

Chief Strategist
Kazunori Tatebe



FY2025 Third-Quarter Earnings Summary

Solid earnings momentum underpins the bullish market trend

Actual 3Q Earnings Exceeded Consensus Forecasts for Decline

From late January through mid-February, March fiscal-year-end companies released their FY2025 third-quarter (October–December, hereafter “3Q”) earnings results. Among March fiscal-year-end constituents of the TOPIX 500, 54% of companies exceeded analyst consensus estimates by more than 5%, significantly surpassing the 24% that fell short of estimates by more than 5%. The ratio of positive earnings surprises exceeded that recorded in the strong 1Q (48%) and 2Q (50%) earnings seasons, indicating that companies continued to meaningfully outperform expectations even as analysts steadily raised forecasts and the earnings hurdle rate increased. Consensus expectations had projected declines in TOPIX 3Q recurring profit and net profit of -4.6% and -8.9% YoY, respectively, reflecting factors such as tariff-related headwinds. Actual results, however, substantially outperformed analyst forecasts, with recurring profit and net profit increasing by $+3.2\%$ and $+3.7\%$ YoY. This outcome has further strengthened expectations for earnings growth in the next fiscal year.

From a sectoral perspective, financials, domestic demand-oriented sectors, and AI-related industries made the most notable positive contributions on a YoY basis. Supported by rising interest rates, favorable market conditions, and the disposal of cross-shareholdings, banks, insurance, and securities firms recorded sizable profit growth and delivered significant upside surprises relative to consensus estimates. Against the backdrop of sustained inflation and robust nominal GDP growth, earnings in construction and real estate were also strong. In addition, AI-related sectors benefited from expanding demand for generative AI and data centers, resulting in solid earnings performance. Pharmaceuticals and SoftBank Group, which returned to profitability from a loss in the prior-year period, also contributed positively. Conversely, sectors with the largest negative YoY contributions included transportation equipment—heavily affected by tariff impacts—as well as shipping and steel. While transportation equipment posted the largest absolute decline in earnings among sectors, it simultaneously recorded the largest positive deviation versus consensus expectations, partly reflecting particularly strong results from Toyota Motor Corporation.

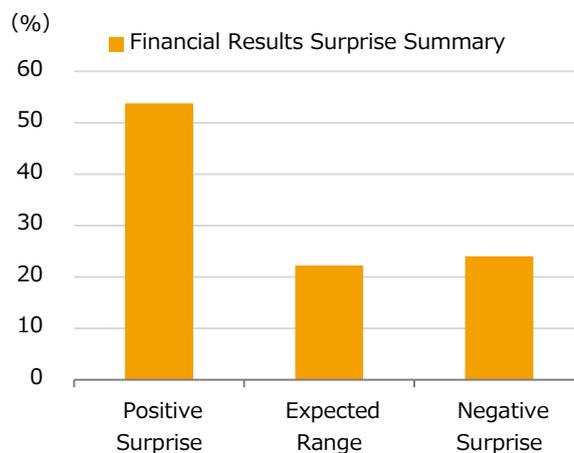
3Q results beat consensus expectations, posting earnings growth



※ For companies that report their financial results in March in the TOPIX, 3Q analyst forecasts are Consensus

Source: FactSet; Compiled by Daiwa Asset Management

Positive surprises dominated in the 3Q financial results



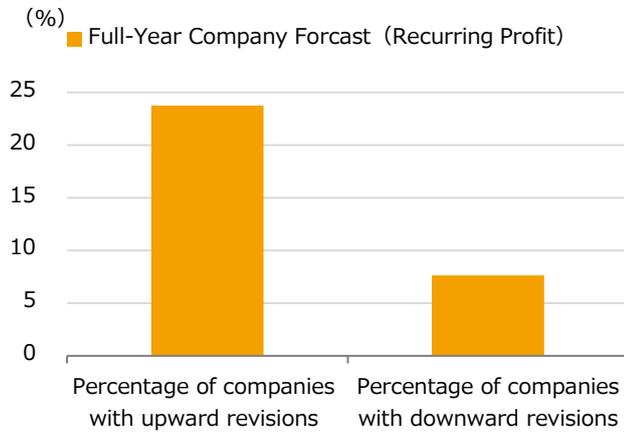
※ When actual recurring profits deviate by more than 5% from analyst forecasts surprise is calculated, March fiscal year-end companies comprising the TOPIX 500

Source: FactSet; Compiled by Daiwa Asset Management

Regarding full-year company guidance (recurring profit), 24% of companies revised their forecasts upward, compared with only 8% that issued downward revisions. Overall, full-year company plans were revised upward by 3.4%. The TOPIX earnings revision index has remained in positive territory, and in light of the strong 3Q earnings season, further upward revisions to analyst forecasts are expected.

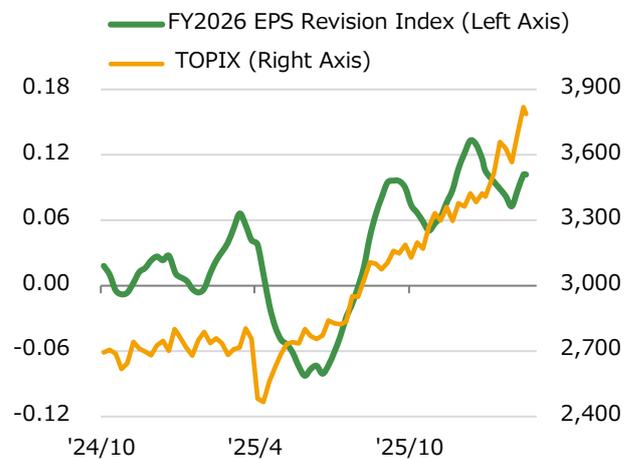
In the foreign exchange market, volatility has remained elevated, and since late January the Japanese Yen has appreciated against the US Dollar. Nevertheless, corporate assumed exchange rates are generally set in the high-JPY 140 range, suggesting that a buffer remains relative to current spot levels. While analysts' assumed exchange rates are likely more Yen-weak than corporate assumptions, given the currently robust macroeconomic environment, we believe that unless the Yen appreciates at an exceptionally rapid pace, the risk of a material deterioration in corporate earnings is unlikely to increase significantly.

Upward revisions dominate full-year company guidance



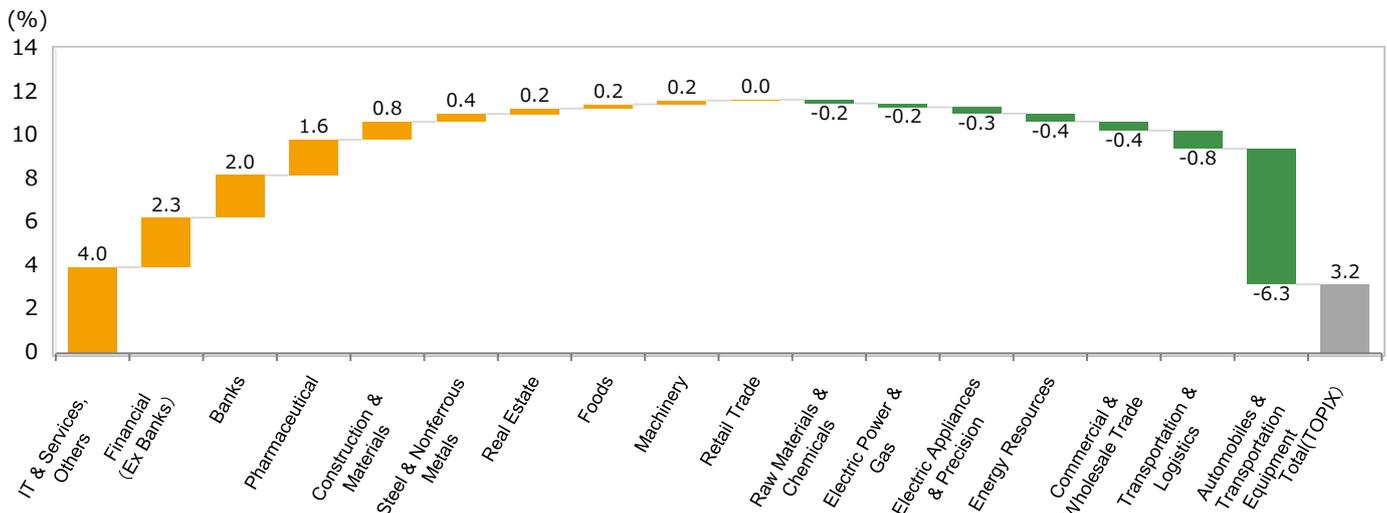
※ March fiscal year-end companies comprising the TOPIX 500
Source: FactSet; Compiled by Daiwa Asset Management

Analyst forecast upgrades to persist after strong 3Q



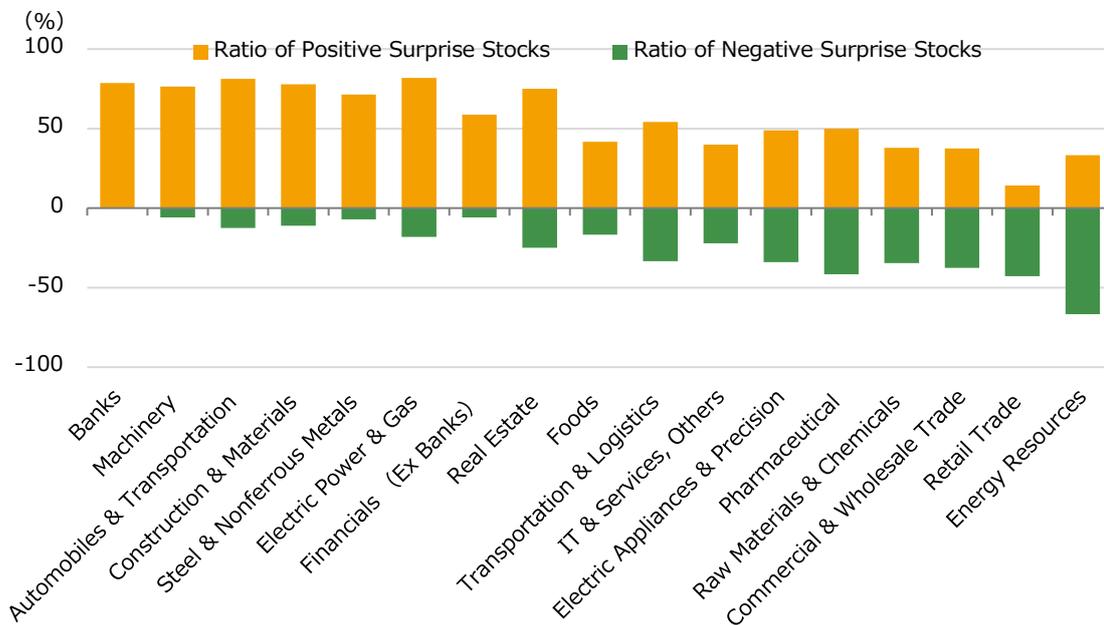
※ TOPIX Earnings Revision Index: Calculated as "(Upward revisions - Downward revisions) ÷ Total forecasts" based on consensus forecast for EPS; latest value as of February 16
Source: FactSet; Compiled by Daiwa Asset Management

YoY Change in 3Q Recurring Profit and Sector Contribution



※ Companies with March fiscal year-end comprising the TOPIX
Source: FactSet; Compiled by Daiwa Asset Management

Sector-by-Sector Surprises in 3Q Financial Results



※ The ratio of stocks with negative surprises is shown as negative. March fiscal year-end companies comprising the TOPIX 500
Surprises are counted when actual recurring profits deviate by 5% or more from analyst forecasts.

Source: FactSet; Compiled by Daiwa Asset Management

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