 23.9 | 9.8 | 11.2 |
| Food | 8.3 | 19.8 | 9.6 | Telecommunications | 12.1 | 9.2 | 10.5 |
| Software | 21.1 | 10.3 | 5.0 | Steel, nonferrous metals | 67.3 | 8.4 | 9.6 |
| Household goods | 5.8 | 5.8 | 2.8 | Trading companies | 12.9 | 6.4 | 7.4 |
| | | | | Retailing | 13.8 | 4.6 | 5.3 |
| Decrease in profits (%) | | | | Software | 28.2 | 2.5 | 2.9 |
| | Growth | Contribution | Contribution (ex financials) | | Growth | Contribution | Contribution (ex financials) |
| 11 sectors | | | | Housing, real estate | 5.7 | 2.4 | 2.8 |
| Media | -1.0 | -0.5 | -0.3 | Pharmaceuticals, healthcare | 7.1 | 2.4 | 2.8 |
| Retailing | -1.4 | -3.5 | -1.7 | Food | 6.6 | 2.4 | 2.7 |
| Steel, nonferrous metals | -5.5 | -5.6 | -2.7 | Services | 6.9 | 2.3 | 2.6 |
| Telecommunications | -1.4 | -8.3 | -4.0 | Transportation | 4.4 | 2.2 | 2.5 |
| Pharmaceuticals, healthcare | -5.4 | -14.5 | -7.0 | Household goods | 9.8 | 1.4 | 1.6 |
| Transportation | -5.2 | -21.0 | -10.2 | Utilities | 2.2 | 0.5 | 0.6 |
| Services | -9.6 | -26.4 | -12.8 | Media | 1.9 | 0.1 | 0.2 |
| Machinery | -17.9 | -68.8 | -33.4 | | | | |
| Utilities | -36.2 | -102.3 | -49.7 | Decrease in profits (%) | | | |
| Financials | -8.1 | -106.1 | - | | Growth | Contribution | Contribution (ex financials) |
| Automobiles | -11.6 | -152.4 | -74.0 | 1 sector | | | |
| | | | | Construction | -2.3 | -0.3 | -0.4 |

| FY18E | | | |
|---|--------|--------------|------------------------------|
| Increase in profits (%) | | | |
| | Growth | Contribution | Contribution (ex financials) |
| 18 sectors | | | |
| Automobiles | 10.7 | 21.8 | 23.9 |
| Electrical machinery, precision equipment | 13.1 | 17.7 | 19.4 |
| Telecommunications | 8.4 | 9.2 | 10.1 |
| Financials | 4.2 | 8.9 | - |
| Machinery | 11.6 | 7.5 | 8.3 |
| Chemicals | 6.4 | 6.5 | 7.1 |
| Transportation | 7.1 | 4.8 | 5.3 |
| Retailing | 8.7 | 4.2 | 4.6 |
| Food | 8.5 | 4.1 | 4.5 |
| Steel, nonferrous metals | 13.3 | 3.5 | 3.9 |
| Housing, real estate | 4.4 | 2.5 | 2.8 |
| Trading companies | 3.0 | 2.2 | 2.4 |
| Household goods | 9.9 | 2.0 | 2.2 |
| Software | 13.1 | 1.9 | 2.1 |
| Services | 4.1 | 1.8 | 2.0 |
| Utilities | 3.0 | 0.9 | 1.0 |
| Construction | 2.7 | 0.5 | 0.5 |
| Pharmaceuticals, healthcare | 0.0 | 0.0 | 0.0 |
| | | | |
| Decrease in profits (%) | | | |
| | Growth | Contribution | Contribution (ex financials) |
| 1 sector | | | |
| Media | -0.8 | -0.1 | -0.1 |

Source: Nomura

Revisions to recurring profit estimates (versus old estimates)

Overview of FY16 corporate earnings

Recurring profits in FY16 came in ahead of our estimates in nine of 19 sectors and below them in 10.

Results exceeded our forecasts the most for electrical machinery & precision equipment, transportation, construction, and steel & nonferrous metals. Roughly 83% of the overshoot in electrical machinery & precision equipment can be explained by Toshiba. Apart from weak trends for some products for smartphones, demand was solid overall, and was compounded by a recovery in industrial products, demand expansion from the shift to electric cars meeting new environmental standards, and benefits from structural reforms. The transportation sector saw improvement in containership and dry bulk market conditions in the shipping subsector. Gross margins continued to rise steadily in the construction sector. In steel & nonferrous metals, optical fiber, general electronic materials, and construction machinery-related demand looks generally favorable, and automotive demand was firm overall. Under this environment, both sale prices and volumes surpassed our assumptions for blast furnace steelmakers. For wire & cable, we believe that the string of major agreements between major telecom carrier Verizon Communications and optical fiber manufacturers suggests that supply-demand for optical fiber is likely to remain tight in North America over the medium term.

Sectors for which earnings came in well below our forecasts include financials and telecommunications. In financials, earnings undershot noticeably for megabanks, trust banks, and regional banks. Domestic net interest income declined as a result of negative interest rates, and the rise in US long-term interest rates in the wake of the presidential election led to deterioration in bond income, particularly from foreign bonds. The telecommunications sector faced a major impact from Softbank Group, with a profit decline in domestic business, impairment in distribution business, and losses in financial products.

Overview of the FY17 corporate earnings outlook

We have raised our FY17 recurring profit forecasts for 11 of the 19 sectors and lowered them for eight. We revised our USD/JPY assumption for FY17 from 114.0 to a stronger 108.0, and we expect an impact on companies with high forex sensitivity.

The largest upward revisions were for our estimates for sectors such as utilities, transportation, and construction. In the utilities sector, we assume the restart of some nuclear reactors. We therefore expect reductions in overall cost, including fixed expenses and fuel costs. In transportation, while we had previously expected a second consecutive fiscal year of losses for shipping companies, we now expect a return to the black. Containership rates have bottomed as a result of overseas bankruptcies and industry realignment, and we believe that the worst is over for dry bulker rates. We think earnings will improve on cost savings in the wake of fixed asset impairments. We have revised up our forecasts for the construction sector to reflect the steady buildup of orders and the ongoing improvement in gross margins.

Our downward revisions were large for the autos, telecommunications, and steel & nonferrous metals sectors. Our revisions in the autos sector mainly reflect changes to our forex assumptions. In the telecommunications sector, competition is heating up in the US mobile phone industry. We raised our handset depreciation expense forecast for Sprint to reflect changes to leased devices as a percentage of sales, and this affected our forecasts for Softbank Group. As we now expect a stronger yen, our forecasts for inventory valuation gains/losses in the steel & nonferrous metals sector were affected. With China still in a state of oversupply, we think export margins are likely to be relatively unstable.

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

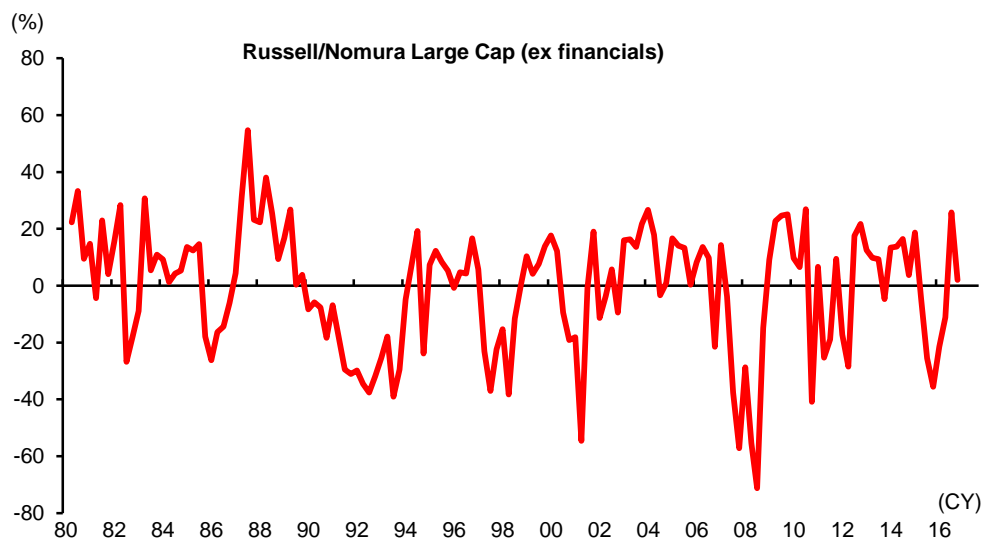
| FY16 | | | | | FY17E | | | | |
|---|------------|------------|-----------------|-------------|---|------------|------------|-----------------|-------------|
| [Upward revisions] 9 sectors | | | | | [Upward revisions] 11 sectors | | | | |
| | New ¥bn | Old ¥bn | Revision ¥bn | Change % | | New ¥bn | Old ¥bn | Revision ¥bn | Change % |
| Electrical machinery, precision equipment | 3,996 | 3,169 | 828 | 26.1 | Utilities | 1,031 | 865 | 166 | 19.2 |
| Transportation | 2,204 | 2,097 | 107 | 5.1 | Transportation | 2,347 | 2,240 | 107 | 4.8 |
| Construction | 617 | 536 | 81 | 15.2 | Pharmaceuticals, healthcare | 1,624 | 1,554 | 70 | 4.5 |
| Housing, real estate | 1,845 | 1,771 | 73 | 4.1 | Trading companies | 2,476 | 2,407 | 69 | 2.9 |
| Utilities | 1,038 | 998 | 40 | 4.0 | Housing, real estate | 1,977 | 1,929 | 48 | 2.5 |
| Steel, nonferrous metals | 549 | 515 | 34 | 6.6 | Services | 1,540 | 1,492 | 48 | 3.2 |
| Retailing | 1,435 | 1,418 | 17 | 1.2 | Construction | 591 | 545 | 46 | 8.4 |
| Food | 1,487 | 1,472 | 15 | 1.0 | Chemicals | 3,470 | 3,429 | 41 | 1.2 |
| Household goods | 613 | 605 | 9 | 1.4 | Food | 1,667 | 1,637 | 30 | 1.9 |
| | | | | | Media | 325 | 316 | 8 | 2.6 |
| | | | | | Household goods | 682 | 679 | 3 | 0.4 |
| [Downward revisions] 10 sectors | | | | | [Downward revisions] 8 sectors | | | | |
| | New ¥bn | Old ¥bn | Revision ¥bn | Change % | | New ¥bn | Old ¥bn | Revision ¥bn | Change % |
| Media | 318 | 323 | -4 | -1.3 | Software | 502 | 515 | -13 | -2.6 |
| Software | 341 | 351 | -10 | -2.7 | Financials | 7,416 | 7,432 | -15 | -0.2 |
| Chemicals | 3,002 | 3,012 | -10 | -0.3 | Machinery | 2,230 | 2,250 | -19 | -0.9 |
| Pharmaceuticals, healthcare | 1,465 | 1,479 | -13 | -0.9 | Retailing | 1,679 | 1,712 | -33 | -1.9 |
| Services | 1,437 | 1,477 | -40 | -2.7 | Steel, nonferrous metals | 917 | 962 | -45 | -4.7 |
| Machinery | 1,813 | 1,867 | -55 | -2.9 | Electrical machinery, precision equipment | 4,646 | 4,697 | -51 | -1.1 |
| Trading companies | 2,192 | 2,253 | -61 | -2.7 | Telecommunications | 3,763 | 3,894 | -131 | -3.4 |
| Automobiles | 6,716 | 6,779 | -63 | -0.9 | Automobiles | 7,016 | 7,742 | -726 | -9.4 |
| Telecommunications | 3,339 | 3,627 | -288 | -7.9 | | | | | |
| Financials | 6,931 | 7,333 | -401 | -5.5 | | | | | |

Note: Latest estimates as of 24 May 2017, previous estimates as of 20 February 2017.

Source: Nomura

Fig. 5: Revision index for the Russell/Nomura Large Cap Index

| | (yy/m) | 15/9 | 15/12 | 16/3 | 16/6 | 16/9 | 16/12 | 17/3 | 17/6 (%) |
|--|--------|------|-------|-------|-------|-------|-------|------|----------|
| Russell/Nomura Large Cap | | 21.8 | -3.6 | -24.0 | -36.4 | -22.1 | -9.6 | 26.0 | 1.5 |
| Russell/Nomura Large Cap (ex financials) | | 18.7 | -4.3 | -25.6 | -35.6 | -21.5 | -11.1 | 25.8 | 2.0 |
| Manufacturing | | 19.4 | -19.4 | -38.5 | -41.4 | -33.9 | -18.4 | 40.1 | -6.8 |
| Basic materials | | 19.6 | -17.4 | -27.3 | -29.5 | -20.5 | -13.6 | 32.5 | 5.1 |
| Processing | | -1.1 | -35.6 | -75.9 | -73.4 | -59.5 | -22.8 | 61.3 | -26.3 |
| Nonmanufacturing (ex financials) | | 17.5 | 18.3 | -7.3 | -27.4 | -4.0 | -0.8 | 5.6 | 14.3 |



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. 6: Percentage change in sales by sector

(% y-y, except where noted)

| | | No. of cos | FY12 | FY13 | FY14 | FY15 | FY16E Old | FY16E New | FY17E Old | FY17E New | FY18E New |
|-------------------|---|---------------|------|------|------|------|--------------|--------------|--------------|--------------|--------------|
| Industrial groups | Russell/Nomura Large Cap (ex financials) | 302 | 2.7 | 12.5 | 4.6 | -0.4 | -3.7 | -3.3 | 5.4 | 4.6 | 2.3 |
| | Manufacturing | 176 | 3.0 | 12.3 | 4.3 | 0.2 | -4.5 | -4.3 | 6.6 | 4.9 | 2.7 |
| | Basic materials | 39 | -0.5 | 13.2 | 0.6 | -9.0 | -6.3 | -5.6 | 11.4 | 10.7 | 0.8 |
| | Processing | 80 | 4.8 | 13.2 | 5.7 | 3.1 | -4.4 | -4.4 | 5.4 | 3.4 | 3.2 |
| | Nonmanufacturing (ex financials) | 126 | 2.2 | 12.7 | 5.0 | -1.2 | -2.6 | -1.8 | 3.7 | 4.1 | 1.9 |
| Broad sectors | Materials | 39 | -0.5 | 13.2 | 0.6 | -9.0 | -6.3 | -5.6 | 11.4 | 10.7 | 0.8 |
| | Machinery, autos | 43 | 10.0 | 15.4 | 7.8 | 5.7 | -3.8 | -3.1 | 6.4 | 3.6 | 3.3 |
| | Electronics | 37 | -1.6 | 10.1 | 2.7 | -0.9 | -5.3 | -6.3 | 3.8 | 3.2 | 3.2 |
| | Consumer, distribution | 100 | 0.8 | 11.2 | 3.7 | -1.4 | -3.1 | -2.2 | 3.7 | 3.3 | 3.2 |
| | Information | 24 | 3.4 | 20.1 | 9.6 | 5.7 | 0.6 | 0.1 | 5.9 | 5.7 | 3.0 |
| | Utilities, infrastructure | 59 | 5.3 | 10.0 | 5.2 | -1.3 | -3.1 | -2.5 | 3.4 | 4.6 | -0.4 |
| Sectors | Chemicals | 31 | 0.8 | 12.5 | -1.1 | -9.9 | -6.8 | -5.8 | 10.5 | 10.1 | 1.3 |
| | Steel, nonferrous metals | 8 | -4.3 | 15.1 | 4.7 | -6.8 | -5.2 | -5.1 | 13.8 | 12.1 | -0.2 |
| | Machinery | 24 | 2.2 | 15.4 | 11.1 | 3.3 | -3.5 | -2.9 | 5.8 | 5.2 | 4.0 |
| | Autos | 19 | 12.5 | 15.5 | 6.9 | 6.5 | -3.9 | -3.2 | 6.5 | 3.1 | 3.1 |
| | Electrical machinery, precision equipment | 37 | -1.6 | 10.1 | 2.7 | -0.9 | -5.3 | -6.3 | 3.8 | 3.2 | 3.2 |
| | Pharmaceuticals, healthcare | 25 | 2.0 | 7.8 | 0.6 | 5.2 | -2.4 | -2.7 | 3.3 | 1.7 | 2.2 |
| | Food products | 20 | 3.3 | 5.4 | 6.7 | 1.6 | -1.9 | -1.8 | 6.5 | 5.7 | 3.1 |
| | Household goods | 12 | 4.4 | 9.9 | 11.5 | 6.0 | -5.1 | -4.1 | 4.0 | 2.2 | 3.9 |
| | Trading companies | 7 | -1.0 | 14.0 | 2.7 | -9.7 | -7.1 | -4.6 | 3.3 | 4.1 | 2.1 |
| | Retailing | 22 | 3.7 | 10.0 | 5.7 | 7.3 | 1.1 | 2.2 | 4.6 | 1.4 | 6.1 |
| | Services | 14 | 1.5 | 3.5 | -0.4 | 4.1 | -1.1 | -2.7 | 1.3 | 3.9 | 2.2 |
| | Software | 10 | -4.0 | 3.6 | 1.4 | -0.1 | 1.9 | 2.9 | 15.5 | 14.7 | 3.1 |
| | Media | 5 | 4.8 | 10.5 | 5.1 | 12.0 | -0.8 | -1.3 | 2.2 | 3.2 | 2.0 |
| | Telecommunications | 9 | 3.8 | 24.4 | 10.9 | 5.5 | 0.7 | 0.0 | 5.3 | 5.0 | 3.1 |
| | Construction, engineering | 5 | 7.5 | 6.8 | 7.2 | 1.7 | -0.7 | 0.2 | 3.0 | 2.1 | 3.1 |
| | Housing, real estate | 18 | 6.1 | 14.5 | 7.9 | 4.3 | 5.1 | 5.1 | 3.4 | 5.8 | 3.1 |
| | Transportation | 25 | 3.4 | 7.2 | 3.4 | 0.3 | -3.2 | -3.1 | 2.4 | 3.4 | -4.7 |
| | Utilities | 11 | 5.9 | 11.0 | 4.7 | -7.7 | -9.8 | -8.2 | 4.7 | 5.8 | 0.2 |

Note: Figures exclude listed consolidated subsidiaries. Latest estimates as of 24 May 2017, previous estimates as of 20 February 2017.

Source: Nomura

Fig. 7: Percentage change in recurring profits by sector

(% y-y, except where noted)

| | | No. of cos | FY12 | FY13 | FY14 | FY15 | FY16E Old | FY16E New | FY17E Old | FY17E New | FY18E New |
|-------------------|---|---------------|-------|-------|---------|-------|--------------|--------------|--------------|--------------|--------------|
| Industrial groups | Russell/Nomura Large Cap | 334 | 12.8 | 37.4 | 6.9 | -0.6 | 0.8 | 1.4 | 12.7 | 10.6 | 7.5 |
| | Russell/Nomura Large Cap (ex financials) | 302 | 7.7 | 39.7 | 7.0 | 1.5 | 1.6 | 3.6 | 14.6 | 11.1 | 8.1 |
| | Manufacturing | 176 | 10.3 | 43.3 | 7.2 | -1.9 | -3.5 | 0.2 | 21.0 | 12.8 | 9.8 |
| | Basic materials | 39 | -19.2 | 33.5 | -8.9 | -7.4 | 10.7 | 12.1 | 24.2 | 22.3 | 7.8 |
| | Processing | 80 | 36.4 | 58.2 | 15.3 | -4.2 | -8.5 | -3.1 | 25.0 | 11.7 | 11.7 |
| | Nonmanufacturing | 158 | 15.2 | 31.9 | 6.5 | 0.6 | 4.8 | 2.5 | 5.6 | 8.7 | 5.4 |
| | Nonmanufacturing (ex financials) | 126 | 3.5 | 34.0 | 6.6 | 7.1 | 9.0 | 8.4 | 6.6 | 8.9 | 5.9 |
| Broad sectors | Materials | 39 | -19.2 | 33.5 | -8.9 | -7.4 | 10.7 | 12.1 | 24.2 | 22.3 | 7.8 |
| | Machinery, autos | 43 | 42.5 | 47.6 | 16.2 | 1.9 | -11.7 | -13.0 | 17.4 | 10.3 | 10.9 |
| | Electronics | 37 | 19.7 | 92.9 | 13.0 | -19.7 | 1.7 | 27.8 | 45.3 | 14.6 | 13.1 |
| | Consumer, distribution | 100 | -4.1 | 15.7 | -9.0 | -7.6 | 21.0 | 19.8 | 6.9 | 9.8 | 5.1 |
| | Information | 24 | 7.3 | 16.2 | 8.0 | 4.3 | 7.8 | 0.2 | 8.2 | 12.8 | 8.3 |
| | Utilities, infrastructure | 59 | 30.2 | 102.6 | 28.3 | 37.3 | -8.9 | -3.8 | 3.6 | 3.7 | 5.0 |
| | Financials | 32 | 34.8 | 29.3 | 6.5 | -8.6 | -2.8 | -8.1 | 3.5 | 8.2 | 4.2 |
| Sectors | Chemicals | 31 | -19.2 | 16.3 | -21.7 | 21.6 | 15.7 | 16.1 | 13.4 | 14.2 | 6.4 |
| | Steel, nonferrous metals | 8 | -18.9 | 119.5 | 24.0 | -54.6 | -11.4 | -5.5 | 87.8 | 67.3 | 13.3 |
| | Machinery | 24 | -5.1 | 31.9 | 23.7 | -6.6 | -15.5 | -17.9 | 21.6 | 23.9 | 11.6 |
| | Autos | 19 | 72.8 | 53.0 | 13.9 | 4.7 | -10.6 | -11.6 | 16.2 | 6.6 | 10.7 |
| | Electrical machinery, precision equipment | 37 | 19.7 | 92.9 | 13.0 | -19.7 | 1.7 | 27.8 | 45.3 | 14.6 | 13.1 |
| | Pharmaceuticals, healthcare | 25 | -4.9 | 14.0 | -15.3 | 39.2 | -4.3 | -5.4 | 1.9 | 7.1 | 0.0 |
| | Food products | 20 | 9.1 | 13.0 | 4.9 | -0.5 | 7.2 | 8.3 | 5.7 | 6.6 | 8.5 |
| | Household goods | 12 | 0.1 | 20.3 | 11.0 | 3.3 | 5.9 | 5.8 | 10.5 | 9.8 | 9.9 |
| | Trading companies | 7 | -15.1 | 25.9 | -20.6 | -62.2 | 242.7 | 233.4 | 6.8 | 12.9 | 3.0 |
| | Retailing | 22 | -2.5 | 5.6 | -4.8 | 13.4 | -2.6 | -1.4 | 18.1 | 13.8 | 8.7 |
| | Services | 14 | 16.6 | 12.8 | -2.4 | -5.6 | -7.0 | -9.6 | 0.7 | 6.9 | 4.1 |
| | Software | 10 | 8.4 | 14.9 | 22.6 | -11.4 | 24.5 | 21.1 | 28.4 | 28.2 | 13.1 |
| | Media | 5 | 7.6 | 10.8 | 11.0 | 10.4 | 0.3 | -1.0 | -1.9 | 1.9 | -0.8 |
| | Telecommunications | 9 | 7.2 | 16.8 | 6.5 | 5.6 | 7.1 | -1.4 | 6.8 | 12.1 | 8.4 |
| | Construction, engineering | 5 | -1.0 | 25.3 | 38.4 | 92.4 | 13.3 | 30.5 | 3.7 | -2.3 | 2.7 |
| | Housing, real estate | 18 | 20.8 | 29.5 | 4.6 | 11.3 | 17.5 | 22.4 | 7.4 | 5.7 | 4.4 |
| | Transportation | 25 | 30.9 | 15.1 | 10.4 | 13.3 | -9.8 | -5.2 | 7.6 | 4.4 | 7.1 |
| | Utilities | 11 | LI | SP | 1,682.0 | 146.7 | -38.7 | -36.2 | -11.6 | 2.2 | 3.0 |
| Financials | 32 | 34.8 | 29.3 | 6.5 | -8.6 | -2.8 | -8.1 | 3.5 | 8.2 | 4.2 | |

Note: (1) Figures exclude listed consolidated subsidiaries. Latest estimates as 24 May 2017, previous estimates as of 20 February 2017. (2) LI = losses increasing; LS = losses shrinking; SL = switch to losses; SP = switch to profits.

Source: Nomura

Fig. 8: Recurring profits by sector

(¥bn, except where noted)

| | | No. of cos | FY12 | FY13 | FY14 | FY15 | FY16E Old | FY16E New | FY17E Old | FY17E New | FY18E New |
|-------------------|---|---------------|--------|--------|--------|--------|--------------|--------------|--------------|--------------|--------------|
| Industrial groups | Russell/Nomura Large Cap | 334 | 26,521 | 36,708 | 38,488 | 39,670 | 41,081 | 41,339 | 46,296 | 45,898 | 49,342 |
| | Russell/Nomura Large Cap (ex financials) | 302 | 20,556 | 28,994 | 30,350 | 32,151 | 33,748 | 34,408 | 38,864 | 38,482 | 41,618 |
| | Manufacturing | 176 | 12,917 | 18,323 | 19,085 | 19,524 | 18,898 | 19,641 | 22,950 | 22,253 | 24,425 |
| | Basic materials | 39 | 3,101 | 3,931 | 3,325 | 3,177 | 3,527 | 3,551 | 4,392 | 4,388 | 4,732 |
| | Processing | 80 | 7,167 | 11,295 | 12,834 | 12,880 | 11,815 | 12,524 | 14,688 | 13,891 | 15,510 |
| | Nonmanufacturing | 158 | 13,604 | 18,385 | 19,403 | 20,146 | 22,183 | 21,698 | 23,346 | 23,645 | 24,918 |
| | Nonmanufacturing (ex financials) | 126 | 7,639 | 10,671 | 11,265 | 12,627 | 14,851 | 14,766 | 15,915 | 16,229 | 17,193 |
| Broad sectors | Materials | 39 | 3,101 | 3,931 | 3,325 | 3,177 | 3,527 | 3,551 | 4,392 | 4,388 | 4,732 |
| | Machinery, autos | 43 | 5,480 | 8,052 | 9,213 | 9,835 | 8,646 | 8,528 | 9,992 | 9,246 | 10,256 |
| | Electronics | 37 | 1,687 | 3,243 | 3,621 | 3,045 | 3,169 | 3,996 | 4,697 | 4,646 | 5,254 |
| | Consumer, distribution | 100 | 5,829 | 6,841 | 6,151 | 6,048 | 8,704 | 8,630 | 9,481 | 9,668 | 10,160 |
| | Information | 24 | 3,039 | 3,645 | 3,841 | 4,087 | 4,301 | 3,999 | 4,725 | 4,589 | 4,970 |
| | Utilities, infrastructure | 59 | 1,419 | 3,281 | 4,198 | 5,959 | 5,402 | 5,704 | 5,579 | 5,946 | 6,245 |
| | Financials | 32 | 5,965 | 7,714 | 8,138 | 7,519 | 7,333 | 6,931 | 7,432 | 7,416 | 7,724 |
| Sectors | Chemicals | 31 | 2,606 | 2,851 | 2,059 | 2,583 | 3,012 | 3,002 | 3,429 | 3,470 | 3,693 |
| | Steel, nonferrous metals | 8 | 495 | 1,080 | 1,266 | 594 | 515 | 549 | 962 | 917 | 1,039 |
| | Machinery | 24 | 1,416 | 1,855 | 2,306 | 2,264 | 1,867 | 1,813 | 2,250 | 2,230 | 2,490 |
| | Autos | 19 | 4,064 | 6,197 | 6,908 | 7,571 | 6,779 | 6,716 | 7,742 | 7,016 | 7,767 |
| | Electrical machinery, precision equipment | 37 | 1,687 | 3,243 | 3,621 | 3,045 | 3,169 | 3,996 | 4,697 | 4,646 | 5,254 |
| | Pharmaceuticals, healthcare | 25 | 1,170 | 1,314 | 1,113 | 1,578 | 1,479 | 1,465 | 1,554 | 1,624 | 1,625 |
| | Food products | 20 | 1,107 | 1,306 | 1,341 | 1,383 | 1,472 | 1,487 | 1,637 | 1,667 | 1,809 |
| | Household goods | 12 | 371 | 477 | 471 | 507 | 605 | 613 | 679 | 682 | 749 |
| | Trading companies | 7 | 1,706 | 2,026 | 1,740 | 657 | 2,253 | 2,192 | 2,407 | 2,476 | 2,551 |
| | Retailing | 22 | 1,110 | 1,277 | 1,087 | 1,386 | 1,418 | 1,435 | 1,712 | 1,679 | 1,825 |
| | Services | 14 | 364 | 441 | 399 | 538 | 1,477 | 1,437 | 1,492 | 1,540 | 1,603 |
| | Software | 10 | 173 | 245 | 324 | 352 | 351 | 341 | 515 | 502 | 567 |
| | Media | 5 | 227 | 251 | 271 | 322 | 323 | 318 | 316 | 325 | 322 |
| | Telecommunications | 9 | 2,639 | 3,150 | 3,246 | 3,414 | 3,627 | 3,339 | 3,894 | 3,763 | 4,081 |
| | Construction, engineering | 5 | 122 | 181 | 212 | 462 | 536 | 617 | 545 | 591 | 607 |
| | Housing, real estate | 18 | 956 | 1,264 | 1,363 | 1,604 | 1,771 | 1,845 | 1,929 | 1,977 | 2,063 |
| | Transportation | 25 | 1,406 | 1,799 | 1,963 | 2,267 | 2,097 | 2,204 | 2,240 | 2,347 | 2,513 |
| | Utilities | 11 | -1,065 | 37 | 660 | 1,627 | 998 | 1,038 | 865 | 1,031 | 1,062 |
| | Financials | 32 | 5,965 | 7,714 | 8,138 | 7,519 | 7,333 | 6,931 | 7,432 | 7,416 | 7,724 |

Note: Figures exclude listed consolidated subsidiaries. Latest estimates as 24 May 2017, previous estimates as of 20 February 2017.

Source: Nomura

Fig. 9: Percentage change in quarterly sales and profits (FY16 Q1–FY16 Q4)

| | | % y-y | | | | | | | | | | | | | | | |
|-------------------|---|-------|-------|------|------|-------------------|-------|-------|-------|-------------------|-------|-------|---------|-------------|-------|-------|---------|
| | | Sales | | | | Operating profits | | | | Recurring profits | | | | Net profits | | | |
| | | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 |
| Industrial groups | Russell/Nomura Large Cap | - | - | - | - | - | - | - | - | -18.7 | -6.0 | 6.1 | 51.5 | -20.3 | 1.0 | 20.7 | 110.5 |
| | Russell/Nomura Large Cap (ex financials) | -6.5 | -7.8 | -2.7 | 3.8 | -8.6 | -9.8 | -3.6 | 55.1 | -16.5 | -9.5 | 5.9 | 71.7 | -19.5 | -3.3 | 21.5 | 161.3 |
| | Manufacturing | -7.6 | -8.9 | -3.9 | 4.3 | -10.2 | -17.6 | -18.8 | 64.2 | -21.1 | -17.1 | -6.7 | 80.2 | -22.0 | -16.2 | 5.3 | 60.9 |
| | Basic materials | -13.5 | -12.1 | -2.3 | 8.8 | -26.4 | -7.2 | 29.1 | 60.4 | -42.7 | -5.5 | 59.3 | 88.3 | -46.7 | 4.8 | 179.1 | SP |
| | Processing | -7.1 | -9.1 | -4.3 | 4.0 | -13.5 | -21.5 | -34.9 | 87.8 | -23.3 | -21.1 | -23.5 | 105.3 | -24.8 | -19.7 | -22.3 | 30.1 |
| | Nonmanufacturing (ex financials) | -4.9 | -6.3 | -0.9 | 3.1 | -6.6 | 0.2 | 18.4 | 39.2 | -10.3 | 0.5 | 25.0 | 55.0 | -16.1 | 15.0 | 44.6 | SP |
| Broad sectors | Basic materials | -13.5 | -12.1 | -2.3 | 8.8 | -26.4 | -7.2 | 29.1 | 60.4 | -42.7 | -5.5 | 59.3 | 88.3 | -46.7 | 4.8 | 179.1 | SP |
| | Machinery, autos | -6.0 | -8.4 | -3.1 | 5.4 | -12.0 | -29.0 | -21.2 | 4.7 | -20.5 | -24.7 | -9.8 | 10.8 | -26.0 | -26.4 | -12.9 | 44.9 |
| | Electronics | -8.9 | -10.1 | -6.3 | 1.5 | -18.4 | -2.9 | -68.6 | 740.0 | -31.3 | -12.6 | -60.2 | 1,460.0 | -20.9 | -1.8 | SL | -13.0 |
| | Consumption, distribution | -5.1 | -7.4 | -1.6 | 3.3 | -1.0 | -6.5 | 21.8 | 104.5 | -5.7 | -2.8 | 22.1 | 187.7 | -8.1 | -3.9 | 50.3 | SP |
| | Information | 2.1 | -1.8 | -1.2 | 2.7 | 17.3 | 6.3 | 12.7 | -2.2 | 4.6 | 1.1 | 32.5 | -50.3 | 17.0 | 65.8 | 27.1 | 157.9 |
| | Utilities, infrastructure | -5.6 | -4.7 | -1.3 | 1.4 | -14.2 | -2.9 | 4.5 | -12.1 | -13.9 | -2.9 | 9.2 | -5.7 | -26.9 | -12.3 | 39.9 | 796.8 |
| | Financials | - | - | - | - | - | - | - | - | -27.5 | 12.9 | 6.9 | -20.6 | -23.4 | 23.4 | 17.7 | -7.2 |
| Sectors | Chemicals | -13.2 | -12.7 | -2.1 | 9.4 | -16.5 | 1.0 | 38.6 | 54.3 | -31.1 | 1.5 | 54.8 | 73.8 | -28.7 | 23.3 | 159.7 | SP |
| | Steel, nonferrous metals | -14.2 | -10.5 | -2.7 | 7.3 | -65.8 | -34.1 | -8.3 | 88.4 | -84.2 | -28.9 | 93.1 | 180.5 | -95.9 | -30.1 | 452.3 | 2,865.4 |
| | Machinery | -6.3 | -6.6 | -3.3 | 4.0 | -19.6 | -35.0 | -20.2 | -8.0 | -39.7 | -30.0 | 0.3 | -2.4 | -34.6 | -38.9 | 0.9 | 31.4 |
| | Automobiles | -5.9 | -8.9 | -3.1 | 5.9 | -9.8 | -27.3 | -21.4 | 10.4 | -15.1 | -23.4 | -12.6 | 15.9 | -23.7 | -23.3 | -16.2 | 50.5 |
| | Electrical machinery, precision equipment | -8.9 | -10.1 | -6.3 | 1.5 | -18.4 | -2.9 | -68.6 | 740.0 | -31.3 | -12.6 | -60.2 | 1,460.0 | -20.9 | -1.8 | SL | -13.0 |
| | Pharmaceuticals, healthcare | 0.4 | -4.3 | -3.4 | -1.0 | 42.0 | -29.3 | -5.5 | -36.9 | 31.2 | -28.6 | 4.3 | -33.2 | 38.4 | -19.3 | 9.7 | -7.4 |
| | Food products | -2.8 | -1.7 | -2.9 | -0.3 | 2.2 | -0.7 | 11.0 | -6.6 | 0.6 | -2.4 | 12.4 | -2.4 | -8.3 | -25.6 | 148.0 | 7.8 |
| | Household goods | -2.7 | -3.8 | -7.6 | 1.6 | 4.5 | 10.5 | -14.0 | 12.5 | -5.9 | 18.0 | -8.9 | 19.6 | 19.3 | 29.1 | -13.0 | 5.7 |
| | Trading companies | -14.3 | -15.2 | -1.0 | 7.4 | -23.4 | 10.4 | 193.3 | SP | -23.3 | 26.3 | 133.8 | SP | -28.5 | 22.6 | 282.9 | SP |
| | Retailing | 1.4 | -0.6 | 2.9 | 4.2 | 5.8 | 10.0 | 6.7 | 9.5 | -0.4 | 6.3 | 13.0 | 17.0 | -7.8 | -22.4 | 20.0 | 21.2 |
| | Services | 0.3 | -7.0 | -3.9 | 0.1 | -25.9 | -18.9 | -5.5 | 11.2 | -26.3 | -18.4 | -4.3 | 11.6 | -31.0 | 17.0 | -4.3 | SL |
| | Software | 1.4 | -4.4 | 0.9 | 13.6 | 21.0 | -19.4 | 28.4 | 23.4 | -64.5 | -0.1 | 71.9 | 79.1 | -48.3 | 154.9 | 103.2 | 53.6 |
| | Media | 5.2 | 1.3 | -7.0 | 4.8 | 44.2 | -4.8 | -2.8 | -7.9 | 46.5 | -2.6 | -6.8 | -12.4 | 63.5 | -2.1 | -8.6 | -6.9 |
| | Telecommunications | 1.8 | -1.9 | -0.6 | 1.3 | 15.8 | 9.0 | 12.9 | -4.0 | 7.1 | 1.4 | 33.1 | -65.9 | 19.2 | 63.3 | 21.2 | 193.1 |
| | Construction, engineering | -2.0 | -3.9 | -2.7 | 8.0 | 44.6 | 47.8 | 27.9 | 10.6 | 23.7 | 53.9 | 33.8 | 16.2 | 25.9 | 67.8 | 35.0 | 35.0 |
| | Housing, real estate | 4.1 | 1.7 | 8.5 | 5.7 | 11.1 | 7.6 | 24.2 | 21.1 | 25.3 | 7.3 | 29.2 | 31.9 | 25.3 | 6.7 | 28.6 | 127.3 |
| | Transportation | -4.8 | -6.2 | -2.6 | 1.1 | -11.6 | -10.8 | 1.5 | -0.2 | -14.5 | -11.5 | 5.9 | 4.5 | -19.0 | -49.4 | 20.4 | SP |
| | Utilities | -13.8 | -8.3 | -6.9 | -3.8 | -31.5 | -10.6 | -36.3 | -91.5 | -31.9 | -11.2 | -45.0 | SL | -53.4 | 7.9 | 162.2 | LI |
| Financials | - | - | - | - | - | - | - | - | -27.5 | 12.9 | 6.9 | -20.6 | -23.4 | 23.4 | 17.7 | -7.2 | |

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 2017. (3) Excludes consolidated subsidiaries. (4) LI = losses increasing; LS = losses shrinking; SL = switch to losses; SP = switch to profits.

Source: Nomura

Fig. 10: Valuation indicators

| | | P/E | | | P/CF | | | P/B | | Dividend yield | | | ROE | | | |
|--|---|------|-------|-------|------|-------|-------|------|-------|----------------|-------|-------|------|------|-------|-------|
| | | FY16 | FY17E | FY18E | FY16 | FY17E | FY18E | FY16 | FY17E | FY16 | FY17E | FY18E | FY15 | FY16 | FY17E | FY18E |
| | | x | x | x | x | x | x | x | x | % | % | % | % | % | % | % |
| Industrial groups | Russell/Nomura Large Cap | 17.2 | 15.2 | 14.1 | - | - | - | 1.37 | 1.32 | 1.92 | 2.08 | 2.22 | 7.7 | 8.2 | 9.0 | 9.1 |
| | Russell/Nomura Large Cap (ex loss-making cos) | 16.0 | 15.2 | 14.1 | - | - | - | 1.46 | 1.32 | 1.86 | 2.09 | 2.22 | 8.9 | 9.3 | 9.0 | 9.1 |
| | Russell/Nomura Large Cap (ex financials) | 18.8 | 16.1 | 14.9 | 8.7 | 8.5 | 8.1 | 1.55 | 1.49 | 1.82 | 2.00 | 2.14 | 7.9 | 8.5 | 9.5 | 9.7 |
| | Manufacturing | 20.7 | 16.8 | 15.2 | 9.6 | 9.4 | 8.7 | 1.65 | 1.57 | 1.87 | 2.09 | 2.24 | 8.1 | 8.1 | 9.7 | 10.0 |
| | Basic materials | 17.7 | 14.0 | 12.7 | 7.5 | 6.5 | 6.0 | 1.14 | 1.08 | 1.74 | 1.91 | 2.04 | 3.9 | 6.6 | 8.0 | 8.2 |
| | Processing | 19.8 | 15.1 | 13.5 | 8.6 | 8.6 | 7.9 | 1.55 | 1.47 | 1.99 | 2.26 | 2.43 | 9.3 | 8.0 | 10.0 | 10.6 |
| | Nonmanufacturing | 14.3 | 13.6 | 13.0 | - | - | - | 1.14 | 1.11 | 1.98 | 2.07 | 2.19 | 7.3 | 8.2 | 8.4 | 8.3 |
| | Nonmanufacturing (ex financials) | 16.3 | 15.2 | 14.5 | 7.7 | 7.5 | 7.2 | 1.41 | 1.37 | 1.74 | 1.86 | 1.97 | 7.6 | 8.9 | 9.2 | 9.2 |
| Broad sectors | Basic materials | 17.7 | 14.0 | 12.7 | 7.5 | 6.5 | 6.0 | 1.14 | 1.08 | 1.74 | 1.91 | 2.04 | 3.9 | 6.6 | 8.0 | 8.2 |
| | Machinery, autos | 14.3 | 12.8 | 11.5 | 6.9 | 7.7 | 7.1 | 1.35 | 1.28 | 2.39 | 2.69 | 2.93 | 11.0 | 9.7 | 10.3 | 10.8 |
| | Electronics | 43.9 | 19.9 | 17.4 | 12.9 | 10.3 | 9.4 | 1.94 | 1.84 | 1.43 | 1.68 | 1.75 | 5.7 | 4.6 | 9.5 | 10.1 |
| | Consumption, distribution | 23.3 | 20.1 | 19.0 | 13.7 | 12.4 | 11.9 | 1.72 | 1.68 | 1.84 | 1.99 | 2.09 | 6.2 | 7.5 | 8.5 | 8.6 |
| | Information | 13.4 | 17.5 | 15.8 | 6.4 | 7.1 | 6.8 | 1.93 | 1.91 | 1.57 | 1.72 | 1.87 | 10.8 | 15.0 | 11.1 | 11.6 |
| | Utilities, infrastructure | 15.8 | 13.1 | 13.0 | 6.7 | 6.3 | 6.2 | 1.34 | 1.26 | 1.57 | 1.65 | 1.75 | 8.9 | 8.8 | 10.0 | 9.4 |
| | Financials | 10.5 | 10.2 | 9.9 | - | - | - | 0.73 | 0.70 | 2.70 | 2.76 | 2.87 | 7.0 | 7.1 | 7.0 | 6.9 |
| Sectors | Chemicals | 16.9 | 14.2 | 13.1 | 8.0 | 7.1 | 6.7 | 1.30 | 1.21 | 1.79 | 1.85 | 1.95 | 4.1 | 7.8 | 8.9 | 8.9 |
| | Steel, nonferrous metals | 21.8 | 13.0 | 11.5 | 6.0 | 4.8 | 4.5 | 0.77 | 0.76 | 1.55 | 2.13 | 2.37 | 3.4 | 3.6 | 5.9 | 6.4 |
| | Machinery | 22.4 | 19.0 | 16.9 | 12.6 | 11.3 | 10.4 | 1.77 | 1.68 | 1.61 | 1.81 | 1.90 | 9.0 | 8.1 | 9.1 | 9.6 |
| | Automobiles | 12.0 | 11.0 | 9.9 | 5.6 | 6.6 | 6.1 | 1.21 | 1.14 | 2.78 | 3.15 | 3.47 | 11.8 | 10.3 | 10.7 | 11.2 |
| | Electrical machinery, precision equipment | 43.9 | 19.9 | 17.4 | 12.9 | 10.3 | 9.4 | 1.94 | 1.84 | 1.43 | 1.68 | 1.75 | 5.7 | 4.6 | 9.5 | 10.1 |
| | Pharmaceuticals, healthcare | 26.5 | 26.3 | 25.9 | 17.3 | 16.4 | 17.1 | 2.35 | 2.25 | 1.84 | 1.97 | 2.01 | 8.6 | 8.9 | 8.7 | 8.5 |
| | Food products | 23.5 | 23.5 | 21.9 | 14.6 | 14.6 | 13.8 | 2.83 | 2.65 | 1.74 | 1.95 | 2.14 | 10.4 | 12.2 | 11.7 | 11.8 |
| | Household goods | 28.2 | 27.3 | 24.7 | 18.8 | 18.0 | 16.7 | 3.33 | 3.38 | 1.17 | 1.27 | 1.38 | 10.3 | 12.1 | 12.8 | 13.2 |
| | Trading companies | 8.6 | 7.6 | 7.4 | 5.7 | 5.1 | 5.0 | 0.81 | 0.75 | 3.31 | 3.67 | 3.78 | 0.8 | 9.9 | 10.3 | 9.8 |
| | Retailing | 33.9 | 24.9 | 21.8 | 15.2 | 12.9 | 11.7 | 2.21 | 2.26 | 1.38 | 1.45 | 1.56 | 7.7 | 6.6 | 9.2 | 10.1 |
| | Services | 51.5 | 25.4 | 24.2 | 20.2 | 14.4 | 13.8 | 1.04 | 1.04 | 1.86 | 1.98 | 2.03 | 6.1 | 2.0 | 4.2 | 4.2 |
| | Software | 30.5 | 30.2 | 26.7 | 22.8 | 22.9 | 20.8 | 3.04 | 3.11 | 1.43 | 1.64 | 1.84 | 7.8 | 10.3 | 10.4 | 11.3 |
| | Media | 17.6 | 19.2 | 18.1 | 12.3 | 13.0 | 12.4 | 1.30 | 1.27 | 1.59 | 1.57 | 1.57 | 7.4 | 7.4 | 6.7 | 6.8 |
| | Telecommunications | 11.2 | 15.3 | 13.9 | 5.0 | 5.6 | 5.4 | 1.84 | 1.79 | 1.62 | 1.77 | 1.91 | 11.9 | 17.2 | 12.0 | 12.4 |
| | Construction | 9.9 | 10.0 | 9.7 | 8.7 | 8.6 | 8.4 | 1.53 | 1.45 | 2.19 | 2.37 | 2.56 | 13.4 | 16.5 | 15.4 | 14.2 |
| | Housing, real estate | 15.4 | 14.5 | 13.8 | 11.0 | 10.4 | 10.0 | 1.58 | 1.49 | 1.84 | 2.00 | 2.05 | 8.4 | 10.6 | 10.7 | 10.4 |
| | Transportation | 20.5 | 14.6 | 13.6 | 7.8 | 6.8 | 6.5 | 1.48 | 1.39 | 1.15 | 1.28 | 1.36 | 8.0 | 7.4 | 9.9 | 9.9 |
| | Utilities | 12.4 | 9.9 | 12.0 | 3.0 | 2.8 | 3.0 | 0.83 | 0.77 | 1.85 | 1.54 | 1.81 | 9.5 | 6.9 | 8.0 | 6.3 |
| | Financials | 10.5 | 10.2 | 9.9 | - | - | - | 0.73 | 0.70 | 2.70 | 2.76 | 2.87 | 7.0 | 7.1 | 7.0 | 6.9 |
| Russell/Nomura Small Cap | | 18.2 | 16.0 | 15.3 | - | - | - | 1.28 | 1.15 | 1.69 | 1.76 | 1.82 | 6.5 | 7.2 | 7.4 | 7.3 |
| Russell/Nomura Small Cap (ex financials) | | 19.1 | 16.6 | 15.8 | 10.2 | 9.0 | 8.7 | 1.42 | 1.28 | 1.64 | 1.72 | 1.75 | 6.6 | 7.6 | 7.9 | 7.9 |

Note: Estimates and share prices as of 24 May 2017 close.

Source: Nomura

What are the Russell/Nomura Japan Equity Indexes?

The Russell/Nomura Japan Equity Indexes are Japanese equity indexes developed jointly by FTSE Russell Indexes 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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As at 31 March 2017.

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Margin transactions are subject to a sales commission of up to 1.404% of the transaction amount (or a commission of ¥2,808 for transactions of ¥200,000 or less), as well as management fees and rights handling fees. In addition, long margin transactions are subject to interest on the purchase amount, while short margin transactions are subject to fees for the lending of the shares borrowed. A margin equal to at least 30% of the transaction amount and at least ¥300,000 is required. With margin transactions, an amount up to roughly 3.3x the margin may be traded. Margin transactions therefore carry the risk of losses in excess of the margin owing to share price fluctuations. For details, please thoroughly read the written materials provided, such as listed securities documents or documents delivered before making a contract.

Transactions involving convertible bonds are subject to a sales commission of up to 1.08% of the transaction amount (or a commission of ¥4,320 if this would be less than ¥4,320). When convertible bonds are purchased via OTC transactions (including offerings), only the purchase price shall be paid, with no sales commission charged. However, Nomura Securities may charge a separate fee for OTC transactions, as agreed with the customer. Convertible bonds carry the risk of losses owing to factors such as interest rate fluctuations and price fluctuations in the underlying stock. In addition, convertible bonds denominated in foreign currencies also carry the risk of losses owing to factors such as foreign exchange rate fluctuations.

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.

Nomura Securities Co., Ltd.

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