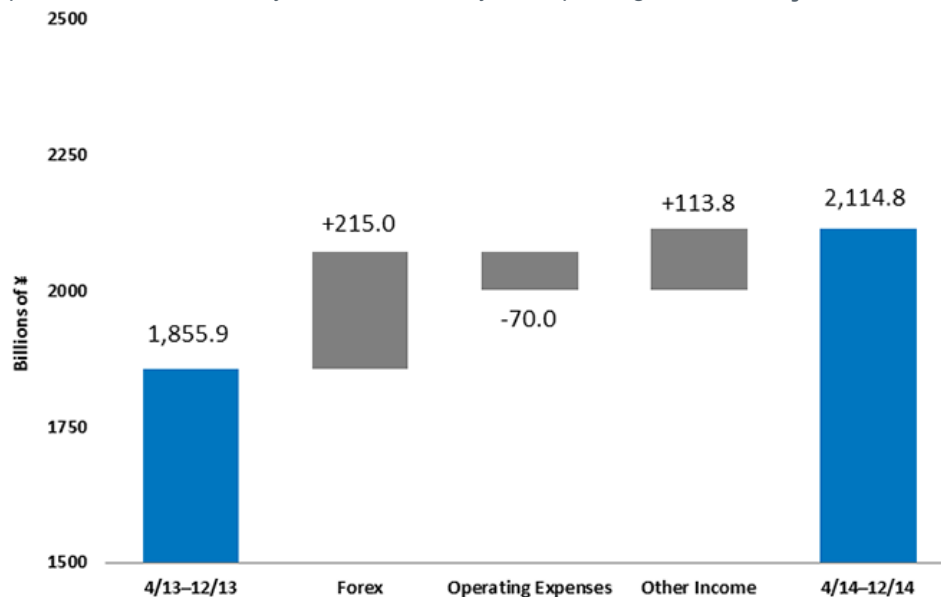


# JAPAN QUARTERLY EARNINGS: WEAKER YEN HELPS EXPORTERS

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02/23/2015

Japanese stocks have continued to perform well as a result of “Abenomics” policies, which are all aimed at one thing: promoting economic growth in Japan. The unprecedented [monetary easing](#) by the Bank of Japan—which has become the most aggressive central bank in the world—has improved sentiment in Japan, caused the yen to weaken and strengthened the markets. **Weaker Yen Has Benefited Exporters’ Earnings** Thus far, the monetary stimulus has coincided with a weaker yen. A weaker yen ultimately helps large multinational companies that sell products overseas. Products of these companies generally become more attractive to foreign buyers when the yen weakens. Also, overseas sales converted back to a weak yen translate to more yen revenue, ultimately adding to the bottom line. The chart below illustrates the positive effect a weaker yen has had on Toyota’s operating income. **Toyota Motor Corporation Operating Income**



Source: Toyota FY2015 3Q Financial Results Earnings Release Presentation, 2/4/15. Operating income above is attributable to Toyota Motor Corporation. Periods being compared are 4/1/13-12/31/13 and 4/1/14-12/31/14. Past performance is not indicative of future results.

**• Yen Depreciation Dramatically Contributes to Earnings** – The depreciation of the yen accounted for 215 billion yen of the 258.8 billion yen growth in income compared to the same reporting period last year. It is important to realize that Toyota’s gain from the yen depreciation represents more than 80% of the total growth in income for the period. **• Further Yen Depreciation Can Add to Future Profits** – If the yen continues to depreciate, it could potentially continue to add to Toyota’s bottom line. Toyota has forecast to sell 9.0 million vehicles in its 2015 fiscal year, and 6.85 million (approximately 75%) of those are expected to be sold outside Japan.<sup>1</sup> The continued overseas sales converted back to a potentially weaker yen translate to even more yen revenue. Commenting on the forecasts for Toyota’s 2015 fiscal year, Takuo Sasaki, chief director of accounting, said, “While we expect a reduction in vehicle sales, we are raising our operating income forecast by 200 billion yen to 2.7 trillion yen, factoring in the change in our foreign exchange rate assumption and the progress in our profit improvement activities, such as cost reduction efforts.” **• Toyota’s Stock Performance Also Strong** – Market participants have recognized the benefit a weaker yen has had on Toyota’s bottom line. Toyota’s total return was approximately 21.2%,

while the broader [Tokyo Stock Price Index \(TOPIX\)](#) for Japan was up 10.3%, over the 2014 calendar year. The yen was down 12.1% during this same period.<sup>2</sup> **Other Automakers Also Benefit from a Weaker Yen** Other large Japanese automakers have benefited from a weakening yen due to their export-oriented business models. The list below shows two major automakers and the amount of reported income during their most recent earnings periods compared to the same periods of the preceding year<sup>3</sup>. • **Honda** – Reported operating income of 539.7 billion yen, down 45.2 billion yen from the year before, but had a gain of 43.1 billion yen from currency effects<sup>4</sup> • **Mazda** – Reported operating profit of 152.0 billion yen, up 27.4 billion yen from the year before, with a gain of 18.9 billion yen from currency effects<sup>5</sup> **U.S. Automakers Facing Headwinds from a Stronger Dollar** [Previously](#) we discussed how some U.S. multinationals are being negatively impacted from a strengthening dollar. The strengthening dollar also had a negative impact on a few U.S. automobile companies during the 2014 calendar year. These U.S. companies directly compete with Toyota and other Japanese automotive companies across the globe, and as the dollar strengthens against the yen, the U.S. companies become less competitive. • **General Motors** – Reported [earnings before interest and taxes \(EBIT\)](#) of \$6.5 billion, down \$2.1 billion from the year before, with a loss of \$1.3 billion attributed to [foreign exchange](#)<sup>6</sup> • **Ford** – Reported pretax income of \$4.5 billion for its automotive sector, down \$2.4 billion from the year before, with a loss of \$1.1 billion attributed to foreign exchange<sup>7</sup> **Hedge Your Currency Exposure** If the yen continues to weaken, Japanese exporters should continue to benefit. On the other hand, a weakening yen is not good for U.S. investors in Japanese equities—unless they [hedge](#) the currency. [Currency-hedged strategies](#) allow investors to focus on Japanese equities without the worry over currency declines. *For current holdings of Wisdom Tree ETFs, please visit [wisdomtree.com](#).* <sup>1</sup>Source: Toyota FY2015 3Q Financial Results, 2/4/15. <sup>2</sup>Source: Bloomberg. <sup>3</sup>Period is the first nine months of their 2015 fiscal years compared to the first nine months of their 2014 fiscal years. <sup>4</sup>Source: Honda FY2015 3rd Quarter Financial Results, 1/30/15. <sup>5</sup>Source: Mazda FY2015 Third-Quarter Financial Results, 2/4/15. <sup>6</sup>Source: General Motors Q4 2014 Financial Results, 2/4/15. <sup>7</sup>Source: Ford Q4 2014 Earnings Release, 1/29/15.

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## DEFINITIONS

**Abenomics** : Series of policies enacted after the election of Japanese Prime Minister Shinzo Abe on December 16, 2012 aimed at stimulating Japan's economic growth.

**Monetary easing policies** : Actions undertaken by a central bank with the ultimate desired effect of lowering interest rates and stimulating the economy.

**Tokyo Stock Price Index (TOPIX)** : A free float-adjusted market capitalization-weighted index that is calculated based on all the domestic common stocks listed on the Tokyo Stock Exchange First Section.

**Earnings before interest and taxes (EBIT)** : A measure of a firm's profit that includes all expenses except interest and income tax expenses.

**Foreign Exchange (FOREX, FX)** : The exchange of one currency for another, or the conversion of one currency into another currency.

**Hedge** : Making an investment to reduce the risk of adverse price movements in an asset. Normally, a hedge consists of taking an offsetting position in a related security, such as a futures contract.