

Chief Strategist
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Summary of Full-Year Financial Results for Fiscal Year 2025

Strong Financial Results Ease Concerns About Performance

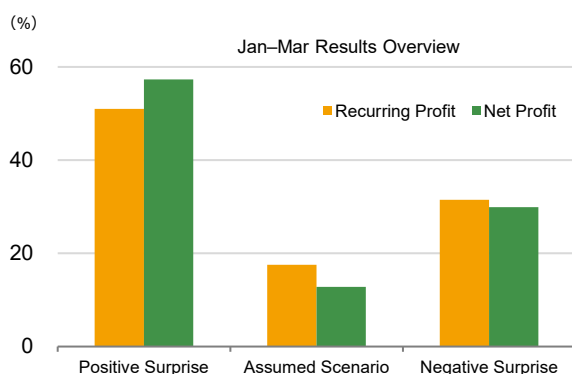
Jan-Mar Results Exceeded Expectations, While Initial Guidance Remained Cautious as Usual

From late April through mid-May, companies with a March fiscal year-end reported their FY2025 full-year results. Amid deteriorating conditions in the Middle East, uncertainty over corporate earnings has increased, with attention focused on the impact of higher oil prices and supply constraints. Furthermore, while it is customary for companies' new fiscal year plans (initial guidance) to fall short of market consensus, there was a risk that guidance that was more cautious than usual could weigh on the stock market.

In the end, the financial results announcements proved solid, providing a tailwind for the stock market. For companies with a March fiscal year-end, net profit for the January-March quarter delivered a positive surprise, with 57% of companies beating the consensus forecast by 5% or more. Full-year net profit for FY2025 exceeded analysts' prior forecasts by 6 percentage points, landing at a 13% year-on-year increase. Even excluding SoftBank Group, which made a significant positive contribution, the result still exceeded expectations by 3 percentage points. Profit growth was driven by sectors such as AI and semiconductors, financials, including banks, and construction—all key components of domestic demand. On the other hand, the automotive and parts sectors made the largest negative contribution.

Initial guidance projected ordinary income and net income to be 10% and 5% below market consensus, respectively; however, these figures remained on par with the median of the past 15 years (7% and 6% below consensus) and were not as weak as had been feared. While there are caveats—such as significant variation among companies in their assumptions regarding the Middle East situation—the fact that guidance overall pointed to profit growth, combined with the fact that the proportion of companies that did not disclose initial guidance did not increase compared to previous years, has brought a sense of reassurance to the market.

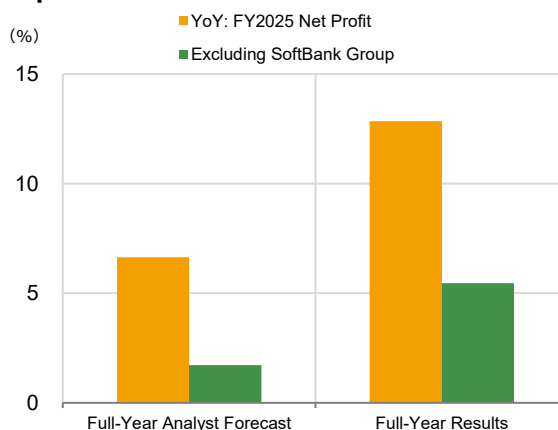
Positive Surprises Dominated in Jan-Mar Results



※ Results are classified as "surprises" if they deviate by 5% or more from analyst estimates; companies comprising the TOPIX 500 that reported their March financial results by May 21

Source: FactSet; Compiled by Daiwa Asset Management

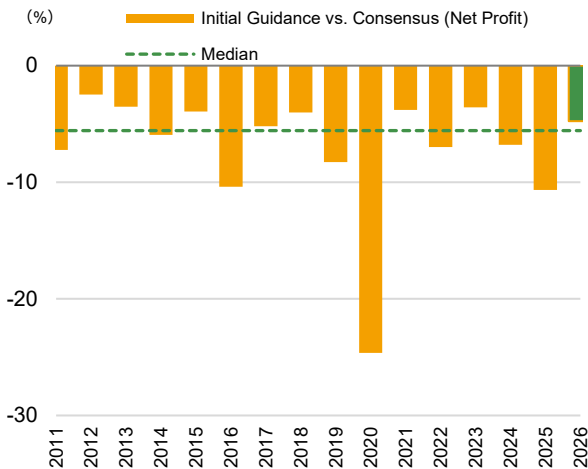
Results Significantly Exceeded Analysts' Expectations



※ TOPIX-constituent companies with fiscal year-end in March that have announced their financial results as of May 21

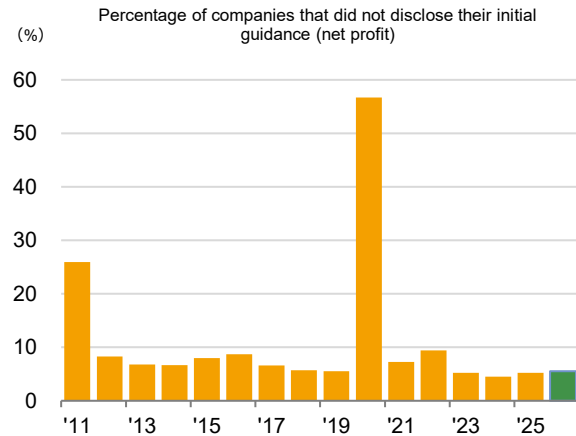
Source: FactSet; Compiled by Daiwa Asset Management

Initial Guidance Falls Short of Consensus in Line with Historical Averages



※TOPIX-constituent companies with fiscal year-end in March
Source: FactSet; Compiled by Daiwa Asset Management

No Increase in Companies Not Providing Initial Guidance



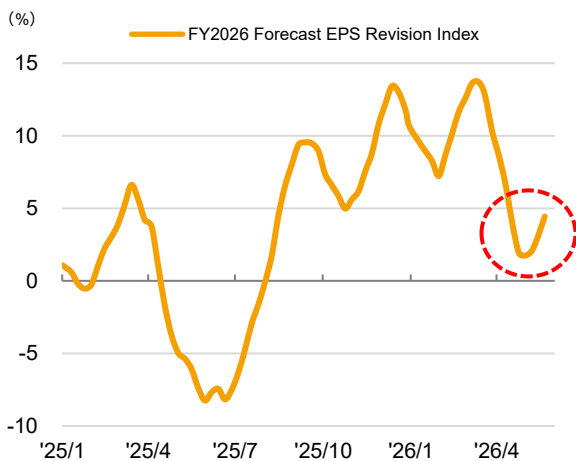
※TOPIX-constituent companies with fiscal year-end in March
Source: FactSet; Compiled by Daiwa Asset Management

Revision Index Rebounds, but Slow Improvement in the Middle East Poses Risks

We had expected analysts to begin revising their earnings forecasts downward in earnest following the financial results announcements, but in response to the solid financial results, analysts appear to be raising their forecasts, and the revision index for FY2026 EPS is showing signs of a rebound. AI-related companies are demonstrating particular strength in terms of earnings. While they have contributed significantly to profit growth in both the previous and current fiscal years, strong upward revisions to earnings forecasts have continued even after the US and Israeli attacks on Iran in late February. This strong earnings momentum is likely one reason why investor interest in AI-related stocks is concentrated in the Japanese stock market.

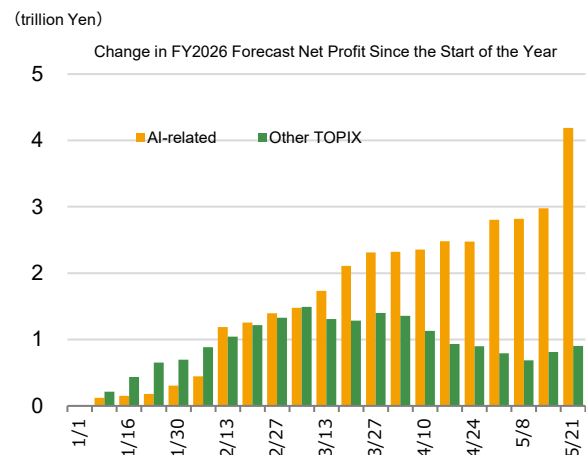
On the other hand, while the financial results have been solid, the de facto blockade of the Strait of Hormuz continues, and if the situation fails to improve, downward pressure on earnings will intensify. We must remain vigilant regarding the risk of earnings falling short of expectations.

Revision Index Rebounds Following Solid Earnings



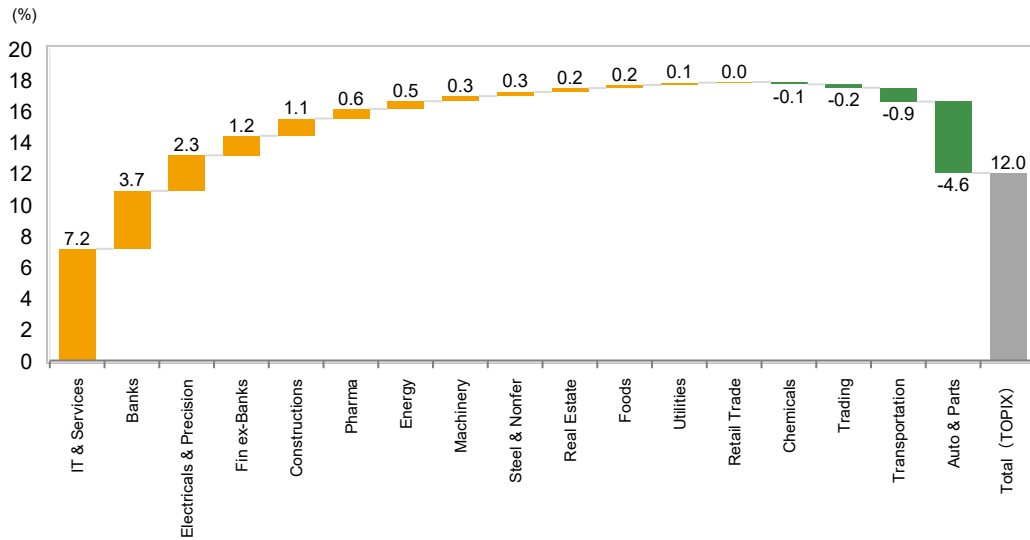
※ Revision Index = (Number of upward revisions to earnings forecasts – downward revisions) ÷ total forecasts, TOPIX; latest figure as of May 21, 2026
Source: FactSet; Compiled by Daiwa Asset Management

Upward Revisions in AI-Related Earnings Outlook



※ TOPIX, latest figure as of May 21, 2026
Source: FactSet; Compiled by Daiwa Asset Management

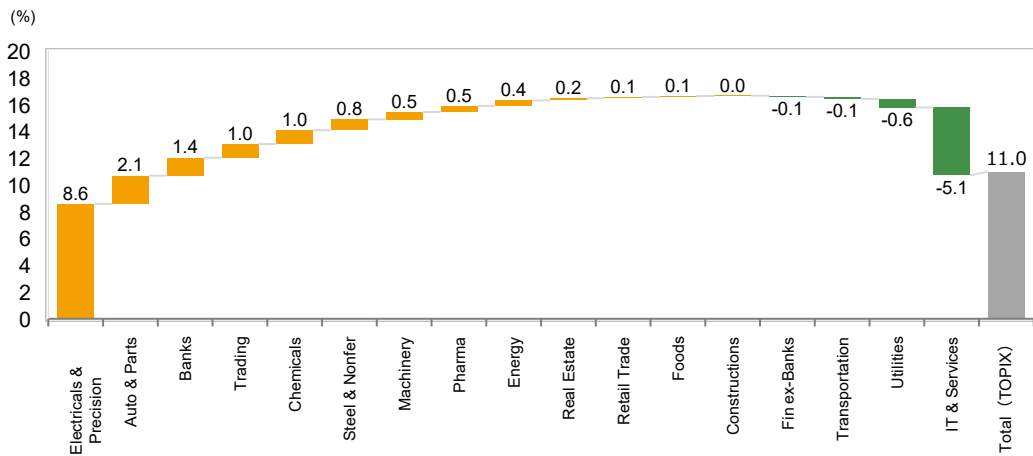
FY2025 Recurring Profit YoY Change: Contribution by Sector



※TOPIX-constituent companies with fiscal year-end in March

Source: FactSet; Compiled by Daiwa Asset Management

FY2026 Forecast Recurring Profit YoY Change: Contribution by Sector



※TOPIX-constituent companies with fiscal year-end in March

Source: FactSet; Compiled by Daiwa Asset Management

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