

March 22, 2019

Dear clients and colleagues,

In the past few weeks, the Global Alpha team attended three investor conferences in Japan and visited a number of companies in their Tokyo offices. In addition to the SMBC Nikko Conference we mentioned in a previous commentary, we also attended the Mizuho Japan Opportunities Conference and the Daiwa Investment Conference.

Unsurprisingly, the biggest concern for both investors and corporations at these conferences was China's economic slowdown and how the trade talks between US and China will proceed. Other common topics during our meetings with companies included the 2019 consumption tax hike, increasing labour costs and the Tokyo 2020 Olympics. The consensus was that even though uncertainties will remain throughout 2019, the Japanese economy will stay healthy.

The year 2019 will mark the end of Heisei period in Japan, which started on January 8, 1989, when the current Emperor Akihito abdicates on April 30 due to his deteriorating health. This rarely happens—normally, a new era starts the day after an Emperor dies. This event won't have much political impact, as the Emperor of Japan does not have any political power, but it will have a social and economic impact. The Emperor is well respected by the Japanese people. Numerous festivals will be held to celebrate the accession of the new Emperor. To prepare for the Imperial transition, this year Japan will have a ten-day Golden Week holiday, from April 27 to May 6. Travel agents are seeing unprecedented volumes of overseas and domestic bookings for this period. Retailers will also be beneficiaries.

Another key event in Japan this year is the planned consumption tax hike, set for October 2019. The tax is set to increase from the current 8% to 10%. Many economists and analysts are opposed to the increase, viewing it as a major headwind to the Japanese economy. The last consumption tax increase, from 5% to 8%, in 2014 caused a brief recession. However, this time the Japanese government is sparing no effort to counteract the expected negative effects of the increase. Measures include a proposed 2 trillion yen stimulus package to underpin consumption. Also, for daily necessities such as food, the tax will remain at 8%. The companies we spoke with were not excessively concerned about the higher tax, although they do expect some volatility in consumer spending before and after the event.

The tax increase is a positive for Seria Co., Ltd., one of our holdings. It is the second largest dollar store operator in Japan. The company enjoys the highest profitability in the industry thanks to its operating efficiency. Seria is the most preferred 100-yen shop brand in Japan because of its high-quality and reasonably priced products. The company is expected to enjoy higher sales volumes, as consumers will become more price conscious after the tax hike.

This report is provided solely for informational purposes and nothing in this document constitutes an offer or a solicitation of an offer to purchase any security. This report has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient and does not constitute a representation that any investment strategy is suitable or appropriate to a recipient's individual circumstances. Global Alpha Capital Management Ltd. (Global Alpha) in no case directly or implicitly guarantees the future value of securities mentioned in this document. The opinions expressed herein are based on Global Alpha's analysis as at the date of this report, and any opinions, projections or estimates may be changed without notice. Global Alpha, its affiliates, directors, officers and employees may buy, sell or hold a position in securities of a company(ies) mentioned herein. The particulars contained herein were obtained from sources, which Global believes to be reliable but Global Alpha makes no representation or warranty as to the completeness or accuracy of the information contained herein and accepts no responsibility or liability for loss or damage arising from the receipt or use of this document or its contents.

We had a total of 110 meetings while in Japan, including 22 with companies we hold in our portfolios. Here are a few highlights.

Milbon Co. Ltd. is Japan's top professional hair care products maker. The company has a clear growth strategy and good track record. Since adding the company to our portfolios in 2015, it has delivered an average sales growth rate of 8.7% annually and a profit growth rate of 14.4% annually. In its next mid-term plan, from 2019 to 2023, the company intends to create more high-value-added products and further expand its global market share. Milbon has also launched an e-commerce website that will further boost sales.

En-Japan Inc. is another holding company we visited during this trip. It was a new addition to our portfolios late last year. En-Japan is an internet-based recruitment advertising company, mainly focused in the career-change area. Its strength lies in its comprehensive and objective information on employer companies. While Japan's total labour supply is declining due to an aging population, the career-change market is expanding. Job changers are motivated by higher income. Many companies consider labour shortage and talent retention to be the most severe issues they are facing. En-Japan is the second largest player in job-board business, and it continues to gain market share. The company is well positioned to capture increased demand.

On this trip, we identified many high-quality businesses in promising industries. For example, a company engaged in the pre-owned home renovation business that caters to the growing demand for affordable housing in regional cities, and a plastic auto component maker that benefits from the trend toward lighter automobiles. We will share more details about those names in future commentaries.

Have a great weekend.

The Global Alpha team