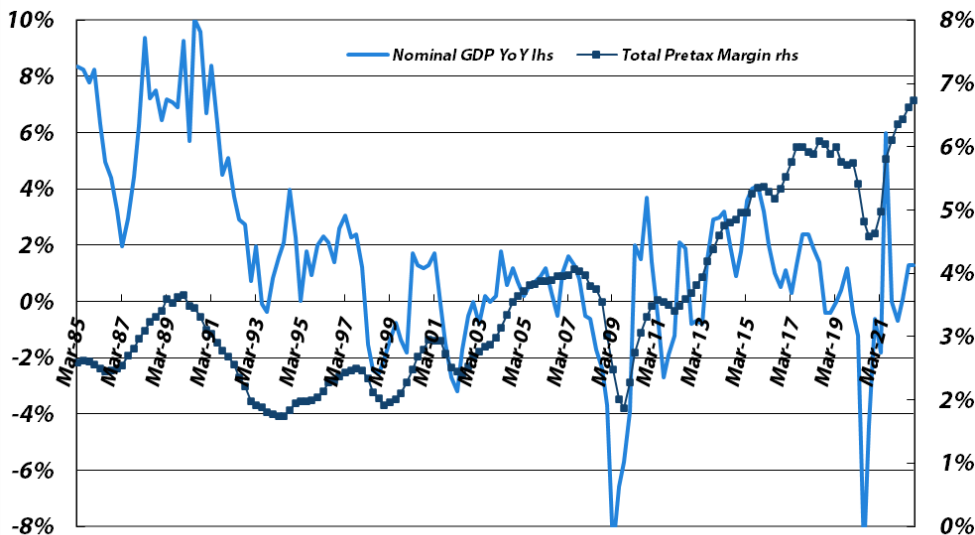


JAPAN'S "SHOW ME THE MONEY" CORPORATE GOVERNANCE: 3Q, ANOTHER RECORD HIGH

The just-released 3Q CY22 data on aggregate corporate profits in Japan was very positive, with the overall corporate recurring pre-tax profit margin **hitting a record high on a four quarter average**. The non-financial service sector ticked down, but the manufacturing sector solidly increased to a record high. The former sector's pretax profits still grew 6% YoY due to increased revenues, while the latter grew 24% YoY. Note that the strong results occurred despite quite subdued GDP, further proving the long-held theme of this report (since 2006) that profit margins remain on a structural uptrend despite sluggish domestic GDP growth, as shown in the charts below. Increased pricing power, coupled with improving corporate technological prowess and efficiency, should be credited for this, but the weaker yen certainly was also a major factor.

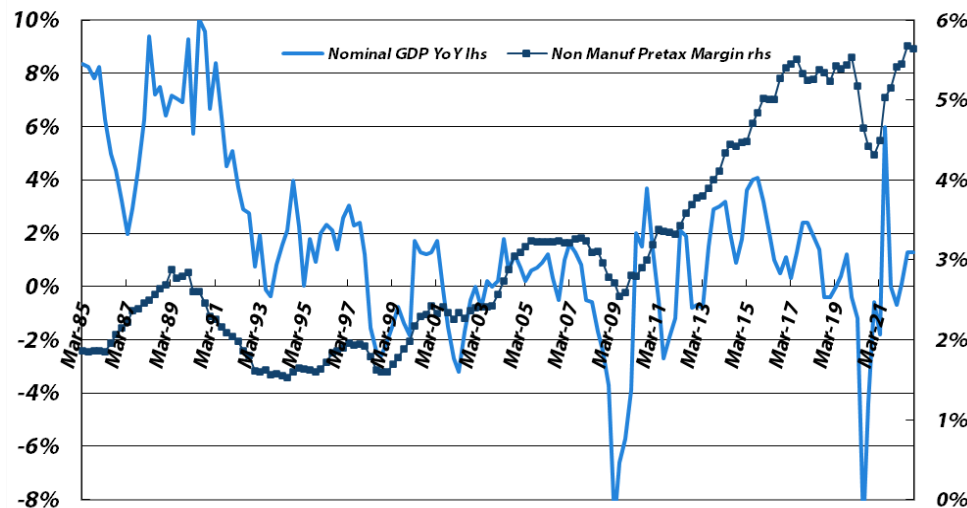
Four-quarter Average Pretax Profit Margin vs. Japanese Nominal GDP YoY Growth

(for all non-financial companies, not just listed ones)



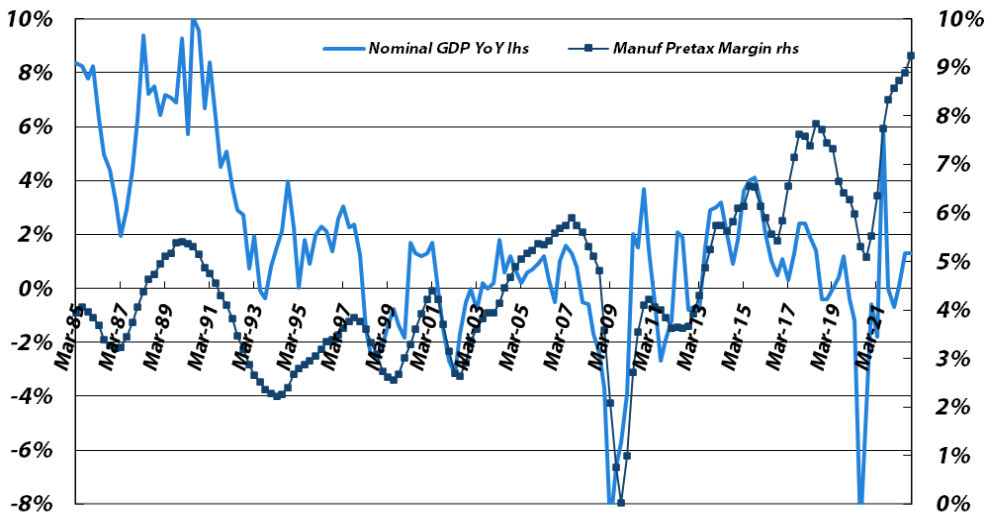
Sources: Japan Ministry of Finance, Bloomberg, data through CY3Q22

Non-manufacturers (excluding financials):



Sources: Japan Ministry of Finance, Bloomberg, data through CY3Q22

Manufacturers:



Sources: Japan Ministry of Finance, Bloomberg, data through CY3Q22

One should also note that the Ministry of Finance statistics cited in this report do not cover after-tax income, and due to corporate tax cuts nearly a decade ago, **the overall net recurring profit margin has expanded even more sharply than the pre-tax data shown above, allowing shareholders to benefit from higher dividends and share buybacks. Also due to buybacks, EPS has been (and still is) growing even faster than net profits.**

Clearly, the myth that Japanese companies do not reward shareholders should be dispelled by now, but somehow, the P/E ratio for the market remains very low. This seems the kind of mismatch of perceptions vs. reality that usually provides a good opportunity for investors.

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