

## Today's Topic Major Japanese Corporations' Earnings Outlook

Record high earnings is expected despite downward revision by stronger JPY and lower commodity price

### Point 1 Marginal fall in earnings in Oct.- Dec. 2015 Slowdown of manufacturers is noticeable

- Oct.-Dec. 2015 recurring profits of 216 major Japanese corporations (\*) fell marginally by -0.3% YoY. Manufacturers (135 companies) fell -8.6% YoY, while Non-manufacturers (81 companies) rose +18.7% YoY. Noticeable slowdown was seen in Industrial machinery, steel and nonferrous wires.
- Corporate earnings as a whole is trending down as Apr.-Jun. 2015 was +30.1% YoY and Jul.-Sep. 2015 was +0.1% YoY. Deteriorating commodity market and restructuring charges of Industrial machinery weighed on overall corporate earnings.

(\*) Companies included in SMAM's core research universe excluding financials. Industrial sector classification is defined by SMAM.

#### "Recurring Profits Growth Rate and Proportion of Amount Increased of Major Industrial Sectors"

(FY2016 Forecast, 5.6% earnings growth for 216 companies as a whole)

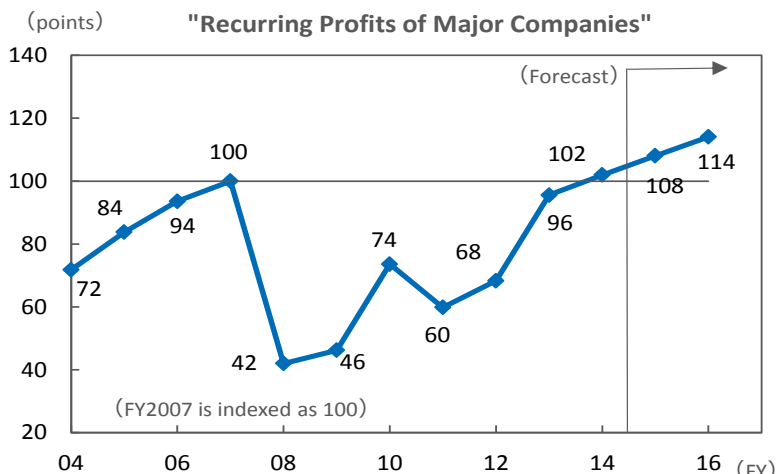
	Sector	Growth Rate	Proportion		Sector	Growth Rate	Proportion
①	Industrial elec. equip.	29%	20%	⑥	Industrial machinery	12%	8%
②	Trading	20%	16%	⑦	Iron & Steel	45%	8%
③	Automobile	4%	14%	⑧	Housing & Property	11%	7%
④	Resources & Fuels	64%	12%	⑨	Construction	17%	6%
⑤	Telecommunication	5%	9%	⑩	Nonferrous wires	33%	6%

(Note) Earnings growth rate is YoY base. Top 10 sectors in terms of proportion of earnings amount increased YoY.  
(Source) SMAM, based on publicly available data of companies.

### Point 2 Downward revision for FY2015 Renewal of record high earnings continues

- Recurring profits for FY2015 are expected to increase by +7.4% YoY due to gradual improvement by moderate expansion of the Japanese economy, low crude oil price and weaker JPY despite negative effect of commodity price declines. Although it was revised downward from +14.0% YoY (forecast in December), recurring profits for FY2015 are expected to renew the record high for another straight year.
- Downward revision was mainly led by sectors such as Trading, Resources & Fuels, Iron & Steel and Industrial electric machinery (restructuring charges of major heavy electric machinery manufacturer) due to commodity price declines. In addition, Automobile was revised downward due to decrease in demand from ASEAN countries.

#### "Recurring Profits of Major Companies"



(Note) 1. Data are from FY2004 to FY2016. Data of FY2015 and onward are forecasted by SMAM.  
2. Recurring profits of each FY are aggregate of companies whose fiscal year end fall in between June of current year and May in the following year.  
(Source) SMAM, based on publicly available data of companies.

### Future Outlook Earnings growth is expected to be 5.6% YoY in FY2016

- Recurring profits for FY2016 are expected to grow by +5.6% YoY. Despite a revise downward from +7.3% YoY (forecast in December 2015), the record high will be renewed for three consecutive years. Profit growth of Industrial machinery and Trading is expected to contribute due to reaction of temporary negative factors such as impairment loss and restructuring charges of the previous year.
- Background of downward revision was due to change in foreign exchange assumptions by corporations (from JPY120 to JPY115) and sluggish demand related to machine tools and smartphones. Rise of JPY5 against USD1 leads to about a 3% decrease in overall corporate earnings. Robust earnings growth can be expected if global economy moderately recovers without significant volatility of the foreign exchange rates.

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