



October 27, 2016

# The First Half of FY2016 (Year Ending March 31, 2017) Financial Results Briefing

 Hitachi Transport System, Ltd.

**HITACHI**  
Inspire the Next

## **I. 1H of FY2016 financial results**

### **[Summary of Financial Results]**

**Overview, breakdown by group, breakdown of changes in revenues/operating income, overseas results by region, reasons for deviation from the plan, trend of orders/startups (Reference) Breakdown by business category**

### **[Topics (Domestic/Overseas)]**

## **II. FY2016 plan**

### **[FY2016 plan]**

**Overview, by business**

**[Collaborative Innovation Project with SG Holdings] [Smart Logistics]**

**[New Structural Reforms]**

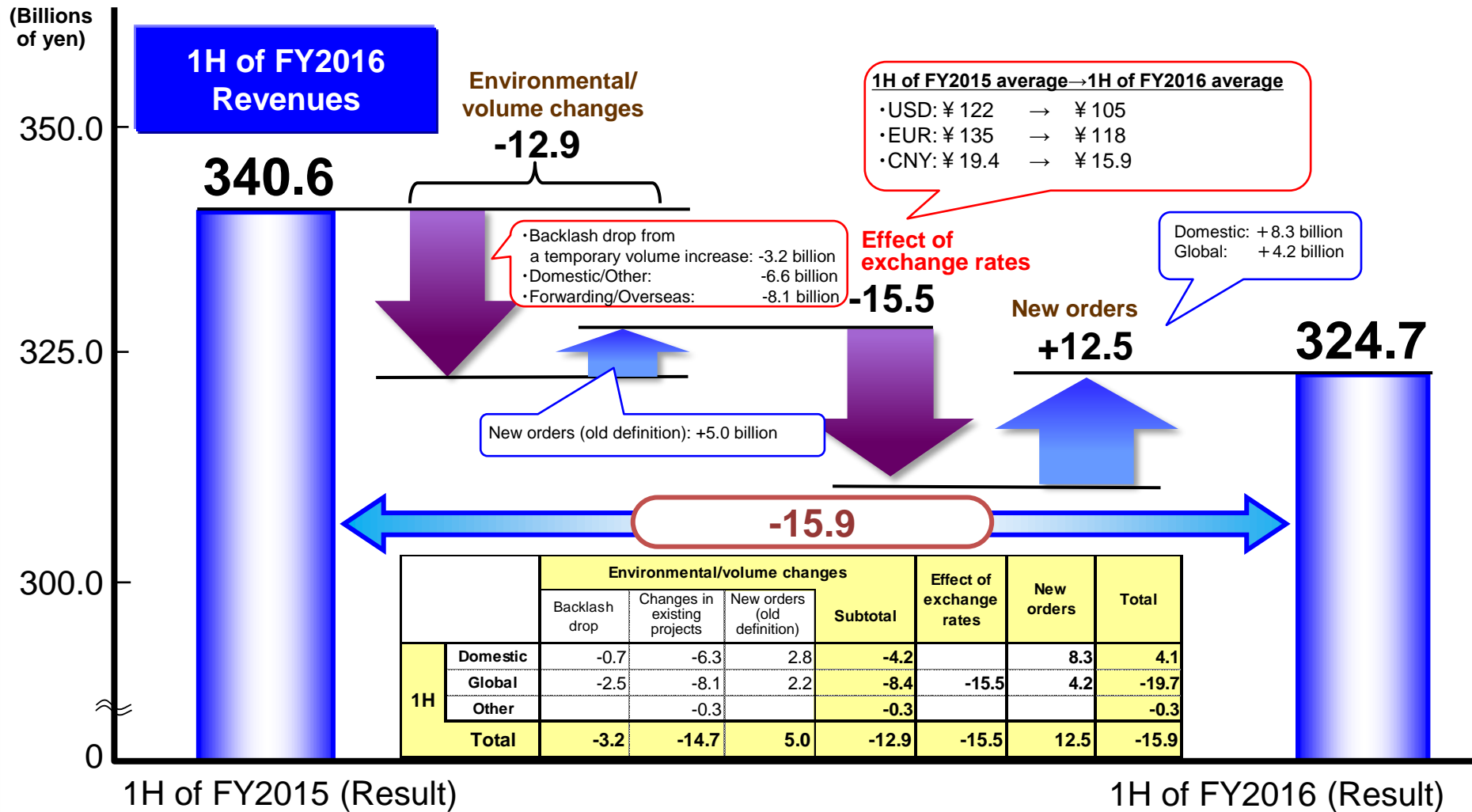
(Unit: billion yen, rounded off to the nearest integer. < > parentheses are profit ratios (%))

	FY2015		FY2016						
	1H		1H			Full-year			
	Results		Results	Y o Y	vs Initial plan	Plan (Revised on Oct. 27)	Y o Y		
Revenues		340.6	324.7	95%	98%	680.0	100%		
Operating income	<3.8>	13.01	<4.5>	14.50	111%	112%	<4.2>	28.5	101%
Earnings before interest and tax (EBIT)	<3.4>	11.69	<4.6>	14.90	127%	-	<4.6>	31.0	112%
Net income attributable to stockholders of the parent company	<1.7>	5.85	<2.7>	8.86	152%	143%	<2.7>	18.5	132%

\* Operating income in this document represents “Adjusted operating income.”

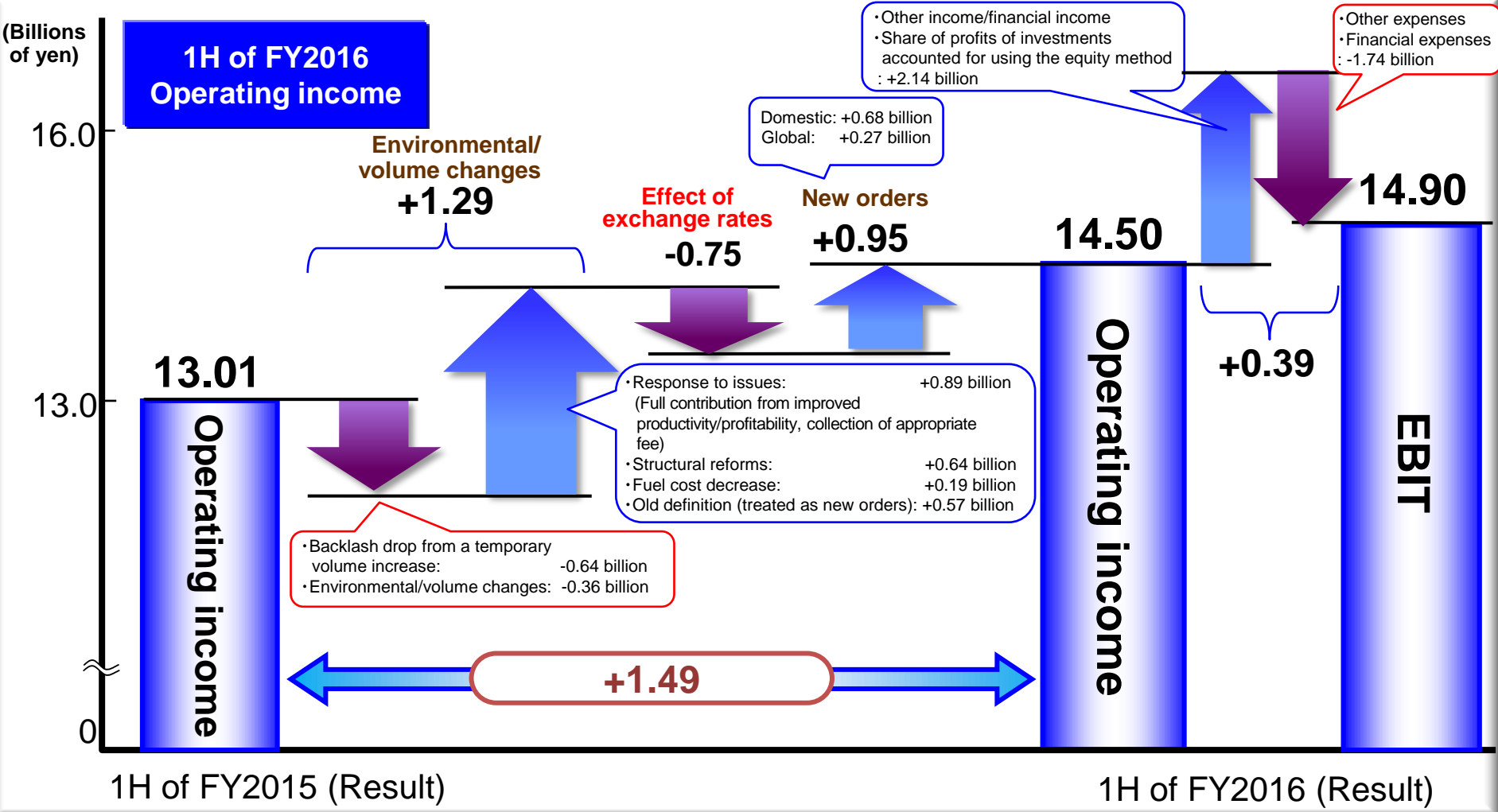
(Unit: 100 million yen, rounded off to nearest integer. < >: composition ratio (%). ( ): year-on-year change)

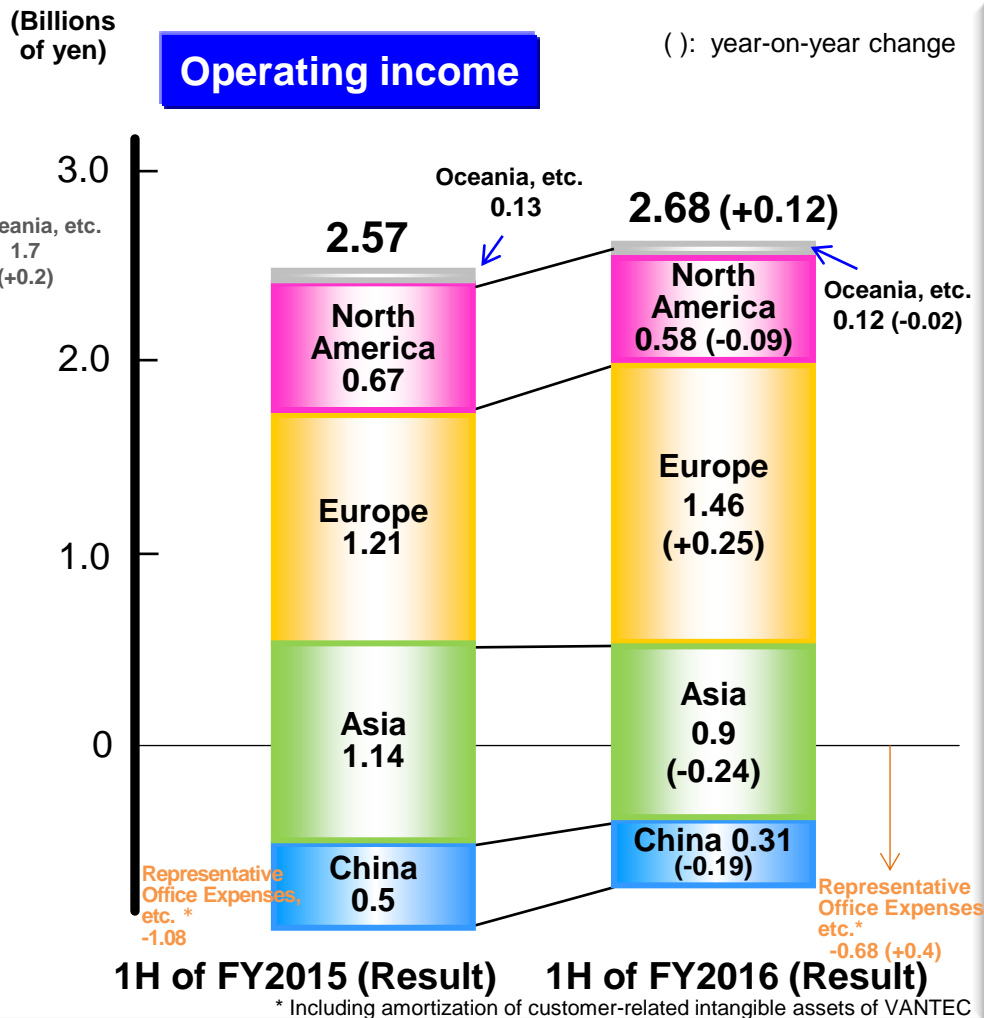
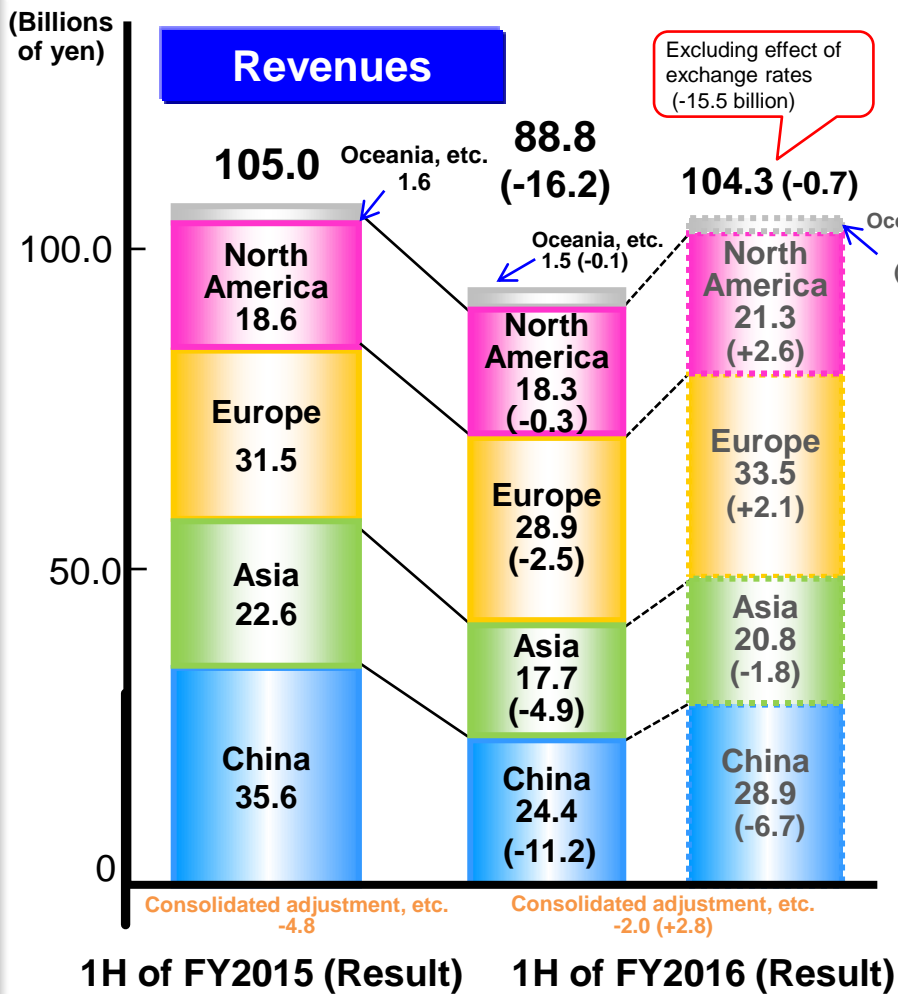
		Revenues			Operating income		
		1H	YoY	1H	YoY		
Organic	Domestic logistics	<61>	1,695	104%	98.0	120%	
	Global logistics	Overseas	<27>	752	78%	23.3	103%
		Forwarding and others	<8>	236	264%	2.4	229%
	Total	<35>	987	94%	25.7	108%	
	Others (logistics-related businesses, etc.)	<4>	108	97%	9.2	78%	
<b>Total</b>		<b>&lt;100&gt;</b>	<b>2,789</b>	<b>100%</b>	<b>132.9</b>	<b>114%</b>	
Vantec Group	Domestic logistics	<69>	348	96%	12.9	86%	
	Global logistics	Overseas	<31>	157	118%	4.5	77%
		Forwarding and others	<0>	1	1%	0.0	(-1.8)
	Total	<31>	158	47%	4.5	59%	
<b>Total</b>		<b>&lt;100&gt;</b>	<b>506</b>	<b>73%</b>	<b>17.3</b>	<b>77%</b>	
Consolidated Adjustment/ Amortization of customer-related intangible assets of VANTEC Group, etc.		-	-49	(+41)	-5.2	(+4.1)	
Total	Domestic logistics	<62>	2,029	102%	106.6	116%	
	Global logistics	Overseas	<27>	888	85%	26.8	104%
		Forwarding and others	<7>	224	87%	2.4	392%
	Total	<34>	1,112	85%	29.3	111%	
	Others (logistics-related businesses, etc.)	<3>	105	97%	9.2	78%	
<b>Total</b>		<b>&lt;100&gt;</b>	<b>3,247</b>	<b>95%</b>	<b>145.0</b>	<b>111%</b>	



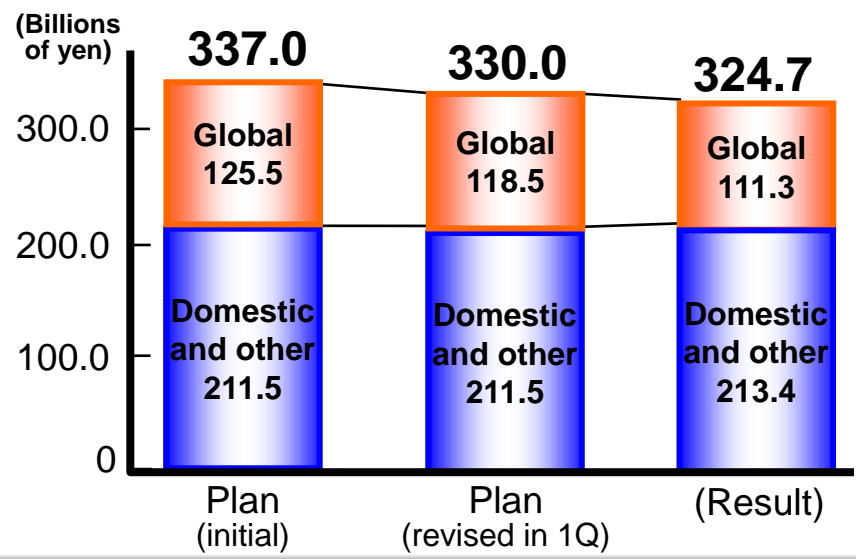


# 1H of FY2016 Results (Breakdown of Changes in Operating Income)

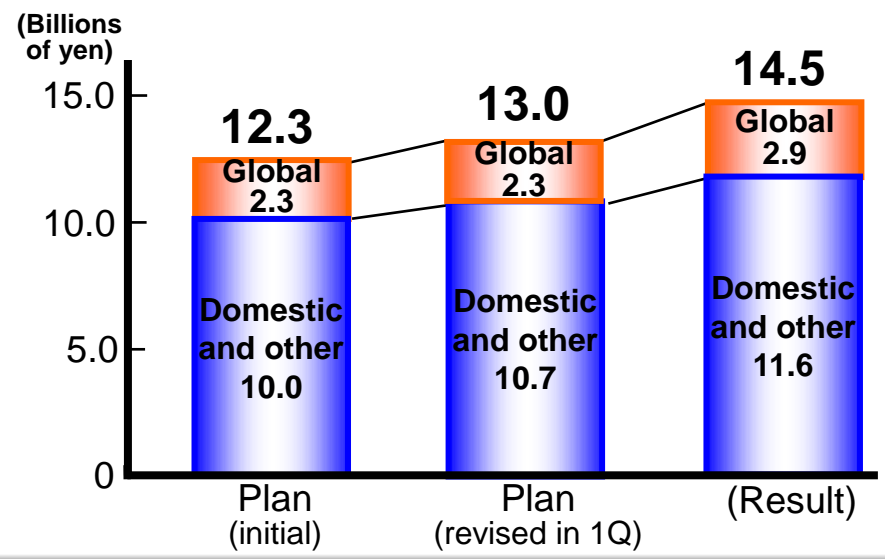




## Revenues



## Operating income



**-12.3 billion yen (-5.3 billion yen) over initial plan**

( ): over the plan (revised in 1Q)

- \* **Global -14.2 billion yen (-7.2 billion yen)**
  - Effect of exchange rates -5.9, overseas business (China, etc.) -5.7
  - Volume decrease of forwarding from/to Japan -2.6
- \* **Domestic and other +1.9 billion yen (+1.9 billion yen)**
  - New projects/Volume increase, etc. +1.9

**+2.2 billion yen (+1.5 billion yen) over initial plan**

( ): over the plan (revised in 1Q)

- \* **Global +0.6 billion yen (+0.6 billion yen)**
  - Improve profitability of overseas 3PL business +0.55
  - Improve profitability of forwarding from/to Japan +0.05
- \* **Domestic and other +1.6 billion yen (+0.9 billion yen)**
  - Improve operating efficiency and productivity/profitability +1.7
  - Other -0.1



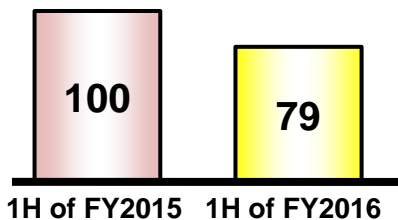
## 1H of FY2016: Trend of orders/startups

Unit: projects

		FY2015	FY2016	
		1H	1H	Y o Y
Startups	Domestic	9	11	2
	Global	7	2	-5
	Total	16	13	-3
Orders	Domestic	4	4	0
	Global	7	2	-5
	Total	11	6	-5

(Reference) Total amount of orders received <Including new projects (both new and old definition), one-time project (Heavy Machinery and Plant Logistics, etc.) and small scale projects>

Comparison based on the results of 1H of 2015 as 100



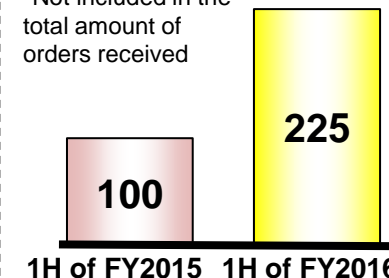
**\* Total amount of orders is approx. 80% of 1H of FY2015**

- As multiple renewals of existing major customers (maintenance projects) during the same period resulted in diversified sales resource
- Decrease in overseas/forwarding orders

**\* Steady increase of orders in regions due to enhanced region-based sales efforts**

[Orders under ¥10 million (results of 1H/FY2016)]  
Total 835 (recurring: 82 / one-time: 753)

[Reference]  
Maintenance projects  
\*Not included in the total amount of orders received



**Reference**
**Results by Business Category (estimated)**

(Billions of yen)

		1H of FY2016			
		Revenues	Operating income	Operating margin	
	Domestic	171.0	8.89	5.2%	(5.2%)
	Global	55.1	2.69	4.9%	(5.2%)
<b>3PL</b>		<b>226.1</b>	<b>11.59</b>	<b>5.1%</b>	<b>(5.2%)</b>
	Domestic	22.2	0.49	2.2%	(3.2%)
	Global	24.4	0.18	0.7%	(2.3%)
<b>Forwarding</b>		<b>46.6</b>	<b>0.67</b>	<b>1.4%</b>	<b>(2.7%)</b>
	Domestic	31.6	0.89	2.8%	(4.2%)
	Global	9.4	0.31	3.3%	(3.8%)
<b>Automobile</b>		<b>41.0</b>	<b>1.19</b>	<b>2.9%</b>	<b>(4.1%)</b>
<b>Other services</b>		<b>11.0</b>	<b>1.06</b>	<b>9.6%</b>	<b>(9.6%)</b>
<b>Total</b>		<b>324.7</b>	<b>14.5</b>	<b>4.5%</b>	<b>(4.9%)</b>

( ): excluding amortization of customer-related intangible assets

## Cikarang DC



- West Java, Indonesia
- Operations started Apr. 2016
- Daily commodities related

## Mito Platform Center



- Hitachinaka City, Ibaraki Prefecture
- Operations started May 2016
- Electrical machinery and equipment, etc.

## Chiba-chuo DC



- Chiba City, Chiba Prefecture
- Operations started Jul. 2016
- Food service related

## Canton ILC\*



- Mississippi, the U.S.
  - Operations started Jul. 2016
  - Automobile related
- \* Integrated Logistics Center

Apr

May

Jun

Jul

Aug

Sep

Oct -

## Strategic Capital and Business Alliance with SG Holdings and SAGAWA EXPRESS

- May 2016
- SAGAWA EXPRESS became our equity-method affiliate
- HTS became an equity-method affiliate of Hitachi and SG Holdings

## Opened a Location for Research and Development (R&D Center)

- July 2016
- Tokyo
- Dedicated R&D facility



\* Using a part of the floor inside an existing distribution center



## Appeared on a TV show "KENJA no SENTAKU —Leaders—"

- September 2016
- President Nakatani appeared
- Related article on Nikkei Business (September 5th edition)



## The 3rd, 4th and 5th issue of unsecured bonds

- September 2016
- Total issue amount ¥30 billion (the first unsecured bonds in 19 years)

## National Truck Driver Contest

- October 2016
- 4-ton category: dominated top 4 prizes (Won the Prime Minister's Prize)
- Trailer category: 2nd prize



## National Forklift Driving Contest

- September 2016
- General category: 3rd prize

## Renewal of the corporate website

- June 2016 (Japanese and English)

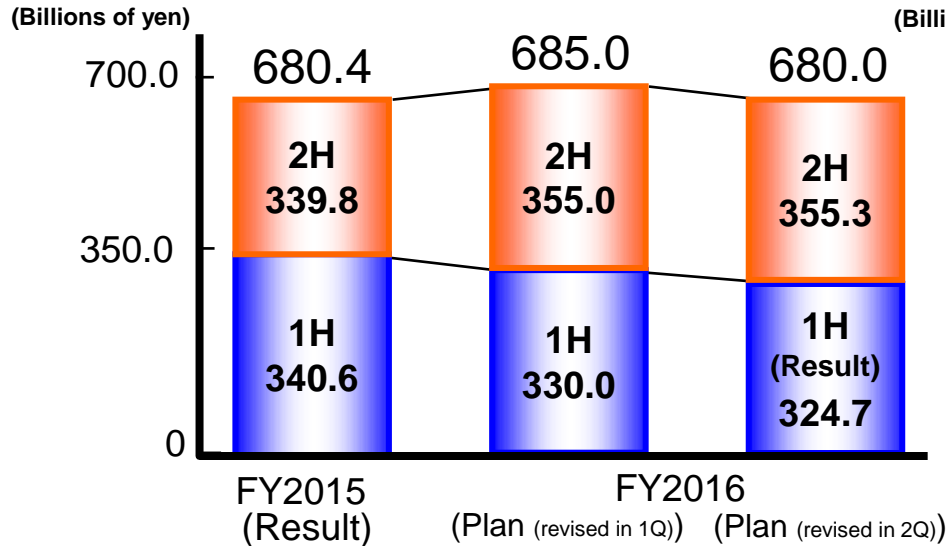


## Plan

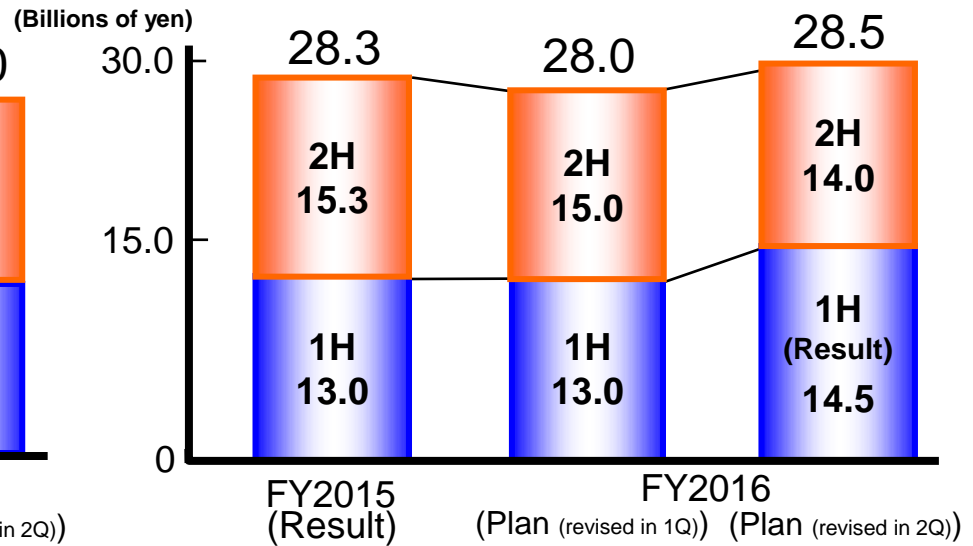
**Revenues: 680 billion yen Operating Income: 28.5 billion yen**

Revised on October 27, 2016

### Revenues



### Operating income

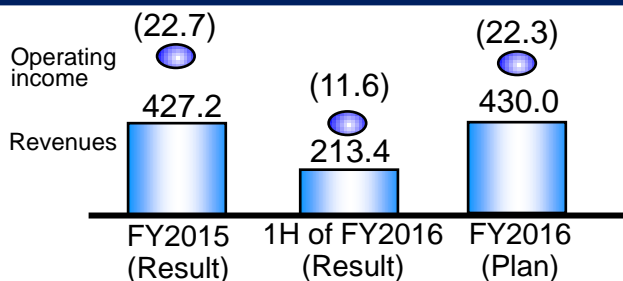


- Revenues** : Revised to reflect the 1H of 2016 results and uncertain external environment such as exchange rates, despite the contribution from new projects (full contribution from project startups/increase) and the effects of the Collaboration <FY2016: ¥685 billion → ¥680 billion (-¥5 billion)>
- Operating income** : Revised to incorporate the costs and risks of “Accelerating new technology development” and “New structural reforms” in addition to the full-year contribution of productivity improvements <FY2016: ¥28 billion → ¥28.5 billion (+¥0.5 billion)>

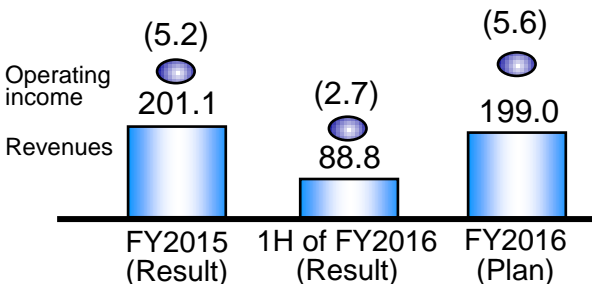
## Revenues / Profit plan

(Billions of yen)

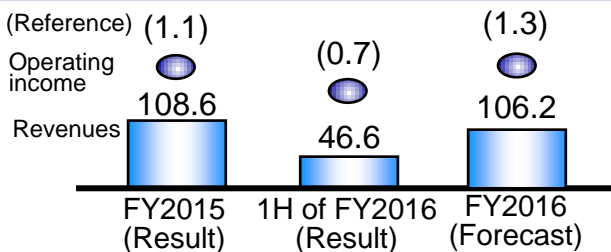
Domestic



Overseas



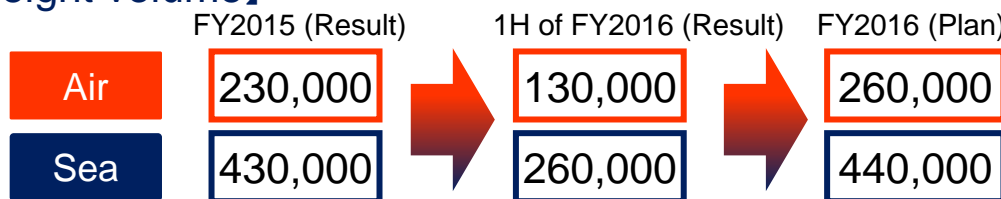
Forwarding



Figures above represent results by business category.

## 【Freight volume】

(Unit: tons (air), TEU (sea))



Figures above are simple sum before consolidated adjustment.

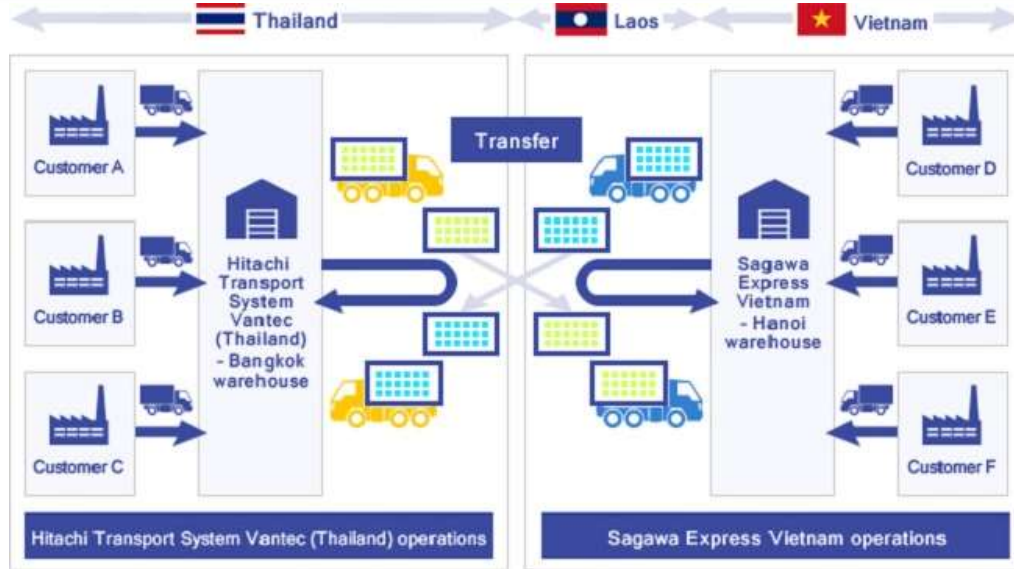
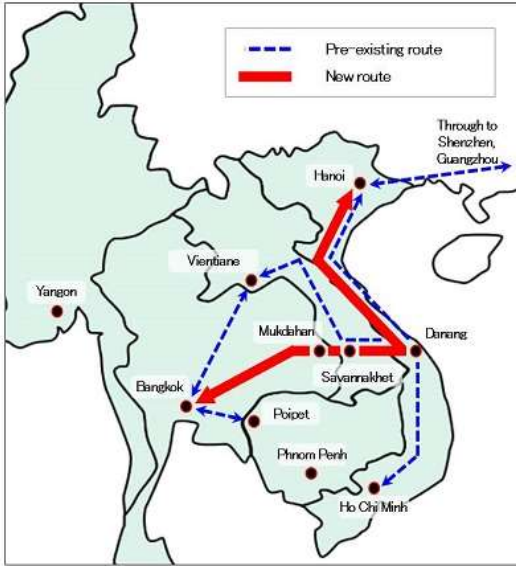
## 1. Activity status in each item

Item	Major issues		Activity status
<b>[1] 3PL &amp; Delivery</b>	• Promote cross-selling	• Joint solutions	• Start proposals of 3PL/Heavy machinery and plant logistics to target customers
<b>[2] Mutual use of infrastructure</b>	• Mutual use of vehicles	• Joint use of centers	• Consider based on specific project (location)
<b>[3] Next-generation centers</b>	• Define the target and requirements as a model center		• Select target areas (in Kanto region)
<b>[4] New technology</b>	• Implement wearable equipment	• Utilize big data	• Verify the locations and technology for implementation
<b>[5] Forwarding</b>	• Optimal use of domestic and overseas agencies		• Verify optimal global networks
<b>[6] Global business</b>	• Cross-selling, CBT	• Enhance delivery	• Start new services in Asia and China
<b>[7] Logistics-related/other businesses</b>	• Real estate	• Automobiles, etc.	• Vehicles leasing, workers dispatching, travel business, etc.

## 2. Priority initiatives in 2H of FY2016

<b>Domestic</b>	<p><b>[Short-term]</b> * Develop new business ([1])                  * Mutual use of facilities ([2]) [see page 16]  <b>[Mid-term]</b> * Utilize smart delivery for manufacturing industry ([2])</p>	<p><b>To create synergies worth ¥50 billion in 2018 Mid-term Management Plan</b></p> <p>Select cross-selling (¥20 billion scale)                  (Working toward revenues contribution during the period of Mid-term Management Plan)</p>
<b>Global</b>	<p><b>[Short-term]</b> * New service for apparel industry ([6]) [see page 15]                  * Mutual use of forwarding agencies' network ([5])  <b>[Mid-term]</b> * Expand cross-border business ([6]) [see page 14]                  * Develop automobile aftermarket parts business ([6])</p>	

**Launched cross-border trucking transport service in Southeast Asia — More economical than air transportation and faster than sea transportation —**



HTS Group's domestic transportation network in Thailand



SG Holdings Group's domestic transportation network in Vietnam



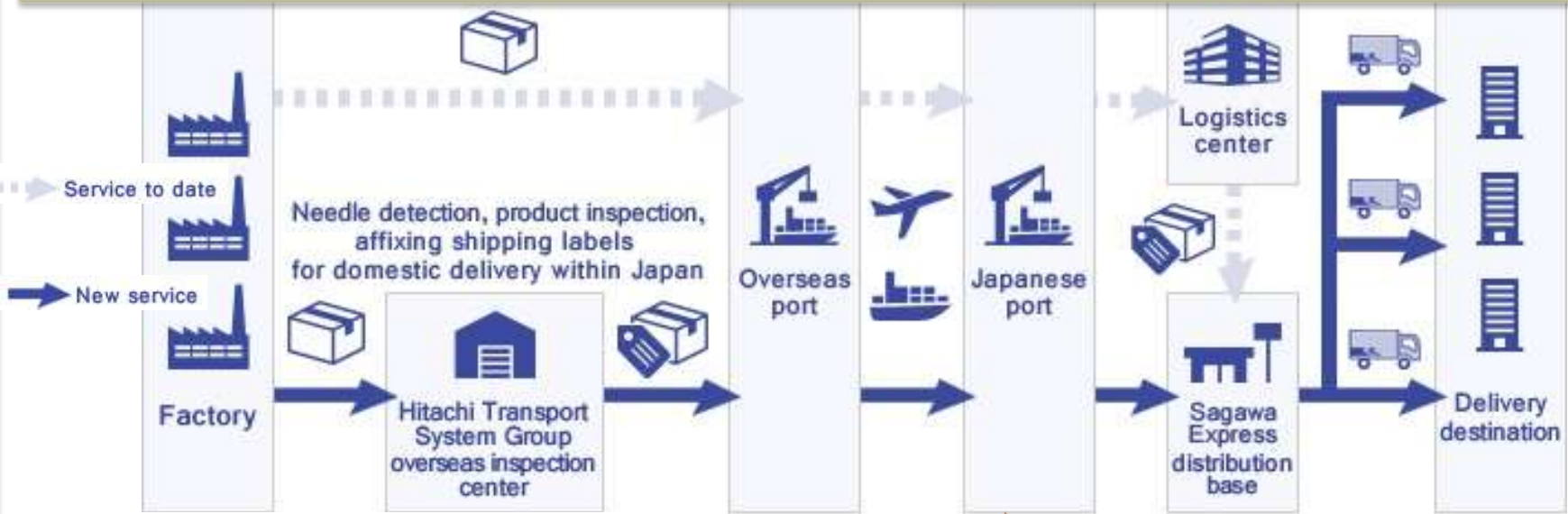
Establish a cross-border trucking transport network in Southeast Asia

- More economical than air transportation, and faster than sea transportation
- High-quality transport services unique to Japanese companies
- With the use of original containers, no need for transfer

**[Next phase] Develop new routes between Bangkok and Ho Chi Minh, etc.**

\* For the details of the service, please refer to News Release dated October 18, 2016 on our website.

## Launched China–Japan integrated shipping service ‘Smart Import’ for apparel — Handling quality needle detection, product inspection and assortment before shipment —



HTS Group's know-how on product inspection/needle detection + SAGAWA EXPRESS's domestic delivery network → Establish seamless one-stop logistics service from overseas factory to domestic delivery destination

- Direct delivery after arriving in Japan ⇒ Reduce the lead time to delivery
  - By using overseas inspection centers, reduce the labor that goes into the processing of rejected items ⇒ Optimize logistics cost
- [Next phase] Consider development of service in Myanmar, Vietnam, etc.

\* For the details of the service, please refer to News Release dated October 27, 2016 on our website.



## Mutual use of logistics facilities

— Opening a satellite location of SG Holdings Group within our center in Chiba Prefecture —

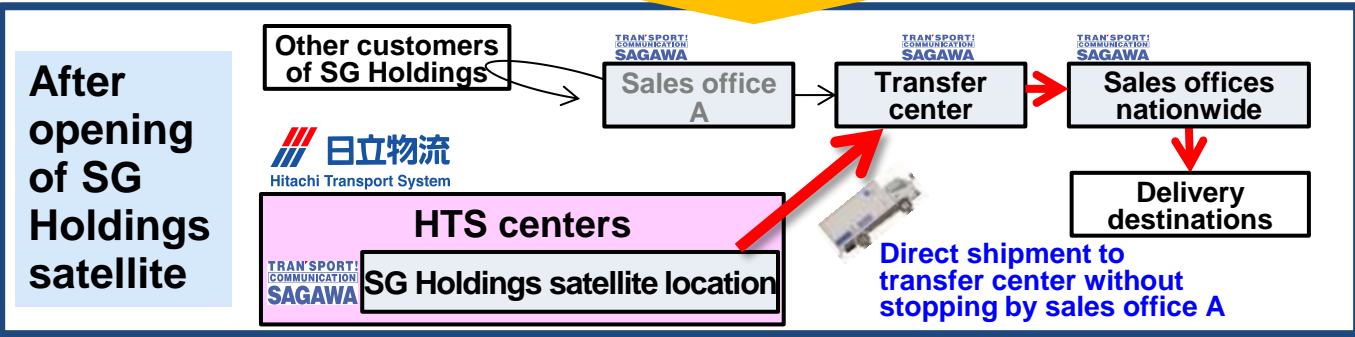
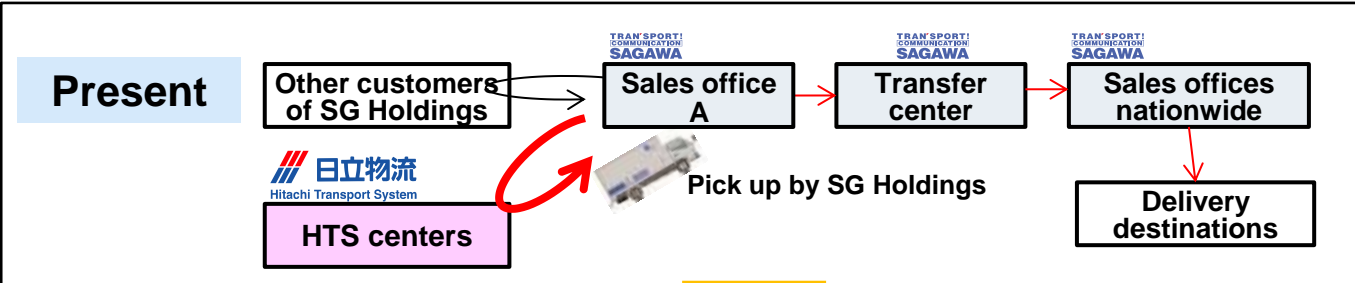


Image of SG Holdings satellite in a HTS center

[HTS Group]

- Extend pick-up deadline
- Effective usage of facilities
- Reduce the impact of volume changes

[SG Holdings Group]

- Increase shipping locations to reduce the volume handled at sales office

## Opened R&D Center

### ■ Outline of R&D Center 【Distribution Center in Tokyo】

- Opened an R&D center in logistics center (on July 15, 2016)
- A space where we verify various equipment and development tools that realize labor saving in existing warehouses and next generation center concept

### ■ Functions of R&D center




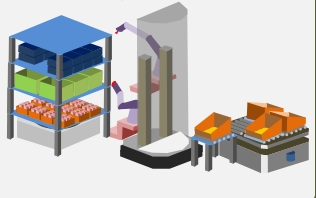
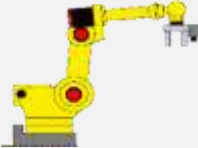

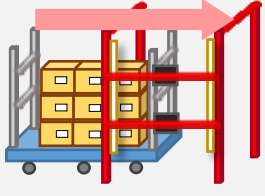

- **Reduce start-up risks** by verifying various operations in advance under a similar environment to real operation
- **Develop new technologies and verify practical use** to realize next generation center
- **Accelerate on-site operation** through firsthand experience of various material handling and Smart Logistics tools

### Logistics center in Tokyo (using one floor)



## Technology verification in R&D Center

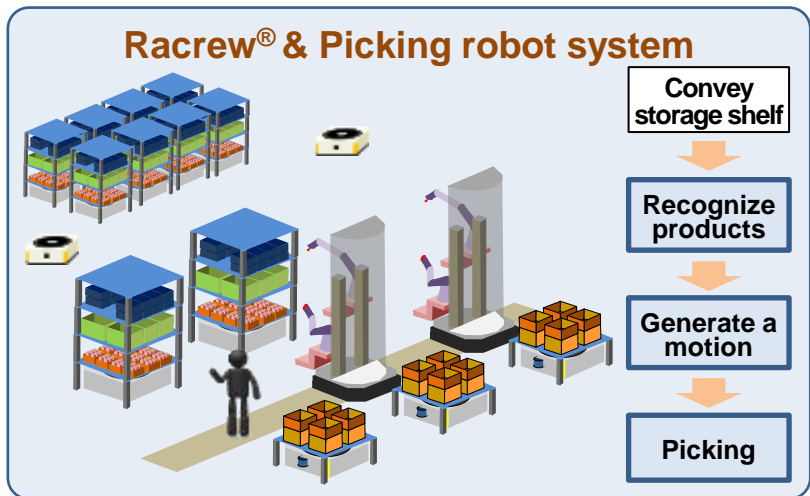
■ Technology verification to achieve labor saving of existing warehouses and next generation center concept

Technologies	Details of verification		Technologies	Details of verification	
Automated conveyance	<p>Forklift-type</p>  <ul style="list-style-type: none"> <li>• Verify effectiveness of automated guided vehicles</li> </ul>	<p>Cart-type (Auto-trailing + Autonomous travelling)</p>  <p>Cooperation: Doog Inc.</p>	Racrew®-related	<p>Racrew®</p>  <ul style="list-style-type: none"> <li>• Verify large scale system on actual robots to expand implementation</li> <li>• Verify interlocking of receiving/shipping station system</li> <li>• Verify implementation of picking robot</li> </ul>	<p>Picking robot</p> 
Depalletizers RFID	<p>Depalletizers</p>  <ul style="list-style-type: none"> <li>• Verify effectiveness of labor saving equipment and tools to improve operational quality</li> </ul>	<p>RFID</p> 	Automated inspection (Image inspection)	<p>Image inspection</p> 	 <ul style="list-style-type: none"> <li>• Verifications to realize bulk inspection on multiple labels covering offices that handle foodstuffs</li> </ul>

Verify safety, productivity, and operability functions under actual warehouse environment toward on-site implementation

## Robot

■ Aim to expand automatable field: **“Automation in picking station”**



- Automate piece picking operations by cooperative control of dual-arm manipulator and automated guided vehicle “Racrew®”
- Automate piece picking operations for multi-item products with product recognition technology and motion generating technology

Exhibited at  
LOGIS-TECH TOKYO



## Under R&D



Picking small-sized products



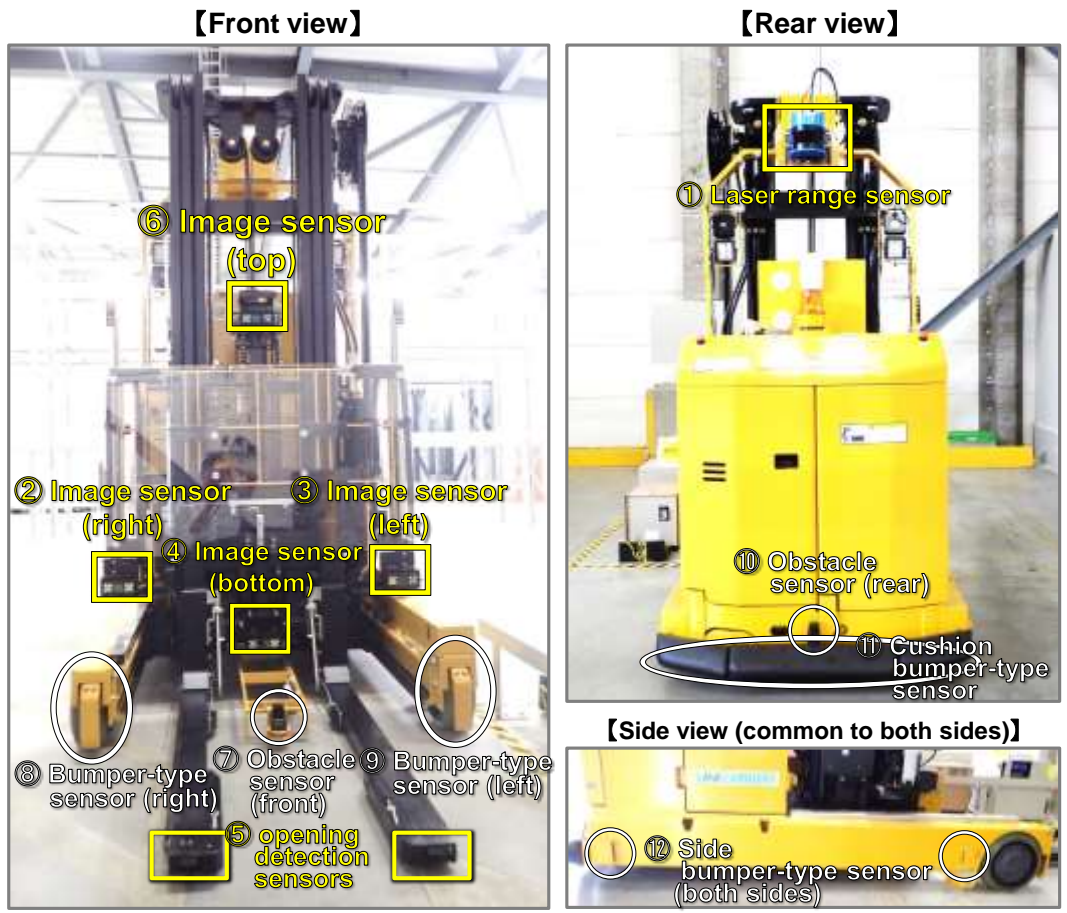
Picking medium-sized products inside the tray

**Implement and verify arm robot control and product recognition technology**

Verify pallet conveyance and cargo handling by automated forklift in the warehouse

**Verification examples**

- Vertilator  
 ⇔ Flat stacking, pallet rack
- Pallet rack  
 ⇔ Pallet rack
- Automated operation for 24 hours
- Cargo handling at a high mast range (3.0m to 5.5m)



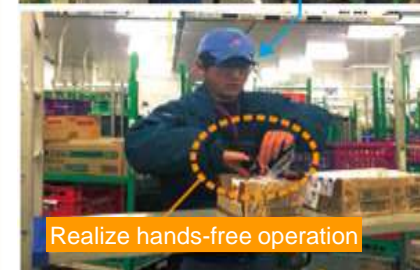
## Cooperating with Konica Minolta, Inc. in verification of sorting support system using a spectacle-type wearable device toward realization of high-speed, low-cost total picking and assorting support system

<Purpose> Realize high-speed, low-cost total picking and assorting support system



### <Technical points>

- (1) Realize **hands-free** operations with a glove-type scanner and a spectacle-type wearable device
- (2) Accelerate the move with **simple navigation function** indicating the next sorting frontage
- (3) User interface **enabling both high visibility and less eyestrain** on limited display
- (4) Capable of both simple **single sorting** and multi sorting with high operational efficiency



Cooperating with material handling equipment manufacturers in verification process toward automated loading operation of cases onto roll box pallets and slim carts under case sorter chute

## Features of the system

- Easy-to-implement robot system without image recognition -

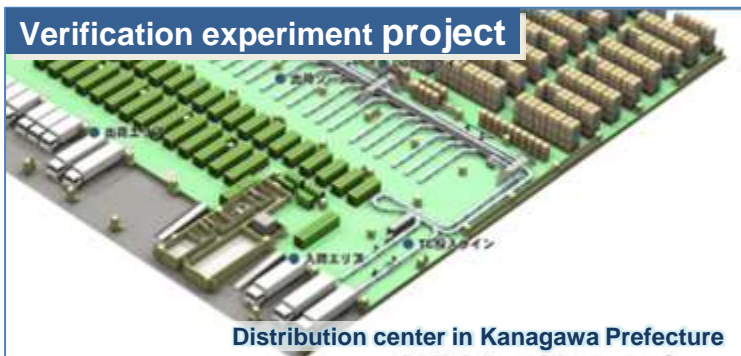
- Simple low-end type

Easy-to-implement mixed palletizing robot without complicated image recognition system

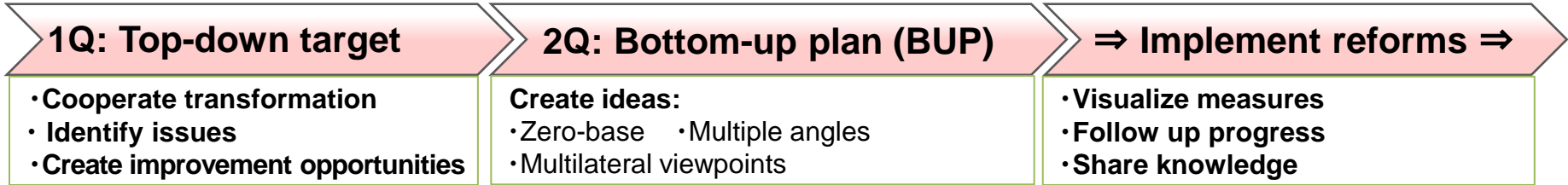
- Logical loading

Calculate effective loading sequence and layout

### Verification experiment project

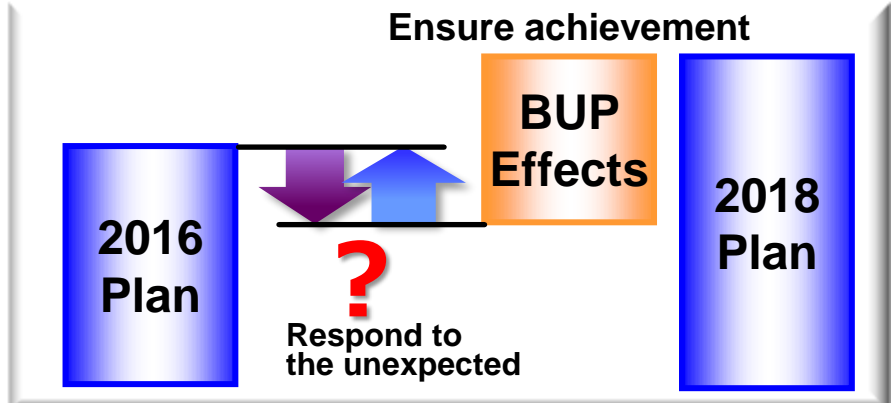


## Promote a new structural reform to ensure achievement of Mid-term Management Plan (VC2018) — Rise-up 200 Project —



**“Ensure achievement of Mid-term Management Plan” and “Create an organization capable of self-sustainable growth”**

<b>Work Stream</b>	Purchase/outsourcing cost	• Consolidation, concentration
	On-site operation	• Streamlining and simplification
	Sales marketing	• Process improvement and reduction
	Forwarding	• Performance management
	Indirect operation	• Visualization, standardization
	Working capital	• Optimization





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