

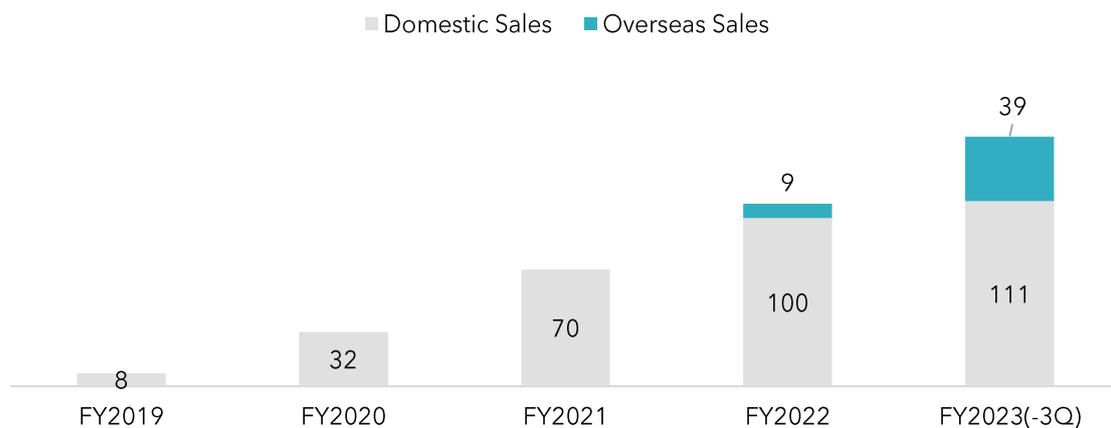
SuMi's Coffee Break Column – Is Japanese digital content ready to take over the world?

Written by Satoshi Marui, the Chief Portfolio Manager of the Japan Small Cap Strategy

May 2023

Japanese media, such as anime, manga, and video games, have been becoming popular worldwide. Recently, Japan's "VTubers" or "Virtual YouTubers" who create and distribute content on YouTube using a unique 2D an entertainment company specializing in VTuber projects, was listed on the Tokyo Stock Exchange (TSE), or 3D avatar have been attracting attention, and the industry has begun to grow. In June 2022, ANYCOLOR, and in March 2023, COVER, a company in the same business, was also listed. Just as talent agencies develop and monetize promising performers, the two companies are developing and monetizing virtual characters. Based on the business plans of the companies, the revenue growth rate is expected to be a rapidly expanding. When considering the Japanese content industry, "animation" is an indispensable cultural foundation. "Digital" is an indispensable keyword when considering future growth as a business.

Figure 1: ANYCOLOR Sales Figures (million \$)

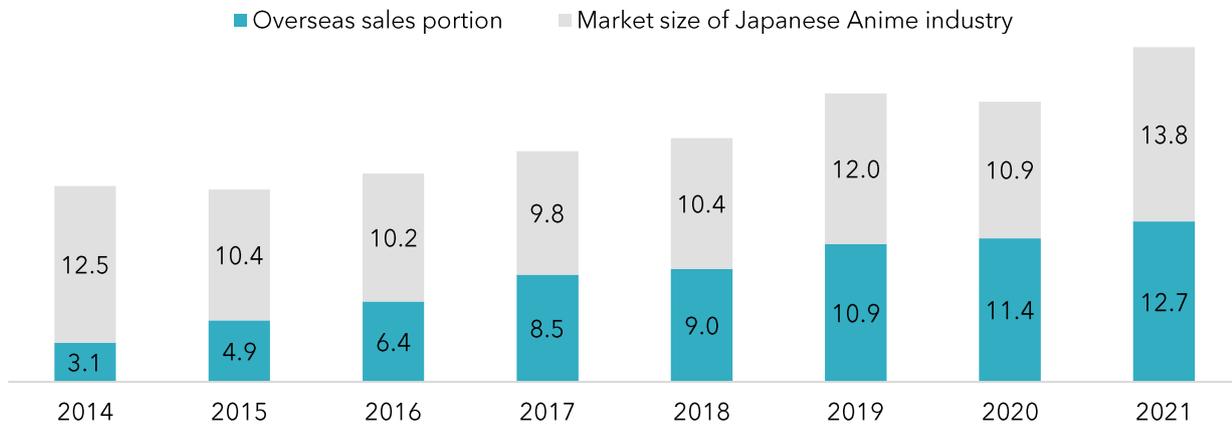


Source: ANYCOLOR

Japanese animation or "Anime" is immensely popular across the globe. Recently "Demon Slayer the Movie: Mugen Train" became a smash hit when it broke the domestic box office record for box office sales during the COVID-19 pandemic. Industry data for the animation industry shows that sales to overseas markets have also expanded significantly over the past several years (Figure 2). Production companies have stated that the rise of distribution platforms has led to this increase in demand for animation around the world. The source of competitiveness lies in the high quality and unique Japanese cultural characteristics of the content, and anime has already become a type of content that is riding the digitalisation trend and increasing its presence

in the world. This increase in awareness and popularity of a particularly Japanese kind of content has laid the foundations for the acceptance of VTubers.

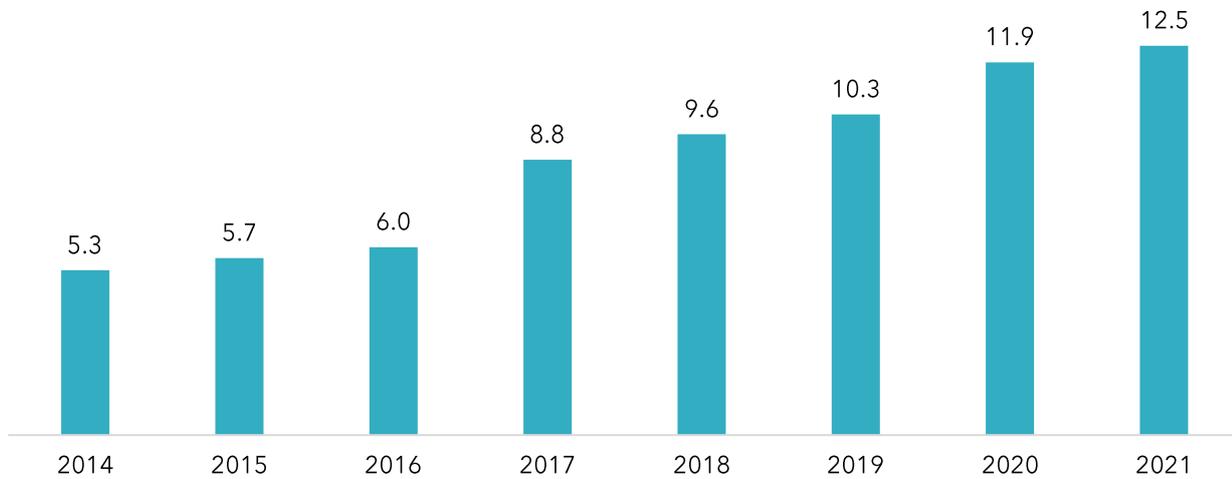
Figure 2: Market Size of Japanese Animation Industry (billion \$)



Source: The Association of Japanese Animations

South Korea's content industry is another good example of the trend towards digitalisation for business growth. South Korea, which had lagged behind Hong Kong films and Japanese animation, took a government-led initiative to support content exports and promote the industry digitally, and through the successful use of YouTube and Netflix, Korean idols such as "BTS" and Korean dramas such as "Squid Game" have rapidly increased their presence outside of Korea. The country's content exports have increased rapidly, doubling in the past five years and it has established itself as a major content exporting country not only in Asia but also globally (Figure 3). For the content industry, and thus for the country as a whole, the expansion of these platforms represents an excellent opportunity for business growth.

Figure 3: Total Export Value of the Content Industry in South Korea (billion \$)



Source: Ministry of Culture, Sports and Tourism (South Korea)

Looking back, Japan launched an aggressive global expansion of its content in the early 2010s under the "Cool Japan" concept, but unfortunately, it was far from a success. Japan had excellent content at the time but it lacked the infrastructure for global expansion and was unable to make explosive progress in overseas development.

Japan continues to have an accumulation of quality content that attracts people from around the world. In addition to anime, Japan creates a plethora of manga, games, movies, music, VTubers, and other high quality original content, and there is an abundance of material that can be exported globally. On the other hand, in terms of infrastructure, the hurdles to global development of content have been dramatically lowered with the advancement of digitalisation, and the world is becoming more accepting of various cultures with an emphasis on social diversity. Against the backdrop of this favourable shift, we hope that content originating in Japan will reach more people around the world and spread its wings as a major industry that will revitalize the Japanese economy.

About Writer



Satoshi Marui, the Chief Portfolio Manager of the Japan Small Cap strategy

Satoshi Marui has been managing the Japan Small Cap Strategy since its inception in 2005. As the Chief Portfolio Manager dedicated to this strategy, he is responsible for the direct management of the fund, and covers the Service, Information & Communication and Real Estate sectors.

Satoshi was promoted to Portfolio Manager of Japanese Equities after gaining experience as Risk Manager of Japanese equities and Fixed Income Portfolio Manager. He has been with the firm since graduating from Osaka Prefectural University in 1988 with a BSc in economics. He is a Certified Member of the Securities Analysts Association of Japan.

Disclaimer – UK

This marketing communication is issued by Sumitomo Mitsui Trust International Limited (“SMTI”). SMTI is authorised and regulated by the United Kingdom’s Financial Conduct Authority (the “FCA”), whose address is 12 Endeavour Square, London, E20 1JN, United Kingdom.

This marketing communication has been made available to you only because SMTI has classified you as a professional client in accordance with the FCA’s rules. If you have received this marketing communication from a source other than SMTI, you should contact SMTI before using it or relying on it. You must not send this marketing communication to any other person without first having received written approval from SMTI.

The information contained in this marketing communication (the “Material”) is being made available for information purposes only and is designed to provide information on the investment services which SMTI may offer to clients.

Nothing in the Material amounts to or should be construed as an actual offer by SMTI to provide any investment services to any person. If SMTI agrees to provide any investment services to any person, those services will be the subject of a separate written agreement between SMTI and that person. Furthermore, the Material has not been prepared with any consideration of the individual circumstances of any person to whom it is communicated.

Accordingly, it is not intended to, and does not, constitute a personnel recommendation in relation to the purchase or sale of, or exercise of any rights in relation to, any financial instruments or advice in relation to any investment policy or strategy to be followed. The Material also does not contain the results of any investment research carried out by SMTI and is not intended to amount to a financial promotion of any particular financial instrument which may be referred to in it.

While SMTI uses all reasonable endeavours to ensure the Material is accurate, it has not been prepared with a view to any person relying on it. Accordingly, SMTI accepts no responsibility for any loss caused to any recipient of this document as a result of any error, inaccuracy or incompleteness in the Material, nor for any error in the transmission or receipt of this communication.

Any enquiries regarding the products should be made to:

Hirofumi Hayashi

Head of Investment Management Department

Sumitomo Mitsui Trust International Limited

155 Bishopsgate, London EC2M 3XU, United Kingdom

Direct: +44 (0)20 7562 8405

Email: imd@smtil.com

Sumitomo Mitsui Trust International Limited is authorised and regulated by the Financial Conduct Authority

© Sumitomo Mitsui Trust International Limited 2025