Financial Strategy in the New Mid-term Management Plan “LOGISTEED2024”

- Expand topline by acquiring new customers
  - As the biggest theme of our financial strategy in the new Mid-term Management plan “LOGISTEED2024”, we will focus on the expansion of topline as mentioned above.
  - In terms of domestic business, “Topline Expansion Project” is underway as mentioned earlier and we recently launched a relatively large project with new customers. So, we will boost topline and steadily improve profitability by increasing new projects.
  - For overseas business, as the Ukraine crisis and lockdowns under China’s zero-Covid policy have caused disruptions in global supply chains, we think it will take time before our freight forwarding business returns to normal.
  - Under such circumstances, the Group aims to expand topline by continuing to pursue the “region-contained business model” described in the message from Mr. Nakatani, Chairman (P9) and also allocating a large portion of strategic investment of ¥380 billion to ¥4100 billion under “LOGISTEED2024” to M&As around the world. We are currently examining with KKR some domestic/overseas target companies and expected synergies and will promote such initiatives, increasing transportation capacity in the U.S. and India and enhancing 3PL and freight forwarding business in Europe through M&As.

- Evolve the ROIC management by DX with a focus on the core system renewal
  - We have worked on the “ROIC management” since FY2018 and will further evolve it by promoting DX mainly through a large-scale core system renewal.
  - In specific, we plan to complete the replacement of current system with new one in our domestic group companies by the end of FY2022 and concurrently standardize and unify the sales/payment process using SPM*. By doing so, we will implement initiatives to improve ROIC, which was previously implemented on each group company level, at the level of individual offices/customers/business types to further spread these initiatives at sites.
  - In overseas group companies, we are currently preparing to start the core system renewal at full scale from FY2023. In consideration of the high proportion of the freight forwarding business in overseas while 3PL is the main business in Japan, we are understanding the current situation and developing the renewal plan. As for cash management, in particular, we will evolve the initiatives to improve ROIC by introducing TMS*, which allows us to monitor daily cash status of all overseas sites.
  - Through these initiatives, we aim to “visualize” financial situation and indicators including cash flows in Japan and overseas altogether, to improve ROIC of the Group as a whole.

*1  Announced by Rating and Investment Information, Inc. (R&I) on May 2, 2022
*2  Smart Performance Visualization Platform (SPV): A system to manage domestic performance
*3  Treasury Management System (TMS): A system capable of containing the entire group's fund and financial risk, etc.

Review of the Mid-term Management Plan “LOGISTEED2021”

Under the Mid-term Management Plan “LOGISTEED2021” which ended in FY2021, although we fell short of some numerical targets including EBIT mainly due to the fire at a logistics center of a group company, we reported revenues of ¥743.6 billion (¥720.0 billion in the total equity attributable to stockholders of the parent corporation) yields moderate results overall during the three years under the new Mid-term Management Plan.

As for our investment plan, we made business investments aimed at building a solid core domain (Smart Logistics) such as expansion of domestic and overseas logistics sites and renewal of vehicles, etc. and strategic investments in “promotion of DX” and establishment of IT platform,”development of new technology,” “development of new business, “ and “human resources, safety, etc.” and they all went according to the plan. However, M&As didn’t do well due to the impact of COVID-19, etc. We will also follow up on this under “LOGISTEED2024” and accelerate through collaboration with KKR mentioned earlier. Regarding the RoI rating to facilitate fund raising from capital markets and diversify fund raising methods, despite some factors such as acquisition of treasury stock and a decrease in the total equity attributable to stockholders of the parent company ratio, we maintained a rating of A*** as our long-term growth in adjusted operating income was recognized.

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

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We will accelerate our initiatives to further increase corporate value through “Dialogues” and “Collaborative innovation” with our stake holders.

Nobukazu Hayashi
Executive Vice President and Executive Officer, CFO
General Manager, Corporate Strategy Office
Enhance ROIC education for overseas group companies and mutual communications

We are focusing on ROIC education especially for overseas group companies because the improvement of ROIC requires not only a system renewal but also initiatives at each site such as “ROIC tree.”

For example, we prepare ROIC education materials in English and provide ROIC education to accounting managers and staff in four key management areas (North America/Europe/China/Asia) every year, with an aim to promote close communication with the head office as well as deepen their understanding and raise awareness of ROIC. In FY2021, we held a full-scale meeting with overseas sites online for the first time after a few years hiatus due to COVID-19 and decided to continue this initiative as we were able to have beneficial and meaningful discussions with accounting managers and staff and also presidents of some overseas subsidiaries. In FY2022, in light of the easing of the COVID-19-related travel restrictions, General Manager of Financial Strategy Office will visit key management areas and have face-to-face meetings to deepen communications and focus on the ROIC management together with the entire Group.

Enhance finance human resources development with a global rotational system and a new educational program

We will make a proactive investment to “solidify ESG management base” one of the priority measures in “LOGISTEED2024,” and especially in the human resource strategy, we will focus on increasing/developing global/DX human resources as well as enhancing finance human resources development.

For example, Financial Strategy Office focuses on the development of global human resources by including overseas assignment in the job rotation and is also promoting the use of FASS test*4 as well as enhancing systematic educational programs. In light of the fact that employees return from their overseas assignments with enough ability to contribute to the Corporate Strategy Office and Global Business Management Headquarters, and also that we plan to consolidate/expand the size of domestic group companies, we will work on improving skills to deal with financial audit, enhancing the detailed human resource education based on career and skill level of individual employees, as well as invigorating organizations through job rotation. Furthermore, based on the request from overseas group companies, we will proactively consider accepting and providing educational opportunities in Japan to overseas employees as part of our effort to invigorate organizations through job rotation mentioned above.

Enhance and improve efficiency of global cash/receivables/credit management

By introducing TMS mentioned earlier, we will monitor the daily cash movement of the entire Group to further refine cash management and enhance corporate governance. We also further enhanced global credit and receivables management during the period of the previous Mid-term Management Plan after the U.S.-China trade friction in 2020 which caused non-performing receivables in some areas. As overseas business with the high proportion of the freight forwarding business is susceptible to market downturns, we will closely monitor the freight forwarding market and enhance effectiveness of corporate governance over credit and receivables management.

*4 Finance & Accounting Skill Standard (FASS) test: A test based on the “Finance & Accounting Service Skill Standard developed by METI with an addition of the U.S. test theory to measure objective practical knowledge and skill level in accounting and financial field.

Continue to Focus on the Dialogues with our Stakeholders

Although we will become an unlisted company after the tender offer for the Company’s shares by HTSK Co., Ltd. and a series of procedures scheduled thereafter, we will continue to focus on sustainable value creation and further accelerate our initiatives to increase corporate value.

In terms of dialogues with our stakeholders to achieve them, we will disclose fair and highly transparent information in a timely and appropriate manner, including proactive disclosure of non-financial information such as material issues and ESG/SDGs initiatives, in an effort to focus on constructive dialogues with all of our stakeholders.