

Expanding Shareholder Returns and Remaining Challenges

Encouraging Progress, But Still a Long Road Ahead

October 27, 2025

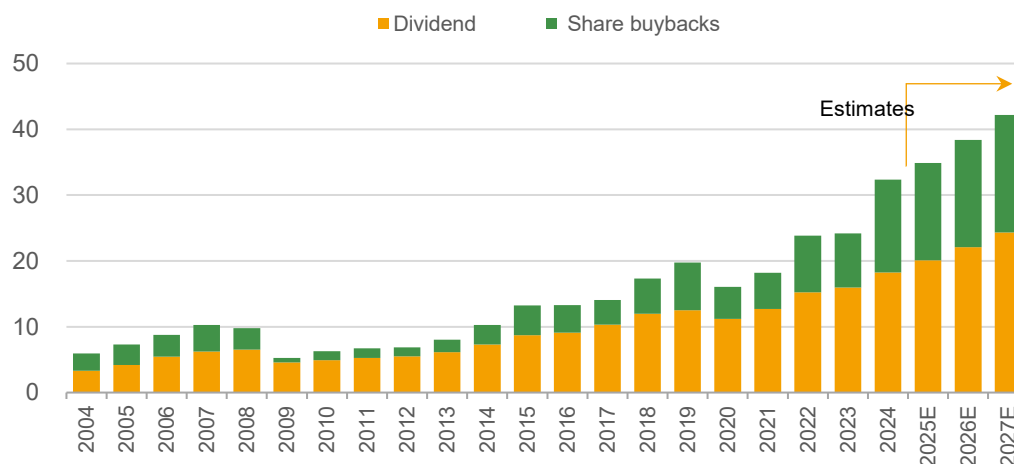
The Ongoing Expansion of Shareholder Returns Is One of the Highlights of Japan's Stock Market

The interim financial results announcements for companies with March fiscal years are now in full swing. October–November is typically the second-busiest period for share buyback announcements after April–May. Furthermore, as interim results often include upward revisions to full-year company forecasts, many share buyback and dividend increase announcements are expected alongside financial results releases.

The expansion of shareholder returns is particularly pronounced in the Japanese stock market. The sharp increase in share repurchase authorization launches for 2024 attracted significant attention. While the previous year's (2023) authorization reached a record high of ¥9.6 trillion for the second consecutive year, the 2024 authorization nearly doubled that, reaching ¥18 trillion. So far in 2025, the pace is already exceeding that of 2024. The fiscal year 2024 full-year financial results, settlement of accounts announcement season (for companies with March fiscal year-ends), spanning late April to mid-May 2025, coincided with the immediate aftermath of the Trump administration announcing high tariffs on Japan and other trading partners. Concerns arose that heightened uncertainty might lead more companies to postpone announcing share buybacks. However, the actual announcements revealed launch of buyback programs exceeding the previous year's levels, delivering a positive surprise as a strong demonstration of corporate commitment to shareholder returns. Furthermore, while in the past a small number of companies launching large buyback limits often drove up the overall figures, recently the number of companies conducting share buybacks has steadily increased, showing progress in terms of breadth. Dividends also continue to show robust growth. This can be seen as one of the notable advances in governance reform, accelerated by the Tokyo Stock Exchange's request in 2023.

Shareholder Returns Are Expected to Maintain Solid Growth

(trillion Yen)



※ Based on Cash Flow; Universe: TOPIX Constituents; FY2025–2027 Figures Are Daiwa Asset Management Estimates

Source: FactSet; Compiled by Daiwa Asset Management

Shareholder returns are expected to maintain solid growth going forward. While corporate earnings may stagnate in fiscal 2025 due to the impact of tariffs, growth is projected to accelerate in fiscal 2026 as those effects subside, and thereafter, strong profit growth is likely to continue, supported by robust nominal GDP growth. Cash and deposits remain at high levels, indicating ample room for further returns. In addition, from the perspectives of governance reform and capital efficiency, pressure to increase returns is expected to persist. Combined share buybacks and dividends reached ¥32 trillion in fiscal 2024 and are forecast to rise to ¥42 trillion by fiscal 2027.

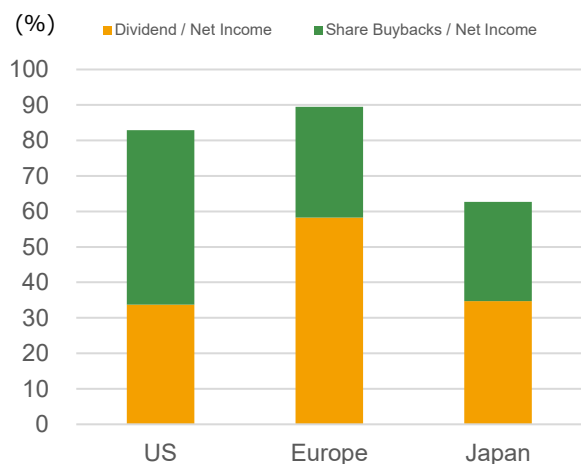
An Inconvenient Truth

In Japan's equity market, which is awash with both positive and negative factors, shareholder returns stand out as a bright spot. However, many challenges remain. While the amount of shareholder returns is increasing, much of this growth is driven by EPS expansion. In other words, shareholder returns have risen in line with EPS growth, but companies' proactive commitment to returns is still insufficient. Although the ratio of share buybacks to net income has increased, TOPIX's dividend payout ratio has barely risen, and the pace of expansion in the total payout ratio remains sluggish. Compared with Europe and the US, the level is still low.

Looking at cash and deposit balances for TOPIX constituents, fiscal 2024 was flat year-on-year. This marks a step forward from the steady increases seen over the past decade, but given persistent criticism that Japanese companies hold excessive cash, it suggests that cash utilization—whether for growth investments or shareholder returns—remains inadequate. Among index constituents (excluding financials), the proportion of companies with a net cash position (cash exceeding debt) is 57% for TOPIX 500, compared with 18% for the US S&P 500 and 21% for Europe's STOXX 600 (as of end-September 2025).

Despite progress in governance reform, TOPIX's ROE has stagnated in recent years, fueling skepticism among some overseas investors toward Japanese equities. From fiscal 2021 to fiscal 2024, EPS rose by 36%, yet TOPIX's ROE increased by only 0.2 percentage points. While positive changes such as unwinding cross-shareholdings are evident, further balance sheet reform is needed. The fact that challenges remain also means there is ample room for improvement going forward. We look forward to further progress.

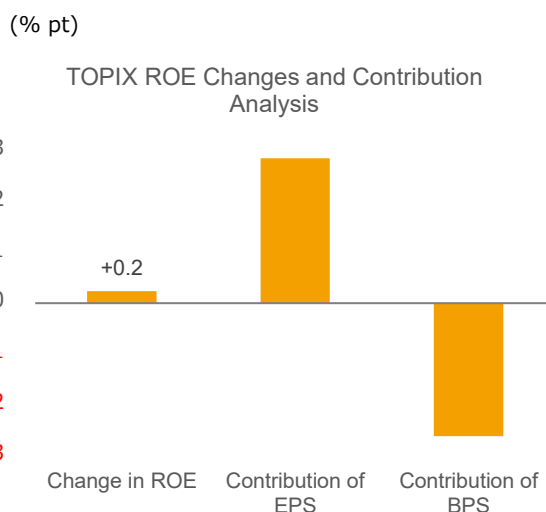
Japan Lags Behind Europe and the US in Total Payout Ratio



※ US: S&P 500, Europe: STOXX 600, Japan: TOPIX 500
Fiscal Year 2024

Source: FactSet; Compiled by Daiwa Asset Management

More Aggressive Utilization of Cash and Deposits will Boost TOPIX ROE



※ Changes in ROE and Contribution Breakdown from FY2021 to FY2024

Source: FactSet; Compiled by Daiwa Asset Management

The Cash Hoarding Problem (Excessive Accumulation of Cash and Deposits)

The 'Action Program 2025 for Substantive Corporate Governance Reform,' published on June 30, stated that consideration will be given to clarifying the responsibility for verifying and explaining whether cash and deposits are being effectively utilized for investments and other purposes. Against the backdrop of Japanese companies' cash holdings continuing to rise over an extended period, the issue of whether companies are accumulating excessive cash (the Cash Hoarding problem) has emerged as a topic for discussion. On October 21, the first expert panel meeting on revisions to the Corporate Governance Code was held, and attention to the Cash Hoarding problem is expected to increase.

As shown in the chart at the lower left, Japanese companies' cash holdings have indeed grown significantly over the past 15 years. The ratio of cash and deposits to total assets, which used to be roughly comparable to that of Europe and the US, is now about twice as high.

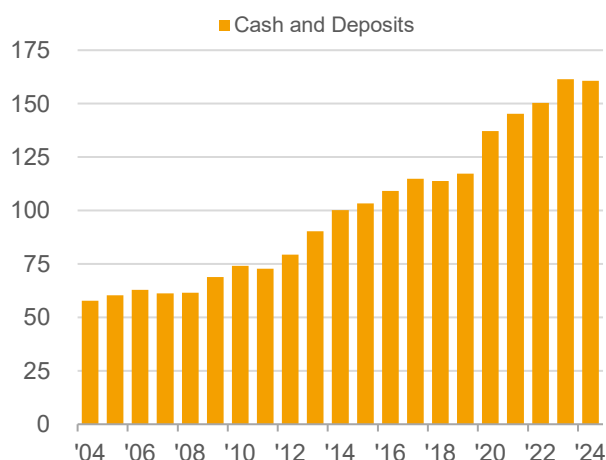
It is important to note that discussions at the expert panel have taken place in the context of improving earning power and ensuring appropriate allocation of management resources. The aim is not to indiscriminately criticize cash holdings or to simply push for stronger shareholder returns. Some participants expressed views that cash holdings serve as resources for future investment or as a buffer against deteriorating business conditions.

That said, if cash is increasing as a result of not being used for growth or returns, pressure on companies to make more active use of cash will intensify. Unlike in the deflationary era, in an inflationary environment, the value of cash holdings erodes over time. Expansion of growth investments—such as M&A, capital expenditures, R&D, and human resources—to enhance corporate value is expected, but at the same time, if cash holdings remain excessively high, pressure to strengthen shareholder returns will also increase. Of course, returns should not come at the expense of growth, but given current cash levels, there appears to be ample room for increased returns.

Alongside progress in corporate governance reform, investor and shareholder interest seems to be expanding beyond cash and equity holdings to a broader range of assets, including unrealized gains. If companies are perceived as failing to utilize assets effectively, pressure will mount to either deploy them for growth investments or return them to investors.

Corporate Cash Holdings Have Continued to Increase Over an Extended Period

(trillion Yen)

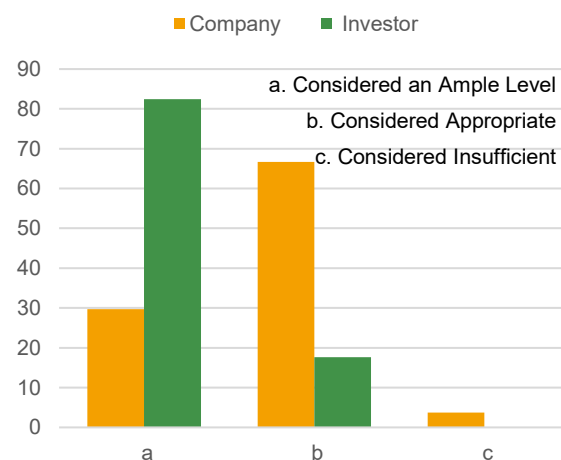


※ Includes Cash Equivalents; Latest Value Is for FY2024

Source: FactSet; Compiled by Daiwa Asset Management

A Gap in Perception Between Companies and Investors on Cash Holding Levels

(%)



※ Survey Results on Initiatives to Enhance Corporate Value (FY2024 Edition)

Source: Japan Life Insurance Association; Compiled by Daiwa Asset Management

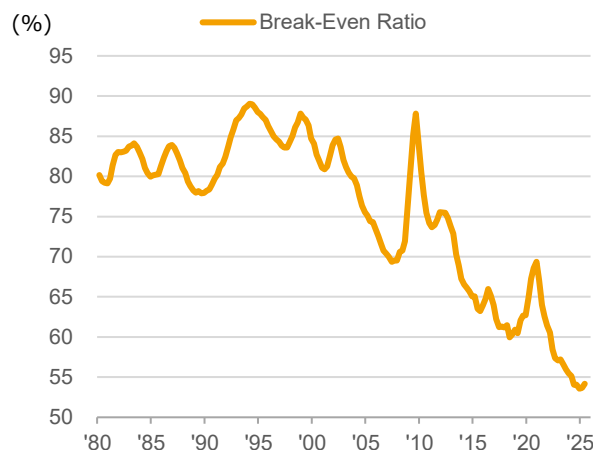
Japanese Companies Are Becoming More Resilient to Shocks

Determining the optimal cash holding ratio for companies is challenging. Financial stability is important and maintaining a certain level of cash as a contingency is necessary.

However, it is worth considering that the profitability of Japanese companies has increased significantly over the past 10–20 years. Data for large corporations with capital of ¥1 billion or more show that the break-even ratio has fallen well below levels seen in the 1980s and just before the Lehman shock, and the downward trend continues.

If Japanese companies have become more resilient to shocks, it may be reasonable to assume that the required level of cash holdings does not need to be as high as before.

Break-Even Ratio Has Declined Significantly



※All industries (excluding Financial and Insurance), companies with capital of ¥1 billion or more

Source: Ministry of Finance; Compiled by Daiwa Asset Management

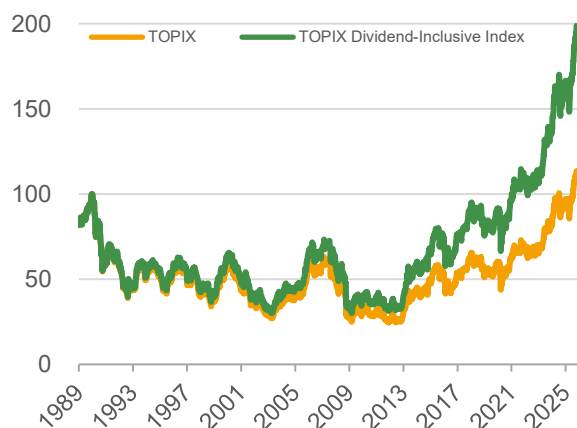
Rising Dividends Are Drawing Individuals into the Stock Market

As individuals become increasingly positive toward equity investment, the expansion of shareholder returns—particularly dividend growth—serves as a strong tailwind. Many of the top NISA purchases are high-dividend large-cap stocks, reflecting Japanese investors' preference for yield-oriented products. Therefore, if dividend increases lead to higher dividend yields, individuals are likely to find equities more attractive.

In July 2024, TOPIX finally surpassed its bubble-era high. However, the TOPIX Total Return Index (including dividends) had already exceeded its bubble-era peak in early 2021, and by July 2024, it was about 70% higher than that level. As dividends rise, total returns including dividends are expected to expand further. Reflecting the upward trend in dividends, the return gap between TOPIX and its total return index continues to widen.

(Written by: Kazunori Tatebe, Research Department)

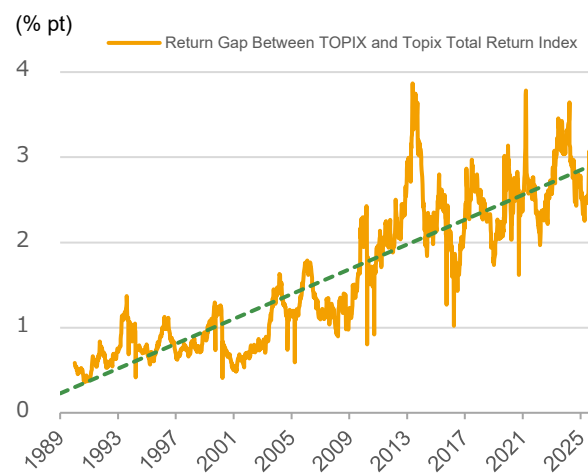
TOPIX Total Return Index Surpassed Bubble-Era High in Early 2021



※Indexed to 100 at the Beginning of 1990

Source: Bloomberg; Compiled by Daiwa Asset Management

The Return Gap Between TOPIX and Its Total Return Index Continues to Widen



※ Difference in 52-Week Stock Price Returns

Source: Bloomberg; Compiled by Daiwa Asset Management

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