

# **Outlook for FY20-21 corporate earnings**

## Quarterly Update

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# Summary and major assumptions

## Overview of the FY20 corporate earnings outlook

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

For FY20, our analysts look for a sales decline of 9.6% y-y and a recurring profit decline of 18.3% for companies in the Russell/Nomura Large Cap Index (ex financials). This would make FY20 the second straight year with a sharp fall in recurring profits, following the 22.3% drop recorded in FY19. Compared with the previous set of forecasts (as of 1 September), the sales growth forecast is largely unchanged and the recurring profit growth forecast is more favorable, largely owing to the investment fund business of SoftBank Group [9984]. That said, recovery in exports, corporate efforts to reduce costs, and other factors have had the effect of stopping earnings forecasts from being lowered any further.

In FY20 Q2 results at Russell/Nomura Large Cap (ex financials) companies, sales fell 10.3% y-y and recurring profits fell 17.1%. Results were unfavorable, but both rates of decline were improvements compared with FY20 Q1.

Our forex assumptions for FY20 are USD/JPY of 105.90 (previously 106.38) and EUR/JPY of 122.13 (previously 120.35). We have thus revised our forecasts in the direction of a stronger yen versus the US dollar but a weaker yen versus the euro.

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, came in at +7.2% for December 2020 (indicating that upward revisions outstripped downward revisions in the period from 2 September through 1 December), improving from -23.9% in September 2020 (1 June to 1 September). The revision index turned positive for the first time in nine quarters.

Our analysts forecast a y-y decline in aggregate FY20 dividends for the constituents of the Russell/Nomura Large Cap Index, reflecting the difficulty of business conditions under the pandemic. The ratio of companies forecast to raise their dividend is 6.1ppt lower than the ratio of companies forecast to either lower their dividend or not pay a dividend. Considering that a double-digit decline is forecast in net profits, we think companies are making an effort to maintain dividends.

## Overview of the corporate earnings outlook for FY21

For FY21, our analysts are looking for sales growth of 7.6% y-y and recurring profit growth of 42.2% for companies in the Russell/Nomura Large Cap Index (ex financials). Our analysts forecast recurring profits will grow for the first time in three years, assuming that economic activity will normalize, both in Japan and overseas, after weakening because of COVID-19. That said, compared with our previous forecasts, sales growth and recurring profit growth have become more muted, indicating expectations for earnings to recover more moderately than previously envisioned.

Our revised forex assumptions for FY21 are USD/JPY of 105.00 (previously 106.00, revised in the direction of a stronger yen) and EUR/JPY of 123.00 (previously 121.00, revised in the direction of a weaker yen).

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

| Items                        | Category                                 | No. of cos |                |                |                |           |           | Old (%)   |           |
|------------------------------|--|------------|----------------|----------------|----------------|-----------|-----------|-----------|-----------|
|                              |  |            | FY17<br>Actual | FY18<br>Actual | FY19<br>Actual | FY20<br>E | FY21<br>E | FY20<br>E | FY21<br>E |
| Sales<br>(% y-y)             | Russell/Nomura Large Cap (ex financials) | 305        | 8.2            | 6.5            | -2.5           | -9.6      | 7.6       | -9.5      | 8.6       |
|                              | Manufacturing                            | 175        | 9.3            | 3.0            | -2.7           | -9.8      | 7.9       | -9.9      | 9.7       |
|                              | Basic materials                          | 37         | 17.1           | 7.0            | -2.0           | -14.2     | 7.4       | -13.7     | 12.4      |
|                              | Processing                               | 84         | 7.9            | 1.7            | -4.5           | -9.8      | 9.1       | -10.2     | 10.3      |
|                              | Nonmanufacturing (ex financials)         | 130        | 6.7            | 11.5           | -2.3           | -9.3      | 7.2       | -9.1      | 7.1       |
|                              | Russell/Nomura Small Cap (ex financials) | 1,128      | 6.1            | 4.6            | 0.3            | -7.7      | 6.6       | -6.5      | 6.5       |
| Operating profits<br>(% y-y) | Russell/Nomura Large Cap (ex financials) | 305        | 16.3           | 3.6            | -23.7          | -29.6     | 50.9      | -28.3     | 53.1      |
|                              | Manufacturing                            | 175        | 17.8           | 0.3            | -23.2          | -19.4     | 43.1      | -21.8     | 50.6      |
|                              | Basic materials                          | 37         | 34.9           | 0.1            | -48.7          | -15.3     | 52.3      | -14.9     | 59.3      |
|                              | Processing                               | 84         | 15.9           | 0.2            | -20.1          | -27.4     | 53.0      | -31.7     | 63.0      |
|                              | Nonmanufacturing (ex financials)         | 130        | 14.3           | 8.0            | -24.3          | -41.1     | 62.8      | -35.6     | 56.5      |
|                              | Russell/Nomura Small Cap (ex financials) | 1,128      | 6.8            | -2.4           | -6.0           | -28.0     | 41.5      | -22.4     | 36.3      |
| Recurring profits<br>(% y-y) | RN Large                                 | 329        | 15.3           | 1.1            | -20.5          | -17.6     | 37.9      | -18.7     | 43.8      |
|                              | Russell/Nomura Large Cap (ex financials) | 305        | 17.5           | 3.1            | -22.3          | -18.3     | 42.2      | -19.5     | 49.1      |
|                              | Manufacturing                            | 175        | 21.6           | -1.5           | -27.2          | -13.4     | 44.5      | -16.0     | 51.4      |
|                              | Basic materials                          | 37         | 43.6           | 2.1            | -52.0          | -19.1     | 63.2      | -17.4     | 68.3      |
|                              | Processing                               | 84         | 19.6           | -2.6           | -24.5          | -17.4     | 50.9      | -22.2     | 59.7      |
|                              | Nonmanufacturing                         | 154        | 9.7            | 3.7            | -14.3          | -20.9     | 32.0      | -20.9     | 37.2      |
|                              | Nonmanufacturing (ex financials)         | 130        | 12.2           | 9.7            | -16.0          | -23.6     | 39.2      | -23.2     | 46.3      |
|                              | RN Small                                 | 1,224      | 9.0            | -1.8           | -7.3           | -24.6     | 35.7      | -20.5     | 32.7      |
|                              | Russell/Nomura Small Cap (ex financials) | 1,128      | 8.4            | 0.3            | -9.5           | -26.8     | 40.5      | -21.6     | 36.1      |
| Net profits<br>(% y-y)       | RN Large                                 | 329        | 32.2           | -4.5           | -31.6          | -13.1     | 46.6      | -14.1     | 52.7      |
|                              | Russell/Nomura Large Cap (ex financials) | 305        | 38.5           | -1.1           | -35.6          | -13.9     | 53.5      | -14.7     | 60.4      |
|                              | Manufacturing                            | 175        | 53.1           | -4.3           | -40.3          | -14.3     | 63.6      | -15.4     | 68.1      |
|                              | Basic materials                          | 37         | 49.6           | 0.9            | -82.6          | 6.3       | 199.7     | 25.6      | 160.8     |
|                              | Processing                               | 84         | 68.5           | -5.9           | -37.9          | -18.6     | 63.7      | -22.2     | 71.5      |
|                              | Nonmanufacturing                         | 154        | 15.1           | -4.7           | -22.2          | -12.1     | 32.6      | -13.1     | 40.0      |
|                              | Nonmanufacturing (ex financials)         | 130        | 20.4           | 3.9            | -28.8          | -13.5     | 41.4      | -13.8     | 51.3      |
|                              | RN Small                                 | 1,224      | 14.5           | -5.9           | -12.0          | -20.1     | 50.5      | -9.6      | 37.9      |
|                              | Russell/Nomura Small Cap (ex financials) | 1,128      | 10.1           | -3.4           | -13.9          | -22.5     | 60.3      | -9.4      | 43.1      |

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

Source: Nomura

Fig. 2: Major assumptions

| As of 16 October 2020 |         |                           |             |          |                     |           | As of 16 July 2020 |       |                           |             |          |                     |           |
|-----------------------|---------|---------------------------|-------------|----------|---------------------|-----------|--------------------|-------|---------------------------|-------------|----------|---------------------|-----------|
|                       |         | Industrial<br>production  | Policy rate | WTI      | Exchange rate (avg) |           |                    |       | Industrial<br>production  | Policy rate | WTI      | Exchange rate (avg) |           |
|                       |         | 2015 base year<br>(% y-y) | (FY-end, %) | (\$/bbl) | (USD/JPY)           | (EUR/JPY) |                    |       | 2015 base year<br>(% y-y) | (FY-end, %) | (\$/bbl) | (USD/JPY)           | (EUR/JPY) |
| FY                    | FY19    | -3.6                      | -0.10       | 54.8     | 108.72              | 120.82    |                    | -3.6  | -0.10                     | 54.8        | 108.72   | 120.82              |           |
|                       | FY20    | -11.9                     | -0.10       | 37.9     | 105.90              | 122.13    |                    | -9.0  | -0.10                     | 38.0        | 106.38   | 120.35              |           |
|                       | FY21    | 11.8                      | -0.10       | 42.9     | 105.00              | 123.00    |                    | 5.9   | -0.10                     | 42.5        | 106.00   | 121.00              |           |
| Half-yearly           | FY19 H1 | -1.7                      | -0.10       | 58.1     | 108.61              | 121.41    |                    | -1.7  | -0.10                     | 58.1        | 108.61   | 121.41              |           |
|                       | FY19 H2 | -5.6                      | -0.10       | 51.6     | 108.84              | 120.22    |                    | -5.6  | -0.10                     | 51.6        | 108.84   | 120.22              |           |
|                       | FY20 H1 | -17.3                     | -0.10       | 34.4     | 106.80              | 121.26    |                    | -13.1 | -0.10                     | 34.4        | 106.75   | 119.69              |           |
|                       | FY20 H2 | -6.4                      | -0.10       | 41.5     | 105.00              | 123.00    |                    | -4.8  | -0.10                     | 41.5        | 106.00   | 121.00              |           |
|                       | FY21 H1 | 14.5                      | -0.10       | 42.8     | 105.00              | 123.00    |                    | 8.0   | -0.10                     | 42.0        | 106.00   | 121.00              |           |
|                       | FY21 H2 | 9.4                       | -0.10       | 43.0     | 105.00              | 123.00    |                    | 3.9   | -0.10                     | 43.0        | 106.00   | 121.00              |           |

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 5 out of 19 sectors, and that recurring profits will decrease, or move to recurring losses, in the remaining 14 sectors.

Sectors expected to make major positive contributions to profits include telecommunications; steel, nonferrous metals; electrical machinery, precision equipment; pharmaceuticals, healthcare; and software. In the telecommunications sector, profits have been growing in the investment fund business of SoftBank Group. In the steel, nonferrous metals; electrical machinery, precision equipment; and pharmaceuticals, healthcare sectors, we look for profit growth in FY20 in reaction to one-time losses or asset impairment losses recognized in FY19. In the software segment, we look for profit growth to be driven by an increase in stay-at-home demand amid the pandemic and also by amusement software, which has benefited from digital distribution efforts.

Sectors expected to contribute the most to a decline in profits include transportation, automobiles, chemicals, financials, trading companies, and services. In the transportation sector, the number of people traveling by plane and train has fallen sharply in the pandemic. In the automobiles sector, we expect auto demand to fall sharply y-y in Japan and elsewhere, although recoveries in the US and China have come sooner than we anticipated. In the chemicals sector, in addition to the effect of an expected y-y decline in crude oil prices, COVID-19 has triggered a deterioration in petrochemicals operations and in demand for automotive and aircraft products. The recording of goodwill as a result of corporate acquisitions is another factor. 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 narrower spreads), and higher credit costs, for example. For trading companies, the main negatives for profits include a downturn in automotive- and passenger-related operations and weak demand for some resources as a result of COVID-19, as well as the recording of impairment losses. In the services segment, the pandemic has had a broad impact, including Japan Post Holdings [6178], with its post office financial services operations affected by a drop in customer traffic; Oriental Land [4661], with fewer people visiting its theme parks; a decline in demand for job placement; and lower demand for eating out.

## Overview of the corporate earnings outlook for FY21

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 telecommunications sector.

Sectors expected to make major positive contributions to profits include transportation; automobiles; electrical machinery, precision equipment; and trading companies. With the exception of the electrical machinery, precision equipment sector, for which our analysts expect recurring profits to rise in FY20, we expect profit growth contributions to rise in all the other sectors owing to either expectations for demand to recover or in reaction to recognition of one-time losses in FY20.

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

| FY20E                                     |        |              |                              | FY21E                                     |        |              |                              |
|---|--------|--------------|------------------------------|---|--------|--------------|------------------------------|
| Increase in profits                       |        | (%)          |                              | Increase in profits                       |        | (%)          |                              |
| 5 sectors                                 | Growth | Contribution | Contribution (ex financials) | 18 sectors                                | Growth | Contribution | Contribution (ex financials) |
| Telecommunications                        | 97.5   | 39.1         | 44.1                         | Transportation                            | SP     | 24.5         | 26.0                         |
| Steel, nonferrous metals                  | LS     | 4.8          | 5.4                          | Automobiles                               | 91.7   | 24.1         | 25.6                         |
| Electrical machinery, precision equipment | 7.6    | 4.7          | 5.3                          | Electrical machinery, precision equipment | 24.1   | 9.1          | 9.6                          |
| Pharmaceuticals, healthcare               | 16.7   | 4.0          | 4.6                          | Trading companies                         | 55.5   | 7.3          | 7.8                          |
| Software                                  | 30.0   | 3.8          | 4.2                          | Financials                                | 14.5   | 6.0          | -                            |
|   |        |              |                              | Chemicals                                 | 34.6   | 5.7          | 6.0                          |
| Decrease in profits                       |        | (%)          |                              | Machinery                                 | 45.7   | 5.3          | 5.7                          |
| 14 sectors                                | Growth | Contribution | Contribution (ex financials) | Steel, nonferrous metals                  | SP     | 4.5          | 4.8                          |
| Food                                      | -2.1   | -0.4         | -0.5                         | Services                                  | 42.6   | 4.2          | 4.5                          |
| Media                                     | -27.3  | -0.6         | -0.7                         | Retailing                                 | 41.4   | 4.0          | 4.3                          |
| Construction                              | -10.1  | -1.1         | -1.2                         | Pharmaceuticals, healthcare               | 24.5   | 3.9          | 4.1                          |
| Household goods                           | -22.9  | -2.7         | -3.0                         | Housing, real estate                      | 23.4   | 3.2          | 3.4                          |
| Utilities                                 | -19.8  | -3.4         | -3.8                         | Software                                  | 17.7   | 1.6          | 1.7                          |
| Machinery                                 | -21.2  | -5.6         | -6.3                         | Food                                      | 12.7   | 1.4          | 1.5                          |
| Retailing                                 | -27.8  | -6.6         | -7.5                         | Household goods                           | 24.2   | 1.2          | 1.3                          |
| Housing, real estate                      | -23.7  | -7.4         | -8.4                         | Media                                     | 123.0  | 1.2          | 1.2                          |
| Services                                  | -33.2  | -8.7         | -9.8                         | Construction                              | 6.1    | 0.3          | 0.4                          |
| Trading companies                         | -30.9  | -10.5        | -11.8                        | Utilities                                 | 2.1    | 0.2          | 0.2                          |
| Financials                                | -13.7  | -11.5        | -                            |   |        |              |                              |
| Chemicals                                 | -28.5  | -11.6        | -13.1                        | Decrease in profits                       |        | (%)          |                              |
| Automobiles                               | -37.1  | -27.5        | -31.0                        | 1 sector                                  | Growth | Contribution | Contribution (ex financials) |
| Transportation                            | SL     | -58.8        | -66.5                        | Telecommunications                        | -17.1  | -7.6         | -8.1                         |

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

Source: Nomura

# Revisions to recurring profit estimates (versus old estimates)

## Overview of the FY20 corporate earnings outlook

We raised our FY20 recurring profit forecasts for eight of the 19 sectors, lowered them for 10, and did not revise them for one (construction).

Upward revisions were greatest for the telecommunications; automobiles; housing, real estate; and software sectors. In the telecommunications sector, we reflected expectations for profit growth in the investment fund business of SoftBank Group, which we discussed earlier. In the automobiles sector, we reflected recovery in auto demand in the US and China and greater-than-expected efforts by companies to reduce costs. In the housing, real estate sector, we included in our earnings forecasts the steadier-than-expected housing demand and gains on sales of logistics facilities accompanying the formation of privately placed REITs. In the software segment, we raised our forecasts for brisk home video game operations.

Downward revision amounts were greatest in the transportation; electrical machinery, precision equipment; services; and chemicals segments. In the transportation segment, we reflected in our forecasts the slower-than-anticipated recovery in demand for seats on passenger planes and trains. In the electrical machinery, precision equipment sector, we raised our forecast for the electronic parts subsector, but this failed to make up for the downward revisions to account for declining demand for office equipment and digital cameras. In the services sector, we reflected in our forecasts lower theme park visitor numbers and lower job placement demand, for example, amid the pandemic. In the chemicals sector, the effect of recognizing impairment losses accounts for the bulk of the downward revision.

## Overview of the corporate earnings outlook for FY21

We raised our FY21 recurring profit forecasts for nine of the 19 sectors, lowered them for 9, and did not revise them for one (media).

The largest upward revisions to our forecasts were in the automobiles; trading companies; software; and financials sectors. The upward revisions for the automobiles and software sectors more or less reflected the same factors as in FY20. The trading companies sector forecasts reflect greater-than-expected signs of recovery in auto sales businesses in emerging markets and expectations for iron ore/nonferrous metal market prices to hold firm. In the financials sector, the revisions mainly reflect upward revisions at securities companies, which have benefited from a strong market in the US.

Our downward revisions were largest for sectors including transportation; electrical machinery, precision equipment; chemicals; and pharmaceuticals, healthcare. 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 the transportation; electrical machinery, precision equipment; and chemicals sectors also reflect expectations for earnings recovery to be more moderate than they previously envisaged. In the pharmaceuticals, healthcare sector, we took into consideration lower market uptake by patented drugs than anticipated and the effect on medical device producers of a standstill in the number of medical tests and procedures.

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

| FY20E                                     |        |       |          |       | FY21E                                     |       |       |          |       |
|---|--------|-------|----------|-------|---|-------|-------|----------|-------|
| 8 sectors                                 |        |       |          |       | 9 sectors                                 |       |       |          |       |
| [Upward revisions]                        | New    | Old   | Revision | (%)   | [Upward revisions]                        | New   | Old   | Revision | (%)   |
| Telecommunications                        | 5,305  | 4,501 | 804      | 17.9  | Automobiles                               | 5,984 | 5,722 | 262      | 4.6   |
| Automobiles                               | 3,122  | 2,423 | 700      | 28.9  | Trading companies                         | 2,440 | 2,336 | 105      | 4.5   |
| Housing, real estate                      | 1,608  | 1,524 | 84       | 5.5   | Software                                  | 1,284 | 1,223 | 62       | 5.0   |
| Software                                  | 1,091  | 1,031 | 61       | 5.9   | Financials                                | 5,602 | 5,566 | 36       | 0.6   |
| Financials                                | 4,891  | 4,837 | 54       | 1.1   | Steel, nonferrous metals                  | 514   | 490   | 24       | 4.8   |
| Steel, nonferrous metals                  | -27    | -69   | 42       | -     | Housing, real estate                      | 1,984 | 1,963 | 21       | 1.0   |
| Retailing                                 | 1,148  | 1,118 | 31       | 2.7   | Food                                      | 1,511 | 1,491 | 20       | 1.4   |
| Food                                      | 1,340  | 1,310 | 30       | 2.3   | Machinery                                 | 2,021 | 2,002 | 19       | 0.9   |
|   |        |       |          |       | Construction                              | 701   | 701   | 1        | 0.1   |
| 10 sectors                                |        |       |          |       | 9 sectors                                 |       |       |          |       |
| [Downward revisions]                      | New    | Old   | Revision | (%)   | [Downward revisions]                      | New   | Old   | Revision | (%)   |
| Household goods                           | 602    | 625   | -24      | -3.8  | Retailing                                 | 1,624 | 1,631 | -7       | -0.5  |
| Machinery                                 | 1,387  | 1,411 | -24      | -1.7  | Utilities                                 | 932   | 958   | -26      | -2.7  |
| Pharmaceuticals, healthcare               | 1,889  | 1,925 | -37      | -1.9  | Services                                  | 1,676 | 1,743 | -68      | -3.9  |
| Trading companies                         | 1,569  | 1,611 | -42      | -2.6  | Household goods                           | 747   | 852   | -104     | -12.3 |
| Media                                     | 112    | 155   | -42      | -27.3 | Telecommunications                        | 4,399 | 4,514 | -115     | -2.6  |
| Utilities                                 | 913    | 986   | -72      | -7.3  | Pharmaceuticals, healthcare               | 2,352 | 2,471 | -119     | -4.8  |
| Chemicals                                 | 1,951  | 2,034 | -83      | -4.1  | Chemicals                                 | 2,625 | 2,816 | -191     | -6.8  |
| Services                                  | 1,175  | 1,266 | -90      | -7.1  | Electrical machinery, precision equipment | 5,565 | 5,817 | -252     | -4.3  |
| Electrical machinery, precision equipment | 4,486  | 4,648 | -162     | -3.5  | Transportation                            | 1,111 | 2,057 | -947     | -46.0 |
| Transportation                            | -1,800 | -971  | -830     | -     |   |       |       |          |       |

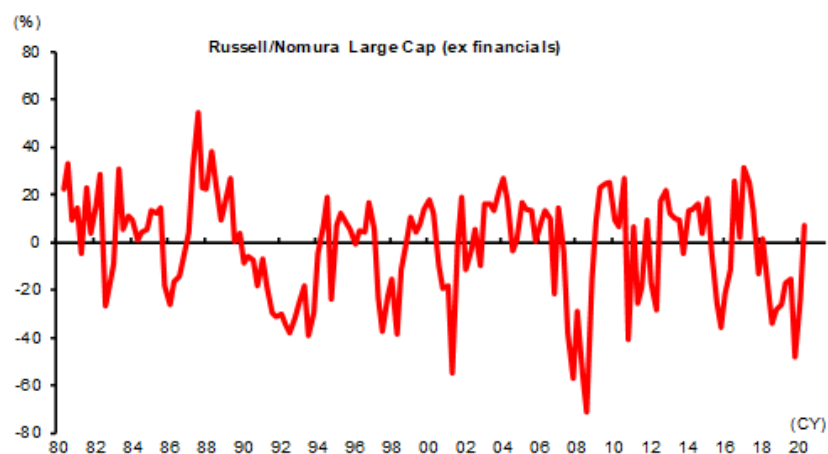
Note: Latest estimates as of 1 December 2020, previous estimates as of 1 September 2020. We did not make any changes to our FY20 forecasts for the construction sector and to our FY21 forecasts for the media sector.

Source: Nomura



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

|  | (yy/m) | 19/3  | 19/6  | 19/6  | 19/12 | 20/3  | 20/6  | 20/9  | 20/12 |
|--|--------|-------|-------|-------|-------|-------|-------|-------|-------|
| Russell/Nomura Large Cap                 |        | -31.4 | -27.6 | -24.6 | -15.6 | -15.5 | -45.5 | -25.5 | 7.6   |
| Russell/Nomura Large Cap (ex financials) |        | -33.8 | -28.0 | -26.1 | -16.9 | -15.0 | -48.0 | -23.9 | 7.2   |
| Manufacturing                            |        | -47.8 | -34.1 | -46.4 | -25.7 | -21.7 | -57.7 | -17.7 | 7.4   |
| Basic materials                          |        | -42.9 | -31.7 | -63.4 | -56.1 | -40.5 | -64.9 | -29.7 | 18.9  |
| Processing                               |        | -57.8 | -41.0 | -50.6 | -32.5 | -23.8 | -63.1 | -14.3 | 20.2  |
| Nonmanufacturing (ex financials)         |        | -14.1 | -19.5 | 2.3   | -4.7  | -8.1  | -35.1 | -32.1 | 6.9   |



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<br>cos               | FY17 | FY18 | FY19  | FY20E<br>Old | FY20E<br>New | FY21E<br>Old | FY21E<br>New |
| Industrial groups | Russell/Nomura Large Cap (ex financials)  | 305                         | 8.2  | 6.5  | -2.5  | -9.5         | -9.6         | 8.6          | 7.6          |
|                   | Manufacturing                             | 175                         | 9.3  | 3.0  | -2.7  | -9.9         | -9.8         | 9.7          | 7.9          |
|                   | Basic materials                           | 37                          | 17.1 | 7.0  | -2.0  | -13.7        | -14.2        | 12.4         | 7.4          |
|                   | Processing                                | 84                          | 7.9  | 1.7  | -4.5  | -10.2        | -9.8         | 10.3         | 9.1          |
|                   | Nonmanufacturing (ex financials)          | 130                         | 6.7  | 11.5 | -2.3  | -9.1         | -9.3         | 7.1          | 7.2          |
| Broad sectors     | Materials                                 | 37                          | 17.1 | 7.0  | -2.0  | -13.7        | -14.2        | 12.4         | 7.4          |
|                   | Machinery, autos                          | 45                          | 9.0  | 2.2  | -4.4  | -13.7        | -12.0        | 12.9         | 10.5         |
|                   | Electronics                               | 39                          | 6.0  | 0.8  | -4.8  | -4.2         | -6.0         | 6.3          | 6.8          |
|                   | Consumer, distribution                    | 98                          | 6.7  | 15.5 | -0.6  | -8.0         | -7.6         | 6.0          | 6.4          |
|                   | Information                               | 27                          | 6.3  | 3.7  | -7.4  | -0.3         | -2.3         | 4.8          | 4.8          |
|                   | Utilities, infrastructure                 | 59                          | 6.0  | 3.8  | 0.2   | -11.6        | -12.6        | 8.7          | 7.9          |
| Sectors           | Chemicals                                 | 31                          | 18.0 | 8.0  | -1.2  | -13.7        | -15.1        | 12.8         | 6.5          |
|                   | Steel, nonferrous metals                  | 6                           | 15.0 | 4.7  | -3.9  | -13.8        | -11.8        | 11.4         | 9.8          |
|                   | Machinery                                 | 26                          | 13.9 | 3.0  | -3.6  | -7.2         | -8.1         | 6.2          | 6.9          |
|                   | Autos                                     | 19                          | 7.7  | 2.0  | -4.6  | -15.6        | -13.1        | 15.1         | 11.7         |
|                   | Electrical machinery, precision equipment | 39                          | 6.0  | 0.8  | -4.8  | -4.2         | -6.0         | 6.3          | 6.8          |
|                   | Pharmaceuticals, healthcare               | 21                          | 3.2  | 3.5  | 9.7   | -0.3         | -1.6         | 4.4          | 3.9          |
|                   | Food products                             | 19                          | 6.7  | 2.5  | 0.7   | -4.6         | -4.2         | 3.1          | 3.4          |
|                   | Household goods                           | 14                          | 7.5  | 3.5  | -0.8  | -6.2         | -8.2         | 6.4          | 5.9          |
|                   | Trading companies                         | 7                           | 13.1 | 45.0 | -5.0  | -14.1        | -13.0        | 6.7          | 5.5          |
|                   | Retailing                                 | 19                          | 5.1  | 3.1  | 2.5   | -6.7         | -5.0         | 9.6          | 14.7         |
|                   | Services                                  | 18                          | 0.7  | 1.9  | -2.5  | -5.0         | -5.6         | 3.4          | 2.8          |
|                   | Software                                  | 12                          | 20.8 | 9.5  | 7.5   | 2.9          | 6.1          | 6.7          | 4.3          |
|                   | Media                                     | 5                           | 5.3  | 6.4  | 0.8   | -10.9        | -13.3        | 10.2         | 13.2         |
|                   | Telecommunications                        | 10                          | 4.7  | 2.7  | -10.7 | 0.6          | -2.2         | 3.7          | 3.7          |
|                   | Construction, engineering                 | 7                           | 1.9  | 8.0  | 5.1   | -5.1         | -4.5         | 2.7          | 2.8          |
|                   | Housing, real estate                      | 18                          | 5.1  | 5.4  | 2.3   | -7.2         | -6.3         | 6.3          | 5.5          |
|                   | Transportation                            | 24                          | 5.8  | -1.1 | -2.2  | -20.9        | -26.0        | 22.1         | 22.5         |
|                   | Utilities                                 | 10                          | 8.5  | 6.6  | -0.9  | -8.1         | -6.9         | 0.6          | -0.4         |

Note: (1) Figures exclude listed consolidated subsidiaries. (2) Latest estimates as of 1 December 2020; previous estimates as of 1 September 2020.

Source: Nomura

Fig. 7: Percentage change in recurring profits by sector

(% y-y, except where noted)

|                   |   | No. of<br>cos | FY17 | FY18  | FY19  | FY20E<br>Old | FY20E<br>New | FY21E<br>Old | FY21E<br>New |
|-------------------|---|---------------|------|-------|-------|--------------|--------------|--------------|--------------|
| Industrial groups | Russell/Nomura Large Cap                  | 329           | 15.3 | 1.1   | -20.5 | -18.7        | -17.6        | 43.8         | 37.9         |
|                   | Russell/Nomura Large Cap (ex financials)  | 305           | 17.5 | 3.1   | -22.3 | -19.5        | -18.3        | 49.1         | 42.2         |
|                   | Manufacturing                             | 175           | 21.6 | -1.5  | -27.2 | -16.0        | -13.4        | 51.4         | 44.5         |
|                   | Basic materials                           | 37            | 43.6 | 2.1   | -52.0 | -17.4        | -19.1        | 68.3         | 63.2         |
|                   | Processing                                | 84            | 19.6 | -2.6  | -24.5 | -22.2        | -17.4        | 59.7         | 50.9         |
|                   | Nonmanufacturing                          | 154           | 9.7  | 3.7   | -14.3 | -20.9        | -20.9        | 37.2         | 32.0         |
|                   | Nonmanufacturing (ex financials)          | 130           | 12.2 | 9.7   | -16.0 | -23.2        | -23.6        | 46.3         | 39.2         |
| Broad sectors     | Materials                                 | 37            | 43.6 | 2.1   | -52.0 | -17.4        | -19.1        | 68.3         | 63.2         |
|                   | Machinery, autos                          | 45            | 16.5 | -8.9  | -23.9 | -43.0        | -32.9        | 101.5        | 77.5         |
|                   | Electronics                               | 39            | 26.1 | 9.3   | -25.3 | 11.4         | 7.6          | 25.1         | 24.1         |
|                   | Consumer, distribution                    | 98            | 14.8 | 2.8   | -9.5  | -16.7        | -17.7        | 34.0         | 34.0         |
|                   | Information                               | 27            | 6.1  | 33.1  | -35.2 | 54.5         | 76.9         | 5.3          | -8.8         |
|                   | Utilities, infrastructure                 | 59            | 9.6  | -2.5  | -2.6  | -64.1        | -77.4        | 158.3        | 242.2        |
|                   | Financials                                | 24            | 4.4  | -10.5 | -9.1  | -14.6        | -13.7        | 15.1         | 14.5         |
| Sectors           | Chemicals                                 | 31            | 34.2 | 4.5   | -34.2 | -25.4        | -28.5        | 38.5         | 34.6         |
|                   | Steel, nonferrous metals                  | 6             | 93.4 | -7.3  | SL    | LS           | LS           | SP           | SP           |
|                   | Machinery                                 | 26            | 29.3 | 9.6   | -30.0 | -19.9        | -21.2        | 41.9         | 45.7         |
|                   | Autos                                     | 19            | 12.9 | -14.6 | -21.5 | -51.2        | -37.1        | 136.2        | 91.7         |
|                   | Electrical machinery, precision equipment | 39            | 26.1 | 9.3   | -25.3 | 11.4         | 7.6          | 25.1         | 24.1         |
|                   | Pharmaceuticals, healthcare               | 21            | 5.9  | -3.5  | 8.0   | 18.9         | 16.7         | 28.3         | 24.5         |
|                   | Food products                             | 19            | 4.8  | -3.7  | -15.6 | -4.3         | -2.1         | 13.8         | 12.7         |
|                   | Household goods                           | 14            | 20.8 | 6.9   | -7.5  | -19.8        | -22.9        | 36.2         | 24.2         |
|                   | Trading companies                         | 7             | 31.2 | 10.4  | -27.9 | -29.1        | -30.9        | 45.0         | 55.5         |
|                   | Retailing                                 | 19            | 12.4 | 3.3   | 4.1   | -31.7        | -27.8        | 46.0         | 41.4         |
|                   | Services                                  | 18            | 10.9 | 0.0   | 1.7   | -28.0        | -33.2        | 37.8         | 42.6         |
|                   | Software                                  | 12            | 44.2 | 16.7  | 20.1  | 22.8         | 30.0         | 18.7         | 17.7         |
|                   | Media                                     | 5             | 9.6  | 4.1   | -57.5 | 0.0          | -27.3        | 62.1         | 123.0        |
|                   | Telecommunications                        | 10            | 1.4  | 38.5  | -41.4 | 67.6         | 97.5         | 0.3          | -17.1        |
|                   | Construction, engineering                 | 7             | 9.8  | -1.1  | 0.6   | -10.1        | -10.1        | 6.1          | 6.1          |
|                   | Housing, real estate                      | 18            | 9.9  | -2.7  | 5.4   | -27.7        | -23.7        | 28.9         | 23.4         |
|                   | Transportation                            | 24            | 9.0  | 2.2   | -17.4 | SL           | SL           | SP           | SP           |
|                   | Utilities                                 | 10            | 10.2 | -12.8 | 17.7  | -13.5        | -19.8        | -2.8         | 2.1          |
|                   | Financials                                | 24            | 4.4  | -10.5 | -9.1  | -14.6        | -13.7        | 15.1         | 14.5         |

Note: (1) Figures exclude listed consolidated subsidiaries. Latest estimates as of 1 December 2020; previous estimates as of 1 September 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<br>cos | FY17   | FY18   | FY19   | FY20E  | FY20E  | FY21E  | FY21E  |
|-------------------|---|---------------|--------|--------|--------|--------|--------|--------|--------|
|                   |   |               |        |        |        | Old    | New    | Old    | New    |
| Industrial groups | Russell/Nomura Large Cap                  | 329           | 47,681 | 48,162 | 38,542 | 31,024 | 31,423 | 44,604 | 43,321 |
|                   | Russell/Nomura Large Cap (ex financials)  | 305           | 40,521 | 41,796 | 32,757 | 26,186 | 26,532 | 39,038 | 37,719 |
|                   | Manufacturing                             | 175           | 23,855 | 23,510 | 17,180 | 14,307 | 14,750 | 21,660 | 21,319 |
|                   | Basic materials                           | 37            | 4,971  | 4,963  | 2,453  | 1,965  | 1,924  | 3,306  | 3,139  |
|                   | Processing                                | 84            | 14,790 | 14,552 | 10,942 | 8,481  | 8,995  | 13,541 | 13,570 |
|                   | Nonmanufacturing                          | 154           | 23,826 | 24,652 | 21,362 | 16,716 | 16,673 | 22,943 | 22,002 |
|                   | Nonmanufacturing (ex financials)          | 130           | 16,666 | 18,286 | 15,578 | 11,879 | 11,782 | 17,377 | 16,401 |
| Broad sectors     | Materials                                 | 37            | 4,971  | 4,963  | 2,453  | 1,965  | 1,924  | 3,306  | 3,139  |
|                   | Machinery, autos                          | 45            | 9,755  | 8,911  | 6,745  | 3,834  | 4,510  | 7,724  | 8,005  |
|                   | Electronics                               | 39            | 5,035  | 5,641  | 4,197  | 4,648  | 4,486  | 5,817  | 5,565  |
|                   | Consumer, distribution                    | 98            | 10,162 | 10,312 | 9,397  | 7,855  | 7,723  | 10,523 | 10,349 |
|                   | Information                               | 27            | 4,317  | 5,753  | 3,728  | 5,687  | 6,509  | 5,988  | 5,934  |
|                   | Utilities, infrastructure                 | 59            | 6,280  | 6,216  | 6,236  | 2,199  | 1,381  | 5,680  | 4,727  |
|                   | Financials                                | 24            | 7,160  | 6,366  | 5,785  | 4,837  | 4,891  | 5,566  | 5,602  |
| Sectors           | Chemicals                                 | 31            | 3,911  | 4,036  | 2,758  | 2,034  | 1,951  | 2,816  | 2,625  |
|                   | Steel, nonferrous metals                  | 6             | 1,061  | 927    | -305   | -69    | -27    | 490    | 514    |
|                   | Machinery                                 | 26            | 2,336  | 2,539  | 1,781  | 1,411  | 1,387  | 2,002  | 2,021  |
|                   | Autos                                     | 19            | 7,419  | 6,372  | 4,964  | 2,423  | 3,122  | 5,722  | 5,984  |
|                   | Electrical machinery, precision equipment | 39            | 5,035  | 5,641  | 4,197  | 4,648  | 4,486  | 5,817  | 5,565  |
|                   | Pharmaceuticals, healthcare               | 21            | 1,616  | 1,540  | 1,632  | 1,925  | 1,889  | 2,471  | 2,352  |
|                   | Food products                             | 19            | 1,723  | 1,625  | 1,387  | 1,310  | 1,340  | 1,491  | 1,511  |
|                   | Household goods                           | 14            | 755    | 830    | 765    | 625    | 602    | 852    | 747    |
|                   | Trading companies                         | 7             | 2,852  | 3,148  | 2,271  | 1,611  | 1,569  | 2,336  | 2,440  |
|                   | Retailing                                 | 19            | 1,545  | 1,497  | 1,612  | 1,118  | 1,148  | 1,631  | 1,624  |
|                   | Services                                  | 18            | 1,671  | 1,672  | 1,731  | 1,266  | 1,175  | 1,743  | 1,676  |
|                   | Software                                  | 12            | 564    | 620    | 813    | 1,031  | 1,091  | 1,223  | 1,284  |
|                   | Media                                     | 5             | 349    | 364    | 154    | 155    | 112    | 250    | 250    |
|                   | Telecommunications                        | 10            | 3,404  | 4,769  | 2,761  | 4,501  | 5,305  | 4,514  | 4,399  |
|                   | Construction, engineering                 | 7             | 664    | 696    | 734    | 661    | 661    | 701    | 701    |
|                   | Housing, real estate                      | 18            | 2,054  | 2,055  | 2,165  | 1,524  | 1,608  | 1,963  | 1,984  |
|                   | Transportation                            | 24            | 2,450  | 2,474  | 2,170  | -971   | -1,800 | 2,057  | 1,111  |
|                   | Utilities                                 | 10            | 1,112  | 992    | 1,167  | 986    | 913    | 958    | 932    |
|                   | Financials                                | 24            | 7,160  | 6,366  | 5,785  | 4,837  | 4,891  | 5,566  | 5,602  |

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 December 2020; previous estimates as of 1 September 2020.

Source: Nomura

Fig. 9: Percentage change in quarterly sales and profits (FY19 Q3–FY20 Q2)

|                   |   | % y-y |       |       |       |                   |       |       |       |                   |       |       |       |             |       |       |       |
|-------------------|---|-------|-------|-------|-------|-------------------|-------|-------|-------|-------------------|-------|-------|-------|-------------|-------|-------|-------|
|                   |   | Sales |       |       |       | Operating profits |       |       |       | Recurring profits |       |       |       | Net profits |       |       |       |
|                   |   | Q3    | Q4    | Q1    | Q2    | Q3                | Q4    | Q1    | Q2    | Q3                | Q4    | Q1    | Q2    | Q3          | Q4    | Q1    | Q2    |
| Industrial groups | RN Large Cap                              | -     | -     | -     | -     | -                 | -     | -     | -     | -4.6              | -68.9 | -53.3 | -17.5 | -16.8       | SL    | -58.2 | -15.9 |
|                   | Russell/Nomura Large Cap (ex financials)  | -3.5  | -8.1  | -20.5 | -10.3 | -16.8             | -59.8 | -65.6 | -27.3 | -6.8              | -70.7 | -59.6 | -17.1 | -18.0       | SL    | -64.5 | -13.9 |
|                   | Manufacturing                             | -4.1  | -6.4  | -25.1 | -9.7  | -20.5             | -50.8 | -73.6 | -21.5 | -7.7              | -67.5 | -64.6 | -23.1 | -12.4       | SL    | -83.4 | -22.8 |
|                   | Basic materials                           | -5.2  | -4.8  | -23.4 | -16.7 | -51.3             | SL    | -84.0 | -51.7 | -50.0             | SL    | -88.4 | -57.3 | -94.0       | SL    | SL    | -83.5 |
|                   | Processing                                | -5.5  | -8.4  | -29.9 | -8.8  | -18.5             | -39.7 | -94.6 | -17.3 | 2.9               | -61.4 | -76.4 | -18.0 | 6.7         | -98.6 | -92.4 | -8.2  |
|                   | Nonmanufacturing                          | -     | -     | -     | -     | -                 | -     | -     | -     | -2.2              | -70.5 | -46.1 | -11.9 | -20.1       | SL    | -43.8 | -8.7  |
| Broad sectors     | Nonmanufacturing (ex financials)          | -2.8  | -10.3 | -14.4 | -11.0 | -12.1             | -69.5 | -55.8 | -34.4 | -5.9              | -75.2 | -55.4 | -8.6  | -23.5       | SL    | -49.8 | 0.4   |
|                   | Basic materials                           | -5.2  | -4.8  | -23.4 | -16.7 | -51.3             | SL    | -84.0 | -51.7 | -50.0             | SL    | -88.4 | -57.3 | -94.0       | SL    | SL    | -83.5 |
|                   | Machinery, automobiles                    | -6.5  | -8.4  | -37.8 | -9.6  | -27.5             | -54.2 | SL    | -18.9 | 8.5               | -79.7 | SL    | -19.9 | 14.6        | SL    | SL    | -22.8 |
|                   | Electronics                               | -3.8  | -8.4  | -15.2 | -7.3  | -5.0              | -20.1 | -36.5 | -15.3 | -6.3              | -35.2 | 16.3  | -15.1 | -4.9        | -47.1 | 27.0  | 14.1  |
|                   | Consumer, distribution                    | -2.0  | -4.5  | -13.4 | -8.3  | 3.5               | -18.8 | -35.8 | -15.1 | 3.0               | -39.3 | -36.9 | -17.2 | -1.1        | -42.4 | -47.7 | -29.9 |
|                   | Information                               | 0.3   | -34.8 | -1.9  | 0.6   | -34.3             | SL    | 15.1  | 2.5   | -18.0             | SL    | -27.6 | 269.2 | -53.0       | SL    | 12.5  | SP    |
| Sectors           | Utilities, infrastructure                 | -2.2  | -4.8  | -18.2 | -16.9 | -2.8              | -36.4 | -97.5 | -64.0 | 0.7               | -38.8 | -98.9 | -61.2 | -4.4        | SL    | SL    | -67.0 |
|                   | Financials                                | -     | -     | -     | -     | -                 | -     | -     | -     | 9.1               | -57.1 | -16.0 | -20.2 | -8.8        | -89.2 | -26.8 | -26.6 |
|                   | Chemicals                                 | -3.9  | -4.3  | -24.0 | -16.1 | 2.2               | -96.9 | -69.8 | -31.9 | 4.6               | SL    | -72.8 | -35.5 | -24.3       | SL    | SL    | -42.8 |
|                   | Steel, nonferrous metals                  | -8.7  | -5.9  | -21.4 | -18.4 | SL                | SL    | SL    | SL    | SL                | SL    | SL    | SL    | SL          | SL    | SL    | SL    |
|                   | Machinery                                 | -6.0  | 0.8   | -17.3 | -7.1  | -38.6             | -42.8 | -76.9 | -20.0 | -34.7             | -46.5 | -68.2 | -18.7 | -13.9       | -54.4 | -74.3 | -23.6 |
|                   | Automobiles                               | -6.6  | -11.1 | -43.5 | -10.3 | -23.3             | -60.8 | SL    | -18.5 | 30.0              | -95.8 | SL    | -20.3 | 28.8        | SL    | SL    | -22.6 |
|                   | Electrical machinery, precision equipment | -3.8  | -8.4  | -15.2 | -7.3  | -5.0              | -20.1 | -36.5 | -15.3 | -6.3              | -35.2 | 16.3  | -15.1 | -4.9        | -47.1 | 27.0  | 14.1  |
|                   | Pharmaceuticals, healthcare               | 9.2   | 3.0   | -4.1  | -2.8  | 15.9              | 14.5  | 11.8  | -21.6 | 27.9              | -2.5  | 15.0  | -24.2 | 11.0        | 27.1  | 10.0  | -41.5 |
|                   | Food                                      | 1.2   | 0.7   | -8.7  | -3.0  | 3.7               | -0.8  | -3.2  | 15.3  | 1.8               | 0.0   | -5.6  | 10.9  | 0.2         | 25.2  | -6.2  | 5.3   |
|                   | Household goods                           | -3.8  | -6.0  | -17.2 | -9.0  | -7.4              | -21.9 | -48.3 | -19.7 | -15.8             | -27.4 | -53.6 | -19.6 | 15.3        | -27.3 | -75.2 | -20.8 |
|                   | Trading companies                         | -7.8  | -9.6  | -21.3 | -14.1 | -7.2              | -48.0 | -63.0 | -37.5 | -9.1              | SL    | -58.3 | -37.6 | -12.1       | SL    | -63.5 | -37.8 |
|                   | Retailing                                 | 1.4   | -1.5  | -9.3  | -5.5  | -1.4              | -2.8  | -51.0 | -1.4  | -1.6              | -2.8  | -52.1 | -2.2  | -9.8        | -18.1 | -93.9 | -18.3 |
|                   | Services                                  | -3.3  | -5.2  | -9.7  | -6.5  | 14.2              | -18.7 | -51.5 | -15.3 | 12.9              | -19.5 | -53.2 | -15.9 | 5.6         | -33.4 | -66.4 | -44.2 |
|                   | Software                                  | 3.3   | 7.7   | 17.3  | 8.1   | 11.8              | 39.1  | 85.5  | 36.1  | 25.3              | 32.2  | 94.0  | 34.8  | 27.7        | 21.5  | 86.2  | 7.7   |
|                   | Media                                     | 0.7   | -5.1  | -21.9 | -20.9 | -93.8             | 9.5   | -68.5 | -98.2 | SL                | 40.4  | -62.0 | -87.6 | SL          | 54.4  | -97.4 | SL    |
|                   | Telecommunications                        | -0.3  | -45.1 | -2.1  | 2.6   | -38.8             | SL    | 7.2   | 3.0   | -18.9             | SL    | -33.9 | 629.8 | -57.8       | SL    | 10.8  | SP    |
|                   | Construction                              | -0.5  | 0.9   | -9.9  | -12.5 | -2.0              | -8.2  | -8.8  | -15.2 | -0.8              | -9.4  | -6.5  | -15.1 | -16.4       | -13.4 | -17.7 | -10.5 |
|                   | Housing, real estate                      | -0.7  | 0.7   | -5.4  | -9.6  | 0.2               | 8.6   | -17.0 | -25.4 | 1.0               | 9.5   | -21.4 | -26.9 | 4.2         | 6.1   | -29.3 | -30.9 |
|                   | Transportation                            | -2.9  | -9.4  | -39.6 | -33.7 | -10.6             | SL    | SL    | SL    | -8.2              | SL    | SL    | SL    | -11.5       | SL    | SL    | SL    |
|                   | Utilities                                 | -3.3  | -8.0  | -8.3  | -6.6  | 44.7              | -50.9 | -4.7  | 32.7  | 87.8              | -53.1 | -22.5 | 41.9  | 69.4        | SL    | -60.8 | 16.0  |
|                   | Financials                                | -     | -     | -     | -     | -                 | -     | -     | -     | 9.1               | -57.1 | -16.0 | -20.2 | -8.8        | -89.2 | -26.8 | -26.6 |

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 December 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                        | RN Large Cap                                  | 26.4  | 18.0  | 15.4  | -     | -     | -     | 1.46 | 1.46  | 1.95           | 2.12  | 2.28  | 6.3  | 5.6   | 7.9   | 8.8   |
|  | Russell/Nomura Large Cap (ex loss-making cos) | 19.8  | 16.3  | 14.0  | -     | -     | -     | 1.45 | 1.50  | 2.02           | 2.32  | 2.50  | 8.0  | 7.7   | 8.0   | 8.8   |
|  | Russell/Nomura Large Cap (ex financials)      | 29.7  | 19.3  | 16.5  | 12.0  | 9.7   | 8.9   | 1.68 | 1.68  | 1.77           | 1.94  | 2.11  | 6.5  | 5.7   | 8.5   | 9.4   |
|  | Manufacturing                                 | 33.3  | 20.4  | 17.7  | 13.7  | 10.7  | 9.9   | 1.79 | 1.78  | 1.68           | 1.87  | 2.05  | 6.2  | 5.4   | 8.5   | 9.3   |
|  | Basic materials                               | 49.8  | 16.6  | 14.5  | 8.8   | 6.3   | 6.0   | 1.04 | 1.09  | 2.09           | 2.34  | 2.47  | 1.6  | 2.2   | 6.5   | 7.1   |
|  | Processing                                    | 31.3  | 19.1  | 16.4  | 13.6  | 10.5  | 9.5   | 1.75 | 1.71  | 1.52           | 1.76  | 2.00  | 6.8  | 5.5   | 8.7   | 9.5   |
|  | Nonmanufacturing                              | 20.6  | 15.5  | 13.1  | -     | -     | -     | 1.17 | 1.18  | 2.30           | 2.45  | 2.60  | 6.5  | 5.7   | 7.4   | 8.4   |
|  |   | 25.2  | 17.8  | 14.9  | 10.0  | 8.5   | 7.8   | 1.52 | 1.55  | 1.91           | 2.06  | 2.20  | 7.0  | 6.1   | 8.5   | 9.6   |
| Broad sectors                            | Basic materials                               | 49.8  | 16.6  | 14.5  | 8.8   | 6.3   | 6.0   | 1.04 | 1.09  | 2.09           | 2.34  | 2.47  | 1.6  | 2.2   | 6.5   | 7.1   |
|  | Machinery, automobiles                        | 35.6  | 15.8  | 13.5  | 12.9  | 8.8   | 7.9   | 1.32 | 1.31  | 1.89           | 2.23  | 2.55  | 6.3  | 3.7   | 8.1   | 9.0   |
|  | Electronics                                   | 28.0  | 23.8  | 20.6  | 14.3  | 13.0  | 11.9  | 2.52 | 2.40  | 1.18           | 1.32  | 1.48  | 7.8  | 8.8   | 9.7   | 10.5  |
|  | Consumer, distribution                        | 33.7  | 23.6  | 21.4  | 15.6  | 12.9  | 12.2  | 2.12 | 2.09  | 1.82           | 1.87  | 1.94  | 8.2  | 6.3   | 8.7   | 9.1   |
|  | Information                                   | 12.5  | 16.8  | 14.3  | 7.4   | 8.6   | 7.9   | 2.14 | 2.21  | 2.00           | 2.23  | 2.39  | 4.5  | 17.6  | 12.8  | 13.9  |
|  | Utilities, infrastructure                     | 232.0 | 15.5  | 11.5  | 10.3  | 6.3   | 5.5   | 1.02 | 1.03  | 1.99           | 2.22  | 2.45  | 8.0  | 0.4   | 6.5   | 8.3   |
|  | Financials                                    | 10.5  | 9.2   | 7.9   | -     | -     | -     | 0.54 | 0.53  | 4.37           | 4.55  | 4.70  | 5.5  | 5.0   | 5.6   | 6.4   |
| Sectors                                  | Chemicals                                     | 34.7  | 17.1  | 15.2  | 9.3   | 7.1   | 6.8   | 1.21 | 1.26  | 2.17           | 2.31  | 2.40  | 4.7  | 3.6   | 7.2   | 7.7   |
|  | Steel, nonferrous metals                      | -     | 13.7  | 11.2  | 6.5   | 3.7   | 3.4   | 0.56 | 0.58  | 1.53           | 2.52  | 3.00  | -6.5 | -2.2  | 4.2   | 4.9   |
|  | Machinery                                     | 40.9  | 27.1  | 22.1  | 17.8  | 14.4  | 12.8  | 2.17 | 2.12  | 1.08           | 1.33  | 1.60  | 7.4  | 5.2   | 7.6   | 8.8   |
|  | Automobiles                                   | 32.5  | 12.0  | 10.4  | 10.7  | 6.8   | 6.1   | 1.02 | 1.01  | 2.49           | 2.90  | 3.27  | 5.9  | 3.1   | 8.3   | 9.1   |
|  | Electrical machinery, precision equipment     | 28.0  | 23.8  | 20.6  | 14.3  | 13.0  | 11.9  | 2.52 | 2.40  | 1.18           | 1.32  | 1.48  | 7.8  | 8.8   | 9.7   | 10.5  |
|  | Pharmaceuticals, healthcare                   | 36.4  | 27.5  | 24.8  | 19.8  | 16.8  | 15.7  | 2.85 | 2.80  | 1.67           | 1.71  | 1.73  | 8.1  | 7.8   | 9.9   | 10.5  |
|  | Food  | 22.5  | 19.6  | 17.3  | 11.7  | 10.7  | 9.9   | 1.89 | 1.82  | 2.97           | 3.04  | 3.21  | 8.8  | 8.2   | 9.1   | 9.8   |
|  | Household goods                               | 48.3  | 36.4  | 33.1  | 26.6  | 22.1  | 20.8  | 4.38 | 4.24  | 1.17           | 1.27  | 1.32  | 12.9 | 9.0   | 11.3  | 11.6  |
|  | Trading companies                             | 15.0  | 9.2   | 8.4   | 5.7   | 4.6   | 4.4   | 0.87 | 0.84  | 4.24           | 4.10  | 4.28  | 8.6  | 5.7   | 8.9   | 9.2   |
|  | Retailing                                     | 51.7  | 30.0  | 29.0  | 18.8  | 14.9  | 14.6  | 2.96 | 2.94  | 1.13           | 1.16  | 1.17  | 9.0  | 5.7   | 9.5   | 9.2   |
|  | Services                                      | 48.3  | 32.2  | 27.7  | 22.9  | 18.3  | 16.8  | 1.85 | 1.90  | 1.19           | 1.29  | 1.39  | 6.0  | 4.0   | 5.8   | 6.4   |
|  | Software                                      | 25.7  | 21.2  | 19.9  | 21.7  | 18.4  | 17.3  | 4.92 | 4.42  | 2.02           | 2.36  | 2.54  | 15.5 | 18.0  | 19.7  | 19.0  |
|  | Media   | 45.6  | 18.3  | 15.7  | 18.0  | 11.3  | 10.3  | 0.96 | 0.96  | 1.89           | 2.15  | 2.15  | 2.3  | 2.1   | 5.1   | 5.8   |
|  | Telecommunications                            | 9.6   | 15.1  | 12.6  | 5.4   | 6.8   | 6.2   | 1.81 | 1.93  | 2.00           | 2.17  | 2.33  | 2.9  | 19.9  | 12.4  | 13.9  |
|  | Construction                                  | 8.6   | 8.2   | 8.0   | 7.3   | 7.0   | 6.9   | 0.97 | 0.87  | 3.37           | 3.45  | 3.51  | 12.6 | 10.7  | 10.2  | 9.8   |
|  | Housing, real estate                          | 16.6  | 13.3  | 12.0  | 10.2  | 8.7   | 8.1   | 1.26 | 1.22  | 2.43           | 2.62  | 2.85  | 10.1 | 7.5   | 8.8   | 9.3   |
|  | Transportation                                | -     | 28.8  | 12.2  | 479.5 | 7.7   | 5.7   | 1.14 | 1.29  | 1.00           | 1.36  | 1.69  | 6.9  | -11.1 | 4.4   | 9.9   |
|  | Utilities                                     | 10.2  | 10.1  | 11.4  | 2.6   | 2.6   | 2.7   | 0.55 | 0.53  | 3.22           | 3.22  | 3.22  | 5.5  | 5.3   | 5.2   | 4.4   |
|  | Financials                                    | 10.5  | 9.2   | 7.9   | -     | -     | -     | 0.54 | 0.53  | 4.37           | 4.55  | 4.70  | 5.5  | 5.0   | 5.6   | 6.4   |
| RN Small Cap                             |   | 27.1  | 18.0  | 17.1  | -     | -     | -     | 1.14 | 1.08  | 2.17           | 2.24  | 2.28  | 5.2  | 4.0   | 5.9   | 6.0   |
| Russell/Nomura Small Cap (ex financials) |   | 30.6  | 19.1  | 18.1  | 11.1  | 9.1   | 8.8   | 1.32 | 1.25  | 1.71           | 1.78  | 1.82  | 5.5  | 4.1   | 6.4   | 6.5   |

Note: As of 1 December 2020.

Source: Nomura

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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 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 5.5% (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.

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

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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.

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