

March 13, 2020

Dear Clients and Colleagues:

As the COVID-19 outbreak is escalating, Global Alpha has strengthened safety measures to protect our employees and the broader community. The corporate Business Continuity Plan and travel restrictions are in place and staff are working remotely on a rotational basis for the time being. Further, several large investment conferences in Japan, the United Kingdom (UK) and the United States (US) were cancelled. Instead, we are having more virtual meetings with companies over the phone or webcast.

The coronavirus is certainly putting remote work to a critical test on an unprecedented global scale. With thousands of millions of people self-isolating and working from home, some experts warned that the broadband network might not cope and require enhancement.

Internet Initiative Japan, one of our core holdings, is a total network solution provider in Japan. Founded in 1992, it provides internet connection, hosting, virtual network access and system integration to both public and private sectors. It boasts more than 50% market share in blue chip companies and has the largest internet infrastructure network in Japan, which comprises of over 20 network operation centres. Despite the coronavirus shock, the company maintained the guidance of high single digit revenue growth and double-digit profit growth.

While we are hopeful the pandemic will end soon, we believe that work place dynamics will change for the long term as a result and flexible work arrangements will become more common. It is interesting to look back at the history; in 1908, the first 5-day work week was established in the US. By 1940 a maximum 40-hour work week was mandated by the new Fair Labor Standard Act, with many countries adapting to harmonize with international markets.

But now, times have changed. According to the following data:

- US Census data released in 2018 reported that 5.2% of US workers were based entirely at home.
- Data and insights company Kantar conducted a poll in 2018; comprised of 33,000 people globally, the poll showed that 32% valued a job where they could work from home.
- Millennials were the first generation that grew up with a steady access to technology. Many studies showed that this generation favor flexibility over salary. They don't think office is the only place to be productive and successful.

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Obviously, today's workforce find value in flexible working hours and remote work. We believe several key factors have been contributing to such trend:

- Cheaper cost of teleconferencing
- Technology advancement including 5G and cyber security
- An attractive benefit to attract and retain talents
- Increased productivity
- Reduced carbon footprint from less commuting
- Reduced expenses for real estate costs and leased office space

While some people cheer for the ability to work at home due to no commute or dress codes, others may still prefer a place with office ambience and interaction with people. Flexibility is key. IWG plc (IWG), another core holding, has experienced such growing demand consistently in the past decades. IWG, formerly Regus, is the world's largest provider of flexible workspace. Founded in 1989, it offers workstations, office support services, and communication access through over 3,380 business centres in 120 countries. In addition to utilizing the facilities, customers can request professional support services such as catering, mail delivery and office supplies, etc. Small and medium size enterprises account for 70% of its client base, but a large number of blue chips use its services as well, such as Google, BT, HSBC and Deloitte, etc.

AudioCodes, a new addition to the portfolio, also contributes to the innovation of digital workplace. Founded in 1993 in Israel, it is a global provider of advanced voice over IP and data networking products and applications. Its extensive product range includes IP phones, session border controllers, media gateways, multi-service business routers, call recording, voice dialing and more. Customers are in over 100 countries and 50 of the Fortune 100 enterprises use AudioCodes technology.

Are you reading this commentary from home? Stay healthy and have a nice weekend.

The Global Alpha team

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