



# Outlook for Japanese Economy & Stock Market

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Monthly comments & views by  
Sumitomo Mitsui DS Asset Management (SMDAM)

-April 2020-

# Executive summary

## ➤ Japanese Economy

SMDAM down-revised global real GDP forecast for 2020 from 3.1% to 1.6% as a main scenario. Lockdowns in order for containing COVID-19 pandemic are causing severe disruption in the global economy. China is expected to show recovery from Apr-Jun quarter, however, US, UK, Europe, Japan are all expected to see sharp decline in private consumption, industrial production and also private capital investments in Apr-Jun quarter. The pace of economic recovery will gradually accelerate starting from Jul-Sep quarter, however, real GDP for these advanced economy is forecast to show contraction in 2020. For Japan, GDP forecast for Jan-Mar and Apr-Jun 2020 were significantly revised-down. Japan has been relatively successful in controlling the pace of virus's spread and short-term impact on economy would be milder than other countries and regions.(Page 3,8)

- SMDAM made a simulation how global GDP develops in various cases. Common assumptions are that pandemic in China calms down in 1Q and production recovers almost fully in 2Q and 3Q. Varying assumptions are extent of lockdowns in US & Europe and level of negative impact on global consumption and global CAPEX. (Page 4)

## ➤ Japanese Stock Market

Japanese stock market is going to show a very volatile move on changing outlooks for COVID-19 pandemic situation, Japanese economy and corporate earnings. As long as Tokyo can avoid a hard lockdown, Japanese economy could fare better than US or Europe. Japanese stock valuation has reached a lower end of the historical valuation range even assuming mild EPS decline. Japanese individual investors, corporate share buy-backs are expected to support the stock market together with enlarged ETF purchasing by BOJ. (Page 18)

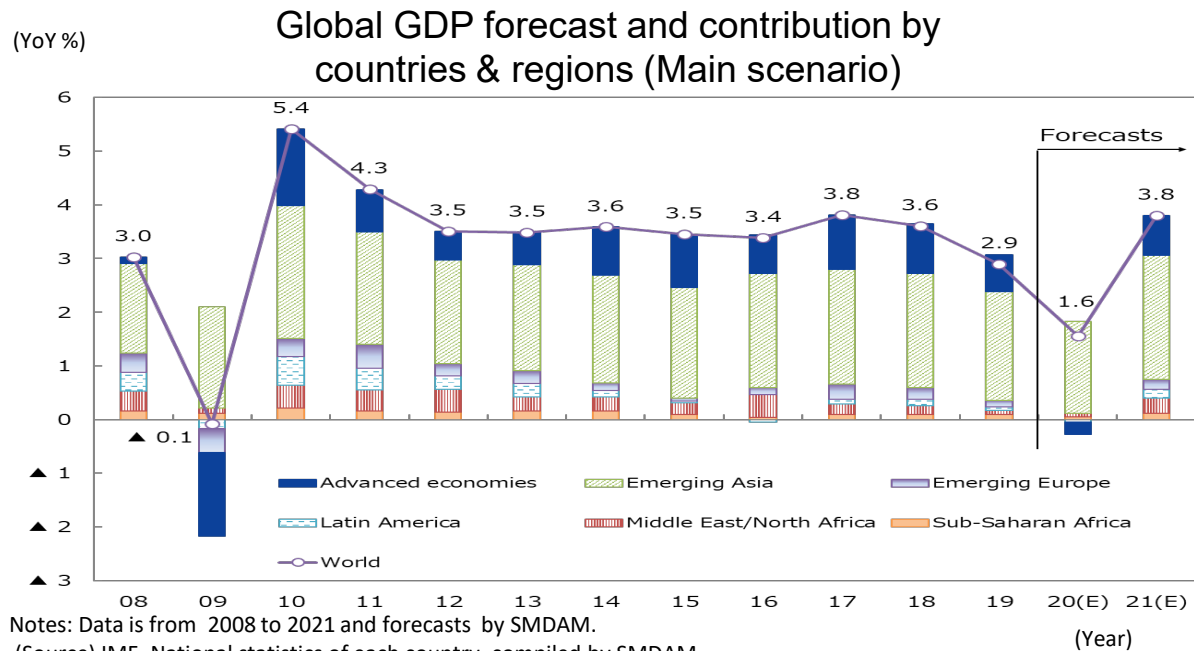
- SMDAM has made a top down estimation of how 12M forward EPS forecast ("12M-EPS") could move until Dec 2021 based on SMDAM's main economic scenario, which assumes that COVID-19 can be contained in Apr-Jun quarter and economic recovery can be expected from July. Result of the simulation could vary widely depending on the applied economic scenario, however, as an example, 12M-EPS is estimated to decline to 114 around autumn and then start to make recovery. (Page 22)



# Outlook for Japanese Economy

# Outlook for the global economy

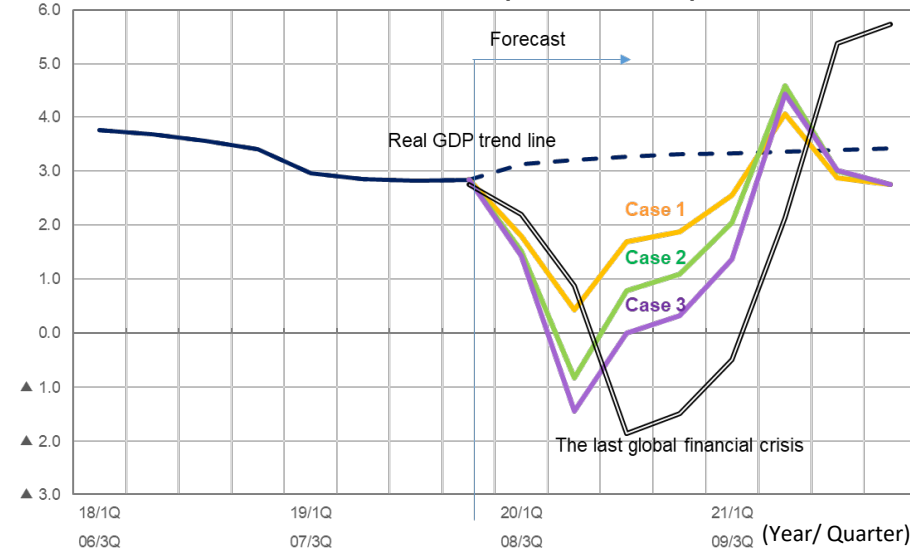
- SMDAM down-revised global real GDP forecast for 2020 from 3.1% to 1.6% as a main scenario. Lockdowns in order for containing COVID-19 pandemic are causing severe disruption in the global economy.
- China is expected to show recovery from Apr-Jun quarter, however, US, UK, Europe, Japan are all expected to see sharp decline in private consumption, industrial production and also private capital investments in Apr-Jun quarter. The pace of economic recovery will gradually accelerate starting from Jul-Sep quarter, however, real GDP for these advanced economy is forecast to show contraction in 2020.
- GDP forecast for 2021 was up-revised from 3.4% to 3.8%.



# Simulation of impact on GDP by various cases

- SMDAM made a simulation how global GDP develops in various cases. Common assumptions are that pandemic in China calms down in 1Q and production recovers almost fully in 2Q and 3Q. Varying assumptions are extent of lockdowns in US & Europe and level of negative impact on global consumption and global CAPEX.
- Black line on the chart is what happened at the last global financial crisis (GFC) started from 2008. Currently most likely scenario by SMDAM is case 1 and GDP stays positive and recovery is rather swift from 3Q.
- Even in the most severe case 3, depth is comparable to GFC, however, recovery is much faster.

Estimated impact of the pandemic on the global real GDP (YoY %)

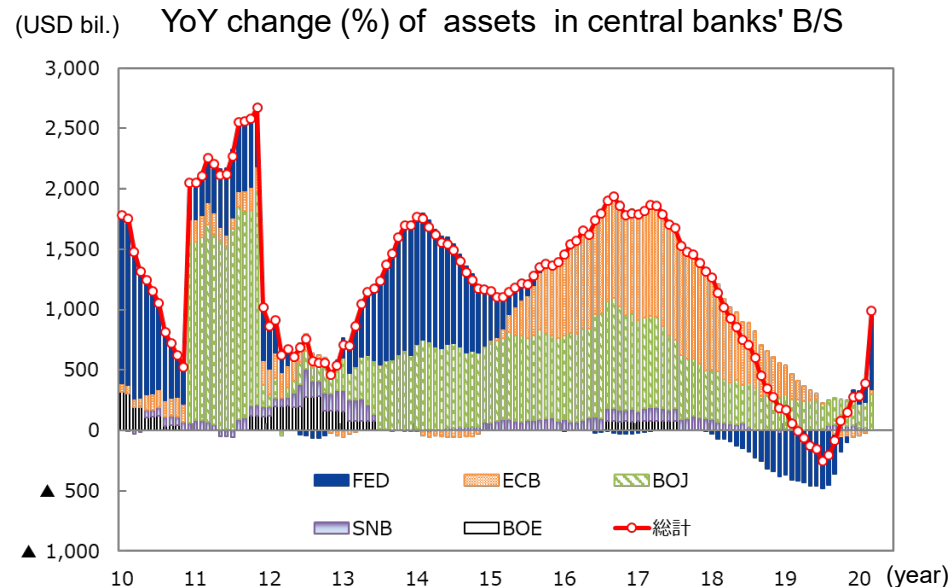


Assumptions	Case 1	Case 2	Case 3
Pandemic	Pandemic calms down in 1Q in China. Peak is in 2Q for other areas.		
Lockdown in US & Europe	Half of the total area is closed until 2Q.	Almost all area is closed until 2Q.	
Chinese economy	1Q: production -3%, consumption -5%. 2Q&3Q: production recovery full, consumption recovery 40%.		
Global consumption	Mar-Jun -2.5%. Following recovery is 50%.	Mar-Jun -5%. Following recovery is 50%.	
Global CAPEX	Mar-Jun -5%.		Mar-Jun -10%.
Global employment	Employment declines and negatively affect private consumption.		
Fiscal measures	Globally massive fiscal measures are taken.		

Note: SMDAM's estimates of new coronavirus impact on global real GDP growth calculated by using OECD Input-Output Tables. Historical Global GDP data is from IMF. GDP trend was calculated by SMDAM. Line of the global financial crisis was added by adjusting the timing when sharp decline in GDP started.  
 (Source)IMF, OECD, compiled by SMDAM

# Global central banks are in emergency mode

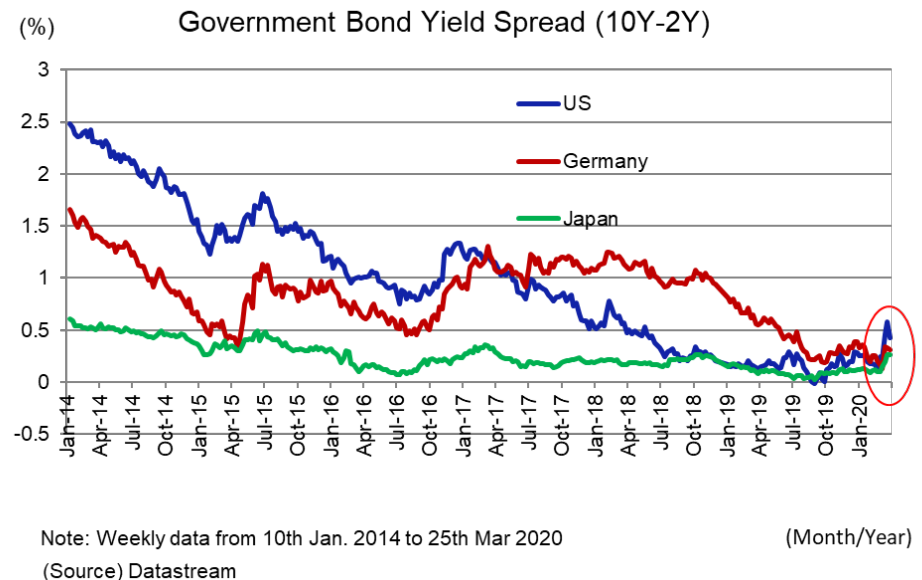
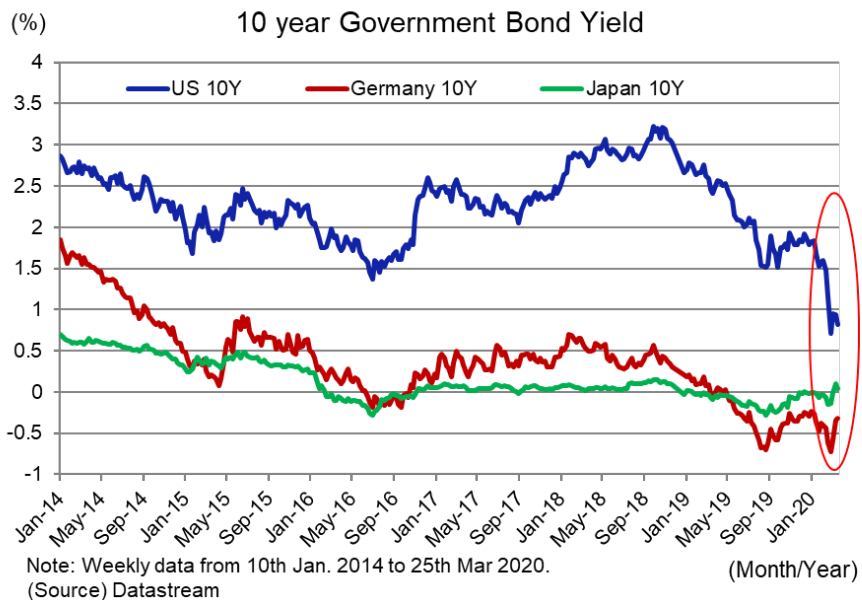
- Central banks are determined to do almost everything they can do in order for avoiding financial meltdown stemming from COVID-19 pandemic, which are causing rush for cash move. FRB returned to zero interest rate policy and substantially expanded its quantitative easing, which includes CP purchasing, in the face of widening credit spread and tighter US dollar financing. ECB and BOJ both strengthened quantitative easing. This massive monetary easing would be able to ease negative force on the global economy coming through financial side.
- Governments are also taking proper actions for sustaining demand by massive fiscal stimulus measures, which include direct compensation given to workers and companies, which are severely affected by lockdowns.



Note: Data is from Jan 2010 to 20<sup>th</sup> Mar 2020.  
(Source) Bloomberg, each central bank, compiled by SMDAM.

# Bond yields bounced back on tightening credit market and rush for cash

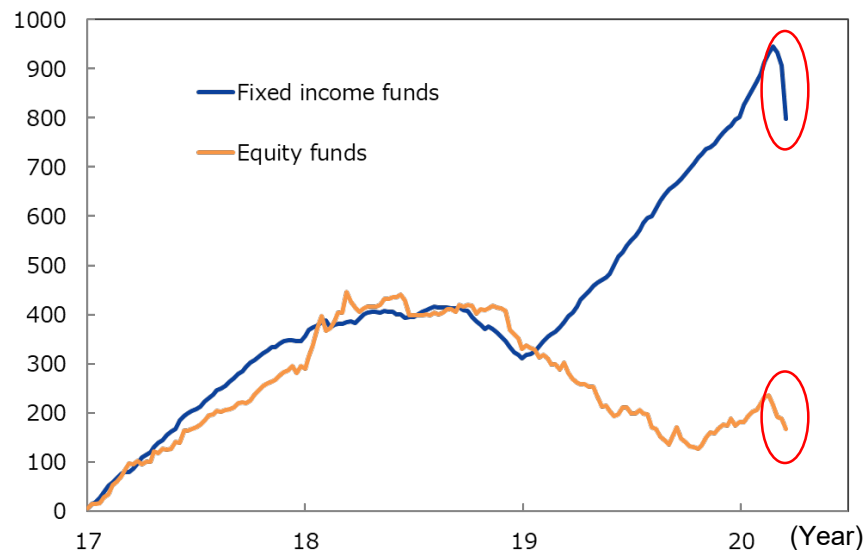
- US bond yields fell sharply as COVID-19 pandemic became a serious issue in US. Aggressive interest rate cut by FRB, falling oil price and rush for cash move in the financial market all contributed.
- However, global bond yields bounced back reflecting factors such as confusion in the financial markets, tighter financing, massive fiscal spending to offset quantitative easing and further rush for cash move.
- Yield curve is now positive, which once fell negative in US.



# Recent rush for cash move has been almost unprecedented

- Recent money outflow from fixed income funds has been quite huge.
- Inflow to equity funds ended abruptly.

Global cumulative capital flow for Unit trust / Investment trust funds (USD bil.)

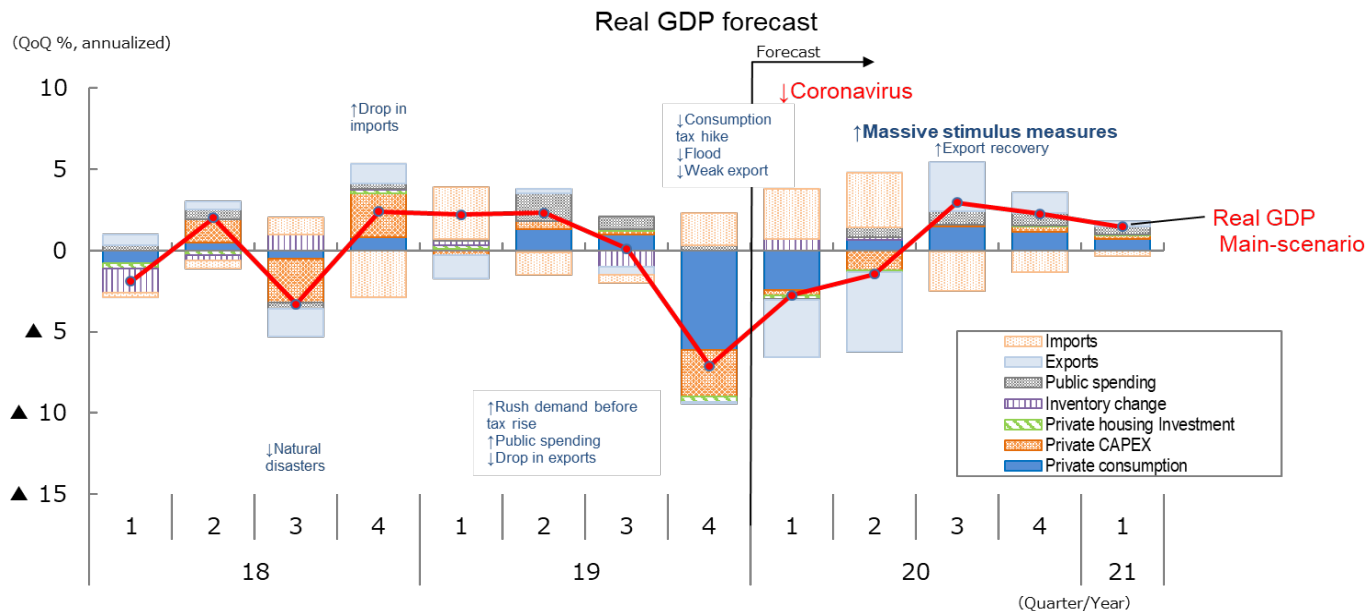


Note: Data is weekly from 4<sup>th</sup> Jan 2017 20<sup>th</sup> Mar 2020.  
(Source) EPFR, compiled by SMDAM Economic Research Department



# Japanese GDP is forecast to dip in 1Q and 2Q of 2020

- Japanese real GDP growth for Oct-Dec 2019 was revised downward by  $-0.8\%$  to  $-7.1\%$  (QoQ annualized).
- Forecast for Jan-Mar and Apr-Jun 2020 were significantly revised-down due to severe global economic disruption caused by COVID-19 pandemic. Japan has been relatively successful in controlling the pace of virus's spread and short-term impact on economy would be milder than other countries and regions.
- Tokyo Olympic Games are postponed by 1 year, which is estimated to have negative impact on Jul-Sep quarter GDP around  $-0.5\%$  (QoQ annualized), however, this negative effect will be more than offset by recovery in private consumption and exports. Massive fiscal measures are going to support the economy from 2Q 2019.



Note: SMDAM views are as of 31<sup>st</sup> Mar. 2020 and subject to updates thereafter without notice

(Source) Cabinet Office, Bank of Japan, Ministry of Economy, Trade and Industry, Ministry of Internal Affairs and Communications, SMDAM forecasts

# SMDAM Japanese economic outlook for FY19-21

- SMDAM significantly down-revised GDP forecast for FY2019 and FY2020 by -0.3% and 1.0% respectively.
- Expanding lockdown in US, Europe, UK and other countries are seriously slowing down economic activities globally. Japan has so far been able to limit the spread of covid-19 virus and people are living relatively normal life, yet significant negative effect is inevitable.
- Postponing Tokyo Olympic games by 1 year would only have around -0.1% impact on FY2020 GDP.

( YoY %)	FY16	FY17	FY18	FY19E	FY20E	FY21E
Real GDP growth	0.9%	1.9%	0.3%	-0.0%	-0.9%	1.2%
Private Consumption Expenditure	0.0%	1.1%	0.1%	-0.6%	-1.0%	1.0%
Private Housing Investment	6.3%	-1.4%	-4.9%	0.9%	-3.2%	0.6%
Private Capital Investment	-0.4%	4.3%	1.7%	-0.8%	-4.1%	1.4%
Public Consumption Expenditure	0.7%	0.3%	0.9%	2.5%	1.5%	1.2%
Public Capital Investment	0.6%	0.5%	0.6%	3.2%	3.7%	2.8%
Net Exports (contrib. to GDP growth)	0.8%	0.5%	-0.1%	-0.2%	-0.2%	0.0%
Exports	3.7%	6.4%	1.6%	-2.6%	-6.8%	3.7%
Imports	-0.9%	3.9%	2.2%	-1.5%	-5.6%	3.5%
Nominal GDP	0.8%	2.0%	0.1%	0.8%	-0.2%	1.6%
GDP Deflator	-0.2%	0.1%	-0.2%	0.8%	0.7%	0.4%
Industrial Production	0.8%	2.9%	0.3%	-3.1%	-4.6%	2.5%
CPI (excl. fresh food)	-0.2%	0.7%	0.8%	0.4%	-0.3%	0.1%

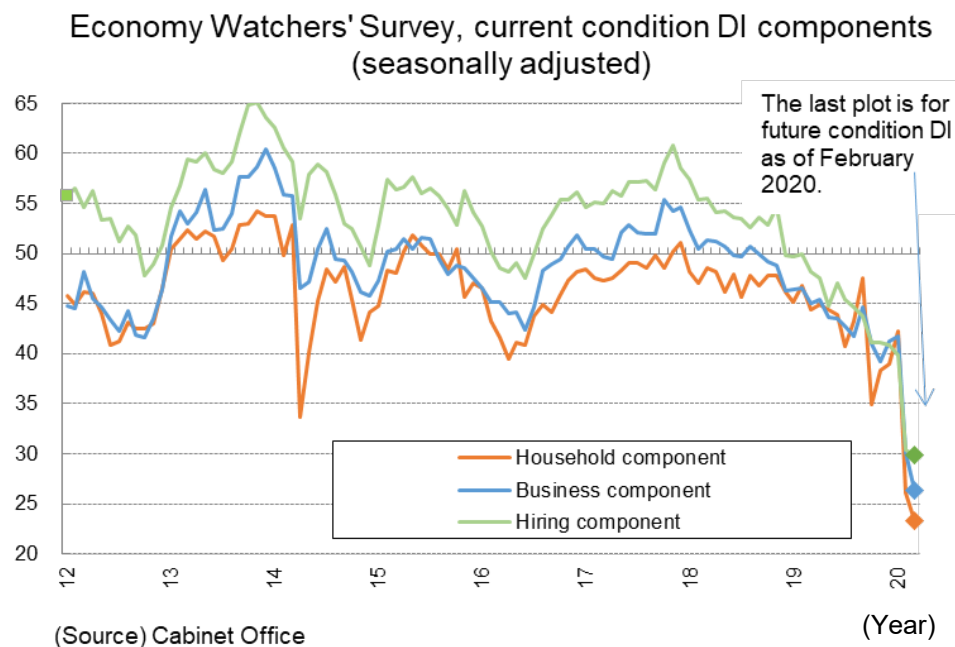
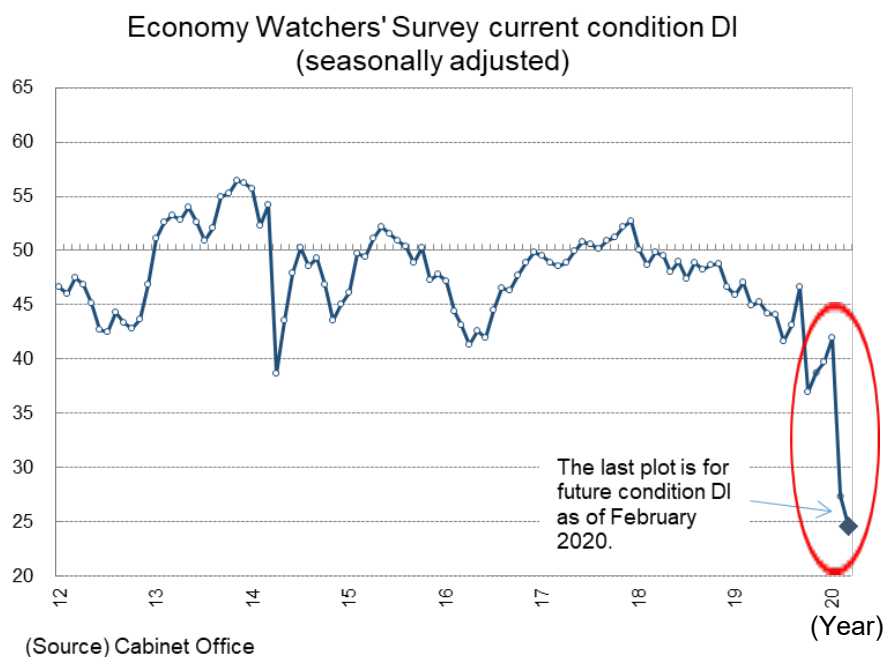
Note: E=SMDAM forecasts. SMDAM views are as of 31<sup>st</sup> Mar 2020 and subject to updates thereafter without notice

(%, YoY except Net Exports)

(Source) Cabinet Office, Bank of Japan, Ministry of Economy, Trade and Industry, Ministry of Internal Affairs and Communications, SMDAM forecasts

# Business & household sentiments deteriorated sharply with COVID-19

- Economy Watcher Survey covers people working at economic sensitive jobs. The survey until January showed recovery in current condition DI from the consumption tax hike and natural disasters. However, it sharply deteriorated again in February affected by COVID-19 pandemic.
- The survey also showed decline in future condition DI, which means people were expecting environments to get even worse in 2 to 3 months.

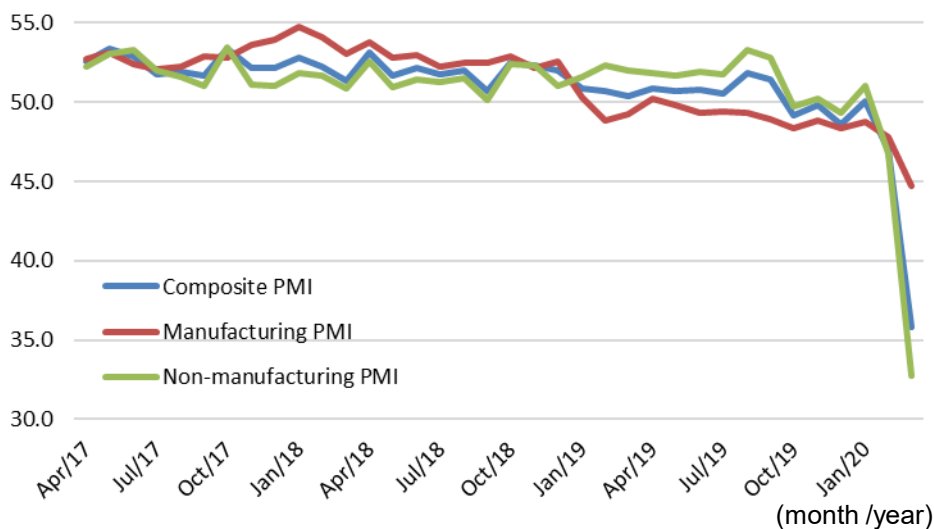


Note: Data is from Jan. 2012 to Feb. 2020. DI above 50 means condition is better than preceding 2 to 3 months.

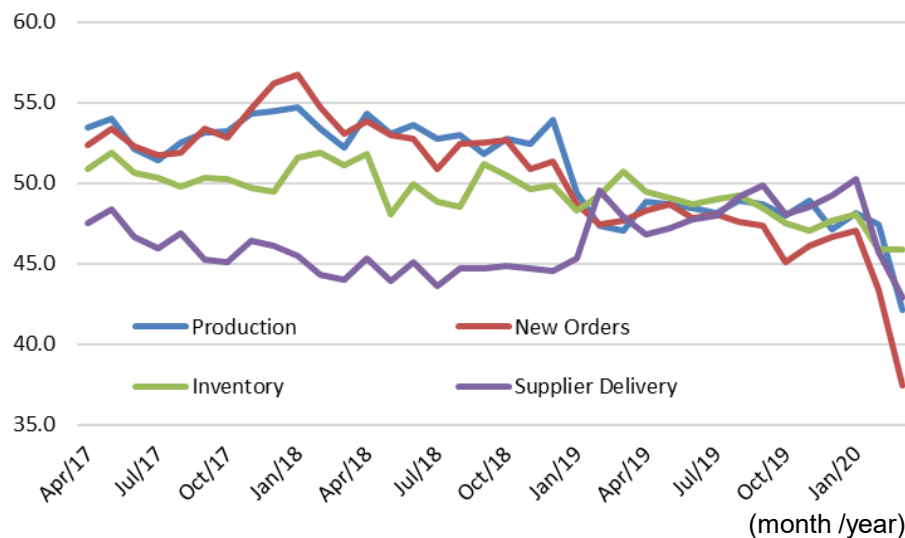
# Business sentiment showed a huge decline led by non-manufacturing side

- March non-manufacturing PMI showed historically large decline, affected by shrinking inbound tourists and evaporating sales of retailers, passenger transportation providers and others due to COVID-19 pandemic.
- Decline in manufacturing PMI was smaller than non-manufacturing. Looking into components, PMI on new orders and supplier delivery showed large decline, which indicates that disruption in global supply chain is causing trouble. As an encouraging sign, the latest PMI in China showed big recovery to above 50 level, though not included in this chart.

Japan PMI



Items in Manufacturing PMI

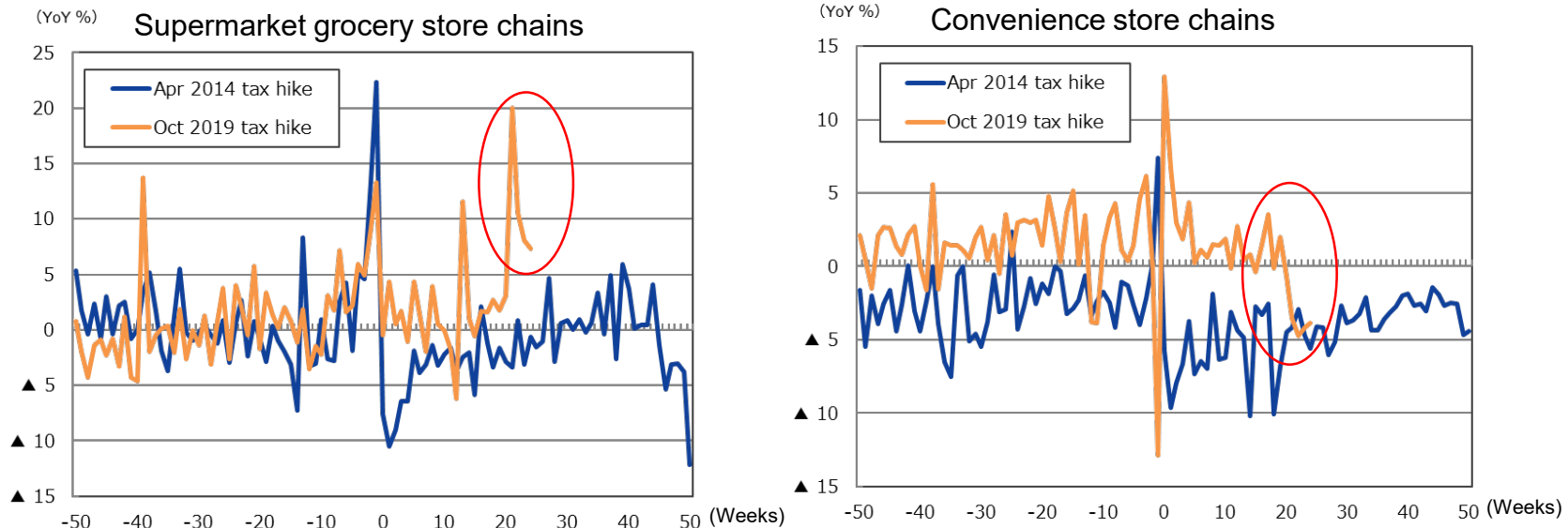


Note: Data is from Apr. 2017 to Mar. 2020.  
Source: IHS Markit, compiled by SMDAM.

# Daily sales data started to show impact of people staying home

- Ministry of Economy, Trade and Industry provides sales data derived from POS system of retailers nationwide in Japan.
- Sales of supermarket grocery store chains have substantially increased as people are eating and spending time at home. On the other hand, sales of convenience store chains dropped sharply because their sales are more dependent on people spending time outdoors. In Japan, department stores, restaurants, bars and many other entertainments are still open, but more shops are shut and their sales are facing a serious decline.

Retailers weekly POS sales data



Note: YoY sales change on weeks before and after the consumption tax hike with tax hike week = 0.

Data for Oct 2019 tax hike is up to 22<sup>nd</sup> Mar 2020.

(source) Ministry of Economy, Trade and Industry

# COVID-19 pandemic is overwhelming other events

- As a bright sign, Chinese city Wuhan is going to open again after 2 months of hard lockdown. If this can be a model case, lockdowns in US and Europe could be lifted during 2Q 2020.
- Tokyo Olympic games were postponed by 1 year to July-August 2021.

## Upcoming key events

Month	Region/Country	Events	Notes
2020 April	Japan	Work style reform legislations. (overtime limit for mid-small businesses, same job same wage principle for large businesses) Wavering education costs, such as for universities, for low income households. 1 BOJ "TANKAN" business survey 27-28 BOJ Monetary Policy Committee Meeting/ Perspective report	
	China	8 Lockdown of Wuhan city is going to be lifted	
	US	28-29 FOMC meeting	
May	US-China	25 Report on Hong Kong Human Rights and Democracy Act	
June	Japan	End of the government led incentive program for cash-less payments. 15-16 BOJ Monetary Policy Committee Meeting	
	US	9-10 FOMC meeting	
	G7	G7 summit meeting in US	
	Middle East	OPEC meeting	
Jul-Aug	Japan	Tokyo Olympic Games were postponed to Jul-Aug in 2021	
November	US	US presidential election	

(Source) Various publications, assembled by SMDAM

# Japan is still competitive in innovation, but has some weaknesses

- According to World Economic Forum, Japan was ranked 8th in innovation among 137 economies, which is still competitive, however on a moderate declining trend. As a strength, R&D in Japan is largely led by companies and producing the largest number of patents in this ranking.
- On the weak side, however, this company led R&D tends to be “progressive” rather than “innovative” and often lacks in global collaboration. Government initiative on innovation is stronger in economies such as US, Germany Singapore and China.
- Facing with strong global competition in developing key technologies such as AI or Autonomous Driving Technology, Japanese companies are changing approach to more open and more collaborating with global partners.

Global Competitiveness Ranking of Innovation among 137 economies

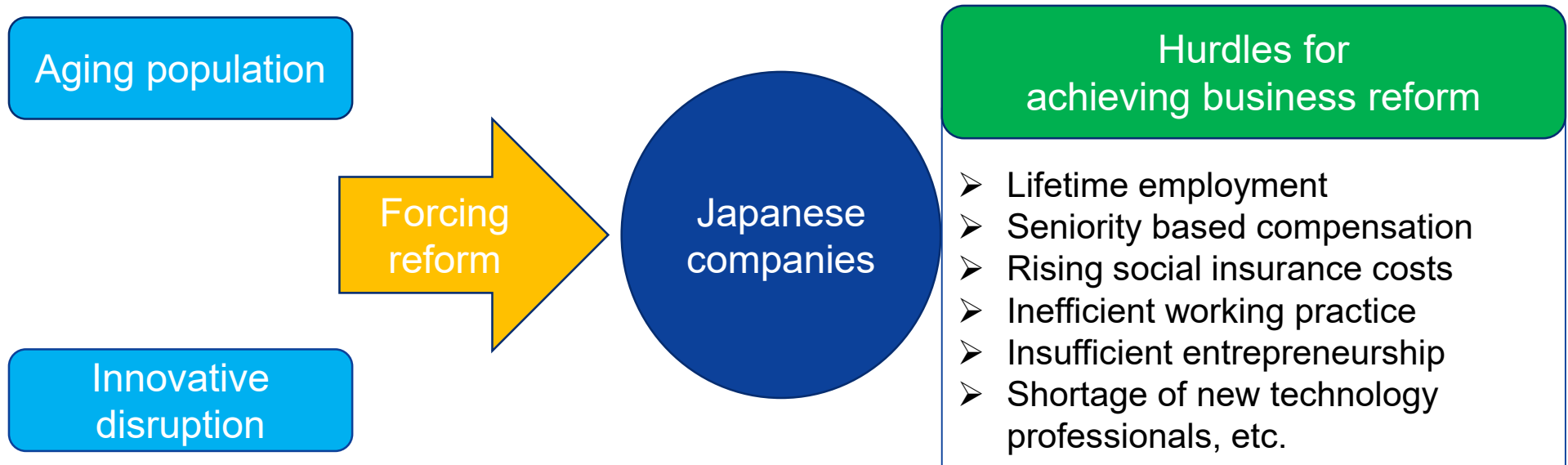
	Switzerland	U.S.	Israel	Finland	Germany	Netherlands	Sweden	Japan	Singapore	Denmark	China
Innovation total	1st	2nd	3rd	4th	5th	6th	7th	8th	9th	10th	28th
a) Capacity for innovation	1	2	3	7	5	6	4	21	23	16	44
b) Quality of scientific research institutions	1	5	3	8	11	4	13	14	12	16	36
c) Company spending on R&D	1	2	3	7	4	8	6	5	17	16	21
d) University-industry collaboration in R&D	1	2	3	4	7	5	10	23	8	21	28
e) Gov't procurement of advanced technology products	37	2	11	20	6	19	17	23	5	39	10
f) Availability of scientists and engineers	12	2	6	1	11	19	20	8	9	44	29
g) PCT patents	3	10	6	4	7	9	2	1	12	8	30

Note: All numbers are rankings among 137 economies. Top 10 rankings are highlighted in green. Japan's relative weakness is highlighted in orange.

(Source): World Economic Forum, The Global Competitiveness Report 2017–2018

# Japanese society is changing slowly but steadily

- It may look slow or even stagnant from outside, but Japanese society is making necessary reforms.
- Many problems are stemming from deep rooted Japanese culture & social practice, which became apparent in the face of “aging population” and “innovative disruption”.
- Change of the deep rooted culture & practice should take time, however, it is making progress, and will eventually put Japan in an advantage over other advanced economies, which also have aging population lagging Japan.





# Japanese society is changing slowly but steadily

## ■ Examples of long-term social challenges and progressing solutions

Source of problems	Challenges	Solutions
1. Aging population	a) Pension system reform	<ul style="list-style-type: none"> <li>● Unconventional "macro-slide" has been implemented to curb pension payment increase referring to "low birth rate" and so on.</li> <li>● Encourage people to continue working into 70's.</li> <li>● Encourage people to shift saving to investments. (NISA*, DC)</li> </ul>
	b) Labor shortage	<ul style="list-style-type: none"> <li>● Capital investment for enhancing labor efficiency. (FA, AI, IoT, autonomous driving car, renovating software, etc. )</li> <li>● Allowing more foreign workers.</li> <li>● Encourage people to delay retirement.</li> <li>● Support female workers. (increase nursery, etc.)</li> </ul>
2. Weak consumption propensity	c) Clearing peoples worry for the future life	<ul style="list-style-type: none"> <li>● Pension system reform.</li> <li>● Gradual adjustment of seniority based wage system to shift compensation from elderly to younger workers.</li> <li>● Increase of new generation companies.</li> <li>● Increase of young people working with non-seniority wage system.</li> </ul>
3. Rigid employment practice	d) Encouraging business structure reform	<ul style="list-style-type: none"> <li>● Elder people to retire or continue working at lower wage.</li> <li>● Gradual adjustment of seniority based wage system.</li> <li>● More fluid labor market enabling companies to make restructuring.</li> <li>● Young people are not expecting lifetime employments and focusing on building own career (already progressing).</li> </ul>
4. Inefficient working practice	e) Enhancing labor efficiency	<ul style="list-style-type: none"> <li>● Work style reform to progress.</li> </ul>
5. Insufficient entrepreneurship	f) Enhancing "challenge spirit" g) Education reform	<ul style="list-style-type: none"> <li>● Increase of successful new generation companies.</li> <li>● Increase of young people with skills of new technologies.</li> <li>● Young and talented people choose new generation companies rather than old &amp; large firms (already progressing).</li> </ul>
6. Shortage of new technology professionals		

Note: \*NISA is "Nippon Individual Savings Account". (Source) SMDAM



# Outlook for Japanese Stock Market

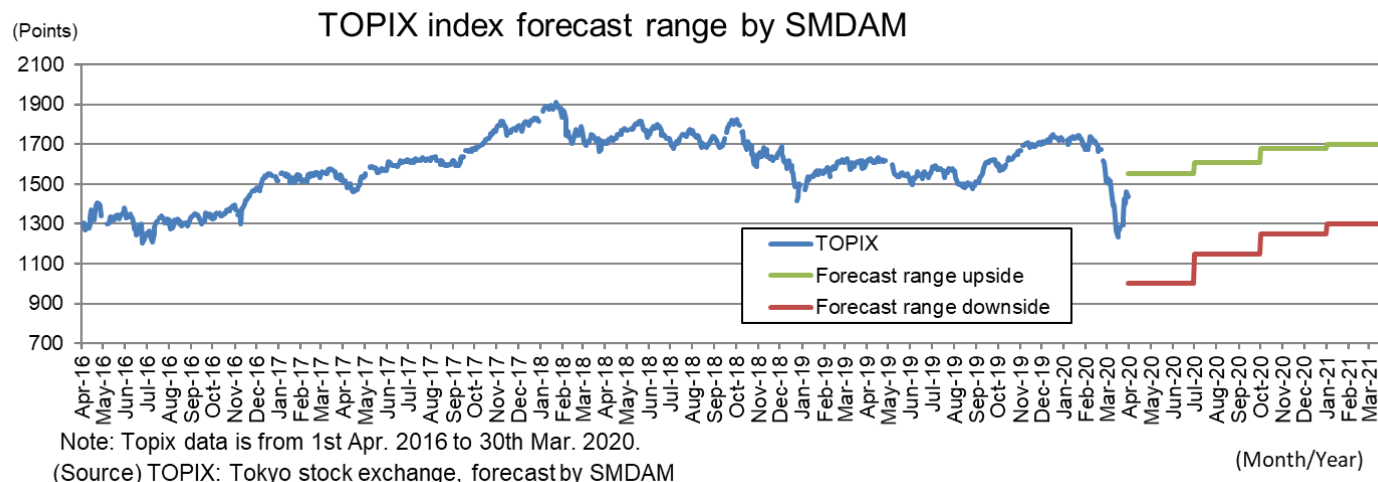
# Japanese stock markets are weighed on by temporal negative events

## ■ SMDAM short-term view

➤ Japanese stock market is going to show a very volatile move on changing outlooks for COVID-19 pandemic situation, Japanese economy and corporate earnings. As long as Tokyo can avoid a hard lockdown, Japanese economy could fare better than US or Europe. Japanese stock valuation has reached a lower end of the historical valuation range even assuming mild EPS decline. Japanese individual investors, corporate share buy-backs are expected to support the stock market together with enlarged ETF purchasing by BOJ.

## ■ Longer-term outlook (6-months and beyond)

➤ COVID-19 pandemic is expected to ease in 2Q 2020 and global economy is forecast to start recovery from 3Q 2020. China has already shown stronger than expected recovery in production, and US and Europe are expected to follow with a lag of a couple of months. Covid-19 infection in Japan has been milder than other areas and as long as Japanese major cities such as Tokyo can avoid lockdowns, Japanese economy will be able to return to a growth path rather swiftly when global economy starts recovery.



Note: SMDAM's projection is as of 31<sup>st</sup> Mar. 2020 and subject to updates without notice.

# Base scenario & Upside / Downside risks for our forecasts

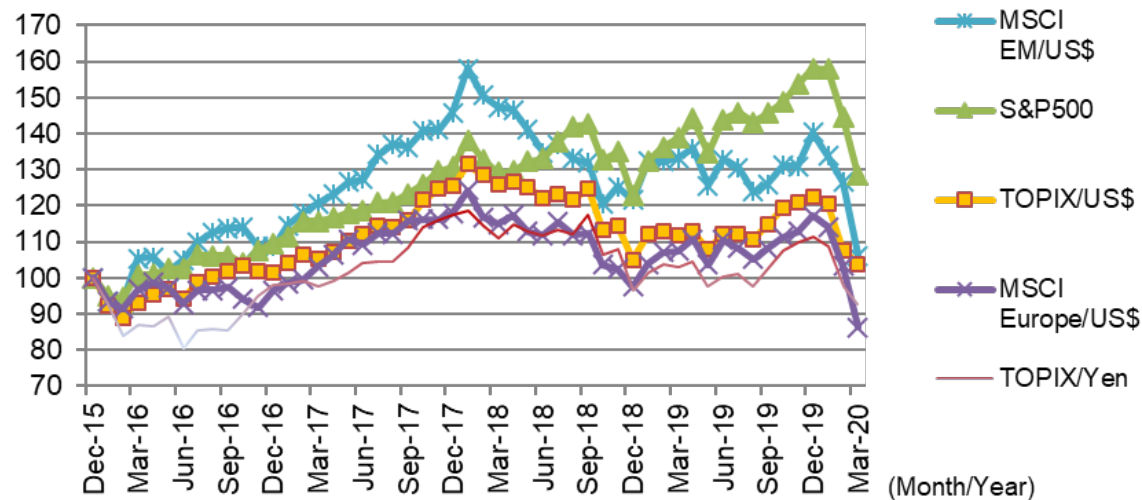
- Our **Base Scenario** is assuming the following views:
  - Lockdowns are lifted in 2Q 2020 and COVID-19 pandemic is contained by summer.
  - Tokyo avoids hard lockdown and pandemic's impact on economic activity in Japan stays less severe than US or Europe.
  - Severe tensions between US and China go on, however, US is going to avoid making a fatal blow to the global economy.
  - US economy contracts in 2Q and start to make recovery from 3Q 2020.
  - Japanese yen does not get extremely stronger beyond 100 yen against US\$.
  - Tension in the East Asia or Middle East does not get out of control.
  - Central banks continue massive monetary easing and also large fiscal spending is made globally.
- **Upside Risks** include:
  - Outlook for COVID-19 pandemic gets brighter by such as progress in developing vaccine or drugs.
  - US and China make significant concessions in the trade negotiations.
  - Stronger-than-expected global growth.
  - Denuclearization in Korean peninsula makes a visible progress.
  - Japanese economy gets stronger than expected boosted by large fiscal spending.
- **Downside Risks** include:
  - COVID-19 pandemic continues throughout 2020. China, once seemed to have contained the virus, forced to lockdown cities again.
  - Global economy falls into a serious recession comparable to the last global financial crisis.
  - Trade negotiation between US and China completely breaks up igniting a decades of power struggle.
  - Seriously escalating geo-political tensions in Middle East & East Asia.
  - Political turmoil flares up in US running up to US presidential election in 2020.
  - Populism gains in Europe further destabilizing EU.

Note: SMDAM's projection is as of 31<sup>st</sup> Mar. 2020 and subject to updates without notice.

# Global stock markets have plunged on COVID-19 pandemic

- Stock market in US and Europe fell sharply reflecting deepening impact of lockdowns.
- Pandemic situation in emerging Asia looks milder than US or Europe, however, emerging currencies have been hit hard by strengthening US dollars, and such emerging Asian countries' economy may have to experience COVID-19 impact as severe as US and Europe.
- Japan fell hard in late February and 1<sup>st</sup> half of March, and then made a sizable recovery towards the end of March, probably due to comparably controlled COVID-19 situation so far.

US\$ based performance of stock markets (Dec 2015=100)

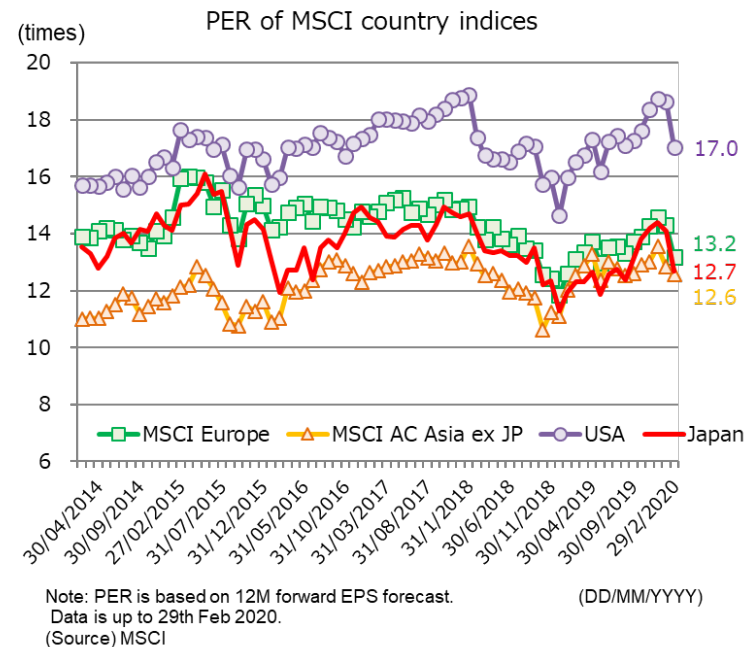
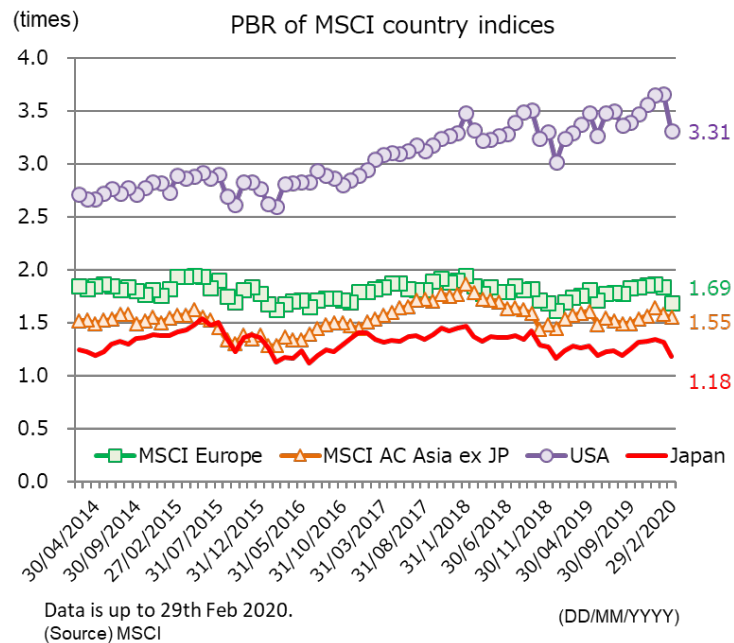


Notes: Data is up 30th Mar. 2020.

(Source) Datastream, MSCI and Tokyo Stock Exchange, compiled by SMDAM.

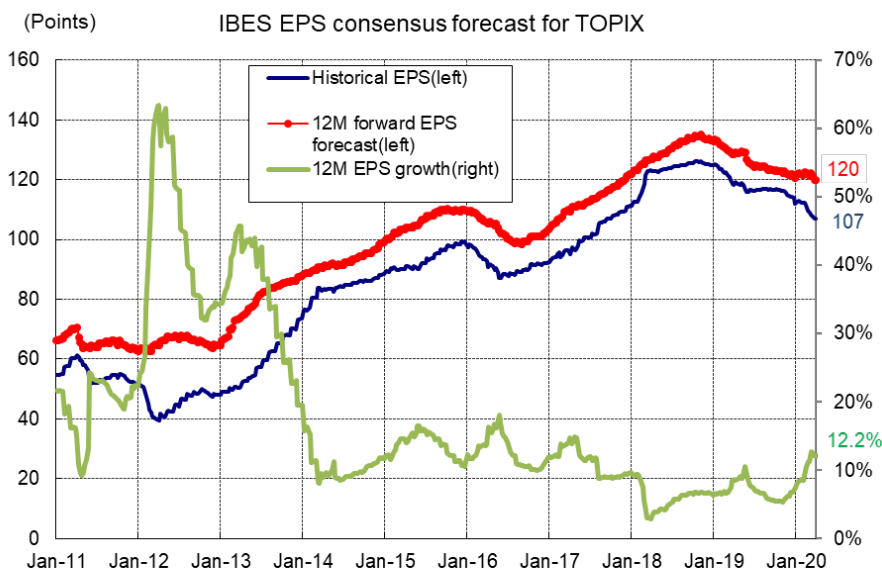
# PBR for Japan came down close to 1, which is attractive in long-term

- Exhibited charts are up to the end of February and do not include fall in share prices in March.
- PER (price to earnings ratio) needs to be read carefully since earnings forecast is getting less reliable.
- PBR (price to book value ratio) for Japan are now close to or once went below 1, which means that market value of the companies are close to or even under book value, which looks attractive in the long term.



# Downward earnings revision is still to come

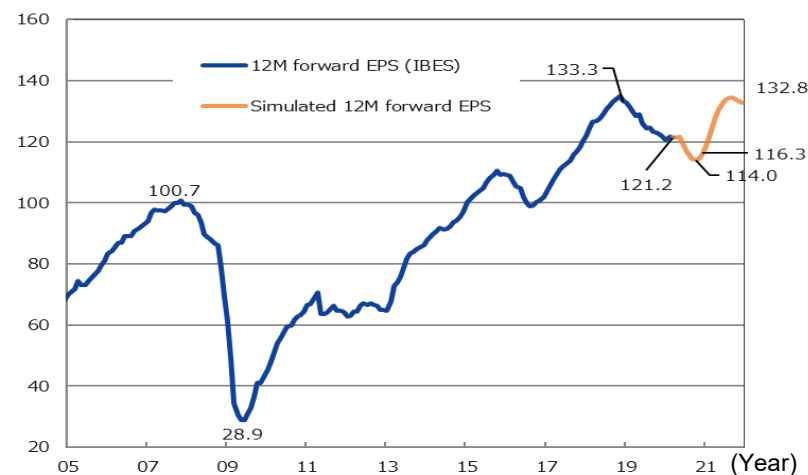
- On the left hand chart, the pace of decline in 12M forward EPS forecast (“12M-EPS”) is very much lagging the pace of historical EPS. Analysts are left behind the rapidly deteriorating reality and large downward revision is inevitable.
- On the right hand chart, SMDAM has made a top down estimation of how 12M-EPS could move until Dec 2021 based on SMDAM’s main economic scenario, which assumes that COVID-19 can be contained in Apr-Jun quarter and economic recovery can be expected from July. Result of the simulation could vary widely depending on the applied economic scenario, however, as an example, 12M-EPS is estimated to decline to 114 around autumn and then start to make recovery. Simulated 12M-EPS is 116.3 and 132.8 at Dec 2020 and Dec 2021 respectively.



Note: Weekly data from 3rd Jan. 2011 to 30th Mar. 2020. (Month/Year)

(Source) Datastream, IBES

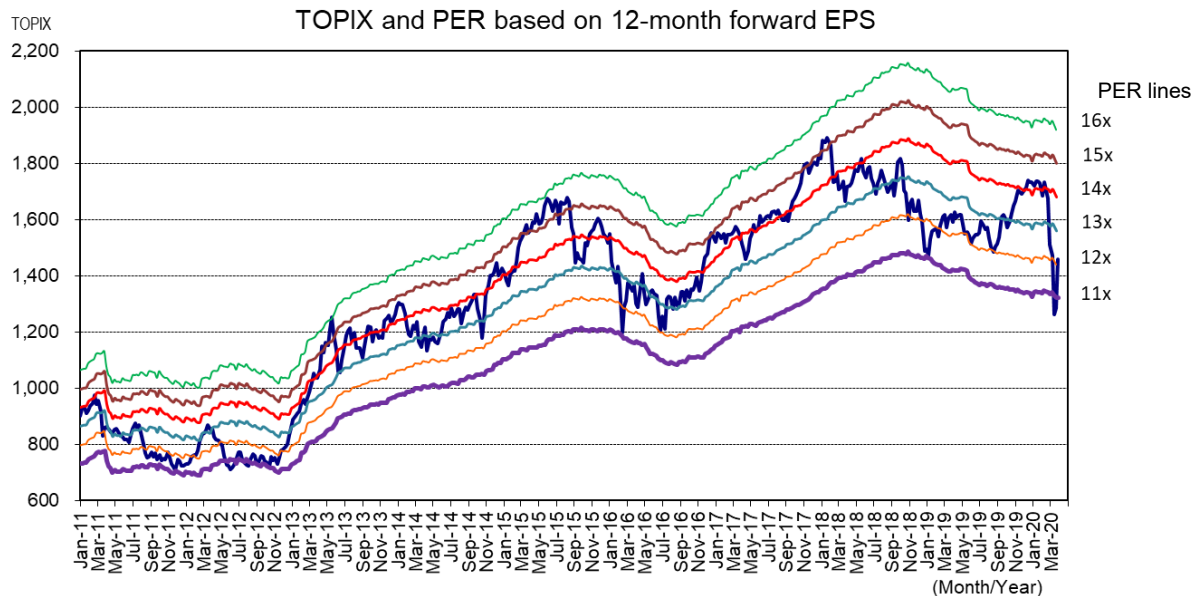
A simulation of estimated 12M forward EPS for TOPIX



Note: The simulation is based on SMDAM original trade momentum index and IBES consensus 12M forward EPS. Future EPS forecast was exponentially estimated by the course of future trade momentum set by SMDAM’s economists using main economic scenario. IBES data is as of 20<sup>th</sup> Mar 2020.  
(Source) IBES, simulation by SMDAM

# Japanese stock market looks fairly valued considering SMDAM's main scenario

- PE ratio (PER) for TOPIX bounced back from the recent slump under 11 times and came back to 12 times which had been the lower end of the trading range since 2013. However, this is based on the current consensus EPS forecast, which is bound for downward revision going forward as discussed in the previous page.
- Assuming the simulated 12M-EPS on the previous page and taking 114 as the bottom, and also assuming the lower end of the historical trading range of 12 times PER, corresponding TOPIX is calculated as 1368, which is not far from the current level of TOPIX. Stock prices tend to overshoot and SMDAM's economic scenario could be wrong, but this could be of some help in thinking about stock market valuation.

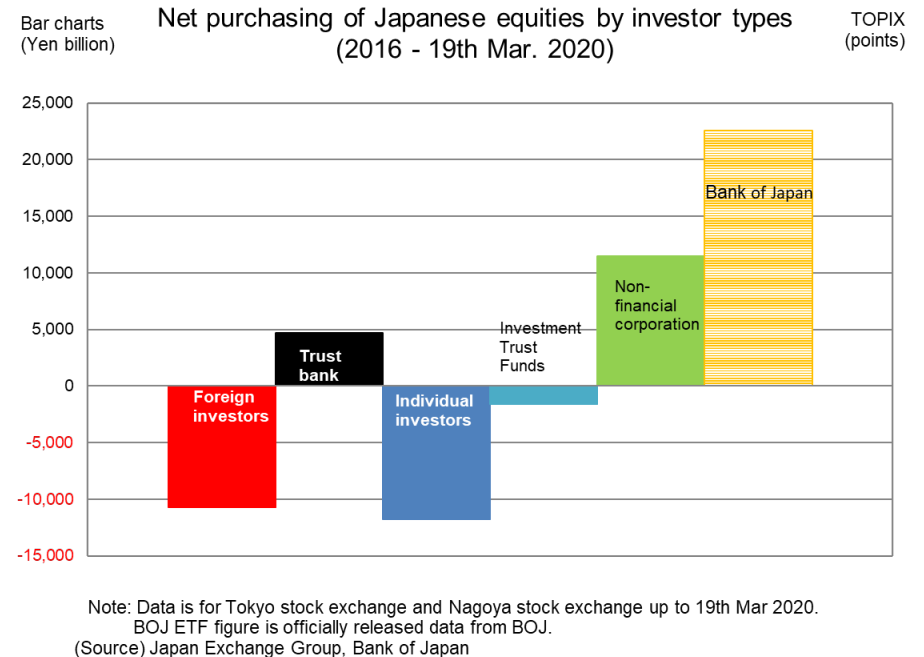
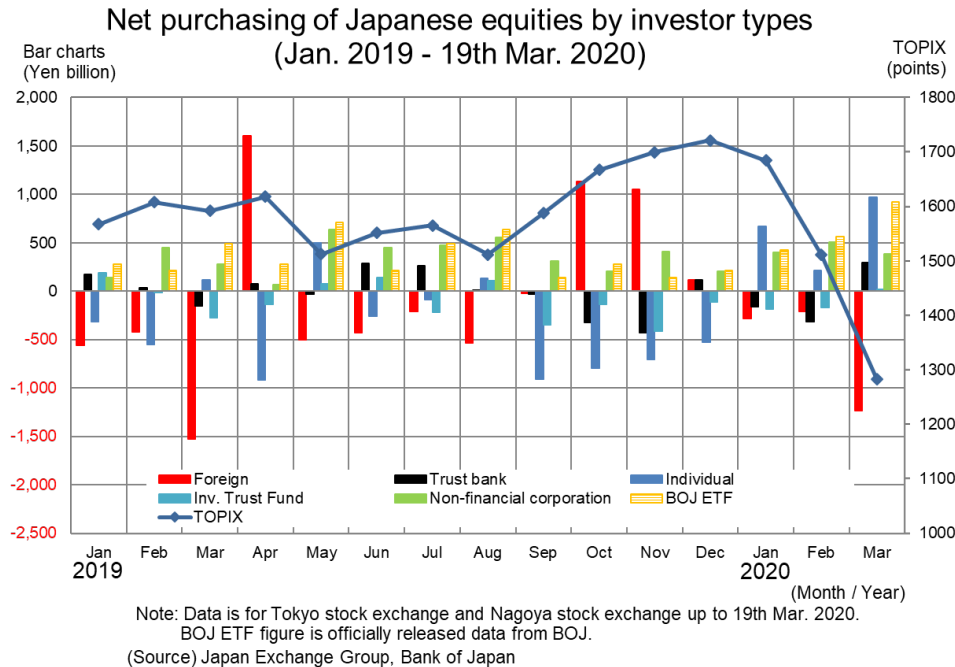


Note: Data is weekly from 5th Jan. 2011 to 27th Mar. 2020. TOPIX was 1459.49 at the end of the period.  
(Source) Tokyo Stock Exchange, Datastream and IBES, compiled by SMAM



# Japanese individuals and BOJ came in purchasing equities

- Sell off by foreign investors brought Japanese stock markets sharply down from late February into March.
- Individual investors came in rather strongly purchasing stocks in such a collapse in stock prices and also BOJ bought Japanese equity ETF aggressively after increasing budget. Existence of such domestic buyers together with constant share buy-backs from companies are encouraging for the outlook of Japanese stock markets.



# Advancing Corporate Governance Code and Stewardship Code

- Stewardship Code (SC) was set in February 2014. Investors are taking more pro-active approach in talking to the companies and exercising proxy voting rights. Financial Services Agency discloses the name of institutional investors, which publicly accepted SC.
- After inception of Corporate Governance Code (CGC) in June 2015, pressure has been increasing on companies to improve its governance, efficiency and shareholder returns.
- These two codes have been progressively reviewed and enhanced, and making visible impact on the corporate behavior and investors' attitudes as shareholders.
- Nikkei Newspaper reported lately that SC would be reinforced in April 2020 requiring investors to evaluate ESG factors.
- In the most recent amendment of CGC, companies are required to explain the rationale of “cross holdings” or “strategic holdings” of other companies' shares, which implicitly provide protection against takeovers and hostile shareholder actions, and is often negative for achieving shareholder value.

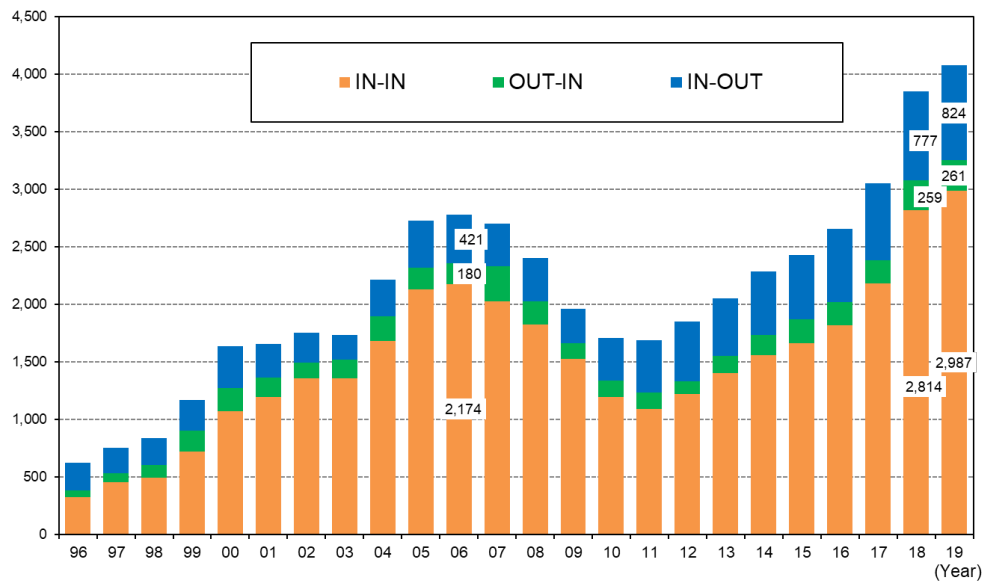
Total number of institutional investors, which publicly declared acceptance of the stewardship code	
Trust banks	6
Investment management companies	177
Insurance companies	23
Pension funds	35
Others (include proxy voting advising companies)	7
Total	248

Note: As of 8th May 2019.  
(Source) Financial Services Agency

# Business restructuring is progressing for Japanese companies

- Japanese companies are getting more and more willing to make positive business restructuring.
- Number of M&A deals between Japanese companies (IN-IN) rose from 2,174 in 2006 to 2,814 in 2018 and further to 2,987 in 2019, which is an evidence that business restructuring is progressing in Japan.
- Number of the deals of Japanese companies acquiring overseas businesses (IN-OUT) also rose from 421 in 2006 to 777 in 2018 and further to 824 in 2019.

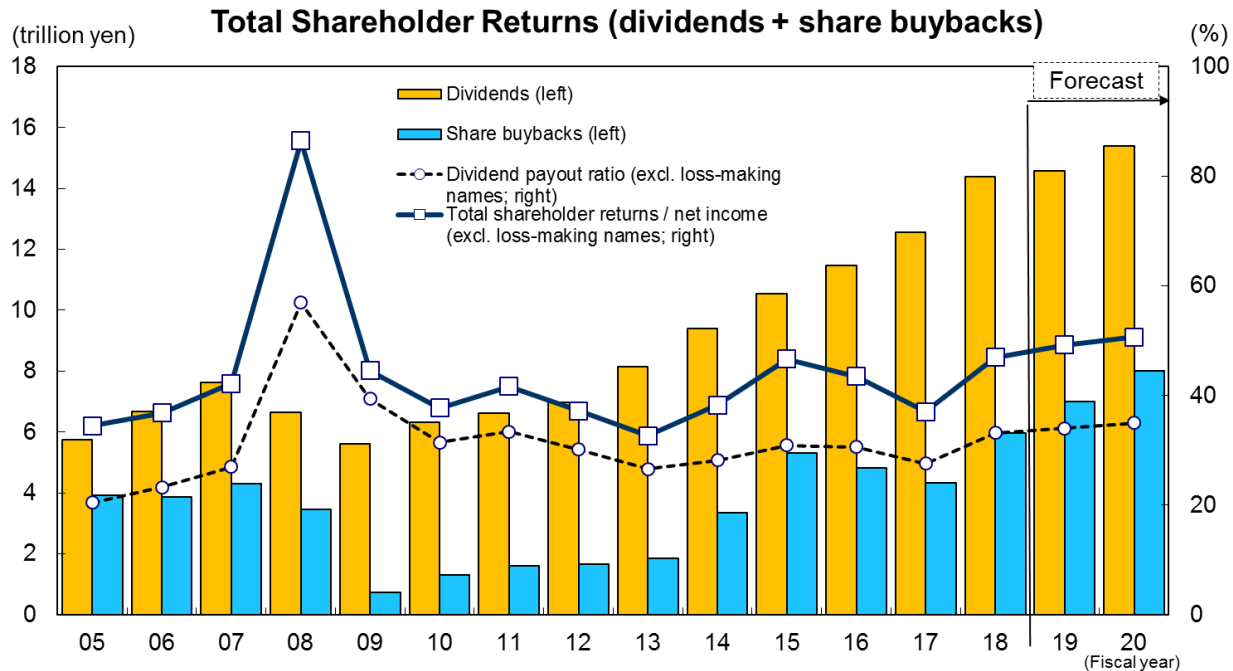
Number of M&A deals involving Japanese companies  
(Excluding transactions among the same business group)



Note: IN-IN means Japanese company acquiring Japanese one, OUT-IN is for Non-Japanese company acquiring Japanese company, and IN-OUT is for Japanese company acquiring non-Japanese company.  
(Source) RECOF and SMBC NIKKO Securities.

# Behavior of Japanese companies are making positive changes

- Share buyback is getting popular among Japanese companies as one of the powerful tools for disposing of accumulated liquidity in the B/S and enhancing EPS growth as well as ROE.
- Dividends also renewed historical record in FY2018 and expected to increase further in FY2019 and onwards.



Note: All listed firms. Dividend projections are Toyo Keizai estimates, share buybacks forecast is by Daiwa Securities. Data as of Aug 2019.  
 (Source) Toyo Keizai, QUICK, INDB, compiled by Daiwa Securities.

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