

## To Our Stakeholders

— Message from the President —



## LOGISTEED

**We will increase investment for further development of “LOGISTEED” and establishment and enhancement of the solid management base, with the view to shift to the next growth stage.**

Yasuo Nakatani  
President and CEO

## Value Creation amid the COVID-19 Pandemic

### Reacknowledged our “mission” and “purpose”

In FY2020, we were affected by COVID-19 throughout the year, and we also reacknowledged our purpose as a logistics service provider.

The “mission” of logistics service is to create “value” by delivering products created by manufacturers to end users and society. The Group has consistently carried out this mission for over 70 years since its foundation. Recently, however, there has been a series of cases where supply chains were disrupted due to intensifying natural disasters by climate change in addition to the COVID-19 pandemic. The responsibility of the logistics service to maintain people’s lives and socioeconomic activities even in such emergency conditions is no longer limited to delivering values related to products but is changing to “preventing supply chain disruption in the world.” I believe this is the “purpose” of the logistics service in this modern age with increasing global risks and uncertain future prospects.

In FY2020, in order to fulfill a common mission of the Group and customers “not to stop logistics,” we focused on maintaining stable business operation by seeking the best and creative solutions. For example, we prevented infections and the spread of the virus within the Company by ensuring thorough health management of employees, introducing contactless operations early, launching new projects remotely, etc. We also addressed the imbalance of volumes caused by difference in levels of COVID-19 impacts among industries by flexibly shifting human resources within the Group. As a result, we were able to contribute to supporting customers’ supply chain and maintaining people’s lives and socioeconomic activities, and such efforts also led to our profitability improvement and record high profit\*1. Although the uncertain business environment is expected to remain for a while, the Group will continue efforts to seek creative solutions, with “preventing supply chain disruption in the world” as our purpose.

\*1: Adjusted operating income-basis

### Share creative solutions in the VC21 activities to implement the HB WAY

As mentioned above, various “creative solutions” which proved effective and contributed to maintaining supply chains amid the COVID-19 pandemic are the Group’s source of value creation and directly link to the implementation of the HB WAY. Our efforts to spread the HB WAY include distributing a “reference card” to employees, hanging posters, placing cartoons in the company magazines and preparing/distributing video materials, but what we focused especially on in FY2020 and proved effective was “VC21”<sup>\*2</sup>. VC21 is daily improvement activities to implement the HB WAY, under which employees register improvement measures they came up with under different themes in a dedicated system, and the PDCA cycles of the improvement activities are being implemented in approximately 300 sites in Japan. The Executive Committee acknowledges and evaluates measures of all sites and checks the progress in each organization. Excellent initiatives are awarded and shared among the Group at the presentation meeting in a bid to cultivate “the culture of praise.” In addition, the improvement culture where each employee works on VC21 with a sense of “personal ownership” has taken roots by “visualizing” the productivity improvement through VC21 as a quantitative effect. Unfortunately, we had to hold the company-wide presentation meeting and award ceremony online in FY2020 due to the COVID-19 pandemic, but it had the advantage that many employees were able to share good examples at the same time. VC21 also produces several creative solutions to support logistics operation amid the COVID-19 pandemic. Going forward, we will promote DX and decarbonization initiatives mainly through VC21.

\*2: VC21: Value Change & Creation 2021

## Recognition of External Environment

### The logistics industry is becoming increasingly “borderless”

As I mentioned in the Integrated Report 2020, the logistics industry is becoming increasingly “borderless,”



and we expect the growth of major EC platformers and the new entry by third parties into the logistics domain will continue. Accordingly, the Group will not limit our services to the conventional logistics domain but promote the business concept “LOGISTEED\*<sup>3</sup>” which aims to create values beyond the logistics domain in order to strengthen the potential for the medium-to-long-term growth. Among others, our efforts to advance into the “manufacturing” domains, which are our roots and closely related to the logistics industry, are producing solid results, and we are expanding our business domain by offering services that have previously been handled by customers at their own factories such as just-in-time supply of parts collected from suppliers to assembly lines, painting, and placement of ingredient labels of cosmetics that require a permit or license. We plan to pursue the possibility of collaborative innovation in the “manufacturing” domain including the above-mentioned pre- and post- processes in overseas as well as to expand collaborative innovation that provides our stakeholders with the systems we have created for ourselves such as “SSCV (a transport digital platform)\*<sup>4</sup>” to be discussed later. Through these initiatives, we aim to shift to a stage where we can say, “The Group’s business is not logistics but ‘LOGISTEED.’” in the future.

\*<sup>3</sup> 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.

\*<sup>4</sup> Smart & Safety Connected Vehicle

### Enhance the region-contained business considering the increasing geopolitical risks and supply-demand imbalance in logistics

For global logistics that showed a significant profit growth in FY2020, we expect to see more business opportunities to create region-contained supply chains focusing on local production for local consumption, in addition to international transportation, on the back of increasing geopolitical risks related to global supply chains and shortages of marine containers and spaces for air cargoes. The Group will ensure to acquire business opportunities behind these risks by making investments aimed at enhancing region-contained business models, including intermodal business in

Europe and truck transport in Asia. And, the Group has been working on the Mid-term Management Plan (LOGISTEED 2021) since FY2019 in both Japan and overseas as specific strategies to develop the concept of “LOGISTEED” under which we aim to expand collaborative innovation domains beyond businesses and industries, create new innovation beyond the conventional logistics domain, and create/expand the ecosystem while focusing on the enhancement of logistics as a function (Smart Logistics) as our core target.

## Growth Strategy

### Maintain strategic investment for the medium-to-long-term growth based on the steady profit growth

Under the Mid-term Management Plan (LOGISTEED 2021), in order to change and evolve into a company represented by “LOGISTEED” and become the most preferred global supply chain solutions provider, we have focused on priority measures of “Implement portfolio strategy, including M&As and alliances, to build a solid core domain (Smart Logistics),” “Implement collaborative innovation strategy aiming at enhancement of the core domain and further expansion of domains,” “Design supply chain based on and originating from logistics domain,” “Implement a topline\*<sup>5</sup> growth strategy,” “Originate and succeed operation (hands-on approach) toward the next-generation,” and “Environment, social and governance as well as corporate ethics.”

As a result, in FY2020, the second year of the Plan, we were able to achieve profit growth as mentioned above although topline was sluggish mainly due to a drop in automobile-related transport affected by COVID-19, and accordingly we will make strategic investment with particular emphasis on the following three points in FY2021, the final year of the Plan.

\*<sup>5</sup>: Topline: Net sales (revenues) presented at the top of the statement of profit or loss.

### Enhance investment in digital transformation rooted in the improvement mindset at sites

Firstly, we will increase investment in digital

transformation (DX) and automation to further strengthen our business platform toward the medium-to-long-term growth and development. In specific, we will accelerate “Link warehouse and transport operations,” “Standardize and classify work/operating process” and “Bring together wisdom” through digitalization and achieve “Sophistication of logistics” and “Connected supply chain.” The basic policy of DX is to implement a cycle of collecting digital data on sites (physical space), analyzing it on cyber space, adding analogue knowledge and giving feedback to the sites. I think digitalization cannot be achieved without improvement mindset and creative solutions, so we consider DX as an extension of “improvement mindset at logistics sites” and “visualization” including VC21. In order to improve operational efficiency and aggregate data in these DX efforts within the Company (internal DX), we plan to “visualize” warehouse operations, renew the core systems, and promote RPA. Meanwhile, we also continue to refine our DX efforts outside the Company (external DX) including “SSCV,” “SCDOS\*<sup>6</sup>” and “Smart Warehouse” and provide the latest added value to all stakeholders including customers.

\*<sup>6</sup> SCDOS: Stands for “Supply Chain Design & Optimization Services,” and are services that centrally manage and visualize customers’ supply chain information

### Expand collaborative innovation with partners for realization of “LOGISTEED” overseas

The second point is overseas investment for further growth of the global business. While the domestic business continues to be our important management base, further enhancement of the global business is essential in the Group’s medium-to-long-term growth strategy. Although it was in the midst of the COVID-19 pandemic, in FY2020, we opened a logistics center in the suburbs of Chennai as part of the business expansion strategy in India. We are also making investments to open or reinforce sites in the U.S. and the Netherlands in FY2021 as well as in India, Malaysia, and Indonesia after FY2022. Through a series of these investments, a total of more than ¥12 billion will be invested in major projects



from FY2021 to FY2023 to accelerate the global growth strategy.

Since we established a subsidiary in Singapore in 1976, we have operated global business in various countries and regions, and in light of our past experiences of success and failure, most of our current overseas investments have been made through collaborative innovation with local partners under the “region-contained business model,” under which local subsidiaries operate businesses at their discretion and we focus on the supervision. Going forward, we will take into account digitalization, automation, and labor-saving to pave the way to achieve “LOGISTEED” in the global business. As part of such efforts, we launched collaborative innovation activities with Maersk, a major international marine shipping company in Denmark, in FY2020. We will strive to accelerate business expansion of both companies through personnel exchanges to provide seamless logistics globally.

### Increase investment in “SSCV” with the view to create economic, social, and environmental values

The third point is to create economic, social, and environmental values through an increase in investment in “SSCV” mentioned above. “SSCV” is a service contributing to health/labor management of drivers, accident prevention and resolutions of social issues such as reduction of CO<sub>2</sub> emissions through efficient transportation and, as introduced in Special

Feature (on pages 39 through 44), has already been commercialized through external sales, with the plan of expanding into other transporters (land, passenger, etc.) and creating new services and businesses with big data in the medium to long term. We will also continue to develop business models that create values for other businesses or the entire society through initiatives we have started for ourselves.

### Place “Collaborative Innovation” at the base of all growth strategies

We continue to use “Collaborative Innovation” as a keyword for all these growth strategies, and there are two factors for this.

The first one is the acceleration of declining birthrate and aging population in Japan. From the early 2000s to around 2010, the basic policy of the Group was to develop business mainly with our own management resources. However, we reviewed such policy as difficulty in securing workers at logistics centers or truck drivers became a serious issue, and shifted to a policy to secure resources by accumulating collaborative innovation activities on a daily basis. The second one is the effort to automate on-site operations. When we first started the automation initiatives as one of the measures to address the declining birthrate and aging population, there was strong resistance at sites. However, once we introduced automation with support of collaborative innovation partners including Hitachi, Ltd., we were able to see its clear effects and realized that, in these times of drastic change, the shortest way to solutions is to quickly realize “what we cannot do” instead of



“what we can do” and find necessary partners to collaborate and deliver innovative solutions. Placing “Collaborative Innovation” at the base of all growth strategies, the Group ensures to pave the way for the expansion of ecosystem and the sustainable growth through “LOGISTEED” by continuing initiatives with various partners including start-ups, industry peers with strengths in international transportation, or material handling manufactures with deep insights in automation.

## ESG Management and Future Response against COVID-19

### Accumulate on-site efforts with “Sharing” as a keyword

The Group will promote the ESG management toward the realization of sustainable society and increase of corporate value and enhance initiatives of four objectives that contribute to the achievement of SDGs. In doing so, what I want to focus on most is to link ESG and our business and accumulate efforts at sites, as well as the keyword “sharing.” To reduce CO<sub>2</sub> emissions toward “decarbonization” in environment (E), “sharing,” which can improve loading and transportation efficiency by sharing trucks and warehouses with the industry peers, and EC platform, which reduces environmental load by allowing multiple EC business operators to share facilities and equipment, are very effective means. For example, Mito Transport Center, opened in February 2021, shares transportation resources including cargo and vehicle information, offices and garages in the region with our business partners, achieving efficient operation of the entire transportation ecosystem. In addition to these, our efforts to realize decarbonization in the business processes include establishment of “decarbonization model sites” to measure the effects and examine assessment methods, visualization of CO<sub>2</sub> emissions using SCDOS, and accumulation of on-site efforts such as “promoting a sense of personal ownership” for environmental activities through VC21. As for “Promote diversity of the workplace,” the core of our initiatives for social (S) and one of the themes

of the objective of “Enhance Occupational Safety and Productivity,” we are working to achieve the FY2023 target of “Ratio of female managers of 10% (HTS)” and there are quite a few female members in the top management in our overseas group companies, proving that our initiatives to encourage active participation of women have been going well in the Group as a whole. As for the promotion of active participation of human resources in each region, because logistics services vary significantly in different countries or regions, we will continue to promote active participation and growth of local employees using the region-contained model and also maintain a system whereby local employees learn new skills in foreign countries as necessary. In the future, around the time when overseas revenues account for approximately 50% of the total consolidated revenues, we plan to introduce a system to appoint those engaged in the management in each region as members of the management team of the Company, regardless of their nationality.

For initiatives for governance (G), we will continue to enhance compliance and governance by ensuring to bear in mind the notion of “Basics and Ethics.” Especially for the governance in overseas sites, we will maintain the basic policy to closely monitor fund movement to eradicate the environment and opportunities that may lead to inadequate transactions. As COVID-19 has made it difficult to visit sites for internal audit, we will further enhance governance by using external resources such as local audit firms, renewing the core systems which is currently underway, using process mining and eventually creating a digital audit environment. In addition, the Board of Directors will deepen discussions on ESG and sustainability, treating them as themes related to the essence of management.

### Support supply chains while securing health and safety of employees

While COVID-19 vaccination is making progress, new variants have been spreading and the end of the pandemic is still nowhere in sight. So, the age of “coexisting with COVID-19” could be more prolonged than expected. Under such circumstances, in order to

fulfill our mission as a logistics service provider and support supply chains in the world, the Group will continue to focus on contactless operations and automation while securing health and safety of our employees, and strive to meet customer needs. In addition, we will address the imbalance of volumes caused by difference in levels of COVID-19 impacts among industries by, in principle, flexibly shifting human resources within the Group and intend to continue this basic policy as it will contribute to diversification of employees’ skills and maintenance of employment.

## To Our Stakeholders

### Increase investment for further development of “LOGISTEED” toward the next growth stage

As we go into the final year of the Mid-term Management Plan (LOGISTEED 2021), I feel that “LOGISTEED” contributed more than expected to various initiatives we have implemented so far as the concept that accelerates collaborative innovation beyond the logistics domain and creates ecosystems. In the last two years, the Group has created new values in various domains and produced successful results. Therefore, we will continue our efforts to achieve medium-to-long-term growth and increase corporate value under the concept of “LOGISTEED.” In addition, we will expand services representing “LOGISTEED,” including digitalization and SSCV, and make larger investments in various areas such as overseas development and ESG, with an aim to shift to the next growth stage. Through these efforts, we will establish and enhance a solid management base and realize further expansion of business domain and profit growth.

Also, there is no doubt that such increase in investment will further expand the ecosystem that we will create with our collaborative innovation partners and all other stakeholders and lead to the creation of larger social values.

We will continue to share valuable information on “LOGISTEED” of the Group with our stakeholders, and we look forward to your continued support and understanding.