

Outlook for FY20-21 corporate earnings

Quarterly Update

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Contents

Summary and major assumptions.....	3
Contributions to recurring profit growth by sector.....	5
Revisions to recurring profit estimates (versus old estimates)	7
Revision index for the Russell/Nomura Large Cap Index.....	9
Reference	
Russell/Nomura Large Cap Index: earnings indicators	10
Recurring profits by sector.....	12
Percentage change in quarterly sales and profits	13
Valuation indicators	14
What are the Russell/Nomura Japan Equity Indexes?	15

Summary and major assumptions

Overview of the corporate earnings outlook for FY20

In this report, we collate and analyze the earnings forecast data issued by our analysts.

In FY20, for companies in the Russell/Nomura Large Cap Index (ex financials) in aggregate, our analysts are forecasting a 9.5% y-y decline in sales and a 19.5% fall in recurring profits. This would make FY20 the second straight year with a sharp fall in recurring profits, following the 22.3% drop recorded in FY19.

Our forex assumptions for FY20 are USD/JPY of 106.38 (previously 107.00) and EUR/JPY of 120.35 (previously 116.00). We have thus revised our forecasts in the direction of a stronger yen versus the US dollar but a weaker yen versus the euro. Compared with their previous forecasts, our analysts' latest forecasts represent downward revisions for sales growth and recurring profit growth. Our analysts have continued to reflect the deterioration in the business environment caused by COVID-19 into their forecasts, and this has resulted in downward revisions to their earnings estimates for the majority of sectors.

The Revision Index (RI) for the Russell/Nomura Large Cap Index (ex financials), showing the difference between the percentage of companies for which estimates were raised and the percentage of companies for which estimates were lowered, was -23.9% for September 2020 (indicating that downward revisions outstripped upward revisions in the period from 1 June through 1 September). Nevertheless, this represented an improvement from the RI of -48.0% for June 2020 (covering the period from 26 February through 31 May). In addition, if we look only at revisions from July, when companies started to release their FY20 Q1 results, we see that the number of companies for which forecasts were raised is in fact close to the number of companies for which forecasts were lowered. Thus, in terms of the number of companies, the dominance of downward revisions over upward revisions appears to have come to an end.

Our analysts forecast a y-y decline, albeit a slight one, in aggregate FY20 dividends for the constituents of the Russell/Nomura Large Cap Index. Considering that forecast net profits is down from the prior-year by a double-digit percentage, we think companies are making an effort to maintain dividends. Despite difficult operating conditions, the percentage of companies raising dividends is larger than the percentage of companies lowering them.

Overview of the corporate earnings outlook for FY21

For FY21, our analysts are looking for sales growth of 8.6% y-y and recurring profit growth of 49.1% for companies in the Russell/Nomura Large Cap Index (ex financials). Assuming that economic activity will normalize, both in Japan and overseas, after weakening because of COVID-19, our analysts forecast that Russell/Nomura Large Cap Index (ex financials) recurring profits will return to growth in FY21, for the first time in three fiscal years.

Our revised forex assumptions for FY21 are USD/JPY of 106.00 (previously 107.00, revised in the direction of a stronger yen) and EUR/JPY of 121.00 (previously 116.00, revised in the direction of a weaker yen).

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

(% y-y, except where noted)

		No. of cos	New					Old	
			FY17	FY18	FY19	FY20E	FY21E	FY20E	FY21E
Sales	Russell/Nomura Large Cap (ex financials)	306	8.2	6.5	-2.5	-9.5	8.6	-6.0	6.0
	Manufacturing	175	9.3	3.0	-2.7	-9.9	9.7	-7.4	7.0
	Basic materials	37	17.1	7.0	-2.0	-13.7	12.4	-13.5	5.1
	Processing	84	7.9	1.7	-4.5	-10.2	10.3	-6.7	8.4
	Nonmanufacturing (ex financials)	131	6.7	11.5	-2.3	-9.1	7.1	-4.2	4.6
	Russell/Nomura Small Cap (ex financials)	1,134	6.1	4.6	0.3	-6.5	6.5	-0.8	3.3
Operating profits	Russell/Nomura Large Cap (ex financials)	306	16.3	3.6	-23.7	-28.3	53.1	-0.9	25.5
	Manufacturing	175	17.8	0.3	-23.2	-21.8	50.6	-8.0	35.6
	Basic materials	37	34.9	0.1	-48.7	-14.9	59.3	17.0	31.5
	Processing	84	15.9	0.2	-20.1	-31.7	63.0	-18.7	44.4
	Nonmanufacturing (ex financials)	131	14.3	8.0	-24.3	-35.6	56.5	7.8	15.0
	Russell/Nomura Small Cap (ex financials)	1,134	6.8	-2.4	-6.0	-22.4	36.3	-1.0	15.5
Recurring profits	Russell/Nomura Large Cap	330	15.3	1.1	-20.5	-18.7	43.8	2.5	22.2
	Russell/Nomura Large Cap (ex financials)	306	17.5	3.1	-22.3	-19.5	49.1	0.2	25.7
	Manufacturing	175	21.6	-1.5	-27.2	-16.0	51.4	-2.2	35.7
	Basic materials	37	43.6	2.1	-52.0	-17.4	68.3	19.0	34.0
	Processing	84	19.6	-2.6	-24.5	-22.2	59.7	-10.3	42.6
	Nonmanufacturing	155	9.7	3.7	-14.3	-20.9	37.2	6.2	12.2
	Nonmanufacturing (ex financials)	131	12.2	9.7	-16.0	-23.2	46.3	2.8	15.2
	Russell/Nomura Small Cap	1,230	9.0	-1.8	-7.3	-20.5	32.7	-0.5	14.5
	Russell/Nomura Small Cap (ex financials)	1,134	8.4	0.3	-9.5	-21.6	36.1	-0.6	15.7
Net profits	Russell/Nomura Large Cap	330	32.2	-4.5	-31.6	-14.1	52.7	11.0	26.4
	Russell/Nomura Large Cap (ex financials)	306	38.5	-1.1	-35.6	-14.7	60.4	9.3	31.0
	Manufacturing	175	53.1	-4.3	-40.3	-15.4	68.1	3.6	44.3
	Basic materials	37	49.6	0.9	-82.6	25.6	160.8	159.8	38.1
	Processing	84	68.5	-5.9	-37.9	-22.2	71.5	-8.0	53.4
	Nonmanufacturing	155	15.1	-4.7	-22.2	-13.1	40.0	17.3	13.1
	Nonmanufacturing (ex financials)	131	20.4	3.9	-28.8	-13.8	51.3	16.2	16.6
	Russell/Nomura Small Cap	1,230	14.5	-5.9	-12.0	-9.6	37.9	13.5	15.4
	Russell/Nomura Small Cap (ex financials)	1,134	10.1	-3.4	-13.9	-9.4	43.1	15.4	17.1

Note: Latest estimates as of 1 September 2020, previous estimates as of 31 May 2020.

Source: Nomura

Fig. 2: Major assumptions

As of 16 July 2020						As of 20 April 2020				
	Industrial production 2015 base year % y-y	Policy rate (FY-end) %	WTI \$/bbl	Exchange rate (avg)		Industrial production 2015 base year % y-y	Policy rate (FY-end) %	WTI \$/bbl	Exchange rate (avg)	
				USD/JPY	EUR/JPY				USD/JPY	EUR/JPY
FY19	-3.6	-0.10	54.8	108.72	120.82	-3.9	-0.10	54.8	108.72	120.82
FY20E	-9.0	-0.10	38.0	106.38	120.35	-8.1	-0.10	29.5	107.00	116.00
FY21E	5.9	-0.10	42.5	106.00	121.00	5.4	-0.10	36.3	107.00	116.00
FY19 H1	-1.6	-0.10	58.1	108.61	121.41	-1.6	-0.10	58.1	108.61	121.41
FY19 H2	-5.6	-0.10	51.6	108.84	120.22	-6.1	-0.10	51.6	108.84	120.22
FY20E H1	-13.1	-0.10	34.4	106.75	119.69	-12.5	-0.10	25.5	107.00	116.00
FY20E H2	-4.8	-0.10	41.5	106.00	121.00	-3.6	-0.10	33.5	107.00	116.00
FY21E H1	8.0	-0.10	42.0	106.00	121.00	7.0	-0.10	35.5	107.00	116.00
FY21E H2	3.9	-0.10	43.0	106.00	121.00	3.8	-0.10	37.0	107.00	116.00

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

Source: Nomura

Contributions to recurring profit growth by sector

FY20 overview

For FY20, our analysts project that recurring profits will increase, or recurring losses will narrow, in 6 out of 19 sectors, and that recurring profits will decrease, or move to recurring losses, in the remaining 13 sectors.

Sectors expected to make major positive contributions to profits include telecommunications, electrical machinery and precision equipment, pharmaceuticals and healthcare, and steel and nonferrous metals. For most of these sectors, our analysts expect profits to grow in FY20 in a rebound from impairment losses and/or one-time losses posted in FY19. For the telecommunications sector and the electrical machinery and precision equipment sector, the disappearance of one-time losses posted in FY19 accounts for the majority of projected profit growth. For the pharmaceuticals and healthcare sector, costs arising from the purchase of Shire by Takeda Pharmaceutical [4502] should drop out of the picture in FY20, and for the steel and nonferrous metals sector our analysts expect a sizable impact from the disappearance of impairment losses recorded in FY19 on the closure of facilities at Nippon Steel [5401] and JFE Holdings [5411].

Sectors that our analysts expect to make major negative contributions to profits include transportation, automobiles, financials, chemicals, trading companies, housing and real estate, and retailing. In the transportation sector, many people are reluctant to travel for leisure and/or business because of the COVID-19 pandemic, and this has resulted in sharp declines in passenger numbers for both airplanes and railways. For automobiles, global demand has fallen sharply, and we expect the slump to continue. In the financials sector, our analysts expect the pandemic to squeeze banks' earnings via a reduction in economic and corporate activity, lower interest rates (and profit margins), and higher credit costs, for example. In the chemicals sector, in addition to the fact that crude oil prices are lower in FY20 than in FY19, COVID-19 has triggered a deterioration in demand for various types of products, including carbon fiber for aircraft and products for the petrochemicals and auto industries. There is also likely to be an impact from the recording of goodwill as a result of corporate acquisitions. For trading companies, the main negatives for profits include a downturn in automotive-related operations and weak demand for some resources as a result of COVID-19, as well as the recording of impairment losses. For housing and real estate, we note a fall in demand for hotels owing to the decline in inbound tourism, rent waivers for tenants at temporarily shuttered retail facilities, and a stagnant property market. For the retail sector, our analysts expect earnings to deteriorate at general merchandisers (where both developer and nonfood businesses are struggling), apparel retailers, and department stores, because the pandemic has led to a decline in customer footfall, including that of inbound visitors.

FY21 overview

For FY21, our analysts assume that economic activity will continue to return to normal as COVID-19 vaccines are developed and distributed. They expect recurring profits to rise or return to the black in 18 out of 19 sectors and to fall in only the utilities sector.

Sectors expected to make major positive contributions to profits include automobiles, transportation, electrical machinery and precision equipment, chemicals, financials, and trading companies. Excluding the electric machinery and precision equipment sector, where our analysts expect recurring profits to rise in FY20, the forecast is that a recovery in demand and a rebound from one-time losses recorded in FY20 will result in substantial positive contributions to recurring profit growth from the automobiles, transportation, chemicals, financials, and trading companies sectors.

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

FY20E				FY21E			
Increase in profits				Increase in profits			
	Growth	Contribution	Contribution (%)		Growth	Contribution	Contribution (%)
			(ex financials)				(ex financials)
6 sectors				18 sectors			
Telecommunications	67.6	25.4	28.7	Automobiles	136.2	24.3	25.7
Electrical machinery, precision equipment	11.4	6.7	7.5	Transportation	SP	22.3	23.6
Pharmaceuticals, healthcare	18.9	4.3	4.8	Electrical machinery, precision equipment	25.1	8.6	9.1
Steel, nonferrous metals	LS	3.9	4.4	Chemicals	38.5	5.8	6.1
Software	22.8	2.7	3.0	Financials	15.1	5.4	-
Media	0.0	0.0	0.0	Trading companies	45.0	5.3	5.6
Decrease in profits (%)				Decrease in profits (%)			
	Growth	Contribution	Contribution (%)		Growth	Contribution	Contribution (%)
			(ex financials)				(ex financials)
13 sectors				1 sectors			
Food	-4.3	-0.8	-0.9	Utilities	-2.8	-0.2	-0.2
Construction	-10.1	-1.0	-1.2				
Utilities	-13.5	-2.1	-2.4				
Household goods	-19.8	-2.2	-2.4				
Machinery	-19.9	-4.9	-5.5				
Services	-28.0	-6.9	-7.8				
Retailing	-31.7	-7.3	-8.2				
Housing, real estate	-27.7	-8.1	-9.2				
Trading companies	-29.1	-9.2	-10.4				
Chemicals	-25.4	-9.7	-11.0				
Financials	-14.6	-11.6	-				
Automobiles	-51.2	-35.5	-40.2				
Transportation	SL	-43.6	-49.3				

Note: SP = switch to profits. SL = switch to losses. LS = losses shrinking.

Source: Nomura

Revisions to recurring profit forecasts (versus previous forecasts)

FY20 overview

Our analysts have raised their FY20 recurring profit forecasts for 3 out of 19 sectors and lowered them for 16.

Our analysts have raised their forecasts for the telecommunications, software, and pharmaceuticals and healthcare sectors. In the software sector, our analysts have factored into their forecasts the lengthening of the life cycle for both hardware and software in the amusement field. Meanwhile, the pharmaceuticals and healthcare sector has seen a substantial impact from revaluation gains due to the removal of the obligation to sell pipeline drugs as a result of business integration.

Sectors with large downward revisions include transportation, financials, chemicals, automobiles, machinery, and electrical machinery and precision equipment. For the transportation, financials, chemicals, and automobiles sectors, our analysts have lowered their estimates to reflect the impact of COVID-19, and the details of these changes are as noted above. For machinery, Chinese demand recovered in Apr-Jun but both domestic demand and demand from Europe and the US have weakened. In electrical machinery and precision equipment, strong 5G-related demand and a reduced risk of factory stoppages have led our analysts to raise their forecasts for electronic parts, but these upward revisions were outweighed by downward revisions reflecting lower demand for a wide range of products as a result of the pandemic.

FY21 overview

Our analysts have raised their FY21 recurring profit forecasts for 4 of the 19 sectors and lowered them for the remaining 15.

Our analysts have raised their forecasts for the telecommunications, automobiles, software, and pharmaceuticals and healthcare sectors, and the reasons for their upward revisions for three of these sectors, excluding automobiles, are similar to those for FY20.

Sectors with large downward revisions include financials, transportation, chemicals, machinery, retailing, and electrical machinery and precision equipment. For FY21, our analysts are assuming that the impact of the pandemic will fade and that economic activity will return to normal, but their forecasts for these sectors also reflect the fact that they now expect earnings to recover more slowly than they previously envisaged.

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

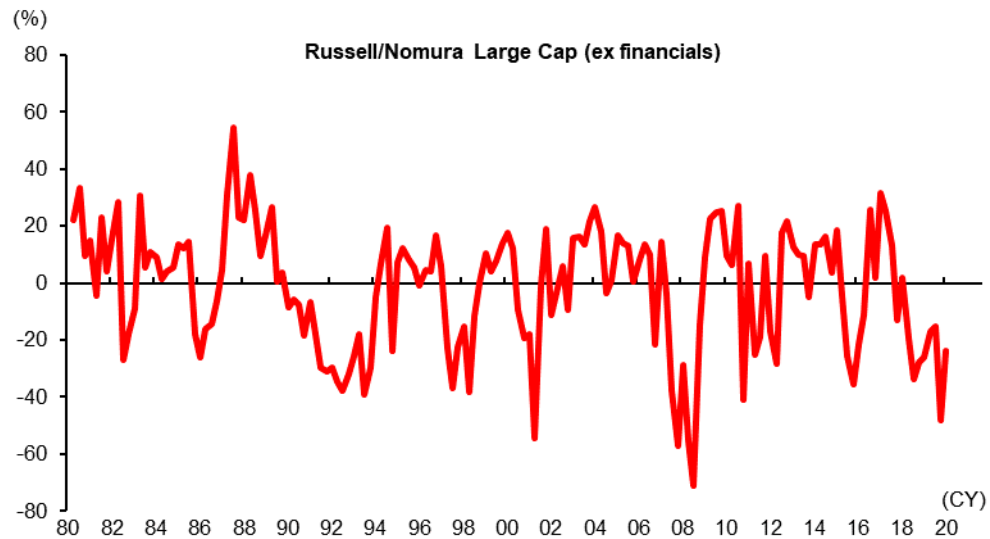
FY20E					FY21E				
[Upward revisions] 3 sectors					[Upward revisions] 4 sectors				
	New ¥bn	Old ¥bn	Revision ¥bn	Change %		New ¥bn	Old ¥bn	Revision ¥bn	Change %
Telecommunications	4,501	3,968	534	13.5	Telecommunications	4,514	4,305	210	4.9
Software	1,031	981	50	5.1	Automobiles	5,722	5,549	173	3.1
Pharmaceuticals, healthcare	1,925	1,876	49	2.6	Software	1,223	1,124	99	8.8
					Pharmaceuticals, healthcare	2,471	2,389	81	3.4
[Downward revisions] 16 sectors					[Downward revisions] 15 sectors				
	New ¥bn	Old ¥bn	Revision ¥bn	Change %		New ¥bn	Old ¥bn	Revision ¥bn	Change %
Construction	661	724	-64	-8.8	Services	1,743	1,767	-24	-1.3
Housing, real estate	1,524	1,607	-83	-5.2	Construction	701	729	-29	-3.9
Food	1,310	1,396	-85	-6.1	Trading companies	2,336	2,366	-31	-1.3
Media	155	260	-105	-40.5	Steel, nonferrous metals	490	526	-36	-6.8
Household goods	625	779	-154	-19.8	Food	1,491	1,535	-45	-2.9
Steel, nonferrous metals	-69	99	-168	-170.1	Media	250	300	-50	-16.5
Services	1,266	1,460	-194	-13.3	Utilities	958	1,023	-65	-6.3
Utilities	986	1,182	-196	-16.6	Housing, real estate	1,963	2,029	-66	-3.3
Retailing	1,118	1,353	-235	-17.4	Household goods	852	952	-100	-10.5
Trading companies	1,611	1,856	-246	-13.2	Electrical machinery, precision equipment	5,817	6,001	-184	-3.1
Electrical machinery, precision equipment	4,648	4,926	-278	-5.6	Retailing	1,631	1,881	-249	-13.3
Machinery	1,411	1,914	-503	-26.3	Machinery	2,002	2,406	-403	-16.8
Automobiles	2,423	2,948	-525	-17.8	Chemicals	2,816	3,265	-449	-13.7
Chemicals	2,034	2,731	-697	-25.5	Transportation	2,057	2,803	-745	-26.6
Financials	4,837	6,539	-1,701	-26.0	Financials	5,566	6,869	-1,303	-19.0
Transportation	-971	2,521	-3,492	-138.5					

Note: Latest estimates as of 1 September 2020; previous estimates as of 31 May 2020.

Source: Nomura

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

	(yy/m)	18/12	19/3	19/6	19/9	19/12	20/3	20/6	20/9
Russell/Nomura Large Cap		-17.4	-31.4	-27.6	-24.6	-15.6	-15.5	-45.5	-25.5
Russell/Nomura Large Cap (ex financials)		-19.1	-33.8	-28.0	-26.1	-16.9	-15.0	-48.0	-23.9
Manufacturing		-26.0	-47.8	-34.1	-46.4	-25.7	-21.7	-57.7	-17.7
Basic materials		-36.6	-42.9	-31.7	-63.4	-56.1	-40.5	-64.9	-29.7
Processing		-29.8	-57.8	-41.0	-50.6	-32.5	-23.8	-63.1	-14.3
Nonmanufacturing (ex financials)		-9.0	-14.1	-19.5	2.3	-4.7	-6.1	-35.1	-32.1



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	FY17	FY18	FY19	FY20E Old	FY20E New	FY21E Old	FY21E New
Industrial groups	Russell/Nomura Large Cap (ex financials)	306	8.2	6.5	-2.5	-6.0	-9.5	6.0	8.6
	Manufacturing	175	9.3	3.0	-2.7	-7.4	-9.9	7.0	9.7
	Basic materials	37	17.1	7.0	-2.0	-13.5	-13.7	5.1	12.4
	Processing	84	7.9	1.7	-4.5	-6.7	-10.2	8.4	10.3
	Nonmanufacturing (ex financials)	131	6.7	11.5	-2.3	-4.2	-9.1	4.6	7.1
Broad sectors	Materials	37	17.1	7.0	-2.0	-13.5	-13.7	5.1	12.4
	Machinery, autos	45	9.0	2.2	-4.4	-9.5	-13.7	10.6	12.9
	Electronics	39	6.0	0.8	-4.8	-2.0	-4.2	4.9	6.3
	Consumer, distribution	99	6.7	15.5	-0.6	-6.0	-8.0	5.9	6.0
	Information	27	6.3	3.7	-7.4	1.4	-0.3	3.3	4.8
	Utilities, infrastructure	59	6.0	3.8	0.2	-1.9	-11.6	2.6	8.7
Sectors	Chemicals	31	18.0	8.0	-1.2	-12.6	-13.7	3.2	12.8
	Steel, nonferrous metals	6	15.0	4.7	-3.9	-16.0	-13.8	10.8	11.4
	Machinery	26	13.9	3.0	-3.6	-2.0	-7.2	5.3	6.2
	Autos	19	7.7	2.0	-4.6	-11.7	-15.6	12.4	15.1
	Electrical machinery, precision equipment	39	6.0	0.8	-4.8	-2.0	-4.2	4.9	6.3
	Pharmaceuticals, healthcare	21	3.2	3.5	9.7	0.3	-0.3	3.7	4.4
	Food products	19	6.7	2.5	0.7	-3.1	-4.6	2.8	3.1
	Household goods	14	7.5	3.5	-0.8	-3.1	-6.2	7.4	6.4
	Trading companies	7	13.1	45.0	-5.0	-13.0	-14.1	7.1	6.7
	Retailing	20	5.1	3.1	2.5	-5.0	-6.7	9.3	9.6
	Services	18	0.7	1.9	-2.5	0.4	-5.0	3.1	3.4
	Software	12	20.8	9.5	7.5	4.6	2.9	5.1	6.7
	Media	5	5.3	6.4	0.8	-0.8	-10.9	3.0	10.2
	Telecommunications	10	4.7	2.7	-10.7	1.1	0.6	2.9	3.7
	Construction, engineering	7	1.9	8.0	5.1	-1.1	-5.1	0.2	2.7
	Housing, real estate	18	5.1	5.4	2.3	-5.2	-7.2	6.4	6.3
	Transportation	24	5.8	-1.1	-2.2	2.4	-20.9	3.0	22.1
Utilities	10	8.5	6.6	-0.9	-3.8	-8.1	-0.4	0.6	

Note: Figures exclude listed consolidated subsidiaries. Latest estimates as of 1 September 2020; previous estimates as of 31 May2020.

Source: Nomura

Fig. 7: Percentage change in recurring profits by sector

(% y-y, except where noted)

		No. of cos	FY17	FY18	FY19	FY20E Old	FY20E New	FY21E Old	FY21E New
Industrial groups	Russell/Nomura Large Cap	330	15.3	1.1	-20.5	2.5	-18.7	22.2	43.8
	Russell/Nomura Large Cap (ex financials)	306	17.5	3.1	-22.3	0.2	-19.5	25.7	49.1
	Manufacturing	175	21.6	-1.5	-27.2	-2.2	-16.0	35.7	51.4
	Basic materials	37	43.6	2.1	-52.0	19.0	-17.4	34.0	68.3
	Processing	84	19.6	-2.6	-24.5	-10.3	-22.2	42.6	59.7
	Nonmanufacturing	155	9.7	3.7	-14.3	6.2	-20.9	12.2	37.2
	Nonmanufacturing (ex financials)	131	12.2	9.7	-16.0	2.8	-23.2	15.2	46.3
Broad sectors	Materials	37	43.6	2.1	-52.0	19.0	-17.4	34.0	68.3
	Machinery, autos	45	16.5	-8.9	-23.9	-27.9	-43.0	63.6	101.5
	Electronics	39	26.1	9.3	-25.3	18.3	11.4	21.8	25.1
	Consumer, distribution	99	14.8	2.8	-9.5	-7.5	-16.7	24.9	34.0
	Information	27	6.1	33.1	-35.2	41.5	54.5	10.0	5.3
	Utilities, infrastructure	59	9.6	-2.5	-2.6	-1.5	-64.1	9.1	158.3
	Financials	24	4.4	-10.5	-9.1	15.4	-14.6	5.1	15.1
Sectors	Chemicals	31	34.2	4.5	-34.2	0.1	-25.4	19.6	38.5
	Steel, nonferrous metals	6	93.4	-7.3	SL	SP	LS	433.5	SP
	Machinery	26	29.3	9.6	-30.0	7.5	-19.9	25.7	41.9
	Autos	19	12.9	-14.6	-21.5	-40.6	-51.2	88.3	136.2
	Electrical machinery, precision equipment	39	26.1	9.3	-25.3	18.3	11.4	21.8	25.1
	Pharmaceuticals, healthcare	21	5.9	-3.5	8.0	16.4	18.9	27.3	28.3
	Food products	19	4.8	-3.7	-15.6	2.0	-4.3	10.0	13.8
	Household goods	14	20.8	6.9	-7.5	-0.0	-19.8	22.1	36.2
	Trading companies	7	31.2	10.4	-27.9	-18.3	-29.1	27.5	45.0
	Retailing	20	12.4	3.3	4.1	-17.4	-31.7	39.0	46.0
	Services	18	10.9	0.0	1.7	-17.0	-28.0	21.1	37.8
	Software	12	44.2	16.7	20.1	16.8	22.8	14.5	18.7
	Media	5	9.6	4.1	-57.5	68.2	0.0	15.5	62.1
	Telecommunications	10	1.4	38.5	-41.4	47.7	67.6	8.5	0.3
	Construction, engineering	7	9.8	-1.1	0.6	-1.4	-10.1	0.7	6.1
	Housing, real estate	18	9.9	-2.7	5.4	-23.7	-27.7	26.3	28.9
	Transportation	24	9.0	2.2	-17.4	17.5	SL	11.2	SP
	Utilities	10	10.2	-12.8	17.7	3.8	-13.5	-13.5	-2.8
	Financials	24	4.4	-10.5	-9.1	15.4	-14.6	5.1	15.1

Note: (1) Figures exclude listed consolidated subsidiaries. Latest estimates as of 1 September 2020; previous estimates as of 31 May 2020. (2) SP = switch to profits. SL = switch to losses. LS = losses shrinking. LI = losses increasing.

Source: Nomura

Fig. 8: Recurring profits by sector

(¥bn, except where noted)

		No. of cos	FY17	FY18	FY19	FY20E	FY20E	FY21E	FY21E
						Old	New	Old	New
Industrial groups	Russell/Nomura Large Cap	330	47,681	48,162	38,542	39,118	31,024	47,818	44,604
	Russell/Nomura Large Cap (ex financials)	306	40,521	41,796	32,757	32,579	26,186	40,948	39,038
	Manufacturing	175	23,855	23,510	17,180	16,668	14,307	22,622	21,660
	Basic materials	37	4,971	4,963	2,453	2,829	1,965	3,791	3,306
	Processing	84	14,790	14,552	10,942	9,788	8,481	13,955	13,541
	Nonmanufacturing	155	23,826	24,652	21,362	22,450	16,716	25,195	22,943
	Nonmanufacturing (ex financials)	131	16,666	18,286	15,578	15,911	11,879	18,326	17,377
Broad sectors	Materials	37	4,971	4,963	2,453	2,829	1,965	3,791	3,306
	Machinery, autos	45	9,755	8,911	6,745	4,862	3,834	7,955	7,724
	Electronics	39	5,035	5,641	4,197	4,926	4,648	6,001	5,817
	Consumer, distribution	99	10,162	10,312	9,397	8,720	7,855	10,890	10,523
	Information	27	4,317	5,753	3,728	5,208	5,687	5,728	5,988
	Utilities, infrastructure	59	6,280	6,216	6,236	6,034	2,199	6,584	5,680
	Financials	24	7,160	6,366	5,785	6,539	4,837	6,869	5,566
Sectors	Chemicals	31	3,911	4,036	2,758	2,731	2,034	3,265	2,816
	Steel, nonferrous metals	6	1,061	927	-305	99	-69	526	490
	Machinery	26	2,336	2,539	1,781	1,914	1,411	2,406	2,002
	Autos	19	7,419	6,372	4,964	2,948	2,423	5,549	5,722
	Electrical machinery, precision equipment	39	5,035	5,641	4,197	4,926	4,648	6,001	5,817
	Pharmaceuticals, healthcare	21	1,616	1,540	1,632	1,876	1,925	2,389	2,471
	Food products	19	1,723	1,625	1,387	1,396	1,310	1,535	1,491
	Household goods	14	755	830	765	779	625	952	852
	Trading companies	7	2,852	3,148	2,271	1,856	1,611	2,366	2,336
	Retailing	20	1,545	1,497	1,612	1,353	1,118	1,881	1,631
	Services	18	1,671	1,672	1,731	1,460	1,266	1,767	1,743
	Software	12	564	620	813	981	1,031	1,124	1,223
	Media	5	349	364	154	260	155	300	250
	Telecommunications	10	3,404	4,769	2,761	3,968	4,501	4,305	4,514
	Construction, engineering	7	664	696	734	724	661	729	701
	Housing, real estate	18	2,054	2,055	2,165	1,607	1,524	2,029	1,963
	Transportation	24	2,450	2,474	2,170	2,521	-971	2,803	2,057
Utilities	10	1,112	992	1,167	1,182	986	1,023	958	
Financials	24	7,160	6,366	5,785	6,539	4,837	6,869	5,566	

Note: Figures exclude listed consolidated subsidiaries. Index composition for period through FY19 differs from index composition from FY20 onwards. Accordingly, prior-year comparison base for y-y changes has altered, thereby resulting in different y-y figures than before. Latest estimates as of 1 September 2020; previous estimates as of 31 May 2020.

Source: Nomura

Fig. 9: Percentage change in quarterly sales and profits (FY19 Q2–FY20 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	-	-	-	-	-	-	-	-	-18.4	-4.6	-68.9	-53.3	-18.2	-16.8	SL	-58.2
	Russell/Nomura Large Cap (ex financials) ¹	0.6	-3.5	-8.1	-20.5	-16.9	-16.8	-59.8	-65.6	-20.8	-6.8	-70.7	-59.6	-22.0	-18.0	SL	-64.5
	Manufacturing	-0.2	-4.1	-6.4	-25.1	-10.4	-20.5	-50.8	-73.6	-15.4	-7.7	-67.5	-64.6	-16.1	-12.4	SL	-83.4
	Basic materials	-1.1	-5.2	-4.8	-23.4	-30.7	-51.3	SL	-84.0	-35.0	-50.0	SL	-88.4	-41.4	-94.0	SL	SL
	Processing	-1.4	-5.5	-8.4	-29.9	-6.2	-18.5	-39.7	-94.6	-12.2	2.9	-61.4	-76.4	-13.5	6.7	-98.6	-92.4
	Nonmanufacturing	-	-	-	-	-	-	-	-	-21.2	-2.2	-70.5	-46.1	-20.3	-20.1	SL	-43.8
	Nonmanufacturing (ex financials)	1.7	-2.8	-10.3	-14.4	-24.6	-12.1	-69.5	-55.8	-27.3	-5.9	-75.2	-55.4	-29.9	-23.5	SL	-49.8
Broad sectors	Basic materials	-1.1	-5.2	-4.8	-23.4	-30.7	-51.3	SL	-84.0	-35.0	-50.0	SL	-88.4	-41.4	-94.0	SL	SL
	Machinery, autos	-0.8	-6.5	-8.4	-37.8	-7.5	-27.5	-54.2	SL	-12.2	8.5	-79.7	SL	-11.8	14.6	SL	SL
	Electronics	-2.2	-3.8	-8.4	-15.2	-4.5	-5.0	-20.1	-36.5	-12.3	-6.3	-35.2	16.3	-16.1	-4.9	-47.1	27.0
	Consumption, distribution	1.7	-2.0	-4.5	-13.4	2.6	3.5	-18.8	-35.8	-2.3	3.0	-39.3	-36.9	6.0	-1.1	-42.4	-47.7
	Information	2.5	0.3	-34.8	-1.9	-79.6	-34.3	SL	15.1	-79.9	-18.0	SL	-27.6	SL	-53.0	SL	12.5
	Utilities, infrastructure	3.8	-2.2	-4.8	-18.2	6.4	-2.8	-36.4	-97.5	8.6	0.7	-38.8	-98.9	21.4	-4.4	SL	SL
	Financials	-	-	-	-	-	-	-	-0.8	9.1	-57.1	-16.0	9.3	-8.8	-89.2	-26.8	
Sectors	Chemicals	-1.3	-3.9	-4.3	-24.0	-25.9	2.2	-96.9	-69.8	-30.9	4.6	SL	-72.8	-35.5	-24.3	SL	SL
	Steel, nonferrous metals	-0.7	-8.7	-5.9	-21.4	-55.6	SL	SL	SL	-57.3	SL	SL	SL	-66.0	SL	SL	SL
	Machinery	-1.6	-6.0	0.8	-17.3	-18.2	-38.6	-42.8	-76.9	-20.2	-34.7	-46.5	-68.2	-22.0	-13.9	-54.4	-74.3
	Automobiles	-0.6	-6.6	-11.1	-43.5	-2.7	-23.3	-60.8	SL	-9.2	30.0	-95.8	SL	-8.4	28.8	SL	SL
	Electrical machinery, precision equipment	-2.2	-3.8	-8.4	-15.2	-4.5	-5.0	-20.1	-36.5	-12.3	-6.3	-35.2	16.3	-16.1	-4.9	-47.1	27.0
	Pharmaceuticals, healthcare	15.2	9.2	3.0	-4.1	21.4	15.9	14.5	11.8	12.2	27.9	-2.5	15.0	22.3	11.0	27.1	10.0
	Food products	0.1	1.2	0.7	-8.7	-16.8	3.7	-0.8	-3.2	-16.1	1.8	0.0	-5.6	-17.0	0.2	25.2	-6.2
	Household goods	2.2	-3.8	-6.0	-17.2	10.9	-7.4	-21.9	-48.3	7.6	-15.8	-27.4	-53.6	12.4	15.3	-27.3	-75.2
	Trading companies	-3.0	-7.8	-9.6	-21.3	-10.3	-7.2	-48.0	-63.0	-16.1	-9.1	SL	-58.3	-11.9	-12.1	SL	-63.5
	Retailing	5.2	1.4	-1.5	-9.3	23.9	-1.4	-2.8	-51.0	16.5	-1.6	-2.8	-52.1	17.1	-9.8	-18.1	-93.9
	Services	-0.3	-3.3	-5.2	-9.7	6.3	14.2	-18.7	-51.5	5.7	12.9	-19.5	-53.2	45.2	5.6	-33.4	-66.4
	Software	9.9	3.3	7.7	17.3	39.9	11.8	39.1	85.5	21.8	25.3	32.2	94.0	38.9	27.7	21.5	86.2
	Media	5.5	0.7	-5.1	-21.9	19.6	-93.8	9.5	-68.5	-44.4	SL	40.4	-62.0	-43.9	SL	54.4	-97.4
	Telecommunications	1.1	-0.3	-45.1	-2.1	-93.0	-38.8	SL	7.2	-91.2	-18.9	SL	-33.9	SL	-57.8	SL	10.8
	Construction, engineering	12.2	-0.5	0.9	-9.9	16.9	-2.0	-8.2	-8.8	12.0	-0.8	-9.4	-6.5	11.7	-16.4	-13.4	-17.7
	Housing, real estate	6.4	-0.7	0.7	-5.4	8.8	0.2	8.6	-17.0	6.6	1.0	9.5	-21.4	7.5	4.2	6.1	-29.3
	Transportation	2.5	-2.9	-9.4	-39.6	1.8	-10.6	SL	SL	4.5	-8.2	SL	SL	7.6	-11.5	SL	SL
Utilities	0.0	-3.3	-8.0	-8.3	8.5	44.7	-50.9	-4.7	19.0	87.8	-53.1	-22.5	85.7	69.4	SL	-60.8	
	Financials	-	-	-	-	-	-	-	-0.8	9.1	-57.1	-16.0	9.3	-8.8	-89.2	-26.8	

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 1 September 2020. (3) Excludes consolidated subsidiaries. (4) SP = switch to profits; SL = switch to losses; LS = losses shrinking; LI = losses increasing.

Source: Nomura

Fig. 10: Valuation indicators

		P/E			P/CF			P/B		Dividend yield			ROE			
		FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY19	FY20E	FY20E	FY21E	FY22E	FY19	FY20E	FY21E	FY22E
		x	x	x	x	x	x	x	x	%	%	%	%	%	%	%
Industrial groups	Russell/Nomura Large Cap	24.2	15.8	14.0	-	-	-	1.32	1.31	2.19	2.39	2.54	6.4	5.5	8.1	8.7
	Russell/Nomura Large Cap (ex loss-making cos)	19.5	14.9	13.2	-	-	-	1.36	1.34	2.27	2.54	2.70	7.9	7.0	8.1	8.7
	Russell/Nomura Large Cap (ex financials)	26.9	16.8	14.9	10.8	8.6	8.1	1.51	1.50	2.02	2.22	2.37	6.5	5.6	8.7	9.2
	Manufacturing	29.8	17.8	15.8	12.2	9.4	8.8	1.59	1.56	2.01	2.21	2.39	6.2	5.3	8.6	9.1
	Basic materials	35.5	13.6	12.9	7.2	5.3	5.2	0.88	0.91	2.47	2.74	2.92	1.6	2.6	6.6	6.7
	Processing	28.1	16.4	14.2	11.9	9.1	8.3	1.50	1.46	1.88	2.14	2.38	6.8	5.3	8.7	9.4
	Nonmanufacturing	19.5	13.9	12.2	-	-	-	1.09	1.09	2.43	2.61	2.74	6.5	5.6	7.7	8.3
Nonmanufacturing (ex financials)	23.5	15.5	13.7	9.3	7.6	7.1	1.41	1.41	2.02	2.24	2.34	7.0	6.1	8.8	9.4	
Broad sectors	Basic materials	35.5	13.6	12.9	7.2	5.3	5.2	0.88	0.91	2.47	2.74	2.92	1.6	2.6	6.6	6.7
	Machinery, autos	38.0	14.6	12.6	12.3	8.0	7.3	1.19	1.17	2.14	2.49	2.80	6.3	3.1	7.9	8.7
	Electronics	22.2	18.7	16.4	11.6	10.5	9.7	2.07	1.95	1.61	1.78	1.95	7.8	9.1	10.0	10.7
	Consumption, distribution	31.1	21.7	20.1	14.4	11.8	11.3	1.97	1.93	2.05	2.10	2.16	8.2	6.3	8.7	8.9
	Information	14.1	16.0	13.7	7.7	8.1	7.4	2.00	1.97	2.13	2.31	2.41	4.5	14.2	12.0	13.1
	Utilities, infrastructure	44.7	11.6	10.2	8.4	5.4	5.1	0.97	0.97	1.94	2.45	2.59	8.0	2.2	8.1	8.6
	Financials	10.5	9.2	7.8	-	-	-	0.52	0.51	4.46	4.49	4.73	5.5	4.9	5.5	6.3
Sectors	Chemicals	26.2	13.8	13.5	7.6	5.9	5.9	1.01	1.04	2.58	2.73	2.82	4.7	4.0	7.4	7.2
	Steel, nonferrous metals	-	12.4	10.1	5.4	3.2	3.0	0.49	0.51	1.79	2.83	3.52	-6.5	-1.7	4.0	4.8
	Machinery	33.0	22.6	18.9	14.8	12.2	10.9	1.81	1.72	1.29	1.58	1.84	7.4	5.4	7.4	8.4
	Automobiles	42.2	11.9	10.3	11.1	6.5	6.0	0.97	0.97	2.71	3.09	3.43	5.9	2.3	8.0	8.8
	Electrical machinery, precision equipment	22.2	18.7	16.4	11.6	10.5	9.7	2.07	1.95	1.61	1.78	1.95	7.8	9.1	10.0	10.7
	Pharmaceuticals, healthcare	35.5	25.8	24.0	19.3	16.0	15.3	2.80	2.73	1.94	1.98	2.01	8.1	7.8	10.3	10.5
	Food products	22.0	19.1	17.4	11.3	10.4	9.8	1.82	1.79	3.05	3.12	3.24	8.8	8.2	9.1	9.7
	Household goods	40.7	27.9	26.8	22.9	17.9	17.4	3.83	3.69	1.42	1.54	1.58	12.9	9.3	12.8	12.3
	Trading companies	15.8	9.8	8.9	6.0	4.8	4.6	0.89	0.85	4.11	4.00	4.15	8.6	5.5	8.4	8.8
	Retailing	44.6	27.2	26.5	16.0	12.6	12.5	2.53	2.51	1.33	1.36	1.37	8.9	5.7	9.0	8.7
	Services	38.9	26.6	24.3	18.8	15.3	14.5	1.60	1.63	1.40	1.55	1.63	6.0	4.2	6.0	6.3
	Software	25.6	21.5	20.7	21.5	18.5	17.8	4.76	4.28	2.02	2.32	2.41	15.5	17.5	18.9	17.8
	Media	28.3	16.1	13.8	13.5	10.0	9.1	0.84	0.83	2.42	2.45	2.45	2.3	3.0	5.1	5.8
	Telecommunications	11.2	14.2	11.7	5.7	6.3	5.7	1.67	1.68	2.16	2.29	2.41	2.9	15.2	11.5	13.1
	Construction	8.6	8.2	8.1	7.3	7.0	6.9	0.97	0.87	3.38	3.46	3.50	12.6	10.7	10.2	9.8
	Housing, real estate	15.3	11.9	10.7	9.3	7.8	7.2	1.12	1.08	2.65	2.90	3.12	10.1	7.2	8.9	9.2
	Transportation	-	13.1	10.3	23.6	5.8	5.1	1.12	1.20	0.75	1.71	1.85	6.9	-6.2	8.8	10.4
Utilities	9.8	10.1	10.7	2.7	2.7	2.7	0.57	0.55	3.11	3.11	3.11	5.5	5.7	5.4	4.9	
Financials	10.5	9.2	7.8	-	-	-	0.52	0.51	4.46	4.49	4.73	5.5	4.9	5.5	6.3	
Russell/Nomura Small Cap		22.4	16.2	15.7	-	-	-	1.06	1.01	2.35	2.44	2.47	5.2	4.6	6.1	6.0
Russell/Nomura Small Cap (ex financials)		24.4	17.1	16.5	9.7	8.3	8.1	1.23	1.16	1.88	1.96	1.99	5.5	4.8	6.6	6.5

Note: As of 1 September 2020.

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.

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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 JI17 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 5.5% (tax included) 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 5.5% (tax included/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.

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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. Transfers of equities to another securities company via the Japan Securities Depository Center are subject to a transfer fee of up to ¥11,000 (tax included) per issue transferred depending on volume. No account fee will be charged for marketable securities or monies deposited.

Nomura Securities Co., Ltd.

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