Postcard from Japan

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When people talk about Japan, they often do so in the context of 'lost decades' and warnings of limited growth opportunities. Nearly one-third of the population is over age 65, inflation is stubbornly low and predictions for future economic growth are not encouraging. While talk of demographic doom often dominates headlines about Japan, a recent visit with my research team assured me that it also contains some interesting investment opportunities.

For example, some Japanese companies are coming up with creative solutions to a relatively low-growth domestic environment. Perhaps the best example is Recruit, which Bloomberg recently dubbed "Japan's Top Contender for Global Internet Domination"*.

Recruit, which has staffing, online human resources and legacy media businesses, is buying growth outside Japan—and by all appearances, doing so successfully. The company has invested heavily in Indeed.com, a Houston-based online job listing company it purchased in 2012, and Glassdoor, a Silicon Valley firm it bought in 2018. In addition to job listings, Glassdoor allows employees to anonymously post reviews of current or former employers, as well as salaries for comparison purposes.

Indeed has snatched market share from Monster, another American job listing site, and is the number-one source for job listings in every developed market except Australia and Germany. Glassdoor, too, is making an international push.

As a corporate parent, Recruit has maintained a remarkably hands-off approach to management, preserving the innovation and growth that made Indeed and Glassdoor attractive businesses to begin with. Only LinkedIn poses serious competition to the two companies in the online recruitment and job-seeking businesses.

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The fact that one of Japan's most interesting companies is in the staffing business perhaps shouldn't come as a huge surprise in a country facing a serious labor shortage. With immigration tightly controlled and a shrinking working-age population, Japan has already turned to robots to wait tables in some restaurants and outfitting nurses with robotic exoskeletons to give them the physical strength to take proper care of the growing population of elderly Japanese.

Which leads us back to the original point: The headlines about Japan don't tell the whole story for investors. For one thing, Japanese companies as a whole are slowly starting to engage in share buybacks and grow their dividends after years of hoarding cash.

Japan is also one of the few developed countries that is politically stable, unruffled by populist movements or heated debates over immigration. One gets the feeling walking around Tokyo and elsewhere that the country is at ease with itself, especially as it prepares to host the Rugby World Cup this year and Olympic Games in 2020.

Even the economic picture must be considered with a certain perspective. While inflation is very low, at around 1%, so is unemployment. Economic growth on a per-capita basis (1.3% per annum over the last five years) has also been much more impressive than nominal/real GDP growth (0.9% per annum).

The fact is that the whole world, developed countries and emerging markets alike, is graying. Instead of regarding Japan purely as a cautionary tale, perhaps it's time for investors to look for the companies that are on the front lines of adapting to the old, new world.

* https://www.bloomberg.com/news/features/2019-02-17/recruit-is-japan-s-top-contender-for-global-internet-domination

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