Our Future

[Image 56x65 to 199x165]

I Konno: I also think it was a good experience for me to consider and introduce various new equipment. I think that rotary piece sorters and automated forklifts as well as a video search system mentioned earlier and smartphone type handheld scanners will contribute to further enhancement of the mindset and productivity improvements of the sites in the future.

I Kaeriyama: In introducing automated forklifts, I made sure that I always remembered “for whom I was doing it.” The longer you work in a specialized domain, the more you tend to become short-sighted and swerve from the purpose. This project made me have a clearer sense that “all we do is for the entire operation and employees in the sites.”

I Kawaguchi: I worked at the site in Inashima Sales Office before joining the project, but my role in this project was to be in charge of GDP and support the sites, which changed my mindset greatly. My previous work tended to be passive as I basically followed customers’ instructions. Now, I’m focusing on spreading awareness of GDP to the sites by proactively encouraging to promote GDP compliance and relevant education.

Finally, please tell us about your future aspirations.

I Kawaguchi: A project to launch a new medical DC is underway, and I believe our experience with Kansai II Medical DC can be useful for the project. As for GDP, I will try to accelerate the implementation of the common SOP across the Group while revising it as necessary, with an aim to maintain and improve quality of pharmaceutical logistics of the entire Group. To that end, I think we need to meet customer needs and improve site operations. I am also trying to implement new facilities to support the sites as early as possible. Automated forklifts are operating stably in the DC, and I would like to expand the Company’s pharmaceutical logistics business on a full scale, we will also further enhance human resource development.

I Kaeriyama: As a member of the technology division, I will try to implement new facilities to support the sites as early as possible. Automated forklifts are operating stably in the DC, but there are still issues to be solved before they can be implemented in other sites, so I will work on them one by one.

I Konno: Rotary piece sorters, which were introduced in the DC for the first time in the Company, are increasing as they are scheduled to be introduced in several other centers, so I will focus on their stable operations. In the long term, I am hoping to construct a “super labor-saving logistics center” someday and making preparations as I watch for an opportunity. For example, I am thinking about a super labor-saving site whose operation is fully automated from receiving to storage and shipping. In order to realize it, I will try to expand collaborative innovation with external partners and an ecosystem in addition to our own resources.

I Uesugi: This project made me feel once again the strength of the Company’s organization power that each team of “site,” “facility,” “GDP,” and “sales” ensures to fulfill their roles. I believe it contributes to realizing our advantage stemming from high logistics quality and low-cost operation. Although the severe business environment including a labor shortage and intensifying competitions is expected to continue, I will work on differentiation through new technologies and the “Gemba” Power. As a GDP-related ministry ordinance is expected to be released in a few years, I intend to use it as a new business opportunity.

I Kiritoshi: The DC has received the in-house award as a success model. I will draw on this experience to actively propose to build new warehouses and introduce new facilities, under the motto of creating an environment easy for site workers to use and comfortable to work in.

I Watanabe: The new facility (rotary piece sorters) in the DC has achieved productivity target (saving 10 workers’ labor), but I believe we can do better. I will try to value communication at the sites so that I can make suggestions as a person familiar with the sites when launching new centers in the future.

I Niikawa: As a large investment was made in this project, I will ensure strict budget control to recover the investment. In terms of the initiatives in anticipation of the release of a GDP-related ministry ordinance, I will work on raising the overall level of the sales office to reinforce the structure. When we expand the Company’s pharmaceutical logistics business on a full scale, we will also further enhance human resource development.

Independent Director Dialogue

“History” and “Future” of the Evolution of Governance

Mr. Urano and Ms. Izumoto have served as the Company’s independent outside directors for six years and three years, respectively. What do you think of the characteristics of the Company’s current governance?

Urano: I think it’s easier to understand the characteristics of the Company’s current governance if we learn its history. The Company was established as a logistics subsidiary of Hitachi, Ltd., which still owned more than 50% of shares when I became outside director in 2014. At that time, it had been over ten years since the Company transitioned to a Company with Committees in pace with Hitachi, Ltd., but the system was not fully functioning. However, as a result of our efforts to drastically change that for the past six years, I believe it is now effectively functioning. For example, based on various opinions from our stakeholders, the Compensation Committee successfully aligned the compensation plan for officers with the level required by the Corporate Governance Code in FY2020. The Nominating Committee also organized the

“Vision” of the Company’s board directors and operating officers and operates a system to objectively evaluate CEO. The Audit Committee inherited the excellent system of the Hitachi Group, which is functioning well.

Izumoto: As I concurrently hold a position of outside audit and supervisory board member in other company with an audit and supervisory board, I get the impression that in the Company, being a Company with a Nominating Committee, each of the three Committees is clearly functioning. Resolutions at these Committees would never be altered by the Board of Directors, and each Committee is functioning quite well, ensuring the effectiveness.

Urano: On the premise that the three Committees are functioning well, I believe the core of governance lies with the Board of Directors. I’ve been saying at the Board of Directors meetings that “the Company’s growth strategy should aim to satisfy all stakeholders including the capital market.” If we can achieve this, I think we can say, “our governance is effective.” Because the Company was a
consolidated subsidiary of Hitachi, Ltd. in the past, there was plenty of room for improvement in terms of the consideration for the capital market. However, after Hitachi, Ltd.’s ownership ratio decreased to 30% in 2016, the Company significantly changed its direction to push forward its capital strategy under its own governance. The Board of Directors feels proud that it has successfully strengthened the Company’s initiatives to appeal its growth strategy to the capital market under its supervision.

I think that our growth strategy has three aspects of “M&A,” “development of new products and services,” and “productivity improvement.” And what we should focus on should be discussed at the Board of Directors meetings based on the stage the Company is in at that time. The Company is currently in the middle of the growth stage and has achieved the growth strategy by “M&A” in the past ten years with revenues increasing more than twofold. We also made solid progress in the “development of new products and services” based on JPL with our new business concept of LOGISTEED starting to be developed. As for “productivity,” the Company is enhancing its initiative for “VC21 activities,” I believe our growth strategy with “M&A,” “development of new products and services,” and “productivity improvement” has been making excellent progress so far.

Under such circumstance, if we are going to talk about some issues to be resolved as we continue to improve effectiveness of governance, the first one is that there is room for improvement in capital efficiency. The second one is that while most of M&As were successful, there is some room for improvement in group governance. The third one is that our IT infrastructure needs to catch up with the level of digital transformation (DX) in society. The Board of Directors will address these issues and share the growth strategy with each stakeholder. In specific, we will place emphasis on changing the portfolio and continue to focus on “M&A” and “development of new products and services.”

Could you give us some examples of discussions towards and the resolution of those issues at the Board of Directors meetings?

Izumoto: While the Board of Directors discusses the “underlying basis” for the enhancement of awareness of capital efficiency, the Audit Committee ensured to give instructions to incorporate performance indicators such as ROIC and total asset turnover ratio in their target whenever it visited the sites for audit. As a result, employees on sites are starting to become aware of not only profit and loss items such as revenues and gross profit but also balance sheet items such as capital efficiency and asset turnover ratio. I believe we have produced remarkable results in this regard.

UranO: While I value the fact that the Company has changed so much in four years, I also think we need to work on further enhancement. For example, the Company’s asset balance increased significantly due to the adoption of IFRS 16 (Leases) FY2019. When I discussed what we should do with the sites, I got an impression that they only cared about profit and loss items such as operating margin. If they truly understand ROIC, they can easily understand that the most important thing for the Company right now is to “improve turnover ratio.” Furthermore, I believe we should expand collaborative initiatives with 5G Holdings Group, 24-hour operation of logistics centers, and collaborative logistics with multiple cargo owners under such BS-based thinking. It is true that ROIC management and BS-based thinking are starting to spread into the sites through the initiatives implemented so far, so I hope to see further evolution through activities such as VC21.

Please tell us about the benefit of a very high ratio of outside directors*.

Izumoto: As the Board of Directors comprises outside directors having a wide variety of expertise, it is expected to produce synergy effects, and also the atmosphere that allows directors to give their candid opinions to CEO and other directors and stimulates active discussions has been created. Prior explanation and sufficient information are provided to outside directors. I always felt that we could have more effective discussions if we add more outside directors with management experience, and we recently welcomed a new outside director, so I’m looking forward to the future Board of Directors meetings.

UranO: I think it is good to have more outside directors than inside directors. But having many outside directors will not lead to effective discussions if they don’t say anything or they mainly ask questions. However, because the Company enhanced its explanation to outside directors before the Board of Directors meetings, very few simple questions are asked now. So, I think it is important for outside directors to think regularly about “the fields in the Company they can contribute to” using their expertise and to express their opinions. As for me, I became outside director, I’ve made use of my insights acquired over the years to call the Board’s attention to the two points of “how to cope with the capital market” and “capital efficiency” in every discussion. I think each outside director express their opinion in consideration of “how and where I can contribute” based on the stage the Company is currently in. I agree with Ms. Izumoto about the attitude of outside directors. Considering the current stage of the Company, it is preferable if the majority of the outside directors have management experiences, and I recognize that as one of the issues that needs to be addressed in the future.

In association with the attitude of outside directors, what are your opinions on diversity of the Board of Directors?

Izumoto: We should discuss diversity in a broader context including background, skills, and insights as well as gender. About female directors, I haven’t really thought about being one of them myself when I’m working. In terms of skill-mix, I think having more directors with management experiences or IT expertise will further stimulate discussions on DX. Considering that the COVID-19 pandemic is accelerating DX in society, I think this is an urgent issue.

UranO: As for diversity, I think the world has started to see its true nature. Until the 20th century, the strength of Japanese companies was that groups of the same nature were working hard, and that was one of the key-growth drivers. All this has completely changed, and it is an era where companies made up only of people of the same nature are at risk of being endangered. Thus, I recognize the true nature of diversity is how people of different nature can pursue growth by interacting with one another. Of course, it includes women and also diversity of nationalities, and in a wider sense, I think human resources with different “cultural background” and “body of knowledge” should take advantage of diversity. In that sense, the Company, under the policy of President Nakatani, has proactively recruited outside talents mainly as executive officers and general managers in the past five to six years. For example, in the finance division, insights of the talent with finance experience in logistics sales in a trading company should bring a whole new perspective. If we are to try such various combinations, I think the quickest way would be to recruit human resources with experiences.

In FY2019, the Company engaged a third-party assessor for evaluation of the effectiveness of the Board of Directors for the first time in addition to the conventional self-assessment. Please tell us about the issues pointed out at the evaluation.

UranO: Various issues were pointed out, but the one pointed out in both the third-party assessment and the self-assessment was “whether the discussions by the Board of Directors really consider all stakeholders.” With the expanding movement toward “stakeholder capitalism” in mind, we will deepen discussions to enhance dialogue with stakeholders by taking advantage of each director’s characteristics such that some directors will take care of the capital market and some directors will take care of employees.

Izumoto: There was a recommendation to the Board of Directors to further deepen its discussions. It’s true that because of the large number of agendas and the timing of receiving materials, we sometimes need to ask questions, but I hope to secure as many hours as possible for discussions. Moreover, we always need to understand the current situation and “atmosphere” of the sites to deepen our discussions, but information gap tends to occur between directors who are members of the Audit Committee who frequently visit sites and those who are not, which is also an issue. As this was also pointed out as an issue in the self-assessment, the Company created more opportunities for directors who are not members of the Audit Committee to visit the sites. I believe we can further enhance the effectiveness by continuing to increase such opportunities and deepening discussions closely linked to the “atmosphere” of the sites.
ウラノ：私たちが解決すべき課題の一つは、さまざまな業界における企業の成長を実現するための適切な戦略を立案することです。これには、資本パフォーマンスの向上、ビジネスポートフォリオの再構築、持続可能な経営利益の増大が含まれます。

イズモト：もしこの問題を解決した場合、会社の成長性と持続可能性が向上するでしょう。これにより、株式市場における企業の評価も向上するでしょう。したがって、この課題を解決することで、会社はより高い評価を受けることができます。