

Outlook for FY23–24 corporate earnings

Quarterly Update

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Summary and major assumptions

Sales up 17.2%, operating profits up 6.9%, recurring profits up 7.7% in FY22

We have aggregated FY22 results and FY23–24 earnings forecasts by Nomura analysts for constituents of the Russell/Nomura Large Cap Index. On an all-industry (ex financials) basis, index constituents generated sales growth of 17.2% y-y, operating profit growth of 6.9%, and recurring profit growth of 7.7% in FY22. Sales registered double-digit growth on yen depreciation and price hikes. However, operating and recurring profit growth was only single-digit, well below sales growth, owing to rising input costs and one-time losses. Versus the previous such exercise, conducted on 1 March 2023, our analysts have raised their sales growth forecast by 0.5ppt and their operating profit forecast by 0.4ppt, but lowered their recurring profit growth forecast by 0.5ppt. These are not major changes.

Our analysts forecast sales growth of 0.3%, operating profit growth of 11.1%, recurring profit growth of 4.2% in FY23

On an all-industry (ex financials) basis, our analysts forecast 0.3% y-y growth in sales, 11.1% growth in operating profits, and 4.2% growth in recurring profits in FY23. Versus the previous such exercise, conducted on 1 March 2023, they have raised their sales growth forecast by 0.5ppt and their operating profit forecast by 0.3ppt, but lowered their recurring profit growth forecast by 0.1ppt.

Our analysts forecast sales growth of 2.5%, operating profit growth of 9.1%, recurring profit growth of 8.4% in FY24

We have also aggregated earnings forecasts by Nomura analysts for FY24 for the first time. On an all-industry (ex financials) basis, our analysts forecast 2.5% y-y growth in sales, 9.1% growth in operating profits, and 8.4% growth in recurring profits. They expect profits to remain on a solid upward trajectory in FY24 too, with a wide range of industries (especially manufacturers) benefiting from economic recovery in Europe and North America.

Roughly equal mix of upward revisions and downward revisions at level of individual companies

The Revision Index (RI) for the Russell/Nomura Large Cap Index (ex financials), showing the difference between the percentage of companies for which Nomura analyst forecasts were raised and the percentage of companies for which forecasts were lowered, came in at -1.1% for June 2023 (FY23 forecasts, covering 2 March 2023 through 1 June), pointing to a roughly equal mix between upward and downward revisions. While there were marked downward revisions for basic materials industries, there were multiple upward revisions for processing industries, which include automobiles, on the expectation that output would recover following the resolution of semiconductor shortages.

Total shareholder returns exceed ¥20trn for first time in FY22

Total shareholder returns came in at around ¥21.8trn in FY22, thereby exceeding ¥20trn for the first time. The total payout ratio also rose 7.3ppt y-y to 54.9%, reflecting: (1) growth in the profit pool for shareholder returns; (2) widespread share buybacks over the course of FY22 by companies that regarded themselves as undervalued in share price terms; and (3) the TSE's announcement on measures on 30 January 2023 that are intended to incentivize companies to improve their longer-term corporate value.

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

		No. of cos	New					Old	
			FY20	FY21	FY22	FY23E	FY24E	FY22E	FY23E
Sales (% y-y)	Russell/Nomura Large Cap (ex financials)	266	-7.5	14.1	17.2	0.3	2.5	16.7	-0.2
	Manufacturing	144	-8.0	15.2	17.4	2.3	3.3	16.7	1.8
	Basic materials	30	-12.1	28.8	24.2	-2.8	0.5	23.5	-2.8
	Processing	73	-7.7	13.3	16.4	3.9	4.3	15.6	3.4
	Nonmanufacturing (ex financials)	122	-6.8	12.8	16.9	-2.2	1.4	16.7	-2.6
	Russell/Nomura Small Cap (ex financials)	1,086	-6.1	7.3	11.0	4.7	3.5	10.8	4.5
Operating profits (% y-y)	Russell/Nomura Large Cap (ex financials)	266	-18.9	58.3	6.9	11.1	9.1	6.5	10.8
	Manufacturing	144	-3.4	58.2	3.9	7.9	10.8	6.1	4.2
	Basic materials	30	13.7	148.5	-6.4	-7.5	14.2	-0.9	-7.5
	Processing	73	-8.6	52.9	6.9	13.2	9.1	7.6	7.2
	Nonmanufacturing (ex financials)	122	-36.2	58.5	13.3	17.2	6.3	7.4	24.3
	Russell/Nomura Small Cap (ex financials)	1,086	-12.5	37.8	3.5	15.9	11.7	4.9	19.4
Recurring profits (% y-y)	Russell/Nomura Large Cap	288	4.5	34.1	4.2	7.0	8.5	3.9	8.7
	Russell/Nomura Large Cap (ex financials)	266	5.6	34.5	7.7	4.2	8.4	8.2	4.3
	Manufacturing	144	7.6	56.9	2.7	6.0	10.9	4.7	3.5
	Basic materials	30	13.7	164.2	-7.2	-9.1	14.9	-2.1	-8.0
	Processing	73	8.7	47.8	4.4	10.7	9.1	5.0	6.3
	Nonmanufacturing	144	2.0	14.7	5.8	8.1	6.0	2.9	14.7
	Nonmanufacturing (ex financials)	122	3.3	8.8	15.8	1.7	4.6	13.7	5.4
		Russell/Nomura Small Cap	1,174	-5.9	45.0	0.7	11.2	11.1	2.8
	Russell/Nomura Small Cap (ex financials)	1,086	-7.0	50.1	0.4	11.2	11.4	2.2	14.7
After-tax profits (% y-y)	Russell/Nomura Large Cap	288	16.3	38.9	3.1	5.8	7.9	2.8	6.7
	Russell/Nomura Large Cap (ex financials)	266	18.3	39.5	6.5	3.5	7.6	6.4	3.2
	Manufacturing	144	16.4	66.8	-3.1	7.8	9.9	-0.3	4.1
	Basic materials	30	73.7	308.5	-18.8	-5.5	15.2	-10.4	-8.4
	Processing	73	18.9	51.4	-1.4	10.5	9.3	-2.0	9.0
	Nonmanufacturing	144	16.2	15.1	10.5	3.6	5.7	6.4	9.6
	Nonmanufacturing (ex financials)	122	20.7	7.6	23.0	-2.4	4.1	18.0	1.9
		Russell/Nomura Small Cap	1,174	2.1	72.2	1.5	18.0	10.1	5.6
	Russell/Nomura Small Cap (ex financials)	1,086	1.2	84.9	0.3	20.5	10.7	4.1	19.8

Note: Latest estimates as of 1 June 2023; previous estimates as of 1 March 2023.

Source: Nomura

Fig. 2: Key earnings estimate assumptions

		As of 17 Apr 2023					As of 19 Jan 2023				
		Industrial production 2015 base year %y-y	Policy rate (FY-end) %	WTI \$/bbl	Exchange rate (avg) USD/JPY EUR/JPY		Industrial production 2015 base year %y-y	Policy rate (FY-end) %	WTI \$/bbl	Exchange rate (avg) USD/JPY EUR/JPY	
FY	FY22	-0.6	-0.10	89.7	135.50	140.93	0.1	-0.10	90.7	134.15	139.67
	FY23	2.4	-0.10	80.0	130.00	145.00	0.9	-0.10	78.0	127.00	137.00
	FY24	3.0	0.00	73.0	130.00	145.00	-	-	-	-	-
Half-yearly	FY22 H1	0.3	-0.10	100.0	134.07	138.68	0.3	-0.10	100.0	134.07	138.68
	FY22 H2	-1.5	-0.10	79.4	136.92	143.18	0.0	-0.10	81.3	134.23	140.66
	FY23 H1	0.9	-0.10	81.5	130.00	145.00	0.0	-0.10	79.5	127.00	137.00
	FY23 H2	3.8	-0.10	78.5	130.00	145.00	1.8	-0.10	76.5	127.00	137.00
	FY24 H1	2.9	0.00	74.5	130.00	145.00	-	-	-	-	-
	FY24 H2	3.2	0.00	71.5	130.00	145.00	-	-	-	-	-

Note: WTI is the 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

Overview of FY22 results

In FY22, recurring profits rose in 11 of 19 sectors and fell in the other 8 sectors.

The largest contributions to recurring profit growth came from transportation, trading companies, electrical machinery & precision equipment, pharmaceuticals & healthcare, and retailing. In the transportation sector, earnings from travel recovered as the easing of restrictions on movement lead to a recovery in the flow of people. At trading companies, energy trading and automobile-related businesses saw strong sales. The electrical machinery & precision equipment sector achieved profit growth despite lower demand from consumer-related areas such as smartphones, mainly thanks to automotive and industrial equipment applications. In the pharmaceuticals & healthcare sector, profits were boosted by factors including a weak yen and an increase in COVID-19 drug sales and royalty revenues. The main driver of profit growth at retailers was overseas operations, partly thanks to yen depreciation.

Sectors that made major negative contributions to profits included financials, utilities, services, and chemicals. In the financials sector, profits were hit in FY22 by substantial accounting costs arising from the sale of subsidiary company shares. The sector's profits were also weighed down by an increase in insurance benefit payouts for hospitalizations owing to a resurgence in COVID-19 infections in Japan. In the utilities sector, we saw an increase in electric power procurement costs stemming from higher JEPX prices, and companies being unable to fully pass on the increase in costs because average fuel prices exceeded the ceilings in the fuel cost adjustment scheme. In the services sector, intense competition led to a fall in profits on postal and logistics operations. The chemicals sector was hit by impairments and the disappearance of one-time gains such as inventory valuation gains posted in FY21 as well as by rising input costs.

Overview of FY23–24 forecasts

For FY23, our analysts expect recurring profits to increase in 12 out of 19 sectors and fall in 7.

Sectors that our analysts expect to make large positive contributions to overall profits include automobiles, financials, utilities, and telecommunications. In the automobiles sector, our analysts think that automakers will be able to increase production substantially as semiconductor shortages are resolved. They also expect demand to remain high even in the event of an economic recession given the pent-up demand in the US. In the financials sector, they expect the one-time losses noted above, for FY22, to drop out of the picture, and think that earnings from client-facing operations at major banks will start to improve and that steady progress will also be made in controlling costs. At utilities companies, losses related to the fuel cost adjustment scheme should drop out of the picture, and our analysts also expect profits to be boosted by electricity rate hikes and a fall in fuel costs as a result of the restart of nuclear reactors. At telecommunications companies, they expect an improvement in gains/losses on investment at SoftBank Group [9984] to boost sector profits.

Sectors that our analysts expect to make large negative contributions to profits include transportation, trading companies, and steel & nonferrous metals. The shipping subsector accounts for a large portion of the prospective profit decline in the transportation sector. Containership spot rates have been falling, and our analysts expect rates to fall at Ocean Network Express (ONE), the equity-method affiliate of the three major Japanese shipping companies. At trading companies, they expect profits to decline mainly in resource fields, as a result of a decline in market prices for resources such as iron ore and crude oil. In steel & nonferrous metals, the disappearance of one-time factors such as forex translation gains is a major factor.

For FY24, our analysts expect recurring profits to increase in 17 out of 19 sectors and fall in 2. They expect a wide range of industries (especially manufacturers) to benefit from economic recovery in Europe and North America.

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

FY22				FY23E			
Increase in profits (%)				Increase in profits (%)			
	Growth	Contribution	Contribution (ex financials)		Growth	Contribution	Contribution (ex financials)
11 sectors				14 sectors			
Transportation	92.2	86.2	53.9	Automobiles	24.4	49.7	92.1
Trading companies	18.6	43.4	27.1	Financials	30.5	46.0	-
Electrical machinery, precision equipment	5.3	17.2	10.8	Utilities	1,060.3	38.3	71.0
Pharmaceuticals, healthcare	18.2	15.5	9.7	Telecommunications	42.2	24.4	45.2
Retailing	20.5	13.9	8.7	Machinery	5.9	4.3	8.0
Housing, real estate	10.2	11.3	7.0	Pharmaceuticals, healthcare	7.1	4.0	7.5
Food	17.7	11.2	7.0	Food	8.3	3.5	6.6
Automobiles	2.9	9.7	6.1	Services	7.4	3.4	6.2
Telecommunications	9.9	9.2	5.8	Household goods	8.3	1.4	2.6
Machinery	6.6	8.0	5.0	Retailing	2.8	1.3	2.5
Construction	2.1	0.4	0.2	Media	22.4	1.2	2.2
				Construction	0.5	0.0	0.1
Decrease in profits (%)				Decrease in profits (%)			
	Growth	Contribution	Contribution (ex financials)		Growth	Contribution	Contribution (ex financials)
8 sectors				5 sectors			
Software	-5.8	-3.4	-2.1	Software	-1.7	-0.5	-1.0
Media	-36.1	-5.3	-3.3	Electrical machinery, precision equipment	-1.8	-3.6	-6.6
Household goods	-14.6	-5.3	-3.3	Housing, real estate	-5.5	-3.8	-7.1
Steel, nonferrous metals	-13.0	-9.9	-6.2	Chemicals	-3.5	-4.2	-7.8
Chemicals	-5.2	-11.7	-7.3	Steel, nonferrous metals	-26.6	-10.4	-19.2
Services	-12.8	-12.0	-7.5	Trading companies	-17.1	-26.8	-49.7
Utilities	SL	-18.6	-11.6	Transportation	-27.2	-28.4	-52.7
Financials	-18.3	-59.9	-				
FY24E							
Increase in profits (%)							
	Growth	Contribution	Contribution (ex financials)				
17 sectors							
Electrical machinery, precision equipment	10.9	15.9	18.7				
Financials	9.8	14.8	-				
Automobiles	7.5	14.6	17.1				
Telecommunications	20.3	12.8	15.0				
Chemicals	11.7	10.4	12.2				
Pharmaceuticals, healthcare	16.9	7.9	9.3				
Steel, nonferrous metals	28.1	6.2	7.2				
Machinery	9.6	5.7	6.7				
Housing, real estate	10.8	5.4	6.3				
Retailing	9.9	3.7	4.4				
Food	9.5	3.4	4.0				
Services	6.7	2.5	2.9				
Household goods	15.9	2.2	2.6				
Transportation	3.5	2.0	2.4				
Construction	25.2	2.0	2.4				
Software	3.7	0.8	1.0				
Media	6.4	0.3	0.4				
Decrease in profits (%)							
	Growth	Contribution	Contribution (ex financials)				
2 sectors							
Utilities	-13.8	-4.4	-5.2				
Trading companies	-6.3	-6.2	-7.3				

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

Source: Nomura

Revisions to recurring profit estimates (versus old estimates)

Overview of FY22 results

FY22 recurring profits overshot our forecasts in 9 of 19 sectors and undershot them in 10.

The largest overshoots (in value terms) were in sectors such as utilities, financials, and transportation. Utilities benefited from fuel cost savings at electric power companies as sharp rises in fuel costs settled down, and from increased gains under the resource cost adjustment scheme at gas companies owing to rising spot prices for LNG. Financials benefited from growth in net income from loans and deposits thanks to rising interest rates overseas, strong forex trading gains and real estate-related earnings, and lower deposit insurance fees. Transportation benefited from lower fuel costs and the recovery in railway and airline passenger numbers.

The largest undershoots (in value terms) were in telecommunications, chemicals, pharmaceuticals & healthcare, and automobiles. Telecommunications were hit by weaker gains/losses on investment at SoftBank Group. Chemicals were hit by weak demand for products such as semiconductor materials, petrochemicals in Asia, smartphone and PC display materials, and graphite electrodes, as well as by slow recovery in capacity utilization at oil refineries and negative time lag effects on petroleum product margins. Pharmaceuticals & healthcare were hit by weaker-than-expected sales of some pharmaceuticals as well as higher R&D costs. Automobiles were hit by lower-than-expected sales volumes at some automakers because of semiconductor shortages.

Overview of the corporate earnings outlook for FY23

Our analysts have raised their FY23 recurring profit forecasts for 6 out of 19 sectors and lowered them for 13.

Their largest upward revisions (in value terms) were for automobiles, trading companies, and utilities. They expect automobiles to benefit from the ability to substantially increase output of luxury vehicles that had been hit hard by semiconductor shortages, thereby boosting the product mix. For trading companies, they have factored in gains on the sale of assets. They also expect earnings within the utilities sector to recover on electricity rate hikes.

Their largest downward revisions (in value terms) were for financials, telecommunications, chemicals, housing & real estate, and electrical machinery & precision equipment. For telecommunications, they have factored in prospective investment fund losses. For chemicals, they note the slow recovery in demand across a wide range of products, including semiconductor materials, electronic materials, and automotive materials. For housing & real estate, they have factored in rising interest rates on USD-denominated borrowing and the downturn in the US real estate market. For electrical machinery & precision equipment, they note tough conditions for semiconductor-related businesses in FY23 H1.

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

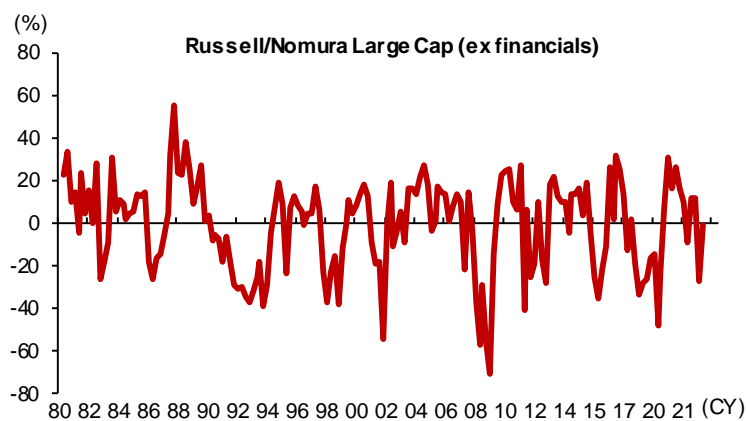
FY22					FY23E				
[Upward revisions] 9 sectors					[Upward revisions] 6 sectors				
	New ¥bn	Old ¥bn	Revision ¥bn	Change %		New ¥bn	Old ¥bn	Revision ¥bn	Change %
Utilities	-135	-709	573.9	-80.9	Automobiles	9,975	9,199	776.1	8.4
Financials	5,948	5,590	357.9	6.4	Trading companies	5,115	4,835	280.9	5.8
Transportation	4,011	3,836	174.5	4.5	Utilities	1,653	1,387	265.8	19.2
Housing, real estate	2,706	2,671	34.9	1.3	Machinery	3,051	2,897	153.9	5.3
Services	1,821	1,807	14.5	0.8	Software	1,189	1,164	24.8	2.1
Steel, nonferrous metals	1,480	1,468	12.4	0.8	Food	1,823	1,800	23.3	1.3
Software	1,214	1,202	12.3	1.0					
Trading companies	6,172	6,164	7.6	0.1	[Downward revisions] 13 sectors				
Media	209	208	0.7	0.3		New ¥bn	Old ¥bn	Revision ¥bn	Change %
[Downward revisions] 10 sectors					Retailing	1,946	1,952	-6.0	-0.3
	New ¥bn	Old ¥bn	Revision ¥bn	Change %	Media	256	266	-10.3	-3.9
Retailing	1,824	1,827	-3.1	-0.2	Household goods	728	741	-13.9	-1.9
Machinery	2,853	2,864	-10.2	-0.4	Construction	410	465	-54.5	-11.7
Food	1,660	1,672	-11.9	-0.7	Services	1,911	2,005	-93.3	-4.7
Household goods	694	721	-27.5	-3.8	Steel, nonferrous metals	1,128	1,278	-150.0	-11.7
Electrical machinery, precision equipment	7,706	7,737	-31.3	-0.4	Transportation	2,997	3,165	-168.0	-5.3
Construction	408	446	-37.9	-8.5	Pharmaceuticals, healthcare	2,413	2,603	-190.6	-7.3
Automobiles	7,741	7,802	-61.4	-0.8	Electrical machinery, precision equipment	7,553	7,773	-219.7	-2.8
Pharmaceuticals, healthcare	2,253	2,336	-82.1	-3.5	Housing, real estate	2,581	2,803	-222.5	-7.9
Chemicals	4,715	5,069	-354.6	-7.0	Chemicals	4,582	4,821	-239.3	-5.0
Telecommunications	2,286	2,696	-410.6	-15.2	Telecommunications	3,241	3,666	-425.0	-11.6
					Financials	7,746	8,300	-554.5	-6.7

Note: Latest estimates as of 1 June 2023, previous estimates as of 1 March 2023.

Source: Nomura

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

	(yy/m)	21/9	21/12	22/3	22/6	22/9	22/12	23/3	23/6
Russell/Nomura Large Cap		25.7	17.1	11.5	-8.7	11.5	9.1	-24.7	-0.7
Russell/Nomura Large Cap (ex financials)		26.1	16.1	10.2	-9.1	13.2	11.7	-27.1	-1.1
Manufacturing		32.4	20.8	6.2	-13.1	22.1	4.1	-43.1	-1.4
Basic materials		36.1	47.2	48.3	-17.2	44.8	0.0	-30.0	-40.0
Processing		46.8	24.1	2.7	-10.8	10.8	2.7	-50.7	12.3
Nonmanufacturing (ex financials)		18.2	10.2	15.0	-4.2	2.5	20.8	-8.2	-0.8



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)

		No. of cos	FY19	FY20	FY21	FY22	FY22	FY23E	FY23E	FY24E
						Old	New	Old	New	New
						E	Actual	E	E	E
Industrial groups	Russell/Nomura Large Cap (ex financials)	266	-2.5	-7.5	14.1	16.7	17.2	-0.2	0.3	2.5
	Manufacturing	144	-2.7	-8.0	15.2	16.7	17.4	1.8	2.3	3.3
	Basic materials	30	-2.0	-12.1	28.8	23.5	24.2	-2.8	-2.8	0.5
	Processing	73	-4.5	-7.7	13.3	15.6	16.4	3.4	3.9	4.3
	Nonmanufacturing (ex financials)	122	-2.3	-6.8	12.8	16.7	16.9	-2.6	-2.2	1.4
Broad sectors	Materials	30	-2.0	-12.1	28.8	23.5	24.2	-2.8	-2.8	0.5
	Machinery, autos	40	-4.4	-10.4	13.9	19.1	19.7	5.9	8.0	5.2
	Electronics	33	-4.8	-3.0	12.5	10.3	11.4	-1.0	-3.2	2.6
	Consumer, distribution	84	-0.6	-4.4	15.6	14.8	14.6	-5.4	-3.6	1.2
	Information	22	-7.4	-0.6	6.0	6.8	7.2	3.0	2.0	3.8
	Utilities, infrastructure	57	0.2	-12.2	6.0	22.6	23.6	2.9	1.5	1.6
Sectors	Chemicals	25	-1.2	-12.4	27.8	25.8	26.3	-4.5	-5.0	2.6
	Steel, nonferrous metals	5	-3.9	-11.3	31.5	17.1	18.2	2.3	3.7	-5.0
	Machinery	23	-3.6	-5.5	17.8	17.3	18.0	1.0	2.8	3.5
	Autos	17	-4.6	-11.8	12.8	19.7	20.2	7.4	9.6	5.6
	Electrical machinery, precision equipment	33	-4.8	-3.0	12.5	10.3	11.4	-1.0	-3.2	2.6
	Pharmaceuticals, healthcare	16	9.7	-2.1	7.4	11.2	10.9	-0.1	2.0	2.6
	Food products	14	0.7	-3.9	2.0	12.4	12.3	3.9	5.6	3.4
	Household goods	11	-0.8	-7.4	9.2	10.0	10.2	2.8	3.1	3.8
	Trading companies	8	-5.0	-5.8	30.3	20.1	19.4	-13.8	-11.0	-0.9
	Retailing	17	2.5	-3.4	13.7	14.8	15.0	1.1	2.0	3.0
	Services	18	-2.5	-4.0	3.1	5.0	5.5	0.5	0.4	0.9
	Software	11	7.5	9.2	3.8	2.8	3.3	-0.9	1.8	4.9
	Media	3	0.8	-12.9	19.7	10.5	12.2	2.9	3.9	4.8
	Telecommunications	8	-10.7	-0.6	5.4	7.3	7.5	3.7	1.9	3.5
	Construction, engineering	5	5.1	-9.8	5.8	13.6	11.8	4.0	5.2	4.3
	Housing, real estate	19	2.3	-4.3	8.4	7.7	8.7	4.0	4.0	4.4
	Transportation	25	-2.2	-28.2	15.5	23.0	25.5	3.7	2.9	2.9
Utilities	8	-0.9	-3.1	-4.1	43.6	44.1	0.9	-3.1	-3.4	

Note: (1) Figures exclude listed consolidated subsidiaries. (2) Latest estimates as of 1 June 2023, previous estimates as of 1 March 2023.

Source: Nomura

Fig. 7: Percentage change in recurring profits by sector (% y-y)

		No. of cos	(% y-y)							
			FY19	FY20	FY21	FY22 Old	FY22 New	FY23E Old	FY23E New	FY24E New
						E	Actual	E	E	E
Industrial groups	Russell/Nomura Large Cap	288	-20.5	4.5	34.1	3.9	4.2	8.7	7.0	8.5
	Russell/Nomura Large Cap (ex financials)	266	-22.3	5.6	34.5	8.2	7.7	4.3	4.2	8.4
	Manufacturing	144	-27.2	7.6	56.9	4.7	2.7	3.5	6.0	10.9
	Basic materials	30	-52.0	13.7	164.2	-2.1	-7.2	-8.0	-9.1	14.9
	Processing	73	-24.5	8.7	47.8	5.0	4.4	6.3	10.7	9.1
	Nonmanufacturing	144	-14.3	2.0	14.7	2.9	5.8	14.7	8.1	6.0
	Nonmanufacturing (ex financials)	122	-16.0	3.3	8.8	13.7	15.8	5.4	1.7	4.6
Broad sectors	Materials	30	-52.0	13.7	164.2	-2.1	-7.2	-8.0	-9.1	14.9
	Machinery, autos	40	-23.9	-7.0	57.8	4.5	3.9	10.2	19.5	8.0
	Electronics	33	-25.3	34.8	36.0	5.5	5.3	0.7	-1.8	10.9
	Consumer, distribution	84	-9.5	-12.0	56.6	12.3	11.5	-4.3	-3.6	5.0
	Information	22	-35.2	157.0	-60.0	11.1	0.3	24.5	26.7	15.3
	Utilities, infrastructure	57	-2.6	-68.8	137.7	19.6	33.9	17.3	3.3	3.4
	Financials	22	-9.1	-1.4	31.9	-23.3	-18.3	48.9	30.5	9.8
Sectors	Chemicals	25	-34.2	-11.6	119.1	1.9	-5.2	-5.5	-3.5	11.7
	Steel, nonferrous metals	5	SL	SP	555.9	-13.7	-13.0	-16.2	-26.6	28.1
	Machinery	23	-30.0	-5.0	61.7	6.9	6.6	0.3	5.9	9.6
	Autos	17	-21.5	-7.7	56.5	3.7	2.9	13.7	24.4	7.5
	Electrical machinery, precision equipment	33	-25.3	34.8	36.0	5.5	5.3	0.7	-1.8	10.9
	Pharmaceuticals, healthcare	16	8.0	11.8	6.5	22.5	18.2	11.5	7.1	16.9
	Food products	14	-15.6	0.6	10.0	18.6	17.7	6.1	8.3	9.5
	Household goods	11	-7.5	-23.6	30.0	-11.2	-14.6	6.3	8.3	15.9
	Trading companies	8	-27.9	-26.8	208.6	18.5	18.6	-21.6	-17.1	-6.3
	Retailing	17	4.1	-17.7	20.0	20.7	20.5	2.3	2.8	9.9
	Services	18	1.7	-14.3	36.1	-13.5	-12.8	13.7	7.4	6.7
	Software	11	20.1	39.6	14.4	-6.8	-5.8	-2.8	-1.7	3.7
	Media	3	-57.5	SL	SP	-36.3	-36.1	27.7	22.4	6.4
	Telecommunications	8	-41.4	207.6	-74.9	29.7	9.9	36.4	42.2	20.3
	Construction, engineering	5	0.6	-13.4	-22.8	11.6	2.1	4.1	0.5	25.2
	Housing, real estate	19	5.4	-10.8	24.1	8.8	10.2	4.0	-5.5	10.8
	Transportation	25	-17.4	SL	SP	83.9	92.2	-19.4	-27.2	3.5
Utilities	8	17.7	-15.3	-61.2	SL	SL	SP	1,060.3	-13.8	
Financials	22	-9.1	-1.4	31.9	-23.3	-18.3	48.9	30.5	9.8	

Note: (1) Figures exclude listed consolidated subsidiaries. (2) Latest estimates as of 1 June 2023, previous estimates as of 1 March 2023. (3) SP = switch to profits, SL = switch to losses. LS = losses shrinking. LI = losses increasing.

Source: Nomura

Fig. 8: Recurring profits by sector (Unit: ¥1bn)

			(¥bn)							
		No. of cos	FY19	FY20	FY21	FY22 Old E	FY22 New Actual	FY23E Old E	FY23E New E	FY24E New E
Industrial groups	Russell/Nomura Large Cap	288	38,542	40,173	53,958	55,409	55,567	61,119	60,297	65,449
	Russell/Nomura Large Cap (ex financials)	266	32,757	34,590	46,630	49,818	49,619	52,819	52,551	56,940
	Manufacturing	144	17,180	18,613	29,038	29,669	29,102	31,112	31,252	34,667
	Basic materials	30	2,453	2,721	7,020	6,537	6,195	6,099	5,710	6,562
	Processing	73	10,942	12,114	17,723	18,403	18,300	19,868	20,579	22,445
	Nonmanufacturing	144	21,362	21,560	24,920	25,739	26,464	30,007	29,045	30,782
	Nonmanufacturing (ex financials)	122	15,578	15,977	17,592	20,149	20,516	21,707	21,299	22,273
Broad sectors	Materials	30	2,453	2,721	7,020	6,537	6,195	6,099	5,710	6,562
	Machinery, autos	40	6,745	6,492	10,244	10,665	10,594	12,096	13,026	14,072
	Electronics	33	4,197	5,622	7,479	7,737	7,706	7,773	7,553	8,373
	Consumer, distribution	84	9,397	8,260	13,236	14,527	14,424	13,935	13,936	14,633
	Information	22	3,728	9,589	3,820	4,107	3,709	5,096	4,686	5,403
	Utilities, infrastructure	57	6,236	1,906	4,831	6,244	6,990	7,820	7,641	7,897
	Financials	22	5,785	5,583	7,328	5,590	5,948	8,300	7,746	8,509
Sectors	Chemicals	25	2,758	2,425	5,218	5,069	4,715	4,821	4,582	5,117
	Steel, nonferrous metals	5	-305	296	1,802	1,468	1,480	1,278	1,128	1,445
	Machinery	23	1,781	1,670	2,637	2,864	2,853	2,897	3,051	3,345
	Autos	17	4,964	4,822	7,608	7,802	7,741	9,199	9,975	10,727
	Electrical machinery, precision equipment	33	4,197	5,622	7,479	7,737	7,706	7,773	7,553	8,373
	Pharmaceuticals, healthcare	16	1,632	1,810	1,983	2,336	2,253	2,603	2,413	2,820
	Food products	14	1,387	1,373	1,533	1,672	1,660	1,800	1,823	1,997
	Household goods	11	765	596	778	721	694	741	728	843
	Trading companies	8	2,271	1,663	5,203	6,164	6,172	4,835	5,115	4,795
	Retailing	17	1,612	1,310	1,651	1,827	1,824	1,952	1,946	2,139
	Services	18	1,731	1,509	2,086	1,807	1,821	2,005	1,911	2,040
	Software	11	813	1,172	1,381	1,202	1,214	1,164	1,189	1,232
	Media	3	154	-2	327	208	209	266	256	272
	Telecommunications	8	2,761	8,419	2,112	2,696	2,286	3,666	3,241	3,898
	Construction, engineering	5	734	636	501	446	408	465	410	513
	Housing, real estate	19	2,165	1,878	2,509	2,671	2,706	2,803	2,581	2,859
	Transportation	25	2,170	-1,573	1,446	3,836	4,011	3,165	2,997	3,101
Utilities	8	1,167	965	375	-709	-135	1,387	1,653	1,424	
	Financials	22	5,785	5,583	7,328	5,590	5,948	8,300	7,746	8,509

Note: Figures exclude listed consolidated subsidiaries. Index composition for period through FY21 differs from index composition from FY22 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 June 2023, previous estimates as of 1 March 2023.

Source: Nomura

Fig. 9: Percentage change in quarterly sales and profits (FY22 Q1–FY22 Q4)

		%y-y															
		Sales				Operating profits				Recurring profits				Net profits			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Industrial groups	Russell/Nomura Large Cap	-	-	-	-	-	-	-	-	-17.5	30.8	-12.2	26.1	-26.1	35.0	-22.7	54.0
	Russell/Nomura Large Cap (ex financials)	17.2	23.7	17.1	11.2	5.9	3.6	3.4	15.8	-16.9	44.2	-12.5	26.6	-24.1	51.9	-23.7	46.2
	Manufacturing	14.3	23.9	18.8	12.4	2.5	11.3	2.7	-2.8	7.9	15.6	-8.0	-4.8	4.4	5.2	-9.2	-6.5
	Basic materials	35.5	32.8	21.9	8.3	50.4	4.4	-39.5	-39.7	57.2	8.2	-51.2	-41.0	60.9	-12.2	-63.9	-47.1
	Processing	8.9	23.1	18.8	14.9	-14.6	19.8	14.6	10.8	-7.6	23.6	1.8	8.0	-12.4	14.8	1.2	6.6
	Nonmanufacturing (ex financials)	21.0	23.5	14.9	9.8	13.7	-11.3	4.7	63.6	-50.3	87.9	-18.7	125.2	-64.0	129.0	-42.5	305.4
Broad sectors	Basic materials	35.5	32.8	21.9	8.3	50.4	4.4	-39.5	-39.7	57.2	8.2	-51.2	-41.0	60.9	-12.2	-63.9	-47.1
	Machinery, autos	9.7	26.9	24.0	18.8	-24.0	18.4	27.6	22.6	-10.8	25.1	7.6	8.3	-17.3	12.7	11.7	16.5
	Electronics	7.7	17.4	11.2	8.8	0.6	21.4	0.6	-0.9	-1.9	21.9	-5.7	7.7	-3.8	17.1	-10.5	-4.1
	Consumption, distribution	19.7	21.6	12.9	6.0	2.3	-1.4	16.7	5.3	23.9	5.6	13.4	-2.7	30.0	8.1	12.7	-6.3
	Information	6.1	8.3	7.1	7.0	-7.9	-18.6	-6.3	21.2	SL	362.9	-68.5	SP	SL	837.3	SL	SP
	Utilities, infrastructure	24.7	29.9	22.8	17.3	68.0	-17.5	14.6	234.1	101.4	10.0	-12.0	62.2	118.3	23.9	-53.1	100.2
Financials	-	-	-	-	-	-	-	-	-21.8	-43.9	-10.0	22.3	-36.5	-56.1	-16.7	123.7	
Sectors	Chemicals	38.5	36.5	23.6	7.9	56.9	5.0	-42.5	-37.4	66.1	9.8	-58.1	-38.4	69.0	-9.7	-75.2	-55.9
	Steel, nonferrous metals	26.9	21.9	16.8	9.4	33.4	2.4	-32.1	-47.1	33.4	2.2	-33.6	-50.4	41.7	-19.3	-40.1	-25.6
	Machinery	13.3	25.3	19.6	15.9	-2.5	36.5	11.9	14.2	12.3	45.9	-2.1	5.5	9.1	49.7	-9.0	10.5
	Automobiles	8.6	27.4	25.4	19.8	-31.2	11.5	33.6	27.2	-17.4	18.4	10.8	9.5	-24.6	0.7	19.2	19.4
	Electrical machinery, precision equipment	7.7	17.4	11.2	8.8	0.6	21.4	0.6	-0.9	-1.9	21.9	-5.7	7.7	-3.8	17.1	-10.5	-4.1
	Pharmaceuticals, healthcare	5.5	10.5	16.7	5.3	-24.2	2.8	37.1	19.8	-15.4	5.4	40.0	32.2	-13.7	6.6	48.5	23.5
	Food products	12.8	17.2	12.3	11.3	31.6	11.0	27.1	29.9	27.3	18.1	21.0	19.1	34.5	2.8	15.7	24.3
	Household goods	10.3	15.5	11.3	6.5	12.7	-37.6	10.9	-27.0	23.2	-34.5	-3.1	-32.6	31.7	-29.5	6.9	-35.4
	Trading companies	32.4	32.4	12.7	3.7	43.9	42.8	7.7	-3.9	58.4	18.8	10.7	-12.8	61.1	19.1	13.3	-14.1
	Retailing	18.0	22.0	14.1	10.8	12.1	16.9	11.9	22.5	29.2	31.5	5.6	17.7	42.4	20.6	-4.4	14.6
	Services	4.3	4.1	9.7	3.9	-17.4	-28.6	2.5	-21.0	-12.3	-27.2	3.2	-16.8	-2.6	-0.9	-8.9	-32.0
	Software	1.2	11.4	2.2	4.9	-12.1	3.3	-13.9	-4.2	14.2	18.3	-29.2	-10.9	8.4	22.7	-29.5	-4.1
	Media	15.2	9.4	13.7	7.3	-33.7	-70.6	-7.8	-29.4	-13.1	-70.2	-32.5	-36.8	-21.4	-59.8	-23.8	-55.6
	Telecommunications	6.3	7.6	7.8	7.4	-3.9	-15.4	-2.2	47.9	SL	608.9	-88.4	SP	SL	2,469.6	SL	SP
	Construction, engineering	7.5	18.8	14.1	7.6	-27.3	48.8	-12.6	3.0	-9.5	47.1	-13.3	-4.8	-7.9	34.3	-18.0	13.4
	Housing, real estate	12.1	8.4	5.1	8.1	19.6	-3.2	-3.0	18.2	26.0	-0.1	-6.6	13.6	25.0	7.6	-5.4	18.0
	Transportation	30.2	33.3	18.7	19.4	SP	SP	58.2	SP	909.5	228.1	-4.6	-9.2	528.3	203.6	-15.8	-31.2
	Utilities	43.6	57.5	52.6	28.8	SL	SL	LI	SP	SL	SL	LI	SP	SL	SL	LI	SP
	Financials	-	-	-	-	-	-	-	-	-21.8	-43.9	-10.0	22.3	-36.5	-56.1	-16.7	123.7

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 June 2023. (3) Excludes listed 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		
		FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
		x	x	x	x	x	x	x	x	%	%	%	%	%	%
Industrial groups	Russell/Nomura Large Cap	16.0	14.8	13.7	-	-	-	1.42	1.33	2.23	2.39	2.56	9.1	9.3	9.4
	Russell/Nomura Large Cap (ex loss-making cos)	14.8	14.4	13.5	-	-	-	1.46	1.34	2.23	2.41	2.60	10.2	9.6	9.5
	Russell/Nomura Large Cap (ex financials)	16.4	15.5	14.4	8.8	8.8	8.3	1.56	1.46	2.10	2.22	2.38	9.8	9.7	9.8
	Manufacturing	17.7	16.0	14.6	9.2	9.3	8.7	1.62	1.52	2.01	2.19	2.39	9.5	9.8	10.1
	Basic materials	10.4	10.9	9.5	5.3	5.3	4.8	0.96	0.90	3.18	3.17	3.40	9.7	8.5	9.2
	Processing	17.8	15.5	14.2	9.1	9.4	8.7	1.62	1.52	1.79	2.02	2.24	9.4	10.0	10.3
	Nonmanufacturing	14.2	13.5	12.8	-	-	-	1.23	1.15	2.52	2.63	2.78	8.8	8.8	8.8
	Nonmanufacturing (ex financials)	14.7	14.8	14.2	8.1	8.0	7.8	1.47	1.36	2.24	2.27	2.36	10.2	9.5	9.3
Broad sectors	Basic materials	10.4	10.9	9.5	5.3	5.3	4.8	0.96	0.90	3.18	3.17	3.40	9.7	8.5	9.2
	Machinery, autos	14.6	11.7	10.9	7.1	7.4	7.0	1.20	1.13	2.29	2.82	3.12	8.6	9.9	10.1
	Electronics	22.0	21.7	19.5	12.0	12.2	11.2	2.31	2.18	1.37	1.32	1.46	10.9	10.3	10.8
	Consumption, distribution	17.3	18.1	17.8	11.0	11.2	10.9	1.91	1.78	1.97	2.12	2.21	11.5	10.1	9.7
	Information	36.6	22.6	18.8	11.6	9.5	8.7	1.98	1.88	2.03	2.26	2.35	5.4	8.4	9.8
	Utilities, infrastructure	9.5	10.1	9.9	5.3	5.5	5.4	0.98	0.93	3.09	2.70	2.88	10.7	9.4	9.1
	Financials	12.5	10.1	9.2	-	-	-	0.75	0.72	3.58	4.03	4.41	6.0	7.3	7.6
Sectors	Chemicals	12.6	11.6	10.5	6.1	5.7	5.3	1.07	1.02	2.83	2.97	3.11	8.9	9.0	9.4
	Steel, nonferrous metals	5.5	8.5	6.6	3.1	3.9	3.4	0.63	0.59	4.95	4.13	4.74	12.2	7.2	8.7
	Machinery	20.0	18.6	17.0	11.9	11.3	10.5	1.77	1.66	1.82	1.90	2.09	9.2	9.1	9.5
	Automobiles	12.5	9.6	8.9	5.7	6.1	5.8	1.00	0.95	2.58	3.37	3.74	8.3	10.1	10.3
	Electrical machinery, precision equipment	22.0	21.7	19.5	12.0	12.2	11.2	2.31	2.18	1.37	1.32	1.46	10.9	10.3	10.8
	Pharmaceuticals, healthcare	26.2	22.9	22.2	15.2	14.2	14.0	2.36	2.27	1.88	2.04	2.13	9.5	10.1	10.0
	Food products	19.8	18.3	16.6	11.7	11.3	10.6	1.91	1.84	2.72	3.03	3.30	10.3	10.3	10.9
	Household goods	33.0	30.5	26.3	18.8	17.5	15.9	3.05	2.91	1.61	1.55	1.61	9.6	9.7	10.7
	Trading companies	7.2	8.8	9.4	5.2	5.9	6.1	1.17	1.09	3.17	3.47	3.47	17.4	12.9	11.2
	Retailing	26.7	25.9	23.5	13.2	12.6	11.7	2.76	2.45	1.17	1.29	1.40	11.0	9.7	10.1
	Services	26.1	27.6	25.9	16.5	16.6	15.9	1.83	1.61	1.21	1.21	1.25	6.7	6.3	6.1
	Software	23.6	24.5	23.6	20.1	20.5	19.9	4.05	3.72	1.90	2.01	2.06	17.8	15.7	15.1
	Media	22.6	20.0	18.8	12.8	11.9	11.4	1.70	1.62	2.26	2.36	2.42	7.6	8.3	8.4
	Telecommunications	55.8	21.9	17.0	9.3	7.3	6.6	1.56	1.50	2.09	2.39	2.50	2.8	6.9	8.7
	Construction	12.2	12.3	9.7	9.3	9.5	7.9	0.91	0.89	3.14	3.42	3.95	7.6	7.3	9.0
	Housing, real estate	10.5	10.6	9.9	7.4	7.4	7.0	1.04	0.99	3.05	3.29	3.55	10.3	9.6	9.7
	Transportation	6.7	11.8	11.4	4.3	6.1	5.9	1.13	1.09	3.45	2.27	2.33	18.3	9.5	9.2
	Utilities	-101.1	5.7	6.7	4.4	2.4	2.6	0.61	0.54	1.94	2.33	2.54	-0.6	9.7	7.8
	Financials	12.5	10.1	9.2	-	-	-	0.75	0.72	3.58	4.03	4.41	6.0	7.3	7.6
		Russell/Nomura Small Cap	15.0	14.2	13.4	-	-	-	1.00	0.97	2.37	2.48	2.47	6.8	7.0
	Russell/Nomura Small Cap (ex financials)	15.9	15.0	13.6	8.0	7.9	7.5	1.11	1.08	2.29	2.40	2.45	7.2	7.4	7.8

Note: As of 1 June 2023.

Source: Nomura

What are the Russell/Nomura Japan Equity Indexes?

The Russell/Nomura Japan Equity Indexes are Japanese equity indexes developed jointly by Nomura Fiduciary Research & Consulting Co., Ltd. and Frank Russell Company.

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
- Stocks are chosen from the whole Japanese stock market
- Because the indexes take into consideration the stable shareholding ratio, they reflect the stocks that are actually available for investment
- There are style indexes for large and small companies and for value and growth stocks
- The Prime Index consists of the top 1,000 stocks in the Total Market Index by market cap excluding stable shareholdings
- Stocks are selected quantitatively based on clearly defined criteria
- The composition of each index is reviewed once a year.

Complete details of rules for the Russell/Nomura Japan Equity Index can be found in the [Russell/Nomura Japan Equity Index Rulebook](#).

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As at 31 March 2023.

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STOCKS

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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.

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