Japan Strategy

Earnings in the fast lane

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Japan strategist

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For important disclosure information please refer to the last page of this presentation.
GDP down, profits up, happening for years

Corporate pre-tax profits and GDP

Source: CLSA, ESRI, MoF
Home again: FX back to pre-GFC levels

Trade-weighted exchange rates

(Jan '07 = 100)

Source: CLSA, BIS, BoJ. Data through December 2014.
Sitting pretty with a Y92/$ breakeven point

Source: Cabinet Office, CLSA
Japan at its most price competitive since 1973

The yen’s real effective exchange rate

Source: CLSA, BoJ, BIS
Fossil fuel imports are poised to fall from 6.6% of GDP

Japan’s fossil fuel imports as a % of GDP

Source: CLSA, MoF, ESRI, Bloomberg
Wages down: retail up. Ask why

Government figures for average basic pay

Source: CLSA, MHLW, METI
There are more jobs than people to fill them

Japanese job/applicant ratios

Source: CLSA, MHLW
The working age population is shrinking 1.5% per year.

Population of 15-64 year-olds in Japan

Source: CLSA, MIAC
Trade union numbers show a 2.1% wage hike in 2014

Pay increases won by Japanese trade unions for members

Source: CLSA, Rengo
There are two crucial bulges in the population pyramid

Japanese population pyramid for 2010

Source: CLSA, MIAC
Men are retiring: women are returning to work

Male and female employment in Japan

Source: CLSA, MIAC
40 is back-to-work time

Female labour participation rate by age

Source: CLSA, MIAC
Part-timers are paid half as much

Wages and the gender gap

Source: CLSA, MHLW

<table>
<thead>
<tr>
<th></th>
<th>Male</th>
<th>Female</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regular</td>
<td>317.0 ¥'000</td>
<td>252.2 ¥'000</td>
<td>343.8 ¥'000</td>
</tr>
<tr>
<td>Non-regular</td>
<td>196.4 ¥'000</td>
<td>174.8 ¥'000</td>
<td>218.4 ¥'000</td>
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</tbody>
</table>

49%
Women don’t even want to be regular staff

Breakdown of work sought by 3.03m women wishing to work (2012)

- Regular staff: 17%
- Non-regular staff: 72%
- Self-employed worker: 5%
- Others: 6%

Source: MIAC, CLSA
Household income up: average wage down

A imaginary population of two

<table>
<thead>
<tr>
<th></th>
<th>Year 1</th>
<th>Year 2</th>
</tr>
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<tbody>
<tr>
<td>Mr. Tanaka</td>
<td>100</td>
<td>102</td>
</tr>
<tr>
<td>Mrs. Tanaka</td>
<td>-</td>
<td>50</td>
</tr>
<tr>
<td>Av. wage of people in employment</td>
<td>100</td>
<td>76</td>
</tr>
<tr>
<td>Household income</td>
<td>100</td>
<td>152</td>
</tr>
</tbody>
</table>

Source: CLSA
Supply & demand drives pay, even in Japan

The Tankan labour market conditions index and YoY pay increases

Source: CLSA, BoJ, MHLW
Waitresses, builders & truck drivers needed

Tankan labour conditions index in Q4 CY14

Source: CLSA, BoJ
Profits at all-time highs

Pre-tax (recurring) profits for 1,105 Topix companies with comparable data

Source: CLSA, companies, Bloomberg. As of 16 February 2015
### The Benthos model portfolio

<table>
<thead>
<tr>
<th>Company name</th>
<th>Code</th>
<th>Analyst Rec</th>
<th>Theme</th>
</tr>
</thead>
<tbody>
<tr>
<td>ABC Mart</td>
<td>(2670)</td>
<td>N-R</td>
<td>Consumption</td>
</tr>
<tr>
<td>Isetan Mitsukoshi</td>
<td>(3099)</td>
<td>BUY</td>
<td>Consumption</td>
</tr>
<tr>
<td>Komatsu</td>
<td>(6301)</td>
<td>BUY</td>
<td>Machinery</td>
</tr>
<tr>
<td>NTN</td>
<td>(6472)</td>
<td>BUY</td>
<td>Cheap oil</td>
</tr>
<tr>
<td>Yasukawa</td>
<td>(6506)</td>
<td>BUY</td>
<td>Machinery</td>
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<tr>
<td>Sony</td>
<td>(6758)</td>
<td>BUY</td>
<td>Recovery play</td>
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<tr>
<td>Stanley Electric</td>
<td>(6923)</td>
<td>BUY</td>
<td>Auto parts</td>
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<tr>
<td>Fanuc</td>
<td>(6954)</td>
<td>BUY</td>
<td>Automation</td>
</tr>
<tr>
<td>Taiyo Yuden</td>
<td>(6976)</td>
<td>BUY</td>
<td>Weak yen</td>
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<tr>
<td>Nissan</td>
<td>(7201)</td>
<td>BUY</td>
<td>Weak yen, auto</td>
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<tr>
<td>Honda</td>
<td>(7267)</td>
<td>BUY</td>
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<td>Ryohin Keikaku</td>
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<td>N-R</td>
<td>Consumption</td>
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<tr>
<td>Itochu</td>
<td>(8001)</td>
<td>BUY</td>
<td>Dividends</td>
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<tr>
<td>H2O Retailing</td>
<td>(8242)</td>
<td>N-R</td>
<td>Consumption</td>
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<tr>
<td>Marui</td>
<td>(8252)</td>
<td>N-R</td>
<td>Consumption</td>
</tr>
<tr>
<td>Jafco</td>
<td>(8595)</td>
<td>N-R</td>
<td>IPO</td>
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<tr>
<td>Daiwa Securities</td>
<td>(8601)</td>
<td>BUY</td>
<td>Broker</td>
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<tr>
<td>MS&amp;AD</td>
<td>(8725)</td>
<td>BUY</td>
<td>Insurance</td>
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<tr>
<td>Mitsui Fudosan</td>
<td>(8801)</td>
<td>BUY</td>
<td>Real estate</td>
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<tr>
<td>JAL</td>
<td>(9201)</td>
<td>BUY</td>
<td>Weak oil, restructuring</td>
</tr>
</tbody>
</table>

Source: CLSA, Bloomberg
Performance of Benthos model portfolio

Benthos model portfolio performance

(27 Jan '12 = 100)

Source: CLSA, Bloomberg
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**Japan Forum 2015**
24-27 February, Tokyo

**Asean Forum 2015**
11-13 March, Bangkok

**China Forum 2015**
11-13 May, Chengdu

**Investors' Forum 2015**
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