

# JAPAN: LAND OF THE RISING SUN— AND RISING DIVIDENDS

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WisdomTree conducts an annual screening to measure [dividends](#) paid in its developed international Index family. The annual [rebalance](#) provides a plethora of data about how dividends are changing across regions, sectors and companies. At this year’s screening, there were a few notable standouts in terms of [growth in Japan dividends](#): **Japan’s Dividends Set New Record**: This year’s Japan [Dividend Stream](#)<sup>®</sup>—measured in the local currency, the yen—set a new record of ¥9.03 trillion.<sup>1</sup> This number is almost double what the *Dividend Stream* was at its bottom in 2010. The growth in dividends reflects the increased profits of corporate Japan, as well as companies’ better balance sheet management. **Three-Year Growth Differentials and Yen Impact**: Over the last three years (since the 2012 Index screening), Japan dividends are up 56% when measured in yen, but they are down 1.6% when measured in U.S. dollars. This change in the exchange rate over the last three years shows how much currency can detract from the experience of local markets. In fact, in U.S. dollar terms, the 2015 dividends were lower than the 2014 dividends and even lower than the 2012 dividends, before Prime Minister Abe was elected at the end of 2012 and ushered in new economic initiatives aimed at [restoring growth in Japan](#). **Japan *Dividend Stream* in both U.S. Dollars (USD) and Yen Terms**

		2008	2009	2010	2011	2012	2013	2014	2015
USD	<i>Dividend Stream (billions)</i>	\$65.0	\$56.8	\$51.2	\$70.1	\$73.9	\$64.0	\$77.2	\$72.7
	Percent Growth		-12.6%	-9.9%	37.0%	5.4%	-13.5%	20.7%	-5.9%
Yen	<i>Dividend Stream (billions)</i>	¥6,861	¥5,418	¥4,671	¥5,717	¥5,789	¥6,426	¥7,859	¥9,029
	Percent Growth		-21.0%	-13.8%	22.4%	1.3%	11.0%	22.3%	14.9%

Sources: WisdomTree, Bloomberg, Standard & Poor’s. Universe comprises companies from the WisdomTree DEFA Index incorporated in Japan. Data includes historical Index screening dates from 5/31/2008 to 5/31/2015. You cannot invest directly in an index.

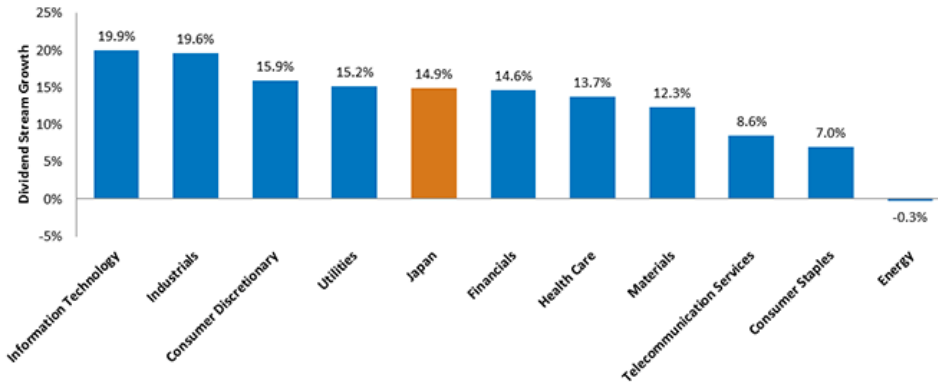
*For definitions of indexes in the chart, visit our [glossary](#).* **Sector *Dividend Stream* Growth Was Also Broadly Positive in Japan** This year’s 14.9% growth in dividends was led by the technology sector, which saw dividends grow by almost 20%. To gain greater insight into this 20%, we looked at the 10 largest Japanese dividend payers within this sector. Four companies stood out for at a minimum doubling their dividends per share compared to the prior year:

- **Yahoo Japan Corporation**: An embodiment of the current Japanese trend of returning cash to shareholders, Yahoo Japan Corporation doubled its dividend from the 2014 fiscal year. The company was able to pay over ¥50 billion in dividends from its retained earnings.<sup>2</sup>
- **Tokyo Electron** increased its [dividend per share](#) from ¥25 to ¥68—approximately 170%! The source of this cash: surplus earnings.<sup>3</sup>

- **Seiko Epson Corporation** increased its dividend per share by 130%!<sup>4</sup>
- **Fujitsu** doubled its dividend per share.<sup>5</sup>

Industrials were another sector with close to 20% growth. Fanuc represented the largest Japanese dividend payer in this sector; the firm doubled its [dividend payout ratio](#) from 30% to 60% as part of its recent focus on [returning more profits to shareholders](#).

J a p a n *Dividend Stream* Growth by Sector



Sources: WisdomTree, Bloomberg, Standard & Poor's, as of 5/31/2015. Universe comprises companies from the WisdomTree DEFA Index incorporated in Japan. You cannot invest directly in an index.

This new dividend data not only affords a broad cross-market view of Japan's [fundamentals](#), but also provides the basis for [relative valuation](#) insights. wisdomTree's annual rebalance of its Japan-focused Indexes that entail a disciplined process focused on relative valuations. These changes generally can be described as:

- Stocks getting more expensive—measured on a price-to-dividend basis—receive less weight
- Stocks getting less expensive—measured on a price-to-dividend basis—receive more weight

Rebalancing back to the *Dividend Stream* is a critical way to help manage [valuation risks](#). Japan's markets remain among the more reasonably priced in the major international regions; despite strong gains over last three years, the market has been driven by underlying earnings growth. We see here that the dividend growth also was fairly healthy, and we think that the renewed focus on shareholder returns being displayed broadly in Japan has the potential to lead to further growth of dividends in the future.

*As of the 5/31/2015 Index screening date, in the WisdomTree DEFA Index: Yahoo Japan Corporation was a 0.08% weight, Tokyo Electron was a 0.04% weight, Seiko Epson Corporation was a 0.04% weight, Fujitsu was a 0.03% weight, and Fanuc was a 0.24% weight.*

<sup>1</sup>Sources: WisdomTree, Bloomberg, Standard & Poor's, with data as of the 5/31/15 annual rebalance. <sup>2</sup>Source: Yahoo Japan Corporation, Notice of Cash Dividend Paid from Retained Earnings, 5/21/15. <sup>3</sup>Source: Tokyo Electron, Notice Concerning Payment of Dividends from Surplus Earnings (for the Fourth Quarter of the Fiscal Year Ended March 31, 2015), 5/13/15. <sup>4</sup>Source: Bloomberg. <sup>5</sup>Source: Bloomberg.

**Important Risks Related to this Article**

Foreign investing involves special risks, such as risk of loss from currency fluctuation or political or economic uncertainty. Investments focused in Japan increase the impact of events and developments associated with the region, which can adversely affect performance. Dividends are not guaranteed, and a company's future ability to pay dividends may be limited. A company currently paying dividends may cease paying dividends at any time.

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## DEFINITIONS

**Dividend**: A portion of corporate profits paid out to shareholders.

**Rebalance**: An index is created by applying a certain set of selection and weighting rules at a certain frequency. WisdomTree rebalances, or re-applies its rules based selection and weighting process on an annual basis.

**Dividends per Share**: The sum of declared dividends for every ordinary share issued. Dividend per share (DPS) is the total dividends paid out over an entire year (including interim dividends but not including special dividends) divided by the number of outstanding ordinary shares issued.

**Dividend Payout Ratio**: The percentage of earnings paid to shareholders in dividends. Calculated as yearly dividends per share over earnings per share.

**Fundamentals**: Attributes related to a company's actual operations and production as opposed to changes in share price.

**Relative value**: The relationship between a particular attribute, e.g., a dividend, and the firm's share price compared to that of another firm.

**Valuation risk**: The risk of buying or over-weighting a particular stock that has appreciated significantly in price relative to its dividends, earnings or any other fundamental metric.