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# **An Update on Quarterly Earnings Reporting in Japan (October – December 2003)**

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## **I. Quarterly Earnings Reporting in the Third Quarter**

In January 2004, Japanese companies whose business year ends in March began to report their quarterly results for October – December 2003 ("third-quarter results").<sup>1</sup> This report collates the data from the 2,674 companies that announced their results for this period and also compares their sales with those for the first quarter (April – June 2003), when it became a requirement to report sales figures.

### **1. Breakdown of reporting companies by market and sector**

Of the 2,674 companies, 1,300 are listed on the First Section of one or more of the Tokyo, Osaka and Nagoya stock exchanges, 672 on the Second Section of one or more of these exchanges, and the remaining 702 on either a regional exchange or one of the venture markets (JASDAQ, Mothers and Hercules). 2,450 of these companies reported their results within 30 business days of the end of the third quarter. 1,215 (93.5%) of these are First Section companies, 607 (90.3%) Second Section companies, and 628 (89.5%) regional or venture market companies (Figure 1).

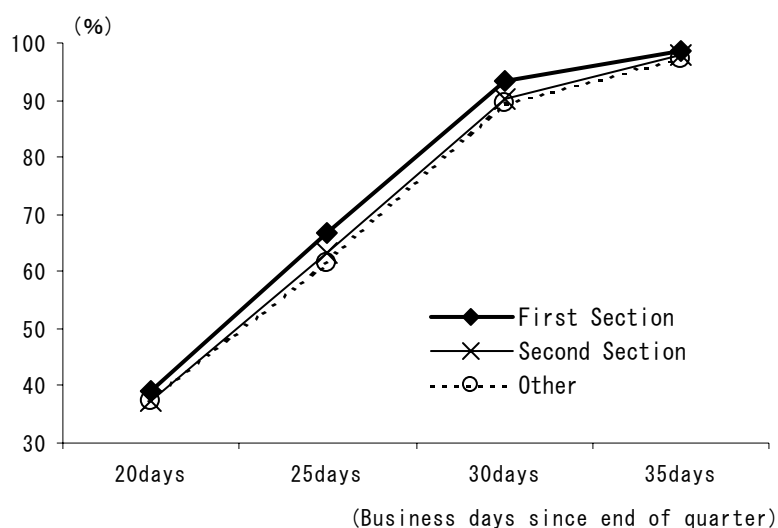
All of the companies in eight (textiles, glass & ceramics, real estate, pharmaceuticals, other financial business, warehousing, securities and pulp & paper) out of the 26 sectors (including an "other sectors" category for companies from all sectors with less than 20 companies) into which we divided the companies reported their results within 35 business days (Figure 2). Just over 95% of the companies in 23

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<sup>1</sup> The companies covered in this report had to satisfy the following two conditions: (1) be listed on a Japanese stock market as of 30 December 2003 and (2) have a fiscal year ending in March 2004 with a third quarter from 1 October to 31 December 2003. Companies that have been reported as being unable to continue in business have been excluded. Market listing and sector grouping (33-sector classification system) are as of 30 December 2003. As of end-March, one company had failed to report its results for the third quarter.

of the sectors reported within 35 business days, compared with just over 80% of companies in the iron & steel sector, which were much later in reporting.<sup>2</sup>

**Figure 1 Number of Days Required to Produce a Quarterly Earnings Report (Market breakdown)**



Source: NICMR, from quarterly earnings reports of the companies concerned.

## 2. Average number of days required to produce a quarterly earnings report

### 1) Average number of days for each market and sector

The first company to report its third-quarter earnings did so on 5 January. The peak of the reporting was spread out, with 290 of the companies reporting on 6 February, 288 on 30 January, 260 on 10 February and 256 on 13 February (Figure 3). The average number of business days after the end of the third quarter (31 December 2003) required to produce a quarterly earnings report was 22.8—slightly less than the average of 25.5 days after the end of the first quarter. Also, whereas 21.9% of companies reported within 20 business days after the end of the first quarter, 85.3% within 30 days and 91.4% within 35 days, the figures this time were 38.3%, 91.6% and 98.0%, respectively (Figure 4).

<sup>2</sup> However, there are signs that Japan's leading steel companies are beginning to adopt a more positive attitude to quarterly reporting. See the article "Shinnittetsu, Konki kara Shihanki Gyoseki Kaiji—Zenki Kessan Happyo mo Renkyumae ni" [Nippon Steel to Report Quarterly Earnings from This Year], Nihon Keizai Shimbun, 10 April 2004, p. 15.

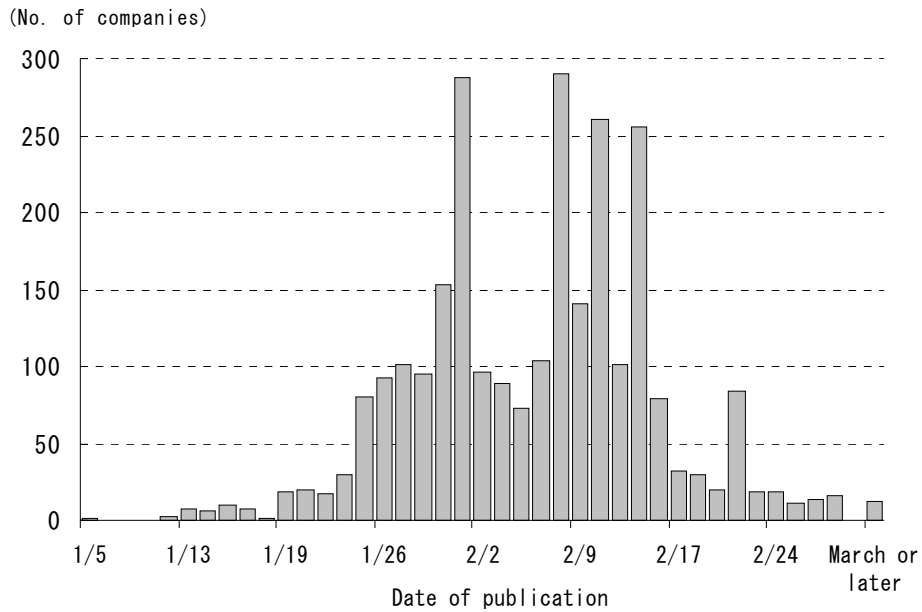
**Figure 2 Analysis of Quarterly Earnings Reports by Sector**

|   | Reporting<br>(companies) | Reported<br>within<br>20days<br>(%) | Reported<br>within<br>25days<br>(%) | Reported<br>within<br>30days<br>(%) | Reported<br>within<br>35days<br>(%) | Time<br>required<br>(days) |
|---|--------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|----------------------------|
| Wholesale trade                                 | 279                      | 34.1                                | 65.9                                | 92.1                                | 97.5                                | 23.1                       |
| Electric appliances                             | 240                      | 47.9                                | 72.5                                | 92.5                                | 99.6                                | 21.9                       |
| Machinery                                       | 202                      | 34.7                                | 62.4                                | 91.1                                | 98.0                                | 23.0                       |
| Construction                                    | 189                      | 59.8                                | 82.0                                | 95.2                                | 99.5                                | 20.2                       |
| Communication                                   | 186                      | 44.1                                | 65.6                                | 94.1                                | 98.4                                | 22.2                       |
| Chemicals                                       | 182                      | 34.6                                | 61.5                                | 92.9                                | 98.4                                | 23.3                       |
| Services  | 160                      | 35.0                                | 56.3                                | 91.9                                | 98.1                                | 23.3                       |
| Retail trade                                    | 134                      | 35.1                                | 59.7                                | 89.6                                | 97.8                                | 22.9                       |
| Food  | 107                      | 33.6                                | 64.5                                | 95.3                                | 98.1                                | 23.0                       |
| equipment                                       | 102                      | 32.4                                | 68.6                                | 92.2                                | 99.0                                | 23.1                       |
| Banks   | 97                       | 46.4                                | 72.2                                | 91.8                                | 99.0                                | 22.5                       |
| Other products                                  | 83                       | 37.3                                | 59.0                                | 94.0                                | 98.8                                | 22.9                       |
| Metal products                                  | 75                       | 29.3                                | 57.3                                | 90.7                                | 96.0                                | 23.6                       |
| Land transportation                             | 67                       | 11.9                                | 34.3                                | 70.1                                | 94.0                                | 27.2                       |
| Textiles & apparel                              | 66                       | 31.8                                | 56.1                                | 97.0                                | 100.0                               | 22.7                       |
| products  | 55                       | 32.7                                | 70.9                                | 100.0                               | 100.0                               | 21.9                       |
| Iron & steel                                    | 54                       | 24.1                                | 44.4                                | 70.4                                | 81.5                                | 28.2                       |
| Real estate                                     | 52                       | 40.4                                | 71.2                                | 88.5                                | 100.0                               | 22.3                       |
| Pharmaceuticals                                 | 45                       | 64.4                                | 77.8                                | 100.0                               | 100.0                               | 20.5                       |
| Nonferrous metals                               | 40                       | 40.0                                | 60.0                                | 87.5                                | 97.5                                | 23.0                       |
| business  | 39                       | 64.1                                | 82.1                                | 100.0                               | 100.0                               | 20.1                       |
| Precision instruments                           | 38                       | 26.3                                | 50.0                                | 81.6                                | 92.1                                | 25.3                       |
| Warehousing & harbor<br>transportation services | 37                       | 27.0                                | 45.9                                | 89.2                                | 100.0                               | 24.7                       |
| Securities                                      | 34                       | 79.4                                | 88.2                                | 97.1                                | 100.0                               | 17.5                       |
| Pulp & paper                                    | 23                       | 34.8                                | 60.9                                | 91.3                                | 100.0                               | 22.8                       |
| Other sectors                                   | 88                       | 12.5                                | 53.4                                | 88.6                                | 97.7                                | 25.5                       |
| All sectors                                     | 2674                     | 38.3                                | 64.4                                | 91.6                                | 98.0                                | 22.8                       |

Note: Companies have been grouped as of 30 December 2003 using the 33-sector classification system. Sectors with 20 or fewer companies have been grouped together as "other sectors." "Reported within ... days" shows the percentage of companies whose fiscal year ended in March 2004 that had reported their earnings within ... business days of the end of the third quarter. "Time required" is an average figure.

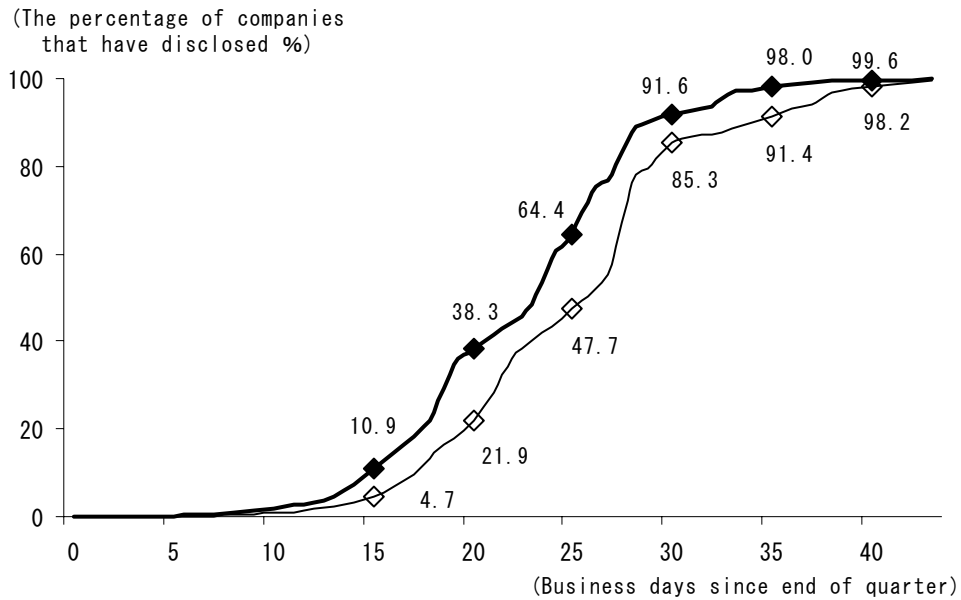
Source: NICMR, from quarterly earnings reports of the companies concerned.

**Figure 3 Distribution of Dates on Which Companies Reported Their Quarterly Earnings**



Source: NICMR, from quarterly earnings reports of the companies concerned.

**Figure 4 Number of Days Required to Produce a Quarterly Earnings Report (first quarter vs. third quarter)**



Source: NICMR, from quarterly earnings reports of the companies concerned.

There was little difference in the average number of days for each market: 22.7 days for the First Section markets and 23.0 days for the Second Section, regional and venture markets.

As far as the average number of days for each sector is concerned, securities was the shortest (17.5 days, see Figure 2), followed by other financing business, construction, pharmaceuticals and electric appliances, while iron & steel, land transportation, other sectors, precision instruments and warehousing were the longest. Within the "other sectors" category, rubber, marine transportation and insurance were the longest.

## **2) Comparison between first- and third-quarter reporting by individual companies**

We also compared the number of days it took each company to report its first- and third-quarter results. Of the 2,611 companies for which a comparison could be made, the majority (1,899) reported their third-quarter results more quickly while 464 took longer.

181 companies cut the time it took to report their results by 10 business days or more. Some of these, such as Sanyo Special Steel, not only cut the time it took them to report (in Sanyo's case, by 24 business days) but also disclosed more information (explaining their results in general terms and publishing summary profit & loss accounts and balance sheets for the third quarter when they had only announced a revised earnings forecast in the first quarter). Forty companies took 10 or more business days longer to report than after the first quarter. However, 10 of these companies did not publish profit & loss accounts and balance sheets for the first quarter, so there was some justification for the delay.

## **3. Reporting of quarterly earnings and financial data**

### **1) Breakdown of reporting companies by accounting method**

Of the 2,674 Japanese companies that reported their third-quarter earnings, 2,112 (79.0%) did so on a consolidated basis and 562 (21.0%) on a nonconsolidated basis (Figure 5).

**Figure 5 Breakdown of Reporting Companies by Consolidated and Nonconsolidated Figures**

|   | Consolidated  | Nonconsolidated |
|---|---------------|-----------------|
| Total number of companies reporting                 | 2112<br>79.0% | 562<br>21.0%    |
| (cf. first quarter)                                 | (77.4%)       | (22.6%)         |
| Total number of companies reporting (excl. Mothers) | 2093<br>79.2% | 550<br>20.8%    |
| (cf. first quarter)                                 | (77.7%)       | (22.3%)         |
| First Section                                       | 1166<br>89.7% | 134<br>10.3%    |
| (cf. first quarter)                                 | (88.8%)       | (11.2%)         |

Source: NICMR, from quarterly earnings reports of the companies concerned.

## 2) Main earnings indicators

Figure 6 shows the number and percentage of companies that reported each of the following main earnings indicators: sales, operating profit, recurring profit, and quarterly net profit. "Sales" includes revenue, orders received, banks' ordinary income and insurance companies' net premium income, while "recurring profit" includes pre-tax earnings.

**Figure 6 Breakdown of Reporting Companies by Earnings Indicators**

|   | Sales         | Operating profit | Recurring profit | Net profit    | Comparative figures |
|---|---------------|------------------|------------------|---------------|---------------------|
| Total number of companies reporting                 | 2550<br>95.4% | 1210<br>45.3%    | 1227<br>45.9%    | 1141<br>42.7% | 1076<br>42.2%       |
| (cf. first quarter)                                 | (95.0%)       | (40.2%)          | (40.5%)          | (37.1%)       | (40.1%)             |
| Total number of companies reporting (excl. Mothers) | 2519<br>95.3% | 1179<br>44.6%    | 1196<br>45.3%    | 1110<br>42.0% | 1055<br>41.9%       |
| (cf. first quarter)                                 | (94.9%)       | (39.6%)          | (40.0%)          | (36.5%)       | (39.8%)             |
| First Section                                       | 1194<br>91.8% | 710<br>54.6%     | 716<br>55.1%     | 687<br>52.8%  | 522<br>43.7%        |
| (cf. first quarter)                                 | (91.5%)       | (49.8%)          | (49.8%)          | (47.1%)       | (38.9%)             |

Note: "Comparative figures" gives the number and percentage of the companies that provided sales figures for the same period in the previous year.

Source: NICMR, from quarterly earnings reports of the companies concerned.

Altogether 2,550 companies (95.4%) reported their sales. Of the 124 companies that failed to report their sales, 95 were banks and companies that reported mainly their financial data, while 28 companies simply revised their earnings forecasts rather than report their quarterly earnings, and one company simply reported the sales of its main products. In contrast, only about 45% of the companies reported their operating, recurring and (quarterly) net profit, although this will be compulsory when companies report their results for April – June 2004.

Of the 2,550 companies that reported their sales figures, 1,076 (42.2%) gave their figures for the same period in the previous year in order to facilitate a comparison. Most of the 1,598 companies that did not do so gave as their reason the fact that they had not published any quarterly earnings figures for the previous fiscal year.

### 3) Financial and cash flow data

1,052 of the companies reported their total assets and shareholders' equity. Although an improvement on the reporting of first-quarter results, in percentage terms (39.3%) the figure was low even though reporting these figures (along with operating profit, recurring profit and net profit) will be compulsory when companies report their results for April – June 2004.

Similarly, 655 (24.5%) of the companies reported their main cash flow items (i.e., operating, investing and financing cash flows).

**Figure 7 Breakdown of Reporting Companies by Financial Data and Cash Flow**

|  | Total assets &<br>shareholders' equity | Cash flow<br>(operating, investing and financing) |
|--|--|---|
| Total number of<br>companies reporting                 | 1052<br>39.3%                          | 655<br>24.5%                                      |
| (cf. first quarter)                                    | (34.4%)                                | (22.0%)   |
| Total number of companies<br>reporting (excl. Mothers) | 1021<br>38.6%                          | 625<br>23.6%                                      |
| (cf. first quarter)                                    | (33.8%)                                | (21.3%)   |
| First Section  | 635<br>48.8%                           | 385<br>29.6%                                      |
| (cf. first quarter)                                    | (43.8%)                                | (27.0%)   |

Source: NICMR, from quarterly earnings reports of the companies concerned.

#### 4) Earnings forecasts

2,492 (93.2%) of the companies either gave figures for or commented on their likely future sales or profits. Likewise, 565 (21.1%) of the 2,492 companies took the opportunity presented by reporting their quarterly earnings to revise their earnings forecasts.

**Figure 8 Breakdown of Reporting Companies by Earnings Forecasts**

|   | Explanation of forecast | Earnings revision | Previous forecast |
|---|-------------------------|-------------------|-------------------|
| Total number of companies reporting                 | 2492<br>93.2%           | 565<br>21.1%      | 1688<br>63.1%     |
| (cf. first quarter)                                 | (93.9%)                 | (13.8%)           | (N. A. )          |
| Total number of companies reporting (excl. Mothers) | 2463<br>93.2%           | 552<br>20.9%      | 1664<br>63.0%     |
| (cf. first quarter)                                 | (93.9%)                 | (13.9%)           | (N. A. )          |
| First Section                                       | 1158<br>89.1%           | 299<br>23.0%      | 721<br>55.5%      |
| (cf. first quarter)                                 | (90.1%)                 | (16.2%)           | (N. A. )          |

Note: "Explanation of forecast" includes cases where companies have not provided any figures for their earnings forecast but simply indicated that it has not changed since they announced their full-term results.

Source: NICMR, from quarterly earnings reports of the companies concerned.

In order to make it easier for investors to understand these revisions, many of the companies (1,688 or 63.1%) also gave their original forecasts for comparison while others explained the reasons for the change. However, 136 companies simply going through the motions of reporting failed to indicate whether their forecasts were upward or downward revisions or even revisions at all.

#### 5) Financial statements

The number of companies that produced profit & loss accounts, balance sheets and cash flow statements (whether comprehensive or summary) was 1,003 (37.5%), 983 (36.8%) and 574 (21.5%), respectively. 293 companies (13.9% of those that reported consolidated results) produced consolidated statements of surplus.



**Figure 9 Breakdown of Reporting Companies by Financial Statements**

|   | Profit & loss account | Balance sheet | Cash flow statement | Consolidated statement of surplus |
|---|-----------------------|---------------|---------------------|-----------------------------------|
| Total number of companies reporting                 | 1003<br>37.5%         | 983<br>36.8%  | 574<br>21.5%        | 293<br>13.9%                      |
| (cf. first quarter)                                 | (32.9%)               | (32.1%)       | (19.6%)             | (N. A.)                           |
| Total number of companies reporting (excl. Mothers) | 972<br>36.8%          | 952<br>36.0%  | 544<br>20.6%        | 278<br>13.3%                      |
| (cf. first quarter)                                 | (32.3%)               | (31.5%)       | (18.9%)             | (N. A.)                           |
| First Section                                       | 608<br>46.8%          | 597<br>45.9%  | 340<br>26.2%        | 176<br>15.1%                      |
| (cf. first quarter)                                 | (42.4%)               | (41.4%)       | (24.5%)             | (N. A.)                           |

Note: Since we only began to collate consolidated statements of surplus in the third quarter of fiscal 2003, there are no comparative figures for the first quarter. The percentages show the number of companies publishing consolidated statements of surplus as a percentage of those publishing consolidated results.

Source: NICMR, from quarterly earnings reports of the companies concerned.

As this was the first time for companies to report their third-quarter results, we assumed that, while some companies would provide cumulative earnings and financial data for the first three quarters, others would simply give their figures for the third quarter. As it was, the majority simply provided cumulative data for the first three quarters while some also published either separate profit & loss accounts (108 companies or 4.0%) or separate cash flow statements (43 companies or 1.6%) for the third quarter.<sup>3</sup>

## 6) Overall explanations and segment data

2,395 (89.6%) of the companies provided either explanations of their quarterly earnings or segment data while 1,470 (55.0%) provided segment data in some shape or form.<sup>4</sup>

<sup>3</sup> Three companies published separate profit & loss accounts for the third quarter and two published separate cash flow statements without giving any cumulative figures for the first three quarters.

<sup>4</sup> Comments in the section of the reporting form entitled "Overview of sales for quarter" such as "No particular changes" or "Sales in the quarter were ¥..." are not very informative. For the purposes of this report companies making such comments have therefore been treated as not having provided an overview.

**Figure 10 Breakdown of Reporting Companies by Overview and Segment Data**

|  | Overview or<br>segment data | Segment data  |
|--|-----------------------------|---------------|
| Total number of<br>companies reporting                 | 2395<br>89.6%               | 1470<br>55.0% |
| (cf. first quarter)                                    | (94.2%)                     | (51.9%)       |
| Total number of companies<br>reporting (excl. Mothers) | 2364<br>89.4%               | 1444<br>54.6% |
| (cf. first quarter)                                    | (94.2%)                     | (51.5%)       |
| First Section  | 1156<br>88.9%               | 755<br>58.1%  |
| (cf. first quarter)                                    | (92.2%)                     | (55.2%)       |

Source: NICMR, from quarterly earnings reports of the companies concerned.

## **II. Conclusion**

In terms of both content and the time it took companies to report their third-quarter results, quarterly earnings reporting in Japan is definitely improving. However, inasmuch as the extent of disclosure varied considerably from company to company, with some providing details for the benefit of users while others were content simply to satisfy the minimum disclosure requirements, the situation was similar to that in the first quarter.

When listed companies report their results for their first fiscal year beginning in or after April 2004, they will be required by the country's stock exchanges and the Japan Securities Dealers Association to publish an overview of financial data and earnings for the group to which they belong (or, if they do not produce consolidated financial statements, for themselves) for the quarter in question. Hopefully, they will use this as an opportunity not just to satisfy the disclosure requirements, which will be more rigorous than hitherto, but also to be as informative as possible.