



SuMi TRUST Monthly Commentary

May 2020

Growth in Times of Adversity: Japanese companies that can grow even under coronavirus

The spread of the coronavirus has forced millions globally to completely reshape their lifestyle. Many of the changes that have come from this will last far beyond any lockdown and the impact will undoubtedly lead to a changing picture across various industries.

In this commentary, we will introduce the companies which could potentially see a positive impact from coronavirus erosion, and the companies that could respond to changes in people's behavior and social structure.

Coronavirus in Japan

The spread of coronavirus infection around the world continues and as of 12th May, the cumulative number of infected people was over 4.0 million and the death toll was over 280,000. Although there are several developed countries which have started to lift lockdown restrictions and resume their economic activities, in many developing countries, the number of infections continues to rise and there is little sign that the virus will be contained in the mid-term.

Since March, many countries in Europe and the United States have implemented long periods of strict lockdown, with some countries setting restrictions on movement and enforcing broad business closures.

In Japan, as of 12th May, the cumulative number of people infected is 15,798, of which there is a death toll of 621. Although the damage from the virus spread is limited compared to other countries, the state of emergency that was issued on 7th April was extended until the end of May as the reproduction rate of new infections has not seen a meaningful decrease. Although restrictions are not as strict as those of Europe or the US, many restaurants and retailers have refrained from doing business, and most people are working from home. In addition, as self-restraint for going out and traveling is required, public transportation use and hotel occupancy has fallen significantly. Following the extension of the emergency declaration, the impact on the economy as a whole will inevitably increase in the short term.

Growth Opportunities in Japan under/beyond pandemic

It is expected that the coronavirus will stifle economic activity and have a large negative impact on the performance of many companies, however, some companies are impacted positively both directly and indirectly. In addition, we believe that this pandemic will further promote the bipolarization of companies in the mid to long term. The changes in life style, ways of thinking and the changes in social structure caused by coronavirus may remain permanently. We would like to introduce some companies with the potential to grow significantly under/beyond pandemic.

For the purpose of considering virus containment/economic activity, we have divided the process into three phases; Phase 1 - "Spreading Virus and Stagnating Economy (about 3 months)", Phase 2 - "Containing the Virus and Resuming Economy (6 months to 1 year)", and Phase 3 - "Prevention of the Virus and Revitalizing Economy (after the development of therapeutic drugs/vaccines)" which are shown in Figure 1.

We are currently in Phase 1, although the economic activity of entire societies is stagnant, the demand for some goods and services is unevenly distributed. Phase 2 is a period during which economic activity is lower than normal in order to prevent a second peak of infection and it is expected that the temporarily stagnant demand will be delayed and return in the form of being added to normal demand. In Phase 3, it will be important to pay attention to the changes in social structure and people's behavior brought about by the coronavirus, and to understand which behaviors are likely to remain even after the end of the pandemic.

Figure 1

Year/ Month	2020												2021											
	3	4	5	6	7	8	9	10	11	12	1	2	3	4	5	6	7	8	9	10	11	12		
Status	Spreading Virus and Stagnating Economy			Containing Virus and Resuming Economy									Prevention Virus and Revitalizing Economy											
	Lockdown Emergency declaration			Resuming economic activity																				
Event				Increased therapeutic drug development						Vaccine development														
	Production → Consumption																							
Economic activity																								

During Phase 1, as people are encouraged to stay at home, online services covering education and entertainment are likely to be the beneficiaries, as well as those that can provide home delivery. In Japan, Oisix Ra Daichi (3182 JP), which offers high quality meal kit delivery service, has seen rapidly increasing demand. Gaming giant Nintendo (7974 JP) has been running short of products due to the uptick in demand for its Switch game consoles. Also, JustSystem (4686 JP), which provides online learning services, is flooded with orders due to school closures.

Moreover, as Japanese medical device manufacturers are known to be some of the best in the world, Nihon Kohden (6849 JP), which manufactures cardiopulmonary bypass devices and ecological monitoring devices, is responding to a significant demand increase. Additionally, manufactures of healthcare goods including Unicharm (8113 JP), Lion (4912 JP), Kao (4452 JP), etc. are all benefiting from the global demand for daily hygiene products.

After Phase 2, the demand for remote working products and services will definitely see a significant increase. In the last few years there has been a move toward increase work style flexibility which has been supported and encouraged by governmental reforms. The pandemic has further pushed this change and it seems to have encouraged corporate managers to consider remote working from the perspective of risk management (disaster/infectious disease countermeasures). As such, the popularity of remote work is expected to proceed rapidly. In Japan, Ascentec (3565 JP) and Net One Systems (7518 JP) which are IT infrastructure constructors, will likely see growth due to in the demand for communication infrastructure development in offices. Also, with the spread of remote work, we believe that electronic signatures, which due to Japanese business customs have seen little taken-up until now, will become popular across the board all at once. We think that this will provide opportunities for growth to Bengo4.com (6072 JP), an e-contract management service provider.

While technology companies that capture such new demand will grow, we assume that major old-fashioned system developers will gradually lose their presence. Although they have strength in their ability to gather many engineers together and develop, it is unclear whether their work style will be able continued after the coronavirus, and the fact that they cannot compete with start-up companies in recruiting human resources in terms of financial benefits and treatment will contribute to their loss of presence.

In addition, we believe that demand will increase for online medical care and drug administration companies, whose regulations are being relaxed amid the corona disaster that requires the avoidance of human contact. As the number of medical workers themselves is expected to decrease due to the progress of an aging society, it is expected that demand will increase not only for hardware such as facilities for online medical care, but also for software such as diagnostic systems that use AI. Many mid to small sized companies are emerging in this area fully utilizing recently developed technologies.

Also, we believe that there is following wind for industries including electronic parts, factory automation (FA) and robot-related products, where Japan traditionally has advantage. Demand for electronic components will remain high due to expansion of data centers and improvement of communication environment, including demand for development of communication environment such as 5G, while digitization and online services are expected to accelerate. In addition, automation of production sites such as FA and robots will not only be a measure to solve the manpower shortage that has been clamoring for a long time, but also reduce the risk of infectious diseases, which was strongly recognized during this crisis. Therefore, it is expected that demand will increase worldwide.

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