

DI Report:

Growth and Business Creation after COVID-19

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After COVID-19 Research/Analysis Team

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The logo consists of a dark blue square containing the letters 'DI' in a white, serif font. The 'D' and 'I' are positioned side-by-side, with the 'I' being slightly taller than the 'D'.

DI

DI'S PERSPECTIVE ON THE CURRENT SITUATION AND CONTENT OF THIS MATERIAL

Two big waves are approaching

- **Wave 1: Acceleration in Change**

- Organizational and social issues that have been covered are now exposed, and immediate action is required

- **Wave 2: Game change and industrial structure transformation**

- Assumptions and standard of society and businesses are changing in response to avoidance of the “three Cs” and decoupling among countries, igniting game change and industrial structure transformation

Leaders need to tackle this change “brightly and positively” and “both proactively and reactively,”

- Leading companies are already considering and promoting efforts to grow and create businesses after COVID-19

DI expects Japan and Japanese companies to develop and grow significantly during this era of change caused by COVID-19

- Therefore, DI has published in this material what are likely to be the seeds for growth and business creation after COVID-19 and hope they will lead to the acceleration of efforts by leaders and companies creating a new society

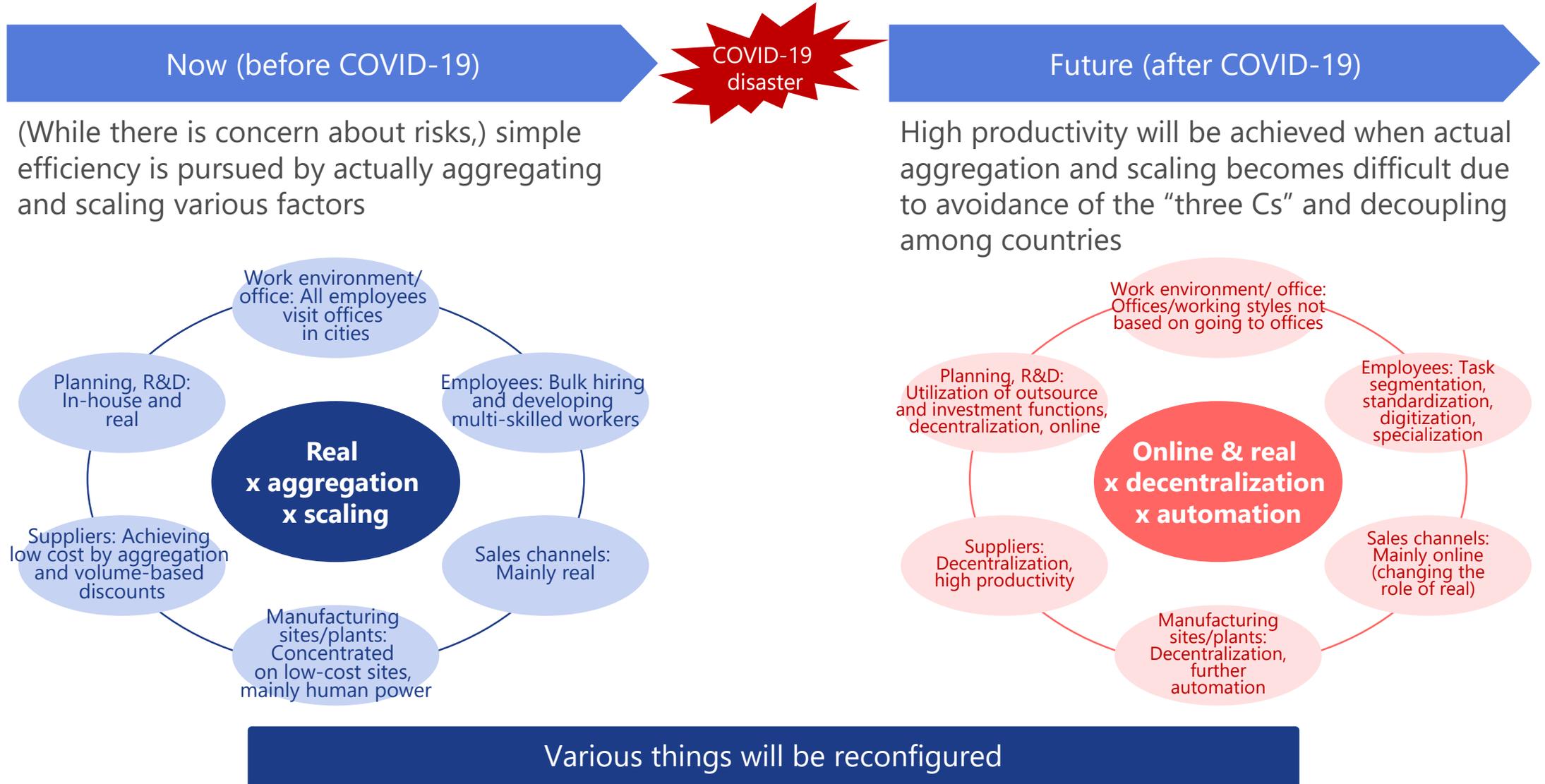
1. Changes and Challenges Underway

2. Message from the Representative

- For Young People and Young Companies

HOW WOULD THE AFTER COVID-19 WORLD BE LIKE?

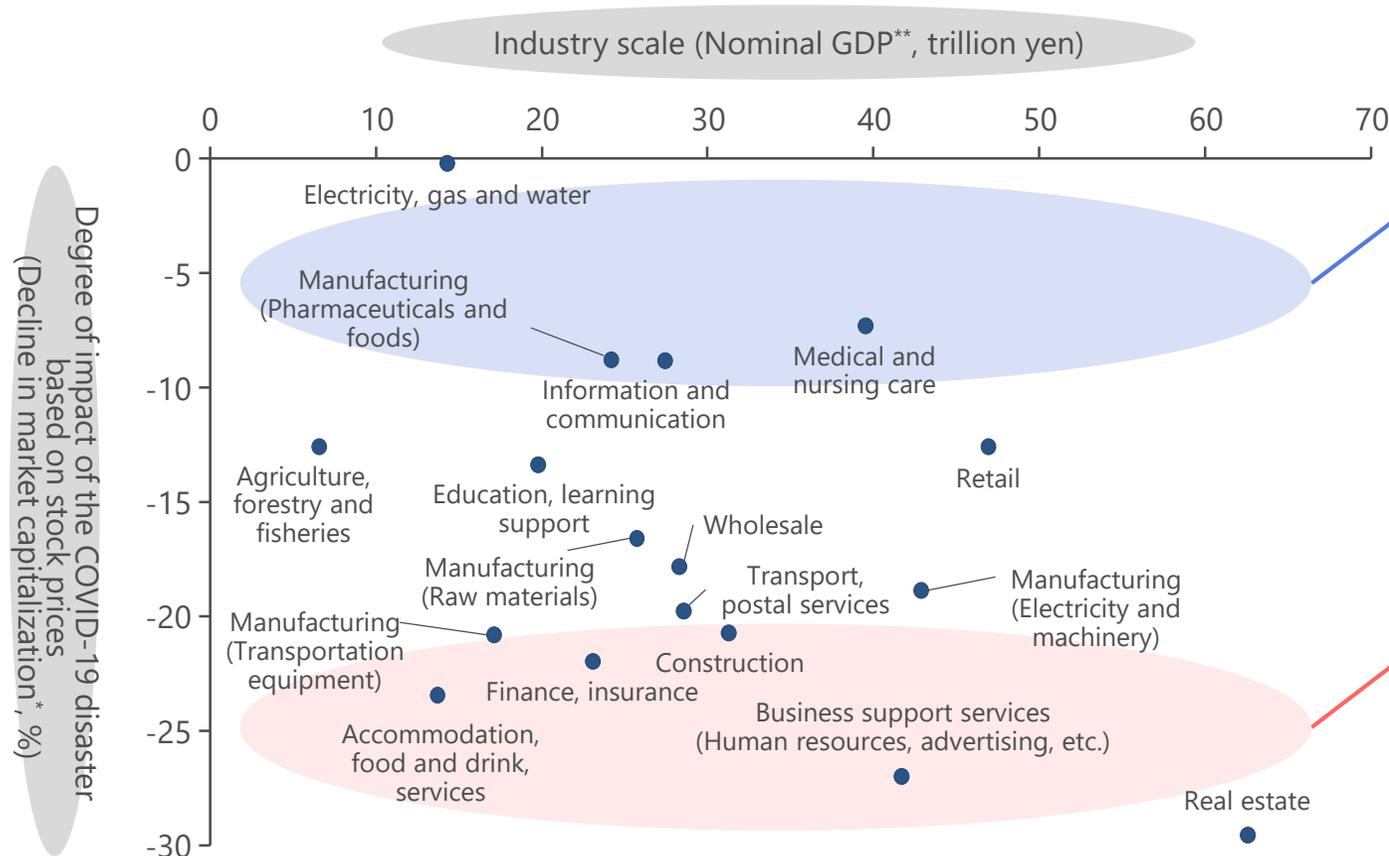
Existing “assumptions” that made up society, life, industries and businesses will change.



DEGREE OF IMPACT ON EACH INDUSTRY

Based on stock prices, **less affected industries** are “**infrastructure, healthcare, and information and communication.**” Conversely, **more affected industries (including estimates)** are “**accommodation, food and beverage, finance, construction, business services, real estate.**”

Scale of each industry and degree of impact from COVID-19 disaster based on stock prices



Future movements (DI's views)

Easier to move proactively

- It is relatively easy to promote planning and investment for growth, business creation, and introduction of new value propositions

Need to move to proactive transformation after taking protective measures

- As demand decline and sales and cash flows decrease, defensive efforts are made
 - Securing cash, reducing unnecessary costs, increasing productivity, downsizing, etc.
- The renewed role will be formed while proactively utilizing excess resources

* Decline in market capitalization for each industry from the end of January to the end of March 2020 (See page 20 for details.)

** Estimation of DI based on annual estimates of national accounts (See page 20 for details.)

Source: Economic and Social Research Institute of the Cabinet Office "Annual Estimates of National Accounts for FY2018", SPEEDA, DI analysis.

CHANGES/CHALLENGES (1/3): (A) PRODUCTS/SERVICES IN EACH INDUSTRY (VALUE PROPOSITION)

Review of ideal products/services (value proposition) will be accelerated in each industry

Manufacturing (to consumers)

Responding to changing consumer preferences Introduction of subscription services and development of DtoC* channels Online branding

Manufacturing (to businesses)

Review of customer portfolios Transformation of product portfolios Introduction of subscription models

Finance, insurance

New credit criteria New product development (Insurance for unattended delivery, etc.) Online consultation

Medical and nursing care

Strengthening of in-home services Self-medication Efficiency/automation of personal services

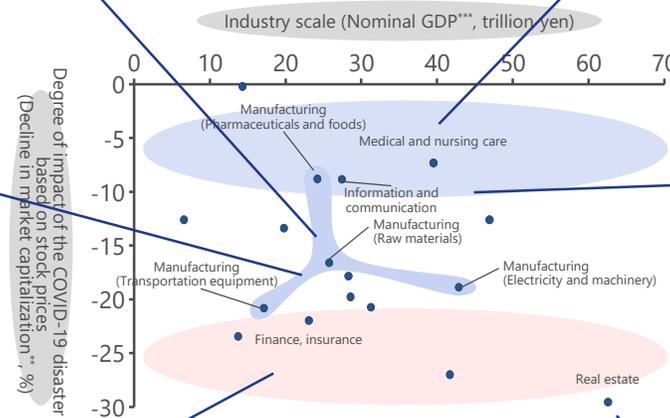
Information and communication

Enhanced communication capacity Utilization of personal/location and other types of information Remote maintenance

Real estate

Shift from cities to suburbs New hygiene standards for buildings, such as ventilation Online viewing

[Repeat] Scale of each industry and the degree of impact of the COVID-19 disaster based on stock prices



* Abbreviation for Direct to Consumer
 ** Decline in market capitalization for each industry from the end of January to the end of March 2020 (See page 20 for details.)
 *** Estimation of DI based on annual estimates of national accounts (See page 20 for details.)

CHANGES/CHALLENGES (2/3): (B) ORGANIZATIONAL AND MANAGERIAL ASPECTS

Ideal organizations and management are changing

2 changes/challenges common among various organizations

Changes/challenges in efforts by organization and function

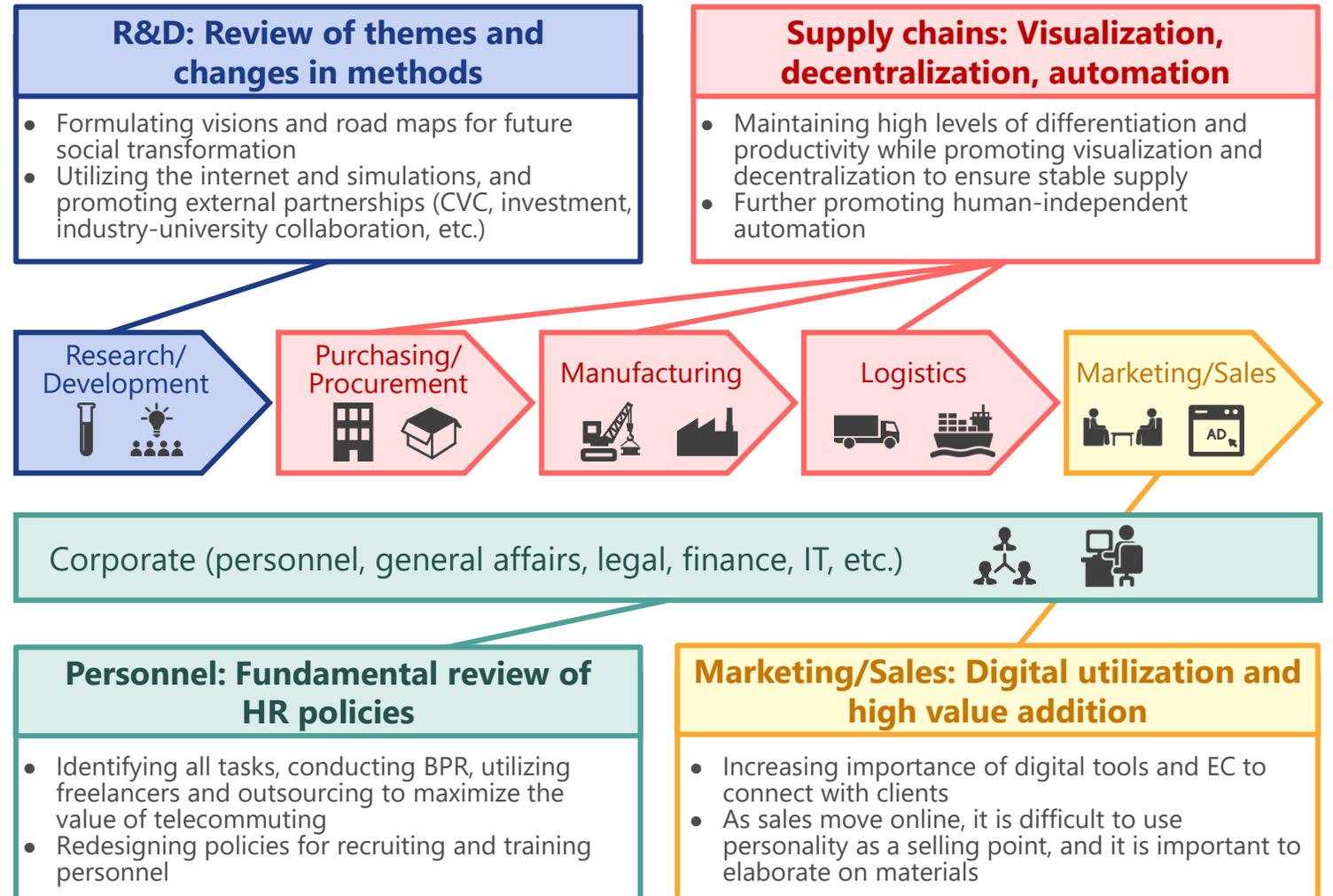
(i) Task segmentation and visualization

- As connections weaken through telecommuting, **subdividing and defining each person's tasks** and **visualizing progress** is required
- There is a need for visualization of jobs with business partners as well as within companies

⇒ On the other hand, there are some problems/needs that **irregular creative jobs are difficult to conduct**

(ii) Decentralization

- Needs for **decentralization of suppliers and manufacturing sites** to ensure business sustainability are increasing
- In order to avoid the risk of business suspension due to infection, **a business design that doesn't leave the execution of individual task to a specific individual** is also an issue
 - This leads to introductions of systems and robots



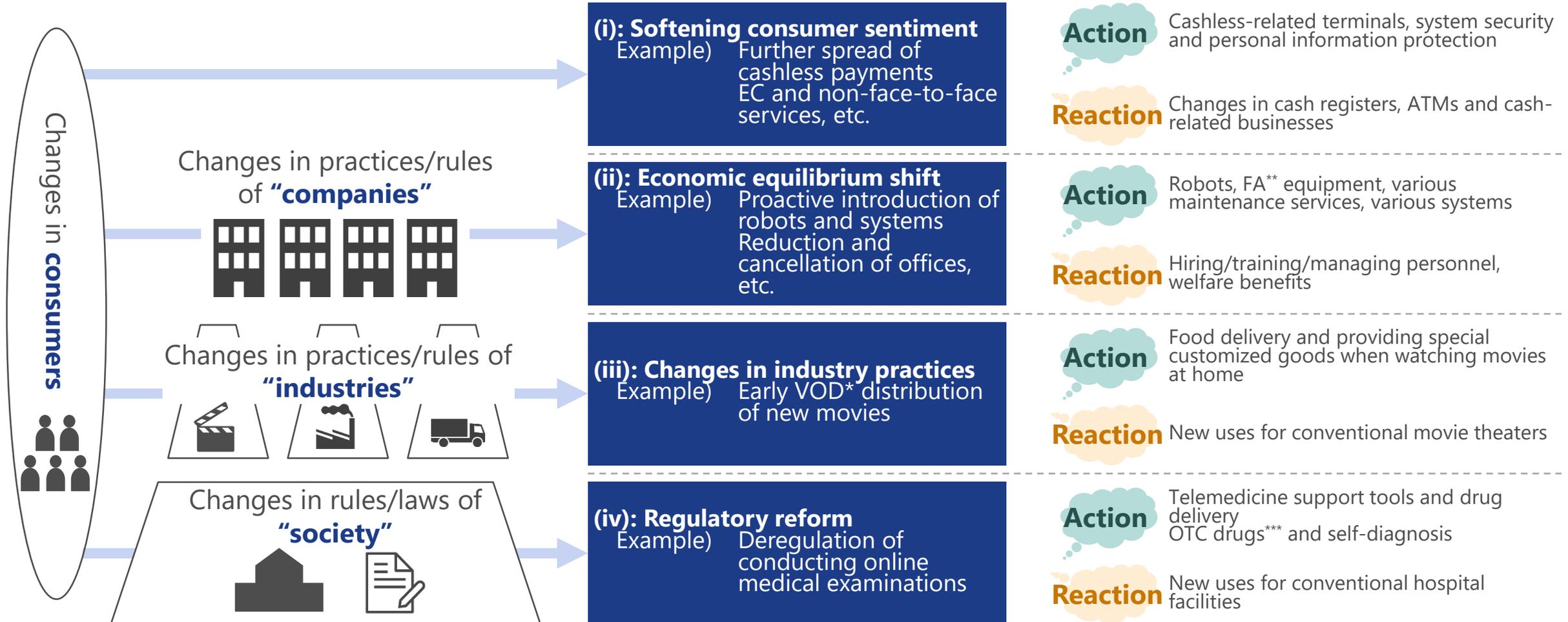
CHANGES/CHALLENGES (3/3): (C) EMERGENCE OF GAME CHANGE

Game change begins in various areas, and new opportunities are emerging

Changes taking place during COVID-19 disaster

4 types of game change

Examples/images of surrounding changes emerging



* Abbreviation for Video on Demand
** Abbreviation for Factory Automation
*** Abbreviation for Over-the-Counter (Refers to OTC drugs requiring guidance)

Individual Cases

- (A) Changes and Challenges in “Industries”
- (B) Changes and Challenges in “Organizations”
- (C) Emerging Game Change
- Supplemental Data, etc.

(A) CHANGES AND CHALLENGES IN INDUSTRIES (1/5): MANUFACTURING INDUSTRY

Shift to decentralized sites for risk diversification and visualization of value from concentration of sites pursuing efficiency

Traditional challenges and initiatives

Improved efficiency by concentrating production sites and limiting suppliers

- “ The Fukuyama and Tenri plants for camera parts have been consolidated in Tenri, and further consideration will be given. ”
-Chairman Tai of Sharp
- Approving “single-source suppliers,” Apple **improved efficiency by limiting suppliers and giving thorough instructions**
- Sony **reduced costs** by **reducing** the number of suppliers from approximately 1,000 to 250 and increasing the transaction volume at each company



Changes and Challenges Underway

The risk of concentrating sites and purchasing from a single company materialized, causing stagnation in production

- “ Overseas chemical raw material plants stopped operations, and cross-border procurement risks materialized. ”
-Chemical industry
- “ **We should have established a supply chain on a part-by-part basis.** ”
-Chairman Nagamori of Nidec
- Kaga Toshiba Electronics **suspended operations at a plant** with 2,000 employees **for 15 days due to the infection** of 20 employees



Industrial structure changes and future themes

There are signs of accelerated decentralization in supply chains and diversification of procurement

- The Japanese government earmarked 23.5 billion yen in subsidies for decentralizing production sites
- “ In consideration of risks, **decentralization of production sites will accelerate.** ”
-Chairman Nakanishi of the Japan Business Federation



Visualizing the value of decentralized supply chains

- It is necessary to convince downstream manufacturers of increased costs due to decentralization and diversification

Factory automation to support flexible supply

- This will enable flexible production adjustment in case of emergency



(A) CHANGES AND CHALLENGES IN INDUSTRIES (2/5): NURSING AND CARE INDUSTRIES

Increase in labor shortages leading to possible renewal of industrial policies/regulations and automation

Traditional challenges and initiatives



Changes and Challenges Underway



Industrial structure changes and future themes

Improving the productivity of staff at nursing care facilities and day service facilities due to labor shortages

- Promotion of non-face-to-face work automation including system input
 - The introduction is also supported by the MHLW and the METI

For the same reason, the introduction of support for the independence of the elderly and integrated community care is also considered

Clusters occurred in group homes and day service facilities. Demand for personal home care has increased

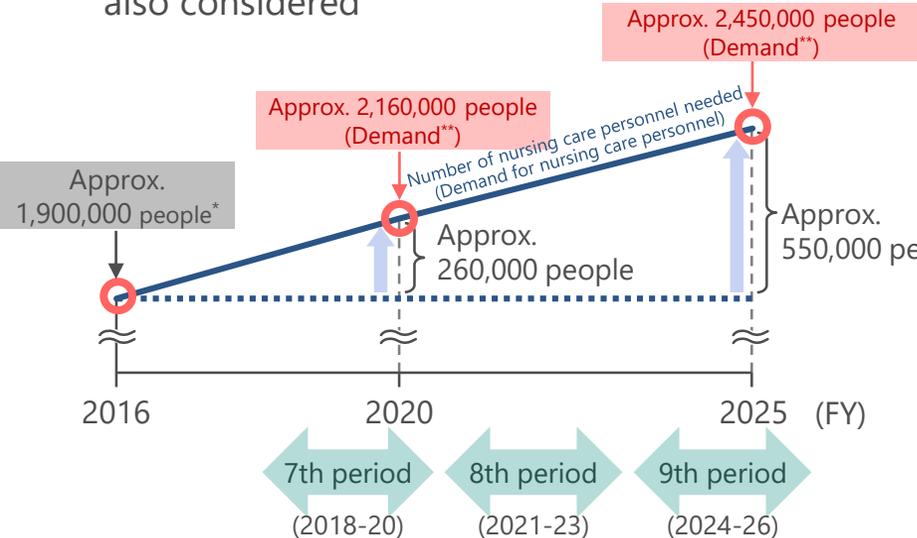
- At "Akiyama no Sato" in Matsudo City, 29 people were infected and 13 died
- "Large-scale day service facilities are already starting to be avoided, and **companies shifting to in-home nursing care are increasing rapidly.**"
- "Employees are also **concerned about the work environment** in facilities where they have close contact with multiple people."
 - The above comments are from the head of a nursing care facility in Tokyo

More efficient nursing care may be required as labor shortages accelerate

- Centralized nursing care at facilities has been avoided, and the efficiency of nursing care has declined
- Meanwhile, the number of people in need of nursing care will continue to increase, aggravating labor shortages

Technology utilization and standardization in the nursing care industry needs to be seriously considered

- Automation of face-to-face work and use of robots, which have not yet been introduced due to fear of accident risks
- Industrialization of support for independence, etc., in line with the review of nursing care insurance and incentive plans



* A total of the number of nursing care personnel in the "Surveys of Nursing Care Service Facilities and Offices" (after adjustment by the recovery rate, etc.) and the number of nursing care personnel engaged in services equivalent to the former in-home nursing care for prevention of nursing care, etc., among comprehensive businesses (estimated value: approx. 66,000 people).

** Expected demand (approx. 2,160,000 people and 2,450,000 people) is the aggregate of the estimated value by prefectures based on estimated service volume (including comprehensive businesses) positioned as the 7th nursing care insurance business plan by municipalities.

Source:

The Ministry of Health, Labour and Welfare website, NHK, DI interview and analysis. (Image) Ministry of Health, Labour and Welfare, "Measures to Secure Welfare and Nursing Care Personnel," RIKEN website "ROBEAR."

(A) CHANGES AND CHALLENGES IN INDUSTRIES (3/5): MEDICAL INSTITUTIONS

Signs of accelerated shift from face-to-face to remote medical care, including drastic review of regulations

Traditional challenges and initiatives

+ Changes and Challenges Underway 

Industrial structure changes and future themes

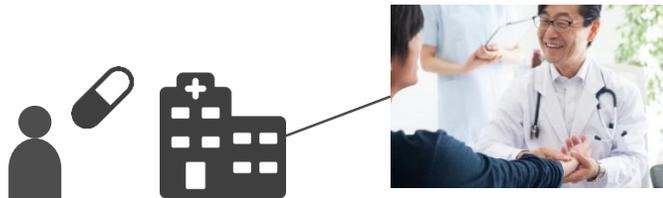
Medical care is mostly provided on a face-to-face basis, and remote medical care is utilized only in certain regions and for certain diseases

- Remote medical care is mainly for revisiting patients with chronic diseases in remote areas

There are **both technical and regulatory hurdles** to remote medical care

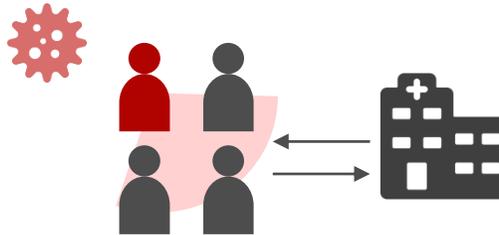
- Information available to doctors is limited and there is a problem of responsibility for misdiagnosis
- Therefore, in principle, new patients are required to take face-to-face medical care and receive medication instructions
- " Remote medical care is only complementary to face-to-face medical care. "

-Japan Medical Association, MHLW



In-hospital clusters frequently occurred, and **demand for non-face-to-face medical care is rapidly growing**

- At Eiju General Hospital (Taito Ward), **210 or more people were infected**
 - " Both COVID-19 positive and negative patients existed in multiple wards ", " The infection has spread through medical personnel. "
- MHLW
- " Since there are no specific guidelines, different hospitals respond differently. "
- Medical personnel
- An increasing number of patients buy drugs at drugstores and treat themselves

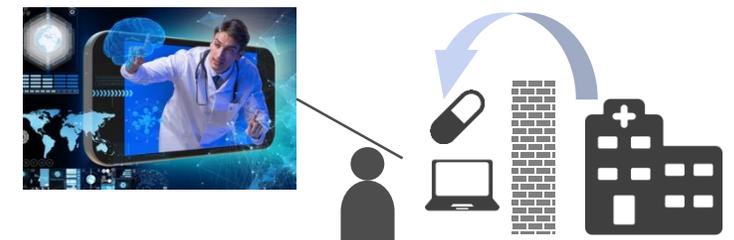


The range of remote medical care is extended for a limited period of time. And it may spread rapidly

- New patients may take medical care and receive medication instructions online or by phone
- " It may be widely recognized that online medical care is not complementary to main face-to-face medical care. "
- Chairperson Kobayashi of the Council for the Promotion of Regulatory Reform

Systematization of information acquisition/management and cooperation with self-medication will become issues in the future

- It is difficult to obtain biological information, and the quality of medical care depends on the ability of doctors to ask questions



(A) CHANGES AND CHALLENGES IN INDUSTRIES (4/5): TRAVEL AND LEISURE INDUSTRIES

New opportunities in utilizing technology and securing public health to develop domestic demand

Traditional challenges and initiatives



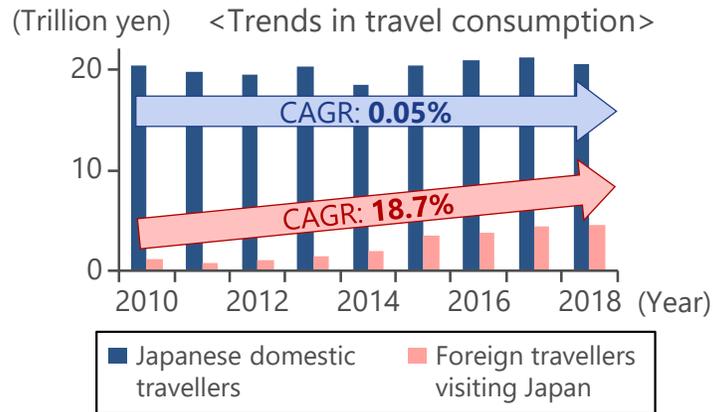
Changes and Challenges Underway



Industrial structure changes and future themes

While domestic demand was flat, **growth was driven by increasing inbound demand**

- The number of foreign visitors to Japan has been increasing year by year and exceeded 30 million in 2018



Public health is one of the many value criteria in leisure and accommodation facilities

- The focuses are on out-of-the-ordinary experiences, low prices, convenience of transportation, etc.

Demand has declined significantly inside and outside of the country. **The decline in inbound demand is particularly remarkable, and recovery is expected to take a long time**

- WBF Hotels & Resorts, which operates hotels, filed with the Osaka District Court for the application of the Civil Rehabilitation Act on April 27, 2020
- "Overseas economic losses are particularly severe, and inbound demand will be depressed for a while."
-Person in charge of marketing at a hotel company

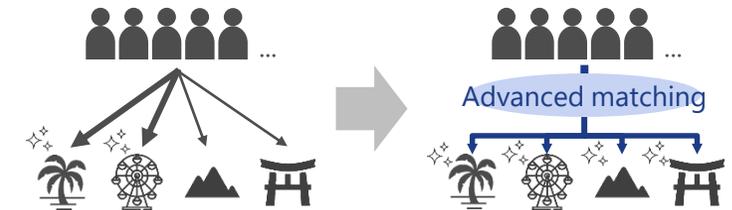
Securing public health is becoming a **key value criterion** in leisure and travel

- "Some resorts where social distance can be maintained naturally have not lost reservations."
-Person in charge of corporate planning at a travel agency



Utilizing technology to encourage domestic demand

- Increasing matching accuracy between travellers and tourism resources to promote new tourism consumption



Shift to service design based on criteria giving more consideration to the hygienic value.

- Preparation of a variety of services to maintain social distancing such as room meals, etc.
- Standards and certifications to indicate hygiene conditions** may also be effective

(A) CHANGES AND CHALLENGES IN INDUSTRIES (5/5): PUBLIC HEALTH

Regulations on personal information protection may be eased, and public health value will be enhanced

Traditional challenges and initiatives



Changes and Challenges Underway



Industrial structure changes and future themes

The hygienic value was recognized only in specific sectors such as food

- The Food Sanitation Act was amended in 2018
- Food sanitation management in line with global standards was sought in preparation for the Tokyo Olympics

Public opinion climate **giving precedence to personal information protection** over public health

- The GDPR* took force, requiring personal consent to obtain cookies

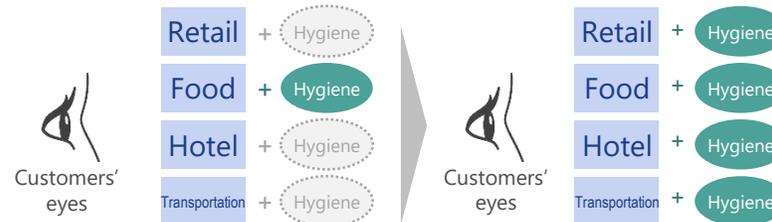


Securing public health becomes a major issue in all products/services

- Temperature measurement at companies, schools, transportation facilities, etc.
- The Ministry of the Environment will subsidize the cost of installing high-performance ventilation systems at restaurants, etc.

The value of **securing public health** and **personal information protection** should be balanced

- In South Korea, China, and Taiwan, **thorough surveillance** may have contributed to **preventing the spread of infection**
- The French government asked Apple to lift Bluetooth restrictions on iPhones



Public health value will be built in a wide variety of products/services

- Singapore introduced a **certification system** to indicate the cleanliness of hotels and retail stores
- UK Universities are developing **sanitary certifications for suppliers and products**

New services and systems that make better use of personal information may be **launched**

- The US government, which had taken a cautious stance on the use of personal information, also had consultations with Google and Facebook aiming at utilizing location information



SG CLEAN

The Singapore government's sanitation certification system (started in February 2020)

* Source: An abbreviation for General Data Protection Regulation. It took force in 2018, and IP addresses, cookies, etc., are regarded as personal information. Bloomberg article dated April 21, 2020, AFP article dated March 19, 2020, MIT Technology Review article dated April 1, 2020, Jiji.com article dated April 25, 2020, Cointelegraph article dated April 21, 2020, the Ministry of Health, Labour and Welfare website, the Singapore Government website, DI interview and analysis. (Image) The Singapore Government website, Adobe Stock

(B) CHANGES AND CHALLENGES IN ORGANIZATIONS (1/3): R&D

Shift from in-house R&D to investment-type external partnerships such as CVCs

Traditional challenges and initiatives

Changes and Challenges Underway



Industrial structure changes and future themes

A development style **aiming for hit products** starting with **in-house R&D**

- Assumptions of narrowing down and concentrating on themes

As a result, the R&D investment efficiency of Japanese companies is lower than those of other countries

- Unable to keep up with diversified customer preferences

The diversification of scenarios further accelerated, and it became more difficult to follow them in-house

- "Consumption trends changed and became difficult to forecast due to behavioural changes caused by COVID-19."
- "As the future is uncertain, multiple businesses need to be nurtured simultaneously."

-Consumer goods manufacturers and others



<Increased indoor related consumption>

In addition, **"avoidance of three Cs" stagnates traditional R&D activities.**

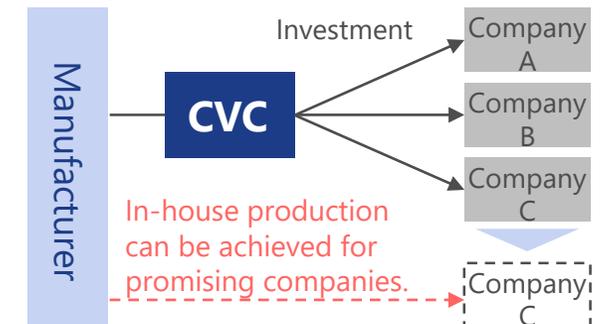
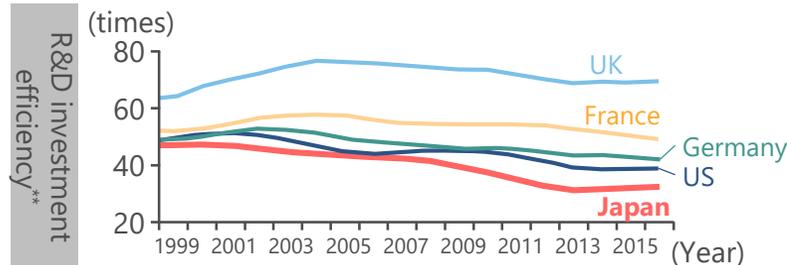
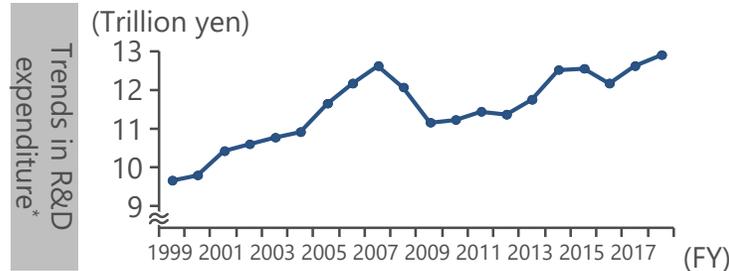
- "It is a difficult situation because the development activities cannot be conducted at home due to confidentiality."
- Chemical/auto manufacturers and others

Shifting from in-house R&D to **investment-type external partnerships**

- In-house production can be achieved for promising companies from a broader range of investment targets

Specifically, companies **may increase utilization of CVC investments**

- "Consideration of sharing research items through the CVC utilization is on the agenda."
-Consumer goods industry
- "The number of inquiries related to the establishment and utilization of CVCs has increased several times in the past month."
-Person in charge of establishing CVCs



* R&D expenditure in private companies (total personnel expenses, raw material costs, lease payments and other expenditures)
 ** Value added by companies and R&D investment 5 years ago (calculated based on purchasing power parity) are calculated using the ratio of the backward 5-year moving average. (Investment efficiency in 2010 = value added in 2006-2010 / R&D investment in 2001-2005)
 Source: The Ministry of Internal Affairs and Communications "Scientific and Technological Research," the Ministry of Economy, Trade and Industry website, DI interview and analysis. (Image) HiVi May 2020 issue

(B) CHANGES AND CHALLENGES IN ORGANIZATIONS (2/3): CORPORATE HUMAN RESOURCE FUNCTIONS

Individuals becoming less traceable accelerating and performance-based evaluation and cost rationalization

Traditional challenges and initiatives

Changes and Challenges Underway



Industrial structure changes and future themes

Many companies have surplus staff due to insufficient identification and visualization of internal tasks and performance.

- " Personnel expenses can be reduced by about 20% by identifying tasks, prioritizing them, and using outsourcing. "

-Business innovation consultant

In addition, **since performance cannot be evaluated clearly, the personnel department conducts evaluation taking into account effort and attitude.**

- Even in companies that claim to be performance-based, compassion may be taken into consideration.*

With the shift to telecommuting, the progress of tasks has become unclear, and **it has become necessary to drastically review evaluation methods.**

- " The overall evaluation score decreased by 10% on average because evaluators cannot see how employees are working and do not feel compassion. Evaluation standards need to be reviewed. "

-Human resources personnel in major service industries

- " As digitalization advances, the identification of tasks and performance will progress, and **personnel evaluation will be segmented.** "

-Business innovation consultant

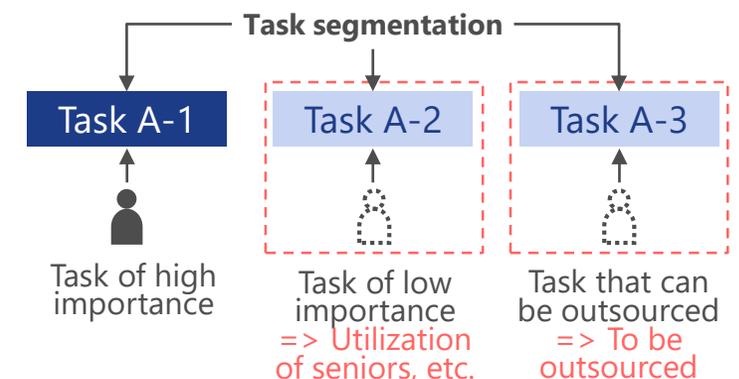
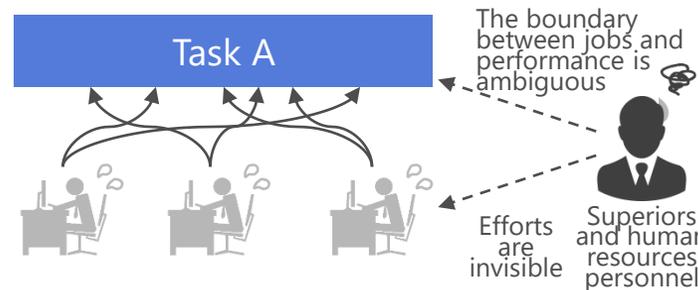
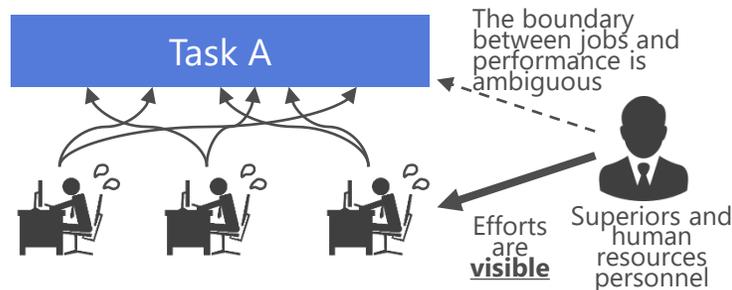
Rationalization of personnel expenses may be promoted based on performance-based evaluation and task segmentation.

- **Utilizing outsourcing and human resources with low personnel expenses** in low-importance and simple tasks.



There are signs that **human resource strategies, including the utilization of seniors**, will be called into question from the perspectives of social issues and personnel costs.

- " As a result of a review of tasks due to COVID-19, discussions have begun on the utilization of senior ex-employees. "
- Major consumer goods manufacturers



* In the 2005 survey by the Japan Management Association, a questionnaire was conducted on companies that claim to be performance-based to evaluate the ideal and actual evaluation system on a five-point scale. The gap between the ideal and actual of "evaluation not considering compassion" was the 3rd largest among 17 items. In the average of a five-point scale, while "agree somewhat" (4.3 points on average) was the ideal, "neither agree nor disagree" (3.3 points on average) was the actual. The item with the largest gap was "realization of the right people in the right places," followed by "implementation of demotion."

Source: The Japan Management Association "Survey Results of Questionnaires on Performance-based Evaluation," DI interview and analysis.

(B) CHANGES AND CHALLENGES IN ORGANIZATIONS (3/3): CORPORATE SALES FUNCTIONS

Shift from sales depending on “relationship-building” to expression quality and organizational power

Traditional challenges and initiatives

Salespeople visit customers several times by themselves, and use gestures and actual products to win contracts.

- 1 salesperson deals with 1 customer in 53% of companies.
- Great value in “meeting anyway” such as frequent visits and business entertainment.

Accordingly, **relatively few resources are devoted to developing sales materials.**

- “ **Visualization of materials is also incomplete** because it can be overcome by communication skills. ”
-Sales representative of a major consumer goods manufacturer

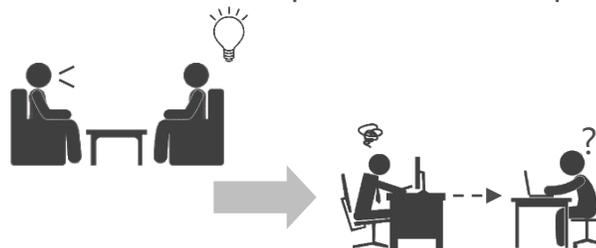


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Changes and Challenges Underway

As **sales move online**, new sales skills have become important for value appeal.

- As the shift to online sales progressed, sales tools such as bellFace rose rapidly.
- Mitsubishi Estate Residence fully introduced online customer service and business negotiations in central Tokyo.
- On the other hand, **the success rate of business negotiations has dropped by several tens of percent** in online sales.
 - “ They cannot communicate well due to a decline in the quality of the explanation and the understanding of customers. ”
-CEO of a corporate video production company



Industrial structure changes and future themes

Redevelopment of sales materials and collaboration within the organization to win online deals will be promoted.

- “ The depth of relationships that can be built individually is limited, and **the strategy of building shallow but broad relationships by the entire department has proven effective.** ”
-Business innovation consultant



Visualization of sales including video, VR and AR will become an important theme.

- Ricoh has already developed a virtual property introduction system for the real estate industry in Japan.



Source: The Department of Research on the Staffing Industry, Institute of Social Science, The University of Tokyo “Research on the Work and Development of Sales Personnel,” Nikkei xTRENDS article dated April 23, 2020, Weekly Housing dated April 27, 2020, Diamond Online article dated April 23, 2020, Ricoh press release dated October 1, 2019, DI interview and analysis.

(Image) PR TIMES article dated June 7, 2019, Adobe Stock

(C) EMERGING GAME CHANGE (1/3): "CASHLESS PAYMENTS AND INTERNET BANKING" AND "FACTORY AUTOMATION"

(i) Softening consumer sentiment:
Cashless payments and internet banking

Current progress of discussions

The spread of cashless payments remained at a gradual pace, hampered by consumer concerns

- Both cashless payments and internet banking were slow in spreading due to consumer concerns over **the leakage of personal information**
- The main benefits are to corporations, such as reduced cash handling costs and the acquisition of behavioural data through payment histories

What is happening now

Touchless payment may spread rapidly because consumers have found new value in "touchless" with the aim of preventing infection

- Avoiding infection through paper money and conversations with clerks
- In a consumer survey, 57% said their awareness of paper money, coins, and ATM operations has changed
- The number of new internet banking users at MUFG Bank in March 2020 increased approximately 3 times from the same month of the previous year



(ii) Economic equilibrium shift:
Factory automation

It is difficult to make a big shift to factory automation from the perspectives of stable employment and costs

- Large initial investment for automation is a bottleneck
- "Mechanization of professional skills is a difficult issue, and it is also difficult to allocate personnel after implementation."

-Machinery manufacturer

There are signs of **accelerated automation as cost assumptions for machinery and workers change**.

- Labor unions are strongly opposed to the restart of plants, and the cost of human-related processes is rising, such as by setting intervals between workers.
- "The risks of human-related production are recognized, and the number of human-related processes is expected to be reduced. There is also the possibility of expanding into areas where robots have not been used in the past."

-Machine tools manufacturer



(C) EMERGING GAME CHANGE (2/3): "VOD DISTRIBUTION OF NEW MOVIES" AND "REMOTE MAINTENANCE"

(iii) Changes in industry practices: VOD* distribution of new movies

Current progress of discussions

Filmmakers and distributors **usually delay VOD distribution of new movies from their theatrical release in consideration of entertainment companies**

- They were hesitant to distribute movies through VOD because it would decrease revenue per customer and could lead to ill-planned price cuts
- It is also considered taboo in the industry because it may lead to a conflict with movie theater companies, which still account for 70% of revenues

What is happening now

Following the close of theaters, Universal Pictures distributed the movie "Trolls" early through VOD, achieved profitability, and showed an intention to continue such practices

- Although the box-office revenue was about 70% that of the previous movie, the distributor's share by the VOD distribution was about 1.5 times larger than the box-office revenue, making revenues almost the same level
- Although this is a temporary measure, the company expressed that it is considering distributing movies through VOD at the same time as their theatrical release.

Warner Brothers, a major distributor, will follow suit in May



(iii) Changes in industry practices: Remote maintenance

In machinery and electrical equipment manufacturers, **maintenance is usually conducted by in-house engineers visiting onsite**

- "Maintenance of equipment requires the presence of in-house engineers, who listen to customers' concerns which leads to business."
- "Maintenance personnel may be on a business trip for half a month."

-Machinery manufacturer

These manufacturers reduced time and costs **by conducting maintenance through remote guidance for customers in areas where they cannot visit, and showed an intention to continue to do so**

- DISCO, a major semiconductor equipment manufacturer, achieved time and cost savings by sending a video explaining repair procedures to a plant in Wuhan, China
- "Approaches have to be changed so that construction and maintenance can be conducted by robots or remote handling."

-President Sawada of NTT



* Abbreviation for Video on Demand
Source: Zaikai Shimbun article dated May 1, 2020, Nihon Keizai Shimbun articles dated March 21, 2020 and May 12, 2020, NHK article dated May 11, 2020, DI interview and analysis.
(Image) Adobe Stock, Movie.com

(C) EMERGING GAME CHANGE (3/3): "COOPERATION IN PROVIDING PERSONAL DATA" AND "ONLINE MEDICAL EXAMINATION"

(iv) Regulatory reform: Cooperation in providing personal data

Current progress
of discussions

Many are cautious about providing personal data

- In Europe in particular, due to the GDPR, negative opinions prevail over the provision of personal data
 - "90% in the EU expressed concerns that mobile apps collect personal data without consent."

What is
happening
now

The government manages data centrally to track and disseminate infection routes

- In South Korea, the government obtains and discloses information from infected persons' smartphone GPS data, credit card purchases, and from surveillance cameras
- They may be able to be applied to various services such as disaster prevention, mobility and smart cities by utilizing data in the future



(iv) Regulatory reform: Online medical examination

Online medical care has been deregulated in a phased manner as medical associations have taken a cautious stance on potential inequalities among clinics

- While it has been covered by insurance from 2018, it has not become widely adopted mainly because it is "only for revisiting patients" and "types of medical care are limited."
- "There were no benefits of promoting its use since it was not effective in attracting new patients and medical fees were low."

Due to its widespread adoption in other countries and the spread of in-hospital infections, it has been rapidly deregulated and increasingly used

- " Since it became available to new patients on April 13, 2020, the number of users has increased 2-3 times over the previous month. "
-Medical practitioner in Tokyo
- **The system may be drastically redesigned** in the future, including telemedicine standards, treatment, and medication methods



(REFERENCE) CALCULATION METHOD OF “THE SCALE OF EACH INDUSTRY AND THE DEGREE OF IMPACT OF COVID-19” ON PAGE 4

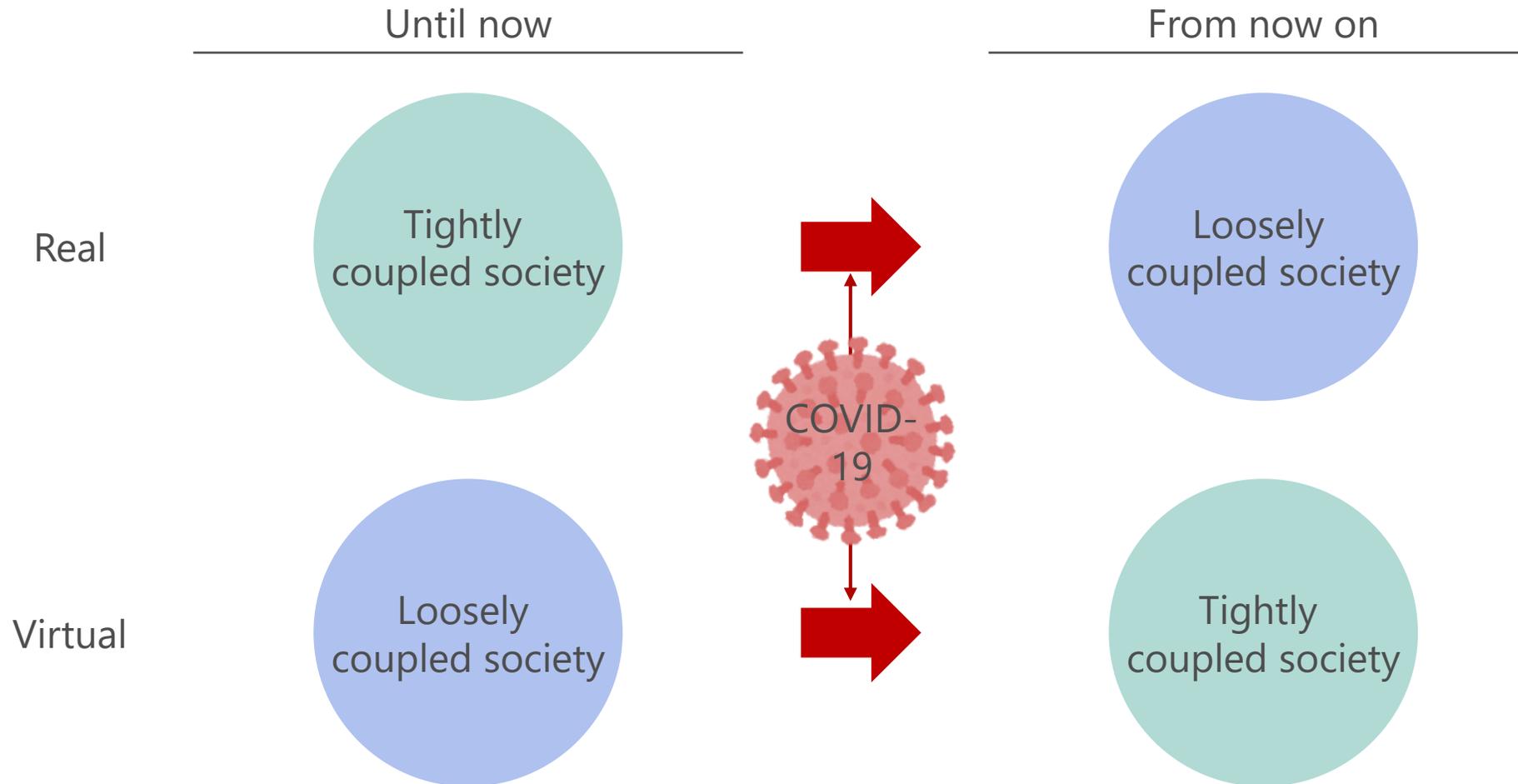
Nominal GDP	Way of thinking	The composition rate of GDP in each industry was extracted from the composition rate of GDP by economic activity (nominal) in “Annual Estimates of National Accounts for FY2018” issued on December 26, 2019, by the National Accounts Department, Economic and Social Research Institute of the Cabinet Office. The nominal GDP by economic activity was calculated by multiplying 548.4 trillion yen, the nominal GDP (expenditure side) for FY2018, by each rate
	Classification method	<p>While the classification was based on the “composition rate of GDP by economic activity (nominal)” mentioned above, DI partially revised the classification when graphing</p> <ul style="list-style-type: none"> • The manufacturing industry was divided into 4 categories: raw materials (steel, non-ferrous metals, glass and ceramics products, textile products, metal products, petroleum and coal products, rubber products, chemicals, pulp and paper), transportation equipment, electricity and machinery (machinery, electric appliances, precision equipment), and pharmaceuticals and foods (pharmaceuticals and foods). Market capitalization as of March 31, 2020, was calculated, and the nominal GDP was divided proportionately according to the market capitalization ratio. As the composition rate of mining was 0.1%, this figure was included in the raw materials and graphed • Industry names were changed: “professional, science and technology, business support services” → “business support services (human resources, advertising, etc.),” “education” → “education and learning support,” “health, hygiene, social services” → “medical and nursing care services.” “Wholesale and retail trade” was divided into “wholesale trade” and “retail trade” (See below for the composition of each industry) • “Public services” and “other services” in the “composition rate of GDP by economic activity (nominal)” were omitted in this graph
Decline in market capitalization	Way of thinking	Aggregate market capitalization of listed companies in Japan registered in SPEEDA (approximately 3,800 companies) by industry classification as of January 31, 2020, and March 31, 2020, was calculated, and the decline in market capitalization was calculated. (The industry classification are as shown in the below “classification method.”)
	Classification method	<p>Each industry was linked to the classification codes of the TSE’s 33 sectors as follows (The TSE’s 33 sectors are shown in parentheses for each item)</p> <ul style="list-style-type: none"> • Real estate [real estate], finance and insurance [securities and commodities futures, other financing business, banks, insurance], transportation and mail [marine transportation, air transportation, warehousing and harbor transportation, land transportation], construction [construction], manufacturing (raw materials) [iron and steel, nonferrous metals, glass and ceramics products, textiles and apparels, metal products, oil and coal products, rubber products, chemicals, pulp and paper, mining], manufacturing (transportation equipment) [transportation equipment], manufacturing (electricity and machinery) [machinery, electric appliances, precision instruments], manufacturing (pharmaceuticals and foods) [pharmaceutical, foods], wholesale [wholesale trade], retail [retail trade], agriculture, forestry and fisheries [fishery, agriculture & forestry], information and communication [information & communication], electricity, gas and water [electric power and gas] <p>Since “services” are not subdivided in the TSE’s 33 sectors, the following 4 industries were subdivided from SPEEDA’s enterprise selection classifications. (The SPEEDA’s classifications are shown in parentheses for each item.)</p> <ul style="list-style-type: none"> – Accommodation and restaurant services [“restaurants and home meal replacements,” “travel and accommodation”], business support services (human resources, advertising, etc.) [“business support,” “human resources services,” “security services,” “advertising and events”], education and learning support [“education,” “school lunch”], medical and nursing care services [“medical welfare services”]

1. Changes and Challenges Underway

2. Message from the Representative

- For Young People and Young Companies

IMPACT OF COVID-19 (1)



Industrial structure transformation that normally takes 10 to 20 years will occur in the next 2 to 3 years

IMPACT OF COVID-19 (2)

Encourage generational change in everything.

- Industries/Businesses
- Managers
- Politicians
- Others

Big opportunity for young people and young companies

I believe that COVID-19 could radically change the industrial structure. I do not mean what industries are going down by how much, rather, I think that the generational change in industries will progress all at once because people's lifestyles and ways of thinking are changing. While COVID-19 is terrible, it may serve as activation energy to promote generational change in industries.

The industries that used to be the main cast in industry may cease to be so from now on.

On the other hand, IT and communication equipment to promote staying at home, renovation to improve the home environment, local real estate, improved audio facilities (for games, entertainment, and watching sports), to say nothing of healthcare and other entertainment (on the internet), agriculture, agricultural logistics (agricultural EC) and, of course, IT services may rise to be the main cast or supporting cast. Increased telecommuting should revitalize the pet industry. Tight coupling will become loose coupling throughout, and IT and security connecting loose coupling will play an important role.

As more and more people are staying at home, the number of people who want to buy another dog is increasing because their pet dogs are getting tired of them. People are frustrated by not being able to go to live shows, and online live shows are starting to gain popularity. Instead of simply listening, there are more ways to enjoy them, such as watching online live shows and giving money while drinking and chatting with others via Zoom. (This already takes place in the game world. PlexChat, which DI had invested in and exited the investment, was a tool for chatting with friends and waiting for instructions while playing games.)

MESSAGE FROM THE REPRESENTATIVE (2/2): MESSAGE FOR INTERNAL USE IS RELEASED

Although industrial transformation normally takes 10 to 20 years, I think that COVID-19 will force industrial structure transformation in about 2 to 3 years.

Given these circumstances, sad news may continue for a while. It will hardly be surprising if a major company sells its business (carries out a merger) or declines, or something alarming and terrible happens.

Not being surprised by what is going to happen, however, we need to be aware that the transition to the next stage (which normally takes 10 years or more) is taking place in a very short period of time, and to think that the next growth period awaits after the transition.

After World War II, Japan's industrial structure changed drastically, which was affected by the power of the country at that time.

We also have opportunities. Some managers and industries/businesses should take on challenges.

I have written a lot, but I am convinced that COVID-19 will promote generational changes in everything (industries/businesses, managers, politicians and others) and bring something new to the young generation. I hope that you will do things with awareness that COVID-19 is a great opportunity for generational changes while properly fearing it and preventing being infected by it.

Takayoshi Yamakawa, President and Representative Director of DI

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(REFERENCE) WAYS OF THINKING AND ACTING REQUIRED FOR BUSINESS CREATION AFTER COVID-19

Toward changes in assumptions due to the COVID-19 disaster and the consequential reconfiguration of the world,

- **we are required, more than ever,**
- **to define our own questions, to draw up a big picture of the future, value propositions and business model hypotheses,**
- **and to work with various players so as to realize them**

3 points (DI's idea)

(i): Designing concepts

Assumptions such as legal systems, practices/common sense that made up the conventional business environment are to be reset, and **ideal industries and businesses** are to be redrawn

- Avoidance of the "three Cs," decoupling between countries/regions, a drastic decrease in demand will change the various assumptions in society and businesses

(ii): Designing hooks and a recovery engine

The design of the hooks and recovery engine and **a bold step to initiatives serving as hooks** are essential in the business model

- How can we attract clients, establish strong hooks to gather clients, contacts and data, and connect them to the recovery engine in our businesses?

(iii): Establishing relationships

Establishing relationships is necessary to realize the big idea we drew up

- It is necessary to create an ecosystem with various players (in-company, clients, companies, governments, universities and public opinion) who can share the big picture and to bring various resources from outside, instead of seeking our own interests or monopolizing the wealth

For details, please refer to the Company's book "Business Producing Strategy to Create a 300 Billion Yen Businesses."

- We will also distribute business producing content on the DI website

(REFERENCE) BUSINESS PRODUCING BY DI

Business producing framework



Examples of business producing support

 Conceptual design (Industry producing)	 Business creation (Business producing)
"Green city concept" <ul style="list-style-type: none"> Positioned as the top priority industrial strategy of the METI at that time 	<ul style="list-style-type: none"> Auto manufacturers Real estate developers Energy companies, heavy electronics manufacturers, etc.
Concept of global expansion of energy saving equipment (including standardization and others)	<ul style="list-style-type: none"> Home electronics manufacturers
Industrial strategy for energy systems centered on large storage batteries	<ul style="list-style-type: none"> Heavy electrics manufacturers, IT companies, power companies Auto manufacturers, housing manufacturers, etc.
Strategy on exporting systems and infrastructure <ul style="list-style-type: none"> Identifying promising field, strategy 	<ul style="list-style-type: none"> Trading companies, infrastructure operators Heavy electrics manufacturers, IT companies, etc.
Social importance of infrastructure maintenance and implications for commercialization	<ul style="list-style-type: none"> Infrastructure players Affiliated manufacturers, etc.
Designing of the globalization model for the medical industry and the regenerative medicine strategy	<ul style="list-style-type: none"> Pharmaceutical companies, medical device manufacturers Trading companies, IT companies, financial institutions, etc.
Roadmap for industrialization of promising agriculture, forestry, and fisheries technologies	<ul style="list-style-type: none"> Food companies, distribution companies Chemical manufacturers, material manufacturers, etc.
Community development in response to the aging society <ul style="list-style-type: none"> Model concept to achieve both compactness and industry creation 	<ul style="list-style-type: none"> Municipalities Real estate developers Auto manufacturers, energy companies, etc.

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