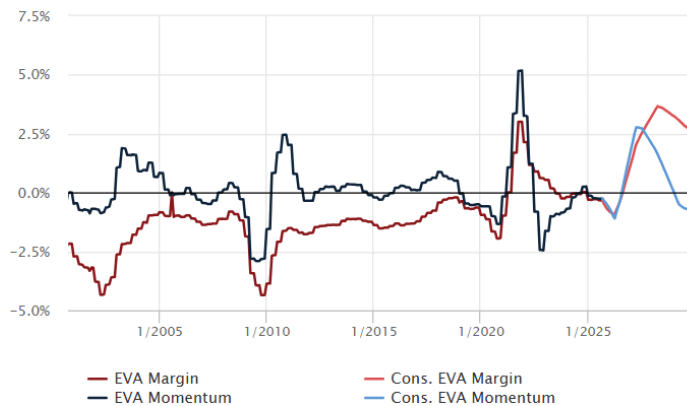


Japan: Big Expectations for a Recovery in Value Creation Deteriorating Economic Growth Sets Up a Rebound for 2026

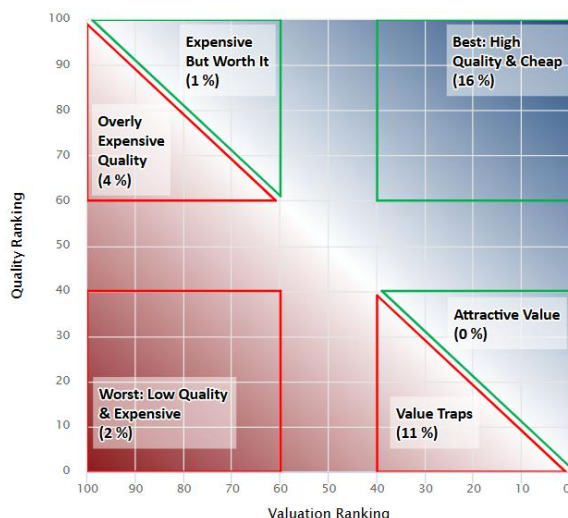
In our [April Japan report](#) we stated how this was a significant time for corporate Japan, with aggregate EVA Fundamentals (**Figure 1**) at a pivotal point. EVA Momentum (growth) had been on a long recovery road from the post-COVID lows of 2022, hovering around zero by the end of March. What we have seen is a significant deterioration in EVA Fundamentals. This surprised the consensus, which at the time was expecting EVA Momentum to recover, expand through 2025, and remain positive. We said that the onset of tariffs and slowing economic growth were not being properly reflected in the sell-side consensus EVA-adjusted numbers. The outlook is now for EVA Margin (Profitability) to contract further into negative territory in Q1 2026, with a bottom around -1%. The market has reacted positively to the expected bottoming in economic growth, along with a historically weak USD/JPY currency rate, to be trading around the all-time equity market highs.

Figure 1: Japan EVA Fundamentals



In **Figure 2** we show the current Heat Map zone positioning of the Japanese firms under coverage with a market cap over \$1bn (744 firms). 16% of the coverage is positioned in the favorable 'High Quality & Cheap' upper right zone, which is a 4% increase from April. To be assigned in the relevant zone the firms need to meet the exacting Quality and Valuation criteria, which is why the percentages look inaccurate. Overall, the coverage is skewed further to the right, meaning cheaper levels of Valuation.

Figure 2: Japan PRVit Heat Map Zones (Over \$1bn Market Cp)



Key Points

- We have seen a significant deterioration in EVA Fundamentals. This surprised the consensus, which earlier this year was expecting EVA Momentum to recover, expand through 2025, and remain positive.
- The outlook is for EVA Margin (Profitability) to contract further into negative territory in Q1 2026, with a bottom around -1%. The market has reacted positively to the expected bottoming in economic growth, to be trading around the all-time equity market highs.
- We screen for High Quality & Cheap firms on Page 6.

EVA Concepts

1. More Economic Value Added (EVA) is better.
2. EVA measures the true economic profit of a business, after compensating shareholders for use of their capital, and is therefore superior to standard accounting measures.
3. The value of a company is the capital invested plus the present value of future EVA generation. The math is like a DCF. Value = Capital + PV(EVA).

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About ISS EVA

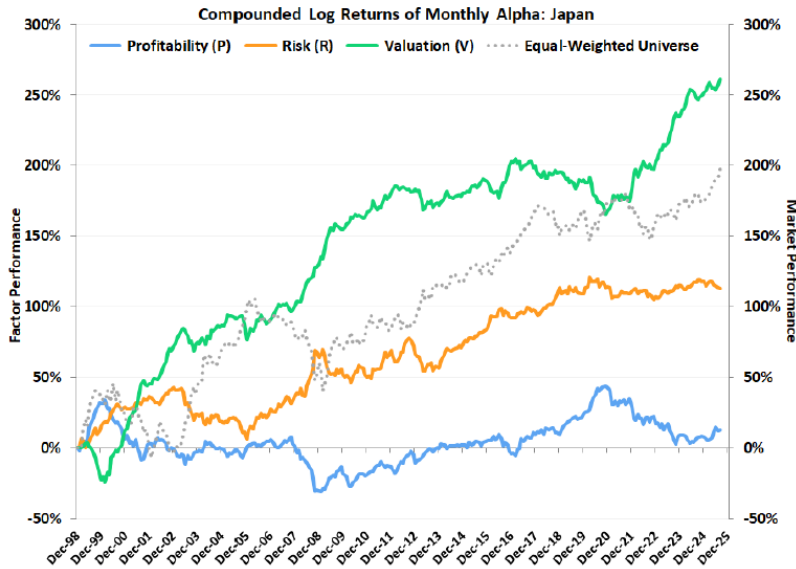
We are an independent equity research provider offering investing insights using our proprietary Economic Value Added (EVA) framework. Our experienced team of global analysts offers both fundamental and quantitative company analysis on our +29,000 stock universe.

Visit our website www.EVAexpress.com

Value Driving Historical Performance

Low Valuation has been a strong-performing long-term factor in Japan (**Figure 3**, green line). Profitability has generally struggled post-COVID. Value has moved higher through Q3. Profitability has seen some shorter-term improvement, with the market focusing on firms seeing an improvement in Profitability trend. We focus on High Quality and Cheap opportunities, covering Value but not at the complete expense of Risk-Adjusted Profitability. We screen for these firms later in the report (page 6).

Figure 3: Japan Factor Returns (August 2025)



Market Expectations

Figure 4 shows the Future Growth Reliance (FGR) for the Japan aggregate. FGR is over 28% as investors have continued to increase their expectations on the recovery in economic value creation, reflecting that close to 30% of the market value is dependent on growth in EVA going forward. FGR is the EVA equivalent of a P/E ratio. **Figure 5** shows the EVA version of a price-to-book ratio, the Market Value Added (MVA) Spread (MVA/Capital). The MVA Spread is the difference between the total Market Value and the EVA Capital employed. From the bottom in September 2022 the MVA Spread increased to a high in March 2024. That high has today been surpassed, with the economic p/b level at post-GFC highs. The market has seen expectations expand at a time when current profitability has returned to negative. Consensus expects economic Profitability to improve and to continue to expand to an all-time high by 2028. In the shorter-term, the upcoming LDP elections on October 4th, direction of the Yen (currently favorable weak trend), return of inflation and monetary policy normalization, and ongoing corporate governance reforms will be significant in the direction of foreign investor flows.

Figure 4: Future Growth Reliance (FGR)



Figure 5: Market Value Added (MVA) Spread



Industry Performance

In **Figure 6**, we look at the individual industry YTD performance (as of 26th September) across the EVA coverage of 717 Japanese firms with a market cap over \$1bn on a market-cap-weighted basis.

Figure 6: Industry Performance YTD (Market Cap Weighted - Sorted by Return YTD)

Industry	EVA Margin (%)	EVA Momentum (%)	EVA Mo Post-Inflection Count	PRVit Score	Quality (P-R)	Profitability Score (P)	Risk Score (R)	Valuation Score (V)	Share Price Ytd (%)
Health Care Technology	5.5%	-3.2%	2	6	39	47	67	81	60.5%
Wireless Telco	-0.4%	9.0%	0	18	41	54	76	48	56.6%
Electrical Equipment	1.6%	1.5%	2	42	68	65	39	54	47.4%
Construction & Engineering	0.8%	1.2%	2	59	64	59	35	33	45.5%
Semiconductors & SPE	16.7%	12.5%	3	49	72	82	66	74	43.2%
Media	-5.7%	-2.0%	1	37	42	35	44	35	37.2%
Entertainment	15.9%	-5.8%	-2	16	60	68	61	88	35.8%
IT Services	6.0%	0.8%	3	45	73	67	29	65	34.7%
Air Freight & Logistics	-0.2%	-0.5%	3	32	43	42	47	29	32.9%
Construction Materials	1.0%	0.0%	-1	60	53	53	47	20	31.5%
Machinery	0.7%	0.8%	-0	39	58	55	39	48	30.4%
Banks	-2.3%	1.3%	-2	23	48	59	72	36	28.4%
Trading Companies & Distributors	3.5%	0.1%	2	38	50	58	62	38	28.3%
Ground Transportation	-0.9%	2.8%	-4	29	38	46	68	25	27.4%
Real Estate Management & Dev	2.0%	0.7%	1	59	51	54	53	35	27.3%
Automobile Components	-0.6%	-0.2%	-0	58	62	48	19	22	26.5%
Capital Markets	5.9%	5.1%	2	39	58	70	70	41	24.9%
Containers & Packaging	-2.1%	-0.4%	-2	67	50	35	18	15	24.7%
Paper & Forest Products	-4.7%	-0.8%	-3	45	32	22	35	13	23.9%
Consumer Finance	23.7%	1.8%	-2	61	80	79	24	53	23.5%
Broadline Retail	0.7%	1.9%	-2	30	65	70	56	57	23.2%
Household Durables	1.9%	0.8%	1	29	58	69	67	47	22.4%
Electric Utilities	-2.0%	-3.3%	-1	42	27	41	83	9	22.3%
Gas Utilities	-1.1%	-2.8%	2	42	39	35	44	25	22.2%
Metals & Mining	-3.7%	-3.6%	-2	49	32	24	40	10	21.0%
Hotels, Restaurants & Leisure	13.7%	101.4%	-1	21	66	72	57	77	20.3%
Oil, Gas & Consumable Fuels	-3.5%	-3.7%	-2	40	25	19	46	11	20.1%
Consumer Staples Distro & Retail	-0.1%	-0.1%	0	37	58	55	39	39	19.7%
Textiles, Apparel & Luxury Goods	8.2%	4.2%	-2	42	93	89	17	80	19.6%
Tobacco	8.5%	-0.9%	-1	25	68	72	51	53	19.3%
Financial Services	-1.0%	-0.6%	0	32	41	45	61	32	18.0%
Health Care Providers & Services	0.4%	0.1%	-1	76	64	55	27	17	16.8%
Interactive Media & Services	-4.5%	0.2%	1	27	37	39	54	36	16.8%
Software	19.1%	3.6%	-1	52	92	90	18	90	15.8%
Passenger Airlines	3.4%	-0.3%	2	62	67	78	67	27	13.3%
Insurance	14.5%	16.4%	-1	49	78	87	60	42	13.0%
Transportation Infrastructure	-1.3%	0.6%	-1	49	56	48	30	29	12.9%
Leisure Products	6.9%	0.8%	-1	44	75	71	30	57	11.6%
Chemicals	3.0%	-0.1%	1	51	55	49	34	36	11.0%
Food Products	1.6%	-1.1%	-2	32	62	48	17	48	8.3%
Commercial Services & Supplies	2.9%	-0.0%	0	51	68	57	22	35	7.9%
Elec Equip, Instr & Comp	9.9%	0.8%	2	48	67	63	35	54	7.0%
Beverages	-1.3%	-0.9%	-1	46	57	48	29	25	4.7%
Building Products	1.0%	0.3%	-0	63	67	55	20	33	3.2%
Pharmaceuticals	9.2%	3.2%	-0	56	62	61	44	44	2.9%
Diversified Telco	-1.8%	-2.3%	1	21	26	32	70	25	1.9%
Industrial Conglomerates	1.0%	1.4%	-1	42	60	65	55	44	1.9%
Personal Care Products	1.2%	1.1%	-1	29	66	58	28	53	1.6%
Automobiles	-1.8%	-2.1%	-2	25	30	44	83	20	-0.8%
Specialty Retail	9.1%	2.5%	4	33	82	81	35	76	-1.2%
Tech Hard, Storage & Peripherals	-1.4%	1.6%	-2	61	50	49	44	24	-5.4%
Health Care Equipment & Supplies	10.7%	1.8%	-1	43	81	73	20	72	-7.2%
Professional Services	10.0%	2.0%	4	31	93	88	20	85	-10.5%
Marine Transportation	5.2%	-3.3%	4	26	21	41	99	10	-10.8%
Household Products	3.6%	-1.5%	-4	37	77	58	6	52	-17.6%
Average	3.4%	2.6%	-0	41	57	57	45	42	18.5%

Outperforming Industries

The **Health Care Technology industry** is only made up of 2 stocks. **M3 INC** (2413 JP), rated 'sell,' has seen very strong performance supported by an improvement in EVA Momentum, as reflected by the positive EVA Momentum from a post-inflection count perspective and the positive Q1 EVA Shock. Both signal the improving value creation trend the firm has seen since Q3 of 2024, which we take positively. The EVA framework views the tradeoff between high Valuations and relatively low Quality as unfavorable, however.

Figure 7: Health Care Technology Industry Performance

Name	Ticker	Mkt Cap (\$mm)	EVA Margin (%)	EVA Momentum (%)	EVA Shock (1 Qtr.)(%)	EVA Mo Post-Inflection Count	PRVit Score	Quality (P-R)	Profitability Score (P)	Risk Score (R)	Valuation Score (V)	Share Price Ytd (%)
M3 INC	2413 JP	10,711	7.4%	-2.9%	1.2%	2	5	39	52	76	81	68.5%
JMDC INC	4483 JP	2,060	-4.3%	-4.8%	3.9%	2	7	40	26	20	77	19.1%

The **Mobile Telco Industry** has outperformed YTD, driven by **Softbank** (9984 JP) and its group technology exposure. The small cap Okinawa Cellular (9436 JP) is reasonably favorable in the EVA framework, with a high EVA Margin and low Risk supporting the Quality score.

Figure 8: Mobile Telco Industry Performance

Name	Ticker	Mkt Cap (\$mm)	EVA Margin (%)	EVA Momentum (%)	EVA Shock (1 Qtr.)(%)	EVA Mo Post-Inflection Count	PRVit Score	Quality (P-R)	Profitability Score (P)	Risk Score (R)	Valuation Score (V)	Share Price Ytd (%)
SOFTBANK GROUP CORP	9984 JP	178,223	-2.9%	17.4%	-14.2%	-2	17	36	57	93	45	95.5%
SOFTBANK CORP	9434 JP	73,121	2.7%	-0.3%	0.4%	3	20	58	57	44	63	17.9%
KDDI CORP	9433 JP	68,954	2.7%	-2.6%	0.3%	2	18	34	44	70	40	-1.9%
OKINAWA CELLULAR TELEPHONE	9436 JP	1,713	8.0%	0.1%	0.1%	1	57	89	72	4	63	25.2%

The **Electronic Equipment industry** has outperformed YTD, with strong levels of Quality in aggregate. The Profitability profile is mixed across the industry exposure. We list below the firms that have seen a return of more than 5% YTD.

Figure 9: Electronic Equipment Industry Performance (Top Performers)

Name	Ticker	Mkt Cap (\$mm)	EVA Margin (%)	EVA Momentum (%)	EVA Shock (1 Qtr.)(%)	EVA Mo Post-Inflection Count	PRVit Score	Quality (P-R)	Profitability Score (P)	Risk Score (R)	Valuation Score (V)	Share Price Ytd (%)
FURUNO ELECTRIC CO LTD	6814 JP	1,162	2.7%	3.0%	-0.1%	-2	84	80	78	39	34	105.6%
IBIDEN CO LTD	4062 JP	8,597	0.6%	0.5%	1.8%	4	10	25	44	93	55	89.5%
TAIYO YUDEN CO LTD	6976 JP	3,036	-8.5%	-2.1%	-1.6%	-2	8	5	11	92	28	53.9%
NIPPON ELECTRIC GLASS CO LTD	5214 JP	2,959	-16.2%	-6.5%	-9.8%	-2	25	14	7	49	14	47.1%
ANRITSU CORP	6754 JP	1,850	0.6%	2.5%	1.4%	6	61	75	55	5	52	44.2%
HORIBA LTD	6856 JP	3,655	6.0%	-0.2%	1.6%	3	94	84	78	26	21	40.7%
AI HOLDINGS CORP	3076 JP	1,073	16.7%	-2.6%	-3.2%	-4	82	71	83	68	27	34.0%
KYOCERA CORP -ADR	KYOCY	21,030	-9.7%	-1.2%	2.0%	1	56	38	31	36	16	32.3%
YOKOGAWA ELECTRIC CORP	6841 JP	7,969	3.8%	-1.8%	-0.1%	-6	78	83	69	12	46	30.0%
KAGA ELECTRONICS CO LTD	8154 JP	1,272	1.5%	-0.7%	0.1%	2	95	80	60	3	13	25.7%
ALPS ALPINE CO LTD	6770 JP	2,833	-0.7%	5.4%	4.5%	2	92	65	58	32	5	20.3%
AZBIL CORP	6845 JP	5,339	8.2%	2.7%	1.6%	2	83	97	89	5	63	19.9%
CANON MARKETING JAPAN INC	8060 JP	4,553	2.4%	0.5%	0.2%	3	97	91	74	0	21	18.6%
MACNICA HOLDINGS INC	3132 JP	2,576	0.5%	-2.6%	-0.3%	-6	73	56	39	13	21	17.2%
NOHMI BOSAI LTD	6744 JP	1,582	3.4%	1.7%	0.4%	4	90	85	73	15	32	17.0%
TOPCON CORP	7732 JP	2,403	-4.5%	-1.8%	0.7%	4	21	38	25	23	49	15.5%
CITIZEN WATCH CO LTD	7762 JP	1,690	-0.9%	-0.5%	0.3%	3	85	54	37	12	5	11.2%
MURATA MANUFACTURING CO LTD	6981 JP	37,246	3.6%	3.3%	1.4%	6	42	58	60	48	50	10.8%
MEIKO ELECTRONICS CO LTD	6787 JP	1,823	1.5%	1.3%	-0.1%	-2	33	43	62	89	40	9.4%
TDK CORPORATION -ADR	TTDKY	28,623	1.7%	0.3%	-2.1%	-1	47	49	66	83	34	5.8%

High Quality & Cheap Screen

Our High Quality & Cheap Screen from April has returned 21.2% YTD on average. In **Figure 12** we run a new screen for firms that meet the specific criteria of High Quality and Cheap, as measured in the PRVit framework. We also add EVA Momentum post-inflection count as an important measure, showing where a firm is in its growth trajectory. We focus on firms that have either one quarter or more of improving EVA Momentum, capping the number of quarters of expansion at 4, so to avoid firms that are closer to potentially peaking out in growth. We also include firms that have seen 2 quarters or more of contraction, as these companies are potentially reaching closer to bottoming and the market should also reflect the slowing growth from an expectations perspective.

Screen Criteria

- Market Cap > \$2bn
- EVA Momentum post-inflection count 1-4 quarters or 2 or more negative quarters
- PRVit > 70
- Quality > 60
- Valuation < 40

Figure 12: High Quality & Cheap Screen Names

Name	Ticker	Industry	Mkt Cap (\$mm)	EVA Margin (%)	EVA Momentum (%)	EVA Mo Post-Inflection Count	PRVit Score	Quality (P-R)	Profitability Score (P)	Risk Score (R)	Valuation Score (V)	Share Price Ytd (%)
DENSO CORP	6902 JP	Automobile Components	41,665	-0.6%	2.1%	4	74	77	61	14	24	-2.0%
SUMITOMO CORP	8053 JP	Trading Companies & Distributors	34,786	27.8%	3.2%	2	89	93	95	36	38	27.2%
KOMATSU LTD -ADR	KMTUY	Machinery	33,135	4.2%	2.5%	1	88	85	81	32	27	22.5%
OTSUKA HOLDINGS CO LTD	4578 JP	Pharmaceuticals	30,508	8.1%	9.9%	4	92	76	86	64	21	-3.0%
TOYOTA TSUSHO CORP	8015 JP	Trading Companies & Distributors	30,110	1.0%	0.1%	2	75	73	62	24	28	51.4%
SUZUKI MOTOR CO LTD	7269 JP	Automobiles	28,760	2.8%	0.8%	-2	72	72	72	46	20	22.8%
SUBARU CORP -ADR	FUJHY	Automobiles	14,878	4.3%	-0.7%	1	87	75	83	61	6	10.3%
OBAYASHI CORP	1802 JP	Construction & Engineering	11,493	1.7%	2.5%	4	84	82	76	28	29	18.2%
FUJI ELECTRIC CO LTD	6504 JP	Electrical Equipment	9,888	3.2%	0.8%	-2	77	83	72	18	39	14.9%
DAI NIPPON PRINTING CO LTD	7912 JP	Commercial Services & Supplies	8,945	2.1%	0.6%	2	79	73	56	11	12	14.9%
HULIC CO LTD	3003 JP	Real Estate Management & Development	8,192	6.3%	0.8%	2	79	67	74	59	33	16.7%
SEKISUI CHEMICAL CO LTD	4204 JP	Industrial Conglomerates	8,076	1.8%	0.0%	2	87	81	63	6	23	2.4%
NITERRA CO LTD	5334 JP	Automobile Components	7,648	5.8%	0.2%	-2	71	80	62	7	31	14.8%
SOJITZ CORP	2768 JP	Trading Companies & Distributors	5,514	26.5%	1.1%	-4	96	95	88	13	24	24.0%
SHIMAMURA CO LTD	8227 JP	Specialty Retail	4,961	3.2%	-0.1%	1	80	80	67	16	27	14.5%
KOITO MANUFACTURING CO LTD	7276 JP	Automobile Components	4,605	0.7%	0.6%	2	86	81	62	3	16	12.4%
CANON MARKETING JAPAN INC	8060 JP	Electronic Equipment, Instruments & Components	4,470	2.4%	0.5%	3	96	91	74	0	21	15.9%
BROTHER INDUSTRIES LTD	6448 JP	Technology Hardware, Storage & Peripherals	4,267	0.3%	1.7%	2	95	76	61	15	7	-6.0%
SANTEN PHARMACEUTICAL	4536 JP	Pharmaceuticals	3,816	4.1%	4.7%	2	93	87	76	17	33	3.8%
MEDIPAL HLDGS CORP	7459 JP	Health Care Providers & Services	3,769	0.3%	-0.1%	-2	92	74	53	3	8	9.0%
HORIBA LTD	6856 JP	Electronic Equipment, Instruments & Components	3,580	6.0%	-0.2%	3	94	84	77	27	21	37.2%
RINNAI CORP	5947 JP	Household Durables	3,389	1.7%	0.0%	-2	77	74	52	0	23	9.1%
COMSYS HOLDINGS	1721 JP	Construction & Engineering	3,333	0.9%	0.3%	-3	80	75	58	10	26	17.5%
TOYODA GOSEI CO LTD	7282 JP	Automobile Components	3,148	-0.7%	-1.1%	-4	70	60	42	9	10	34.3%
STANLEY ELECTRIC CO LTD	6923 JP	Automobile Components	3,066	0.1%	1.1%	4	88	82	62	0	14	17.3%
NIFCO INC	7988 JP	Automobile Components	3,014	7.1%	4.6%	2	90	95	86	9	30	17.7%
SUZUKEN CO LTD	9987 JP	Health Care Providers & Services	2,853	0.6%	-0.1%	-4	89	71	71	45	11	24.9%
ALPS ALPINE CO LTD	6770 JP	Electronic Equipment, Instruments & Components	2,709	-0.7%	5.4%	2	91	65	58	32	5	16.5%
NICHIAS CORP	5393 JP	Building Products	2,511	7.4%	1.5%	1	94	94	80	2	28	-0.3%
NAGASE & CO LTD	8012 JP	Trading Companies & Distributors	2,378	-1.2%	0.1%	-2	77	61	42	6	15	1.5%
GS YUASA CORP	6674 JP	Automobile Components	2,372	0.5%	0.5%	-4	75	66	62	36	12	34.3%
ADEKA CORP	4401 JP	Chemicals	2,297	1.9%	0.2%	-2	92	78	57	2	16	18.7%
JAPAN PETROLEUM EXPLORATION	1662 JP	Oil, Gas & Consumable Fuels	2,226	9.8%	6.5%	2	98	90	88	33	9	16.7%
MARUICHI STEEL TUBE LTD	5463 JP	Metals & Mining	2,158	1.3%	0.0%	2	92	73	51	2	10	12.2%
HISAMITSU PHARMACEUTICAL CO	4530 JP	Pharmaceuticals	2,083	4.3%	4.7%	2	99	91	75	3	14	2.4%
Average			9,732	4.1%	1.6%	1	86	79	68	20	20	15.6%

About ISS EVA

We are an independent equity research provider offering investing insights through the use of our proprietary Economic Value Added (EVA) framework. EVA converts accounting profits into economic profits and charges businesses for the use of Invested Capital. EVA is superior to traditional measures of profit because it is comparable across companies, industries, and countries, links to a consistent, transparent valuation framework, and provides a unique, unbiased view of Quality, Value, and Growth.

Our experienced team of analysts offers both fundamental and quantitative company analysis through written research, bespoke research, a stock selection model, an online analytical tool offering +29,000 companies as viewed through the EVA framework, custom screening, and portfolio analysis.

Key EVA Concepts

The value of a firm = Capital + PV of EVA

If EVA is increasing then the intrinsic value of the firm is too, suggesting that market value should follow (and vice versa).

EVA = NOPAT - Capital Charge

EVA is profit after all costs, including the cost of giving shareholders a decent return.

EVA Margin = EVA / Sales

A true economic profit margin covering income and asset efficiency. Our EVA Income Statement examines EVA's line item drivers and offers key insights into business profitability.

EVA Momentum = Δ EVA / Sales

An incremental EVA growth rate indicator and key valuation signal and screening measure. The more positive the Momentum, the greater the growth in EVA, and upward pressure on shareholder returns. Inflections in EVA Momentum are an early and more reliable indicator of stock price inflections.

EVA Shock = Δ EVA Momentum

Changes in EVA Momentum is a powerful signal within our framework, with significant relationship with stock price performance.

Market Implied Momentum (MIM)

The annual EVA improvement required for 10 years to justify the prevailing market enterprise value, expressed as a percent of sales; represents a market implied, long-range EVA margin improvement target.

Future Growth Reliance (FGR) = (Market implied value of future EVA growth) / EV

Measures the % of a company's total enterprise value represented by expectations for future growth in EVA. FGR is key to understanding embedded expectations today and versus history. A low FGR versus history coupled with improving EVA trends indicates that the market is not pricing in the improving business model.

Additional Resources

evaExpress.com ([link](#)): Our online offering provides a comprehensive suite of fundamental and quantitative tools utilizing the EVA framework

EVA for Investors ([link](#)): A full introduction to the key EVA concepts and metrics

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