

Jesper Koll

Japan Outlook

The Power of Niponomics : Japan Investment Opportunities 2020 & Beyond

*Tokyo Financial Forum New York
October 2019*

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Household Wealth Patterns

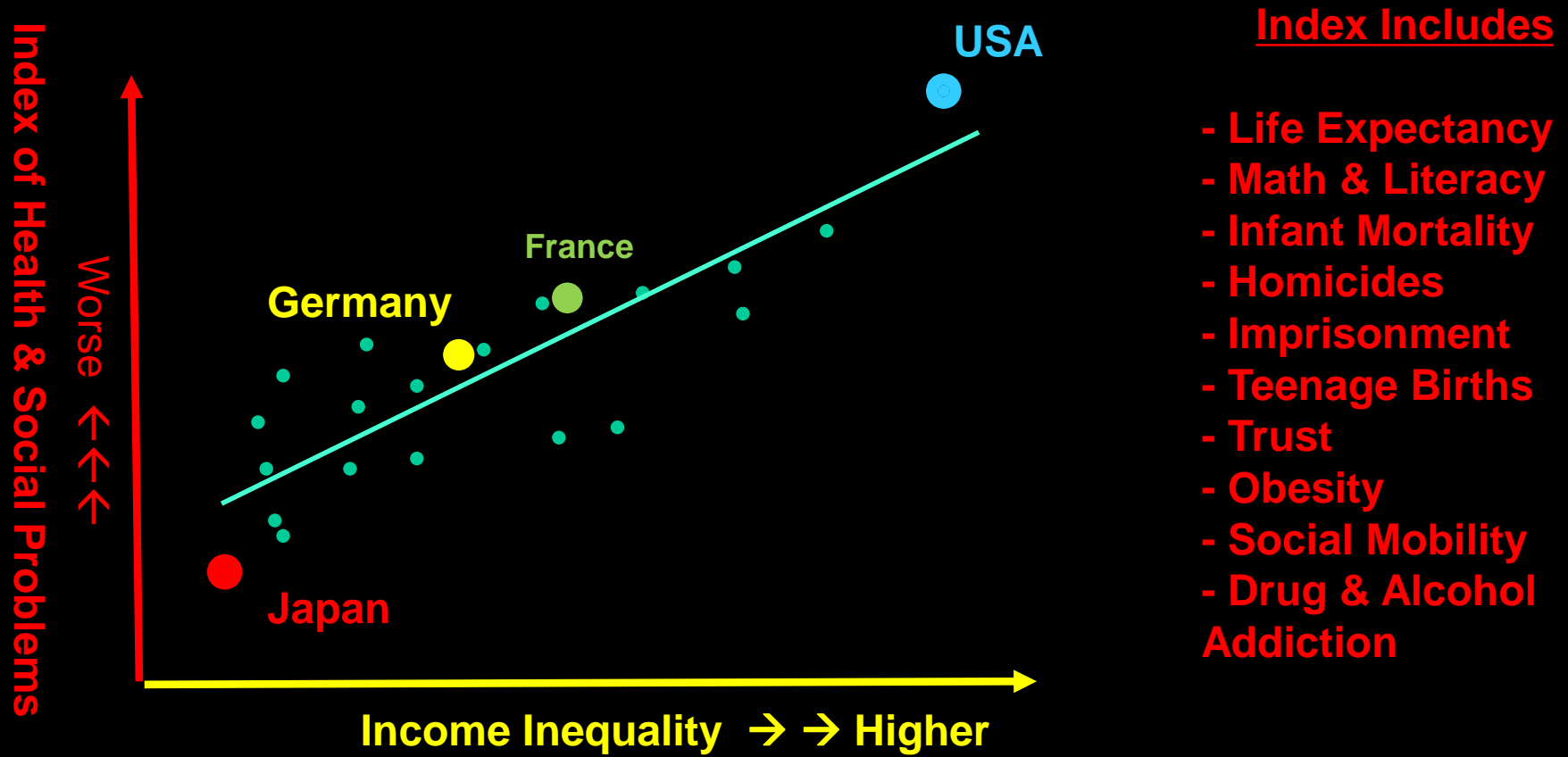
Financial wealth per adult in US\$ -- Global Wealth Report 2018 Credit Suisse

	<u>Median</u>	<u>below \$10K</u>	<u>above \$1M</u>
Japan	\$104k	5.3%	2.7%
USA	\$62k	28.4%	7.1%
Germany	\$35k	40.6%	3.2%
UK	\$97k	17.5%	4.8%
Australia	\$191k	6.1%	7.0%
China	\$16k	33.4%	0.3%

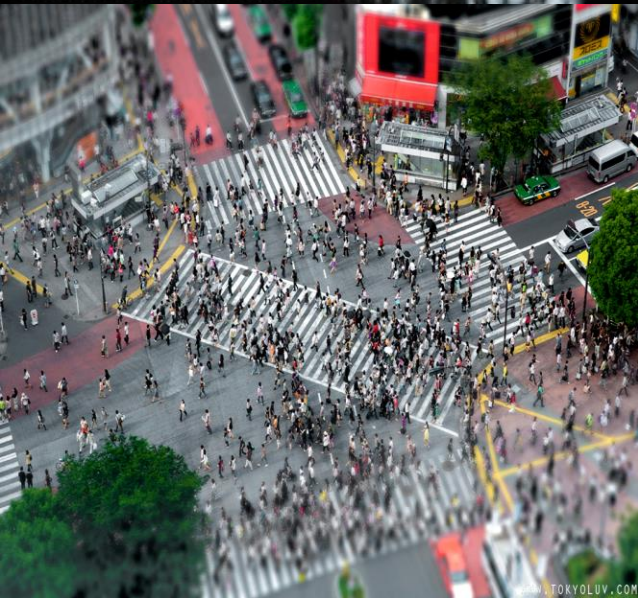
Source: Credit Suisse Global Wealth Report 2018

Source of Social Problems

Health & Social Problems are worse in more unequal countries



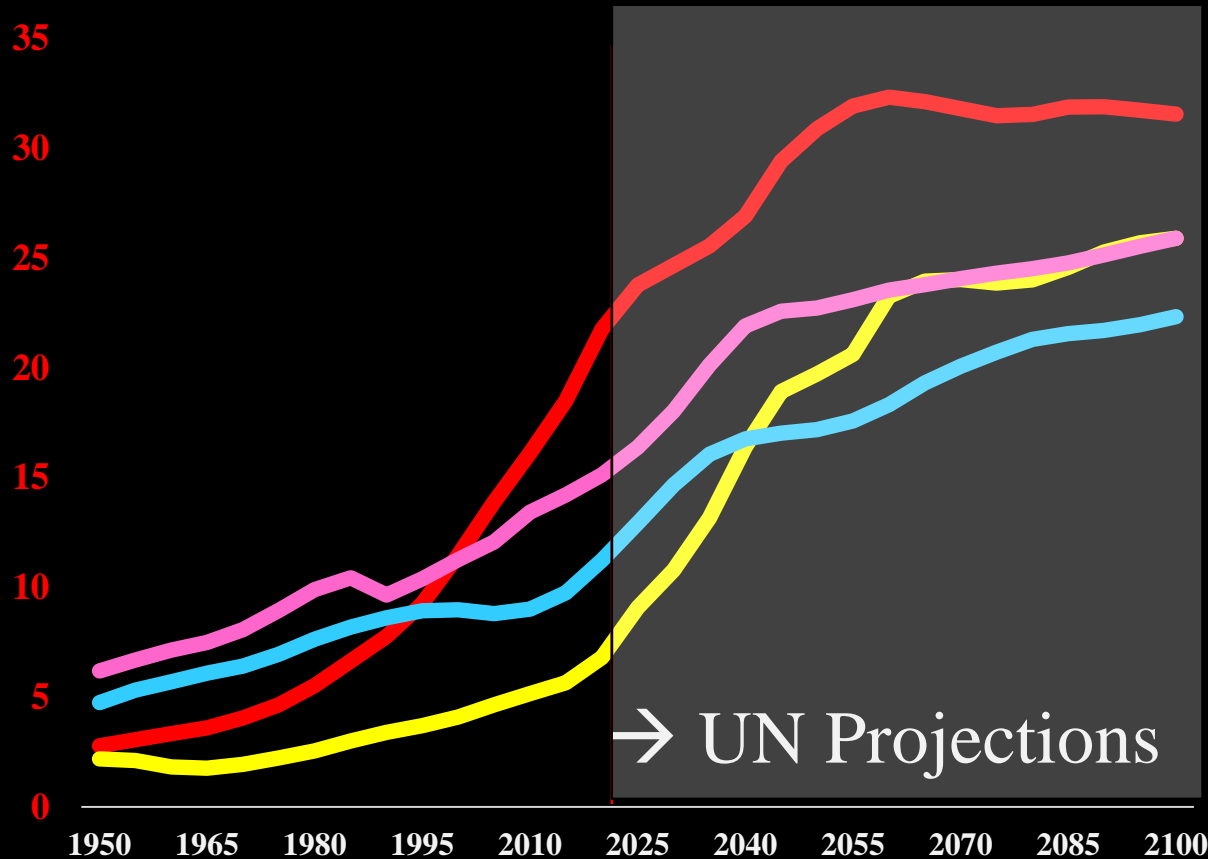
Japan Reality !



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Old & Wise...or Scared ?

% of Population over 70-years Japan W-Europe China USA



Median Age

Monaco	52
Japan	47
Germany	47
EU	43
US	38
China	37
Turkey	30
India	28
Iran	29
Iraq	20

Japan Macro Force # 1

Demographic Sweet-spot

Far from a negative force, Japan's demographics is a positive force :

- Labor force participation rates are rising
- Quality of jobs is improving, i.e. full-time, not part-time
- Household sector leverage rising as full-time jobs create credit demand
- Corporate efficiency gains as companies forced to re-think “human capital”
- “War for talent” is forcing industrial re-organization & consolidation

Thesis :

Japan is creating a new middle-class, which in turn gives rise to an endogenous and self-sustaining domestic demand up-cycle

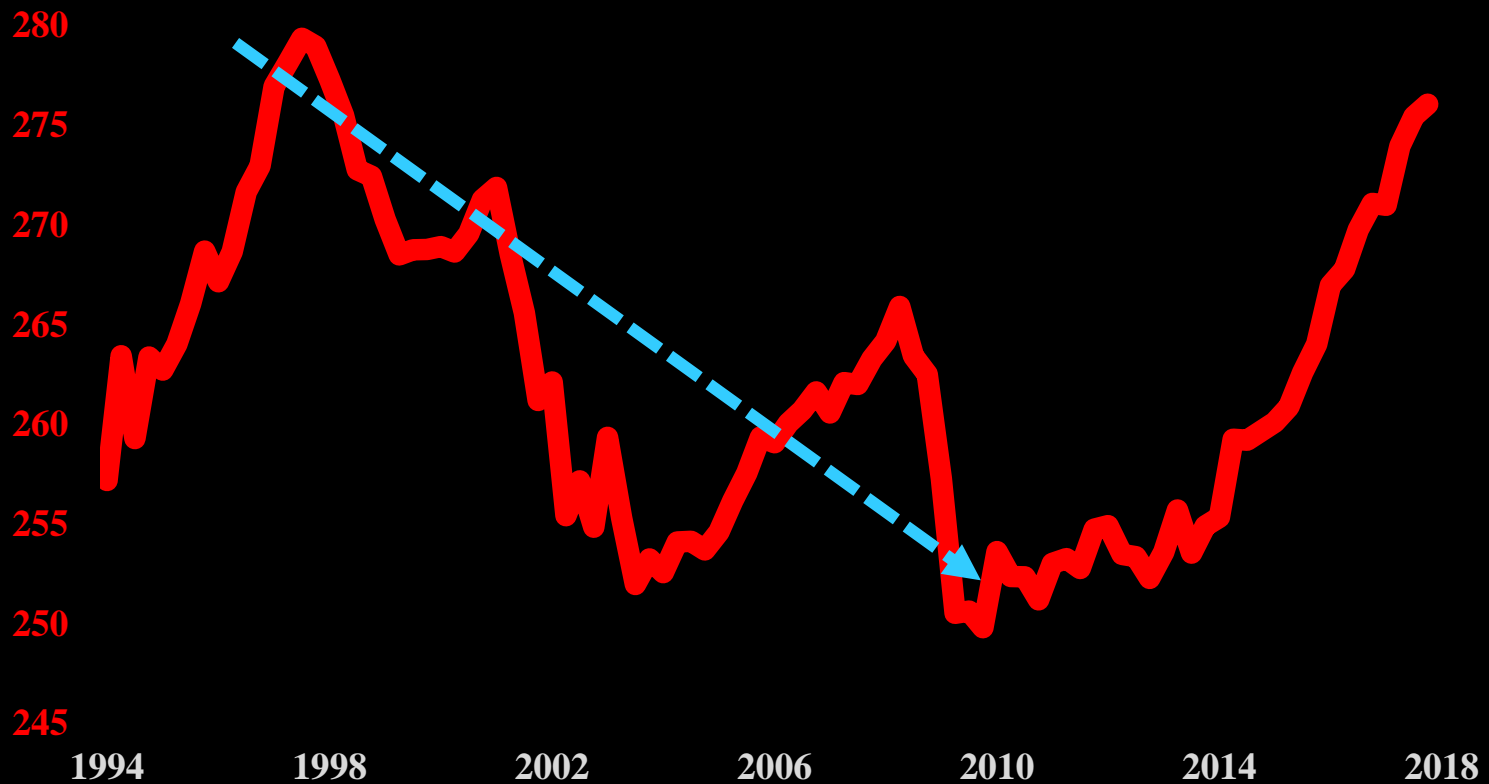
Population : - 1,164

Employed : + 3,479

March 2017 to March 2019 – average daily change

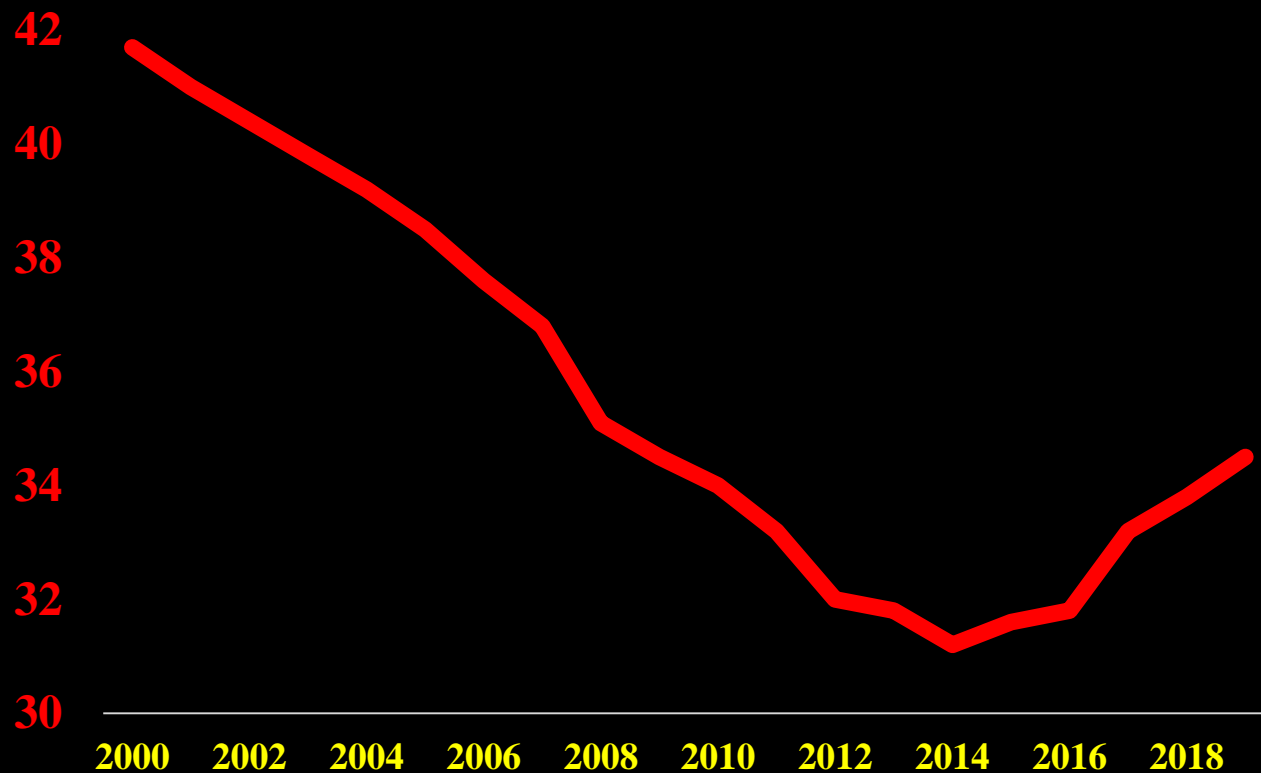
End of Wage Deflation

Workers Compensation – current Yen trillion



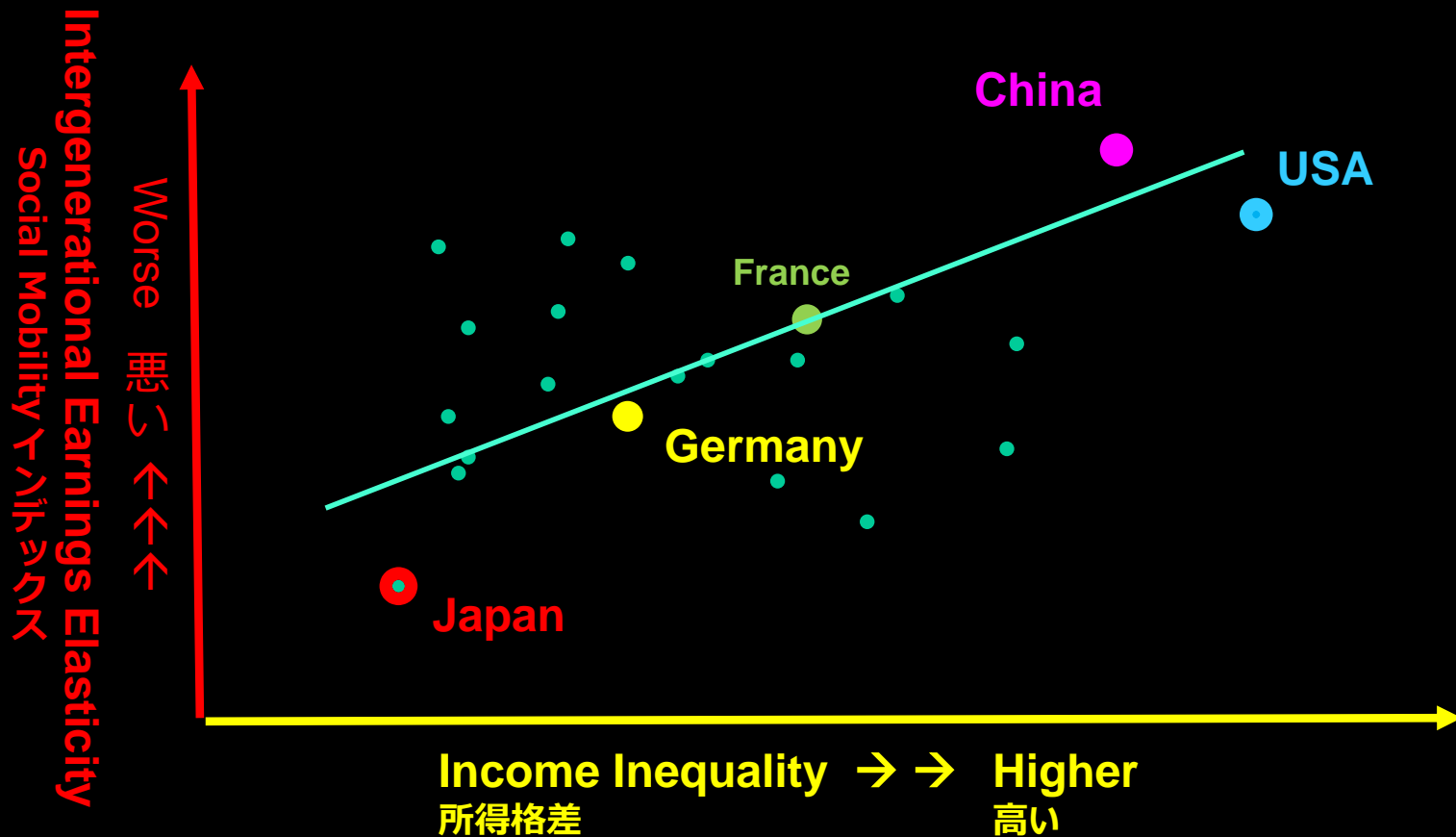
New Middle Class

Rising for the first time in twenty years : Full-Time Employment – million



Social Mobility

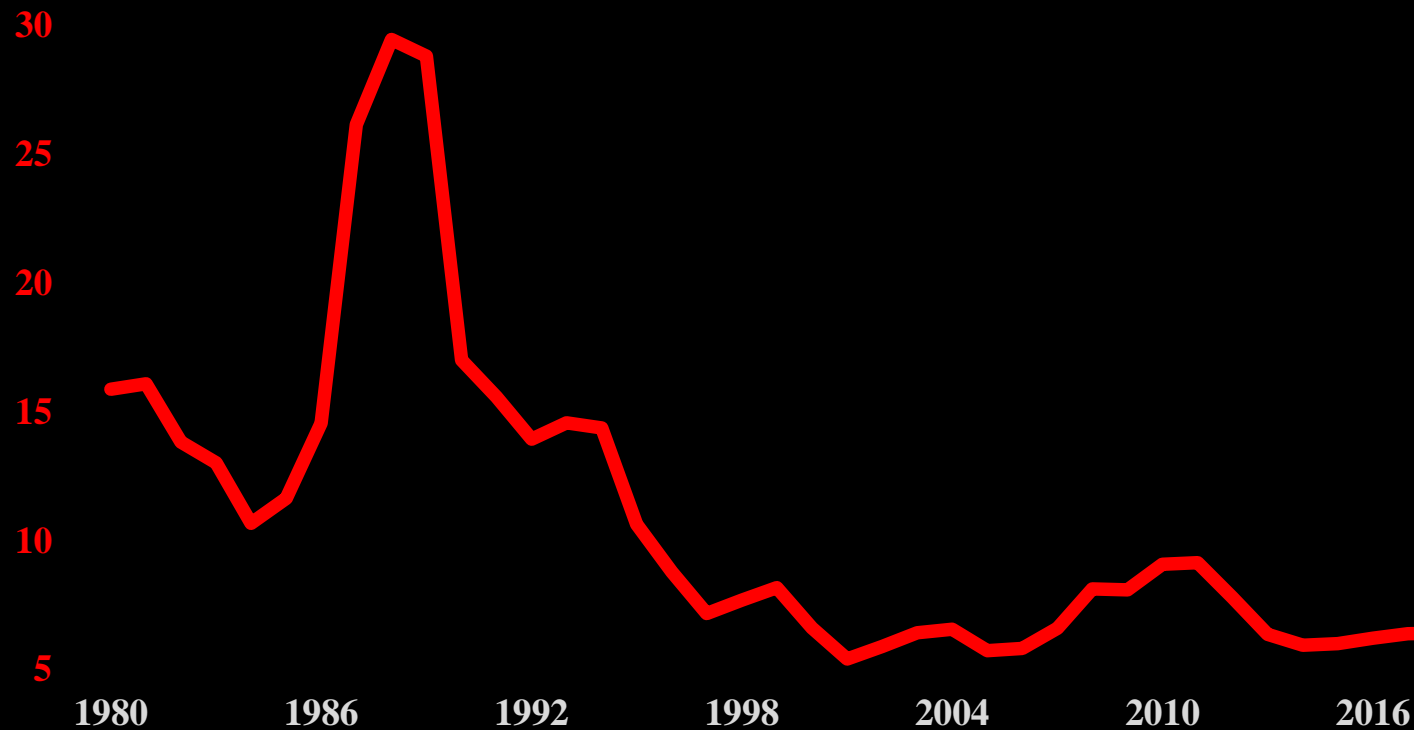
How dependent is next generation earnings power on parent incomes?



My Home – My Japan

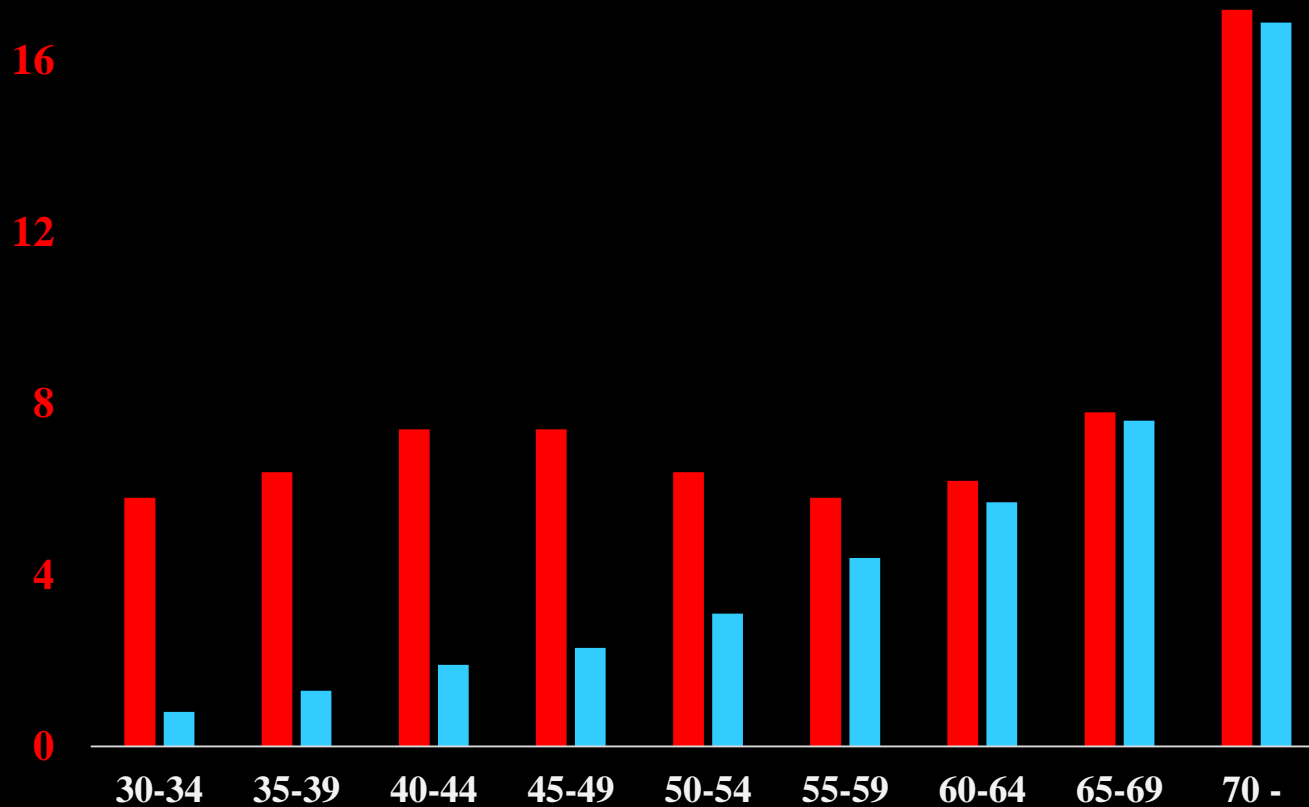
Tokyo Home Affordability

Years of average income required to buy average Tokyo home



Rich Baby Boomers

% of population : **Total** versus **Total with No Debt but Owning Home**



Pragmatic Immigration

% of non-Japanese by Total Resident Population, Working-Age Population, avg. Taxable Income

	<u>Population</u>	<u>WorkAge</u>	<u>Income</u>
Japan	1.4%	2.3%	3.3m
<i>1st Kawakami (Nagano)</i>	<i>15.8%</i>	<i>27.1%</i>	<i>3.4m</i>
4th Shinju-ku	9.1%	12.7%	5.0m
<i>5th Toshima-ku</i>	<i>7.7%</i>	<i>10.9%</i>	<i>4.3m</i>
6th Minato-ku	7.0%	10.9%	10.2m
<i>7th Taito-ku</i>	<i>7.0%</i>	<i>10.5%</i>	<i>4.0m</i>
8th Arakawa-ku	6.9%	10.6%	3.7m

2020 Legacy...



Abdul Hakim Sani Brown

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Japan Macro Force # 2



A New Japan Inc.

Japan Inc is soft- and hard asset rich, global and return focused :

- Cross-shareholdings have been unwound
- Capital Stewardship now more important than “Keiretsu” Group relationships
- Very rich financial capital base
- Very rich intellectual property base...
- ...but poor global branding

“Keiretsu” are the major conglomerate groups, e.g. Mitsubishi Group, Mitsui Group etc.

Thesis :

Corporate Japan will globalize more aggressively while domestic industrial consolidation accelerates – domestic M&A Boom, Japan Venture Capital

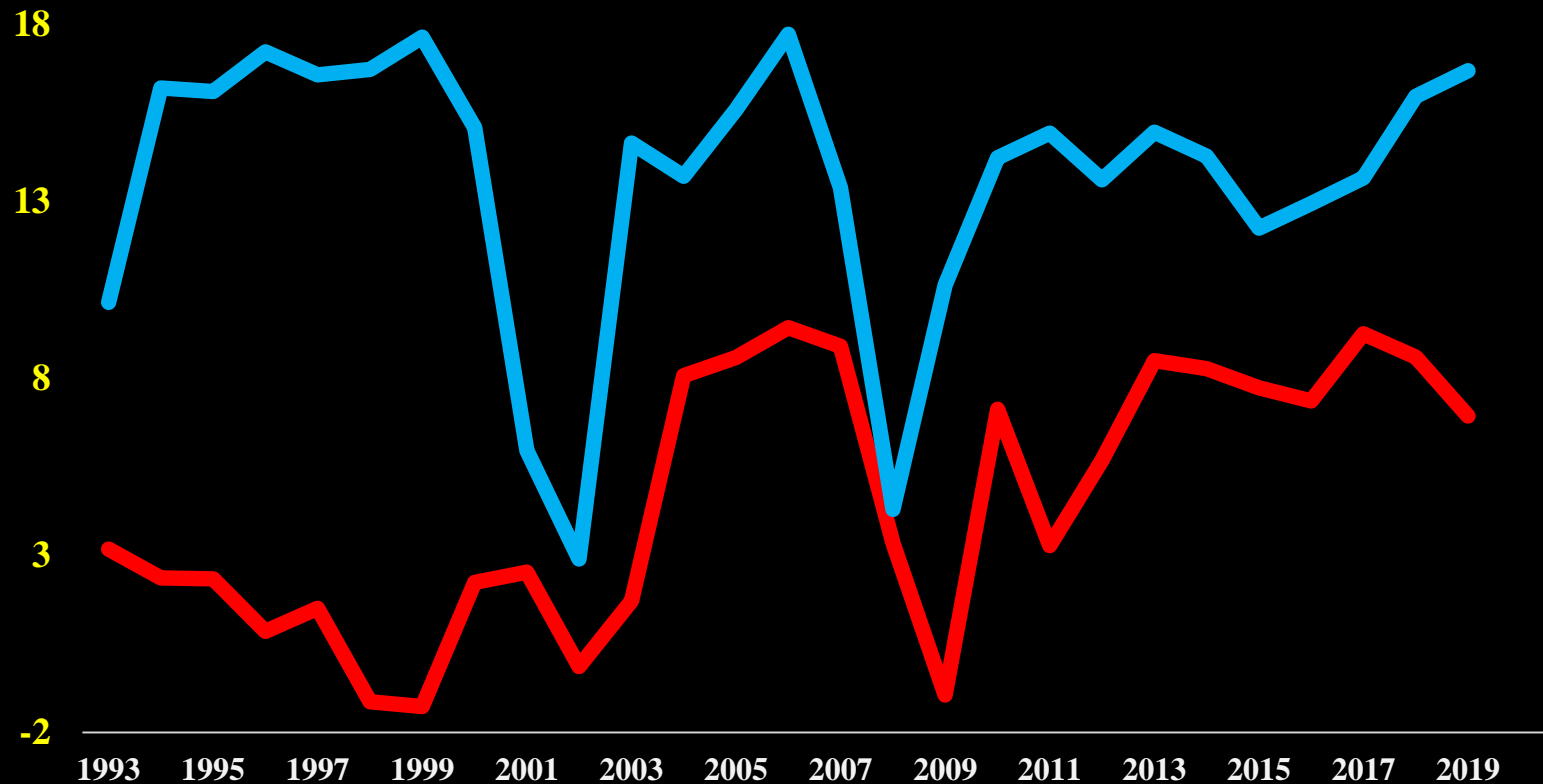
New Japan Inc.

	<u>Dec 1989</u>	<u>Dec 2018</u>
Market Cap <i>(Y trn.)</i>	590	591
Cross Holdings	50%	4%
<i>Foreign Holdings</i>	<i>4%</i>	<i>31%</i>
<i>Foreign Trading</i>	<i>8%</i>	<i>69%</i>
P/E	61x	12x
EPS	21	125
RoE	1.9%	9.5%
Companies	1165	1989

Focused on Returns

RoE (TOPIX and S&P500)

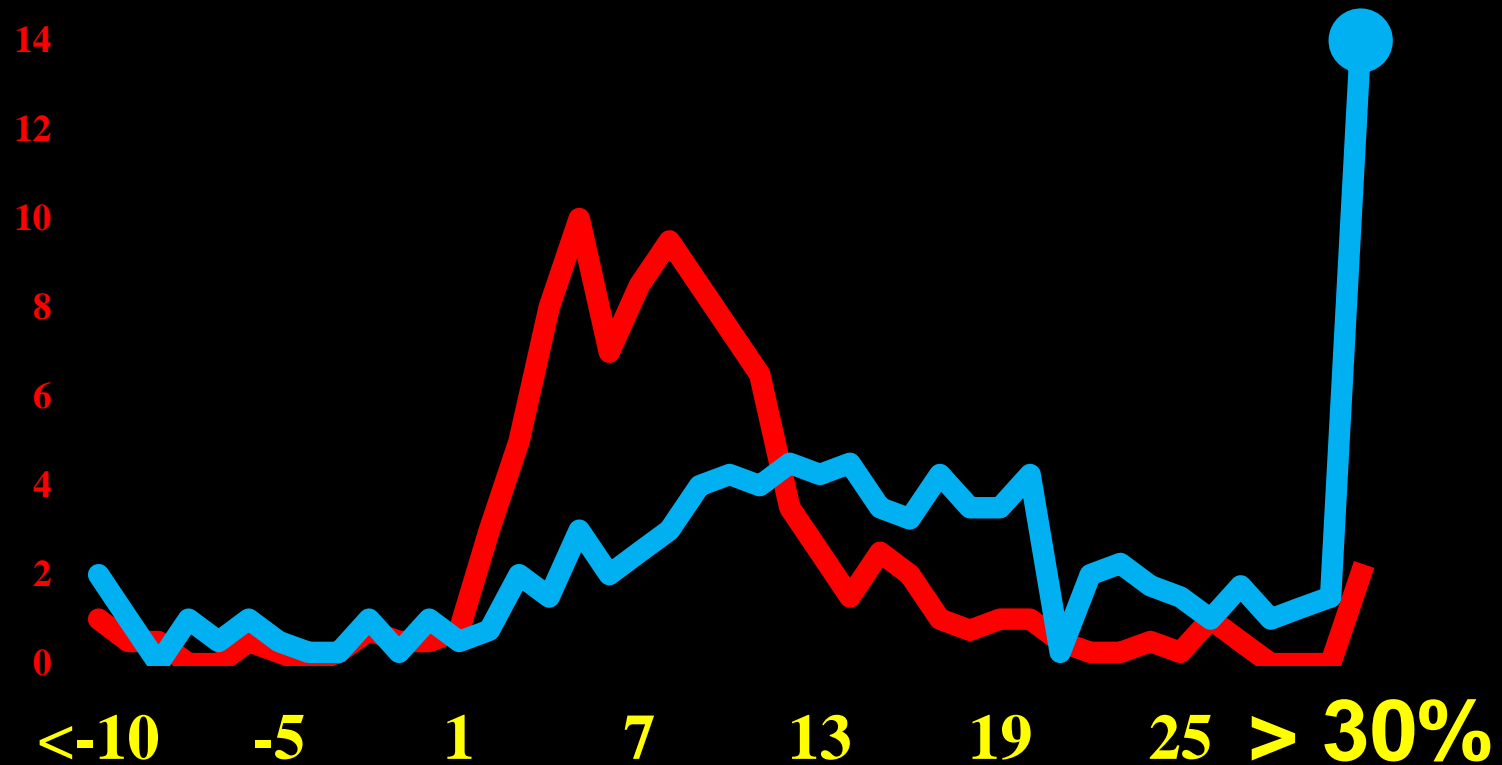
Japan versus **US**



No Japan Superstars...

RoE Distribution

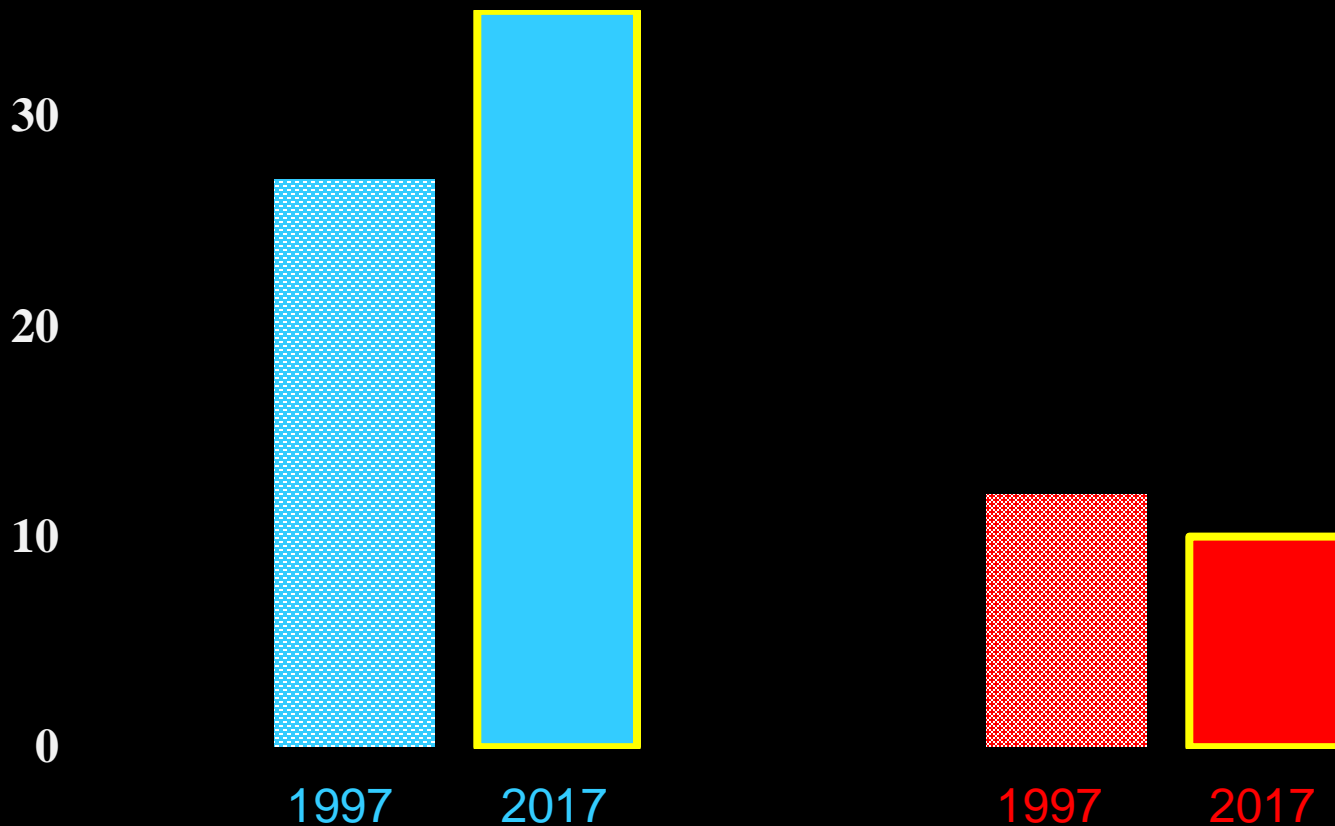
Japan versus **US**



Competition or Monopoly ?

Top 4 Firms average Revenue Share

US versus Japan



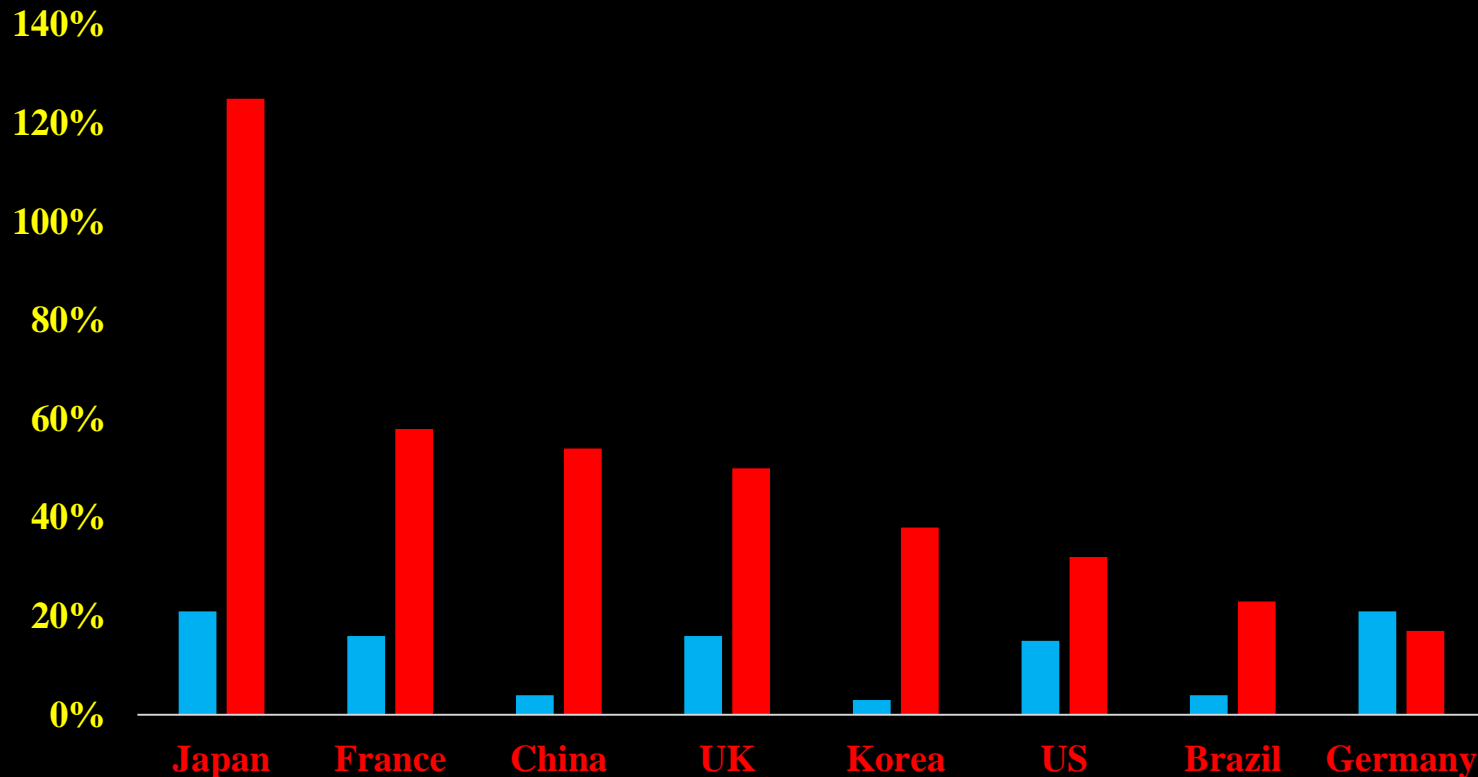
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Source: Census Bureau, METI, Bloomberg & Jesper Koll Calculations

Rich Companies

With Underutilized Assets

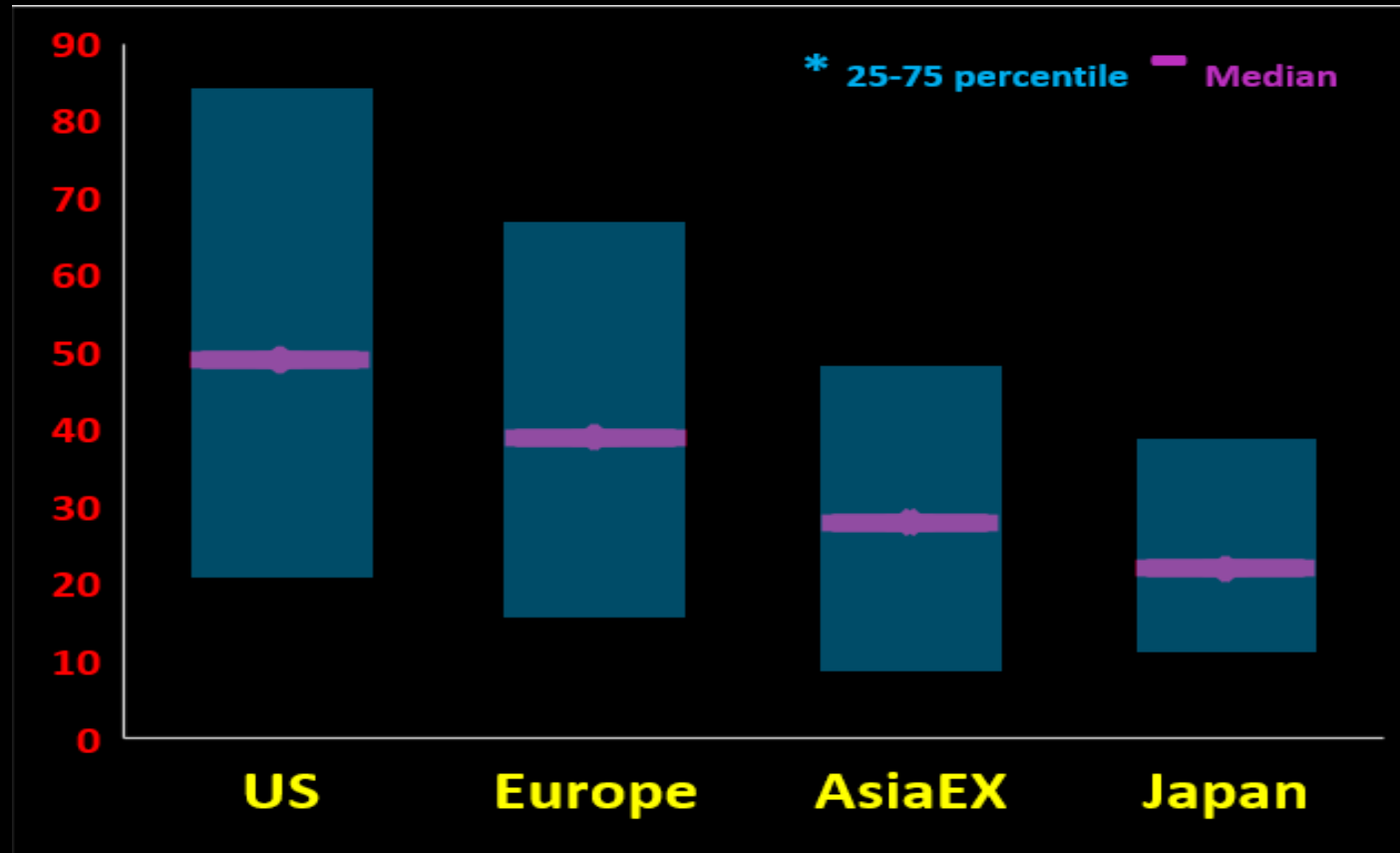
Listed Companies' Corporate Cash Balances as % of GDP 2007 vs 2017



Capital Stewardship

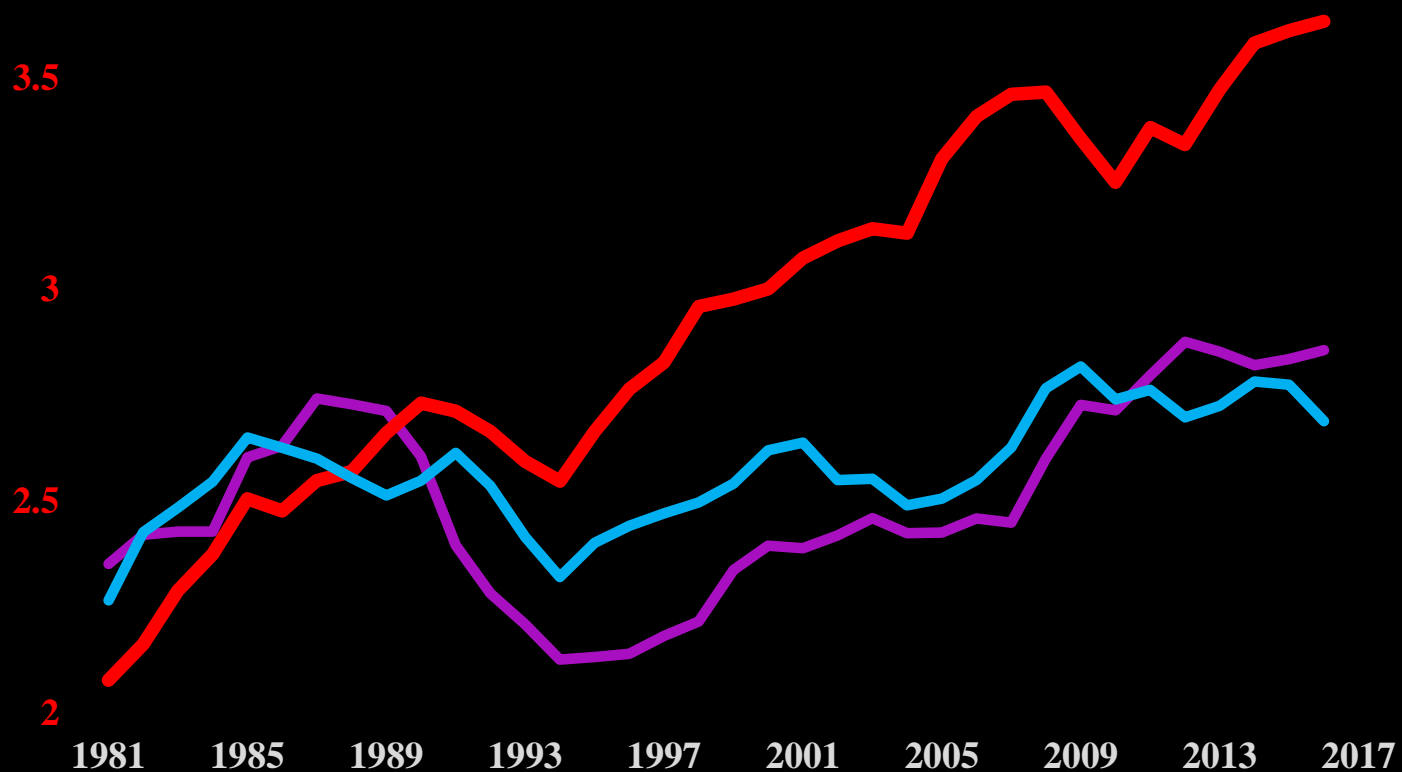
Long Way To Go

Total Shareholder Payout Ratio – Dividends and Buybacks as % of Operating Cash Flow



IP Rich Japan

R&D spending by public and private sector as % of GDP



Cool Japan Inside...

Analog Engineering versus Marketing Genius :

TESLA works on Panasonic battery technology – but which model would you rather have in your hallway?

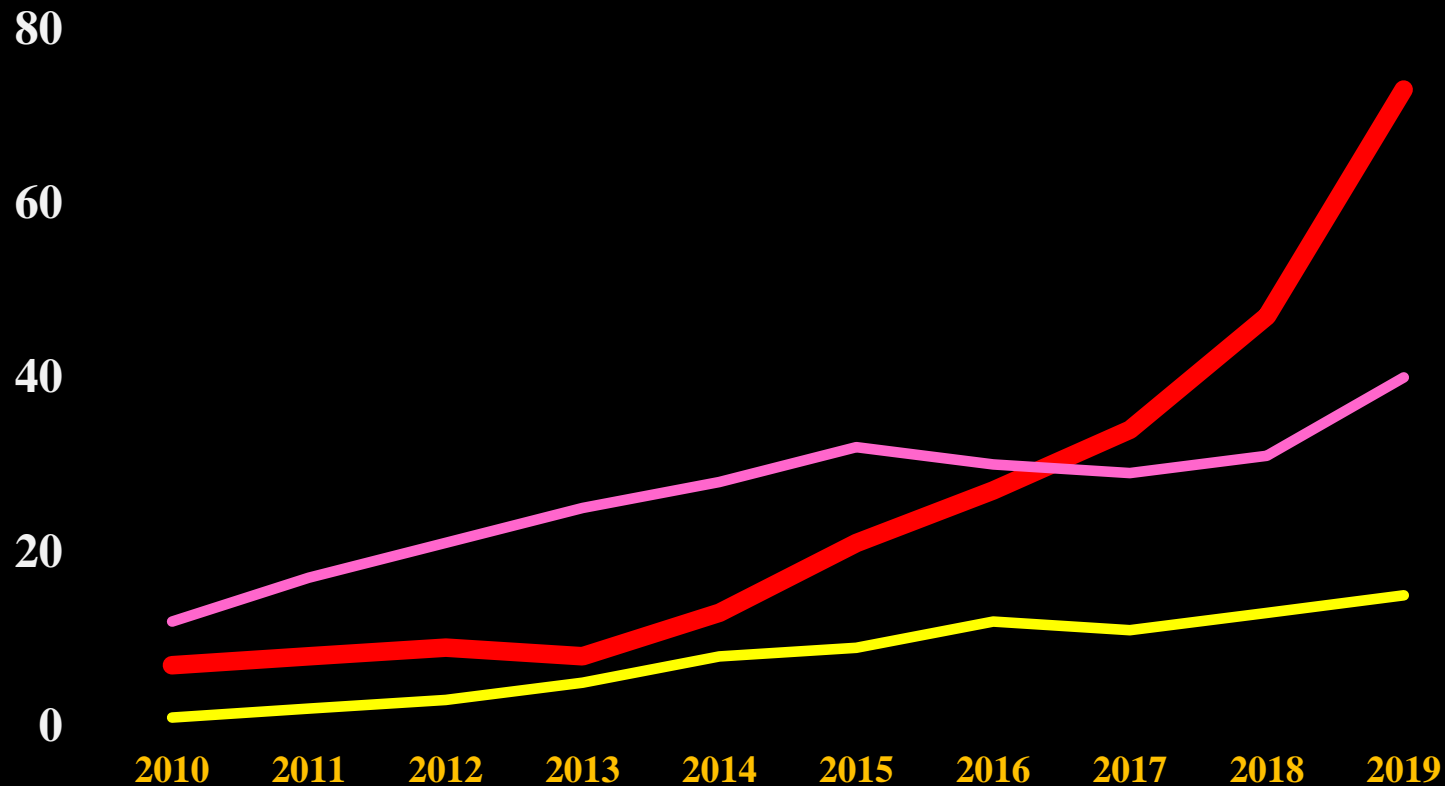


Investor Activism

Investor Campaigns

Number of targeted companies

Japan Asia-ex China



Challenges & Opportunities

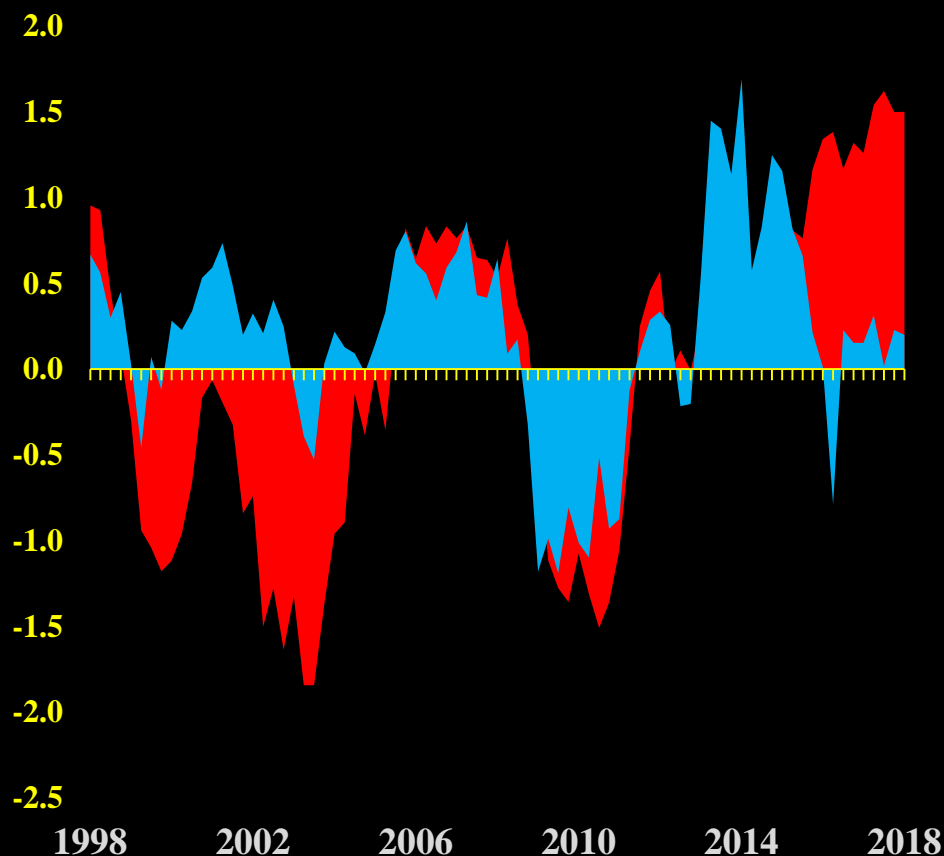


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Save Not Spend

Quarterly Growth In Current Yen

Consumer Spending vs Workers Compensation



During Abenomics

(End-2012 to End-2018)

Compensation up 23.8trn

Consumption up 13.8trn

Last Year 2017

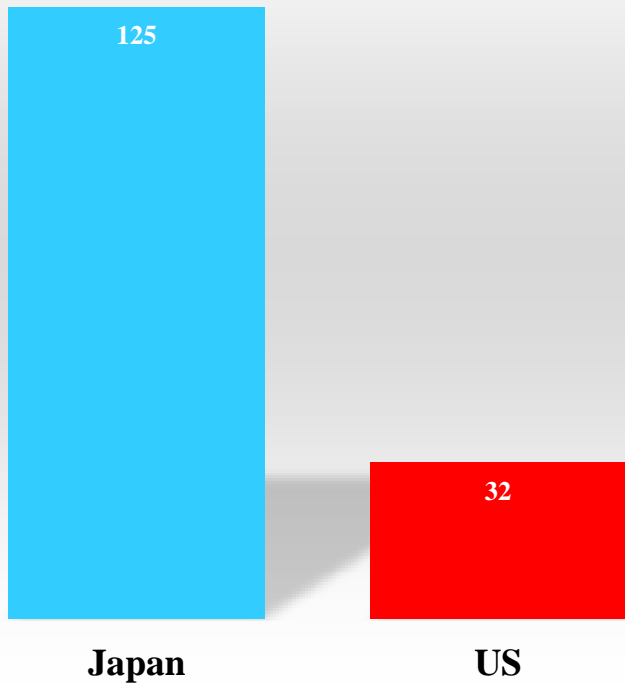
Compensation up 5trn

Consumption up 4trn

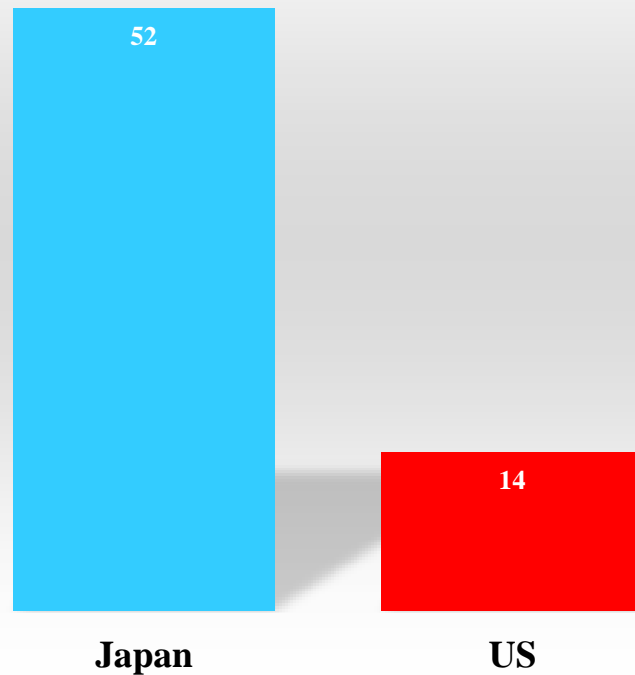
Cash is King

Private Sector Cash & Deposit Balances

Corporate Cash&Deposits
as % of GDP

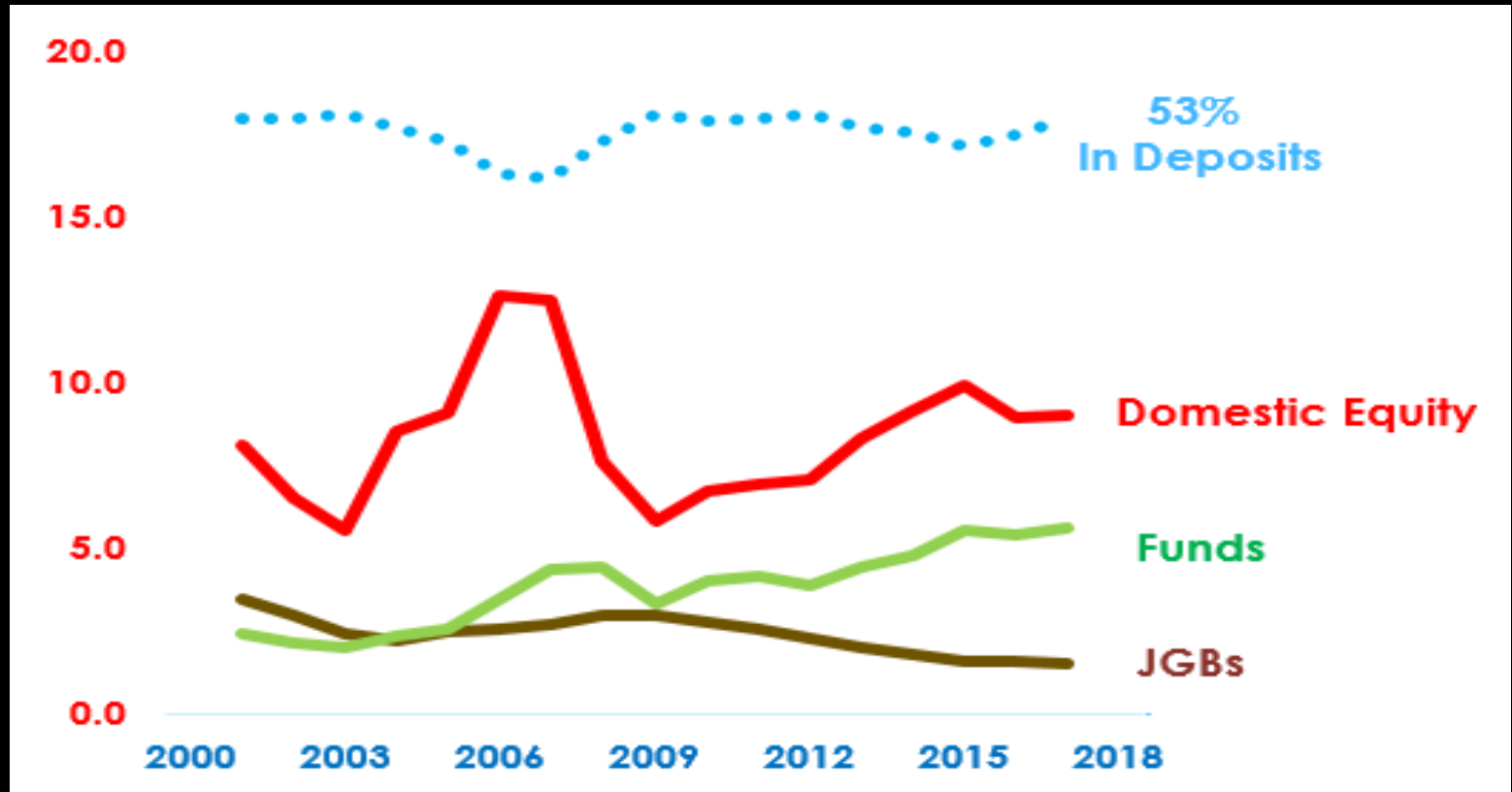


Household Cash&Deposits
as % of Financial Assets



Household Assets Still Stuck

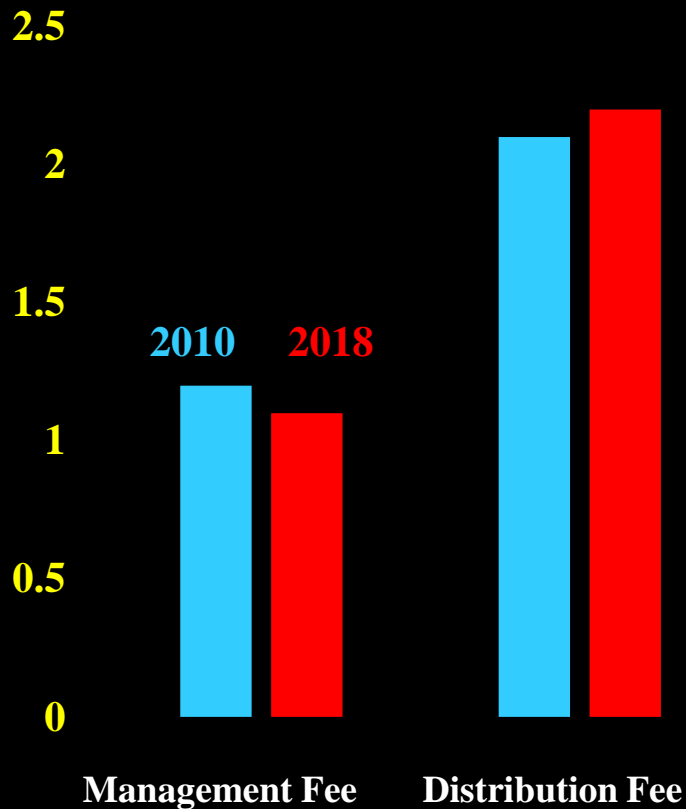
- Household Financial Asset Portfolio



High Costs For Consumers

Average Fees Charged to Retail Investors for Fund Purchases

Japan



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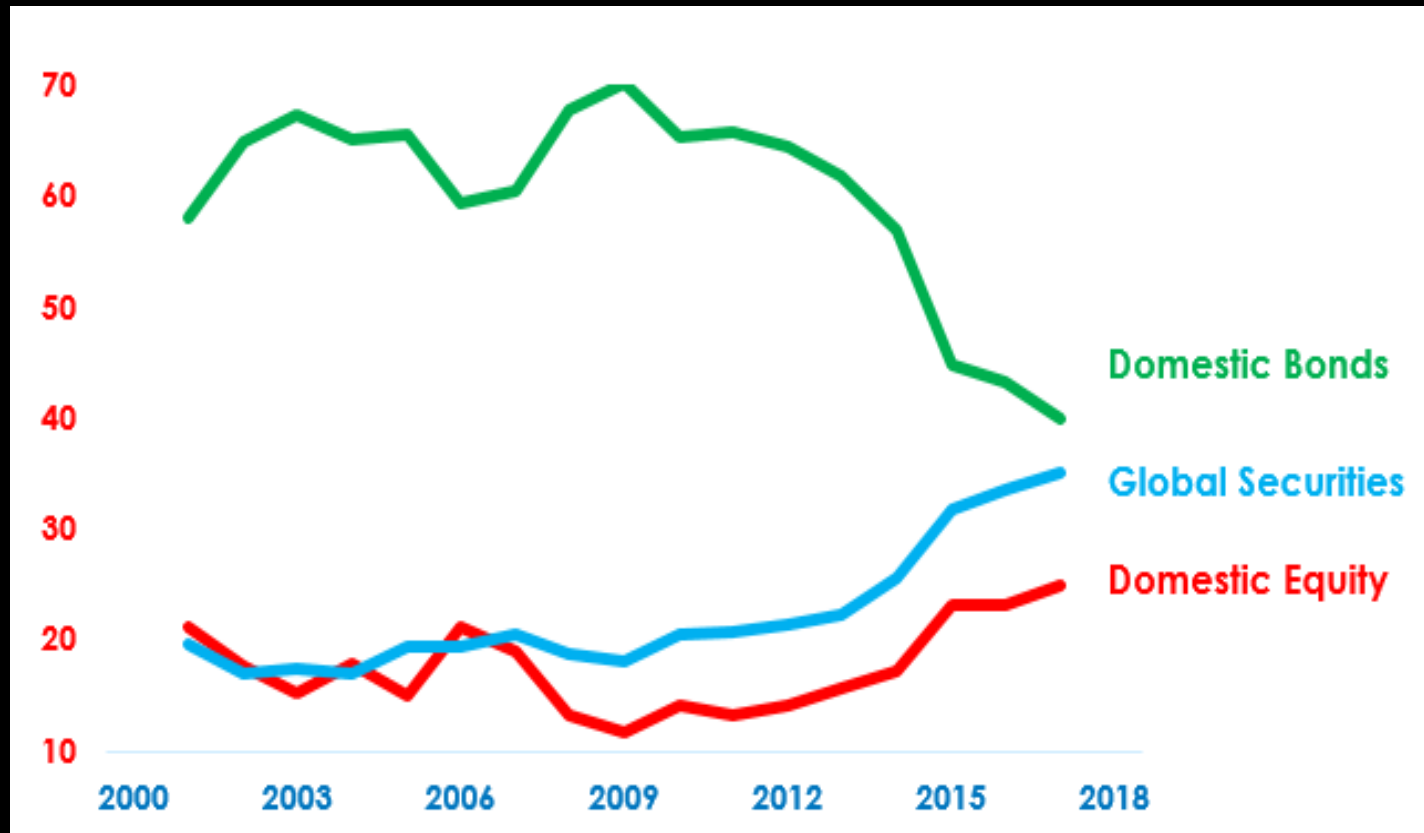
US



Source: Bloomberg, Investment Trust Association, WisdomTree

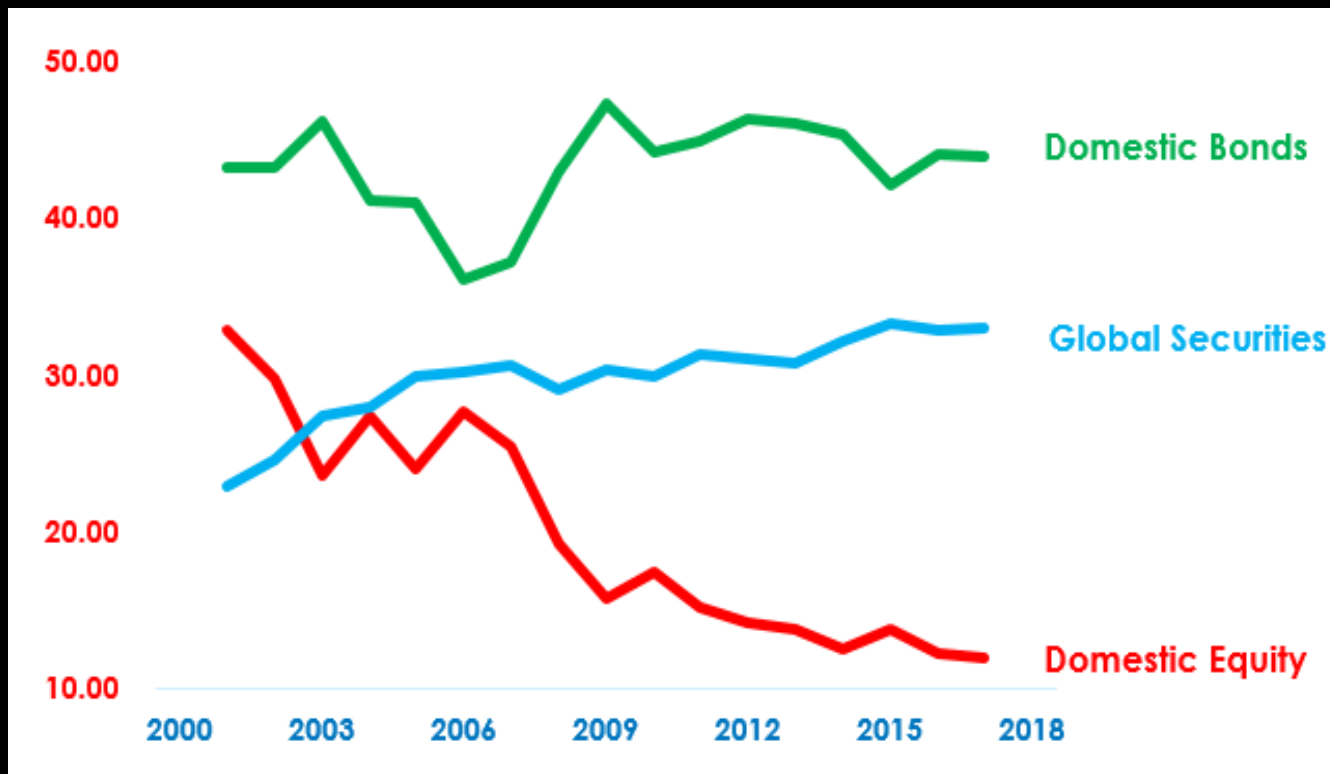
Portfolio Rebalancing...

- **Public Pension Financial Asset Portfolio – Real Change**



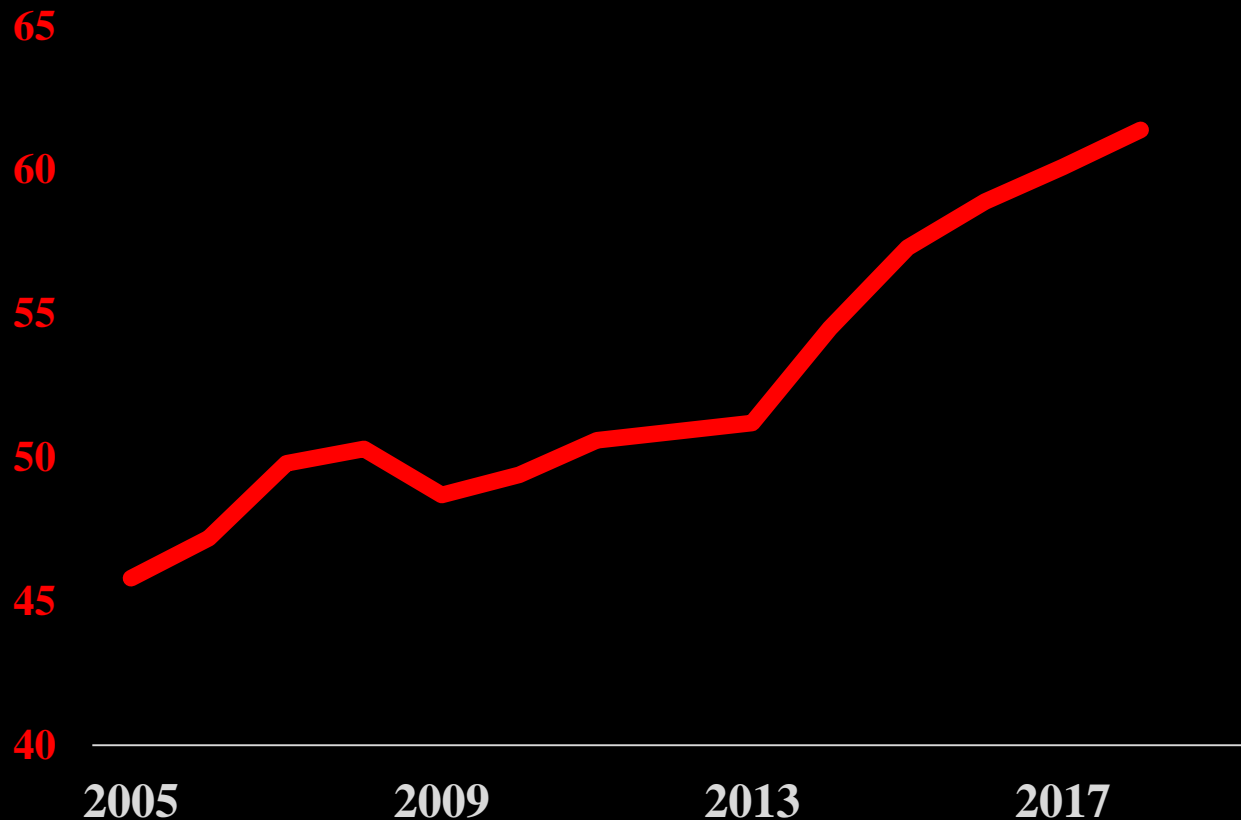
No Private Sector Change

- **Private Pension Financial Asset Portfolio – No Change So Far**



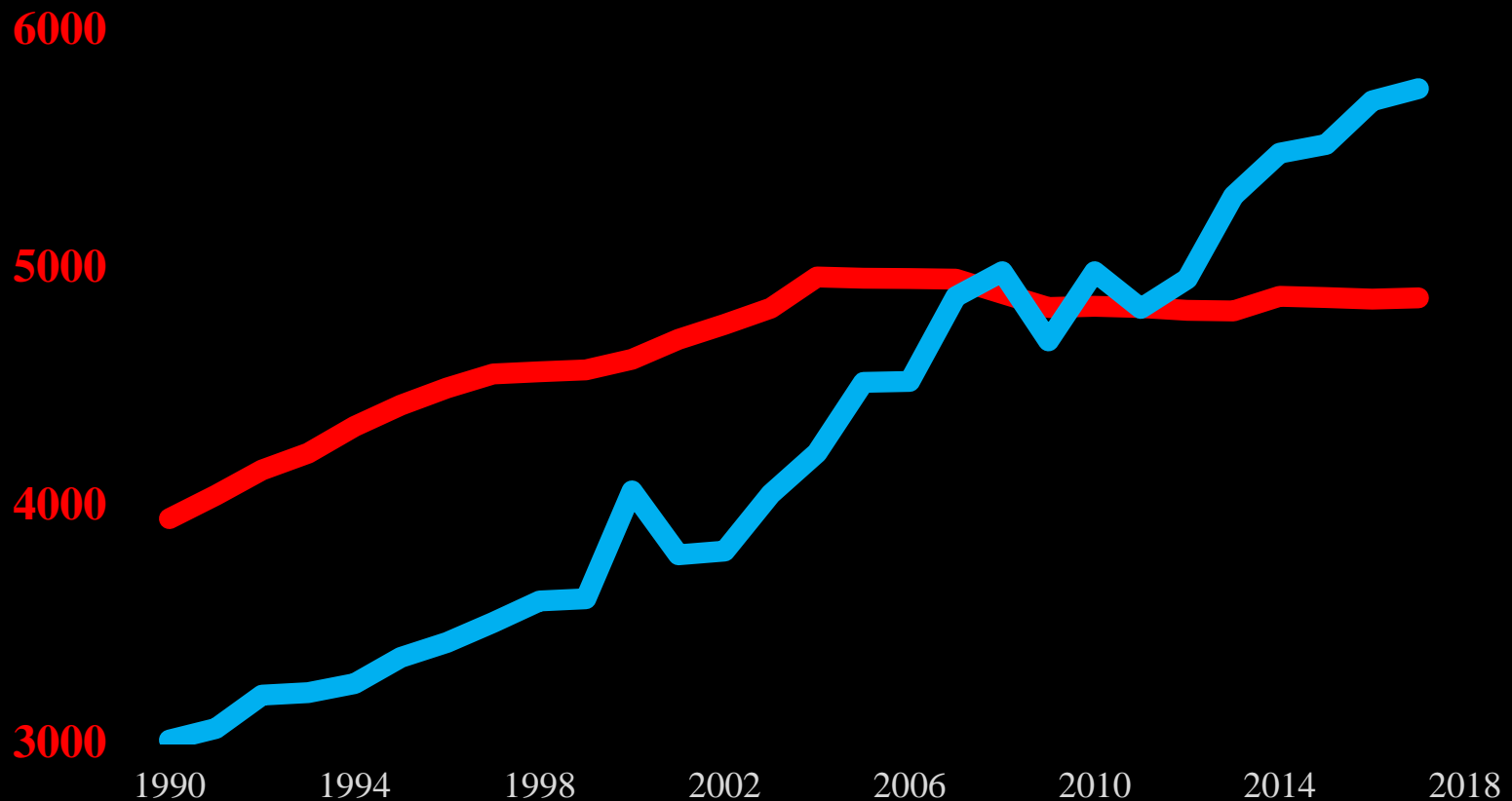
Japan Inc – Even More Global

% of earnings originated from Global Sales – TOPIX Companies



Productivity Gap

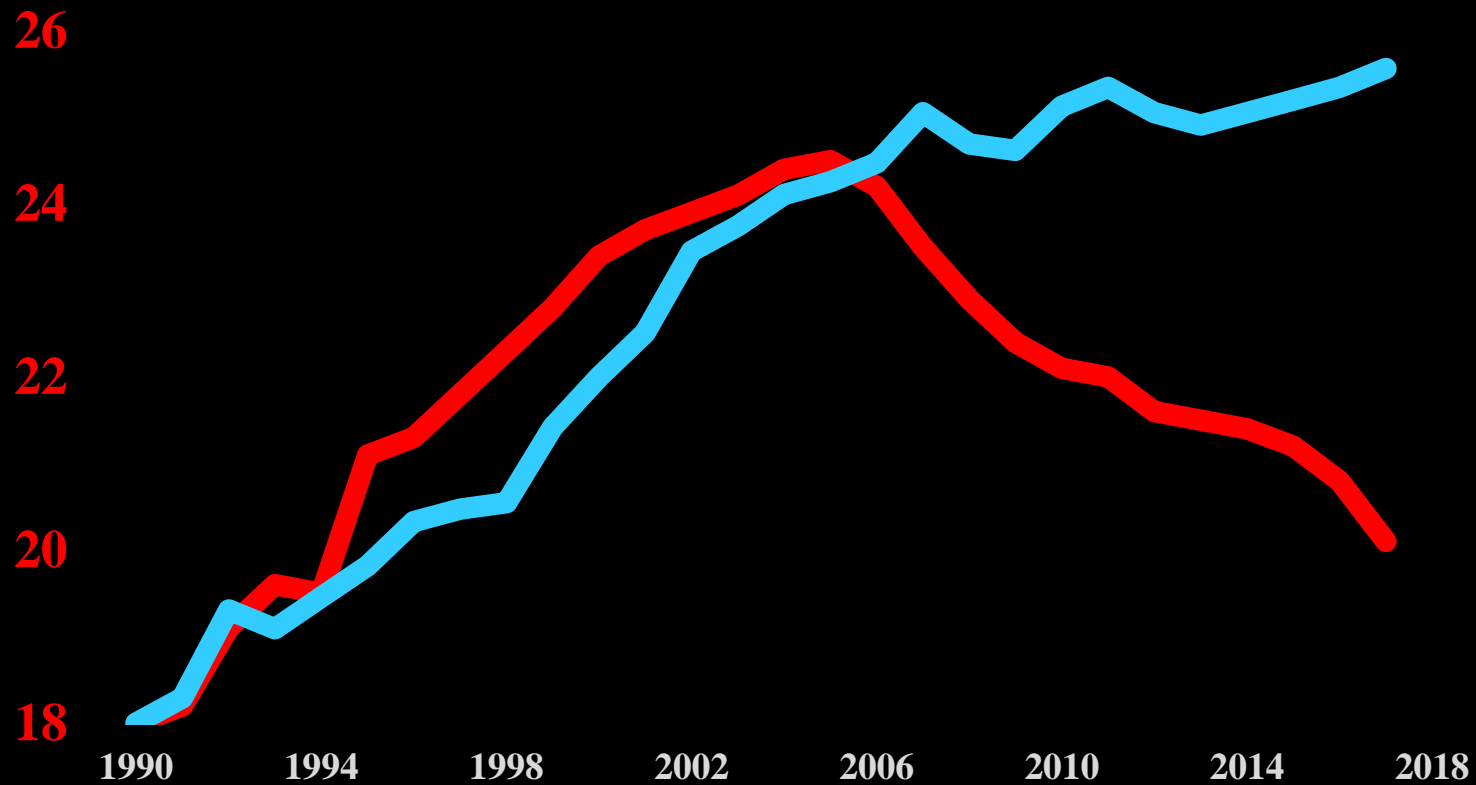
Yen Value Added per hour per person employed *Manufacturing* versus *Services*



Source: Cabinet Office & Jesper Koll Calculations

Capital Intensity

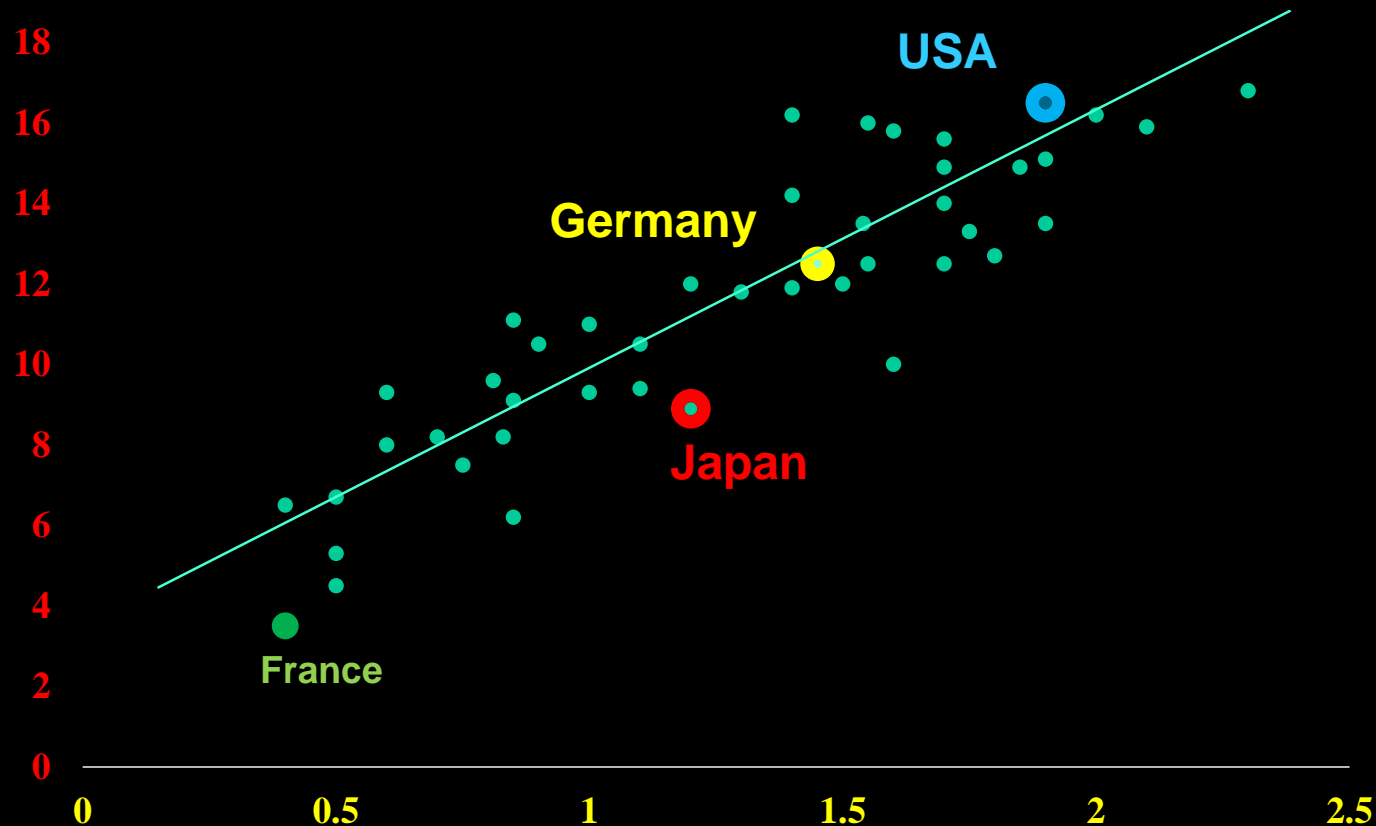
Yen Million of fixed capital per person employed **Manufacturing** versus **Services**



Source: Cabinet Office & Jesper Koll Calculations

Sources of Growth

Share of Entrepreneurs versus *Economic Growth*



Vielen Dank

ありがとうございます