

Message from the CFO



I will evolve domestic and overseas initiatives in order to expand topline, achieve the targets under the Mid-term Management Plan, and realize medium-to-long-term growth.

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Execute Financial Strategy Supporting the Growth with Both “Offensive” and “Defensive” Approaches

In FY2021, the final year of the Mid-term Management Plan “LOGISTEED 2021,” I am focusing on shifting the direction of the entire Company to the “expansion of topline” in my role as CFO to “serve as a “bridge” between the management and sites” that I discussed in the Integrated Report 2020.

Thanks to our recent initiatives to improve internal efficiency and profitability, the Group’s operating margin has been improving steadily. Meanwhile, our current issue is the sluggish growth of topline, and regrowth of topline is strongly called for in order to steadily achieve operating income target*¹ set in the final year of the Mid-term Management Plan. Thus, the management members themselves are meeting more customers’ executives in an effort to strengthen sales activities, and the “Topline Expansion Project” comprised of officers is rebuilding strategies to acquire new customers. In order to grow topline, it is important to put forward “HTS’s uniqueness” in addition to meeting customers’ requirements for new orders. Accordingly, we are focusing on appealing to customers our unique features including DX and ESG initiatives at logistics sites, tailoring them to fit each customer’s needs.

In addition to such “offensive” initiatives, I, as CFO, have taken the initiative in activities to underpin topline with

“defensive” initiatives including “Project Management (PM) Office” and “Misconduct Eradication Committee.” For example, the PM Office manages preparation status of new projects using an eight-stage phase-gate methodology to ensure new orders received will produce profits. It also checks details of bid proposals for both existing and new orders to reduce risks of failing to receive orders. The Misconduct Eradication Committee that I chair is responsible for centrally identifying misconducts and troubles within the Group including administrative errors in billing and payments, implement the PDCA cycle in collaboration with Internal Auditing Office and each Management Headquarters to prevent recurrence, in order to secure sound and proper business operation and underpin topline.

*1 The Company’s recognized target (adjusted operating income of ¥38.5 billion) reflecting the impact of adoption of IFRS 16 Leases to the target released on May 24, 2019

Accelerate DX in Execution of “Defensive” Financial Strategy

Execution of “defensive” financial strategy involves active promotion of DX. For example, we digitalized approval documents, contracts, and seals and unified the data entry methods of the core system among the entire Group, which improved efficiency significantly. We also introduced the finger vein authentication system for working hours management of on-site employees including partner companies’ employees, promoting

“visualization” of attendance and leave as well as work efficiency through digitalization.

Recently, we are working on the core system renewal to build a structure that centrally manages domestic and overseas data. This will accelerate DX in audit, which will reduce time and improve efficiency/precision of audit and also contribute to enhancing governance effectiveness.

Focus on Strategic Investment and Value-added Service (VAS) Strategy toward Achievement of the Mid-term Management Plan and Medium-to-Long-term Growth

In terms of the “offensive” initiative to expand topline, we will continue strategic investments aimed at emphasizing “HTS’s uniqueness” mentioned above. For example, we plan to continue to make strategic investments of around ¥3 billion*² per annum in DX, including automation, labor-saving, and visualization at logistics sites and environmental investments. For “Smart Warehouse” initiative, we will enhance development and introduction of automated forklifts, AGV, and RPA, etc. while focusing on building a structure to combine and comprehensively control/manage them. In addition, we will work to further develop our transport digital platform “SSCV” and supply-chain optimization solution “SCDOS” with an aim to expand topline and create/expand an ecosystem with collaborative innovation partners. For overseas

strategic investments, we will expand sites in the U.S., the Netherlands, India, Malaysia, and Indonesia (➡ P.18). In opening and enhancing warehouses that are integral to 3PL business, we will mitigate risks by using “purchased assets” and “rental/leased properties” differently based on the assessment of political/economic trends in each area and customer needs.

*2 Costs to be recorded in the consolidated statement of profit or loss

Also as a practical case of “LOGISTEED” beyond logistics domain, we are focusing on business expansion in “manufacturing” domain (➡ P.17). In the new procurement logistics order for a construction machinery manufacturer, we offer new added value by undertaking cargo assortment according to the production line, which is contributing to the topline growth. We position these initiatives to expand business domains as “Value Added Service (VAS) strategy” and focus on supporting its further expansion.

To Deepen the ROIC Management

Regarding initiatives for the ROIC management which started in FY2018, we provide e-learning to “spread” it and develop the ROIC tree budget reports to “deepen” it. In FY2020, we prepared/distributed/expained an English version of documents which clearly describe the ROIC concept to accelerate the spread in overseas sites. We also set specific action items including “Expand sales,” “Improve efficiency,” and “Collect trade receivables early”

Major initiatives focusing on asset efficiency and capital efficiency (recent six years)

Mid-term Management Plan/FY	Measures	
Previous Mid-term Management Plan Value Creation 2018	FY2016	<ul style="list-style-type: none"> Partially changed the business assessment approach (assess centers owned by the Group by adding market rent) Issued corporate bonds of ¥30 billion Set ROE as an important management indicator
	FY2017	<ul style="list-style-type: none"> Asset liquidation (e.g. sale of distribution centers with low asset efficiency, leaseback)
	FY2018	<ul style="list-style-type: none"> Introduced “comparison of ROIC and WACC” as one of the investment decision criteria Newly established the Financial Strategy Office Created rules for strategic investments Issued corporate bonds of ¥30 billion
Current Mid-term Management Plan LOGISTEED 2021	FY2019	<ul style="list-style-type: none"> Reset ROIC to reflect the adoption of IFRS 16 Leases (adopted in FY2019)
	FY2020	<ul style="list-style-type: none"> Introduced ROIC and WACC in the budget control
	FY2021	<ul style="list-style-type: none"> Introduced ROIC tree in the budget control

in the ROIC tree budget reports which we prepared in FY2021. Going forward, we will strive to strengthen the concept of “ROIC reverse tree” which originates from sites and focuses on “what needs to be done at sites to improve ROIC” and aim to further spread it. We will also focus on improving ROIC through topline growth so as not to result in contracted equilibrium. In addition, we are currently building a structure to centrally manage revenues and expenses by site such as logistics center with the core system toward introducing balance sheet management and ROIC by site for the future “evolution” of the ROIC management. Once such structure is completed, we will be able to automatically generate balance sheets and profit and loss statement by site, and our initiatives to improve ROIC by site will progress significantly.

Focus on Reducing Overseas Financial Risks and Strengthening Tax Governance in Anticipation of the Acceleration of Global Growth Strategy in the Future

As for response to financial risks, we are focusing on overseas initiatives considering the growing geopolitical and country risks. For example, we are accelerating refinancing efforts to reduce borrowings from overseas financial institutions and replace them with intra-group financing such as parent-subsidiary loans. Also, as an effort to reduce the impact of exchange fluctuation arising from exchange rate protection and negative interest rate policies in various countries, we make full use of the Group’s regional pooling and parent-subsidiary loans to minimize foreign exchange loss. Through a series of these initiatives, we ensure to link the future acceleration of the global growth strategy to earnings generation. In addition, we recognize tax governance, which was set

as an item of the GRI*3 standards in 2019, as one of our critical management issues and are working to strengthen the overseas tax governance as one of the “defensive” initiatives to accelerate the global growth strategy. Corporate Tax Department established in 2017 plays the center role in enhancing ability to respond to tax issues including BEPS*4, and we reduce risks by checking tax governance of local subsidiaries in collaboration with major audit firms in the respective regions.

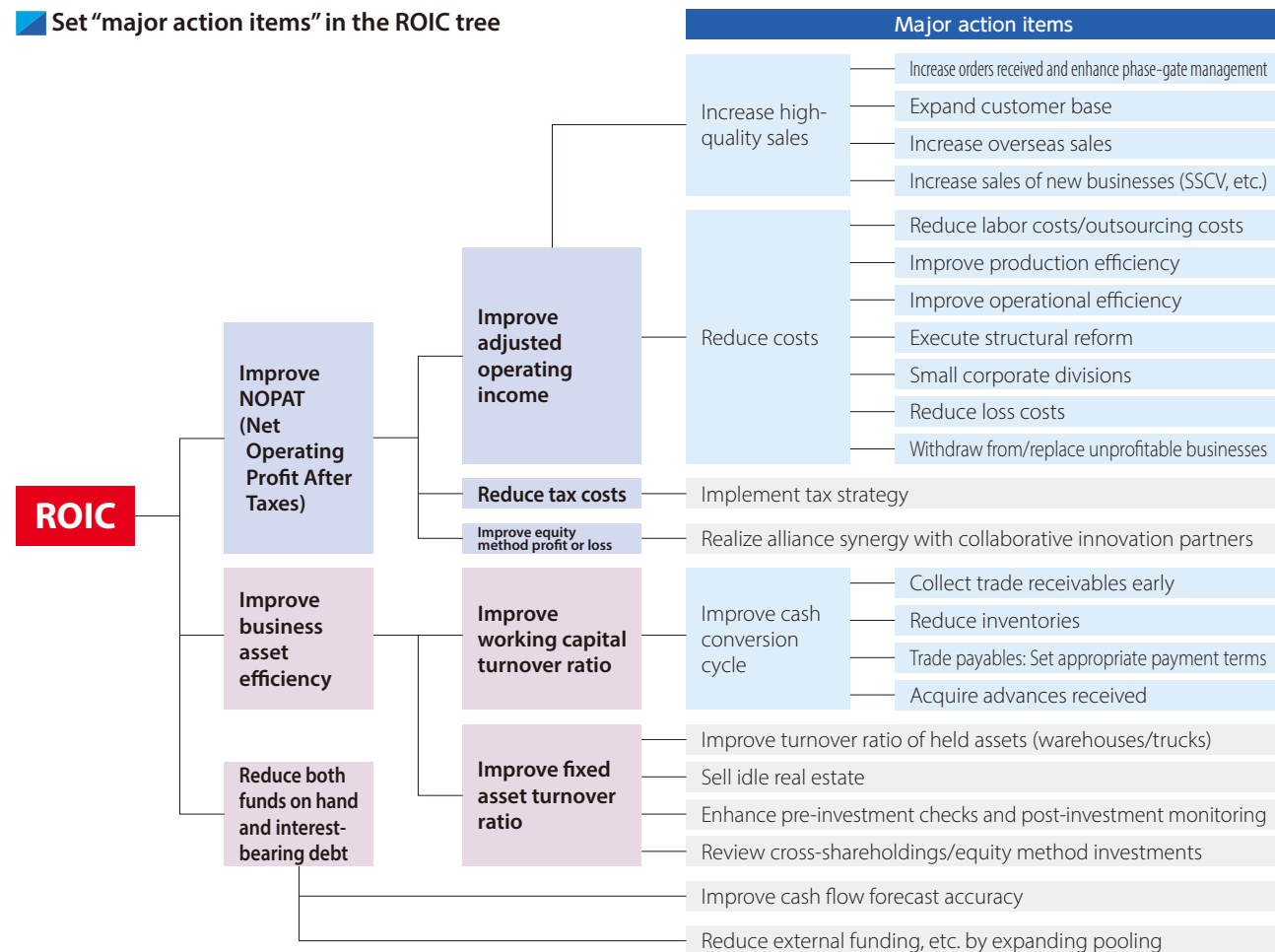
*3 GRI: An NGO that develops a global standard on sustainability reporting
*4 BEPS: Base Erosion and Profit Shifting

Aim for Stable Increase in Dividends While Securing Funds for the Growth

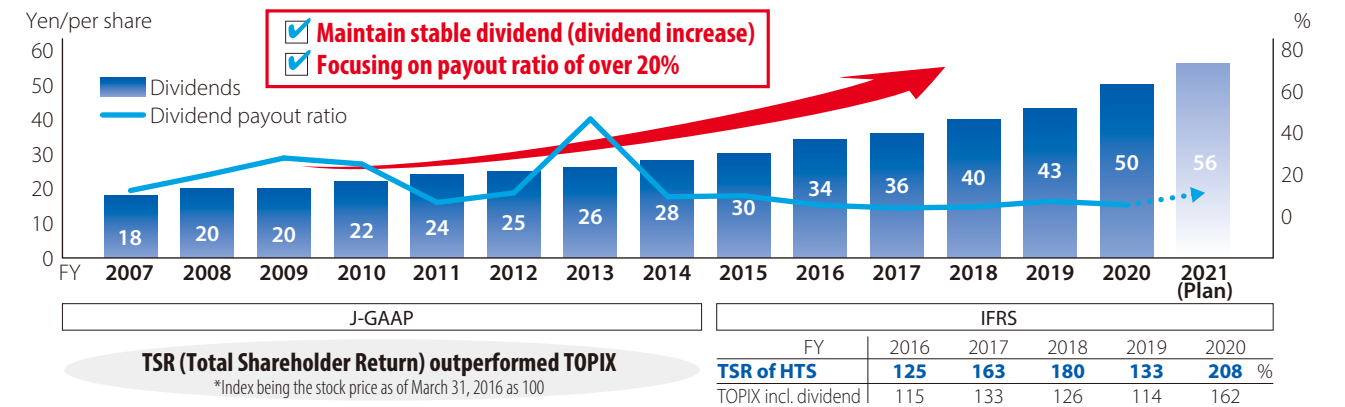
Going forward, our basic policy of dividends is to

seek to maintain stable distribution linked to business performance, while considering medium-to-long-term business expansion and securing internal reserves to strengthen corporate structure. Under the policy, we aim to continue stable dividend payments (dividend increase) while securing funds for our growth. The Company cancelled its treasury shares in June and September 2021 from the viewpoint of improving asset efficiency and shareholder value and now meets one of the continued listing criteria for the Prime Market, one of the new market segments of TSE, “Tradable share ratio of at least 35%.” In terms of future strategic investments, alliance, and M&As to achieve “LOGISTEED,” we will mainly consider the use of cash and borrowings from financial institutions.

Set “major action items” in the ROIC tree



Trend and plan of dividend per share



* Dividend payout ratio: Dividend per share/(Net income attributable to stockholders of the parent company/Average number of shares during the term)

Accelerate the Development of Next-generation Finance Human Resources by Making Full Use of Remote Education and English

Previously, our basic policy on development of next-generation finance human resources in Japan and overseas was to provide offline education. In FY2020, however, we switched to remote education due to the COVID-19 pandemic, which turned out to be more effective than we expected. Therefore, to actively use this as one of the measures to “coexist with COVID-19,” we will provide remote education in North America, Europe, Asia, and China in FY2021. Recently, many employees in charge of finance in overseas sites and group companies are locally hired, and they are familiar with communications in English. Accordingly, in the future, we will accelerate the development of next-generation finance human resources by making full use of remote education and English.

Place Emphasis on Interactive Dialogues with Our Shareholders and Investors

The Group has a policy to focus on a number of strategic investments including DX and decarbonization initiatives and will strive to provide our shareholders and investors with detailed explanations about ROIC, ROE, and our dividend policy through dialogues. In FY2021, as the use of remote communication increased, we were able to hold dialogues with more shareholders and investors than usual and also received lots of advice and suggestions on information we provide from shareholders who actually hold our shares, which helped us make improvement. We will endeavor to achieve sustainable increase of corporate value while placing importance on dialogues and maintaining relationships of trust with our shareholders and investors.