

Today's Topic Major Japanese Corporations' Earnings Outlook

Corporate earnings expansion spurred by weakening JPY and falling crude oil price

Point 1 Sharp earnings increase in 2Q Attributed to weaker JPY, falling crude oil price and consumption recovery

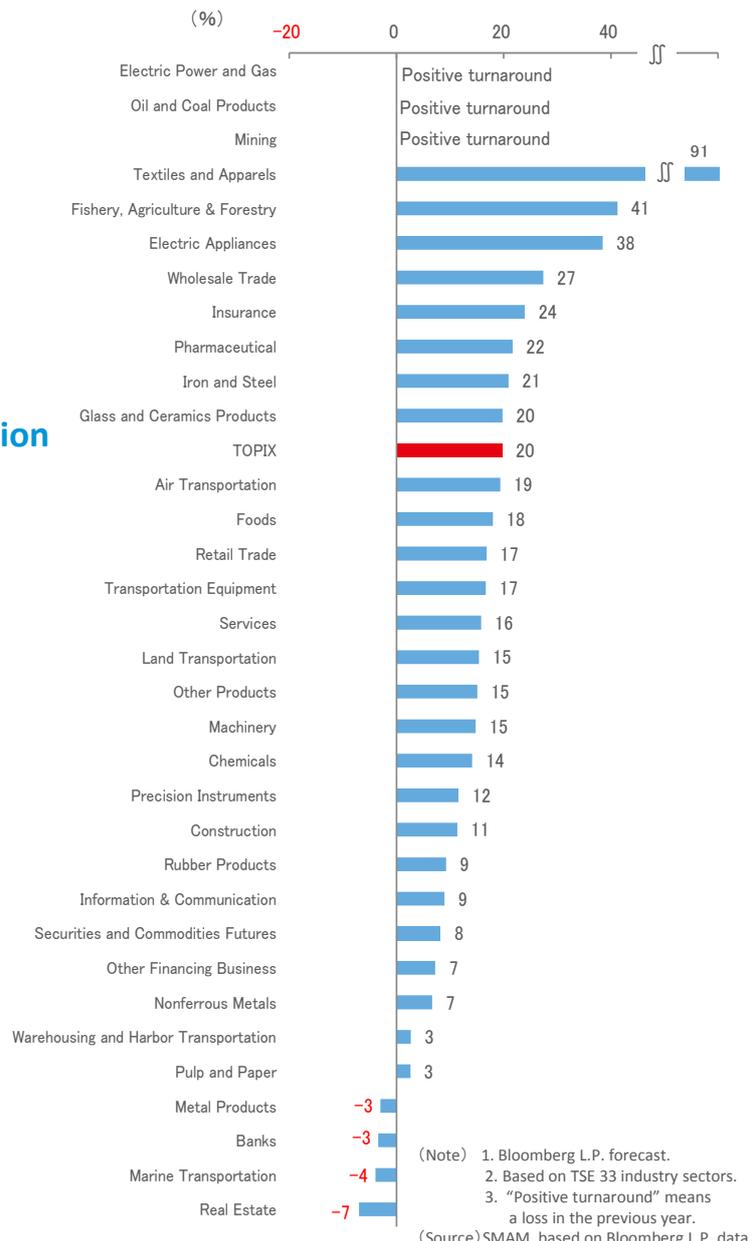
- April-June 2015 earnings per share based on TOPIX (Tokyo Stock Exchange Price Index) is estimated to rise sharply by + 40.3% YoY. Export margin improvement by weakening JPY, raw material & fuel cost decrease by falling crude oil price and domestic consumption recovery contributed largely to the increase in corporate earnings. In addition, expansion of inbound consumption by foreigners in Japan underpinned consumption recovery.

Point 2 Both export and domestic demand related sectors saw earnings expansion

Upward earnings revision is expected if current level of USD/JPY rate continues

- Earnings growth is expected across multiple industry sectors for the April-June period. Electric Power & Gas, Textiles & Apparels, Pulp & Paper, Chemicals benefited from crude oil price fall and export related sectors such as Transportation Equipment (Automobile, etc.) and Electric Appliances saw sharp earnings growth. Earnings of domestic demand related sectors such as Foods, Pharmaceuticals, Retail Trades and Land Transportation also saw buoyant growth.
- Industry as a whole is forecasted to record a 20% earnings growth for 2015. Even though earnings for the whole industry was revised upward for the April-June period, many companies kept their 2015 annual guidance unchanged. Their guidance is conservative, reflecting uncertainty in the Greek situation and the Chinese economic slowdown. Once the situation improves, an upward revision can be expected. Also, upward revision of earnings can be expected if the current level of USD/JPY rate continues, as the rate used for the guidance is around 115 JPY against USD.

"2015 Earnings Increase Rate by Industry Sectors (YoY)"



Future Outlook Stock price rise is expected following corporate earnings expansion

- Concerns over the Chinese economic downturn seems to be limited since the government is implementing additional monetary easing, fiscal stimulus measures and currency depreciation to support their economy. Meanwhile, the Greek situation seems to be settling down.
- Growth of corporate earnings even after the July-September 2015 period may be possible if crude oil price and currency exchange rate maintain their current levels. Stock prices are expected to rise following an expansion in corporate earnings.

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