Contactus@
ausbil.com.au

ausbil

Ausbil FY25 reporting season wrap and equity market outlook

Research & Insights

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Ausbil Investment
Management Limited
ABN 26 076 316 473
AFSL 229722
Level 27
225 George Street
Sydney NSW 2000
GPO Box 2525
Sydney NSW 2001
Phone 61 2 9259 0200

Key points

- Reporting season for FY25 was somewhat mixed, but consistent with our view that results with positive earnings and earnings revisions were generally rewarded and those with negative earnings and revisions punished.
- Overall, Australian companies continue to have strong balance sheets and an improving outlook, reflected in the increase in dividends paid by 15 percentage points[1].
- Overall, for the S&P/ASX 300 Accumulation Index, 33% of companies beat consensus earnings expectations by >5%, 22% missed by >5%, with 45% in-line; in sum, a net 11% beat[2].
- Given the relative uncertainty in global trade following the tariff announcements by Trump and the fact that many agreements, especially China, while seeing progress remain incomplete, the overall outcome of the reporting season was quite positive. We see continued progress on trade agreements that may provide support for growth into FY26[3].
- Of the 33 Ausbil GICS sectors, 22 sectors were downgraded for FY25 earnings, while 11 were upgraded, with 25 sectors still expected to deliver positive earnings growth in FY26 .
- In terms of the overall market, consensus EPS growth expectations for FY26 deteriorated across the reporting season by -0.96% to +4.1% for FY26. We believe the difference in outlooks is based on divergent views on the economic outlook, with remnant negativity and the need for some clearer signals that we are nearing a positive resolution on trade.
- Ausbil's current house view is that the economy remains on a positive trajectory for the remainder of 2025, with lower inflation and some real rate cuts. Ausbil expects another rate cut this year by the RBA and two more from the Federal Reserve, supporting our view that as trade deals are done, Australian and US GDP could rise into 2026. We see a supportive environment for earnings growth and Australian equities in general.

FY25 reporting season

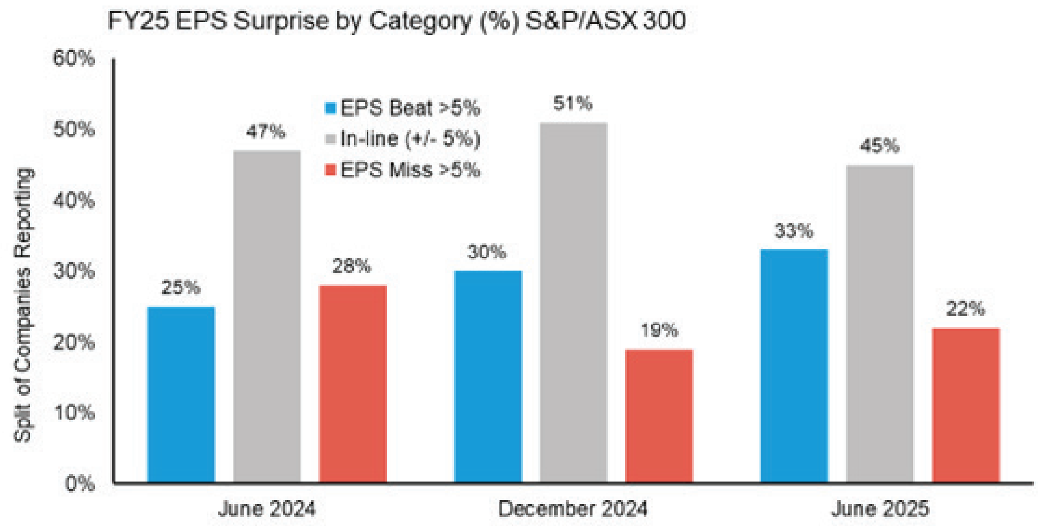
FY25 reporting season was the first reporting season to follow the tariff uncertainty that began in April 2025. Given this, FY25 was considerably better than could have been expected back when Trump first announced a swathe of tariffs globally on April 2. Overall, given the policy arc that tariffs have taken, we have just seen a relatively positive reporting season, and an improvement on HY25, which coincided with the first rate cut by the RBA this cycle, though it was reporting the half-year prior to rate cuts.

There have been some notable outperformances and some surprises. However, overall, the reporting season was more hopeful for companies with the background of more rate cuts to come from the Federal Reserve and the RBA, and with positive signs on negotiated outcomes in the US tariff reboot of 2025.

In terms of beats and misses, the S&P/ASX 300 Accumulation Index, 33% of companies beat consensus earnings expectations by >5%, 22% missed by >5%, with 45% in-line; in sum, a net 11% beat[4].

1. Macquarie Research, August 2025.
2. Macquarie Research, August 2025.
3. FactSet, August 2025.
4. Macquarie Research, August 2025.

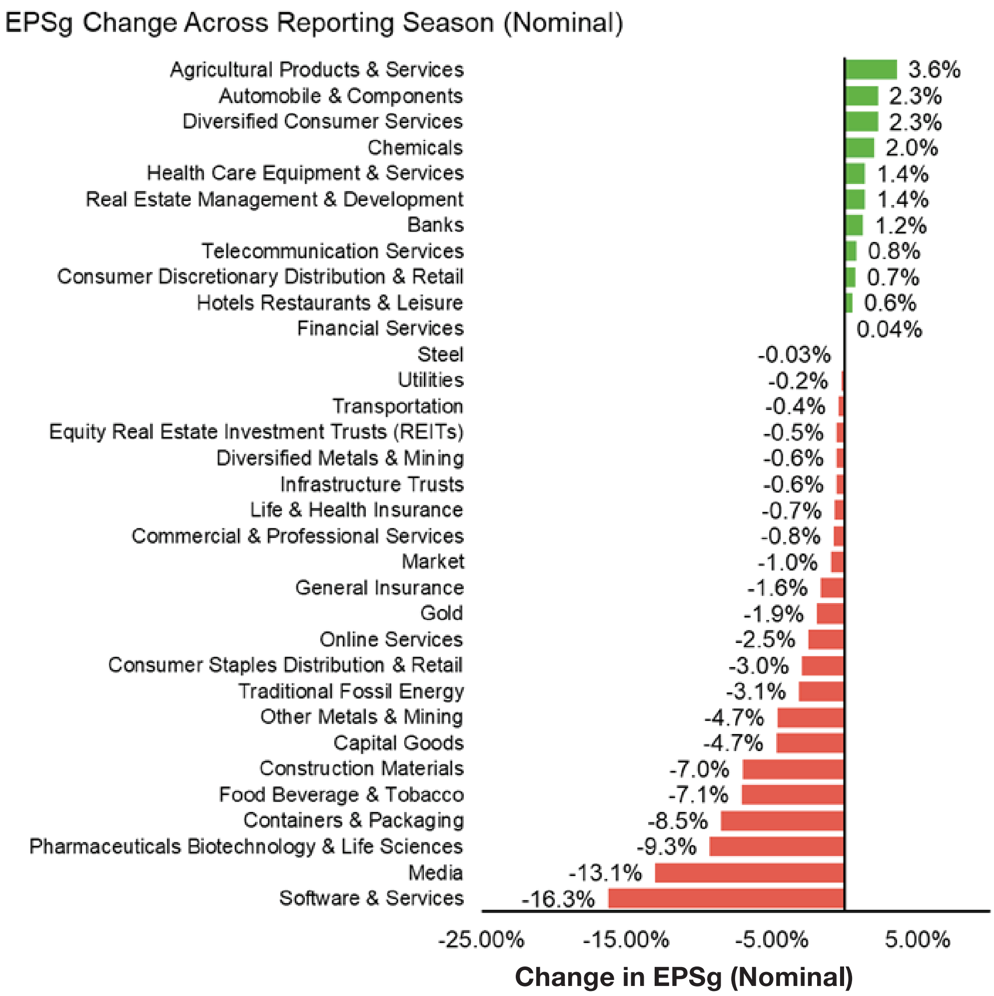
Figure 1: Beats and misses



Source: Macquarie Research, August 2025. Data presented for the S&P/ASX 300 Accumulation Index.

The market shifted across reporting season to a slightly lower expectation for FY26 earnings growth, with consensus EPS growth expectations for FY26 falling -0.96% to +4.1%.

Figure 2: Shift in earnings outlook across reporting season



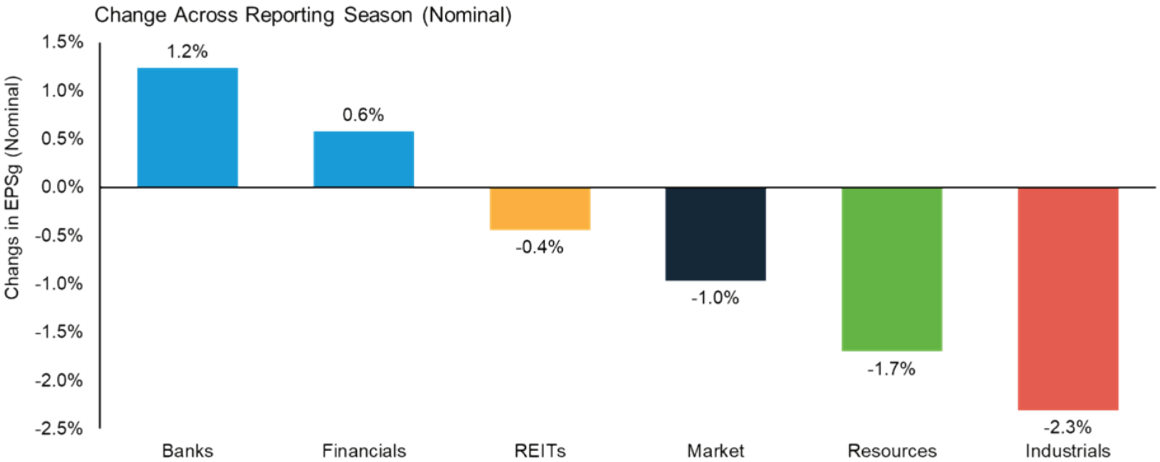
Source: FactSet, Ausbil, August 2025.

> "The market shifted across reporting season to a slightly lower expectation for FY26 earnings growth, with consensus EPS growth expectations for FY26 falling -0.96% to +4.1%"

Of the 33 Ausbil GICS sectors, 22 sectors were downgraded for FY26 earnings, while 11 were upgraded, with 25 sectors still expected to deliver positive earnings growth in FY26[5] (Figure 2). From an industry group perspective, consensus downgraded REITs, resources and industrials, and slightly rerated financials, and its banks subsector (Figure 3).

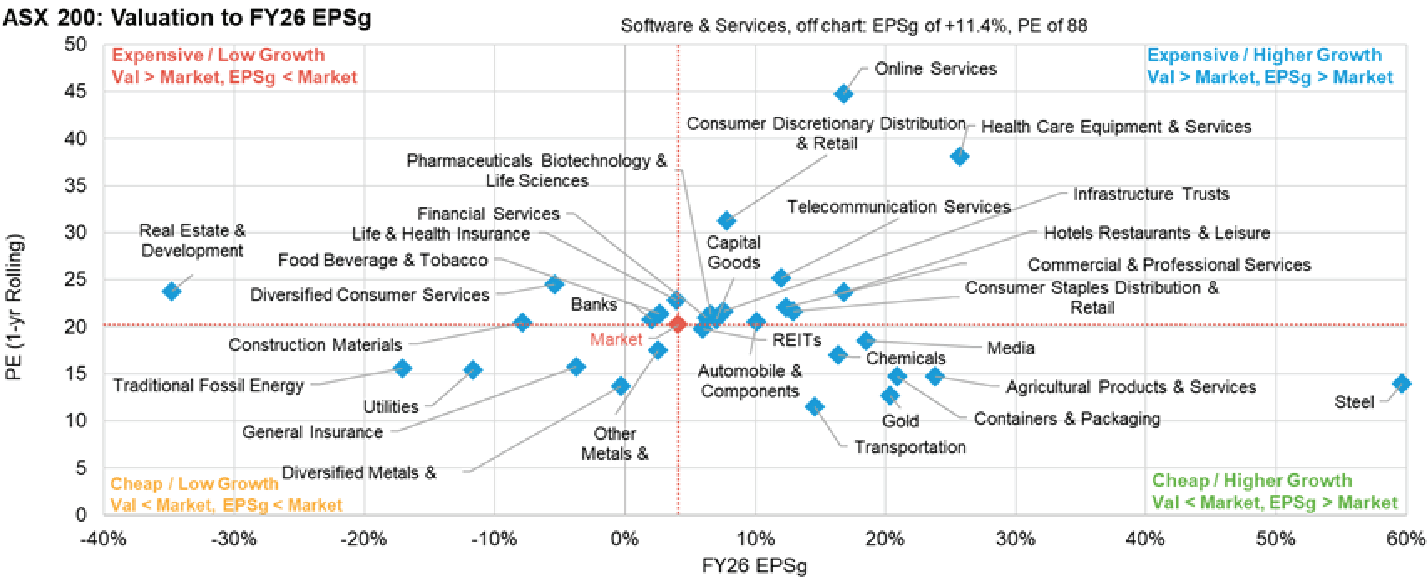
> "Of the 33 Ausbil GICS sectors, 22 sectors were downgraded for FY26 earnings, while 11 were upgraded"

Figure 3: The shift in earnings by industry group and segment



The market is still relatively expensive at a trailing 1-yr PE of 20.2, and an EPS growth outlook of +4.1% for FY26. With this in mind, a number of sectors are showing positive EPSg for FY26 that is above market but cheaper on current PEs, including: steel, gold, REITs, media, chemicals, automobile and components, containers and packaging, and transportation (Figure 4).

Figure 4: Valuation to FY26 earnings growth according to consensus post reporting season



Source: FactSet, Ausbil, August 2025.

5. FactSet, 2025.

Uncertainty on the Australian economy by the market and consensus, together with slowing rate cuts and concerns around global trade politics, is capping the outlook for near term earnings. Ausbil is more constructive on the macro for calendar 2026 (as outlined in the following section), and hence we are more positive about earnings growth opportunities for FY26, even if the overall market earnings growth remains weak. By way of example, Ausbil is more constructive on earnings growth than consensus in areas that include diversified metals and mining, other metals and mining, some diversified financial services, technology and software, some pharmaceutical and biotechnology companies, and select construction materials.

Overall, we have held a more positive view for some time than consensus on the outcome of the tariff shock (a position consensus has increasingly come toward our thinking), on the path of economic growth (again, we are more positive on the outlook for more growth in 2026), and the risk of recession (we saw this as a lower probability than consensus expectations). Overall, this difference in outlook, one where Ausbil has been more optimistic on earnings growth than consensus based on our reading of the data, is the main reason we think that there is more on offer than consensus data suggests on earnings growth potential in FY26.

“Ausbil is more constructive on the macro for calendar 2026, and hence we are more positive about earnings growth opportunities”

Earnings colour from key companies this reporting season

In resources, though materials have had a rough run in the tariff storm of FY25, and off the back of a punishing few years of monetary tightening, resource stocks managed to deliver resilient outcomes this reporting season with valuations continuing to lag long-term averages. Diversified mining leader, BHP, delivered underlying earnings of US$26bn, in line, but called a dividend ahead of consensus by 9%, issuing a positive outlook for iron ore and copper fundamentals globally. Rio Tinto, also diversifying further into copper, achieved a slight half-year increase in earnings, with copper performing particularly well. Fortescue, the diversifying iron ore company, delivered earnings in line, with net profit falling slightly, paying the price for its holdings in battery materials and alternative energy. In gold, the largest Australian domiciled gold miner, Northern Star Resources continued to benefit from near record gold prices, generated earnings of $3.5bn in line with consensus expectations. Evolution Mining, in gold and copper, issued a record earnings of $2.2bn, in line with consensus, but a 46% rise on FY24.

In building materials and steel, James Hardie made headlines with a significantly weak result, with North American fibre earnings down 5%, dragging overall company earnings down 4%, with the company downgrading revenue for FY26, effectively delaying recovery. This sent the share price into a correction, however this seemed overdone given the potential recovery in US demand as rates fall and the US economy improves. BlueScope Steel missed slightly on earnings, largely due to economic uncertainty during the year, though its dominant US-based North Star business is positioned to benefit from US protectionism. Related to building materials, capital goods company, SGH, the owner of WesTrac, Boral and Coats, delivered an FY25 result in-line with consensus but issued a softer FY26 outlook. Given the cyclicality of the business, and Ausbil's positive outlook on global economic growth in 2026, we think there is potential for the business to improve on this guidance.

Energy company earnings were weaker, largely reflecting the fall in oil prices across the year from ~US$80 per barrel to sub-US$70 a barrel on global trade uncertainty. In energy, Santos, the subject of a takeover proposal by a consortium led by XRG, achieved earnings in line with expectations. Beach Energy earnings were a touch lower than consensus, though the dividend was ahead.

In banks, of the majors, only CBA reported a full-year profit, in line with expectations at $10.3bn. Bank values had surged in FY25, well beyond their earnings growth outlook, and while the profit figure was as expected, Ausbil believes banks will have to work harder for their earnings at these levels. Suncorp delivered a solid in-line profit, with a strong dividend and buyback. Bendigo and Adelaide Bank also achieved profit in line with consensus.

Information technology saw a number of strong results as a number of Aussie tech unicorns continue their secular growth trajectory. Digital financial services company, Block, owner of Afterpay and Square, delivered a beat for Q2 (for its US reporting schedule) with 14% profit growth versus consensus expectations of 10%. Life360, the family location and safety app, also delivered a record quarter (also on US reporting year), reporting record 2Q revenue, a gross profit and EBITDA beat, and issuing an FY25 guidance upgrade across all lines. Zip Co, another Australian buy-now pay-later company, announced a major 4Q boost in cash earnings, setting the scene for potential earnings upgrades in FY26 as it boosts its investment in the US and plans to list on Nasdaq. Megaport, a leading network-as-a-service provider, also announced small beats on profit and revenue, continuing a theme in this sector for FY25.

> "Information technology saw a number of strong results as a number of Aussie tech unicorns continue their secular growth trajectory"

In online services, Seek, the jobs engine, delivered earnings in line as part of a strong result, though the share price has already reflected this performance. REA delivered results in line with expectations, and guided for a flat listing experience for FY26, but delivered a beat on the dividend. Carsales.com also delivered a flat earnings result, however stronger US revenue than expected is seen as a key driver for earnings growth looking ahead.

In transportation, Qantas achieved a slight beat on profit, and a dividend beat via a special dividend instead of a buyback. Qantas reported strong cash flow, with operating cash flow covering both capex and capital management. Though there is new competition, the result showed that pricing remained rational in the industry. Qube, Australia's largest integrated provider of import and export logistics services, delivered earnings in line with consensus expectations. Aurizon, Australia's largest bulk freight company servicing the mining, soft commodities and energy industries, missed on profit with a weaker earnings outlook. Both companies reflect the current sentiment around the economy, tariffs and resources outlook.

In consumer staples, Coles announced that strong volume growth has surprised the market, with growth at ~5% in the first 8 weeks of FY26. While this may not be sustainable, the sector seems to be benefiting from an improvement in the macro environment, but it could also reflect shifts in market share as Coles has been pushing their house brand. Woolworths delivered in-line results but worries about market share overhang the stock, especially given the gains announced by Coles. One result that shocked was that of Inghams, engaged in the production, distribution, marketing and sale of chicken and turkey products, which reported an earnings miss and lost significant volume from Woolworths diversifying their supplier sourcing.

Australia's health care sector had a mixed reporting season. CSL, a long-term compounder which develops and manufactures vaccines and plasma protein biotherapies, announced a light beat on earnings, with guidance slightly below consensus. The share price overreacted, in our view, given the relative valuation and the quality of CSL's business. CSL announced a cost-out program and a buyback, and a planned demerger of Seqirus, which could help drive a rerate. Ramsay Health Care, offering a range of acute and primary healthcare services globally, achieved earnings in line with consensus expectations but is working on some structural issues that are expected to impact earnings in FY26. Cochlear, the world leader in hearing devices, achieved earnings broadly in line, with some market share gains in developed markets.

In consumer discretionary, Harvey Norman, Australia's pioneering bulky goods, electrical and furnishing business, delivered an earnings beat and a strong trading update, with comparable sales up 9% for the year. Retailer of home appliances, Breville, delivered earnings growth slightly ahead of the top-end of guidance, driven by strong growth in all regions, with coffee growth still robust, and NPAT ahead of consensus, driven by lower interest costs. Nick Scali, the founder-led furniture retailer with over 110 stores in Australia and New Zealand, beat consensus on earnings, with good sales momentum heading into FY26.

Real estate continued to deliver mixed results in the FY25 reporting season, depending on the sector. Mirvac, exposed to residential markets and lower interest rates, missed on operating profit, but there were positives in stronger-than-expected residential settlements and stronger pre-sales. The continuation of these positive trends is partly dependent on coming rate cuts, of which Ausbil currently expects one at 25bps, bringing the terminal cash rate this easing cycle to 3.35%, most likely by the end of 2025. The Charter Hall Long WALE REIT delivered earnings in line for FY25, but is showing potential for improved performance into FY26 with high occupancy at ~99% and lower debt costs supporting future earnings growth. Charter Hall beat on earnings, and we believe is showing earnings growth potential into FY26. Goodman, the integrated commercial and industrial property group that owns, develops and manages real estate, including warehouses, large-scale logistics facilities, business parks, data centres and offices, delivered an in-line with consensus result. The outlook is improving for earnings growth in FY26. Both Goodman and Charter Hall may benefit from better funding costs and valuation uplift from lower rates, and from improving economic conditions, cost-cutting and scaling from major customers who buy efficiency and scale from both these real estate companies.

ESG trends in the FY25 reporting season

In addition to the fundamental performance of companies in FY25, the reporting season gave us a good insight into the environment, social and governance (ESG) issues companies are facing and how they are being managed.

This reporting season, three clear themes emerged. Firstly, we observed incremental adjustments to net zero climate commitments, reflecting the slower-than-expected commercialisation of enabling technologies. This aligns with prior views communicated in investor meetings over the last year. Secondly, there continued to be a focus on the social license to operate, with companies well aware that being good stewards of their position in the economy was critical to both the bottom line and in avoiding political intervention. Thirdly, engagements across the reporting season highlighted the heightened industrial relations risk at the moment.

Across other ESG issues, there was some colour this reporting season. Despite the practical challenges with decarbonisation, there was little material change to companies' climate change targets. However, we did observe significant focus on the new climate change reporting regime. Naturally, the new carbon emissions transparency regulation is preoccupying many companies, and we saw many companies improve their physical risk analysis and transparency. We also saw increased focus on nature/biodiversity risk, including a number of companies preparing for the Taskforce on Nature-related Financial Disclosures (TNFD).

We found that the companies are maintaining investment in cyber risk management and fraud prevention. Cyber-risk has become a potentially expensive problem, and companies are seeing a genuine return on investment in shutting down such risks.

On the industrial relations side, there were very few instances of actual industrial action but concerns were voiced about increased union activity and a consequential impact on productivity measures. We believe this will continue to be a major risk due to regulatory changes and a second wave of workplace reforms proposed under the second-term labour government.

We saw strong demand for sustainability in company disclosures, with companies not cutting back on ESG initiatives as long as they add value. We did not observe widespread reductions in ESG initiatives among Australian listed companies despite changes to overseas practices in the US. Neither has it resulted in any major change in sustainability-related targets. Investors across the spectrum from super funds to wholesale investors are in our view increasingly committed to ESG and sustainability values in investing in Australia.

Culture and engagement insights gleaned from FY25 reporting season broadly align with our findings in the Glassdoor reviews we monitor across the year. Many companies reported record staff engagement, which is positive for productivity growth, earnings and retention, and ultimately, quality earnings.

On safety, we saw safety improvements and a more holistic safety focus in reporting season returns. Following a post-pandemic deterioration in safety performance, driven by things like workplace fatigue, lack of labour and hiring inexperienced workers, there was an elevated number of fatalities on HY25. These had the effect of jolting companies towards better and more comprehensive behaviour around safety, and new safety initiatives, which have improved

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lag indicators in FY25. We also saw a fairly small number of fatalities compared to previous experience over the last reporting season. In addition, many companies have increased their focus on psychosocial safety and mental health, reporting and disclosing more on how that risk is managed and mitigated.

Customer satisfaction was another area where we saw increased mention. Many companies are becoming increasingly customer-centric, and some companies reported record-high customer satisfaction metrics, partly due to AI helping staff to deliver better customer outcomes. Many companies have executive incentives linked to customer metrics and use AI for increased customer engagement/interaction, but also to reduce downside risk, such as using AI to reduce customer losses from scams and cybercrime. We were pleased to see this improved focus on customer outcomes.

We witnessed strengthened governance around AI, which we believe is particularly important as regulation usually lags technology. In our engagements on AI, we encourage companies to be proactive on robust governance standards and so-called 'responsible AI' policies. We are pleased to report that we saw many companies adopt such approaches in FY25.

Finally, on modern slavery risk this reporting season, we noted that this clearly remains a key issue in global supply chains. With cuts to US AID under the Trump presidency, combined with the increased vulnerability of workers in global supply chains and increased regulation (such as import bans and future import bans on goods made by forced labour), the financial materiality of modern slavery has increased. While we did see some progress in FY25, we are still of the opinion that more needs to be done by corporate Australia, particularly the listed companies in our ESG universe, on mitigating and removing incidences of modern slavery and human rights abuses in their supply chains. We remain focused on this, and all the other issues noted above in our ongoing ESG engagements.

> "Ausbil expects Australian growth to be relatively unchanged and expects Australian companies to generate earnings growth in excess of consensus expectations"

Earnings outlook following reporting season

Markets responded positively as Trump revealed a number of trade deals, including the critical EU deal, and as discussions moved forward with China. While the media has spruiked recession fears, our macro-outlook remains unchanged, with US economic growth expected to improve into 2026, and with the boost of more positive trade deals, including Europe. Tax cuts, deregulation, lower oil prices, lower core inflation and lower interest rates may help offset some growth drag from tariffs.

Australia managed to escape the high tariffs and had to settle for a reciprocal 10% because of the perceived unfairness of the GST on US exporters here. With China in advanced stages of trade negotiations, we remain positive on our outlook and we do not see a recession. Both the Federal Reserve and the RBA are expected to cut rates further this year as they continue with their steady data-driven easing approach, which is expected to help provide a floor to markets heading into calendar 2026, and add to the more positive data returns we are seeing. We remain positioned accordingly and are judiciously ignoring the noise for the data.

Ausbil is seeing opportunities in equities that are relatively shielded or even beneficiaries of the new US tariff policy. While tariffs have caused a potential major shake-up in global trade, Ausbil expects Australian growth to be relatively unchanged and expects Australian companies to generate earnings growth in excess of consensus expectations which are currently at +4.1% in FY26 (S&P/ASX 200) according to FactSet. Underpinning our outlook for equities are a number of structural drivers that are offering opportunities, including higher defence spending in certain jurisdictions, AI-related infrastructure investment, energy security initiatives and electricity-demand growth over carbon-based energy.

Contact Us

Institutional

Adrian Amores
Head of Global Distribution
Phone 0435 962 052
Email adrian.amores@ausbil.com.au

Fawaz Rashid
Senior Manager, Global Institutional Distribution
Phone 0401 830 483
Email fawaz.rashid@ausbil.com.au

Wholesale

Marko Matosevic
Southern Region Sales Manager
Phone 0431 340 553
Email marko.matosevic@ausbil.com.au

William Orr
Business Development Manager, NSW,
Wholesale Clients
Phone 0402 620 188
Email william.orr@ausbil.com.au

Andrea McGarry
Business Development Manager, QLD & NT,
Wholesale Clients
Phone 0411 465 426
Email andrea.mcgarry@ausbil.com.au

Michael Peros
Business Development Manager, VIC,
Wholesale Clients
Phone 0401 430 426
Email michael.peros@ausbil.com.au

Linda Kang
Manager, Investment Research and Consulting
Phone 0411 288 344
Email linda.kang@ausbil.com.au

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