

## To Our Stakeholders

— Message from the President —



### LOGISTEED

**As the society and industry go through drastic changes, we will expand the ecosystem together with our stakeholders and pave the way for future value under the business concept of “LOGISTEED.”**

Yasuo Nakatani  
President and CEO

Toward New Dimensions  
**LOGISTEED**

## HB Way

### HB Way to realize the corporate philosophy and corporate vision

Since I joined the Company 42 years ago, I have worked at various sites mainly overseas including Nigeria, and I have always felt a gap between the “ideal,” such as “Corporate Philosophy” and “Corporate Vision” of the Company, and the “reality” of day-to-day on-site operations. And when I was overseeing the site as a project manager or the head of a U.S. subsidiary, I strongly felt the need to fill the gap even more. So, shortly after I became president in 2013, we held discussions over and over on how we can apply the corporate philosophy to onsite operations. And that is how we created “HB Way.”

The HB Way, consisting of “Corporate Philosophy,” “Corporate Vision,” “Guiding Principles,” and “Success Drivers,” clearly summarizes the factors required of the Group’s employees to realize the Corporate Philosophy and Corporate Vision through their daily operations, using words familiar to employees at sites such as “Gemba” Power, multiplied by Visualization.” Since its foundation 70 years ago, the Group has focused on on-site operations as the core of its business, and we will continue to base value creation on the practice of the HB Way.

### Realize shared value with society through both CSV and HB Way

The Group considers it important to adopt a perspective of CSV\*1 (Creating Shared Value) which seeks to solve social issues through business, and we think that if CSV refers to initiatives to create “shared value for the Group and society,” then the HB Way defines the “shared value for the Group and its employees.”

In other words, the Group aims to realize shared value with society through CSV initiatives and to realize shared value with employees by practicing the HB Way at the same time so that all employees will create

\*1 CSV (Creating shared value): Refers to practices that balance activities to create economic benefits with solutions to social issues, or management strategies to achieve them.

shared value with society through their daily operations.

## Growth Strategy

### Reasons for focusing on the business concept “LOGISTEED”

There are two main reasons for focusing on “LOGISTEED\*2” as a concept of our current business and Mid-term Management Plan.

The first one is a sense of crisis that I am having as a president against the background that the logistics industry is becoming “borderless” as symbolized by a recent breakthrough by a major EC platformer. The HTS Group is leading the domestic market of 3PL (third party logistics) with the support from many customers for our on-site operations, one of our strengths. However, with the logistics industry becoming “borderless” as mentioned above, we are now entering an era in which we cannot achieve medium-to-long-term growth unless we go beyond the logistics domain and produce added value in the fields of “Commerce,” “Finance” and “Information,” in addition to supporting industries by transporting products.

The second reason is a social issue of labor shortage, resulting from the acceleration of the decline in the birthrate and the aging of society, and the expanding opportunities for value creation related to the measures to address the issue. As a labor shortage also became a serious issue in the logistics industry around 2013, the Group has made various efforts including “visualization” of on-site operations through digitalization, promoting automation and labor saving in appropriate areas, and, above all, “SSCV\*3 (Smart & Safety Connected Vehicle)” has the potential to be applied in a broad area of society. The system, which has been developed through open innovation since 2018, is a service to protect drivers’ safety through real-time “visualization” by making full use of IoT. The original objective of the system was to ensure safety of our drivers, but now we found out that there is a large demand in many other transporters as well as

\*2 LOGISTEED: A word that combines LOGISTICS with Exceed, Proceed, Succeed, and Speed. It represents our determination to lead businesses to a new domain beyond the conventional logistics.

\*3 Smart & Safety Connected Vehicle

the bus and taxi industry. In the future, we will accumulate various data as a “transportation digital platform” to provide useful data for movement management, assignment management, and vehicle maintenance in addition to ensuring safety. Such development through SSCV shows that it is fully possible to realize shared value with society including “safety and security” by transforming social issues faced by the Group as “its own issues” into solutions through “visualization” with digitalization. And I can tell you that these challenges are the initiatives to solve social issues through business and achieve growth.

### “Sharing” and “collaborative innovation” are the keywords to sustain the growth

One of the keywords to sustain the growth under “LOGISTEED” in the medium to long term is “sharing.” For example, “EC Platform Center” which started operation in September 2019 is a smart warehouse that achieved full-scale automation and labor saving. Its concept is to reduce initial cost of EC business operators, including small-and medium-sized businesses, and contribute to their business expansion by sharing “automated facilities,” “system,” “space,” and “manpower.” We also recognize that the business development with a keyword “sharing” will become increasingly important in the global logistics business that accounts for 30% to 40% of the Group’s revenues in recent years. For example, the intermodal business\*4 operating between Turkey and Europe is viable because it shares ships and railways with other logistics companies and cargo owners, in addition to contributing to a reduction of climate change risks by reducing CO<sub>2</sub> emission. Also in our Shared Milkrun business\*5 for leading automobile manufacturers in the U.S., a new initiative has started that customers share Milkrun routes beyond their boundaries. The Group will actively capitalize on these business opportunities associated with “sharing” both in Japan and overseas, with an aim to create shared value with more partners and expand the ecosystem. Another keyword of “collaborative innovation” is the word that I proposed after I became president in 2013.

When I was working in Nigeria in my 20s, I learned that we could not do anything all by ourselves in a foreign country where the Group’s reputation did not help, so I had to begin with finding a partner. I also learned that the most important thing to complete projects successfully is collaboration beyond boundaries of nationalities and industries. “Collaborative innovation” is based on my own experience. Under this keyword, the effect of the collaborative innovation accumulated with SG Holdings, our capital and business alliance partner since March 2016, has grown into annual revenues and operating income of more than ¥20 billion and ¥2 billion, respectively.

The Group will continue to accelerate collaborative innovation with our partners under the keywords of “sharing” and “collaborative innovation” and ensure to expand the ecosystem and pave the way for sustainable growth under “LOGISTEED.”

\*4 Intermodal: Multimodal transportation combining trucks, ships, railroad, etc.

\*5 Milkrun: Transportation method whereby one truck visits bases of multiple suppliers to collect production parts and deliver them to a production plant.

### Create “sites that think by themselves” through “visualization”

As mentioned above, the Group has thoroughly analyzed its “Gemba” Power cultivated over the years through “visualization” with digitalization and implemented an optimum system for automation and labor saving in on-site operations. But now I would like to talk once again about a reality that “digitalization alone cannot move products.” The fact that the logistics business is viable only with analog knowledge and know-how accumulated on sites will not change. Our policy is to strengthen our operation by “visualizing” what happens on sites, creating “sites that think by themselves” based on the result of data analysis, and reinforcing analog knowledge with digitalization.

## Our Strength

### Ability to accomplish operation

In order to clarify the value creation process, we organized the Group’s strengths that form the foundation of the growth strategy under “LOGISTEED” into the following three strengths: “ability to accomplish operation,” “advanced logistics engineering capability” and “global network.” The first strength, “ability to accomplish operation” which refers to “Gemba” Power, is unique to the Group which was established as a logistics subsidiary of Hitachi, Ltd. and has supported manufacturing sites. It is know-how and DNA cultivated by transporting products of variable size from power plants to home appliances and semiconductors and can be applied to all of “procurement logistics,” “production logistics,” and “distribution logistics.” It is an important strength for the Group to create added value sustainably, and we will continue to hone it through collaboration with our collaborative innovation partners and necessary investments. I am confident that the Group will go beyond the logistics domain with “LOGISTEED” and demonstrate its great ability in creating new value in bordering industry domains.

### Advanced logistics engineering capability

The second strength, “advanced logistics engineering capability,” is an ability to plan and design safe and high-quality solutions for successful projects and also to provide high added value by combining automation and labor saving technologies used to improve on-site productivity with such advanced technologies as IoT, AI, and robotics. This strength is no use without the first strength of “ability to accomplish operation,” and we will further hone these two strengths by closely connecting them and going beyond the domain of the logistics industry.

### Global network

The third strength is our global network with 761 sites\*6 in 29 countries and regions. This strength is a capability to support customers’ global supply chains by making full use of our network as well as flexibly expanding the network through collaboration with our collaborative innovation partners in relevant regions. We will expand the ecosystem through capital and business alliance with many partners in addition to optimum region-based operation in each site.

\*6 As of March 31, 2020



## Toward Sustainable Society

### I hope employees will realize they are creating social value

The Group includes initiatives on environment/society/governance in the Mid-term Management Plan "LOGISTEED 2021" as one of the priority measures and developed four objectives from a perspective of CSV: "Pursue Next-generation Industries and Lifestyles," "Enhance Occupational Safety and Productivity," "Ensure Excellent Quality and Resilience," and "Realize Low-carbon Business Processes." We set themes for each objective and are implementing them as initiatives that contribute to the achievement of SDGs (Sustainable Development Goals). We acknowledge that the reduction of CO<sub>2</sub> emission is our highest priority issue as we engage in truck transportation, and developed medium-to-long-term environmental targets (targets for FY2030 and FY2050). In order to show our commitment to solving these social issues to stakeholders, we signed the "United Nations Global Compact" in May 2020.

As described above, we are striving to contribute to SDGs through initiatives of four objectives, including this "Integrated Report 2020" issued as our first full-scale integrated report. However, I believe the most important thing is that each employee takes solving social issues, which is symbolized by ESG (Environment, Social and Governance) and SDGs, as "his or her own issues" and truly feels that their job and efforts are "contributing to society" and "connecting with society."

I was able to feel the "social value" that my job contributed to solving social issues in emerging countries as I worked on many social infrastructure projects including those from my days in overseas sites. And I hope more and more employees will have opportunities to gain such experience. The COVID-19 pandemic made us realize that there is a strong need from society to maintain logistics function in times of crisis. I hope all employees now find their work rewarding and feel the significance of existence as members of an infrastructure operator that is essential to maintain people's health and social life. Supporting logistics of medicine, food products, and daily commodities, etc. even during the time of the COVID-19 pandemic surely contributes to maintaining lifelines, creating shared value with society.

### Corporate governance/human resource development

As the Group has 102 domestic and overseas group companies, I recognize that it is absolutely critical to strengthen corporate governance. We ensure appropriate business operation in Japan and overseas through various management meetings, internal audit, and cooperation with and support from corporate divisions of the head office and are working to achieve management targets. Overseas group companies are grouped into four key management areas (Europe, North America, China, and other parts of Asia), and each area has a region-based governance system which applies certain rules tailored to reflect regional characteristics.



For human resource development, we believe continuing human resource development is important for sustainable growth while we reinforce work-ready resources with professional recruiting. We will develop human resources who will realize LOGISTEED and further strengthen our business base through practical and professional trainings in "HTS Group College," an education system for all employees of the HTS Group.

## Review of FY2019

### Reviewed business portfolio and expanded ecosystem

We implemented various measures in FY2019, the first year of the Mid-term Management Plan "LOGISTEED 2021."

As part of the business portfolio review, we transferred 70% of the shares of Hitachi Travel Bureau, Ltd. to the BCD Group in July 2019, and acquired 70% of the shares of PALENET CO., LTD., engaging in the development, sales, and rental of pallets, from Hitachi Automotive Systems, Ltd. in August 2019. In April 2020, we acquired the distribution service business of Hitachi Life, Ltd., engaging in the logistics operation for Hitachi Group's product shipping in Ibaraki Prefecture, and established Hitachi Transport System East Japan Distribution Services Co., Ltd. SSCV and EC Platform Center, major examples of "LOGISTEED," have both been steadily evolving and contributing to the expansion of the ecosystem. As for corporate governance, we introduced a performance-linked stock compensation plan in May 2020 in order to raise awareness of executive officers to increase corporate value by further clarifying the relationship between their compensation and the Company's performance and stock value and sharing returns and risks associated with stock price movements with shareholders.

### The COVID-19 pandemic and beyond

The COVID-19 had a huge impact on the Group's performance including a significant decline in the automobile-related handling volume.

On another front, a significant increase in the volume of domestic distribution, especially of food products and daily commodities, caused a shortage of workers, and we are sharing the Group's human resources based on the volume in each site to deal with it. But it also created a side benefit that it became easier to share information and human resources beyond the boundaries of companies while they tended to be contained within individual regional group companies. Another benefit was the prevalence of teleworking among back office workers, and we intend to make it work for the working-style reform with the notion of "with/after COVID-19."

## To Our Stakeholders

### Pave the way for future value under "LOGISTEED" amid the changing society and industry

While the spread of the COVID-19 has not yet been contained and the society and industry are undergoing major changes, the Group will continue to focus on "LOGISTEED" to pave the way for "future value." To be more specific, I believe the ecosystem that we build with our stakeholders is the "future value." Various ecosystems will continue to be built through sharing, the use of data, capital alliance or joint venture, etc. Under "LOGISTEED," the Group will strive to build and maintain dialogues with new stakeholders, including those outside the logistics domain or those entering the logistics domain, place the most importance on relationships to be formed with all stakeholders through these initiatives, and connect their ecosystems with ours to create greater value.

We look forward to your continued support.